POLYUS GOLD
INTERNATIONAL

PROSPECTUS

POLYUS GOLD INTERNATIONAL LIMITED

PROSPECTUS
POLYUS GOLD INTERNATIONAL LIMITED

SPONSOR

J.P.Morgan CAZENOVE

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you should immediately seek your own independent financial advice from your stockbroker, bank manager, solicitor or other independent professional adviser authorised under the Financial Services and Markets Act 2000 (the "FSMA") who specialises in advising upon investment in shares and other securities if you are resident in the United Kingdom or, if not, from another appropriately authorised financial adviser in your own jurisdiction. The whole of the text of this Prospectus should be read, but your attention is, in particular, drawn to Part II entitled "Risk Factors" on pages 11 to 35 of this Prospectus for a discussion of the risks that might affect the value of securities in Polyus Gold International Limited.

This document, including the financial information and the appendices included therein, comprises a Prospectus for the purposes of Article 5.3 of the Prospectus Directive (2003/71/EC) in connection with an application for admission by Polyus Gold International Limited ("**PGIL**" or the "**Company**") to listing on the Premium Listing segment of the official list (the "**Official List**") of the UK Listing Authority ("**UKLA**"), a division of the UK Financial Services Authority (the "**FSA**"), in its capacity as competent authority under the FSMA, and to trading on the main market of the London Stock Exchange plc (the "**London Stock Exchange**"), a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC (the "**Regulated Market**"), of all the ordinary shares of the Company, each with a par value of £0.0001 (the "**Shares**") (admission to the Official List and the Regulated Market is referred to in this Prospectus as "**Admission**").

Prior to Admission of the Shares, the Company expects to amend the Level I GDR Programme (as defined below) to limit the number of Shares that may be held in the Level I GDR Programme to 4.99 per cent. of PGIL's issued share capital and, effective on Admission, to cancel the listing of Level I Global Depositary Receipts (each representing one Share) ("**Level I GDRs**") from the Official List of the UKLA and terminate their trading on the London Stock Exchange. If, following certain cancellations described below, the number of Level I GDRs held in the Level I GDR Programme exceeds that limit, the remaining GDRs will be subject to pro-ration (the "**Excess GDRs**") and holders of the Excess GDRs will be notified that they are required to surrender the Excess GDRs for withdrawal of the amount of the Shares they represent. There can be no assurance that Admission of the Shares will occur. If Admission of the Shares does not occur, the Standard Listing of the Level I GDRs will continue, amendment of the Level I GDR Programme will not become effective, all Share Elections (as defined below) will be disregarded, holders of Level I GDRs will not be required to surrender their Level I GDRs, and the Shares representing Level I GDRs will not be distributed to holders of Level I GDRs. See "Part VI – Amendment of Level I GDR Programme and Admission of Shares".

The Directors, whose names, functions and addresses appear on page 195 of this document, and the Company, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

POLYUS GOLD
INTERNATIONAL

POLYUS GOLD INTERNATIONAL LIMITED

(incorporated with limited liability under the laws of Jersey with registered company number 91264)

Admission of Ordinary Shares to the Premium Listing segment of the Official List and to trading on the London Stock Exchange

Sponsor

J.P. Morgan Cazenove

Issued and fully paid ordinary share capital immediately following Admission of the Shares

Authorised		*Issued*	
£	*Number*	*£*	*Number*
0.0001	3,600,000,000	0.0001	3,032,149,962

J.P. Morgan Cazenove (the "**Sponsor**"), which is authorised and regulated in the United Kingdom by the FSA, has been appointed as Sponsor. The Sponsor is acting exclusively for the Company and no one else in connection with Admission. The Sponsor will not regard any other person (whether or not a recipient of this document) as a client in relation to Admission and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or for the giving of advice in relation to Admission or any transaction, matter or arrangement referred to in this document.

Dated 14 June 2012

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any security, including the Shares. None of the securities referred to in this document may be sold, issued or transferred in any jurisdiction in contravention of applicable law. The distribution of this Prospectus and the sale of the Shares may be restricted by law in certain jurisdictions. This Prospectus is not for publication or distribution, directly or indirectly, in or into any jurisdiction in which the same would be unlawful.

The Shares are subject to selling and transfer restrictions in certain jurisdictions. Each prospective investor must comply with all applicable laws and regulations in force in any jurisdiction in which such prospective investor purchases, offers or sells the Shares, or possesses or distributes this Prospectus, and each prospective investor must obtain any consent, approval or permission required for purchase, offer or sale of the Shares under the laws and regulations in force in any jurisdiction to which such prospective investor is subject or in which such prospective investor makes such purchases, offers or sales.

Accordingly, neither this document nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes are required to inform themselves about and observe any such restrictions, including those set out in the following paragraphs. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

A copy of this document has been delivered to the Registrar of Companies in Jersey in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002 and the Registrar has given, and has not withdrawn, his consent to its circulation. The Jersey Financial Services Commission has given, and has not withdrawn, its consent under Article 2 of the Control of Borrowing (Jersey) Order 1958, as amended, to the issue of securities in the Company. It must be distinctly understood that, in giving these consents, neither the Registrar of Companies in Jersey nor the Jersey Financial Services Commission takes any responsibility for the financial soundness of the Company or for the correctness of any statement made, or opinions expressed, with regard to it. The Jersey Financial Services Commission is protected by the Control of Borrowing (Jersey) Law 1947, as amended, against liability from the discharge of its functions under that law.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

The Shares have not been, nor will be, registered under the US Securities Act of 1933 (the "**US Securities Act**"), and may not be offered or sold in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. The Company does not currently plan to register or make a public offering of the Shares in the United States.

The Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

NOTICE TO INVESTORS IN THE RUSSIAN FEDERATION

This Prospectus should not be considered as a public offer or advertisement of the Shares in the Russian Federation and is not an offer, or an invitation to make offers, to purchase any of the Shares in the Russian Federation. Neither the Shares nor any prospectus or other document relating to them have been registered with the Federal Service for Financial Markets of the Russian Federation (the "**FSFM**") and are not intended for "placement" or "public circulation" in the Russian Federation. Any information on the Shares in this Prospectus is intended for, and addressed to, persons outside of the Russian Federation.

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PART I

SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in the Shares should be based on a consideration of this Prospectus as a whole.

Following the implementation of the relevant provisions of Directive 2003/71/EC in each member state of the EEA, no civil liability will attach to the Company in any such member state solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a member state of the EEA, the plaintiff investor may, under the national legislation of the member state where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.

Overview

PGIL, together with its subsidiaries (the "**Group**"), is an international group of gold mining companies. The Group is the largest gold producer in Russia based on ounces of gold produced, according to the Russian Union of Gold Miners, and with 90.4 million ounces of gold in JORC proven and probable reserves has the third largest gold reserves in the world based on the most recent publicly available reports of other gold mining companies. The Group develops and mines hardrock gold and alluvial gold deposits, with its principal deposits in the Krasnoyarsk, Irkutsk, Magadan and Republic of Sakha (Yakutia) regions of Russia. The Group's operations in Russia produced 1,378 thousand ounces of gold, or approximately 20 per cent. of total Russian gold production in 2011. The Group's total gold production in 2011 was 1,495 thousand ounces.

For the year ended 31 December 2011, the Group had total gold sales of US$2,341 million, total revenue of US$2,403 million and profit before income tax of US$765 million, and, as at 31 December 2011, total assets of US$4,219 million and equity of US$2,831 million. The Group's Adjusted EBITDA was US$1,111 million in 2011 and total cash costs were US$980 million in 2011.

Reserves and Resources

The following table shows the mineral reserves and resources of the Group according to the JORC Code[1].

Classification	*Category*	*Ore (million tonnes)*	*Grade (g/t)*	*Gold (thousand ounces)*
Resources (including reserves)	Measured	555.2	1.8	31,612
	Indicated	1,265.4	2.0	83,154
	Total measured and indicated	**1,820.6**	**2.0**	**114,766**
	Inferred	681.7	2.1	45,989
	Total measured, indicated and inferred	**2,502.2**	**2.0**	**160,755**
Reserves	Proven	515.1	1.7	28,033
	Probable	851.4	2.3	62,398
	Total proven and probable	**1,366.5**	**2.1**	**90,431**

1. Includes reserves and resources of the Group's Kazakhstan and Kyrgyzstan operations, which the Company has agreed to sell. See "Part VII – Information on the Group – The Group's interest in Kazakh and Kyrgyz gold mining assets".

Production

The table below shows the gold production figures for the Group's operations.

Production of Gold ('000 ounces)	***Year ended 31 December*** 2011	2010	2009
Olimpiada mine	566	581	839
Titimukhta	109	100	39
Blagodatnoye mine	363	251	–
Zapadnoye mine[(1)]	3	19	24
Alluvial deposits	210	197	194
Pervenets pilot plant[(2)]	10	7	–
Kuranakh mine	117	120	135
Kazakhstan operations	117	110	30
Total production of gold[(3)]	**1,495**	**1,386**	**1,261**

1. In April 2011, a decision was made to suspend operations at Zapadnoye mine due to depletion of reserves in the pit contour of Zapadnoye deposit.
2. Pervenets pilot plant processes ore from the Verninskoye deposit.
3. Totals may not sum completely due to rounding.

Existing Operations

The Group's major gold deposits in Russia are:

- in the Krasnoyarsk region (representing 49 per cent. of the Group's total proven and probable reserves and 69 per cent. of the Group's total gold production in 2011) – the Olimpiada deposit, which is one of the largest gold deposits in Russia, the Blagodatnoye and Titimukhta deposits and the Razdolinskaya (which includes Poputninskoye) and Panimba fields;
- in the Irkutsk region (representing 11 per cent. of the Group's total proven and probable reserves and 15 per cent. of the Group's total gold production in 2011) – the Verninskoye, Pervenets and Chertovo Koryto deposits, the Medvezhy goldfields, as well as 113 alluvial deposits;
- in the Magadan region (representing 35 per cent. of the Group's proven and probable reserves) – the Natalka deposit; and
- in the Republic of Sakha (Yakutia) (representing 2 per cent. of the Group's total proven and probable reserves and 8 per cent. of the Group's total gold production in 2011) – the Kuranakh ore body.

In addition to its main Russian gold mining operations, the Group currently holds a controlling interest in gold mining assets in Kazakhstan, as well as an exploration asset in Kyrgyzstan. On 8 June 2012 the Company and certain of its subsidiaries entered into a conditional sale and purchase agreement for the sale of its gold mining assets in Kazakhstan and Kyrgyzstan. See "Part VII – Information on the Group – The Group's interest in Kazakh and Kyrgyz gold mining assets".

Competitive Strengths

The Directors believe that the Group benefits from the following principal competitive strengths:

- An international gold producer with a highly competitive position in Russia and strong track record of production from existing operations.
- An extensive resource base and defined development pipeline, providing a sector-leading production growth profile from large development assets.
- Strong expertise in gold mining and project execution in an opportunity-rich mining region.
- Strong financial position with access to the international capital markets and no hedging, offering full exposure to the gold price and ability to capitalise on acquisition opportunities.

- Longstanding support from its Principal Shareholders.
- Experienced management team with a strong track record and an experienced and majority independent Board.

Strategy

The Group's strategy is focused on organic growth through the effective execution of expansion projects and the construction and launch of new deposits, underpinned by its access to international capital markets. Through its strategy the Group seeks to become one of the world's leading gold mining and production companies, keep a competitive cost structure, significantly increase its mineral resource base and maintain its commitment to operational excellence and its social and environmental responsibilities. In addition to its primary focus on development through organic growth, the Group intends to be opportunistic and will consider suitable M&A options that would reinforce the Group's asset portfolio and offer attractive growth potential and geographic diversification.

Current Development Pipeline

The Board has approved a capital expenditure development budget for 2012 of US$1.1 billion, which includes funding for Phase I of the Natalka development project and completion of expansion projects at the Titimukhta and Verninskoye mines, and the Group has commenced feasibility studies for further development of the Blagodatnoye mine, trial works at the Kuranakh mine and scoping studies for further development of the Olympiada, Poputninskoye and Panimba and Chertovo Koryto deposits. Management's current development pipeline envisages the implementation of a number of investment, development and other programmes to maximise potential of the Group's currently producing assets (the Olimpiada, Blagodatnoye, Titimukhta, Kuranakh and Verninskoye mines), as well as the development of new projects (the Natalka mine and continued exploration at the Chertovo Koryto deposit and the Razdolinskaya/Panimba fields). Management intends to seek approval for the further projects within its pipeline as the projects develop in the future.

Amendment of Level I GDR Programme and Admission

The Company is applying for Admission of the Shares to the premium listing segment of the Official List, with Admission of the Shares expected to occur on or around 19 June 2012. Prior to Admission of the Shares, the Company expects to amend the Level I GDR Programme to limit the number of Shares that may be held in the Level I GDR Programme to 4.99 per cent. of PGIL's issued share capital and, effective on Admission, to cancel the listing of the Level I GDRs on the Official List of the UKLA and terminate their trading on the London Stock Exchange. If, following certain cancellations described below, the number of Level I GDRs held in the Level I GDR Programme exceeds that limit, the remaining Level I GDRs will be subject to pro-ration and holders of the Excess GDRs will be notified that they are required to surrender the Excess GDRs for withdrawal of the amount of the Shares they represent. There can be no assurance that Admission of the Shares will occur. If Admission of the Shares does not occur, the Standard Listing of the Level I GDRs will continue, the amendment of the Level I GDR Programme will not become effective, all Share Elections (as defined below) will be disregarded, holders of Level I GDRs will not be required to surrender their Level I GDRs, and Shares representing Level I GDRs will not be distributed to holders of Level I GDRs. See "Part VI – Amendment of Level I GDR Programme and Distribution of Shares".

Selected Financial and Operating Information

The table below sets out summary historical consolidated financial information of the Group as at and for the years ended 31 December 2011, 2010 and 2009. This financial information has been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the European Union and as issued by the International Accounting Standards Board ("**IASB**"). This information has been extracted without material adjustment from "Part XII – Historical Financial Information".

('000 US$, except for per share amounts)	*Year ended 31 December* *2011*	*2010*	*2009*
Consolidated income statement			
Gold sales	2,340,650	1,711,298	1,199,088
Other sales	62,060	37,506	26,136
Total revenue	**2,402,710**	**1,748,804**	**1,225,224**
Cost of gold sales	(1,162,019)	(897,901)	(577,140)
Cost of other sales	(46,343)	(33,424)	(25,541)
Gross profit	**1,194,348**	**817,479**	**622,543**
Selling, general and administrative expenses	(225,618)	(194,549)	(155,012)
Goodwill impairment	–	–	(173,340)
Impairment[(1)]	(103,418)	(14,219)	(10,859)
Research expenses	(2,581)	(2,412)	(1,265)
Other expenses, net	(24,077)	(24,155)	(18,457)
Operating profit	**838,654**	**582,144**	**263,610**
Finance costs	(71,403)	(42,717)	(18,870)
Income/(loss) from investments, net	3,630	(23,711)	14,197
Foreign exchange (loss)/gain	(5,814)	765	1,364
Profit before income tax	**765,067**	**516,481**	**260,301**
Income tax	(207,052)	(124,840)	(108,810)
Profit for the year	**558,015**	**391,641**	**151,491**
Attributable to:			
Shareholders of the parent company	468,998	367,313	149,434
Non-controlling interests	89,017	24,328	2,057
Basic and diluted earnings per share (US cents)	16	12	5

1. Impairment comprises impairment of stockpiles, impairment of exploration and evaluation assets and impairment of property, plant and equipment.

('000 US$, except for per share amounts)	*Year ended 31 December* *2011*	*2010*	*2009*
Consolidated cash flow data			
Net cash generated from operating activities	765,405	445,307	343,100
Net cash utilised in investing activities	(260,363)	(171,114)	(516,065)
Net cash utilised in financing activities	(134,958)	(110,983)	(56,698)
Net increase/(decrease) in cash and cash equivalents	**370,084**	**163,210**	**(229,663)**
Cash and cash equivalents at the beginning of the year	**326,905**	**173,360**	**398,826**
Effect of foreign exchange rate changes on cash and cash equivalents	(39,541)	(9,665)	4,197
Cash and cash equivalents at the end of the year	**657,448**	**326,905**	**173,360**

('000 US$)	*As at 31 December* *2011*	*2010*	*2009*
Consolidated statement of financial position			
Cash and cash equivalents	657,448	326,905	173,360
Total assets	**4,219,011**	**4,004,174**	**3,622,906**
Non-current borrowings	123,048	29,686	26,394
Current borrowings	675,632	173,762	173,437
Total liabilities	**1,388,338**	**763,643**	**660,179**
Total equity	**2,830,673**	**3,240,531**	**2,962,727**

Relationship with Principal Shareholders

The Principal Shareholders own an aggregate of approximately 78 per cent. of the Company's share capital. Nafta is a group of privately-owned companies, the beneficial owner of which is Mr. Suleiman Kerimov. Onexim is a group of privately-owned companies, the beneficial owner of which is Mr. Mikhail Prokhorov.

The Company has entered into relationship agreements with each of the Principal Shareholders to ensure that it will be able, at all times, to carry on its business independently of each of the Principal Shareholders and that all transactions and relationships between each of the Principal Shareholders and the Company are at arm's length and on a normal commercial basis.

Risk Factors

An investment in the Shares involves a high degree of risk, including:

- The financial results of companies operating in the gold mining industry depend largely on the price of gold, which may be subject to significant volatility;
- The Group's Olimpiada deposit generates a significant portion of the Group's total gold production and a disruption to these operations could adversely affect the Group's business, financial condition or results of operations;
- The Group requires significant capital expenditures to fund the projects contemplated by its current development pipeline, which might be subject to inflationary pressures and which may in the longer term require external financing that may not be provided;
- The Group's principal operations are located in remote areas with harsh climates, which requires limiting production operations in the Irkutsk region to certain times of year, and the delivery of supplies to the areas where it operates may be disrupted or transportation costs may increase;
- Success in the gold mining industry depends on maintaining a highly qualified, skilled workforce, including qualified geologists and other mining specialists;
- Gold exploration and the development of mines involves a high degree of risk and uncertainty;
- The volume and grade of the ore the Group extracts may not conform to current expectations;
- The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary contracts, licences and permits, including subsoil licences, or fails to comply with the terms of its contracts, licences and permits;
- The Group is subject to mining risks;
- The Group is subject to extensive environmental controls and regulations;
- Actual and potential supply chain shortages and increases in the prices of production inputs may have an adverse effect on the Group's operations and profits;
- The cost of electricity, particularly self-generated electricity, can be unstable. An increase in power costs will make production more costly and alternative power sources may not be available;
- The Group's operations depend to a significant extent on external contractors;
- The Group operates in a highly competitive industry and may not be able to compete successfully for licences, exploratory prospects and producing properties;
- The Group's acquisition strategy may not be successful;
- The Group is subject to limitations imposed by Russian legislation on the rights of foreign entities to invest in certain Russian companies and in the subsoil sector;

- The Group may not be able to renew its arrangements with trade unions on favourable terms, and its operations could be adversely affected by strikes and walkouts;
- The Group is responsible for maintaining part of the social and physical infrastructure in some of the regions in which it operates;
- The Group's level or scope of insurance coverage may not be adequate;
- The Group is subject to exchange rate risks;
- Russian currency control regulations may hinder the Group's ability to conduct business;
- Russia's property law is subject to uncertainty and contradiction and title to some of the Group's mineral properties or production facilities may be challenged;
- If transactions that the Group's Russian subsidiaries have entered into are challenged for non-compliance with applicable legal requirements, the transactions could be invalidated or liabilities imposed on the Group;
- Inflation may materially adversely affect the Group's results of operations;
- The Group is subject to anti-monopoly laws enforced by the Federal Anti-monopoly Service, which may result in certain limitations being imposed on the Group's activities;
- Transactions in the securities of the Company may be subject to restrictions under Kazakh laws;
- Risks relating to the countries in which the Group operates;
- Risks relating to taxation;
- Risks relating to the Shares; and
- Risks relating to the Group Structure.

Private Placement of Shares and GDRs

On 10 May 2012, the Group's indirect subsidiary, Jenington International Inc., completed the sale, in privately negotiated transactions, of 151,607,496 Shares 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 to VTB Bank. The purchase price for the Shares was US$2.80 per Share and GDR and resulted in aggregate gross proceeds received from the two transactions equal to US$635.5 million. The proceeds were used to repay US$230 million principal amount borrowed under the VTB Bank Bridge Facility and US$230 million principal amount borrowed under the Societe Generale Bridge Facility used to fund the purchase of the OJSC Polyus Gold shares acquired in the mandatory tender offer announced on 30 August 2011 in connection with the Combination, with the remainder to be used to fund the Group's development projects at the Verninskoye and Natalka deposits.

Recent Trading

In the three months ended 31 March 2012, the Group produced 333 thousand ounces of refined gold, compared to 258 thousand ounces in the three months ended 31 March 2011. The 29 per cent. increase in production was achieved as a result of increases in gold output at Olimpiada (42 per cent.), Blagodatnoye (16 per cent.) and Kuranakh (31 per cent.) and additionally due to the commissioning of Verninskoye, the third mine the Group has launched in the last three years.

In the three months ended 31 March 2012, the Group's mines moved 16 million cubic metres of total rock, which is 25 per cent. more than in the first quarter of 2011. This was due to the planned increase of mining operations at Olimpiada, Blagodatnoye and Kuranakh.

In the three months ended 31 March 2012, the Group mined a total of 7.0 million tonnes of ore, an increase of 21 per cent. compared to 5.8 million tonnes in the first quarter of 2011. The increase was primarily due to higher volumes of ore mined at Olimpiada and the ramp up of Verninskoye.

Ore processing in the three months ended 31 March 2012 amounted to 5.4 million tonnes, compared to 5.3 million tonnes in the first quarter of 2011. The increase was due to higher volumes of ore processed at Olimpiada and Kuranakh as well as the launch of Verninskoye.

In the three months ended 31 March 2012, the Group sold 349 thousand ounces of gold, compared to 278 thousand ounces in the first quarter of 2011.

PART II

RISK FACTORS

Investing in the Shares involves a high degree of risk. Prospective investors should carefully consider the following risk factors, and all information contained in this Prospectus, before investing in the Shares. The Company has described below the risks and uncertainties that the Directors believe to be material, but additional risks and uncertainties that the Company is not aware of or that the Company currently believes are immaterial may also adversely affect the Group's business, revenues, results of operations, financial condition, prospects or the trading price of the Shares. If any of these risks or uncertainties materialise, the Group's business, revenues, results of operations, financial condition and prospects could be materially and adversely affected, the price of the Shares may decline or the Company's ability to pay dividends could be impaired. The order in which the following risks and uncertainties are presented does not necessarily reflect the likelihood of their occurrence or the relative magnitude of their potential material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects or the trading price of the Shares.

Risks Associated with the Group's Business and the Gold Mining Industry

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

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

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

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

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

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

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

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

In 2011, the Group derived 38 per cent. of its total gold production from its operations at the Olimpiada deposit, and the Olimpiada deposit, together with the other production mines which form the Krasnoyarsk business unit, generated a substantial majority of the Group's Adjusted EBITDA in 2011. See "Part VII – Information on the Group – Principal Operations – Krasnoyarsk Region – Olimpiada Deposit". The Group has not to date experienced any suspensions or termination of its licence for the Olimpiada deposit, and the Directors are not currently aware of any circumstances that may reasonably lead to a suspension or termination in the future. The Group's operations at Olimpiada have not in the past been subject to any significant temporary or prolonged disruption, although the Group did experience some difficulties in the transition of Olimpiada's Mill No. 3 to processing of ores from deep horizons with high pyrrhotine content in 2009 as a result of technological issues related to the processing of sulphide ores. See "Part VII – Information on the Group – Principal Operations – Krasnoyarsk Region – Olimpiada Deposit". To the extent that the Group's operations at Olimpiada are subject to a temporary or prolonged disruption, including, among other things, as a result of suspension or termination of mining licences, major equipment failure, failure to receive required supplies in a timely manner or at all, or catastrophic events, such as fires, floods or adverse weather conditions, the Group's business, revenues, financial condition, results of operations or prospects or the trading price of the Shares may be materially adversely affected.

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

Management's current development pipeline contemplates significant capital expenditures with respect to the exploration and development of its mineral assets. Management's current development pipeline contemplates that total investment in the Group's growth and development programmes will be approximately US$3.8 billion between 2012 and 2015. See "Part VII – Information on the Group – Current Development Pipeline". The Group's capital expenditures might be subject to inflationary price pressures resulting from price increases as well price increases caused by an undersupply of critical equipment for mining and processing. In addition, as the Group's strategy involves both acquisitions and the development of existing assets, while the Group has financial resources available to fund its development plans for at least the next 12 months, further exploration and development beyond this period may be dependent upon the

Group's ability to obtain financing through the raising of additional equity or debt financing or other means. The Group's ability to secure debt or equity financing beyond such period in amounts sufficient to meet the financial needs of the Group could be adversely affected by many factors beyond the Group's control, including, but not limited to, economic conditions in Russia and the health of the Russian and international banking sectors. Any additional equity financing may be dilutive to Shareholders, and debt financing, if available, may involve restrictions on financing and operating activities. There can be no assurance that additional funding required by the Group for its current development projects or any that might be undertaken in the future will be made available to it in the longer term and, if such funding is available, that it will be offered on reasonable terms. If the Group is unable to obtain additional financing in the longer term as needed, it may be required to reduce the scope of its operations or anticipated expansion, which may have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects or the trading price of the Shares.

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

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

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

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

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

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

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

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

Substantial expenditure may be required to establish ore reserves through drilling and to determine technological processes to extract metals from ore. If reserves are developed, it can take a number of years from the initial phases of drilling and identification of mineralisation until production is possible. During this period, the assumptions on which the Group has based its assessments of the economic feasibility of the mine, including in relation to future gold prices, anticipated tonnage, grades and metallurgical characteristics of ore to be mined and processed, anticipated recovery rates of gold from the ore, anticipated capital expenditures and cash operating costs, may require significant adjustment. The Group's initial access to information when forming such assumptions and making such assessments may also be limited.

Actual cash operating costs, production levels and economic returns may differ significantly from those anticipated by studies and estimates. There are a number of uncertainties inherent in the development and construction of a new mine or an extension to an existing mine. These uncertainties include, in addition to those discussed above, the timing and cost (which can be considerable) of the construction of mining and processing facilities; the availability and cost of skilled labour, power, water, consumables (such as cyanide, lubricants and fuel) and transportation facilities; the availability and cost of appropriate smelting and refining arrangements; the need to obtain necessary environmental and other governmental permits and the timing of those permits; and the availability of funds to finance construction and development activities in the longer term.

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

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

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

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

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

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

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

In addition, on 17 August 2011, the Group obtained updated licence terms for the Natalka deposit in which the licence was extended until 31 December 2036. The licence contains a requirement that the Group commission the first stage of the mine with production capacity in accordance with the mining project by 31 December 2013. Whilst the Group does not anticipate any delays in commissioning of the Natalka mine, if the Group is unable to commission the first stage of the mine as required by the licence, the license may be limited, suspended or terminated. The Natalka deposit accounts for 35 per cent. of the Group's total proven and probable reserves. Consequently, any limitation, suspension or termination of this licence may have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects or the trading price of the Shares.

The legal and regulatory basis for the licensing requirements in Russia and Kazakhstan is often unclear and subject to frequent change, which increases the risk that the Group may be found to be non-compliant, and the regulatory authorities in those countries exercise considerable discretion in the timing of licence issuances and renewals. In addition, it is possible that licences applied for or issued in reliance on acts and instructions relating to subsoil rights issued by the relevant regulatory agencies in Russia and Kazakhstan could be challenged by governmental prosecutorial authorities or otherwise challenged as being invalid if such acts or instructions were found to be beyond the authority of that ministry or agency or if the licences were issued in breach of the required procedures. Deficiencies of this nature may subject subsoil licencees and contracts to selective governmental claims. In relation to the Group's operations in Kazakhstan, to the extent that the Group has acquired subsidiaries with existing licences or which have already entered into subsoil use contracts, it has not been involved in the process under which such licences or subsoil use contracts were issued or concluded. In such circumstances, the Group cannot be certain whether any violations have previously occurred that could cause the relevant Kazakh government ministry or a third party to challenge the validity of any of these licences or contracts. If the Kazakh authorities determined that the Group was previously operating without all required licences and permits in Kazakhstan, officers of the Group could incur criminal liability, Kazakh subsidiaries could incur administrative liability and the authorities could even apply to Kazakhstan courts for the liquidation of the Group's Kazakh subsidiaries. The competent authority can also apply to the court to terminate subsoil use contracts if such right is stipulated by the subsoil use contract, or can terminate a contract on its own in cases stipulated by applicable subsoil use legislation and/or of a Kazakh subsoil use contract or where the contract relates to a strategic field, can terminate a contract on its own upon instruction of the Governor of Kazakhstan. If the licensing authorities discover a material violation by a Kazakh subsoil user, it may incur substantial costs in eliminating or remedying the violation, particularly in the case of an ecological violation, which could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects or the trading price of the Shares. Any alleged non-compliance by the Group with licensing regulations or the terms of any of its licences could lead to suspension or termination of the licences and permits and to administrative, civil and criminal liability.

Compliance

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

Specific requirements of the Russian Federation

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

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

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

The Group is subject to mining risks

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

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

Underground mining is generally more expensive than open-pit mining. It is also more dangerous and requires the use of ventilation systems. Hazards associated with underground mining operations include underground fires and explosions, such as those caused by flammable gas, discharges of gases and toxic chemicals; geothermal control; sinkhole formation and ground subsidence and other accidents and conditions resulting from drilling, blasting, removing and transporting material from an underground mine.

Emergency breakdowns in mining equipment may occur as the Group experienced at the Kuranakh mine in 2009. Further, some of the subsurface infrastructure at the Group's mines in Kazakhstan is in poor condition.

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

The Group is subject to extensive environmental controls and regulations

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

In addition, the licences and subsoil use contracts under which the Group will operate include conditions regarding environmental compliance. For example, each operating mine of the Group in Russia is required to obtain a mandatory environmental permit in order to conduct atmospheric emissions, discharge waste water and dispose of waste. Failure to obtain such a permit could lead to administrative penalties, civil sanctions and, in certain circumstances, may result in the issuance of a court order prohibiting and suspending those operations of the relevant mine causing atmospheric emissions, waste water discharge or waste disposal, although the Directors believe that such a severe sanction is unlikely to occur.

The introduction of more stringent environmental laws and regulations could lead to the need for new or additional rehabilitation and decommissioning reserves or to an increase in the Group's environmental liabilities, which could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects or the trading price of the Shares. See "Part XV – Regulatory Matters – Environmental Law".

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

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

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

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

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

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

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

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

- negotiating agreements with contractors on terms acceptable to the Company;

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

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

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

The Group's acquisition strategy may not be successful

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

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

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

As at 31 December 2011, approximately 51 per cent. of the Group's employees at its Russian operations were represented by trade unions. The Group has not experienced any business interruption as a result of labour disputes at any of its businesses in Russia in the past. The Group's operating subsidiary in Kazakhstan, Kazakhaltyn, was recently presented with demands for increased salaries and other improvements to working conditions from employees at the Bestobe deposit in Northern Kazakhstan, which resulted in employees at the deposit commencing industrial action on 29 May 2012. Although Kazakhaltyn management agreed to increase salary levels at the Bestobe deposit and the employees returned to work within hours of the commencement of the strike, no assurance can be given that the Group's operations in Kazakhstan will not be subject to further industrial unrest or disruption resulting from employee demands for improved terms of employment or working conditions. Although the Group considers its relations with its employees in Russia to be good, large union representation will subject the Group's businesses to the risk of interruptions through strikes, lockouts or delays in renegotiating collective agreements, whose terms are typically two years. The collective agreement for the Group's Yakutia (Kuranakh) business unit expires on 31 December 2012 and at the Krasnoyarsk business unit on 31 December 2014. Although the Directors expect that the Group will be able to renew these agreements on substantially the same terms, if the Group were unable to renew its existing arrangements with trade unions on favourable terms or at all, the Group's business, revenues, financial condition, results of operations or prospects or the trading price of the Shares could be materially adversely affected.

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

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

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

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

The Group is subject to exchange rate risks

The Group's income is subject to exchange rate fluctuations and may become subject to exchange control or similar restrictions. Gold is sold throughout the world principally in US dollars, but the Group's operating costs are incurred principally in Russian roubles, and to a lesser extent the Kazakh tenge and other currencies. Any significant and sustained appreciation of the rouble against the US dollar could have a material adverse effect on the operating margins of the Group. The rouble appreciated relative to the US dollar in the years prior to the global economic crisis that began in 2008, although the exchange rate has since been volatile, with the rouble depreciating by approximately 27 per cent. in 2009 followed by an appreciation of 4 per cent. in 2010 and an appreciation of 3 per cent. in 2011. The rouble to US dollar exchange rate has continued to be volatile in 2012, with the rouble depreciating by approximately 18 per cent. between the end of February and the first week of June. See "Part XVII – Additional Information – Currencies and Exchange Rates" for historic exchange rate information.

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

The Group's operational expenses are primarily denominated in Russian roubles. The current Russian currency control laws and regulations impose a number of limitations on banking and currency transactions. Currency control restrictions include a general prohibition on foreign currency operations between Russian residents, except for certain specified operations permitted by law, and the requirement to repatriate, subject to certain exceptions, export-related earnings in Russia. The Group does not currently undertake any hedging activities in relation to currency fluctuation risk and accordingly, is fully exposed to any adverse fluctuations in the relevant exchange rates. Further, the Law of the Republic of Kazakhstan "On Currency Regulation and Currency Control" No. 57-111, dated 13 June 2005, empowers the President of Kazakhstan to implement a special regime for currency operations, as well as to define the restrictions related to the currency operations which would fall under this regime, in case of a threat to the economic safety and financial stability of Kazakhstan. The law does not define what might constitute a relevant threat. These currency control restrictions may restrict the Group's operational flexibility, which could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects or the trading price of the Shares.

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

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

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

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

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

The activities of the Group are located primarily in Russia, and the majority of its costs are incurred in Russia and in Russian roubles. Russia has experienced high levels of inflation since the early 1990s. Inflation, along with government measures to combat inflation and public speculation about possible future government measures, has significant negative costs, contributing to economic uncertainty. Inflation increased dramatically after the 1998 financial crisis, reaching a rate of 84.4 per cent. that year. The inflation rate was

8.8 per cent. in 2009, 8.8 per cent. in 2010 and 6.1 per cent. in 2011, and Russian companies have generally experienced inflation-driven increases in their costs that are linked to the general price level in Russia, such as supplies and materials, as well as salaries. Accordingly, high rates of inflation in Russia are likely to increase the costs of the Group, which could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects or the trading price of the Shares. High inflation rates in Russia have historically been accompanied by a depreciation of the rouble vis-a-vis the US dollar, which reduces the cost of the Group's rouble operating expenses in US dollar terms. See "– The Group is subject to exchange rate risks".

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

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

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

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

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

Risks Relating to the Countries in which the Group Operates

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

Investors in emerging markets such as Russia should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal and economic risks. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, including during the current global economic crisis, financial problems or an increase in the perceived risks associated with investing in emerging economies may adversely affect the level of foreign investment, which may, in turn, adversely affect the economies in those countries. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. As a result, even if the Russian economy remains relatively stable, financial turmoil in Russia could seriously disrupt the Group's business, as well as result in a decrease in the price of the Shares. Companies operating in emerging markets may also be exposed to political risks. Mr. Mikhail Prokhorov, the ultimate beneficial owner of Onexim (one of the Company's two Principal Shareholders), participated as a candidate in the elections for the presidency of the Russian Federation which were held in March 2012 and resulted in the election of Mr. Vladimir Putin. Following the elections, Mr. Prokhorov indicated his intention to continue his political activities, and, on 4 June 2012, Mr. Prokhorov announced that he was forming, and assuming the chairmanship of, a new political party. Investors should also note that an emerging economy such as that of Russia is subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved. Potential investors are urged to consult with their own legal and financial advisors before making an investment in the Shares.

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

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

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

Under the Strategic Investment Laws of the Russian Federation (as defined below), the acquisition by a foreign investor, or a "group" of persons, as such term is defined under Russian law, including one or more foreign investors, of 25 per cent. or more of the voting shares in a company undertaking operations at subsoil plots of federal importance (a "**Strategic Subsoil Company**"), requires the prior approval of the Russian Government. Furthermore, if a foreign investor, or a group of persons including one or more foreign investors, already exercises direct or indirect "control" (as defined in the Strategic Investment Laws) of over 25 per cent. or more of the voting shares of a Strategic Subsoil Company, each subsequent acquisition of shares of such Strategic Subsoil Company by the foreign investor, or group of persons including a foreign investor, requires the prior approval of the Russian Government (with the exception of transactions which do not result in the increase of the ownership percentage of a foreign investor of a group including a foreign investor, in the charter capital of a Strategic Subsoil Company). Failure to obtain such prior approval renders a transaction void or may lead to limiting a foreign investor's voting rights. As at the date of this Prospectus, gold mining subsidiaries within the Group, comprising subsidiaries of OJSC Polyus Gold, CJSC Polyus, CJSC Tonoda, OJSC SVMC ("**SVMC**"), OJSC Matrosov Mine ("**Matrosov Mine**"), LLC Amurskoye GRP and OJSC Pervenets, hold licences to subsoil plots of federal importance, as defined in the Strategic Investment Laws, which comprise in aggregate approximately 90 per cent. of the Group's reserves. As a result, each of these subsidiaries is considered a Strategic Subsoil Company. The Strategic Investment Laws are not clear as to whether the acquisition of 25 per cent. or more of the voting shares in a direct or indirect holding company of a Strategic Subsoil Company, such as the Company, would be subject to similar limitations.

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

If shares are acquired in circumstances where approval under the Strategic Investment Laws is required but has not been obtained, there is a risk that action could be taken against the Company to limit its voting rights in respect of the Group's Strategic Subsoil Companies, or seeking to invalidate the corporate decisions and transactions of such Strategic Subsoil Companies that were made following the relevant acquisition of shares without approval. To protect the Company and its subsidiaries against such consequences, the Relationship Agreements with the Principal Shareholders include an undertaking by each Principal Shareholder to observe the requirements of the Strategic Investment Laws in relation to any transactions it may enter into involving the securities of the Company. However, given the absence of legally binding guidance on the scope of application of the Strategic Investment Laws, no assurance can be given that the Russian authorities will not seek to apply a more extensive interpretation of the Strategic Investment Laws to the acquisition of securities in the Company or that any contractual remedy that the Company may have under the Relationship Agreements with the Principal Shareholders would be sufficient to compensate it adequately for any loss or disruption caused by the sale and purchase of securities without prior approval under the Strategic Investment Laws.

For a more detailed discussion of implications of the Strategic Investment Laws, see "Part XV – Regulatory Matters – Foreign Investment in Sectors that are of Strategic Importance for the National Security and Defence of the Russian Federation, including the Subsoil Sector".

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

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

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

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

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

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

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

Under Russian law, the Group may be primarily liable for the obligations of its Russian subsidiaries jointly and severally with such entities if (i) the Group has the ability to make decisions for such Russian subsidiaries as a result of its ownership interest, the terms of a binding contract or in any other way, (ii) the Group has the ability to issue mandatory instructions to such Russian subsidiaries or joint venture entities and that ability is provided for by the charter of the relevant Russian subsidiary or in a binding contract and (iii) the relevant Russian subsidiary concluded the transaction giving rise to the obligations pursuant to the Group's mandatory instructions. In addition, the Group may have secondary liability for the obligations of its Russian subsidiaries if (i) the Group has the ability to make decisions for the relevant Russian subsidiary as a result of its ownership interest, the terms of a binding contract, or in any other way and (ii) the relevant Russian subsidiary becomes insolvent or bankrupt due to the Group's fault (i.e. the Group has used its ability referred to in (i) above, knowing that this would result in insolvency or bankruptcy of the relevant Russian subsidiary). This type of liability could result in significant losses, and could have a material adverse effect on the Group's business, revenues, financial condition, results of operations and future prospects and the trading price of the Shares.

Russian legislation may not adequately protect against expropriation and nationalisation

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

Risks Relating to Taxation

Tax consequences of UK tax residence

The Company is managed and controlled in the UK and is currently treated as UK resident for UK tax purposes.

As a UK resident company, the Company will be subject to corporation tax on its worldwide profits. There are also rules which could in certain circumstances impose UK tax on the Company in relation to the profits or gains of subsidiaries.

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

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

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

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

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

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

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

The Russian taxation system has recently been undergoing significant changes. Currently, Russia is in the process of amending legislation regulating the application of major taxes, including some changes to VAT and profit tax.

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

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

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

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

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

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

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

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

Risk of unjustified tax benefit for the Group

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued a ruling aimed at differentiating between acceptable tax planning, on the one hand, and tax evasion, on the other.

According to the position of the Supreme Arbitration Court, a tax benefit (which may include any reduction of the taxable base, increased tax deduction, recovery, application of a reduced tax rate or tax exemption) may be treated as unjustified if it is received as a result of transactions which are economically or commercially unreasonable, or as a result of transactions the form of which differs from their substance. Such transactions are primarily aimed at receiving an unjustified tax benefit rather than being driven by a valid business or economic purpose.

As a result, a tax benefit cannot be regarded as a business objective in its own right. The fact that the same economic result might have been obtained with a lesser tax benefit accruing to the taxpayer does not constitute grounds for declaring a tax benefit to be unjustified. Moreover, there are no rules and little practice for distinguishing between lawful tax optimisation and tax avoidance.

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

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

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

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

Under the Russian tax legislation in effect on the date of this Prospectus, the financial results of Russian companies cannot be consolidated for tax purposes. Therefore, each of the Group's Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the profit or loss of any of the Group's other subsidiaries. This may result in a higher than expected effective tax rate for the Group's consolidated Russian activities.

However, in its Main Directions of Russian Tax Policy for 2011–2013, the Russian Ministry of Finance has proposed the introduction of consolidated tax reporting to enable the consolidation for profit tax purposes of the financial results of Russian taxpayers which are part of one group. On 22 October 2010, the State Duma, the lower chamber of the Russian Parliament, started to implement consolidated tax reporting by adopting the first reading of the draft Federal law, "On Amending First and Second Parts of the Russian Tax Code due to the establishment of consolidated group of taxpayers". The law currently limits participation to only the largest Russian groups. At this time, it is not possible to predict whether, when and how such consolidated tax reporting will be enacted and, if enacted, how it would be interpreted by the tax authorities in practice.

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

Russian tax legislation in effect does not contain a concept of corporate tax residency and, so, companies are considered to be tax resident in Russia by virtue of the fact that they are incorporated there. The Russian Ministry of Finance in its Main Directions of Russian Tax Policy for 2013–2015 has proposed the introduction to domestic tax law of a concept of tax residency for legal entities. Under the proposals, a company would be deemed a Russian tax resident based on the place of its effective management and control and/or based on the residence of its shareholders. At present no assurance can be given as to whether and when these amendments will be enacted, their exact nature, their possible interpretation by the tax authorities and the possible impact on the Group companies. It cannot be ruled out that, as a result of the introduction of these changes to Russian tax legislation at any date in the future, any company of the Group might be deemed to be Russian tax resident and therefore become subject to all applicable Russian taxes.

Double tax treaty benefits may be limited based on the proposed "beneficial ownership" concept

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

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

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

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

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

The current version of Russian transfer pricing legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions, provided that the transaction price differs from the market price by more than 20 per cent. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (i.e., if the price of such transactions differs from the prices on similar transactions by more than 20 per cent. within a short period of time). Although some court practice is available in relation to this issue, there has been no formal guidance as to how these rules are applied. Moreover, Russian transfer pricing rules are vaguely drafted, providing the Russian tax authorities and arbitration courts wide scope to interpret their use in politically motivated investigations and prosecutions. In addition, if a transfer pricing adjustment is assessed by the Russian tax authorities, the rules do not provide for a corresponding adjustment for the related counterparty to the transaction. Due to the uncertainties in the interpretation of transfer pricing legislation, the tax authorities may challenge the prices of certain of the Group's transactions and propose adjustments. If such price adjustments relate to the Group and are upheld by the Russian arbitration courts and implemented, the Group's results of operations could be materially adversely affected.

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

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

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

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

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

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

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

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

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

Export sales of the Group are also subject to domestic transfer pricing regulations. Generally, all cross-border as well as certain other transactions are subject to the domestic transfer pricing regulations, which state that transaction prices for tax purposes are to be determined based on "market" prices. There are special procedures provided in the regulations to determine the applicable "market" price for a given transaction. Where the prices of the Group's exports deviate from the applicable "market" prices, the Kazakhstan tax authorities are entitled to make tax adjustments and assessments to corporate income tax and any other taxes affected as well as assess fines and late payment interest if such adjustments lead to an increase in tax payments by an entity. Audits of transfer pricing issues are routinely carried out by the tax authorities in respect of exporters of oil, gas and minerals. In February 2010, Kazakhaltyn received a letter from the Kazakh tax authorities which alleged that four contracts from the 2006–2008 period had violated transfer pricing regulations. Kazakhaltyn is currently cooperating with the authorities, although, as a result of the loss of historical data due to fire and server disruptions prior to completion of the Partial Offer in August 2009, it has only been able to provide information with respect to one of the four contracts.

Kazakhstan's tax laws are not always clearly determinable and have not always been applied in a consistent manner and the tax laws continue to evolve. In January 2009, a new version of the Kazakh Tax Code became effective, which, among other things, introduced a limited application of the withholding tax. Under current language of the law, the withholding tax on capital gains applies only to those gains received on disposal of shares of a non-resident or resident of Kazakhstan provided that at least 50 per cent. or more of the value of such shares (or of the value of the relevant entity's equity capital) is made up of property of subsoil users in Kazakhstan.

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

Pursuant to the relevant provisions of the Kazakh Tax Code, a purchaser of shares in such non-resident entity is liable to calculate, withhold and pay the withholding tax in Kazakhstan either directly or by providing the funds in lieu of payment of such withholding tax to the relevant Kazakh subsoil user.

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

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

Since the Kazakh property of the Group comprises less than 50 per cent. of the value of the shares in PGIL, the Directors believe that the withholding tax should not apply to the disposals of the Shares and the subsequent issuance of the new shares in PGIL, and subsequent disposals of the Shares. There is a risk, however, that the withholding tax could apply to share transactions prior to and including issuance of depositary receipts in the Combination. If the Kazakhstan government were to seek payment of this tax from the Group's Kazakh subsidiaries, the Group's business, revenues, financial condition, results of operations or prospects or the trading price of the Shares could be materially adversely affected.

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

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

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

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

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

Risks Relating to the Shares

An active or liquid market for the Shares may not develop, and the price of the Shares may be highly volatile

Although depositary receipts representing shares of the Company (and, until January 2012, depositary receipts representing shares of OJSC Polyus Gold) have been admitted to trading on the London Stock Exchange, there has been no prior market for the Shares. An active public market may not develop or be sustained following Admission of the Shares. The liquidity of a securities market is often a function of the volume of the securities that are publicly held by unrelated parties. If a liquid trading market for the Shares does not develop, the price of the Shares may become more volatile and it may be more difficult to complete a buy or sell order for the Shares. Upon Admission of the Shares, approximately 22 per cent. of the Shares are expected to be in public hands. The trading price of the Shares may be subject to wide fluctuations in response to a number of factors, many of which are beyond the Group's control, particularly gold price fluctuations. See "– Risks Associated with the Group's Business and the Gold Mining Industry".

Following Admission of the Shares, Holders of Shares may not be able to exercise their pre-emptive rights

Under the Company's new Articles of Association that are expected to be in force upon Admission of the Shares, the Company's existing shareholders are entitled to pre-emptive rights in respect of an allotment of Shares for cash, unless disapplied by shareholders. If the Company allots Shares for cash in the future and pre-emptive rights are not so disapplied, holders of the Shares outside Jersey may not be able to exercise their pre-emptive rights for Shares unless the Company decides to comply with applicable local laws and regulations. In particular, shareholders located in the United States would not be able to exercise their pre-emptive rights in respect of any issue of Shares unless an effective registration statement was in place or an exemption from the registration requirements of the US Securities Act was available. The Company cannot assure its shareholders outside Jersey, including in the United States, that steps will be taken to enable them to exercise their pre-emptive rights, or to permit them to receive any proceeds or other amounts relating to their pre-emptive rights, which could in turn lead to the substantial dilution of such shareholders' interests in the Company.

The Company's ability to pay dividends on the Shares depends on the receipt of dividends and distributions from its subsidiaries

The Company is incorporated in Jersey and holds its interest in its Russian operating companies through OJSC Polyus Gold, a Russian holding company. As a holding company, the Company's ability to pay dividends to its shareholders relies on the receipt of dividends and distributions from its subsidiaries, including, in particular, its subsidiary OJSC Polyus Gold. To the extent that restrictions are imposed on the ability of such subsidiaries to pay dividends, or if such dividends or distributions become subject to withholding or other taxes, the Company's ability to pay dividends to holders of Shares could be adversely affected.

Investors' rights as Shareholders will be governed by Jersey law and may differ in some respect from the rights of shareholders under the laws of other jurisdictions

The Company is a limited liability company incorporated under the laws of Jersey. The rights of the Shareholders are governed by the Articles of Association and Jersey law. These rights may differ in some respects from the rights of shareholders in corporations organised outside of Jersey. In particular, Jersey law significantly limits the circumstances under which shareholders of companies may bring derivative actions, and in most cases, only the company may be the proper claimant or plaintiff for the purposes of maintaining proceedings in respect of any wrongful act committed against it. Generally, neither an individual nor any group of shareholders has any right of action in such circumstances. Furthermore, it may be difficult for investors to prevail in a claim against a Jersey company under, or to enforce liabilities predicated upon, the securities laws of jurisdictions outside of Jersey. Also, Jersey law does not afford appraisal rights to dissenting shareholders in the form typically available to shareholders of a US corporation.

Future sales of Shares may affect the market price of the Shares

New issuances and sales, or the possibility of new issuances and sales, of a substantial number of Shares onto the public markets, could have an adverse effect on the trading price of the Shares or could affect the Company's ability to obtain further capital through an offering of equity securities. Moreover, any newly issued preferred shares may have rights and preferences senior to those of the Shares.

The price of the Shares may be highly volatile

The trading price of the Shares following Admission on the London Stock Exchange may experience wide fluctuations in response to a number of factors, including:

- the financial and operating condition of the Group;
- variations in the Group's actual or anticipated operating results and those of other gold and mining companies;
- failure to meet expectations of security analysts and investors;
- changes in financial estimates or publication of research reports by securities analysts;
- variations in national and industry growth rates;
- changes in governmental legislation or regulation;
- fluctuations in the prices and trading volumes of the securities of gold-mining companies;
- general economic conditions within the Group's business sector or in Russia; and
- extreme price and volume fluctuations on the Russian or other emerging market stock exchanges.

Foreign judgments and arbitral awards may not be enforceable against the Company

Although the Company is incorporated in Jersey, most of the Group's assets are located in Russia. Judgments rendered by a court in any jurisdiction outside Russia are likely to be recognised by courts in Russia only if

(i) an international treaty providing for the recognition and enforcement of judgments in civil cases exists between Russia and the country where the judgment is rendered and/or (ii) a federal law of Russia providing for the recognition and enforcement of foreign court judgments is adopted. No such federal law has been passed and no such treaty exists between the United Kingdom or the United States and Russia for the reciprocal enforcement of foreign courts' judgments. In the absence of an applicable treaty or convention providing for the recognition and enforcement of judgments in civil and commercial matters between the United Kingdom or the United States and Russia, a judgment of a court in England or the United States may be recognised and enforced in Russia only on the grounds of reciprocity. In each case, reciprocity must be established and, in the absence of a developed court practice, it is difficult to predict whether a Russian court will be inclined to recognise and enforce an English or US court judgment on the grounds of reciprocity in any particular instance.

Foreign investors may find it difficult to enforce foreign judgments obtained against the Group

The Company is a holding company organised as a public limited liability company incorporated in Jersey with business operations conducted through various subsidiaries. All of the Directors and all of its officers reside outside the US. In addition, the majority of the Company's assets and the majority of the assets of its Directors and officers are located outside the US. As a result, it may not be possible for US investors to effect service of process within the US upon the Company or its Directors and officers located outside the US or to enforce, in the US courts or outside the US, judgments obtained against them in US courts or in courts outside the US, including judgments predicated upon the civil liability provisions of the US federal securities laws or the securities laws of any state or territory within the US. There is also doubt as to the enforceability in Jersey, whether by original actions or by seeking to enforce judgments of US courts, of claims based on the federal securities laws of the US. In addition, punitive damages in actions brought in the US or elsewhere may be unenforceable in Jersey.

Risks Relating to the Group Structure

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

The Principal Shareholders own in the aggregate approximately 78 per cent. of the Company's share capital. The interests of the Principal Shareholders could conflict with the interests of other holders of the Shares, and the Principal Shareholders may make decisions that could have a material adverse effect on the Group's business, revenues, financial condition, results of operations or prospects or the trading price of the Shares. In particular, the Principal Shareholders will have the ability to exert significant influence over any actions requiring the approval of the Shareholders, including those corporate actions which require a special resolution of the Shareholders in accordance with Jersey law. The Company will be subject to the Corporate Governance Code upon Admission of the Shares and has a majority of independent directors on its board. The Principal Shareholders have each entered into a Relationship Agreement undertaking, amongst other things, to ensure that the Company is able to carry on its business independently of the Principal Shareholders and that any transactions between them are carried out on an arm's length basis and on normal commercial terms. Holders of the Shares will not benefit from specific minority shareholder protection other than to the extent prescribed by Jersey law. See "Part XVII – Additional Information – Principal Shareholders", "Part XIII – Management and Corporate Governance", "Part XIV – Relationship Agreements" and "Part XVII – Additional Information – Articles of Association". In addition, one of the Principal Shareholders has entered into repurchase agreements with various financial institutions under which such Principal Shareholder retains the voting rights attributable to such shares sold under the repurchase agreements. In case of unfavourable market conditions, the Principal Shareholder may be unable to repurchase its shares sold under such repurchase agreements, which may result in a decrease of the trading price of the Shares. See "Part XVII – Additional Information – Principal Shareholders."

PART III

DIRECTORS, SECRETARY AND ADVISERS

Company Directors	Robert Buchan *(Chairman)* Bruce Buck Earl of Clanwilliam Adrian J.G. Coates Anna A. Kolonchina Kobus Moolman Alexander I. Mosionzhik German R. Pikhoya Dmitry V. Razumov
Company Secretary	Computershare Company Secretarial Services (Jersey) Limited Queensway House Hilgrove Street St. Helier Jersey JE1 1ES Channel Islands
Registered Office of the Company	Queensway House, Hilgrove Street, St. Helier, Jersey JE1 1ES Channel Islands
Principal Place of Business of the Company and Business Address of the Directors	Argyll 18b Charles Street London W1J 5DU United Kingdom
Sponsor	J.P. Morgan Cazenove 125 London Wall London EC2Y 5AL United Kingdom
Legal Advisors to the Company as to English and Russian Law	Debevoise & Plimpton LLP Tower 42 Old Broad Street London EC2N 1HQ United Kingdom
	Debevoise & Plimpton LLP Business Center “Mokhovaya” Ulitsa Vozdvizhenka, 4/7, Stroyeniye 2 Moscow, 125009 Russian Federation

Legal Advisors to the Sponsor as to English and Russian Law	Linklaters LLP One Silk Street London EC2Y 8HQ United Kingdom Linklaters CIS Paveletskaya sq. 2 bld. 2 Moscow, 115054 Russian Federation
Legal Advisors to the Company as to Jersey Law	Mourant Ozannes 22 Grenville Street St. Helier Jersey JE4 8PX Channel Islands
Reporting Accountants	Deloitte LLP 2 New Street Square London EC4A 3BZ United Kingdom
Registrar	Computershare Investor Services (Jersey) Limited 2nd Floor, Queensway House Hilgrove Street St. Helier JE1 1ES

PART IV

TIMELINE OF PRINCIPAL EVENTS

Admission of the Shares	19 June 2012
CREST Crediting	19 June 2012
De-listing of the Level I GDRs	19 June 2012

PART V

IMPORTANT INFORMATION

Important Information about the Prospectus

No representation or warranty, express or implied, is made by the Sponsor as to the accuracy, completeness or verification of the information set forth in this document, and nothing contained in this document is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or the future. Apart from the responsibilities and liabilities, if any, which may be imposed on the Sponsor by the FSMA or the regulatory regime established thereunder, the Sponsor assumes no responsibility for the accuracy, completeness or verification of this document and accordingly disclaims, to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which it might otherwise be found to have in respect of this document or any related statement.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company or the Sponsor or any of their respective affiliates that any recipient of this Prospectus should subscribe for or purchase the Shares. Investors in Shares must rely on their own examination, analysis and enquiry of the Group, including the merits and risks involved.

Investors in Shares should rely only on the information contained in this Prospectus. The Company has not authorised any other person to provide any investors in Shares with information regarding the Shares, other than the information contained herein. If anyone provides any investor in Shares with different or inconsistent information, such investor in Shares should not rely on it. Each investor in Shares should assume that the information appearing in this Prospectus is accurate as at the date of this Prospectus only. The business, financial condition, results of operations and the information about the Group set forth in this Prospectus may have changed since that date.

Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to applicable law, the Listing Rules, the Prospectus Rules or the Disclosure and Transparency Rules, the delivery of this Prospectus shall not under any circumstances imply that there has been no change in the Company's affairs or that the information set forth in this Prospectus is correct as of any date subsequent to the date hereof.

Investors in Shares acknowledge that: (i) they have not relied on the Sponsor or any person affiliated with the Sponsor in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision; and (ii) they have relied only on the information contained in this document, and that no person has been authorised to give any information or to make any representation concerning the Company or its subsidiaries or the Shares (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company or the Sponsor.

The Sponsor is acting exclusively for the Company and no one else in connection with Admission. The Sponsor will not regard any other person (whether or not a recipient of this document) as a client in relation to Admission and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or for giving advice in relation to Admission or any transaction matter or arrangement referred to herein.

Investors in Shares should not consider any information in this Prospectus to be investment, legal or tax advice. None of the Company, the Sponsor or any of their respective representatives, is making any representation to any purchaser of Shares regarding the legality of an investment in the Shares by such purchaser under the laws applicable to such purchaser. Each investor in Shares should consult its own counsel, accountant and other advisers for legal, tax, business, financial and related advice regarding the Shares.

None of the contents of the website of the Company or any other member of the Group form part of this Prospectus.

Statistical and Market Data

This Prospectus includes (i) in "Part VIII – Gold Mining Industry Overview", market data that the Company has obtained from, and attributed to, the World Gold Council, Russian Union of Gold Miners or such other sources as are indicated therein, and (ii) Russian macroeconomic data obtained from information published by the Central Bank of the Russian Federation ("**CBR**"). The Company accepts responsibility for having correctly reproduced such information, and, as far as the Company is aware and has been able to ascertain from information published by those industry publications or public sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Other market share information and other statements in this Prospectus regarding the industry in which the Group operates and the position of the Group relative to its competitors are not based on published statistical data or information obtained from independent third parties. Rather, such information and statements reflect the reasonable estimates of the Company based upon information obtained from trade and business organisations and associations, other contacts within the precious metals industry and from annual reports and information published by other gold mining companies. This information from the internal estimates and surveys of the Group has not been verified by any independent sources.

Presentation of Financial and Other Information

Unless otherwise indicated, financial information in this Prospectus, including Part XII – Historical Financial Information, has been prepared in accordance with IFRS, as adopted by the European Union ("**EU**") and as issued by the International Accounting Standards Board ("**IASB**"), as set out in Note 3 to the Historical Financial Information. The Historical Financial Information under IFRS has been audited. The underlying financial information stated in local currency has been translated into US dollars on the basis set out in "Currencies" below.

The Group was formed as a result of the combination of the OJSC Polyus Gold Group (the "**Polyus Russia Group**") and its subsidiaries and KazakhGold and its subsidiaries (the "**KazakhGold Group**"), which was completed on 25 July 2011 and resulted in KazakhGold acquiring a controlling stake in OJSC Polyus Gold (the "**Combination**"). Following completion of the Combination, the Company was renamed from KazakhGold Group Limited to Polyus Gold International Limited. The Combination was in effect a reverse takeover by PGIL of its ultimate parent company since OJSC Polyus Gold had acquired a controlling stake in PGIL. The Polyus Russia Group was substantially larger than the KazakhGold Group in terms of historical revenues, profits, assets and ore reserves and mineral resources.

The Combination occurred on 25 July 2011. The consolidated financial information included in this Prospectus is issued under the name of Polyus Gold International Limited, being the new parent entity following the reorganisation, but represents a continuation of the consolidated financial information of the Polyus Gold group of companies, except for its capital structure. See Note 2 to the Historical Financial Information included in Part XII.

The resource and reserve estimates presented in this Prospectus have been prepared in accordance with the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "**JORC Code**"). The JORC Code differs in several significant respects from SEC Industry Guide 7, which governs disclosures of mineral reserves in registration statements and reports filed with the SEC. In particular, unlike the JORC Code, SEC Industry Guide 7 does not recognise classifications other than proven and probable reserves, and the SEC does not permit mining companies to disclose mineral resources in SEC filings.

Presentation of Production and Reserve and Resources Information

Any and all references in this Prospectus to ounces of gold whether mined, produced, milled or extracted, or whether references to ounces of gold of the Group's reserves and resources, or any reference to total cash costs per ounce, are references to troy ounces of gold.

Use of Non-IFRS Measures of Financial Performance

The Company presents Adjusted EBITDA and total cash costs, which are not measures of financial performance under IFRS or other generally accepted accounting principles ("**Non-IFRS measures**"). These measures are used by management of the Group to assess the financial performance of the Group. Such measures as presented in this prospectus may not be comparable to similarly titled measures of performance presented by other companies, and they should not be considered as substitutes for the information contained in the financial statements included in this Prospectus.

Adjusted EBITDA

The Company presents Adjusted EBITDA as profit for the period before income tax, foreign exchange (gain)/loss, loss/(income) on derivatives classified as held for trading, loss/(gain) from investments in listed companies held for trading, gain on disposal of available-for-sale ("**AFS**") investments, loss on disposal of promissory notes, interest income on bank deposits, finance costs, impairment of property, plant and equipment and exploration and evaluation assets, goodwill impairment, loss on disposal of property, plant and equipment, and depreciation and amortisation.

Adjusted EBITDA is presented in this Prospectus because the Company considers it to be an important supplemental measure of the Company's financial performance. Additionally, the Company believes this measure is frequently used by investors, securities analysts and other interested parties to evaluate the efficiency of a group's operations and its ability to employ its earnings toward repayment of debt, capital expenditures and working capital requirements. Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation, or as a substitute for the Company's operating results as reported under IFRS. Some of these limitations are as follows:

- Adjusted EBITDA does not reflect the impact of significant interest expense or the cash requirements necessary to service interest or principal payments in respect of any borrowings, which could further increase if the Company incurs more debt.
- Adjusted EBITDA does not reflect the impact of income tax expense on the Company's operating performance.
- Adjusted EBITDA does not reflect the impact of depreciation and amortisation of assets on the Company's performance. The assets of the Company's business which are being depreciated and amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from Adjusted EBITDA, Adjusted EBITDA does not reflect the Company's future cash requirements for these replacements.
- Adjusted EBITDA does not reflect the Company's cash expenditures or future requirements for capital expenditure or contractual commitments.
- Adjusted EBITDA does not reflect changes in or cash requirements for the Company's working capital needs.
- Adjusted EBITDA does not reflect the impact of a number of other significant non-cash items, specifically gain/loss on disposal of investments, gain/loss from investments in listed companies held for trading, foreign exchange gain/loss, loss from disposal of property, plant and equipment and work-in-progress, impairment of property, plant and equipment and change in fair value of derivative.
- Other companies in the Company's industry may calculate Adjusted EBITDA differently or may use them for different purposes than the Company does, limiting their usefulness as a comparative measure.

The Company compensates for these limitations by relying on its IFRS results and using Adjusted EBITDA only as a supplemental measure.

Adjusted EBITDA is a measure of the Company's operating performance that is not required by, or presented in accordance with IFRS. Adjusted EBITDA is not a measurement of the Company's operating performance under IFRS and should not be considered as an alternative to profit for the year, operating profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of the Company's liquidity. In particular, Adjusted EBITDA should not be considered as a measure of discretionary cash available to the Company to invest in the growth of its business. For the calculation of the Company's Adjusted EBITDA for the years ended 31 December 2011, 2010 and 2009 and the reconciliation of Adjusted EBITDA for each such year to profit for the corresponding year, see "Part IX – Selected Financial and Operating Information".

Total cash costs/Total cash costs per ounce/Cash operating costs

The financial items "total cash costs" ("**TCC**"), "total cash costs per ounce", and "cash operating costs" presented by the Company have been calculated by management and have not been independently verified by the Group's auditors. TCC, total cash costs per ounce, and cash operating costs are discussed throughout this Prospectus, because the Company believes they provide a measure for comparing the Company's operational performance against that of its peer group. In addition, the Group uses these measurements to compare the performance of the Group's operations period-to-period, to monitor costs and to evaluate operating efficiency. Total cash costs are not defined by IFRS and should not be considered in isolation or as an alternative to operating expenses or cost of sales, or any measure of liquidity such as net cash from operating activities. Although the presentation of TCC, total cash costs per ounce, and cash operating costs is common industry practice, the Company's calculations of these items may vary from other gold mining companies' calculations, and by themselves do not necessarily provide a basis for comparison with other gold mining companies.

TCC is defined by the Company as the cost of gold sales reduced by property, plant and equipment depreciation, employee benefits obligations cost, provision for annual vacation payment, provision for site restoration and environmental obligation, change in allowance for obsolescence of inventory and adjusted by non-monetary changes in inventories and non-monetary changes in deferred stripping costs. Total cash costs per ounce are applicable total cash costs divided by the corresponding ounces of gold sold. These items are not IFRS measures. For the calculation of the Company's total cash costs, and total cash costs per ounce for the years ended 31 December 2011, 2010 and 2009, see "Part IX – Selected Financial and Operating Information".

Cash operating costs are defined by the Company as cost of gold sales relating to fuel, consumables and spares, labour, tax on mining, utilities, outsourced mining services, refining costs and other costs adjusted for amortisation and depreciation of operating assets, deferred stripping costs amortised/(capitalised) and increase in gold-in process and refined gold inventories. Cash operating costs are a sub-total of various IFRS line items comprising cost of gold sales, and is not in itself a recognised IFRS measure. For the calculation of the Company's cash operating costs, for the years ended 31 December 2009, 2010 and 2011, see "Part XI – Operating and Financial Review".

An investor should not consider these items in isolation or as alternatives to cost of sales, profit for the year attributable to shareholders of the parent company, net cash generated from operating activities or any other measure of financial performance presented in accordance with IFRS.

Currencies

Unless otherwise indicated, the financial information contained in this Prospectus has been expressed in US dollars. The functional currency of the Russian production companies of the Group's operations is the Russian rouble. The functional currency of the management companies of the Group is the local currency. On consolidation, income statements of subsidiaries for which the US dollar is not the functional currency are translated into US dollars, the presentation currency for the Group, at average rates of exchange. Balance sheet items are translated into US dollars at period end exchange rates. These translations should not be construed as representations that the relevant currency could be converted into US dollars at the rate indicated or at any other rate.

Rounding

Certain figures included in this document have been subject to rounding adjustments. Accordingly, discrepancies in tables between the totals and the sums of the relevant amounts are due to rounding. Percentages in tables have also been rounded and accordingly may not add up to 100 per cent. In addition, certain percentages presented in the tables in this document reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

Forward-Looking Statements

Certain statements in this Prospectus are not historical facts and are forward-looking statements. Forward-looking statements appear in various locations, including, without limitation, under the headings "Part I – Summary", "Part II – Risk Factors", "Part VII – Information on the Group" and "Part XI – Operating and Financial Review". The Company may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Forward-looking statements include statements concerning the Group's plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, its competitive strengths and weaknesses, its business strategy and the trends the Company anticipates in the industries and the political and legal environment in which it operates and other information that is not historical information.

Words such as "believes", "anticipates", "estimates", "expects", "intends", "predicts", "projects", "could", "may", "will", "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under "Risk Factors", as well as those included elsewhere in this Prospectus. Each prospective investor should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- changes in the prices of gold;
- changes in the Group's ability to maintain or obtain the licences necessary for its businesses;
- changes in the Group's operating costs, including the costs of energy, transportation and labour;
- changes in the Group's ability to successfully implement any of its business or financing strategies;
- changes in the Group's ability to fund its future operations and capital needs through borrowings or otherwise;
- developments in, or changes to, the laws, regulations and governmental policies governing the Group's businesses, including changes impacting environmental liabilities;
- inflation, interest rate and exchange rate fluctuations;
- changes in the political, social, legal or economic conditions in Russia and in Kazakhstan;
- the effects of international political events;
- the effects of the restrictive covenants in the Group's financing documentation; and
- the Group's success in identifying other risks to its businesses and managing the risks of the aforementioned factors.

This list of factors is not exhaustive. When relying on forward-looking statements, each prospective investor should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, the Company does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, other than as required by applicable laws or the FSA's Listing Rules, Prospectus Rules or Disclosure and Transparency Rules. The Company does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

Enforcement of Civil Liabilities

Substantially all of the Company's assets are located outside the United Kingdom or the United States, and may be located outside other jurisdictions in which investors may be located. In addition, most of the Directors and members of the Company's senior management are nationals or residents of jurisdictions other than the United Kingdom or the United States, and may not be nationals or residents of other jurisdictions in which investors may be located, and all or a substantial portion of their assets are located outside the United Kingdom or the United States, and may be located outside other jurisdictions in which investors may be located. In particular, substantially all of the Company's operating assets are located in the Russian Federation, and several of the Directors and members of the Company's senior management are nationals or residents of the Russian Federation and all or a substantial portion of their assets are located in the Russian Federation.

Judgements rendered by a court in any jurisdiction outside the Russian Federation will generally be recognised by courts in the Russian Federation only if an international treaty providing for recognition and enforcement of judgements in civil cases exists between the Russian Federation and the country where the judgement is rendered or if a federal law is adopted in Russia providing for the recognition and enforcement of court judgements of the country where the judgement is rendered. There is no treaty between either the United Kingdom and the Russian Federation or the United States and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgements in civil and commercial matters, and no relevant federal law on enforcement of foreign court judgements has been adopted in the Russian Federation. In two recent instances, however, Russian courts have recognised and enforced a foreign court judgement (an English court judgement in one instance and a Dutch court judgement in the other instance), on the basis of a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation, and both the Netherlands and the Russian Federation, respectively, are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant foreign court judgement in Russia. In the absence of established court practice, however, no assurances can be given that a Russian court would be inclined in any particular instance to recognise and enforce a foreign court judgement on these or similar grounds. In addition, Russian courts have limited experience in the enforcement of foreign court judgements. Moreover, there is doubt regarding whether a Russian court would enforce liabilities predicated upon the civil liability provisions of the laws of the United Kingdom or the United States, or the laws of other jurisdictions in which investors may be located, in an original action.

Accordingly, it may be difficult or impossible for investors to:

- effect service of process within the United Kingdom, the United States or other jurisdictions in which investors may be located, on certain Directors or members of the Company's senior management;
- enforce judgements obtained in courts in the United Kingdom, the United States or other jurisdictions in which investors may be located, against the Company's assets, against certain Directors or members of the Company's senior management; or
- enforce, in original actions brought in courts in the Russian Federation, liabilities predicated upon the civil liability provisions of the laws of the United Kingdom, the United States or the laws of other jurisdictions in which investors may be located.

The above limitations may deprive investors of effective legal recourse for claims related to an investment in the Shares.

Prospective investors should read the entire document and, in particular, the section headed "Risk Factors" when considering an investment in the Company.

References to Defined Terms

References in this document to the "**Company**" or "**PGIL**" are to Polyus Gold International Limited; references to "**KazakhGold**" are to PGIL prior to its name change in July 2011; references to the "**Group**" are to the Company and its consolidated subsidiaries. Certain terms used in this document, including certain capitalised terms and certain technical and other terms, are defined, and certain selected industry and technical terms used in this document, are defined, in "Definitions" and "Glossary of Technical Terms".

Unless otherwise indicated, all references in this document to "**US$**" or "**US dollars**" are to the lawful currency of the United States, all references to "**RUB**" or "**roubles**" are to the lawful currency of the Russian Federation ("**Russia**") and all references to "**GBP**", "**£**" or "**pounds sterling**" are to the lawful currency of the United Kingdom of Great Britain and Northern Ireland (the "**United Kingdom**" or "**UK**").

PART VI

AMENDMENT OF THE LEVEL I GDR PROGRAMME AND ADMISSION OF SHARES

Amendment of Level I GDR Programme, Cancellation of Level I GDRs and Distribution of Shares

Prior to Admission of the Shares, the Company expects to amend the Level I GDR Programme to limit the number of Shares that may be held in the Level I GDR Programme to 4.99 per cent. of PGIL's issued share capital (the "**Level I GDR Facility Ceiling**") and then, effective on Admission of the Shares, the Company expects to cancel the listing of the Level I GDRs on the Official List of the UKLA and terminate their trading on the London Stock Exchange.

On the business day immediately preceding Admission, all Level I GDRs not registered in the name of a nominee of DTC will be cancelled and holders of those Level I GDRs will be required to surrender them for withdrawal of the Shares that they represent. Upon payment by PGIL of the Depositary's fee for the surrender of those Level I GDRs, any expenses and any applicable taxes, the Depositary will instruct PGIL to register those Shares in the names of the owners.

On 17 May 2012, PGIL made available to holders of Level I GDRs a Form of Election and Delivery Instruction and invited all holders who hold their Level I GDRs through DTC or in certificated form or in book-entry form on the register of the Depositary to voluntarily surrender all or a portion of their Level I GDRs for delivery of the amount of Shares represented thereby to a CREST account specified by the Level I GDR holder or in certificated form (a "**Share Election**"). A Share Election will be valid if The Bank of New York Mellon, as receiving agent receives, by 5:00 p.m., New York time, on 12 June 2012 (the "**Share Election Expiration Time**"):

- delivery of the Level I GDRs to be surrendered to the designated DTC account of the receiving agent and an agent's message relating to those Level I GDRs; and
- delivery by hand, or by mail of the original of a completed and signed Form of Election and Delivery Instruction relating to those Level I GDRs.

Level I GDRs that are the subject of a valid Share Election will be blocked until the earlier of (i) Admission of the Shares occurs or (ii) PGIL has announced that Admission of the Shares will not occur.

On the business day immediately preceding Admission of the Shares, all cancellations of Level I GDRs will take effect and, upon payment by PGIL of the Depositary's fee for surrender of those Level I GDRs, any expenses and any applicable taxes, Shares will be delivered on the date of Admission of the Shares to the CREST accounts or addresses specified by the holders of Level I GDRs that made Share Elections.

Prior to Admission of the Shares, an amendment to the Level I GDR Deposit Agreement will also take effect, which will provide that:

- the number of Shares on deposit may not exceed the Level I GDR Facility Ceiling;
- all Level I GDRs that are held by a depository for Euroclear or Clearstream are cancelled and the holders of those Level I GDRs are required to surrender them for withdrawal of the Shares they represent. Upon payment by PGIL of the Depositary's fee for surrender of those Level I GDRs, any expenses and any applicable taxes, the Depositary will request registration of transfer and those Shares will be delivered to CREST accounts of Euroclear and Clearstream for allocation to the accounts in which the cancelled Level I GDRs were held and the PGIL registrar will deliver those Shares to those accounts;
- all Level I GDRs not registered in the name of a nominee of DTC are cancelled and holders of those Level I GDRs are notified that they are required to surrender them for withdrawal of the Shares that they represent. Upon payment by PGIL of the Depositary's fee for surrender of those Level I GDRs,

any expenses and any applicable taxes, the Depositary will instruct PGIL to register those Shares in the names of the owners; and

- to the extent that the number of Shares on deposit after giving effect to the Share Elections and the above required cancellations exceeds the Level I GDR Facility Ceiling, the remaining Level I GDRs will be subject to pro-ration and the Depositary will notify holders of Excess GDRs that they are required to surrender the Excess GDRs for withdrawal of the Shares they represent. Upon payment by the Excess GDR holder of the Depositary's fee for surrender of those Level I GDRs, any expenses and any applicable taxes, the Depositary will instruct the registrar of PGIL to register those Shares in the form of registered share certificates in the names of the DTC participants holding those Level I GDRs as shown on the records of DTC on the business day immediately preceding the cancellation of the GDRs.

There can be no assurance that Admission of the Shares will occur. If Admission of the Shares does not occur, the Standard Listing of the Level I GDRs will continue, the amendment of the Level I GDR Programme will not become effective, all Share Elections will be disregarded, holders of Level I GDRs will not be required to surrender their Level I GDRs, and the Shares representing Level I GDRs will not be distributed to holders of Level I GDRs.

Admission of the Shares and CREST Settlement

Application has been made to the Financial Services Authority for all of the Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for such Shares to be admitted to trading on its main market for listed securities. It is expected that Admission of the Shares will become effective and that dealings in the Shares will commence by no later than 8.00 a.m. on 19 June 2012. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument in accordance with the CREST Regulations. The New Articles permit the holding of Ordinary Shares under the CREST system. All of the Shares will be in registered form and no temporary documents of title will be issued. Applications have been made for the Shares to be admitted to CREST. Euroclear requires the Company to confirm to it that certain conditions imposed by the CREST Regulations are satisfied before Euroclear will admit any security to CREST. It is expected that these conditions will be satisfied in respect of the Shares on admission of the Shares to the Official List. As soon as practicable after satisfaction of the conditions, the Company will confirm this to Euroclear. CREST is a voluntary system and holders of Shares who wish to receive and retain share certificates will be able to do so. When admitted to trading, the Shares will be registered with ISIN number JE00B5WLXH36 and SEDOL number B5WLXH3.

PART VII

INFORMATION ON THE GROUP

Overview

The Group is an international group of gold mining companies. The Group is the largest gold producer in Russia based on ounces of gold produced, according to the Russian Union of Gold Miners, and with 90.4 million ounces of gold in JORC proven and probable reserves has the third largest gold reserves in the world based on the most recent publicly available reports of other gold mining companies. The Group develops and mines hardrock gold and alluvial gold deposits, with its principal deposits in the Krasnoyarsk, Irkutsk, Magadan and Republic of Sakha (Yakutia) regions of Russia. The Group's operations produced 1,378 thousand ounces of gold, or approximately 20 per cent. of total Russian gold production in 2011. The Group's total gold production in 2011 was 1,495 thousand ounces.

For the year ended 31 December 2011, the Group had total gold sales of US$2,341 million, total revenue of US$2,403 million and profit before income tax of US$765 million, and, as at 31 December 2011, total assets of US$4,219 million and equity of US$2,831 million. For the year ended 31 December 2010, the Group had total gold sales of US$1,711 million, total revenue of US$1,749 million and profit before income tax of US$516 million, and, as at 31 December 2010, total assets of US$4,004 million and equity of US$3,241 million. The Group's Adjusted EBITDA was US$1,111 million in 2011 and US$725 million in 2010 and total cash costs were US$980 million in 2011 and US$763 million in 2010.

PGIL estimates the Group's mineral base to amount to approximately 48 years of hardrock gold production and approximately 21 years of alluvial gold production.

The table below shows the mineral reserves and resources of the Group according to the JORC Code:[1]

Classification	*Category*	*Ore (million tonnes)*	*Grade (g/t)*	*Gold (thousand ounces)*
Resources (including reserves)	Measured	555.2	1.8	31,612
	Indicated	1,265.4	2.0	83,154
	Total measured and indicated	**1,820.6**	**2.0**	**114,766**
	Inferred	681.7	2.1	45,989
	Total measured, indicated and inferred	**2,502.2**	**2.0**	**160,755**
Reserves	Proven	515.1	1.7	28,033
	Probable	851.4	2.3	62,398
	Total proven and probable	**1,366.5**	**2.1**	**90,431**

1. Includes reserves and resources of the Group's Kazakhstan and Kyrgyzstan operations, which the Company has agreed to sell. See "– The Group's interest in Kazakh and Kyrgyz gold mining assets".

The table below shows the gold production figures for the Group's operations.

Production of Gold ('000 ounces)	*Year ended 31 December*		
	2011	***2010***	***2009***
Krasnoyarsk Region			
Olimpiada mine	566	581	839
Titimukhta	109	100	39
Blagodatnoye mine	363	251	–
Irkutsk Region			
Zapadnoye mine(1)	3	19	24
Alluvial deposits	210	197	194
Pervenets pilot plant(2)	10	7	–
Republic of Sakha (Yakutia)			
Kuranakh mine	117	120	135
Kazakhstan			
Aksu, Bestobe, Zholymbet and Akzhal mines	117	110	30
Total production of gold(3)	**1,495**	**1,386**	**1,236**

1. In April 2011, a decision was made to suspend operations at Zapadnoye mine due to depletion of reserves in the pit contour of Zapadnoye deposit.
2. Pervenets pilot plant processes ore from the Verninskoye deposit.
3. Totals may not sum completely due to rounding.

The Group's major gold deposits in Russia are:

- in the Krasnoyarsk region (representing 49 per cent. of the Group's total proven and probable reserves and 69 per cent. of the Group's total gold production in 2011) – the Olimpiada deposit, which is one of the largest gold deposits in Russia; the Blagodatnoye and Titimukhta deposits and the Razdolinskaya (which includes Poputninskoye) and Panimba fields;
- in the Irkutsk region (representing 11 per cent. of the Group's total proven and probable reserves and 15 per cent. of the Group's total gold production in 2011) – the Verninskoye, Pervenets and Chertovo Koryto deposits, the Medvezhy goldfields, as well as 113 alluvial deposits;
- in the Magadan region (representing 35 per cent. of the Group's proven and probable reserves) – the Natalka deposit; and
- in the Republic of Sakha (Yakutia) (representing 2 per cent. of the Group's total proven and probable reserves and 8 per cent. of the Group's total gold production in 2011) – the Kuranakh ore body.

The Group's gold mining assets in Kazakhstan and the Kyrgyz Republic, which it has held since its acquisition of a controlling stake in KazakhGold, which was completed in August 2009, comprise the Aksu, Bestobe and Zholymbet deposits in the Akmola region and the Akzhal deposit in the Eastern-Kazakhstan region of Kazakhstan, as well as a number of exploration and development properties in Kazakhstan and Kyrgyzstan. These operations produced 117 thousand ounces of gold in 2011, representing 8 per cent. of the Group's total gold production. The total proven and probable reserves of the Group's Kazakh and Kyrgyz operations amount to 2.9 million ounces of gold, representing 3 per cent. of the Group's total proven and probable reserves and total resources amount to 8.8 million ounces, representing 5 per cent. of the Group's total resources. On 8 June 2012 the Company and certain of its subsidiaries entered into a conditional sale and purchase agreement for the sale of its gold mining assets in Kazakhstan and Kyrgyzstan. See "– The Group's interest in Kazakh and Kyrgyz gold mining assets".

The Group has embarked on an intensive growth and development programme, with the goal of becoming one of the world's top five gold mining companies in terms of production, reserves and market capitalisation.

History of the Group

In 2002, Norilsk Nickel acquired CJSC Polyus, which held various gold mining assets in the Krasnoyarsk region of Russia.

In 2004, CJSC Polyus completed the acquisition of a controlling interest in the Russian gold mining companies, OJSC Lenzoloto (in the Irkutsk region of Russia) and Matrosov Mine (in the Magadan region of Russia), and subsequently increased its stake in both companies. CJSC Polyus later restructured OJSC Lenzoloto by transferring certain of its assets to LLC "LZRK", a newly established subsidiary of CJSC Polyus. On 1 June 2011, LLC "LZRK" was restructured into a closed joint stock company and became CJSC LZRK ("**LZRK**"). In September 2011 LZRK merged into OJSC Pervenets.

In August to September 2005, CJSC Polyus further expanded its gold mining assets through the acquisition of Aldanzoloto, OJSC YMC and SVMC in the Republic of Sakha (Yakutia) region in Russia. As a result of those acquisitions, CJSC Polyus increased its production of gold in 2005 to 1.038 million ounces, as compared to 832,000 ounces in 2003. In terms of production, CJSC Polyus became Russia's largest gold mining company.

In May 2005, CJSC Polyus acquired from Norilsk Nickel indirect ownership of a 20 per cent. stake in Gold Fields through the acquisition of 100 per cent. of the issued and outstanding shares in Jenington. In March 2006, Jenington sold this stake in Gold Fields, resulting in net proceeds to CJSC Polyus of US$1.93 billion.

Also in March 2006, Norilsk Nickel transferred all of the shares of CJSC Polyus, together with a cash contribution of RUB 10 billion (approximately US$360 million at the time), to OJSC Polyus Gold, a newly formed Russian open joint stock company, as part of a spin-off of Norilsk Nickel's gold mining business.

In May 2006, the shares of OJSC Polyus Gold were admitted to listing and trading on the RTS and MICEX stock exchanges. In July 2006, OJSC Polyus Gold established a Level I American depositary receipt programme, and in December 2006 the OJSC Polyus Gold ADSs were listed on the Official List and admitted to trading on the London Stock Exchange.

On 9 July 2009, Jenington made the Partial Offer to shareholders of KazakhGold. The Partial Offer was declared unconditional on 14 August 2009, following which Jenington became the controlling shareholder of KazakhGold. Following a US$100 million placing of new ordinary shares of KazakhGold completed in July 2010, Jenington became the owner of 65 per cent. of the issued share capital of KazakhGold.

On 10 April 2011, KazakhGold entered into the Amended Principal Agreement (as subsequently amended) with AltynGroup for the sale of the KazakhGold Operating Subsidiaries and its Romanian assets and also entered into the Settlement Deed, which provides for a settlement and release of the orders, judgements and claims initiated in the UK, Jersey, the British Virgin Islands, or elsewhere, between KazakhGold, Jenington and Kazakhaltyn, on the one hand, and the Assaubayev family, on the other hand, and all of their respective subsidiaries and affiliates without any admission of liability on either part. Under the Amended Principal Agreement, AltynGroup agreed conditionally to acquire the KazakhGold Operating Subsidiaries and the Romanian assets in two tranches. Entry into the Amended Principal Agreement and the Settlement Deed resolved the dispute between the parties and the Kazakh authorities, but neither the Amended Principal Agreement and Settlement Deed nor the timing of the transactions contemplated under those agreements were conditional on the Combination with OJSC Polyus Gold. On 2 April 2012, PGIL terminated the Amended Principal Agreement, on the grounds that the First Tranche Completion under the Amended Principal Agreement had not occurred by the First Tranche Cut-Off Date. The Letter of Credit, which was issued in favour of PGIL under the terms of the Amended Principal Agreement, has been extended until 29 June 2012 and remains in full force and effect. In addition, the Settlement Deed also remains in full force and effect irrespective of the failure to complete the sale of the KazakhGold Operating Subsidiaries pursuant to the Amended Principal Agreement. On 18 May 2012, the Group completed the sale of its Romanian assets for a total consideration of US$20 million. On 8 June 2012 the Company and certain of its subsidiaries entered into a conditional sale and purchase agreement for the sale of its gold mining assets in Kazakhstan and Kyrgyzstan. See "– The Group's interest in Kazakh and Kyrgyz gold mining assets".

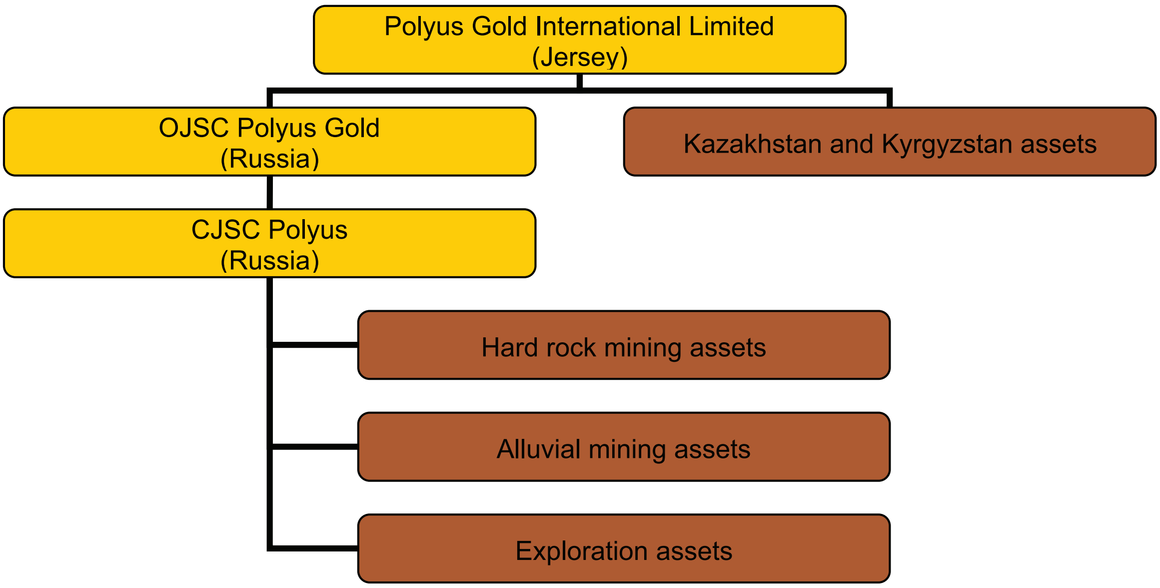
On 17 June 2011, KazakhGold announced the proposed combination of KazakhGold and OJSC Polyus Gold (the "**Combination**"). The Combination, which comprised a private exchange offer by KazakhGold to holders of OJSC Polyus Gold securities as well as option agreements with Jenington and the principal shareholders of KazakhGold, completed on 25 July 2011 and resulted in KazakhGold acquiring 89.14 per cent. of the issued share capital of OJSC Polyus Gold. On 26 July 2011, KazakhGold changed its name to Polyus Gold International Limited. On 17 August 2011, Jenington completed a further private exchange offer to holders of OJSC Polyus Gold ADRs and completed an acquisition of additional OJSC Polyus Gold ADRs in the open market. Following this private exchange offer and acquisition, PGIL and Jenington together held 91.5 per cent. of the issued share capital of OJSC Polyus Gold.

On 30 August 2011, PGIL announced that it had commenced a Russian law-governed mandatory tender offer to purchase for cash ordinary registered shares of OJSC Polyus Gold from the remaining shareholders of OJSC Polyus Gold at a purchase price of 1,900.27 Russian roubles per share. The offer period of the mandatory tender offer expired on 8 November 2011, with 7,370,311 shares, representing 3.87 per cent. of the issued and outstanding shares of OJSC Polyus Gold, being validly tendered pursuant to the mandatory tender offer. In accordance with the terms of the mandatory tender offer, 7,263,644 shares representing 3.81 per cent. of the issued and outstanding shares of OJSC Polyus Gold were validly transferred to PGIL as required under Russian law and PGIL paid RUB 13,803 million to complete the settlements under the mandatory tender offer. The Group funded the shares tendered under the mandatory tender offer with US$230 million borrowed under each of the two Bridge Facilities. See "Part XVII – Additional Information – Material Contracts – The Combination – Bridge Facilities".

On 10 May 2012, the Group's indirect subsidiary, Jenington International Inc., completed the sale, in privately negotiated transactions, of 151,607,496 Shares 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 to VTB Bank. The purchase price for the Shares was US$2.80 per Share and GDR and resulted in aggregate gross proceeds received from the two transactions equal to US$635.5 million. The proceeds were used to repay US$230 million principal amount borrowed under the VTB Bank Bridge Facility and US$230 million principal amount borrowed under the Societe Generale Bridge Facility used to fund the purchase of the OJSC Polyus Gold shares acquired in the mandatory tender offer announced on 30 August 2011 in connection with the Combination, with the remainder to be used to fund the Group's development projects at the Verninskoye and Natalka deposits.

Group Structure

The Company is the ultimate holding company for the Group. The chart below shows a summary of the structure of the Group.



See also Note 37 to "Part XII – Historical Financial Information" for a list of subsidiaries that the Company considers significant.

Competitive Strengths

The Directors believe that the Group benefits from the following principal competitive strengths:

- ***An international gold producer with a highly competitive position in Russia and strong track record of production from existing operations***

  With 2011 production of 1,495 thousand ounces, 90.4 million ounces of proven and probable JORC reserves and 160.8 million ounces of measured, indicated and inferred JORC resources, the Group is the largest gold producer in Russia and one of the top three gold companies worldwide by proven and probable JORC reserves based on the most recent publicly available Company reports. The Group's operations are well established with minimum reliance on third-party infrastructure, having been producing for many years and provide the foundation for the Group's further gold production in the medium term. As a result of its strong operations and current foothold in Russia, the Group is well positioned to capitalise on existing and future opportunities in the region.

- ***An extensive resource base and defined development pipeline, providing a sector-leading production growth profile from large development assets***

  A major portion of the Group's 90.4 million ounce proven and probable JORC reserves are within assets that are currently not producing. Given its strong financial position and excellent track record of commissioning new mines, the Group is well-positioned to convert its reserve base into gold production. Management's current development plans envisage seeking to increase its gold production in Russia of 1.4 million ounces to more than 2.8 million ounces by 2015, with a goal of reaching 4.1 million ounces by 2020. Growth would come from both the expansion of production at the existing mine and the commissioning of new deposits, including the Natalka deposit. If stages 2 and 3 of the Natalka plan are approved by the Board of Directors and the deposit is commissioned, the Natalka deposit would rank among the largest gold mines in the world based on publicly available reserve and resources reports of leading gold producers with full production capacity estimated at 1.5 million ounces per annum. In order to realise these plans, Group management plans to obtain Board approval for the commissioning of the next stages of development. See "– Current Development Pipeline".

- ***Strong expertise in gold mining and project execution in an opportunity-rich mining region***

  The Group believes its operations at its current producing assets are best-in-class and are characterised by efficient use of modern equipment and low-cost, large-scale processes. Many of the Group's operations take place in remote locations and harsh environments and the Group has a proven ability to operate in such circumstances. Likewise, the Group has a proven track record of project execution, with much of the Group's existing production being the result of its successful development from initial exploration through to design and development and ultimately gold production. The Group's Blagodatnoye asset is one of the largest Russian exploration projects developed in the last 10 years with reserves of 9.9 million ounces and is now producing 363 thousand ounces of gold per annum. The successful development of the Blagodatnoye mine demonstrates the Group's ability to commission new projects as it was brought into production ahead of schedule in July 2010 and at the projected capital cost. The Group has an in-house design bureau Polyus Project with state-of-the-art engineering capabilities for development of industrial, energy and civil projects. The Group's construction and project management group provides the core expertise and the Group's total capacity of mills commissioned during the period from 2006 to 2011 is 13.9 million tonnes per annum.

  The Directors therefore believe that the Group is well-positioned to bring its existing development projects into production. The Group is also well-placed to take advantage of future opportunities in resource-endowed Russia as its expertise and track record will provide competitive advantage in bidding for licences and assets.

- ***Strong financial position with access to the international capital markets and no hedging, offering full exposure to the gold price and ability to capitalise on acquisition opportunities***

  As at 31 December 2011, the Group had a net debt position of US$141 million (total borrowings less cash and cash equivalents) and an asset base of US$4,219 million. The Group generated Adjusted EBITDA of US$1,111 million and profit for the period of US$558 million in 2011. The Group's current financial position, strong cash flow generation and access to international capital markets allows the Group financial flexibility to execute its organic growth strategy or make opportunistic acquisitions. In addition, the Group has no gold hedging in place, providing shareholders with full exposure to the gold price.

- ***Longstanding support from the Principal Shareholders***

  The Principal Shareholders currently own an aggregate of approximately 78 per cent. of the Company's share capital. Both Principal Shareholders are highly experienced investors with significant background, connections, expertise and in-depth knowledge of the Russian mining industry. The Group expects to be able to make use of the Principal Shareholders' extensive business profiles and expertise to further build on its positions as the largest gold producer in Russia. Each of the Principal Shareholders has entered into the Relationship Agreements with the Company to regulate the ongoing relationships between each Principal Shareholder and the Group with a view to ensuring that the Group is capable of carrying on its business independently of the Principal Shareholders.

- ***Experienced management team with strong track record and an experienced and majority independent Board***

  The Group's senior management team consists of experienced individuals with an average of 17 years in the mining industry and most of the Group's top management have worked at the Group since its formation in 2006. This has allowed the Group to maintain a high degree of continuity. The management team has successfully achieved growth in metrics such as reserves, production, revenue and Adjusted EBITDA. The Group believes that the management experience and track record in the full range of early stage exploration, development and producing assets positions the Group to maximise the value of its existing operations, development projects and resource base. For example, from 2006 to 2011 the Group's JORC proven and probable reserves increased from 50.8 million ounces to 90.4 million ounces, representing an increase of 78.1 per cent., and from 2006 to 2011 processing capacity increased from 8.9 million tonnes per annum to 22.8 million tonnes per annum, representing an increase of 156.2 per cent., and production increased from 1,215 thousand ounces to 1,495 thousand ounces representing an increase of 23.1 per cent. In addition, the Company has an experienced Board of Directors with five out of nine Directors considered independent based on the criteria of the UK Corporate Governance Code.

Strategy

The Group's strategy is focused on organic growth through the effective execution of expansion projects and the construction and launch of new deposits, underpinned by its access to international capital markets. Through its strategy the Group seeks to become one of the world's leading gold mining and production companies, keep a competitive cost structure, significantly increase its mineral resource base and maintain its commitment to operational excellence and its social and environmental responsibilities.

Effective execution of expansion projects

The Group's development strategy focuses on maximising the potential of its currently producing assets in Blagodatnoye, Titimukhta, Olimpiada, Verninskoye and Kuranakh, with the expectation that the Krasnoyarsk business unit will remain its core production asset in the near term, as well as the development of new projects. The Board has approved a capital expenditure development budget for 2012 of US$1.1 billion, which includes funding for Phase I of the Natalka development and completion of expansion projects at the Titimukhta and Verninskoye mines, and the Group has commenced feasibility studies for further development of the Blagodatnoye mine, trial works at the Kuranakh mine and scoping studies for further development of the Olympiada, Poputninskoye and Panimba and Chertovo Koryto deposits.

Commitment to operational excellence and its social and environmental responsibilities

The Group believes operational excellence to be integral to the success of its business and continuously seeks to improve its compliance with health, safety and environmental requirements and plans to gain the membership of the ICMM, whose sustainable development principles are the current world recognised health and safety standard. As part of this strategy, the Group is committed to be a modern, transparent company, with world class corporate governance standards and a firm recognition of its social and environmental responsibilities, while seeking to provide development opportunities for its personnel.

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

M&A growth options

While the Group's primary focus will be on developing its organic growth pipeline, the Group intends to be opportunistic and will consider suitable M&A options that would reinforce the Group's asset portfolio, offer attractive growth potential and geographic diversification.

Current Development Pipeline

The Board has approved a capital expenditure development budget for 2012 of US$1.1 billion, which includes funding for Phase I of the Natalka development project and completion of expansion projects at the Titimukhta and Verninskoye mines, and the Group has commenced feasibility studies for further development of the Blagodatnoye mine, trial works at the Kuranakh mine and scoping studies for further development of the Olympiada, Poputninskoye and Panimba and Chertovo Koryto deposits.

The following table sets forth the allocation of the Group's capital expenditures for 2012:

	Investments in US$ million
	2012
Existing Deposits	
Olimpiada	92
Titimukhta	28
Blagodatnoye	43
Kuranakh	17
Alluvials	20
Verninskoye	161
New Projects	
Chertovo Koryto	1
Natalka	385
Razdolinskaya and Panimba	13
Total	**760**

In addition, the Group expects to spend US$79 million on projects in Kazakhstan and in other projects, as well as US$217 million in 2012 to provide construction and logistics services for the development of new projects in Russia.

The current status of the further possible expansion projects in management's development pipeline, as well as possible future development, is summarised below:

- At the Blagodatnoye mine, a feasibility study is under development in relation to the proposed increase of the processing capacity of to 8 million tonnes of ore per annum through the installation of an additional milling section with an annual processing capacity of 2 million tonnes of ore per annum. If approved by the Board, these plans envisage gold production at the Blagodatnoye mill increasing from 363 thousand ounces per annum in 2011 to a projected annual average of 450 thousand ounces per annum between 2014 and 2027, with investment in the project envisaged amount to US$281 million through 2015.
- At the Titimukhta deposit, the processing capacity of the Titimukhta mine has been increased in 2012 from 2.2 million tonnes of ore per annum in 2010 to 2.4 million tonnes of ore per annum, which is expected to raise gold production at Titimukhta to 120 to 125 thousand ounces per annum in 2012.
- At the Olimpiada deposit, the Group's exploration works from 2009 to 2011 have shown a potential for significant increases of the current mineable reserves which would allow the Group to potentially extend the life of the mine from 2024 to at least 2035, subject to receipt of the required licences and other approvals. Based on the results of a scoping study that is currently being performed, management's plans aim to optimise and improve production to increase recovery and reduce the cost of production and to develop the existing mines at the Olimpiada deposit, either by constructing a super pit or the staged launched of underground mining operations. If underground mining operations are developed, the current management development plans contemplate additional annual gold production at Olimpiada of 158 thousand ounces from 2019.
- The latest audit of the Verninskoye mineral base by Micon International in December 2010 showed that the mine's capacity could be raised to 3.6 million tonnes of ore per annum by 2013. The Verninskoye mine was commissioned on 30 December 2011. Management's current expansion plans for the Verninskoye deposit contemplate average gold production reaching 260 thousand ounces per annum in the period 2013 – 2027.
- At the Kuranakh mine, during 2011 the Group tested ore separating the ore by clay and coarse fractions with further processing of coarse fraction at the heap leaching facility. The initial trial works confirmed separability of the ore and availability of further processing using heap leaching. The Group has been continuing trial works in 2012. Subject to completion of satisfactory trial works, management's plans contemplate that the installation of full-scale heap leaching operations will result in the increase of annual ore mining and processing to 8 million tonnes by 2014. The proposed new mill and heap leaching facility are expected to add 70 thousand ounces and 60 thousand ounces of gold production per annum, respectively, which would double gold output as compared to the amount produced by the Group in Kuranakh in 2011.

In addition, the current development pipeline contemplates the following new construction projects at Natalka, Poputninskoye and Panimba and Chertovo Koryto deposits.

- Phase 1 of the Natalka development project was launched in December 2010. Following completion of construction in Phase 1, the deposit is expected to reach a processing capacity of 10 million tonnes of ore per annum with projected annual gold production of 500 thousand ounces in 2014. In addition, management's plans contemplate the implementation of two further phases of the development project which would expand annual gold production at the Natalka deposit to a projected 1.0 million ounces in 2016 and 1.5 million ounces in 2020, respectively. In August 2011, the Group's production licence for the Natalka deposit, which was due to expire in 2012, was extended to 2036. The licence was granted with the right to mine to a depth of 450 metres and included a requirement that the Group commission the first stage of the plant by no later than 31 December 2013. See "– New Projects – Natalka".

- In 2012, the Group performed an exploration and scoping study at the Poputninskoye and Panimba and Chertovo Koryto deposits, which its expected to be completed in 2013. Depending on the results of those studies, the Group intends to finalise decisions on the implementation of management plans for building a mill with a processing capacity of 2.5 million tonnes of ore per annum at the Poputninskoye and Panimba deposits and a mill with a throughput of 2.5 million tonnes of ore per annum at the Chertovo Koryto deposit. The implementation of these projects could potentially increase gold production by 400 thousand ounces per year by 2019.

If management's further development plans as described above are fully implemented, it is envisaged that the Group would achieve gold production of 2.8 million ounces by 2015 with a goal of reaching 4.1 million ounces by 2020. Management intends to seek Board approval for further projects as the projects develop in the future. There can be no assurance that approval for such projects will be obtained. Consequently, it is possible that the development projects approved by the Board in the future may differ from the plans described above, which may result in lower levels of capital expenditure and production levels achieved than is contemplated by the current plans.

Reserves and resources

The Group reports its reserves and resources in accordance with the JORC Code (2004). While the Russian Resource Reporting Code remains in use within the Russian legal environment, for the basis of the Group's accountability to the Russian state, Group reporting on reserves to investors is carried out in accordance with the JORC Code.

For accounting purposes, the estimated economic useful life of the Group's operating mines is based on mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code. The economic useful lives in accordance with the Russian Resource Reporting Code may vary compared to the economic useful lives under the JORC Code.

The following table shows the mineral resources, inclusive of reserves, of the Group's Russian operations as stated in accordance with the JORC Code:

	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 facilities							
Krasnoyarsk Region							
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
Republic of Sakha (Yakutia)							
Kuranakh[4]	1.8	1.9	106	160.4	1.2	6,447	6,553
Irkutsk Region							
Verninskoye[5]	2.0	3.0	200	72.9	2.7	6,434	6,634
Lenzoloto[6]	32.1	0.2	237	169.8	0.4	2,091	2,328
Total operating facilities	**74.6**	**2.1**	**4,932**	**833.2**	**2.1**	**57,337**	**62,269**

Deposit	Measured Ore (million tonnes)	Measured Grade (g/t)	Measured Gold ('000 ounces)	Indicated Ore (million tonnes)	Indicated Grade (g/t)	Indicated Gold ('000 ounces)	Total measured and indicated Gold ('000 ounces)
Projects							
Krasnoyarsk Region							
Panimba & Razdolinskaya[1]	4.8	2.3	359	21.9	3.2	2,223	2,582
Magadan Region							
Natalka[7]	464.2	1.7	25,367	309.1	1.7	17,259	42,626
Irkutsk Region							
Chertovo Koryto[8]	4.1	1.9	247	46.4	1.8	2,742	2,989
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 Ore (million tonnes)	Inferred Grade (g/t)	Inferred Gold ('000 ounces)
Operating Facilities			
Krasnoyarsk Region			
Olimpiada[1]	154.1	2.8	13,991
Blagodatnoye[2]	36.1	2.2	2,555
Titimukhta[3]	3.6	2.4	270
Republic of Sakha (Yakutia)			
Kuranakh[4]	7.3	1.5	346
Irkutsk Region			
Verninskoye[5]	52.1	1.8	2,953
Lenzoloto[6]	29.2	0.6	520
Total operating facilities	**282.4**	**2.3**	**20,635**

	Inferred Ore (million tonnes)	Inferred Grade (g/t)	Inferred Gold ('000 ounces)
Projects			
Krasnoyarsk Region			
Panimba & Razdolinskaya[1]	44.0	2.6	3,673
Magadan Region			
Natalka[7]	305.5	1.7	17,046
Irkutsk Region			
Chertovo Koryto[8]	2.1	1.6	109
Total projects	**351.6**	**1.8**	**20,828**
Total	**634.0**	**2.0**	**41,463**

1. Audited in October 2011 by Wardell Armstrong International.
2. Audited in November 2008 by Micon International Co. Limited.
3. Audited in June 2008 by Micon International Co. Limited.
4. Audited in October 2006 by Micon International Co. Limited.
5. Audited in December 2010 by Micon International Co. Limited.
6. Audited in December 2006 by Micon International Co. Limited. Ore in thousand cubic metres (m^3), gold grade in grammes per cubic metre (g/m^3). Conversion of sands was based on the ratio of 2 metric tonnes per 1 cubic metre.
7. Audited in February 2012 by Micon International Co. Limited.
8. Audited in January 2008 by Micon International Co. Limited.

Proven and Probable reserves

Deposit	Proven			Probable			Total proven and probable
	Ore (million tonnes)	*Grade (g/t)*	*Gold ('000 ounces)*	*Ore (million tonnes)*	*Grade (g/t)*	*Gold ('000 ounces)*	*Gold ('000 ounces)*
Operating facilities							
Krasnoyarsk Region							
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
Republic of Sakha (Yakutia)							
Kuranakh[4]	–	–	–	31.9	1.6	1,646	1,646
Irkutsk Region							
Verninskoye[5]	2.1	2.9	200	63.3	2.7	5,555	5,755
Lenzoloto[6]	12.5	0.3	128	104.8	0.5	1,603	1,731
Total operating facilities	**50.9**	**2.8**	**4,525**	**607.5**	**2.5**	**48,837**	**53,362**

Deposit	Proven			Probable			Total proven and probable
	Ore (million tonnes)	*Grade (g/t)*	*Gold ('000 ounces)*	*Ore (million tonnes)*	*Grade (g/t)*	*Gold ('000 ounces)*	*Gold ('000 ounces)*
Projects							
Magadan Region							
Natalka[7]	454.5	1.6	22,802	159.4	1.7	8,801	31,603
Irkutsk Region							
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**

1. Audited in October 2011 by Wardell Armstrong International.
2. Audited in November 2008 by Micon International Co. Limited.
3. Audited in June 2008 by Micon International Co. Limited.
4. Audited in October 2006 by Micon International Co. Limited.
5. Audited in December 2010 by Micon International Co. Limited.
6. Audited in December 2006 by Micon International Co. Limited. Ore in thousand cubic metres (m^3), gold grade in grammes per cubic metre (g/m^3). Conversion of sands was based on the ratio of 2 metric tonnes per 1 cubic metre.
7. Audited in February 2012 by Micon International Co. Limited.
8. Audited in January 2008 by Micon International Co. Limited.

The table below shows the estimated mine life, exploration potential and/or duration of commercial activities for the Group's Russian licenses:

Existing Operations	*Estimated Mine Life*[(1)]	*Year of the Expiration of the Existing Licences*
Olimpiada	2060	2013
Blagodatnoye	2028	2022
Titimukhta	2022	2023
Kuranakh	2028	2014-2024
Lenzoloto	2033	2012-2024

Exploration Licences	*Estimated Exploration Potential*[(1)]	*Year of the Expiration of the Existing Licences*
Natalka	2039	2036
Verninskoye	2027	2020
Chertovo Koryto	2030	2020
Bamskoye	2028	2030
Nezhdaninskoye	2031	2021
Poputninskoye and Panimba	2027	2025-2029

1. The calculation of the estimated mine life and exploration potential assume the receipt of any necessary licences or approvals upon expiry of the current licences and approvals. See "Part XVII – Additional Information – Material Contracts – Licences" and "Part II – Risk Factors – Risks associated with the Group's business in the gold mining industry – The Group's business can be adversely affected if it fails to obtain, maintain or renew necessary contracts, licences and permits, including subsoil licences, or fails to comply with the terms of its contracts, licences, and permits".

The Directors believe that the Group will be able to extend the life of mine at Olimpiada through the consolidation of the existing pits or the development of underground mining. See "– Principal Operations – Krasnoyarsk – Region – Olimpiada Deposit – Development".

Ore in Stockpiles

As at 31 December 2011 the Group had accumulated approximately 17.2 thousand tonnes of ore in stockpiles at certain of its mines in Russia. The ore's average grade is 2.59 g/t and it contains 1,431 thousand ounces of doré gold. The table below sets forth the breakdown of stockpiles by mine:

	Ore Stockpiles as at 31 December 2011		
Deposit	*Ore (million tonnes)*	*Grade (g/t)*	*Gold ('000 ounces)*
Olimpiada	13.1	2.82	1,186
Blagodatnoye	0.3	2.04	22
Titimukhta	2.4	1.57	122
Kuranakh	0.2	1.31	8
Verninskoye	1.1	2.56	93
Total	**17.1**	**2.59**	**1,431**

Zero-value stockpiles

The Group had 5.6 million tonnes of stockpile as at 31 December 2011 (2010 – 6.8 million tonnes; 2009 – 6.8 million tonnes) which are carried at zero value, as previously these stockpiles were considered as low-grade materials.

At the date of the Group's transition to IFRS, stockpiles (6.8 million tonnes) at the Group's Krasnoyarsk business unit were accounted for at zero cost. This was on the basis that the stockpiles were low-grade and, at that point in time, the gold price was such that the valuation of such stockpiles was negligible.

Throughout 2009 and 2010, the Group did not process any zero-value stockpile. Accordingly, the financial information for these periods has not been impacted by the production and sale of the same. During 2011 1.2 million tonnes of this zero-value inventory has been processed, and the impact on the operating profit was estimated to have been US$ 28.5 million.

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

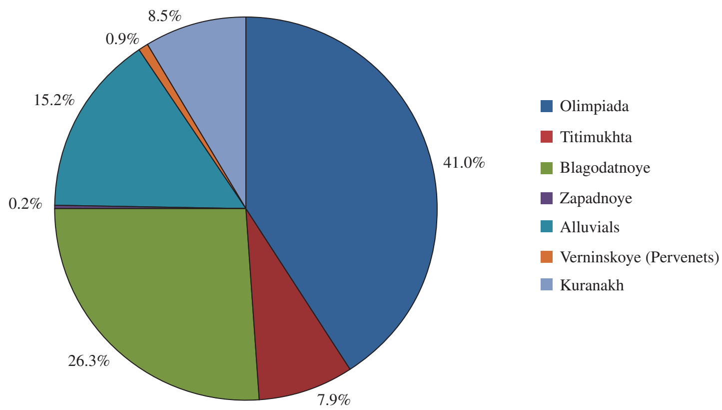
For illustrative purposes only, and to provide potential investors with an idea of the potential magnitude that the impact of processing the remaining stockpiles could have on the Company's financial results (subject to the limitations detailed below), there would be an approximate US$ 112 million increase to profit for the period in which processed. This estimate is subject to various limitations. Namely, the computation has:

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

Principal Operations

The map below sets forth the location of the Group's assets:

The chart below sets forth the breakdown by mine of production in Russia in 2011:



See "Part XI – Operating and Financial Review – Summary table of performance results by business units" for more information.

Krasnoyarsk Region

The Group's principal operations in the Krasnoyarsk region are located at the Olimpiada deposit, which, for 2011, accounted for 41 per cent. of the Group's total Russian gold production.

The Group acquired licences to additional deposits and fields in the Krasnoyarsk region, including the Titimukhta deposit in 2003 and Panimbinskaya exploration area in 2004. The Group commenced ore mining at the Titimukhta deposit in 2008 and production in 2009, and exploration works at Panimba have been in progress since 2005. Both sites are located close to Olimpiada.

In addition, in 2005, the Group acquired licences for exploration and subsequent gold production at the Razdolinskaya exploration area. The Group has been conducting exploration works at Razdolinskaya since 2006, which included estimation of probable resources and mineralogical research for the project. See "– New Projects – Panimba and Razdolinskaya".

In 2000, the Group obtained state registration of the Blagodatnoye reserves, one of the largest Russian exploration projects in the last 10 years, and in November 2007, the Board of Directors of OJSC Polyus Gold approved construction of an open-pit mine to exploit the licence. In 2010, the Group commissioned the plant with a projected capacity at 6 million tonnes of ore per year. For 2011, the Blagodatnoye mine accounted for 26.3 per cent. of the Group's total Russian gold production.

Olimpiada Deposit

The Group's largest producing asset in terms of gold production volumes is the Olimpiada hardrock gold deposit, at which the Group mines and processes refractory sulphide ores. In 2010, the Olimpiada mine completed processing of oxide ores. In 2011, the Group produced 566 thousand ounces of gold at Olimpiada, comprising 41 per cent. of the Group's total gold production in Russia as compared to 581 thousand ounces of gold in 2010, resulting in a 2.6 per cent. year-on-year decrease. The reduction in output resulted primarily from a decline in average gold grade. During 2011, Mill No. 2 and Mill No. 3 were processing primary sulphide ore with an average grade of 3.43 g/t, compared to ore with an average grade of 3.76 g/t in 2010. Measures aimed at increasing the efficiency of the Olimpiada mine refractory ore processing implemented at Mill No. 2 and Mill No. 3 during 2010 allowed the mine to achieve its design capacity of 8 million tonnes of ore per annum in 2011. During the 2011, the Group continued its upgrade programme at the Olimpiada mine. Gold recovery rates for primary refractory ore processed at Mills No. 2 and No.3 were lower than expected, however, due to the delay in the commissioning of the final concentration step of primary concentrate, from gravity concentrate of Mill No. 2 and Mill No. 3 (which was completed in December 2011) and difficulties encountered during the commissioning of second stage centrifuges introduced to de-water the biopulp centrifuging at the hydrometallurgical circuit of Mill No. 3. In 2012, the Group plans to focus on strengthening the bio-oxidation workshop at Mill No. 3 and to add six new reactors aimed at stabilizing the bio-oxidation process.

Mining of ores

The Group extracts ore at Olimpiada through open-pit mining at the Vostochny pit. The current pit is 420 metres deep and 1.7 kilometres in diameter. The Group also previously mined from a second pit, the Zapadny pit.

The reserves of oxidised ores at the Olimpiada deposit had been fully depleted by the end of 2007, and the Group has been mining only sulphide ore since that date. In 2010, mining operations on primary sulphide ore at the Vostochny pit of the Olimpiada mine were conducted. A total of 9.5 million tonnes of primary sulphide ore with an average gold grade of 3.2 g/t and gold content of 975 thousand ounces was mined. In 2011, the Group mined 7.0 million tonnes of primary sulphide ore at the Vostochny pit with an average gold grade of 3.4 g/t.

Processing of ores

The Group transfers the ore it mines at Olimpiada by truck to its processing plant in Olimpiada to recover gold for refinement. The Group's main processing facility comprises two extraction plants – Mill No. 2 and Mill No. 3 – for the processing of sulphide ores. The Group closed Mill No. 1, previously used for processing oxidised ores, in August 2008 and modernised it for processing ores from Titimukhta. The modernisation works on Mill No. 1 were completed in 2009.

As a result of the depletion of oxidised ores at Olimpiada, the Group transferred ore from the Group's mining operations at the Olenye deposit to Olimpiada for processing at Mill No. 2 and Mill No. 3. The Group stopped mining the Olenye deposit in April 2008, although it continued to transfer and process ore from Olenye until the end of 2009. In 2009, ore from the Olenye deposit was depleted.

The average gold grade in the ore under processing, measured in grammes per tonne, was 3.4 in sulphide ores in 2011, compared to 3.8 in 2010 and 3.6 in 2009.

The Group processes sulphide ore at Mill No. 2 and Mill No 3. Mill No. 2 was built in 2001. This plant employs a bio-oxidation process – the oxidation of sulphide minerals by bacterial action – rendering the minerals amenable to leach extraction of the metals contained in the ore. This plant has an annual capacity of three million tonnes of ore.

Mill No. 3 began operations in 2007. This plant also uses bio-oxidation technology to process sulphide ore, and it has an annual capacity of five million tonnes of ore. PGIL believes that this third plant will enable the Group to maintain current gold output levels at Olimpiada, since the depletion of oxidised ore reserves should be offset by the increase in the Group's capacity to process eight million tonnes of sulphide ores per year.

In 2011, the Group processed 8.1 million tonnes of sulphide ores at Olimpiada, which is an increase of 9 per cent. when compared to 7.4 million tonnes processed in 2010.

The Group's rate of gold recovery from the sulphide ores processed at Olimpiada increased to 69.1 per cent. in 2011 from 66.4 per cent. in 2010 as a result of a series of measures implemented by the Group aimed at raising the efficiency of sulphide ore processing at Olimpiada mine and improving the Group's BIONORD® bio-leaching technology. The first stage of these measures was completed during the first half of 2011 and continued through to the end of 2011.

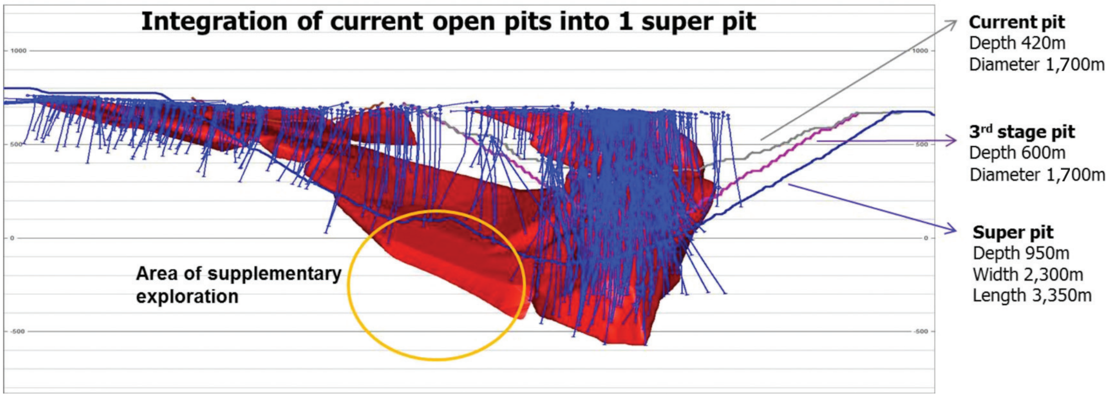
Development

Management's current development plans in respect of the Olimpiada deposit for the period between 2012 and 2015 envisage the implementation of a modernisation programme aimed at raising the processing efficiency of the existing plant, the purchase of a new mining fleet and continued work at the Zapadny and Vostochny pits. The Group's target is to achieve gold recovery of at least 80 per cent. by 2013.

The results of exploration works carried out from 2009 to 2011 have indicated that significant increases in reserves may be achieved at the Olimpiada deposit. Management's current plans from 2015 onwards envisages one of two scenarios, either: (i) the integration of the two current pits (Zapadny pit and Vostochny pit) into one super pit, or (ii) the introduction of underground mining starting in 2018, which will be conducted in phases. The Group is currently preparing documentation and conducting feasibility studies with respect to the two options. The development plans, which have not been submitted for final approval by the Board of Directors, are subject to certain restrictions under the outstanding licences and may require amendment to their terms, which may not be obtained. See "Risk Factors – Risks Associated with the Group's Business and the Gold Mining Industry – The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary contracts, licences and permits, including subsoil licences, or fails to comply with the terms of its contracts, licences and permits". Under the Management's current development plans, the development of the Olimpiada deposit is projected to result in the prolongation of the life of the mine and continued operation of the mine with an average output level of 800 thousand ounces of gold per annum.

Potential Integration of Current Open Pits Into One Super Pit

Management believes that potential integration of the Zapadny and Vostochny pits into one super pit could be done by way of expansion of the Vostochny pit. The Vostochniy pit is currently 420 metres deep and has a diameter of 1,700 metres. It is envisaged that initially the Vostochniy pit would be expanded to a depth of 600 metres and a diameter of 1,700 metres. The pit could then be further expanded, capturing the Zapadny pit, to a depth of 950 metres, a width of 2,300 metres and 3,350 metres in length. The parameters of the super pit, should it be constructed, will depend on the terms of the relevant mining and construction licences.



Potential Underground Mining

Management's current plans with respect to the development of underground mining at the Olimpiada deposit envisages the shaft sinking and construction of:

- two ventilation shafts of 300 metres and 1,200 metres with a cross-section of 50m^2 each;
- one skip shaft of 1,200 metres and a cross-section of 70m^2;
- one shaft with cage winding of 1,200 metres and a cross-section of 50m^2; and
- one transportation ramp of 900 metres with a cross-section of 22m^2.

Blagodatnoye Deposit

The Blagodatnoye deposit is located 26 kilometres north of the Olimpiada mine. The Group mines the deposit using the open-pit method. The plant capacity is six million tonnes of ore per year.

The proximity of the Blagodatnoye deposit to the Olimpiada mine has allowed the Group to use some of its existing and available social, maintenance and warehousing infrastructure when developing the Blagodatnoye deposit. The Group began construction of the mine in 2007, shortly after approval of the project by the Board. The Group commissioned the mine in July 2010.

During 2011, the Group mined 6.5 million tonnes of ore at the Blagodatnoye deposit and processed 6.5 million tonnes of ore with an average gold grade of 2.1 g/t. In 2011, the Group produced 363 thousand ounces of gold at the Blagodatnoye mine, compared to 251 thousand ounces in 2010. The 45 per cent. increase resulted primarily from the successful ramp-up of the mine, which was commissioned in July 2010. In 2011, the mine exceeded its design ore processing capacity of 6 million tonnes per annum and reached the targeted gold recovery levels of 84 per cent.

In 2011, the Group completed the construction of surface facilities of the Blagodatnoye mine and commenced to implement the development plans for the operation of the Blagodatnoye mine, which contemplate the increase of the mining and processing capacity of the mine to 8 million tonnes of ore per annum with gold production to increase to 450 thousand ounces per annum from 2014. The Group intends to realise these targets through the introduction of an additional processing line. In addition, the Group has commenced negotiations for the construction of a high-voltage power grid to secure energy resources and meet the needs of its processing plant under its development strategy.

Titimukhta Deposit

The Titimukhta deposit is located in the Severo-Yeniseysky district, nine kilometres from the Olimpiada mine. During the period from 2004 to 2007, the Group conducted geological exploration on the deposit, which resulted in proven and probable reserves estimated in accordance with the JORC Code in 2008 of 2.2 million ounces.

The close proximity of the Titimukhta deposit to the Olimpiada mine allows the Group to use the Olimpiada mine's facilities for the development of the Titimukhta deposit. As processing of rich oxidised ore from the Olimpiada deposit ended in 2008, the Group used Mill No. 1 at the Olimpiada mine to process ore from the Titimukhta deposit following its reconstruction. The Group began reconstructing Mill No. 1 and delivering mining equipment in 2007, together with the construction of the access road to the deposit. The modernisation of Mill No. 1 was completed in November 2008.

In April 2009, the Titimukhta project was successfully completed and development started. The Group extracts ore at the Titimukhta deposit through open-pit mining. The mine's capacity (using the reconstructed Mill No. 1 of the Olimpiada mine) is 2.2 million tonnes of ore per annum. Mill No. 1 was built in 1996 with an annual capacity of 1.5 million tonnes of ore. Following the plant's modernisation, its potential capacity increased to 2.2 million tonnes of ore per annum. The Company projects that the Titimukhta deposit will provide Mill No. 1 with a 10-year supply of ore. In July 2011, the Group decided to expand the capacity of Mill No. 1 up to 2.4 million tonnes of ore per annum. In December 2011 the Group installed Knelson concentrators at the Titimukhta deposit, which is projected to allow throughput recovery of 86.2 per cent. In May 2012 the Group announced that it had completed the expansion of capacity to 2.4 million tonnes of ore per annum at Mill No. 1.

During 2011, the Group mined 2.3 million tonnes of ore at the Titimukhta deposit and processed 1.9 million tonnes of ore with an average gold grade of 2.1 g/t. In 2011, the Group produced 109 thousand ounces of gold at the Titimukhta deposit, as compared to 100 thousand ounces in 2010, an increase of 9 per cent. The increase in production resulted from stabilisation of grinding equipment operations, which resulted in a 23 per cent. increase in ore processing volumes as compared to 2010.

The current mining plan for the Titimukhta deposit contemplates that the deposit will be mined until 2021. After 2021, Management's current development plans contemplate that Mill No. 1 will be modified in order to process the deep horizon ores of the Olimpiada mine.

Irkutsk Region

The Group's current operations in the Irkutsk region comprise various alluvial deposits, from which it derived 15.2 per cent. of its total Russian gold production in 2011, in addition to exploration and development projects. The Group mines the alluvial deposits through its subsidiary CJSC ZDK Lenzoloto, and various subsidiaries of CJSC ZDK Lenzoloto (the alluvial mining operations are collectively referred to as "**Lenzoloto**"). The Group's ownership interest in the subsidiaries of CJSC ZDK Lenzoloto ranges from approximately 38.4 per cent. to 61.1 per cent.

Following an initial restructuring in 2005, the Group's subsidiary, Lenzoloto, retained its alluvial gold mining operations, and, in 2011, it produced 210 thousand ounces of gold, compared to 197 thousand ounces of gold in 2010, an increase of 7 per cent. The increase in production was the result of accelerated repair and maintenance works conducted by the Group, as well as a renewal of the mining fleet at the deposits, which allowed the Group to commence mining earlier than planned in 2011. In addition, the Group benefited from warm weather conditions in the fourth quarter of 2011, as a result of which the mining season at the alluvial deposits in 2011 was extended.

The Group primarily mines these deposits by the use of bulldozers and dredging operations, although the Group also conducts some overground and underground mining. The Irkutsk alluvial business unit operates washing machines, drag lines and a sluice enrichment plant with a total annual capacity of 10 million m^3. The cost per unit of gold production of alluvial gold mining at Lenzoloto is higher as compared to its operations at Olimpiada.

The Irkutsk business unit also includes hardrock mining operations at the Zapadnoye mine, which produced 19 thousand ounces of gold in 2010 and 3 thousand ounces of gold in 2011. In April 2011, the Group closed the mine as a result of ore depletion.

The Group has acquired licences to additional deposits and fields in that region, including, in 2004, through the acquisition of CJSC Tonoda, the Chertovo Koryto deposit. The Group conducted exploration works at

Chertovo Koryto between 2006 and 2008. As a result, in 2008 the Group estimated 2.6 million ounces of JORC proven and probable reserves for Chertovo Koryto. The Group plans to start testing production using its heap-leaching facility at Chertovo Koryto in the second half of 2012.

In 2005, the Group acquired OJSC Pervenets, which holds licences for the Verninskoye and Pervenets deposits located in the Bodaibo district of the Irkutsk region. These two deposits form a single ore field, and the Directors believe that they may provide significant prospects for further increasing its resource base. The Group is currently conducting exploration works and feasibility studies at Pervenets. The Verninskoye mine was commissioned on 30 December 2011.

Verninskoye Deposit

The Verninskoye deposit is located in the Bodaibo district of the Irkutsk region, 140 kilometres north of Bodaibo city, close to the Zapadnoye mine. The proven and probable reserves estimated in accordance with the JORC Code in 2010 are 5.8 million ounces at an average gold grade of 2.7 g/t.

The Group's development of the Verninskoye mine began in 2006 with the construction of the camp for the project. In January 2008, the Board of Directors of OJSC Polyus Gold approved a feasibility study for the construction of a gold mining facility on the Verninskoye deposit with a capacity of 2.2 million tonnes of ore per annum. All project and construction documentation has been completed and approved and the Verninskoye mine was commissioned on 30 December 2011. In 2011, the Group mined 741 tonnes of ore at Verninskoye and its satellite deposit Pervenets. In 2011, the Group continued modeling the processing technology for the Verninskoye mine. In 2011, the plant processed 154 tonnes of ore producing 10 thousand ounces of gold.

In 2011, the Group continued exploration of flanks and deep horizons of the Verninskoye deposit. Based on the results of the JORC audit dated December 2010 conducted by MICON International Ltd., proven and probable reserves at the deposit increased to 65.4 million tonnes of ore, or 5.8 million ounces (179 tonnes) of gold at an average grade of 2.7 g/t.

Management's current expansion plans for the Verninskoye deposit envisage the expansion of the existing mine at the deposit, as well as, due to the power shortages in the Bodaibo district of Irkutsk region, the improvement of local power grids in the region to ensure sufficient power supply to the mine at Verninskoye deposit. The Group anticipates that 1.5 million tonnes of ore will be processed by the Verninskoye mill in 2012 and that processing capacity would expand as a result of Management's development plans to 3.6 million tonnes of ore by 2013. At the expanded capacity the project would produce approximately 260 thousand ounces of gold per annum at an average recovery rate of 86 per cent. The Group also plans to re-deploy to Verninskoye certain assets that were used at the Zapadnoye mine.

Republic of Sakha (Yakutia Region)

In September 2005, the Group acquired two subsidiaries, Aldanzoloto and SVMC, through which it conducts its operations in the Yakutia region. In addition to mining operations at the Kuranakh field, the Group also holds licences for the Nezhdaninskoye field. The Group's mining operations in Yakutia are primarily conducted by its subsidiary, Aldanzoloto, at the Kuranakh group of deposits through open-pit mining. The Group transports the ore by truck to a central processing plant for recovery into gold using conventional cyanide leaching and resin-in-pulp techniques.

Kuranakh Mine

In 2010, the Group mined 3.5 million tonnes of ore at the Kuranakh field, with an average gold grade of 1.3 grammes per tonne. In 2011, the Group mined 3.6 million tonnes of ore at the Kuranakh field, with an average gold grade of 1.3 g/t. The Group produced 117 thousand ounces of gold at Kuranakh in 2011, compared to 120 thousand ounces in 2010. The reduction in gold production resulted from challenging hydrogeological conditions at the Kuranakh field. Excessive water in the open pits combined with a high clay content in the soil slowed mining operations and reduced feed of ore to the plant.

In 2011, the Group has initiated an extensive hydrogeological assessment and a de-watering programme. As part of this work the Group initiated extensive drilling at the Kuranakh field to extend the reserves and to develop an effective strategy to effectively de-water the pits.

The Group commenced exploration work at the field in 2008, where its exploration activities included drilling and excavation work. In 2009, the Group completed works on the scoping study and reserves assessment.

Further development of the Kuranakh field requires the widening of the open pits which will result in waste stock being piled next to the open pit. To enable this development, in July 2008 the Group acquired CJSC Kuranakhzoloto, a licence holder with permission to stock pile waste, for approximately US$50 million, which was merged into Aldanzoloto in 2009.

In 2011, the Group tested performance of the Kuranakh processing plant as part of its expansion programme for the mine. The main works on the plant's modernisation are expected to be completed in 2012. Management's current expansion plans contemplate that, by 2014, Kuranakh plant's capacity will increase to 4.0 million tonnes of ore per annum from an existing capacity of 3.6 million tonnes of ore per annum and a heap leaching facility will be commissioned with a capacity of 4.0 million tonnes of ore per annum.

Management's current expansion plans with respect to the Kuranakh mine envisage the increase of ore mining to 8 million tonnes per annum by 2014. This increase is envisaged to be contemplated by:

- expanding the mine;
- developing the existing mill which would achieve a projected throughput of 4 million tonnes of ore per annum with an projected recovery rate of 86 per cent.; and
- construction of a heap leaching facility which would achieve a projected throughput of 4 million tonnes of ore per annum with an projected recovery rate of 60 per cent.

Management's current plans envisage that the ore will be separated by grade, as well as by fractions, which will be processed at the existing mill and coarse fractions, which will be processed at the heap leaching facility. It is expected that this would result in an additional 70 thousand ounces of gold production per year at the mill and 60 thousand ounces of gold production at the heap leaching facility. In addition, it is contemplated that the implementation of those plans would result in the reduction in the per unit cost of mining transportation and processing at the Kuranakh deposit. Management's current plans contemplate investment in the mine expansion to amount to approximately US$208 million (including investments in the heap leaching facility). Additional purchases of mining fleet would require a further expenditure of approximately US$97 million between 2012 and 2015.

Gold production and refining

The Group's gold production primarily comprises the mining and processing of ores at hardrock mines. Its main production facilities are located at the Olimpiada deposit, which, following the depletion of reserves of oxidised ores, now contains sulphide ores only. The cost of production of oxidised ores is typically less than those of sulphide ores. In addition, the Group extracts gold from the alluvial deposits of its subsidiary, Lenzoloto. The Group outsources the refining of the output from both these hardrock and alluvial deposits into gold conforming to the international Good Delivery standard.

The tables below shows the quantities of ore mined and gold produced by the Group in Russia for the periods indicated.

	Year ended 31 December		
Ore Mined ('000 tonnes or as noted)	***2011***	***2010***	***2009***
Krasnoyarsk/Olimpiada mine			
Ore mined	7,041	9,516	10,603
Average gold grade (g/t)	3.4	3.2	3.0
Krasnoyarsk/Titimukhta deposit			
Ore mined	2,327	2,345	1,618
Average gold grade (g/t)	2.1	2.0	2.1
Krasnoyarsk/Blagodatnoye deposit			
Ore mined	6,480	5,563	595
Average gold grade (g/t)	2.1	2.0	2.2
Irkutsk/Zapadnoye mine			
Ore mined	60	435	1,155
Average gold grade (g/t)	1.9	1.7	1.8
Irkutsk/Verninskoye deposit			
Ore mined	726	249	384
Average gold grade (g/t)	2.6	2.3	2.7
Irkutsk/Pervenets mine			
Ore mined	15	–	–
Average gold grade (g/t)	2.7	–	–
Yakutia/Kuranakh mine			
Ore mined	3,558	3,476	3,606
Average gold grade (g/t)	1.3	1.3	1.4
Total	**20,207**	**21,584**	**17,961**

1. The Group closed down the Zapadnoye mine in April 2011.

Ore Processed ('000 tonnes or as noted)	Year ended 31 December 2011	2010	2009
Krasnoyarsk/Olimpiada mine			
Ore processed			
Sulphide ore	8,051	7,354	7,398
Ore from Olenye	–	–	316
Mixed ore	–	23	1,163
Total – Olimpiada mine	**8,051**	**7,377**	**8,877**
Average gold grade (g/t)			
Sulphide	3.4	3.8	3.6
Ore from Olenye	–	–	4.6
Mixed Ore	–	6.1	6.2
Krasnoyarsk/Titimukhta deposit			
Ore processed	1,920	1,557	602
Average gold grade (g/t)	2.1	2.4	2.8
Krasnoyarsk/Blagodatnoye deposit			
Ore processed	6,505	5,363	–
Average gold grade (g/t)	2.1	2.0	–
Irkutsk/Zapadnoye mine			
Ore processed	155	449	505
Average gold grade (g/t)	0.8	1.8	2.2
Irkutsk/Verninskoye mine			
Ore processed	139	147	–
Average gold grade (g/t)	2.9	1.8	–
Irkutsk/Pervenets pilot plant			
Ore processed	15	39	–
Average gold grade (g/t)	2.7	2.6	–
Yakutia/Kuranakh mine			
Ore processed	3,376	3,298	3,463
Average gold grade (g/t)	1.3	1.3	1.4
Irkutsk/Alluvial deposits			
Sand washed (million cubic metres)	9.9	8.9	9.0
Total (excluding sands washed)	**20,161**	**18,230**	**13,447**

Production of Gold ('000 ounces)	Year ended 31 December 2011	2010	2009
Krasnoyarsk Region			
Olimpiada mine	566	581	839
Titimukhta	109	100	39
Blagodatnoye mine	363	251	–
Irkutsk Region			
Zapadnoye mine	3	16	24
Alluvial deposits	210	197	194
Pervenets pilot plant	10	7	–
Republic of Sakha (Yakutia)			
Kuranakh mine	117	120	135
Total production of gold	**1,378**	**1,275**	**1,231**

In 2011, the Group mined 20.2 million tonnes of ore in Russia as compared to 21.6 million tonnes of ore in 2010 and 18.0 million tonnes of ore in 2009. The decrease related to Olimpiada and Zapadnoye. The 2010 increase in the volume of ore mined was mainly attributable to the successful implementation of the Group's production process optimisation programme at its key production unit, the Olimpiada mine, and the ramp-up of production at the Blagodatnoye mine, as well as a result of production at the Blagodatnoye mine launched in July 2010 and Titimukhta project launched in April 2009. The Group processed 20.1 million tonnes of ore in 2011 in Russia as compared to 18.2 million tonnes of ore in 2010 and 13.4 million tonnes of ore in 2009. The Group produced 1.4 million ounces of gold in 2011 in Russia, as compared to 1.3 million ounces of gold in 2010 and 1.2 million ounces of gold in 2009. The Group's ability to maintain or increase its current production levels beyond 2011 is likely to depend mainly on the commencement of mining at the Verninskoye and Natalka deposits as well as success in production process optimisation programme at Olimpiada.

New Projects

Natalka

The Group conducts its operations in the Magadan region through its subsidiary, Matrosov Mine, which holds a licence for the Natalka deposit in the Tenkinsky district of Magadan region.

In 2004, the Group began an exploration programme at the Natalka deposit in order to assess the amount of reserves that were available for more profitable open-pit mining. The Group completed the exploration programme in 2006, and in 2007 Micon International Co. Limited confirmed the results with a reserves audit conducted in accordance with the JORC Code. The audit stated that the Natalka deposit had proven and probable reserves of 40.8 million ounces of gold.

On 17 August 2011, the Group obtained updated licence terms for the Natalka deposit in which the licence was extended until 31 December 2036. The licence was granted with the right to mine to a depth of 450 metres and included a requirement that the Group commission the first stage of the plant by no later than 31 December 2013. The introduction of this limit of 450 metres was incorporated into the reserve calculation included in the report dated February 2012 that the Group commissioned from Micon International Co. Limited and resulted in the reduction of the proven and probable reserves, as compared with the 2007 reserves audit, which had been conducted in accordance with the previous licence terms. The October 2011 audit stated that the Natalka deposit has proven and probable reserves of gold of 31.6 million ounces of gold. Since there are additional mineral resources below the 450 metres level, the Group expects to apply for a licence to mine depths below that level provided it concludes at the relevant time that such operations would be commercially viable, although there can be no assurance that such an additional licence will be granted.

In 2007, a consortium of international consultants, with Knight Piesold as the lead consultant, embarked on the design work for the new Natalka mine, which Polyus Gold plans to commission in late 2013 and which it expects will more than double its current production of gold by 2020.

The hardrock Natalka deposit is located in the Tenkinsky district of the Magadan region (390 kilometres north west of Magadan) in the Omchak river basin. The deposit was discovered in 1944 and was developed using the underground mine method. In 2004, the Group terminated the operation due to the inefficiency of the mining operations there. From 2004 to 2006, the Group carried out a large scale geological exploration project on the Natalka deposit. In September 2007, the Group completed an audit of the Natalka deposit in accordance with the JORC Code, which recognised the deposit as one of the largest known gold deposits in the world at the time (based on publicly available company reports). In February 2012, the Group completed a further audit of the Natalka deposit in accordance with the JORC Code, which showed total proven and probable reserves of 31.6 million ounces, with an average gold grade of 1.6 grammes per tonne.

In March 2009, the Board of Directors of OJSC Polyus Gold approved an amended development plan for the Natalka deposit. In December 2010, the Board of Directors of OJSC Polyus Gold reviewed the development project of the Natalka deposit and approved the launch of construction of a mining complex at the deposit. The realisation of this project in full would require the Group to obtain a licence to mine the Natalka deposit at a depth below 450 metres. Under the approved development project, the launch of the mining complex at the Natalka deposit is expected to be completed in three stages, which are described below; stages two and three require the approval of the Board.

Stage One: 10 million tonnes processing capacity per annum – in 2014

The Group plans to develop the Natalka mine to achieve a capacity throughput of 10 million tonnes of ore per annum with a recovery rate of 88 per cent. and average gold production of 500 thousand ounces of gold per annum by 2014. In 2008, the Group launched a pilot plant at the Natalka deposit to test the projected extraction numbers and technical decisions envisaged as part of the development strategy. On the basis of the tests conducted at the pilot plant, the Group has created an extraction model which confirms the projected extraction numbers. In addition, the Group has completed the reconstruction of the tailings dam and has reached an agreement with MagadanEnergo, a regional electricity provider, to develop the existing power infrastructure to provide the necessary energy for the expanded mine. As part of the ongoing developments of the energy infrastructure, together with MagadanEnergo, the Group has commenced the reconstruction and replacement of the existing overhead line grid and the joining of the existing power grids in the region in order to supply the production plant at the mine with the necessary power. Implementation of pre-mining grade control drilling accompanied by mining plan optimisation procedures has led to an increase in the average grade of ore supplied to the plant to 2.1 grammes per tonne at a 0.8 grammes per tonne cut-off grade. An independent audit of the mining plan has been carried out by Hatch Ltd. in December 2010, covering both the audit of the average grade and volumes of ore to be processed. The first stage of construction works is scheduled to be completed in the fourth quarter of 2013.

In 2011, the Group spent approximately US$32 million on the expansion of the mine, which includes expenditure on choosing the supplier for crushing and grinding equipment, conveyers and mills, on pre-mining grade control drilling and on preparing a block model and mine plan for open pit optimization audit. The reconstruction of the tailings dam and power lines is scheduled for 2012. The new crushing and grinding equipment was partly contracted in 2011. Total first stage investments (between 2011 and 2013) are estimated at US$1.36 billion (including expenditure on the purchase of construction equipment).

In 2012, the Group plans to spend US$584 million on the construction of Natalka. This sum includes expenditure of US$314 million on the procurement of construction equipment for the plant and the mining fleet.

Stage Two: 20 million tonnes processing capacity per annum – in 2016

During the second stage of development the Group would expand the mine to achieve a projected throughput of 20 million tonnes of ore per annum with average gold production per annum projected to reach 1 million ounces.

Stage Three: 40 million tonnes processing capacity per annum – 2020 through 2039

Between 2020 and 2039, the Group would develop the mine to achieve projected throughput of 40 million tonnes of ore and average gold production projected to reach 1.5 million ounces per annum.

Panimba and Razdolinskaya

The Panimba and Razdolinskaya (a part of which is the Poputninskoye ore field) deposits are located within a close proximity of each other and have a similar quality of refractory sulphide ores such that the two deposits can be treated by a single processing unit. The Group is currently cooperating with authorities on finalising the feasibility report for Panimba, which it expects to file with the relevant authorities by the end of 2012. At the Razdolinskaya deposit, the Group intends to participate in a tender auction, due to be held in the second half of 2012, for the issuance of a licence to extract a layer of alluvial gold at the Razdolinskaya deposit, which covers part of the ore body. In addition the Group is in the process of preparing a feasibility report for the Poputninskoye ore field. See "Part II – Risk Factors – The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary contracts, licences and permits, including subsoil licences, or fails to comply with the terms of its contracts, licences and permits" and "Part XVII – Additional Information – Material Contracts – Licences – Exploration and Production Licences". Management's current development plans contemplate the continued exploration at Poputninskoye during 2012–2014 and the filing of the feasibility report with the relevant authorities by 31 December 2014. The current development plans with respect to the Razdolinskaya and Panimba deposits envisage the construction of a heap leaching facility to process oxidized ores in 2016 and 2017. The heap leaching facility is projected to produce 40 thousand ounces of gold per annum. The Group also intends to use POX technology to test the extracted sulphide ores of the deposits. In the event that the tests yield positive results, the Management's current development plans contemplate the construction of a POX plant with a projected throughput capacity of 2.5 million tonnes per annum in 2018, which would lead to the gold output reaching 220 thousand ounces per annum from 2019. Management's development plans contemplate investing approximately US$44 million on the development and maintenance of the Razdolinskaya and Panimba deposits through 2015.

Chertovo Koryto

The Chertovo Koryto deposit is located in the Irkutsk region of Russia. The Group tested the heap leaching production at the Chertovo Koryto mine in 2011 and expects the testing process to continue in 2012. In the event that the test yields positive results, Management's current plans envisage the testing of production at a heap leaching facility with a projected throughput of 700 thousand tonnes of ore per annum to process approximately 6 tonnes of gold reserves. Under the next stage of these plans the Group would conduct a feasibility study for the construction of a plant with a projected throughput of 2.5 million tonnes of ore per annum producing up to 160 thousand ounces of gold per annum. Management's current development plans contemplate investing approximately US$39 million on the development and maintenance of the Chertovo Koryto deposit through 2015.

Advanced Exploration Projects

Bamskoye

The Bamskoye deposit is located in the Amur region of Russia. The Group has completed the first stage of exploration of the Bamskoye deposit and has submitted the relevant feasibility report.

The licence for the Bamskoye gold ore site is currently suspended because the deposit has been recognised as a subsoil plot of federal importance, and the Group has stopped all exploration works at the deposit until the Russian Government grants its permission for continuation of works in accordance with Art. 2.1 of the Russian Subsoil Law. See "Part II – Risk Factors – Risks associated with the Group's business in the gold mining industry – The Group's business can be adversely affected if it fails to obtain, retain or renew necessary contracts, licences and permits, including subsoil licences, or fails to comply with the terms of its contacts, licences, and permits – Specific requirements of the Russian Federation". The Group expects to receive the relevant permission in 2012, though there can be no assurance that the permission will be obtained.

Nezhdaninskoye

The Nezhdaninskoye deposit is located in the Republic of Sakha (Yakutia) region of Russia. In December 2011, SNC-Lavalin, Gold Fields (BIOX) and AB Global Mining issued a draft pre-feasability report for the Nezhdaninskoye deposit. Based on the draft report the Group initiated optimisation measures aimed at maximizing the net present value of the project. The Group expects to complete this work in 2012.

Principal Investments

Capital expenditures represent the Group's purchase of property, plant and equipment adjusted for the proceeds from the sale of property, plant and equipment. The cost of acquisition of subsidiaries represents the Group's acquisition of subsidiaries adjusted for the repayment of contingent consideration and proceeds from the disposal of such subsidiaries. From 2009 to 2011, the Group's capital expenditures, cost of acquisition of subsidiaries and deferred stripping costs (including capital expenditures relating to the Group's Kazakh operations) amounted to US$496 million in 2009 (US$301 million for capital expenditures, US$182 million for the cost of acquisition of subsidiaries and US$13 million for deferred stripping costs); US$359 million in 2010 (US$349 million for capital expenditures and US$10 million for deferred stripping costs); and US$359 million in 2011 (US$341 million for capital expenditures and US$18 million for deferred stripping costs).

The largest investment projects in 2011 were the Verninskoye mine (US$108 million), Olimpiada (US$71 million) and Blagodatnoye (US$59 million). These expenditures have been financed from the Group's cash flow from operations.

The Board has approved a capital expenditure development budget for 2012 of US$1.1 billion, which includes funding for Phase I of the Natalka development project and completion of expansion projects at the Titimukhta and Verninskoye mines, and the Group has commenced feasibility studies for further development of the Blagodatnoye mine, trial works at the Kuranakh mine and scoping studies for further development of the Olympiada, Poputninskoye and Panimba and Chertovo Koryto deposits.

The following table sets forth the allocation of the Group's capital expenditures for 2012:

	Investments in US$ million
	2012
Existing Deposits	
Olimpiada	92
Titimukhta	28
Blagodatnoye	43
Kuranakh	17
Alluvials	20
Verninskoye	161
New Projects	
Chertovo Koryto	1
Natalka	385
Razdolinskaya and Panimba	13
Total	**760**

In addition, the Group expects to spend US$79 million on projects in Kazakhstan and in other projects, as well as US$217 million in 2012 to provide construction and logistics services for the development of new projects in Russia.

The implementation of further projects comprising management's current development pipeline contemplates the investment of US$3.8 billion on the expansion of its existing operations and development of new projects in Russia to 2015 and up to a further US$3.9 billion through 2020. Management intends to seek Board approval for further projects within its pipeline as the projects develop in the future. Consequently, it is possible that the development projects approved by the Board in the future may differ from these plans, which may result in lower levels of capital expenditure and production levels achieved than is contemplated by the current plans.

Polyus Project

The Group carries out project design and engineering centrally through LLC Polyus Project. As of 31 December 2011, there are 132 specialists of LLC Polyus Project involved in designing and engineering works for the Group, including designing of industrial plants and equipment, preparation of project documentation, engineering, surveying land plots and general project planning. LLC Polyus Project is also responsible for preparing project documentation on demolition, dismantlement and shutdown of buildings and constructions, inspection of environmental and fire controls and the ongoing inspection of various constructions of the Group. LLC Polyus Project is currently involved in modernisation works at the Olimpiada and Titimukhta mines.

Transportation

Gold produced at the Group's Russian mines is processed at the state-owned OJSC Krastcvetmet and Prioksky refinery plant. Initially the Group's produced doré gold is accumulated as unfinished product at special stocks maintained at the Olimpiada mine (including doré gold produced at the Blagodatnoye and

Titimukhta mines), and Kuranakh mine, as well as at four special stocks of the Group's subsidiary, CJSC ZDK Lenzoloto, in respect of the Group's alluvial operations. The doré gold is transported on armoured vehicles from the storage facilities to local airports (Severo-Yeniseisk, Bodaibo or Neryungri) from where it is flown to the refinery plants. The transportation is handled by armed guards (either employed by the Group or hired guards) with support from local police departments and armed guards of Rosincas of the Central Bank of Russia. Rosincas is a subsidiary of the Central Bank of Russia, which provides encashment services on the territory of the Russian Federation. Doré gold produced at Olimpiada, Blagodatnoye and Titimukhta mines and at the alluvial operations is processed at the Krasnoyarsk refinery plant and doré gold produced at the Kuranakh mine is processed at the Prioksky refinery plant.

Refining

The Group outsources the refining of gold that it produces to OJSC Krastcvetmet, which is included by the LBMA in its list of refining companies that meet "good delivery" standards, and, through Aldanzoloto, to the Prioksky refining plant. In addition to OJSC Krastcvetmet, there are five other refining plants in Russia which are included in the LBMA's list of plants meeting Good Delivery standards. The Group may consider, in the future, entering into agreements with one or more of these plants.

Sales

Sales of gold by the Group (not including sales of gold by the Group's Kazakh operations) are made through CJSC Polyus, which acts as its agent. The Company believes that this centralised sales system improves the pricing terms that the Group is able to obtain for its products.

The table below shows the Group's total sales of gold for the periods indicated (excluding sales of gold by the KazakhGold Group). All such sales during this period were made to the domestic market.

Year ended 31 December					
2011		*2010*		*2009*	
Amount ('000 ounces)	*Average sale price (US$/ounce)*	*Amount ('000 ounces)*	*Average sale price (US$/ounce)*	*Amount ('000 ounces)*	*Average sale price (US$/ounce)*
1,373	1,592	1,273	1,254	1,207	971

The Russian authorities regulate the sale of gold in Russia and sales may be made to licenced commercial banks or under an export licence obtained from the Russian Ministry of Industry and Trade. The Group's Russian subsidiaries did not export gold in 2011, 2010 and 2009 due to more favourable contract terms with Russian banks. The Group's average gold sales prices (excluding sales of gold by the KazakhGold Group) were US$1,592 per ounce in 2011, US$1,254 per ounce in 2010 and US$971 per ounce in 2009.

The Group (excluding sales of gold by the KazakhGold Operating Subsidiaries) sells gold in its domestic market primarily to Russian commercial banks under one-year-term delivery contracts with an agreed delivery schedule for the relevant year, as well as under individual transactions pursuant to standby master agreements. The prices for these sales are based on the spot market price (London fixing) at the moment of delivery, although the Group has typically discounted the prices by an amount which approximates to the purchaser's overheads for the export of the gold. In general, these discounts have not been significant relative to the global gold price. Payment for gold is made in roubles at the applicable rate of exchange of the rouble and the US dollar, typically with advance payment or immediate payment terms. Title to the gold transfers at the warehouse of the refining plant (primarily, the OJSC Krastcvetmet and the Prioksky refinery plant).

Although the prices quoted on the international commodities markets determine the price of gold in both the Russian and international markets, there may be some variations in the pricing terms available in those markets as a result of variations in the discounts and premiums that the Group agrees with its purchasers to reflect transportation, insurance and other costs. The Company expects that the Group will continue to adopt a flexible approach to allocation of sales between the domestic and international markets.

Research and Development

The Group established its research and development centre in 2004 in the city of Krasnoyarsk to support its exploration, mining and ore processing activities. The centre employed 61 researchers and other staff on average throughout 2011. The centre uses technologically advanced instruments, including an atomic-emission spectrometer, a spectrophotometer and an atomic-absorption spectrometer, and comprises the following laboratories:

- Mineralogical laboratory, which studies ores from the deposits to which the Group holds licences to optimise exploration, production and ore processing. This laboratory accumulates data on mineral and chemical composition, the structural and textural features of bed rocks and ores, the behaviour of ores during processing and gold extraction rates.

- Geomechanics and engineering laboratory, which develops technologies for mining, mine engineering and mine construction. Its activities include the study of the physical and technological properties of rocks and soils and the evaluation of the stability of pit benches and walls. This laboratory is developing a proprietary database to record the physical and technological parameters of ores and rocks from the deposits to which the Group holds licences.

- Ore-processing laboratory, which is one of the core divisions of the research and development centre. It develops flotation, gravitational enrichment, magnetic separation, concentration, filtration and other technologies for ore processing.

- Hydrometallurgy laboratory, which develops complex ore processing technologies and equipment utilizing leaching, absorption, and thermal treatment. This laboratory also develops new absorption chemicals and alternative non-cyanide leaching agents, as well as waste treatment and refinement technologies.

- Analytical laboratory, which specialises in the evaluation of the gold and precious metal content in ores, ore concentrates and ore treatment products, as well as the development of precise measurement technologies.

- In addition, the Group has a laboratory of pyrometallurgical processes. This laboratory focuses on the development of technologies for thermal ore treatment to minimise the impact on the environment of those operations.

The Group spent US$1.3 million, US$2.4 million and US$2.6 million on research and development in 2009, 2010 and 2011, respectively.

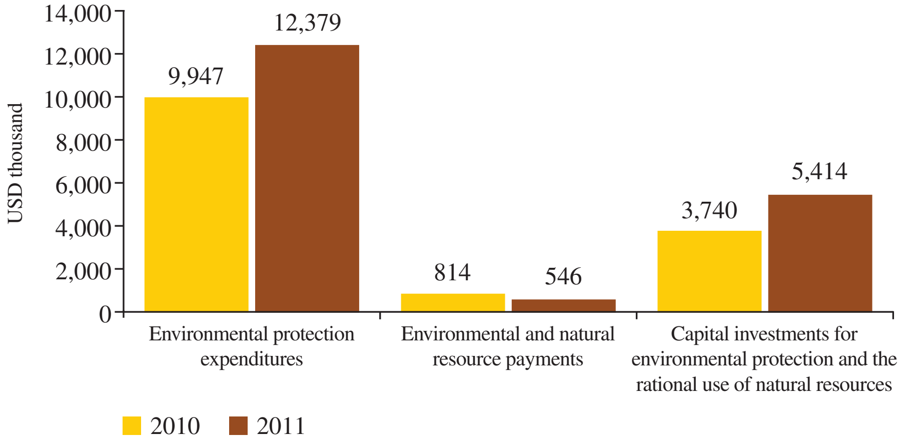
Environmental protection

The Group's management views measures ensuring environmental production safety and environmental protection as an integral part of the Group's sustainable development. The Group has invested in new technologies and equipment to reduce the environmental impact of its operations. The Group has also implemented a system to monitor its operating sites and the surrounding areas through the observation of air, ground and underground waters and soils in accordance with a planned schedule. In 2008, the Group began to develop environmental management systems at the Olimpiada mine in accordance with the International Organisation for Standardisation's standards, specifically ISO:14001:2004. By the end of 2010, environmental management systems were implemented at Olimpiada and Aldanzoloto. In December 2010, the Group's environmental management systems were certified as complying with international standards. The Group plans to further improve and expand the range of areas for which it seeks environmental management system certification.

Cyanide reduction

As is common with gold industry operations, the Group's gold processing operations currently require significant quantities of cyanide-based materials, which potentially present risks to human health and the environment. The Group is seeking to reduce the use of cyanides in its gold extraction processes through the development of alternative technologies, including implementation of cyanide-free leaching. The Group is testing and plans to implement modern and worldwide proved cyanide removal technologies.

The Group's total environmental protection expenditures, which include the protection and rational use of natural and water resources, protection of land resources, waste management and reduction of air emissions, increased from US$9,947 thousand in 2010 to US$12,379 thousand in 2011.



Rational use of natural resources

The Group focuses on the rational use of natural resources and raw materials. Raw materials are repeatedly used, where possible. The Group uses a closed circuit system for the supply of water at all of its production units.

Protection and rehabilitation of land

The Group is actively engaged in the reclamation and rehabilitation of disturbed land. For example, in order to reduce the environmental impact of its operations, the Group constructed landfills for the disposal of solid consumer waste and a landfill for industrial waste at the Olimpiada and Kuranakh mines. Also, the Group is developing mine closure plans for each operating site at the earliest project development stages. Each of the operating subsidiaries of the Group conducts an inventory of affected land plots on an annual basis so that these land plots can be effectively recultivated in the future. See Note 27 to the consolidated financial information included in "Part XII – Historical Financial Information".

Waste treatment

Non-toxic waste represents more than 90 per cent. of the waste generated at the Group's production facilities and includes waste generated by stripping works, waste generated from the wash-out of sand and other uncontaminated soils, as well as tailings. Overburden and other waste rock are accumulated and used in the course of reclamation of exhausted land, while tail pulp waste is deposited in the tailing storage facilities. The Group does not have any subsidiaries within its structure which specialise in utilisation of production waste and therefore the Group utilises/recycles only certain waste products. In order to reduce the environmental impact, in 2007, the Group decided to implement the dry storage of sorption tailings at Olimpiada mine, as an alternative to the existing dumping of tailings as pulp into a tailing dump. This technique results in a decrease of approximately 250 per cent. of the occupied area by this tailing storage facility.

Water use and water resource protection

The water supply for the Group's utility and production needs is drawn from local surface water bodies and underground sources. The Group targets the efficient and sustainable use of water resources and the establishment of closed water supply systems enabling the Group to effectively recycle water for its main production processes at its processing plants at Olimpiada, Aldanzoloto and OJSC Pervenets.

Another important challenge for the Group is wastewater disposal and the reduction of disposals of polluting agents into the sewage systems and surface water bodies to acceptable permitted levels. The Group uses modern water treatment facilities and puts necessary controls in place at each of its mines in order to determine and monitor water quality on an on-going basis.

Protection of air, energy efficiency and emission of greenhouse gases

Key sources of atmospheric emissions in gold ore production include drilling and blasting operations and open-pit equipment. The bulk of harmful emissions consists of suspended substances, such as dust, fuel combustion products and incompletely-burned blasting agents, which emit sulphur, nitrogen oxides and carbon monoxide.

To reduce dust levels, open-pit roads and shovel/bulldozer operation areas are watered in the summertime. To reduce gas and dust emissions during blasting, several technologies are used, including using blasting agents with near-zero oxygen balance, blasting the shells with air gaps, neutralizing additives for stemming purposes and spraying blasted rock after each blast. To reduce atmospheric emissions at the ore processing stage, various air purification systems are used, including aspiration systems, battery cyclones, foam gas purifiers and exhaust neutralisers.

Actual emissions of atmospheric pollutants in 2011, 2010 and 2009 throughout the Group's operations in Russia did not exceed the maximum admissible levels.

Health and Safety

The Group is subject to OHS (occupational health and safety) requirements of both the Russian and Kazakhstan legislation and international regulations related to occupational health and safety. All of the Group's entities have established commissions performing industrial control over OHS at all facilities. Health and safety management at all of the Group's businesses is overseen centrally by the Group's management. In addition, the Board of Directors has appointed a health and safety committee. See "Part XIII – Management and Corporate Governance – Corporate Governance – Board committees – Health and Safety Committee".

The Group has also implemented international standards to improve the existing system of health and safety management in accordance with OHSAS 18001:2007.

Health and Safety statistics

In 2011, there were 52 lost time injuries resulting in six fatalities at the Group's facilities. The Group developed and implemented appropriate measures with regard to all such accidents to eliminate violations and prevent the re-occurrence of such incidents in the future. The following table sets forth a summary of the Group's lost time injuries in 2011, 2010 and 2009.

	Lost time injuries			***Fatalities***		
Business unit	***2011***	***2010***	***2009***	***2011***	***2010***	***2009***
Krasnoyarsk	5	9	11	1	3	1
Irkutsk (alluvial)	12	13	20	2	3	1
Irkutsk (ore)	8	5	10	1	0	0
Yakutia (Kuranakh)	8	6	1	0	1	0
Magadan	1	0	0	0	0	0
Exploration (Nezhdaninskoye)	1	0	0	0	0	0
Kazakhstan	15	1	3	2	1	4
Services (1)	2	0	0	0	0	0
Total	**52**	**34**	**45**	**6**	**8**	**6**

1. Polyus Stroy, Polyus Project, Polyus Schit, Polyus Logistics.

All of the Group's business units have health service facilities and perform regular medical checks of employees working in health hazard areas. Medical aid posts are established at all of the Group's business units to carry out a medical inspection on employees before their shift begins, during working hours and at the end of their shift. In 2011, the Group's total expenditure on industrial and labour safety was RUB 363.8 million (US$12.4 million), compared with RUB 302 million (US$9.9 million) in 2010.

The international standard for reporting industrial accidents is the Lost Time Incident Frequency Rate ("**LTIFR**"). An incident becomes registered as a Lost Time Incident when a worker loses a single shift. In 2011, 2010 and 2009, the Group's LTIFR, expressed as per 200,000 man hours worked, was 0.26, 0.17 and 0.27 respectively. The Group uses a 200,000 man hour denominator in accordance with GRI requirements (Sustainability Reporting Guidelines).

	*LTIFR = LTIs * 200,000 man hours/hours worked*		
Business Unit	***2011***	***2010***	***2009***
Krasnoyarsk	0.07	0.11	0.18
Irkutsk (alluvial)	0.31	0.30	0.46
Irkutsk (ore)	0.42	0.26	0.60
Yakutia (Kuranakh)	0.76	0.48	0.08
Magadan	0.20	0.00	0.00
Exploration (Nezhdaninskoye)	1.33	0.00	0.00
Kazakhstan	0.39	0.03	0.11
Services [(1)]	0.00	0.00	0.00
Total	**0.26**	**0.17**	**0.27**

1. Polyus Stroy, Polyus Project, Polyus Schit, Polyus Logistics.

Health and Safety training

The Group has introduced training programmes at all of its business units aimed at detecting and preventing dangers and hazards at workplaces. New hires undergo safety induction and are appointed a mentor for the duration of their training. All business units conduct regular appraisals of the managers and staff working in industrial and labour safety. In 2011, the Group completed appraisals of 1,914 managers, specialists and white-collar workers, as well as 14,232 blue-collar workers.

Insurance

The insurance industry in Russia is still developing, and many forms of insurance coverage common in developed markets are not yet generally available. The Group implemented a property risk insurance programme in 2004 which is ongoing. This programme provides coverage for the replacement of key production equipment, buildings and structures, and for losses resulting from a temporary disruption in production. The Group also has a general insurance policy with LLC Insurance Company "Soglasie" relating to valuable cargo insurance. Valuable cargo is defined as precious metals transported by the policy holder by means of special land transport or aviation. The policy covers all the financial losses related to partial damage, and partial and full loss of cargo (including losses caused by theft), subject to exclusions for *force majeure* events and a maximum liability per cargo batch of RUB 3 billion.

However, the Group does not currently have full 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 its property or relating to its operations. See "Part II – Risk Factors – Risks associated with the Group's Business and the Gold Mining Industry – The Group's level or scope of insurance coverage may not be adequate".

Employees

The table below sets out the number of people employed by the Group at the end of each period covered by the historical financial information contained in this Prospectus:

	31 December		
Business unit/location	***2011***	***2010***	***2009***
Krasnoyarsk business unit	5,347	6,929	6,349
Irkutsk alluvial business unit	3,055	3,183	3,319
Irkutsk hard rock business unit	1,791	2,076	1,824
Yakutia business unit (Kuranakh, Nezhdaninskoye, YaGK) (1)	1,787	1,732	1,724
Magadan business unit	508	455	401
Services (2)	2,780	1,056	1,415
Moscow headquarters	258	225	206
Kazakhstan business unit (3)	4,250	4,334	3,874
Total	**19,776**	**19,990**	**19,112**

1. This line is a combination of the Yakutia (Kuranakh) business unit and the Exploration (Nezhdaninskoye) business unit.

2. Polyus Stroy, Polyus Project, Polyus Schit, Polyus Logistics.

3. Includes, at 31 December 2011, 53 people employed at the Group's Romanian businesses.

Corporate Social Responsibility

The Group strives to establish relations with individuals and legal entities at the regional and federal level, to create new projects, to expand the scope of cooperation and use more efficient approaches to achieving social and economic goals identified by the Group and the society. The Group's social investments in sustainable development have received awards including in surveys carried out by Vedomosti, Donors Forum and PricewaterhouseCoopers in 2007 and 2010. The Group has also established local charitable programmes to support the communities in which it operates.

The Group's interest in Kazakh and Kyrgyz gold mining assets

In addition to its main Russian gold mining operations, the Group currently holds a controlling interest in gold mining assets in Kazakhstan, as well as an exploration asset in Kyrgyzstan (the "**KazakhGold Assets**"). The Group acquired the KazakhGold Assets following the acquisition by OJSC Polyus Gold in August 2009 of a controlling interest in KazakhGold, which holds these assets through the KazakhGold Operating Subsidiaries. On 18 May 2012, the Group sold its Romanian assets, which had previously been held by the KazakhGold Operating Subsidiaries, for a total consideration of US$20 million. On 8 June 2012 the Company and certain of its subsidiaries entered into a conditional sale and purchase agreement for the sale of its gold mining assets in Kazakhstan and Kyrgyzstan. See "– The Sale of the KazakhGold Operating Subsidiaries and the Romanian Assets".

The assets of the KazakhGold Operating Subsidiaries mainly comprise the following mining operations in Northern and Eastern Kazakhstan: the Aksu mine (including the Aksu and adjacent Quartzite Hills deposits), the Bestobe mine, the Zholymbet mine, and the Akzhal mine.

In addition, these assets include development properties in Northern, Eastern and Central Kazakhstan, as well as exploration projects at Yuzhny Karaultube and Kaskabulak. In 2011, the KazakhGold Assets produced 117 thousand ounces of gold as compared to 104 thousand ounces produced in 2010, an increase of 13 per cent. Gold production of the KazakhGold Assets represented 8 per cent. of the Group's total gold production in 2011. The increase in production was achieved by enhancing ore processing at the plants as a result of the Group's investment programme to upgrade its existing operations in Kazakhstan.

Resources

The following table shows the mineral resources of the KazakhGold Operating Subsidiaries in Kazakhstan, as stated in accordance with the JORC Code as of 15 May 2011:

Deposit	*Resources*	*Gold* Ore (million tonnes)	*Gold* Grade (g/t)	*Gold* Metal Content (ounces)
Aksu Open Pit	Measured	3.46	1.05	116,190
	Indicated	28.14	2.19	1,913,581
	Measured+Indicated	31.60	2.07	2,029,771
	Inferred	23.67	2.90	2,138,135
	Total	55.27	2.42	4,167,906
Aksu Underground	Measured	3.40	5.05	552,104
	Indicated	0.93	4.25	123,023
	Measured+Indicated	4.33	5.01	675,127
	Inferred	0.07	3.24	7,246
	Total	4.40	4.98	682,373
Aksu Combined Total		**59.67**	**2.61**	**4,850,279**
Bestobe Open Pit	Measured	0.57	2.13	38,819
	Indicated	19.01	1.41	835,877
	Measured+Indicated	19.58	1.44	874,696
	Inferred	3.52	3.68	403,315
	Total	23.10	1.78	1,278,011
Bestobe Underground	Measured	–	–	–
	Indicated	1.47	4.47	204,478
	Measured+Indicated	1.47	4.47	204,478
	Inferred	0.71	5.03	111,123
	Total	2.18	4.65	315,601
Bestobe Combined Total		**25.28**	**2.03**	**1,593,612**
Zholymbet Open Pit	Measured	–	–	–
	Indicated	4.10	1.70	216,492
	Measured+Indicated	4.10	1.70	216,492
	Inferred	18.92	2.73	1,608,747
	Total	23.02	2.55	1,825,239
Zholymbet Underground	Measured	–	–	–
	Indicated	1.10	8.76	299,773
	Measured+Indicated	1.10	8.76	299,773
	Inferred	0.78	10.63	257,922
	Total	1.88	9.54	557,695
Zholymbet Combined Total		**24.90**	**3.08**	**2,382,934**
Total		**109.85**	**2.58**	**8,826,825**

Reserves

The following table shows the ore reserves of the KazakhGold Operating Subsidiaries in Kazakhstan, as stated in accordance with the JORC Code as of 15 May 2011:

		Gold		
Deposit	*Reserve*	*Ore (million tonnes)*	*Grade (g/t)*	*Metal Content (ounces)*
Aksu Open Pit	Proven	3.39	1.08	113,866
	Probable	22.31	1.89	1,308,698
	Total	25.70	1.78	1,422,564
Aksu Underground	Proven	2.07	5.22	336,004
	Probable	0.28	4.89	42,545
	Total	2.35	5.18	378,549
Aksu Combined Total		**28.05**	**2.06**	**1,801,113**
Bestobe Open Pit	Proven	0.55	2.22	38,043
	Probable	17.44	1.34	729,515
	Total	17.99	1.37	767,558
Bestobe Underground	Proven	–	–	–
	Probable	0.66	3.26	66,992
	Total	0.66	3.26	66,992
Bestobe Combined Total		**18.65**	**1.44**	**834,550**
Zholymbet Open Pit	Proven	–	–	–
	Probable	3.54	1.28	140,635
	Total	3.54	1.28	140,635
Zholymbet Underground	Proven	–	–	–
	Probable	0.54	7.11	119,396
	Total	0.54	7.11	119,396
Zholymbet Combined Total		**4.08**	**2.05**	**260,031**
Total		**50.78**	**1.77**	**2,895,694**

Gold Production

The following table sets forth the gold production of the KazakhGold Operating Subsidiaries in 2011, 2010 and 2009:

	Year ended 31 December		
Gold production ('000 ounces)	*2011*	*2010*	*2009*
Aksu	21	26	16
Bestobe	46	35	25
Zholymbet	44	42	32
Akzhal and Kaskabulak	7	8	–
Gold production total[(1)]	**117**	**110**	**73**

1. Totals may not sum completely due to rounding.

In 2011, the Group's Kazakh operations processed 1,242.7 thousand tonnes of ore, compared to 1,574.4 thousand tonnes in the previous year. In 2011, 893.9 thousand tonnes of ore were processed at the plants and 348.8 thousand tonnes were processed at the heap leaching facilities.

Gold production in 2011 totalled 117 thousand ounces of gold as compared to 110 thousand ounces in 2010 and comprised of gold produced in sludge, quartzite ore, schlich, flotation and gravitation concentrate and other semi-refined products.

In 2011, ore was mined at two shafts at Aksu (No 38-40 and 39-41), as well as at the Kariernaya zone. The total mining of ore amounted to 187.8 thousand tonnes, including 132.2 thousand tonnes from underground mining, and 55.6 thousand tonnes mined by the open-pit method. At Aksu, gold production in 2011 totalled 21 thousand ounces, compared to 26 thousand ounces in 2010.

In 2011, 206.0 thousand tonnes of ore was mined at Bestobe by the underground method. At Bestobe, gold production amounted to 46 thousand ounces, compared to 35 thousand ounces in 2010.

In 2011, 356.9 thousand tonnes of ore was mined at Zholymbet, including 261.4 thousand tonnes by the underground mining method and 95.5 thousand tonnes from the open pit. At Zholymbet, gold production in 2011 totalled 44 thousand ounces, compared to 42 thousand ounces in 2010.

In 2011, gold production at Akzhal amounted to 7 thousand ounces, compared to 8 thousand ounces in 2010.

The Sale of the KazakhGold Operating Subsidiaries and the Romanian assets

On 10 April 2011, KazakhGold entered into the Amended Principal Agreement (as subsequently amended) with AltynGroup Kazakhstan LLP, a limited liability partnership owned by members of the Assaubayev family ("**AltynGroup**"), for the sale of the KazakhGold Operating Subsidiaries and also entered into the Settlement Deed, which provides for a settlement and release of the orders, judgments and claims initiated in the UK, Jersey, the British Virgin Islands, or elsewhere (as the case may be), between KazakhGold, Jenington and Kazakhaltyn, on the one hand, and the Assaubayev family, on the other hand, and all of their respective subsidiaries and affiliates without any admission of liability on either part. Under the Amended Principal Agreement, AltynGroup agreed conditionally to acquire the KazakhGold Operating Subsidiaries in two tranches. Entry into the Amended Principal Agreement and the Settlement Deed resolved the dispute between the parties and the Kazakh authorities, but neither the Amended Principal Agreement and Settlement Deed nor the timing of the transactions contemplated under those agreements were conditional on the Combination with OJSC Polyus Gold. On 2 April 2012, PGIL terminated the Amended Principal Agreement, on the grounds that the First Tranche Completion under the Amended Principal Agreement had not occurred by the First Tranche Cut-Off Date. The Letter of Credit, which was issued in favour of PGIL under the terms of the Amended Principal Agreement, has been extended until 29 June 2012 and remains in full force and effect. In addition, the Settlement Deed also remains in full force and effect irrespective of the failure to complete the sale of the KazakhGold Operating Subsidiaries pursuant to the Amended Principal Agreement.

On 8 June 2012 the Company and its subsidiaries Jenington and Romanshorn LC AG ("**Romanshorn**") entered into a conditional sale and purchase agreement (the "**AGH Agreement**") with AltynGroup Holdings Korlátolt Felelösségü Társaság ("**AGH**"), an entity beneficially owned by the Assaubayev family.

Under the AGH Agreement (i) Romanshorn, a wholly-owned subsidiary of the Company, has agreed to sell to AGH 100 per cent. of the shares in Kazakhaltyn (the holding company of the Group's operating subsidiaries in Kazakhstan) for a consideration of US$90 million; (ii) the Company has agreed to sell to AGH 100 per cent. of the shares in Norox Mining Company Limited (the holding company of the Group's operating subsidiaries in Kyrgyzstan) ("**Norox**") for a consideration of US$5 million; and (iii) Jenington has agreed to novate to AGH all of its rights and obligations under the loan agreements between Kazakhaltyn as borrower and Jenington as lender for an aggregate consideration of US$290 million (the "**Novation**") (together, the "**AGH Transaction**"). The AGH Agreement provides that the parties may agree to a deferred payment of any part of the consideration payable under the AGH Agreement, subject to AGH providing an unconditional bank guarantee that satisfies certain requirements specified in the AGH Agreement.

Completion of the AGH Transaction is subject to certain conditions, including the receipt of necessary governmental consents, approvals and waivers in Kazakhstan and the receipt of confirmation from AGH by 30 July 2012 that it has sufficient funding available to pay the full amount of the consideration under the AGH Agreement. Pursuant to the AGH Agreement, the AGH Transaction may be terminated, among other things, if the conditions to it are not satisfied on or before 30 September 2012 (unless the parties agree otherwise) or if the confirmation of availability of funding is not provided to the Company by 30 July 2012.

The Company has made a drawing in the amount of approximately US$41 million under the US$100 million irrevocable documentary stand-by letter of credit previously issued to it under the terms of the Restated and Amended Principal Agreement with AltynGroup (the "**LoC**"), and, subject to satisfaction of certain conditions, including the issuance of a renewed letter of credit for the remaining amount of approximately US$59 million (the "**New LoC**"), intends to apply the proceeds of such drawing towards partial payment of the consideration for the AGH Transaction. The AGH Transaction requires that the New LoC is issued to the Company on or before 20 June 2012, effective until 31 December 2012, with the proceeds of the New LoC to be applied towards partial satisfaction of the consideration at completion of the AGH Transaction, and that Gold Lion Holdings Limited ("**Gold Lion**"), a company controlled by trustees of discretionary trusts, the beneficiaries of which comprise the beneficial owners of AGH, novates all of its rights and obligations under the two existing loan agreements between the Company and Gold Lion, entered into in June 2009 (as subsequently amended) to Jenington, such novation to become effective at the earlier of completion of the AGH Transaction or 30 September 2012. If the New LoC is not issued to the Company prior to 20 June 2012 or the Gold Lion deeds of novation are not executed and delivered to the Company and Jenington by 14 June 2012, the Company shall have the right, but is not obliged, to terminate the AGH Transaction.

See "Part XVII – Additional Information – Material Contracts" for a summary of the agreements relating to the sale of the KazakhGold Operating Subsidiaries.

On 18 May 2012, the Group completed the sale of its Romanian assets for a total consideration of US$20 million.

PART VIII

GOLD MINING INDUSTRY OVERVIEW

Gold has been used for many centuries to store value, as a form of money and to produce jewellery. Until recently, many economies used gold as the basis for international monetary standards and the Company believes it remains a popular investment tool. Due to its qualities of malleability, ductility, reflectivity, resistance to corrosion and excellent thermal and electric conductivity, gold is also used in a wide variety of industrial and medical applications. Since 2008, demand for gold has been at record highs.

Historically, jewellery has been by far the most important market for gold. In 2011, total demand for gold equalled approximately 4,067 tonnes, the main components of which were jewellery fabrication at approximately 1,963 tonnes; bar and coin demand at approximately 1,487 tonnes, technology at 464 tonnes and ETFs and similar products at approximately 154 tonnes.

However, in recent years, as a result of substantial increases in the price of gold, demand from jewellery manufacturers has been decreasing. At the same time, the popularity of gold as an investment target has been increasing substantially in response to the continuing uncertainties in the financial markets. Investment demand as a percentage of total demand increased from 10 per cent. in 2002 to 40 per cent. in 2011.

In addition to rings, brooches, necklaces and earrings, people also use gold in the form of gold leaf for decoration and protection and for screen printing (for example, directly onto bone china, earthenware, porcelain and glass surfaces). Gold is also the key component for both "liquid gold", a formulation containing up to 12 per cent. gold, which is ideal for decorative applications using brushes and gold pastes used for screen printing.

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

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

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

As an alloy, gold is used extensively for dentistry in gold teeth, dental attachments, inserts and solders and is used increasingly for medical implants in eyes and ears, as well as in many other medically useful wires, tubes, sheets, and foils. Disodium aurothiomalate, a compound containing gold, is administered through an intramuscular injection as a treatment for arthritis.

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

Gold Production

Gold deposits are located throughout the world. In 2011, the global gold production, according to the World Gold Council, grew to 2,810 tonnes, an increase of 4 per cent. from 2010 levels. Recycled gold continued its decline and fell by 2 per cent. to 1,612 tonnes in 2011. The growth in output was largely driven by increases in both formal and artisanal gold mining in Africa while many of the increases in production came from existing project being ramped up. Production slowdown was recorded in Australia, after strong growth in 2010 and Indonesia and South Africa, mostly on account of labour issues.

In 2011, Russia ranked fourth among the world's leading gold mining industries. According to data published by the Russian Union of Gold Miners, gold production in 2011 was 212 tonnes, which is 5 per cent. higher than in 2010.

The top five gold producers globally measured by the amount of JORC proven and probable reserves based on the most recent publicly available company reports were: Barrick Gold (139.9 million ounces as of December 2011), Newmont Mining Corp. (98.8 million ounces as of December 2011), Polyus Gold (90.4 million ounces), Gold Fields Ltd. (80.6 million ounces as of December 2011) and Newcrest Mining Ltd. (80.0 million ounces as of June 2011). The top five gold producers globally as measured by the amount of gold produced as at the end of 2011 based on publicly available Company reports were: Barrick Gold (7.7 million ounces), Newmont Mining (5.2 million ounces), AngloGold Ashanti (4.3 million ounces), Gold Fields (3.5 million ounces) and Newcrest Mining (2.7 million ounces).

Supply and Demand

In 2011, the supply of gold decreased by 4 per cent. to 3,994 tonnes compared to 2010, mainly as the result of an decrease in official sector sales and net producer hedging, even though mine production was up 4 per cent. year-on-year. Mine production represents the main source of gold supply, accounting for 70 per cent. of the supply of gold in 2011.

Another important source of the world's gold supply is scrap. As a result of record high gold prices, supply of gold from scrap reached record highs in recent years, as individuals use the opportunity to sell accrued scrap at higher gold prices. In 2011, supply of scrap metal amounted to 1,612 tonnes which was 2 per cent. lower than in 2010.

Central banks and the International Monetary Fund have been another traditional source of gold supply in the global market. Recently, however, purchases of gold by the official sector have surpassed sales and the central banks have become net buyers of gold to the tune of 440 tonnes in 2011. In 2011, there was little gold selling by European banks under the Central Bank Gold Agreement, which limit allows for the sale of 400 tonnes per annum. This agreement is intended to stabilise the world's gold prices and mitigate the risk of excess supply by limiting bullion sales by European central banks. The last version of the Central Bank Gold Agreement, which covers a five-year period, was signed on 27 September 2009 by the European Central Bank and the central banks of 18 other European nations. The IMF, the principal seller of gold bullion in 2010, rolled off its limited sales programme, which contributed to the decline in net gold sales by central banks.

In 2011, the demand for gold stayed roughly flat at 4,067 tonnes compared to 2010, mostly driven by the net unwinding of long gold positions by ETFs and similar investment funds as, driven by China and India, both the demand for bar and coin investment increased but jewellery demand was slightly down.

In 2011, demand for gold hit a 10-year high and amounted to 4,067 tonnes, despite the average gold price rising by 8 per cent. over the year after rising 28 per cent. from 2009 to 2010.

Jewellery manufacturers are the largest consumer of gold in the global market. After a record decline in 2009 and an 11 per cent. increase in 2010, purchases of gold by jewellery manufacturers in 2011 declined by 3 per cent. to 1,963 tonnes with the greatest demand coming from jewellery manufacturers in India and China. According to the World Gold Council, the growth of demand for jewellery in India resulted, in addition to the traditional festival season at year end, from expectations of further growth of gold prices. In 2010, the markets in both countries were characterised by a trend of growing demand for jewellery made of pure, high karat gold, indicating that purchases were also being made for investment purposes. The largest consumers in the other regions of the world, notably the European Union and the United States, demonstrated a drop in jewellery demand in response to growth in gold prices, as well as the economic situation in these countries.

Demand for gold from other industry sectors increased remained flat in 2011 at 464 tonnes compared to 2010. The severe flooding in Thailand and the substitution of non-precious metal bonding wire both had a negative impact on the use of gold in industrial applications.

Demand is typically supported from demand in the official sector. According to the World Gold Council, in 2011, metal purchases for replenishment of state reserves surpassed sales by 440 tonnes, creating additional pressure on the gold market. The largest purchases of gold were made by Mexico, Russia, Thailand, South Korea, Bolivia and Venezuela.

Investment demand

The investment demand for gold includes the demand for gold bullion, coins, medals and "gold" financial instruments (such as traded index funds and exchange traded funds ("**ETFs**")). In 2011, investment demand was extraordinarily high for a third consecutive year, at 1,641 tonnes, which was 5 per cent. above the previous year level. Gold bullion and coins enjoyed particular popularity in 2011. According to the World Gold Council, investments in these assets increased by 24 per cent. and amounted to 1,487 tonnes. Demand was most active in India, as with demand in the jewellery sector, although investment demand declined 38 per cent. in 2010 compared to 2011. The other large market for gold investment demand, China, demonstrated an unprecedented 69 per cent. increase in the value of its demand on the back of increases gold prices and volumes. The motivation behind investments in gold included public concerns about inflation, low yield on alternative investments (negative real interest rate on deposits, slow growth of the stock market) and expectations of further price growth. Among western countries, the highest demand was demonstrated by the United States, due to inflationary expectations as a result of relaxation of its monetary policy, and the largest European consumers was Germany, reflecting investor concerns over the issue of sovereign debt by EU countries and uncertainty about the future economic growth of these countries.

Demand from ETFs and other financial instruments linked to the gold price dropped significantly from 368 tonnes in 2010 to 154 tonnes in 2009. Despite the fact that the aggregate gold reserves of these funds achieved a high in 2011, the growth rate of investments in ETFs and similar funds declined significantly, with investors withholding funds from ETFs at the end of the year.

Pricing and Trading

Gold is not consumed like most commodities and most above-ground stocks of gold can be brought back to market. As a result, variations in new gold output from mines in any given time period may not have an immediate material impact on the gold price as the amount of gold produced in any single year represents a small portion of the total potential supply of gold available for sale. This has meant that the price of gold has historically been less volatile than that of most commodities. However, rising investor demand against a backdrop of relatively flat supply as declining mine production and official sector sales offset rising scrap volumes has resulted in a steadily increasing gold price over the same period.

Gold Prices

Historical Gold Prices – London PM Fixing (US$/oz)

Average Gold Price Year (US$/oz)

2000	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*YTD2012*
279.0	271.1	310.1	363.7	409.6	445.2	604.0	696.4	871.9	972.6	1,225.3	1,570.9	1,693.0

Source: FactSet as of 16 March 2012.

The price of gold has historically been significantly altered by macroeconomic factors, such as inflation, exchange rates, reserve policy and by global political and economic events. Gold is often purchased as a store of value in periods of price inflation and weakening currency. In 2011, the gold price continued to increase for the tenth consecutive year, reaching new records. Average London market price (PM fixing) amounted to US$1,570.9 per ounce, showing a 28 per cent. increase, compared to the previous year's average fixing. The major growth factor was investment demand. Gold reached an historic high of US$1,895.0 per ounce on 5 September 2011.

Gold prices increased steeply in the first 6 months of 2011 on account of rising demand from investors seeking a safe haven amid fears of a global economic downturn, primarily as the result of the ongoing European sovereign debt crisis and concerns about fiscal and monetary policy in the United States. Towards the end of the third quarter of 2011 reassuring macroeconomic data from the United States caused the gold market to cool down with prices bouncing back to US$1,531.0 per ounce on 29 December 2011.

London is the world's largest pool of gold liquidity with trading conducted primarily via an over-the-counter format in 400 ounce gold bars with a purity of 9,950 parts per 10,000 or higher. The LBMA fixes the gold price twice daily in London (at 10:30 a.m. and 3:00 p.m.) using prices derived from five fixing members of the LBMA. These price fixings are used as a key indicator for gold market participants around the world. Leading gold futures markets are the COMEX in New York and TOCOM in Tokyo.

The Company expects the key drivers of gold prices in 2012 to continue to be the unstable and weak world financial and commodity markets, the liquidity crisis, uncertainty about the world banking system and hard currency fluctuations, reduced world gold output, depleted gold ore reserves, demand from investors and increased geopolitical tension.

Overview of the Gold Mining Environment in Russia

According to the Russian Union of Gold Miners, total mining and production (including by-products and secondary products) increased by 5 per cent. in 2011 from 2010 levels, amounting to 6.8 million ounces (212 tonnes). The amount of gold produced by the Group represented approximately 20 per cent. of the total Russian output in 2011.

PART IX

SELECTED FINANCIAL AND OPERATING INFORMATION

The Group was formed as a result of the combination of the Polyus Russia Group and the KazakhGold Group, which completed on 25 July 2011 and resulted in KazakhGold (subsequently renamed Polyus Gold International Limited) acquiring a controlling stake in OJSC Polyus Gold. The Combination was in effect a reverse takeover by PGIL of its ultimate parent company since OJSC Polyus Gold had acquired a controlling stake in PGIL in August 2009.

The Group completed the Combination during in 2011, which resulted in the reorganisation of the shareholding structure of the Group. The consolidated financial information included in this Prospectus is issued under the name of Polyus Gold International Limited, being the new parent entity following the reorganisation, but represents a continuation of the consolidated financial information of the Polyus Gold group of companies, except for its capital structure. See Note 2 to the Historical Financial Information included in Part XII.

The table below shows the historical consolidated financial information of the Group for the years ended 31 December 2011, 2010 and 2009. This financial information has been prepared in accordance with IFRS as adopted by the European Union and as issued by the IASB. This information has been extracted without material adjustment from "Part XII – Historical Financial Information".

	Year ended 31 December		
(US$'000, except for per share amounts)	***2011***	***2010***	***2009***
Consolidated income statement			
Gold sales	2,340,650	1,711,298	1,199,088
Other sales	62,060	37,506	26,136
Total revenue	**2,402,710**	**1,748,804**	**1,225,224**
Cost of gold sales	(1,162,019)	(897,901)	(577,140)
Cost of other sales	(46,343)	(33,424)	(25,541)
Gross profit	**1,194,348**	**817,479**	**622,543**
Selling, general and administrative expenses	(225,618)	(194,549)	(155,012)
Goodwill impairment	–	–	(173,340)
Impairment[1]	(103,418)	(14,219)	(10,859)
Research expenses	(2,581)	(2,412)	(1,265)
Other expenses, net	(24,077)	(24,155)	(18,457)
Operating profit	**838,654**	**582,144**	**263,610**
Finance costs	(71,403)	(42,717)	(18,870)
Income/(loss) from investments, net	3,630	(23,711)	14,197
Foreign exchange (loss)/gain	(5,814)	765	1,364
Profit before income tax	**765,067**	**516,481**	**260,301**
Income tax	(207,052)	(124,840)	(108,810)
Profit for the period	**558,015**	**391,641**	**151,491**
Attributable to:			
Shareholders of the parent company	468,998	367,313	149,434
Non-controlling interests	89,017	24,328	2,057
Basic and diluted earnings per share (US cents)	16	12	5

1. Impairment comprises impairment of stockpiles, impairment of exploration and evaluation assets, and impairment of property, plant and equipment.

(US$'000)	Year ended 31 December 2011	2010	2009
Consolidated cash flow data			
Net cash generated from operating activities	765,405	445,307	343,100
Net cash utilised in investing activities	(260,363)	(171,114)	(516,065)
Net cash utilised in financing activities	(134,958)	(110,983)	(56,698)
Net increase/(decrease) in cash and cash equivalents	**370,084**	**163,210**	**(229,663)**
Cash and cash equivalents at the beginning of the year	**326,905**	**173,360**	**398,826**
Effect of foreign exchange rate changes on cash and cash equivalents	(39,541)	(9,665)	4,197
Cash and cash equivalents at the end of the year	**657,448**	**326,905**	**173,360**

(US$'000)	As at 31 December 2011	2010	2009
Consolidated statement of financial position			
Cash and cash equivalents	657,448	326,905	173,360
Total assets	**4,219,011**	**4,004,174**	**3,622,906**
Non-current borrowings	123,048	29,686	26,394
Current borrowings	675,632	173,762	173,437
Total liabilities	**1,388,338**	**763,643**	**660,179**
Total equity	**2,830,673**	**3,240,531**	**2,962,727**

The following table sets out the Group's Adjusted EBITDA for the years ended 31 December 2011, 2010 and 2009:

(US$'000)	Year ended 31 December 2011	2010	2009
Profit for the period	558,015	391,641	151,491
+ Income tax	207,052	124,840	108,810
+ Foreign exchange loss/(gain)	5,814	(765)	(1,364)
+ Loss/(income) on derivatives classified as held for trading	8,661	63,775	(20,039)
+ Loss/(gain) from investments in listed companies held for trading	20,984	(11,446)	(13,702)
+ Gain on disposal of AFS investments	(17,023)	(20,289)	(696)
+ Loss on disposal of promissory notes	–	–	34,928
+ Interest income on bank deposits	(16,252)	(8,329)	(14,688)
+ Finance costs	71,403	42,717	18,870
+ Impairment of property, plant and equipment and exploration and evaluation assets	78,209	14,219	10,859
+ Goodwill impairment[1]	–	–	173,340
+ Loss on disposal of property, plant and equipment	5,933	2,037	3,875
+ Depreciation and amortisation	187,949	126,855	96,940
Adjusted EBITDA	**1,110,745**	**725,255**	**548,624**

1. The goodwill impairment relates to the acquisition of KazakhGold, whereby all the goodwill initially recognised upon acquisition was subsequently written off, on the basis that the assessed fair value of the entity was less than the purchase price, and management did not believe that the additional payment would result in any future benefit to the Group.

Total Cash Costs

The following tables show the Group's total cash costs and total cash costs per ounce sold for the years ended 31 December 2011, 2010 and 2009. Total cash costs and total costs per ounce sold have been calculated by management and have not been independently verified by the Group's auditors.

	Year ended 31 December			***2011 against 2010***	***2010 against 2009***
(US$'000, unless otherwise indicated)	***2011***	***2010***	***2009***	***%***	***%***
Cost of gold sales	1,162,019	897,901	577,140	29	56
– amortisation and depreciation of operating assets	(181,935)	(118,559)	(93,402)	53	27
– employee benefit obligations cost	(3,774)	(10,596)	–	(64)	–
– provision for annual vacation payment	(1,620)	(7,208)	(3,063)	(78)	135
– provision for land rehabilitation	–	–	(7,379)	–	–
– change in allowance for obsolescence of inventory	(2,819)	(2,346)	(3,639)	20	(36)
+ non-monetary changes in inventories[1]	6,795	12,225	22,939	(44)	(47)
+ non-monetary changes in deferred stripping works[2]	1,174	(8,459)	(8,528)	(114)	(1)
TCC	**979,840**	**762,958**	**484,068**	**28**	**58**
Gold sales ('000 ounces)	1,483	1,377	1,238	8	11
TCC (US$ per ounce sold)	**661**	**554**	**391**	**19**	**42**
TCC (RUB per ounce sold)	19,427	16,833	12,404	15	36

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

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

PART X

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Group's consolidated capitalisation as at 31 December 2011 and the indebtedness of the Group as at 31 March 2012. The capitalisation of the Group has been extracted without material adjustment from the historical financial information in Part XII of this Prospectus. The indebtedness figures have been extracted without material adjustment from the unaudited management accounts of the Group.

('000 US$, unless otherwise indicated)	*As at 31 March 2012*
Unguaranteed/unsecured	492,558
Total current debt	**492,558**
Unguaranteed/unsecured	300,592
Total non-current debt	**300,592**
Total debt	**793,150**

('000 US$, unless otherwise indicated)	*As at 31 December 2011*
Share capital	482
Additional paid-in capital	2,189,240
Treasury shares	(765,013)
Investments revaluation reserve	4,557
Translation reserve	(258,426)
Total capitalisation	**1,170,840**

There has been no material change in the Group's consolidated capitalisation since 31 December 2011, with the exception of the translation reserve, which has moved by US$241,678 thousand to US$(16,748) thousand as at 31 March 2012.

The following table sets out the total net financial indebtedness of the Group as at 31 March 2012, which has been extracted without material adjustment from the unaudited management accounts of the Group.

('000 US$, unless otherwise indicated)	*As at 31 March 2012*
Cash	354,599
Cash equivalents	388,979
Trading securities	52,511
Liquidity	**796,089**
Current bank debt	492,558
Current financial debt	**492,558**
Net current financial funds	**(303,531)**
Non-current bank loans	300,592
Non-current financial indebtedness	**300,592**
Net financial funds	**(2,939)**

PART XI

OPERATING AND FINANCIAL REVIEW

The following discussion of the Group's financial condition and results of operations should be read in conjunction with "Part V – Important Information" and "Part XII – Historical Financial Information". This section contains forward-looking statements that involve risks and uncertainties. See "Part II – Risk Factors" and "Part V – Important Information – Forward-looking Statements."

Overview

The Group is an international gold mining company, the largest gold producer in Russia, based on ounces of gold produced, according to the Russian Union of Gold Miners, and the third largest gold producer in the world by reserves with 90.4 million ounces of gold in JORC proven and probable reserves, based on the most recent publicly available reports of other gold mining companies. The Group develops and mines hardrock gold and alluvial gold deposits, with five business units in Russia (Krasnoyarsk, Irkutsk ore, Irkutsk alluvial, Magadan and Yakutia) and the Kazakhstan business unit. In addition, the Group conducts exploration activities through its subsidiary Polyus Exploration Limited. In 2011, the Group's operations in Russia produced 1,378 thousand ounces of gold, or approximately 20 per cent. of total Russian gold production.

For the year ended 31 December 2011, the Group had total gold sales of US$2,341 million, total revenue (which comprises gold sales plus revenues from the sale of electricity, transportation, handling and storage services and rent services) of US$2,403 million and profit before income tax of US$765 million. The Group's Adjusted EBITDA was US$1,111 million in 2011 and US$725 million in 2010 and total cash costs were US$980 million in 2011 and US$763 million in 2010.

In 2011, the Group's Russian operations accounted for 92 per cent. of the Group's gold sales, with the rest derived from sales of its Kazakhstan business unit. On 8 June 2012 the Company and certain of its subsidiaries entered into a conditional sale and purchase agreement for the sale of its gold mining assets in Kazakhstan and Kyrgyzstan. See "Part VII – Information on the Group – The Group's interest in Kazakh and Kyrgyz gold mining assets".

Presentation of Financial Information

The Group was formed as a result of the Combination, which was substantially completed by 30 June 2011, with the final conditions satisfied by 25 July 2011, and resulted in KazakhGold Group Limited becoming the legal parent of OJSC Polyus Gold. Following the completion of the Combination, KazakhGold Group Limited was renamed Polyus Gold International Limited. The Combination was in effect a reverse takeover by PGIL of its ultimate parent company since OJSC Polyus Gold had acquired a controlling stake in PGIL in August 2009.

The Combination occurred on 25 July 2011. The consolidated financial information included in this Prospectus is issued in the name of Polyus Gold International Limited, being the new parent entity following the Combination, but represents a continuation of the consolidated financial information of the Polyus Gold group of companies, except for its capital structure. See Note 2 to the Historical Financial Information included in Part XII.

Significant External Market Factors Affecting the Group's Financial Results

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

The table below shows average rates for these main external market factors for the periods indicated:

	Year ended 31 December		
Average price/rate	*2011*	*2010*	*2009*
London p.m. gold fixing price (US$ per troy ounce)(1)	1,572	1,225	972
Crude oil (Brent brand) (US$ per barrel)(2)	111.0	80.3	62.4
Steel (hot rolled) (US$ per tonne)(3)	725.9	641.0	582.0
Average RUB/US$ rate(4)	29.39	30.36	31.72
Period end RUB/US$ rate	32.20	30.47	30.24
Average KZT/US$ rate(5)	146.62	147.35	147.51(6)
Period end KZT/US$ rate	148.40	147.40	148.36

1. Source: London Bullion Market Association.
2. Source: Bloomberg.
3. Source: Steel Business Briefing.
4. Source: The Central Bank of Russia.
5. Source: The National Bank of Kazakhstan.
6. KazakhGold was acquired in August 2009.

Gold Prices

The market price of gold is the most significant factor influencing the profitability and operating cash flow of the Group. The global gold price is subject to volatile movements over short periods of time. In 2011, the average gold p.m. fixing price in London was US$1,572 per ounce, with gold reaching its lowest level of US$1,319 per ounce on 28 January 2011 and a high of US$1,895 on 6 September 2011. For the 2011 year, the gold p.m. fixing price increased by 10 per cent. from US$1,389 to US$ 1,531 per ounce on the first and the last business days, respectively. In 2010, the gold price volatility remained high, with the price ranging from the lowest level of US$1,058 per ounce (London p.m. fixing) in February and the highest of US$1,421 per ounce in November. In 2010 the average gold p.m. fixing price in London was US$1,225 per ounce, an increase of 26 per cent. over the 2009 average price of US$972 per ounce. For the 2010 year, the market price of gold increased by 25 per cent. from US$1,121.5 on 4 January to US$1,405.5 per ounce on 30 December, the first and the last business days in 2010, respectively.

Crude oil and Steel Prices

A significant portion of costs included in the Group's cost of sales are directly or indirectly impacted by the prices of oil and steel. Changes in the price of crude oil impact the prices of diesel fuel, heating oil, gasoline and lubricants for mining and construction equipment. Steel forms the basis for the price of all rolled metal products, pipes, machinery and vehicles. In 2011, average oil prices increased 38 per cent. in comparison with 2010, while average steel prices increased by 13 per cent. over the same period. In 2010, oil prices increased 29 per cent. as compared with 2009, while steel prices increased by 10 per cent. over the same period. An increase in global prices for commodities could create significant cost pressure for the Group.

Exchange Rates

The Group's revenue from gold sales is denominated in US dollars, whereas most of the Group's operating expenses and capital expenditures are denominated in roubles. Accordingly, an appreciation of the Russian rouble against the US dollar may negatively affect the Group's margins by increasing the US dollar value of its rouble-denominated costs. Conversely, an appreciation of the US dollar may positively affect the Group's margins by decreasing the US dollar value of its Russian rouble-denominated costs. In 2011, the average RUB/US$ exchange rate decreased by 3 per cent. to RUB 29.39 per US dollar from 30.36 in 2010. This contributed to an increase in US dollar terms during 2011 in comparison with 2010 for salaries and other expenses denominated in Russian roubles, due to the effect of translation to the US dollar presentation currency. The increase in the closing rate to RUB 32.20 per US dollar as of 31 December 2011 (31 December 2010: RUB 30.47) led to a decrease in the statement of financial position items in US dollar terms. In 2010 the average rouble exchange rate decreased by 4 per cent. to RUB 30.36 per US dollar from RUB 31.72 per

US dollar in 2009, leading to higher costs in US dollars. The closing rate in 2010 was RUB 30.47 per US dollar, compared to RUB 30.24 per US dollar in 2009. In 2009, the rouble traded in the wide range of RUB 28.67 per US dollar to RUB 36.43 per US dollar and closed at RUB 30.24 per US dollar.

Since its acquisition of a controlling stake in PGIL in August 2009, the Group has also been exposed to KZT/US$ exchange rate movements since the operating expenses of PGIL's mining operations in Kazakhstan are incurred primarily in tenge. After a devaluation of the tenge in 2009, the tenge exchange rate remained relatively stable during 2010. The KZT/US$ exchange rate remained relatively stable in 2011, and thus did not have a material impact on the Group's costs.

Seasonality

The Group's sales volumes of gold are typically higher in the summer months, primarily as a result of the seasonal nature of the Group's alluvial operations. Due to the cold temperatures of the winter months in the Irkutsk region, production of gold at the Group's Irkutsk alluvial business unit is limited mainly to the period of May to October. In 2011, gold production at alluvial operations comprised 15 per cent. of the Group's total gold production in Russia. In addition, the more favourable weather conditions of the summer months enable the Krasnoyarsk business unit to produce and sell higher volumes of gold as compared to the winter period. As a result, the Group's interim financial statements may not provide an accurate indication of trends for the full financial year. See "Part II – Risk Factors – The Group's principal operations are located in remote areas with harsh climates, which requires limiting production operations in the Irkutsk region to certain times of year, and the delivery of supplies to the areas where it operates may be disrupted or transportation costs may increase".

Discussion of Results of Operations for the Years Ended 31 December 2011, 2010 and 2009

The following table shows a summary of the Group's consolidated income statement for the periods indicated and the percentage change from year to year.

	Year ended 31 December			*2011 against 2010*	*2010 against 2009*
US$'000	***2011***	***2010***	***2009***	*%*	*%*
Gold sales	2,340,650	1,711,298	1,199,088	37	43
Other sales	62,060	37,506	26,136	65	44
Total revenue	**2,402,710**	**1,748,804**	**1,225,224**	**37**	**43**
Cost of gold sales	(1,162,019)	(897,901)	(577,140)	29	56
Cost of other sales	(46,343)	(33,424)	(25,541)	39	31
Gross profit	**1,194,348**	**817,479**	**622,543**	**46**	**31**
Gross profit margin	49.7%	46.7%	50.8%	–	–
Including:					
Gross profit on gold sales	1,178,631	813,397	621,948	45	31
Selling, general and administrative expenses	(225,618)	(194,549)	(155,012)	16	26
Goodwill impairment	–	–	(173,340)	–	(100)
Impairment[(1)]	(103,418)	(14,219)	(10,859)	627	31
Research expenses	(2,581)	(2,412)	(1,265)	7	91
Other expenses, net	(24,077)	(24,155)	(18,457)	–	31
Operating Profit	**838,654**	**582,144**	**263,610**	**44**	**121**

US$'000	Year ended 31 December 2011	2010	2009	2011 against 2010 %	2010 against 2009 %
Finance costs	(71,403)	(42,717)	(18,870)	67	126
Income/(loss) from investments, net	3,630	(23,711)	14,197	(115)	(267)
Foreign exchange (loss)/gain	(5,814)	765	1,364	(860)	(44)
Profit before income tax	**765,067**	**516,481**	**260,301**	**48**	**98**
Pre-tax margin	31.8%	29.5%	21.2%	–	–
Income tax expense	(207,052)	(124,840)	(108,810)	66	15
Profit for the period	**558,015**	**391,641**	**151,491**	**42.5**	**159**
Net profit attributable to shareholders of the parent company	468,998	367,313	149,434	28	146
Net profit attributable to non-controlling interests	89,017	24,328	2,057	266	1,083
Net profit margin	23.2%	22.4%	12.4%	–	–
Earnings per share – basic and diluted (US$)	16	12	5	33	140

1. Impairment loss comprises impairment of exploration and evaluation assets, impairment of stockpiles and impairment of property, plant and equipment.

Adjusted EBITDA

The following table sets out the Group's Adjusted EBITDA for the years ended 31 December 2011, 2010 and 2009.

US$'000	Year ended 31 December 2011	2010	2009
Profit for the period	558,015	391,641	151,491
+ Income tax	207,052	124,840	108,810
+ Foreign exchange loss/(gain)	5,814	(765)	(1,364)
+ Loss/(income) on derivatives classified as held for trading	8,661	63,775	(20,039)
+ Loss/(gain) from investments in listed companies held for trading	20,984	(11,446)	(13,702)
+ Gain on disposal of AFS investments	(17,023)	(20,289)	(696)
+ Loss on disposal of promissory notes	–	–	34,928
+ Interest income on bank deposits	(16,252)	(8,329)	(14,688)
+ Finance costs	71,403	42,717	18,870
+ Impairment of property, plant and equipment and exploration evaluation assets	78,209	14,219	10,859
+ Goodwill impairment[(1)]	–	–	173,340
+ Loss on disposal of property, plant and equipment	5,933	2,037	3,875
+ Depreciation and amortisation	187,949	126,855	96,940
Adjusted EBITDA	**1,110,745**	**725,255**	**548,624**

1. The goodwill impairment relates to the acquisition of KazakhGold, whereby all the goodwill initially recognised upon acquisition was subsequently written off, on the basis that the assessed fair value of the entity was less than the purchase price, and management did not believe that the additional payment would result in any future benefit to the Group.

The Group's Adjusted EBITDA in 2011 was US$1,110,745 thousand, compared to US$725,255 thousand in 2010. The increase of 53 per cent. was attributable primarily to increased gold prices combined with higher sales volumes.

The Group's Adjusted EBITDA in 2010 was US$725,255 thousand, compared to US$548,624 thousand in 2009. The increase of 32 per cent. was attributable primarily to growth in gold selling prices and higher sales volumes, which was partially offset by the appreciation of the Russian rouble relative to the US dollar.

Total Cash Costs

The following table shows the Group's total cash costs per ounce sold for the years ended 31 December 2011, 2010 and 2009. Total cash costs and total cash costs per ounce sold have been calculated by management and have not been independently verified by the Group's auditors.

	Year ended 31 December			***2011 against 2010***	***2010 against 2009***
(US$'000, unless otherwise indicated)	***2011***	***2010***	***2009***	***%***	***%***
Cost of gold sales	1,162,019	897,901	577,140	29	56
– amortisation and depreciation of operating assets	(181,935)	(118,559)	(93,402)	53	27
– employee benefit obligations cost	(3,774)	(10,596)	–	(64)	–
– provision for annual vacation payment	(1,620)	(7,208)	(3,063)	(78)	135
– provision for land rehabilitation	–	–	(7,379)	–	–
– change in allowance for obsolescence of inventory	(2,819)	(2,346)	(3,639)	20	(36)
+ non-monetary changes in inventories(1)	6,795	12,225	22,939	(44)	(47)
+ non-monetary changes in deferred stripping works(2)	1,174	(8,459)	(8,528)	(114)	(1)
TCC	**979,840**	**762,958**	**484,068**	**28**	**58**
Gold sales ('000 ounces)	1,483	1,377	1,238	8	11
TCC (US$ per ounce sold)	**661**	**554**	**391**	**19**	**42**
TCC (RUB per ounce sold)	19,427	16,833	12,404	15	36

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

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

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

In 2010, TCC per ounce grew by 42 per cent. on a US dollar basis from US$391 per ounce in 2009 to US$554 per ounce in 2010. The growth on a rouble basis over the same period was 36 per cent. The growth of TCC in 2010 resulted from the increase in cost of gold sales, mainly due to increased material and fuel requirements arising from increased levels of mining and processing works throughout the Group, increased material and chemicals consumption due to technical issues at the Olimpiada mine (See "Part VII – Information on the Group – Principal Operations – Krasnoyarsk Region – Olimpiada Deposit"), the effect of the consolidation of KazakhGold for the full year 2010, an increase in gold stock, the growth of labour costs and the appreciation of the Russian rouble relative to the US dollar. The effect of Russian rouble appreciation contributed US$31 per ounce to the Group's TCC on a US dollar basis.

Gold Sales

The following table shows the results and breakdown of the Group's gold sales for the years ended 31 December 2011, 2010 and 2009 and the percentage change from year to year.

	Year ended 31 December			*2011 against 2010*	*2010 against 2009*
	2011	*2010*	*2009*	*%*	*%*
Gold sales (US$ thousands)	2,340,650	1,711,298	1,199,088	37	43
Gold sales (thousand troy ounces)[(1)]	1,483	1,377	1,238	8	11
In the domestic market (thousand ounces)[(2)]	1,373	1,273	1,207	8	5
In the domestic market (%)	93	92	97	1	(5)
For export (thousand ounces)[(3)]	110	104	31	6	235
Weighted-average gold selling price (US$ per ounce)	1,578	1,243	969	27	28
Average p.m. gold fixing price in London (US$ per ounce)[(4)]	1,572	1,225	972	28	26
Excess/(deficit) of average selling price over/(under) average p.m. fixing price (US$ per ounce)	6	19	(4)	(68)	(605)

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

The following table shows the results and breakdown of the Group's gold production for the years ended 2011, 2010 and 2009 and a percentage change from year to year.

	Year ended 31 December			*2011 against 2010*	*2010 against 2009*
Production of Gold ('000 ounces)	*2011*	*2010*	*2009*	*%*	*%*
Krasnoyarsk Region					
Olimpiada mine	566	581	839	(2.6)	(30.8)
Titimukhta	109	100	39	9.0	156.0
Blagodatnoye mine	363	251	–	44.6	–
Irkutsk Region					
Zapadnoye mine	3	19	24	(84.2)	(20.8)
Alluvial deposits	210	197	194	6.8	1.5
Pervenets pilot plant	10	7	–	42.9	–
Republic of Sakha (Yakutia)					
Kuranakh mine	117	120	135	(3.2)	(11.1)
Kazakhstan					
Aksu, Bestobe, Zholymbet and Akthal	117	110	30	6.4	267
Total production of gold	**1,495**	**1,386**	**1,261**	**7.8**	**9.9**

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

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

The Group sold 1,483 thousand ounces of gold in 2011, including 110 thousand ounces sold for export by the Kazakhstan business unit. The comparable sales volume in 2010 was 1,377 thousand ounces and 103 thousand ounces, respectively. In 2011, the Group produced 1,495 thousand ounces of gold, compared to 1,386 thousand ounces in 2010. The production volumes for 2011 included 1,378 thousand ounces of refined gold produced by the Group's mines in Russia and 117 thousand ounces of gold produced by the Kazakhstan business unit in the form of sludge, flotation and gravitation concentrates and other semi-products. An 8 per cent. increase in total gold production was primarily the result of the increase of production levels at the Blagodatnoye mine (launched in July 2010), reflecting the successful ramp-up of the mine, which reached the projected recovery rate during 2011 and exceeded the designed throughput capacity.

In 2011, the Group produced 1,495 thousand ounces (51.3 tonnes) of refined gold (including 117 thousand ounces produced by its Kazakhstan business unit), an increase of 8 per cent. as compared with the 1,386 thousand ounces (47.3 tonnes) it produced in 2010 (including 110 thousand ounces produced by its Kazakhstan business unit). The growth in production was primarily the result of ramping-up of the Blagodatnoye mine in the Krasnoyarsk region, which reached its projected recovery rate and exceeded the designed throughput capacity. In addition, output at Titimukhta increased as a result of increased throughput capacity of the plant which resulted from ongoing upgrades to the grinding circuit. Further, a considerable contribution to the production growth was made possible by the Alluvials business unit, as a result of the completion of the replacement of the mining fleet and haulage equipment ahead of a longer than usual mining season and as a result of the continued upgrade of the Group's production facilities at its Kazakhstan business unit.

In 2010, the Group's revenue from gold sales increased by 43 per cent., or US$512,210 thousand, to US$1,711,298 thousand in 2010 from US$1,199,088 thousand in 2009. The increase in gold sales revenue was primarily the result of higher gold selling prices and an increase in sales volumes as a result of increased gold production. In 2010, gold sales comprised US$1,596,850 thousand of refined gold and US$114,448 thousand of other gold bearing products, compared with US$1,172,170 thousand of refined gold and US$26,918 thousand of other gold bearing products in 2009. The increase in the sale of other gold bearing products is attributable primarily to the Group's Kazakh operations and resulted due to the consolidation of the Kazakh operations with the Group's Russian operations in 2009, meaning there was a full year of results in 2010 but only a part-year in 2009.

In 2010, the weighted-average gold selling price was US$1,243.2 per ounce, as compared to US$968.7 per ounce in 2009. The weighted-average gold selling price for the Group in 2010 was US$18.7 per ounce higher than the average p.m. gold fixing price on the London market, although the weighted-average gold selling price for the Group was reduced as a result of the consolidation of the sale of semi-products produced by its Kazakhstan business unit made at a considerable discount to the average gold p.m. fixing price in London. This excess was largely attributable to the fact that, in 2010, the major portion of the Group's gold was produced and sold in the second half of the year, when the gold price was increasing rapidly. In 2009, the weighted-average gold selling price for the Group was US$3.7 per ounce lower than the average p.m. gold fixing price on the London market, largely as a result of the consolidation from August 2009 of the sale of semi-products by its operations in Kazakhstan at a considerable discount to the p.m. gold fixing price on the London market.

In 2010, the Group sold 1,377 thousand ounces (including 103 thousand ounces sold by its Kazakhstan business unit), as compared to 1,238 thousand ounces (including 31 thousand ounces sold by its Kazakhstan business unit) in 2009. The increase in sales volumes in 2010 was largely due to an increase in production as compared with 2009.

In 2010, the Group produced 1,386 thousand ounces (47.3 tonnes) of refined gold (including 110 thousand ounces produced by its Kazakhstan business unit), an increase of 10 per cent. as compared with the 1,261 thousand ounces (39.2 tonnes) it produced in 2009 (including 30 thousand ounces produced by its Kazakhstan business unit). The growth in production was achieved primarily due to commissioning of the Blagodatnoye mine in the Krasnoyarsk region in July 2010. The increase in production was also partially attributable to the enhanced capacities of Titimukhta and the Group's operations in Kazakhstan, where a programme of modernisation of mining and processing facilities continued.

The increase in production in 2010 was partially off-set by a decrease in the Group's recovery from the sulphide ores that the Group processed at the Olimpiada deposit as a result of technological issues related to the processing of sulphide ores. See "Part VII – Information on the Group – Principal Operations – Krasnoyarsk Region – Olimpiada Deposit".

Other Sales

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

Revenue from other sales increased by 44 per cent. in 2010 to US$37,506 thousand from US$26,136 thousand in 2009. This increase was driven primarily by increased revenue from electricity sales. Sale of electricity to third parties by CJSC Vitimenergosbyt, the Group's subsidiary located in Bodaibo district of the Irkutsk region, comprised the largest single part of other revenues, amounting to US$13,497 in 2010.

Cost of Gold Sales

The following table shows the components of the Group's cost of gold sales for the years ended 31 December 2011, 2010 and 2009.

	Year ended 31 December			*2011 against 2010*	*2010 against 2009*
US$'000	***2011***	***2010***	***2009***	*%*	*%*
Fuel, consumables and spares, including:	410,243	365,504	242,841	12	51
Materials and spares	296,442	277,852	163,583	7	70
Fuel	113,801	87,652	79,258	30	11
Labour	288,866	237,602	175,080	22	36
Tax on mining	179,116	130,230	90,080	38	45
Utilities, including:	55,140	46,043	25,386	20	81
Power	53,092	43,872	24,572	21	79
Other	2,048	2,171	814	(6)	167
Outsourced mining services	22,147	8,897	8,258	149	8
Refining costs	5,067	2,059	4,332	146	(52)
Other	75,696	59,212	38,911	28	52
Cash operating costs	**1,036,275**	**849,547**	**584,888**	**22**	**45**

	Year ended 31 December			*2011 against 2010*	*2010 against 2009*
US$'000	***2011***	***2010***	***2009***	*%*	*%*
Amortisation and depreciation of operating assets	181,935	118,559	93,402	53	27
Amortisation of deferred stripping costs, net	(7,335)	44,412	50,736	(117)	(12)
Change in gold-in-process and refined gold inventories	(48,856)	(114,617)	(151,886)	(57)	(25)
Cost of gold sales	**1,162,019**	**897,901**	**577,140**	**29**	**56**

In 2011, cost of gold sales increased by 29 per cent. to US$1,162,019 thousand from US$897,901 thousand in 2010. This increase resulted mainly from an 8 per cent. increase in the volume of gold sales, an increase of mining tax charges reflecting the increase in gold prices, an increase in labour costs and higher amortisation and depreciation charges. Cost of gold sales was also adversely affected by strengthening of the Russian rouble relative to the US dollar.

In 2010, cost of gold sales increased by 56 per cent. to US$897,901 thousand from US$577,140 thousand in 2009. The change resulted from an increase in gold mining and processing volumes throughout the Group, the effect of the consolidation of the Kazakhstan business unit operations for the full year 2010 and the appreciation of the Russian rouble relative to the US dollar.

Cash operating costs

In 2011, cash operating costs were US$1,036,275 thousand, compared to US$849,547 thousand in 2010 and US$584,888 thousand in 2009. The increase in cash operating costs in 2011 as compared with 2010 was primarily a result of a US$51,264 thousand increase in labour costs and a US$48,886 thousand increase of tax on mining. The increase in operating costs in 2010 as compared with 2009 was primarily a result of an increase in production levels by 10 per cent.

Fuel, consumables and spares

Expenses for fuel, consumables and spares were the largest component of cash operating costs in 2011, 2010 and 2009, comprising 40 per cent., 45 per cent. and 42 per cent., respectively, of cash operating costs in those periods.

Materials and spares

The cost of materials and spares consumed in 2011 represented 29 per cent. of the Group's cash operating costs and amounted to US$296,442 thousand, an increase of 7 per cent. as compared with 2010. This increase was primarily due to the increase in gold production volumes. Another contributing factor for the increase in materials and spares in 2011 was an increase in purchase prices for materials and components, including steel, cyanides, lime and explosives. The increase in the cost of materials and spares was enhanced by the effect of the strengthening of the Russian rouble in 2011, which resulted in a further 3 per cent. increase in materials and spares costs relative to 2010, in addition to the aforementioned items.

The cost of materials and spares consumed in 2010 represented 33 per cent. of the Group's cash operating costs and amounted to US$277,852 thousand, as compared to US$163,583 thousand in 2009 (representing 28 per cent. of the Group's cash operating costs). The 70 per cent. increase in 2010 was attributable mainly to an increase in production levels of the Krasnoyarsk business unit, including a 36 per cent. increase in ore mining and a 51 per cent. increase in ore processing volumes. In addition, the consumption of pipes, rolled metal products, spare parts and chemical products increased, primarily due to the commissioning of the Blagodatnoye mine and the increase of operating capacity at Titimukhta in the Krasnoyarsk business unit. Additional quantities of materials and chemicals were also consumed at the Olimpiada mine due to an increase in the sulphur and pyrrhotine content in the ore under processing which resulted in higher consumption of chemicals, mainly cyanide, and standardised materials. The increase in purchase prices for materials and components also contributed to the cost increase in 2010. During 2010, prices for chemical agents and steel increased steadily. In addition, expenses on materials and spares in 2010 included purchases by the Group's Kazakhstan business unit operations in the amount of US$18,419 thousand.

Fuel

Fuel expenses, including diesel oil and lubricants for trucks and excavators, comprised the third largest component of consumables and spares in the periods under review.

In 2011, expenses in respect of fuel accounted for 11 per cent. of the Group's cash operating costs and amounted to US$113,801 thousand, an increase of 30 per cent. in comparison to 2010. This increase was in line with the growth in production and an increase in prices for diesel fuel and gasoline, which corresponded with general global pricing trends for those products.

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

In 2010, expenses in respect of fuel accounted for 10 per cent. of the Group's cash operating costs and amounted to US$87,652 thousand in 2010 as compared to US$79,258 thousand in 2009 (representing 14 per cent. of the Group's cash operating costs). This increase of 28 per cent. resulted mainly from higher fuel purchase prices as a result of the global trend of rising oil prices, increased mining and production levels, including increased consumption of oil products following the commissioning of the Blagodatnoye mine in the Krasnoyarsk region and the consolidation of the Kazakhstan business unit's fuel costs for the full year 2010.

Labour

The second largest item included in cash operating costs in 2011, 2010 and 2009 was labour expenses, comprising 28 per cent., 28 per cent. and 30 per cent., respectively, of cash operating costs in those periods.

In 2011, labour costs increased by 22 per cent. over the 2010 level to US$288,866 thousand from US$237,602 thousand in 2010. This increase was primarily attributable to a rise in the average headcount of production personnel at the Krasnoyarsk business due to the increase in production levels at Blagodatnoye to full capacity, as well as the planned indexation of salaries to inflation throughout the Group and the appreciation of the average Russian rouble rate relative to the US dollar. In addition, the alluvial mining season in 2011 started earlier than in 2010, which led to higher payroll costs at the Irkutsk alluvial business unit. Payroll costs at the Kazakhstan business unit also increased in 2011 due to an increase in the number of production personnel and an increase in remuneration levels.

In 2010, labour costs increased by 36 per cent. to US$237,602 thousand from US$175,080 thousand in 2009. The increase in 2010 resulted from a combination of several factors, including:

- An increase in the number of operational personnel in comparison to 2009 principally at the Krasnoyarsk business unit due to the commissioning of Blagodatnoye, See "Part VII – Information on the Group – Employees";
- The planned 10–12 per cent. indexation to inflation of salaries for operational personnel throughout the Group's mines. In addition, the Irkutsk alluvial business unit paid out bonuses to operational personnel in response to actual output exceeding production plans in 2010;
- The effect of consolidation of the KazakhGold Group's payroll costs for the full year 2010 in the amount of US$22,669 thousand;
- The growth of social insurance contributions as a result of a change in the Russian taxation scheme with effect from 1 January 2010; and
- The accrual of employee benefit obligation under collective agreements.

Tax on mining

Expenses on mining tax represented 17 per cent., 15 per cent. and 15 per cent. of the cash operating costs in 2011, 2010 and 2009, respectively. In 2011, the Group incurred US$179,116 thousand in mining tax, compared to US$130,230 thousand in 2010. The 38 per cent. increase in 2011 over 2010 resulted from higher gold selling prices and increased sales volumes. In 2010, the Group incurred US$130,230 thousand in mining tax, compared to US$90,080 thousand in 2009. The 45 per cent. increase in 2010 was mainly attributable to higher realised gold prices and also increased production volumes. Mining tax charges for 2010 included US$9,223 thousand attributable to operations in Kazakhstan.

Utilities

Expenses on power and other utilities represented 5 per cent., 5 per cent. and 4 per cent. of the cash operating costs in 2011, 2010 and 2009, respectively.

In 2011, utilities expenses increased by 20 per cent. to US$55,140 thousand from US$46,043 thousand in 2010. The increase in power costs was driven principally by the increase in electricity tariffs in Russia and Kazakhstan. The strengthening of the average rouble exchange rate relative to the US dollar also contributed to the increase in utilities costs over the period.

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

In 2010, utilities expenses increased by 81 per cent. to US$46,043 thousand from US$25,386 thousand in 2009, mainly due to increased volumes of electricity purchases by the Krasnoyarsk business unit following the commissioning of the Blagodatnoye mine. The growth of electricity tariffs also contributed to the increase in power costs. In 2010, tariffs for electricity sold to industrial enterprises in the regions where the Group operates in Russia grew by between 13 per cent. and 27 per cent. The cost of electricity generated by the Group-owned generation facilities in Krasnoyarsk and Irkutsk also increased due to growth in payroll and transportation costs and increased heating oil prices. Utilities costs in 2010 also included the expenses of the Kazakhstan business unit in the amount of US$6,880 thousand.

Amortisation and depreciation of operating assets

Mining assets are amortised on a straight-line basis over the lesser of estimated economic useful life of the asset or the life of mines, which is based on estimated proved and probable ore reserves and ranges from 7 to 21 years. For accounting purposes, the estimated economic useful life of the Group's operating mines is based on mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code. The economic useful lives in accordance with the Russian Resource Reporting Code may vary compared to the economic useful lives under the JORC Code. Amortisation is charged from the date a new mine reaches commercial production quantities and is included in the cost of production. Non-mining assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the economic useful lives of such assets.

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

In 2010, amortisation and depreciation of operating assets included in cost of sales increased by 27 per cent. to US$118,559 thousand from US$93,402 thousand in 2009. This increase was mainly due to the commissioning of new property, plant and equipment at the Krasnoyarsk business unit as a result of the start of operations at the Blagodatnoye mine and the consolidation of the Kazakhstan business unit's amortisation and depreciation charges for the full year 2010.

Amortisation of deferred stripping costs, net

The Group's accounting policy stipulates that stripping costs incurred in the period are deferred to the extent that the current period stripping ratio exceeds the expected life-of-mine ratio. For accounting purposes, the estimated economic useful life of the Group's operating mines is based on mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code. The economic useful lives in accordance with the Russian Resource Reporting Code may vary compared to the economic useful lives under the JORC Code. If the current stripping ratio falls below the average life-of-mine stripping ratio, the stripping costs are charged to operating costs.

In 2011, the stripping ratio at Olimpiada and Blagodatnoye was lower than the average life-of-mine ratio, and, consequently, previously capitalised stripping costs were expensed. This expense was more than offset by the capitalisation of excessive stripping costs incurred in the reporting period at the Titimukhta and Kuranakh mines. As a result, deferred stripping costs in the net amount of US$7,335 thousand were capitalised in 2011, while in 2010 US$44,412 thousand were charged to operating costs in 2010.

In 2010, the stripping ratio at Olimpiada and Blagodatnoye was lower than the average life-of-mine stripping ratio. As a result, deferred stripping costs in the amount of US$44,412 thousand were expensed in 2010.

Change in gold-in-process and refined gold inventories

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

Total gold-in-process of US$48,856 thousand was recorded to inventory from cost of gold sales in 2011. This is, however, much lower than in 2010 (US$114,617 thousand) due to technological improvements at Olimpiada and increased recovery rates, which resulted in the decreased rate of ore stockpiling.

In 2010, the Group's gold inventories substantially increased in most of its mines, with the highest increases at the Krasnoyarsk and Irkutsk ore business units. During 2010, the Group discovered that some of its existing ore stockpiles were taking longer to process at its Olimpiada mine due to technological issues. See "Part VII – Information on the Group – Principal Operations – Krasnoyarsk Region – Olimpiada Deposit – Processing of ores". Consequently, the Group postponed processing part of its stockpiles while it modified its ore processing methods in order to enable improved recovery rates at the completion of the manufacturing process. Accordingly, such stockpiles were classified as long-term inventories. Ore stocks also increased at the Titimukhta, Blagodatnoye, Kuranakh and Kazakhstan business units. These stocks of ore were recorded at net production cost, which rose significantly from the level of 2009. In addition, at 31 December 2010, 28 thousand ounces of gold remained at the refinery and at the Kazakhstan business unit in the form of semi-products. Total increases in gold-in-process and refined gold of US$114,617 thousand were recorded to inventory from cost of gold sales. See "– Review of financial sustainability and solvency – Inventories".

Cost of other sales

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

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

Cost of other sales increased by 31 per cent. to US$33,424 thousand in 2010, from US$25,541 thousand in 2009. In 2010, revenue from other sales exceeded the cost of their sales, which resulted in a net gain from other sales in the amount of US$4,082 thousand, compared to a net gain of US$595 thousand in 2009.

Selling, general and administrative expenses

The following table sets forth the selling, general and administrative expenses of the Group for 2011, 2010 and 2009 and the percentage change from year to year.

	Year ended 31 December			***2011 against 2010***	***2010 against 2009***
US$'000	***2011***	***2010***	***2009***	***%***	***%***
Salaries	116,295	103,811	76,918	12	35
Professional services	36,350	28,274	21,738	29	30
Taxes other than mining and income taxes	42,630	27,528	16,105	55	71
Other	30,343	34,936	40,251	(13)	(13)
Total	**225,618**	**194,549**	**155,012**	**16**	**26**

In 2011, the Group's selling, general and administrative expenses increased by 16 per cent. to US$225,618 thousand from US$194,549 thousand in 2010. This increase was primarily driven by an increase in taxes other than mining and income taxes (i.e. an increase in tax on dividend payments) and salaries.

In 2010, the Group's selling, general and administrative expenses increased by 26 per cent. to US$194,549 thousand from US$155,012 thousand in 2009. This increase was largely attributable to the growth of payroll expenses, taxes, other than mining and income taxes, and expenses on professional services. Selling, general and administrative expenses in 2010 included US$24,260 thousand of expenses incurred by the Group's Kazakhstan business unit. Administrative expenses were also negatively impacted by currency exchange rate trends in 2010, as the average Russian rouble exchange rate relative to the US dollar was stronger during 2010 as compared to 2009.

Salaries

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

In 2010, the Group's administrative labour costs increased by 35 per cent. to US$103,811 thousand from US$76,918 thousand in 2009. This increase was primarily a result of an increased number of administrative personnel at the Krasnoyarsk business unit following commissioning of the Blagodatnoye mine, the planned indexation to inflation of salaries at all mines and the consolidation of the KazakhGold Group's payroll costs for the full year 2010. In 2010, the Krasnoyarsk business unit also paid out bonuses for the commissioning of Blagodatnoye ahead of schedule and compensation for unused leave in accordance with the Russian labour legislation. The increase in labour costs during 2010 was magnified by the effect of the strengthening of the Russian rouble relative to the US dollar. For details on the number of employees see "Part VII – Information on the Group – Employees".

Professional services

In 2011, expenses on professional service costs increased by 29 per cent. to US$36,350 thousand from US$28,274 thousand in 2010. This increase was primarily attributable to audit services, as well as legal and financial advisory services provided to the Group in connection with its reorganisation, the private exchange offer by KazakhGold to holders of OJSC Polyus Gold securities completed in July 2011, the private exchange offer by Jenington to holders of OJSC Polyus Gold ADRs completed in August 2011, the Mandatory Tender Offer by PGIL to holders of OJSC Polyus Gold securities completed in December 2011, the preparation of proceedings against the former owners of PGIL, and negotiations with AltynGroup for the sale of PGIL's operating subsidiaries.

In 2010, expenses on professional services increased by 30 per cent. to US$28,274 thousand from US$21,738 thousand in 2009. This increase was mainly due to legal and consulting services provided to the Group in connection with the 2009 Partial Offer by Jenington to KazakhGold, the US$100 million equity placement by PGIL, the investigation of activities of the previous management of PGIL, the preparation for the proceedings against the former owners of PGIL (see "Part XVII – Additional Information – Litigation") and negotiations with AltynGroup for the sale of the KazakhGold Operating Subsidiaries.

Taxes, other than mining and income taxes

In addition to tax on mining and income taxes, the Group pays property tax, VAT (which for the purpose of this item includes only non-recoverable VAT) and other taxes.

The following table shows the components of taxes, other than mining and income taxes, for the years ended 31 December 2011, 2010 and 2009 and the percentage change from year to year.

	Year ended 31 December			***2011 against 2010***	***2010 against 2009***
US$'000	***2011***	***2010***	***2009***	***%***	***%***
Property tax	20,661	16,463	11,478	25	43
VAT	2,167	1,435	2,648	51	(46)
Other taxes	19,802	9,630	1,979	106	387
Total	**42,630**	**27,528**	**16,105**	**55**	**71**

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

In 2010, the Group accrued US$27,528 thousand in federal and regional taxes other than tax on mining and income tax, as compared to US$16,105 thousand in 2009. Property tax accruals increased primarily due to the enlargement of the fixed asset base as a result of the commissioning of Blagodatnoye, which was enhanced by the effect of the appreciation of the Russian rouble relative to the US dollar in 2010. Other tax charges increased to US$9,630 thousand in 2010 from US$1,979 thousand in 2009, principally as a result of a liability to withholding tax on dividends accrued by the Irkutsk alluvial business unit as a tax agent.

Goodwill impairment

In the consolidated financial statements for the year ended 31 December 2009, OJSC Polyus Gold's acquisition of KazakhGold was accounted for using provisional values. In the course of 2010, the fair values of the identifiable assets and liabilities, and assessment of mineral rights of KazakhGold was determined using, where relevant and appropriate, independent appraisers. In most instances for the assets acquired, such fair values were significantly lower than the carrying values prior to the date of acquisitions by the Group. The excess of the purchase price over the total of such fair values was recorded as goodwill and immediately impaired, as management did not consider that any benefit for the Group would arise from such excess. The impairment is in relation to the Kazakhstan reporting segment.

Impairment loss

In 2011, the Group incurred US$103,418 thousand of loss on impairment of exploration and evaluation assets and property, plant and equipment and stockpiles, compared to US$14,219 thousand in 2010 and US$10,859 thousand in 2009.

Impairment of exploration and evaluation assets

In 2011, the Group recognised an impairment loss of US$54,708 thousand (US$13,584 thousand in 2010, US$1,891 thousand in 2009) related to previously capitalised exploration and evaluation costs that had not led to the discovery of commercially viable quantities of gold resources and consequently resulted in the decision to discontinue such activities. Those exploration and evaluation costs had been incurred at the following exploration fields:

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

The Chai-Yurinskaya field was sold in May 2012.

Impairment of property, plant and equipment

The Group recognised an impairment of property, plant and equipment in the amount of US$23,501 thousand in 2011 (US$635 thousand in 2010), which related to certain operating assets in Kazakhstan, the Kvartsevaya Gora deposit in the Krasnoyarsk region and the Zapadnoye mine which terminated operations in April 2011. The Group reassessed property, plant and equipment requirements at the Krasnoyarsk business unit and considered plans for their future use. As a result, certain assets' book values and expected useful lives exceeded their anticipated recoverable values and accordingly an impairment was recorded in respect of those assets, and their useful lives were revised downwards.

Impairment of stockpiles

In 2011, an impairment of stockpiles in the amount of US$25,209 thousand was recognised in respect of ore stockpiled at the Zapadnoye mine in the Irkutsk region (1.7 million tonnes). As a result of the depletion of reserves in the pit contour of the Zapadnoye deposit, the Group decided to suspend the Zapadnoye mine in the beginning of April 2011, since processing of stockpiled ore with a grade of 1.3 g/t was not considered to be economically viable.

Research expenses

In 2011, research expenses amounted to US$2,581 thousand, which is approximately the same as in 2010, and related to exploration and evaluation works undertaken at the Group's deposits in the Krasnoyarsk region and alluvial deposits in the Irkutsk region.

In 2010, research expenses increased by 91 per cent. to US$2,412 thousand, from US$1,265 thousand in 2009. Exploration expenses in 2010 were primarily incurred in connection with exploration and evaluation works carried out by the Krasnoyarsk and Irkutsk alluvial business units.

Other expenses, net

In 2011, other expenses, net, remained approximately at the level of 2010 and amounted to US$24,077 thousand. Other expenses included mainly a tax provision of US$8,040 thousand, a change in allowance for reimbursable VAT of US$6,602 thousand, a loss on disposal of property, plant and equipment in the amount of US$5,933 thousand and charitable donations in the amount of US$5,468 thousand. The major portion of the charitable donations in 2011 were made by the Yakutia business unit (the construction of a vocational school building in Yakutia) and OJSC Polyus Gold (construction of an indoor swimming pool in the Irkutsk region).

In 2010, other expenses, net increased by 31 per cent. to US$24,155 thousand from US$18,457 thousand in 2009. In 2010, these expenses included primarily a tax provision of US$14,352 thousand, which was accrued at the Krasnoyarsk business unit following recalculation of mining tax liabilities, charity contributions of US$3,367 thousand and a loss on disposal of property, plant and equipment of US$2,037 thousand.

In addition, in 2009 KazakhGold Group recalculated its VAT liabilities for previous periods and, as a result, incurred additional tax charges totalling US$5,219 thousand. The VAT recalculation in 2009 took place following the acquisition of the KazakhGold Group by OJSC Polyus Gold, as a result of previous VAT repayments from the Kazakh state budget on the basis of fictitious contracts concluded by the former owners of the KazakhGold Group. The VAT obligations were recalculated and additional taxes were paid by the KazakhGold Operating Subsidiaries. See "Part XVII – Additional Information – Litigation".

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

The following table sets forth the components of financial and investment activity in 2011, 2010 and 2009 and the percentage change from year to year.

	Year ended 31 December			*2011 against 2010*	*2010 against 2009*
US$'000	***2011***	***2010***	***2009***	*%*	*%*
Finance costs	(71,403)	(42,717)	(18,870)	67	126
Income/(loss) from investments	3,630	(23,711)	14,197	(115)	(267)
Foreign exchange (loss)/gain	(5,814)	765	1,364	(860)	(44)

Finance costs

In 2011, the Group's finance costs grew by 67 per cent. to US$71,403 thousand from US$42,717 thousand in 2010. The level of borrowings was stable for most of the year, with an increase in borrowings related to the Mandatory Tender Offer in November. In December 2011 the Board of Directors of PGIL resolved to redeem the Senior Notes at a price of 102.344 per cent. of nominal value, which resulted in the accelerated amortisation of the fair value of the Senior Notes to the redemption price. As a result, the Group incurred an additional US$26,928 thousand of debt redemption expense in 2011.

In 2010, the Group's finance costs increased by 126 per cent. to US$42,717 thousand from US$18,870 thousand in 2009. The major part of finance costs in 2010 was attributable to the Kazakhstan business unit. Finance costs comprised:

- interest on the Senior Notes in the amount of US$28,988 thousand. Following the acquisition of PGIL, the liability under the Senior Notes was reflected in the Group's statement of financial position at fair value at acquisition date and carried at amortised cost. As a result, the interest accrued on the Senior Notes is calculated using the effective discount rate of 16 per cent. in order to amortise, in addition, the initial difference between nominal and fair value amount at the acquisition date;
- interest in respect of the loan of PGIL from its previous major shareholder Gold Lion in the amount of US$2,697 thousand;
- the unwinding of discount on decommissioning obligations in the amount of US$8,808 thousand; and
- other obligations and finance expenses in the amount of US$1,601 thousand.

Income/(loss) from investments

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

As part of the acquisition of a 50.15 per cent. stake in PGIL in 2009, the Group obtained call options to acquire all rights and obligations under the convertible loan agreements between PGIL and its previous major shareholder, Gold Lion. The call options for convertible loans were classified as financial assets and were carried at fair value. The decline in PGIL's share price during the first half of 2011 resulted in the decrease in fair value of the instrument by US$8,661 thousand (US$63,775 thousand in 2010), which was recognised as an investment loss. As a result of completion of the Combination in 2011, the call options were recognised as treasury shares at an amount equal to the fair value of the options at 30 June 2011 of US$37,475 thousand (US$46,136 thousand at 31 December 2010).

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

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

In 2010, the Group incurred a net loss from investments of US$23,711 thousand, compared to income from investments of US$14,197 thousand in 2009.

At 31 December 2009, the fair value of call options under the convertible loan agreements between KazakhGold and Gold Lion was estimated at US$109,911 thousand. The decline in the PGIL share price during 2010 resulted in a decrease in fair value of the instrument in the amount of US$63,775 thousand, and this decrease was recognised in the consolidated income statement.

In 2010, the Group received income from investments in securities held for trading. These equity investments are carried at fair value through the income statement. During 2010, the value of these investments increased by US$11,446 thousand. In 2009, the Group received income from investments in securities held for trading. During 2009, the Group withdrew US$14,173 thousand under this asset management agreement. As a result of the financial markets' recovery during 2009, the value of the remaining investments, which was reflected in the Group consolidated income statement, increased by US$13,702 thousand in 2009.

In 2010, the Group disposed of US$137,000 thousand of investments in securities held or managed by Rosfund, with a gain of US$20,289 thousand, which was recognised in the income statement. In addition, an increase of US$33,340 thousand in fair value of available-for-sale investments during 2010 was recognised directly in equity within the investment revaluation reserve. In 2009, the fair value of available-for-sale investments increased by US$18,201 thousand, which was recognised directly in equity within the investment revaluation reserve.

In 2010, interest income accrued on bank deposits amounted to US$8,329 thousand, a decrease of US$6,359 thousand compared to 2009 due to the withdrawal of several bank deposits. In 2009, the Group received interest income on bank deposits in the amount of US$14,688 thousand and other income amounting to US$902 thousand.

Foreign exchange (loss)/gain

In 2011, fluctuations in the exchange rates of the national currencies of Russia and Kazakhstan resulted in a net foreign exchange loss of US$5,814 thousand, compared to a net gain of US$765 thousand in 2010. In 2009, volatility in the RUB/rate and KZT/rate was more substantial, which led to a net foreign exchange gain of US$1,364 thousand.

Income tax

In 2011, income tax expense was US$207,052 thousand, an increase of 66 per cent. as compared with 2010. This increase was largely attributable to a higher profit before taxation in comparison with the previous year. The effective income tax rate (the ratio of current and deferred tax expense to IFRS income before tax) was 27 per cent. in 2011 (as compared to 24 per cent. in 2010), while the statutory income tax rate in Russia and Kazakhstan was 20 per cent. in both periods. The difference between the statutory and the effective tax rates was due to a number of non-deductible items for tax purposes, including expenses incurred in connection with early redemption of the Senior Notes, accrual of dividends by OJSC Polyus Gold in respect of Jenington International Inc. and Polyus Gold International Ltd. and other permanent differences.

In 2010, income tax expense was US$124,840 thousand, an increase of 15 per cent. as compared to 2009. The higher income tax expense in 2010 resulted from increased profit before income tax as compared to 2009. The effective income tax rate (the ratio of current and deferred tax expense to IFRS profit before income tax) in 2010 was 24 per cent. (as compared to 42 per cent. in 2009), whereas the statutory income tax rate in Russia established during 2010 was 20 per cent. The difference between the statutory and the effective tax rates was mainly because of a number of non-deductible items for tax purposes and other permanent differences.

Summary table of performance results by business units

For operational purposes, the Group's businesses are divided into the following principal business units:

- the Krasnoyarsk business unit, comprised of the Group's operations at the Olimpiada deposit, the Titimukhta deposit and the Blagodatnoye deposit;
- the Irkutsk ore business unit, comprised of the Group's operations at the Zapadnoye mine and the Verninskoye deposit;
- the Irkutsk alluvial business unit, comprised of the Group's operations at the alluvial deposits;
- the Magadan business unit, comprised of the Group's operations at the Natalka deposit;
- the Yakutia business unit, comprised of the Group's operations at the Kuranakh deposit; and
- the Kazakhstan business unit, comprised of the Group's operations in Kazakhstan, Romania and Kyrgyzstan.

The following tables shows the Group's performance results by business unit for the years ended 31 December 2011, 2010 and 2009.

	Year ended 31 December2011					
	Gold Sales		***Production***		***Sales***	
	US$'000	***%***	***'000 ounces***	***%***	***'000 ounces***	***%***
Krasnoyarsk business unit	1,641,380	70	1,038	69	1,040	70
Irkutsk alluvial business unit	350,213	15	210	14	210	14
Yakutia Kuranakh business unit(1)	184,735	8	117	8	117	8
Irkutsk ore business unit	3,497		13	1	3	–
Kazakhstan business unit(2)	160,825	7	117	8	113	8
Group total(3)	**2,340,650**	**100**	**1,495**	**100**	**1,483**	**100**

	Year ended 31 December 2010					
	Gold Sales		***Production***		***Sales***	
	US$'000	***%***	***'000 ounces***	***%***	***'000 ounces***	***%***
Krasnoyarsk business unit	1,176,392	69	932	67	937	68
Irkutsk alluvial business unit	248,254	15	197	14	197	14
Yakutia Kuranakh business unit(1)	149,597	9	120	9	120	9
Irkutsk ore business unit	22,607	1	26	2	19	1
Kazakhstan business unit(2)	114,448	7	110	8	103	7
Group total(3)	**1,711,298**	**100**	**1,386**	**100**	**1,377**	**100**

	Year ended 31 December 2009					
	Gold Sales		***Production***		***Sales***	
	US$'000	***%***	***'000 ounces***	***%***	***'000 ounces***	***%***
Krasnoyarsk business unit	833,466	70	878	70	854	69
Irkutsk alluvial business unit	185,237	15	194	15	194	16
Yakutia Kuranakh business unit(1)	129,789	11	135	11	135	11
Irkutsk ore business unit	23,678	2	24	2	24	2
Kazakhstan business unit(2)	26,918	2	30	2	31	3
Group total(3)	**1,199,088**	**100**	**1,261**	**100**	**1,238**	**100**

1. Operating and financial results of the Yakutia Kuranakh business unit include the results of the Exploration business unit (See Note 7 to the consolidated financial information included in "Part XII – Historical Financial Information").
2. Operating results of the Kazakhstan business unit in 2009 include amounts of gold produced and sold in August – December 2009 in the form of sludge, flotation and gravitation concentrates and other semi-products.
3. Totals may not sum completely due to rounding.

Krasnoyarsk business unit (Olimpiada, Blagodatnoye and Titimukhta deposits)

The Krasnoyarsk business unit is the Group's largest mining operation. The table below shows selected financial and operating data for this unit for the periods indicated.

	Year ended 31 December		
US$'000, unless otherwise indicated	***2011***	***2010***	***2009***
Gold sales	1,641,380	1,176,392	833,466
Segment profit	918,078	398,359	421,517
Segment profit margin (%)	56%	34%	51%
TCC per ounce (US$/ounce)	606	519	322

Source: Management accounting data

For reconciliation of segment profit/(loss) refer to Note 7 to the consolidated financial information included in "Part XII – Historical Financial Information".

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

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

The Titimukhta project (Mill No.1 of Olimpiada mine) produced 109 thousand ounces of refined gold in 2011, compared to 100 thousand ounces in 2010. The 9 per cent. increase was primarily the result of continued efforts to bring the Titimukhta project's performance to the design processing parameters.

The Blagodatnoye mine produced 363 thousand ounces of gold in 2011, compared to 251 thousand ounces a year in 2010. The 45 per cent. increase in gold output reflected a successful ramp-up of the mine, which was commissioned in July 2010. In 2011, the mine exceeded its design ore processing capacity of 6 million tonnes per year and reached targeted gold recovery levels.

Gold sales revenue of the Krasnoyarsk business unit in 2011 amounted to US$1,641,380 thousand, compared to US$1,176,392 thousand in 2010. During 2011, 1,040 thousand ounces of refined gold were sold. The comparative sales volumes for 2010 amounted to 937 thousand ounces.

The segment profit margin increased from 34 per cent. in 2010 to 56 per cent. in 2011 as a result of the combination of an increase in consumption, an improvement in the recovery level, and the increase in gold prices in 2011.

The total cash costs per ounce of gold sold for the Krasnoyarsk business unit amounted to US$606 in 2011, compared to US$519 in 2010. In addition to the factors impacting on cash costs throughout the Group in 2011 (see "Discussion of Results of Operations for the Years Ended 31 December 2011, 2010 and 2009 – Cost of Gold Sales – Cash operating costs"), the increase in TCC per ounce at the Krasnoyarsk business unit was also attributable to the increase of cost of ore mining at the Blagodatnoye mine and Titimukhta mine, including expenditures on transportation, drilling and blasting operations, which increased due to deepening and forming of open pits at these deposits, as well as increased labour costs and transportation expenses.

Refined gold output at Mills No. 2 and 3 of the Olimpiada mine (which process the ores of the Olimpiada deposit) totalled 581 thousand ounces in 2010, compared to 839 thousand ounces in 2009. The decline in output was largely attributable to a decrease in recovery rates due to technical issues (as described below) and reduced ore processing volumes. Refined gold output at Mill No.1 of the Olimpiada mine, which started to process the ores of the Titimukhta deposit in April 2009, was 100 thousand ounces (39 thousand ounces in 2009). The successful commissioning of the Blagodatnoye mine in July 2010 contributed another 251 thousand ounces to the Krasnoyarsk business unit's output in 2010.

In 2010, gold sales revenue of the Krasnoyarsk business unit was US$1,176,392 thousand (69 per cent. of the Group's total gold sales), as compared to US$833,466 thousand (70 per cent. of the Group's total gold sales) in 2009. The sales volumes were 937 thousand ounces in 2010, as compared to 854 thousand ounces in 2009.

The Krasnoyarsk business unit's total cash costs per ounce sold increased in 2010 to US$519 per ounce. Following transition to the processing of sulphide ores at Olimpiada, the Group faced certain difficulties at the bio-leaching and flotation stages of the production process, resulting in lower gold recovery, additional consumption of materials and chemicals and a decrease in production volumes. In addition, the lower than expected gold grade in the ore of the Titimukhta deposit and continued adjustments to the technology at Mill No.1 prevented production reaching the designed output at Titimukhta.

Irkutsk alluvial business unit (Alluvial deposits)

The Irkutsk business unit operates alluvial deposits. The table below shows selected financial and operating data for this unit for the periods indicated.

	Year ended 31 December		
US$'000, unless otherwise indicated	***2011***	***2010***	***2009***
Gold sales	350,213	248,254	185,237
Segment profit	102,795	90,283	33,999
Segment profit margin (%)	29%	36%	18%
TCC per ounce (US$/ounce)	776	612	554

Source: Management accounting data.

For reconciliation of segment profit/(loss) refer to Note 7 to the consolidated financial information included in "Part XII – Historical Financial Information".

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

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

Total cash costs per ounce of gold sold amounted to US$776 in 2011, compared to US$612 in 2010. In addition to the factors impacting on cash costs throughout the Group in 2011 (see "Discussion of Results of Operations for the Years Ended 31 December 2011, 2010 and 2009 – "Cost of gold sales – Cash operating costs"), the increase in TCC per ounce at the Irkutsk alluvial business unit was mainly attributable to increased payroll costs (due to bonus payments for exceeding the production plan) and consumables and spares consumption, including fuel, resulting from the early commencement of the mining season, increased volumes of sands washing and repair works and the increased cost of outsourced mining services. Labour costs have been the largest component of cost of gold sales at the Irkutsk alluvial business unit.

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

The positive gold price dynamics in 2010 resulted in a 34 per cent. increase in revenues over the 2009 levels to US$248,254 thousand (15 per cent. of the Group's total gold sales) and an improvement in profitability with a segment profit of 36 per cent. in 2010.

In 2010, the TCC per ounce of the alluvial deposits amounted to US$612 per ounce, compared to US$554 per ounce in 2009. The main contributors to TCC per ounce growth were payroll costs (due to increased salaries and additional compensation payments during the year), fuel costs (mainly due to increased purchase prices for oil products) and mining tax expense.

Yakutia Kuranakh business unit (Kuranakh mine)

The Yakutia Kuranakh business unit operates the Kuranakh mine in the Sakha Republic (Yakutia) and includes the Exploration business unit. The table below shows selected financial and operating data for this unit for the periods indicated.

	Year ended 31 December		
US$'000, unless otherwise indicated	***2011***	***2010***	***2009***
Gold sales	184,735	149,597	129,789
Segment profit/(loss)	(310)	27,068	(9,689)
Segment profit margin (%)	–	18%	–
TCC per ounce (US$/ounce)	890	710	551

Source: Management accounting data.

For reconciliation of segment profit/(loss) refer to Note 7 to the consolidated financial information included in "Part XII – Historical Financial Information".

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

In 2011, gold sales revenue of the Yakutia Kuranakh business unit amounted to US$184,735 thousand, compared to US$149,597 thousand in 2010. Gold sales volumes in 2011 amounted to 117 thousand ounces, compared to 120 thousand in 2010.

Total cash costs per ounce of gold sold increased from US$710 in 2010 to US$890 in 2011. In addition to the factors impacting on cash costs throughout the Group in 2011 (see "Discussion of Results of Operations for the Years Ended 31 December 2011, 2010 and 2009 – "Cost of Gold Sales – Cash operating costs"), the increase in TCC per ounce at the Yakutia Kuranakh business unit was also attributable to the increased consumption of key production materials and spare parts for repair and maintenance works. The operation of the mining and transportation equipment was complicated and equipment load intensified due to excessive water in the producing open pits and high clay content in the soil, leading to increased repair and maintenance costs and expenses on transportation services provided by third parties.

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

In 2010, the Kuranakh mine produced 120 thousand ounces of refined gold, compared to 135 thousand ounces in 2009. The decline in production was due to the continuing implementation of modernisation works at the plant and expansion of the mill's capacity, as well as a decrease in the average gold grade in the ore under processing.

In 2010, the gold sales revenue of the Yakutia Kuranakh business unit totalled US$149,597 thousand, an increase of 15 per cent. as compared with 2009. The increase was largely due to the growth of realised gold prices, which was partially offset by the reduction in gold sales volumes. The segment profit margin was 18 per cent. in 2010.

In 2010, the Kuranakh mine's TCC per ounce increased by 29 per cent. to US$710 per ounce from US$551 in 2009, primarily as a result of growth in materials and chemicals costs, mining tax charges and transportation expenses.

Irkutsk ore business unit (Zapadnoye mine)

The Irkutsk ore business unit conducts hard-rock mining operations at the Zapadnoye mine. The table below shows selected financial and operating data for this unit for the periods indicated.

	Year ended 31 December		
US$'000, unless otherwise indicated	***2011***	***2010***	***2009***
Gold sales	3,497	22,607	23,678
Segment profit/(loss)	(13,042)	(4,191)	(1,016)
Segment profit margin (%)	–	–	–
TCC per ounce (US$/ounce)	841	1,045	709

Source: Management accounting data.

For reconciliation of segment profit/(loss) refer to Note 7 to the consolidated financial information included in "Part XII – Historical Financial Information".

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

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

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

In 2010, the Zapadnoye mine produced and sold 19 thousand ounces of gold, as compared to 24 thousand ounces in 2009. The decrease in 2010 was primarily attributable to reserves depletion within the current pit outline. Gold sales revenue in 2010 and 2009 was US$22,607 thousand (1 per cent. of the Group's total gold sales) and US$23,678 thousand, respectively.

A substantial part of the cost of gold sales in 2010 was attributable to high amortisation and depreciation charges, including amortisation of mineral rights. The Zapadnoye mine's TCC per ounce increased to US$1,045 per ounce in 2010, partially as a result of the decline in sales volumes.

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

The Kazakhstan business unit comprises the Aksu, Bestobe, Zholymbet and Akzhal mines. The Group acquired these operations through its acquisition of a controlling stake in PGIL in August 2009, and consequently, data for 2009 relates to the period August – December only. The table below shows selected financial and operating data for this unit for the periods indicated.

	Year ended 31 December		
US$'000, unless otherwise indicated	***2011***	***2010***	***2009***
Gold sales	160,825	114,448	26,918
Segment profit/(loss)	5,773	(20,799)	(32,890)
Segment profit margin (%)	4%	–	–
TCC per ounce (US$/ounce)	653	585	542

Source: Management accounting data.

For reconciliation of segment profit/(loss) refer to Note 7 to the consolidated financial information included in "Part XII – Historical Financial Information".

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

Gold sales amounted to US$160,825 thousand in 2011, compared to US$114,448 thousand in 2010. Sales volumes amounted to 113 thousand ounces in 2011, compared to 103 thousand ounces in 2010.

Total cash costs per ounce of gold sold in 2011 amounted to US$653, compared to US$585 in 2010. In addition to the factors impacting on cash costs throughout the Group in 2011, the increase in TCC per ounce at the Kazakhstan mines was driven by the increased payroll costs and consumption of electricity due to the commissioning of new electric equipment in accordance with the approved investment programme, and additional electricity purchases required to ensure heat supply to underground shafts and plants during the cold weather conditions in January-March 2011. TCC per ounce was also negatively impacted by the suspension of the production at the Akzhal mine since May 2011 due to the delay in the state listing of gold reserves (Akzhal HL facilities were partly loaded by the ore from the Kaskabulak deposit), and a material decline in the average gold grade in the ore processed at the Aksu mine from 2.5 g/t in 2010 to 1.9 g/t in 2011. In December 2011, gold reserves of the Akzhal deposit were listed with the State Reserves Committee and operations at the mine resumed.

In 2011, the segment profit of the Kazakhstan operations amounted to US$5,773 thousand, compared to US$20,799 thousand of losses incurred in 2010. The improvement of the financial results of the business unit was the result of higher realised gold prices during the period, as well as stabilisation of production at the Kazakhstan operating subsidiaries of the Group.

In 2010, the Kazakhstan business unit produced 110 thousand ounces of gold in the form of sludge, flotation and gravitation concentrates and other semi-products. Gold sales in 2010 were 103 thousand ounces. From August to December 2009, the Kazakhstan business unit produced 30 thousand ounces and sold 31 thousand ounces of gold in the form of sludge, flotation and gravitation concentrates and other semi-products.

Gold sales revenue in 2010 was US$114,448 thousand (7 per cent. of the Group's total gold sales), compared to US$26,918 thousand for the period from August to December 2009 (data for the period from August to December 2010 is not available due to the Group's consolidation of the KazakhGold Operating Subsidiaries for the full year). The poor condition of production facilities at all three producing mines of the Kazakhstan business unit (Aksu, Bestobe and Zholymbet located in the Stepnogorsk area of the Akmola region) led to a high cost of sales, and, as a result, high TCC per ounce and low profitability levels. A large part of cost of gold sales was amortisation and depreciation of operating assets. High amortisation and depreciation charges resulted from the revaluation of fixed assets by an independent appraiser and, consequently, change in book value, useful life and depreciation methods of some operating assets.

Review of Financial Sustainability and Solvency

Analysis of statement of financial position items

The table below shows key items from the Group's consolidated statement of financial position at 31 December 2011, 2010 and 2009.

	At 31 December		
US$'000	***2011***	***2010***	***2009***[(1)]
ASSETS			
Non-current assets			
Property, plant and equipment	2,056,417	2,058,636	1,852,671
Exploration and evaluation assets	399,846	442,316	411,333
Deferred stripping costs	64,460	61,023	106,088
Inventories	207,789	201,030	40,732
Investments in securities and other financial assets	3,643	50,273	114,792
Other non-current assets[(2)]	35	1,860	5,899
Total non-current assets	**2,732,190**	**2,815,138**	**2,531,515**
Current assets			
Inventories	543,023	455,144	415,238
Investments in securities and other financial assets	63,468	177,332	312,733
Other current assets[(3)]	222,882	229,655	190,060
Cash and cash equivalents	657,448	326,905	173,360
Total current assets	**1,486,821**	**1,189,036**	**1,091,391**
TOTAL ASSETS	**4,219,011**	**4,004,174**	**3,622,906**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent company[(4)]	2,595,356	3,183,645	2,902,853
Non-controlling interests	235,317	56,886	59,874
TOTAL EQUITY	**2,830,673**	**3,240,531**	**2,962,727**
Total non-current liabilities[(5)]	**477,673**	**368,710**	**315,098**
Current liabilities			
Borrowings	675,632	173,762	173,437
Trade, other payables and accrued expenses	192,077	169,037	116,812
Taxes payable	42,956	52,134	54,832
Total current liabilities	**910,665**	**394,933**	**345,081**
TOTAL LIABILITIES	**1,388,338**	**763,643**	**660,179**
TOTAL EQUITY AND LIABILITIES	**4,219,011**	**4,004,174**	**3,622,906**

1. The comparative information for the year ended 31 December 2009 reflects adjustments made in connection with the completion of provisional accounting. See also Note 6 to the consolidated financial information included in "Part XII – Historical Financial Information".
2. Other non-current assets consist of the long-term portion of reimbursable value added tax, inventories and other non-current assets.
3. Other current assets consist of deferred stripping costs, trade and other receivables, advances paid to suppliers and prepaid expenses, and taxes receivable.
4. Equity attributable to shareholders of the parent company includes share capital, additional paid-in capital, treasury shares, investments revaluation reserve, translation reserve and retained earnings.
5. Total non-current liabilities consist of site restoration and environmental obligations, borrowings, deferred tax liabilities and other non-current liabilities.

Assets

At 31 December 2011, the Group's total assets amounted to US$4,219,011 thousand, compared to US$4,004,174 thousand at 31 December 2010. This increase of 5 per cent. resulted primarily from an increase in current assets, including current inventories and cash and cash equivalents. At 31 December 2009, the Group's total assets were US$3,622,906 thousand.

Non-current assets

Property, plant and equipment

The table below sets forth the components of the Group's property, plant and equipment at 31 December 2011, 2010 and 2009.

	At 31 December		
US$'000	***2011***	***2010***	***2009***
Mining assets	1,651,929	1,722,332	1,374,732
Non-mining assets	32,820	40,722	36,816
Capital construction-in-progress	371,668	295,582	441,123
Total property, plant and equipment	**2,056,417**	**2,058,636**	**1,852,671**

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

The Group's primary expenditures on mining assets denominated in the national currencies relate to:

- the acquisition of mining and transportation equipment at the Blagodatnoye and Olimpiada mines in the Krasnoyarsk region;
- the upgrade of the mining fleet at the alluvial deposits;
- replacement of some equipment at the Titimukhta and Kuranakh mines; and
- the modernisation of operating assets in Kazakhstan.

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

In 2011, the Group recognised an impairment charge on property, plant and equipment in the amount of US$23,501 thousand (US$635 thousand in 2010), related mainly to the reassessment of some fixed assets at the Kazakhstan business unit and suspension of the Zapadnoye mine. In 2011, the Group reassessed some property, plant and equipment at the Kazakhstan business unit. As a result, certain assets' book values and expected useful lives exceeded the anticipated recoverable values and accordingly an impairment was recorded in respect of those assets.

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

At 31 December 2011, property, plant and equipment with a carrying value of US$4,613 thousand had been pledged to a secure bank guarantee liability. At 31 December 2010, property, plant and equipment with a carrying value of US$3,620 thousand were pledged to secure borrowings and a bank guarantee liability.

In 2010, the value of property, plant and equipment increased by 11 per cent. to US$2,058,636 thousand from US$1,852,671 thousand in 2009.

In 2010, mining assets increased by 25 per cent. due to additions and transfers from capital construction-in-progress, which was primarily due to the commissioning of the Blagodatnoye mine in the Krasnoyarsk region. The closing balance of the Group's mining assets at 31 December 2010 was US$1,722,332 thousand. At 31 December 2010, mining assets included mineral rights of US$368,303 thousand. Non-mining assets increased by 11 per cent. in 2010 and amounted to US$40,722 thousand at 31 December 2010. An impairment was recorded by the Group in the amount of US$14,219 thousand at 31 December 2010, primarily as a result of ongoing operational changes and revisions of plans in the Kazakhstan business unit, where the Group has been actively reassessing its property, plant and equipment requirements, and plans for their future use.

The value of mining assets, which represent the largest group of assets in the Polyus Group, was US$1,374,732 thousand at 31 December in 2009. An increase from 2008 resulted primarily from substantial additions and transfers from capital construction-in-progress, as well as consolidation of the Kazakhstan business unit's assets as at the year end.

Exploration and evaluation assets

At 31 December 2011, exploration and evaluation assets amounted to US$399,846 thousand, a decrease of 10 per cent. as compared to 31 December 2010. The decrease was partly the result of recognition of an impairment charge and also due to the depreciation of the Rouble against the US dollar. In 2011, the Group recognised an impairment charge of US$54,708 thousand related to previously capitalised exploration and evaluation costs that had not led to the discovery of commercially viable quantities of gold resources and the subsequent decision to cease such exploration activities. Those exploration and evaluation costs had been incurred at the following exploration fields: Kuzeevskaya in the Krasnoyarsk region, Chai-Yurinskaya, Doroninskoye and Tokichan in the Magadan region, Mukodek and Illigirskaya in the Irkutsk region and Kaskabulak in the Republic of Kazakhstan. The Chai-Yurinskaya field was sold in May 2012. These decreases were partly offset by capitalisation of exploration expenses incurred in the Krasnoyarsk region at Olimpiada and Panimba, in the Republic of Sakha (Yakutia) at Nezhdaninskoye, in the Irkutsk region at Zapadnoye Medvezhiy, in the Magadan region at Degdekan and in the Amur region at Bamskoye.

At 31 December 2010, exploration and evaluation assets amounted to US$422,316 thousand, an increase of 7.5 per cent. as compared with 31 December 2009. The major part of exploration works that were implemented during 2010 were in the Krasnoyarsk region at the Poputninskoye deposit, Panimbinskaya and Razdolinskaya ore fields, in the Republic of Sakha (Yakutia) at the Nezhdaninskoye deposit and in the Irkutsk region at the Zapadnoye deposit. In addition, during the first half of 2010, exploration works were carried out at Aksu, Bestobe, Zholymbet, South Karaultube, Akzhal and Kaskabulak in the Republic of Kazakhstan.

In 2010, the Group recognised a loss on impairment of exploration and evaluation assets in the amount of US$13,584 thousand related mainly to the Krasnoyarsk and Irkutsk ore business units.

Deferred stripping costs

In accordance with its accounting policy, the Group capitalises stripping costs or charges previously capitalised stripping costs to operating costs on the basis of the average life-of-mine stripping ratio. Deferred stripping costs increased by 6 per cent. to US$64,460 thousand at 31 December 2011 from US$61,023 thousand at 31 December 2010. In 2011, the stripping ratio at Olimpiada was lower than the average life-of-mine ratio and, therefore, previously capitalised stripping costs were charged to operating costs and deferred stripping costs were also expensed at Blagodatnoye reducing this asset item. The effect of the US$/RUB exchange rate factor also reduced the amount of deferred stripping items. These reductions were partly offset by the deferral of stripping costs incurred at Titimukhta and Kuranakh.

In 2009, the Group started to expense previously capitalised deferred stripping costs, related to excessive stripping works implemented at the Krasnoyarsk business unit in order to access the sulphide ore body after the depletion of the oxide ores of Olimpiada. In 2010, the stripping ratio at the deposit was lower than the average life-of-mine stripping ratio. Consequently, in accordance with the Group's accounting policy, deferred stripping costs at Olimpiada and Blagodatnoye were expensed in 2010, which more than offset capitalisation of stripping costs at Titimukhta and Kuranakh mines. As a result, this item decreased from US$106,088 thousand at 31 December 2009 to 61,023 thousand at 31 December 2010. See "– Critical Accounting Policies".

Inventories

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

During 2010, the Group discovered that some of its existing ore stockpiles (totalling 6,637 thousand tonnes at Krasnoyarsk and 1,228 thousand tonnes at Irkutsk) were taking longer to process at its Olimpiada mine due to technological issues. See "Part VII – Information on the Group – Principal Operations – Krasnoyarsk Region – Olimpiada Deposit – Processing of ores". Consequently, the Group postponed processing part of its stockpiles while it modified its ore processing methods in order to enable improved recovery rates at the completion of the manufacturing process. Accordingly, such stockpiles were classified as long-term inventories. As a result, the closing balance of long-term inventories at 31 December 2010 was US$201,030 thousand, compared to US$40,732 thousand at 31 December 2009. See "– Critical Accounting Policies – Inventories".

From May 2009, the Group began accumulating stockpiles at the Olimpiada mine.

At the date of the Group's transition to IFRS, stockpiles (6.8 million tonnes) at the Group's Krasnoyarsk business unit were accounted for at zero cost. This was on the basis that the stockpiles were low-grade and, at that point in time, the gold price was such that the valuation of such stockpiles was negligible.

Throughout 2009 and 2010, the Group did not process any zero-value stockpile. Accordingly, the financial information for these periods has not been impacted by the production and sale of the same. During 2011, 1.2 million tonnes of this zero-value inventory has been processed, and the positive impact on the margin was estimated to have been US$28.5 million. See "Part VII – Information on the Group".

Non-current investments in securities and other financial assets

At 31 December 2010, non-current investment in securities and other financial assets consisted mostly of derivative financial assets, comprising call options to acquire all rights and obligations under convertible loan agreements between PGIL and its previous major shareholder Gold Lion, which was derecognised in 2011. Under the convertible loan agreements, the lender could convert the principal amounts together with accrued interest into ordinary shares of PGIL at the price of US$1.50 per share. These options had been obtained following the acquisition of a 50.15 per cent. stake in KazakhGold Group Limited (now PGIL) by the Group in 2009. The call options were classified as a financial asset held through profit and loss and were carried at fair value. The fair value of the instrument was determined by financial assumption with reference to PGIL's spot market price. Between 31 December 2010 and 30 June 2011 PGIL's share price declined and the fair value of the call options decreased from US$46,136 thousand at 31 December 2010 to US$37,475 thousand at 30 June 2011. At 30 June 2011 as a result of the completion of the Combination, the call options were classified as treasury shares at an amount equal to the fair value of the options at 30 June 2011 with a corresponding loss from change in fair value of the options recognised as an investment loss in the consolidated income statement.

At 31 December 2010, non-current investments in securities and other financial assets consisted mostly of derivative financial assets, comprising call options to acquire all rights and obligations under convertible loan agreements between PGIL and Gold Lion. The call options were classified as financial asset held through profit and loss and were carried at fair value. The fair value of the instrument was determined by financial assumption with reference to PGIL's spot market price. From 31 December 2010 to 30 June 2011 PGIL's share price declined and the fair value of the call options decreased from US$46,136 thousand at 31 December 2010 to US$37,475 thousand at 30 June 2011. As at 30 June 2011, as a result of reorganisation of the shareholding structure of the Group, the call options were recognised as treasury shares at an amount equal to fair value of the options at 30 June 2011. The decrease in fair value of the instrument since 31 December 2010 to 30 June 2011 was recognised as an investment loss in the consolidated income statement.

Current assets

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

At 31 December 2010, the value of the Group's current assets amounted to US$1,189,036 thousand compared to US$1,091,391 thousand at 31 December 2009. This increase of 9 per cent. resulted primarily from the reallocation of funds between cash and cash equivalents and investments in securities and other financial assets, and an increase in inventories and reimbursable VAT.

Inventories

In 2011, the Group's current inventories increased by 19 per cent. to US$543,023 thousand at 31 December 2011 from US$455,144 thousand at 31 December 2010. During 2011, metal inventories increased from US$164,855 thousand at 31 December 2010 to US$188,515 thousand at 31 December 2011. The 14 per cent. increase was largely attributable to an increase in gold-in-process at the Krasnoyarsk and Irkutsk alluvial business units. At the Krasnoyarsk business unit, the balance of doré gold remaining at the plant and refinery at 31 December 2011 amounted to 1.2 thousand ounces, as compared with 4 thousand ounces at 31 December 2010. In addition, the amount of gold under processing increased significantly at the bio-oxidation workshop of Mill No. 3 of the Olimpiada mine as a result of accumulation of gold concentrate due to re-equipment of the production flowsheet (installation of centrifugal concentrators) and repair works, which subsequently increased the processing efficiency of the mine's production facilities. Stocks of ore materially increased at Blagodatnoye and Titimukhta as a result of the ramp-up of production at these mines, and, at the Irkutsk alluvial business unit, gold-in-process also increased due to the seasonal nature of alluvial gold mining. The increase in volume of inventories was magnified by an increase in the cost of production at which metal inventories were recorded to the statement of financial position. This increase was partially offset by a decrease in stocks of unsold finished goods from US$19,523 thousand at 31 December 2010 to US$24,757 thousand at 31 December 2011 and the impact of the depreciation of the Russian rouble relative to the US dollar. The stocks of finished goods at the reporting date were attributable mainly to the Kazakhstan business unit. Stores and materials increased by 22 per cent. to US$354,508 thousand during 2011, which was mainly related to the Krasnoyarsk business unit, where stores of diesel oil were accumulated for the winter period and spare parts for ore mining and processing equipment were procured for the purpose of repair and maintenance works. Additional materials were acquired for the needs of construction and commissioning of the Verninskoye mine. The change in value of stores and materials in the period under review was also affected by the rising prices for diesel oil, sodium cyanide and other chemicals.

In 2010, the Group's current inventories increased by 10 per cent. to US$455,144 thousand at 31 December 2010 from US$415,238 thousand at 31 December 2009. In 2010, the value of gold-in-process decreased by 28 per cent. to US$145,332 thousand at 31 December 2010. In 2010, some gold-in-process at the Krasnoyarsk and Irkutsk business units was reclassified from short-term to long-term inventories. The effect of this reclassification was partly offset by an increase in gold-in-process at the newly commissioned Blagodatnoye mine, at the Yakutia (Kuranakh) and Kazakhstan business units and an increase in the net production cost at which the gold stock is reflected in the statement of financial position. The value of refined gold increased by 34 per cent. from US$14,609 thousand at 31 December 2009 to US$19,523 thousand at 31 December 2010. This increase was driven by an increased production cost of gold throughout the Group. At 31 December 2010, the residual balance of refined gold produced, but not sold during the year, amounted to 28 thousand ounces, including gold contained in semi-products produced by the Kazakhstan business unit. In 2010, stores and materials increased by 47 per cent. to US$290,289 thousand, due to growing material requirements relating to the Blagodatnoye mine commissioning, the increase of operations at Titimukhta, modernisation at Olimpiada, and also refurbishment works at the Kazakhstan mines. The growth of purchase prices for materials and spare parts also contributed to the increase in the value of the item in 2010.

Investments in securities and other financial assets

Investments in securities and other financial assets comprise available-for-sale equity investments, bank deposits and equity investments in listed companies held for trading. Movements in investments and other financial assets during the years ended 31 December 2011, 2010 and 2009 are presented in the table below.

	Year ended 31 December		
US$'000	***2011***	***2010***	***2009***
Available-for-sale investments	34,744	99,721	202,161
Equity investments in listed companies held for trading	14,857	36,730	39,199
Bank deposits	12,175	39,351	70,158
Promissory Notes	–	–	–
Other	1,692	1,530	1,215
Total investments in securities and other financial assets	**63,468**	**177,332**	**312,733**

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

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

At 31 December 2010, short-term investments in securities and other financial assets declined by 43 per cent. to US$177,332 thousand at 31 December 2010 from US$312,733 thousand at 31 December 2009. During 2010, the Group disposed of 63 per cent. of available-for-sale investments for US$137,000 thousand with a gain of US$20,289 thousand, which was reflected in the consolidated income statement. In 2010, the fair value of available-for-sale investments grew by US$33,340 thousand. This increase, net of gain on disposal of available-for-sale investments, was recognised directly in equity within the investment revaluation reserve. During 2010, the Group disposed of US$12,365 thousand of investments in listed companies held for trading. By the end of the year, the value of held for trading investments increased by US$11,446 thousand, which was recognised as an investment income. In 2010, the Group withdrew cash from bank deposits classified as short-term investments in the total amount of US$30,807 thousand. The released funds were partly reallocated to current bank accounts and partly used in investing and operating activity. The remaining RUB-denominated bank deposits are held at Rosselhozbank, VTB, Rosbank and Sberbank and bear annual interest rates of 3.45 per cent. to 6.5 per cent.

Cash and cash equivalents

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

At 31 December 2010, the balance of cash and cash equivalents was US$326,905 thousand, an increase of 89 per cent. as compared with 31 December 2009. The source of the increase in cash was operating cash inflow during the period, as well as cash withdrawn from short-term investments.

Equity and liabilities

Capital and reserves

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

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

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

In 2011, the Group's retained earnings decreased by 21 per cent. to US$1,424,516 thousand. The decrease was primarily attributable to the effect of reorganisation (US$417,460 thousand) and dividends accrued in respect of 2010 results (US$72,327 thousand), which offset the net profit attributable to shareholders of the Group of US$468,998 thousand.

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

Due to the Combination, non-controlling interests increased by US$417,460 thousand, reflecting non-controlling interests in OJSC Polyus Gold, which became PGIL's subsidiary. As a result of the acquisition of a 2.36 per cent. stake in OJSC Polyus Gold by Jenington in July-August 2011 and a 3.81 per cent. stake in OJSC Polyus Gold by PGIL through the Mandatory Tender Offer completed in December 2011, non-controlling interests decreased by US$223,480 thousand. Other changes of non-controlling interests included total comprehensive income for the period attributable to non-controlling interests in the amount of US$42,531 thousand and dividends declared to shareholders of non-controlling interests by the Irkutsk alluvial business unit in the amount of US$15,558 thousand.

At 31 December 2010, capital and reserves were US$3,240,531 thousand, as compared to US$2,962,727 thousand at 31 December 2009. The increase resulted mainly from growth in retained earnings and investment revaluation reserve, which was partly offset by an increase in translation reserve. In 2010, the Group's retained earnings increased by US$295,993 thousand, reflecting a net profit attributable to the parent company OJSC Polyus Gold of US$367,313 thousand and an increase of ownership in subsidiaries of US$33,023 thousand, resulting from the Group's participation in PGIL's equity placement, less dividends accrued in respect of results for 2009 and the first half of 2010 in the amount of US$104,343 thousand. The investment revaluation reserve increased by US$13,051 thousand in 2010 to US$30,556 thousand at 31 December 2010 due to the increase in fair value of available-for-sale investments. As a result of currency exchange rate movements, the translation reserve increased by US$28,252 thousand in 2010 and, at 31 December 2010, amounted to US$119,736 thousand.

Non-current liabilities

Non-current liabilities include long-term borrowings, deferred tax liabilities and environmental obligations. Movements in non-current liabilities during the years ended 31 December 2011, 2010 and 2009 are presented in the table below.

	Year ended 31 December		
US$'000	***2011***	***2010***	***2009***
Site restoration and environmental obligations	149,876	136,410	90,518
Borrowings	123,048	29,686	26,394
Deferred tax liabilities	180,741	182,948	182,660
Other non-current liabilities	24,008	19,666	15,526
Total non-current liabilities	**477,673**	**368,710**	**315,098**

In 2011, non-current liabilities increased by 30 per cent. to US$477,673 thousand at 31 December 2011 from US$368,710 thousand at 31 December 2010. Site restoration and environmental obligations increased by 10 per cent. and at 31 December 2011 amounted to US$149,876 thousand. The increase resulted from the change of the discount and inflation rates applied for the estimation of the obligations and unwinding of the discount on obligations, which was partly offset by the effect of the RUB depreciation.

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

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

In 2010, non-current liabilities increased by 17 per cent. to US$368,710 thousand from US$315,098 thousand, mainly due to environmental obligations and other non-current liabilities. At 31 December 2010, environmental obligations totalled US$136,410 thousand, an increase of 51 per cent. as compared with 31 December 2009. The increase was mainly due to the commissioning of Blagodatnoye mine in July 2010, a re-estimation of decommissioning and provision for land restoration as a result of changes in the applied discount and inflation rates. Deferred tax liabilities at 31 December 2010 were US$182,948 thousand. During 2010, US$1,348 thousand were recognised through the income statement for such period. In addition, in 2010 the Group accrued employee benefit obligations in the amount of US$15,208 thousand. In previous years, the obligation was not considered material and therefore no provision was made. Other non-current liabilities at 31 December 2010 included liabilities for bank guarantees and for historical costs liability assumed upon the acquisition of the KazakhGold Group and its consolidation with the Group's financial statements. The bank guarantee liability was incurred by a PGIL subsidiary, Kazakhaltyn. Under the contractual arrangement, Kazakhaltyn guaranteed a credit facility to mature on 4 April 2013 of US$15,000 thousand provided by JSC Kazkommertsbank ("**KKB**") to Akir Group LLP ("**Akir Group**"). Funds received from the credit facility were used by the Akir Group to acquire mining and other equipment which was subsequently leased to Kazakhaltyn under finance lease agreements entered into during 2006–2007. In 2009, the Akir Group defaulted on the loan agreement with KKB. As a result, at 31 December 2009, the Group fully provided for potential losses related to the bank guarantee liability in the amount of US$11,014 thousand (full amount of US$13,249 thousand less US$2,235 thousand representing the current portion of this amount). During 2010, the Group repaid US$4,718 thousand of its obligations on the guarantee. As a result, the bank guarantee liability decreased to US$6,296 thousand (including an amount of US$5,996 thousand related to interests on the bank guarantee which was presented within current liabilities) as at 31 December 2010.

Current liabilities

Current liabilities include short-term borrowings, trade and other payables and accrued expenses and taxes payable.

	At 31 December		
US$'000	***2011***	***2010***	***2009***
Borrowings	675,632	173,762	173,437
Trade, other payables and accrued expenses	192,077	169,037	116,812
Taxes payable	42,956	52,134	54,832
Total	**910,665**	**394,933**	**345,081**

Current liabilities increased by 131 per cent. to US$910,665 thousand at 31 December 2011 from US$394,933 thousand at 31 December 2010, primarily due to an increase in borrowings incurred to fund the acquisition of OJSC Polyus Gold Shares in the Mandatory Tender Offer (see "– Capital Resources – Borrowings in connection with the Mandatory Tender Offer"). At 31 December 2010 the liability under the Senior Notes valued at US$173,762 thousand comprised the largest part of the Group's current liabilities. In November 2006, PGIL (formerly KazakhGold) issued the Senior Notes, with the principal due on 6 November 2013. The Senior Notes were unconditionally and irrevocably guaranteed by Kazakhaltyn, a wholly owned subsidiary of the Company, and its subsidiaries. Following the acquisition of PGIL (formerly KazakhGold) by Jenington, PGIL became an additional limited liability guarantor of the Senior Notes. PGIL was obliged to comply with a number of covenants in respect of the Senior Notes, including limitations on additional indebtedness, financial reporting timelines and certain other financial covenants. At 31 December 2011, 2010 and 2009, PGIL (formerly KazakhGold) was not in compliance with all required covenants and did not receive the waiver from noteholders; as a result the Senior Notes were reclassified as a current liability. The Senior Notes were held at amortised cost and were carried at US$204,502 thousand at 31 December 2011 (US$173,762 thousand at 31 December 2010). On 17 November 2011, PGIL notified the Trustee for the Senior Notes that the entry into the US$100 million loan by its subsidiary OJSC Pervenets with Société Générale, guaranteed by CJSC Polyus, did not comply with the indebtedness limitations and restrictions on affiliate transactions under the terms of the Senior Notes. It further notified the Trustee that it has not published interim financial statements for the first six months of 2011 within the time period required by the terms of the Senior Notes. In July 2011 the Group completed a consent solicitation for the Senior Notes with respect to, among other things, consent relating to the combination of the Polyus Russia Group with the KazakhGold Group, and paid a consent fee of US$3.4 million. As part of the consent fee the interest of the Senior Notes increased from 9.375 per cent. to 9.875 per cent. from 6 November 2011. PGIL redeemed 100 per cent. of the Senior Notes, ahead of their stated maturity, at a redemption price equal to 102.344 per cent. of the principal amount of the Senior Notes on 15 March 2012. The Company funded the redemption from the proceeds of the Senior Notes Facilities. See also "– Recent Developments – Redemption of the Senior Notes".

Trade, other payables and accrued expenses increased by 14 per cent. to US$192,077 thousand at 31 December 2011 from US$169,037 thousand at 31 December 2010, primarily as a result of the increase in wages and salaries payable, the outstanding balances of which related mainly to the Krasnoyarsk business unit and alluvial enterprises, and trade payables. Trade payables increased primarily at the Krasnoyarsk business unit for the delivery of diesel oil and at the Irkutsk alluvial business unit for the supply of materials and spares and payments due under contracts for outsourced mining services. The cost of supplies was also affected by the growth of purchase prices for fuel, materials and spares. In 2011, taxes payable decreased by 18 per cent. to US$42,956 thousand at 31 December 2011 from US$52,134 thousand at 31 December 2010. This decrease was driven by the reduction in income tax payable, which was partly offset by an increase in social taxes, tax on mining and VAT payables.

Current liabilities increased by 14 per cent. to US$394,933 thousand at 31 December 2010 from US$345,081 thousand at 31 December 2009. Current liabilities at 31 December 2010 included the fair value of the liability under the Senior Notes of US$173,762 thousand. Short-term bank loans obtained by Kazakhaltyn that were reflected on the Group's balance sheet as at 31 December 2009, were repaid during 2010. In 2010, trade, other payables and accrued expenses increased to US$169,037 thousand at 31 December 2010 from US$116,812 thousand at 31 December 2009. This increase resulted primarily from the increase in trade payables at the Krasnoyarsk and Irkutsk ore business units (Verninskoye mine), relating to the purchase of equipment and materials for construction needs, and reclassification of interest on bank guarantee amounts of US$5,996 thousand from non-current liabilities. The increase in wages and salaries payable was due to the increased regular annual bonus accrual. As at 31 December 2010, income tax payable amounted to US$22,698 thousand, compared to US$2,609 thousand as at 31 December 2009. Income tax for the fourth quarter is payable in advance based on the profit before income tax generated in the third quarter of the year. The final liability is settled quarterly. In the fourth quarter of 2010, the Group's profit before tax was higher than in the third quarter, and, therefore, at the reporting date the Group had accrued a significant income tax liability. Other taxes payable reduced to US$29,436 thousand at 31 December 2010 from US$43,623 thousand at 31 December 2009 primarily as a result of settlement of VAT obligations at PGIL.

Capital resources

Historically, the Group has relied on cash provided by operations to finance its working capital requirements and capital investment programme. The Group intends to finance its future capital investment programme primarily with cash flows from operations, as well as debt and equity financing. Since 100 per cent. of the Group's consolidated operating cash flows in 2011 was generated by the Group's operations in Russia, the Directors do not expect that the planned sale of the Kazakhstan Operating Subsidiaries will have a material impact on its cash flows or capital resources.

A summary of the Group's principal outstanding borrowings at 31 March 2012 is set out below.

Pervenets Facility

In October 2011, OJSC Pervenets entered into a facility with Société Générale for a loan in the amount of US$100 million for general corporate purposes, including repayment of intra-group loan to CJSC Polyus and capital expenditures, repayable before October 2014 ("**Pervenets Facility**"). OJSC Pervenets obligations under the Pervenets Facility are guaranteed by CJSC Polyus. OJSC Pervenets utilised the Pervenets facility in full by the end of 2011. See "Part XVII – Additional Information – Material Contracts – Pervenets Facility".

Ex-Im Bank Facility

In October 2011, CJSC Polyus entered into a facility with Société Générale for a loan in the amount of up US$67,502.5 thousand with a maximum disbursement amount of US$10 million ("**Ex-Im Bank Facility**"). The Ex-Im Bank Facility is provided for the purpose of financing and refinancing of the acquisition of equipment and machinery manufactured in the United States. The Ex-Im Bank Facility is guaranteed by Export-Import Bank of the United States. As of the date of this Prospectus, no drawings have been made under the Ex-Im Bank Facility. See "Part XVII – Additional Information – Material Contracts – Ex-Im Bank Facility".

Borrowings in connection with the Mandatory Tender Offer

On 30 August 2011, PGIL commenced a mandatory tender offer to purchase ordinary shares of OJSC Polyus Gold for cash at an offer price of 1,900.27 Russian roubles per share from the remaining minority shareholders of OJSC Polyus Gold following the Combination. The mandatory tender offer expired on 8 November 2011, with 7,370,311 shares, representing 3.87 per cent. of the issued and outstanding shares of OJSC Polyus Gold, being validly tendered pursuant to the mandatory tender offer. In accordance with the terms of the mandatory tender offer, 7,263,644 shares, representing 3.81 per cent. of the issued and outstanding shares of OJSC Polyus Gold, were validly transferred to PGIL as required under Russian law, PGIL paid RUB 13,803 million to complete the settlements under the mandatory tender offer. The Group funded the purchase of shares tendered under the mandatory tender offer with US$230 million borrowed under the VTB Bank Bridge Facility and US$230 million borrowed under the Société Générale Bridge Facility. The Bridge Facilities were repaid in full using the proceeds of the private placement of Shares and GDRs to Chengdong and VTB Bank on 18 May 2012. See "Part XVII – Additional Information – Material Contracts – Private Placement Agreements".

Senior Notes Facilities

On 15 March 2012, the Company voluntarily redeemed the Senior Notes in accordance with the terms of the Senior Notes. The Company funded the redemption from the proceeds of the Senior Notes Facilities. PGIL's obligations under the Senior Notes Facilities are guaranteed by CJSC Polyus. PGIL utilised the Senior Notes Facilities in full to fund the redemption of the Senior Notes. The Senior Notes Facilities are summarised below.

Unicredit Facility

On 29 December 2011, the Company entered into a facility with ZAO Unicredit Bank as arranger, agent and original lender for a loan in the amount of US$100 million for general corporate purposes and/or repayment of outstanding indebtedness under the Senior Notes (the "**Unicredit Facility**"). The Unicredit Facility is repayable on or before 29 December 2013. The Company's obligations under the Unicredit Facility are guaranteed by CJSC Polyus. The Company, CJSC Polyus and certain companies of the Group are subject to limitations on creating security, disposals, loans and guarantees, and also subject to financial covenants requiring that the Group ratio of Net Indebtedness (as this and following terms are defined in the Unicredit Facility) to EBITDA not exceed 3:1, ratio of EBITDA to Interest Expenses be not less than 5:1 and ratio of Net Indebtedness to Tangible Net Worth not exceed 1:1.

HSBC Facility

On 10 February 2012, the Company entered into a facility with HSBC Bank PLC for a loan in the amount of US$100 million for general corporate purposes (the "**HSBC Facility**"). The loan is repayable by five equal instalments, the first instalment to be paid on the last day of the 24th month following the first drawdown and the last instalment to be paid on the date falling 36 months from the first drawdown. The first drawdown occurred on 7 March 2012, the last instalment being payable on 7 March 2015. The Company's obligations under the HSBC Facility are guaranteed by CJSC Polyus. The Company, CJSC Polyus and certain companies of the Group are subject to limitations on creating security and disposals, and also subject to financial covenants requiring that the Group ratio of Consolidated Total Net Debt (as this and following terms are defined in the HSBC Facility) to Consolidated EBITDA be equal or less than 3 and the ratio of Consolidated EBITDA to Consolidated Net Finance Charges be equal or exceeds 2.5.

See also "– Recent Developments – Redemption of Senior Notes", "– Recent Developments – VTB Facility" and "– Recent Developments – Private Placement of Shares and GDRs".

As at 31 March 2012, the Group had cash and cash equivalents of US$744 thousand and borrowings of US$793 thousand.

Cash flow analysis

The following table sets forth the main components of the Group's consolidated cash flow statement for the years ended 31 December 2011, 2010 and 2009.

US$'000	Year ended 31 December 2011	2010	2009[1]
Operating activities:			
Profit before income tax	765,067	516,481	260,301
Adjustments[2]	391,849	283,865	366,132
Operating profit before working capital movements	**1,156,916**	**800,346**	**626,433**
Movements in working capital	(137,345)	(243,488)	(172,706)
Cash flows generated from operations	**1,019,571**	**556,858**	**453,727**
Interest paid	(23,423)	(23,213)	(10,795)
Income tax paid	(230,743)	(88,338)	(99,832)
Net cash from operating activities	**765,405**	**445,307**	**343,100**
Investing activities:			
Capital expenditures, acquisition of subsidiaries and deferred stripping costs[3]	(359,396)	(359,424)	(495,990)
Other investments spending/proceeds[4]	99,033	188,310	(20,075)
Net cash utilized in investing activities	**(260,363)**	**(171,114)**	**(516,065)**
Financing activities:			
Net cash utilised in financing activities	**(134,958)**	**(110,983)**	**(56,698)**
Net increase/(decrease) in cash and cash equivalents	**370,084**	**163,210**	**(229,663)**
Effect of foreign exchange rates on cash and cash equivalents	(39,541)	(9,665)	4,197
Cash and cash equivalents at beginning of the year	326,905	173,360	398,826
Cash and cash equivalents at end of the year	**657,448**	**326,905**	**173,360**

1. The comparative information for the year ended 31 December 2009 reflects adjustments made in connection with the completion of provisional accounting. Refer to Note 6 to the consolidated financial information included in "Part XII – Historical Financial Information".
2. Adjustments for non-cash items include: amortisation and depreciation, finance costs, expensed stripping costs, impairment of inventories, impairment of exploration and evaluation assets, impairment of property, plant and equipment, loss on disposal of property, plant and equipment, change in allowance for reimbursable value added tax, loss/(income) from investments, change in allowance for doubtful debts, foreign exchange loss/(gain), net, goodwill impairment and other items.
3. Capital expenditures, acquisition of subsidiaries and deferred stripping costs include acquisition of subsidiary (net of cash acquired), purchases of property, plant and equipment, payments for capitalised deferred stripping costs, proceeds on sales of property, plant and equipment.
4. Other investments spending/proceeds include interest received, purchases of investments in securities and other financial assets and proceeds on sales of investments in securities and other financial assets.

Operating activities

In 2011, the Group generated profit before income tax in the amount of US$765,067 thousand, compared to US$516,481 thousand in 2010. The increase in profit before income tax resulted from a combination of the higher realised gold prices and increased gold sales volumes. Operating profit before working capital changes was US$1,156,916 thousand, an increase of 45 per cent. as compared with 2010. In 2011, movements in working capital were substantially lower than in 2010, when the Group recorded a material increase in reimbursable VAT and inventories, particularly at the Krasnoyarsk business unit as a result of technical problems associated with the processing of sulphide ores at the Olimpiada mine. Net cash generated from operating activities increased from US$445,307 thousand in 2010 to US$765,404 thousand in 2011.

In 2010, the Group generated profit before income tax in the amount of US$516,481 thousand, compared to US$260,301 thousand in 2009. Operating profit before working capital changes amounted to US$800,346 thousand, which was 28 per cent. more than in 2009. In 2010, working capital changes were US$243,488 thousand, 41 per cent. higher than in 2009, and were impacted primarily by an increase in inventories, particularly at the Krasnoyarsk business unit as a result of technical problems associated with the processing of sulphide ores at the Olimpiada mine. In 2010, net cash from operating activities increased by US$102,207 thousand as compared with 2009 to US$445,307 thousand.

Investing activities

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

In 2010, the Group used US$171,114 thousand in investing activities, as compared to US$516,065 thousand in 2009. In 2010, the major investment spending was capital expenditures and deferred stripping costs totalling US$359,424 thousand. In addition, in 2010 the Group deposited cash in the amount of US$64,996 thousand in bank accounts, which was presented as acquisition of financial assets. This outflow was offset by the proceeds from disposal of financial assets in the amount of US$244,955 thousand and US$8,351 thousand of interest income.

Financing activities

Cash outflow from financing activities in 2011 totalled US$134,958 thousand, as compared to cash outflow of US$110,983 thousand in 2010. Cash expended on acquisition of subsidiary's shares totalled US$588,816 thousand. These funds were used for the acquisition of 4.9 million OJSC Polyus Gold ADRs by Jenington in August 2011 and 7.3 million OJSC Polyus Gold ordinary shares by PGIL in the Mandatory Tender Offer in November – December 2011, representing approximately 1.3 per cent. and 3.81 per cent. of the total issued share capital of OJSC Polyus Gold, respectively. These cash outflows were strongly offset by proceeds from borrowings totalling US$560,000 thousand, which included US$460,000 thousand drawn under the Bridge Facilities provided to the Group by VTB Bank and Société Générale to finance the acquisition of shares of OJSC Polyus Gold under the Mandatory Tender Offer and a US$100,000 thousand loan provided to OJSC Pervenets (Irkutsk alluvial business unit) by Société Générale in October 2011.

Financial expenditures in 2011 also included payment of dividends to shareholders of OJSC Polyus Gold for the second half of 2010 in the amount of US$73,191 thousand (US$104,801 thousand in 2010) and dividends paid to non-controlling shareholders by OJSC Polyus Gold for the nine months ended 30 September 2011 and the Irkutsk alluvial business unit in the total sum of US$26,225 thousand (US$12,226 thousand in 2010).

Cash outflow from financing activities in 2010 totalled US$110,983 thousand, as compared to US$56,698 thousand in 2009. The main cash outflows included dividend payments to OJSC Polyus Gold shareholders in respect of 2009 and the first half of 2010. Cash outflows also included the payment of dividends to minority shareholders by OJSC Lenzoloto (Irkutsk alluvial business unit) in the amount of US$12,226 thousand and repayment of borrowings by the KazakhGold Group for the total sum of US$10,944 thousand. These outflows were partly offset by proceeds from the US$100 million equity placing by the KazakhGold Group amounting to US$21,955 thousand, which were reflected in the Group's consolidated cash flow statement net of costs incurred by Jenington in its participation in such placing.

Capital expenditures, acquisitions of subsidiaries and deferred stripping costs

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

The following table shows the Group's capital expenditures, acquisition of subsidiaries and deferred stripping costs for the years ended 31 December 2011, 2010 and 2009.

US$'000	*Year ended 31 December*		
	2011	***2010***	***2009***
Purchases of property, plant and equipment	343,037	350,327	302,405
Proceeds on sales of property, plant and equipment	(1,911)	(643)	(1,270)
Net capital expenditures	**341,126**	**349,684**	**301,135**
Acquisition of subsidiary, net of cash acquired, and increase of ownership in subsidiaries	588,816	–	182,247
Acquisition of subsidiary, net of cash acquired	**588,816**	**–**	**182,247**
Payments for capitalised deferred stripping costs	18,270	9,740	12,608
Total capital expenditures, acquisition of subsidiaries and deferred stripping costs	**948,212**	**359,424**	**495,990**

In 2011, the Group's total capital expenditures, acquisition of subsidiaries' shares and deferred stripping costs amounted to US$359,396 thousand, which was approximately at the level of 2010. Net cash outflow on acquisition of property, plant and equipment amounted to US$341,126 thousand in 2011, as compared to US$349,684 thousand in 2010. The capital expenditure funds were mainly invested in the construction of the Verninskoye mine, continuing development of Blagodatnoye, the modernisation of production facilities at Olimpiada and the upgrade of alluvial mining equipment and operating assets in Kazakhstan. In 2011, the Group capitalised stripping costs incurred at the Titimukhta and Kuranakh mines totalling US$18,270 thousand, as compared to US$9,740 thousand in 2010.

In 2010, capital expenditures, acquisition of subsidiaries and deferred stripping costs totalled US$359,424 thousand, as compared to US$495,990 thousand in 2009. The Group expended US$349,684 thousand on property, plant and equipment in 2010, including equipment for mills under construction, mining and construction equipment and rolled metal products. The major part of investments was allocated to the construction of the Blagodatnoye and Verninskoye mines, the modernisation of production facilities at Olimpiada aimed at increasing the mine's operating efficiency following its transition to refractory sulphide ores processing and the upgrading the Kazakhstan business unit assets.

In 2010, the Group capitalised stripping costs in the amount of US$9,740 thousand, relating to Titimukhta and Kuranakh mines, as compared to US$12,608 thousand in 2009.

Contingent Liabilities

Capital commitments

The Group's contracted capital commitments as at 31 December 2011 amounted to US$107,019 thousand (31 December 2010: US$24,304 thousand, 2009: US$20,946 thousand).

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through 2058.

Future minimum lease payments due under non-cancellable operating lease agreements at 31 December 2011 were as follows.

	US$'000
Due within one year	4,275
From one to five years	7,629
Thereafter	17,199
Total	**29,103**

Recent Developments

Mandatory Tender Offer

On 30 August 2011, PGIL commenced a mandatory tender offer to purchase for cash from the remaining minority shareholders of OJSC Polyus Gold ordinary shares of OJSC Polyus Gold, comprising in total 20.7 million shares and representing approximately 8.5 per cent. of the total issued share capital of OJSC Polyus Gold. PGIL was required to make the offer under the Russian Joint Stock Companies Law since it had acquired a stake of more than 30 per cent. in OJSC Polyus Gold as a result of the Combination. The offer price was 1,900.27 Russian roubles per ordinary share of OJSC Polyus Gold. The offer period of the mandatory tender offer expired on 8 November 2011, with 7,370,311 shares, representing approximately 3.87 per cent. of the issued and outstanding shares of OJSC Polyus Gold, being validly tendered pursuant to the mandatory tender offer. In accordance with the terms of the mandatory tender offer, 7,263,644 shares representing 3.81 per cent. were validly transferred to PGIL as required under Russian law, PGIL paid RUB 13,803 million to complete the settlements under the mandatory tender offer. The Group funded the purchase of the shares tendered under the mandatory tender offer with US$230 million principal amount borrowed under the VTB Bank Bridge Facility and US$230 million principal amount borrowed under the Société Générale Bridge Facility. See "– Bridge Facilities" and "Part XVII – Additional Information – Material Contracts – The Combination – Bridge Facilities".

Bridge Facilities

In September 2011, PGIL entered into separate bridge facilities with VTB Bank and Société Générale for loans in the amount of US$300 million and US$500 million, respectively, to provide a source of funds for the acquisition of shares of OJSC Polyus Gold under the mandatory tender offer. PGIL borrowed US$460 million under the Bridge Facilities to fund payments under the mandatory tender offer. On 15 February 2012, the VTB Bridge Facility was amended to reduce the aggregate facility amount to US$230 million. PGIL repaid the amounts borrowed under the Bridge Facilities with the proceeds of the private placement of Shares and GDRs to Chengdong and VTB Bank in May 2012. See "– Recent Developments – Private Placement of Shares and GDRs" and "Part XVII – Additional Information – Material Contracts – Bridge Facilities".

Redemption of the Senior Notes

PGIL voluntarily redeemed 100 per cent. of the Senior Notes, in accordance with the terms of the Senior Notes, on 15 March 2012 ahead of their stated maturity, at a redemption price equal to 102.344 per cent. of the principal amount of the Senior Notes, together with accrued and unpaid interest (at 9.875 per cent. per annum from 6 November 2011). The cost of the redemption of the Senior Notes (including the redemption value of the Senior Notes, the interest accrued and the Trustee fees) exceeded US$211 million. US$200 million of the redemption costs were funded from the proceeds of the Senior Notes Facilities, with the balance provided from existing cash resources of the Company. See also "Part XVII – Additional Information – Material Contracts – Senior Notes Facilities".

VTB Facility

On 27 March 2012, CJSC Polyus entered into a facility agreement with VTB Bank for a loan facility in an amount of up to RUB 10 billion (the "**VTB Facility**") for general corporate purposes of CJSC Polyus, including the modernisation of its production units and construction works, making loans to members of the

Group (other than for the purposes of any of their indebtedness), repayment of indebtedness of CJSC Polyus, the purchase or buy-back of shares of members of the Group or for equity injections in any member of the Group. The availability period is 1065 days from the date of the signing of the VTB Facility. The minimum drawdown amount for a loan is RUB 150 million (or its equivalent in US dollars or euros, calculated in accordance with the terms of the VTB Facility). Loans under the VTB facility are repayable in accordance with, and as specified in, the applicable drawdown request within anywhere between 60 and 730 days and all outstanding loans under the VTB Facility are repayable on the date falling 1095 days (3 years) of its signing date. CJSC Polyus and certain companies of the Group (including the Company) are subject to limitations on creating security, disposals, loans and guarantees, and also subject to financial covenants requiring that the Group ratio of Net Indebtedness (as this and following terms are defined in the VTB Facility) to EBITDA not exceed 3:1 and that the Group ratio of EBTIDA to Net Finance Charges not exceed 4:1.

Private Placement of Shares and GDRs

On 10 May 2012, the Group's indirect subsidiary, Jenington, completed the sale, in privately negotiated transactions, of 151,607,496 Shares 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 to VTB Bank. The purchase price for the Shares was US$2.80 per Share and GDR and resulted in aggregate gross proceeds received from the two transactions equal to US$635.5 million. The proceeds were used to repay US$230 million principal amount borrowed under the VTB Bank Bridge Facility and US$230 million principal amount borrowed under the Societe Generale Bridge Facility used to fund the purchase of the OJSC Polyus Gold shares acquired in the mandatory tender offer announced on 30 August 2011 in connection with the Combination, with the remainder to be used to fund the Group's development projects at the Verninskoye and Natalka deposits. See "Part XVII – Additional Information – Material Contracts – Private Placement Agreements".

Sale of subsidiaries in Kazakhstan and Kyrgyzstan

On 8 June 2012, the Group entered into conditional agreements with AGH with respect to the sale of the KazakhGold Operating Subsidiaries and the novation of certain loan agreements between Kazakhaltyn and Jenington to AGH for a total consideration of US$385 million. The combined carrying value of the loan agreements and the Group's interest in the net assets to be disposed of is approximately US$310 million. The agreement is conditional among other things upon receipt of confirmation from AGH by 30 July 2012 that it has sufficient funds to complete the sale agreement, relevant approvals from the Kazakhstan government and the entry into a renewed letter of credit for an amount of approximately US$59 million. See "Part XVII – Additional Information – Material Contracts" for a summary of the agreements relating to the sale of the KazahGold Operating Subsidiaries.

Critical Accounting Policies

The preparation of the Group's consolidated financial statements requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end, and the reported amount of revenues and expenses during the year. The Directors believe that the following are the most important judgements and estimates used in the preparation of the financial statements.

Property, plant and equipment

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, including the acquisition of rights to explore potentially mineralised areas, studies, exploratory drilling, trenching, sampling and other activities in relation to evaluating the technical feasibility and commercial viability of extracting gold resource.

Exploration and evaluation expenditures are capitalised when it is expected that they will be recouped by future exploitation or sale, and when the exploration and evaluation activities have not reached a stage that permits a reasonable assessment of the existence of commercially recoverable gold reserves. When the technical feasibility and commercial viability of extracting a gold resource are demonstrable, capitalised exploration and evaluation assets are reclassified to mining assets. In determining whether the expenditures which are capitalised as exploration and evaluation assets will be recouped by future exploitation or sale, management estimates the possibility of finding recoverable ore reserves related to a particular area of interest. However, these estimates are subject to significant uncertainties. See "Part II – Risk Factors – Risks Associated with the Group's Business and the Gold Mining Industry – The volume and grade of the ore the Group recovers may not conform to current expectations".

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 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.

Mining assets

Mining assets comprised 80 per cent. of total property, plant and equipment as at 31 December 2011. Mining assets are recorded at cost less accumulated amortisation. Mining assets include the cost of acquiring and developing mining properties, pre-production expenditure, mine infrastructure, mineral rights and mining and exploration licences and the present value of future decommissioning costs.

Amortisation is charged on mining assets from the date a new mine reaches commercial production quantities and is included in the cost of production. Although it is more common in the mining industry to amortise mining assets using the unit of production method, the Group amortises its mining assets on a straight-line basis over the lesser of the estimated economic useful life of the asset and the life of mines, which is based on estimated proven and probable ore reserves and ranges from 7 to 23 years. For accounting purposes, the estimated economic useful life of the Group's operating mines is based on mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code. The economic useful lives in accordance with the Russian Resource Reporting Code may vary compared to the economic useful lives under the JORC Code. When determining the life of a mine, management is required to rely on various assumptions which may change if new information becomes available. The factors that could affect the estimation of life of mine include the following:

- change of estimates of proven and probable ore reserves;
- the grade of mineral reserves varying significantly from time to time;
- differences between actual commodity prices and commodity price assumptions used in the estimation of ore reserves;
- unforeseen operational issues at mine sites; and
- changes in capital, operating mining, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of ore reserves.

Any of these changes could affect the amortisation of mining assets in future reporting periods and their carrying value.

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

Management periodically reviews the appropriateness of assets' useful economic lives based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Amortisation or depreciation of these assets commences when the assets are placed into commercial production.

Deferred stripping costs

The Group accounts for stripping costs incurred using the average life of mine stripping ratio. The method assumes that stripping costs incurred during the production phase to remove waste ore are deferred and charged to operating costs on the basis of the average life of mine stripping ratio. For accounting purposes, the estimated economic useful life of the Group's operating mines is based on mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code. The economic useful lives in accordance with the Russian Resource Reporting Code may vary compared to the economic useful lives under the JORC Code. The average stripping ratio is calculated as the number of cubic meters of waste material removed per ton of ore mined based on proven and probable reserves. The average life of mine ratio is revised annually or when circumstances change in the mine's pit design or in the technical or economic parameters impacting the reserves. Changes to the life of mine ratio are accounted for prospectively as changes in accounting estimates.

If the current period stripping ratio exceeds the expected life of mine ratio, stripping costs incurred in such period are deferred and capitalised. To the extent that, in subsequent periods, the current stripping ratio is less than the life of mine ratio, such deferred costs are then included in cost of gold sales. Deferred stripping costs that have been capitalised are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable, including as a result of change of estimates of proven and probable ore reserves; changes in mining plans and changes in the expected life of mine ratio.

Deferred expenditures

Certain of the Group's alluvial mining operations are located in regions with extreme weather conditions, and gold at these locations can only be mined from May to October. Costs incurred in preparation for future seasons, including excavation costs and mine specific administration costs, are deferred and are expensed when the specific mine is in operation.

Inventories

Refined gold

Gold is measured at the lower of net production cost and net realisable value. The net cost of production per unit of gold is determined by dividing total production cost by the saleable mine output of gold. Production costs include consumables and spares, labour, tax on mining, utilities, outsourced mining services, refining costs, sundry costs, amortisation and depreciation of operating assets, adjustments for deferred stripping costs capitalised/expensed, changes in the provision for land restoration and changes in gold-in-process and refined gold.

Gold-in-process and stockpiles

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

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

Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile and the number of contained gold ounces based on assay date and are verified by periodic surveys. Stockpiles are valued with reference to the net unit cost of production, based on the percentage of completion. Ore stockpiles which cannot be processed within the following 12 months, including as a result of capacity constraints, are recorded as long-term inventory. The costing methodology applied by the Group to stockpiles takes into account:

- the assessed gold grade of the stockpiles;
- the percentage of completion; and
- the production cost per unit of gold.

However, this methodology does not take into account gold recovery losses which are typically incurred in the production process. If the Group were to use an alternative methodology which took into account gold recovery losses, the valuation of its ore stockpiles would be lower.

Stores and materials

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

Quantitative and Qualitative Disclosures about Market Risk

The main risks that could adversely affect financial assets, liabilities or future cash flows of the Group are commodity currency risk, credit risk and liquidity risk. Management reviews and agrees policies for managing each of these risks, which are summarised below.

Currency risk

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

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than functional currencies of the individual Group entities at 31 December 2011 and 31 December 2010 were as follows:

	Assets		***Liabilities***	
US$'000	***30 December 2011***	***31 December 2010***	***30 December 2011***	***31 December 2010***
US$	62,809	162,021	888,405	291,577
EUR	222	2,551	680	555
Total	**63,031**	**164,572**	**889,085**	**292,132**

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 per cent., 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.

	Year ended 31 December 2011	***Year ended 31 December 2010***
Profit or loss (RUB to US$)	61,910	12,956
Profit or loss (RUB to EURO)	64	(200)
Profit or loss (KZT to US$)	20,650	28,386

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. Credit risk arises from cash, cash equivalents and deposits kept with banks, loans granted, advances paid, promissory notes and trade and other receivables, and other investments in securities.

In order to mitigate the credit risk, the Group conducts its business with creditworthy and reliable counterparties, minimises the advance payments to suppliers, and actively uses letters of credit and other trade finance instruments.

During 2010, the Group introduced a methodology for in-house financial analysis of banking and non-banking counterparties, which enables 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 of contemplated 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 seek to avoid undesirable increases in risk, limit concentration of credit and to ensure compliance with above mentioned policies and procedures.

Although in 2011 the Group sold more than 88 per cent. of the gold sold to three major Russian banks, 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, and therefore the directors believe that credit risk related to trade receivables is minimal. At 31 December 2011, the Group had US$4,869 thousand of outstanding trade receivables for gold sales (31 December 2010: US$3,714 thousand).

Gold sales to the Group's three major customers, individually exceeding 10 per cent. of the Group's gold sales, amounted to US$2,060,107 thousand in 2011 (US$1,403,365 thousand in 2010). In 2010 the Group's two largest customers, in terms of sales, accounted for 57 per cent. of its gold sales.

Other receivables include amounts receivable in respect of sale of electricity, transportation, handling and warehousing services and other services. The procedures of accepting a new customer include check by the Group's security department and responsible on-site management for business reputation, licences and certification, credit-worthiness and liquidity.

The Directors believe that there is no other significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting, cash forecasting process and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

Historically the Group has not extensively obtained external financing, relying instead on cash generated by its operations. On 12 August 2011, PGIL entered into a guarantee issuance agreement with VTB Bank pursuant to which VTB Bank undertook to issue upon demand an irrevocable payment guarantee in favour of the holders of shares in OJSC Polyus Gold to secure PGIL's payment obligations under the mandatory tender offer. The obligations of PGIL to reimburse VTB Bank for any amounts paid by it under the bank guarantee and any related costs are guaranteed by CJSC Polyus. PGIL is subject to a number of restrictive covenants under the terms of the Bank guarantee.

In September 2011, PGIL entered into separate bridge facilities with VTB Bank and Société Générale for loans in the amount of US$300 million and US$500 million, respectively, to provide a source of funds for the acquisition of shares of OJSC Polyus Gold under the mandatory tender offer. The bridge facilities were subject to limitations on security pledges, acquisitions, disposals and loans and, in the case of the VTB bridge facility, financial covenants requiring that PGIL's ratio of consolidated total net debt to consolidated EBITDA (as defined in the agreement) be less than 3:1 and ratio of consolidated EBITDA (as defined in the agreement) to consolidated net finance charges be at least 2.5:1. PGIL's obligations under the Bridge Facilities are guaranteed by CJSC Polyus. PGIL borrowed US$460 million under the Bridge Facilities to fund payments under the mandatory tender offer. On 15 February 2012, the VTB Bridge Facility was amended to reduce the aggregate facility amount to US$230 million. PGIL repaid the amounts borrowed under the Bridge Facilities with the proceeds of the private placement of Shares and GDRs by Jenington completed in May 2012. See "– Recent Developments – Private Placement of Shares and GDRs".

The Group also strives to establish business relations with export credit agencies in order to benefit from their financial support when purchasing foreign goods and particularly equipment.

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 each entity's daily cash position is reviewed on a two-week rolling basis).

The table below shows the maturity profile of the Group's financial liabilities as at 31 December 2011 based on undiscounted contractual payments, including interest payments:

	Total	***Due within three months***	***Due from three to nine months***	***Due from nine to twelve months***	***Due in the second year***	***Due in the third year***	***Due in the fourth year***	***Due in thereafter***
	US$'000	***US$'000***	***US$'000***	***US$'000***	***US$'000***	***US$'000***	***US$'000***	***US$'000***
Principal	795,713	664,688	–	11,112	44,444	75,469	–	–
Interest	36,877	11,084	1,504	711	1,983	21,595	–	–
Other non-current liabilities, including:								
Principal	8,063	–	–	895	895	895	895	4,483
Trade and other payables, including:								
Principal	181,705	181,705	–	–	–	–	–	–
Total	**1,022,358**	**857,477**	**1,504**	**12,718**	**47,322**	**97,959**	**895**	**4,483**

On 15 March 2012, the Company redeemed the Senior Notes. On 18 May 2012, the Company repaid all amounts borrowed under the Bridge Facilities. See "– Recent Developments".

PART XII

HISTORICAL FINANCIAL INFORMATION

Section A: Historical Financial Information of Polyus Gold International Limited and its subsidiaries

CONSOLIDATED INCOME STATEMENT

(US$'000, except earnings per share data)	*Notes*	*Year ended 31 December* *2011*	*2010*	*2009*
Gold sales	8	2,340,650	1,711,298	1,199,088
Other sales		62,060	37,506	26,136
Total revenue		**2,402,710**	**1,748,804**	**1,225,224**
Cost of gold sales	9	(1,162,019)	(897,901)	(577,140)
Cost of other sales		(46,343)	(33,424)	(25,541)
Gross profit		**1,194,348**	**817,479**	**622,543**
Selling, general and administrative expenses	10	(225,618)	(194,549)	(155,012)
Goodwill impairment	6	–	–	(173,340)
Impairment of stockpiles	22	(25,209)	–	–
Impairment of exploration and evaluation assets	18	(54,708)	(13,584)	(1,891)
Impairment of property, plant and equipment		(23,501)	(635)	(8,968)
Research expenses		(2,581)	(2,412)	(1,265)
Other expenses, net	11	(24,077)	(24,155)	(18,457)
Operating profit		**838,654**	**582,144**	**263,610**
Finance costs	12	(71,403)	(42,717)	(18,870)
Income/(loss) from investments, net	13	3,630	(23,711)	14,197
Foreign exchange (loss)/gain		(5,814)	765	1,364
Profit before income tax		**765,067**	**516,481**	**260,301**
Income tax	14	(207,052)	(124,840)	(108,810)
Profit for the year		**558,015**	**391,641**	**151,491**
Attributable to:				
Shareholders of the Company		468,998	367,313	149,434
Non-controlling interests		89,017	24,328	2,057
		558,015	**391,641**	**151,491**
Earnings per share				
Basic and diluted (US Cents)	16	16	12	5

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Profit for the year	**558,015**	**391,641**	**151,491**
Available-for-sale financial assets:			
(Loss)/gain from change in fair value of available-for-sale investments	(8,976)	33,340	18,201
Losses recycled to profit or loss on disposal or impairment of available-for-sale investments (note 13)	(17,023)	(20,289)	(696)
	(25,999)	13,051	17,505
Effect of translation to presentation currency	(194,307)	(32,803)	(46,091)
Other comprehensive loss for the year	**(220,306)**	**(19,752)**	**(28,586)**
Total comprehensive income for the year	**337,709**	**371,889**	**122,905**
Attributable to:			
Shareholders of the Company	304,309	352,112	120,913
Non-controlling interests	33,400	19,777	1,992
	337,709	**371,889**	**122,905**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December		
		2011	***2010***	***2009***
	Notes	***(US$'000)***	***(US$'000)***	***(US$'000)***
ASSETS				
Non-current assets				
Property, plant and equipment	17	2,056,417	2,058,636	1,852,671
Exploration and evaluation assets	18	399,846	442,316	411,333
Deferred stripping costs	19	64,460	61,023	106,088
Inventories	22	207,789	201,030	40,732
Investments in securities and other financial assets	21	3,643	50,273	114,792
Other non-current assets		35	1,860	5,899
		2,732,190	**2,815,138**	**2,531,515**
Current assets				
Inventories	22	543,023	455,144	415,238
Deferred expenditures	20	18,512	18,282	16,918
Trade and other receivables	23	24,712	21,244	17,810
Advances paid to suppliers and prepaid expenses		29,636	22,968	20,773
Investments in securities and other financial assets	21	63,468	177,332	312,733
Taxes receivable	24	150,022	167,161	134,559
Cash and cash equivalents	25	657,448	326,905	173,360
		1,486,821	**1,189,036**	**1,091,391**
TOTAL ASSETS		**4,219,011**	**4,004,174**	**3,622,906**
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	26	482	519	519
Additional paid-in capital		2,189,240	2,087,978	2,087,978
Treasury shares		(765,013)	(626,313)	(626,313)
Investments revaluation reserve		4,557	30,556	17,505
Translation reserve		(258,426)	(119,736)	(91,484)
Retained earnings		1,424,516	1,810,641	1,514,648
Equity attributable to shareholders of the Company		**2,595,356**	**3,183,645**	**2,902,853**
Non-controlling interests		235,317	56,886	59,874
		2,830,673	**3,240,531**	**2,962,727**
Non-current liabilities				
Site restoration and environmental obligations	27	149,876	136,410	90,518
Borrowings	28	123,048	29,686	26,394
Deferred tax	29	180,741	182,948	182,660
Other non-current liabilities		24,008	19,666	15,526
		477,673	**368,710**	**315,098**
Current liabilities				
Borrowings	28	675,632	173,762	173,437
Trade, other payables and accrued expenses	30	192,077	169,037	116,812
Taxes payable	31	42,956	52,134	54,832
		910,665	**394,933**	**345,081**
TOTAL LIABILITIES		**1,388,338**	**763,643**	**660,179**
TOTAL EQUITY AND LIABILITIES		**4,219,011**	**4,004,174**	**3,622,906**

CONSOLIDATED STATEMENT OF CHANGES TO EQUITY

		Equity attributable to shareholders of the Company								
	Notes	Share capital (US$'000)	Additional paid-in capital (US$'000)	Treasury shares (US$'000)	Investments revaluation reserve (US$'000)	Translation reserve (US$'000)	Retained earnings (US$'000)	Total (US$'000)	Non-controlling interests (US$'000)	Total (US$'000)
Balance at 31 December 2008		**519**	**2,123,007**	**(724,927)**	**–**	**(43,406)**	**1,401,540**	**2,756,733**	**37,808**	**2,794,541**
Profit for the year		–	–	–	–	–	149,434	**149,434**	2,057	**151,491**
Other comprehensive income/(loss)		–	–	–	17,505	(46,026)	–	**(28,521)**	(65)	**(28,586)**
Total comprehensive income		**–**	**–**	**–**	**17,505**	**(46,026)**	**149,434**	**120,913**	**1,992**	**122,905**
Issuance of shares from treasury shares as a part of consideration for acquisition of subsidiaries		–	(35,029)	98,614	–	(2,052)	2,052	**63,585**	–	**63,585**
Acquired on acquisition of subsidiary		–	–	–	–	–	–	**–**	25,070	**25,070**
Dividends to shareholders of the Company	15	–	–	–	–	–	(38,378)	**(38,378)**	–	**(38,378)**
Dividends to shareholders of non-controlling interests		–	–	–	–	–	–	**–**	(4,996)	**(4,996)**
Balance at 31 December 2009		**519**	**2,087,978**	**(626,313)**	**17,505**	**(91,484)**	**1,514,648**	**2,902,853**	**59,874**	**2,962,727**
Profit for the year		–	–	–	–	–	367,313	**367,313**	24,328	**391,641**
Other comprehensive income/(loss)		–	–	–	13,051	(28,252)	–	**(15,201)**	(4,551)	**(19,752)**
Total comprehensive income		**–**	**–**	**–**	**13,051**	**(28,252)**	**367,313**	**352,112**	**19,777**	**371,889**
Increase of ownership in subsidiary		–	–	–	–	–	33,023	**33,023**	(11,068)	**21,955**
Dividends to shareholders of the Company	15	–	–	–	–	–	(104,343)	**(104,343)**	–	**(104,343)**
Dividends to shareholders of non-controlling interests		–	–	–	–	–	–	**–**	(11,697)	**(11,697)**
Balance at 31 December 2010		**519**	**2,087,978**	**(626,313)**	**30,556**	**(119,736)**	**1,810,641**	**3,183,645**	**56,886**	**3,240,531**
Profit for the year		–	–	–	–	–	468,998	**468,998**	89,017	**558,015**
Other comprehensive loss		–	–	–	(25,999)	(138,690)	–	**(164,689)**	(55,617)	**(220,306)**
Total comprehensive income		**–**	**–**	**–**	**(25,999)**	**(138,690)**	**468,998**	**304,309**	**33,400**	**337,709**
Effect of reorganisation	2	(37)	220,885	(258,323)	–	–	(417,460)	**(454,935)**	417,460	**(37,475)**
Increase of ownership in subsidiary	2		(119,623)	119,623			(365,336)	**(365,336)**	(223,480)	**(588,816)**
Dividends declared	15	–	–	–	–	–	(72,327)	**(72,327)**	–	**(72,327)**
Dividends to shareholders of non-controlling interests		–	–	–	–	–	–	**–**	(48,949)	**(48,949)**
Balance at 31 December 2011		**482**	**2,189,240**	**(765,013)**	**4,557**	**(258,426)**	**1,424,516**	**2,595,356**	**235,317**	**2,830,673**

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December		
		2011	***2010***	***2009***
	Notes	***(US$'000)***	***(US$'000)***	***(US$'000)***
Net cash generated from operating activities	32	**765,405**	**445,307**	**343,100**
Investing activities				
Acquisition of subsidiary, net of cash acquired	6	–	–	(182,247)
Purchases of property, plant and equipment		(343,037)	(350,327)	(302,405)
Payments for deferred stripping costs	19	(18,270)	(9,740)	(12,608)
Proceeds on sales of property, plant and equipment		1,911	643	1,270
Interest received		15,359	8,351	13,034
Purchases of investments in securities and placement of deposits in banks		(37,596)	(64,996)	(170,811)
Proceeds on sales of investments in securities and redemption of bank deposits		121,270	244,955	137,702
Net cash utilised in investing activities		**(260,363)**	**(171,114)**	**(516,065)**
Financing activities				
Acquisition of subsidiary's shares	2	(588,816)	–	–
Proceeds from borrowings	28	560,000	–	–
Repayment of borrowings	28	–	(10,944)	(13,760)
Proceeds from issuance of subsidiary's shares	6	–	21,955	–
Dividends paid to shareholders of the Company	15	(73,191)	(104,801)	(40,387)
Dividends paid to non-controlling shareholders		(26,225)	(12,226)	(2,151)
Other		(6,726)	(4,967)	(400)
Net cash utilised in financing activities		**(134,958)**	**(110,983)**	**(56,698)**
Net increase/(decrease) in cash and cash equivalents		**370,084**	**163,210**	**(229,663)**
Cash and cash equivalents at beginning of the year	25	**326,905**	**173,360**	**398,826**
Effect of foreign exchange rate changes on cash and cash equivalents		(39,541)	(9,665)	4,197
Cash and cash equivalents at end of the year	25	**657,448**	**326,905**	**173,360**

Non-cash investing activities in 2009 included the issuance of treasury shares as consideration for the acquisition of KazakhGold Group Limited in the amount of US$63,585 thousand (refer to note 6).

1. GENERAL

Polyus Gold International Limited ("**PGIL**" or the "**Company**") and its controlled entities is the resultant group of companies arising from the completed reorganisation of Open Joint Stock Company ("**OJSC**") Polyus Gold ("**Polyus Gold**"), together with its subsidiaries (the "**Polyus Gold Group**") and KazakhGold Group Limited ("**KazakhGold**"), together with its subsidiaries (the "**KazakhGold Group**") (the "**Reorganisation**" – see note 2). The Reorganisation was effected through the acquisition of substantially all of the share capital of Polyus Gold by KazakhGold (previously a subsidiary 65 per cent. owned by Polyus Gold), through a series of transactions, including a private exchange offer for ordinary shares and American Depositary Receipts ("**ADRs**") of Polyus Gold and the exercise of options to acquire shares and ADRs of Polyus Gold held by Polyus Gold's principal shareholders.

The principal activities of the Company and its controlled entities (the "Group") are the extraction, refining and sale of gold. Mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and Sakha Republic of the Russian Federation and in the Republic of Kazakhstan.

The Group also performs research, exploration and development works, primarily at the Natalka licence area located in the Magadan region, Nezhdaninskoe licence areas located in the Sakha Republic, and other licence areas in 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 37.

Terms defined in this Part XII – Historical Financial Information apply only to this part of the Prospectus.

2. REORGANISATION

During the year ended 31 December 2011, the Group completed the Reorganisation of the shareholding structure of the Group. The Boards of Directors of both KazakhGold and Polyus Gold approved the Reorganisation in June 2011. The final conditions were satisfied on 25 July 2011. The effect of the reorganisation has been accounted for in this consolidated financial information.

The Reorganisation comprised several transactions including:

- A conditional option agreement between KazakhGold and entities under the beneficial ownership of the principal shareholders of Polyus Gold, to acquire their holdings of Polyus Gold securities in exchange for shares in KazakhGold. The option agreement was exercised and KazakhGold acquired 139 million shares in Polyus Gold through the issuance of 2.4 billion KazakhGold shares.

- A conditional option agreement between KazakhGold and Jenington International Inc. ("**Jenington**") (a subsidiary of Polyus Gold, and 65 per cent. shareholder of KazakhGold), to acquire Jenington's shareholding of Polyus Gold securities in exchange for shares in KazakhGold. The option agreement was exercised, and KazakhGold acquired 10.7 million shares in Polyus Gold through the issuance of 185 million KazakhGold shares).

- A conditional Private Exchange Offer ("**PEO**") to eligible Polyus Gold security holders for 16 per cent. of the issued Polyus Gold securities of which 11 per cent. was accepted.

- The renaming of KazakhGold to Polyus Gold International Limited ("**PGIL**").

As a result of the transactions comprising the Reorganisation, KazakhGold acquired Polyus Gold ordinary shares and ADRs representing in aggregate 89.14 per cent. of Polyus Gold's issued share capital. The result of the transactions is that previous Polyus Gold shareholders held approximately 96 per cent. of the issued and outstanding shares of PGIL. After finalisation of the Reorganisation, as presented in note 26, the issued share capital of the Company constitutes 3,032,149,962 ordinary shares at par value of GBP of 0.0001 (including 262,448,816 treasury shares).

The effect of the Reorganisation on the share capital of Polyus Gold is explained below.

The Company's shareholding structure before the Reorganisation was as follows:

	Number of shares '000	*%*
Jenington	77,745	65.0
GDR holders	31,263	26.1
Other shareholders	10,600	8.9
	119,608	**100.0**

Polyus Gold's shareholding structure before the Reorganisation is presented below as having been converted into the Company share capital at a rate of 1 Polyus Gold share for 17.14 Company's shares:

	Number of shares '000	*%*
Principal shareholders	2,390,109	73.1
ADR holders	522,778	16.0
Other shareholders	169,770	5.2
Treasury shares held by Jenington	184,703	5.7
	3,267,360	**100.0**

The effect of the Reorganisation on the Company's shareholding structure was as follows:

	Number of shares '000	*%*
Principal shareholders of Polyus Gold	2,390,109	78.8
Existing Company ADR holders and other shareholders	41,862	1.4
Polyus Gold ADR holders who accepted the PEO	337,730	11.1
Treasury shares held by Jenington	262,449	8.7
	3,032,150	**100.0**

The effect of the Reorganisation on the Group's consolidated financial information was as follows:

	Share capital	*Additional paid-in capital*	*Treasury shares*	*Retained earnings*	*Non-controlling interest*
	(US$'000)	*(US$'000)*	*(US$'000)*	*(US$'000)*	*(US$'000)*
Presentation of share capital of legal parent (note 26)	(37)	37	–	–	–
Conversion of Jenington's shareholding in KazakhGold into treasury shares (note 26)	–	220,848	(220,848)		
Classification of call options over KazakhGold shares to treasury shares (note 26)	–	–	(37,475)	–	–
Non-controlling interests in Polyus Gold after Reorganisation	–	–	–	(417,460)	417,460
	(37)	**220,885**	**(258,323)**	**(417,460)**	**417,460**

Significant transactions post the Reorganisation date

Increase in ownership in Polyus Gold

On 29 July 2011, and following the closing of PEO described above, the Group, through its subsidiary Jenington International Inc., launched an additional Private Exchange Offer ("**Jenington PEO**") to enable those eligible Polyus Gold security holders who did not participate in PEO to exchange their securities substantially on the same terms.

The Jenington PEO closed on 15 August 2011 resulting in the acquisition of 4,141,089 ADR equivalent of 2,070,545 ordinary shares) of Polyus Gold (or 1.09 per cent. of the issued Polyus Gold securities) in exchange for 35,489,133 treasury shares of the Company for the total value of US$119,623 thousand. In addition, by the end of August 2011, Jenington purchased 4,854,770 ADRs (equivalent of 2,427,385 ordinary shares) of Polyus Gold (or 1.27 per cent. of the issued Polyus Gold securities) for a total consideration of US$142,713 thousand.

As the result of the aforementioned transactions, the aggregated number of issued Polyus Gold securities held by the Company and Jenington International Inc. increased to 91.5 per cent. of the total issued capital of Polyus Gold with the corresponding decrease in non-controlling interest of US$86,560 thousand.

Mandatory tender offer

In accordance with the Russian Federal Law "On Open Joint Stock Companies" a company that has acquired over 30 per cent. of the total number of the shares of an open joint stock company is obliged within 35 days from taking legal ownership of the shares as determined under Russian legislation, to send to the shareholders possessing the remaining shares a public offer to acquire their shares ("Mandatory Tender Offer"). The company is required to establish the price of the shares to be acquired which may not be less than the weighted average market price for the nine months prior to sending the Mandatory Tender Offer ("MTO") to the Federal Service for Financial Markets.

On 30 August 2011 a MTO for the acquisition of the non-controlling interests in Polyus Gold was made at the price of RUB 1,900.27 or US$65.85 (at 30 August 2011 exchange rate) per share. The price established exceeded the average weighted price per share of Polyus Gold as determined by reference to all publicly traded securities of Polyus Gold over a period of at least nine months preceding the date of submission of this MTO to Federal Service for Financial Markets.

On 16 December 2011 Polyus Gold International Limited completed the acquisition of the ordinary registered shares of OJSC Polyus Gold. In the MTO the Company acquired 7,263,644 shares for US$446,103 thousand, constituting approximately 3.81 per cent. of the issued and outstanding shares of OJSC Polyus Gold. After the completion of the MTO, Polyus Gold International Limited became the holder of 177,190,246 shares, representing approximately 92.95 per cent. of the issued and outstanding shares of OJSC Polyus Gold. This resulted in a decrease in non-controlling interest by US$136,920 thousand.

3. BASIS OF PREPARATION AND PRESENTATION

Going Concern

The Group monitors and manages its liquidity risk on an ongoing basis. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production rates from the Group's producing assets and the timing of expenditure on development projects. The Group meets its capital requirements through a combination of sources including cash generated from operations and external debt. Group's forecasts and projections, taking account of reasonably possible changes in trading performance and expenditure and the mitigating actions that the Group could take in the event of adverse changes, show that the Group should be able to operate within the level of its secured facilities for the subsequent 12 months from the date of approval of the historical financial information. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt going concern basis of accounting in preparing the historical financial information.

Compliance with International Financial Reporting Standards

The consolidated financial information has been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the European Union ("**EU**") and as issued by the International Accounting Standards Board ("**IASB**"). IFRS includes the standards and interpretations approved by the IASB including International Accounting Standards ("**IAS**") and interpretations issued by the International Financial Reporting Interpretations Committee ("**IFRIC**").

The accounting policies set out below have been applied in preparing the consolidated historical financial information for the years ended 31 December 2011, 2010 and 2009.

Basis of presentation

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the jurisdiction in which they are incorporated and registered. The accounting principles and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, such financial information has been adjusted to ensure that the consolidated financial information is presented in accordance with IFRS.

The consolidated financial information of the Group is prepared on the historical cost basis, except for mark-to-market valuation of certain financial instruments, in accordance with IAS 39.

As described in note 2, the Group completed during the year the Reorganisation of the shareholding structure of the Group. This consolidated financial information is issued under the name of Polyus Gold International Limited being the new parent entity following the Reorganisation but represent a continuation of the consolidated financial information of the Polyus Gold Group except for its capital structure. Accordingly:

(a) the assets and liabilities of Polyus Gold and KazakhGold are recognised and measured at their pre-Reorganisation carrying amounts as the transactions are between parties under common control;

(b) the consolidated retained earnings and other equity balances at are the retained earnings and other equity balances of the Polyus Gold Group immediately before the Reorganisation;

(c) the share capital structure reflects the capital structure of Polyus Gold International Limited, which has been presented retroactively; and

(d) the comparative information presented in this consolidated financial information is that of the Polyus Gold Group.

Standards and Interpretations in issue not yet adopted

At the date of approval of the consolidated financial information, the following new or amended IFRS standards have been issued by the IASB in the year ended 31 December 2011, but are not mandatory for the current reporting period and therefore have not been applied:

	Effective for annual periods beginning on or after
IFRS 7 "Financial Instruments: Disclosures" – amendment	1 January 2013
IFRS 9 "Financial Instruments – Classification and Measurement"	1 January 2013
IFRS 10 "Consolidated financial statements"	1 January 2013
IFRS 11 "Joint arrangements"	1 January 2013
IFRS 12 "Disclosure of interests in other entities"	1 January 2013
IFRS 13 "Fair value measurement"	1 January 2013
IAS 1 "Presentation of financial statements" – amendment	1 July 2012
IAS 12 "Income taxes" – amendment	1 January 2012
IAS 19 "Employee benefits" – amendment	1 January 2013
IAS 27 "Separate financial statements" – amendment	1 January 2013

	Effective for annual periods beginning on or after
IAS 28 "Investments in associates and joint ventures" – amendment	1 January 2013
IAS 32 "Financial instruments: Presentation" – amendment	1 January 2014
IAS 34 "Interim Financial Reporting" – amendment	1 January 2013
IFRIC 20 "Stripping costs in the Production Phase of a Surface mine"	1 January 2013

The impact of the adoption of these standards and interpretations in the preparation of the consolidated financial information 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.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

Subsidiaries

The consolidated financial information of the Group includes the financial information 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 those interests were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 *Share-based Payment*; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sal*e and *Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date. The measurement period may not exceed one year from the effective date of the acquisition.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit *pro-rata* on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable goodwill is included in the determination of the profit or loss on disposal.

Functional currency

The individual financial statements of the Group's subsidiaries are each prepared in their respective functional currencies. The functional currency of the Company is US Dollar. The Russian Rouble ("RUB") is the functional currency of all the subsidiaries of the Group, except for the following subsidiaries operating with significant degrees of autonomy:

Subsidiary	*Functional currency*
Jenington International Inc.	US Dollar
Polyus Exploration Limited	US Dollar
Polyus Investments Limited	US Dollar
JSC "MMC Kazakhaltyn" and its subsidiaries	Kazakh Tenge

Presentation currency

The Group has chosen to present its consolidated financial information in the US Dollar ("**USD**"), as management believes it is a more convenient presentation currency for international users of the consolidated financial information of the Group as it is a common presentation currency in the mining industry. The translation of the financial information 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 dates of such transactions;
- resulting exchange differences are included in equity and presented as Effect of translation to presentation currency within the Translation reserve; and
- in the statement of cash flows, cash balances at beginning and end of each reporting period presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the years presented, except for significant transactions that are translated at rates on the dates of transactions.

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

	2011	*2010*	*2009*
Russian Rouble/US Dollar			
Year end rate	32.20	30.47	30.24
Average for the year	29.39	30.36	31.72
Kazakh Tenge/US Dollar			
Year end rate	148.40	147.40	148.36
Average for the year	146.62	147.35	147.50

Foreign currencies

Transactions in currencies other than the entity's functional currencies (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the dates of transactions. Non-monetary items carried at fair value are translated at the exchange rates prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the consolidated income statement.

Property, plant and equipment

Mineral rights

Mineral rights are recorded as assets upon acquisition at fair value and are included within mining assets or exploration and evaluation assets.

Mining assets

Mining assets are recorded at cost less accumulated amortisation. Mining assets include the cost of acquiring and developing mining properties, pre-production expenditure, mine infrastructure, processing plant, mineral rights and mining and exploration 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 7 to 21 years per mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code, whichever is shorter. Amortisation is charged from the date a new mine reaches commercial production quantities and is included in the cost of production.

The estimated remaining useful lives of the Group's significant mines based on the mine operating plans are as follows:

Olimpiada	13 years
Blagodatnoe	10–21 years
Kuranakh	16 years

Non-mining assets

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

Building, structures, plant and equipment	5–50 years
Transport	3–11 years
Other assets	3–10 years

Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Amortisation or depreciation of these assets commences when they are in the condition necessary for them to be capable of operating in the manner intended by management.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the lease finance cost, which is included in interest paid, and the capital repayment, which reduces the related lease obligation to the lessor.

Impairment of tangible assets, other than exploration and evaluation assets

An impairment review of tangible assets is carried out when there is an indication that those assets have suffered an impairment loss. If any such indication exists, the carrying amount of the asset is compared to the estimated recoverable amount of the asset in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell or value-in-use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognised in the consolidated income statement immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods.

A reversal of an impairment loss is recognised in the consolidated income statement immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Exploration and evaluation assets

Exploration and evaluation assets represent capitalised expenditures incurred by the Group in connection with the exploration for and evaluation of gold resources, such as:

- acquisition of rights to explore potentially mineralised areas;
- topographical, geological, geochemical and geophysical studies;
- exploratory drilling;
- trenching;
- sampling; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting gold resource.

Exploration and evaluation expenditures are capitalised when the exploration and evaluation activities have not reached a stage that permits a reasonable assessment of the existence of commercially recoverable gold resources. When the technical feasibility and commercial viability of extracting a gold resource are demonstrable and a decision has been made to develop the mine, capitalised exploration and evaluation assets are reclassified to mining assets.

Impairment of exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The following facts and circumstances, among other, indicate that exploration and evaluation assets must be tested for impairment:

- the term of exploration 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.

Deferred stripping costs

The Group accounts for stripping costs incurred using the average life-of-mine stripping ratio. The method assumes that stripping costs incurred during the production phase to remove waste ore are deferred and charged to operating costs on the basis of the average life-of-mine stripping ratio. The average stripping ratio is calculated as the number of cubic metres of waste material removed per tonne of ore mined based on a mine operating plan which calls for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code. The average life-of-mine ratio is revised annually or when circumstances change in the mine's pit design or in the technical or economic parameters impacting the reserves. Changes to the life-of- mine ratio are accounted for prospectively as changes in accounting estimates.

The cost of excess stripping is capitalised as deferred stripping costs and forms part of the total investment in the relevant cash-generating unit, which is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Certain of the Group's surface (alluvial) mining operations are located in regions with extreme weather conditions, and gold at these locations can only be mined during certain months of the year. Costs incurred in preparation for future seasons, usually during winter months, are deferred until the following year when the specific mine is in operation when it is expensed. Such expenditures mainly include excavation costs and mine-specific administration costs, and are recognised in the consolidated statement of financial position within deferred expenditures.

Inventories

Refined gold and gold-in-process

Inventories including refined metals, metals in concentrate and in process, ore stockpiles and doré are stated at the lower of production cost or net realisable value. Production cost is determined as the sum of the applicable expenses incurred directly or indirectly in bringing inventories to their existing condition and location. Refined metals are valued at the average cost of production per saleable unit of metal. Work-in-process, metal concentrate and doré are valued at the average production costs at the relevant stage of production. Ore stockpiles are valued at the average cost per tonne of mining ore. Net realisable value represents the estimated selling price for product based on prevailing spot metal prices, less estimated costs to complete production and costs necessary to make the sale.

Stores and materials

Stores and materials consist of consumable stores and are stated at the lower of cost and net realisable value. Costs of stores and materials are determined on a weighted average cost basis. Net realisable value represents the estimated selling price for stores and materials less all costs necessary to make the sale.

Financial assets

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

The Group's financial assets are classified into the following categories:

- financial assets at fair value through profit or loss ("**FVTPL**");
- held-to-maturity investments;

- available-for-sale ("**AFS**") financial assets; and
- loans and receivables.

The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the (Loss)/income from investments line item in the consolidated income statement. Fair value is determined in the manner described in note 35.

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

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

Derecognition of financial assets

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

Effective interest method

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

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

Financial liabilities

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

Derecognition of financial liabilities

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

Finance costs

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or less, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Employee benefit obligations

Remuneration to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period.

Defined contribution plan

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

Defined benefit plans

In 2009, the Group introduced defined benefits plans, which are unfunded. The cost of providing benefits under these defined benefit plans is determined separately for each plan using the projected unit credit method. The past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. The past service costs at the introduction of the plans are being deferred and amortised on a straight-line basis over the expected average remaining working lives of the employees participating in the plans.

Income tax

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

Current tax

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

Deferred tax

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

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

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

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

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

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

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in the consolidated income statement, except when they relate to items that are recognised outside consolidated income statement, in which case the tax is also recognised outside consolidated income statement, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Revenue recognition

Gold sales revenue

Revenue from the sale of refined gold and other gold-bearing products is recognised when the risks and rewards of ownership are transferred to the buyer, the Group retains neither a continuing degree of involvement or control over the goods sold, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the entity. Revenue from gold doré sales is recognised at the time of shipment from the refining plant when the Group has received confirmation of sale to the third party. Revenue from gold-bearing products is recognised when the goods have been delivered to a contractually agreed location. Gold sales are stated at their invoiced value net of value-added tax.

Other revenue

Other revenue comprises mainly sales of electricity, transportation, handling and warehousing services, and other. Revenue from the sales of electricity is recognised when a contract exists, delivery has taken place, a quantifiable price has been established or can be determined and the receivables are likely to be recovered. Delivery takes place when the risks and benefits associated with ownership are transferred to the buyer. Revenue from service contracts is recognised when the services are rendered.

Operating leases

The lease of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Costs for operating leases are recognised on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Dividends

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

Retained earnings legally distributable by the Company are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual subsidiaries of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

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.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Preparation of the consolidated financial information 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 information, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

Critical judgments in applying accounting policies

Management considers the determination if exploration and evaluation assets will be recouped by future exploitation or sale, identification and valuation of tangible and intangible assets and liabilities, assessment of the outcome of contingencies and the interpretation of tax legislation as critical judgments made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial information. All of these critical judgments require estimation of amounts recorded in the consolidated financial information as described below.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The most significant areas requiring the use of management estimates and assumptions relate to:

- exploration and evaluation assets;
- fair value of net assets acquired and liabilities assumed in business combinations;
- contingencies;
- useful economic lives of property, plant and equipment;
- deferred stripping costs;
- impairment of tangible assets;
- site restoration and environmental obligations; and
- income taxes.

Exploration and evaluation assets

Management's judgment is involved in the determination of whether the expenditures which are capitalised as exploration and evaluation assets may be recouped by future exploitation or sale or should be impaired. Determining this, management estimates the possibility of finding recoverable ore reserves related to a particular area of interest. However, these estimates are subject to significant uncertainties. The Group is involved in exploration and evaluation activities, and some of its licenced properties contain gold resources under the definition of internationally recognised mineral resource reporting methodologies. A number of licenced 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.

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

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

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

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgments and estimates of the outcome of future events.

Useful economic lives of property, plant and equipment

The Group's mining assets, classified within property, plant and equipment, are amortised using the straight-line method over the life-of-mine based on 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.

Deferred stripping costs

The Group defers stripping costs incurred during the production stage of its open-pit operations, on the basis of the average life-of-mine stripping ratio.

The factors that could affect capitalisation and expensing of stripping costs include the following:

- change of estimates of proven and probable ore reserves;
- changes in mining plans in the light of additional knowledge and change in mine's pit design, technical or economic parameters; and
- changes in estimated ratio of the number of cubic meters of waste material removed per tonne of ore mined.

Impairment of tangible assets

The Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value-in-use calculation. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Site restoration and environmental obligations

The Group's mining and exploration activities are subject to various environmental laws and regulations. The Group estimates site restoration and environmental obligations based on the management's understanding of the current legal requirements in the various jurisdictions, terms of the 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 judgment is required in determining the Group's provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

6. BUSINESS COMBINATIONS

Acquisition of controlling interest in subsidiaries in 2009

In July 2009 the Group made an offer to acquire 50.1 per cent. of the outstanding share capital of KazakhGold (the "**Partial Offer**"), a gold-mining company with primary operations in the Republic of Kazakhstan. According to terms of the Partial Offer the Group offered 0.423 Polyus Gold shares ("**Consideration Shares**") in exchange for each KazakhGold share.

On 30 July 2009, the Partial Offer had become unconditional as to the required number of acceptances and on 14 August 2009 it was announced unconditional in all respects. The market capitalisation of KazakhGold on 14 August 2009 ("**Closing Date**"), which represents the date on which approximately 96 per cent. of the KazakhGold shareholders had accepted the Partial Offer, was estimated at US$439 million based on the issued and outstanding share capital of KazakhGold Group Limited at the Closing Date, and the closing price of Polyus Gold ADRs at that date.

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

In addition to the share purchase, the Group has obtained from a significant shareholder of KazakhGold call options to acquire rights and obligations under convertible loan agreements. Under the convertible loan agreements the lender may convert the principal amounts of US$31,025 thousand together with accrued interest into ordinary shares of KazakhGold at the price of US$1.5 per share. The fair value of the call options for the convertible loans was estimated as US$89,872 thousand at the date of entering into the call option. The value of the option has been recorded as a reduction to the consideration transferred for the acquisition of KazakhGold.

	US$'000
Cash consideration for repurchased shares	190,615
Transfer of the Company's treasury shares at fair value at the date of acquisition	63,585
Less: Fair value of call options for convertible loans	(89,872)
Total consideration transferred for the acquisition of KazakhGold	**164,328**

Net cash outflow on acquisition

	US$'000
Consideration paid in cash	190,615
Less: Cash and cash equivalents acquired	(8,368)
Net cash outflow on acquisition	**182,247**

The Group recognised US$11,911 thousand of acquisition-related expenses in 2009 within Selling, General and Administrative expenses.

Fair value of assets acquired and liabilities assumed at the date of acquisition

	US$'000
Assets	
Property, plant and equipment	307,861
Inventories	14,419
Trade and other receivables	6,887
Cash and cash equivalents	8,368
Other assets	3,784
Liabilities	
Site restoration and environmental obligations	12,565
Borrowings	207,147
Deferred tax liabilities	22,763
Trade payables	11,148
Other payables and accrued expenses	17,135
Other taxes payable	41,414
Other liabilities	13,089
Identifiable net assets at the date of acquisition	**16,058**
Consideration transferred	164,328
Plus: Non-controlling interest	25,070
Less: Value of identifiable net assets acquired	(16,058)
Goodwill arising on acquisition	**173,340**

Trade and other receivables at the date of acquisition were as follows:

	US$'000
Gross contractual value	16,443
Less: impairment for non-recoverable debts	(9,556)
Fair value	**6,887**

The impairment of US$9,556 thousand represents the best estimate of the acquisition date contractual cash flows not expected to be collected.

Non-controlling interest

The non-controlling interest of 49.8 per cent. in KazakhGold recognised at the acquisition date was measured as the proportionate share of the fair value of KazakhGold's identifiable net assets.

Goodwill arising on acquisition

	US$'000
Consideration transferred	164,328
Plus: Non-controlling interest	25,070
Less: Fair value of identifiable net assets acquired	(16,058)
Goodwill arising on acquisition	**173,340**

Following the acquisition of KazakhGold by the Group, the Group carried out an extensive series of measures to evaluate and improve the operations and internal systems and controls of KazakhGold. As a result of these measures, and in the course of preparing the consolidated financial statements for the year ended 31 December 2009, certain material errors were identified in respect of the previously published consolidated financial statements of KazakhGold for the year ended 31 December 2008. Consequently, the fair value of identifiable net assets acquired was significantly lower than the carrying value of the KazakhGold's net assets prior to the date it was acquired by the Group. The Group recorded goodwill of US$173,340 thousand, being the excess of the sum of the consideration transferred and non-controlling interests over the fair value of the identifiable net assets acquired. However, management did not consider any benefit for the Group will arise from the excess purchase price and impaired the entire goodwill balance. The impairment is in relation to the Kazakhstan reporting segment.

Impact of acquisition on the results of the Group

KazakhGold contributed revenue of US$26,918 thousand and a loss after tax of US$203,557 thousand from the date of acquisition to 31 December 2009, including effect of the impairment of goodwill of US$173,340 thousand.

Had these business combinations been effected at 1 January 2009, the revenue of the Group for the year ended 31 December 2009 would have been US$1,232,547 thousand, and the profit of the Group for the year would have been US$37,086 thousand.

Increase of ownership in KazakhGold

On 1 July 2010, KazakhGold issued 66,666,667 new ordinary shares at a placement price of US$1.50 per share for a total consideration of US$98,747 thousand, net of expenses. Polyus Gold, through its subsidiary Jenington International Inc., purchased 51,194,922 of the shares, thus increasing Polyus Gold's ownership in KazakhGold to 65 per cent. of its issued share capital. As a result of this transaction, the Group recognised a decrease in non-controlling interest of US$11,068 thousand.

7. SEGMENT INFORMATION

For management purposes, the Group is organised in separate business segments defined by a combination of operating activities and geographical area. Separate financial information is available for each segment and reported regularly to the chief operating decision maker ("**CODM**") and the Executive Committee. The Group's seven identified reportable segments are located and described as follows:

- ***Krasnoyarsk business unit*** (Krasnoyarsk region of the Russian Federation) – Extraction, refining and sales of gold from the Olimpiada, Blagodatnoe and Titimukhta mines, as well as research, exploration and development work at Olimpiada deposits;

- ***Kazakhstan business unit*** (Republic of Kazakhstan, Kyrgyzstan and Romania), formed by the Kazakh Gold Group Limited – Extraction, refining and sales of gold from Aksu, Bestobe, Akzhal, Zholymbet mines, as well as exploration and evaluation works in Southern Karaultube;

- ***Irkutsk alluvial business unit*** (Irkutsk region (Bodaibo district) of the Russian Federation) – Extraction, refining and sales of gold from several alluvial deposits;

- ***Irkutsk ore business unit*** (Irkutsk region (Bodaibo district) of the Russian Federation) – Extraction, refining and sales of gold from Verninskoe, research, exploration and development works at Pervenetc, Verninskoe and Medvezhiy Ruchei deposits, and electricity and utilities production and sales in the Bodaibo district of the Irkutsk region;

- ***Yakutsk Kuranakh business unit*** (Sakha Republic of the Russian Federation) – Extraction, refining and sales of gold from the Kuranakh ore field;

- ***Exploration business unit*** – Comprising two operating segments that are combined into one reportable segment as they satisfy the criteria for aggregation:

  – Yakutsk (Nezhdaninskoe) business unit (Sakha Republic of Russian Federation) – Research and exploration works at the Nezhdaninskoe deposit; and

  – (Krasnoyarsk region, Irkutsk region, Amur region, and others) – Research and exploration works in several regions of the Russian Federation; and

- ***Magadan business unit*** (Magadan region of the Russian Federation) – Represented by OJSC "Matrosov Mine" which performs development works at the Natalka deposit.

The reportable segments derive their revenue primarily from gold sales, and the costs incurred relate to the cost of gold sold for the year. The CODM performs an analysis of the operating results based on these separate business units and evaluates the reporting segment's results, for purposes of resource allocation, based on the segment measure; segment profit before income tax excluding 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 this consolidated financial information. Segment financial information provided to the CODM is prepared from the management accounts which are based on Russian or Kazakhstan accounting standards, respectively.

The Group does not 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*
	US$'000	*US$'000*	*US$'000*	*US$'000*
31 December 2011				
Krasnoyarsk business unit	1,641,380	918,078	236,780	104,821
Irkutsk alluvial business unit	350,213	102,795	22,808	6,550
Yakutsk Kuranakh business unit	184,735	13,797	12,569	8,298
Irkutsk ore business unit	3,497	(13,042)	111,751	7,307
Exploration business unit	–	(14,107)	11,213	973
Kazakhstan business unit	160,825	5,773	38,583	14,939
Magadan business unit	–	(16,313)	22,026	3,784
Segment result	**2,340,650**	**996,981**	**455,730**	**146,672**

	Gold sales	*Segment profit/(loss)*	*Capital expenditures*	*Depreciation and amortisation*
	US$'000	***US$'000***	***US$'000***	***US$'000***
31 December 2010				
Krasnoyarsk business unit	1,176,392	398,359	194,708	61,651
Irkutsk alluvial business unit	248,254	90,283	17,222	6,246
Yakutsk Kuranakh business unit	149,597	38,923	15,801	5,561
Irkutsk ore business unit	22,607	(4,191)	33,577	6,815
Exploration business unit	–	(11,855)	21,591	937
Kazakhstan business unit	114,448	(20,799)	36,014	9,437
Magadan business unit	–	(8,760)	16,420	3,127
Segment result	**1,711,298**	**481,960**	**335,333**	**93,774**
31 December 2009				
Krasnoyarsk business unit	833,466	421,517	229,506	39,189
Irkutsk alluvial business unit	185,237	33,999	9,888	7,304
Yakutsk Kuranakh business unit	129,657	9,751	7,540	5,639
Irkutsk ore business unit	23,678	(1,016)	22,261	5,296
Exploration business unit	132	(19,440)	19,399	257
Kazakhstan business unit	26,918	(32,890)	6,624	9,515
Magadan business unit	–	(11,940)	29,922	204
Segment result	**1,199,088**	**399,981**	**325,140**	**67,404**

Gold sales reported above represent revenue generated from external customers. There were no inter-segment gold sales during the years ended 31 December 2011, 2010 and 2009.

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

	Year ended 31 December		
	2011	*2010*	*2009*
	(US$'000)	*(US$'000)*	*(US$'000)*
Segment result	**996,981**	**481,960**	**399,981**
Differences between IFRS and management accounts:			
Capitalised exploration works	(206)	26,801	8,474
Provisions and accruals	(49,109)	(26,196)	(47,138)
Additional depreciation charge and amortisation of mineral rights	(41,277)	(33,081)	(29,536)
Calculation of gold-in-process at net production cost	(31,918)	4,511	16,265
Difference in stripping costs capitalisation	20,711	(10,909)	(20,646)
Goodwill impairment	–	–	(173,340)
Other	(3,219)	7,667	1,541
Adjusted segment result	891,963	450,753	155,601
Unallocated central costs, results of financing and investing activities and differences in accounting treatment under IFRS	(126,896)	65,728	104,700
Profit before income tax	**765,067**	**516,481**	**260,301**

	Year ended 31 December		
	2011	*2010*	*2009*
	(US$'000)	*(US$'000)*	*(US$'000)*
Segment capital expenditures	**455,730**	**335,333**	**325,140**
Differences between IFRS and management accounts:			
Differences at the moment of recognition of capital expenditures	(85,268)	4,574	(7,333)
Reclassification of advances paid for property, plant and equipment and construction works	20,148	15,879	(17,854)
Reclassification of materials related to construction works	(9,322)	3,564	21,277
Differences in capitalised exploration and evaluation costs	(12,635)	30,802	12,482
Other	(1,821)	(8,739)	(9,546)
Adjusted segment capital expenditure	366,832	381,413	324,166
Unallocated central capital expenditures	1,307	–	–
Capital expenditures	**368,139**	**381,413**	**324,166**
Segment depreciation and amortisation	**146,672**	**93,774**	**67,404**
Additional depreciation charge	27,878	20,115	16,946
Amortisation of mineral rights	13,399	12,966	12,590
Depreciation and amortisation	**187,949**	**126,855**	**96,940**

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

	31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Russian Federation	2,371,841	2,417,329	2,103,062
Republic of Kazakhstan	308,358	294,864	291,155
Kyrgyzstan	31,084	35,881	35,815
Romania	17,170	16,682	13,108
United Kingdom	94	109	127
Total	**2,728,547**	**2,764,865**	**2,443,267**

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

	31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Exploration business unit	43,596	–	1,891
Kazakhstan business unit	1,707	–	–
Krasnoyarsk business unit	5,054	10,369	–
Irkutsk ore business unit	4,351	–	–
Irkutsk alluvial business unit	–	3,215	–
	54,708	**13,584**	**1,891**

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

	31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Kazakhstan business unit	11,417	–	–
Krasnoyarsk business unit	4,891	–	8,968
Irkutsk ore business unit	7,193	–	–
Irkutsk alluvial business unit	–	635	–
	23,501	**635**	**8,968**

8. GOLD SALES

	Year ended 31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Refined gold	2,179,825	1,596,850	1,172,170
Other gold-bearing products	160,825	114,448	26,918
Total	**2,340,650**	**1,711,298**	**1,199,088**

9. COST OF GOLD SALES

	Year ended 31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Fuel, consumables and spares	410,243	365,504	242,841
Labour	288,866	237,602	175,080
Tax on mining	179,116	130,230	90,080
Utilities	55,140	46,043	25,386
Outsourced mining services	22,147	8,897	8,258
Refining costs	5,067	2,059	4,332
Other	75,696	59,212	38,911
Total	**1,036,275**	**849,547**	**584,888**
Amortisation and depreciation of operating assets (note 17)	181,935	118,559	93,402
(Capitalisation)/amortisation of deferred stripping costs, net	(7,335)	44,412	50,736
Increase in gold-in-process and refined gold inventories	(48,856)	(114,617)	(151,886)
Total	**1,162,019**	**897,901**	**577,140**

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Salaries	116,295	103,811	76,918
Professional services	36,350	28,274	21,738
Taxes other than mining and income taxes	42,630	27,528	16,105
Amortisation and depreciation (note 17)	4,830	4,217	3,532
Other	25,513	30,719	36,719
Total	**225,618**	**194,549**	**155,012**

11. OTHER EXPENSES, NET

	Year ended 31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Penalties on tax on mining	8,040	–	–
Change in allowance for reimbursable value added tax	6,602	(294)	(171)
Loss on disposal of property, plant and equipment	5,933	2,037	3,875
Donations	5,468	3,367	6,932
Non-recoverable value added tax	190	–	5,219
Other	(2,156)	4,693	2,602
Tax provision	–	14,352	–
Total	**24,077**	**24,155**	**18,457**

12. FINANCE COSTS

	Year ended 31 December		
	2011	*2010*	*2009*
	(US$'000)	*(US$'000)*	*(US$'000)*
Interest on borrowings	31,241	32,308	11,738
Debt redemption expense (note 28)	26,928	–	–
Unwinding of discounts	11,999	8,808	4,230
Other	1,235	1,601	2,902
Total	**71,403**	**42,717**	**18,870**

13. INCOME/(LOSS) FROM INVESTMENTS, NET

	Year ended 31 December		
	2011	*2010*	*2009*
	(US$'000)	*(US$'000)*	*(US$'000)*
(Loss)/income from financial assets at fair value through profit and loss			
(Loss)/income on derivatives classified as held for trading	(8,661)	(63,775)	20,039
(Loss)/income from investments in listed companies held for trading	(20,984)	11,446	13,702
Income from AFS investments			
Gain on disposal of AFS investments	17,023	20,289	696
Loss from held-to-maturity investments			
Loss on disposal of promissory notes	–	–	(34,928)
Interest income on bank deposits	16,252	8,329	14,688
Total	**3,630**	**(23,711)**	**14,197**

14. INCOME TAX

	Year ended 31 December		
	2011	*2010*	*2009*
	(US$'000)	*(US$'000)*	*(US$'000)*
Current tax expense	200,297	123,492	93,901
Deferred tax expense	6,755	1,348	14,909
Total	**207,052**	**124,840**	**108,810**

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

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

	Year ended 31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Profit before income tax	**765,067**	**516,481**	**260,301**
Income tax at statutory rate applicable to principal operating entities (20%)	153,013	103,296	52,060
Tax effect of non-deductible expenses and other permanent differences	25,463	9,868	41,378
Effect of different tax rates of subsidiaries operating in other jurisdictions	14,483	8,870	5,051
Tax effect of utilisation of tax losses not previously recognised	(4,990)	(8,446)	–
Unrecognised tax losses	11,109	3,965	10,321
Other	7,974	7,287	–
Income tax expense at effective rate of 27% (2010: 24%, 2009: 42%)	**207,052**	**124,840**	**108,810**

15. DIVIDENDS

	Year ended 31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Dividend declared during the year	72,327	104,343	38,378

Dividend per share (US cents per share after giving effect to Reorganisation)

	Year ended 31 December		
	2011	***2010***	***2009***
Dividend declared during the year	0.02	0.04	0.01

On 20 May 2011, Polyus Gold declared a dividend of RUB 11.25 or US$0.40 (at 20 May 2011 exchange rate) per Polyus Gold share relating to the second half of the 2010 year. This represents a dividend of RUB 0.71 or US$0.02 per PGIL share, after giving effect to the Reorganisation.

16. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

		Year ended 31 December		
	Units	*2011*	*2010*	*2009*
Earnings for the purpose of basic and diluted earnings per share being the net profit attributable to equity holders of the parent	$'000s	468,998	367,313	149,434
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	'000s	2,960,311	3,082,656	3,063,228
Earnings per ordinary share basic and diluted	**$ cents**	**16**	**12**	**5**

There were no financial instruments or any other instances which could cause antidilutive effect on earnings per share calculation.

17. PROPERTY, PLANT AND EQUIPMENT

Cost (US$'000)	*Mining assets*	*Non-mining assets*	*Capital construction-in-progress*	*Total*
Balance at 31 December 2008	**1,419,285**	**61,235**	**304,163**	**1,784,683**
Additions	140,517	1,086	150,051	**291,654**
Transfers from capital construction-in-progress	51,490	–	(51,490)	**–**
Change in decommissioning liabilities (note 27)	30,689	–	–	**30,689**
Acquired on acquisition of subsidiaries (refer to note 6)	249,331	1,231	57,299	**307,861**
Disposals	(8,700)	(589)	(6,483)	**(15,772)**
Effect of translation to presentation currency	(26,244)	(1,705)	(3,010)	**(30,959)**
Balance at 31 December 2009	**1,856,368**	**61,258**	**450,530**	**2,368,156**
Additions	225,997	7,776	95,496	**329,269**
Transfers from capital construction-in-progress	233,648	2,308	(235,956)	**–**
Transfers from exploration and evaluation assets (note 18)	4,372	–	–	**4,372**
Change in decommissioning liabilities (note 27)	37,885	–	–	**37,885**
Disposals	(7,821)	(466)	(500)	**(8,787)**
Effect of translation to presentation currency	(13,911)	(563)	(4,021)	**(18,495)**
Balance at 31 December 2010	**2,336,538**	**70,313**	**305,549**	**2,712,400**
Additions	160,674	14,386	161,385	**336,445**
Transfers	90,693	(26,523)	(64,170)	**–**
Transfers from exploration and evaluation assets (note 18)	264	–	–	**264**
Change in decommissioning liabilities (note 27)	7,833	–	–	**7,833**
Disposals	(25,698)	(468)	(460)	**(26,626)**
Effect of translation to presentation currency	(130,593)	(2,519)	(21,246)	**(154,361)**
Balance at 31 December 2011	**2,439,711**	**55,189**	**381,058**	**2,875,958**

(US$'000)	*Mining assets*	*Non-mining assets*	*Capital construction-in-progress*	*Total*
Accumulated amortisation, depreciation and impairment				
Balance at 31 December 2008	**(376,151)**	**(21,421)**	**(5,155)**	**(402,727)**
Charge for the year	(116,291)	(3,800)	–	**(120,091)**
Disposals	5,518	334	4,775	**10,627**
Impairment	–	–	(8,968)	**(8,968)**
Effect of translation to presentation currency	5,288	445	(59)	**5,674**
Balance at 31 December 2009	**(481,636)**	**(24,442)**	**(9,407)**	**(515,485)**
Charge for the year	(142,729)	(5,600)	–	**(148,329)**
Disposals	5,760	289	–	**6,049**
Impairment	–	–	(635)	**(635)**
Effect of translation to presentation currency	4,399	162	75	**4,636**
Balance at 31 December 2010	**(614,206)**	**(29,591)**	**(9,967)**	**(653,764)**
Charge for the year	(201,023)	(4,716)	–	**(205,739)**
Transfers	(10,335)	10,335	–	**–**
Disposals	18,172	610	–	**18,782**
Impairment	(23,497)	(4)	–	**(23,501)**
Effect of translation to presentation currency	43,107	997	577	**44,681**
Balance at 31 December 2011	**(787,782)**	**(22,369)**	**(9,390)**	**(819,541)**
Net book value				
31 December 2008	**1,043,134**	**39,814**	**299,008**	**1,381,956**
31 December 2009	**1,374,732**	**36,816**	**441,123**	**1,852,671**
31 December 2010	**1,722,332**	**40,722**	**295,582**	**2,058,636**
31 December 2011	**1,651,929**	**32,820**	**371,668**	**2,056,417**

During the year ended 31 December 2011 impairment of mining assets in the amount of US$12,080 thousand was recognised at Sukhoy Log and Kvartsevaya Gora. The impairment relates to the decision to abandon activities related to the deposits.

In 2011 the Kazakhstan business unit of the Group has reassessed property, plant and equipment requirements and plans for their future use. As the result, certain assets' net book values and expected economic useful lives exceeded their anticipated recoverable values and accordingly an impairment was recorded in the amount of US$11,417 thousand.

The carrying values of mineral rights included in mining assets at 31 December 2011 were as follows:

	31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Mineral rights	335,470	368,303	388,721

Amortisation and depreciation charge is allocated as follows:

	Year ended 31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Cost of gold sales (note 8)	181,935	118,559	93,402
Selling, general and administrative expenses (note 10) and cost of other sales	6,014	8,296	3,538
Capitalised within property, plant and equipment	17,790	21,474	23,151
Total	**205,739**	**148,329**	**120,091**

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

	31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Pledged property, plant and equipment	4,613	3,620	20,510

18. EXPLORATION AND EVALUATION ASSETS

	Year ended 31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Balance at beginning of the year	**442,316**	**411,333**	**390,135**
Additions	31,694	52,144	32,512
Transfers to mining assets (note 17)	(264)	(4,372)	–
Impairment	(54,708)	(13,584)	(1,891)
Effect of translation to presentation currency	(19,192)	(3,205)	(9,423)
Balance at end of the year	**399,846**	**442,316**	**411,333**

During the year ended 31 December 2011 the Group impaired US$54,708 thousand of exploration and evaluation assets, because those assets (Kuchyus, Kuzeevskaya, Chai-Yurinskaya, Doroninskoye, Tokichan, Zapadnoe, Mukodek, Kaskabulak, Illigirskaya fields) did not demonstrate any future commercial viability.

19. DEFERRED STRIPPING COSTS

	Year ended 31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Balance at beginning of the year	**61,023**	**106,088**	**163,988**
Deferred stripping costs capitalised	18,270	9,740	15,111
Expensed stripping cost	(10,935)	(54,152)	(65,847)
Effect of translation to presentation currency	(3,898)	(653)	(7,164)
Balance at end of the year	**64,460**	**61,023**	**106,088**

20. DEFERRED EXPENDITURES

	Year ended 31 December		
	2011	*2010*	*2009*
	(US$'000)	*(US$'000)*	*(US$'000)*
Deferred expenditures	18,512	18,282	16,918

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

21. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	Year ended 31 December		
	2011	*2010*	*2009*
	(US$'000)	*(US$'000)*	*(US$'000)*
Non-current			
Derivative financial assets	–	46,136	109,911
Loans receivable	3,643	3,825	4,562
Other	–	312	319
Total	**3,643**	**50,273**	**114,792**
Current			
AFS equity investments	34,744	99,721	202,161
Bank deposits	12,175	39,351	70,158
Equity investments in listed companies held for trading	14,857	36,730	39,199
Other	1,692	1,530	1,215
Total	**63,468**	**177,332**	**312,733**

Financial assets at FVTPL

Equity investments in listed companies held for trading are treated as financial assets at FVTPL. In connection with the acquisition of KazakhGold in 2009, the Group obtained call options (derivative financial assets) to acquire all rights and obligations under convertible loan agreements between KazakhGold and its previous major shareholder (note 28 (ii)). The fair value of call options and changes to it are presented as follows:

	Year ended 31 December		
	2011	*2010*	*2009*
	(US$'000)	*(US$'000)*	*(US$'000)*
Balance at beginning of the year	**46,136**	**109,911**	**–**
Recognised at acquisition of subsidiary	–	–	89,872
(Loss)/income from change in fair value of call options	(8,661)	(63,775)	20,039
Reclassified call options to treasury shares, at fair value (note 2)	(37,475)	–	–
Balance at end of the year	**–**	**46,136**	**109,911**

As the result of Reorganisation described in note 2, the call options were recognised as treasury shares at an amount equal to the fair value of those call options at 30 June 2011.

AFS investments, carried at fair value

At 31 December 2011, 2010 and 2009, AFS investments primarily comprised shares owned in Rosfund, SPC (Cayman Islands) acquired in July 2006.

Rosfund, SPC invests in securities and other financial assets. At 31 December 2011, 2010 and 2009 Rosfund, SPC included equity investments in listed companies, bonds and depositary receipts.

The changes in the fair value of AFS investments recognised in equity within investment revaluation reserve were as follows:

	Year ended 31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
(Loss)/gain from change in fair value of available-for-sale investments	(8,976)	33,340	18,201

During the year ended 31 December 2011, the Group sold 56 per cent. of the shares owned on 1 January 2011 in Rosfund, SPC for US$56,000 thousand. As a result of this transaction, the Group recognised a gain in the amount of US$17,023 thousand in the consolidated income statement which was reclassified from the cumulative gain previously accumulated in the investment revaluation reserve.

In 2010, the Group sold 63 per cent. of the shares owned on 1 January 2010 in Rosfund, SPC for US$137,000 thousand. As a result of this transaction, the Group recognised a gain in the amount of US$20,289 thousand in the consolidated income statement which was reclassified from the cumulative gain previously accumulated in the investment revaluation reserve.

Loans receivable, carried at amortised cost

Bank deposits at 2.14–8.05 per cent. (2010: 3.45–6.5 per cent., 2009: 7.5–10.5 per cent.) per annum are denominated in RUB and mature until June 2012.

During the year ended 31 December 2009, the Group sold all of the promissory notes for a total consideration of US$1,000 thousand. The loss on disposal of promissory notes was recognised in the consolidated income statement in the amount of US$34,928 thousand.

22. INVENTORIES

	31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Inventories expected to be recovered after twelve months			
Stockpiles	207,789	201,030	40,732
Total	**207,789**	**201,030**	**40,732**
Inventories expected to be recovered in the next twelve months			
Gold-in-process at net production cost	163,758	145,332	202,647
Refined gold at net production cost	24,757	19,523	14,609
Total metal inventories	**188,515**	**164,855**	**217,256**
Stores and materials at cost	354,508	290,289	197,982
Total	**543,023**	**455,144**	**415,238**

During the year ended 31 December 2011, the Group impaired stockpiles located at Zapadnoye in the amount of US$25,209 thousand. The impairment relates to the decision to abandon activities related to the deposit.

During 2010, the Group discovered some of its existing stockpiles were taking longer to process at its Olimpiada mine. Consequently, the Group postponed processing part of its stockpiles while it modifies its ore processing in order to improve its recoverability at the completion of the production process.

The Group has 5.6 million tonnes of stockpiles as of 31 December 2011 (2010: 6.8 million tonnes, 2009: 6.8 million tonnes) which are carried at zero value, as previously those stockpiles were considered as low-grade materials.

Zero-value stockpiles:

At the date of the Group's transition to IFRS, stockpiles (6.8 million tonnes) at the Group's Krasnoyarsk business unit were accounted for at zero cost. This was on the basis that the stockpiles were low-grade and, at that point in time, the gold price was such that the valuation of such stockpiles was negligible.

Throughout 2009 and 2010, the Group did not process any zero-value stockpile. Accordingly, the financial information for these periods has not been impacted by the production and sale of the same. During 2011 1.2 million tonnes of this zero-value inventory has been processed, and the impact on the margin was estimated to have been US$28.5 million.

23. TRADE AND OTHER RECEIVABLES

	31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Other receivables	24,984	23,478	17,284
Less: Allowance for doubtful debts	(5,141)	(5,948)	(3,772)
	19,843	17,530	13,512
Trade receivables for gold sales	4,869	3,714	4,298
Total	**24,712**	**21,244**	**17,810**

Other receivables include amounts receivable from sales of electricity, transportation, handling, warehousing services and other services. For the year to 31 December 2011 the average credit period for other receivables was 57 days (2010: 62 days, 2009: 74 days). No interest is charged on other receivables.

The procedure for accepting a new customer includes checks by the security department regarding the customer's business reputation, licences and certifications. At 31 December 2011, the Group's largest customers individually exceeding 5 per cent. of the total balance represented 15 per cent. (31 December 2010: 40 per cent., 2009: 39 per cent.) of the outstanding balance of accounts receivable.

Movement in the allowance for doubtful debts:

	Year ended 31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Balance at beginning of the year	**5,948**	**3,772**	**4,095**
Receivable balances written off	–	–	(69)
Recognised in the consolidated statement of income	2,006	3,240	1,389
Amounts recovered during the year	(2,552)	(744)	(1,549)
Effect of translation to presentation currency	(261)	(320)	(94)
Balance at end of the year	**5,141**	**5,948**	**3,772**

The Group generally fully provides for all receivables over 365 days because experience has shown that receivables past due beyond 365 days are not recoverable. The Group does not hold any collateral over these amounts. The average age of past due but not impaired receivables was 124 days (31 December 2010: 232 days, 31 December 2009: 184 days).

Ageing of past due but not impaired other receivables:

	31 December		
	2011	*2010*	*2009*
	(US$'000)	*(US$'000)*	*(US$'000)*
Less than 90 days	1,170	2,955	1,213
91–180 days	2,816	466	234
181–365 days	395	2,472	2,018
More than 365 days	–	3,772	–
Total	**4,381**	**9,665**	**3,465**

Substantially all gold sales are made to banks with immediate payment terms. The average credit period on gold-bearing product sales to customers, other than banks, was seven days for the year ended 31 December 2011, (2010: 3 to 8 days, 2009: 3 to 8 days). No interest is charged on trade receivables.

24. TAXES RECEIVABLE

	31 December		
	2011	*2010*	*2009*
	(US$'000)	*(US$'000)*	*(US$'000)*
Reimbursable value added tax	129,493	154,422	103,688
Income tax prepaid	17,821	9,347	27,152
Other prepaid taxes	2,708	3,392	3,719
Total	**150,022**	**167,161**	**134,559**

25. CASH AND CASH EQUIVALENTS

		31 December		
		2011	*2010*	*2009*
		(US$'000)	*(US$'000)*	*(US$'000)*
Bank deposits	– RUB	487,467	69,847	73,245
Current bank accounts	– RUB	146,761	182,532	44,416
	– foreign currencies	21,992	67,204	44,137
Other cash and cash equivalents		1,228	7,322	11,562
Total		**657,448**	**326,905**	**173,360**

Bank deposits are denominated in RUB and bear interest of 4.65-8.05 per cent. per annum with original maturity within three months.

26. SHARE CAPITAL

Issued and fully paid up ordinary shares

	Number of ordinary shares '000	*Share capital*
Issued and fully paid 190,627,747 ordinary shares of Polyus Gold presented as being converted into PGIL shares at a ratio of 17.14	3,267,360	519
Effect of Reorganisation	(235,210)	(37)
Issued and fully paid up ordinary shares of PGIL at 31 December 2011	**3,032,150**	**482**

The share capital of Polyus Gold is presented in this consolidated financial information as having been converted into PGIL share capital at a 17.14 conversion rate at 31 December 2010 and 2009.

The effect of Reorganisation on the issued and fully paid ordinary shares of PGIL is presented as follows:

	Number of ordinary shares '000
Issued and fully paid up ordinary shares of PGIL before the Reorganisation	119,608
Decrease in the issued and fully paid up ordinary shares of Polyus Gold as a result of security holders that declined the PEO	(354,818)
Effect of Reorganisation	**(235,210)**

At 31 December 2011 the authorised share capital of the Company comprised 3,600,000,000 ordinary shares with a par value of GBP 0.0001 per share.

Treasury shares

As a result of the Reorganisation, shares in KazakhGold held by Jenington, a subsidiary of the Group, became treasury shares of the reorganised Group. In addition, call options to acquire all rights and obligations under convertible loan agreements between KazakhGold and its previous major shareholder, became treasury shares of the reorganised Group. The cost of these shares equals the fair value of the options at 30 June 2011.

All treasury shares are held by a subsidiary of the Group, and have been recorded at cost and presented as a separate component in equity.

27. SITE RESTORATION AND ENVIRONMENTAL OBLIGATIONS

	Year ended 31 December		
	2011	*2010*	*2009*
	(US$'000)	*(US$'000)*	*(US$'000)*
Balance at beginning of the year	**136,410**	**90,518**	**34,379**
New obligations raised	–	–	9,009
Change in estimate (note 17)	7,833	37,885	29,059
Acquired on acquisition of subsidiaries	–	–	12,565
Unwinding of discount on decommissioning obligations (note 12)	11,999	8,808	4,230
Effect of translation to presentation currency	(6,366)	(661)	1,276
Payment of decommissioning obligations	–	(140)	–
Balance at end of the year	**149,876**	**136,410**	**90,518**

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

	31 December		
	2011	*2010*	*2009*
	(US$'000)	*(US$'000)*	*(US$'000)*
Discount rates	6.83–9.28%	6.97–10.0%	6.6–10.2%
Inflation rates	3.3%–7.4%	3.3–8.8%	3.3–9.6%
Expected mine closure dates	2011–2050	2012–2050	2011–2050

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

	31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Due from second to fifth year	7,322	3,699	1,596
Due from sixth to tenth year	49,012	65,427	11,400
Due from eleventh to fifteenth year	27,534	14,432	44,346
Due from sixteenth to twentieth year	7,719	26,646	17,381
Due thereafter	58,289	26,206	15,795
Total	**149,876**	**136,410**	**90,518**

28. BORROWINGS

		31 December 2011		*31 December 2010*		*31 December 2009*	
		Rate %	*Outstanding balance US$'000*	*Rate %*	*Outstanding balance US$'000*	*Rate %*	*Outstanding balance US$'000*
Guaranteed senior notes	(i)	9.875%	204,520	9.37%	173,762	9.37%	163,513
Loans payable to Gold Lion Holding Limited	(ii)	10.00% 1 months LIBOR +	34,160	10.00%	29,686	10.00%	25,365
Société Générale credit facility	(iii)	1.95% 3 months USD LIBOR +	230,000	–	–	–	–
VTB credit facility	(iv)	2.25% 3 months USD LIBOR +	230,000	–	–	–	–
Société Générale credit facility (OJSC "Pervenets")	(v)	2.4%	100,000	–	–	–	–
Secured bank loan		–	–	–	–	13.75%	4,751
Secured bank loan		–	–	–	–	16.00%	1,854
Unsecured bank loan		–	–	–	–	11.00%	4,348
Total			**798,680**		**203,448**		**199,831**
Less: current portion due within twelve months			675,632		173,762		173,437
Long-term borrowings			**123,048**		**29,686**		**26,394**

Summary of borrowing agreements

(i) *Guaranteed senior notes*

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

In November 2011, the nominal interest rate was increased by 0.5 per cent. to 9.875 per cent.

According to the guaranteed senior notes initial terms, redemption was possible at the choice of the issuer on or after 6 November 2011 at a price of 102.344 per cent. of the nominal value. In December 2011 the Board of Directors of the Company decided that the guaranteed senior notes should be redeemed when refinancing facilities were available. Prior to 31 December 2011, the Group arranged a US$100 million credit facility with Unicredit Bank (see (vi) below) and on 10 February 2012 a further US$100 million credit facility was arranged with HSBC (note 36). Management considered that early redemption of the guaranteed senior notes was probable at 31 December 2011. An expense of US$26,928 thousand (note 12) was recognised in the consolidated income statement as the underlying future cash flows had significantly changed.

The effective interest rate is 9.875 per cent. as of 31 December 2011 (16 per cent. as of 31 December 2010 and 2009).

(ii) *Loans payable*

On 11 June 2009, PGIL (formerly KazakhGold) signed two loan agreements with Gold Lion Holdings Limited, an entity that was, at that time, a related party. The loan agreements have a 10 per cent. interest rate per annum. Principal amounts of US$21,650 thousand and US$9,375 thousand together with accrued interest are payable on 6 November 2014 and wholly or in part are convertible into PGIL's (formerly KazakhGold) ordinary shares at a rate of US$1.50 per one share. Conversion is subject to several restrictions, including Republic of Kazakhstan regulatory approval and approval from the Company. In September 2009, Gold Lion Holdings Limited granted a call option to Jenington, or any other direct or indirect subsidiary of Polyus Gold, to acquire all the rights and interests under these loan agreements, including the conversion right.

The effective interest rate on these loans was 16 per cent.

(iii) *Société Générale credit facility*

On 6 September 2011, PGIL entered into a US$500,000 thousand bridge facility agreement with Société Générale as a lender for a dollar term loan facility to fund consideration payable under the MTO. Under the original terms of the facility agreement the repayment of the facility was to be made on 28 March 2012, refer to Note 36.

As of 31 December 2011 US$230,000 thousand had been drawn down. The remainder of the bank's commitment under the facility was voluntary cancelled by the Company.

(iv) *VTB credit facility*

On 2 September 2011, PGIL entered into a US$300 million bridge facility agreement with VTB Bank as a lender for a dollar term loan facility to fund consideration payable under the MTO. Under the original terms of the facility agreement the repayment of the facility was to be made on 15 March 2012, refer to Note 36.

As of 31 December 2011 US$230,000 thousand had been drawn down.

(v) *Société Générale credit facility to OJSC "Pervenets"*

On 4 October 2011, OJSC "Pervenets", a subsidiary of the Group, entered into a US$100 million term loan facility agreement with Société Générale as a lender for a dollar term loan facility to fund general corporate purposes.

As of 31 December 2011 US$100 000 thousand had been drawn down. The facility is to be repaid in nine equal instalments in intervals of three months starting from 4 October 2012.

(vi) *Unused credit facilities*

On 21 October 2011, CJSC "Gold Mining Company Polyus", a subsidiary of the Group, entered into a US$67,502 thousand export financing credit facility agreement with Société Générale as a lender for making available the extension of financing to be used for the purchase of goods and services and related exposure fees. The establishment of the facility is for facilitation of exports from the United States of America and guaranteed by Export-Import Bank of the United States. As of 31 December 2011 the facility was not used.

On 29 December 2011, PGIL entered into a US$100 million facility agreement arranged by ZAO Unicredit Bank. Interest rate was set at 3 months USD LIBOR + 2.95 per cent. to fund general corporate purposes and/or repayment of outstanding indebtedness under guaranteed senior notes. As of 31 December 2011 the facility was not used.

VTB and Société Générale credit facilities contain certain financial covenants. The Group believes that it was in compliance with these covenants as of 31 December 2011.

29. DEFERRED TAX

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

	Year ended 31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Net liability at beginning of the year	**182,948**	**182,660**	**148,244**
Recognised in the consolidated income statement	6,755	1,348	14,909
Acquired on acquisition of subsidiaries (refer to note 6)	–	–	22,763
Effect of translation to presentation currency	(8,962)	(1,060)	(3,256)
Net liability at end of the year	**180,741**	**182,948**	**182,660**

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The temporary differences that give rise to deferred taxation are presented below:

	31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Property, plant and equipment	162,704	160,851	150,004
Inventory	54,383	51,482	33,592
Deferred stripping costs	11,897	11,153	20,158
Investments	1,370	1,642	–
Receivables	(1,596)	(871)	(1,054)
Accrued operating expenses	(48,017)	(41,309)	(20,040)
Total	**180,741**	**182,948**	**182,660**

The unrecognised deferred tax asset in respect of tax losses carried forward available for offset against future taxable profit of certain subsidiaries within the Group is presented as follows:

	31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Unrecognised deferred tax asset	40,019	28,910	33,391

Such tax losses expire in periods up to ten years, and are not recognised as management does not believe it is probable that future taxable profit will be available against which the respective entities can utilise the benefits.

The unrecognised deferred tax liability for taxable temporary differences associated with investments in subsidiaries is presented as follows:

	31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Unrecognised deferred tax liability	61,839	31,207	214,271

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.

30. TRADE, OTHER PAYABLES AND ACCRUED EXPENSES

	31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Trade payables to third parties	30,980	38,715	24,332
Other payables, including:			
Dividends payable	39,004	2,925	4,311
Wages and salaries payable	61,977	51,317	43,212
Mining tax provision	–	14,302	–
Bank guarantee liability	37	5,996	2,235
Interest payable	3,718	2,877	2,821
Other accounts payable and accrued expenses	24,973	21,079	12,371
Total other payables	**129,709**	**98,496**	**64,950**
Accrued annual leave	31,388	31,826	27,530
Total	**192,077**	**169,037**	**116,812**

The average credit period for payables at 31 December 2011 was 14 days (2010: 11 days, 2009: 13 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.

31. TAXES PAYABLE

	31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Income tax payable	2,721	22,698	2,609
Value added tax	6,262	4,188	25,315
Social taxes	12,958	7,839	7,791
Tax on mining	13,260	10,665	6,759
Property tax	4,703	4,778	3,321
Other taxes	3,052	1,966	9,037
Total	**42,956**	**52,134**	**54,832**

32. NOTES TO THE CASH FLOW STATEMENT

		Year ended 31 December		
		2011	*2010*	*2009*
	Note	*(US$'000)*	*(US$'000)*	*(US$'000)*
Profit before income tax		**765,067**	**516,481**	**260,301**
Adjustments for:				
Amortisation and depreciation	17	187,949	126,855	96,940
Finance costs	12	71,403	42,717	18,870
Expensed stripping cost	19	10,935	54,152	65,847
Impairment of inventories	22	25,209	–	–
Impairment of exploration and evaluation assets	18	54,708	13,584	1,891
Impairment of property, plant and equipment	17	23,501	635	8,968
Loss on disposal of property, plant and equipment	11	5,933	2,037	3,875
Change in allowance for reimbursable value added and tax provision	11	6,602	(294)	(171)
Loss/(income) from investments	13	(3,630)	23,711	(14,197)
Change in allowance for doubtful debts	23	(546)	2,496	(229)
Foreign exchange gain, net		5,814	(765)	(1,364)
Goodwill impairment		–	–	173,340
Other		3,971	18,737	12,362
		1,156,916	**800,346**	**626,433**
Movements in working capital				
Inventories	22	(168,688)	(206,079)	(176,327)
Trade and other receivables	23	(5,811)	(7,595)	1,562
Advances paid to suppliers and prepaid expenses		(354)	(718)	(5,456)
Taxes receivable		8,029	(47,954)	1,202
Deferred expenditures		(230)	275	3,570
Trade and other payables and accrued expenses		29,813	15,812	5,085
Other non-current liabilities		4,026	15,208	–
Other taxes payable		(4,130)	(12,437)	(2,342)
Cash flows from operations		**1,019,571**	**556,858**	**453,727**
Interest paid		(23,423)	(23,213)	(10,795)
Income tax paid		(230,743)	(88,338)	(99,832)
Net cash generated from operating activities		**765,405**	**445,307**	**343,100**

33. RELATED PARTIES

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

The Group had no transactions with its shareholders in 2009, 2010 or 2011, other than the Reorganisation (note 2).

Entities under common ownership

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

	31 December		
	2011	2010	2009
	(US$'000)	(US$'000)	(US$'000)
Cash and cash equivalents at Bank "Mezhdunarodniy finansoviy club"	149,323	23,304	22,574
Investments in securities and other financial assets at "Mezhdunarodniy finansoviy club"	1,553	–	–
Advances and prepaid expenses paid to suppliers	216	227	186

The amounts outstanding at 31 December 2011 are unsecured and expected to be settled in cash. No expense has been recognised in the reporting period for bad or doubtful debts in respect of the amounts owed by related parties. All trade payable and receivable balances are expected to be settled on a gross basis.

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

	Year ended 31 December		
	2011	2010	2009
	(US$'000)	(US$'000)	(US$'000)
Purchase of goods and services	2,224	1,763	1,078
Interest income	5,136	300	–

Key management personnel

	Year ended 31 December		
	2011	2010	2009
	(US$'000)	(US$'000)	(US$'000)
Short-term compensation of key management personnel amounted to	24,495	21,858	12,047

34. COMMITMENTS AND CONTINGENCIES

Commitments

Capital commitments

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

	31 December		
	2011	2010	2009
	(US$'000)	(US$'000)	(US$'000)
Contracted capital expenditure commitments	107,019	24,304	20,946

Operating leases: Group as a lessee

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through 2060.

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

	31 December		
	2011	2010	2009
	(US$'000)	(US$'000)	(US$'000)
Due within one year	4,275	3,256	2,714
From one to five years	7,629	8,308	8,005
Thereafter	17,199	18,880	17,328
Total	**29,103**	**30,444**	**28,047**

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 this consolidated financial information the Group was party to a number of claims and litigation, most of which are not material, except:

- a lawsuit against Kazakhaltyn MMC JSC with a potential exposure of US$15,000 thousand. The lawsuit is at the initial stage of investigation. Management believes that this claim will not have a material adverse impact on the Group; and
- a dispute between the former and current principal shareholders of PGIL is described in paragraph "KazakhGold dispute" below.

KazakhGold dispute

A dispute between the former and current principal shareholders of PGIL, whereby the current shareholders were asserting that the former shareholders were negligent in their fiduciary responsibilities related to KazakhGold, herewith the sequence of events, to date:

- on 10 April 2011, the Group entered into a Restated and Amended Principal Agreement (the "**RAPA**"), and a Settlement Deed in respect of the claims which provides for a conditional settlement and release of the orders, judgments and claims, whether in litigation, arbitration or otherwise, initiated, *inter alia* in the UK, Jersey, the BVI, or elsewhere, between KazakhGold, Jenington and Kazakhaltyn, on the one hand, and the Assaubayev family, on the other hand, and all of their respective subsidiaries and affiliates, relating to the matters referred to in those proceedings or otherwise arising in respect of the original acquisition of 65 per cent. of KazakhGold by Jenington, without any admission of liability on either part (the "**Settlement Deed**"). Pursuant to the RAPA, AltynGroup agreed to acquire the Company's operating subsidiaries in Kazakhstan, Romania and Kyrgyzstan in tranches. The aggregate transaction price for all the shares is US$509 million, as well as the provision of funds required to repay the loan provided to KazakhGold by Jenington. The sale of the operating subsidiaries is subject to numerous conditions, most of which are outstanding, and uncertain as to resolution at the date of this consolidated financial information;
- in May 2011, the Ministry of Industry and New Technologies of Kazakhstan (the "**MINT**") granted its approval to the proposed Reorganisation of KazakhGold and Polyus Gold and to the sale of 100 per cent. of the shares in Kazakhaltyn MMC JSC to AltynGroup. MINT has also revoked its previous letters, which annulled the waiver obtained for the partial offer by Jenington International Inc. for 50.1 per cent. of shares in KazakhGold, which was completed in August 2009, and the waivers obtained in September 2010 for the proposed Reorganisation between Polyus Gold and KazakhGold and the US$100 million equity placing completed by KazakhGold on 1 July 2010;

- in May 2011, criminal investigations by the Agency on Economic and Corruption Crimes of the Republic of Kazakhstan ("**AECC**") against three members of KazakhGold's Board of Directors were terminated;

- on 12 September 2011, the Company entered into a deed of amendment (the "**RAPA Amendment**") to the RAPA dated 10 April 2011 for the sale of its operating subsidiaries in Kazakhstan, Romania and Kyrgyzstan with AltynGroup, under which the parties have agreed to extend the date of the First Tranche Completion until 12 October 2011 and made a number of consequential changes to reflect a corresponding extension of other deadlines set forth in the RAPA and the documentary stand-by letter of credit for US$100,000,000 obtained by the Company pursuant to the terms of the RAPA;

- on 13 October 2011, the Group announced that it entered into a second deed of amendment to the RAPA dated 10 April 2011 for the sale of its operating subsidiaries and related matters, as amended by the deed of amendment dated 12 September 2011, with AltynGroup, under which the parties agreed to further extend the date of the First Tranche Completion until 12 December 2011 and made a number of consequential changes to reflect a corresponding extension of other deadlines set forth in the RAPA and the documentary stand-by letter of credit for US$100,000,000 obtained by the Company pursuant to the terms of the RAPA; and

- the First Tranche Completion under the RAPA did not occur by the extended First Tranche Cut-Off Date of 12 December 2011.

Insurance

The insurance industry is not yet well developed in the Russian Federation and Republic of Kazakhstan and many forms of insurance protection common in more economically developed countries are not yet available on comparable terms. The Group does not have full insurance coverage for its mining, processing and transportation facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations, other than limited coverage required by law.

The Group, as a participant in exploration and mining activities may become subject to liability for risks that cannot be insured against, or against which it may elect not to be insured because of high premium costs. Losses from uninsured risks may cause the Group to incur costs that could have a material adverse effect on the Group's business and financial condition.

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 judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also, according to the clarification of the Russian Constitutional Court, the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the 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 estimated the tax exposure at 31 December 2011 to be approximately US$2,607 thousand (31 December 2010: US$3,040 thousand, 31 December 2009: US$15,260 thousand). This amount had not been accrued at 31 December 2011 as management does not believe the payment to be probable.

Environmental matters

The Group is subject to extensive federal, local environmental controls and regulations in the regions in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment, disturbance of land that could potentially impact on flora and fauna, and give rise to other environmental concerns.

The Group's management believes that its mining and production technologies are in compliance with the existing environmental legislation in the countries in which it operates. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology to meet more stringent standards.

The Group is obliged in terms of various laws, mining 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.

Bank guarantee

On 12 August 2011, VTB Bank provided the Company with a bank guarantee to pay for the Polyus Gold securities to be acquired under the MTO for the amount not exceeding RUB 39,338,000 thousand or US$1,337,254 thousand (at 12 August exchange rate). CJSC Polyus guaranteed certain liabilities of the Company under bank guarantee. The guarantee commenced on 24 November 2011 and remains valid until 18 June 2012.

35. 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 28) less cash and cash equivalents (disclosed in note 25) 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		
	2011	2010	2009
	(US$'000)	(US$'000)	(US$'000)
Financial assets			
Financial assets at FVTPL			
Derivative financial asset	–	46,136	109,911
Equity investments in listed companies held for trading	14,857	36,730	39,199
Loans and receivables, including cash and cash equivalents			
Cash and cash equivalents	657,448	326,905	173,360
Bank deposits	12,175	39,351	70,158
Trade and other receivables	24,712	21,244	17,810
Loans receivable	3,643	3,825	4,562
AFS financial assets, carried at fair value			
AFS investments	34,744	99,721	202,161
Total financial assets	**747,579**	**573,912**	**617,161**
Financial liabilities			
Borrowings	798,680	203,448	199,831
Trade payables	30,980	38,715	24,332
Other payables	154,443	116,020	92,480
Other non-current liabilities	4,772	4,458	15,526
Total financial liabilities	**988,875**	**362,641**	**332,169**

The main risks arising from the Group's financial instruments are equity investments price, foreign currency, credit and liquidity risks. Due to the fact that the Group has sufficient positive net position in respect of the outstanding balance of borrowings and cash and cash equivalents available to settle these obligations within a short period if conditions would become unfavourable, management believes the Group is not significantly exposed to interest rate risk. If the interest rate was 1 per cent. higher/lower during the year ended 31 December 2011 interest expense for the year 2011 would increase/decrease by US$611 thousand.

Despite vulnerability of the Group to the changes in the spot gold price the Group does not enter into any hedging contracts or use other financial instruments to mitigate the commodity price risk.

Equity investments price risk

The Group is exposed to equity investments price risk. Presented below is the sensitivity analysis illustrating the Group's exposure to equity investments price risks at the reporting date. Management of the Group has decided to use the range of market prices of 10 per cent. 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 per cent. higher/lower, the profit before tax as a result of changes in fair value of financial assets at FVTPL and the investment revaluation reserve as a result of changes in fair value of AFS securities would increase/decrease as follows:

	31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
Profit before tax	1,486	8,287	14,911
Investment revaluation reserve	3,474	9,972	20,216

The Group normally places its excess cash into deposits in top rated Russian banks or into investments under asset management agreements with asset management companies who, in turn, utilise a variety of risk management activities in relation to the investments.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 31 December 2011, the Group held the following financial instruments measured at fair value:

	Level 1	***Level 2***	***Total***
	(US$'000)	***(US$'000)***	***(US$'000)***
Available for sale equity investments	–	34,744	34,744
Equity investments in listed companies held for trading	14,857	–	14,857
Total	**14,857**	**34,744**	**49,601**

As at 31 December 2010, the Group held the following financial instruments measured at fair value:

	Level 1	***Level 2***	***Total***
	(US$'000)	***(US$'000)***	***(US$'000)***
Available for sale equity investments	–	99,721	99,721
Equity investments in listed companies held for trading	36,730	–	36,730
Derivative financial asset	–	46,136	46,136
Total	**36,730**	**145,857**	**182,587**

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

	Level 1	***Level 2***	***Total***
	(US$'000)	***(US$'000)***	***(US$'000)***
Available for sale equity investments	–	202,161	202,161
Equity investments in listed companies held for trading	39,199	–	39,199
Derivative financial asset	–	109,911	109,911
Total	**39,199**	**312,072**	**351,271**

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 is determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models 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 information approximate their fair values due to their short-term nature, except for the fair value of the Gold Lion loan payable, which had a fair value at the reporting date of US$39,133 thousand.

Foreign currency risk

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

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than functional currencies of the individual Group entities were as follows:

	Assets 31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
USD	62,809	162,021	15,835
EURO	222	2,551	5,546
Total	**63,031**	**164,572**	**21,381**

	Liabilities 31 December		
	2011	***2010***	***2009***
	(US$'000)	***(US$'000)***	***(US$'000)***
USD	888,405	291,577	279,510
EURO	680	555	1,164
Total	**889,085**	**292,132**	**280,674**

Currency risk is monitored on a monthly basis by performing sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level.

The table below details the Group's sensitivity to changes of exchange rates by 10 per cent. which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items at the reporting dates denominated in respective currencies.

	31 December		
	2011	2010	2009
	(US$'000)	(US$'000)	(US$'000)
Profit or loss (RUB to USD)	61,910	12,956	26,368
Profit or loss (RUB to EURO)	64	(200)	(438)
Profit or loss (KZT to USD)	20,650	28,386	27,701

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. Credit risk arises from cash, cash equivalents and deposits kept with banks, loans granted, advances paid, promissory notes and trade and other receivables, and other investments in securities.

In order to mitigate the credit risk, the Group conducts its business with creditworthy and reliable counterparties, minimises the advance payments to suppliers, and actively uses letters of credit and other trade finance instruments.

During 2010, the Group introduced a methodology for in-house financial analysis of banks and non-banking counterparties, which enables the management to estimate an acceptable level of credit risk with regard to particular counterparties and to set appropriate individual risk limitations. Within the Group's core companies the procedures for preparing new agreements include analysis and contemplation of credit risk, estimation of the aggregate risk associated with a counterparty (arising both from an agreement under consideration and from previously existing contracts, if any) and verifying compliance with individual credit limits.

The Group's credit risk profile is regularly observed by management in order to avoid undesirable increase in risk, limit concentration of credit and to ensure compliance with above mentioned policies and procedures.

Although the Group sells more than 88 per cent. of the gold produced to three major customers, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market. A substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore credit risk related to trade receivables is minimal.

The outstanding receivables for gold sales are presented as follows:

	31 December		
	2011	2010	2009
	(US$'000)	(US$'000)	(US$'000)
Trade receivables for gold sales	4,869	3,714	4,298

Gold sales to the Group's three major customers, individually exceeding 10 per cent. of the Group's gold sales are presented as follows:

	31 December		
	2011	2010	2009
	(US$'000)	(US$'000)	(US$'000)
Gold sales	2,060,107	1,403,365	1,160,461

Other receivables include amounts receivable in respect of sale of electricity, transportation, handling and warehousing services and other services. The procedures of accepting a new customer include checks by a security department and responsible on-site management for 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 fall due. The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting and cash forecasting processes and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

Historically the Group has not relied extensively on external financing. Management is currently in discussions with major Russian and International banks to establish additional lending facilities to finance new exploration and production projects.

The Group strives to establish business relations with export credit agencies in order to benefit from their financial support when purchasing foreign goods and particularly equipment. Please refer to Note 36 for details of credit facilities and financing that were arranged post year-end.

Management believes that, in case of need, the Group would be able to raise sufficient funding within a reasonable timeframe, and on favourable terms, due to its strong historical operations and positive operating cash flow.

The Group's cash management procedures include medium-term forecasting (budget approved each financial year and updated on a quarterly basis), short-term forecasting (monthly cash-flow budgets are established for each business unit and a review of each entity's daily cash position using a two-week rolling basis).

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2011 based on undiscounted contractual payments, including interest payments:

	Borrowings		*Other non-current liabilities*	*Trade and other payables*	
	Principal	*Interest*	*Principal*	*Principal*	*Total*
	(US$'000)	*(US$'000)*	*(US$'000)*	*(US$'000)*	*(US$'000)*
Due within three months	664,688	11,084	–	181,705	857,477
Due within three to nine months	–	1,504	–	–	1,504
Due within nine to twelve months	11,112	711	895	–	12,718
Due in the second year	44,444	1,983	895	–	47,322
Due in the third year	75,469	21,595	895	–	97,959
Due in the fourth year	–	–	895	–	895
Due in the fifth year	–	–	895	–	895
Due in thereafter	–	–	3,588	–	3,588
Total	**795,713**	**36,877**	**8,063**	**181,705**	**1,022,358**

The contractual maturity of guaranteed senior notes is 6 November 2013. As described in note 28, the Group has taken an option to redeem the notes in March 2012 at 102.344 per cent. of nominal value.

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2010 based on undiscounted contractual payments, including interest payments:

	Borrowings		*Other non-current liabilities*	*Trade and other payables*	
	Principal	*Interest*	*Principal*	*Principal*	*Total*
	(US$'000)	*(US$'000)*	*(US$'000)*	*(US$'000)*	*(US$'000)*
Due within three months	200,000	–	–	101,149	301,149
Due within three to nine months	–	2,865	–	–	2,865
Due within nine to twelve months	–	–	–	6,891	6,891
Due in the second year	–	–	1,199	–	1,199
Due in the third year	–	–	899	–	899
Due in the fourth year	31,025	20,980	899	–	52,904
Due in the fifth year	–	–	899	–	899
Due in thereafter	–	–	4,496	–	4,496
Total	**231,025**	**23,845**	**8,392**	**108,040**	**371,302**

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2009 based on undiscounted contractual payments, including interest payments:

	Borrowings		*Other non-current liabilities*	*Trade and other payables*	
	Principal	*Interest*	*Principal*	*Principal*	*Total*
	(US$'000)	*(US$'000)*	*(US$'000)*	*(US$'000)*	*(US$'000)*
Due within three months	200,006	1,105	–	75,976	277,087
Due within three to nine months	–	2,865	–	8,018	10,883
Due within nine to twelve months	9,512	565	–	5,288	15,365
Due in the second year	823	297	11,583	–	12,703
Due in the third year	206	53	1,299	–	1,558
Due in the fourth year	–	–	899	–	899
Due in the fifth year	31,025	20,980	899	–	52,904
Due in thereafter	–	–	5,395	–	5,395
Total	**241,572**	**25,865**	**20,075**	**89,282**	**376,794**

36. SUBSEQUENT EVENTS

Facility agreements

On 7 February 2012, the US$300 million VTB credit facility was extended by three months, until 15 May 2012, with an extension fee paid in the amount of US$460 thousand.

On 20 February 2012, the US$500 million Société Générale credit facility was extended by three months, until 28 May 2012, with an interest rate increase to one month's USD LIBOR+2.25 per cent. and an extension fee paid in the amount of US$840 thousand.

On 10 February 2012, the Group entered into a three year USD100 million credit facility with HSBC. The interest rate is set at three months' USD LIBOR+3 per cent. The facility was utilised as described below.

On 15 March 2012, 200 million USD guaranteed senior notes were redeemed at 102.344 per cent. of nominal value funded by two 100 million USD loans from HSBC and Unicredit banks.

On 27 March 2012, CJSC "Gold Mining Company Polyus", a subsidiary of the Company, entered into a three year RUR 10 billion (US$311 million) VTB credit line to fund its general corporate purposes. The interest rate is subject for a separate agreement under each of the credit line drawdowns but could not exceed 20 per cent. or MosPrime Rate + 6.5 per cent. for RUR denominated drawdown and 14 per cent. or LIBOR/EURIBOR + 13.5 per cent. – for USD/EURO denominated drawdown. The line was not utilized.

On 30 March 2012, the Board of Directors approved dividends in the amount of US$0.041 per ordinary share at a total cost of US$115,013 thousand.

On 2 April 2012, PGIL terminated the RAPA on the grounds that the First Tranche Completion under the RAPA had not occurred by the First Tranche Cut-Off Date. The documentary stand-by letter of credit for US$100,000,000 obtained by PGIL pursuant to the terms of the RAPA, has been extended to 29 June 2012 and remains in full force and effect.

On 10 May 2012, the Group's indirect subsidiary, Jenington completed the sale, in privately negotiated transactions, of 151,607,496 Shares 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 to VTB Bank. The purchase price for the Shares was US$2.80 per Share and resulted in aggregate gross proceeds received from the two transactions equal to US$635.5 million.

On 18 May 2012, the Group completed the sale of its Romanian assets for a total consideration of US$20 million.

On 18 May 2012, the Group repaid the Bridge Facilities in full.

On 8 June 2012, the Group entered into conditional agreements with AltynGroup Holdings Korlátolt Felelösségü Társaság ("**AltynGroup Holdings Kft**"), with respect to the sale of its operating subsidiaries in Kazakhstan and Kyrgyzstan and the novation of certain loan agreements between Kazakhaltyn and Jenington to AltynGroup Holdings Kft for a total consideration of US$385 million. The combined carrying value of the loan agreements and the Group's interest in the net assets to be disposed of is approximately US$310 million. The agreement is conditional among other things upon receipt of confirmation from AltynGroup Holdings Kft by 30 July 2012 that it has sufficient funds to complete the sale agreement, relevant approvals from the Kazakhstan government and the entry into a renewed letter of credit for an amount of approximately US$59 million.

37. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

Subsidiaries	*Incorporation*	*Nature of business*	*Effective % held*[1] *31 December* *2011*	*2010*	*2009*
OJSC "Polyus Gold"	Russian Federation	Management company	95.3	–[2]	–[2]
CJSC "Gold Mining Company Polyus"	Russian Federation	Mining	95.3	100.0	100.0
OJSC "Aldanzoloto GRK"	Russian Federation	Mining	95.3	100.0	100.0
OJSC "Lenzoloto"	Russian Federation	Market agent	61.1	64.1	64.1
LLC "Lenskaya Zolotorudnaya Company"[3]	Russian Federation	Market agent	n/a –	100.0	100.0
CJSC "ZDK Lenzoloto"	Russian Federation	Mining	63.0	66.2	66.2
CJSC "Lensib"[4]	Russian Federation	Mining	38.4	40.4	40.4
CJSC "Svetliy"	Russian Federation	Mining	52.9	55.6	55.6
CJSC "Marakan"	Russian Federation	Mining	52.9	55.6	55.6
CJSC "Dalnaya Taiga"	Russian Federation	Mining	51.7	54.3	54.3
CJSC "Sevzoto"[4]	Russian Federation	Mining	40.9	43.0	43.0
CJSC "GRK Sukhoy Log"[3]	Russian Federation	Mining	n/a –	100.0	100.0
OJSC "Matrosov Mine"	Russian Federation	Mining (development stage)	95.3	100.0	100.0
CJSC "Tonoda"	Russian Federation	Mining (exploration stage)	95.3	100.0	100.0
OJSC "Pervenets"	Russian Federation	Mining (development stage)	95.3	100.0	100.0
OJSC "South-Verkhoyansk Mining Company"	Russian Federation	Mining (development stage)	95.3	100.0	100.0
Polyus Exploration Limited	British Virgin Islands	Geological research	95.3	100.0	100.0
JSC "MMC Kazakhaltyn"	Republic of Kazakhstan	Mining	100.0	65.0	50.2
Jenington International Inc.	British Virgin Islands	Market agent	95.3	100.0	100.0
Polyus Investments Limited	Cyprus	Market agent	95.3	100.0	100.0

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

2 The parent of the Group before 25 July 2011 (note 2).

3 The entities were merged into OJSC "Pervenets" during the year 2011.

4 The Company maintains control of these entities as it continues to govern their financial and operating policies through its ability to appoint the Board of Directors. A majority of the Board members for these entities are representatives of the Company and are therefore consolidated even though the effective interest is less than 50 per cent. as at 31 December 2011, 2010 and 2009.

Section B: Accountant's Report on the Historical Financial Information of Polyus Gold International Limited and its subsidiaries

Deloitte LLP
2 New Street Square
London EC4A 3BZ
United Kingdom

The Board of Directors
on behalf of Polyus Gold International Limited
Queensway House
Hilgrove Street
St. Helier
Jersey JE1 1ES
Channel Islands

14 June 2012

J.P. Morgan Securities Ltd.
125 London Wall
London EC2Y 5AJ
United Kingdom

Dear Sirs,

Polyus Gold International Limited

We report on the financial information of Polyus Gold International Limited (the "Company") and its subsidiaries (together the "Group") for the three years ended 31 December 2011 set out in Section A of Part XII of the prospectus dated 14 June 2012 of the Company (the "Prospectus"). This financial information has been prepared for inclusion in the Prospectus on the basis of the accounting policies set out in notes 3 and 4 to the financial information. This report is required by Annex I item 20.1 of Commission Regulation (EC) No 809/2004 (the "Prospectus Directive Regulation") and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union and as issued by the International Accounting Standards Board. It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

Basis of Opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion on Financial Information

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union and as issued by the International Accounting Standards Board.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f), we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

Deloitte LLP
Chartered Accountants

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Member of Deloitte Touche Tohmatsu Limited

PART XIII

MANAGEMENT AND CORPORATE GOVERNANCE

The Board of Directors currently comprises a non-executive Chairman, Robert Buchan, the chief executive officer, Mr. German Pikhoya, and seven non-executive Directors.

The Board considers five of the nine directors, Messrs. Buchan, Coates, Buck, Moolman and the Earl of Clanwilliam, to be independent within the meaning of the Corporate Governance Code. Mr. Adrian Coates has been appointed as Senior Independent Director.

The table below shows the current members of the Company's Board of Directors. The business address for each of the Company's Directors is Argyll, 18b Charles Street, London W1J 5DU, United Kingdom.

Board of Directors

Name	*Year of Birth*	*Role*	*Date of Appointment*	*Term of Appointment*[1]	*Annual Remuneration*
Mr. Robert Buchan	1947	Chairman and Independent Non-Executive Director	26 July 2011	3 years	US$250,000[2]
Mr. Bruce Buck	1946	Independent Non-Executive Director	26 July 2011	3 years	US$200,000[2]
Earl of Clanwilliam	1960	Independent Non-Executive Director	26 July 2011	3 years	US$200,000[2]
Mr. Adrian J.G. Coates	1958	Senior Independent Non-Executive Director	17 March 2010	3 years	US$200,000[2]
Ms. Anna A. Kolonchina	1972	Non-Executive Director	26 July 2011	3 years	N/A[3]
Mr. Kobus Moolman	1953	Independent Non-Executive Director	26 July 2011	3 years	US$200,000[2]
Mr. Alexander I. Mosionzhik	1961	Non-Executive Director	26 July 2011	3 years	N/A[3]
Mr. German R. Pikhoya	1970	Chief Executive Officer	30 March 2012	3 years	[4]
Mr. Dmitry V. Razumov	1975	Non-Executive Director	26 July 2011	3 years	N/A[3]

1. In accordance with the Corporate Governance Code, each of the Directors will be subject to re-election by shareholders at the Annual General Meeting.
2. Messrs Buchan, Buck, Coates, Moolman and the Earl of Clanwilliam have each received an additional US$25,000 in respect of their services as Directors following completion of the Combination.
3. The Non-Executive Directors serving solely in such capacity will not receive any remuneration from the Company or any other member of the Group for their services.
4. Under Mr. Pikhoya's employment agreements with CJSC Polyus and OJSC Polyus Gold, Mr. Pikhoya's annual remuneration is fixed at RUB 2,375,000 per month and RUB 15,000 per month, respectively.

Mr. Adrian Coates was appointed Director on 17 March 2010 at the Annual General Meeting; Mr. German Pikhoya was appointed by the Board on 30 March 2012; the other Directors were appointed to the Board on 26 July 2011 by the other Directors then in office.

Mr. Robert Buchan, Chairman and Independent Non-Executive Director

- From 1993 to 2002 – Chairman of Kinross Gold Corp.
- From 1993 to 2005 – Chief Executive Officer of Kinross Gold Corp.
- From 2005 to 2007 – Executive Chairman of Quest Capital Corp (now Sprott Resource Lending Corp).
- Since 2006 – Executive Chairman of Allied Nevada Corporation.
- From 2006 to 2007 – Member of the board of directors of BC Metals Ltd.
- From May 2007 to July 2007 – Member of the board of directors of Katanga Mining Limited.
- From 2007 to 2008 – Member of the board of directors of Rockwater Resources.
- From 2007 to 2009 – Chairman of Extract Resources Ltd.
- From 2008 to 2009 – Member of the Board of Directors of OJSC Polyus Gold.
- From 2008 to 2009 – Chairman of the board of directors of Extract Resources.
- From 2008 to 2010 – Executive Chairman of the board of Elgin Mining Inc. (formerly, Phoenix Coal Inc.), from 2010 to 2012, Chief Executive Officer and President, and since April 2012, director.
- From 2009 to 2010 – Member of the board of directors of Claude Resources Inc.
- From 2009 to 2011 – Chairman of the board of Rainy Mountain Royalty Corporation.
- From 2009 to March 2012 – Chairman of the board of FoxPoint Capital Corporation.
- From 2010 to March 2012 – Chairman of the board of Angus Mining (Nambia) Inc.
- From 2011 to March 2012 – Member of the board of directors of Sprott Resource Lending.
- From 2011 to March 2012 – Chairman of the board of directors of Touchstone Gold, and since March 2012, director.
- From 2011 to 2012 – Member of the board of directors of Samco Gold.
- Since July 2011 – Member of the board of directors of PGIL.

In 1969, Mr. Buchan received a Degree in Mining Engineering from Herriot-Watt University in Edinburgh and, in 1971, a Masters of Science degree in Mineral Economics from Queen's University in Kingston, Ontario.

Mr. Bruce Buck, Independent Non-Executive Director

- Since 1988 – Managing Partner for Europe of international law firm Skadden Arps Slate Meagher & Flom LLP., specialising in financing transactions as well as mergers and acquisitions.
- Since 2003 – Chairman of Chelsea FC plc and its operating subsidiary Chelsea Football Club Limited.
- Member of the Audit Committee of the FA Premier League, the top tier football league in England.
- Trustee, and a member of the Audit Committee, of Orbis UK, a charity devoted to eradicating curable blindness in the developing world.
- Since July 2011 – Member of the board of directors of PGIL.

Mr. Buck is a graduate of Columbia University School of Law in New York, and a registered foreign lawyer in England and Wales.

The Earl of Clanwilliam, Independent Non-executive Director

The Earl of Clanwilliam held or continues to hold, as applicable, the following other posts:

- Sine 1993 – Executive Chairman and founder of Gardant Communications Limited.
- From 2000 to 2004 – non-executive Chairman of the board of directors of Cleveland Bridge UK Ltd.
- Since 2005 – Director and Advisory Member of the Ukrainian British City Club.
- From 2005 to 2011 – Member of the board of directors of OJSC Polyus Gold, since 2011 – Chairman of the board of directors.
- Since 2006 – Chairman of Eurasia Drilling Company.
- Since 2010 – Member of the board of directors of Matador Asset Management Limited.
- Since 2011 – Director of Touchstone Gold Limited.
- Since July 2011 – Member of the board of directors of PGIL.
- Since March 2012 – Independent Non-executive Director of NMC Health plc.

The Earl of Clanwilliam attended Eton College, UK, where he studied English and History of Art until 1979 and subsequently graduated from the Royal Military Academy, Sandhurst in 1980.

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

- From 1996 to 1998 – Managing Director, Metals and Mining, at UBS Investment Bank.
- From 1998 to 2008 – Global Sector Head, Resources and Energy, at HSBC.
- Since 2008 – Director of Regal Petroleum plc.
- Since March 2010 – Member of the board of directors, member of the audit committee (2010–2011) and chairman of the risk management committee of PGIL.

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

Ms. Anna A. Kolonchina, Non-Executive Director

- From 2001 to 2008 – Director at Deutsche Bank AG, London.
- From March 2008 to November 2008 – Managing Director of Wainbridge Limited.
- From 2008 to 2010 – Vice-President for economics and finance at OJSC PIK Group, since May 2010 – Member of the board of directors of OJSC PIK Group.
- From 2009 to 2011 – Member of the board of directors of OJSC DSK-2.
- From 2009 to 2011 – Member of the board of directors of OJSC DSK-3.
- From 2010 to 2012 – Member of the board of directors of OJSC International Financial Club (IFC Bank).
- From 2010 to 2012 – Member of the supervisory board of JSC Belarusian Potash Company.
- Since 2010 – Managing Director of LLC Nafta Moskva.
- Since 2010 – Member of the board of directors of OJSC Polyus Gold.
- Since 2010 – Member of the board of directors of OJSC Uralkali.
- Since July 2011 – Member of the board of directors of PGIL.

Ms. Kolonchina has a degree in economics from the State Academy of Finance.

Mr. Kobus Moolman, Independent Non-Executive Director

Mr. Moolman is a qualified Chartered Accountant with more than 35 years experience with international accounting and auditing firms.

- From 1981 to 2002 – Ernst & Young in South Africa where he became Senior Audit Partner.
- From 2002 to 2008 – Senior Audit Partner and Leader of the Mining Industry Group in Russia at Deloitte & Touche CIS.
- From 2009 to 2010 – Audit and IFRS technical partner for the Middle East Region for BDO in the Kingdom of Bahrain.
- Since 2010 – Chief Audit Executive for the Saudi Arabian Mining Company – Ma'aden.
- Since July 2011 – Member of the board of directors of PGIL

In 1974 Mr. Moolman received a B.Comm, in 1976 – a B.Comm Hons and a Certificate in Theory of Accounting (CTA), from Rand Afrikaans University in Johannesburg. In 1979, Mr. Moolman received a M. Comm from Potchefstroom University for Christian Higher Education in Potchefstroom, and in 1981 he received a Higher Diploma in Tax Law from Witwatersrand University in Johannesburg. Mr. Moolman 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.

Mr. Alexander I. Mosionzhik, Non-Executive Director

- From 1999 to 2006 – First deputy CEO, and then later CEO, of LLC Nafta Moskva and since 2006 – Chairman of the board.
- Since 2009 – Member of the board of directors and deputy chairman of the board of OJSC Polyus Gold.
- From 2009 to 2011 – Member of the board of directors of PIK Group.
- Since 2009 – Member of the board of directors, deputy chairman of the board of directors and member of the appointment and remuneration committee of OJSC Uralkali.
- From 2010 to 2012 – Member of the board of directors and chairman of the supervisory board of JSC Belarusian Potash Company.
- From 2010 to 2012 – Member of the board of directors of OJSC International Financial Club (IFC Bank).
- Since July 2011 – Member of the board of directors of PGIL.

In 1983, Mr. Mosionzhik graduated from Tula Technical Institute with a degree in Applied Mathematics and has a Ph.D. in Technical Sciences.

Mr. German R. Pikhoya, Chief Executive Officer

- From 1994 to 1995 – Head of the CJSC MOSEXPO project.
- From 1994 to 1998 – General director of OJSC Central Company of the Eurozoloto Financial and Industrial Group.
- From 1995 to 1997 – General director of Palamos company.
- From 1998 to 2002 – Deputy head of the representative office in Russia and business development manager at LLC Placer Dome International.
- From 2002 to 2004 – Deputy general director for corporate development of CJSC Polyus.

- From 2004 to 2007 – Vice-president for corporate development of CJSC Polyus.
- From 2007 to 2009 – Deputy general director for strategy and corporate development of OJSC Polyus Gold.
- From 2009 to 2011 – Deputy general director for strategy and corporate development of CJSC Polyus and member of the board of directors of PGIL.
- Since 2011 – General director of CJSC Polyus and OJSC Polyus Gold.
- From July 2011 to March 2012 – Chief Executive Officer of PGIL.
- Since March 2012 – Chief Executive Officer and member of the board of directors of PGIL.

Mr. Pikhoya graduated from the Urals State University with an honours degree in history. Mr. Pikhoya conducted post-graduate research at Bowdoin College in the United States. Mr. Pikhoya graduated from the Russian Presidential Academy of Public Administration with a degree in economics.

Mr. Dmitry V. Razumov, Non-Executive Director

- From 2001 to 2005 – Deputy general director of OJSC MMC Norilsk Nickel and member of the board of Norimet, a UK subsidiary of OJSC MMC Norilsk Nickel, and from 2009 to 2010 – member of the board of directors of OJSC MMC Norilsk Nickel.
- Since 2007 – Chief Executive Officer of Onexim Group.
- Since 2008 – Member of the board of directors at United Company Rusal plc.
- Since 2008 – Director at Nor-Med Limited.
- Since 2008 – Member of the board of directors at MMC Intergeo.
- From 2008 to 2010 – Member of the board of directors at Open Investments, since 2010 – Chairman of the board of directors.
- From 2009 to 2010 – Chairman of the board of directors at OJSC International Financial Club (IFC Bank).
- Since 2009 – Member of the board of directors at Renaissance Financial Holdings Limited.
- Since 2011 – Chairman of the board of directors at Soglasie Insurance Company.
- Since 2011 – Chairman of the board of directors at YO-AUTO.
- Since July 2011 – Member of the board of directors of PGIL.
- Since 2012 – Member of the board of directors at Renaissance Capital Investments Limited.
- Since 2012 – Member of the board of directors at Intergeo MMC Ltd.

Senior Management Team

The table below shows the Group's senior management ("**Senior Management**"). The business address for each member of the Group's senior management is Argyll, 18b Charles Street, London W1J 5DU, United Kingdom.

Name	*Year of Birth*	*Role*
Mr. German R. Pikhoya	1970	Chief Executive Officer of PGIL, OJSC Polyus Gold and CJSC Polyus
Mr. Artem A. Borisanov	1976	Deputy General Director for Strategy and Corporate Development of CJSC Polyus
Ms. Elena E. Bulavskaya	1966	Deputy General Director for Corporate Affairs of CJSC Polyus
Mr. Alexey V. Golubenko	1962	General Director of OJSC Aldanzoloto GRK
Mr. Oleg V. Ignatov	1969	Chief Financial Officer of PGIL, Deputy General Director and Chief Financial Officer of CJSC Polyus
Mr. Valeriy F. Konstantinov	1954	Head of Irkutsk business unit of OJSC Polyus Gold, General Director of OJSC Lenzoloto and CJSC ZDK Lenzoloto
Mr. Kyrill A. Martynov	1965	General Director of JSC MMC KazakhAltyn, Head of Kazakhstan business unit
Nikolay V. Morozov	1967	Deputy General Director for Internal Control of CJSC Polyus
Mr. James Nieuwenhuys	1954	COO of PGIL and CJSC Polyus
Mr. Yuri A. Ryndin	1965	Deputy General Director for Supplies, Materials and Machinery of CJSC Polyus
Mr. Vyacheslav L. Sokolov	1966	Head of Magadan business unit of OJSC Polyus Gold and General Director of OJSC Matrosov Mine
Mr. Alexey L. Teksler	1973	Head of Krasnoyarsk business unit
Mr. Boris A. Zakharov	1954	Deputy General Director for Engineering and Innovations of CJSC Polyus

Mr. German R. Pikhoya, Chief Executive Officer of PGIL, OJSC Polyus Gold and CJSC Polyus

Please refer to "–Board of Directors" for a brief biography of Mr. Pikhoya.

Mr. Artem A. Borisanov, Deputy General Director for Strategy and Corporate Development of CJSC Polyus

- From 2002 to 2004 – Investment manager at OJSC AKB Rosbank.
- From 2004 to 2007 – Head of project valuation at CJSC Polyus.
- From 2008 to 2009 – Investment director at OJSC Polyus Gold.
- From 2009 to 2011 – Investment director at CJSC Polyus.
- Since 2011 – Deputy general director for strategy and corporate development of CJSC Polyus.

Mr. Borisanov graduated from the University of Maryland with a B.Sc. in Business and Management and from Irkutsk State University with an M.Sc. in World Economics.

Ms. Elena E. Bulavskaya, Deputy General Director for Corporate Affairs of CJSC Polyus

- From 1990 to 1994 – Economist at Joint Stock Insurance Company Ingosstrakh.
- From 1994 to 2000 – Advisor to the chairman of the management board at the United Export and Import Bank.
- From 2000 to 2002 – Advisor to the president at OJSC AKB Rosbank.
- From 2002 to 2007 – Advisor to the general director, head of staff of the general director at OJSC MMC "Norilsk Nickel".
- Since 2007 – Head of Staff of the President at Onexim Group.
- Since December 2010 – Deputy general director for corporate affairs at CJSC Polyus.

Ms. Bulavskaya graduated with honours from the Moscow State Financial Institute in 1989 with a degree in finance and credit.

Mr. Alexey V. Golubenko, General Director of OJSC Aldanzoloto GRK

- From 1984 to 1993 – Deputy chief of site and later chief of site at "Nerjungrinsky" mine.
- From 1993 to 2003 – Main technologist, assistant to the chief engineer and later chief of the development department at OJSC "Jakutugol".
- From 2004 to 2011 – Senior fellow and associate professor at Larionov Institute of the Physical Technical Problems of the North of the Siberian Branch of the Russian Academy of Science.
- From 2005 to 2007 – First deputy of the minister of industry of the Republic Sakha (Yakutia).
- From 2007 to 2011 – Minister of industry of the Republic Sakha (Yakutia).
- Since August 2011 – General director and member of the board of directors of OJSC Aldanzoloto GRK, a subsidiary of CJSC Polyus.

Mr. Golubenko graduated from the Moscow college of mines in 1984, the Russian Presidential Academy of National Economy and Public Administration in 1998, Russian Academy of Public Administration under the President of the Russian Federation in 2008. Mr. Golubenko holds a Ph.D. in Economics (*kandidat economicheskih nauk*).

Mr. Oleg V. Ignatov, Chief Financial Officer of the Company, Deputy General Director and Chief Financial Officer of CJSC Polyus

- From 1998 to 2002 – Head of the regional relationship development department, deputy head of client relations, vice-president and senior vice-president at OJSC AKB Rosbank.
- From 2002 to 2003 – Deputy general director for finance at OJSC ChelyabEnergo.
- From 2003 to 2005 – First deputy mayor of Norilsk.
- From 2005 to 2008 – Deputy director for economics and finance at the polar division of OJSC MMC "Norilsk Nickel".
- Since 2008 – Deputy General Director and Chief Financial Officer at CJSC Polyus.
- Since 2008 – Member of the board of directors of CJSC Polyus and CJSC ZDK Lenzoloto.
- Since July 2011 – Chief Financial Officer of PGIL.
- Since December 2011 – Member of the Board of Directors of OJSC Polyus Gold.

Mr. Ignatov graduated from the Moscow Machine-Instrument Institute (STANKIN) in 1992 with a degree in electrical engineering. Mr. Ignatov graduated with honours from the Financial University, under the Government of the Russian Federation in 1998, with a degree in finance and credit.

Mr. Valeriy F. Konstantinov, Head of Irkutsk business unit of OJSC Polyus Gold, General Director of OJSC Lenzoloto and CJSC ZDK Lenzoloto

- From 1977 to 1988 – Head of mining, chief engineer and mine director at Marakan gold mine of Lenzoloto Production Association.
- From 1988 to 1990 – Executive committee chairman at Bodaibo City Soviet of People's Deputies.
- From 1990 to 1998 – Deputy general director of mining operations of the Lenzoloto Production Association and director of mining operations at AOZT Lenzoloto.
- From 1998 to 2006 – Executive director and general director at CJSC Marakan and since 2006 – chairman of the board of directors.
- Since 2006 – General director of CJSC ZDK Lenzoloto.
- Since 2007 – General director of OJSC Lenzoloto.
- Since 2006 – Chairman of the board of directors of CJSC Svetliy.
- Since 2006 – Chairman of the board of directors of CJSC Lensib.
- Since 2006 – Chairman of the board of directors of CJSC Dalnyaya Taiga.
- Since 2006 – Chairman of the board of directors of CJSC Sevzoto.
- From January 2011 to 1 September 2011 – General director and member of the board of directors of LZRK.

Mr. Konstantinov graduated from Irkutsk Polytechnic Institute in 1977 with a degree in mining engineering. Mr. Konstantinov holds various state honours.

Mr. Kyrill A. Martynov, General Director of JSC MMC KazakhAltyn, Head of Kazakhstan business unit

- From 1994 to 1999 – First deputy director of the finance department at "Oneksimbank".
- From 1999 to 2001 – Executive director at Udmurneft, Sidanko group.
- From 2001 to 2005 – Vice president and managing director at "Roskhleboprodukt".
- From 2005 to 2006 – General director at Investment Company "Fabris".
- From 2006 to 2008 – First deputy director of the general director at OOO "NorilskNickelremont".
- From August 2009 to October 2009 – adviser to the general director of CJSC Polyus.
- From October 2009 to December 2011 – Deputy general director at JSC MMC Kazakhaltyn.
- Since December 2011 – General director of JSC MMC Kazakhaltyn, head of Kazakhstan Business Unit.

Mr. Martynov graduated from the Moscow Finance Institute in 1989 with a degree in international economic relations.

Nikolay V. Morozov, Deputy General Director for Internal Control of CJSC Polyus

- From 1994 to 1997 – Deputy head of department in the credit resource directorate and head of the economic analysis department at Methdunarodny Finadvisory Club.

- From 1997 to 1998 – Deputy head of planning, operational income and expenses control division of the finance department at the United Export and Import Bank.
- From 1998 to 2003 – Member of the board and head of internal control at OJSC AKB Rosbank.
- From 2003 to 2008 – Head of control and audit department and director of the internal control department at OJSC MMC "Norilsk Nickel".
- Since 2008 – Deputy general director for internal control at CJSC Polyus.
- Since December 2010 – Head of the audit commission of OJSC Polyus Gold.

Mr. Morozov graduated with honours from the Moscow State Institute for International Relations in 1989 with a degree in international economic relations.

Mr. James Nieuwenhuys, COO of PGIL and CJSC Polyus

- From 1991 to 1993 – Project engineer at Venetia Mine at De Beers Consolidated Mines Ltd.
- From 1993 to 1994 – Engineer in special projects department at Xcel Engineering and Management.
- From 1994 to 2001 – Director of mechanical engineering at Bateman Minerals & Metals.
- From 2001 to 2003 – Head of the representative office in the Russian Federation at Bateman International B.V.
- From 2003 to 2006 – Senior general manager for strategic development diamonds at Bateman Minerals & Metals.
- From 2006 to 2007 – Managing director at Bateman Diamonds (Pty) Limited.
- From 2007 to 2008 – Vice president for special projects at SNC-Lavalin Inc.
- From 2008 to 2011 – Managing director at SNC-Lavalin South Africa.
- Since May 2011 – Chief Operating Officer of PGIL and CJSC Polyus.

Mr. Nieuwenhuys graduated from the University of Cape Town in 1982 with a B.Sc. in mechanical engineering.

Mr. Yuri A. Ryndin, Deputy General Director for Supplies, Materials and Machinery of CJSC Polyus

- From 1992 to 1993 – Chief specialist and deputy head of social service and transport department at International Financial Company.
- From 1993 to 1998 – held various positions in the procurement department and head of commercial department of administration at United Export and Import bank.
- From 1998 to 2002 – Head of the commercial division of the administration department of OJSC AKB ROSBANK.
- From 2002 to 2008 – Deputy general director for supply and procurement at OJSC MMC "Norilsk Nickel".
- Since 2008 – Deputy general director for supplies, materials and machinery at CJSC Polyus.

Mr. Ryndin graduated from the Moscow Construction Engineering Institute in 1991 with a degree in industrial and residential construction.

Mr. Vyacheslav L. Sokolov, Head of Magadan business unit of OJSC Polyus Gold and General Director of OJSC Matrosov Mine

- From 2005 to 2007 – Deputy head of the prospective development and construction department of the geology division of the Polar Division of OJSC MMC "Norilsk Nickel".
- From March 2007 to October 2007 – First deputy director of design and chief engineer of Norilskproject Institute, the Norilsk branch of LLC Institute Gipronickel.
- From November 2007 to April 2009 – Director of Norilskproject Institute, the Norilsk branch of LLC Institute Gipronickel.
- From May 2009 to 2010 – First deputy general director of OJSC Matrosov Mine.
- From 2009 to 2010 – Director for the Natalka gold deposit development project of CJSC Polyus.
- Since July 2010 – General director of OJSC Matrosov Mine.

Mr. Sokolov graduated from the Novocherkassk Polytechnic Institute in 1988 with a degree in mining electrical engineering.

Mr. Alexey L. Teksler, Head of Krasnoyarsk business unit

- From 1990 to 2000 – Technician in the economic unit, deputy head of the tax planning department and head of the tax planning department at OJSC A.P. Zavenyagin Norilsk Mining and Metallurgical Smelting Works.
- From 2000 to 2001 – First deputy head of the finance department and head of tax and duties department at OJSC MMC "Norilsk Nickel".
- From 2001 to 2007 – Chief accountant, deputy director of the Polar Division and head of multi-industry supplies directorate at OJSC MMC "Norilsk Nickel".
- From 2006 to 2008 – General director of LLC Norilskiy Obespechivayushchiy Kompleks (Norilsk Supply Group).
- From 2006 to 2008 – Director of OJSC "NGMK im. A. P. Zavenyagina".
- From 2008 to 2009 – Head of the Norilsk City Administration.
- From 2009 to 2011 – Head of the Kazakhstan Business Unit and general director of JSC MMC Kazakhaltyn.
- From 2009 to 2011 – Director of production at PGIL.
- Since December 2011 – Managing director, head of Krasnoyarsk Business Unit.

Mr. Teksler graduated with honours from Norilsk Industrial Institute in 1995 with a degree in economics and administration in metallurgy.

Mr. Boris A. Zakharov, Deputy General Director for Engineering and Innovations of CJSC Polyus

- From 1977 to 1985 and from 1992 to 1999 – various positions, including mill operator, foreman, senior foreman of the crushing and floatation shop at the main production site at Norilsk Mine.
- From 1985 to 1992 – Chief engineer of the Erdenet mine in Mongolia.
- From 1992 to 1999 – Deputy head of the crushing and floatation shop, and later head of the crushing and floatation shop at OJSC MMC "Norilsk Nickel".
- From 1999 to 2003 – Chief engineer of the production association of processing plants of OJSC MMC "Norilsk Nickel".

- From 2003 to 2008 – Head of the directorate for planning and coordination of research and engineering development of OJSC MMC "Norilsk Nickel".
- From 2008 to 2011 – Deputy general director for production of CJSC Polyus.
- Since 2008 – Member of the board of directors of LLC Polyus Stroy.
- Since 2008 – Chairman of the board of directors of OJSC Aldanzoloto GRK.
- From 2009 to 2010 – Member of the board of directors of PGIL.
- Since 2009 – Member of the board of directors of OJSC Matrosov Mine.
- Since 2010 – Member of the board of directors of CJSC ZDK Lenzoloto.
- Since 2010 – Chairman of the board of directors of LLC Polyus Project.
- Since 2010 – Chairman of the board of directors of JSC MMC Kazakhaltyn.
- From April 2010 to August 2011 – Member of the board of directors of CJSC ZDK Lenzoloto.
- Since 2011 – Deputy general director for engineering and innovations at CJSC Polyus.

Mr. Zakharov graduated from the Moscow Institute of Steel and Alloys in 1978 with a degree in mineral enrichment. Mr. Zakharov holds a Ph.D. in Technical Sciences (kandidat tekhnicheskih nauk).

Remuneration of Directors and Senior Management

The following amounts were paid to the Company's Directors in 2011: Robert Buchan received US$108,788, Bruce Buck received US$88,883, the Earl of Clanwilliam received US$196,397 (which includes US$109,367 for his services as a director of OJSC Polyus Gold), Adrian Coates received US$180,360, Kobus Moolman received US$87,030 and German Pikhoya received US$1,520,826 for his services as Deputy General Director for Strategy and Corporate Development and CEO of OJSC Polyus Gold and CJSC Polyus. The total amount paid to the members of the Group's Senior Management in 2011 was US$20.2 million. The Senior Management are entitled to pensions at the level required by Russian law. All directors of the Company benefit from directors and officers insurance. See "– Board of Directors" for details of their remuneration.

Shares held by Directors and Senior Management

As at the date of this Prospectus, other than the Earl of Clanwilliam and Kobus Moolman, who hold 2,656 Shares and 39,579 Shares, respectively, in the form of depository receipts, no other member of the Company's Board of Directors or Senior Management holds any Shares or holds any option over Shares.

The Service Contracts of the Chief Executive Officer

Mr German Pikhoya, the Chief Executive Officer of the Company, has entered into employment contracts with CJSC Polyus and OJSC Polyus Gold, respectively. Mr Pikhoya receives a fixed salary of RUB 2,375,000 per month under his employment contract with CJSC Polyus and RUB 15,000 per month under his employment contract with OJSC Polyus Gold. Mr Pikhoya's employment contract with CJSC Polyus has an indefinite term, while his employment contract with OJSC Polyus Gold is for a fixed term expiring on 1 July 2014. Mr Pikhoya must give one month's notice to terminate either contract. CJSC Polyus and OJSC Polyus Gold can terminate their respective contracts on no notice. In the event that his employment is terminated by OJSC Polyus Gold other than due to his wrongful acts, Mr Pikhoya is entitled to a payment equal to 12 months' salary.

Litigation statement about Directors and Senior Management

At the date of this document, for at least the previous five years, none of the members of the Board of Directors or Senior Management have:

(i) had any convictions in relation to fraudulent offences;

(ii) have been adjudged bankrupt or have been a member of the administrative, management or supervisory board or a senior manager of a company which has been bankrupt, place in receivership or liquidation;

(iii) been the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies); or

(iv) been disqualified by a court from acting as a member of the administrative, management or supervisory board of an issuer or from acting in the management or conduct of the affairs of any issuer.

The following potential conflicts of interest arise for certain of the Directors:

- Mr. Dmitry V. Razumov is Chief Executive Officer of Onexim (a Principal Shareholder). Mr. Dmitry V. Razumov is a Nominated Director of Onexim under the Relationship Agreement.
- Mr. Alexander I. Mosionzhik is Chairman of the Board of Nafta (a Principal Shareholder). Mr. Alexander I. Mosionzhik is a Nominated Director of Nafta under the Relationship Agreement.
- Ms. Anna A. Kolonchina is Managing Director of Nafta (a Principal Shareholder). Ms. Anna A. Kolonchina is a Nominated Director of Nafta under the Relationship Agreement.

Except as described above, there are no potential conflicts of interest between any duties owed to the Company by the members of the Board of Directors and Senior Management and their private interests and/or other duties.

Corporate Governance

The Company is committed to maintaining high standards of corporate governance. The Company intends to comply with the Corporate Governance Code. The Board of Directors currently comprises a non-executive Chairman, a Chief Executive Officer (the "**CEO**") and seven non-executive Directors. Currently, the Chairman and four of the Company's non-executive Directors (excluding the Chairman) are considered by the Board as being independent for the purposes of the Corporate Governance Code. Mr. Adrian Coates has been appointed senior independent director. The role of the senior independent director is to evaluate the performance of the Chairman and address shareholders' concerns that are not resolved through the normal channels of communication with the Chairman, the CEO or when such communications would be inappropriate.

The Board of Directors has put in place the procedures required to comply with the internal control aspects of the Corporate Governance Code and will report on an ongoing basis to the shareholders as to its compliance with the Corporate Governance Code in accordance with the Listing Rules.

Board committees

The Board of Directors has established an Audit Committee, a Nomination Committee, a Remuneration Committee, a Risk Management Committee and a Health and Safety Committee. Under the Relationship Agreements, each Principal Shareholder has agreed to exercise its voting rights to ensure that the composition of the committees of the Board is in compliance with the Corporate Governance Code.

Audit committee

The Board of Directors has established an Audit Committee with formally delegated duties and responsibilities and written terms of reference. The Company's Audit Committee is chaired by the independent non-executive director, Mr. Kobus Moolman (who is a qualified Chartered Accountant), and also includes Mr. Adrian Coates and the Earl of Clanwilliam. The Audit Committee assists the Board of Directors in discharging its responsibilities regarding financial reporting, external and internal audits and controls, as well as reviewing the Group's annual financial statements. It also assists by reviewing and monitoring the extent of non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the Group's internal audit activities, internal controls and risk management systems. The Audit Committee will normally meet not fewer than three times a year.

The Corporate Governance Code recommends that the Audit Committee be comprised of at least three independent non-executive Directors and that at least one member of the Audit Committee has recent and relevant financial experience. The Board believes the Company complies with the requirements of the Corporate Governance Code in this regard.

Nomination Committee

The Nomination Committee is chaired by the Chairman and independent non-executive director, Mr. Robert Buchan, and also includes the independent non-executive directors Mr. Adrian Coates, the Earl of Clanwilliam and Mr. Bruce Buck. The Nomination Committee is responsible for preparing selection criteria and appointment procedures for members of the Board of Directors and reviewing on a regular basis the structure, size and composition of the Board of Directors. In undertaking this role, the committee refers to the skills, knowledge and experience required of the Board of Directors given the Company's stage of development and makes recommendations to the Board of Directors as to any changes. The Nomination Committee also reviews the leadership needs of the organisation and determines succession plans for the Chairman and CEO. The Nomination Committee will meet not fewer than twice a year.

The Corporate Governance Code recommends that a majority of the Nomination Committee be non-executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement. The Board believes that the Company complies with the requirements of the Corporate Governance Code in that regard.

Remuneration Committee

The Remuneration Committee is chaired by the independent non-executive director, the Earl of Clanwilliam, and also includes the independent non-executive directors Mr. Adrian Coates and Mr. Bruce Buck. The Remuneration Committee is responsible for making recommendations and preparing an annual report to the Board on the Company's remuneration policies and reviews and determines the remuneration of the CEO. The Remuneration Committee reviews the ongoing appropriateness and relevance of the remuneration policy. In particular, the Remuneration Committee reviews the scale and structure of the remuneration packages of the CEO and the terms of their service or employment contracts, including any share incentive plans, other employee incentive schemes adopted by the Company from time to time and pension contributions. No director or manager may be involved in any decisions as to his/her own remuneration. The Remuneration Committee will meet not fewer than twice a year.

The Corporate Governance Code recommends that all members of the Remuneration Committee be non-executive Directors, independent in character and judgement and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgement. The Board considers that the Company complies with the requirement of the Corporate Governance Code in that regard.

Risk Management Committee

The Risk Management Committee is chaired by the senior independent director, Mr. Adrian Coates, and also includes Mr. Kobus Moolman and Ms. Anna Kolonchina. The Risk Management Committee is responsible for the oversight of the effectiveness of the Group's internal controls and risk management systems, including a review of the Group's procedures for the prevention of bribery and fraud. The role of the Risk Management Committee will also include recommendations to the Board on the appointment or removal of the chief risk officer. The Risk Management Committee will meet not fewer than three times a year.

Health and Safety Committee

The Health and Safety Committee is chaired by Mr. Bruce Buck and also includes the Earl of Clanwilliam and Mr. German Pikhoya. The Health and Safety Committee is responsible for:

- evaluating the effectiveness of the Group's policies and procedures for identifying and managing health and safety risks in the Group's operations;

- assessing the performance of the senior officers of the Company in ensuring the compliance of the Company, the Group and its employees with (i) internal policies on health and safety and (ii) applicable health and safety legislation in the jurisdictions where the Group has operations;
- monitoring legislative and other developments in health and safety and encouraging a "best practices" ethos within the Group; and
- reviewing the management's response to health and safety incidents and accidents.

It is anticipated that the Health and Safety Committee will meet four to six times per annum, generally coordinated with the regular meetings of the Board. It is also anticipated that members of senior management directly involved with health and safety issues within the Company will meet with the Health and Safety Committee on a regular basis in order to better understand the health and safety risks, exchange ideas and information, and establish lines of communication.

Share dealing code

The Company has adopted, with effect from Admission of the Shares, a code of securities dealings in relation to dealings in the Company's Shares which is based on, and is at least as rigorous as, the Model Code as published in the Listing Rules. The share dealing code adopted by the Company will apply to Directors, persons discharging management responsibilities and their connected persons and other relevant employees of the Group.

PART XIV

RELATIONSHIP AGREEMENTS

On 8 June 2012, the Company entered into relationship agreements with each of its Principal Shareholders (the "**Relationship Agreements**"), which will, conditional upon Admission of the Shares, regulate the ongoing relationships between each Principal Shareholder and the Group with a view to ensuring that the Group is capable of carrying on its business independently of the Principal Shareholders and to ensure that transactions and relationships between the Group and the Principal Shareholders are at arm's length and on normal commercial terms.

Under the terms of the Relationship Agreements, each of the Principal Shareholders has agreed, *inter alia*:

Constitution And Regulation

- **Independence:** not to take any action which precludes or inhibits the Group from carrying on its business independently of such Principal Shareholder and its affiliates for the benefit of its shareholders as a whole.
- **Articles of Association:** not to exercise any of its voting rights in favour of any amendment to the Articles of the Company which would be inconsistent with the provisions of the Relationship Agreement or would be contrary to the maintenance of the Company's independence.
- **Regulatory requirements:** not to take any action that would prejudice (i) the Company's status as a premium listed company and (ii) the Company's compliance with the Listing Rules, the Disclosure and Transparency Rules, the requirements of the London Stock Exchange or the City Code on Takeovers and Mergers (the "**City Code**") (except that they shall not be prevented from accepting or making takeover offers in compliance with the City Code).

Board

- **Appointments and removals:** subject to there being the required number of independent non-executive directors on the Board at the time of appointment such that the Company at all times complies with the requirements of Code Provision B.1.2 of the Corporate Governance Code, (i) for as long as a Principal Shareholder and all of its affiliates hold no less than 20 per cent. of the Shares, it may require the appointment of up to two Directors; or (ii) for as long as a Principal Shareholder and all of its affiliates hold less than 20 per cent. of the Shares, it may require the appointment of one Director. A Principal Shareholder may at any time remove any such appointed director from office and propose for appointment another person in his or her place. Any appointments or removals shall be effected by an instrument in writing, provided that any such instrument may not be delivered unless there are the required number of independent non-executive directors on the Board such that the Company at all times complies with the requirements of Code Provision B.1.2 of the Corporate Governance Code. If at the time the Principal Shareholder wishes to appoint a person as a Director there are insufficient independent non-executive directors on the Board to permit such an appointment to be made, upon receipt of notice from the Principal Shareholder, the Company shall, subject to its obligations under the Corporate Governance Code, request the nomination committee of the Board to initiate a search for a candidate to be recommended for appointment as an additional independent non-executive director as soon as reasonably practicable. The nomination committee of the Company shall have the right to reject or recommend to the Board any candidacy for the position of a new independent non-executive director, as the nomination committee of the Company shall in its absolute discretion deem fit.
- **Board composition:** to exercise its voting rights to ensure that at least half the Board (excluding the Chairman) comprises independent non-executive directors.
- **Committee compositions:** to exercise its voting rights to ensure that composition of the audit, remuneration and nomination committees is in compliance with the Corporate Governance Code.

Transactions

- **Arm's length dealings:** that all transactions or arrangements between such Principal Shareholder and its affiliates and the Group will be on an arm's length and on normal commercial terms.
- **Related Party transactions:** to abstain from voting on any resolution concerning any Related Party Transaction to which (i) such Principal Shareholder or any of its affiliates is a party, or (ii) the other Principal Shareholder (for so long as it continues to be acting in concert with the other Principal Shareholder) is a party.

Information

- **Inside information:** to acknowledge that any information disclosed to it may be inside information and undertakes that it will (and will use all powers vested in it to procure, so far as it is legally able, that each of its associates will) comply with the consequential requirements of any applicable laws, rules and regulations in relation to any dealing in the Company's securities.
- **Confidentiality:** to keep confidential information obtained by it in its capacity as a shareholder, subject to customary exceptions.
- **Announcements:** that announcements (other than those required by law or regulation) by the Company about the Principal Shareholder, and the Principal Shareholder about the Company shall not be made without prior consultation with the other party.

Termination and enforcement

- **Termination:** a Relationship Agreement will terminate in the event that (i) the Admission of the Shares is cancelled or terminated (including where the Company moves to the Standard Listing segment of the Official List), (ii) the Company becomes or is deemed insolvent, (iii) if any person (other than a Principal Shareholder and its affiliates) together with such person's affiliates and any person acting in concert with any of the foregoing acquires an interest in 50 per cent. or more of the Shares, (iv) the relevant Principal Shareholder and all of its affiliates cease to hold (directly or indirectly) at least 10 per cent. of the Shares, or (v) where the Takeover Panel shall have been notified and confirmed that it does not regard the relevant Principal Shareholder (together with its affiliates) to be acting in concert with the other Principal Shareholder, the relevant Principal Shareholder and all of its affiliates cease to hold (directly or indirectly) at least 15 per cent. of the Shares.
- **Enforcement:** that the enforcement of the Relationship Agreements by the Company be delegated to a committee of independent non-executive directors.

PART XV

REGULATORY MATTERS

Regulation of the Russian Gold Industry

Overview

The following are the main laws governing the Russian gold industry:

- the Constitution of the Russian Federation dated 12 December 1993 (as amended);
- the Civil Code of the Russian Federation (as amended) (the "**Civil Code**");
- the Land Code of the Russian Federation dated 25 October 2001 (as amended) (the "**Land Code**");
- the Federal Law dated 26 March 1998 No. 41-FZ "On Precious Metals and Gems" (as amended) (the "**Precious Metals Law**");
- the Russian Subsoil Law;
- the Federal Law dated 10 December 2003 No. 173-FZ "On Currency Regulation and Currency Control", (as amended) (the "**Russian Currency Law**"); and
- the Federal Law dated 29 April 2008 No. 57-FZ "On Procedure of Foreign Investments in Commercial Entities Having Strategic Importance for the Defence of the Country and the Security of State" (as amended) (the "**Foreign Investments Law**"),

and rules and regulations adopted in accordance therewith.

Subsoil Use and Mining

Subsoil licences

The Precious Metals Law, the Russian Subsoil Law and the regulations issued thereunder are the main legal acts which establish the licensing regime in Russia for the use of subsoil for geological research, exploration and production of mineral resources, particularly gold. In accordance with the Precious Metals Law, the Russian Subsoil Law governs the licensing of use of subsoil plots containing precious metals and gems, under which the Russian Federal Agency for Subsoil Use (the "**Rosnedra**") may grant several types of subsoil licences in relation to geological survey and exploration and production of natural resources, including:

- combined licences for the geological survey, exploration, assessment and production of natural resources;
- licences for the geological exploration and assessment of a subsoil plot; and
- licences for the production of natural resources.

Until January 2000, when the Federal Law No. 20-FZ "On Amendments and Supplements to the Russian Subsoil Law" introduced important amendments to the Russian Subsoil Law, the Russian Government's Committee for Geology and Subsoil Use typically granted geological survey licences for up to 5 years, production licences for up to 20 years and licences for combined activities for up to 25 years. Under the Russian Subsoil Law, as currently in effect, the maximum term of a regular geological survey licence is still 5 years (although the maximum term of a licence for geological survey of subsoil plots under inland sea waters, territorial waters and continental shelf of the Russian Federation is 10 years), and the Rosnedra may issue a production licence and combined licence for the useful life of a mineral reserves field, calculated on the basis of a feasibility study for exploration and production that ensures rational use and protection of the subsoil.

Amendments to the Russian Subsoil Law, passed in August 2004, significantly changed the procedure for awarding geological survey and production licences, in particular abolishing the joint grant of licences by federal and regional authorities. Under the Russian Subsoil law, as currently in effect, the Rosnedra now awards production licences and combined geological survey exploration and production licences by tender or auction. While the auction or tender commission formed by the Rosnedra must include a representative of the relevant region, the Russian Subsoil Law no longer requires the separate approval of regional authorities in order to issue subsoil licences. Regional authorities may, however, issue production licences for "common" mineral resources, such as clay, sand or limestone. A tender or auction in respect of subsoil plots of federal importance (as defined by Article 2.1 of the Russian Subsoil Law) and in certain other cases is arranged by the Russian Government and the Government may set forth limitations for Russian legal entities with foreign shareholders to participate in the tenders and auctions in respect of subsoil plots of federal importance (see below). The Russian Subsoil Law provides that, in a tender, the licence should be awarded to the bidder which has submitted the most technically competent, financially attractive and socially and environmentally sound proposal that meets the relevant, published tender terms and conditions, and, in an auction, to the bidder which has offered the largest one-off payment for the use of the subsoil plot. The Rosnedra may also, pursuant to a decision of the special committee comprised of representatives of the federal and state authorities, issue licences for exploration and production without holding an auction or tender if holders of geological survey licences discover mineral resource deposits through geological survey (except for the subsoil plots of federal and local importance).

The Federal Law dated 29 April 2008 No. 58-FZ "On Amending Certain Legislative Acts of the Russian Federation and Deeming Inoperative Certain Legislative Acts of the Russian Federation in Connection with the Adoption of the Federal Law on Procedure of Foreign Investment in Commercial Entities Having Strategic Importance for the Defence of the Country and the Security of the State" (the "**Amending Law**") introduced certain further amendments to the Russian Subsoil Law, including the concept of subsoil plots of federal importance. Subsoil plots of federal importance include, among other things, subsoil plots with aggregate gold reserves exceeding or equal to 50 tonnes of vein gold. Pursuant to the Amending Law, if geological survey conducted at a subsoil site has identified a deposit falling under the classification of a subsoil plot of federal importance, in the interests of national defence and security, the Russian Government may decide to deny a Russian legal entity with foreign participation the right to conduct exploration and production (even if a combined licence has already been issued to such subsoil user, which would entail the revocation of the licence subject to payment of compensation to the subsoil user for expenses incurred in conducting the geological survey and reimbursement of the lump sum payment upon issue of the licence). The transfer for any reason of subsoil use rights to subsoil plots of federal importance to Russian legal entities controlled by foreign investors is prohibited, other than the transfer of rights in exceptional cases at the discretion of the Russian Government. See "– Foreign investment in sectors that are of strategic importance for the national security and defence of the Russian Federation, including the subsoil sector".

Licensing agreements for subsoil use identify the terms and conditions for the use of the subsoil, the rights and obligations of the licencee and the manager of the subsoil plot and the level of payments. Although most of the conditions set out in a licence are based on mandatory rules, the parties may negotiate a number of provisions in a licensing agreement.

As a general rule, the Russian Subsoil Law prohibits transfer of rights of subsoil use, certified by a licence, with certain exceptions, including the following:

- to a newly established Russian legal entity in which the initial licence holder has at least a 50 per cent. interest;
- from a parent company to a Russian subsidiary;
- from a subsidiary to a Russian parent company;
- between two subsidiaries of the same parent company, provided that a transferee is a Russian company; and

- to a Russian legal entity as a result of the acquisition of property of a previous subsoil user in the course of insolvency proceedings.

Generally, the Russian Subsoil Law prohibits the transfer of rights of subsoil use over the subsoil plots of federal importance to a Russian legal entity controlled by a foreign investor or a group of persons including a foreign investor if such foreign investor or such group of persons including a foreign investor: (i) directly or indirectly possess 10 per cent. or more of the total number of votes conferred by voting shares in the share capital of that entity; or (ii) have the right, on the basis of a contract or another ground, to issue binding instructions to that entity, including control over the business operations; or (iii) have the right to appoint chief executive officer and (or) more than 10 per cent. of the members of the collective executive body, and (or) have an unconditional right to elect more than 10 per cent. of the board of directors or another collective management body of that entity. Such entities may obtain the right of subsoil use over the subsoil plots of federal importance in exceptional cases at the discretion of the Russian Government.

A licence holder has the right to develop and to use (including to sell) resources extracted from the licence area for a specified period. The Russian Federation, however, retains ultimate state ownership of all subsoil resources.

Licences generally require the licence holder to make various commitments, including:

- extracting an agreed target amount of reserves annually;
- complying with specified requirements, including in relation to the use of technology;
- conducting agreed mining and other exploratory and development activities;
- protecting the environment in the licence areas from damage;
- providing geological information and data to the relevant authorities;
- submitting on a regular basis formal progress reports to regional authorities;
- making all obligatory payments when due; and
- participating in social and economic development of the relevant region.

The Group's licences are scheduled to expire at different times during the period between 2013 and 2036. See "Part XVII – Additional Information – Material Contracts – Licences". In addition, some of these licences require periodic review and confirmation of reserves as a condition to continued mining under the licences.

Article 10 of the Russian Subsoil Law provides that a licence holder may, on application to the Rosnedra, extend its licence where the licence holder complies with the terms of the licence and where the exploration, assessment or development of the licenced field requires completion or wind-up operations. The Group intends to extend its licences for each of the fields that it expects will continue to be productive following the end of their current periods. If it is determined that the Group has not complied with the terms of the relevant licence, however, the Group may not be able to extend the licence upon the expiration of its current period.

Governmental authorities may undertake periodic reviews for ensuring compliance by subsoil users with the terms of their licences and applicable legislation. The Federal Service for Supervision in the Sphere of Natural Resource Use ("**Rosprirodnadzor**") and the Federal Service for Ecological, Technological and Nuclear Supervision ("**Rostechnadzor**") can fine a licencee for failing to comply with a subsoil licence and requirements of subsoil protection and efficient subsoil use, and Rosnedra can revoke, suspend or limit a subsoil production licence in certain circumstances, including:

- a breach or violation by the licencee of material terms and conditions of the licence;
- repeated violation by the licencee of subsoil regulations;

- the failure by the licencee to commence operations within a required period of time or to produce required volumes, as specified in the licence;
- the occurrence of an emergency;
- the emergence of a direct threat to the life or health of people working or residing in the area affected by the subsoil use operations;
- the liquidation of the licencee; and
- failure to submit reporting data in accordance with legislation.

Mining allotments

Pursuant to the Russian Subsoil Law, the Rosnedra provides a subsoil plot to a subsoil user as a "mining allotment", i.e., a geometric block of subsoil. The Rosnedra determines preliminary mining allotment boundaries at the time it issues the licence, which is subject to approval of the territorial bodies of Rostechnadzor. Following the preparation of a development plan by the licencee, which the state mining supervision authorities and an environmental examination committee must approve, Rostechnadzor approves the exact mining allotment boundaries based on the report and certifies such boundaries in a mining allotment act, which it issues to the licence holder. The licence will then incorporate the exact mining allotment boundaries.

Land use permits

In addition to a subsoil production licence, a licencee needs to obtain rights to use surface land within the specified licenced mining area. The land resources management authorities provide a subsoil user with rights to the relevant land plot pursuant to Russian civil and land legislation. Under the Federal law dated 25 October 2001 No. 137-FZ "On Enactment of the Land Code of the Russian Federation" (as amended), commercial legal entities must either own or lease land occupied by their operations by 1 July 2012. While the Group currently holds substantially all required land use permits to carry on its surface operations, the Group may need to take additional measures such as sourcing funds or liaising with relevant authorities to comply with the requirements of the Land Code and to buy or lease the land plots by 1 July 2012.

Payment System for the use of subsoil

Pursuant to the Russian Subsoil Law, the payment system for the use of subsoil currently consists of the following payment obligations:

- one-off payments in cases specified in the licence;
- regular payments for subsoil use;
- fees for the right to participate in tenders and auctions; and
- other payments and fees set forth by the legislation of the Russian Federation on taxes and duties.

The Russian Subsoil Law contains a range of minimum and maximum rates of regular payments for the use of subsoil and the federal authorities have authority to set the rate in any particular licence. The Russian Tax Code contains the relevant rates of mineral extraction tax.

Precious metals regulation

The extraction, production and refining of precious metals are subject to specific regulations set forth in the Precious Metals Law. As a general rule, a company which extracts ores that contain precious metals has title to those precious metals. Russian companies may buy ores and concentrate which contain precious metals provided that they are registered with the Russian State Assay Chamber. Only authorised persons approved by the Russian Government may refine precious metals. Companies which extract precious metals are required to offer refined precious metals on a priority basis to the relevant governmental authorities, which have entered into agreements on purchase and sale of precious metals with such companies not less than three months prior to the expected date of purchase for precious metals, and have made an advance payment under such agreements. In the 2008–2011, the governmental authorities did not elect to acquire any refined metals from the Group on such a priority basis. Refined precious metals, which have not been sold to governmental authorities in priority order, may be sold in the domestic market, used in internal production or exported.

Companies are required to obtain a licence from the Russian Ministry of Industry and Trade in order to export refined gold. For non-banking institutions, it only issues such licences with respect to each particular export contract for a term of not longer than 1 year. This kind of one-off licence is granted for a fixed volume of product, as specified in the sale contract. Imports of precious metals into Russia are not subject to licensing. The Group obtained licences for the export of gold in 2005, 2006 and 2007. In 2008, 2009, 2010 and 2011, the Group believed it could obtain more favourable contract terms with Russian banks for the sale of gold, and, as a result, did not apply for any export licences.

Licensing of Types of Activity

In addition to licences for subsoil use, the Group is required to obtain certain other licences, authorisations and permits from Russian governmental authorities for its operations. In particular, the Group requires licences for the operation of its hazardous industrial facilities (both for explosive and flammable production facilities and chemically hazardous industrial facilities) and for the use of its underground water resources.

Licensing of the operation of hazardous facilities

The Rostechnadzor issues licences for the operation of chemically hazardous industrial facilities and explosive and flammable industrial facilities and maintains a register of such facilities. In accordance with the Federal Law dated 4 May 2011 "On Licensing of Certain Types of Activity" No.99-FZ (the "**New Licensing Law**"), many provisions of which came into effect on 3 November 2011, the Group must continue to conduct such types of its activities as the operation of chemically hazardous industrial facilities and the operation of explosive and flammable industrial facilities, on the basis of previously issued licences issued under the Federal Law dated 8 August 2001 "On Licensing of Certain Types of Activities" No.128-FZ, as amended (the "**Licensing Law**") and the regulations introduced thereunder. Under the Licensing Law, licences were issued for a minimum period of 5 years. Licences issued under the New Licensing Law are not limited to a specified term. The issuance of the licence is subject to completion of a state industrial safety review and an industrial safety declaration and certain other requirements set forth by the licensing regulations. Licences issued prior to, and valid as at the date of, the New Licensing Law entering into force, will also have unlimited duration.

According to the New Licensing Law, a licence shall be suspended by a licensing authority in the following situations:

- imposition of administrative sanctions on a licencee for failure to execute, within the established period, orders issued by the licensing authority on elimination of a material violation of the licensing requirements;
- imposition upon a licencee of an administrative penalty in the form of administrative suspension of activity thereof by reason of a material violation of licensing requirements.

If within a period of administrative suspension of the activity and suspension of a licence, as established by a court or an official of the Rostechnadzor, a licencee has failed to cure a material violation of the licensing requirements, the licensing authority shall be obliged to bring before a court an application for revocation of the licence. The licence shall be revoked by a court on the basis of consideration of the licensing authority's application for revocation of the licence.

Licensing of surface water use

The Water Code of the Russian Federation No. 74-FZ dated 3 June 2006 (the "**Water Code**") does not require licensing of surface water use. However, prior to the Water Code, the law did require such licensing and the Group currently holds all of the licences that were previously required. Under the Water Code, water users may effect surface water use either on the basis of (i) a water use agreement concluded with state or local authorities, (ii) a decision of state or local authorities on granting rights to the use of surface water or (iii) without any such agreements or decisions, depending on the purpose of surface water use. Water users and state or local authorities may conclude agreements on water use for a period of up to 20 years.

Licensing of underground water use

Users of underground water resources in Russia require a subsoil licence issued under the Russian Subsoil Law and the regulations adopted thereunder. The Rosnedra currently issues licences for the use of underground water following a procedure which involves representatives of the federal and regional subsoil authorities. The Rosnedra may grant licences for a term of up to 25 years. Licencees may only amend the conditions of a subsoil licence, including its term, by application to such licensing authorities. The user may also enter into an agreement with the licensing authorities which sets out further terms of use of the relevant resources. In addition, Russian law requires the licencee to hold a right of use (through ownership or lease since 1 July 2012) to the land where the licenced subsoil plot is located.

However, if underground water is produced for the process of water supply by the holders of combined licences for the geological survey, exploration and production of natural resources or licences for the geological survey and exploration of a subsoil plot, the requirements described above do not apply and such subsoil user is entitled to produce underground water upon approval of technical project.

In the event of repeated breaches by the licencee of applicable regulations or the material terms of the licence, as well as upon the occurrence of certain emergencies, the licensing authorities may amend, suspend or terminate the licence. Breaches may also result in the imposition of fines.

Environmental Law

General

The Group is subject to extensive federal and state environmental laws and regulations and local environmental regulations in the Russian Federation. The operations of the Group involve the discharge of materials and contaminants into the environment, the disturbance of land, potential damage to flora and fauna, and other environmental concerns. As part of the Group's mining operations, the Group uses various chemicals and produces wastewater that could, if improperly disposed of, have a negative impact on wildlife and vegetation. In addition, the Group uses hazardous materials, such as solvents, to clean, refurbish and maintain its equipment. Russian laws and regulations set various health and environmental quality standards, provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to compensate for environmental damage and restore environmental conditions.

Environmental protection laws are primarily set forth in the Federal Law dated 10 January 2002 "On Environmental Protection" No. 7-FZ, as amended (the "**Environmental Protection Law**"), together with a number of other federal, state and local legal acts.

Pay-to-pollute

The Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. Additional payment obligations may arise under the Water Code, the Federal Law dated 24 June 1998 "On the Wastes of Production and Consumption" No.89-FZ, as amended, and the Federal Law dated 4 May 1999 "On Atmospheric Air Protection" No. 96-FZ, as amended.

Pursuant to Decree No. 161 dated 6 April 2004, the Russian Government created the Federal Service for Surveillance in the Sphere of Ecology and Environmental Use under the auspices of the Ministry of Natural Resources (as well as the Rosnedra), and transferred the control and surveillance functions of the Ministry of Natural Resources to this service. A Decree of the President of the Russian Federation No. 649, dated 20 May 2004, transformed the Federal Service for Surveillance in the Sphere of Ecology and Environmental Use into the Rosprirodnadzor, and transferred its ecology surveillance functions to the authorised Rostechnadzor, which is now the authority responsible for administering the "pay-to-pollute" regime.

The Russian Government and the Rostechnadzor have established standards which regulate the permissible impact of industrial and other business activities on the environment. They have also determined limits for emissions and disposal of hazardous substances, waste disposal and soil and subsoil contamination. Companies must develop their own pollution standards based on these statutory standards, as modified to take into account the type and scale of the environmental impact of their operations. Companies must then submit these standards for approval by the Rostechnadzor, which, if those standards do not comply with the relevant regulations, may determine the applicable limit for pollution and require the relevant company to prepare and submit a programme for the reduction of emissions or disposals to the prescribed limit. The law generally requires a company to implement an emission reduction programme within a specified period.

The Rostechnadzor assesses fees on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits. It imposes the lowest charges for pollution within the statutory limits, intermediate fees for pollution within the individually approved limits, and the highest fees for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities. The Group paid approximately US$661 thousand, US$335 thousand and US$305 thousand in such charges in Russia in 2011, 2010, and 2009, respectively.

Ecological approval

The Federal Law dated 23 November 1995 No. 174-FZ "On Ecological Expert Examination" (the "**Ecological Examination Law**") provides for mandatory ecological approval of certain documentation required for implementation of certain types of activities to prevent negative impact of such activities on the environment. State ecological approval must be obtained from federal or regional authorities based on the list of certain types of documentation being objects of such ecological approval set forth by the Ecological Examination Law. Violation of the requirements of the Ecological Examination Law may result in administrative fines, civil liability (to compensate for damages and losses) and criminal liability as described below.

Enforcement authorities

The Rosprirodnadzor, the Rostechnadzor, the Russian Federal Service for Hydrometrology and Environmental Monitoring, the Rosnedra, the Russian Federal Agency on Forestry and the Russian Federal Agency on Water Resources (along with their regional branches) are primarily responsible for environmental control, and the monitoring, implementation and enforcement of the relevant laws and regulations. The Russian Government and the Russian Ministry of Natural Resources and Ecology are responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental authorities also have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental liability

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, the environmental authorities may suspend these operations or a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company that fails to comply with environmental regulations may be subject to administrative or civil liability, and its employees may be held disciplinary, administratively or criminally liable. A court may impose an obligation to conduct reclamation measures at the expense of a breaching entity pursuant to a plan of restorative works.

Reclamation

Reclamation activities such as re-cultivation, restoration, regeneration and other methods of rehabilitation are prescribed in the Basic Regulations on Land Reclamation, Removal, Preservation, and Rational Use of the Fertile Soil Layer, approved by Order No. 525/67 of 22 December 1995 of the Ministry of Natural Resources and the Russian Committee for Land Resources and Land Use. In general, reclamation activities of the Group involve both a technical stage and a biological stage. In the first, technical stage, the Group backfills pits, grades and terraces mound slopes, levels the surface of the mounds, and adds clay rock on top for greater adaptability of young plants. In the second, biological stage, the Group plants conifers, such as pine, larch or cedar, on horizontal and gently sloping surfaces, as well as shrubs and bushes to reinforce inclines. Russian environmental regulations do not require mines to achieve the approximate original contour of the property as is required, for example, in the United States.

Environmental protection programmes

The Group has been developing and implementing environmental protection programmes. Such programmes include measures to aid the Group in its adherence to the limits imposed on air and water pollution and storage of industrial waste, the introduction of environmentally friendly industrial technologies, the construction of purification and filtering facilities, the repair and reconstruction of industrial water supply systems, the installation of metering systems, reforestation and the recycling of water and industrial waste.

Regulation of Real Estate

General

At present, the Russian Federation or the Russian regions and municipalities own most land in Russia, and only a small proportion of land is in private ownership. A relatively higher proportion of buildings and similar real estate is privately owned due to a less restrictive regulatory regime which applies to such property.

Under the Land Code, companies generally have one of the following rights in relation to the use of land in the Russian Federation: (i) ownership, (ii) right of free use for a fixed term or (iii) lease. The Group owns or leases the majority of land plots that it uses in its activities.

The Federal Service for State Registration, Cadastre and Cartography ("**Rosreestr**") records details of land plots, including their measurements and boundaries, in a unified register, or "cadastre". As a general rule, a landowner must obtain a state cadastre number for a land plot as a condition to selling, leasing or otherwise transferring interests in that plot. As described below, the government maintains a separate register for the registration of all real estate and transactions relating to that real estate.

Russian law categorises all land as having a particular designated purpose, for example agricultural land, industry land, settlement lands, lands by specially protected territories and objects. Land should be used in accordance with the purpose designated by the relevant category.

Under the Land Code, the state or municipalities may generally sell or lease land plots owned by them to Russian and foreign individuals or legal entities. However, Russian law prevents certain land plots owned by the state from being sold or leased to the private sector and are referred to as being "withdrawn from commerce" (for example, natural reserves and land used for military purposes). Other land plots may be subject to ownership restrictions which stipulate that such plots may be held by the private sector only under a lease (for example, land reserved for cultural heritage).

Under Russian law, it is possible that the person or entity holding the ownership rights to a building may not be the same person or entity holding the ownership rights to the land plot on which such building is constructed. In such circumstances, the owner of that building, as a general rule, has a right of permanent use over the relevant portion of that plot of land, unless otherwise determined by law, contract or the regulatory decision which determined the allocation of that plot of land. Moreover, an owner of a building or plot of land may require that the owner of an adjoining plot of land grants a right of limited use of such adjoining plot of land (servitude) in his favour.

State registration of real estate and transactions involving registered real estate

The Rosreestr maintains the Unified State Register of Rights to Immovable Property and Transactions Therewith (the "**Register of Rights**"). The Federal Law dated 21 July 1997 "On State Registration of Rights to Immovable Property and Transactions Therewith" No.122-FZ, as amended, requires registration in the Register of Rights for, among others, (i) buildings, facilities, land plots and other real estate and (ii) specified transactions involving such registered real estate, including the establishment of trusts, sales, mortgages, as well as leases for a term of not less than one year (with certain exceptions). Regional divisions of the Rosreestr effect registration in the Russian region where the property is located, and a person acquires rights to the relevant real estate only upon such state registration. A failure to register a transaction which requires state registration generally results in the transaction being rendered unconcluded or, to the extent stipulated by law, null and void.

Regulation of the sale and lease of real estate

The Civil Code requires that agreements for the sale or lease of buildings expressly set out the price of such sale or lease. In relation to leases, both the rights granted by the lease and the lease agreement (other than lease agreements for a term of less than one year) require registration. In relation to sales, only the transfer of ownership effected by the relevant sale (but not the sale agreement itself) requires registration.

Technical Regulation

The Group is subject to various technical regulations and standards which apply to industrial manufacturing businesses. The Federal Law No. 184-FZ "On Technical Regulation" dated 27 December 2002 (the "**Technical Regulation Law**") introduced on 1 July 2003 a new regime for the development, enactment, application and enforcement of mandatory rules applicable to products, manufacturing, storage, transportation, sales and certain other operations and processes, as well as new regulations relating to the quality of products and processes, including technical regulations, standards and certification. Following this adoption, technical regulations will replace the previously adopted state standards (the so-called "**GOSTs**"). However, the Russian Government has not yet implemented most technical regulations, and, in the absence of such technical regulations, the existing federal laws and regulations, including GOSTs, that prescribe rules for different products and processes, remain in force to the extent that they protect health, property, the environment or consumers. In any event, the federal authority has declared GOSTs and interstate standards adopted before 1 July 2003 to be the applicable national standards.

In certain circumstances, Russian law requires companies to obtain certification of compliance with applicable technical regulations, standards and terms of contracts. Currently, companies must certify a number of products containing precious metals and Russian law requires mandatory certification under a classification system. Where certification is not mandatory, a company may elect for voluntary certification by applying for a compliance certificate from the relevant authorities. Following the issuance of that certificate, the applicant has the right to use the relevant compliance mark on its products.

Health and Safety

Due to the nature of the business of the Group, it conducts much of its activity at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating industrial safety is the Federal Law dated 21 July 1997 "On Industrial Safety of Dangerous Industrial Facilities" No. 116-FZ, as amended (the "**Safety Law**"). The Safety Law applies, in particular, to industrial facilities and sites where companies undertake certain activities, including sites where companies use lifting machines, produce alloys of ferrous and non-ferrous metals, and conduct certain types of mining. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where companies use these substances.

Other Russian regulations address safety rules for coal mines, the production and processing of ore, gold smelting and alloy production. Additional safety rules also apply to certain industries, including metallurgical and coke chemical enterprises, and the foundry industry.

Any construction, reconstruction, liquidation or other activity in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited, unless the revised documentation undergoes state expert examination and the Rostechnadzor approves the same.

Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and other laws, including the Russian Labour Code effective from 1 February 2002, as amended (the "**Labour Code**"). In particular, companies must limit access to such sites to qualified specialists, maintain industrial safety controls, have third-party insurance liability for injuries caused in the course of operating industrial sites and comply with other specific obligations. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or in some cases, create their own wrecking services, conduct personnel training programmes, create systems to cope with and inform the Rostechnadzor of accidents and maintain these systems in good working order.

In some cases, companies operating industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular industrial site and the measures the company has taken, and will take, to mitigate such risks and use the site in accordance with applicable industrial safety requirements. The chief executive officer of the company must adopt such declarations, and will be personally responsible for the completeness and accuracy of the data contained in the declarations. The Rostechnadzor requires the industrial safety declaration, as well as a state industrial safety review, for the issuance of a licence permitting the operation of a dangerous industrial facility when such licence is required by law.

The Rostechnadzor has broad authority in the field of industrial safety. In the event of an accident, a special commission led by a representative of the Rostechnadzor conducts a technical investigation of the cause of the incident. The company operating the hazardous industrial facility where the accident took place must bear all the costs of such investigation. The officials of the Rostechnadzor have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Rostechnadzor may suspend or terminate operations or impose administrative liability.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obliged to compensate the individual for lost earnings, as well as health-related damages.

Employment and Labour

General

The Labour Code is the key law in Russia which governs labour matters. In addition to this core legislation, various federal laws, such as the Law dated 19 April 1991 "On Employment of Population in the Russian Federation" No. 1032-1, as amended, regulate relationships between employers and employees.

Employment contracts

As a general rule, employers must conclude employment contracts for an indefinite term with all employees. Russian labour legislation expressly limits the possibility of entering into fixed term employment contracts. However, employers and employees may enter into an employment contract for a fixed term in certain cases where it is not possible to establish labour relations for an indefinite term due to the nature of the duties or the conditions of the performance of such duties, as well as in other cases expressly identified by federal law.

An employer may terminate an employment contract only on the basis of the specific grounds stated in the Labour Code, including, among others:

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with the position's requirements due to incompetence;
- systematic failure of the employee to fulfil his or her labour duties if he or she was the subject of disciplinary measures;
- a gross violation by the employee of labour duties; and
- provision by the employee of false documents upon entering into the employment contract.

Employees' rights

The Labour Code provides an employee with certain minimum rights, which an employer may extend by an employment contract, including the right to a working environment which complies with health and safety requirements and the right to receive a salary on a timely basis and to participate in the management of the authorised entity.

An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation from his or her employer, including a severance payment and, depending on the circumstances, salary payments for a specified period of time.

The Labour Code also provides protections for specified categories of employees. For example, except in limited circumstances, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of 14 (or with a disabled child under the age of 18) or other persons caring for a child under the age of 14 without a mother.

Any termination by an employer that is inconsistent with the Labour Code requirements may be invalidated by a court which may require the employer to reinstate such employee. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent and Russian courts tend to support employees' rights in most cases. Where a court reinstates an employee, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for any mental distress.

Work time

The Labour Code sets the regular working week at 40 hours. In general, an employer must compensate an employee for any time worked beyond 40 hours per week, as well as work on public holidays and weekends, at a higher rate.

Annual paid vacation leave under the law is generally 28 calendar days. The Group's employees who perform underground and open-pit mining works or other work in harmful conditions are entitled to additional paid vacation of at least 7 calendar days.

The retirement age in the Russian Federation is 60 years for males and 55 years for females. However, the retirement age for male miners who have worked in underground mines for at least 10 years, and females who have worked in underground mines for at least 7 years and 6 months, is 50 years and 45 years, respectively. Persons who have worked as miners in open-pit mines or underground mines for at least 25 years, and in specified circumstances for at least 20 years, may also retire, regardless of age.

Salary

The minimum monthly salary in Russia is established by federal law from time to time. Starting from 1 June 2011, the minimum monthly salary is set at an amount of RUB 4,611. Although the law requires that the minimum wage be at or above a minimum subsistence level, the current statutory minimum monthly salary is generally considered to be less than the minimum subsistence level. Salaries of the Group's employees are generally higher than the statutory minimum and none are below such minimum.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements which must be met for strikes to be legal. An employer may not use an employee's participation in a legal strike as grounds for terminating an employment contract, although Russian law generally does not require employers to pay wages to striking employees for the duration of the strike. Conversely, an employee's participation in an illegal strike may provide adequate grounds for termination of his employment contract.

Trade unions

Trade unions are defined by the Federal Law dated 12 January 1996 No. 10-FZ "On Trade Unions, Their Rights and Guaranties of Their Activity", as amended (the "**Trade Union Law**"), as voluntary unions of individuals with common professional interests which are created for the purposes of representing and protecting social and labour rights and interests of their members. Russian law also permits national trade union associations, which coordinate activities of trade unions throughout Russia.

Although Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. The Group's management routinely interacts with trade unions in order to ensure the appropriate treatment of its employees and the stability of the Group's business.

The activities of trade unions are generally governed by the Trade Union Law and applicable legal acts including the Labour Code.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with management;
- participate in strikes, meetings to protect social and labour rights of employees; and
- monitor the redundancy of employees and seek action by municipal authorities to delay or suspend mass redundancies.

Russian laws require that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their members enjoy certain guarantees as well, such as:

- the retention of job positions for those employees who stop working due to their election to the management of trade unions;
- protection from dismissal for employees who previously served in the management of a trade union for 2 years after the termination of the office term; and
- the provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may receive information on social and labour issues from an employer (or employers' unions) and state and local authorities, as well as cooperate with state authorities for the purposes of supervision of compliance with Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

To initiate a collective labour dispute, trade unions must present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to mediation or labour arbitration.

The Trade Union Law provides that those who violate the rights and guarantees of trade unions and their officers may be subject to disciplinary, administrative and criminal liability. Although neither the Russian Code on Administrative Misdemeanours of 30 December 2001, as amended, nor the Russian Criminal Code of 13 June 1996, as amended, currently has provisions specifically relating to these violations, general provisions and sanctions may be applicable.

Regulation of Competition

The Federal Law "On the Protection of Competition" No. 135-FZ, dated 26 July 2006, as amended ("**Competition Law**"), regulates competition in Russia, through the FAS.

Register of market participants

As part of its competition monitoring activities, the Competition Law requires the FAS to maintain a register of companies which have a share in excess of 35 per cent. in a particular commodity market (the "**Register**"). Other than CJSC Vitimenergo, neither OJSC Polyus Gold nor any of the companies in the Group are currently included in the Register. CJSC Vitimenergo is included as an entity holding more than a 65 per cent. share in the electric power transmission services market and telecommunications services market in the Bodaibo district of Irkutsk region of Russia. CJSC Vitimenergo does not have a material effect on the Group's consolidated results of operations.

Dominant position in the market

The Competition Law determines a dominant position pursuant to certain criteria, including, among other things, where a company or a group of persons has a market share in a particular commodity market in excess of 50 per cent., unless the FAS specifically establishes that the relevant company does not have a dominant position. However, even if a company has a market share of less than 50 per cent. in a particular commodity market, the FAS may still specifically determine that such company has a dominant position. The Competition Law assumes that a company has a dominant position if it (i) has a substantial influence on the circulation of goods in a particular commodity market, (ii) may force other participants from such market, or (iii) may restrict the access of other companies to such market. The Competition Law also provides for a new principle based on "collective" dominance, which applies to a number of markets characterised by an absence of substitute goods and fixed demand for goods. In such markets, any one of three or fewer entities with a total market share of more than 50 per cent., or any one of five or fewer entities with a total market share of more than 70 per cent. (and the share of each such entity is bigger than the shares of other participants on this market and in no event is less than 8 per cent.), shall be deemed to be in a dominant position to the extent that, for a period of at least one year or for the period of existence of the relevant market, the market shares of the respective entities do not change in any significant respect and the access of new competitors to this market is impeded.

As a general rule, a company may not be deemed to be in a dominant position if its market share is less than 35 per cent., but this rule does not apply if (i) the company is holding a collective dominant position (as described above); (ii) the dominant position of the company holding less than 35 per cent. of market share is determined by the federal law or (iii) the dominance is determined by the anti-monopoly body upon conducting the analysis of the competitive situation on the market if the company is subject to compliance with certain requirements provided for by the Competition Law.

Russian law prohibits companies having a dominant position from, among other things, entering into agreements which have the effect of price fixing or which otherwise have the effect of limiting competition, artificially limiting the supply of goods, maintaining high or low monopolistic prices and refusing without justification to sell goods to third parties. Companies in a dominant position may also become subject to additional anti-monopoly restrictions imposed by the FAS.

Merger control

The FAS also exercises state control over competition by reviewing merger and acquisition transactions. Relevant persons must obtain prior anti-monopoly clearance from the FAS in respect of the acquisition of (i) more than 25 per cent. of the voting shares in a Russian joint stock company (or a one-third interest in a Russian limited liability company) and any subsequent increase of that stake to more than 50 per cent. or more than 75 per cent. of the voting shares (or a one-half and two-third interest in a Russian limited liability company), (ii) subject to certain exceptions, fixed production assets or goodwill of a company located in Russia in an amount exceeding 20 per cent. of the aggregate balance sheet value of all fixed production assets and goodwill of such company, (iii) the right to control the business activities of another Russian company or perform the functions of its executive body, or (iv) more than 50 per cent. of voting shares (or a

50 per cent. interest) in a company registered outside Russia, which delivered goods to the Russian territory in the amount exceeding RUB 1 billion within the previous year, or other right to control its business activities or perform the functions of its executive body. Certain other transactions are also subject to a prior anti-monopoly clearance from the FAS.

Any of the above acquisition transactions would require prior approval by the FAS if according to the latest balance sheet: (i) the aggregate asset value of a purchaser (and its group) together with the target (and its group) exceeds RUB 7 billion, or the total revenues of such persons for the preceding calendar year exceed RUB 10 billion and (ii) the total asset value of the target (and its group) exceeds RUB 250 million. In addition, prior approval is required if any of the purchaser (or its group entity) or the target (or its group entity) is included in the Register. Mergers and acquisitions within the same group are exempt from pre-transactional clearance by the FAS, subject to compliance with certain reporting requirements.

The same acquisition transactions outlined above would require subsequent notification (within 45 days post closing) to the FAS if according to the latest balance sheet the aggregate asset value or total revenues of a purchaser (and its group) and a target (and its group) for the preceding calendar year exceed RUB 400 million and, at the same time, the total asset value of the target (and its group) according to the latest balance sheet exceeds RUB 60 million.

Foreign Investment in Sectors that are of Strategic Importance for the National Security and Defence of the Russian Federation, including the Subsoil Sector

In May 2008, new laws came into effect that changed the legal environment for foreign investment in sectors that are of strategic importance for the national security and defence of the Russian Federation, including the gold mining industry, in which the Group operates. The relevant laws are (i) the Foreign Investments Law and (ii) the Amending Law (together with the Foreign Investments Law, the "**Strategic Investment Laws**"), which among other things has introduced various amendments to the Russian Subsoil Law.

The Foreign Investments Law provides for stringent requirements in respect of foreign investment in companies engaged in activities that have strategic importance for the national defence and security, the list of which is provided in the Foreign Investments Law, and includes geological exploration of and production on subsoil plots of federal importance, and therefore Strategic Subsoil Companies. In particular, foreign investors, or a group of persons including a foreign investor, intending to enter into a transaction which results in the acquisition of "control" (as defined below) over Strategic Subsoil Companies are required to obtain the prior approval of the Government Commission on Monitoring Foreign Investment in the Russian Federation. Pursuant to the Russian Subsoil Law, subsoil plots of federal importance include, among other things, subsoil plots with aggregate vein gold reserves exceeding or equal to 50 tonnes of gold (based on the data contained in the State Balance of Reserves of Mineral Resources on or after 1 January 2006). The list of subsoil plots of federal importance was officially published in March 2009, and subsequently amended in March and August 2010 and October and December 2011. As at the date of this Prospectus, certain material subsidiaries of OJSC Polyus Gold, namely, CJSC Polyus (the holder of the licences with respect to Titimukhta, Olimpiada and Blagodatnoye deposits), CJSC Tonoda (the holder of the licence with respect to Chertovo Koryto deposit), SVMC (the holder of the licence with respect to the Nezhdaninskoe deposit), Matrosov Mine (the holder of the licence with respect to Natalka deposit) LLC Amurskoye GRP (the holder of the licence with respect to Bamskoye deposit) and OJSC Pervenets (the holder of the licence with respect to Verninskoye deposit), are using subsoil plots of federal importance, as defined in the Russian Subsoil Law and therefore are considered Strategic Subsoil Companies.

Pursuant to the Foreign Investments Law, the acquisition by a foreign investor (or a "group" of persons (as defined in the Competition Law) including one or more foreign investors directly or indirectly) of 25 per cent. or more of the voting shares of a Strategic Subsoil Company, means that such acquisition shall be subject to prior approval in accordance with the Foreign Investments Law. Moreover, the Foreign Investments Law further provides that if a foreign investor (or a group of persons including one or more foreign investors) already exercises direct or indirect "control" (as defined in the Foreign Investments Law) over 25 per cent. or more of the voting shares of a Strategic Subsoil Company, each subsequent acquisition of shares of such Strategic Subsoil Company by the foreign investor (or group of persons including the foreign investor) would require the prior approval of the Government Commission on Monitoring Foreign Investment in the Russian Federation (with the exception of transactions which do not result in the increase of an ownership percentage of a foreign investor or a group including a foreign investor in the charter capital of a Strategic Subsoil Company). The Foreign Investments Law is not clear as to whether an acquisition of shares in a holding company of a Strategic Subsoil Company would be subject to similar limitations, the FAS on an individual case basis has indicated that the acquisition of a controlling interest in such a holding company would require approval. Failure to obtain such prior approval will either render the relevant transaction void or may prevent the relevant foreign investor, or the group of persons including the foreign investor, from voting at the general shareholders meetings of the relevant Strategic Subsoil Company.

Furthermore, should a foreign investor or a group of persons including a foreign investor establish control over a Strategic Subsoil Company as a result of events other than the direct acquisition of shares, for example, as a result of a buy-out or redemption by the Strategic Subsoil Company of its own shares, a conversion of its preferred shares into ordinary shares or otherwise, the relevant foreign investor or a group of persons including a foreign investor would be obliged to apply for approval of control by the Government Commission on Monitoring Foreign Investment in the Russian Federation within three months from the date of establishment of control. Failure to apply for such approval may result in a prohibition on voting, as set out above. Should the Government Commission on Monitoring Foreign Investment in the Russian Federation refuse to approve the establishment of foreign control over a Strategic Subsoil Company, the relevant foreign investor or a group of persons including a foreign investor would be obliged to dispose of all or part of its shares so that the remaining shares do not represent a controlling stake. The failure of a foreign investor (or a group of persons including a foreign investor) to do so within three months from the date when the prior governmental approval is declined would enable the FAS to file a lawsuit in a Russian court requiring that a foreign investor (or a group of persons including a foreign investor) in breach of the above requirements be prohibited from voting at the general shareholders meeting of the Strategic Subsoil Company.

The Russian Subsoil Law also provides that exploration and production at a subsoil plot of federal importance, even under a previously issued combined subsoil licence, may only be commenced on the basis of a decision of the Russian Government obtained following the completion of geological survey. If, in the course of geological survey at a subsoil plot, a foreign investor or a Russian legal entity with foreign participation discovers a deposit which meets the criteria for a subsoil plot of federal importance, and there may be the possibility of an apparent threat to the national security of the Russian Federation, the licensing authorities have the right to revoke the respective combined subsoil licence or refuse to grant an exploration and production subsoil licence upon a decision of the Russian Government. In the case of such a revocation, the Russian Subsoil Law contemplates the reimbursement to the licence holder of costs incurred in connection with prospecting and evaluating the relevant deposit and the amount of the one-off fee for subsoil use paid under the terms of the respective combined subsoil licence or geological research licence, as well as payment of a premium in accordance with applicable procedures. There is no assurance, however, that such amounts would cover the licence holder's actual costs, or be paid at all. In addition, the Russian Subsoil Law provides that only Russian legal entities are entitled to use subsoil plots of federal importance. In the interests of national security, Russian legal entities with foreign participation may also be subject to limitations imposed by the Russian Government on participation in subsoil auctions or tenders for the use of subsoil plots of federal importance. The rights to use a subsoil plot of federal importance may not be transferred to legal entities controlled by a foreign investor or a group of persons including a foreign investor, save for the transfer of rights in exceptional cases at the discretion of the Russian Government.

The Strategic Investment Laws are worded vaguely, which leaves wide scope for their interpretation by the competent state authorities. For example, the Strategic Investment Laws are unclear on various issues including the exact definition of the term "legal entity with foreign participation", the explicit scope of the transactions subject to regulation, the approval procedure for such transactions and the scope and applicability of exemptions with respect to intra-group transaction. Although the Strategic Investment Laws do not apply retroactively, and generally apply to transactions and legal relationships taking place or arising after 5 May 2008, there is no assurance that the Strategic Investment Laws will not be amended or otherwise supplemented to apply retroactively or to include additional provisions that may be onerous for the Group.

Currency Restrictions

The Group's operations are subject to certain currency control restrictions, which are set forth in the Russian Currency Law and respective regulations of the Central Bank of the Russian Federation (the "**CBR**").

Pursuant to the Russian Currency Law, Russian residents and non-residents may settle transactions between them either in roubles or in a foreign currency, and there are no restrictions on currency operations between Russian residents and non-residents.

Under the Russian Currency Law, Russian residents conducting foreign trade operations must, subject to certain exemptions stipulated by the Russian Currency Law, repatriate to accounts in authorised Russian banks all roubles and foreign currency payable to them under foreign trade contracts. In addition, such Russian residents must procure the repatriation of funds paid to non-residents for goods, works, services, intellectual property and information that were not delivered into the Russian Federation.

In addition, the Russian Currency Law and the CBR Regulations No. 117-I of 15 June 2004 set forth the requirement for Russian residents to open a "transaction passport" with an authorised Russian bank to comply with CBR regulations on currency control. This procedure applies, as a general rule (i) to export and import operations between Russian residents and non-residents, and (ii) to loans granted to Russian residents by non-residents (and *vice versa*). In relation to imports, the relevant parties must complete this procedure prior to making payments for the imported goods.

Currency Control With Respect to Share Transfers and Dividend Payments

Currency operations in relation to share transfers between Russian residents and non-residents may be conducted without limitations, unless otherwise provided in Russian currency law and respective regulations of the CBR. Most exchange control restrictions for operations between Russian residents and non-residents were abolished with effect from 1 January 2007.

Non-residents may receive dividends declared by Russian companies both in foreign currencies and roubles. Dividends declared and paid in roubles may be further converted through Russian authorised banks and remitted outside of Russia.

Interested Party Transactions

Under the Russian Joint Stock Companies Law, certain transactions defined as "Interested Party Transactions" require, subject to certain exemptions, approval by a joint stock company directors, independent directors or shareholders of a joint stock company who are not interested in the transaction. Interested Party Transactions include transactions involving a member of the Board, a member of any executive body of a joint stock company, any shareholder that owns, together with its affiliates, at least 20 per cent. of issued voting shares of a joint stock company, or any person who is entitled to give binding instructions to a joint stock company, if that person (or that person's spouse, parents, children, adoptive parents or children, siblings and/or that person's affiliates), is:

- a party to, or a beneficiary of, a transaction with a joint stock company, whether directly or as a representative or intermediary;
- the owner, individually or collectively, of at least 20 per cent. of the issued shares of a legal entity that is a party to, or a beneficiary of, a transaction with a joint stock company, whether directly or as a representative or intermediary;
- a member of any management body of a company or a member of any management body of the managing organisation of such company that is a party to, or a beneficiary of, a transaction with a joint stock company, whether directly or as a representative or intermediary; or
- in certain other cases stipulated by charter of a joint stock company.

The Russian Joint Stock Companies Law requires that an Interested Party Transaction of a company with more than 1,000 shareholders must be approved by a majority vote of the independent directors of such company who are not interested in the transaction. For companies with 1,000 or fewer shareholders, an

Interested Party Transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of independent directors is sufficient to constitute a quorum.

The approval of an Interested Party Transaction by a majority of shareholders who are not interested in the transaction is required if:

- the value of such transaction or a series of inter-related transactions represent 2 per cent. or more of the balance sheet value of the assets of a joint stock company as determined under Russian Accounting Standards ("**RAS**");
- the transaction or a series of inter-related transactions involves the placement through subscription or secondary market sale of shares in an amount exceeding 2 per cent. of the aggregate of the issued ordinary shares of a joint stock company and ordinary shares into which issued convertible securities may be converted;
- the transaction or a series of inter-related transactions involves placement through subscription of securities convertible into shares that may be converted into ordinary shares constituting more than 2 per cent. of the aggregate of the issued ordinary shares of a joint stock company and ordinary shares into which convertible securities may be converted; or
- all the members of the Board are interested parties, or none of them is an independent director.

The approval by a majority of shareholders who are not interested in the transaction is not required for an Interested Party Transaction if such transaction is substantially similar to transactions concluded by a joint stock company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction. However, this exemption applies only to Interested Party Transactions concluded within the period commencing from the date when such party becomes an interested party until the next annual general shareholders meeting.

Any Interested Party Transaction must be approved prior to its execution. Pursuant to an action brought by a joint stock company or any of its shareholders, a court may invalidate any Interested Party Transaction entered into in breach of the requirements established by the Russian Joint Stock Companies Law within one year from the date the party making such claim learned, or should have learned, of such transaction.

Major Transactions

The Russian Joint Stock Companies Law defines a "Major Transaction" as a transaction, or a series of transactions, involving the acquisition or disposal, or a possibility of disposal, directly or indirectly, of property having a value representing 25 per cent. or more of the balance sheet value of the assets of a company as determined under RAS as at the latest reporting date, with the exception of transactions in the ordinary course of business or transactions in connection with the placement through subscription of ordinary shares of the company or with the placement of securities convertible into ordinary shares of the company and certain other exceptions.

Accordingly, Major Transactions involving assets with a value representing between 25 per cent. and 50 per cent. of the balance sheet value of the assets of a joint stock company require unanimous approval by all members of the Board or, in the event such approval is not obtained by the Board, a simple majority vote at a general shareholders meeting if the Board decides to refer this issue to the general shareholders meeting. Major Transactions involving assets with a value representing in excess of 50 per cent. of the balance sheet value of the assets of a joint stock company require a three-quarters majority vote of shareholders at a general meeting.

Any Major Transaction entered into in breach of the requirements established by the Russian Joint Stock Companies Law may be invalidated by a court pursuant to an action brought by a joint stock company or any of its shareholders within one year from the date the party making such claim learned, or should have learned, of such transaction.

PART XVI

TAXATION

*The following summary of certain United Kingdom and Jersey tax consequences of ownership of the Shares is based upon laws, regulations, decrees, rulings, income tax treaties, administrative practice and judicial decisions in effect at the date of this Prospectus. However, legislative, judicial or administrative changes or interpretations may be forthcoming that could, alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to a holder of the Shares ("**Holder**"). This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a Holder. Each prospective Holder is urged to consult its own tax adviser as to the particular tax consequences to such Holder of the ownership and disposition of Shares, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as at the date of this Prospectus, and of any actual changes in applicable tax laws after such date.*

THE FOLLOWING SECTIONS ARE A SUMMARY GUIDE ONLY TO CERTAIN ASPECTS OF TAX IN THE UK AND JERSEY AS DESCRIBED THEREIN. THEY ARE NOT A COMPLETE ANALYSIS OF HOLDING SHARES IN ALL JURISDICTIONS. THIS SUMMARY DOES NOT PURPORT TO BE A LEGAL OPINION. HOLDERS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISERS AS TO THE EFFECTS OF HOLDING SHARES IN RELEVANT JURISDICTIONS THAT MAY BE RELEVANT TO THEM.

Certain United Kingdom Tax Considerations

The following summary is intended as a general guide only and relates only to certain limited aspects of UK tax consequences of holding and disposing of Shares. It is based on current UK legislation and what is understood to be the current practice of HM Revenue & Customs ("**HMRC**") as at the date of this document, both of which may change, possibly with retroactive effect. Except insofar as express reference is made otherwise, the summary applies only to Holders who are resident and, if individuals, ordinarily resident and domiciled in the UK for taxation purposes, who hold their Shares as an investment (other than under an individual savings account), who are the absolute beneficial owners of their Shares and any dividends paid on them, who have not (and are not deemed to have) acquired their Shares by virtue of an office or employment (whether current, historic or prospective) and are not officers or employees of any member of the Group. In addition, these comments may not apply to certain classes of Holders such as dealers in securities, collective investment schemes and insurance companies.

IF YOU ARE IN ANY DOUBT ABOUT YOUR TAX POSITION, YOU SHOULD CONSULT YOUR OWN PROFESSIONAL ADVISER WITHOUT DELAY.

The following summary assumes that (i) the Company will be treated as resident in the UK for UK corporation tax purposes; (ii) there will be no register in the UK in respect of Shares; (iii) Shares will not be held by a depositary incorporated in the UK; and (iv) Shares are not paired with shares issued by a company incorporated in the UK.

This summary also assumes that the proposals made by the UK Government announced in the 2012 Budget on 21 March 2012, and not contained in the Finance (No. 4) Bill 2012, will be enacted in their current form.

UK taxation consequences of disposing of Shares in the future

A disposal or deemed disposal of Shares by a Holder who is (at any time in the relevant UK tax year) resident or, in the case of an individual, ordinarily resident in the UK for tax purposes may, depending upon the Holder's circumstances and subject to any available exemption or relief (such as the annual exempt amount for individuals and indexation for corporate Holders), give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains.

A chargeable gain realised by an individual Holder will generally be taxable at 28 per cent. if an individual's total taxable income and other gains received in the tax year fall above the threshold for higher rate income tax. In other cases, a chargeable gain may be taxed at 18 per cent. or at a combination of 18 per cent. and 28 per cent. tax rates.

A gain realised on a disposal of Shares by a corporate Holder will be subject to UK corporation tax at the standard rate of corporation tax (24 per cent. for the tax year 2012/2013 reduced to 23 per cent. for the tax year 2013/2014 for companies paying the full rate). A corporate Holder who holds a significant holding of Shares may be exempt from corporation tax on any gain, provided that it can satisfy the conditions of the exemption applicable to disposals of substantial shareholdings of companies.

Holders who are not resident or ordinarily resident in the UK will not generally be subject to UK taxation of capital gains on the disposal or deemed disposal of Shares unless they are carrying on a trade, profession or vocation in the UK through a branch or agency (or, in the case of a corporate Holder, a permanent establishment) in connection with which their Shares are used, held or acquired.

An individual Holder who has been resident or ordinarily resident in the UK for at least four out of the previous seven tax years and ceased to be resident or ordinarily resident for tax purposes in the UK for a period of less than five tax years and disposes of all or part of his Shares during that period of non-residence may be liable to capital gains tax on his return to the UK, subject to any available exemptions or reliefs.

UK taxation of dividends paid on Shares

The Company is not required to withhold UK tax when paying a dividend. Liability to UK tax on dividends will depend upon the individual circumstances of a Holder.

An individual Holder who is resident for tax purposes in the UK and who receives a dividend from the Company will generally be entitled to a tax credit equal to one-ninth of the amount of the dividend received, which is equivalent to ten per cent. of the aggregate of the dividend received and the tax credit (the *gross dividend),* and will be subject to income tax on the gross dividend. An individual Holder who is subject to income tax at the basic rate will be liable to tax on the gross dividend at the rate of ten per cent., so that the tax credit will satisfy the income tax liability of such a Holder in full. Where the tax credit exceeds the Holder's tax liability the Holder cannot claim repayment of the tax credit from HMRC.

An individual UK resident Holder who is subject to income tax at the higher rate (of 40 per cent.) will be liable to income tax on the gross dividend at the rate of 32.5 per cent. to the extent that such sum, when treated as the top slice of that Holder's income, falls above the threshold for higher rate income tax. Because tax is charged on the gross dividend, any tax credit lowers the effective rate of tax in respect of the dividend. After taking into account the ten per cent. tax credit, a higher rate taxpayer will therefore be liable to additional income tax of 22.5 per cent. of the gross dividend, equal to 25 per cent. of the net dividend. To illustrate with an example, if the cash dividend were of £90 it would carry a tax credit of 10 per cent. giving a gross dividend of £100. A higher rate taxpayer would be liable to (additional) tax at 22.5 per cent. (32.5 per cent. less the 10 per cent. credit) x £100, or £22.50.

If and to the extent that the gross dividend received by a UK resident individual Holder falls above the threshold (currently £150,000) for the additional income tax rate of 50 per cent. (reducing to 45 per cent. on 6 April 2013), that individual will be subject to tax on the gross dividend at the "dividend additional rate", currently 42.5 per cent. (37.5 per cent. from 6 April 2013). The tax credit lowers the effective rate of tax in respect of the dividend and has the effect that the Holder will have to account for tax equal to 32.5 per cent. (27.5 per cent. from 6 April 2013) of the gross dividend, or 36.1 per cent. (30.6 per cent. from 6 April 2013) of the net dividend, to the extent that the gross dividend falls above the threshold for the additional rate. So, for example, a cash dividend of £180 will carry a tax credit of £20 and the UK income tax payable on the gross dividend of £200 by an individual Holder who is subject to income tax at the dividend additional rate will be 42.5 per cent. (37.5 per cent. from 6 April 2013) of £200, namely £85 (£75 from 6 April 2013), less the tax credit of £20, leaving a net tax charge of £65 (£55 from 6 April 2013).

It is likely that most dividends paid on Shares to UK resident corporate Holders would fall within one or more of the classes of dividend qualifying for exemption from corporation tax but it should be noted that the exemptions are not comprehensive and are also subject to anti-avoidance rules. Holders within the charge to corporation tax should therefore consult their own professional advisers.

UK resident Holders who are not liable to UK tax on dividends, including pension funds and charities, are not entitled to claim repayment of the tax credit.

Holders who are resident outside the UK for tax purposes will not generally be able to claim repayment of any part of the tax credit attaching to dividends received from the Company. A Holder resident outside the UK may also be subject to taxation on dividend income under local law in their jurisdiction of residence.

UK stamp duty and SDRT on issues and transfers of Shares

No liability to UK stamp duty or stamp duty reserve tax should arise on the issue, exchange or transfer of, or agreement to transfer, Shares, provided that (i) any instrument of transfer is executed and retained outside the UK and does not relate to any property situate, or to any matter or thing done or to be done, in the UK and (ii) no other action is taken in the UK by or on behalf of any seller or buyer of the Shares.

UK Situs Assets

Remittance basis

Shares should not be assets which are treated as situated in the UK for the purposes of UK taxation of chargeable gains and income tax. Therefore the remittance basis of taxation may be available in respect of any income and gains arising therefrom for UK resident but non-domiciled holders.

Inheritance Tax

The Shares should also not be treated as assets situated in the UK for the purpose of UK inheritance tax. This means that on the death of an individual Holder, UK inheritance tax could be payable if the Holder is domiciled or deemed domiciled in the UK for such purposes at the time of death but not if the Holder is not so domiciled (or deemed domiciled). Inheritance tax may also be payable in certain circumstances in relation to Shares held in trust if the settlor of the trust is domiciled, or deemed domiciled, in the UK when the trust was created or Shares were conveyed to the trust.

Certain Jersey Tax Considerations

The following summary of the anticipated treatment of the Company and holders of Shares (other than residents of Jersey) is based on Jersey taxation law and practice as it is understood to apply at the date of this Prospectus. It does not constitute legal or tax advice and does not address all aspects of Jersey tax law and practice. Shareholders should consult their professional advisers on the implications of acquiring, buying, holding, selling or otherwise disposing of Shares under the laws of the jurisdictions in which they may be liable to taxation. Shareholders should be aware that tax laws, rules and practice and their interpretation may change.

Taxation of the Company

Jersey taxation legislation provides that the general basic rate of income tax on the profits of companies regarded as resident in Jersey or having a permanent establishment in Jersey will be zero per cent. and that only a limited number of financial services companies shall be subject to income tax at a rate of 10 per cent. However, the Company will not be regarded as resident in Jersey so long as it continues to satisfy the conditions set out in Article 123(1)(a) of the Income Tax (Jersey) Law 1961 in which case the Company will not (except as noted below) be liable to Jersey income tax.

If the Company derives any income from the ownership, disposal or exploitation of land in Jersey, or from the importation into Jersey or supplying in Jersey of hydrocarbon oil, such income will be subject to Jersey income tax at the rate of 20 per cent. It is not expected that the Company will derive any such income.

A 5 per cent. goods and services tax is generally paid in Jersey on the sale or exchange of goods and services in Jersey. All businesses with a 12-month taxable turnover in excess of £300,000 must, by Jersey law, register for this tax unless they are an international services entity ("**ISE**"). For so long as the Company is an ISE within the meaning of the Goods and Services (Jersey) Law 2007, having satisfied the requirements of the Goods and Services Tax (International Services Entities) (Jersey) Regulations 2008, as amended, a supply of goods or services made by or to the Company shall not be a taxable supply for the purposes of Jersey law.

Taxation of holders of Shares

The Company will be entitled to pay dividends to holders of Shares without any withholding or deduction for, or on account of, Jersey tax. The holders of Shares (other than residents of Jersey) will not be subject to any tax in Jersey in respect of the holding, sale or other disposition of such Shares.

Stamp duty

No stamp duty is payable in Jersey on the issue or *inter vivos* transfer of Shares.

Upon the death of a holder of Shares, a grant of probate or letters of administration will be required to transfer or otherwise deal with the Shares of the deceased person, except that where the deceased person was domiciled outside of Jersey at the time of death, the Company may (at its discretion) dispense with this requirement where the value of the deceased's movable estate in Jersey does not exceed £10,000.

Upon the death of a holder of Shares, Jersey stamp duty will be payable on the registration in Jersey of a grant of probate or letters of administration, which will be required in order to transfer or otherwise deal with:

(i) (where the deceased person was domiciled in Jersey at the time of death) the deceased person's personal estate wherever situated (including any Shares) if the net value of such personal estate exceeds £10,000; or

(ii) (if the deceased person was domiciled outside of Jersey at the time of death) the deceased person's personal estate situated in Jersey (including any Shares) if the net value of such personal estate exceeds £10,000.

The rate of stamp duty payable is:

(a) (where the net value of the deceased person's relevant personal estate does not exceed £100,000) 0.5 per cent. of the net value of the deceased person's relevant personal estate; or

(b) (where the net value of the deceased person's relevant personal estate exceeds £100,000) £500 for the first £100,000 plus 0.75 per cent. of the net value of the deceased person's relevant personal estate which exceeds £100,000.

In addition, application and other fees may be payable.

Jersey does not otherwise levy taxes upon capital, inheritances, capital gains or gifts, nor are there any other estate duties.

PART XVII

ADDITIONAL INFORMATION

1. Responsibility Statement

The Directors, whose names, functions and addresses appear on page 195 of this document, and the Company, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

2. The Company

2.1 The Company was incorporated in Jersey on 26 September 2005 with registered number 91264 under the Jersey Companies Law as a private company limited by shares with the name KazakhGold Group Limited and converted to a public limited company on 21 November 2005. On 26 July 2011, the Company changed its name to Polyus Gold International Limited.

2.2 The principal legislation under which the Company operates and under which the Shares are issued is the Jersey Companies Law.

2.3 The Company's legal and commercial name is Polyus Gold International Limited.

2.4 The Company's registered office is Queensway House, Hilgrove Street, St. Helier, Jersey JE1 1ES, Channel Islands. The head office and principal place of business of the Company is Argyll, 18b Charles Street, London W1J 5DU and its telephone number is +44 (0) 20 3585 3537.

3. Share Capital

3.1 By resolution passed at its annual general meeting of shareholders on 15 July 2009, the Company increased its authorised share capital to £20,000 divided into 200,000,000 Shares. This increase was undertaken in anticipation of an issuance of additional Shares in the form of GDRs pursuant to a placing of the Company's Shares. The placing was completed in July 2010. A total of 51,194,922 Shares and 15,471,745 GDRs were placed at a price of US$1.50 per share and per GDR. On 27 July 2010, at an extraordinary general meeting of shareholders (the "**2010 EGM**") the Company's shareholders passed a resolution to increase the Company's authorised share capital to 2,100,000,000 Shares. On 14 July 2011 (the "**2011 EGM**") the Company's shareholders passed a resolution to increase the Company's authorised share capital to 3,600,000,000 Shares. Following the Private Exchange Offer and the exercise of the Options under the Principal Shareholders Option Agreement and the Jenington Option Agreement the total issued share capital of the Company is 3,032,149,962 Shares.

3.2 The Shares have been issued pursuant to the Jersey Companies Law, are in registered and certificated form, are fully-paid and are denominated in pounds sterling. No temporary documents of title will be issued in respect of the Shares, and, prior to the issue of definitive certificates, transfers will be certified against the register.

4. Articles of Association

4.1 Under the Jersey Companies Law, the capacity of a Jersey company is not limited by anything contained in its memorandum or articles of association or by any act of its members. Accordingly, the Company's Memorandum of Association does not contain an objects clause.

4.2 At an Extraordinary General Meeting held on 8 June 2012, new articles of association of the Company (the "**New Articles**") were adopted, conditional on Admission in place of the Company's current Articles of Association (the "**Current Articles**"). Summaries of the Current Articles and the New

Articles are set out below. The Current Articles and the New Articles are available for inspection at the address specified in paragraph 16.1 below.

4.3 In addition to approving the adoption of the New Articles, shareholders conferred the following additional authorities at the Extraordinary General Meeting (each of which are customary for companies with a premium listing on the London Stock Exchange):

- Authority to allot shares. The shareholders conferred upon the Directors the authority to allot up to £15,160.74 in nominal amount of relevant securities for a period of five years from the date of the resolution. The nominal amount of relevant securities to which this authority relates represents approximately 5 per cent. of the nominal amount of the issued ordinary share capital of the Company as at 16 May 2012.
- Disapplication of pre-emption rights. The shareholders passed a special resolution authorising a limited disapplication of pre-emption rights to enable the Directors to allot shares of up to a maximum nominal amount of £15,160.74 for cash on a non-pre-emptive basis.
- Authority to purchase own shares. The shareholders also, by special resolution, authorised the Directors to make limited on-market purchases of the Company's own ordinary shares, in accordance with the requirements of the Listing Rules.

The Current Articles of Association of PGIL

4.4 The Current Articles include provisions to the following effect:

Voting Rights

Subject to any special rights restrictions or prohibitions as regards voting for the time being attached to any shares, on a show of hands every member present in person or by proxy or (in the case of a corporation) by duly authorised representative shall have one vote and on a poll every member shall have one vote for each share of which he is the holder.

In the case of joint holders, unless such joint holders shall have chosen one of their number to represent them and so notified the Company in writing, the vote of the most senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register.

No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the Company of which he is holder or one of the joint holders have been paid.

Dividends

Subject to the provisions of the Jersey Companies Law, the Company may by ordinary resolution declare dividends but no such dividend shall exceed the amount recommended by the board.

Subject to the provisions of the Jersey Companies Law, the board may pay fixed and interim dividends if and in so far as in the opinion of the board the financial position of the Company justifies such payments. If the board acts in good faith, the directors shall not incur any liability to the holders of any shares for any loss they may suffer by the lawful payment on any other class of shares having non-preferred or deferred rights of any such fixed or interim dividend.

The Company may, upon the recommendation of the board, by ordinary resolution, direct payment of a dividend in whole or in part *in specie* and the board shall give effect to such resolution.

No dividend or other moneys payable in respect of a share shall bear interest against the Company.

The board may deduct from any dividend or other moneys payable to a holder of shares on or in respect of such shares all sums of money (if any) presently payable by the holder to the Company on account of calls or otherwise in relation to such shares.

All unclaimed dividends may be invested or otherwise made use of by the board for the benefit of the Company until claimed. Any dividend unclaimed after a period of twelve years from the date on which such dividend was declared or became due for payment shall be forfeited and revert to the Company.

The board may, if authorised by an ordinary resolution of the Company, offer any holder of shares the right to elect to receive shares by way of scrip dividend instead of cash.

The board may fix a date as the record date by reference to which a dividend will be declared or paid or a distribution, allotment or issue made, and that date may be before, on or after the date on which the dividend, distribution, allotment or issue is declared, paid or made.

Capitalisation of Reserves

Subject to the Jersey Companies Law, the board may, with the authority of an ordinary resolution of the Company: (i) resolve to capitalise any sum standing to the credit of any reserve account of the Company (including share premium account and capital redemption reserve) or any sum standing to the credit of profit and loss account not required for the payment of any preferential dividend (whether or not it is available for distribution); and (ii) appropriate that sum as capital to the holders of ordinary shares in proportion to the nominal amount of the ordinary share capital held by them respectively and apply that sum on their behalf in paying up in full any unissued shares or debentures of the Company of a nominal amount equal to that sum and allot the shares or debentures credited as fully paid to those members, or as they may direct, in those proportions or in paying up the whole or part of any amounts which are unpaid in respect of any issued shares in the Company held by them respectively, or otherwise deal with such sum as directed by the resolution.

Share Capital

Without prejudice to any special rights for the time being conferred on the holders of any shares or class of shares (which special rights should not be varied or abrogated except with such consent or sanction as contained in the Current Articles) any share or class of shares in the share capital of the Company may be authorised for issue with such preferred, deferred or other special rights or such restrictions whether in regard to dividends, return of capital, voting or otherwise as the Company may from time to time by special resolution determine.

The Company may by special resolution alter its share capital as stated in its memorandum in any of the ways permitted or provided for under the Jersey Companies Law.

Subject to any confirmation by the court and the provisions of the Jersey Companies Law the Company may by special resolution reduce its share capital in any way.

The Company may from time to time subject to the provisions of the Jersey Companies Law issue or convert existing non-redeemable shares whether issued or not into shares which are to be redeemed or are liable to be redeemed at the option of the Company or the holder thereof.

The Company may from time to time subject to the provisions of the Jersey Companies Law purchase its own shares (including any redeemable shares) in any manner authorised by the Jersey Companies Law provided that in the event that the Company shall purchase any shares which are admitted to listing or trading on any investment exchange such purchases shall be made in accordance with any relevant restrictions imposed by any such listing authority or exchange.

Modification of Rights

Subject to the Jersey Companies Law whenever the share capital of the Company is divided into different classes of shares the special rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied or abrogated at any time with the consent in writing of the holders of two thirds of the issued shares of the class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Current Articles relating to general meetings of the Company or to the proceedings thereat shall *mutatis mutandis* apply except that the necessary quorum shall be persons holding or representing by proxy at least one third in nominal amount of the issued shares of that class (but so that if at any adjourned meeting of such holders a quorum as above defined is not present one person present holding shares of that class or his proxy shall be a quorum) and that the holders of shares of that class or their duly appointed proxies shall on a poll have one vote in respect of every share of that class held by them respectively.

The special rights conferred upon the holders of any shares or class of shares issued with preferred, deferred or other special rights shall (unless otherwise expressly provided by the conditions of the issue of such shares) be deemed not to be varied by the creation or issue of further shares ranking *pari passu* therewith.

Shares

The shares in the Company shall be at the disposal of the Directors who, subject to the provisions of the Jersey Companies Law and the Current Articles and to any restrictions the Company in general meeting by ordinary resolution, may from time to time impose, allot grant options over or otherwise deal with or dispose of them to such persons at such times and generally on such terms and conditions as they think proper. Save as provided in the Jersey Companies Law each share in the Company shall be distinguished by its appropriate number. the Company may pay a commission to a person in consideration of his subscribing or agreeing to subscribe for shares in the Company or procuring or agreeing to procure subscriptions for shares in the Company as provided in the Jersey Companies Law.

Interests in Shares

The Directors shall have power by notice in writing to require any member to disclose to the Company the identity of any person other than the member (an "**interested party**") who has any interest in the shares held by the member and the nature of such interest.

Any such notice shall require any information in response to such notice to be given in writing within such reasonable time as the Directors shall determine.

The Company shall maintain a register of interested parties to which the provisions of Article 41 of the Jersey Companies Law shall apply *mutatis mutandis* and whenever in pursuance of a requirement imposed on a member as aforesaid the Company is informed of an interested party the identity of the interested party and the nature of the interest shall be promptly inscribed therein together with the date of the request.

The Directors may be required to exercise their powers under article 7(1) of the Current Articles on the requisition of members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up share capital of the Company as carries at that date the right of voting at general meetings of the Company.

The requisition must:

- state that the requisitionists are requiring the Company to exercise its powers under article 7(1) of the Current Articles;
- specify the manner in which they require those powers to be exercised; and
- give reasonable grounds for requiring the Company to exercise those powers in the manner specified,

and must be signed by the requisitionists and deposited at the office.

The requisition may consist of several documents in like form each signed by one or more requisitionists. On the deposit of a requisition complying with this section it is the Directors' duty to exercise their powers under article 7(1) of the Current Articles in the manner specified in the requisition.

If any member has been duly served with a notice given by the Directors in accordance with article 7(1) of the Current Articles and is in default for the prescribed period in supplying to the Company the information thereby required, then the Directors may in their absolute discretion at any time thereafter serve a notice (a "direction notice") upon such member as follows:

A direction notice may direct that, in respect of:

- the shares recorded in the register of the member which comprise or include the shares in relation to which the default has occurred (all or the relevant number as appropriate of such shares being the "**default shares**"); and
- any other shares held by the member;

the member shall not be entitled to vote at a general meeting or meeting of the holders of any class of shares of the Company either personally or by a duly authorised representative (if a corporation) or by proxy or to exercise any other right conferred by membership in relation to meetings of the Company or of the holders of any class of shares of the Company; and

where the default shares represent at least 0.25 per cent. in nominal value of the issued shares of the class of shares concerned, then the direction notice may additionally direct that:

- in respect of the default shares, any dividend or part thereof or other money which would otherwise be payable on such shares shall be retained by the Company without any liability to pay interest thereon when such money is finally paid to the member;
- no transfer other than an approved transfer as set out in article 7(7)I of the Current Articles of any of the shares held by such member shall be registered unless:
  - the member is not himself in default as regards supplying the information requested; and
  - the transfer is of part only of the member's holding and when presented for registration is accompanied by a certificate by the member in a form satisfactory to the Directors to the effect that after due and careful enquiry the member is satisfied that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer.

The Company shall send to each other person appearing to be interested in the shares the subject of any direction notice a copy of the notice, but the failure or omission by the Company to do so shall not invalidate such notice.

If shares are issued to a member as a result of that member holding other shares in the Company and if the shares in respect of which the new shares are issued are default shares in respect of which the member is for the time being subject to particular restrictions, the new shares shall on issue become subject to the same restrictions whilst held by that member as such default shares. For this purpose, shares which the Company procures to be offered to members *pro rata* (or *pro rata* ignoring fractional entitlements and shares not offered to certain members by reason of legal or practical problems associated with offering shares outside the United Kingdom or Jersey) shall be treated as shares issued as a result of a member holding other shares in the Company.

Any direction notice shall have effect in accordance with its terms for as long as the default, in respect of which the direction notice was issued, continues but shall cease to have effect in relation to any shares which are transferred by such member by means of an approved transfer as set out in article 7(7)I of the Current Articles. As soon as practical after the direction notice has ceased to have effect (and in any event within seven days thereafter) the Directors shall procure that the restrictions imposed by Current Articles 7(4) and 7(5) of the Current Articles shall be removed and that dividends and other moneys withheld pursuant to article 7(4)(b)(i) of the Current Articles are paid to the relevant member.

Transfer of Shares

The Company may permit the holding in uncertificated form of one or more classes of shares determined by the Directors for this purpose in order that the transfer of title to any such shares may be effected by means of a computer system in accordance with the Listing Rules and the Companies (Uncertificated Securities) (Jersey) Order 1999, as amended (the "**Uncertificated Securities Order**"), provided that the register of members shall be held in Jersey pursuant to the Jersey Companies Law.

Unless and until the Directors determine that one or more classes of share may be held in uncertificated form, the shares shall be issued in certificated form.

The Directors shall have power to implement such arrangements as they may in their absolute discretion think fit in order for any class of shares to be a participating security (subject always to the UK Uncertificated Securities Regulations 2001, as amended (the "**UK Regulations**" and together with the Uncertificated Securities Order, the "**Regulations**") and the facilities and requirements of the relevant system concerned). Where they do so and subject to the Jersey Companies Law:

- the Current Articles shall be construed accordingly and shall be deemed to be modified, amended or extended to the extent necessary to ensure that the same are consistent with the provisions of the Regulations and to permit the holding of shares of the relevant classes in uncertificated form and the transfer of title to shares of the relevant classes by means of a computer system; and
- the relevant provisions of the Current Articles shall commence to have effect immediately prior to the time at which the operator of the relevant system concerned permits the class of shares concerned to be a participating security.

In relation to any class of shares which is, for the time being, a participating security, and for so long as such class remains a participating security, no provision of the Current Articles shall apply or have effect to the extent that it is in any respect inconsistent with:

- the holding of shares of that class in uncertificated form;
- the transfer of title of shares of that class by means of a relevant system; or
- the Regulations.

Without prejudice to the generality of and notwithstanding anything contained in the Current Articles, where any class of shares is, for the time being, a participating security (such class being referred to hereinafter as the "**Relevant Class**"):

- shares of the Relevant Class may be issued in uncertificated form in accordance with the Regulations;
- unless the Directors otherwise determine, shares of the Relevant Class held by the same holder or joint holder in certificated form and uncertificated form shall be treated as separate holdings;
- shares of the Relevant Class may be changed from uncertificated to certificated form and from certificated to uncertificated form, in accordance with the Regulations;
- title of shares of the Relevant Class which are recorded on the register of members as being held in uncertificated form may be transferred by means of the relevant system concerned and accordingly (and in particular but without limitation) the Current Articles shall not apply in respect of such shares to the extent that any article requires or contemplates the effecting of a transfer by an instrument in writing and the production of a certificate for the share to be transferred;

- the Company shall comply with the provisions of regulations 21 and 22 of the UK Regulations in relation to the Relevant Class; and
- the provisions of the Current Articles with respect to meetings of or including holders of the Relevant Class, including notices of such meetings, shall have effect subject to the provisions of regulation 34 of the UK Regulations.

Where relevant any article that requires the Company to issue a certificate to any person holding shares of the Relevant Class in uncertificated form shall not apply.

Any instrument of transfer of shares shall be in writing in any form which the Directors may approve (which shall specify the full name and address of the transferee) and shall be signed by or on behalf of the transferor (and, in the case of any partly paid share, the transferee) and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof.

The Directors may decline to register any transfer of shares prohibited by the Current Articles and may decline to register any transfer of shares unless the instrument of transfer is deposited at the Company's registered office or such other place as the Directors may reasonably require, accompanied by the certificate of the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. If the Directors decline to register a transfer of any share, they shall, within two months after the date on which the transfer was lodged with the Company, send to the transferee notice of the refusal.

The registration of transfers of shares or of transfers of any class of shares may be suspended at such times and for such periods as the Directors may determine.

The Company shall be entitled to retain any instrument of transfer of any share which is registered, but any instrument of transfer of any share which the Directors refuse to register shall be returned to the person lodging it when notice of the refusal is given.

Lien

The Company shall have a lien on every share (not being a fully paid share) for all monies (whether presently payable or not) called or payable at a fixed time in respect of that share and the Company shall also have a lien on all shares (other than fully paid shares) standing registered in the name of a single person for all monies presently payable by him or his estate to the Company but the Directors may at any time declare any shares to be wholly or in part exempt from the provisions of the relevant article. The Company's lien (if any) on the shares shall extend to all dividends payable thereon.

General Meetings

The Company shall hold a general meeting as its Annual General Meeting once in every calendar year at each time and at such place as may be determined by the Directors.

The Directors may whenever they think fit convene an Extraordinary General Meeting and Extraordinary General Meetings shall also be convened on a requisition made in accordance with the Jersey Companies Law in writing and signed by members holding in the aggregate not less than one tenth of the total voting rights of the members who have the right to vote at the meeting.

Appointment of Directors

The number of Directors shall be not fewer than four. A Director need not be a member of the Company. The Directors shall have power at any time and from time to time to appoint, subject to the provisions of the Jersey Companies Law, any person to be a Director either to fill a casual vacancy or as an additional Director. The Company may by Ordinary Resolution appoint any person to office as a Director.

Election, Re-election and Retirement of Directors

Subject to the provisions of the Current Articles all Directors shall submit themselves for election by shareholders at the first opportunity after their appointment, and shall not remain in office for longer than three years since their last election or re-election without submitting themselves for re-election. At each Annual General Meeting, the Directors subject to retirement in accordance with the Current Articles shall retire from office. A Director retiring at such meeting shall retain office until the dissolution of such meeting and accordingly on retiring a Director who is re-elected or deemed to have been re-elected pursuant to the Current Articles will continue in office without a break.

The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election and any Director who has been, or who by the time of the next Annual General Meeting will have been, in office for three years.

Powers of Directors

The business of the Company shall be managed by the Directors who may pay all expenses incurred in setting up and registering the Company and who may exercise all such powers of the Company as are not provided for by the Jersey Companies Law, the memorandum of association of the Company, the Current Articles, or any directions given by special resolution required to be exercised by the Company in general meeting. No alteration of the memorandum of association of the Company or the Current Articles and no such direction shall invalidate any prior act of the Directors which would have been valid if the alteration had not been made or the direction had not been given. The powers given by the relevant Article shall not be limited by any special power given to the Directors by the Current Articles. A meeting of the Directors at which a quorum is present may exercise all powers and discretions exercisable by the Directors.

Proceedings of Directors

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit and may determine the quorum necessary for the transaction of business which in default of such determination shall be four.

Any Director may participate in a meeting of the Directors or in a committee thereof by means of a conference telephone or similar communications equipment whereby all of the Directors participating in the meeting can hear each other and the Directors participating this manner shall be deemed to be present in person at such meeting for all the purposes of the Current Articles.

The Directors may elect a chairman of their meetings and determine the period for which he is to hold office but if no such chairman is elected or if at any meeting the chairman is not present at the time appointed for holding the same the Directors present shall choose one of their number to be chairman of such meeting. The chairman has a second or casting vote at meetings of Directors.

Directors' Interests

A Director may be or become a director or other officer of or otherwise interested in any company promoted by the Company or in which the Company may be interested as a member or otherwise and no such Director shall be accountable to the Company for any remuneration or other benefits received by him as a director or officer of or from his interests in such other company unless the Company otherwise directs.

A Director who has directly or indirectly an interest in a transaction entered into or proposed to be entered into by the Company or by a subsidiary of the Company which to a material extent conflicts with the interests of the Company and of which he has actual knowledge shall disclose to the Company (by notice to the Directors) the nature and extent of his interest. Subject thereto any such Director shall not be liable to account to the Company for any profit or gain realised by him on such transactions.

A notice in writing given to the Company by a Director that he is to be regarded as interested in a transaction with a specified person is sufficient disclosure of his interest in any such transaction entered into after the notice is given. Subject to the Current Articles, a Director may vote in respect of any such transaction and if he does so vote his vote shall be counted and he shall be capable of being counted towards the quorum at any meeting of the Directors at which any such transaction shall come before the Directors for consideration.

Subject to the provisions of the Jersey Companies Law a Director may act by himself or his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.

Borrowing Powers

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets both present and future and uncalled capital, or any part thereof, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or its parent undertaking (if any) or any subsidiary undertaking of the Company or of any third-party.

Winding Up

Subject to the claims of any secured creditors and to the provisions of any enactment as to preferential payments the Company's property shall on winding up be realised and applied in satisfaction of the Company's liabilities *pari passu* and subject thereto any surplus shall then be distributed amongst the members according to their rights and interests in the Company. Subject to the rights of the holders of shares issued upon special conditions if the assets available for distribution to members shall be insufficient to pay the whole of the paid up capital such assets shall be shared on a *pro rata* basis amongst members by reference to the number of fully paid up shares held by each member respectively at the commencement of the winding up.

If the Company shall be wound up the liquidator, or where there is no liquidator the Directors, may with the sanction of a special resolution divide amongst the members *in specie* any part of the assets of the Company or vest the same in trustees upon such trusts for the benefit of the members as the liquidator or the Directors (as the case may be) with the like sanction shall think fit.

The New Articles of Association of the Company

4.5 Certain provisions have been incorporated into the New Articles to enshrine rights that are not conferred by the Jersey Companies Law, but which are mandated by the Listing Rules for premium listed companies and which the Board of the Company believes investors would expect in a company with a premium listing on the London Stock Exchange.

4.6 The New Articles include provisions to the following effect:

Voting Rights

Subject to disenfranchisement in the event of non-payment of any sum due and payable in respect of a share and subject to any special terms as to voting on which any shares may be issued (no such shares currently being in issue), on a show of hands every member present in person (or, being a corporation, present by a duly authorised representative) or by proxy shall have one vote and on a poll every member present in person or by proxy shall have one vote for each share of which he is the holder. In certain circumstances, shareholders who fail to respond to a disclosure notice will not be permitted to vote (see below).

Transfer of shares

The Ordinary Shares are in registered form and are capable of being held in uncertificated form.

A member may transfer all or any of his uncertificated shares in CREST. The Board may, in its absolute discretion, refuse to register any transfer of an uncertificated share where permitted to do so by applicable law, including the Jersey Companies Law and the Companies (Uncertificated Securities) (Jersey) Order 1999.

All transfers of certificated shares must be effected by a transfer in writing in any usual form or any other form approved by the Directors. The instrument of transfer shall be executed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee.

The Directors may, in their absolute discretion, refuse to register any instrument of transfer of a certificated share:

(i) which is not fully paid up (but, in the case of a class of shares which has been admitted to the Official List, such discretion may not be exercised in such a way as to prevent dealings in those shares from taking place on an open and proper basis);

(ii) on which the Company has a lien; or

(iii) in respect of which a disclosure notice has been issued and not responded to (see below).

If the Directors refuse to register a transfer of a share they shall, as soon as practicable and in any event within two months after the date on which the instrument of transfer was lodged, give to the transferor and the transferee notice of the refusal. The Directors must also provide the transferee with such further information about the reasons for the refusal as the transferee may reasonably request.

Dividends

Subject to the Jersey Companies Law, the Company in general meeting may, by ordinary resolution, declare dividends in accordance with the respective rights of the members and may fix the time for payment of such dividend, provided that no dividend shall be payable in excess of the amount recommended by the Directors.

Subject to the Jersey Companies Law, the Directors may pay such interim dividends as appear to them to be justified by the financial position of the Company and may also pay any dividends payable at a fixed rate at intervals settled by the Directors as appear to be justified by the financial position of the Company. No dividend or other moneys payable in respect of a share shall bear interest as against the Company.

Any dividend unclaimed for a period of 12 years after having become due for payment shall be forfeited and cease to remain owing by the Company unless otherwise provided by the rights attached to the share.

Disclosure of interests in shares

The Company may give a disclosure notice to any person whom it knows or has reasonable cause to believe is either: (a) interested in the Company's shares; or (b) has been so interested at any time during the three years immediately preceding the date on which the disclosure notice is issued.

The disclosure notice may require the person: (a) to confirm that fact or (as the case may be) to state whether or not it is the case; and (b) if he holds, or has during that time held, any such interest, to give such further information as may be required.

A holder of shares whose shareholding represents less than 0.25 per cent. of the issued shares of that class who fails to provide the information within 28 days after the notice has been given shall not be entitled to vote either personally or by proxy at a shareholder meeting or to exercise any other right conferred by membership in relation to shareholder meetings until (a) the date seven days after the date on which the Board is satisfied that the default is remedied; (b) the Company is notified that the default shares are the subject of an exempt transfer; or (c) the Board decides to waive those restrictions in whole or in part. A holder of shares whose shareholding represents 0.25 per cent. or more of the issued shares of that class who fails to provide the information within 14 days after the notice has been given shall, in addition to the restrictions on voting and rights of membership described above, also not be entitled to receive any payment by way of dividend on, or to transfer, or to transfer any rights in, the shares. These restrictions shall not prejudice a sale of the shares on the London Stock Exchange, a sale of the whole beneficial interest in the shares to a person whom the Directors are satisfied is unconnected with the existing holder or with any other person appearing to be interested in the shares or a disposal of the shares by way of acceptance of a takeover offer.

If at any time the Company has a class of shares admitted to the Official List, the provisions of Chapter 5 of the Disclosure and Transparency Rules will be deemed to be incorporated by reference into the Articles, applied as if the Company were an “issuer” and not a “non-UK issuer” as defined under such Rules. In accordance with these Rules, shareholders will be required to notify the Company if the voting rights attached to shares held by them (subject to some exceptions) reach, exceed or fall below 3 per cent. and each 1 per cent. threshold thereafter up to 100 per cent.

Distribution of assets on a winding up

Subject to any particular rights or limitations for the time being attached to any shares, if the Company is wound up, the assets available for distribution among shareholders shall be distributed to the shareholders *pro rata* to the number of shares held by each member at the time of the commencement of the winding up. If any share is not fully paid up, that share shall only carry the right to receive a distribution calculated on the basis of the proportion that the amount paid up on that share bears to the issue price of that share.

Changes in share capital

Subject to the Jersey Companies Law and without prejudice to any rights attached to any existing shares, any share may be issued with or have attached to it such preferred, deferred or other special rights or restrictions as the Company may by special resolution determine, or in the absence of such determination as the Directors may determine. Subject to Jersey Companies Law, the Company may issue shares which are, or at the option of the Company or the holder are liable, to be redeemed.

The Company may, by altering its memorandum of association by special resolution, increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount, subdivide its shares or any of them into shares of smaller amount or cancel or reduce the nominal value of any shares which have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amounts so cancelled or the amount of the reduction.

Subject to the Jersey Companies Law, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account, and may also, subject to the Jersey Companies Law and the rules of any applicable stock exchange, and the passing of a special resolution, purchase its own shares.

Variation of rights

Whenever the share capital of the Company is divided into different classes of shares, the special rights attached to any class of shares may, unless otherwise provided by their terms of issue, be varied or abrogated with the consent in writing of the holders of two-thirds in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of shares of that class. The quorum at any such separate meeting shall be two persons holding or representing at least one-third in nominal amount of the issued shares of that class, or if the meeting is adjourned, any holder or holders of the issued shares of that class who is or are present in person or by proxy shall be a quorum.

Directors' interests

Subject to any applicable statutory provisions and to declaring his interests in accordance with the New Articles, a Director may enter into or be interested in any transaction or arrangement with the Company, either with regard to his tenure of any office or position in the management, administration or conduct of the business of the Company, or as vendor, purchaser or otherwise. A Director may hold and be remunerated in respect of any other office or place of profit with the Company (other than the office of auditor of the Company) in conjunction with his office as a Director and he (or his firm) may also act in a professional capacity for the Company (except as auditor) and may be remunerated for it.

A Director who, to his knowledge, is in any way, whether directly or indirectly, interested in a transaction or arrangement or a proposed transaction or arrangement with the Company shall disclose to the other Directors the nature and extent of the interest or situation in accordance with the New Articles.

The New Articles contain provisions which permit a director to count in the quorum at a meeting of Directors in respect of matters in which he has an interest and in certain circumstances vote on such matters.

Remuneration of Directors

The Directors will be paid fees not exceeding in aggregate £2,000,000 per annum (or such larger sum as the Company may, by ordinary resolution, determine) as the Directors may decide to be divided among them. Such fee shall be divided among them in such proportion and manner as they may agree or, failing agreement, equally.

The Directors may grant special remuneration to any Director who performs any special or extra services to, or at the request of, the Company. Special remuneration may be payable to a Director in addition to his ordinary remuneration (if any) as a Director.

The Directors shall also be paid out of the funds of the Company all expenses properly incurred by them in and about the discharge of their duties, including their expenses of travelling to and from the meetings of the Directors, committee meetings and shareholder meetings. A Director may also be paid all expenses incurred by him in obtaining professional advice in connection with the affairs of the Company or the discharge of his duties.

The Directors may exercise all the powers of the Company to pay, provide or procure the grant of pensions or other retirement or superannuation benefits and death, disability or other benefits, allowances or gratuities to any person who is or has been at any time a Company director or in the employment or service of the Company or of any company which is or was a subsidiary undertaking of the Company or the relatives or dependants of any such person.

The Company shall not make a payment for loss of office to a Director unless the payment has been approved by an ordinary resolution of the Company.

Retirement of Directors

A Director shall be capable of being appointed or reappointed as a Director, without there being any restriction on age. All Directors then in office shall retire at each annual general meeting of the Company but shall be eligible for re-election.

Borrowing powers

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property and assets and uncalled capital and to issue debentures and other securities for any debt, liability or obligation of the Company or of any third party.

Shareholders' meetings

Annual general meetings shall be held at least once in each subsequent calendar year within six months of the end of each financial year of the Company. The Board may call general meetings whenever it thinks fit or on the requisition of members pursuant to the provisions of the Jersey Companies Law and the New Articles.

An annual general meeting shall be called by at least 21 clear days' notice and all other general meetings shall be called by at least 14 clear days' notice. Subject to any other restrictions, every notice of meeting shall be given to all the members (other than any who, under the provisions of the New Articles, are at the date of the notice not entitled to receive such notices from the Company) and to the Directors and auditors.

Every notice of meeting shall specify the place, the day and the time of the meeting and the general nature of the business to be transacted and, in the case of an annual general meeting, shall specify the meeting as such.

All general meetings shall be held in such place as may be determined by the Board. The requisite quorum for general meetings of the Company shall be two qualifying persons entitled to vote at the meeting.

Capitalisation of reserves

Subject to the Jersey Companies Law the Directors may, with the authority of an ordinary resolution of the Company: (i) resolve to capitalise any sum standing to the credit of any reserve account of the Company including share premium account and capital redemption reserve) or any sum standing to the credit of profit and loss account not required for the payment of any preferential dividend (whether or not it is available for distribution); and (ii) appropriate that sum as capital to the holders of ordinary shares in proportion to the nominal amount of the ordinary shares held by them respectively and apply that sum on their behalf in paying up in full any unissued shares or debentures of the Company of a nominal amount equal to that sum and allot the shares or debentures credited as fully paid to those members, or as they may direct, in those proportions or in paying up the whole or part of any amounts which are unpaid in respect of any issued shares held by them respectively, or otherwise deal with such sum as directed by the resolution.

Authority to allot securities and disapplication of pre-emption rights

The Company may, subject to the provisions contained in the New Articles relating to the disapplication of the pre-emption rights, from time to time pass an ordinary resolution authorising the Directors to exercise all the powers of the Company to allot "relevant securities" up to the nominal amount specified in the ordinary resolution. The ordinary resolution may provide that a proportion of the amount so authorised is to be used only for the allotment of equity securities in connection with rights issues. The authority, if not previously revoked, shall expire on the day specified in the resolution, not being more than five years after the date on which the resolution is passed.

For these purposes, all shares in the Company (other than subscriber shares, or shares allotted pursuant to an employee share scheme) are "relevant securities", as are all rights to subscribe for, or to convert any security into, shares in the Company. Pre-emption rights do not apply to the allotment of bonus shares, equity securities paid up other than in cash or allotments pursuant to a share option scheme.

"Equity securities" to be paid up in cash must be offered to existing shareholders *pro rata* to their holdings of ordinary share capital of the Company except that, if a special resolution to disapply pre-emption rights has been passed, the Directors shall have power to allot equity securities for cash other than on a *pro rata* basis.

For these purposes, all shares in the Company are "equity securities", as are all rights to subscribe for, or to convert any security into, shares in the Company, save that the following are not "equity securities": (a) a subscriber share or bonus share; (b) a share which, as respects dividends and capital, carries a right to participate only up to a specified amount in a distribution; and (c) a share which is held by a person who acquired it in pursuance of an employee share scheme or, in the case of a share which has not been allotted, is to be allotted in pursuance of such a scheme or, in the case of a share held by the Company as a treasury share, is to be transferred in pursuance of such scheme.

Website communication with Shareholders

The New Articles enable the Company to use its website as a means of sending or supplying documents or information to members. Before communicating with a member by means of its website, the Company must have asked the member, individually, to agree (generally or specifically) that the Company may send or supply documents or information to him by means of a website. A member shall be deemed to have agreed that the Company may send or supply a document or information to him by electronic means (e.g. by means of a website) if no response indicating a refusal of the request is received within 28 days (or such longer period as the Directors may specify). When communicating with members by means of website communications, the Company must notify the intended recipient (by post or other permitted means) of the presence of a document or information on the website, the address of the website and place that it appears and how to access the document on the website.

Directors' indemnities, insurance and defence expenditure

As far as the Jersey Companies Law allows, the Company may: (i) indemnify any Director (or any director of any of its subsidiary undertakings) against any liability; (ii) indemnify a director of a company that is a trustee of an occupational pension scheme for employees (or former employees) of the Company (or of any of its subsidiary undertakings) against liability incurred in connection with that company's activities as trustee of the scheme; (iii) purchase and maintain insurance against any liability for any person referred to in paragraph (i) or (ii) above; and (iv) provide any person referred to in paragraph (i) or (ii) above with funds (whether by loan or otherwise) to meet expenditure incurred or to be incurred by him in defending any criminal, regulatory or civil proceedings or in connection with an application for relief (or to enable him to avoid incurring such expenditure).

5. Dividends

5.1 *Dividend Policy*

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.

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

5.2 *Historical Dividend Information*

On 30 March 2012, the Board of Directors recommended the payment by the Company of a final dividend of US$0.041 per Share in respect of the financial year ended 31 December 2011. The dividend was approved by the Shareholders at the Company's annual general meeting held on 28 May 2012. The Company did not declare or pay any dividends in 2009, 2010 or 2011.

The table below shows the dividends that OJSC Polyus Gold declared on its shares in the periods indicated.

Date of Adoption of Decision on Dividend Payment	***Period for which the dividend was declared***	***Amount of Dividend per Ordinary share***(1)(3)	***Amount of Dividends Paid (US$ thousands)***(2)(3)
9 December 2011	Nine months ended 30 September 2011	RUB 26.23 (US$ 0.84)	156,326
20 May 2011	Year ended 31 December 2010	RUB 11.25 (US$0.40)	72,327
24 August 2010	Six months ended 30 June 2010	RUB 8.52 (US$0.28)	50,528
21 May 2010	Year ended 31 December 2009	RUB 9.28 (US$0.30)	54,273
14 September 2009	Six months ended 30 June 2009	RUB 6.55 (US$0.21)	40,387

1. The dividend per share data has been calculated on the basis of the number of OJSC Polyus Gold shares issued and outstanding in the relevant year (190,627,747 shares in each of 2009, 2010 and 2011).

2. Amounts of dividends paid for the nine months ended 30 September 2011, the year ended 31 December 2010, the six months ended 30 June 2010, the year ended 31 December 2009 and the six months ended 30 June 2009 are shown net of amounts attributable to treasury shares (US$3,778 thousand, US$4,331 thousand, US$3,000 thousand, US$3,252 thousand and US$2,297 thousand, respectively).

3. US dollar per share amounts are stated using the exchange rates as at the respective dates of declaration of the dividend.

6. Principal Shareholders

6.1 The following table sets forth information regarding the ownership of the Shares, as of the date of Admission of the Shares.

	Shares Owned	
Shareholder	***Number***	***Percent***
Nafta[(1)]	1,219,680,676	40.22%
Onexim[(2)]	1,145,428,020	37.78%
Chengdong Investment Corporation[(3)]	151,607,496	4.99%
JSC VTB Bank	110,761,797	3.65%

1. Nafta is a group of privately-owned companies, including Wandle Holdings Limited, the beneficial owner of which is Mr. Suleiman Kerimov. Of the 1,219,680,676 Shares that Nafta, including Wandle Holdings Limited, beneficially owns, substantially all are subject to repurchase agreements, under which Nafta retains the voting rights attributable to the Shares sold under the repurchase agreements. Nafta has accomplished a number of sizeable projects in the mining, metals, telecommunications, real estate and retail sectors, and the stock markets. Its investments include a stake in Uralkali, one of the world's largest potash producers, and PIK Group, one of the leading residential developers in Russia.

2. Onexim is a group of privately-owned companies, including Coverico Holdings Co. Limited and Bristaco Holdings Co. Limited, the beneficial owner of which is Mr. Mikhail Prokhorov. Onexim is one of Russia's largest private investment funds, with a focus on the mining industry, innovative projects in energy and nanotechnology, real estate and other industries.

3. Chengdong Investment Corporation is a wholly-owned subsidiary of CIC International Co. Ltd.

6.2 The Company is in the process of amending its Level I GDR Programme with BNY Mellon as depositary. Following such amendment, which is expected to take effect prior to Admission of the Shares, the maximum number of Shares that may be deposited under the programme is 151,304,283 Shares, representing up to 4.99 per cent. of the issued share capital of the Company.

6.3 None of the Company's shareholders, including the shareholders listed above, has or will have voting rights different from any other holder of its Shares.

6.4 To the Company's knowledge, there are no arrangements in place, the operation of which may at a subsequent date result in a change in control of the Company.

6.5 On the date of Admission of the Shares, Nafta is expected to hold 40.22 per cent., and Onexim 37.78 per cent., of the Shares. The Principal Shareholders have confirmed to the Company that they are acting in concert with each other for the purposes of the Admission.

6.6 Save as disclosed in this paragraph 6, the Directors are not aware of any persons who, directly or indirectly, jointly or severally, exercise or could exercise control of the Company.

6.7 Following Admission of the Shares, the Company must be notified of changes in voting rights in the Shares in accordance with the FSA's Disclosure and Transparency Rules and the New Articles.

7. Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by a member of the Group within the two years immediately preceding the date of this Prospectus and are, or may be, material or have been entered into at any time by any member of the Group and contain provisions under which any member of the Group has an obligation or entitlement which is, or may be, material to the Group as at the date of this Prospectus:

7.1 *Licences*

Russia:

The tables below show the periods and main terms of the principal licences held by the Group in Russia. Except as indicated below, the Group has complied with all of the material terms of the licences.

7.1.1 *Exploration and Production Licences*

Facility	*Term of Licence Registration/ re-registration*	*Expiry*	*Periods and main terms*
Krasnoyarsk region			
Blagodatnoye deposit	24.05.2000	01.02.2022	– By 24 May 2005: complete the first stage of geological study. – By 1 October 2005: prepare and agree in the prescribed manner the project for the second stage of prospecting and evaluation works. – By 31 December 2008: complete exploration. – By 31 December 2011: obtain approval for development project. – By 1 June 2012: commence construction. – By 1 July 2013: achieve full design capacity; production capacity to be determined in accordance with the development project.

Facility	Term of Licence Registration/ re-registration	Expiry	Periods and main terms
Verkhnekadrinskaya area	17.08.2010	20.08.2036	– By 20 August 2011: prepare, agree and obtain approval in the prescribed manner for the prospecting and evaluation project on the licence area. – By 20 November 2011: commence prospecting and evaluation works. – By 20 August 2013: complete the evaluation of the licence area and file the geological study with calculation of reserves and resources according to P1 and C2 categories. – By 20 February 2014: prepare, agree and obtain approval for exploration project. – By 20 June 2014: commence exploration. – By 20 February 2016: complete exploration works and file an exploration report on the gold deposits prepared in the prescribed manner with the state expert review. – By 20 August 2017: prepare and agree the technical proposal for the mining of the area covered by the licence. – By 20 February 2018: commence construction of mine infrastructure. – By 20 February 2019: commissioning of mine. – By 20 February 2020: achieve full design capacity.

Facility	*Term of Licence Registration/ re-registration*	*Expiry*	*Periods and main terms*
Vangashskaya area	17.08.2010	20.08.2036	– By 20 August 2011: prepare, agree and obtain approval in the prescribed manner for the prospecting and evaluation project on the licence area. – By 20 November 2011: commence prospecting and evaluation works. – By 20 August 2013: complete evaluation on the licence area and file the geological study with calculation of reserves and resources according to P1 and C2 categories. – By 20 February 2014: prepare, agree and obtain approval for the exploration project. – By 20 June 2014: complete exploration. – By 20 February 2016: complete exploration works. – By 20 August 2017: prepare and agree the technical proposal for the mining of the area covered by the licence. – By 20 February 2018: commence construction of mine infrastructure. – By 20 February 2019: commissioning of mine. – By 20 February 2020: achieve full design capacity.
Panimbinskaya block	01.02.2007	01.11.2029	– By 6 December 2010: undertake geological study of licence area and calculation of reserves. – As the mineable reserves discovered, prepare, agree and obtain approval in the prescribed manner for the project documentation for the development of the licence area and obtain the positive opinion of the State Ecology Expertise and State Expertise on the Industrial Safety and Resources Protection. – Commissioning of mine to be settled upon reserves state listing. – Design capacity is preliminary set as 300 kg of gold per annum and should be amended upon the results of the geological review during the preparation of the feasibility study.

Facility	*Term of Licence Registration/ re-registration*	*Expiry*	*Periods and main terms*
Razdolinskaya block[1]	04.07.2007	01.11.2025	– By 1 October 2006: prepare, agree and obtain approval in the prescribed manner for the project for the geological study of the area. – By 1 October 2006: begin geological prospecting of licence site. – By 1 April 2007: prepare, agree and obtain approval in the prescribed manner for the prospecting project (for known gold occurrences). – By 1 October 2009: complete geological prospecting of licence site and file the geological study with calculation of reserves and resources according to P1 and C2 categories. – By 1 October 2009: complete the first phase of prospecting for known gold occurrences at the site and file geological report for state expert review of mineral reserves. – By 1 April 2010: develop and agree technical design of the mine. – By 1 October 2010: commence construction of mine and infrastructure. – By 1 October 2011: commissioning of mine with a minimum annual production capacity of 500 kg of gold.

1. LLC Krasnoyarskoe GRP, the licenceholder, is currently in violation of certain terms of the licence. See "Part II Risk Factors – Risks associated with the Group's business in the gold mining industry – The Group's business can be adversely affected if it fails to obtain, maintain or renew necessary contracts, licences and permits, including subsoil licences, or fails to comply with the terms of its contracts, licences, and permits – Compliance".

Facility	*Term of Licence Registration/ re-registration*	*Expiry*	*Periods and main terms*
Amur region			
Bamskoye gold ore site[2]	04.02.2008	15.04.2030	– By 15 February 2006: prepare geological study project. – By 15 April 2006: commence geological study. – By 15 July 2006: prepare exploration project (within the licence area of the Bamskoye deposit). – By 31 December 2008: complete the first stage of exploration of the deposit. – By 15 April 2009: complete geological study. – By 31 July 2010: complete the second stage of exploration at the deposit. – By 1 August 2010: prepare and agree technical design. – By 15 April 2011: commence construction of mine. – By 15 April 2013: commissioning of mine with a minimum annual production capacity of 1 million tonnes of ore.
Irkutsk region			
Chertovo Koryto deposit	20.01.1998	01.01.2020	– By 1 February 2003: submit report with calculation of reserves for state expert examination. – Within six months of the state expert examination of reserves, the exploration project and draft mining allotment act must be submitted to the prescribed state authority. – Before the works start all the projects are subject to the state ecological expertise. – Annual gold production is planned at 5.9 tonnes and may be duly adjusted based on the results of state expert review of reserves and feasibility study.

2. The Licence for the Bamskoye project is currently suspended. See "Part II Risk Factors – Risks associated with the Group's business in the gold mining industry – The Group's business can be adversely affected if it fails to obtain, maintain or renew necessary contracts, licences and permits, including subsoil licences, or fails to comply with the terms of its contracts, licences, and permits – Specific requirements of the Russian Federation".

Facility	*Term of Licence Registration/ re-registration*	*Expiry*	*Periods and main terms*
Pervenets deposit	10.02.2003	01.06.2020	– Commence works within one year from registration of the licence. – Ensure annual review of gold production level by the government of the Irkutsk region. – By 2010: achieve annual production of 50 kg of gold, subsequently in accordance with technical project of the deposit development.
Verninskoye deposit	19.05.2003	01.06.2020	– By 1 January 1999: submit report of calculation of reserves for expert review. – Level of production to be defined by annual quota established by the regional administration.
Smezhny area	07.10.2010	10.10.2035	– By 10 August 2011: prepare geological study project. – By 10 October 2011: commence geological study. – By 10 October 2014: complete geological study. – By 10 April 2015: prepare and approve exploration project. – By 10 October 2015: commence exploration. – By 10 October 2018: complete exploration. – By 10 October 2019: prepare and agree technical design. – By 10 April 2020: begin construction of mine infrastructure. – By 10 April 2021: commissioning of mine. – By 10 April 2022: achieve full design capacity.

Facility	*Term of Licence Registration/ re-registration*	*Expiry*	*Periods and main terms*
Republic of Sakha (Yakutia) region			
Nezhdaninskoye	02.07.2003	27.09.2021	– By 1 June 2000: provide for state expert review and approval project for construction of certain production facilities. – By 1 July 2000: prepare, agree and approve in the prescribed manner the development project. – By 15 July 2008: development of a preliminary production feasibility study. – By 31 December 2008: submit cut-off feasibility study with calculation of reserves for state expert review. – By 31 December 2012: agree and submit mining project for state expert review. – By 31 December 2016: construction and commissioning of mining and processing facility with a minimum production capacity stipulated in the technical project approved by state expert examination.

Facility	Term of Licence Registration/ re-registration	Expiry	Periods and main terms
Chukotka Autonomous region			
East Burgakhchanskaya area	11.01.2011	11.01.2036	– By 11 January 2012: prepare geological study project. – By 11 April 2012: commence geological study. – By 11 January 2016: complete geological study and file geological study report and feasibility study with calculation of reserves and resources according to P1 and C2 categories. – By 11 July 2016: prepare and approve exploration project. – By 11 January 2017: commence exploration. – By 11 January 2019: complete exploration and file geological study report and feasibility study with calculation of reserves according to C1 and C2 categories. – By 11 July 2020: prepare and agree technical design. – By 11 January 2021: begin construction of mine infrastructure – By 11 January 2023: commissioning of mine. – By 11 January 2024: achieve full design capacity.

Facility	*Term of Licence Registration/ re-registration*	*Expiry*	*Periods and main terms*
West Burgakhchanskaya area	11.01.2011	11.01.2036	– By 11 January 2012: prepare geological study project. – By 11 April 2012: commence geological study. – By 11 January 2016: complete geological study and file geological study report and feasibility study with calculation of reserves and resources according to P1 and C2 categories. – By 11 July 2016: prepare and approve exploration project. – By 11 January 2017: commence exploration. – By 11 January 2019: complete exploration and file geological study report and feasibility study with calculation of reserves according to C1 and C2 categories. – By 11 July 2020: prepare and agree technical design. – By 11 January 2021: begin construction of mine infrastructure. – By 11 January 2023: commissioning of mine. – By 11 January 2024: achieve full design capacity.

Facility	*Term of Licence Registration/ re-registration*	*Expiry*	*Periods and main terms*
Central Burgakhchanskaya area	11.01.2011	11.01.2036	– By 11 January 2012: prepare geological study project. – By 11 April 2012: commence geological study. – By 11 January 2016: complete geological study and file geological study report and feasibility study with calculation of reserves and resources according to P1 and C2 categories. – By 11 July 2016: prepare and approve exploration project. – By 11 January 2017: commence exploration. – By 11 January 2019: complete exploration and file geological study report and feasibility study with calculation of reserves according to C1 and C2 categories. – By 11 July 2020: prepare and agree technical design. – By 11 January 2021: begin construction of mine infrastructure. – By 11 January 2023: commissioning of mine. – By 11 January 2024: achieve full design capacity.

7.1.2 *Production Licences*

Facility	*Term of Licence Registration/ re-registration*	*Expiry*	*Periods and main terms*
Krasnoyarsk region			
Titimukhta deposit	29.12.2003	31.12.2023	– By 30 September 2004: prepare and agree development project. – By 30 December 2004: commence exploration. – By 30 December 2005: complete exploration. – By 30 September 2007: verification of reserves. – By 30 September 2008: approval of development project. – By 30 September 2009: commissioning of mine with minimum capacity of 2,000 kg of gold per annum.
Olimpiada deposit (incl. Vostochny pit and Zapadny pit)	24.05.2000	31.12.2013	– Extraction of gold from sulphide ores, minimum 10 tonnes per annum. – By 2010: increase production capacity up to 2.5 to 3 million tonnes of ore.
Magadan region			
Natalka deposit	31.03.2003	31.12.2036	– In 1993-2003: ensure extraction of 1000 kg of gold per annum. – By 1 October 2004: approve exploration project. – By 1 November 2004: commence exploration. – By 31 March 2005: prepare feasibility study for calculation of reserves. – By 30 November 2007: complete exploration and file a report with calculation of gold reserves in the amount of not less than 1000 tonnes. – By 1 February 2009: prepare and agree development project. – By 31 December 2013: commissioning of first stage of mine with production capacity in accordance with the terms of the mining project.

Facility	*Term of Licence Registration/ re-registration*	*Expiry*	*Periods and main terms*
Republic of Sakha (Yakutia) region			
Yuzhnoye deposit of the Kuranakh ore field	25.07.2006	31.12.2015	– Conduct state expert examination of projects for all types of works, obtain permit for all types of use of natural resources and environmental impact prior to commencement of works. – Exploit the deposit after the registration of the mining allotment and approval of the technical project in the prescribed manner. – Until 31 December 2011: production level to be determined by technical mining project. A 15 per cent. decrease in production level is considered to be a violation of the licence's terms. – After 1 January 2012: annual production level is determined in accordance with the general schedule for development of the group of deposits of the Kuranakh ore field and the technical project, which received positive opinion of necessary state expertises.
Each of Delbe, Kanavnoye, Yakokutskoye, Dorozhnoye, Bokovoye, Porfirovoye, Severnoye and Tsentralnoye deposits of the Kuranakh ore field	25.07.2006	01.01.2014 (Porfirovoye) 31.12.2014 (Severnoye) 01.01.2015 (Kanavnoye) 30.06.2015 (Yakokutskoye) 01.01.2017 (Bokovoye and Dorozhnoye) 01.01.2022 (Tsentralnoye) 01.01.2024 (Delbe)	– Conduct state expert examination of projects for all types of works, obtain permit for all types of use of natural resources and environmental impact prior to commencement of works. – Exploit the deposit after the registration of the mining allotment and approval of the technical project in the prescribed matter. – The annual production level is determined in accordance with the technical project which received positive opinion of necessary state expertises.

Facility	*Term of Licence Registration/ re-registration*	*Expiry*	*Periods and main terms*
Stockpile waste of Kuranakh field	22.12.2009	30.06.2024	– Conduct state expert examination of projects for all types of works, obtain permit for all types of use of natural resources and environmental impact prior to commencement of works. – Until 31 December 2011: production level to be determined by technical mining project and could be corrected under the annual republican programme, approved by the government of the Republic of Sakha (Yakutia), but no less than 1,250 kg of gold per annum. – After 1 January 2012: annual production level is determined in accordance with the general schedule for development of the group of deposits of the Kuranakh ore field and the technical project, which received positive opinion of necessary state expertises.
Nezhdaninskoye (additional vein areas)	02.07.2003	31.12.2013	– From 2008 to 15 July 2008: development of a preliminary production feasibility study. – By 31 December 2008: submit cut-off feasibility study with calculation of reserves for state expert review. – By 30 December 2012: agree and submit mining project for state expert review. – By 31 December 2013: construction and commissioning of mining and processing facility with a minimum production capacity of not less than 100,000 tonnes of ore per annum.

7.1.3 **Kazakhstan:**

Subsoil use licences

The Group conducts its underground mining operations in Kazakhstan at Aksu, Bestobe, Akzhal and Zholymbet pursuant to the following licences, all of which were granted under the pre-1999 “licence-and-contract” regime:

- Subsoil Use Licence MG No. 723 D (gold) dated 20 March 1996 for the Production of Gold Ores of the Bestobe Deposit in the Seletinsky District of the Akmola Region;
- Subsoil Use Licence MG No. 724 D (gold) dated 20 March 1996 for the Production of Gold Ores of the Aksu Deposit in the Seletinsky District of the Akmola Region;

- Subsoil Use Licence MG No. 725 D (gold) dated 20 March 1996 for the Production of Gold Ores of the Zholymbet Deposit in the Shortandy District of the Akmola Region;
- Subsoil Use Licence MG No. 796 D (gold) dated 20 March 1996 for the Production of Gold Ores of the Quartzite Hills Deposit in the Seletinsky District of the Akmola Region; and
- Subsoil Use Licence MG No. 489 dated 7 June 1995 for the geological survey and development of proven field reserves at the Akzhal Deposit in the Zharminsky District of the Semipalatinsk Region.

Each of these licences is for a term of 20 years, commencing on the date the relevant licence was registered with the Kazakh State Committee on Investments, which was the competent authority at that time, except the Subsoil Use Licence MG No. 489 dated 7 June 1995 for geological survey and development of proven field reserves at the Akzhal Deposit in the Zharminsky District of the Semipalatinsk Region, which was issued for a term of 25 years from the moment of issue.

On 1 September 1999, Kazakhstan Law `On Introduction of Amendments to Some Legislative Acts of the Republic of Kazakhstan on Issues of Subsoil Use and Performing Oil Operations in the Republic of Kazakhstan' became effective. This replaced the contractual licensing regime with a contractual regime. Notwithstanding this change in regime, all subsoil use licences issued prior to the 1 September 1999 remain in force and valid until their expiry date.

The New Kazakhstan Subsoil Law adopted on 24 June 2010 also contains the provision that all previously issued licences retain their force. As such, on this basis contracts No. 77 and No. 145 described below, were awarded.

Subsoil Use Contract No. 77

Contract No. 77 relates to the Akzhal and was awarded on the basis of Subsoil Use Licence MG No. 489 dated 7 June 1995. The tenure is 25 years from the date of issue and may be extended. It is currently due to expire on 7 June 2020. Initially, the contract permits Gornyak AS LLP to commence commercial production of ore in accordance with an agreed work programme, provided that it does so in compliance with applicable law and decrees, regulatory acts and requirements of Kazakhstan. Gornyak AS LLP may then develop the deposit in accordance with the Akzhal Gold Deposit Mine Development Project, using appropriate technology and engaging highly skilled personnel for production. Further conditions of the contract include the requirement to use equipment, materials and finished products made in Kazakhstan, provided these comply with the requirements of Kazakhstan law on technical regulation (noting that the percentage of Kazakhstan content in the overall cost of purchased equipment, materials and finished products must be at least 60 per cent.) and to only engage Kazakhstan service providers in the production process including air, rail, water and other modes of transportation, provided such services meet the standards, price and quality specifications of similar services offered by non-residents of Kazakhstan. In addition Gornyak AS LLP must direct at least 1 per cent. of total investment to training of Kazakhstan personnel engaged for work under the contract, undertake adequate insurance, and 180 days prior to the expiration of the contract, submit a clean-up programme to the competent authority in respect of its operations under the contract, including a clean-up cost estimate which it must then fully implement.

Subsoil Use Contract No. 145

Kazakhaltyn entered into Subsoil Use Contract No. 145, dated 8 December 1997 with the State Committee on Investments based on the subsoil use licences Nos. 723 D (gold), dated 20 March 1996, 724 D (gold), dated 20 March 1996, 725 D (gold), dated 20 March 1996 and 796 D (gold), dated 20 March 1996. Contract No. 145, as subsequently amended, sets out Kazakhaltyn's rights and obligations with respect to the Aksu, Bestobe, Quartzite Hills and

Zholymbet deposits. The contract terminates on 20 March 2016, but may be extended and, upon renewal, its conditions may be changed by written agreement between the parties, so long as these changes do not contradict the terms of the applicable licences. Certain provisions of this contract are summarised below.

Payments to the Government
Contract No. 145 provides that Kazakhaltyn is required to make certain payments to the budget of the Republic of Kazakhstan, including the payment of a subscription bonus and other taxes under the tax legislation effective as of the date such payments become due and payable.

Subscription Bonus
Under the terms of Contract No. 145, Kazakhaltyn was required to make a single fixed payment of US$75,000 to the State Committee on Investments as a subscription bonus for the right to carry out subsoil operations permitted under the contract within 30 days from its effective date.

Under applicable tax legislation, Kazakhaltyn is required to make a fixed payment to the Kazakh state of 0.1 per cent. of the value of extractable reserves as a commercial discovery bonus upon each commercial discovery within the area covered by the terms of the contract. The payment is due upon approval of the relevant reserves by the State Reserves Committee of Kazakhstan. The value of the reserves is determined using the market price of gold at the London Metal Exchange one day prior to the date when the bonus payment is made.

Mineral extraction tax ("**MET**")
The tax base for the mineral extraction tax calculation is the value of the taxable depleted reserves of minerals which are contained in mineral raw materials for the tax period. The MET rates for both gold and silver are 5 per cent.

Excess profit tax ("**EPT**")
Kazakhaltyn may become liable to pay EPT on its profits calculated pursuant to the Kazakh tax code to the extent that its net income received under Contract No. 145 exceeds 25 per cent. of its deductions, as set out in the table below:

No. level	***Scale of distribution of net income for EPT calculation, % from the sum of deductions***	***Rates (%)***
1	less or equal to 25%	Exempt from EPT
2	from 25% to 30% (inclusive)	10
3	from 30% to 40% (inclusive)	20
4	from 40% to 50% (inclusive)	30
5	from 50% to 60% (inclusive)	40
6	from 60% to 70% (inclusive)	50
7	over 70%	60

Social obligations
As is common with mining agreements between mining companies and national governments, Kazakhaltyn has undertaken certain social obligations for the benefit of its employees and their dependents. These social obligations include investing at least 1 per cent. of Kazakhaltyn's net income per annum in training programmes for its Kazakh employees, providing financing in the amount of at least 1 per cent. of its total amount of investments for the development of the social infrastructure of the territory covered by the contract and transferring an amount equal to 1 per cent. of its net income per annum into a liquidation fund for environmental clean-up costs following cessation of mining operations, including the costs of removing buildings and equipment. However, in the event that this fund is not sufficient to meet the cost of the Kazakhaltyn's clean-up obligation, Kazakhaltyn is obliged to fund any such shortfall.

In addition, Kazakhaltyn has undertaken to purchase goods and services from Kazakh businesses whenever possible provided that such goods and services are competitive with those that are available outside Kazakhstan and are of at least comparable quality.

Environmental obligations

Kazakhaltyn is obliged to comply with Kazakhstan's environmental and health and safety standards, requirements and legislation. Under Contract No. 145, in conducting its business, Kazakhaltyn is required to give priority to environmental considerations, including monitoring the impact of its operations on the environment, limiting desertification and soil erosion, preventing the pollution or exhaustion of subsurface water. Prior to commencing operations under the contract, Kazakhaltyn was required to obtain the approval of the state environmental authorities. Upon the conclusion of mining operations, Kazakhaltyn is required to conduct an environmental clean-up of the contract area to ensure that damage to the environment is repaired and that the contract area is suitable for future use.

Dispute resolution

To the extent that there are any disputes that cannot be resolved through negotiations between Kazakhaltyn and the Kazakh government, Contract No. 145 provides that these are to be submitted within 30 days from the moment that the dispute arises to the judicial body of the Republic of Kazakhstan in accordance with applicable legislation.

Approved mining programme

Kazakhaltyn has undertaken to comply with detailed (mining) work programmes for tailings of Aksu, Zholymbet and Bestube mines which were submitted for review and approved by a territorial department of "Centrekaznedra", a Kazakh state agency which was part of the Ministry of Energy and Mineral Resources, responsible for approving such programmes, on 8 June 2001. The programmes set out Kazakhaltyn's proposed mining operations for the periods from 2002 to 2026 (Aksu mine), from 2002 to 2016 (Bestube mine) and from 2003 to 2026 (Zholymbet mine), projections of its revenue and expenditures and estimates of taxes to be paid to the government over this period, together with information on the deposits and the technologies used in the production process. Kazakhaltyn is obliged to submit annual updates of the programme to Centrekaznedra for approval. Centrekaznedra also evaluates Kazakhaltyn's compliance with the terms of its obligations. Kazakhaltyn also has a (mining) work programme established by addendum No. 1 to Contract No. 145. It is in force until 20 March 2016, when the licence is due to expire, but it may be extended by a further addendum. The programme describes Kazakhaltyn's proposed mining operations for the period from 2000 to 2025, together with information on the deposits and the technologies used in the production process. Upon renewal, the terms and conditions of the licence may be altered by written agreement between the parties. The renewal of the programme and entry into another addendum is currently planned for 2014.

Differences with the Model Contract

Contract No. 145 is based on the Model Contract for Conducting Subsurface Operations in the Republic of Kazakhstan (the "**1997 Model Contract**") that was approved by the Kazakh government in January 1997. A second version of the Model Contract for Conducting Subsurface Operations in the Republic of Kazakhstan (the "**2001 Model Contract**"), which replaced the 1997 Model Contract, was approved by the Kazakh government in July 2001. And the third latest version of a Model Contract for Conducting Subsurface Operations in the Republic of Kazakhstan (the "**2010 Model Contract**"), which replaced the 2001 Model Contract, was approved by the Kazakh government in December 2010. Some of the amendments to Contract No. 145 were made to reflect provisions in the 2001 Model Contract, including the addition of certain taxes and payments, including social tax and commercial discovery bonus.

Contracts for the processing of tailings at the Aksu, Bestobe and Zholymbet mines

While Contract No. 145 sets forth Kazakhaltyn's subsurface rights in respect of the Aksu, Bestobe and Zholymbet deposits, Kazakhaltyn's right to extract gold from tailings located at the Aksu, Bestobe and Zholymbet tailings dams derives from (i) the Contract for Exploration and Production of Gold from Technogenic Mineral Formations at the Bestobe Mine in the Akmola Region ("**Contract No. 761**"), (ii) the Contract for Exploration and Production of Gold from Technogenic Mineral Formations at the Aksu Mine in the Akmola Region ("**Contract No. 762**") and (iii) the Contract for Exploration and Production of Gold from Technogenic Mineral Formations at the Zholymbet Mine in the Akmola Region ("**Contract No. 917**"). Kazakhaltyn entered into these contracts with the Ministry of Energy and Mineral Resources as the competent authority after winning the tender in 2000 to allocate rights to extract gold from these tailings. Contract No. 761 expires on 31 December 2016, while Contract No. 762 and Contract No. 917 expire on 31 December 2025. The term of each contract may be extended with the agreement of the competent authority.

Each of the three tailings contracts contains provisions regarding completion of exploration and assessment of gold prior to the subsequent obtaining of examination approval and preparation of a work programme for the production of gold. The exploration stage is required to be completed within the first two years of the term of the contracts. As of the date of this Prospectus, Kazakhaltyn has not begun production of gold under Contracts No. 761, 762 and 917, and, although it received notifications from the competent authority dated 28 June 2010 that it was allowed defer commencement of production to 2015 under all three tailings contracts provided relevant addendums are concluded by 23 October 2010, Kazakhaltyn has not concluded such addendums, as noted in the act of state inspection carried out on February 22–23 of 2012.

Each of these three contracts for the processing of tailings was based on the 2001 Model Contract. The differences between these contracts and Contract No. 145 include, among other things, the amount of investments in training of Kazakhstan employees (the total amount of expenditures on training of Kazakhstan personnel was set at 0.1 per cent. of investments during the exploration stage of the contract and 0.1 per cent. of operational costs during the production stage in all three contracts for the processing of tailings, as opposed to 1 per cent. of Kazakhaltyn's net income in Contract No. 145), a significantly smaller subscription bonus in the contracts for the processing of tailings (US$1,500 in each of the three contracts, as opposed to US$75,000 in Contract No. 145), no production bonus in any of the contracts for the processing of tailings (production bonuses are no longer included in contracts negotiated after 1 July 1998, as they are essentially no different than royalties), and the requirement to reimburse the state for historic geological exploration costs that appears in all three contracts for the processing of tailings, but was not included in Contract No. 145. However, Kazakhaltyn has such obligations under separate agreements for the purchase of geological information with respect to Aksu, Bestube, Zholymbet and Kuartsovie Gorki deposits.

Each of the three tailings contracts has a work programme attached to it, which sets forth the scope of the exploration work to be conducted during the exploration stage of the contract and the amount of funding allocated for such work, the description of the technological process to be used for the processing of tailings, expected amounts of tailings to be processed in each year of the programme, expected capital expenditures and direct operational costs for the term of the contract and expected net income of the contractor for the same period, as well as general information on the technogenic mineral formations located at the relevant tailings disposal area, the description of the geographical location of the mining allotment and the geological characteristics of the tailings. Kazakhaltyn must file quarterly and annual reports with the competent state authority of Kazakhstan. The competent state authority may carry out inspections of Kazakhaltyn's activity to confirm compliance with the terms and conditions of the tailings contracts. The last subsoil inspection was carried out in February 2012 and revealed certain violations of contractual obligations.

Kazakhaltyn won the tender in respect of the Bestobe deposit with the subsequent conclusion of Contract No. 761 on the basis that its minimum work programme for six years would amount to US$15,732,000 and payments to social funds would equal US$659,000. The work programme attached to Contract No. 761 requires Kazakhaltyn to make certain investments. Such investments include (i) capital expenditures in the amount of US$918,459 to be made prior to the beginning of works and (ii) operating costs in the amount of US$17,189,010. The length of the pay-back period for the project varies depending on the level of net income that it generates – eight, four or three years based on net income of at least US$606,200, US$2,650,100 or US$2,949,900, respectively.

The minimum programme proposed by Kazakhaltyn for the development of the Aksu deposit provides for the investment of US$22,137,000 for the first six years of the term under Contract No. 762 and US$1,006,000 as contributions to social funds. Pursuant to the work programme attached to Contract No. 762, upfront investments of Kazakhaltyn which will be made prior to the commencement of works are expected to constitute US$1,112,666. The operating costs for the term of Contract No. 762 (25 years) should constitute US$30,896,120. The length of the pay-back period for the project varies depending on the level of net income that it generates – seven, nine or seventeen years based on net income of at least US$10,477,980, US$7,851,220 and US$1,796,780, respectively.

The programme proposed by Kazakhaltyn at the tender for the development of the Zholymbet deposit provides for the investment of US$15,732,000 during the six-year term and US$659,000 as contributions to social funds. The work programme to Contract No. 917 in respect of the Zholymbet deposit provides for capital expenditures in the amount of US$1,581,776 and operating costs in the amount of US$32,031,340. The length of the pay-back period for the project varies depending on the level of net income that it generates – five, six or sixteen years based on net income of at least US$8,586,600, US$4,882,500 or US$234,300, respectively.

Pursuant to each of the three tailings contracts, Kazakhaltyn has obligations to maintain a salary fund and abandonment fund for each project and make payments for the economic development of the region.

Kazakhaltyn may be deemed to be in breach of the terms of the tailings contracts and will be required to file with the Kazakhstan authorities revised reports on fulfilment of subsoil use contract terms as a result of the identification of certain errors in its 2008 consolidated financial statements relating to capital expenditure and sales. See "Part II – Risk Factors – Risks associated with the gold mining industry – The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary contracts, licences and permits, including subsoil licences, or fails to comply with the terms of its contracts, licences and permits".

Contracts for exploration of the Kaskabulak deposit and Southern Karaultube deposit

On 27 December 2007, Kazakhaltyn entered into two contracts for the exploration of the Kaskabulak deposit ("**Contract No. 2526**") and Southern Karaultube deposit ("**Contract No. 2527**"). Each contract was concluded as a result of tenders carried out by the Ministry of Energy and Mineral Resources of Kazakhstan. The term of each contract is five years and may be extended by the agreement of the parties. Pursuant to the terms and conditions of both contracts, the discovery of one or more deposits that are serviceable for the mining of gold within the contract area entitles Kazakhaltyn to negotiate the terms of a new contract for production of gold.

Both contracts require 1 per cent. of the exploration investments as payments to the abandonment fund and 1 per cent. of the proposed investments to be used for training of Kazakh personnel of Kazakhaltyn. At least 80 per cent. of the senior management, 90 per cent. of mid-level management of Kazakhaltyn and 100 per cent. of specialists and qualified employees working on the project must be citizens of Kazakhstan. Each contract requires

Kazakhaltyn to make a payment to the state budget in the amount of US$141,600 under Contract No. 2526 and US$141,042 under Contract No. 2527 (payments for use of geological information with respect to the deposits) and make investments in the economies of the Eastern Kazakhstan Region and the Akmola Region in the amount of US$50,000 per annum under each contract, as well as investments in the protection of the environment of the regions in the amount of a one-time payment of US$150,000. Also both contracts provide for the payment of a subscription bonus in the amount of US$50,000.

7.2 ***Loan Agreements with Gold Lion***

KazakhGold entered into two loan agreements with Gold Lion dated 3 June 2009 (as amended on 11 June 2009) and 11 June 2009 (the "**Gold Lion Shareholder Loans**") for an aggregate amount of US$31,025,000. At the time of those loans, Gold Lion was the controlling shareholder of KazakhGold. KazakhGold used the proceeds to finance the KazakhGold Group's immediate working capital needs, make a coupon payment due under the Senior Notes and make a redemption payment in respect of Kazakh bonds issued by Kazakhaltyn. The Gold Lion Shareholder Loans bear interest at a rate of 10 per cent. per annum, and are due to be repaid in November 2014. The Gold Lion Shareholder Loans are subordinated to the rights of payment and in all other respects to the obligations of the Company under the Senior Notes. Jenington may require Gold Lion to assign its rights under the Gold Lion Shareholder Loans to Jenington (or another member of the Group), and, following such assignment, Jenington (or the relevant Group entity) may convert its right to repayment under the Shareholder Loans into Shares at a conversion price of US$1.50 per Share, provided that no conversion right may be exercised (i) during, or within ten days from the end of an "offer period" as defined by the Code; (ii) if the Company has received an "approach" as interpreted by the Panel; (iii) without the prior consent of the Ministry of Energy and Mineral Resources of Kazakhstan; or (iv) without the prior written consent of the Company. It is anticipated that as part of the AGH Transaction on or about the date of this Prospectus, the Gold Lion Shareholder Loans will be novated to Jenington. See "– Agreements for the disposal of the KazakhGold Operating Subsidiaries and settlement of disputes with the Assaubayev family".

7.3 ***The Combination***

Principal Shareholders Option Agreement

On 17 June 2011, KazakhGold entered into the Principal Shareholders Option Agreement with certain Onexim group entities beneficially owned by Mr. Mikhail Prokhorov and certain Nafta group entities beneficially owned by Mr. Suleiman Kerimov. Under the Principal Shareholders Option Agreement, such entities granted KazakhGold the option, subject to various conditions, to purchase their entire holdings of shares of OJSC Polyus Gold and depositary receipts evidencing such shares, representing, in aggregate, 73.2 per cent. of the issued and outstanding share capital of OJSC Polyus Gold. KazakhGold exercised the option on 19 July 2011 in connection with the completion of the Combination.

Jenington Option Agreement

On 17 June 2011, KazakhGold entered into the Jenington Option Agreement with Jenington pursuant to which KazakhGold had the option to acquire Jenington's entire holding of 10,776,161 Polyus Russia Shares, representing, in aggregate, approximately 5.65 per cent. of the existing issued ordinary share capital of OJSC Polyus Gold, in exchange for shares in KazakhGold. KazakhGold exercised the option on 19 July 2011 in connection with the completion of the Combination.

7.4 ***Guarantee Issuance Agreement***

On 4 August 2011, the Company entered into a guarantee issuance agreement with VTB Bank ("**VTB Bank**") (the "**Guarantee Agreement**") pursuant to which VTB Bank undertook to issue upon demand an irrevocable payment guarantee in favour of the holders of shares of OJSC Polyus Gold to secure the Company's payment obligations under the mandatory tender offer (the "**Bank Guarantee**"). The obligations of the Company to reimburse VTB Bank for any amounts paid by it under the Bank Guarantee and any related costs are guaranteed by CJSC Polyus.

The Guarantee Agreement contains, amongst others, the following material terms:

(a) the Company must obtain a bridge facility for an amount of up to US$800 million, with at least US$300 million to be funded by VTB Bank;

(b) disposals by the Company and its subsidiaries are restricted to 10 per cent. of Group assets, subject to customary exceptions;

(c) granting of loans and guarantees by the Company and its subsidiaries outside the Group is restricted subject to a basket of 7.5 per cent. of Group assets;

(d) negative pledge in respect of assets of the Company and its subsidiaries subject to customary exceptions and a basket of 10 per cent. of Group assets;

(e) the Company must comply with the following financial covenants: net debt to EBITDA must not be more than 3 and EBITDA to interest must not be more than 2.5; and

(f) upon an event of default the Company must transfer cash cover to VTB Bank within 3 days of demand.

7.5 ***Bank Guarantee***

The Company obtained the Bank Guarantee on 12 August 2011. The Bank Guarantee, issued pursuant to the Guarantee Agreement, guarantees the Company's obligations to pay for the acquisition of the shares of OJSC Polyus Gold under the mandatory tender offer made by the Company to the shareholders of OJSC Polyus Gold on 30 August 2011. The Bank Guarantee is issued for RUB 39,338,000,000 is effective from 24 November 2011 to 18 June 2012.

7.6 ***Bridge Facilities***

In September 2011, the Company entered into separate bridge facilities with VTB Bank and Société Générale for loans in the amount of US$300 million and US$500 million, respectively, to provide a source of funds for the acquisition of shares of OJSC Polyus Gold under the mandatory tender offer (each, a "**Bridge Facility**", and together, the "**Bridge Facilities**"). The loans were available for drawing within 180 days from the date of the facility agreement (in the case of the VTB Bridge Facility) and until 20 December 2011 or completion of the mandatory tender offer, if earlier (in the case of the Société Générale Bridge Facility). The commitments made under the Bridge Facilities were terminable upon completion of a sale of the shares or depositary receipts held by Jenington, to the extent of such sale. The Bridge Facilities were subject to limitations on security pledges, acquisitions, disposals and loans and, in the case of the VTB Bridge Facility, financial covenants requiring that the Company's ratio of consolidated total net debt to consolidated EBITDA (as defined in the agreement) be less than 3:1 and ratio of consolidated EBITDA (as defined in the agreement) to consolidated net finance charges be at least 2.5:1. The Company's obligations under the Bridge Facilities were guaranteed by CJSC Polyus. The Company borrowed US$460 million under the Bridge Facilities to fund payments under the mandatory tender offer. On 15 February 2012 the VTB Bridge Facility was amended to reduce the aggregate facility amount to US$230 million. The Bridge Facilities were repaid in full on 18 May 2012 using the proceeds of the private placement of Shares and GDRs to Chengdong Investment Corporation and VTB Bank in two separate, privately negotiated transactions. See paragraph 7.11 below.

7.7 ***Pervenets Facility***

In October 2011 OJSC Pervenets entered into a facility with Société Générale for loan in the amount of US$100 million for general corporate purposes, including repayment of intra-group loan to CJSC Polyus and capital expenditure (the "**Pervenets Facility**"). The loan is available for drawing within 90 days from the date of the condition precedent satisfaction. The Pervenets Facility is repayable before October 2014. OJSC Pervenets obligations under the Pervenets Facility are guaranteed by CJSC Polyus. OJSC Pervenets and CJSC Polyus are subject to limitations on security pledges, disposals, loans and guarantees, and also subject to financial covenants requiring that the ratio of consolidated total net debt to consolidated EBITDA (as defined in the agreement) of the Group (including OJSC Pervenets and CJSC Polyus) not exceed 3:1, ratio of consolidated EBITDA (as defined in the agreement) to consolidated interest expenses be not less than 5:1 and ratio of consolidated total net debt to consolidated tangible net worth not exceed 1:1. As of the date of this Prospectus, OJSC Pervenets has utilised the Pervenets Facility in full.

7.8 ***Ex-Im Bank Facility***

In October 2011, CJSC Polyus entered into a facility with Société Générale for a loan in the amount of up US$67,502,500 with maximum disbursement amount of US$10 million ("**Ex-Im Bank Facility**"). The Ex-Im Bank Facility is provided for the purpose of financing and refinancing of acquisition of certain equipment and machinery manufactured in the United States. The Ex-Im Bank Facility is guaranteed by Export-Import Bank of the United States. The loan is available for drawing within 365 days from the date of the condition precedent satisfaction. Depending on the size of the relevant loans, the loans are repayable from 2 to 5 years from the date of disbursement. CJSC Polyus is subject to limitations on liens, disposals of the goods acquired with the funds provided under the Ex-Im Bank Facility and disposals of substantial part of its assets in general, mergers and consolidations. As of the date of this Prospectus, no drawings have been made under the Ex-Im Bank Facility.

7.9 ***Refinancing of the Senior Notes***

On 15 March 2012, the Company voluntarily redeemed the Senior Notes in accordance with the terms of the Senior Notes. The cost of the redemption of the Senior Notes (including the redemption value of the Senior Notes, the interest accrued and Trustee fees) exceeded US$214 million. US$200 million of the redemption costs were funded from the proceeds of the Senior Notes Facilities, with the balance provided from the existing cash resources of the Company.

Unicredit Facility

On 29 December 2011, the Company entered into a facility with ZAO Unicredit Bank as arranger, agent and original lender for a loan in the amount of US$100 million to be used for general corporate purposes and/or repayment of outstanding indebtedness under the Senior Notes (the "**Unicredit Facility**"). The Unicredit Facility is repayable on or before 29 December 2013. The Company's obligations under the Unicredit Facility are guaranteed by CJSC Polyus. The Company, CJSC Polyus and certain companies of the Group are subject to limitations on creating security, disposals, loans and guarantees, and also subject to financial covenants requiring that the Group ratio of Net Indebtedness (as this and following terms are defined in the Unicredit Facility) to EBITDA not exceed 3:1, ratio of EBITDA to Interest Expenses be not less than 5:1 and ratio of Net Indebtedness to Tangible Net Worth not exceed 1:1. PGIL utilised the Unicredit Facility in full to fund the redemption of the Senior Notes.

HSBC Facility

On 10 February 2012, the Company entered into a facility with HSBC Bank PLC for a loan in the amount of US$100 million to be used for general corporate purposes (the "**HSBC Facility**"). The loan is repayable by five equal instalments, the first instalment to be paid on the last day of the 24th month following the first drawdown and the last instalment to be paid on the date falling 36 months from the first drawdown. The first drawdown occurred on 7 March 2012, with the last instalment being payable on 7 March 2015. The Company's obligations under the HSBC Facility are guaranteed by CJSC Polyus. The Company, CJSC Polyus and certain companies of the Group are subject to limitations on creating security and disposals, and also subject to financial covenants requiring that the Group ratio of Consolidated Total Net Debt (as this and following terms are defined in the HSBC Facility) to Consolidated EBITDA be equal or less than 3 and the ratio of Consolidated EBITDA to Consolidated Net Finance Charges be equal or more than 2.5. PGIL utilised the HSBC Facility in full to fund the redemption of the Senior Notes.

7.10 *VTB Facility*

On 27 March 2012, CJSC Polyus entered into a facility agreement with VTB Bank for a loan facility in an amount of up to RUB 10 billion (the "**VTB Facility**") for general corporate purposes of CJSC Polyus, including the modernisation of its production units and construction works, making loans to members of the Group (other than for the purposes of any of their indebtedness), repayment of indebtedness of CJSC Polyus, the purchase or buy-back of shares of members of the Group or for equity injections in any member of the Group. Drawdowns may be made up to 1,065 days from the date of the signing of the VTB Facility. The minimum drawdown amount for a loan is RUB 150 million (or its equivalent in US dollars or euros, calculated in accordance with the terms of the VTB Facility). Loans under the VTB facility are repayable in accordance with, and as specified in, the applicable drawdown request from anywhere between 60 and 730 days and all outstanding loans under the VTB Facility are repayable on the date falling 1095 days (3 years) of its signing date. CJSC Polyus and certain companies of the Group (including the Company) are subject to limitations on creating security, disposals, loans and guarantees, and also subject to financial covenants requiring that the Group ratio of Net Indebtedness (as this and following terms are defined in the VTB Facility) to EBITDA not exceed 3:1 and that the Group ratio of EBTIDA to Net Finance Charges not exceed 4:1. As of the date of this Prospectus, CJSC Polyus has not drawn on the VTB Facility.

7.11 *Private Placement Agreements*

On 29 April 2012, the Company's indirect, wholly-owned subsidiary, Jenington, entered into separate agreements for the sale, in privately negotiated transactions of:

- 151,607,496 Shares to Chengdong Investment Corporation ("**Chengdong**"), a wholly-owned subsidiary of CIC International Co. Ltd.; and
- 50,198,271 Shares and 25,153,897 Level I GDRs to VTB Bank.

The transactions completed on 10 May 2012. The purchase price for the Shares was US$2.80 per Share and GDR and resulted in aggregate gross proceeds received from the two transactions equal to US$635.5 million.

Each of the agreements with Chengdong and VTB Bank contains certain warranties and covenants of the parties, including lock-up agreements of Chengdong and VTB Bank lasting 180 days from the completion date, restrictions on the deposit of Shares by Chengdong and VTB Bank into the Company's Level I GDR Programme for specified periods and limitations on the acquisition of further Shares or Level I GDRs by each of Chengdong and VTB Bank if as a result of the acquisition it will hold more than 5 per cent. less one share in the Company's issued share capital, subject in each case to certain exceptions. In addition, the Company has agreed to provide Chengdong and VTB Bank with anti-dilution protections in the period prior to Admission and to carry on its business in the ordinary course and not take certain fundamental actions without Chengdong's or VTB Bank's consent for specified periods.

7.12 *Sponsor Agreement*

The Company, each of the Directors and the Sponsor have entered into a sponsor's agreement dated 14 June 2012 (the "Sponsor's Agreement"). Pursuant to the Sponsor's Agreement, the Sponsor has agreed to act as sponsor to the Company in connection with Admission. The obligations of the Sponsor are subject to certain conditions which are typical for an agreement of this nature, including the continued accuracy of certain warranties. In addition, the Sponsor has the right to terminate the Sponsor's Agreement before Admission in certain specified circumstances. Under the terms of the Sponsor's Agreement, each of the Company and the Directors has given certain representations, undertakings and warranties to the Sponsor. The Company has also agreed to provide the Sponsor with certain indemnities, which are provided to indemnify the Sponsor and its affiliates against, inter alia, claims made against them or losses incurred by them that may arise out of or in connection with Admission (subject to certain exceptions).

The Company has agreed that, subject to certain exceptions, during the period of 30 days from the date of Admission, it will not, without the prior written consent of the Sponsor, directly or indirectly, offer, issue, lend, sell or contract to sell, issue options in respect of or otherwise dispose of, directly or indirectly, or announce an offering or issue of, any Shares or any securities exchangeable for or convertible into, or substantially similar to, Shares or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing

7.13 Agreements for the disposal of the KazakhGold Operating Subsidiaries and settlement of disputes with the Assaubayev family

On 10 April 2011, KazakhGold entered into the Amended Principal Agreement with AltynGroup Kazakhstan LLP, a limited liability partnership owned by members of the Assaubayev family ("**AltynGroup**") for the sale of the KazakhGold Operating Subsidiaries and also entered into the Settlement Deed, which provides for a settlement and release of the orders, judgements and claims initiated in the UK, Jersey, the BVI, or elsewhere, between KazakhGold, Jenington and Kazakhaltyn, on the one hand, and the Assaubayev family, on the other hand, and all of their respective subsidiaries and affiliates without any admission of liability on either part.

The Amended Principal Agreement

Under the Amended Principal Agreement, AltynGroup agreed conditionally to acquire the KazakhGold Operating Subsidiaries in two tranches. Entry into the Amended Principal Agreement and the Settlement Deed resolved the dispute between the parties and the Kazakh authorities. On 2 April 2012, PGIL terminated the Amended Principal Agreement, on the grounds that the First Tranche Completion under the Amended Principal Agreement had not occurred by the First Tranche Cut-Off Date. The Letter of Credit, which was issued in favour of PGIL under the terms of the Amended Principal Agreement, has been extended until 29 June 2012 and remains in full force and effect. In addition, the Settlement Deed also remains in full force and effect irrespective of the failure to complete the sale of the KazakhGold Operating Subsidiaries pursuant to the Amended Principal Agreement.

The Settlement Deed

The Settlement Deed provides for the settlement and release of the orders, judgements and claims initiated in the UK, Jersey, the BVI, or elsewhere, between KazakhGold, Jenington and Kazakhaltyn, on the one hand, and the Assaubayev family, on the other hand, and all of their respective subsidiaries and affiliates without any admission of liability on either part and together with warranties and covenants with a view to protecting the parties from any further claims by related parties. There are express reservations of claims against certain third parties in connection with specified ongoing disputes.

The effectiveness and implementation of the settlement pursuant to the Settlement Deed was conditional upon the satisfaction of various conditions by 14 May 2011. These conditions included receipt of a waiver from the Republic of Kazakhstan of the state's pre-emptive right to acquire any or all of the KazakhGold securities issued as consideration under the Combination and confirmation of the validity of approvals previously granted in connection with the Partial Offer, as well as the issuance to KazakhGold of an irrevocable documentary stand-by letter of credit in the amount of US$100,000,000, which is available for drawdown in certain circumstances. Following satisfaction of the required conditions to effectiveness of the Settlement Deed, the Settlement Deed became fully effective and the parties have taken the necessary steps contemplated by the Settlement Deed for the settlement and release of the claims between them.

AGH Agreement

On 8 June 2012 the Company and its subsidiaries Jenington and Romanshorn entered into a conditional sale and purchase agreement (the "**AGH Agreement**") with AltynGroup Holdings Korlátolt Felelösségü Társaság ("**AGH**"), an entity beneficially owned by the Assaubayev family.

Under the AGH Agreement (i) Romanshorn, a wholly-owned subsidiary of the Company, has agreed to sell to AGH 100 per cent. of the shares in Kazakhaltyn (the holding company of the Group's operating subsidiaries in Kazakhstan) for a consideration of US$90 million; (ii) the Company has agreed to sell to AGH 100 per cent. of the shares in Norox (the holding company of the Group's operating subsidiaries in Kyrgyzstan) for a consideration of US$5 million; and (iii) Jenington has agreed to novate to AGH all of its rights and obligations under the loan agreements between Kazakhaltyn as borrower and Jenington as lender for an aggregate consideration of US$290 million (the "**Novation**") (together, the "**AGH Transaction**"). The AGH Agreement provides that the parties may agree to a deferred payment of any part of the consideration payable under the AGH Agreement, subject to AGH providing an unconditional bank guarantee that satisfies certain requirements specified in the AGH Agreement.

Completion of the AGH Transaction is subject to certain conditions, including the receipt of necessary governmental consents, approvals and waivers in Kazakhstan and the receipt of confirmation from AGH by 30 July 2012 that it has sufficient funding available to pay the full amount of the consideration under the AGH Agreement. Pursuant to the AGH Agreement, the AGH Transaction may be terminated, among other things, if the conditions to it are not satisfied on or before 30 September 2012 (unless the parties agree otherwise) or if the confirmation of availability of funding is not provided to the Company by 30 July 2012.

The Company has made a drawing in the amount of approximately US$41 million under the US$100 million irrevocable documentary stand-by letter of credit previously issued to it under the terms of the Restated and Amended Principal Agreement with AltynGroup (the "**LoC**"), and, subject to satisfaction of certain conditions, including the issuance of a renewed letter of credit for the remaining amount of approximately US$59 million (the "**New LoC**"), intends to apply the proceeds of such drawing towards partial payment of the consideration for the AGH Transaction. The AGH Transaction requires that the New LoC is issued to the Company on or before 20 June 2012, effective until 31 December 2012, with the proceeds of the New LoC to be applied towards partial satisfaction of the consideration at completion of the AGH Transaction, and that Gold Lion, a company controlled by trustees of discretionary trusts, the beneficiaries of which comprise the beneficial owners of AGH, novates all of its rights and obligations under the two existing loan agreements between the Company and Gold Lion, entered into in June 2009 (as subsequently amended) to Jenington, such novation to become effective at the earlier of completion of the AGH Transaction or 30 September 2012. If the New LoC is not issued to the Company prior to 20 June 2012 or the Gold Lion deeds of novation are not executed and delivered to the Company and Jenington by 14 June 2012, the Company shall have the right, but is not obliged, to terminate the AGH Transaction.

In the event that the AGH Transaction is completed, the proceeds from the AGH Transaction will be used to finance the Group's development projects, including the construction of the new mine at the Natalka deposit and the expansion of the Blagodatnoye mine, and for other general corporate purposes.

7.14 ***Relationship Agreements***

See: "Part XIV – Relationship Agreements" for more information about the Relationship Agreements.

8. Mandatory Takeover Bids And Squeeze-Out Provisions

8.1 ***The City Code***

The United Kingdom Panel on Takeovers and Mergers is an independent body, whose main functions are to issue and administer the City Code and to supervise and regulate takeovers and other matters to which the City Code applies in accordance with the rules set out in the City Code. The City Code is designed principally to ensure that shareholders are treated fairly and are not denied an opportunity to decide on the merits of a takeover and that shareholders of the same class are afforded equivalent treatment by an offeror. The City Code also provides an orderly framework within which takeovers are conducted. In addition, it is designed to promote, in conjunction with other regulatory regimes, the integrity of the financial markets. The City Code applies to the Company.

Under Rule 9 of the City Code, any person who acquires an interest (as defined in the City Code) in shares which, taken together with shares in which he is already interested and in which persons acting in concert with him are interested, carry 30 per cent. or more of the voting right of a company which is subject to the City Code, is normally required to make a general offer to all the remaining shareholders to acquire their shares.

Similarly, when any person, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30 per cent. of the voting rights of such a company but does not hold shares carrying more than 50 per cent. of such voting rights, a general offer will normally be required if any further interests in shares are acquired by any such person.

An offer under Rule 9 must be made in cash and at the highest price paid by the person required to make the offer, or any person acting in concert with him, for any interests in shares of the company during the 12 months prior to the announcement of the offer.

There are not in existence any current mandatory takeover bids in relation to the Company.

8.2 ***Squeeze-out***

The Jersey Companies Law provides that where a person (the "**Offeror**") makes a takeover offer to acquire all of the shares (or all of the shares of any class) in a Jersey company (other than any shares already held by the Offeror at the date of the offer), if the Offeror has by virtue of acceptances of the offer acquired or contracted to acquire not less than 90 per cent. in nominal value of the shares (or class of shares) to which the offer relates, the Offeror may (subject to the requirements of the Jersey Companies Law), by notice to the holders of the shares (or class of shares) to which the offer relates which the Offeror has not already acquired or contracted to acquire, compulsorily acquire those shares. A holder of any shares who receives a notice of compulsory acquisition may (within six weeks from the date on which such notice was given) apply to the Jersey court for an order that the Offeror not be entitled and bound to purchase the holder's shares or that the Offeror purchase the holder's shares on terms different of those of the offer.

8.3 ***Sell-out***

In respect of a Jersey company, where before the end of the period within which the takeover offer can be accepted, the Offeror has by virtue of acceptances of the offer acquired or contracted to acquire some of the shares of the company (or of a particular class) and those shares (with or without any other shares in the company that the Offeror has acquired or contracted to acquire) amount to not less than 90 per cent. in nominal value of all of the shares of the company (or all of the shares of a particular class), the holder of any such shares (or class of shares) who has not accepted the offer may, by written notice to the Offeror, require the Offeror to acquire the holder's shares. The Offeror shall (subject to the requirements of the Jersey Companies Law) be entitled and bound to acquire the holder's shares on the terms of the offer or on such other terms as may be agreed. Where a holder gives the Offeror a notice of compulsory acquisition, each of the Offeror and the holder of the shares is entitled to apply to the Jersey court for an order that the terms on which the Offeror is entitled and bound to acquire the holder's shares shall be such as the Jersey court thinks fit.

9. Related Party Transactions

9.1 The following describes related party transactions entered into by members of the Group (as determined under IFRS) that the Group has entered into in each of 2011, 2010 and 2009 and in 2012 up to the date of this Prospectus.

9.2 The Group's transactions with related parties in the years ended 31 December 2011, 2010 and 2009 and in 2012 up to the date of this Prospectus comprised primarily contracts for insurance with Insurance Company Soglasie and deposit accounts with Bank "Mezhdunarodniy Finansoviy Club". In the first three months of 2012 and in 2011, 2010 and 2009 the Group paid US$1.7 million, US$2.2 million, US$1.7 million and US$1.1 million, respectively, to Insurance Company Soglasie in respect of premiums on insurance policies (incurred on competitive terms).

9.3 As of 1 June 2012, the Group had approximately US$25.4 million deposited with the Bank "Mezhdunarodniy Finansoviy Club", as compared with US$74.1 million as of 31 December 2011. The Group received interest on arm's length terms from these deposits. In addition, as of 1 June 2012 the Group had approximately US$90.4 million in cash and cash equivalents in bank accounts at Bank "Mezhdunarodniy Finansoviy Club", as compared to US$76.8 million as of 31 December 2011.

10. CREST

10.1 Any shares in the Company may be issued, held, registered, converted, transferred or otherwise dealt with in uncertificated form in accordance with the CREST Regulations and practices instituted by the operator of the relevant system. Any provisions of the New Articles shall not apply to any uncertificated shares to the extent that such provisions are inconsistent with: (a) the holding of shares in uncertificated form; (b) the transfer of the title of shares by means of relevant system; or (c) any provision of the CREST Regulations.

10.2 Subject to the CREST Regulations and facilities and requirements of the relevant system, the Board may, in its absolute discretion, determine the manner in which conversion of certificated shares into uncertificated shares may be made.

10.3 The New Articles contain other provisions in respect of transactions with the shares in the Company in uncertificated form and generally provide for the modifications of certain provisions of the New Articles so that they can be applied to transactions with shares in the Company in uncertificated form.

11. Working Capital

The Company is of the opinion that, taking into account bank and other facilities the Group has sufficient working capital for its present requirements, that is, for at least the twelve months following the date of this Prospectus.

12. Litigation

On 25 June 2010, KazakhGold, Kazakhaltyn and Jenington commenced proceedings in the High Court of Justice (Chancery Division) in London against five members of the Assaubayev family (who were former directors of KazakhGold), Gold Lion and Hawkinson Capital Inc. Gold Lion was, prior to completion of the Partial Offer by Jenington in August 2009, the principal shareholder of KazakhGold. In the litigation, the claimants alleged, among other things, breach by director defendants of their fiduciary duties and service contracts with KazakhGold and deception. The claimants sought damages in excess of US$200 million, as well as equitable and other remedies related to such claims, which were not quantified in the proceedings. In addition, the Jenington claims alleged that the former director defendants and Gold Lion fraudulently misrepresented KazakhGold Group's reported gold production and sales revenue information in 2006, 2007 and 2008 contained in its public disclosures and other disclosures relied upon by Jenington in making the Partial Offer, by, amongst other matters, improperly including fictitious sales to an entity in the United Arab Emirates. Jenington also alleged that the public and other disclosures relied upon by Jenington also were inaccurate. Jenington sought damages in excess of US$250 million, as well as equitable and other remedies related to such claims, which were not quantified in the proceedings.

On 2 August 2010, KazakhGold announced that a freezing order had been placed by the AECC in Kazakhstan over certain bank accounts held in Kazakhstan by Kazakhaltyn. Following imposition of the freezing order, Kazakhaltyn received express permission from the AECC to access funds in the frozen accounts in order to make wage payments to its employees and pay taxes and other payments to municipal authorities, and the AECC permitted the payment from the frozen accounts of certain other operating expenses that are necessary for the continuation of Kazakhaltyn's operations. On 7 September 2010, the AECC issued a further freezing order, which prohibited the KazakhGold Group from disposing of property, plant and equipment owned by Kazakhaltyn.

These claims were settled under the Settlement Deed entered into by KazakhGold, Jenington and others as part of the sale of the KazakhGold Operating Subsidiaries, and all of the freezing orders imposed by the

AECC have been lifted. "See – Material Contracts – Agreements for the disposal of the KazakhGold Operating Subsidiaries and settlements of disputes with the Assaubayer family – The Settlement Deed".

On 18 November 2010, the same claimants, together with KazakhGold Services Cyprus Limited, filed a claim against Mr. Darryl Norton (a former director of KazakhGold) alleging similar breaches of his fiduciary duties and service contracts with KazakhGold and KazakhGold Services Cyprus Limited and deception. The claim against Mr. Norton was settled in August 2011 as part of the overall settlement of the claims under the Settlement Deed.

Save as disclosed above, there are no governmental, legal or arbitration proceedings nor, so far as the Company is aware, are any governmental, legal or arbitration proceedings pending or threatened, which may have, or have had in the 12 months preceding the date of this document, significant effects on the Company's or the Group's financial position or profitability.

13. Scheme of Arrangement

On 6 October 2011, the Company announced its intention to put in place a new parent company for the Group incorporated in England and Wales through implementation of a scheme of arrangement (the "**Scheme of Arrangement**"). The Scheme of Arrangement was subject to the sanction of the Royal Court of Jersey, and satisfaction of certain other conditions, including the obtaining of all necessary approvals under Russian law for the transaction, before becoming effective. As these approvals have not been obtained, the Directors have determined that it is in the best interests of the Shareholders not to proceed with the Scheme of Arrangement and instead to pursue the Admission of the Shares. The Directors believe that obtaining a Premium Listing without delay will provide substantial benefits to the Shareholders, including the potential for improved liquidity and valuation of the Shares that may be achieved through Admission and adherence by the Company to the Corporate Governance Code and listing standards for a Premium Listing.

14. General

14.1 Other than the refinancing of the Senior Notes, the private placement of Shares and GDRs completed on 10 May 2012 and the repayment with the proceeds therefrom of the Bridge Facilities, which are described on pages 266 and 267, respectively, there has been no significant change in the financial or trading position of the Group since 31 December 2011.

14.2 J.P. Morgan Cazenove, which is authorised and regulated in the United Kingdom by the FSA, is acting exclusively for the Company and no one else in connection with Admission. The Sponsor will not regard any other person (whether or not a recipient of this document) as a client in relation to the Admission and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or for the giving of advice in relation to the Admission or any transaction, matter or arrangement referred to in this document.

14.3 Deloitte LLP has given and not withdrawn its written consent to the inclusion in this document of its report set out in Section B of Part XII of this document and references thereto in the respective forms and contexts in which they appear, and has authorised the contents of such report for the purposes of Prospectus Rule 5.5.3R(2)(f).

15. Currencies and Exchange Rates

The following tables show, for the periods indicated, certain information regarding the exchange rate between the Russian rouble and the US dollar, based on the official exchange rate quoted by the CBR. These rates may differ from the actual rates used in the preparation of the Company's consolidated financial statements and other financial information appearing in this document.

For the period	Russian roubles per US dollar High	Low	Average[1]	Period end
Year ended 31 December 2007	26.58	24.26	25.58	24.55
Year ended 31 December 2008	29.38	23.13	24.98	29.38
Year ended 31 December 2009	36.43	28.67	31.72	30.24
Year ended 31 December 2010	31.78	28.93	30.37	30.48
Year ended 31 December 2011	32.68	27.26	29.39	32.20

1. The average of the exchange rate for the relevant period, based on the rates in such period for each Russian business day (quoted by the CBR for that day) and each Russian non-business day (which is equal to the rate quoted by the CBR for the preceding Russian business day).

For each month from January 2012 to June 2012	Russian roubles per US dollar High	Low
January 2012	31.93	30.36
February 2012	30.41	28.95
March 2012	29.67	28.95
April 2012	29.80	29.28
May 2012	32.45	29.37
June 2012 (up to 10 June 2012)	34.04	32.19

The exchange rate between the Russian rouble and the US dollar on 10 June 2012 as published by the CBR was RUR 32.59 per US$1.00.

No representation is made that the Russian rouble or US dollar amounts in this document could have been converted into US dollars or Russian roubles, as the case may be, at any particular rate or at all. A market exists within Russia for the conversion of Russian roubles into other currencies, but the limited availability of other currencies may tend to inflate their values relative to the rouble. Fluctuations in the exchange rate between the Russian rouble and the US dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

16. Documents Available for Inspection

16.1 Copies of the following will be available for inspection and may be obtained free of charge, during regular business hours on any weekday, at the registered office of the Company for the life of this document and at the office of Debevoise & Plimpton LLP, Tower 42, Old Broad Street, London EC2N 1HQ, United Kingdom until Admission of the Shares:

- the Current Articles and the New Articles;
- the report prepared by Deloitte LLP set out in Part XII of this document and referred to in paragraph 14.3 above;
- the letter of consent referred to in paragraph 14.3 above; and
- the historical financial information referred to in Part XII of this document.

PART XVIII

DEFINITIONS

Term or expression	*Meaning*
Admission	Admission of the Shares to the premium listing segment of the Official List and to trading on the Regulated Market
AECC	Agency on Economic and Corruption Crimes of Kazakhstan
AGH	AltynGroup Holdings Korlátolt Felelösségü Társaság, an affiliate of AltynGroup
AGH Agreement	The Sale and Purchase Agreement dated 8 June 2012 among the Company, its subsidiaries Jenington and Romanshorn, and AGH for the sale of Kazakhaltyn and Norox
AGH Transaction	The sale and purchase of Kazakhaltyn and Norox pursuant to the AGH Agreement and related transactions
Aldanzoloto	OJSC "Aldanzoloto GRK"
AltynGroup	AltynGroup Kazakhstan LLP, a limited liability partnership owned by members of the Assaubayev family
Amending Law	Federal Law dated 29 April 2008 No. 58-FZ "On Amending Certain Legislative Acts of the Russian Federation and Deeming Inoperative Certain Legislative Acts of the Russian Federation in connection with the Adoption of the Federal Law on Procedure of Foreign Investment in Commercial Entities Having Strategic Importance for the Defence of the Country and the Security of the State"
Amended Principal Agreement	a Restated and Amended Principal Agreement made between KazakhGold and AltynGroup on 10 April 2011 for the sale of KazakhGold's operating subsidiaries in Kazakhstan, Romania and Kyrgyzstan and the withdrawal of the Claims, as amended on 12 September 2011 and 13 October 2011 and terminated on 2 April 2012
BNY Mellon	The Bank of New York Mellon (formerly known as "**The Bank of New York**")
Board/Board of Directors	the Board of Directors of the Company
Bridge Facilities	(i) the US$230 million bridge facility with VTB Bank entered into in September 2011 and amended on 15 February 2012 and (ii) the US$500 million bridge facility with Société Générale entered into in September 2011, to fund in part the mandatory tender offer for OJSC Polyus Gold shares announced on 30 August 2011 in connection with the Combination, each of which were repaid in full on 18 May 2012
Chengdong	Chengdong Investment Corporation, a wholly-owned subsidiary of CIC International Co. Ltd.
City Code	the City Code on Takeovers and Mergers
CJSC ZDK Lenzoloto	CJSC Gold Mining Company Lenzoloto

Term or expression	*Meaning*
Claims	the orders, judgments and claims, whether in litigation, arbitration or otherwise, initiated, *inter alia*, in the UK, Jersey, the BVI, or elsewhere, between KazakhGold, Jenington and Kazakhaltyn, on the one hand, and the Assaubayev family, on the other hand, and all of their respective subsidiaries and affiliates, howsoever relating to the matters referred to in those proceedings or otherwise arising in respect of the original acquisition of KazakhGold by Jenington
Clearstream	Clearstream Banking, Société Anonyme
Combination	the combination of KazakhGold with OJSC Polyus Gold which completed on 25 July 2011
Company or **PGIL**	Polyus Gold International Limited (formerly KazakhGold), a company incorporated in Jersey
Competition Law	Federal Law On The Protection of Competition, No. 135-FZ of 26 July 2006 (as amended)
Corporate Governance Code	the UK Corporate Governance Code issued by the Financial Reporting Council of the United Kingdom in June 2010, as amended from time to time
CREST	the computerised system for the paperless settlement of sales and purchases of securities and the holding of uncertificated securities operated by Euroclear UK & Ireland Limited in accordance with the CREST Regulations
CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) or the Companies (Uncertificated Securities) (Jersey) Order 1999 (as applicable), in each case, as from time to time amended
Depositary	BNY Mellon, as depositary for the Company's Level I GDR Programme
Directors	members of the Board of Directors of the Company
DTC	The Depository Trust Company
EEA	European Economic Area
Euroclear	Euroclear Bank N.V./S.A., as operator of the Euroclear system
Excess GDRs	remaining GDRs subject to pro-ration exceeding the limit under the Level 1 GDR Programme
Foreign Investments Law	Federal Law dated 29 April 2008 No. 57-FZ "On Procedure of Foreign Investments in Commercial Entities Having Strategic Importance for the Defence of the Country and the Security of State" (as amended)
Form of Surrender and Delivery Instruction	the form sent to Level I GDR Holders for use in connection with the surrender of Level I GDRs for the purpose of withdrawal of Shares
First Tranche Cut-Off Date	12 December 2011
First Tranche Shares	shares representing 51 per cent. of each of Kazakhaltyn, Romaltyn Mining S.R.L., Romaltyn Exploration S.R.L., Norox Mining Company Limited and shares representing 34 per cent. of Talas Gold Mining Company

Term or expression	*Meaning*
FSA	the Financial Services Authority of the UK in its capacity as the competent authority under Part VI of FSMA and in the exercise of its functions in respect of admission to the Official List otherwise than in accordance with Part VI of FSMA
FSFM	the Federal Service for Financial Markets of the Russian Federation
FSMA	the Financial Services and Markets Act 2000
Gold Lion	Gold Lion Holdings Limited
Group	the Company and its subsidiaries
HSBC Facility	The US$100 million facility with HSBC Bank PLC, dated 10 February 2012, repayable in or before March 2015
IFRS	International Financial Reporting Standards as adopted for use in the European Union
Jenington	Jenington International Inc., an indirect wholly-owned subsidiary of the Company incorporated in the British Virgin Islands with Company Number 394918
Jersey Companies Law	the Companies (Jersey) Law 1991, and the regulations and orders promulgated thereunder as each may be amended from time to time
J.P. Morgan Cazenove	J.P. Morgan Securities Ltd. (which conducts its UK investment banking activities as J.P. Morgan Cazenove)
Kazakhaltyn	JSC Kazakhaltyn MMC, an indirect, wholly-owned subsidiary of KazakhGold
Kazakhstan	the Republic of Kazakhstan
KazakhGold	KazakhGold Group Limited, the name of the Company prior to 26 July 2011
KazakhGold Group	the Company and its consolidated subsidiaries prior to completion of the Combination
KazakhGold Operating Subsidiaries	the Company's operating subsidiaries in Kazakhstan and Kyrgyzstan
LBMA	London Bullion Market Association
Lenzoloto	OJSC Lenzoloto, CJSC ZDK Lenzoloto and various subsidiaries of CJSC ZDK Lenzoloto through which the Group mines its alluvial deposits in the Irkutsk Region
Letter of Credit	an irrevocable documentary stand-by letter of credit for US$100,000,000, the issue of which was procured by AltynGroup in favour of the Company as one of the conditions to the Settlement Agreement
Level I Deposit Agreement	the deposit agreement dated 1 July 2010 in respect of the Level I GDR Programme between BNY Mellon, the Company and holders of Level I GDRs from time to time
Level I GDRs	Level I Global Depositary Receipts, each representing one Share, issued under the Level I GDR Programme

Term or expression	*Meaning*
Level I GDR Facility Ceiling	the maximum number of Shares that may be held in the form of Level I GDRs under the Level I GDR Programme, being 4.99 per cent. of the issued share capital of the Company
Level I GDR Holder	A holder of Level I GDRs
Level I GDR Programme	the Level I GDR Programme under which the Level I GDRs are issued
London Stock Exchange	London Stock Exchange plc
LTIFR	Lost Time Incident Frequency Rate
LZRK	CJSC LZRK (LLC "LZRK", prior to 1 June 2011)
Matrosov Mine	OJSC "Matrosov Mine"
Nafta	a privately owned group of portfolio investment companies under the beneficial ownership of Mr. Suleiman Kerimov, including Nafta Moskva (Cyprus) Limited and Wandle Holdings Limited
Official List	the Official List of the UKLA
Onexim	a privately owned group of companies under the beneficial ownership of Mr. Mikhail Prokhorov, including Coverico Holdings Co. Limited and Bristaco Holdings Co. Limited
Original Principal Agreement	the binding agreement made between KazakhGold and AltynGroup on 8 December 2010 for the sale of KazakhGold's operating subsidiaries in Kazakhstan, Romania and Kyrgyzstan and the withdrawal of the Claims
OTC	the US over-the-counter market
Panel	the Panel on Takeovers and Mergers
Partial Offer	the recommended partial offer by Jenington made on 9 July 2009 to acquire 50.15 per cent. of the issued and to be issued KazakhGold Shares (including KazakhGold Shares represented by GDRs) that was declared wholly unconditional on 14 August 2009
Polyus Russia Group	OJSC Polyus Gold and its consolidated subsidiaries prior to completion of the Combination
Principal Shareholders	Nafta and Onexim
Regulated Market	the main market of the London Stock Exchange, a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC
Relationship Agreements	the relationship agreements entered into by the Company and each Principal Shareholder on 8 June 2012
Rosfund	Rosfund, SPC (Cayman Islands)
Russian Joint Stock Companies Law	the Russian Federal Law "On Joint Stock Companies" No. 208-FZ, dated 26 December 1995 (as amended)
Russian Securities Market Law	the Russian Federal Law No. 39-FZ dated 22 April 1996 "On the Securities Market" (as amended)

Term or expression	*Meaning*
Russian Subsoil Law	the Law of the Russian Federation 2395-1 dated 21 February 1992 "On the Subsoil" (as amended)"
SEC	The U.S. Securities and Exchange Commission
Senior Notes	PGIL's US$200 million 9.375 per cent. Senior Notes due November 2013 that were redeemed on 15 March 2012
Senior Notes Facilities	means the Unicredit Facility and the HSBC Facility
Settlement Deed	a settlement deed made between KazakhGold and AltynGroup which provided for the conditional settlement and release of the Claims without any admission of liability on the part of any party
Shareholders	holders of Shares from time to time
Shares	the ordinary shares of the Company, each with a nominal value of £0.0001
Share Election	the voluntary surrender by Level I GDR Holders of their Level I GDRs for delivery of the amount of Shares represented thereby to a CREST account specified by a Level I GDR holder
Share Election Expiration Time	5:00 p.m., New York time, on 12 June 2012
Société Générale	Société Générale, a public limited liability company (*société anonyme*) incorporated under the laws of France with registered number RCS 552 120 222
Sponsor	J.P. Morgan Cazenove
SVMC	OJSC "South-Verkhoyansk Mining Company"
TCC	Total Cash Costs
UKLA	United Kingdom Listing Authority, a division of the FSA in its capacity as a competent authority under Part VI of FSMA
Unicredit Facility	the US$100 million facility with ZAO Unicredit Bank dated 29 December 2011, repayable on or before 29 December 2013
US Securities Act	the US Securities Act of 1933, as amended
VTB Bank	OJSC VTB Bank
VTB Facility	the facility agreement dated 27 March 2012 between CJSC Polyus and VTB Bank

PART XIX

GLOSSARY OF TECHNICAL TERMS

Term or expression	*Meaning*
Bio-leaching	Oxidation of sulphide minerals exposed to bacteria in an aqueous environment with metal extraction through desalination
BIOX	Bio-leaching technology using strains of bacteria, developed by the Group's specialists
Carbon-in-leach or CIL	a process in which carbon is added to the solution following leaching in order to extract gold
Carbon-in-pulp or CIP	the recovery process in which gold is first leached from gold ore pulp by cyanide and then absorbed onto activated carbon granules in separate vessels. The loaded carbon is then separated from the pulp for subsequent gold removal by elution
cathodic gold	the gold product that arises following the processing of mined ore by the CIP and HL methods, which ends with the gold bearing solution being treated by electrolysis. The gold is deposited on the cathodes of the cell, which are then washed to remove the deposited gold, which can be further smelted into doré bars
cathodic sludge	the gold residue in the electrolysis cell from that part of the solution that is not deposited on the cathodes
cut-off grade	lowest grade of mineralised material considered economic, used in the calculation of ore resources
cyanide leaching	a method of extracting exposed gold or silver from crushed or ground ore by dissolving them in a weak cyanide solution. It may be carried out in slurry in tanks or in large heaps of ore
deposit	the aggregation of a mineral on the surface of the Earth or in the Earth's crust, suitable in terms of quantity, quality and mode of occurrence for commercial mining
flotation	a mineral separation process in which valuable mineral particles are induced to become attached to bubbles and float as other particles sink
flotation concentrate	the product of flotation. The resultant gold concentrate is then filtered to form flotation concentrate
free gold	gold uncombined with other substances, gold not found in chemical combination with other minerals or gold found largely in placer gold form
FSU Classification	the reserves and resources classification system of the former Soviet Union
gold doré	unrefined gold bullion bars, which will be further refined to almost pure metal (99.9 per cent. gold)
grade	the quality of metal per unit mass of ore expressed as grammes of gold per tonne of ore

Term or expression	*Meaning*
gravitation	gold particles in slurry which are separated based on their specific gravity
g/t	grammes per tonne
Heap Leaching or **HL**	an ore processing technology used to process low-grade oxide ores. Although it is the lowest-cost method of processing, recovery rates are only approximately 60 per cent.
indicated mineral resource	as defined in the JORC Code, that part of a mineral resource which has been sampled by drill holes, underground openings or other sampling procedures at locations that are too widely spaced to ensure continuity but close enough to give a reasonable indication of continuity and where geoscientific data are known with a reasonable degree of reliability. An indicated mineral resource will be based on more data and therefore will be more reliable than an inferred mineral resource estimate
inferred mineral resource	as defined in the JORC Code, is that part of a mineral resource for which the tonnage and grade and mineral content can be estimated with a low level of confidence. It is inferred from the geological evidence and has assumed but not verified geological and/or grade continuity. It is based on information gathered through the appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability
JORC Code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
LBMA	The London Bullion Market Association
London fixing	spot market price at the moment of delivery
measured mineral resource	defined in the JORC Code, that part of a measured mineral resource for which the resource has been intersected and tested by drill holes, underground openings or other sampling procedures at locations which are spaced closely enough to confirm continuity and where geoscientific data are reliably known. A measured mineral resource estimate will be based on a substantial amount of reliable data, interpretation and evaluation which allows a clear determination to be made of the shapes, sizes, densities and grades
mine	an excavation from which valuable materials are recovered
Mineable	portion of a mineralised deposit for which extraction is technically and economically feasible
mineral deposit	a body of mineralisation that represents a concentration of valuable metals. The limits can be defined by geological contracts or assay cut-off grade criteria
mineral reserve	under the FSU Classification, the equivalent of the western mineral resource and ore reserve. Mineral reserves are subdivided into A, B, C1 and C2 categories depending on the level of definition and technological study

Term or expression	*Meaning*
mineral resource	a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such a form that there are reasonable prospects for the eventual economic extraction. The location, quantity, grade geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided into inferred mineral resources, indicated mineral resources and measured mineral resources
open pit	a mine that is entirely on the Earth's surface; also referred to as open-cut or open-cast mine
open pit mining	extraction of minerals from the Earth's surface by their removal from an open pit
ore	natural mineral matter containing metals or metal compounds in quantities and in a form suitable for commercial extraction
ore body	a distinct naturally occurring agglomeration of ore defined structurally and geologically by a particular element or combination thereof
ore reserve	according to the JORC Code, the economically mineable part of a measured and/or indicated mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could be reasonably justified. Ore reserves are sub-divided in order of increasing confidence into probable ore reserves and proven ore reserves
POX	Pressure oxidation, an aqueous process for sulfur removal carried out in a continuous autoclave, operating at high pressures and elevated temperatures
probable ore reserve	according to the JORC Code, the economically mineable part of an indicated and/or measured mineral resource. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and government factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified

Term or expression	*Meaning*
proved ore reserve	according to the JORC Code, the economically mineable part of a measured mineral resource. It is estimated with a high level of confidence. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and government factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified
reserves	the part of a mineral deposit, extraction of which from the Earth's crust is economically and legally feasible at the time the reserves are identified
tailings	material that remains after all metals/minerals considered economic have been removed from the ore
tonne	1,000 kilogrammes
underground mining	extraction of minerals from the Earth's crust using a system of underground mine workings
vein	a tabular deposit of mineralised rock