

DIRECTORS' RESPONSIBILITY STATEMENT

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

(a) the consolidated financial statements for 2010, prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, give a true and fair view of the assets, liabilities, financial position and profit or loss of OJSC Polyus Gold and its consolidated subsidiaries (hereinafter referred to as the "Group"); and

(b) the management report for the year 2010 includes a fair review of the development and performance of the business and the position of the Polyus Group, together with a description of the principal risks and uncertainties that it faces.

Neither OJSC Polyus Gold nor the directors accept any liability to any person in relation to the management report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Section 90A of the Financial Services and Markets Act 2000.

MIKHAIL D. PROKHOROV

General Director

26 April 2011

Management report

Management's discussion and analysis of financial condition and results of operations for 2010

The following Management report (Management discussion and analysis of the Polyus Group's financial condition and results of operations) should be read in conjunction with the Polyus Group's consolidated financial statements, prepared in accordance with International Financial Report Standards ("IFRS"), and the related notes.

The Polyus Group is an international mining company, the largest gold producer in the Russian Federation and among the largest gold mining companies in the world, based on mineral resources and production volumes.

Polyus Gold Shares are traded on the leading Russian stock exchanges, MICEX and RTS. Polyus Gold's ADRs are listed on the main market of the London Stock Exchange and are traded on the over-the-counter markets in the United States and off the listing at the Frankfurt Stock Exchange. Polyus Gold Shares are included in the key Russian stock exchange indices of MICEX and RTS, and international stock exchange indices such as FTSE Gold Mines, FTSE Russia, MSCI Russia, MSCI Emerging Markets, Dow Jones Global and Dow Jones Russia. The Polyus Group produced 1.4 million troy ounces of gold in 2010.

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

- key performance indicators;
- financial position as at 31 December 2010, 31 December 2009 and 31 December 2008;
- results of operations for the years ended 31 December 2010, 31 December 2009 and 31 December 2008;
- the Polyus Group's liquidity, solvency and capital sources;
- significant events affecting the Polyus Group's operating performance for these periods;
- description of principal risks; and
- description of the key features of internal control and risk management system in relation to the financial reporting process.

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1. The Polyus Group's operating results

1.1 External market factors affecting the Polyus Group's financial results

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

The market price of gold is the most significant factor influencing the profitability and operating cash flow generation of the Polyus Gold Group. The global gold price is subject to volatile movements over short periods of time. In 2010 the gold price volatility remained high, with the price ranging from the lowest level of USD 1,058 per troy ounce (London p.m. fixing) in February and the highest of USD 1,421 per ounce in November. In 2010 the average gold p.m. fixing price in London was USD 1,224.5 per ounce, an increase of 26% over the 2009 average price of USD 972.4 per ounce. For the whole year, the global price of gold increased by 25% from USD 1,121.5 on January, 4 to USD 1,405.5 per ounce on 30 December, the first and the last business days in 2010, respectively.

Currency exchange rates can have a material impact on the Polyus Group's results. Polyus Group's revenue from gold sales is denominated in USD, whereas most of the Polyus Group's operating expenses and capital expenditures are denominated in the national currencies of Russia and Kazakhstan. In 2010 the average RUB exchange rate decreased by 4% to RUB 30.36 per USD (2009: 31.72), leading to higher costs in USD. The closing rate was RUB 30.47 per USD (2009: 30.24). Since its acquisition of a controlling stake in KazakhGold Group in August 2009, the Polyus Group has also been exposed to USD/KZT exchange rate movements. During 2010, the KZT exchange rate didn't change materially. The average rate for 2010 was KZT 147.35 per USD (2009: 147.51). By the end of the year, the KZT slightly appreciated, closing at KZT 147.40 per USD (2009: 148.36).

A significant portion of costs included in the Polyus Group's cost of sales are also directly or indirectly impacted by the prices of oil and steel. Changes in oil prices impact the prices of heating oil, diesel fuel, gasoline and lubricants for mining and construction equipment. Steel forms the basis for the price of all rolled metal products, pipes, machinery and vehicles. Global prices for commodities were increasing in 2010, creating significant cost pressure for the Polyus Group. Oil prices showed a 29% year-on-year increase, steel prices grew by 10%. Average rates for key external market factors are:

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

1. Source: London Bullion Market Association.

2. Source: Bloomberg.

3. Source: Steel Business Briefing.

4. Source: The Central Bank of Russia.

5. Source: The National Bank of Kazakhstan.

Summary of performance results

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

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

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

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

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

2. Operating profit is calculated as Gross profit, less Selling, general and administrative expenses, Research and exploration expenses and Other expenses, net.

3. For details of the calculation of EBITDA refer to section 2.1 of this document.

1.2 Gold sales

The following table shows the results and breakdown of the Polyus Group's gold sales for the years ended 2010, 2009 and 2008:

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

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

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

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

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

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

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

1.3 Cost of gold sales

The following table shows the results of the Polyus Group's cost of gold sales for the years ended 2010, 2009 and 2008:

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

1. The presentation of cash operating costs is more detailed than that presented in the financial statements. The amounts are derived from the management accounts, and agree in total with the amounts presented in the financial statements.

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

Cash operating costs

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

Expenses for consumables and spares were the largest component of cash operating costs in 2010 (45% of cash operating costs). This item included materials and spares (spare parts for trucks, excavators and for construction machinery, expenses on rolled metal products and cables, technological materials for plants and other materials and spare parts used in mining, concentration and smelting) and fuel.

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

Group's expenses on materials and spares in 2010 included purchases by the Kazakhstan business unit in the amount of USD 18,419 thousand.

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

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

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

In 2010, the Polyus Group accrued USD 130,230 thousand in mining tax (15% of cash operating costs), compared to USD 90,080 thousand in 2009. The 45% increase reflected enhanced production volumes and higher realized gold prices. According to Chapter 26 of the Tax Code of the Russian Federation, the tax on mining base includes concentrate or any other semi-product containing precious metal obtained by extraction of this metal from ore, alluvial or industrial deposits, including gold produced by the Polyus Group. Concentrates and other semi-products containing gold are subject to the tax at the rate of 6% of the cost of these semi-products. The cost is determined based on selling prices for the relevant tax period. The tax is accruable on gold, which the ore under processing contains, and thus is payable not only on gold sold, but also on gold lost during processing.

Mining tax charges for 2010 include USD 9,223 thousand attributable to the Kazakhstan business unit. Mining tax in the Republic of Kazakhstan is calculated with reference to the value of the reserves of commercially useful minerals which are contained in mineral raw materials, which are extracted. The value of the reserves of commercially useful minerals contained in mineral raw materials is determined based on the average exchange price for such commercial minerals for the tax period. The average exchange price is the arithmetic mean of the daily average quotations for each commercial mineral recorded on the London Metal Exchange. Since 2009 the mining tax rate for gold is 5%.

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

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

Amortisation and depreciation of operating assets

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

Deferred stripping costs expensed/(capitalised)

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

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

Change in gold-in-process and refined gold

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

1.4 Selling, general and administrative expenses

The following table sets forth the selling, general and administrative expenses of the Polyus Group for the years ended 2010, 2009 and 2008:

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

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

Salaries

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

Administrative overheads

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

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

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

Professional services

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

Taxes, other than mining and income taxes

In addition to tax on mining and income taxes, the Polyus Group pays property tax, VAT (which for the purpose of this item includes only non-recoverable VAT) and other taxes. In 2010, the Polyus Group accrued USD 27,528 thousand in federal and regional taxes other than tax on mining and income tax, reflecting a 71% year-on-year increase. These included tax charges attributable to KazakhGold in the amount of USD 3,521 thousand.

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

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

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

1.5 Research expenses

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

1.6 Other expenses, net

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

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

The following table sets forth the components of financial and investment activity in 2010, 2009 and 2008:

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

Finance costs

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

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

Income/(loss) from investments

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

In connection with the acquisition of a 50.15% stake in KazakhGold, the Polyus Group obtained call options to acquire all rights and obligations under convertible loan agreements between KazakhGold and its previous major shareholder Gold Lion Holdings Limited ("Gold Lion"). The call options for convertible loans are classified as financial assets and carried at fair value through profit and loss (Refer to paragraph 4.1.1. "Assets – Non-current assets – Derivative"). At 31 December 2009, the fair value of call options was estimated at USD 109,911 thousand. The decline in the KazakhGold share price during 2010 resulted in a decrease in fair value of the instrument in the amount of **USD 63,775 thousand**, which was recognized in the consolidated income statement.

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

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

In 2010, interest income accrued on bank deposits amounted to **USD 8,329 thousand**, which is USD 6,359 thousand less than in 2009 due to the withdrawal of several bank deposits (Refer to paragraph 4.1.1. "Assets – Current assets – Investments in securities and other financial assets").

Foreign exchange gain/(loss)

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

1.8 Goodwill impairment

In the consolidated financial statements for the year ended 31 December 2009 acquisition of KazakhGold Group Limited was accounted for using provisional values. Upon final determination of the fair values of the identifiable assets and liabilities, and assessment of mineral rights, the excess purchase price was deemed as goodwill. Given that the assessed fair value was lower than the purchase price, management considers the excess as an

overpayment, and accordingly have written off the calculated goodwill as of the acquisition date (Refer to Note 4 to the Consolidated financial statements for the year ended 31 December 2010).

1.9 Income tax

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

1.10 Other sales and cost of other sales

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

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

2. Non-GAAP financial measures

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

2.1 EBITDA

"EBITDA" is defined by Polyus Gold as profit before finance costs, income tax, income (losses) from investments, depreciation, amortisation and interest, and is further adjusted by certain items included in the table below. As these line items are not of a recurring nature, Polyus Gold has made these adjustments in calculating EBITDA to provide a clearer view of the performance of its underlying business operations and to generate a metric that it believes will give greater comparability over time with peers in its industry. Polyus Gold believes that EBITDA is a meaningful indicator of its profitability and performance. This measure should not be considered as an alternative to profit for the year and operating cash flows based on IFRS and should not necessarily be construed as a comprehensive indicator of the Polyus Group's measure of profitability or liquidity.

The following table sets forth the Polyus Group's EBITDA for the years ended 31 December 2010, 2009 and 2008:

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

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

2.2 Total Cash Costs

The Polyus Group presents the financial items "total cash costs" ("TCC") and "total cash costs per troy ounce" which have been calculated and presented by management as TCC presentation is common industry practice, although its calculations of these items may differ from those of its industry peers. These items are not IFRS measures. An investor should not consider these items in isolation or as alternatives to cost of sales, profit for the year attributable to shareholders of the parent company, net cash generated from operating activities or any other measure of financial performance presented in accordance with IFRS. The calculation of total cash costs may vary significantly among gold mining companies, and by themselves do not necessarily provide a basis for comparison with other gold mining companies.

Total cash costs are defined by the Polyus Group as cost of sales reduced by property, plant and equipment depreciation, provision for annual vacation payment, provision for land rehabilitation and adjusted by non-monetary changes in inventories and non-monetary changes in deferred stripping works. Total cash costs per troy ounce are the attributable total cash costs divided by the attributable troy ounce of gold sold.

The following table shows the Polyus Group's TCC for the years ended 31 December 2010, 2009 and 2008:

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

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

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

The growth of TCC resulted from the increase in cost of gold sales mainly due to increased material and fuel requirements on the back of enhanced mining and processing works throughout the Polyus Group, increased material and chemicals consumption due to technical issues at the Olimpiada mine, the effect of consolidation of KazakhGold for the full year 2010, increase in gold stock, the growth of labour costs and appreciation of the RUB relative to the USD (Refer to paragraph 1.3 “Cost of gold sales”). Effect of the RUB appreciation contributed USD 31 per ounce to the Polyus Group’s TCC.

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

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

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

2.3 Analysis of profitability indicators

Adjusted net profit is defined as net profit attributable to shareholders of the parent company adjusted for investment losses/gains and impairment of investments, income on derivatives classified as held for trading and impairment of goodwill. Adjusted return on assets is calculated as the adjusted net profit divided by the average assets for the year. Adjusted return on equity is calculated as the adjusted net profit divided by the average equity attributable to shareholders of the parent for the year. Adjusted return on invested capital is calculated as the adjusted net profit divided by the sum of the average equity attributable to shareholders of the parent and average non-current and current loans and borrowings for the year.

We have made these adjustments as these items are not of a recurring nature, to provide a clearer view of the performance of our underlying business operations and to generate a metric that we believe will give greater

comparability over time with peers in our industry. Polyus Group believes that adjusted net profit, adjusted return on assets, adjusted return on equity and adjusted return on invested capital are meaningful indicators of its profitability and performance. These measures should not be considered alternatives to profit for the year and operating cash flows based on IFRS and should not necessarily be construed as a comprehensive indicator of Polyus Group's measure of profitability or as a measure of liquidity. The following table shows the Polyus Group's calculation of adjusted net profit, adjusted return on assets, adjusted return on equity and adjusted return on invested capital for the years ended 31 December 2010, 2009 and 2008:

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

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

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

3. Summary table of performance results by business units

The following table shows the Polyus Group's performance results by business units for the years ended 31 December 2010, 2009 and 2008:

	Years ended 31 December								
	2010			2009			2008		
	Gold sales revenue USD '000	Production 000 oz	Sales 000 oz	Gold sales revenue USD '000	Production 000 oz	Sales 000 oz	Gold sales revenue USD '000	Production 000 oz	Sales 000 oz
Krasnoyarsk business unit	1,176,392	932	937	833,466	878	854	761,318	873	877
Irkutsk alluvial business unit Yakutsk	248,254	197	197	185,237	194	194	154,907	181	181
Kuranakh business unit ⁽¹⁾	149,597	120	120	129,789	135	135	124,640	144	144
Irkutsk ore business unit ⁽²⁾	22,607	26	19	23,678	24	24	21,466	25	25
Kazakhstan business unit ⁽³⁾	114,448	110	103	26,918	30	31	–	–	–
Group total⁽⁴⁾	1,711,298	1,386	1,377	1,199,088	1,261	1,238	1,062,331	1,222	1,226

- For the purpose of the Management report for 2009 operating and financial results of the Yakutsk Kuranakh business unit include the results of the Exploration business unit (See Note 5 to the consolidated financial statements for the year ended 31 December 2009).
- For the purpose of financial reporting in accordance with IFRS standards sales in 2010 do not include 4.8 k oz of gold produced from the ores of the Verninskoye and Nataika deposits and sold in 2010.
- 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.
- Totals may not add due to the rounding error.

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

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

Source: Management accounting data.

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

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

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

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

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

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

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

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

3.2 Irkutsk alluvial business unit (Alluvial deposits)

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

Source: Management accounting data.

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

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

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

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

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

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

3.3 Yakutsk Kuranakh business unit (Kuranakh mine)

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

Source: Management accounting data.

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

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

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

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

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

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

3.4 Irkutsk ore business unit (Zapadnoye mine)

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

Source: Management accounting data.

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

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

Gold sales revenue amounted to USD 22,607 thousand.

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

The Zapadnoye deposit is a western flank of the Sukhoi Log ore field, the largest gold deposit in Russia, which is a perspective area of potential interest for the Polyus Group. The Zapadnoye mill was commissioned in 2004 and cannot be considered as a rigorous producing business unit, but as a pilot plant for modelling of industrial technologies for processing of ores similar to the ores of Sukhoi Log.

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

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

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

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

Source: Management accounting data.

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

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

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

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

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

Item	2010		2009	
	Volume, tonnes	Cost, USD'000	Volume, tonnes	Cost, USD'000
Spare parts for tipper trucks and excavators		268		n/a
Grinding balls	1,720	1,509	1,018	796
Pipes for current operations	179	153	n/a	n/a
Spare parts for road-building machines		4		n/a
Rolled metal products for current operations	286	444	n/a	n/a
Summer diesel fuel	1,784	1,035	1,384	946
Winter diesel fuel	1,058	761	849	396
Ai-80 gasoline	361	221	337	172
Ai-92 gasoline	67	47	71	42
Explosives	646	1,010	397	593
Cyanides	725	2,123	610	1,897

4. Review of financial sustainability and solvency

4.1 Analysis of statement of financial position items

The table below offsets forth key items from the Polyus Group's consolidated statement of financial position as at 31 December 2010, 2009 and 2008:

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

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

4.1.1 Assets

Non-current assets

Property, plant and equipment

The table below sets forth the components of the Polyus Group's property, plant and equipment at 31 December 2010, 2009 and 2008:

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

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

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

Non-current investments in securities and other financial assets

Non-current investments in securities and other financial assets consist mostly of derivative financial asset. As part of its acquisition of a 50.15% stake in KazakhGold Group, the Polyus Group obtained call options to acquire all rights and obligations under convertible loan agreements between KazakhGold and its previous major shareholder Gold Lion. Under the loan agreements the Lender may convert the principal amounts of USD 31,025 thousand together with accrued interest into ordinary shares of KazakhGold at the price of USD 1.5 per share. The fair value of the call options is determined by financial modeling, with reference to the difference between the market price of KazakhGold share at the date of acquisition less conversion price. At 31 December 2009 the fair value of call options for convertible loans amounted to USD 109,911 thousand. As a result of the decline in the KazakhGold share price during 2010 the fair value of the instrument decreased to USD 46,136 thousand, which was recognized in the consolidated income statement.

Deferred stripping costs

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

Inventories

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

Current assets

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

Cash and cash equivalents

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

Inventories

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

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

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

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

Investments in securities and other financial assets

In the reporting period the short-term investments in securities and other financial assets declined from USD 312,733 thousand at the end of 2009 to USD 177,332 thousand at the end of 2010. These were represented by available for sale equity investments, bank deposits and equity investments in listed company held for trading.

Movements in investments and other financial assets during the year ended 31 December 2010 are presented in the table below:

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

4.1.2 Capital and liabilities

Share capital and reserves

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

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

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

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

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

Non-current liabilities

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

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

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

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

Other non-current liabilities included liabilities for bank guarantees and for historical costs liability assumed upon the acquisition of KazakhGold Group and its consolidation with the Polyus Gold financial statements. The bank guarantee liability was incurred by a KazakhGold Group's subsidiary JSC "MMC KazakhAltyn" in 2006 in respect of finance lease agreements. At 31 December 2009 the Polyus Group fully provided for potential losses related to the bank guarantee liability in the amount of USD 11,014 thousand. During 2010, the Group repaid USD 4,718 thousand of its obligations on the guarantee. As a result, bank guarantee liability decreased to USD 6,296 thousand (including an amount of USD 5,996 thousand related to interests on bank guarantee which was presented within current liabilities). The historical costs liability relates to amounts owing for geological studies due to the Government of Kazakhstan. At 31 December 2010 the net present value of the liability totalled USD 5,053 thousand (including an amount of USD 895 thousand reclassified to current liabilities). In addition, in 2010 the Polyus Group accrued employee benefit obligations in the amount of USD 15,208 thousand.

Current liabilities

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

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

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

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

4.2 Cash flow analysis

The following table sets forth the main components of the Polyus Group's consolidated cash flow statement for the years ended 31 December 2010, 2009 and 2008:

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

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

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

In the reporting period, the major investment spending was capital expenditures and deferred stripping costs totalling USD 359,424 thousand. In addition, in 2010 the Polyus Group deposited cash on current bank accounts, which resulted in a USD 64,996 thousand cash outflow. This was strongly offset by proceeds from disposal of financial assets in the amount of USD 244,955 thousand. During 2010 the Group closed a number of bank deposits, partly withdrew funds from available-for-sale investments and lesser amounts from held for trading investments. The

Group also received USD 8,351 thousand of interest income. As a result, in 2010 the Polyus Group used USD 171,114 thousand in investment activities, compared to USD 516,065 thousand a year earlier.

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

4.3 Capital expenditures, acquisitions of subsidiaries and deferred stripping costs

Capital expenditures represent the Polyus Group's purchase of property, plant and equipment adjusted for the proceeds from the sale of property, plant and equipment. The Polyus Group also presents capitalised deferred stripping costs and the acquisition of subsidiaries adjusted for the repayment of contingent consideration and proceeds from the disposal of such subsidiaries.

The following table shows the Polyus Group's capital expenditures, acquisition of subsidiaries and deferred stripping costs for the years ended 31 December 2010, 2009 and 2008:

USD'000	Years ended 31 December		
	2010	2009	2008
+ Purchase of property, plant and equipment	350,327	302,405	481,504
– Proceeds from sale of property, plant and equipment	(643)	(1,270)	(5,747)
Net capital expenditures	349,684	301,135	475,757
Acquisition of subsidiaries, net of cash acquired, and increase of ownership in subsidiaries	–	182,247	39,156
+ Repayment of contingent consideration on acquisition of subsidiaries	–	–	19,616
Acquisition of subsidiaries, net of adjustments above	–	182,247	58,772
+ Deferred stripping costs capitalised	9,740	12,608	95,313
Total capital expenditures, acquisition of subsidiaries and deferred stripping costs	359,424	495,990	629,842

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

In 2009, the Polyus Group expended USD 182,247 thousand on acquisition of subsidiaries, reflecting cash consideration of acquisition of a 50.15% stake in KazakhGold Group.

In the reporting period the Polyus Group capitalised stripping costs in the amount of USD 9,740 thousand, relating to Titimukhta and Kuranakh mines.

5. Description of principal risks

The activities of the Polyus Group (hereinafter the Company) are associated with a number of risks that may affect the Company's production and financial results. The current global financial crisis has exacerbated the risks facing the mining industry, though the Company believes that gold mining companies, in general, are in a better position to weather such additional risks than producers of other metals.

The Company is committed to achieving successful development, including through ensuring an effective risk management system designed to achieve optimal results, an efficient distribution of resources, and a strengthening of the Company's competitiveness. Successful risk management requires, amongst other things, the identification and assessment of potential threat parameters, and the development of measures aimed at the mitigating potential risks. The Company has developed internal procedures governing the process through which risks are managed. Such procedures require that each business unit has a designated risk manager, identifies risks facing the unit, and takes measures aimed at lowering its risk levels.

5.1 Risks connected with the financial and economic crisis

Risks associated with failures to perform under existing agreements and of securing new equipment and material supply agreements

One of the consequences of the global financial crisis is a material drop in the financial status or credit ratings of a number of enterprises in Russia and internationally that manufacture and supply spare parts and equipment. Any possible suspension of their activities would increase the risk of them failing to perform their contractual obligations, possibly resulting in the late delivery of equipment and materials. Further failures to observe the Company's logistic schedules may affect the launch time of new production capacities and the fulfilment of the Company's production plans.

To attempt to mitigate the risk of late delivery, the Company monitors the financial status of its major counterparties on a regular basis and takes measures to increase the number of actual, and potential, counterparties with which it conducts business.

Risks associated with insufficient credit resources

The Company currently has no significant debts payable and is currently facing high prices and demand for gold. Coupled with ample liquidity reserves in the form of the Company's own cash resources, the Company believes it has a sufficient level of capital to continue the current activities of the Company's enterprises and to fulfil currently approved plans aimed at the expansion of production capacities and production volumes. However, the global financial crisis has resulted in little, if any, access to the capital markets and increased the costs associated with securing credit lines. If the Company is unable to access credit, or if this credit is more costly to it, the implementation of a number of major projects may need to be adjusted.

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

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

The absence of accurate forecasts of economic growth and uncertain macroeconomic trends may lead to a reduction in the Government's investment budget, which could impact the Government's ability to co-finance a number of the Company's projects, leading to such projects being indefinitely postponed.

5.2 Risks characteristic of mining industry enterprises

Operational risks

Ore and mineral reserves are difficult to quantify, actual volumes may be inaccurate and are therefore subject to significant correction

The Company's activities are heavily reliant upon its available stocks and resources. The evaluation of ore and mineral reserves depends to a certain extent on statistical conclusions made on the basis of the results of limited volumes of drilling and other analyses that may turn out to be incorrect. The evaluation and classification of ore and mineral reserves may also be affected by the changes in the prices of gold. If the quantity and quality of the explored reserves are not confirmed, the production efficiency may deteriorate as a result of labor consuming mining operations.

The Company engages independent experts to conduct audits on prospective and existing deposits and to provide reports on the results of the exploration activity, mineral and ore resources and reserves. The Company's reserves were audited by Micon International from 2006 to 2008.

Risks connected with mining and production activity

The Company's production activities are carried out in remote regions, which are subject to severe climatic conditions. As a result, the delivery of equipment, technological materials and spare parts is more difficult, thus affecting production costs. Mining machinery, transport and new technologies, including those developed by the Company, are used for operations in areas which have complicated geological and climatic conditions.

There are increased risks of flooding, pit slope and rim slide, accidents caused by the use of the mining transport equipment and preparation and performance of explosion works in the pit, reduction of gold production due to adverse weather conditions and problems in the power supply facilities and recovery plants. These risks could result in suspended ore production and recovery, increased costs, health, safety and environmental issues and affect the Company's production activities.

The Company aims to mitigate the risks associated with unplanned production interruptions through various processes, including probability analysis and effective risk management. Such risk management includes the identification of potential threat parameters, the identification of defined risk categories and the adoption of measures designed to prevent accidents and emergencies. A risk reduction programme is also currently in the process of being developed.

Risks associated with the implementation of investment projects

The implementation of the Company's investment projects is subject to market, technical, production and operational risks.

Market risks induced by the changes in the price of gold, exchange rates and inflation may affect the implementation of the Polyus Group's projects. Technical, production and operational risks include construction delays, and malfunction due to errors in the design, construction or installation, which may lead to higher costs and affect the Company's results.

To reduce these project risks the Company has developed a procedure for a careful and comprehensive study, selection and analysis of investment projects proposed for implementation. Each project is subject to approval by the Company's Investment Committee, which is constituted by members with expertise in economics, production and law. Control over investment projects is exercised at all the stages of implementation.

Risks connected with acquisition and merger transactions

The Company actively looks for opportunities to invest in the gold mining industry both in Russia and abroad. Such acquisitions and mergers inevitably entail a variety of risks. To reduce the risks connected with any acquisition and merger transaction, the Company conducts a comprehensive analysis of the pending transactions and an assessment of the consequences with due regard for the political, economic, ecological and social factors.

5.3 Financial risks

Inflation and market risks

Increased inflation induced by the current economic climate may have an adverse impact on the Company's financial results. Costs which are subject to inflationary changes are denominated in Russian Rubles and the Kazakhstan Tenge and, in particular, include materials and utilities, wages and services. Furthermore, increasing tariff rates of the natural monopolies may result in increased costs.

In order to reduce the impact of increasing tariff rates, the Company seeks to develop and modernize its own energy-generating facilities and to purchase and consume energy resources based on long – term fixed-price contracts. Prospective inflationary changes are also considered as a part of the analysis when planning budget and costs of implementing investment projects.

The Company's income is sourced from gold sales, which are generally effected at spot prices. Gold prices are quoted in international markets in US dollars. Accordingly, the economic results of the Company depend, to a considerable extent, on the fluctuations in gold prices. The gold market is cyclical and sensitive to any economic changes. The price of gold is subject to substantial fluctuations and are affected by a number of factors which are beyond control of the Company. A substantial continued price reduction may result in a reduction in profitability of gold exploration and extraction activities. In the current economic climate, gold is used to hedge potential losses in

currency and capital markets. Therefore currently the level of demand for gold remains stable and maintains high price levels.

Liquidity Risk

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

5.4 Regulatory risks

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

The ability of the Company to carry out its activities depends on its licenses, in particular those licenses relating to the use of mineral resources, and on being able to obtain new licenses and complying with their terms. The terms of the license agreements require the Company to comply with a number of industrial standards, employ qualified personnel, ensure that the necessary equipment and operation quality control systems are available, maintain relevant documentation and provide information to the licensing authorities when requested. Failure to comply with such terms may result in the termination of the licenses critical to the operations of the Company or confer obligations on the Company, which may decrease its profitability.

The Company is focused on improving the system control over compliance with license agreements and industrial standards requirements. These control activities include the analysis and response to comments or reports made by state regulatory and supervisory authorities in connection with inspections of the Polyus Group's business activities.

Tax Risks

The Company pays a significant amount of taxes in the regions where it operates. The tax obligations of the Company can result in uncertainties due to the ambiguity of certain tax legislation. The risks include: ambiguous interpretation of law, inconsistent application of legislation, amendments to tax legislation or change in application. Such risks may result in fines, penalties and other sanctions. One of tasks of managing the risks of the Company is to promptly identify, assess and eliminate the risks.

Changes of Environmental Legislation

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

The Company seeks to comply with its environmental obligations and follows the requirements of Russian and international standards, agreements, conventions and protocols applicable to it. The task of enhancing efficiency of Company performance is intended, among other things, to reduce emissions of hazardous substances and develop waste disposal sites. The changes in environmental legislation and introduction of stricter licensing requirements may result in additional expenditures to modify industrial process and an increase in environmental charges.

6. Key features of internal control and risk management system in relation to the financial reporting process

The Company has internal control and risk management system in place, primarily aimed at insuring fairness and reliability of the Company's financial statements.

Given below are the key elements of the system:

1. Internal financial and economic control act approved by the Board of directors. The following procedures are regulated by the document:

- Activity allocation and delegations of powers on key functions, ensuring best interaction between departments.
- Organization of data collection, processing and transmission, which includes formation of reports and messages containing operational, financial and other kinds of information about the Company's activities, creating efficient data channels and communication tools supporting both vertical and horizontal corporate interactions.
- Communicating to all the Company's employees of their obligations in respect of internal control.
- Choosing appropriate methods of accounting of events, operations and transactions.
- Ensuring that all activities are carried out by authorized people.
- Segregation of key duties between people, including duties relating to approval and confirmation of certain operations, accounting of operations, access to resources, analyses and verification of operations.
- Regular assessments of internal control systems.

2. Audit Committee, responsible for:

- Review of financial statements, review of financial statements audit results, discussions with external auditor and management, before the financial statements and financial statements audit results are submitted to the Board;
- Consideration of significant accounting and auditing issues, such as amendments and changes in the accounting policy, that may affect the financial results of the Company;
- Preparation of auditor's report assessment, which is included into the list of materials for the annual general shareholders meeting (refer to Corporate governance report for more information about Audit Committee).

3. Internal audit Group, one of the key responsibilities of which being monitoring of existing procedures of risk management and internal control in relation to the financial reporting process.

4. Audit commission, responsible for ensuring fairness and reliability of the Company's annual report, balance sheet and income statement prepared in accordance with Russian accounting standards.

While preparing and improving its internal control and risk management systems, the Company relies, among others, on recommendations of Codex of corporate conduct, approved by the Government of the Russian Federation on 28 November 2001.

Accounting policy

The Company's accounting policy is approved by its management and is used to provide fair view of the Company's financial position and results of its financial and operating activities in the process of preparation of audited annual financial statements in accordance with IFRS. The accounting policy is revised annually to adopt new and revised Standards, Interpretations and changes in IFRS and to ensure more reliable and relevant presentation of information about the Company's assets, liabilities and financial results.

External Audit

The Audit Committee manages the relationship with the External Auditor on behalf on the Board. It considers the remuneration and other terms of the engagement of the External Auditor and makes recommendations in connection therewith to the Board. The last competitive audit tender was in 2009 when ZAO "Deloitte and Touche CIS" was appointed by the Board on the recommendation of Audit Committee.

The Audit Committee reviews the integrity, independence and objectivity of the External Audit through the regular meetings with auditors. The External Auditor also certifies its independence to the Audit Committee.

Approximately once every two to three years the management submits proposals from leading auditing companies for consideration of the Audit Committee. The Audit Committee reviews the proposals and makes recommendations to the Board in respect of the choice of the External Auditor and its remuneration.

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

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

7. Corporate governance report

OJSC Polyus Gold is committed to increasing the investment appeal and capitalization and to improving the system of strategic planning. The Company seeks to increase efficiency in solving production tasks and makes methodical effort to develop its system of corporate governance in accordance with the best Russian and international standards.

Improving the system of corporate governance is aimed at ensuring all the statutory rights of the Company's shareholders; effective interaction; harmonization of the interests of majority and minority shareholders; efficient work of management and control bodies; and timely and adequate disclosure of information on the Company's activities.

Information disclosure

OJSC Polyus Gold seeks to increase the level of transparency and maintains its reputation of a reliable partner and investee. Disclosure of authentic information decreases risks for investors and, respectively, has a positive impact on the Company's capitalization.

The scope and quality of the information disclosed by the Company is a key component of corporate governance; the Company discloses, in full and on a regular basis, reliable information on all material aspects, including its financial position, results of activities, ownership structure, lists of affiliates, details of securities, etc.

The information disclosure principles adopted by the Company are specified in the Public and Investor Relations Policy of OJSC Polyus Gold, effective since November 2006.

OJSC Polyus Gold complies with the requirements of regulatory documents in respect of statutory information disclosure, including the Federal Law "On Joint-Stock Companies", recommendations of the Code of Corporate Conduct, requirements of the Federal Financial Markets Service of the Russian Federation, the requirements of the UK Financial Services Authority and the listing requirements of Russian and foreign stock exchanges, including OJSC Russian Trading System Stock Exchange (RTS), CJSC Moscow Interbank Currency Exchange (MICEX), and the London Stock Exchange.

In addition, the Company publishes a corporate social responsibility report, which is prepared in accordance with the Global Reporting Initiative standards.

Board of Directors

The Board of Directors of OJSC Polyus Gold has a wide competence, fixed in its Charter and realized in practice, which ensures proper oversight by the Board of Directors of the corporate management's activities.

The Board of Directors determines the Company's growth strategy; assesses possible risks; and appoints, motivates, and oversees its management. The primary objective of the Board of Directors is to facilitate the growth of the Company's market capitalization, as well as to ensure comprehensive protection of the interests of its majority and minority shareholders alike.

The Board of Directors of OJSC Polyus Gold acts under the Federal Law "On Joint-Stock Companies", the Charter, and the Regulation on the Board of Directors.

In accordance with the Federal Law "On Joint-Stock Companies", the Company's Board of Directors is elected by the General Meeting and comprises nine members. The structure and composition of the Board of Directors of OJSC Polyus Gold fully corresponds with the tasks the Company faces.

Composition of the Board of Directors

The Annual General Meeting of OJSC Polyus Gold, held on 21 May 2010, elected the following Board of Directors:

- Ekaterina Mikhailovna Salnikova;
- Mikhail Dmitrievich Prokhorov;
- Pavel Sergeevich Grachev;
- Evgeny Ivanovich Ivanov;
- The Earl of Clanwilliam;
- Anna Alekseevna Kolonchina;
- Aleksandr Ilyich Mosionzhik;
- Zumurud Khandadashevna Rustamova;
- Maxim Valeriyevich Finskiy.

Four members of the Board were re-elected from 2009, which testifies to the continuity of the main membership and stability in controlling the Company. In addition, A.A. Kolonchina was elected member of the Board of Directors. A.M. Rodionov withdrew from the Board of Directors.

The meeting, held on 3 June 2010, elected M.D. Prokhorov, the President of ONEXIM Group, as Chairman of the Board of Directors of OJSC Polyus Gold. A.I. Mosionzhik was elected Deputy Chairman of the Board of Directors.

On 9 December 2010, the Board of Directors of OJSC Polyus Gold terminated the powers of the Board's Chairman M.D. Prokhorov and elected him General Director of OJSC Polyus Gold; E.M. Salnikova was elected Chairman of the Board of Directors.

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

15 May 2009	21 May 2010
<ul style="list-style-type: none"> • M.D. Prokhorov, Chairman • P.S. Grachev • E.I. Ivanov 	<ul style="list-style-type: none"> • E.M. Salnikova, Chairman • P.S. Grachev • E.I. Ivanov
<ul style="list-style-type: none"> • Lord Patrick D. Gillford • A.I. Mossionzhik • A.M. Rodionov • Z.Kh. Rustamova • E.M. Salnikova • M.V. Finskiy 	<ul style="list-style-type: none"> • The Earl of Clanwilliam¹ • A.I. Mosionzhik • A.A. Kolonchina • Z.Kh. Rustamova • M.D. Prokhorov • M.V. Finskiy

Composition of the Board of Directors of OJSC Polyus Gold

Ekaterina Mikhailovna Salnikova

Chairman of the Board of Directors

Does not own shares in OJSC Polyus Gold

Date of birth: 14 July 1957

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

- 2000 – 2007: Member of the Board of Directors of OJSC Silovye Mashiny.
- 2001 – 2008: Member of the Board of Directors of OJSC MMC Norilsk Nickel.
- 2003 – 2007, December 2008 – present: Member of the Board of Directors of OJSC Open Investments.
- 2004 – 2006: Member of the Board of Directors of OJSC AKB ROSBANK.
- 2004 – 2005: Member of the Board of Directors of CJSC Agro-Industrial Complex Agros.
- 2006 – present: Member of the Board of Directors of OJSC Polyus Gold.
- 2007 – present: Deputy Financial Director of ONEXIM Group Ltd.
- 2008 – present: Member of the Board of Directors of LLC Soglasie Insurance.
- 2008 – present: Member of the Board of Directors of OJSC Kvadra.
- 2008 – present: Member of the Board of Directors of OJSC AKB International Financial Club.
- 2010 – present: Member of the Board of Directors of OJSC RBK-TV Moskva.

Mikhail Dmitrievich Prokhorov

General Director

Does not own shares in OJSC Polyus Gold

Date of birth: 3 May 1965

¹ The new name and title of Lord Patrick Gillford.

Education: Moscow State Finance Institute (State Financial Academy); degree in International Economic Relations, summa cum laude.

- 2001 – 2007: General Director of OJSC MMC Norilsk Nickel.
- 2003 – 2007, June 2008 – December 2008: Member of the Board of Directors of OJSC MMC Norilsk Nickel.
- 2006 – present: Member of the Board of Directors of OJSC Polyus Gold
- 2006 – December 2010: Chairman of the Board of Directors of OJSC Polyus Gold
- 2007 – 2008: Member of the Board of Directors of CJSC KM Invest.
- 2007 – present: President of ONEXIM Group Ltd.
- 2007 – present: Member of the Supervisory Board of Russian Nanotechnology Corporation state-owned corporation.
- 2009 – present: Member of the RF Presidential Commission for the Modernization and Technological Development of the Russian Economy.
- 2009 – present: Member of the Management Bureau of the Russian Union of Industrialists and Entrepreneurs.
- 2009 – present: Member of the Board of Directors of OJSC Sheremetyevo International Airport.
- 2010 – present: Member of the Board of Directors of OJSC AKB International Financial Club.
- 2010 – present: Chairman of the Board of Directors of LLC Soglasie Insurance.
- 2010 – present: General Director of OJSC Polyus Gold.
- 2010 – present: General Director of CJSC Polyus.

According to clause 6.3.3.10 of the Charter of OJSC Polyus Gold, the amount of remuneration and compensations paid to the Company's General Director is determined by the Board of Directors.

Pavel Sergeevich Grachev

Does not own shares in OJSC Polyus Gold

Date of birth: 21 January 1973

Education: University of Trieste (Italy), degree in Law; State University of St Petersburg, degree in Law.

- 2000 – 2006: Director of LLC Pavia & Ansaldo.
- 2006 – 2008: Head of the Legal Department of LLC Nafta Moscow.
- 2006 – 2008: Member of the Board of Directors of OJSC Polymetal.
- 2008 – present: Managing Director of the Moscow Representative Office of Nafta Moscow (Cyprus) Limited (the Republic of Cyprus).
- 2009 – present: Member of the Board of Directors of OJSC Polyus Gold
- 2010 – present: Chairman of the Board of Directors of OJSC Gruppa Kompanii PIK.
- 2010 – present: President, General Director, and Chairman of the Management Board of OJSC Uralkali.

Evgeny Ivanovich Ivanov

Does not own shares in OJSC Polyus Gold

Date of birth: 29 September 1966

Education: Moscow State Finance Institute (State Financial Academy); degree in International Economic Relations.

- 2003 – 2007: Member of the Board of Directors of OJSC AKB ROSBANK.
- 2004 – 2007, February 2008 – October 2008: President of CJSC Polyus.
- December 2007 – February 2008, October 2008 – December 2010: General Director of CJSC Polyus.
- 2004 – present: Member of the Board of Directors of CJSC Polyus.
- 2005 – 2007, 2008 – present day: Member of the Board of Directors of OJSC RiM.
- 2005 – present: Chairman of the Board of Directors of OJSC Lenzoloto.
- 2005 – 2007: Member of the Board of Directors of OJSC Aldanzoloto GRK.
- 2005 – 2007: Member of the Board of Directors of OJSC SVMC.
- 2005 – 2008: Chairman of the Board of Directors of OJSC YaGK.
- 2005 – 2008: Deputy Chairman of the Board of Directors of ROSBANK (Switzerland) S.A.

- 2006 – present: Chairman of the Board of Directors of CJSC ZDK Lenzoloto.
- 2006 – May 2007, October 2007 – 2010: Director General of OJSC Polyus Gold.
- 2006 – present: Member of the Board of Directors of OJSC Polyus Gold.
- 2007 – 2009: General Director and Member of the Board of Directors of OJSC Polyus Exploration.
- 2008 – present: Member of the Board of Directors of OJSC Eastern Yakutia Development Corporation.
- 2008 – present: Chairman of the Board of Directors of LLC LZRK.
- 2009 – present: Chairman of the Board of Directors and Chief Executive Officer of KazakhGold Group Ltd.
- 2010 – present: Chairman of the Board of Directors of OJSC RiM.

The Earl of Clanwilliam

Does not own shares in OJSC Polyus Gold

Date of birth: 28 December 1960

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

- 2000 – 2004 – Non-Executive Chairman of the Board of Directors of Cleveland Bridge UK Ltd.
- 2005 – present: Director of the Ukrainian British City Club.
- 2006 – present: Member of the Board of Directors of OJSC Polyus Gold.
- 2007 – present: Chairman of the Board of Eurasia Drilling Company.

Anna Alekseevna Kolonchina

Does not own shares in OJSC Polyus Gold

Date of birth: 16 February 1972

Education: Finance Academy under the Russian Government, degree in accounting and audit.

- 2001 – 2008: Director of Deutsche Bank AG, London.
- 2008: Managing Director of Wainbridge Limited.
- 2008 – 2010: Vice President for Economics and Finance of OJSC Gruppya Kompanii PIK.
- 2010 – present: Managing Director of Representative Office of NAFTA MOSKVA (CYPRUS) LIMITED (Republic of Cyprus), Moscow.
- 2010 – present: Member of the Board of Directors of OJSC Polyus Gold.
- 2010 – present: Member of the Board of Directors of OJSC Uralkali.
- 2010 – present: Member of the Board of Directors of OJSC AKB International Financial Club.

Aleksandr Ilyich Mosionzhik

Does not own shares in OJSC Polyus Gold

Date of birth: 14 November 1961

Education: Tula Polytechnic Institute of Engineering and Mathematics, Ph.D. in Engineering.

- 2001 – 2006: General Director of LLC Nafta Moscow.
- 2005 – 2008: Chairman of the Board of Directors of OJSC Polimetall.
- 2006 – present: Chairman of the Board of Directors of LLC Nafta Moscow.
- 2009 – present: Member of the Board of Directors of OJSC Gruppya Kompanii PIK.
- 2009 – present: Member of the Board of Directors and Deputy Chairman of the Board of Directors of OJSC Polyus Gold.
- 2010 – present: Member of the Board of Directors of OJSC AKB International Financial Club.
- 2010 – present: Deputy Chairman of the Board of Directors of OJSC Uralkali.

Zumrud Khandadashevna Rustamova

Does not own shares in OJSC Polyus Gold

Date of birth: 21 September 1970

Education: Moscow Economics and Statistics Institute, graduated as Economist.

- 2004 – 2006: Deputy General Director and Vice-President of CJSC SUEK.

- 2006: Deputy Chairman of the Board and Member of the Board of OJSC Russian Bank for Development.
- 2006 – 2008: Director for Corporate Development (part-time) of LLC Nafta Moscow.
- 2006 – present: Deputy Director General (part-time) of OJSC Polymetal.
- 2006 – present: Member of the Board of Directors of OJSC Magnitogorsk Iron and Steel Works.
- 2008 – 2009: Managing Director (part-time) of Representative Office of NAFTA MOSKVA (CYPRUS) LIMITED (Republic of Cyprus), Moscow.
- 2008 – present: Member of the Board of Directors of OJSC Sheremetyevo International Airport.
- 2009 – present: Deputy General Director of OJSC Polymetal Management Company.
- 2009 – present: Member of the Board of Directors of OJSC Khanty-Mansiysk Bank.
- 2009 – present: Member of the Board of Directors of OJSC Polyus Gold.

Maxim Valeriyevich Finsky

Does not own shares in OJSC Polyus Gold

Date of birth: 25 March 1966

Education: Moscow Finance Institute, Ph.D. in law; St Petersburg University of the Ministry of Internal Affairs of Russia.

- 2001 – 2008: Deputy General Director and Deputy Chairman of the Board of OJSC MMC Norilsk Nickel.
- 2008 – 2010: General Director of LLC Intergeo Management Company.
- 2009 – present: Member of the Board of Directors of OJSC Polyus Gold.
- 2010 – present: President of LLC Intergeo Management Company.

Independent members of the Board of Directors

International practices suggest that independent directors are a key factor in corporate governance. The potential and advantages of independent directors are successfully used to strengthen investor confidence, increase the value of business and raise capital. The presence of independent directors is an important indicator of the investment appeal of companies.

The Board of Directors of OJSC Polyus Gold has included independent directors since the company was founded. To ascertain the independence of members of the Board of Directors, the Company uses criteria based on the recommendations of the Code of Corporate Conduct, statutes, guidelines of the RF Service for Federal Financial Markets and provisions set forth in the Charter of OJSC Polyus Gold.

The independent directors on the Board of Directors of OJSC Polyus Gold are expected to improve the performance of the body and facilitate the creation of optimal conditions for formulating the Board's impartial and balanced position on matters under discussion. The independent directors facilitate greater efficiency with regard to the performance of the Board of the Directors, which has a positive impact on the Company's overall performance.

During 2010, recognized as independents on the Company's Board of Directors were Ms Z.Kh. Rustamova and the Earl of Clanwilliam.

Remuneration of members of the Board of Directors

In 2010, the members of the Board of Directors of OJSC Polyus Gold Z.Kh. Rustamova and the Earl of Clanwilliam were paid compensation in the amount of RUB 939,500 per quarter each and were reimbursed for documented expenses related to their performance of the functions of a member of the OJSC Polyus Gold Board of Directors in an amount of up to RUB 2,000,000 each, exclusive of taxes.

In addition, in connection with the election of the independent director Earl of Clanwilliam Chairman of the Audit Committee of the Board of Directors of OJSC Polyus Gold and the election of independent director Ms. Z.Kh. Rustamova Chairman of the OJSC Polyus Gold Personnel and Remuneration Committee, they were paid additional compensations in an amount of RUB 468,750.

The amount payable over the period from 20 May 2010, through the end of the reporting period, was approved by the Annual General Meeting of the OJSC Polyus Gold Shareholders on 15 May 2009.

The amount payable over the period from 1 January 2010, through 5 May 2010, was approved by the Annual General Meeting of the OJSC Polyus Gold Shareholders on 21 May 2010.

The other members of the Board of Directors were paid no compensation in 2010.

Activities of the Board of Directors in 2010

In 2010, 11 meetings of the OJSC Polyus Gold Board of Directors were held, of which 9 meetings were held by personal attendance.

The meetings of the Board of Directors reviewed both the operating results of OJSC Polyus Gold for the previous period and strategically important aspects of the Company's development such as:

- Approval of the Company's business plan and budget for 2010;
- Review of the Company's operating results;
- The Company's program of geological exploration;
- New scenarios for the analysis of the Company's investment projects;
- The Company's international projects;
- Implementation of the project for the development of the Natalka deposit;
- Audit results on the Company's consolidated financial statements prepared in accordance with IFRS (for 2009 and the first six months of 2010);
- Approval of related party transactions.

Committees of the Board of Directors of OJSC Polyus Gold

In order to enable a preliminary review of such of the most complex matters requiring professional, in-depth analysis as may be placed under the jurisdiction of the Board of Directors, OJSC Polyus Gold has three specialist Committee operating under the Company's Board of Directors:

- Audit Committee of the OJSC Polyus Gold Board of Directors;
- Strategy Committee of the OJSC Polyus Gold Board of Directors;
- Personnel and Remuneration Committee of the OJSC Polyus Gold Board of Directors.

The Committees' activities are regulated by the relevant Bye-Laws approved by the Board of Directors.

Audit Committee of the Board of Directors

The central task of the Audit Committee is to assist the Board of Directors in exercising oversight of the Company's business activities by preliminary review and development of recommendations for the Board of Directors on matters of the Company's relationship with external auditors, review of financial statements, as well as assessment of the efficiency of the Company's internal controls.

The Committee ensures that the members of the Board of Directors participate in the control process, and also helps to keep them informed regarding the Company's performance.

The Audit Committee of the Board of Directors had 5 meetings in 2010 (4 meetings were held by personal attendance and 1 by correspondence). There were reviewed matters that involved developing recommendations for the Board of Directors concerning the fullness and accuracy of the data included in the financial statements and the annual report of the Company, and the matter of assessing the auditors' report of an independent audit company, OOO Rosexpertiza, for 2009, as well as the nomination of an auditor for the Company's financial statements for 2010.

The Audit Committee of the Board of Directors controlled auditing the Company's consolidated financial statements in accordance with IFRS by organizing regular meetings with the Company's auditor CJSC Deloitte Touche CIS.

According to the results of the year, the members of the Committee appreciated the effectiveness of the Committee's work and its close cooperation with the Company's auditor for receiving maximally objective information about the Company's activities and prospects of its development.

The Committee active until 21 May 2010

Lord Patrick Gillford, Chairman of the Committee, independent director;
Mr. A.M. Rodionov
Ms. E.M. Salnikova

The Committee elected on 3 June 2010 (Minutes of the meeting of the Company' Board of Directors No. 06-10/SD)

Earl of Clanwilliam, Chair of the Committee, independent director.
Ms. A.A. Kolonchina
Ms. E.M. Salnikova

Personnel and Remuneration Committee of the Board of Directors

The Personnel and Remuneration Committee is responsible for comprehensive review of matters of recruiting personnel for employment at the governing bodies of OJSC Polyus Gold, for the development of essential conditions of contracts with them and of recommendations for the OJSC Polyus Gold Board of Directors and General director, as well as for the implementation of the resolutions passed by the OJSC Polyus Gold Board of Directors on matters within the Committee's jurisdiction.

In 2010, the Personnel and Remuneration Committee held 1 meeting that discussed problems of monetary incentive of the Company's employees according to the results of 2009.

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

Ms Z.Kh. Rustamova, Chair of the Committee, independent director.
Mr P.S. Grachov
Ms E.M. Salnikova

Strategy Committee of the Board of Directors

The Strategy Committee is responsible for reviewing, analyzing and developing recommendations for the OJSC Polyus Gold Board of Directors on the adoption and subsequent implementation of strategic decisions in respect of the development of OJSC Polyus Gold.

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

Mr M.D. Prokhorov, Chair of the Committee.
Mr E.I. Ivanov
Mr. A.I. Mosionzhik

The Strategy Committee of the Board of Directors held one meeting in 2010. It considered the issue "On the Strategy of the Development of JSC KazakhAltyn MMC."

Corporate secretary

The main task of the Secretary of OJSC Polyus Gold is to ensure that the Company's management bodies comply with legal requirements and the Company's internal regulatory documents, in order to guarantee that its shareholders' rights are observed and their interests pursued.

The regulatory framework for the performance by the Secretary of OJSC Polyus Gold of his or her functions is provided, apart from the Charter, by the Regulation on the Secretary of OJSC Polyus Gold, as approved by the Board of Directors in March 2006.

In 2010, the office of the Secretary of OJSC Polyus Gold and the Secretary of the Board of Directors was assigned to Ms. Anna Olegovna Solotova.