Polyus Gold

Consolidated financial statements
for the year ended 31 December 2009

POLYUS GOLD

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as of 31 December 2009, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards in the jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2009 were approved on 29 April 2010 by:

Ivanov E.I.	**Ignatov O.V.**
General Director	Deputy General Director

Moscow, Russia
29 April 2010

INDEPENDENT AUDITORS' REPORT

To shareholders of Open Joint Stock Company "Polyus Gold":

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Polyus Gold" and its subsidiaries (hereinafter refer to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statements of income, comprehensive income, cash flows, changes in equity for for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moscow, Russia
29 April 2010

POLYUS GOLD

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER
(in thousands of US Dollars)

	Notes	2009	2008
Gold sales	6	1,199,088	1,062,331
Other sales		26,136	24,987
Total revenue		**1,225,224**	**1,087,318**
Cost of gold sales	7	(575,122)	(558,118)
Cost of other sales		(25,541)	(25,061)
Gross profit		**624,561**	**504,139**
Selling, general and administrative expenses	8	(155,012)	(134,960)
Research expenses		(1,265)	(4,959)
Other expenses, net	9	(32,955)	(17,056)
Finance costs	10	(18,870)	(4,417)
Income/(loss) from investments	11	14,197	(217,591)
Foreign exchange gain/(loss), net		1,364	(2,685)
Profit before income tax		**432,020**	**122,471**
Income tax	12	(108,837)	(62,110)
Profit for the year		**323,183**	**60,361**
Attributable to:			
Shareholders of the parent company		321,604	51,507
Non-controlling interest		1,579	8,854
		323,183	**60,361**
Earnings per share			
Weighted average number of ordinary shares in issue during the year		178,803,493	178,138,065
Basic and diluted (US cents)		180	29

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER
(in thousands of US Dollars)

	2009	2008
Profit for the year	**323,183**	**60,361**
Other comprehensive income/(loss)		
Increase/(decrease) in fair value of available-for-sale investments	18,201	(8,549)
Realised gain on disposal of available-for-sale investments (net of tax in the amount of USD nil (2008: USD 7,200 thousand)	(696)	(28,358)
Exchange difference on translation of foreign operations	36,219	214,920
Effect of translation to presentation currency	(81,233)	(691,274)
Other comprehensive loss for the year	**(27,509)**	**(513,261)**
Total comprehensive income/(loss) for the year	**295,674**	**(452,900)**
Attributable to:		
Shareholders of the parent company	294,160	(454,226)
Non-controlling interest	1,514	1,326
	295,674	**(452,900)**

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

POLYUS GOLD

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER
(in thousands of US Dollars)

	Notes	2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	13	2,299,071	1,772,319
Goodwill	15	132,906	-
Deferred stripping costs	14	106,088	163,988
Inventories	17	40,732	39,063
Investments in securities and other financial assets	16	114,792	4,095
Long-term portion of reimbursable value added tax		5,899	9,188
Other non-current assets		-	2,164
		2,699,488	**1,990,817**
Current assets			
Inventories	17	415,238	233,001
Reimbursable value added tax		103,688	104,872
Trade and other receivables	18	17,810	15,513
Advances paid to suppliers	19	20,773	14,558
Investments in securities and other financial assets	16	312,733	285,236
Income tax prepaid		27,152	17,545
Other current assets	20	20,637	18,494
Cash and cash equivalents	21	173,360	398,826
		1,091,391	**1,088,045**
TOTAL ASSETS		**3,790,879**	**3,078,862**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22	6,871	6,871
Additional paid-in capital		2,081,626	2,116,655
Treasury shares	22	(626,313)	(724,927)
Investments revaluation reserve		17,505	-
Translation reserve		(90,407)	(43,406)
Retained earnings		1,686,818	1,401,540
Equity attributable to shareholders of the parent company		**3,076,100**	**2,756,733**
Non-controlling interest		64,871	37,808
		3,140,971	**2,794,541**
Non-current liabilities			
Borrowings	25	26,394	-
Deferred tax liabilities	12	180,989	148,244
Environmental obligations	23	90,518	34,379
Other non-current liabilities	24	15,526	-
		313,427	**182,623**
Current liabilities			
Borrowings	25	173,437	-
Trade payables	26	24,332	17,918
Other payables and accrued expenses	26	92,480	65,609
Income tax payable		2,609	1,344
Other taxes payable	27	43,623	16,827
		336,481	**101,698**
TOTAL LIABILITIES		**649,908**	**284,321**
TOTAL EQUITY AND LIABILITIES		**3,790,879**	**3,078,862**

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

POLYUS GOLD

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER
(in thousands of US Dollars)

	Notes	2009	2008
Operating activities			
Profit before income tax		**432,020**	**122,471**
Adjustments for:			
Amortisation and depreciation		98,561	86,927
Finance costs		18,870	4,417
Expensed stripping cost		65,847	-
Loss on disposal of property, plant and equipment		3,875	548
Impairment of property, plant and equipment		10,859	1,831
Change in provision for obsolete inventory		3,639	1,489
Change in provision for land restoration		7,379	(8,530)
Change in allowance for reimbursable value added tax		(171)	7,078
(Income)/loss from investments		(14,197)	217,591
Foreign exchange (gain)/loss, net		(1,364)	2,685
Other		1,115	(5,472)
		626,433	**431,035**
Movements in working capital			
Inventories		(176,327)	(101,665)
Trade and other receivables		1,562	(4,734)
Advances paid to suppliers		(5,456)	8,140
Other current assets and reimbursable value added tax		4,772	(49,038)
Trade payables		(8,416)	(3,500)
Other payables and accrued expenses		13,501	5,884
Other taxes payable		(2,342)	(1,034)
Cash flows from operations		**453,727**	**285,088**
Interest paid		(10,795)	(2,434)
Income tax paid		(99,832)	(90,421)
Net cash generated from operating activities		**343,100**	**192,233**
Investing activities			
Acquisition of subsidiaries, net of cash acquired, and increase of ownership in subsidiaries	4	(182,247)	(39,156)
Repayment of consideration on acquisition of subsidiaries		-	(19,616)
Purchase of property, plant and equipment		(302,405)	(481,504)
Deferred stripping costs capitalised		(12,608)	(95,313)
Proceeds from sale of property, plant and equipment		1,270	5,747
Interest received		13,034	43,967
Purchase of promissory notes and other financial assets		(170,811)	(7,390)
Proceeds from sale of promissory notes and other financial assets		137,702	664,151
Net cash (used in)/generated from investing activities		**(516,065)**	**70,886**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER (CONTINUED)
(in thousands of US Dollars)

	Notes	2009	2008
Financing activities			
Repayments of borrowings		(13,760)	(19,034)
Repayments of finance lease obligations		(400)	(1,622)
Proceeds from issuance of Company's shares from treasury shares	22	-	1,334
Dividends paid to shareholders of the Company	22	(40,387)	(22,258)
Dividends paid to shareholders of non-controlling interest		(2,151)	(2,008)
Net cash used in financing activities		**(56,698)**	**(43,588)**
Net (decrease)/increase in cash and cash equivalents		**(229,663)**	**219,531**
Cash and cash equivalents at beginning of the year		**398,826**	**226,174**
Effect of translation to presentation currency on cash and cash equivalents		4,197	(46,879)
Cash and cash equivalents at end of the year	21	**173,360**	**398,826**

Non-cash investing activities in 2009 also included issuance of treasury shares as a consideration for acquisition of KazakhGold in the amount of USD 63,585 thousand (refer to note 4).

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

POLYUS GOLD

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009
(in thousands of US Dollars)

	Notes	Equity attributable to shareholders of the parent company								
	Notes	Share capital	Additional paid-in capital	Treasury shares	Investments revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total
Balance at 31 December 2007		**6,871**	**2,118,165**	**(730,450)**	**36,907**	**425,727**	**1,404,554**	**3,261,774**	**47,187**	**3,308,961**
Profit for the year		-	-	-	-	-	51,507	**51,507**	8,854	**60,361**
Other comprehensive loss (net of tax of USD 7,200 thousand)		-	-	-	(36,907)	(468,826)	-	**(505,733)**	(7,528)	**(513,261)**
Total comprehensive loss		**-**	**-**	**-**	**(36,907)**	**(468,826)**	**51,507**	**(454,226)**	**1,326**	**(452,900)**
Dividends to shareholders of the parent company	22	-	-	-	-	-	(22,258)	**(22,258)**	-	**(22,258)**
Dividends to shareholders of non-controlling interest		-	-	-	-	-	-	**-**	(2,008)	**(2,008)**
Decrease in non-controlling interest due to increase in ownership in subsidiaries	4	-	-	-	-	-	(30,887)	**(30,887)**	(10,073)	**(40,960)**
Increase in non-controlling interest due to change of shareholding structure of subsidiaries	4	-	-	-	-	-	(1,376)	**(1,376)**	1,376	-
Issuance of shares from treasury shares under share option plan	22	-	(1,510)	5,523	-	(307)	-	**3,706**	-	**3,706**
Balance at 31 December 2008		**6,871**	**2,116,655**	**(724,927)**	**-**	**(43,406)**	**1,401,540**	**2,756,733**	**37,808**	**2,794,541**
Profit for the year		-	-	-	-	-	321,604	**321,604**	1,579	**323,183**
Other comprehensive income/(loss)		-	-	-	17,505	(44,949)	-	**(27,444)**	(65)	**(27,509)**
Total comprehensive income		**-**	**-**	**-**	**17,505**	**(44,949)**	**321,604**	**294,160**	**1,514**	**295,674**
Issuance of shares from treasury shares as a part of consideration for acquisition of subsidiaries	22	-	(35,029)	98,614	-	(2,052)	2,052	**63,585**	-	**63,585**
Acquired on acquisition of subsidiary	4	-	-	-	-	-	-	**-**	30,545	**30,545**
Dividends to shareholders of the parent company	22	-	-	-	-	-	(38,378)	**(38,378)**	-	**(38,378)**
Dividends to shareholders of non-controlling interest		-	-	-	-	-	-	**-**	(4,996)	**(4,996)**
Balance at 31 December 2009		**6,871**	**2,081,626**	**(626,313)**	**17,505**	**(90,407)**	**1,686,818**	**3,076,100**	**64,871**	**3,140,971**

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

1. GENERAL

Organisation

Open Joint Stock Company “Polyus Gold” (the “Company” or “Polyus Gold”) was incorporated in Moscow, Russian Federation, on 17 March 2006. The Company was formed as a result of a spin-off from OJSC “Mining and Metallurgical Company Norilsk Nickel” (“Norilsk Nickel”). The principal activities of the Company and its subsidiaries (the “Group”) are the extraction, refining and sale of gold. Mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and the Sakha Republic of the Russian Federation and in the Republic of Kazakhstan. The Group also performs research, exploration and development works, primarily at the Natalka field located in the Magadan region, Nezhdaninskoe field located in the Sakha Republic and in the Republic of Kazakhstan. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in note 32.

Statement of compliance

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

Basis of presentation

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the jurisdictions, in which they are incorporated and registered. The accounting principles and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, such financial statements have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

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

Adoption of new and revised Standards and Interpretations

In the preparation of the consolidated financial statements, the Group has adopted all of the new and revised International Financial Reporting Standards and Interpretations issued by IFRIC that are relevant to its operations and effective for the annual reporting periods reported herein. The principles changes due to implementation were as follows:

IFRS 8 *Operating Segments* (adopted 1 January 2009, revised in April 2009 and early adopted revisions from 1 January 2009)

This standard requires disclosure of financial information about the Group’s operating segments based on the management reporting system and replaces the requirements to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect of the financial position or performance of the Group. Segment information presented in these consolidated financial statements complies with management reporting system, including comparative information for the year ended 31 December 2008. Additional information and disclosure about each of the operating segments are presented in note 5.

IAS 1 *Presentation of Financial Statements* (as revised in 2007 and effective 1 January 2009)

This revised standard separates owner and non-owner changes in the statement of changes in equity. Based on revised standard the statement of changes in equity includes only details of transactions with owner, with non-owner changes in equity presented as a single line item and separately disclosed in the statement of comprehensive income. In addition, the Standard introduces the statement of comprehensive income and introduces new names of some statements. All information presented in these consolidated financial statements was amended, accordingly.

IFRS 3 *Business Combinations* (as revised in 2008 and effective 1 July 2009)

IFRS 3 (2008) has been adopted in the current year in advance of its effective date (business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009). Its adoption has affected the accounting for business combinations in the current period.

In accordance with the relevant transitional period, IFRS 3 (2008) has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2009. The impact of adoption of IFRS 3 (2008) has been to allow a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as "minority interest") either at fair value or at the non-controlling interests' share of the fair value of the identifiable net assets of the acquiree. In the current period, when accounting for the acquisition of KazakhGold Group Limited, the Group has elected to measure the non-controlling interests at non-controlling interest's share of the fair value of the identifiable net assets acquired at the date of acquisition. Adoption of IFRS 3 (2008) required acquisition-related costs being accounted separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted as a part of the cost of the acquisition.

In the current period, these changes have resulted in decrease in profit and other comprehensive income for the year ended 31 December 2009 in the amount of USD 11,911 thousand as a result of inclusion of acquisition-related costs into Selling, General and Administrative expenses. Under previous IFRS 3 the Group would have accounted acquisition-related costs as a part of the cost of acquisition.

IFRS 3 (2008) has also required additional disclosures in respect of the business combinations in the period (refer to note 4).

IFRS 7 *Financial Instruments: Disclosures* (revised and effective 1 January 2009)

This amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments. Additional information and disclosure about fair value are presented in note 30. Liquidity risk disclosure is not significantly impacted by these amendments.

IAS 27 *Consolidated and Separate Financial Statements* (as revised in 2008 and effective 1 July 2009)

IAS 27 (2008) has been adopted in advance of its effective date (annual periods beginning on or after 1 July 2009). The revisions to IAS 27 principally affect the accounting for non-controlling interest. Under the revised standard total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

In the current period, these changes have affected the accounting for non-controlling interest, resulting a decrease of non-controlling interest in the amount of USD 3,492 thousand as a result of allocating losses to the non-controlling interest.

In accordance with relevant transitional period, IAS 27 (2008) has been applied prospectively in respect of the amendment for attributing total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Standards and interpretations adopted with no effect on the financial statements

The revisions and amendments to the following Standards and Interpretations presented below did not have any significant impact on the accounting policies, financial position or performance of the Group:

- IFRS 2 *Share-based Payments*;
- IFRS 7 *Financial Instruments: Disclosures*;
- IAS 7 *Statement of Cash Flows*;
- IAS 16 *Property, Plant and Equipment*;
- IAS 18 *Revenue*;
- IAS 19 *Employee Benefits*;
- IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*;
- IAS 23 *Borrowing Costs*;
- IAS 27 *Consolidated and Separate Financial Statements*;
- IAS 28 *Investments in Associates*;
- IAS 29 *Financial Reporting in Hyperinflationary Economies*;
- IAS 31 *Interests in Joint Ventures*;
- IAS 32 *Financial Instruments: Presentation*;
- IAS 36 *Impairment of Assets*;
- IAS 38 *Intangible Assets*;
- IAS 39 *Financial Instruments: Recognition and Measurement*;
- IAS 40 *Investment Property*;
- IFRIC 15 *Agreements for the Construction of Real Estate*;
- IFRIC 17 *Distribution of Non-Cash Assets to Owners* (adopted in advance of effective date of 1 July 2009);
- IFRIC 18 *Transfers of Assets from Customers* (adopted for transfers of assets from customers received on or after 1 July 2009).

Standards and interpretations in issue but not yet adopted

At the date of approval of the Group's consolidated financial statements, the following new and revised standards and interpretations have been issued, but are not effective for 2009:

Standards and interpretations	**Effective for annual periods beginning on or after**
IAS 1 *Presentation of Financial Statements* (amended)	1 January 2010
IAS 7 *Statement of Cash Flows* (amended)	1 July 2009 and 1 January 2010
IAS 17 *Leases* (amended)	1 January 2010
IAS 21 *The Effects of Changes in Foreign Exchange Rates* (amendments)	1 July 2009
IAS 24 *Related Parties: Disclosures* (amended)	1 January 2011
IAS 28 *Investments in Associates* (revised due to revision of IFRS 3)	1 July 2009
IAS 31 *Investments in Joint Ventures* (revised due to revision of IFRS 3)	1 July 2009
IAS 32 *Financial Instruments: Presentation* (amended)	1 February 2010
IAS 36 *Impairment of Assets* (amended)	1 January 2010
IAS 38 *Intangible Assets* (amended)	1 July 2009
IAS 39 *Financial Instruments: Recognition and Measurement* (amended)	1 July 2009 and 1 January 2010
IFRS 1 *First-time Adoption of International Financial Reporting Standards* (amended)	1 July 2009
IFRS 2 *Share-based Payment* (amended)	1 January 2010
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (amended)	1 January 2010
IFRS 9 *Financial Instruments*	1 January 2013
IFRIC 14 *IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (amended)	1 January 2011
IFRIC 16 *Hedges of a Net Investment in a Foreign Operations*	1 July 2009
IFRIC 17 *Distribution of Non-cash Assets to Owners*	1 July 2009
IFRIC 18 *Transfers of Assets from Customers*	1 July 2009
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

Subsidiaries

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

Non-controlling interest in consolidated subsidiaries is identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in net assets since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit and loss on disposal is calculated as the difference between the aggregate of the fair value of the consideration received and the fair value of any retained interest and the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

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

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i. e. the date the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated income statement, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 *Share-based Payment*; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually, on 1 July. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Functional and presentation currency

The individual financial statements of the Group's subsidiaries are prepared in their functional currency.

The Russian Rouble ("RUB") is the functional currency of the Company and all subsidiaries of the Group, except for the following subsidiaries operating with significant degrees of autonomy:

Subsidiary	**Functional currency**
Jenington International Inc.	US Dollar
Polyus Exploration Limited	US Dollar
Polyus Investments Limited	US Dollar
JSC "MMC Kazakhaltyn" and its subsidiaries	Kazakh Tenge
KazakhGold Group Limited	US Dollar

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

- all assets, liabilities, both monetary and non-monetary are translated at closing exchange rates at each reporting period end date;
- all income and expenses in each income statement are translated at the average exchange rates for the years presented;
- resulting exchange differences are included in equity and presented as *Effect of translation to presentation currency* within *Translation reserve*; and
- in the statement of cash flows, cash balances at beginning and end of each reporting period presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the years presented, except for significant transactions that are translated at rates on the date of transaction. Resulting exchange differences are presented as *Effect of translation to presentation currency*.

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

	2009	2008
Russian Rouble/US Dollar		
31 December	30.24	29.38
Average for the year	31.72	24.86
Kazakh Tenge/US Dollar		
31 December	148.36	n/a
Average for the year	147.50	n/a

Foreign currencies

Transactions in currencies other than the entity's functional currencies (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the consolidated income statement.

Property, plant and equipment

Estimated ore reserves

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

Mineral rights

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

Exploration and evaluation assets

Exploration and evaluation assets represent capitalised expenditures incurred by the Group in connection with the exploration for and evaluation of gold resources, such as:

- acquisition of rights to explore potentially mineralised areas;
- topographical, geological, geochemical and geophysical studies;
- exploratory drilling;
- trenching;
- sampling; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting gold resource.

Exploration and evaluation expenditures are capitalised when it is expected that they will be recouped by future exploitation or sale, and when the exploration and evaluation activities have not reached a stage that permits a reasonable assessment of the existence of commercially recoverable gold reserves. When the technical feasibility and commercial viability of extracting a gold resource are demonstrable, capitalised exploration and evaluation assets are reclassified to mining assets.

Impairment of exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The following facts and circumstances, among other, indicate that exploration and evaluation assets must be tested for impairment:

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

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

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

Mining assets

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

Mining assets are amortised on a straight-line basis over the life of mines of 7 to 23 years, which is based on estimated proven and probable ore reserves. Amortisation is charged from the date on which a new mine reaches commercial production quantities and is included in the cost of production.

Non-mining assets

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

- buildings, structures, plant and equipment 5-50 years;
- transport 3-11 years;
- other assets 3-10 years.

Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Amortisation or depreciation of these assets commences when the assets are placed into commercial production.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the lease finance cost, which is included in interest paid, and the capital repayment, which reduces the related lease obligation to the lessor.

Impairment of tangible assets, other than exploration and evaluation assets

An impairment review of tangible assets is carried out when there is an indication that those assets have suffered an impairment loss. If any such indication exists, the carrying amount of the asset is compared to the estimated recoverable amount of the asset in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value-in-use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognised in the consolidated income statement immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods.

A reversal of an impairment loss is recognised in the consolidated income statement immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Deferred stripping costs

The Group accounts for stripping costs incurred using the average life of mine stripping ratio. The method assumes that stripping costs incurred during the production phase to remove waste ore are deferred and charged to operating costs on the basis of the average life of mine stripping ratio. The average stripping ratio is calculated as the number of cubic meters of waste material removed per ton of ore mined based on proven and probable reserves. The average life of mine ratio is revised annually or when circumstances change in the mine's pit design or in the technical or economic parameters impacting the reserves. Changes to the life of mine ratio are accounted for prospectively as changes in accounting estimates.

Stripping costs incurred in the period are deferred to the extent that the current period stripping ratio exceeds the expected life of mine ratio. Such deferred costs are then charged against profit and loss to the extent that, in subsequent periods, the current ratio falls short of the life of mine ratio.

The cost of excess stripping is capitalised as deferred stripping costs and forms part of the total investment in the relevant cash-generating unit, which is reviewed for impairment if events or a change in circumstances indicate that the carrying value may not be recoverable. Amortisation of deferred stripping costs is included in cost of gold sales.

Deferred expenditures

Certain of the Group's surface (alluvial) mining operations are located in regions with extreme weather conditions, and gold at these locations can only be mined during certain months of the year. Costs incurred in preparation for future seasons, usually during winter months, are deferred until summer of the following year. Such expenditures mainly include excavation costs and mine specific administration costs, and are recognised on the consolidated statement of financial position within other current assets.

Inventories

Refined gold

Gold is measured at the lower of net production cost and net realisable value. The net cost of production per unit of gold is determined by dividing total production cost, by the saleable mine output of gold.

Production costs include consumables and spares, labour, tax on mining, utilities, outsourced mining services, refining costs, sundry costs, amortisation and depreciation of operating assets, adjustments for deferred stripping costs capitalised/expensed, change in provision for land restoration and change in gold-in-process and refined gold.

Gold-in-process and stockpiles

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

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

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

Stores and materials

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

Financial assets

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

The Group's financial assets are classified into the following categories:

- financial assets at fair value through profit or loss ("FVTPL");
- held-to-maturity investments;
- available-for-sale ("AFS") financial assets; and
- loans and receivables.

The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the *Income/(loss) from investments* line item in the consolidated income statement. Fair value is determined in the manner described in note 30.

Held-to-maturity investments

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

Available-for-sale financial assets

Available-for-sale financial assets mainly include investments in listed and unlisted shares.

Listed shares held by the Group that are traded in an active market are stated at fair value. Fair value of AFS is determined as follows:

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

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

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

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

Loans and receivables

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

Impairment of financial assets

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

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

Derecognition of financial assets

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

Effective interest method

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

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

Financial liabilities

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

Derecognition of financial liabilities

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

Finance costs

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

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

All other finance costs are recognised in the consolidated statement of financial position in the period in which they are incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or less, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Employee benefit obligations

Remuneration to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period.

Defined contribution plan

The Group contributes to the respective Pension Funds on behalf of all employees of subsidiaries in Russian Federation and in other jurisdictions where the Group operates. These contributions are recognised in the income statement when employees have rendered services entitling them to the contribution.

Defined benefit plans

In 2009, the Group has introduced defined benefits plans, which are unfunded. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method. The past service costs are recognised as an expense on straight-line basis over the average period until the benefits become vested. The past service costs at the introduction of the plans are being deferred and amortised on a straight-line basis over the expected average remaining working lives of the employees participating in the plans.

Income tax

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

Current tax

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

Deferred tax

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

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

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

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

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

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

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in the consolidated income statement, except when they relate to items that are recognised outside consolidated income statement, in which case the tax is also recognised outside consolidated income statement, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Revenue recognition

Gold sales revenue

Revenue from the sale of refined gold and other gold-bearing products is recognised when the risks and rewards of ownership are transferred to the buyer. Gold sales revenue represents the invoiced value of gold shipped to customers, net of value-added tax. Revenues from sale of by-products are netted off against production costs.

Other revenue

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

Operating leases

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

Dividends

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

Retained earnings legally distributable by the Company are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

Environmental obligations

Environmental obligations include decommissioning and land restoration costs.

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

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

Ongoing restoration costs are expensed when incurred.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

Critical judgements in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Exploration and evaluation assets

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

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgments and estimates of the outcome of future events.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The most significant areas requiring the use of management estimates and assumptions relate to:

- useful economic lives of property, plant and equipment;
- deferred stripping costs;
- impairment of tangible assets;
- calculation of allowances;
- environmental obligations;
- renewal of a license; and
- income taxes.

Useful economic lives of property, plant and equipment

The Group's mining assets, classified within property, plant and equipment, are amortised using the straight-line method over life of mine based on proven and probable ore reserves. When determining life of mine, assumptions that were valid at the time of estimation, may change when new information becomes available.

The factors that could affect estimation of life of mine include the following:

- change of estimates of proven and probable ore reserves;
- the grade of mineral reserves varying significantly from time to time;
- differences between actual commodity prices and commodity price assumptions used in the estimation of ore reserves;
- unforeseen operational issues at mine sites; and
- changes in capital, operating mining, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of ore reserves.

Any of these changes could affect prospective amortisation of mining assets and their carrying value.

Non-mining property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management periodically reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Deferred stripping costs

The Group defers stripping costs incurred during the production stage of its open-pit operations, on the basis of the average life of mine stripping ratio.

The factors that could affect capitalisation and expensing of stripping costs include the following:

- change of estimates of proven and probable ore reserves;
- changes in mining plans in the light of additional knowledge and change in mine's pit design, technical or economic parameters; and
- changes in estimated ratio of the number of cubic meters of waste material removed per ton of ore mined.

Impairment of tangible assets

The Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value-in-use calculation. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Allowances

The Group creates allowances for doubtful debts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in the consolidated financial statements.

Environmental obligations

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

Renewal of a license

The Group's geological research license for Kyutchus field expired on 31 October 2009. Management is in the process of applying for renewal and has assessed the probability of the renewal of the license as high. The consolidated financial statements are prepared based on management's expectation that either the term of this license will be renewed, or the Group will obtain an exploration and production license for the same area. Management's estimate is based on competitive advantage of the Group and historical experience of renewal of the licence. If the license is not renewed the Group will have to write off costs incurred in connection with this project with a carrying amount of USD 23,833 thousand as at 31 December 2009.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

(in thousands of US Dollars)

4. BUSINESS COMBINATIONS

Acquisition of controlling interest in subsidiaries in 2009

On 30 July 2009, the Group has acquired 50.2% of the outstanding share capital of KazakhGold Group Limited, a gold-mining company with primary operations in the Republic of Kazakhstan.

The Group made an offer to acquire 50.1% of outstanding share capital of KazakhGold (the "Partial Offer"). According to terms of the Partial Offer the Group offered 0.423 Polyus Gold shares ("Consideration Shares") in exchange for each KazakhGold share. On 30 July 2009, the Partial Offer had become unconditional as to required number of acceptances and on 14 August 2009 announced that it had become unconditional in all respects. The market capitalisation of KazakhGold on 14 August 2009 ("Closing Date"), which represents the date on which approximately 96% of the KazakhGold shareholders had accepted the Partial Offer, was estimated at USD 439 million based on the issued and outstanding share capital of KazakhGold Group Limited at the Closing Date, and the closing price of Polyus Gold ADR's at that date.

According to the Partial Offer terms, 84.86% of Consideration Shares were repurchased immediately by the Group for cash at a price of USD 20 per each Consideration Share. The fair value of the remaining outstanding Consideration Shares (1,700,240 shares) was USD 63,585 thousand based on market quotations of Polyus Gold's shares on MICEX at the date of acquisition.

In addition to the share purchase, the Group has acquired from a significant shareholder of KazakhGold call options to acquire rights and obligations under convertible loan agreements. Under the convertible loan agreements the lender may convert the principal amounts of 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 for the convertible loans was estimated as USD 89,872 thousand at the date of entering into the call option. The value of the option has been recorded as a reduction to the consideration transferred for acquisition of KazakhGold.

Cash consideration for repurchased shares	190,615
Transfer of Company's treasury shares at fair value at the date of acquisition	63,585
Less: Consideration allocated to acquisition of call options for convertible loans	(89,872)
Total consideration transferred for the acquisition of KazakhGold	**164,328**

Acquisition-related costs amounting to USD 11,911 thousand have been recognised as an expense in the period, within the *Selling, General and Administrative expenses*.

(in thousands of US Dollars)

Assets acquired and liabilities assumed at the date of acquisition

	Provisional values at the date of acquisition
ASSETS	
Property, plant and equipment	344,034
Inventories	14,419
Trade and other receivables	6,887
Cash and cash equivalents	8,368
Other assets	3,784
LIABILITIES	
Borrowings	207,147
Deferred tax liabilities	21,092
Trade payables	11,148
Other payables and accrued expenses	17,135
Other taxes payable	32,814
Other liabilities	25,654
Identifiable net assets at the date of acquisition	**62,502**

The initial accounting for the acquisition of KazakhGold has been provisionally determined at the end of the reporting period. The necessary fair values and other calculations have not been finalised and therefore were provisionally accounted based on management's best estimate.

The receivables acquired (which principally comprised other receivables) in these transactions with a provisional value of USD 6,887 thousand had gross contractual amounts of USD 16,595 thousand. The best estimate at acquisition date of the contractual cash flows not expected to be collected are USD 9,708 thousand.

Non-controlling interest

The non-controlling interests (49.8%) in KazakhGold recognised at the acquisition date was measured at the non-controlling interests proportionate share of the provisional value of the KazakhGold's identifiable net assets and amounted to USD 30,545 thousand.

Goodwill arising on acquisition

Consideration transferred	164,328
Plus: Non-controlling interest	30,545
Less: Provisional value of identifiable net assets acquired	(62,502)
Goodwill arising on acquisition	**132,371**

The Group also acquired the customer lists and customer relationships of KazakhGold as part of the acquisition. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

(in thousands of US Dollars)

Net cash outflow on acquisition

Consideration paid in cash	190,615
Less: Cash and cash equivalents acquired	(8,368)
Net cash outflow on acquisition	**182,247**

Impact of acquisition on the results of the Group

KazakhGold contributed USD 26,918 thousand of revenue and USD 31,865 thousand of loss after tax from the date of acquisition to 31 December 2009.

Had these business combinations been effected at 1 January 2009, the revenue of the Group would have been USD 1,229,462 million, and the profit for the year would have been USD 200,231 thousand. The directors of the Group consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Increase of ownership in subsidiaries in 2008

OJSC "Matrosov Mine"

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

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

OJSC "Aldanzoloto GRK"

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

CJSC "ZDK Lenzoloto"

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

5. SEGMENT INFORMATION

For management purposes the Group is organised by separate business segments identified by a combination of operating activities and geographical area basis with separate financial information available and reported regularly to the chief operating decision maker ("CODM"), identified as the Budget Committee. The following is a description of the Group's seven identified reportable segments:

- Krasnoyarsk business unit – located in Krasnoyarsk region of Russian Federation and includes extraction, refining and sales of gold from Olimpiada mine, as well as research, exploration and development works at Blagodatnoe, Titimukhta, Kvartsevaya Gora, Kuzeevskoe and Olimpiada deposits;
- Kazakhstan business unit– located in Republic of Kazakhstan, Kyrgyzstan and Romania and includes extraction, refining and sales of gold from Aksu, Bestobe, Zholymbet mines, as well as exploration and evaluation works in Southern Karaultube, Akzhal, Kaskabulakskoe deposits;
- Irkutsk alluvial business unit – located in Irkutsk region (Bodaibo district) of Russian Federation and includes extraction, refining and sales of gold from several alluvial deposits;
- Irkutsk ore business unit – located in Irkutsk region (Bodaibo district) of Russian Federation and includes extraction, refining and sales of gold from Zapadnoe mine, as well as research, exploration and development works at Chertovo Koryto, Pervenetc, Verninskoe, Zapadnoe, Medvezhiy Ruchei and Mukodek deposits. Irkutsk ore business unit also includes electricity and utilities production and sales in Bodaibo district of Irkutsk region;
- Yakutsk Kuranakh business unit – located in Sakha Republic of Russian Federation and includes extraction, refining and sales of gold from Kuranakh ore field;
- Exploration business unit comprising of Yakutsk (Nezhdaninskoe) and Polyus Exploration (PEL) business units – represents two operating segments combined into single reportable segment in accordance with aggregation criteria. Yakutsk (Nezhdaninskoe) business unit is located in Sakha Republic of Russian Federation and includes research and exploration works at Nezhdaninskoe deposit; PEL business unit represents research and exploration works in several regions of Russian Federation (Krasnoyarsk region, Irkutsk region, Amur region, and other);
- Magadan business unit – located in Magadan region of Russian Federation and represented by OJSC "Matrosov Mine" which performs development works at Natalka deposit.

The reportable segments derive their revenue primarily from gold sales and substantial costs incurred are cost of gold sold for the period. CODM performs analysis of operating results based on these business units separately and evaluates reporting segments results based on profit before income tax. For the purposes of this analysis, the CODM does not consider finance costs, other sales, cost of other sales and income from investments. Business segment assets or liabilities are not reviewed by the CODM and therefore are not disclosed in these consolidated financial statements. Segment financial information provided to CODM is prepared based on Russian or Kazakhstan accounting standards, respectively.

The Group chose not to allocate segment results of companies that perform management, investing activities and certain other functions.

(in thousands of US Dollars)

	Gold sales	Statutory profit before income tax	Capital expenditures	Statutory depreciation and amortisation
2009				
Krasnoyarsk business unit	833,466	421,517	229,506	39,189
Irkutsk alluvial business unit	185,237	33,999	9,888	7,304
Yakutsk Kuranakh business unit	129,657	9,751	7,540	5,639
Kazakhstan business unit	26,918	(32,890)	6,624	9,515
Irkutsk ore business unit	23,678	(1,016)	22,261	5,296
Exploration business unit	132	(19,440)	19,399	257
Magadan business unit	-	(11,940)	29,922	204
Segment result	**1,199,088**	**399,981**	**325,140**	**67,404**
2008				
Krasnoyarsk business unit	761,318	430,770	203,787	39,779
Irkutsk alluvial business unit	154,907	28,834	16,263	7,192
Yakutsk Kuranakh business unit	124,640	11,812	34,633	5,818
Irkutsk ore business unit	21,466	(6,983)	42,781	6,947
Exploration business unit	-	(42,733)	69,121	231
Magadan business unit	-	(14,070)	28,421	-
Segment result	**1,062,331**	**407,630**	**395,006**	**59,967**

Gold sales reported above represents revenue generated from external customers. There were no inter-segment gold sales during 2009 year (2008: nil).

Reconciliation of segment result to IFRS profit before income tax

	2009	2008
Segment result	**399,981**	**407,630**
Differences between IFRS and management accounts:		
Capitalised exploration works	8,474	9,466
Provisions and accruals	(47,138)	25,691
Additional depreciation charge and amortisation of mineral rights	(33,521)	(44,135)
Revaluation of gold-in-process at net production cost	16,265	5,502
Difference in stripping costs capitalisation	(20,646)	(2,278)
Other	3,905	3,776
Unallocated	104,700	(283,181)
Profit before income tax	**432,020**	**122,471**
Segment capital expenditures	**325,140**	**395,006**
Differences between IFRS and management accounts:		
Differences in the moment of recognition of capital expenditures	(7,333)	39,201
Reclassification of advances paid for property, plant and equipment and construction works	(17,854)	10,764
Reclassification of materials related to construction works	21,277	30,647
Differences in capitalised exploration and evaluation costs	12,482	28,242
Other	(9,546)	1,088
Unallocated	-	776
Capital expenditures	**324,166**	**505,724**

(in thousands of US Dollars)

	2009	2008
Segment depreciation and amortisation	**67,404**	**59,967**
Additional depreciation charge	21,248	28,608
Amortisation of mineral rights	12,412	15,842
Depreciation and amortisation	**101,064**	**104,417**

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

	2009	2008
Russian Federation	2,103,062	1,986,722
Republic of Kazakhstan	432,584	-
Kyrgyzstan	35,815	-
Romania	13,108	-
United Kingdom	127	-
Total	**2,584,696**	**1,986,722**

6. GOLD SALES

	2009	2008
Refined gold	1,172,170	1,062,331
Other gold-bearing products	26,918	-
Total	**1,199,088**	**1,062,331**

7. COST OF GOLD SALES

	2009	2008
Cash operating costs	573,870	587,332
Consumables and spares	248,143	239,522
Labour	175,080	207,403
Tax on mining	90,080	72,588
Utilities	25,386	26,646
Outsourced mining services	8,258	15,105
Refining costs	4,332	5,383
Sundry costs	22,591	20,685
Amortisation and depreciation of operating assets	95,023	98,999
Deferred stripping costs expensed/(capitalised)	50,736	(112,804)
Change in provision for land restoration	7,379	(8,530)
Increase in gold-in-process and refined gold	(151,886)	(6,879)
Total	**575,122**	**558,118**

(in thousands of US Dollars)

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2009	2008
Salaries	76,918	73,742
Administrative overheads	36,476	25,797
Professional services	21,738	13,321
Taxes other than mining and income taxes	16,105	18,318
Depreciation	3,775	3,782
Total	**155,012**	**134,960**

9. OTHER EXPENSES, NET

	2009	2008
Impairment of property, plant and equipment	10,859	1,831
Donations	6,932	7,135
Loss on disposal of property, plant and equipment	3,875	548
Change in allowance for obsolescence of inventory	3,639	1,489
Change in allowance for reimbursable value added tax	(171)	7,078
Other	7,821	(1,025)
Total	**32,955**	**17,056**

10. FINANCE COSTS

	2009	2008
Interest on borrowings	14,430	88
Unwinding of discounts	4,440	4,329
Total	**18,870**	**4,417**

11. INCOME/(LOSS) FROM INVESTMENTS

	2009	2008
Income/(loss) from financial assets at fair value through profit and loss		
Income on derivatives classified as held for trading	20,039	-
Income/(loss) from investments in listed companies held for trading	13,702	(178,377)
Income/(loss) from available-for-sale investments		
Gain on disposal of available-for-sale investments	696	13,770
Impairment of available-for-sale investments	-	(100,090)
(Loss)/income from held-to-maturity investments		
Loss on disposal of promissory notes	(34,928)	-
Interest income on promissory notes	-	5,493
Income from loans given		
Interest income on bank deposits	14,688	31,646
Interest income on loans under repurchase agreements	-	9,967
Total	**14,197**	**(217,591)**

(in thousands of US Dollars)

12. INCOME TAX

	2009	2008
Current tax expense	93,901	85,003
Deferred tax expense/(benefit)	14,936	(22,893)
Total	**108,837**	**62,110**

The corporate income tax rates in the countries where the Group has a taxable presence vary from 0% to 28%.

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

	2009	2008
Profit before income tax	**432,020**	**122,471**
Income tax at statutory rate	86,404	29,393
Tax effect of non-deductible expenses and other permanent differences	7,070	7,396
Effect of different tax rates of subsidiaries operating in other jurisdictions	5,042	21,089
Taxable losses of subsidiaries not recognised/(benefit arising from a previously unrecognised taxable losses of subsidiaries)	10,321	(8,929)
Deferred tax asset not recognised on loss from investments	-	42,810
Effect on deferred tax balances due to change in statutory income tax rate from 24% to 20% (effective from 1 January 2009)	-	(29,649)
Income tax at effective rate of 25% (2008: 51%)	**108,837**	**62,110**

The tax rate used for the 2009 reconciliations above is the income tax rate of 20% (2008: 24%) payable by the Company in Russian Federation on taxable profits under tax law.

At 31 December 2009, the Group has not recognised deferred tax asset in the amount of USD 10,321 thousand in respect of tax losses carried forward that are available for offset against future taxable profit of the Group. The tax loss carried forward expire in periods up to ten years due to unpredictability of future profit streams.

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

	2009	2008
Net liability at beginning of the year	**148,244**	**200,609**
Recognised in the income statement	14,936	6,756
Acquired on acquisition of subsidiaries (refer to note 4)	21,092	-
Revaluation of available-for-sale investments	-	7,200
Recycled from equity on disposal of investments classified as available-for-sale	-	(7,200)
Effect on deferred tax balances due to change in statutory income tax rate from 24% to 20% (effective from 1 January 2009)	-	(29,649)
Effect of translation to presentation currency	(3,283)	(29,472)
Net liability at end of the year	**180,989**	**148,244**

(in thousands of US Dollars)

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The tax effects of temporary differences that give rise to deferred taxation are presented below:

	2009	**2008**
Property, plant and equipment	148,333	132,083
Inventory valuation	33,592	4,542
Deferred stripping costs	20,158	32,798
Valuation of receivables	(1,054)	(290)
Accrued operating expenses	(20,040)	(20,889)
Total	**180,989**	**148,244**

The Group did not recognise a deferred tax liability for taxable temporary differences associated with investments in subsidiaries of USD 214,271 thousand (2008: USD 135,279 thousand), because management believes that it is able to control the timing of reversal of such differences and has no intention to reverse them in the foreseeable future.

13. PROPERTY, PLANT AND EQUIPMENT

	Exploration and evaluation assets	**Mining assets**	**Non-mining assets**	**Capital construction-in-progress**	**Total**
Cost					
Balance at 31 December 2007	**301,238**	**1,584,243**	**60,739**	**193,716**	**2,139,936**
Additions	138,366	104,876	13,734	248,748	**505,724**
Transfers	(181,811)	261,400	-	(79,589)	**-**
Change in decommissioning liabilities	-	(35,491)	-	-	**(35,491)**
Disposals	-	(10,078)	(1,335)	(658)	**(12,071)**
Effect of translation to presentation currency	(42,873)	(310,450)	(11,903)	(57,826)	**(423,052)**
Balance at 31 December 2008	**214,920**	**1,594,500**	**61,235**	**304,391**	**2,175,046**
Additions	32,512	140,517	1,086	150,051	**324,166**
Transfers	-	51,490	-	(51,490)	**-**
Change in decommissioning liabilities	-	30,689	-	-	**30,689**
Acquired on acquisition of subsidiaries (refer to note 4)	-	272,534	1,231	70,269	**344,034**
Disposals	-	(8,700)	(589)	(6,483)	**(15,772)**
Effect of translation to presentation currency	(4,549)	(30,956)	(1,705)	(3,093)	**(40,303)**
Balance at 31 December 2009	**242,883**	**2,050,074**	**61,258**	**463,645**	**2,817,860**

(in thousands of US Dollars)

	Exploration and evaluation assets	Mining assets	Non-mining assets	Capital construction-in-progress	Total
Accumulated amortisation, depreciation and impairment					
Balance at 31 December 2007	**-**	**(330,678)**	**(19,655)**	**(6,171)**	**(356,504)**
Charge for the year	-	(121,689)	(6,692)	-	**(128,381)**
Disposals	-	4,995	781	-	**5,776**
Impairment	-	(1,831)	-	-	**(1,831)**
Effect of translation to presentation currency	-	73,052	4,145	1,016	**78,213**
Balance at 31 December 2008	**-**	**(376,151)**	**(21,421)**	**(5,155)**	**(402,727)**
Charge for the year	-	(117,912)	(3,800)	-	**(121,712)**
Disposals	-	5,518	334	4,775	**10,627**
Impairment	(1,891)	-	-	(8,968)	**(10,859)**
Effect of translation to presentation currency	(92)	5,588	445	(59)	**5,882**
Balance at 31 December 2009	**(1,983)**	**(482,957)**	**(24,442)**	**(9,407)**	**(518,789)**
Net book value					
31 December 2008	**214,920**	**1,218,349**	**39,814**	**299,236**	**1,772,319**
31 December 2009	**240,900**	**1,567,117**	**36,816**	**454,238**	**2,299,071**

Mining assets at 31 December 2009 included mineral rights of USD 547,961 thousand (31 December 2008: USD 433,112 thousand).

Amortisation and depreciation capitalised during the year ended 31 December 2009 amounted to USD 23,151 thousand (2008: USD 41,454 thousand).

At 31 December 2009 property, plant and equipment with a carrying value of USD 20,510 thousand (31 December 2008: nil) have been pledged to secure borrowings of the Group (refer to note 25).

Impairment loss recognised in respect of property, plant and equipment for the year ended 31 December 2009 in the amount of USD 10,859 thousand (2008: USD 1,831 thousand) was attributable to the greater than anticipated wear and tear of certain production assets and exploration and evaluation costs in the specific area that have not led to the discovery of commercially viable quantities of gold resources and the decision was made to discontinue such activities in the specific area.

(in thousands of US Dollars)

14. DEFERRED STRIPPING COSTS

	2009	**2008**
Balance at beginning of the year	**163,988**	**82,061**
Deferred stripping costs capitalised	15,111	112,804
Expensed stripping cost	(65,847)	-
Effect of translation to presentation currency	(7,164)	(30,877)
Balance at end of the year	**106,088**	**163,988**

15. GOODWILL

	2009	**2008**
Balance at beginning of the year	**-**	**-**
Acquired on acquisition of subsidiary	132,371	-
Effect of translation to presentation currency	535	-
Balance at end of the year	**132,906**	**-**

16. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	2009	**2008**
Non-current		
Derivative financial asset	109,911	-
Loans advanced	4,562	3,772
Other	319	323
Total non-current	**114,792**	**4,095**
Current		
Available-for-sale equity investments	203,376	208,680
Bank deposits	70,158	-
Equity investments in listed companies held for trading	39,199	40,628
Promissory notes receivable	-	35,928
Total current	**312,733**	**285,236**

Financial assets at fair value through profit or loss, carried at fair value

In connection with the acquisition of KazakhGold, the Group obtained call options to acquire all rights and obligations under convertible loan agreements between KazakhGold and its previous major shareholder (refer to note 4). At acquisition date the fair value of the call options for convertible loans was USD 89,872 thousand. At 31 December 2009 the fair value of call options for convertible loans amounted to USD 109,911 thousand and increase of fair value of the instrument in the amount of USD 20,039 thousand was recognised in the consolidated income statement.

Equity investments in listed companies held for trading are treated as financial assets at fair value through profit or loss.

Available-for-sale investments, carried at fair value

At 31 December 2009 and 2008, available-for-sale equity investments mainly represented investment in shares of Rosfund, SPC (Cayman Islands) acquired in July 2006. The principal amounts invested by the Group to Rosfund, SPC shares as of 31 December 2009 was USD 275,028 thousand (31 December 2008: USD 308,770 thousand).

Rosfund, SPC invests in securities and other financial assets. At 31 December 2009 and 2008 Rosfund, SPC included equity investments in listed companies and loans provided under repurchase agreements.

Fair value of available for sale investment in Rosfund, SPC as at 31 December 2009 and 2008 was determined based on:

- loans under securities repurchase agreements measured at amortised cost using the effective interest method less any impairment; and
- quoted market prices of securities, included in the portfolio.

Increase in fair value of available-for-sale equity investments during the year, ended 31 December 2009 in the amount of USD 18,201 thousand was recognised in equity within investments revaluation reserve.

In 2008, the decline in the fair value of investment in shares of Rosfund, SPC below its cost was assessed as not recoverable and was recognised in the consolidated income statement. As a result investments revaluation reserve was recycled from equity at 31 December 2008.

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

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

Investments, carried at amortised cost

During the year ended 31 December 2009, the Group has sold all the promissory notes for the total consideration of USD 1,000 thousand. The loss on disposal of promissory notes was recognised in the consolidated income statement in the amount of USD 34,928 thousand. In 2008, the promissory notes were expected to be collectible.

Loans and receivables, carried at amortised cost

Bank deposits at 7.5-10.5% per annum are denominated in RUB and mature in January - December 2010.

(in thousands of US Dollars)

17. INVENTORIES

	2009	2008
Inventories expected to be recovered after twelve months		
Stockpiles	40,732	39,063
Total	**40,732**	**39,063**
Inventories expected to be recovered in the next twelve months		
Gold-in-process at net production cost	202,647	49,052
Refined gold at net production cost	14,609	1,849
Total metal inventories	**217,256**	**50,901**
Stores and materials at cost	204,817	185,313
Less: Allowance for obsolescence	(6,835)	(3,213)
Total	**415,238**	**233,001**

18. TRADE AND OTHER RECEIVABLES

	2009	2008
Trade receivables for gold sales	4,298	-
Other receivables	17,284	19,608
	21,582	**19,608**
Less: Allowance for doubtful debts	(3,772)	(4,095)
Total	**17,810**	**15,513**

Substantially all gold sales are made to banks with immediate payment terms. Average credit period on gold-bearing product sales to customers, other then banks varied from 3 to 8 days in 2009. No interest is charged on trade receivables.

Other receivables included amounts receivable in respect of sale of electricity, transportation, handling and warehousing services and other services. In 2009 the average credit period for other receivables was 74 days (2008: 78 days). No interest is charged on other receivables.

The Group has fully provided for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

The procedure of accepting a new customer includes check by security department for business reputation, licenses and certifications. At 31 December 2009, the Group’s largest customers individually exceeding 5% of the total balance represented 39% (31 December 2008: 24%) of the outstanding balance of accounts receivable.

(in thousands of US Dollars)

At 31 December 2009 included in the Group's accounts receivable were balances of USD 3,465 thousand (31 December 2008: USD 3,185 thousand) which were past due but which were not impaired. The Group does not hold any collateral over these amounts. The average age of these receivables was 184 days (31 December 2008: 166 days).

Aging of past due but not impaired receivables:

	2009	2008
Less than 90 days	1,213	1,054
91-180 days	234	720
181-365 days	2,018	1,411
Total	**3,465**	**3,185**

Movement in the allowance for doubtful debts:

	2009	2008
Balance at beginning of the year	**4,095**	**8,357**
Receivable balances written off	(69)	(3,229)
Recognised in income statement	1,389	1,008
Amounts recovered during the year	(1,549)	(1,390)
Effect of translation to presentation currency	(94)	(651)
Balance at end of the year	**3,772**	**4,095**

Included in the allowance for doubtful debts are individually impaired other receivables of companies which have been placed under liquidation amounting to USD 632 thousand (31 December 2008: nil). The impairment recognised represents the difference between the carrying amount of these other receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances.

19. ADVANCES PAID TO SUPPLIERS

At 31 December 2009, advances paid to suppliers in the amount of USD 20,773 thousand (31 December 2008: USD 14,558 thousand) were presented net of impairment of USD 2,643 thousand (31 December 2008: USD 2,085 thousand).

20. OTHER CURRENT ASSETS

	2009	2008
Deferred expenditures	16,918	14,938
Other prepaid taxes	3,719	3,556
Total	**20,637**	**18,494**

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

(in thousands of US Dollars)

21. CASH AND CASH EQUIVALENTS

		2009	2008
Bank deposits	– RUB	73,245	70,375
	– foreign currencies	-	208,074
Current bank accounts	– RUB	44,416	25,645
	– foreign currencies	44,137	81,409
Other cash and cash equivalents		11,562	13,323
Total		**173,360**	**398,826**

Bank deposits are denominated in RUB and bear interest of 4.0-8.6% per annum with original maturity within three months.

22. SHARE CAPITAL

At 31 December 2009 and 2008, authorised, issued and fully paid share capital of the Company comprised 190,627,747 ordinary shares at par value of RUB 1. Treasury shares are held by a subsidiary of the Group have been recorded at cost and presented as a separate component in equity.

At 14 September 2009, the Company declared dividends of RUB 6.55, or USD 0.21 (at 14 September 2009 exchange rate) per share for the six months ended 30 June 2009. Dividends in the amount of USD 40,387 thousand (net of USD 2,297 thousand attributable to treasury shares) were paid to shareholders at 13 November 2009.

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

Treasury shares transferred as a part of consideration for acquisition of KazakhGold

In August 2009, Jenington International Inc., a wholly owned subsidiary of the Group, transferred 1,700,240 shares of the Company’s shares as partial consideration for acquisition of KazakhGold Group Limited (refer to note 4) resulting in a decrease in treasury shares of USD 98,614 thousand and decrease in additional paid-in-capital of USD 35,029 thousand.

Share Option Plan

In February 2008, management exercised 95,314 options for cash consideration of USD 1,334 thousand. Treasury shares of the Company were issued to management upon exercise of the options resulting in a decrease in treasury shares of USD 5,523 thousand and decrease in additional paid-in-capital of USD 1,510 thousand. The remaining unsettled options were cancelled in 2008.

(in thousands of US Dollars)

23. ENVIRONMENTAL OBLIGATIONS

Decommissioning obligations

	2009	2008
Balance at beginning of the year	**26,820**	**63,656**
New obligations raised	9,009	2,784
Change in estimate	21,680	(38,275)
Acquired on acquisition of subsidiaries	11,156	-
Unwinding of discount on decommissioning obligations	4,230	4,329
Effect of translation to presentation currency	1,119	(5,674)
Balance at end of the year	**74,014**	**26,820**

Provision for land restoration

	2009	2008
Balance at beginning of the year	**7,559**	**17,685**
New obligations raised	-	290
Change in estimate	5,899	(10,030)
Acquired on acquisition of subsidiaries	1,409	-
Charge to the income statement	1,480	1,210
Effect of translation to presentation currency	157	(1,596)
Balance at end of the year	**16,504**	**7,559**
Total environmental obligations	**90,518**	**34,379**

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

	2009	2008
Discount rates	6.6-10.2%	15.0%
Expected mine closure dates	2011-2050	2010-2050

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

	2009	2008
Due from second to fifth year	1,596	1,013
Due from sixth to tenth year	11,400	1,216
Due from eleventh to fifteenth year	44,346	29,261
Due from sixteenth to twentieth year	17,381	2,601
Due thereafter	15,795	288
Total	**90,518**	**34,379**

(in thousands of US Dollars)

24. OTHER NON-CURRENT LIABILITIES

	2009	2008
Bank guarantee liability	11,014	-
Historical costs liability	4,512	-
Total	**15,526**	**-**

Bank guarantee liability

As a result of the acquisition of KazakhGold, the Group has acquired bank guarantee liability which was entered in April 2006 by JSC "MMC KazakhAltyn" ("Kazakhaltyn"), a wholly owned subsidiary of KazakhGold. Under the contractual arrangement Kazakhaltyn guaranteed a credit facility of USD 15,000 thousand provided by JSC "Kazkommertsbank" ("KKB") to "Akir Group" LLP. That credit facility has a maturity date of 4 April 2013. Funds received from the credit facility were used by "Akir Group" to acquire mining and other equipment which was subsequently leased to Kazakhaltyn under finance lease agreements concluded during 2006-2007.

In 2009, "Akir Group" LLP defaulted on the loan agreement with KKB of USD 13,249 thousand (including the current portion of the loan in the amount of USD 2,235 thousand). The Group has fully provided for potential losses related to this guarantee liability at 31 December 2009.

Historical costs liability

The Group is obligated to reimburse the Government of Kazakhstan the amount of USD 8,991 thousand for the historical cost of geological studies performed in respect of the subsoil use contracts. The historical cost of geologic studies is expected to be repaid in 10 equal annual instalments, commencing from 2011, and subject to approval from the appropriate governmental authority. The amount was discounted at a rate of 12% per annum to arrive to the net present value of the liability.

25. BORROWINGS

			2009		2008	
		Currency	**Rate,%**	**Outstanding balance**	**Rate,%**	**Outstanding balance**
Guaranteed senior notes	(i)	USD	9.375	163,513	n/a	-
Secured bank loan	(ii)	USD	13.75	4,751	n/a	-
Secured bank loan	(ii)	KZT	16.0	1,854	n/a	-
Unsecured bank loan	(iii)	USD	11.0	4,348	n/a	-
Loans payable	(iv)	USD	10.0	25,365	n/a	-
Total				**199,831**		**-**
Less: current portion due within twelve months				(173,437)		-
Long-term borrowings				**26,394**		**-**

Summary of borrowing agreements

(i) Guaranteed senior notes

KazakhGold Group Limited, a subsidiary of the Group, has outstanding USD 200,000 thousand 9.375% senior notes (the "Notes"). The Notes were issued at par with interest payable semi-annually in arrears on 6 May and 6 November of each year, and the principal due on 6 November 2013. At the moment of issuance the Notes were unconditionally and irrevocably guaranteed by JSC "MMC Kazakhaltyn" and its subsidiaries. On 30 July 2009 Jenington International Inc., the Company's indirectly wholly owned subsidiary acquired KazakhGold Group Limited (refer to note 4).

KazakhGold is obliged to comply with a number of restrictive financial and other covenants, including maintaining of certain financial ratios and restrictions related to terms of issuance of KazakhGold IFRS consolidated financial statements. At 31 December 2009 KazakhGold is not in compliance with all the covenants, and accordingly, the Notes are classified as current. By the date of issuance of the consolidated financial statements, the Group did not receive any enforcement notice from the bondholders regarding earlier redemption.

(ii) Secured bank loans

A subsidiary of the Group obtained a USD 4,751 thousand secured loan agreement denominated in USD from Sberbank at a fixed rate of 13.75% per annum. The loan is to be repaid on 5 December 2010. Interest is payable monthly.

A subsidiary of the Group obtained a USD 1,854 thousand secured loan agreement denominated in KZT from Kazkommertzbank at a fixed rate of 16% per annum. The principal amount of the loan is to be repaid on a quarterly basis during the period until 6 March 2012. Interest is payable quarterly.

(iii) Unsecured bank loan

A USD 4,348 thousand unsecured loan agreement was obtained by a subsidiary of the Group from HSBC at a fixed rate of 11% per annum. The loan is to be repaid on 16 October 2010. Interest is payable monthly.

(iv) Loans payable

In June 2009 KazakhGold Group Limited signed two loan agreements with Gold Lion Holdings Limited. Loan agreements have 10% interest rate per annum. Principal amounts of USD 21,650 thousand and USD 9,375 thousand together with accrued interest are payable on 6 November 2014 and wholly or in part are convertible into KazakhGold's ordinary shares at a rate of USD 1.5 per one share.

In June 2009 the Group has acquired from a significant shareholder of KazakhGold call options to acquire rights and obligations under convertible loan agreements. Under the convertible loan agreements the lender may convert the principal amounts of USD 31,025 thousand together with accrued interest into ordinary shares of KazakhGold at the price of USD 1.5 per share.

Property, plant and equipment with book value of USD 20,510 thousand were pledged to secure borrowings (31 December 2008: nil).

(in thousands of US Dollars)

26. TRADE, OTHER PAYABLES AND ACCRUED EXPENSES

	2009	2008
Trade payables to third parties	24,332	17,918
Other payables, including:		
Wages and salaries payable	43,212	37,159
Interest payable	2,821	-
Other accounts payable	18,917	9,908
Total other payables	**64,950**	**47,067**
Accrued annual leave	27,530	18,542
Total	**116,812**	**83,527**

In 2009 the average credit period for payables was 13 days (2008: 16 days). There was no interest charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments schedules to ensure that all amounts payable are settled within the credit period.

27. OTHER TAXES PAYABLE

	2009	2008
Value added tax	25,315	1,417
Social taxes	7,791	7,063
Tax on mining	6,759	3,781
Property tax	3,321	2,259
Other taxes	437	2,307
Total	**43,623**	**16,827**

Contribution to the state Pension fund of the Russian Federation for the year ended 31 December 2009 amounted to USD 25,642 thousand (2008: USD 29,502 thousand).

At 31 December 2009, outstanding contributions to the State Pension Fund amounted to USD 1,885 thousand (2008: USD 2,330 thousand).

(in thousands of US Dollars)

28. RELATED PARTIES

Related parties include shareholders, entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of business, enter into various sale, purchase and service transactions with related parties. During 2009 and 2008 related party transactions included only transactions with entities under common control. The terms of these transactions would not necessarily be on similar terms had the Group entered into the transactions with third parties.

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

As at 31 December 2009 and 2008, the Group had the following outstanding balances with related parties:

	2009	2008
Cash and cash equivalents	22,574	-

During the years ended 31 December 2009 and 2008, Group entered into the following transactions with related parties:

	2009	2008
Purchase of goods and services	1,078	15,392
Gold sales	-	57,753
Income from investments	-	567

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

Compensation of key management personnel for the year ended 31 December 2009 amounted to USD 12,047 thousand (2008: USD 8,792 thousand).

29. CONTINGENCIES

Capital commitments

The Group’s budgeted capital expenditures commitments for the year ended 31 December 2010 amounted to USD 587,211 thousand, including USD 20,946 thousand of contracted capital commitments.

Operating leases: Group as a lessee

The land in the Russian Federation on which the Group’s production facilities are located is owned by the state. The Group leases land through operating lease agreements, which expire in various years through 2058.

Future minimum lease payments due under non-cancellable operating lease agreements at 31 December 2009 were as follows:

Due within one year	2,714
From one to five years	8,005
Thereafter	17,328
Total	**28,047**

Equity capital raising

According to terms of Partial Offer KazakhGold has committed to raise USD 100,000 thousand of equity capital in form of placing of new KazakhGold global depositary receipts (“GDRs”) at the placing price of USD 1.5 per GDR. The Group has committed to subscribe for at least 50.2% of the equity capital raising at the placing price. In the event that there is insufficient investor demand for the placing the Group will underwrite the remaining amount of the offering.

Litigation

The Group has a number of insignificant claims and litigation relating to sales and purchases of goods and services from suppliers. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

Compliance with licenses

The business of the Group depends on the continuing validity of its licenses, particularly subsoil licenses for the Group’s exploration and mining operations, the issuance of new licences and the Group’s compliance with the terms of its licenses. Russian and Kazakhstan regulatory authorities exercise considerable discretion in the timing of licenses issuances and renewals and the monitoring of a licensee’s compliance with the terms of a license. Requirements imposed by these authorities, including requirements to comply with numerous industrial standards, recruit qualified personnel and subcontractors, maintain necessary equipment and quality control systems, monitor the operations of the Group, maintain appropriate filings and, upon request, submit appropriate information to the licensing authorities, may be costly and time-consuming and may result in delays in the commencement or continuation of exploration or production operations. Accordingly, licenses that may be needed for the operations of the Group may be invalidated or may not be issued or renewed, or if issued or renewed, may not be issued or renewed in a timely fashion.

The legal and regulatory basis for the licensing requirements is subject to frequent change, which increases the risk that the Group may be found in non-compliance. In the event that the licensing authorities discover a material violation by the Group, the Group may be required to suspend its operations or incur substantial costs in eliminating or remediating the violation, which could have a material adverse effect on the Group’s business and financial condition.

Insurance

The insurance industry is not yet well developed in the Russian Federation and Republic of Kazakhstan and many forms of insurance protection common in more economically developed countries are not yet available on comparable terms. The Group does not have full insurance coverage for its mining, processing and transportation facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on the Group’s property or relating to the Group’s operations, other than limited coverage required by law.

The Group, as a participant in exploration and mining activities may become subject to liability for risks that can not be insured against, or against which it may elect not to be insured because of high premium costs. Losses from uninsured risks may cause the Group to incur costs that could have a material adverse effect on the Group's business and financial condition.

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels. The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax legislation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

With regards to matters where practice concerning payment of taxes is unclear, management estimated the tax exposure at 31 December 2009 of approximately USD 15,260 thousand (31 December 2008: USD 436 thousand). This amount had not been accrued at 31 December 2009 as management does not believe the payment to be probable.

Environmental matters

The Group is subject to extensive federal, local environmental controls and regulations in the regions in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment, disturbance of land that could potentially impact on flora and fauna, and give rise to other environmental concerns.

The Group's management believes that its mining and production technologies are in compliance with the existing environmental legislation in the countries in which it operates. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology to meet more stringent standards.

The Group is obliged in terms of various laws, mining licenses and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations and to restore and rehabilitate the environment. Management of the Group regularly reassesses environmental obligations for its operations. Estimations are based on management's understanding of the current legal requirements and the terms of the license agreements. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional environmental obligations.

Russian Federation risk

Although in recent years there has been a general improvement in economic conditions in the Russian Federation, the Russian Federation continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

(in thousands of US Dollars)

As a result, laws and regulations affecting businesses in the Russian Federation continue to change rapidly. Tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

30. RISK MANAGEMENT ACTIVITIES

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of net debt (borrowings as described in note 25) less of cash and cash equivalents (disclosed in note 21) and equity of the Group (comprising issued share capital, reserves, retained earnings and non-controlling interest).

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, other non-current liabilities and trade and other payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as accounts receivable and loans advanced, cash and cash equivalents, and promissory notes and other investments.

	2009	2008
Financial assets		
Financial assets at fair value through profit or loss, carried at fair value		
Derivative financial asset	109,911	-
Equity investments in listed companies held for trading	39,199	40,628
Held-to-maturity financial assets, carried at amortised cost		
Promissory notes receivable	-	35,928
Loans and receivables, including cash and cash equivalents		
Cash and cash equivalents	173,360	398,826
Bank deposits	70,158	-
Trade and other receivable	17,810	15,513
Loans advanced	4,562	3,772
Available-for-sale financial assets, carried at fair value		
Available-for-sale equity investments	203,376	208,680
Total financial assets	**618,376**	**703,347**
Financial liabilities		
Borrowings	199,831	-
Trade payables	24,332	17,918
Other payables	89,282	47,067
Other non-current liabilities	15,526	-
Total financial liabilities	**328,971**	**64,985**

The main risks arising from the Group's financial instruments are commodity price, equity investments price, foreign currency, credit and liquidity risks. Due to the fact that there are no borrowings with floating rate at 31 December 2009 and 2008, management believes that the Group is not exposed to interest rate risk.

Commodity price risk

Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market price of gold. A decline in gold prices could result in a decrease in profit and cash flows. Management of the Group regularly monitors gold price, market forecasts and believes that current trend of price increase will continue in the future.

The Group does not enter into any hedging contracts or use other financial instruments to mitigate the commodity price risk.

Equity investments price risk

The Group is exposed to equity investments price risk. Presented below is the sensitivity analysis illustrating the Group's exposure to equity investments price risks at the reporting date. Management of the Group has decided to use the range of market prices of 10% higher/lower for the sensitivity analysis as the effect of such variation is considered to be significant and appropriate in the current market situation.

If market prices for equity investments had been 10% higher/lower:

- profit before tax for the year ended 31 December 2009 would increase/decrease by USD 16,180 thousand (2008: USD 4,063 thousand) as a result of changes in fair value of securities held-for-trading; and
- investment revaluation reserve within equity balance would increase/decrease by USD 20,338 thousand (2008: USD 20,868 thousand) as a result of changes in fair value of securities available-for-sale.

The Group normally places the investments under Assets management agreements with asset management companies who, in turn, utilise a variety of risk management activities in relation to the investments.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other then quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(in thousands of US Dollars)

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

	Level 1	Level 2	Total
Available for sale equity investments	-	203,376	**203,376**
Equity investments in listed companies held for trading	39,199	-	**39,199**
Derivative financial asset	-	109,911	**109,911**

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

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

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

Management believes that the carrying values of financial assets (refer to notes 16, 18 and 21) and financial liabilities (refer to notes 24, 25, 26 and 27) recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term nature, except for the fair value of the Company's Senior Notes, which fair value at the reporting date was USD 201,000 thousand based on the mid market price as quoted on the Luxembourg Stock Exchange.

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely affected by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. The majority of the Group's revenues are denominated in USD, whereas the majority of the Group's expenditures are denominated in RUB, accordingly, operating profits are adversely impacted by appreciation of RUB against USD. In assessing this risk management takes into consideration changes in gold price.

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than functional currencies of the individual Group entities at 31 December 2009 and 2008 were as follows:

	Assets		Liabilities	
	2009	**2008**	**2009**	**2008**
USD	15,835	55,411	279,510	1,108
EURO	5,546	40,312	1,164	3,542
Total	**21,381**	**95,723**	**280,674**	**4,650**

Currency risk is monitored on a monthly basis by performing sensitivity analysis in order to verify that the potential loss is at an acceptable level.

(in thousands of US Dollars)

The table below details the Group's sensitivity to changes of exchange rates of the RUB to USD and EURO by 10% which is the sensitivity rate used by the Group for internal reporting purposes. The analysis was applied to monetary items at the reporting dates denominated in respective currencies.

	2009	**2008**
Profit or loss (RUB to USD)	26,368	5,430
Profit or loss (RUB to EURO)	438	3,677
Profit or loss (KZT to USD)	27,251	-

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. Credit risk arises from cash and cash equivalents, deposits with banks, loans advanced, promissory notes and trade and other receivables.

Prior to dealing with new counterparty, management assesses the credit worthiness and liquidity of potential customer. Information available from the major rating agencies is used in evaluating the creditworthiness of foreign banks. For Russian banks the creditworthiness is evaluated using financials analysis and the overall market experience. Bank should be solvent, liquid and have efficient system of risk management.

Although the Group sells all the gold produced to three major customers, the Group is not economically dependant on these customers because of the high level of liquidity in the gold commodity market. Substantial part of gold sales is made to banks on immediate payment terms, therefore credit risk related to trade receivables is minimal. At 31 December 2009 the Group had USD 4,298 thousand of outstanding trade receivables for gold sales (31 December 2008: nil). Gold sales to the Group's three major customers, individually exceeding 10% of the Group's gold sales, amounted to USD 1,160,461 thousand (2008: USD 1,054,187 thousand).

Other receivables include amounts receivable in respect of sale of electricity, transportation, handling and warehousing services and other services. The procedures of accepting a new customer include check by a security department and responsible on-site management for a business reputation, licenses and certification, credit worthiness and liquidity.

Management of the Group believes that there is no other significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting, cash forecasting process and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

(in thousands of US Dollars)

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2009 based on undiscounted contractual payments, including interest payments:

	Total	Due within three months	Due from three to six months	Due from six to twelve months	Due in the second year	Due in the third year	Due in the fourth year	Due in the fifth year	Due in thereafter
Borrowings, including:									
Principle	**241,978**	200,206	206	9,512	823	206	-	31,025	-
Interest	**22,609**	357	357	565	297	53	-	20,980	-
Other non-current liabilities, including:									
Principle	**20,005**	-	-	-	11,583	1,229	899	899	5,395
Trade and other payables, including:									
Principle	**89,282**	75,976	8,018	5,288	-	-	-	-	-
Total	**373,874**	**276,539**	**8,581**	**15,365**	**12,703**	**1,488**	**899**	**52,904**	**5,395**

The contractual maturity of guaranteed senior notes is 6 November 2013. As described in note 25, the Group has violated the terms of Notes and Lenders have the right to enforce repayment of the face value.

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2008 based on undiscounted contractual payments:

	Total	Due within three months	Due from three to six months	Due from six to twelve months	Due in the second year	Due in the third year	Due in the fourth year	Due in the fifth year	Due in thereafter
Trade and other payables, including:									
Principle	64,985	62,082	2,330	573	-	-	-	-	-
Total	**64,985**	**62,082**	**2,330**	**573**	**-**	**-**	**-**	**-**	**-**

31. SUBSEQUENT EVENTS

On 19 April 2010 the Board of Directors of the Company recommended dividends of RUR 9.28, or USD 0.32 (at 19 April 2010 exchange rate) per share for the second half of 2009 year.

(in thousands of US Dollars)

32. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

Subsidiaries	Country of incorporation	Nature of business	Effective % held[1] 2009	2008
CJSC "Gold Mining Company Polyus"	Russian Federation	Mining	100.0	100.0
OJSC "Aldanzoloto GRK"	Russian Federation	Mining	100.0	100.0
OJSC "Lenzoloto"	Russian Federation	Market agent	64.1	64.1
LLC "Lenskaya Zolotorudnaya Company"	Russian Federation	Market agent	100.0	100.0
CJSC "ZDK Lenzoloto"	Russian Federation	Mining	66.2	66.2
CJSC "Lensib"	Russian Federation	Mining	40.4	40.4
CJSC "Svetliy"	Russian Federation	Mining	55.6	55.6
CJSC "Marakan"	Russian Federation	Mining	55.6	55.6
CJSC "Dalnaya Taiga"	Russian Federation	Mining	54.3	54.3
CJSC "Sevzoto"	Russian Federation	Mining	43.0	43.0
CJSC "GRK Sukhoy Log"	Russian Federation	Mining	100.0	100.0
OJSC "Matrosov Mine"	Russian Federation	Mining (development stage)	100.0	100.0
CJSC "Tonoda"	Russian Federation	Mining (exploration stage)	100.0	100.0
OJSC "Pervenets"	Russian Federation	Mining (development stage)	100.0	100.0
OJSC "South-Verkhoyansk Mining Company"	Russian Federation	Mining (development stage)	100.0	100.0
Polyus Exploration Limited	British Virgin Islands	Geological research	100.0	100.0
KazakhGold Group Limited[2]	Jersey	Sub-holding company	50.2	-
JSC "MMC Kazakhaltyn"[2]	Republic of Kazakhstan	Mining	50.2	-
Jenington International Inc.	British Virgin Islands	Market agent	100.0	100.0
Polyus Investments Limited	Cyprus	Market agent	100.0	100.0

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

[2] Acquired in 2009.