Polyus Gold

Consolidated Financial Statements
for the Year Ended 31 December 2010

POLYUS GOLD

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

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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 2010

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as of 31 December 2010, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("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 2010 were approved by management on 18 April 2011 by:

On behalf of the Management:

Prokhorov M. D.	**Ignatov O. V.**
General Director	Deputy General Director

Moscow, Russia
18 April 2011

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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 as the "Group"), which are comprised of the consolidated statement of financial position as at 31 December 2010 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Deloitte + Touche

Moscow, Russia
18 April 2011

POLYUS GOLD

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER
(in thousands of US Dollars, except for earnings per share data)

	Notes	2010	2009*
Gold sales	6	1,711,298	1,199,088
Other sales		37,506	26,136
Total revenue		**1,748,804**	**1,225,224**
Cost of gold sales	7	(895,555)	(573,501)
Cost of other sales		(33,424)	(25,541)
Gross profit		**819,825**	**626,182**
Selling, general and administrative expenses	8	(194,549)	(155,012)
Research expenses		(2,412)	(1,265)
Other expenses, net	9	(75,864)	(32,955)
Finance costs	10	(42,717)	(18,870)
(Loss)/income from investments	11	(23,711)	14,197
Foreign exchange gain		765	1,364
Goodwill impairment	4	-	(138,196)
Profit before income tax		**481,337**	**295,445**
Income tax	12	(124,840)	(108,810)
Profit for the year		**356,497**	**186,635**
Attributable to:			
Shareholders of the Company		332,169	184,578
Non-controlling interests		24,328	2,057
		356,497	**186,635**
Earnings per share			
Weighted average number of ordinary shares in issue during the year		179,851,586	178,803,493
Basic and diluted (US Cents)		185	103

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

* The comparative information for the year ended 31 December 2009 reflects adjustments made in connection with the completion of provisional accounting (refer to note 4).

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

	2010	2009*
Profit for the year	**356,497**	**186,635**
Other comprehensive income/(loss)		
Unrealised gain from change in fair value of available-for-sale investments (2010 and 2009: net of tax in the amount of USD nil)	33,340	18,201
Realised gain on disposal of available-for-sale investments (2010 and 2009: net of tax in the amount of USD nil)	(20,289)	(696)
Effect of translation to presentation currency	(32,803)	(46,091)
Other comprehensive loss for the year	**(19,752)**	**(28,586)**
Total comprehensive income for the year	**336,745**	**158,049**
Attributable to:		
Shareholders of the Company	316,968	156,057
Non-controlling interests	19,777	1,992
	336,745	**158,049**

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

* The comparative information for the year ended 31 December 2009 reflects adjustments made in connection with the completion of provisional accounting (refer to note 4).

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

	Notes	2010	2009*
ASSETS			
Non-current assets			
Property, plant and equipment	13	2,500,952	2,290,548
Deferred stripping costs	14	61,023	106,088
Inventories	16	201,030	40,732
Investments in securities and other financial assets	15	50,273	114,792
Long-term portion of reimbursable value added tax		993	5,899
Other non-current assets		867	-
		2,815,138	**2,558,059**
Current assets			
Inventories	16	455,144	415,238
Reimbursable value added tax		154,422	103,688
Trade and other receivables	17	21,244	17,810
Advances paid to suppliers	18	22,968	20,773
Investments in securities and other financial assets	15	177,332	312,733
Income tax prepaid		9,347	27,152
Other current assets	19	21,674	20,637
Cash and cash equivalents	20	326,905	173,360
		1,189,036	**1,091,391**
TOTAL ASSETS		**4,004,174**	**3,649,450**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	6,871	6,871
Additional paid-in capital		2,081,626	2,081,626
Treasury shares		(626,313)	(626,313)
Investments revaluation reserve		30,556	17,505
Translation reserve		(119,736)	(91,484)
Retained earnings		1,810,641	1,549,792
Equity attributable to shareholders of the Company		**3,183,645**	**2,937,997**
Non-controlling interests		56,886	59,874
		3,240,531	**2,997,871**
Non-current liabilities			
Borrowings	24	29,686	26,394
Deferred tax liabilities	12	182,948	182,660
Environmental obligations	22	136,410	90,518
Other non-current liabilities	23	19,666	15,526
		368,710	**315,098**
Current liabilities			
Borrowings	24	173,762	173,437
Trade, other payables and accrued expenses	25	169,037	116,812
Income tax payable		22,698	2,609
Other taxes payable	26	29,436	43,623
		394,933	**336,481**
TOTAL LIABILITIES		**763,643**	**651,579**
TOTAL EQUITY AND LIABILITIES		**4,004,174**	**3,649,450**

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

* The comparative information as at 31 December 2009 reflects adjustments made in connection with the completion of provisional accounting (refer to note 4).

POLYUS GOLD

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

	Notes	2010	2009*
Operating activities			
Profit before income tax		**481,337**	**295,445**
Adjustments for:			
Amortisation and depreciation		126,855	96,940
Finance costs		42,717	18,870
Expensed stripping cost		54,152	65,847
Loss on disposal of property, plant and equipment		2,037	3,875
Impairment of property, plant and equipment		40,763	10,859
Change in provision for obsolete inventory		2,346	3,639
Change in provision for land restoration		-	7,379
Change in allowance for reimbursable value added tax		(294)	(171)
Loss/(income) from investments		23,711	(14,197)
Change in allowance for doubtful debts		2,496	(229)
Foreign exchange gain, net		(765)	(1,364)
Goodwill impairment		-	138,196
Other		16,391	1,344
		791,746	**626,433**
Movements in working capital			
Inventories		(206,079)	(176,327)
Trade and other receivables		(7,595)	1,562
Advances paid to suppliers		(718)	(5,456)
Other current assets and reimbursable value added tax		(47,679)	4,772
Trade and other payables and accrued expenses		24,412	5,085
Employee benefit obligations		15,208	-
Other taxes payable		(12,437)	(2,342)
Cash flows from operations		**556,858**	**453,727**
Interest paid		(23,213)	(10,795)
Income tax paid		(88,338)	(99,832)
Net cash generated from operating activities		**445,307**	**343,100**
Investing activities			
Acquisition of subsidiary, net of cash acquired	4	-	(182,247)
Purchases of property, plant and equipment		(350,327)	(302,405)
Payments for capitalised deferred stripping costs		(9,740)	(12,608)
Proceeds on sales of property, plant and equipment		643	1,270
Interest received		8,351	13,034
Purchases of promissory notes and other financial assets		(64,996)	(170,811)
Proceeds on sales of promissory notes and other financial assets		244,955	137,702
Net cash used in investing activities		**(171,114)**	**(516,065)**

*The comparative information for the year ended 31 December 2009 reflects adjustments made in connection with the completion of provisional accounting (refer to note 4).

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

	Notes	2010	2009*
Financing activities			
Repayments of borrowings		(10,944)	(13,760)
Repayments of finance lease obligations		-	(400)
Repayments of bank guarantee liability		(4,967)	-
Proceeds from issuance of the subsidiary's shares	4	21,955	-
Dividends paid to shareholders of the Company	21	(104,801)	(40,387)
Dividends paid to non-controlling shareholders		(12,226)	(2,151)
Net cash used in financing activities		**(110,983)**	**(56,698)**
Net increase/(decrease) in cash and cash equivalents		**163,210**	**(229,663)**
Cash and cash equivalents at beginning of the year		**173,360**	**398,826**
Effect of foreign exchange rate changes on cash and cash equivalents		(9,665)	4,197
Cash and cash equivalents at end of the year		**326,905**	**173,360**

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

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

*The comparative information for the year ended 31 December 2009 reflects adjustments made in connection with the completion of provisional accounting (refer to note 4).

POLYUS GOLD

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

		Equity attributable to shareholders of the Company								
	Notes	Share capital	Additional paid-in capital	Treasury shares	Investments revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
Balance at 31 December 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 (as restated) *		-	-	-	-	-	184,578	**184,578**	2,057	**186,635**
Other comprehensive income/(loss) (as restated) *		-	-	-	17,505	(46,026)	-	**(28,521)**	(65)	**(28,586)**
Total comprehensive income		**-**	**-**	**-**	**17,505**	**(46,026)**	**184,578**	**156,057**	**1,992**	**158,049**
Issuance of shares from treasury shares as a part of consideration for acquisition of subsidiaries	4	-	(35,029)	98,614	-	(2,052)	2,052	**63,585**	-	**63,585**
Acquired on acquisition of subsidiary (as restated) *	4	-	-	-	-	-	-	**-**	25,070	**25,070**
Dividends to shareholders of the Company	21	-	-	-	-	-	(38,378)	**(38,378)**	-	**(38,378)**
Dividends to shareholders of non-controlling interests		-	-	-	-	-	-	**-**	(4,996)	**(4,996)**
Balance at 31 December 2009		**6,871**	**2,081,626**	**(626,313)**	**17,505**	**(91,484)**	**1,549,792**	**2,937,997**	**59,874**	**2,997,871**
Profit for the year		-	-	-	-	-	332,169	**332,169**	24,328	**356,497**
Other comprehensive income/(loss)		-	-	-	13,051	(28,252)	-	**(15,201)**	(4,551)	**(19,752)**
Total comprehensive income		**-**	**-**	**-**	**13,051**	**(28,252)**	**332,169**	**316,968**	**19,777**	**336,745**
Increase of ownership in subsidiary	4	-	-	**-**	-	**-**	33,023	**33,023**	(11,068)	**21,955**
Dividends to shareholders of the Company	21	-	-	**-**	-	**-**	(104,343)	**(104,343)**	-	**(104,343)**
Dividends to shareholders of non-controlling interests		-	-	**-**	-	**-**	-	**-**	(11,697)	**(11,697)**
Balance at 31 December 2010		**6,871**	**2,081,626**	**(626,313)**	**30,556**	**(119,736)**	**1,810,641**	**3,183,645**	**56,886**	**3,240,531**

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

*The comparative information for the year ended 31 December 2009 reflects adjustments made in connection with the completion of provisional accounting (refer to note 4).

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 Open Joint Stock Company Mining and Metallurgical Company Norilsk Nickel (the "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 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 31.

Authorisation for issuance

The consolidated financial statements of the Group have been authorised for issuance by the Board of Directors on 18 April 2011.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which includes the 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 jurisdiction in which they are incorporated and registered. The accounting principles and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, such financial 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*, and the fair value of the net assets acquired upon the acquisition of KazakhGold Group Limited ("KazakhGold").

New and revised standards and interpretations adopted in the current period

The following new standards, amendments to standards or interpretations are adopted by the Group and effective for the financial year commencing 1 January 2010:

- IFRS 5 "Non-current assets held for sale and discontinued operations" – amendment;
- IAS 39 "Financial instruments: recognition and measurement" – amendment;
- IFRIC 9 "Reassessment of Embedded Derivatives" – amendment;
- IFRIC 18 "Transfers of Assets from Customers"- clarifications; and
- Annual Improvements to IFRS (April 2009).

The first time application of the aforementioned amendments to standards and interpretations from 1 January 2010 had no material effect on the consolidated financial statements of the Group.

Standards and Interpretations in issue 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 the current year:

	Effective for annual periods beginning on or after
IAS 12 "Income taxes" – amendment	1 January 2012
IAS 24 "Related party disclosures" – revised	1 January 2011
IAS 32 "Financial instruments: presentation" – amendment	1 February 2010
IFRS 7 " Financial Instruments: Disclosures" – amendment	1 July 2011
IFRS 9 " Financial instruments" – amendment	1 January 2013
IFRIC 14 "IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction" – amendment	1 January 2011
IFRIC 19 "Extinguishing financial liabilities with equity" – issued	1 July 2010
Annual Improvements to IFRS (May 2010)	1 January 2011

The impact of the adoption of these standards and interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by Group management; however, no material effect on the Group's financial position or results of its operations is anticipated.

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

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

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

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

Business combinations

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 the consolidated income statement, where such treatment would be appropriate if that interest were disposed of.

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date. The measurement period may not exceed one year from the effective date of the acquisition.

Goodwill

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

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

Goodwill is not amortised but is reviewed for impairment at least annually 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 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 each prepared in their respective functional currencies. 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 performed 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, except for significant transactions that are translated at rates on the date of such transactions;
- resulting exchange differences are included in equity and presented as *Effect of translation to presentation currency* within the *Translation reserve*; and
- in the statement of cash flows, cash balances at beginning and end of each reporting period presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the years presented, except for significant transactions that are translated at rates on the date of transaction.

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

	2010	**2009**
Russian Rouble/US Dollar		
31 December	30.47	30.24
Average for the year	30.36	31.72
Kazakh Tenge/US Dollar		
31 December	147.40	148.36
Average for the year	147.35	147.50

Foreign currencies

Transactions in currencies other than the entity's functional currencies (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the 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 Australasian Joint Ore Reserves Committee Code (the JORC Code), the Russian Resource Reporting Code, or the Former Soviet Union Agency for Mineral Resources classification codes.

Mineral rights

Mineral rights are recorded as assets upon acquisition at fair value and are subsequently 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 exists to indicate that, although a development in the specific area is likely to occur, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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

Any impairment loss is recognised as an expense in accordance with the policy on impairment of tangible assets set out 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 estimated economic useful life of the asset, or the life of mines of 7 to 23 years, which is based on estimated proven and probable ore reserves, whichever is shorter. Amortisation is charged from the date a new mine reaches commercial production quantities and is included in the cost of production.

Non-mining assets

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 stripping 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 changes 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 the following year when the specific mine is in operation when expensed. Such expenditures mainly include excavation costs and mine specific administration costs, and are recognised in 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, changes in the provision for land restoration and changes in gold-in-process and refined gold.

Gold-in-process and stockpiles

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

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

Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained gold ounces based on assay date. Stockpiles are verified by periodic surveys. Stockpiles are valued with reference to the net unit cost of production, based on the percentage of completion.

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 *(Loss)/income from investments* line item in the consolidated income statement. Fair value is determined in the manner described in note 29.

Held-to-maturity investments

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

AFS financial assets

AFS financial assets mainly include investments in listed and unlisted shares.

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

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

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

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

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 or liability and of allocating interest income or expense, respectively, over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments, as applicable, through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

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

Financial liabilities

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

Derecognition of financial liabilities

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

Finance costs

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

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

All other finance costs are recognised in the consolidated 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 mandatory state pension funds on behalf of all employees of subsidiaries in the Russian Federation and in other jurisdictions where the Group operates. These contributions are recognised in the income statement when employees have rendered services requiring the contribution.

Defined benefit plans

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

Income tax

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

Current tax

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

Deferred tax

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

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

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

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

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

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

Current and deferred tax for the period

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

Revenue recognition

Gold sales revenue

Revenue from the sale of refined gold and other gold-bearing products is recognised when the risks and rewards of ownership are transferred to the buyer, the Group retains neither a continuing degee of involvement or control over the goods sold, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the entity. 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 are recognised on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user’s benefit.

Dividends

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

Retained earnings legally distributable by the Company are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual 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 and land restoration costs, discounted to net present value, are added to respective assets and corresponding obligations raised as soon as the constructive obligation to incur such costs arises and the future cost can be reliably estimated. Additional assets are amortised on a straight-line basis over the corresponding asset. The unwinding of the obligation is included in the consolidated income statement as finance costs. Obligations are periodically reviewed in light of current laws and regulations, and adjustments made as necessary to the corresponding item of property, plant and equipment.

Ongoing restoration costs are expensed when incurred.

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 methodologies. 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.

Fair value of net assets acquired and liabilities assumed in business combinations

In accordance with the Group's policy, the Group allocates the cost of the acquired entity to the assets acquired and liabilities assumed based on their fair value estimated on the date of acquisition. Any difference between the cost of the acquired entity and the fair value of the assets acquired, liabilities assumed is recorded as goodwill. The Group exercises significant judgment in the process of identifying tangible and intangible assets and liabilities, valuing these assets and liabilities, and estimating their remaining useful life. The valuation of these assets and liabilities is based on assumptions and criteria that, in some cases, include estimates of discounted future cash flows. The use of valuation assumptions includes cash flow estimates from mining activities and discount rates and may result in estimated values that are different from the assets acquired and liabilities assumed.

If actual results are not consistent with estimates and assumptions considered, the Group may be exposed to losses that could be material.

Contingencies

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

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;
- allowances;
- environmental obligations; 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 the 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. A provision is recognised, based on the net present values for decommissioning and land restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the 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

Completion of provisional accounting for acquisition of KazakhGold

The Group originally made an offer to acquire a majority of the of the outstanding share capital of KazakhGold by offering 0.423 Polyus Gold ordinary shares ("Consideration Shares") in exchange for each KazakhGold share (the "Partial Offer"). On 30 July 2009, the Partial Offer became unconditional as the required number of acceptances had been attained, and on 14 August 2009, the Group announced that the Partial Offer was unconditional in all respects. As a result of this unconditional acceptance of the offer, on 30 July 2009, the Group acquired 50.2% of the outstanding share capital of KazakhGold, a gold-mining company with primary operations in the Republic of Kazakhstan. The acquisition was part of the management's plan to increase reserves and production of gold.

The market capitalisation of KazakhGold on 14 August 2009 (the "Closing Date"), 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 and the closing price of Polyus Gold's American Depository Receipts at that date.

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

In addition to the share purchase, the Group acquired from a significant shareholder of KazakhGold call options to acquire rights and obligations under two 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 1.50 per share. The fair value of the call options for the convertible loans was estimated at USD 89,872 thousand at the date of entering into the call option. The value of the call options has been recorded as a reduction to the consideration transferred for the 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: Fair value of call options for convertible loans	(89,872)
Total consideration transferred for the acquisition of KazakhGold	**164,328**

The Group recognized USD 11,911 thousand of acquisition-related expenses in 2009 within the *Selling, General and Administrative expenses*.

(in thousands of US Dollars)

In the consolidated financial statements for the year ended 31 December 2009, the acquisition of KazakhGold was accounted for using provisional values, and during 2010, the Group finalised the assessment of fair value. The provisional values previously presented for 2009 have been restated in the comparative information presented in the consolidated financial statements to reflect the changes from the finalised valuation. The provisional and finalised values for the purchase accounting for KazahGold are reconciled as follows:

	Fair values at the date of acquisition	**Provisional values at the date of acquisition**	**Adjustments to provisional values**
ASSETS			
Property, plant and equipment	334,405	344,034	(9,629)
Inventories	14,419	14,419	-
Trade and other receivables	6,887	6,887	-
Cash and cash equivalents	8,368	8,368	-
Other assets	3,784	3,784	-
LIABILITIES			
Borrowings	207,147	207,147	-
Deferred tax liabilities	22,763	21,092	1,671
Trade payables	11,148	11,148	-
Other payables and accrued expenses	17,135	17,135	-
Other taxes payable	32,814	32,814	-
Other liabilities	25,654	25,654	-
Identifiable net assets at the date of acquisition	**51,202**	**62,502**	**(11,300)**
Consideration transferred	164,328	164,328	-
Plus: Non-controlling interest	25,070	30,545	(5,475)
Less: Value of identifiable net assets acquired	(51,202)	(62,502)	11,300
Goodwill arising on acquisition	**138,196**	**132,371**	**5,825**

The trade and other receivables acquired principally comprised of other receivables with a fair value of USD 6,887 thousand and had a gross contractual value of USD 16,443 thousand. The best estimate of the acquisition date contractual cash flows not expected to be collected is USD 9,556 thousand.

Non-controlling interest

The non-controlling interest of 49.8% in KazakhGold recognised at the acquisition date was measured as the proportionate share of the fair value of KazakhGold's identifiable net assets. Through the purchase price adjustments recorded for the finalised valuation, the non-controlling interest in KazakhGold was adjusted to USD 25,070 thousand.

Goodwill arising on acquisition

Consideration transferred	164,328
Plus: Non-controlling interest	25,070
Less: Provisional value of identifiable net assets acquired	(51,202)
Goodwill arising on acquisition	**138,196**

Upon final determination of the fair values of the identifiable assets and liabilities, and assessment of mineral rights, the excess purchase price was deemed as goodwill. Given that the assessed fair value was lower than the purchase price and management does not believe that the additional payment will result in any future benefit to the Group, management has impaired the entire goodwill balance as at the acquisition date. The impairment is in relation to the Kazakhstan reporting segment.

(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 revenue of USD 26,918 thousand and a loss after tax of USD 168,413 thousand from the date of acquisition to 31 December 2009, including effect of the impairment of goodwill USD 138,196 thousand.

Had these business combinations been effected at 1 January 2009, the revenue of the Group for the year ended 31 December 2009 would have been USD 1,232,547 thousand, and the profit of the Group for the year would have been USD 72,230 thousand.

Comparative information for the year ended 31 December 2009

As a result of the finalization of the valuation of KazakhGold, the comparative information for the year ended 31 December 2009 was adjusted. The reconciliation of the previously reported and adjusted components of the consolidated financial statements is as follows:

	2009 *As restated*	**2009** *As previously reported*	**Adjustments**
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER			
ASSETS			
Property, plant and equipment	2,290,548	2,299,071	(8,523)
Goodwill	-	132,906	(132,906)
EQUITY AND LIABILITIES			
Translation reserve	(91,484)	(90,407)	(1,077)
Retained earnings	1,549,792	1,686,818	(137,026)
Non-controlling interest	59,874	64,871	(4,997)
Deferred tax liabilities	182,660	180,989	1,671
CONSOLIDATED INCOME STATEMENT			
Cost of gold sales	(573,501)	(575,122)	1,621
Goodwill impairment	(138,196)	-	(138,196)
Income tax	(108,810)	(108,837)	27
Profit for the year	**186,635**	**323,183**	**(136,548)**
Attributable to:			
Shareholders of the parent company	184,578	321,604	(137,026)
Non-controlling interest	2,057	1,579	478
Earnings per share			
Basic and diluted (US cents)	103	180	-

Increase of ownership in KazakhGold

On 1 July 2010, KazakhGold issued 66,666,667 new ordinary shares at a placement price of USD 1.50 per share for a total consideration of USD 98,747 thousand, net of expenses. Polyus Gold, through its subsidiary Jenington International Inc., purchased 51,194,922 of the shares, thus increasing Polyus Gold’s ownership in KazakhGold to 65% of its issued share capital. As a result of this transaction, the Group recognised decrease in non-controlling interest of USD 11,068 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. Separate financial information is available for each segment and reported regularly to the chief operating decision maker ("CODM"), the Budget Committee. The Group's seven identified reportable segments are located and described as follows:

- Krasnoyarsk business unit (Krasnoyarsk region of Russian Federation) – Extraction, refining and sales of gold from the Olimpiada, Blagodatnoe and Titimukhta mines, as well as research, exploration and development work at Kvartsevaya Gora, Kuzeevskoe and Olimpiada deposits;
- Kazakhstan business unit (Republic of Kazakhstan, Kyrgyzstan and Romania), formed by Kazakh Gold Group Limited – Extraction, refining and sales of gold from Aksu, Bestobe, Akzhal, Zholymbet mines, as well as exploration and evaluation works in Southern Karaultube and Kaskabulakskoe deposits;
- Irkutsk alluvial business unit (Irkutsk region (Bodaibo district) of the Russian Federation) – Extraction, refining and sales of gold from several alluvial deposits;
- Irkutsk ore business unit – (Irkutsk region (Bodaibo district) of the Russian Federation) – Extraction, refining and sales of gold from Zapadnoe mine and Verninskoe, research, exploration and development works at Chertovo Koryto, Pervenetc, Verninskoe, Zapadnoe, Medvezhiy Ruchei and Mukodek deposits, and electricity and utilities production and sales in the Bodaibo district of the Irkutsk region;
- Yakutsk Kuranakh business unit (Sakha Republic of the Russian Federation) – Extraction, refining and sales of gold from the Kuranakh ore field;
- Exploration business unit – Comprised of the two operating segments that are combined into one reportable segment as they satisfy the criteria for aggregation:
  - Yakutsk (Nezhdaninskoe) business unit (Sakha Republic of Russian Federation) – Research and exploration works at the Nezhdaninskoe deposit; and
  - (Krasnoyarsk region, Irkutsk region, Amur region, and others) – Research and exploration works in several regions of the Russian Federation; and
- Magadan business unit (Magadan region of the Russian Federation) – Represented by OJSC "Matrosov Mine" which performs development works at the Natalka deposit.

The reportable segments derive their revenue primarily from gold sales, and the substantial costs incurred relate to the cost of gold sold for the period. The CODM performs an analysis of the operating results based on these separate business units and evaluates the reporting segment's results, for purposes of resource allocation, based on the segment measure; segment profit before income tax excluding the finance costs, other sales, costs of other sales and income from investments.

Business segment assets and liabilities are not reviewed by the CODM, and therefore are not disclosed in these consolidated financial statements. Segment financial information provided to the CODM is prepared from the management accounts which are based on Russian or Kazakhstan accounting standards, respectively.

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

(in thousands of US Dollars)

	Gold sales	Segment profit/(loss)	Capital expenditures	Depreciation and amortisation
2010				
Krasnoyarsk business unit	1,176,392	398,359	194,708	61,651
Irkutsk alluvial business unit	248,254	90,283	17,222	6,246
Yakutsk Kuranakh business unit	149,597	38,923	15,801	5,561
Irkutsk ore business unit	22,607	(4,191)	33,577	6,815
Exploration business unit	-	(11,855)	21,591	937
Kazakhstan Business unit	114,448	(55,943)	36,014	9,437
Magadan business unit	-	(8,760)	16,420	3,127
Segment result	**1,711,298**	**446,816**	**335,333**	**93,774**
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**

Gold sales reported above represent revenue generated from external customers. There were no inter-segment gold sales during 2010 year (2009: nil).

The segment measure of profit/(loss) reconciles to the IFRS profit before income tax as follows:

	2010	2009
Segment result	**446,816**	**399,981**
Differences between IFRS and management accounts:		
Capitalised exploration works	26,801	8,474
Provisions and accruals	(26,196)	(47,138)
Additional depreciation charge and amortisation of mineral rights	(33,081)	(29,536)
Revaluation of gold-in-process at net production cost	4,511	16,265
Difference in stripping costs capitalisation	(10,909)	(20,646)
Goodwill impairment	-	(138,196)
Other	7,667	1,541
Unallocated	65,728	104,700
Profit before income tax	**481,337**	**295,445**
Segment capital expenditures	**335,333**	**325,140**
Differences between IFRS and management accounts:		
Differences in the moment of recognition of capital expenditures	4,574	(7,333)
Reclassification of advances paid for property, plant and equipment and construction works	15,879	(17,854)
Reclassification of materials related to construction works	3,564	21,277
Differences in capitalised exploration and evaluation costs	30,802	12,482
Other	(8,739)	(9,546)
Capital expenditures	**381,413**	**324,166**
Segment depreciation and amortisation	**93,774**	**67,404**
Additional depreciation charge	20,115	16,946
Amortisation of mineral rights	12,966	12,590
Depreciation and amortisation	**126,855**	**96,940**

(in thousands of US Dollars)

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

	2010	**2009**
Russian Federation	2,417,329	2,103,062
Republic of Kazakhstan	294,864	291,155
Kyrgyzstan	35,881	35,815
Romania	16,682	13,108
United Kingdom	109	127
Total	**2,764,865**	**2,443,267**

6. GOLD SALES

	2010	**2009**
Refined gold	1,596,850	1,172,170
Other gold-bearing products	114,448	26,918
Total	**1,711,298**	**1,199,088**

7. COST OF GOLD SALES

	2010	**2009**
Consumables and spares	378,598	242,841
Labour	234,730	175,080
Tax on mining	130,230	90,080
Utilities	46,043	25,386
Outsourced mining services	8,897	8,258
Refining costs	2,059	4,332
Sundry costs	46,644	35,272
Total cash operating costs	847,201	581,249
Amortisation and depreciation of operating assets	118,559	93,402
Deferred stripping costs expensed	44,412	50,736
Increase in gold-in-process and refined gold	(114,617)	(151,886)
Total	**895,555**	**573,501**

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2010	**2009**
Salaries	103,811	76,918
Administrative overheads	30,719	36,476
Professional services	28,274	21,738
Taxes other than mining and income taxes	27,528	16,105
Depreciation	4,217	3,775
Total	**194,549**	**155,012**

(in thousands of US Dollars)

9. OTHER EXPENSES, NET

	2010	2009
Impairment of property, plant and equipment	40,763	10,859
Donations	3,367	6,932
Loss on disposal of property, plant and equipment	2,037	3,875
Change in allowance for obsolescence of inventory	2,346	3,639
Reversal of cost of inventories written off in prior periods	(967)	-
Change in allowance for reimbursable value added tax	(294)	(171)
Non-recoverable VAT	8,600	5,219
Tax provision	14,352	-
Other	5,660	2,602
Total	**75,864**	**32,955**

10. FINANCE COSTS

	2010	2009
Interest on borrowings	32,308	11,738
Unwinding of discounts	8,808	4,440
Other	1,601	2,692
Total	**42,717**	**18,870**

11. (LOSS) / INCOME FROM INVESTMENTS

	2010	2009
(Loss)/income from financial assets at fair value through profit and loss		
(Loss)/income on derivatives classified as held for trading	(63,775)	20,039
Income from investments in listed companies held for trading	11,446	13,702
Income from AFS investments		
Gain on disposal of AFS investments	20,289	696
Loss from held-to-maturity investments		
Loss on disposal of promissory notes	-	(34,928)
Income from loans given		
Interest income on bank deposits	8,329	14,688
Total	**(23,711)**	**14,197**

12. INCOME TAX

	2010	2009
Current tax expense	123,492	93,901
Deferred tax expense	1,348	14,909
Total	**124,840**	**108,810**

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

(in thousands of US Dollars)

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

	2010	2009
Profit before income tax	**481,337**	**295,445**
Income tax at statutory rate (20%)	96,267	59,089
Tax effect of non-deductible expenses and other permanent differences	9,868	34,349
Effect of different tax rates of subsidiaries operating in other jurisdictions	8,870	5,051
Tax effect of utilization of tax losses not previously recognised	(8,446)	-
Unrecognised tax losses	10,994	10,321
Other	7,287	-
Income tax expense at effective rate of 26% (2009: 37%)	**124,840**	**108,810**

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

	2010	2009
Net liability at beginning of the year	**182,660**	**148,244**
Recognised in the consolidated income statement	1,348	14,909
Acquired on acquisition of subsidiaries (refer to note 4)	-	22,763
Effect of translation to presentation currency	(1,060)	(3,256)
Net liability at end of the year	**182,948**	**182,660**

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

	2010	2009
Property, plant and equipment	160,851	150,004
Inventory valuation	51,482	33,592
Deferred stripping costs	11,153	20,158
Investments valuation	1,642	-
Valuation of receivables	(871)	(1,054)
Accrued operating expenses	(41,309)	(20,040)
Total	**182,948**	**182,660**

At 31 December 2010, the Group has not recognised deferred tax assets in the amount of USD 21,964 thousand (2009: USD 10,970 thousand) in respect of tax losses carried forward that are available for offset against future taxable profit of certain subsidiaries within the Group. Such tax losses expire in periods up to ten years, and are not recognized as management does not believe it probable that future taxable profit will be available against which the respective entities can utilise the benefits.

The Group did not recognise a deferred tax liability for taxable temporary differences associated with investments in subsidiaries of USD 31,207 thousand (2009: USD 214,271 thousand), because the Group is is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

(in thousands of US Dollars)

13. PROPERTY, PLANT AND EQUIPMENT

	Exploration and evaluation assets	Mining assets	Non-mining assets	Capital construction-in-progress	Total
Cost					
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)	-	269,166	1,231	64,008	**334,405**
Disposals	-	(8,700)	(589)	(6,483)	**(15,772)**
Effect of translation to presentation currency	(4,549)	(31,073)	(1,705)	(3,191)	**(40,518)**
Balance at 31 December 2009	**242,883**	**2,046,589**	**61,258**	**457,286**	**2,808,016**
Additions	52,144	225,997	7,776	95,496	**381,413**
Transfers	(4,372)	238,020	2,308	(235,956)	-
Change in decommissioning liabilities	-	37,885	-	-	**37,885**
Disposals	-	(7,821)	(466)	(500)	**(8,787)**
Effect of translation to presentation currency	(1,966)	(15,165)	(563)	(4,068)	**(21,762)**
Balance at 31 December 2010	**288,689**	**2,525,505**	**70,313**	**312,258**	**3,196,765**

	Exploration and evaluation assets	Mining assets	Non-mining assets	Capital construction-in-progress	Total
Accumulated amortisation, depreciation and impairment					
Balance at 31 December 2008	**-**	**(376,151)**	**(21,421)**	**(5,155)**	**(402,727)**
Charge for the year	-	(116,291)	(3,800)	-	**(120,091)**
Disposals	-	5,518	334	4,775	**10,627**
Impairment	(1,891)	-	-	(8,968)	**(10,859)**
Effect of translation to presentation currency	(92)	5,288	445	(59)	**5,582**
Balance at 31 December 2009	**(1,983)**	**(481,636)**	**(24,442)**	**(9,407)**	**(517,468)**
Charge for the year	-	(142,729)	(5,600)	-	**(148,329)**
Disposals	-	5,760	289	-	**6,049**
Impairment	(13,584)	(19,835)	-	(7,344)	**(40,763)**
Effect of translation to presentation currency	62	4,399	162	75	**4,698**
Balance at 31 December 2010	**(15,505)**	**(634,041)**	**(29,591)**	**(16,676)**	**(695,813)**
Net book value					
31 December 2009	**240,900**	**1,564,953**	**36,816**	**447,879**	**2,290,548**
31 December 2010	**273,184**	**1,891,464**	**40,722**	**295,582**	**2,500,952**

(in thousands of US Dollars)

Mining assets at 31 December 2010 included mineral rights with net book value amounted to USD 537,435 thousand (31 December 2009: USD 559,107 thousand).

Amortisation and depreciation on assets being used for the construction of new assets capitalised during the year ended 31 December 2010 amounted to USD 21,474 thousand (31 December 2009: USD 23,151 thousand).

As at 31 December 2010 property, plane and equipment with a carrying value of USD 3,620 thousand have been pledged to secure bank guarantee liability (refer to notes 24 and 26). As at 31 December 2009 property, plane and equipment with a carrying value of USD 20,510 thousand have been pledged to secure borrowings and bank guarantee liability (refer to notes 24, 25 and 26).

An impairment was recorded by the Group in the amount of USD 40,763 thousand (31 December 2009: USD 10,859 thousand). Of the impairment, USD 14,219 thousand relates to the decision to abandon exploration activities in a certain area, As a result of ongoing operational changes and revisions of plans in the Kazakhstan business unit, where the Group has been actively reassessing its property, plant and equipment requirements, and plans for their future use, an amount of USD 26,544 thousand has been impaired to reduce the book value to the anticipated recoverable value.

The Group, as a result of its previous experience with fires, missing assets, and excessive wear and tear, combined with ongoing operational changes and revisions of plans, has been actively reassessing its property, plant and equipment requirements, and plans for their future use. During the year ended 31 December 2010, the Group identified assets for which the book value exceeded the anticipated recoverable value and also reassessed expected useful life of certain assets, and accordingly an impairment was recorded in the amount of USD 26,544 thousand.

14. DEFERRED STRIPPING COSTS

	2010	2009
Balance at beginning of the year	**106,088**	**163,988**
Deferred stripping costs capitalised	9,740	15,111
Expensed stripping cost	(54,152)	(65,847)
Effect of translation to presentation currency	(653)	(7,164)
Balance at end of the year	**61,023**	**106,088**

15. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	2010	2009
Non-current		
Derivative financial assets	46,136	109,911
Loans receivable	3,825	4,562
Other	312	319
Total non-current	**50,273**	**114,792**
Current		
AFS equity investments	99,721	202,161
Bank deposits	39,351	70,158
Equity investments in listed companies held for trading	36,730	39,199
Other	1,530	1,215
Total current	**177,332**	**312,733**

(in thousands of US Dollars)

Financial assets at FVTPL

Equity investments in listed companies held for trading are treated as financial assets at FVTPL. In connection with the acquisition of KazakhGold, the Group obtained call options (derivative financial assets) to acquire all rights and obligations under convertible loan agreements between KazakhGold and its previous major shareholder (refer to note 4). At 31 December 2010, the fair value of the call options for the convertible loans amounted to USD 46,136 thousand (31 December 2009: USD 109,911 thousand) and the decrease in the fair value of the instrument of USD 63,775 thousand (2009: USD 20,039 thousand) was recognised in the consolidated income statement. The excersise of the call is subject to the Group being able to obtain approval from the Government of Kazakhstan. Management believes it is probable that it would obtain this approval from the Government of Kazakhstan if the Group exercised the call option.

AFS investments, carried at fair value

At 31 December 2010 and 2009, AFS equity investments are primarily comprised of shares owned in Rosfund, SPC (Cayman Islands) acquired in July 2006.

Rosfund, SPC invests in securities and other financial assets. At 31 December 2010 and 2009 Rosfund, SPC included equity investments in listed companies, bonds and Depositary Receipts.

The Group recognised in equity within the investments revaluation reserve an increase in the fair value of AFS equity investments during the year ended 31 December 2010 of USD 33,340 thousand.

In 2010, the Group sold 63% of the shares it owned in Rosfund, SPC for USD 137,000 thousand. As a result of this transaction the Group recognised a gain in the amount of USD 20,289 thousand in the consolidated income statement.

Loans and receivables, carried at amortised cost

Bank deposits at 3.45-6.5% per annum are denominated in RUB and mature in January – December 2011.

16. INVENTORIES

	2010	2009
Inventories expected to be recovered after twelve months		
Stockpiles	201,030	40,732
Total	**201,030**	**40,732**
Inventories expected to be recovered in the next twelve months		
Gold-in-process at net production cost	145,332	202,647
Refined gold at net production cost	19,523	14,609
Total metal inventories	**164,855**	**217,256**
Stores and materials at cost	298,503	204,817
Less: Allowance for obsolescence	(8,214)	(6,835)
Total	**455,144**	**415,238**

During 2010 the Group discovered some of its existing ore stockpiles were taking longer to process at its Olimpiada mine. Consequently, the Group postponed processing part of its stockpiles while it modifies its ore processing in order to improve its recoverability at the completion of the manufacturing process. Accordingly, such stockpiles have been classified as long-term.

(in thousands of US Dollars)

17. TRADE AND OTHER RECEIVABLES

	2010	2009
Trade receivables for gold sales	3,714	4,298
Other receivables	23,478	17,284
	27,192	**21,582**
Less: Allowance for doubtful debts	(5,948)	(3,772)
Total	**21,244**	**17,810**

Substantially all gold sales are made to banks with immediate payment terms. The average credit period on gold-bearing product sales to customers, other than banks, varied from 3 to 8 days in 2010 (2009: 3 to 8 days). No interest is charged on trade receivables.

Other receivables included amounts receivable from sales of electricity, transportation, handling and warehousing services and other services. In 2010, the average credit period for other receivables was 62 days (2009: 74 days). No interest is charged on other receivables.

The Group generally fully provides allowance for all receivables over 365 days because historical experience has shown that receivables past due beyond 365 days are not recoverable.

The procedure for accepting a new customer includes checks by the security department regarding the customer's business reputation, licenses and certifications. At 31 December 2010, the Group's largest customers individually exceeding 5% of the total balance represented 40% (31 December 2009: 39%) of the outstanding balance of accounts receivable.

At 31 December 2010, included in the Group's accounts receivable balance was USD 9,665 thousand (31 December 2009: USD 3,465 thousand) which were past due but not impaired. The Group does not hold any collateral over these amounts. The average age of these receivables was 232 days (31 December 2009: 184 days).

Aging of past due but not impaired receivables:

	2010	2009
Less than 90 days	2,955	1,213
91-180 days	466	234
181-365 days	2,472	2,018
More than 365 days	3,772	-
Total	**9,665**	**3,465**

Movement in the allowance for doubtful debts:

	2010	2009
Balance at beginning of the year	**3,772**	**4,095**
Receivable balances written off	-	(69)
Recognised in consolidated income statement	3,240	1,389
Amounts recovered during the year	(744)	(1,549)
Effect of translation to presentation currency	(320)	(94)
Balance at end of the year	**5,948**	**3,772**

Included in the allowance for doubtful debts are individually impaired other receivables of companies which have been placed under liquidation amounting to USD 627 thousand (31 December 2009: USD 632 thousand). 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.

(in thousands of US Dollars)

18. ADVANCES PAID TO SUPPLIERS

At 31 December 2010, advances paid to suppliers of USD 22,968 thousand (31 December 2009: USD 20,773 thousand) were presented net of impairment of USD 2,460 thousand (31 December 2009: USD 2,643 thousand).

19. OTHER CURRENT ASSETS

	2010	2009
Deferred expenditures	18,282	16,918
Other prepaid taxes	3,392	3,719
Total	**21,674**	**20,637**

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

20. CASH AND CASH EQUIVALENTS

		2010	2009
Bank deposits	- RUB	69,847	73,245
Current bank accounts	- RUB	182,532	44,416
	- foreign currencies	67,204	44,137
Other cash and cash equivalents		7,322	11,562
Total		**326,905**	**173,360**

Bank deposits are denominated in RUB and bear interest of 1.5-5.0% per annum with original maturity within three months.

21. SHARE CAPITAL

At 31 December 2010 and 2009, authorised, issued and fully paid share capital of the Company comprised of 190,627,747 ordinary shares at par value of RUB 1. Treasury shares are held by a subsidiary of the Group, and have been recorded at cost and presented as a separate component in equity.

At 24 August 2010, the Company declared a dividend of RUB 8.52 or US cents 0.28 (at 24 August 2010 exchange rate) per share relating to the six months ended 30 June 2010. Dividends in the amount of USD 50,528 thousand (net of USD 3,000 thousand attributable to treasury shares) were paid to shareholders at 31 October 2010.

At 21 May 2010, the Company declared a dividend of RUB 9.28, or USD 0.30 (at 21 May 2010 exchange rate) per share related to the year ended 31 December 2009. Dividends in the amount of USD 54,273 thousand (net of USD 3,252 thousand attributable to treasury shares) were paid to shareholders at 31 July 2010.

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.

(in thousands of US Dollars)

22. ENVIRONMENTAL OBLIGATIONS

	2010	2009
Balance at beginning of the year	**90,518**	**34,379**
New obligations raised	-	9,009
Change in estimate	37,885	29,059
Acquired on acquisition of subsidiaries	-	12,565
Unwinding of discount on decommissioning obligations	8,808	4,230
Effect of translation to presentation currency	(661)	1,276
Repayment of decommissioning obligations	(140)	-
Balance at end of the year	**136,410**	**90,518**

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

	2010	2009
Discount rates	6.97-10.0%	6.6-10.2%
Inflation rates	6.9-13.3%	6.0-9.6%
Expected mine closure dates	2011-2050	2011-2050

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

	2010	2009
Within one year	1,298	-
Due from second to fifth year	2,401	1,596
Due from sixth to tenth year	65,427	11,400
Due from eleventh to fifteenth year	14,432	44,346
Due from sixteenth to twentieth year	26,646	17,381
Due thereafter	26,206	15,795
Total	**136,410**	**90,518**

23. OTHER NON-CURRENT LIABILITIES

	2010	2009
Bank guarantee liability	300	11,014
Historical costs liability	4,158	4,512
Defined benefit obligation	15,208	-
Total	**19,666**	**15,526**

Bank guarantee liability

As a result of the acquisition of KazakhGold, the Group acquired a liability for a bank guarantee 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 to mature on 4 April 2013 of USD 15,000 thousand provided by JSC Kazkommertsbank (“KKB”) to Akir Group LLP (“Akir Group”). Funds received from the credit facility were used by the Akir Group to acquire mining and other equipment which was subsequently leased to Kazakhaltyn under finance lease agreements concluded during 2006-2007.

In 2009, the Akir Group defaulted on the loan agreement with KKB. As such, as 31 December 2009, the Group fully provided for potential losses related to this guarantee liability.

Liability in the amount of USD 5,996 due in 2011 was included in payables (refet to note 25).

(in thousands of US Dollars)

Historical costs liability

The Group has a financial liability to reimburse the Government of Kazakhstan an amount of USD 8,991 thousand for the historical cost of geological studies performed in respect to the Group's subsoil use contracts. The historical cost of geologic studies is expected to be repaid in 10 equal annual instalments, commencing from 2011 subject to approval from the appropriate governmental authority. The effective interest rate on the liability is 12% per annum. In 2010 historical costs liability in amount of USD 899 thousand was reclassified to other accounts payable.

Defined benefit obligation

The Group operates a defined benefit scheme for qualifying employees. The scheme is unfunded. The Group recognised the respective defined benefit obligation as of 31 December 2010. In previous periods, the obligation was not considered material and therefore no provision was made. The full provision was recognised in current year in profit and loss.

The following key actuarial assumptions were used when estimating the obligation:

- discount rate of 9.5%;
- future pension increase of 6.5% per year; and
- future salary increase of 8.0% per year.

24. BORROWINGS

			2010		2009	
		Currency	**Rate,%**	**Outstanding balance**	**Rate,%**	**Outstanding balance**
Guaranteed senior notes	(i)	USD	9.37%	173,762	9.37%	163,513
Loans payable	(ii)	USD	10.00%	29,686	10.00%	25,365
Secured bank loan		USD		-	13.75%	4,751
Secured bank loan		KZT		-	16.00%	1,854
Unsecured bank loan		USD		-	11.00%	4,348
Total				**203,448**		**199,831**
Less: current portion due within twelve months				(173,762)		(173,437)
Long-term borrowings				**29,686**		**26,394**

Summary of borrowing agreements

(i) Guaranteed senior notes

In November 2006, KazakhGold issued the notes at par with interest payable semi-annually in arrears on 6 May and 6 November of each year, and with principal due on 6 November 2013. The notes are unconditionally and irrevocably guaranteed by Kazakhaltyn, a wholly owned subsidiary of the Company, and its subsidiaries.

Following the acquisition of the KazakhGold by Jenington, Polyus Gold became an additional limited liability guarantor of the notes.

KazakhGold is obliged to comply with a number of restrictive and other covenants under the Guaranteed senior notes, limitations on additional indebtedness, financial reporting timelines and certain other financial covenants. At 31 December 2010, KazakhGold was not in compliance with all the required 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 early redemption. Effective interest rate is 16%.

(in thousands of US Dollars)

(ii) Loans payable

In 11 June 2009, KazakhGold signed two loan agreements with Gold Lion Holdings Limited, an entity that was, at that time, a related party. The loan agreements have a 10% interest rate per annum. Principal amounts of 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 1.50 per one share. Conversion is subject to several restrictions, including Republic of Kazakhstan regulatory approval and approval from the Company. In June 2009, Gold Lion Holdings Limited granted a call option to Jenington, or any other direct of indirect subsidiary of Polyus Gold, to acquire all rights and interests under these loan agreements, including the conversion right.

25. TRADE, OTHER PAYABLES AND ACCRUED EXPENSES

	2010	2009
Trade payables to third parties	38,715	24,332
Other payables, including:		
Wages and salaries payable	51,317	43,212
Bank guarantee liability - current	5,996	2,235
Interest payable	2,877	2,821
Other accounts payable and accrued expenses	38,306	16,682
Total other payables	**98,496**	**64,950**
Accrued annual leave	31,826	27,530
Total	**169,037**	**116,812**

In 2010, the average credit period for payables was 11 days (2009: 13 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.

26. OTHER TAXES PAYABLE

	2010	2009
Value added tax	4,188	25,315
Social taxes	7,839	7,791
Tax on mining	10,665	6,759
Property tax	4,778	3,321
Other taxes	1,966	437
Total	**29,436**	**43,623**

Contribution to the state pension fund of the Russian Federation for the year ended 31 December 2010 amounted to USD 38,970 thousand (2009: USD 25,642 thousand).

At 31 December 2010, outstanding contributions to the state pension fund amounted to USD 239 thousand (2009: USD 1,885 thousand).

(in thousands of US Dollars)

27. RELATED PARTIES

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

As at 31 December 2010 and 2009, the Group had the following outstanding balances with entities under common control:

	2010	2009
Cash and cash equivalents	23,304	22,574
Advances and prepaid expenses paid to suppliers	227	186
Other working capital, net	13	(1)

During the years ended 31 December 2010 and 2009, Group entered into the following transactions with entities under common control:

	2010	2009
Purchase of goods and services	1,763	1,078
Interest income	300	-

The Group had no transactions with its shareholders in 2009 or 2010.

The amounts outstanding at 31 December 2010 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 2010 amounted to USD 21,858 thousand (2009: USD 12,047 thousand).

28. CONTINGENCIES

Capital commitments

The Group's budgeted capital expenditure commitments as at 31 December 2010 amounted to USD 802,418 thousand (2009: USD 587,211), including USD 24,304 thousand (2009: 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 this land through operating lease agreements, which expire in various years through 2058.

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

	2010	2009
Due within one year	3,256	2,714
From one to five years	8,308	8,005
Thereafter	18,880	17,328
Total	**30,444**	**28,047**

Litigation

At the date of issuance of these consolidated financial statements the Group was party to a number of claims and litigation, most of which are not material, except:

- Lawsuit related to the liquidation of Talas Gold Mining Company from the General Prosecutor's office of Kyrgyzstan. The amount of assets under proceeding is equivalent to USD 36,172 thousand;

Management believes that this claim will not 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.

On 15 October 2005, new changes were introduced to the Subsoil Use Law of the Republic of Kazakhstan. Those changes stipulate that assignments, transfers and amendments of subsoil use rights may be made only with the prior consent of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (except when such assignment or transfer is to a subsidiary of the subsoil user in question or is as a result of a reorganization of the subsoil user whereby its legal successor assumes all its rights and obligations). The Government has a pre-emption right in respect of a transfer of any part of the subsoil use rights and of a participation share (shares) in the legal entity holding such subsoil use rights for assets in the Republic of Kazakhstan, provided that the terms and conditions (upon which such pre-emption right may be exercised) are not less favourable than those on which the proposed transferee is prepared to assume such subsoil use rights.

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 2010 of approximately USD 3,040 thousand (31 December 2009: USD 15,260 thousand). This amount had not been accrued at 31 December 2010 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 RF, the RF 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.

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

Republic of Kazakhstan risk

Although in recent years there has been a general improvement in economic conditions in the Republic of Kazakhstan, the country 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.

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

KazakhGold dispute

There is a dispute between the former and current shareholders of KazakhGold, whereby the current shareholders are asserting that the former shareholders were negligent in their fiduciary responsibilities related to KazakhGold. On 25 June 2010, the current shareholders filed a lawsuit against the former controlling shareholders.

Subsequent to that date, the Government of the Republic of Kazakhstan has taken various actions against the current management and directors of KazakhGold that have had both a direct and indirect impact on KazakhGold. These actions include the following:

- on 12 July 2010, JSC “MMC Kazakhaltyn” (“Kazakhaltyn”), a major production subsidiary of KazakhGold located in the Republic of Kazakhstan, received notification from the Ministry of Industry and New Technologies of the Republic of Kazakhstan indicating that the previous decisions of the competent authorities in Kazakhstan providing a waiver of the state’s pre-emptive right to acquire KazakhGold’s securities had been annulled. These waivers were obtained in connection with (a) the acquisition of 50.2% of the shares of KazakhGold in July 2009, (b) the issuance of shares in July 2010 that resulted in proceeds of USD 100 million to KazakhGold and (c) the proposed combination between Polyus Gold and KazakhGold announced on June 30, 2010;
- on 2 August 2010, the Group was notified that a freeze had been placed by the Agency on Economic and Corruption Crimes (“AECC”) in Kazakhstan on certain bank accounts held in Kazakhstan by Kazakhaltyn. This freeze is in connection with an investigation by the AECC into allegations of fraud by three members of its current Board of Directors. After clarification, Kazakhaltyn was permitted limited access to make payments to employees and certain key suppliers;
- on 23 August 2010, an unscheduled tax audit of Kazakhaltyn commenced for the fiscal years 2009 and 2010 and further the tax audit was extended for 2007 and 2008 years; and
- on 7 September 2010, major production assets owned by Kazakhaltyn were frozen under AECC freezing order which had been made in the connection with the investigation being processed by AECC. The restriction refers to possible disposal of property, plant and equipment and has no influence on current operating activity;
- on 8 December 2010, the Group entered into an agreement (the “Principal Agreement”) to sell Kazakhaltyn to the former controlling shareholders for payment in two tranches totalling USD 509 million not later than 11 March 2011;
- on 14 March 2011, the Group announced that the period for Principal Agreement had lapsed, and the exclusivity agreement described therein was no longer valid.

Management of the Group believe that based on the rapid sequence of these events, the actions of the Government of the Republic of Kazakhstan is in direct response to the legal proceedings brought by the current shareholders against the former shareholders.

The Group is unable to predict the outcome of the actions taken by the Government of the Republic of Kazakhstan and therefore cannot reasonably predict the impact on its operations. The management does not believe this dispute will have material impact on the Group business.

(in thousands of US Dollars)

29. 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 24) less cash and cash equivalents (disclosed in note 20) and equity of the Group (comprising issued share capital, reserves, retained earnings and non-controlling interests).

Major categories of financial instruments

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

	2010	2009
Financial assets		
Financial assets at FVTPL		
Derivative financial asset	46,136	109,911
Equity investments in listed companies held for trading	36,730	39,199
Loans and receivables, including cash and cash equivalents		
Cash and cash equivalents	326,905	173,360
Bank deposits	39,351	70,158
Trade and other receivable	21,244	17,810
Loans receivable	3,825	4,562
AFS financial assets, carried at fair value		
AFS equity investments	99,721	202,161
Total financial assets	**573,912**	**617,161**
Financial liabilities		
Borrowings	203,448	199,831
Trade payables	38,715	24,332
Other payables	130,322	92,480
Other non-current liabilities	19,666	15,526
Total financial liabilities	**392,151**	**332,169**

The main risks arising from the Group's financial instruments are equity investments price, foreign currency, credit and liquidity risks. Due to the fact that there are no borrowings with floating rates at 31 December 2010 and 2009, management believes that the Group is not exposed to interest rate risk.

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.

(in thousands of US Dollars)

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

- Profit before tax for the year ended 31 December 2010 would increase/decrease by USD 9,731 thousand (2009: USD 16,180 thousand) as a result of changes in fair value of Financial assets at FVTPL; and
- Investment revaluation reserve within equity balance would increase/decrease by USD 9,972 thousand (2009: USD 20,338 thousand) as a result of changes in fair value of securities AFS.

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

Fair value measurements recognised in the statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other 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).

As at 31 December 2010, the Group held the following financial instruments measured at fair value:

	Level 1	Level 2	Total
Available for sale equity investments	-	99,721	**99,721**
Equity investments in listed companies held for trading	36,730	-	**36,730**
Derivative financial asset	-	46,136	**46,136**

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	-	202,161	**202,161**
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 15, 17 and 20) and financial liabilities (refer to notes 23, 24, 25 and 26) 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 and loans payable, which had a fair value at the reporting date of approx. USD 231,000 thousand based on applying the yeld on senior notes price as quoted on the Luxembourg Stock Exchange.

(in thousands of US Dollars)

Foreign currency risk

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

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than functional currencies of the individual Group entities at 31 December 2010 and 2009 were as follows:

	Assets		Liabilities	
	2010	**2009**	**2010**	**2009**
USD	162,021	15,835	291,577	279,510
EURO	2,551	5,546	555	1,164
Total	**164,572**	**21,381**	**292,132**	**280,674**

Currency risk is monitored on a monthly basis by performing sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level.

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

	2010	**2009**
Profit or loss (RUB to USD)	12,956	26,368
Profit or loss (RUB to EURO)	(200)	(438)
Profit or loss (KZT to USD)	28,386	27,701
Equity (KZT to USD)	(168)	1,350
Equity (RUB to USD)	(2,915)	(5,959)

Credit risk

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

In order to mitigate the credit risk, the Group conducts its business with creditworthy and reliable counterparties, minimises the advance payments to suppliers, and actively uses letters of credit and other trade finance instruments.

During 2010, the Group introduced a methodology for in-house financial analysis of banks and non-banking counterparties, which enables the management to estimate an acceptable level of credit risk with regard to particular counterparties and to set appropriate individual risk limitations. Within the Group's core companies the procedures for preparing new agreements include analysis and contemplation of credit risk, estimation of the aggregate risk associated with a counterparty (arising both from an agreement under consideration and from previously existing contracts, if any) and verifying compliance with individual credit limits.

The Group's credit risk profile is regularly observed by management in order to avoid undesirable increase in risk, limit concentration of credit and to ensure compliance with above mentioned policies and procedures.

(in thousands of US Dollars)

Although the Group sells more than 80% of 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. A substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore credit risk related to trade receivables is minimal. At 31 December 2010 the Group had USD 3,714 thousand of outstanding trade receivables for gold sales (31 December 2009: USD 4,298 thousand).

Gold sales to the Group’s three major customers, individually exceeding 10% of the Group’s gold sales, amounted to USD 1,403,365 thousand (2009: USD 1,160,461 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.

Historically the Group has not extensively obtained external financing. Management is currently in discussions with major Russian and International banks to establish lending facilities. The Group also strives to establish business relations with export credit agencies in order to benefit from their financial support when purchasing the foreign goods and particlularly equipment.

The management believes that, in case of need, the Group would be able to raise sufficient funding rather quickly and at a favourable conditions due to its strong historical operations and positive operating cash flow.

The Group’s cash management procedures include medium-term forecasting (budget approved each financial year and updated on a quarterly basis), short-term forecasting (monthly cash-flow budgets are established for each business unit and a review of each entity’s daily cash position using a two-week rolling basis).

Presented below is the maturity profile of the Group’s financial liabilities as at 31 December 2010 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:									
Principal	**280,335**	249,310	-	-	-	-	31,025	-	-
Interest	**27,785**	3,940	2,865	-	-	-	20,980	-	-
Other non-current liabilities, including:									
Principal	**8,392**	-	-	-	1,199	899	899	899	4,496
Trade and other payables, including:									
Principal	**108,040**	101,149	-	6,891	-	-	-	-	-
Total	**424,552**	**354,399**	**2,865**	**6,891**	**1,199**	**899**	**52,904**	**899**	**4,496**

(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:									
Principal	**289,870**	200,206	48,098	9,512	823	206	-	31,025	-
Interest	**24,105**	1,105	1,105	565	297	53	-	20,980	-
Other non-current liabilities, including:									
Principal	**20,005**	-	-	-	11,583	1,229	899	899	5,395
Trade and other payables, including:									
Principal	**89,282**	75,976	8,018	5,288	-	-	-	-	-
Total	**423,262**	**277,287**	**57,221**	**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 24, the Group has violated the terms of Notes and Lenders have the right to enforce repayment of the face value.

30. SUBSEQUENT EVENTS

Invenstments in Natalkinskoye gold deposit

On 24 February 2011, an agreement between OJSC "RiM" and the Administration of Magadan Region was signed. In accordance with the agreement the Group is expected to invest USD 1,034 million until 2014 in the further development of the Natalka gold deposit and construction of processing plant.

Agreement for sale of KazakhAltyn Group

On 8 December 2010, KazakhGold and AltynGroup, the former controlling shareholders of the KazakhGold, entered into a binding agreement (the "Original Principal Agreement") for the sale of KazakhGold's operating subsidiaries in Kazakhstan, Romania and Kyrgyzstan and its withdrawal of claims against former shareholders, and cessation of claims by Kazakh Authorities. The Original Principal Agreement was terminated by KazakhGold on 14 March 2011.

Following termination of the Original Principal Agreement, the parties have continued with negotiations regarding the sale of the operating subsidiaries to AltynGroup, resolution of the claims and other disputes between the parties. These continued negotiations have now resulted in the entry into a Restated and Amended Principal Agreement (the "RAPA") on 14 April 2011, and a Settlement Deed in respect of the claims which provides for a conditional settlement and release of the orders, judgments and claims, whether in litigation, arbitration or otherwise, initiated, inter alia, in the UK, Jersey, the BVI, or elsewhere, between KazakhGold, Jenington and Kazakhaltyn, on the one hand, and the Assaubayev family, on the other hand, and all of their respective subsidiaries and affiliates, arising in respect of the original acquisition of 50.2 percent of KazakhGold by Jenington (the "Settlement Deed").

Pursuant to the RAPA, AltynGroup will acquire KazakhGold's operating subsidiaries in Kazakhstan, Romania and Kyrgyzstan in two tranches beginning in September 2011. The aggregate transaction price for all the shares is USD509,000 thousand, as well as the Assaubayev's family repayment of the Jenington Loan.

As at the date of issuance of these financial statements, management is not certain that the conditions to the transactions contemplated by the RAPA and the conditions to the Settlement Deed will be satisfied, or that the transactions will be completed.

Distribution of dividends for the year 2010

On 18 April 2011, the Board of Directors recommended dividends of RUB 11.25 or USD 0.40 (at 18 April 2011 exchange rate) per share for the second half of 2010 year.

(in thousands of US Dollars)

31. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

Subsidiaries	Country of incorporation	Nature of business	Effective % held[1] 2010	Effective % held[1] 2009
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"[3]	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"[3]	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	65.0	50.2
JSC "MMC Kazakhaltyn"[2]	Republic of Kazakhstan	Mining	65.0	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.
[3] These entities are controlled by the Company's Board of Directors. A majority of the board members for these entities are representatives of the Company and are therefore consolidated even though the voting interest is less than 50% as at 31 December 2009 and 2010.