Polyus Gold International Limited

Consolidated financial statements for the year ended 31 December 2011

POLYUS GOLD INTERNATIONAL LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

INDEX **PAGE**

POLYUS GOLD INTERNATIONAL LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report, set out at page 3, is made with a view to distinguish the responsibilities of the Board of Directors and those of the independent auditors in relation to the consolidated financial statements of Polyus Gold International Limited.

The Board of Directors is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as of 31 December 2011, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

In preparing the consolidated financial statements, the Board of Directors is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs 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.

The Board of Directors 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 2011 were approved on 30 March 2012 by the Board of Directors.

On behalf of the Board of Directors:

Pikhoya G.R.
Chief Executive Officer

London
30 March 2012

Deloitte.

ZAO "Deloitte & Touche CIS"
5 Lesnaya Street
Moscow, 125047
Russia

Tel: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01
www.deloitte.ru

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Polyus Gold International Limited:

We have audited the accompanying consolidated financial statements of Polyus Gold International Limited and its subsidiaries (hereinafter the "Group"), which are comprised of the consolidated statement of financial position as at 31 December 2011 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2011 and a summary of significant accounting policies and other explanatory information.

Director's responsibility for the consolidated financial statements

The Directors are 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 the Directors determine 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 the Directors, as well as evaluating the overall presentation of the consolidated 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 2011, and its financial performance and its cash flows for the year ended 31 December 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Deloitte + Touche

Moscow, Russia
30 March 2012

POLYUS GOLD INTERNATIONAL LIMITED

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

	Notes	Year ended 31 December 2011	2010
Gold sales	7	2,340,650	1,711,298
Other sales		62,060	37,506
Total revenue		**2,402,710**	**1,748,804**
Cost of gold sales	8	(1,162,019)	(895,555)
Cost of other sales		(46,343)	(33,424)
Gross profit		**1,194,348**	**819,825**
Selling, general and administrative expenses	9	(225,618)	(194,549)
Impairment of stockpiles	21	(25,209)	-
Impairment of exploration and evaluation assets	17	(54,708)	(13,584)
Impairment of property, plant and equipment		(23,501)	(27,179)
Research expenses		(2,581)	(2,412)
Other expenses, net	10	(24,077)	(35,101)
Operating profit		**838,654**	**547,000**
Finance costs	11	(71,403)	(42,717)
Income/(loss) from investments, net	12	3,630	(23,711)
Foreign exchange (loss)/gain		(5,814)	765
Profit before income tax		**765,067**	**481,337**
Income tax	13	(207,052)	(124,840)
Profit for the year		**558,015**	**356,497**
Attributable to:			
Shareholders of the Company		468,998	332,169
Non-controlling interests		89,017	24,328
		558,015	**356,497**
Earnings per share			
Basic and diluted (US Cents)	15	16	11

POLYUS GOLD INTERNATIONAL LIMITED

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

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Profit for the year		**558,015**	**356,497**
Available for sale financial assets:			
(Loss)/gain from change in fair value of available-for-sale investments		(8,976)	33,340
Losses recycled to profit or loss on disposal or impairment of available-for-sale investments	12	(17,023)	(20,289)
		(25,999)	13,051
Effect of translation to presentation currency		(194,307)	(32,803)
Other comprehensive loss for the year		**(220,306)**	**(19,752)**
Total comprehensive income for the year		**337,709**	**336,745**
Attributable to:			
Shareholders of the Company		304,309	316,968
Non-controlling interests		33,400	19,777
		337,709	**336,745**

POLYUS GOLD INTERNATIONAL LIMITED

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

ASSETS	Notes	31 December 2011	31 December 2010
Non-current assets			
Property, plant and equipment	16	2,056,417	2,058,636
Exploration and evaluation assets	17	399,846	442,316
Deferred stripping costs	18	64,460	61,023
Inventories	21	207,789	201,030
Investments in securities and other financial assets	20	3,643	50,273
Other non-current assets		35	1,860
		2,732,190	**2,815,138**
Current assets			
Inventories	21	543,023	455,144
Deferred expenditures	19	18,512	18,282
Trade and other receivables	22	24,712	21,244
Advances paid to suppliers and prepaid expenses		29,636	22,968
Investments in securities and other financial assets	20	63,468	177,332
Taxes receivable	23	150,022	167,161
Cash and cash equivalents	24	657,448	326,905
		1,486,821	**1,189,036**
TOTAL ASSETS		**4,219,011**	**4,004,174**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	25	482	519
Additional paid-in capital		2,189,240	2,087,978
Treasury shares		(765,013)	(626,313)
Investments revaluation reserve		4,557	30,556
Translation reserve		(258,426)	(119,736)
Retained earnings		1,424,516	1,810,641
Equity attributable to shareholders of the Company		**2,595,356**	**3,183,645**
Non-controlling interests		235,317	56,886
		2,830,673	**3,240,531**
Non-current liabilities			
Site restoration and environmental obligations	26	149,876	136,410
Borrowings	27	123,048	29,686
Deferred tax	28	180,741	182,948
Other non-current liabilities		24,008	19,666
		477,673	**368,710**
Current liabilities			
Borrowings	27	675,632	173,762
Trade, other payables and accrued expenses	29	192,077	169,037
Taxes payable	30	42,956	52,134
		910,665	**394,933**
TOTAL LIABILITIES		**1,388,338**	**763,643**
TOTAL EQUITY AND LIABILITIES		**4,219,011**	**4,004,174**

POLYUS GOLD INTERNATIONAL LIMITED

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 2009		**519**	**2,087,978**	**(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		-	-	-	-	**-**	33,023	**33,023**	(11,068)	**21,955**
Dividends to shareholders of the Company	14	-	-	-	-	**-**	(104,343)	**(104,343)**	-	**(104,343)**
Dividends to shareholders of non-controlling interests		-	-	-	-	**-**	-	**-**	(11,697)	**(11,697)**
Balance at 31 December 2010		**519**	**2,087,978**	**(626,313)**	**30,556**	**(119,736)**	**1,810,641**	**3,183,645**	**56,886**	**3,240,531**
Profit for the year		-	-	-	-	-	468,998	**468,998**	89,017	**558,015**
Other comprehensive loss		-	-	-	(25,999)	(138,690)	-	**(164,689)**	(55,617)	**(220,306)**
Total comprehensive income		**-**	**-**	**-**	**(25,999)**	**(138,690)**	**468,998**	**304,309**	**33,400**	**337,709**
Effect of reorganisation	2	(37)	220,885	(258,323)	-	-	(417,460)	**(454,935)**	417,460	**(37,475)**
Increase of ownership in subsidiary	2		(119,623)	119,623			(365,336)	**(365,336)**	(223,480)	**(588,816)**
Dividends declared	14	-	-	-	-	-	(72,327)	**(72,327)**	-	**(72,327)**
Dividends to shareholders of non-controlling interests		-	-	-	-	-	-	**-**	(48,949)	**(48,949)**
Balance at 31 December 2011		**482**	**2,189,240**	**(765,013)**	**4,557**	**(258,426)**	**1,424,516**	**2,595,356**	**235,317**	**2,830,673**

POLYUS GOLD INTERNATIONAL LIMITED

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

	Notes	Year ended 31 December 2011	2010
Net cash generated from operating activities	31	**765,405**	**445,307**
Investing activities			
Purchases of property, plant and equipment		(343,037)	(350,327)
Payments for deferred stripping costs	19	(18,270)	(9,740)
Proceeds on sales of property, plant and equipment		1,911	643
Interest received		15,359	8,351
Purchases of investments in securities and placement of deposits in banks		(37,596)	(64,996)
Proceeds on sales of investments in securities and redemption of bank deposits		121,270	244,955
Net cash utilised in investing activities		**(260,363)**	**(171,114)**
Financing activities			
Acquisition of subsidiary's shares	2	(588,816)	-
Proceeds from borrowings	27	560,000	-
Repayment of borrowings	27	-	(10,944)
Proceeds from issuance of subsidiary's shares	2	-	21,955
Dividends paid to shareholders of the Company	14	(73,191)	(104,801)
Dividends paid to non-controlling shareholders		(26,225)	(12,226)
Other		(6,726)	(4,967)
Net cash utilised in financing activities		**(134,958)**	**(110,983)**
Net increase in cash and cash equivalents		**370,084**	**163,210**
Cash and cash equivalents at beginning of the year	24	**326,905**	**173,360**
Effect of foreign exchange rate changes on cash and cash equivalents		(39,541)	(9,665)
Cash and cash equivalents at end of the year	24	**657,448**	**326,905**

1. GENERAL

Polyus Gold International Limited (“PGIL” or the “Company”) and its controlled entities is the resultant group of companies arising from the completed reorganisation of Open Joint Stock Company (“OJSC”) Polyus Gold (“Polyus Gold”), together with its subsidiaries (the “Polyus Gold Group”) and KazakhGold Group Limited (“KazakhGold”), together with its subsidiaries (the “KazakhGold Group”) (the “Reorganisation” – see Note 2). The Reorganisation was effected through the acquisition of substantially all of the share capital of Polyus Gold by KazakhGold (previously a subsidiary 65% owned by Polyus Gold), through a series of transactions, including a private exchange offer for ordinary shares and American Depositary Receipts (“ADRs”) of Polyus Gold and the exercise of options to acquire shares and ADRs of Polyus Gold held by Polyus Gold’s principal shareholders.

The principal activities of the Company and its controlled entities (the “Group”) are the extraction, refining and sale of gold. Mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and Sakha Republic of the Russian Federation and in the Republic of Kazakhstan,

The Group also performs research, exploration and development works, primarily at the Natalka license area located in the Magadan region, Nezhdaninskoe license areas located in the Sakha Republic, Kyrgyzstan, Romania and the Republic of Kazakhstan. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in note 36.

2. REORGANISATION

During the year ended 31 December 2011, the Group completed the Reorganisation of the shareholding structure of the Group. The Boards of Directors of both KazakhGold and Polyus Gold approved the Reorganisation in June 2011. The final conditions were satisfied on 25 July 2011. The effect of the reorganisation has been accounted for in these consolidated financial statements.

The Reorganisation comprised several transactions including:

- A conditional option agreement between KazakhGold and entities under the beneficial ownership of the principal shareholders of Polyus Gold, to acquire their holdings of Polyus Gold securities in exchange for shares in KazakhGold. The option agreement was exercised and KazakhGold acquired 139 million shares in Polyus Gold through the issuance of 2.4 billion KazakhGold shares.
- A conditional option agreement between KazakhGold and Jenington International Inc. (“Jenington”) (a subsidiary of Polyus Gold, and 65% shareholder of KazakhGold), to acquire Jenington’s shareholding of Polyus Gold securities in exchange for shares in KazakhGold. The option agreement was exercised, and KazakhGold acquired 10.7 million shares in Polyus Gold through the issuance of 185 million KazakhGold shares).
- A conditional Private Exchange Offer (“PEO”) to eligible Polyus Gold security holders for 16% of the issued Polyus Gold securities of which 11% was accepted.
- The renaming of KazakhGold to Polyus Gold International Limited (“PGIL”).

As a result of the transactions comprising the Reorganisation, KazakhGold acquired Polyus Gold ordinary shares and ADRs representing in aggregate 89.14% of Polyus Gold’s issued share capital. The result of the transactions is that previous Polyus Gold shareholders held approximately 96% of the issued and outstanding shares of PGIL. After finalisation of the Reorganisation, as presented in note 25, the issued share capital of the Company constitutes 3,032,149,962 ordinary shares at par value of GBP of 0.0001 (including 262,448,816 treasury shares).

(in thousands of US Dollars)

2. REORGANISATION (continued)

The effect of the Reorganisation on the share capital of Polyus Gold is explained below.

The Company's shareholding structure before the Reorganisation was as follows:

	Number of shares '000	%
Jenington	77,745	65.0
GDR holders	31,263	26.1
Other shareholders	10,600	8.9
	119,608	**100.0**

Polyus Gold's shareholding structure before the Reorganisation is presented below as having been converted into the Company share capital at a rate of 1 Polyus Gold share for 17.14 Company's shares:

	Number of shares '000	%
Principal shareholders	2,390,109	73.1
ADR holders	522,778	16.0
Other shareholders	169,770	5.2
Treasury shares held by Jenington	184,703	5.7
	3,267,360	**100.0**

The effect of the Reorganisation on the Company's shareholding structure was as follows:

	Number of shares '000	%
Principal shareholders of Polyus Gold	2,390,109	78.8
Existing Company ADR holders and other shareholders	41,862	1.4
Polyus Gold ADR holders who accepted the PEO	337,730	11.1
Treasury shares held by Jenington	262,449	8.7
	3,032,150	**100.0**

The effect of the Reorganisation on the Group's consolidated financial statements was as follows:

	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Non-controlling interest
Presentation of share capital of legal parent (note 25)	(37)	37	-	-	-
Conversion of Jenington's shareholding in KazakhGold into treasury shares (note 25)	-	220,848	(220,848)	-	-
Classification of call options over KazakhGold shares to treasury shares (note 25)	-	-	(37,475)	-	-
Non-controlling interests in Polyus Gold after Reorganisation	-	-	-	(417,460)	417,460
	(37)	**220,885**	**(258,323)**	**(417,460)**	**417,460**

2. REORGANISATION (continued)

Significant transactions post the Reorganisation date

Increase in ownership in Polyus Gold

On 29 July 2011, and following the closing of PEO described above, the Group, through its subsidiary Jenington International Inc., launched an additional Private Exchange Offer ("Jenington PEO") to enable those eligible Polyus Gold security holders who did not participate in PEO to exchange their securities substantially on the same terms.

The Jenington PEO closed on 15 August 2011 resulting in the acquisition of 4,141,089 ADRs (equivalent of 2,070,545 ordinary shares) of Polyus Gold (or 1.09% of the issued Polyus Gold securities) in exchange for 35,489,133 treasury shares of the Company for the total value of USD 119,623 thousand. In addition, by the end of August 2011, Jenington purchased 4,854,770 ADRs (equivalent of 2,427,385 ordinary shares) of Polyus Gold (or 1.27% of the issued Polyus Gold securities) for a total consideration of USD 142,713 thousand.

As the result of the aforementioned transactions, the aggregated number of issued Polyus Gold securities held by the Company and Jenington International Inc. increased to 91.5% of the total issued capital of Polyus Gold with the corresponding decrease in non-controlling interest of USD 86,560 thousand.

Mandatory tender offer

In accordance with the Russian Federal Law "On Open Joint Stock Companies" a company that has acquired over 30 per cent of the total number of the shares of an open joint stock company is obliged within 35 days from taking legal ownership of the shares as determined under Russian legislation, to send to the shareholders possessing the remaining shares a public offer to acquire their shares ("Mandatory Tender Offer"). The company is required to establish the price of the shares to be acquired which may not be less than the weighted average market price for the nine months prior to sending the Mandatory Tender Offer ("MTO") to the Federal Service for Financial Markets.

On 30 August 2011 a MTO for the acquisition of the non-controlling interests in Polyus Gold was made at the price of RUB 1,900.27 or USD 65.85 (at 30 August 2011 exchange rate) per share. The price established exceeded the average weighted price per share of Polyus Gold as determined by reference to all publicly traded securities of Polyus Gold over a period of at least nine months preceding the date of submission of this MTO to Federal Service for Financial Markets.

On 16 December 2011 Polyus Gold International Limited completed the acquisition of the ordinary registered shares of OJSC Polyus Gold. In the MTO the Company acquired 7,263,644 shares for USD 446,103 thousand, constituting approximately 3.81% of the issued and outstanding shares of OJSC Polyus Gold. After the completion of the MTO, Polyus Gold International Limited became the holder of 177,190,246 shares, representing approximately 92.95% of the issued and outstanding shares of OJSC Polyus Gold. This resulted in a decrease in non-controlling interest by USD 136,920 thousand.

Increase of ownership in KazakhGold in 2010

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 a decrease in non-controlling interest of USD 11,068 thousand.

3. BASIS OF PREPARATION AND PRESENTATION

Going concern

In assessing its going concern status, the Directors have taken account of the Group's financial position, expected future trading performance, its borrowings and available credit facilities, anticipated additional borrowing facilities under negotiation and its capital expenditure commitments and plans, together with other risks facing the Group. After making appropriate enquiries, the Directors consider that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of these consolidated financial statements and that it is appropriate to adopt the going concern basis in preparing these consolidated financial statements.

Compliance with the International Financial Reporting Standards

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS includes the standards and interpretations approved by the IASB including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The accounting policies set out below have been applied in preparing the consolidated financial statements for the years ended 31 December 2011 and 2010.

Basis of presentation

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

As described in note 2, the Group completed during the year the Reorganisation of the shareholding structure of the Group. These consolidated financial statements are issued under the name of Polyus Gold International Limited being the new parent entity following the Reorganisation but represent a continuation of the consolidated financial statements of the Polyus Gold Group except for its capital structure. Accordingly:

(a) the assets and liabilities of Polyus Gold and KazakhGold are recognised and measured at their pre-Reorganisation carrying amounts as the transactions are between parties under common control;
(b) the consolidated retained earnings and other equity balances are the retained earnings and other equity balances of the Polyus Gold Group immediately before the Reorganisation;
(c) the share capital structure reflects the capital structure of Polyus Gold International Limited, which has been presented retroactively; and
(d) the comparative statements presented in these consolidated financial statements are that of the Polyus Gold Group.

(in thousands of US Dollars)

3. BASIS OF PREPARATION AND PRESENTATION (continued)

Standards and Interpretations in issue not yet adopted

At the date of approval of the consolidated financial statements, the following new or amended IFRS standards have been issued by the IASB in the year ended 31 December 2011, but are not mandatory for the current reporting period and therefore have not been applied:

	Effective for annual periods beginning on or after
IFRS 7 "Financial Instruments: Disclosures" – amendment	1 January 2013
IFRS 9 "Financial Instruments – Classification and Measurement"	1 January 2013
IFRS 10 "Consolidated financial statements"	1 January 2013
IFRS 11 "Joint arrangements"	1 January 2013
IFRS 12 "Disclosure of interests in other entities"	1 January 2013
IFRS 13 "Fair value measurement"	1 January 2013
IAS 1 "Presentation of financial statements" – amendment	1 July 2012
IAS 12 "Income taxes" – amendment	1 January 2012
IAS 19 "Employee benefits" – amendment	1 January 2013
IAS 27 "Separate financial statements" – amendment	1 January 2013
IAS 28 "Investments in associates and joint ventures" - amendment	1 January 2013
IAS 32 "Financial instruments: Presentation" - amendment	1 January 2014
IAS 34 "Interim Financial Reporting" – amendment	1 January 2013
IFRIC 20 "Stripping costs in the Production Phase of a Surface mine"	1 January 2013

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

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

Subsidiaries

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

Non-controlling 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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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.

(in thousands of US Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional currency

The individual financial statements of the Group's subsidiaries are each prepared in their respective functional currencies. The functional currency of the Company is US Dollar. The Russian Rouble ("RUB") is the functional currency of all the subsidiaries of the Group, except for the following subsidiaries operating with significant degrees of autonomy:

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

Presentation currency

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Mineral rights

Mineral rights are recorded as assets upon acquisition at fair value and are included within mining assets or exploration and evaluation assets.

Mining assets

Mining assets are recorded at cost less accumulated amortisation. Mining assets include the cost of acquiring and developing mining properties, pre-production expenditure, mine infrastructure, processing plant, mineral rights and mining and exploration 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 remaining useful life of mines of 7 to 21 years per mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code, whichever is shorter. Amortisation is charged from the date a new mine reaches commercial production quantities and is included in the cost of production.

The estimated remaining useful lives of the Group's significant mines based on the mine operating plans are as follows:

Olimpiada	13 years
Blagodatnoe	10-21 years
Kuranakh	16 years

Non-mining assets

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

Building, structures, plant and equipment	5-50 years
Transport	3-11 years
Other assets	3-10 years

Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Amortisation or depreciation of these assets commences when they are in the condition necessary for them to be capable of operating in the manner intended by management.

Leased assets

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible assets, other than exploration and evaluation assets

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

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

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

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

Exploration and evaluation assets

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

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

Exploration and evaluation expenditures are capitalised when the exploration and evaluation activities have not reached a stage that permits a reasonable assessment of the existence of commercially recoverable gold resources. When the technical feasibility and commercial viability of extracting a gold resource are demonstrable and a decision has been made to develop the mine, capitalised exploration and evaluation assets are reclassified to mining assets.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 license areas.

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

Deferred stripping costs

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Refined gold and gold-in-process

Inventories including refined metals, metals in concentrate and in process, ore stockpiles and doré are stated at the lower of production cost or net realisable value. Production cost is determined as the sum of the applicable expenses incurred directly or indirectly in bringing inventories to their existing condition and location. Refined metals are valued at the average cost of production per saleable unit of metal. Work-in- process, metal concentrate and doré are valued at the average production costs at the relevant stage of production. Ore stockpiles are valued at the average cost per tonne of mining ore. Net realisable value represents the estimated selling price for product based on prevailing spot metal prices, less estimated costs to complete production and costs necessary to make the sale.

Stores and materials

Stores and materials consist of consumable stores and are stated at the lower of cost and net realisable value. Costs of stores and materials are determined on a weighted average cost basis.

Net realisable value represents the estimated selling price for stores and materials less all costs necessary to make the sale.

Financial assets

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

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

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 34.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and receivables

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

Impairment of financial assets

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

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

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

Derecognition of financial assets

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

Effective interest method

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

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

Derecognition of financial liabilities

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

Finance costs

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

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

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

Cash and cash equivalents

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

Provisions

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

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

Site restoration and environmental obligations

Site restoration and environmental obligations include decommissioning and land restoration costs. Future decommissioning and land restoration costs, discounted to net present value, are added to respective assets and corresponding obligations raised as soon as the constructive obligation to incur such costs arises and the future cost can be reliably estimated. Additional assets are amortised on a straight-line basis over the useful life of the corresponding asset. The unwinding of the obligation is included in the consolidated income statement as finance costs. Obligations are periodically reviewed in light of current laws and regulations, and adjustments made as necessary to the corresponding item of property, plant and equipment.

Ongoing restoration costs are expensed when incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefit obligations

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

Defined contribution plan

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

Defined benefit plans

In 2009, the Group introduced defined benefits plans, which are unfunded. The cost of providing benefits under these defined benefit plans is determined separately for each plan using the projected unit credit method. The past service costs are recognised as an expense on 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Current and deferred tax for the year

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

Revenue recognition

Gold sales revenue

Revenue from the sale of refined gold and other gold-bearing products is recognised when the risks and rewards of ownership are transferred to the buyer, the Group retains neither a continuing degree of involvement or control over the goods sold, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the entity. Revenue from gold doré sales is recognised at the time of shipment from the refining plant when the Group has received confirmation of sale to the third party. Revenue from gold-bearing products is recognised when the goods have been delivered to a contractually agreed location. Gold sales are stated at their invoiced value net of value-added tax.

Other revenue

Other revenue comprises mainly sales of electricity, transportation, handling and warehousing services, and other. Revenue from the sales of electricity is recognised when a contract exists, delivery has taken place, a quantifiable price has been established or can be determined and the receivables are likely to be recovered. Delivery takes place when the risks and benefits associated with ownership are transferred to the buyer. Revenue from service contracts 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 on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Dividends

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

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Critical judgments in applying accounting policies

Management considers the determination if exploration and evaluation assets will be recouped by future exploitation or sale, identification and valuation of tangible and intangible assets and liabilities, assessment of the outcome of contingencies and the interpretation of tax legislation as critical judgments made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements. All of these critical judgments require estimation of amounts recorded in the consolidated financial statements as described below.

Key sources of estimation uncertainty

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

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

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

Exploration and evaluation assets

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

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.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Economic useful lives of property, plant and equipment

The Group's mining assets, classified within property, plant and equipment, are amortised using the straight-line method over the life-of-mine based on a mine operating plan, which calls for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code. When determining life-of-mine, assumptions that were valid at the time of estimation may change when new information becomes available.

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

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

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

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

Deferred stripping costs

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

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

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

Impairment of tangible assets

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Site restoration and environmental obligations

The Group's mining and exploration activities are subject to various environmental laws and regulations. The Group estimates site restoration and environmental obligations based on the management's understanding of the current legal requirements in the various jurisdictions, terms of the 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 Group's provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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

6. SEGMENT INFORMATION

For management purposes, the Group is organised in separate business segments defined by a combination of operating activities and geographical area. Separate financial information is available for each segment and reported regularly to the chief operating decision maker ("CODM") and the Executive Committee. The Group's seven identified reportable segments are located and described as follows:

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

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

(in thousands of US Dollars)

6. SEGMENT INFORMATION (continued)

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

	Gold sales	Segment profit/(loss)	Capital expenditures	Depreciation and amortisation
31 December 2011				
Krasnoyarsk business unit	1,641,380	918,078	236,780	104,821
Irkutsk alluvial business unit	350,213	102,795	22,808	6,550
Yakutsk Kuranakh business unit	184,735	13,797	12,569	8,298
Irkutsk ore business unit	3,497	(13,042)	111,751	7,307
Exploration business unit	-	(14,107)	11,213	973
Kazakhstan business unit	160,825	5,773	38,583	14,939
Magadan business unit	-	(16,313)	22,026	3,784
Segment result	**2,340,650**	**996,981**	**455,730**	**146,672**
31 December 2010				
Krasnoyarsk business unit	1,176,392	398,359	194,708	61,651
Irkutsk alluvial business unit	248,254	90,283	17,222	6,246
Yakutsk Kuranakh business unit	149,597	38,923	15,801	5,561
Irkutsk ore business unit	22,607	(4,191)	33,577	6,815
Exploration business unit	-	(11,855)	21,591	937
Kazakhstan business unit	114,448	(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**

Gold sales reported above represent revenue generated from external customers.
There were no inter-segment gold sales during the years ended 31 December 2011 and 2010.

(in thousands of US Dollars)

6. SEGMENT INFORMATION (continued)

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

	Year ended 31 December	
	2011	**2010**
Segment result	**996,981**	**446,816**
Differences between IFRS and management accounts:		
Capitalised exploration works	(206)	26,801
Provisions and accruals	(49,109)	(26,196)
Additional depreciation charge and amortisation of mineral rights	(41,277)	(33,081)
Calculation of gold-in-process at net production cost	(31,918)	4,511
Difference in stripping costs capitalisation	20,711	(10,909)
Other	(3,219)	7,667
Adjusted segment result	891,963	415,609
Unallocated central costs, results of financing and investing activities and differences in accounting treatment under IFRS	(126,896)	65,728
Profit before income tax	**765,067**	**481,337**
Segment capital expenditures	**455,730**	**335,333**
Differences between IFRS and management accounts:		
Differences at the moment of recognition of capital expenditures	(85,268)	4,574
Reclassification of advances paid for property, plant and equipment and construction works	20,148	15,879
Reclassification of materials related to construction works	(9,322)	3,564
Differences in capitalised exploration and evaluation costs	(12,635)	30,802
Other	(1,821)	(8,739)
Adjusted segment capital expenditure	366,832	381,413
Unallocated central capital expenditures	1,307	-
Capital expenditures	**368,139**	**381,413**
Segment depreciation and amortisation	**146,672**	**93,774**
Additional depreciation charge	27,878	20,115
Amortisation of mineral rights	13,399	12,966
Depreciation and amortisation	**187,949**	**126,855**

(in thousands of US Dollars)

6. SEGMENT INFORMATION (continued)

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

	31 December	
	2011	**2010**
Russian Federation	2,371,841	2,417,329
Republic of Kazakhstan	308,358	294,864
Kyrgyzstan	31,084	35,881
Romania	17,170	16,682
United Kingdom	94	109
Total	**2,728,547**	**2,764,865**

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

	31 December	
	2011	**2010**
Exploration business unit	43,596	-
Kazakhstan business unit	1,707	-
Krasnoyarsk business unit	5,054	10,369
Irkutsk ore business unit	4,351	-
Irkutsk alluvial business unit	-	3,215
	54,708	**13,584**

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

	31 December	
	2011	**2010**
Kazakhstan business unit	11,417	26,544
Krasnoyarsk business unit	4,891	-
Irkutsk ore business unit	7,193	-
Irkutsk alluvial business unit	-	635
	23,501	**27,179**

7. GOLD SALES

	Year ended 31 December	
	2011	**2010**
Refined gold	2,179,825	1,596,850
Other gold-bearing products	160,825	114,448
Total	**2,340,650**	**1,711,298**

(in thousands of US Dollars)

8. COST OF GOLD SALES

	Year ended 31 December	
	2011	**2010**
Fuel, consumables and spares	410,243	365,504
Labour	288,866	237,602
Tax on mining	179,116	130,230
Utilities	55,140	46,043
Outsourced mining services	22,147	8,897
Refining costs	5,067	2,059
Other	75,696	56,866
Total	*1,036,275*	*847,201*
Amortisation and depreciation of operating assets (note 16)	181,935	118,559
(Capitalisation)/amortisation of deferred stripping costs, net	(7,335)	44,412
Increase in gold-in-process and refined gold inventories	(48,856)	(114,617)
Total	**1,162,019**	**895,555**

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2011	**2010**
Salaries	116,295	103,811
Professional services	36,350	28,274
Taxes other than mining and income taxes	42,630	27,528
Amortisation and depreciation (note 16)	4,830	4,217
Other	25,513	30,719
Total	**225,618**	**194,549**

10. OTHER EXPENSES, NET

	Year ended 31 December	
	2011	**2010**
Penalties on tax on mining	8,040	-
Change in allowance for reimbursable value added tax	6,602	(294)
Loss on disposal of property, plant and equipment	5,933	2,037
Donations	5,468	3,367
Non-recoverable VAT	190	8,600
Other	(2,156)	7,039
Tax provision	-	14,352
Total	**24,077**	**35,101**

11. FINANCE COSTS

	Year ended 31 December	
	2011	**2010**
Interest on borrowings	31,241	32,308
Debt modification expense (note 27 (i))	26,928	-
Unwinding of discounts	11,999	8,808
Other	1,235	1,601
Total	**71,403**	**42,717**

(in thousands of US Dollars)

12. INCOME/(LOSS) FROM INVESTMENTS, NET

	Year ended 31 December	
	2011	**2010**
(Loss)/income from financial assets at fair value through profit and loss		
Loss on derivatives classified as held for trading	(8,661)	(63,775)
(Loss)/income from investments in listed companies held for trading	(20,984)	11,446
Income from AFS investments		
Gain on disposal of AFS investments	17,023	20,289
Interest income on bank deposits	16,252	8,329
Total	**3,630**	**(23,711)**

13. INCOME TAX

	Year ended 31 December	
	2011	**2010**
Current tax expense	200,297	123,492
Deferred tax expense	6,755	1,348
Total	**207,052**	**124,840**

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

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

	Year ended 31 December	
	2011	**2010**
Profit before income tax	**765,067**	**481,337**
Income tax at statutory rate applicable to principal operating entities (20%)	153,013	96,267
Tax effect of non-deductible expenses and other permanent differences	25,463	9,868
Effect of different tax rates of subsidiaries operating in other jurisdictions	14,483	8,870
Tax effect of utilisation of tax losses not previously recognised	(4,990)	(8,446)
Unrecognised tax losses	11,109	10,994
Other	7,974	7,287
Income tax expense at effective rate of 27% (2010: 26%)	**207,052**	**124,840**

14. DIVIDENDS

	Year ended 31 December	
	2011	2010
Dividend declared during the year	72,327	104,343

Dividend per share (US cents per share after giving effect to Reorganisation)

	31 December 2011	31 December 2010
Dividend declared during the year	0.02	0.04

On 20 May 2011, Polyus Gold declared a dividend of RUB 11.25 or USD 0.40 (at 20 May 2011 exchange rate) per Polyus Gold share relating to the second half of the 2010 year. This represents a dividend of RUB 0.71 or USD 0.02 per PGIL share, after giving effect to the Reorganisation.

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

		Year ended 31 December	
	Units	**2011**	**2010**
Earnings for the purpose of basic and diluted earnings per share being the net profit attributable to equity holders of the parent	$'000s	468,998	332,169
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	'000s	2,960,311	3,082,656
Earnings per ordinary share basic and diluted	**$ cents**	**16**	**11**

There were no financial instruments or any other instances which could cause antidilutive effect on earnings per share calculation.

(in thousands of US Dollars)

16. PROPERTY, PLANT AND EQUIPMENT

	Mining assets	Non-mining assets	Capital construction-in-progress	Total
Cost				
Balance at 31 December 2009	**1,877,457**	**61,258**	**457,286**	**2,396,001**
Additions	225,997	7,776	95,496	**329,269**
Transfers from capital construction-in-progress	233,648	2,308	(235,956)	**-**
Transfers from exploration and evaluation assets (note 17)	4,372	-	-	**4,372**
Change in decommissioning liabilities (note 26)	37,885	-	-	**37,885**
Disposals	(7,821)	(466)	(500)	**(8,787)**
Effect of translation to presentation currency	(15,165)	(563)	(4,068)	**(19,796)**
Balance at 31 December 2010	**2,356,373**	**70,313**	**312,258**	**2,738,944**
Additions	160,674	14,386	161,385	**336,445**
Transfers from capital construction-in-progress	90,693	(26,523)	(64,170)	**-**
Transfers from exploration and evaluation assets (note 17)	264	-	-	**264**
Change in decommissioning liabilities (note 26)	7,833	-	-	**7,833**
Disposals	(25,698)	(468)	(460)	**(26,626)**
Effect of translation to presentation currency	(130,593)	(2,519)	(21,249)	**(154,361)**
Balance at 31 December 2011	**2,459,546**	**55,189**	**387,764**	**2,902,499**
Accumulated amortisation, depreciation and impairment				
Balance at 31 December 2009	**(481,636)**	**(24,442)**	**(9,407)**	**(515,485)**
Charge for the year	(142,729)	(5,600)	-	**(148,329)**
Disposals	5,760	289	-	**6,049**
Impairment	(19,835)	-	(7,344)	**(27,179)**
Effect of translation to presentation currency	4,399	162	75	**4,636**
Balance at 31 December 2010	**(634,041)**	**(29,591)**	**(16,676)**	**(680,308)**
Charge for the year	(201,023)	(4,716)	-	**(205,739)**
Transfers	(10,335)	10,335	-	**-**
Disposals	18,172	610	-	**18,782**
Impairment	(23,497)	(4)	-	**(23,501)**
Effect of translation to presentation currency	43,107	997	580	**44,684**
Balance at 31 December 2011	**(807,617)**	**(22,369)**	**(16,096)**	**(846,082)**
Net book value				
31 December 2010	**1,722,332**	**40,722**	**295,582**	**2,058,636**
31 December 2011	**1,651,929**	**32,820**	**371,668**	**2,056,417**

During the year ended 31 December 2011 impairment of mining assets in the amount of USD 12,080 thousand was recognised at Sukhoy Log and Kvartsevaya Gora. The impairment relates to the decision to abandon activities related to the deposits.

In 2011 the Kazakhstan business unit of the Group has reassessed property, plant and equipment requirements and plans for their future use. As the result, certain assets's net book value and expected economic useful life exceeded the anticipated recoverable value and accordingly an impairment was recorded in the amount of USD 11,417 thousand.

(in thousands of US Dollars)

16. PROPERTY, PLANT AND EQUIPMENT (continued)

The carrying values of mineral rights included in mining assets at 31 December 2011 were as follows:

	31 December	
	2011	**2010**
Mineral rights	335,470	368,303

Amortisation and depreciation charge is allocated as follows:

	Year ended 31 December	
	2011	**2010**
Cost of gold sales (note 8)	181,935	118,559
Selling, general and administrative expenses (note 9) and cost of other sales	6,014	8,296
Capitalised within property, plant and equipment	17,790	21,474
Total	**205,739**	**148,329**

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

	31 December	
	2011	**2010**
Pledged property, plant and equipment	4,613	3,620

17. EXPLORATION AND EVALUATION ASSETS

	Year ended 31 December	
	2011	**2010**
Balance at beginning of the year	**442,316**	**410,032**
Additions	31,694	52,144
Transfers to mining assets (note 16)	(264)	(4,372)
Impairment	(54,708)	(13,584)
Effect of translation to presentation currency	(19,192)	(1,904)
Balance at end of the year	**399,846**	**442,316**

During the year ended 31 December 2011 the Group impaired USD 54,708 thousand of exploration and evaluation assets, because those assets (Kuchyus, Kuzeevskaya, Chai-Yurinskaya, Doroninskoye, Tokichan, Zapadnoe, Mukodek, Kaskabulak, Illigirskaya fields) did not demonstrate any future commercial viability.

18. DEFERRED STRIPPING COSTS

	Year ended 31 December	
	2011	**2010**
Balance at beginning of the year	**61,023**	**106,088**
Deferred stripping costs capitalised	18,270	9,740
Expensed stripping cost	(10,935)	(54,152)
Effect of translation to presentation currency	(3,898)	(653)
Balance at end of the year	**64,460**	**61,023**

(in thousands of US Dollars)

19. DEFERRED EXPENDITURES

	Year ended 31 December	
	2011	2010
Deferred expenditures	18,512	18,282

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

20. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	Year ended 31 December	
	2011	2010
Non-current		
Derivative financial assets	-	46,136
Loans receivable	3,643	3,825
Other	-	312
Total	**3,643**	**50,273**
Current		
AFS equity investments	34,744	99,721
Bank deposits	12,175	39,351
Equity investments in listed companies held for trading	14,857	36,730
Other	1,692	1,530
Total	**63,468**	**177,332**

Financial assets at FVTPL

Equity investments in listed companies held for trading are treated as financial assets at FVTPL. In connection with the acquisition of KazakhGold in 2009, the Group obtained call options (derivative financial assets) to acquire all rights and obligations under convertible loan agreements between KazakhGold and its previous major shareholder (note 27 (ii)). The fair value of call options and changes to it are presented as follows:

	Year ended 31 December	
	2011	2010
Balance at beginning of the year	**46,136**	**109,911**
Loss from change in fair value of call options	(8,661)	(63,775)
Reclassified call options to treasury shares, at fair value (note 2)	(37,475)	-
Balance at end of the year	**-**	**46,136**

As the result of Reorganisation described in note 2, the call options were recognised as treasury shares at an amount equal to the fair value of those call options at 30 June 2011.

(in thousands of US Dollars)

20. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS (continued)

AFS investments, carried at fair value

At 31 December 2011 and 2010, AFS investments 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 2011 and 2010 Rosfund, SPC included equity investments in listed companies, bonds and depositary receipts.

The changes in fair value of AFS investments recognized in equity within investment revaluation reserve were as follows:

	Year ended 31 December	
	2011	2010
(Loss)/gain from change in fair value of available-for-sale investments	(8,976)	33,340

During the year ended 31 December 2011, the Group sold 56 % of the shares owned on1 January 2011 in Rosfund, SPC for USD 56,000 thousand. As a result of this transaction, the Group recognised a gain in the amount of USD 17,023 thousand in the consolidated income statement which was reclassified from the cumulative gain previously accumulated in the investment revaluation reserve.

In 2010, the Group sold 63% of the shares owned on 1 January 2010 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 which was reclassified from the cumulative gain previously accumulated in the investment revaluation reserve.

Loans receivable carried at amortised cost

Bank deposits at 2.14 – 8.05% (2010: 3.45-6.5%) per annum are denominated in RUB and mature until June 2012.

21. INVENTORIES

	31 December	
	2011	2010
Inventories expected to be recovered after twelve months		
Stockpiles	207,789	201,030
Total	**207,789**	**201,030**
Inventories expected to be recovered in the next twelve months		
Gold-in-process at net production cost	163,758	145,332
Refined gold at net production cost	24,757	19,523
Total metal inventories	**188,515**	**164,855**
Stores and materials at cost	354,508	290,289
Total	**543,023**	**455,144**

During the year ended 31 December 2011, the Group impaired stockpiles located at Zapadnoe in the amount of USD 25,209 thousand. The impairment relates to the decision to abandon activities related to the deposit.

The Group has 5.6 million tonnes of stockpiles (2010: 6.8 million tonnes) which are carried at zero value, as previously these stockpiles were considered as waste materials.

(in thousands of US Dollars)

22. TRADE AND OTHER RECEIVABLES

	31 December	
	2011	**2010**
Other receivables	24,984	23,478
Less: Allowance for doubtful debts	(5,141)	(5,948)
	19,843	17,530
Trade receivables for gold sales	4,869	3,714
Total	**24,712**	**21,244**

Other receivables include amounts receivable from sales of electricity, transportation, handling, warehousing services and other services. For the year to 31 December 2011 the average credit period for other receivables was 57 days (2010: 62 days). No interest is charged on other receivables.

The procedure for accepting a new customer includes checks by the security department regarding the customer's business reputation, licenses and certifications. At 31 December 2011, the Group's largest customers individually exceeding 5% of the total balance represented 15% (31 December 2010: 40%) of the outstanding balance of accounts receivable.

Movement in the allowance for doubtful debts:

	Year ended 31 December	
	2011	**2010**
Balance at beginning of the year	**5,948**	**3,772**
Recognised in the consolidated statement of income	2,006	3,240
Amounts recovered during the year	(2,552)	(744)
Effect of translation to presentation currency	(261)	(320)
Balance at end of the year	**5,141**	**5,948**

The Group generally fully provides for all receivables over 365 days because experience has shown that receivables past due beyond 365 days are not recoverable. The Group does not hold any collateral over these amounts. The average age of past due but not impaired receivables was 124 days (31 December 2010: 232 days).

Ageing of past due but not impaired other receivables:

	31 December	
	2011	**2010**
Less than 90 days	1,170	2,955
91-180 days	2,816	466
181-365 days	395	2,472
More than 365 days	-	3,772
Total	**4,381**	**9,665**

Substantially all gold sales are made to banks with immediate payment terms. The average credit period on gold-bearing product sales to customers, other than banks, was 7 days for the year ended 31 December 2011, (2010: 3 to 8 days). No interest is charged on trade receivables.

(in thousands of US Dollars)

23. TAXES RECEIVABLE

	31 December	
	2011	2010
Reimbursable value added tax	129,493	154,422
Income tax prepaid	17,821	9,347
Other prepaid taxes	2,708	3,392
Total	**150,022**	**167,161**

24. CASH AND CASH EQUIVALENTS

		31 December	
		2011	2010
Bank deposits	- RUB	487,467	69,847
Current bank accounts	- RUB	146,761	182,532
	- foreign currencies	21,992	67,204
Other cash and cash equivalents		1,228	7,322
Total		**657,448**	**326,905**

Bank deposits are denominated in RUB and bear interest of 4.65-8.05% per annum with original maturity within three months.

25. SHARE CAPITAL

Issued and fully paid up ordinary shares

	Number of ordinary shares '000	Share capital
Issued and fully paid 190,627,747 ordinary shares of Polyus Gold presented as being converted into PGIL shares at a ratio of 17.14	3,267,360	519
Effect of Reorganisation	(235,210)	(37)
Issued and fully paid up ordinary shares of PGIL at 31 December 2011	**3,032,150**	482

The share capital of Polyus Gold is presented in these consolidated financial statements as having been converted into PGIL share capital at a 17.14 conversion rate at 31 December 2010.

The effect of Reorganisation on the issued and fully paid ordinary shares of PGIL is presented as follows:

	Number of ordinary shares '000
Issued and fully paid up ordinary shares of PGIL before the Reorganisation	119,608
Decrease in the issued and fully paid up ordinary shares of Polyus Gold as a result of security holders that declined the PEO	(354,818)
Effect of Reorganisation	**(235,210)**

At 31 December 2011 the authorised share capital of the Company comprised 3,600,000,000 ordinary shares with a par value of GBP 0.0001 per share.

(in thousands of US Dollars)

25. SHARE CAPITAL (continued)

Treasury shares

As a result of the Reorganisation, shares in KazakhGold held by Jenington, a subsidiary of the Group, became treasury shares of the reorganised Group. In addition, call options to acquire all rights and obligations under convertible loan agreements between KazakhGold and its previous major shareholder, became treasury shares of the reorganised Group. The cost of these shares equals the fair value of the options at 30 June 2011.

All treasury shares are held by a subsidiary of the Group, and have been recorded at cost and presented as a separate component in equity.

26. SITE RESTORATION AND ENVIRONMENTAL OBLIGATIONS

	Year ended 31 December	
	2011	2010
Balance at beginning of the year	**136,410**	**90,518**
Change in estimate (note 16)	7,833	37,885
Unwinding of discount on decommissioning obligations (note 11)	11,999	8,808
Effect of translation to presentation currency	(6,366)	(661)
Payment of decommissioning obligations	-	(140)
Balance at end of the year	**149,876**	**136,410**

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

	31 December	
	2011	2010
Discount rates	6.83-9.28%	6.97-10.0%
Inflation rates	3.3%-7.4%	3.3-8.8%
Expected mine closure dates	2011-2050	2012-2050

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

	31 December	
	2011	2010
Due from second to fifth year	7,322	3,699
Due from sixth to tenth year	49,012	65,427
Due from eleventh to fifteenth year	27,534	14,432
Due from sixteenth to twentieth year	7,719	26,646
Due thereafter	58,289	26,206
Total	**149,876**	**136,410**

(in thousands of US Dollars)

27. BORROWINGS

		31 December 2011		31 December 2010	
		Rate %	Outstanding balance	Rate %	Outstanding balance
Guaranteed senior notes	(i)	9.875%	204,520	9.37%	173,762
Loans payable to Gold Lion Holding Limited	(ii)	10.00%	34,160	10.00%	29,686
Societe Generale credit facility	(iii)	1 months USD LIBOR + 1.95%	230,000	-	-
VTB credit facility	(iv)	3 months USD LIBOR + 2.25%	230,000	-	-
Societe Generale credit facility (OJSC "Pervenets")	(v)	3 months USD LIBOR + 2.4%	100,000	-	-
Total			**798,680**		**203,448**
Less: current portion due within twelve months			675,632		173,762
Long-term borrowings			**123,048**		**29,686**

Summary of borrowing agreements

(i) Guaranteed senior notes

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

In November 2011 nominal interest rate was increased by 0.5% to 9.875%.

According to the guaranteed senior notes initial terms, redemption was possible at the choice of the issuer on or after 6 November 2011 at a price of 102.344% of the nominal value. In December 2011 the Board of Directors of the Company decided that the guaranteed senior notes should be redeemed when refinancing facilities were available. Prior to 31 December 2011, the Group arranged a USD 100 million credit facility with Unicredit Bank (see (vi) below) and on 10 February 2012 a further USD 100 million credit facility was arranged with HSBC (note 35). Management considered that early redemption of the guaranteed senior notes was probable at 31 December 2011. An expense of USD 26,928 thousand (note 11) was recognized in the consolidated income statement as the underlying future cash flows had significantly changed.

The effective interest rate is 9.875% as of 31 December 2011 (16% as of 31 December 2010).

(ii) Loans payable

On 11 June 2009, PGIL (formerly KazakhGold) signed two loan agreements with Gold Lion Holdings Limited, an entity that was, at that time, a related party. The loan agreements have a 10% 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 PGIL's (formerly KazakhGold) 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 September 2009, Gold Lion Holdings Limited granted a call option to Jenington, or any other direct or indirect subsidiary of Polyus Gold, to acquire all the rights and interests under these loan agreements, including the conversion right.

The effective interest rate on these loans was 16%.

27. BORROWINGS (continued)

(iii) Societe Generale credit facility

On 6 September 2011, PGIL entered into a USD 500,000 thousand bridge facility agreement with Societe Generale as a lender for a dollar term loan facility to fund consideration payable under the MTO. Under the original terms of the facility agreement the repayment of the facility was to be made on 28 March 2012, refer to Note 35.

As of 31 December 2011 USD 230,000 thousand had been drawn down. The remainder of the bank's commitment under the facility was voluntary cancelled by the Company.

(iv) VTB credit facility

On 2 September 2011, PGIL entered into a USD 300 million bridge facility agreement with VTB Bank as a lender for a dollar term loan facility to fund consideration payable under the MTO. Under the original terms of the facility agreement the repayment of the facility was to be made on 15 March 2012, refer to Note 35.

As of 31 December 2011 USD 230,000 thousand had been drawn down.

(v) Societe Generale credit facility to OJSC “Pervenets”

On 4 October 2011, OJSC "Pervenets", a subsidiary of the Group, entered into a USD 100 million term loan facility agreement with Societe Generale as a lender for a dollar term loan facility to fund general corporate purposes.

As of 31 December 2011 USD 100,000 thousand had been drawn down. The facility is to be repaid in nine equal instalments in intervals of three months starting from 4 October 2012.

(vi) Unused credit facilities

On 21 October 2011, CJSC “Gold Mining Company Polyus”, a subsidiary of the Group, entered into a USD 67,502 thousand export financing credit facility agreement with Societe Generale as a lender for making available the extension of financing to be used for the purchase of goods and services and related exposure fees. The establishment of the facility is for facilitation of exports from the United States of America and guaranteed by Export-Import Bank of the United States. As of 31 December 2011 the facility was not used.

On 29 December 2011, PGIL entered into a USD 100 million facility agreement arranged by ZAO Unicredit Bank. Interest rate was set at LIBOR + 2.95% to fund general corporate purposes and/or repayment of outstanding indebtedness under guaranteed senior notes. As of 31 December 2011 the facility was not used.

VTB and Societe Generale credit facilities contain certain financial covenants. The Group believes that it was in compliance with these covenants as of 31 December 2011.

(in thousands of US Dollars)

28. DEFERRED TAX

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

	Year ended 31 December	
	2011	**2010**
Net liability at beginning of the year	**182,948**	**182,660**
Recognised in the consolidated income statement	**6,755**	1,348
Effect of translation to presentation currency	(8,962)	(1,060)
Net liability at end of the year	**180,741**	**182,948**

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

	31 December	
	2011	**2010**
Property, plant and equipment	162,704	160,851
Inventory	54,383	51,482
Deferred stripping costs	11,897	11,153
Investments	1,370	1,642
Receivables	(1,596)	(871)
Accrued operating expenses	(48,017)	(41,309)
Total	**180,741**	**182,948**

The unrecognised deferred tax asset in respect of tax losses carried forward available for offset against future taxable profit of certain subsidiaries within the Group is presented as follows:

	31 December	
	2011	**2010**
Unrecognised deferred tax asset	40,019	28,910

Such tax losses expire in periods up to ten years, and are not recognised as management does not believe it is probable that future taxable profit will be available against which the respective entities can utilise the benefits.

The unrecognised deferred tax liability for taxable temporary differences associated with investments in subsidiaries is presented as follows:

	31 December	
	2011	**2010**
Unrecognised deferred tax liability	61,839	31,207

The deferred tax liability presented above was not recognised because the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

(in thousands of US Dollars)

29. TRADE, OTHER PAYABLES AND ACCRUED EXPENSES

	31 December 2011	31 December 2010
Trade payables to third parties	30,980	38,715
Other payables, including:		
Dividends payable	39,004	2,925
Wages and salaries payable	61,977	51,317
Mining tax provision	-	14,302
Bank guarantee liability - current	37	5,996
Interest payable	3,718	2,877
Other accounts payable and accrued expenses	24,973	21,079
Total other payables	**129,709**	**98,496**
Accrued annual leave	31,388	31,826
Total	**192,077**	**169,037**

The average credit period for payables at 31 December 2011 was 14 days, (2010: 11 days). No interest was charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments schedules to ensure that all amounts payable are settled within the credit period.

30. TAXES PAYABLE

	31 December 2011	31 December 2010
Income tax payable	2,721	22,698
Value added tax	6,262	4,188
Social taxes	12,958	7,839
Tax on mining	13,260	10,665
Property tax	4,703	4,778
Other taxes	3,052	1,966
Total	**42,956**	**52,134**

(in thousands of US Dollars)

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2011	2010
Profit before income tax		**765,067**	**481,337**
Adjustments for:			
Amortisation and depreciation	16	187,949	126,855
Finance costs	11	71,403	42,717
Expensed stripping cost	18	10,935	54,152
Impairment of inventories	21	25,209	-
Impairment of exploration and evaluation assets	17	54,708	13,584
Impairment of property, plant and equipment	16	23,501	27,179
Loss on disposal of property, plant and equipment	10	5,933	2,037
Change in allowance for reimbursable value added and tax provision	10	6,602	14,058
Income/(loss) from investments	12	(3,630)	23,711
Change in allowance for doubtful debts	22	(546)	2,496
Foreign exchange gain, net		5,814	(765)
Other		3,971	4,385
		1,156,916	**791,746**
Movements in working capital			
Inventories	21	(168,688)	(206,079)
Trade and other receivables	22	(5,811)	(7,595)
Advances paid to suppliers and prepaid expenses		(354)	(718)
Taxes receivable		8,029	(46,315)
Deferred expenditures		(230)	(1,364)
Trade and other payables and accrued expenses		29,813	24,412
Other non-current liabilities		4,026	15,208
Other taxes payable		(4,130)	(12,437)
Cash flows from operations		**1,019,571**	**556,858**
Interest paid		(23,423)	(23,213)
Income tax paid		(230,743)	(88,338)
Net cash generated from operating activities		**765,405**	**445,307**

(in thousands of US Dollars)

32. RELATED PARTIES

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

The Group had no transactions with its shareholders in 2011 or 2010, other than the Reorganisation (note 2).

Entities under common ownership

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

	31 December	
	2011	**2010**
Cash and cash equivalents at Bank "Mezhdunarodniy finansoviy club"	76,799	23,304
Investments in securities and other financial assets at "Mezhdunarodniy finansoviy club"	74,077	-
Advances and prepaid expenses paid to suppliers	216	227

The amounts outstanding at 31 December 2011 are unsecured and expected to be settled in cash. No expense has been recognised in the reporting period for bad or doubtful debts in respect of the amounts owed by related parties. All trade payable and receivable balances are expected to be settled on a gross basis.

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

	Year ended 31 December	
	2011	**2010**
Purchase of goods and services	2,224	1,763
Interest income	5,136	300

Key management personnel

	Year ended 31 December	
	2011	**2010**
Short-term compensation of key management personnel amounted to	24,495	21,858

(in thousands of US Dollars)

33. COMMITMENTS AND CONTINGENCIES

Commitments

Capital commitments

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

	31 December	
	2011	**2010**
Contracted capital expenditure commitments	107,019	24,304

Operating leases: Group as a lessee

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through 2060.

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

	31 December	
	2011	**2010**
Due within one year	4,275	3,256
From one to five years	7,629	8,308
Thereafter	17,199	18,880
Total	**29,103**	**30,444**

Contingencies

Litigations

In the ordinary course of business, the Group is subject to litigation in a number of jurisdictions, the outcome of which is uncertain and could give rise to adverse outcomes. At the date of issuance of these consolidated financial statements the Group was party to a number of claims and litigation, most of which are not material, except:

- A lawsuit against Kazakhaltyn MMC JSC with a potential exposure of USD 15,000 thousand. The lawsuit is at the initial stage of investigation. Management believes that this claim will not have a material adverse impact on the Group;
- A dispute between the former and current principal shareholders of PGIL is described in paragraph "KazakhGold dispute" below.

33. COMMITMENTS AND CONTINGENCIES (CONTINUED)

KazakhGold dispute

A dispute between the former and current principal shareholders of PGIL, whereby the current shareholders were asserting that the former shareholders were negligent in their fiduciary responsibilities related to KazakhGold, herewith the sequence of events, to date:

- on 10 April 2011, the Group entered into a Restated and Amended Principal Agreement (the “RAPA”), and a Settlement Deed in respect of the claims which provides for a conditional settlement and release of the orders, judgments and claims, whether in litigation, arbitration or otherwise, initiated, inter alia in the UK, Jersey, the BVI, or Jenington and Kazakhaltyn, on the one hand, and the Assaubayev family, on the other hand, and all of their respective subsidiaries and affiliates, relating to the matters referred to in those proceedings or otherwise arising in respect of the original acquisition of 65 percent of KazakhGold by Jenington, without any admission of liability on either part (the “Settlement Deed”). Pursuant to the RAPA, AltynGroup agreed to acquire the Company’s operating subsidiaries in Kazakhstan, Romania and Kyrgyzstan in tranches. The aggregate transaction price for all the shares is USD 509 million, as well as the provision of funds required to repay the loan provided to KazakhGold by Jenington. The sale of the operating subsidiaries is subject of numerous conditions, most of which are outstanding, and uncertain as to resolution at the date of these consolidated financial statements;
- in May 2011, the Ministry of Industry and New Technologies of Kazakhstan (the “MINT”) granted its approval to the proposed Reorganisation of KazakhGold and Polyus Gold and to the sale of 100% of the shares in Kazakhaltyn MMC JSC to AltynGroup. MINT has also revoked its previous letters, which annulled the waiver obtained for the partial offer by Jenington International Inc. for 50.1% of shares in KazakhGold, which was completed in August 2009, and the waivers obtained in September 2010 for the proposed Reorganisation between Polyus Gold and KazakhGold and the US$100 million equity placing completed by KazakhGold on 1 July 2010;
- in May 2011, criminal investigations by the Agency on Economic and Corruption Crimes of the Republic of Kazakhstan ("AECC") against three members of KazakhGold's Board of Directors were terminated.
- On 12 September 2011, the Company entered into a deed of amendment (the “RAPA Amendment”) to the RAPA dated 10 April 2011 for the sale of its operating subsidiaries in Kazakhstan, Romania and Kyrgyzstan with AltynGroup, under which the parties have agreed to extend the date of the First Tranche Completion until 12 October 2011 and made a number of consequential changes to reflect a corresponding extension of other deadlines set forth in the RAPA and the documentary stand-by letter of credit for USD 100,000,000 obtained by the Company pursuant to the terms of the RAPA.
- On 13 October 2011, the Group announced that it entered into a second deed of amendment to the RAPA dated 10 April 2011 for the sale of its operating subsidiaries and related matters, as amended by the deed of amendment dated 12 September 2011, with AltynGroup, under which the parties agreed to further extend the date of the First Tranche Completion until 12 December 2011 and made a number of consequential changes to reflect a corresponding extension of other deadlines set forth in the RAPA and the documentary stand-by letter of credit for USD 100,000,000 obtained by the Company pursuant to the terms of the RAPA.
- The First Tranche Completion under the RAPA did not occur by the extended First Tranche Cut-Off Date of 12 December 2011. The RAPA continues to be in effect, but is now terminable by either party.

33. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Insurance

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

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

Taxation contingencies in the Russian Federation

Commercial legislation of Russian Federation, including tax legislation, is subject to varying interpretations and frequent changes. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also according to the clarification of the Russian Constitutional Court the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayers has obstructed or hindered a tax inspection.

The management of the Group is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

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

With regards to matters where practice concerning payment of taxes is unclear, management estimated the tax exposure at 31 December 2011 to be approximately USD 2,607 thousand (31 December 2010: USD 3,040 thousand). This amount had not been accrued at 31 December 2011 as management does not believe the payment to be probable.

Environmental matters

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

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

(in thousands of US Dollars)

33. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 site restoration and environmental obligations for its operations. Estimations are based on management’s understanding of the current legal requirements and the terms of the license agreements. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional site restoration and environmental obligations.

Bank guarantee

On 12 August 2011, VTB Bank provided the Company with a bank guarantee to pay for the Polyus Gold securities to be acquired under the MTO for the amount not exceeding RUB 39,338,000 thousand or USD 1,337,254 thousand (at 12 August exchange rate). CJSC Polyus Gold guaranteed certain liabilities of the Company under bank guarantee. The guarantee commenced on 24 November 2011 and remains valid until 18 June 2012.

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

Major categories of financial instruments

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

	31 December	
	2011	**2010**
Financial assets		
Financial assets at FVTPL		
Derivative financial asset	-	46,136
Equity investments in listed companies held for trading	14,857	36,730
Loans and receivables, including cash and cash equivalents		
Cash and cash equivalents	657,448	326,905
Bank deposits	12,175	39,351
Trade and other receivables	24,712	21,244
Loans receivable	3,643	3,825
AFS financial assets, carried at fair value		
AFS investments	34,744	99,721
Total financial assets	**747,579**	**573,912**
Financial liabilities		
Borrowings	798,680	203,448
Trade payables	30,980	38,715
Other payables	154,443	116,020
Other non-current liabilities	4,772	4,458
Total financial liabilities	**988,875**	**362,641**

(in thousands of US Dollars)

34. RISK MANAGEMENT ACTIVITIES (continued)

The main risks arising from the Group's financial instruments are equity investments price, foreign currency, credit and liquidity risks. Due to the fact that the Group has sufficient positive net position in respect of the outstanding balance of borrowings and cash and cash equivalents available to settle these obligations within a short period if conditions would become unfavourable, management believes the Group is not significantly exposed to interest rate risk. If the interest rate was 1% higher/lower during the year ended 31 December 2011 interest expense for the year 2011 would increase/decrease by USD 611 thousand.

Despite vulnerability of the Group to the changes in the spot gold price the Group does not enter into any hedging contracts or use other financial instruments to mitigate the commodity price risk.

Equity investments price risk

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

If market prices for equity investments had been 10% higher/lower, the profit before tax as a result of changes in fair value of financial assets at FVTPL and the investment revaluation reserve as a result of changes in fair value of AFS securities would increase/decrease as follows:

	31 December	
	2011	**2010**
Profit before tax	1,486	8,287
Investment revaluation reserve	3,474	9,972

The Group normally places its excess cash into deposits in top rated Russian banks or into investments under asset management agreements with asset management companies who, in turn, utilise a variety of risk management activities in relation to the investments.

Fair value measurements recognised in the statement of financial position

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

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

As at 31 December 2011, the Group held the following financial instruments measured at fair value:

	Level 1	Level 2	Total
Available for sale equity investments	-	34,744	**34,744**
Equity investments in listed companies held for trading	14,857	-	**14,857**
Total	**14,857**	**34,744**	**49,601**

(in thousands of US Dollars)

34. RISK MANAGEMENT ACTIVITIES (continued)

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**
Total	**36,730**	**145,857**	**182,587**

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

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

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

Management believes that the carrying values of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term nature, except for the fair value of the Gold Lion loan payable, which had a fair value at the reporting date of USD 39,133 thousand.

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely affected by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. Prices for gold are quoted in USD based on international quoted prices, and paid in local currencies, RUB or Tenge. The majority of the Group’s expenditures 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 were as follows:

Assets	**31 December**	
	2011	**2010**
USD	62,809	162,021
EURO	222	2,551
Total	**63,031**	**164,572**

	31 December	
Liabilities	**2011**	**2010**
USD	888,405	291,577
EURO	680	555
Total	**889,085**	**292,132**

(in thousands of US Dollars)

34. RISK MANAGEMENT ACTIVITIES (continued)

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

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

	31 December	
	2011 USD '000	2010 USD '000
Profit or loss (RUB to USD)	61,910	12,956
Profit or loss (RUB to EURO)	64	(200)
Profit or loss (KZT to USD)	20,650	28,386

Credit risk

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

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

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

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

Although the Group sells more than 88% of the gold produced to three major customers, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market. A substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore credit risk related to trade receivables is minimal.
The outstanding receivables for gold sales are presented as follows:

	31 December	
	2011 USD '000	2010 USD '000
Trade receivables for gold sales	4,869	3,714

(in thousands of US Dollars)

34. RISK MANAGEMENT ACTIVITIES (continued)

Gold sales to the Group's three major customers, individually exceeding 10% of the Group's gold sales are presented as follows:

	31 December	
	2011	**2010**
Gold sales to three major customers exceeding 10% of the Group's gold sales	2,060,107	1,403,365

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 and cash forecasting processes and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

Historically the Group has not relied extensively on external financing. Management is currently in discussions with major Russian and International banks to establish additional lending facilities to finance new exploration and production projects.

The Group strives to establish business relations with export credit agencies in order to benefit from their financial support when purchasing foreign goods and particularly equipment. Please refer to Note 35 for details of credit facilities and financing that were arranged post year-end.

Management believes that, in case of need, the Group would be able to raise sufficient funding within a reasonable timeframe, and on favourable terms, due to its strong historical operations and positive operating cash flow.

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

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2011 based on undiscounted contractual payments, including interest payments:

	Borrowings		**Other non-current liabilities**	**Trade and other payables**	
	Principal	**Interest**	**Principal**	**Principal**	**Total**
Due within three months	664,688	11,084	-	181,705	857,477
Due within three to nine months	-	1,504	-	-	1,504
Due within nine to twelve months	11,112	711	895	-	12,718
Due in the second year	44,444	1,983	895	-	47,322
Due in the third year	75,469	21,595	895	-	97,959
Due in the fourth year	-	-	895	-	895
Due in the fifth year	-	-	895	-	895
Due in thereafter	-	-	3,588	-	3,588
Total	**795,713**	**36,877**	**8,063**	**181,705**	**1,022,358**

(in thousands of US Dollars)

34. RISK MANAGEMENT ACTIVITIES (continued)

The contractual maturity of guaranteed senior notes is 6 November 2013. As described in note 27, the Group has taken an option to redeem the notes in March 2012 at 102.344% of nominal value.

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2010 based on undiscounted contractual payments, including interest payments:

	Borrowings		Other non-current liabilities	Trade and other payables	
	Principal	**Interest**	**Principal**	**Principal**	**Total**
Due within three months	200,000	-	-	101,149	301,149
Due within three to nine months	-	2,865	-	-	2,865
Due within nine to twelve months	-	-	-	6,891	6,891
Due in the second year	-	-	1,199	-	1,199
Due in the third year	-	-	899	-	899
Due in the fourth year	31,025	20,980	899	-	52,904
Due in the fifth year	-	-	899	-	899
Due in thereafter	-	-	4,496	-	4,496
Total	**231,025**	**23,845**	**8,392**	**108,040**	**371,302**

35. SUBSEQUENT EVENTS

On 7 February 2012, the USD 300 million VTB credit facility was extended by three months, until 15 May 2012, with an extension fee paid in the amount of USD 460 thousand.

On 20 February 2012, the USD 500 million Societe Generale credit facility was extended by 3 month, until 28 May 2012, with an interest rate increase to 1 months USD LIBOR+2.25% and an extension fee paid in the amount of USD 840 thousand.

On 10 February 2012, the Group entered into a three year USD100 million credit facility with HSBC. The interest rate is set at 3 months USD LIBOR+3%. The facility was utilised as described below.

On 15 March 2012, 200 million USD guaranteed senior notes were redeemed at 102.344% of nominal value funded by two 100 million USD loans from HSBC and Unicredit banks.

On 15 March 2012, CJSC "Gold Mining Company Polyus", a subsidiary of the Company, entered into a three year RUR 10 billion (USD 311 million) VTB credit line to fund its general corporate purposes. The interest rate is subject for a separate agreement under each of the credit line drawdowns but could not exceed 20% or MosPrime Rate + 6.5% for RUR denominated drawdown and 14% or LIBOR/EURIBOR + 13.5% – for USD/EURO denominated drawdown. The line was not utilized.

On 30 March 2012, Board of Directors approved dividends in the amount of USD 0.041 per ordinary share at a total cost of USD 115,013 thousand.

(in thousands of US Dollars)

36. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

			Effective % held[1]	
			31 December	
Subsidiaries	**Incorporation**	**Nature of business**	**2011**	**2010**
OJSC "Polyus Gold"	Russian Federation	Management company	95.3	-[2]
CJSC "Gold Mining Company Polyus"	Russian Federation	Mining	95.3	100.0
OJSC "Aldanzoloto GRK"	Russian Federation	Mining	95.3	100.0
OJSC "Lenzoloto"	Russian Federation	Market agent	61.1	64.1
LLC "Lenskaya Zolotorudnaya Company"[3]	Russian Federation	Market agent	n/a -	100.0
CJSC "ZDK Lenzoloto"	Russian Federation	Mining	63.0	66.2
CJSC "Lensib"[4]	Russian Federation	Mining	38.4	40.4
CJSC "Svetliy"	Russian Federation	Mining	52.9	55.6
CJSC "Marakan"	Russian Federation	Mining	52.9	55.6
CJSC "Dalnaya Taiga"	Russian Federation	Mining	51.7	54.3
CJSC "Sevzoto"[4]	Russian Federation	Mining	40.9	43.0
CJSC "GRK Sukhoy Log"[3]	Russian Federation	Mining	- n/a	100.0
OJSC "Matrosov Mine"	Russian Federation	Mining (development stage)	95.3	100.0
CJSC "Tonoda"	Russian Federation	Mining (exploration stage)	95.3	100.0
OJSC "Pervenets"	Russian Federation	Mining (development stage)	95.3	100.0
OJSC "South-Verkhoyansk Mining Company"	Russian Federation	Mining (development stage)	95.3	100.0
Polyus Exploration Limited	British Virgin Islands	Geological research	95.3	100.0
JSC "MMC Kazakhaltyn"	Republic of Kazakhstan	Mining	100.0	65.0
Jenington International Inc.	British Virgin Islands	Market agent	95.3	100.0
Polyus Investments Limited	Cyprus	Market agent	95.3	100.0

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

2 The parent of the Group before 25 July 2011, refer to Note 2.

3 The entities were merged into OJSC "Pervenets" during the year 2011.

4 The Company maintains control of these entities as it continues to govern their financial and operating policies through its ability to appoint the Board of Directors. A majority of the Board members for these entities are representatives of the Company and are therefore consolidated even though the effective interest is less than 50% as at 31 December 2011 and 2010.