# Polyus Gold

**Interim condensed consolidated financial statements for the six months ended 30 June 2010 (unaudited)**

# POLYUS GOLD

## INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE SIX MONTHS ENDED 30 JUNE 2010

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# POLYUS GOLD

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

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

Management is responsible for the preparation of interim condensed consolidated financial statements that present fairly the financial position of the Group as at 30 June 2010 and the related interim condensed consolidated statements of income, comprehensive income, cash flows, changes in equity for the six months then ended, and selected explanatory notes, in accordance with International Accounting Standard 34 "Interim Financial Reporting" (IAS 34).

In preparing interim condensed consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IAS 34 has been followed, subject to any material departures disclosed and explained in the interim condensed consolidated financial statements; and
- Preparing the interim condensed consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking steps to safeguard the assets of the Group; and
- detEcting and preventing fraud and other irregularities.

The interim condensed consolidated financial statements for the six months ended 30 June 2010 were approved on 17 September 2010 by:

**Ivanov E.I.**
General Director

**Ignatov O.V.**
Deputy General Director

Moscow, Russia
17 September 2010

Deloitte.

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# REPORT ON THE REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Open Joint Stock Company "Polyus Gold" and subsidiaries (the "Group") as at 30 June 2010 and the related interim condensed consolidated statements of income, comprehensive income, cash flows, changes in equity for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Basis for qualified conclusion

The Group has accounted for the acquisition of KazakhGold Group Limited and its subsidiaries at the acquisition date using the provisional values of identifiable assets, liabilities and contingent liabilities. The initial accounting for acquisition has not been completed within twelve months of the acquisition date, as required by IFRS 3 "Business Combinations". Accordingly, the final amount of goodwill has not yet been calculated and therefore the Group has not tested goodwill for impairment as required by IAS 36 "Impairment of Assets" and has continued to recognise goodwill as an asset at 30 June 2010 based on the provisional purchase accounting (refer to note 2).

**Qualified conclusion**

Based on our review, except for the effect of adjustments, if any, to reflect the determined the fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date of KazakhGold Group Limited and the associated impact on amortisation expense and any impairment adjustment that may result upon finalisation of the goodwill amount, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte + Touche

Moscow, Russia
17 September 2010

## POLYUS GOLD

### INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
### FOR THE SIX MONTHS ENDED 30 JUNE (UNAUDITED)
***(in thousands of US Dollars)***

| | Notes | 2010 | 2009 |
|---|---|---|---|
| Gold sales | | 607,567 | 441,686 |
| Other sales | | 14,879 | 10,273 |
| **Total revenue** | | **622,446** | **451,959** |
| Cost of gold sales | 4 | (345,219) | (209,358) |
| Cost of other sales | | (14,368) | (9,248) |
| **Gross profit** | | **262,859** | **233,353** |
| Selling, general and administrative expenses | 5 | (75,709) | (45,542) |
| Research expenses | | (1,016) | (909) |
| Other expenses, net | 6 | (16,904) | (10,724) |
| Finance costs | | (19,883) | (1,754) |
| (Loss)/income from investments | 7 | (8,900) | 10,394 |
| Foreign exchange gain | | 800 | 6,479 |
| **Profit before income tax** | | **141,247** | **191,297** |
| Current income tax expense | | (34,643) | (33,861) |
| Deferred tax expense | | (1,982) | (7,423) |
| **Profit for the period** | | **104,622** | **150,013** |
| Attributable to: | | | |
| Shareholders of the parent company | | 116,379 | 150,310 |
| Non-controlling interests | | (11,757) | (297) |
| | | **104,622** | **150,013** |
| **Earnings per share** | | | |
| Weighted average number of ordinary shares in issue during the period | | 179,851,586 | 178,151,346 |
| Basic and diluted (US cents) | | 65 | 84 |

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

# POLYUS GOLD

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR SIX MONTHS ENDED 30 JUNE (UNAUDITED)

***(in thousands of US Dollars)***

| | 2010 | 2009 |
|---|---|---|
| **Profit for the period** | **104,622** | **150,013** |
| **Other comprehensive income/(loss)** | | |
| Increase in fair value of available-for-sale investments | 21,270 | 5,007 |
| Realised gain on disposal of available-for-sale investments | (16,897) | - |
| Exchange difference on translation of foreign operations | 68,993 | 67,891 |
| Effect of translation to presentation currency | (149,363) | (202,473) |
| **Other comprehensive loss for the period, net of tax** | **(75,997)** | **(129,575)** |
| **Total comprehensive income for the period, net of tax** | **28,625** | **20,438** |
| Attributable to: | | |
| Shareholders of the parent company | 42,894 | 23,085 |
| Non-controlling interests | (14,269) | (2,647) |
| | **28,625** | **20,438** |

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

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2010 (UNAUDITED)
*(in thousands of US Dollars)*

| | Notes | 30 June 2010 | 31 December 2009 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | 2,301,209 | 2,299,071 |
| Goodwill | | 133,847 | 132,906 |
| Deferred stripping costs | | 73,144 | 106,088 |
| Inventories | 10 | 162,193 | 40,732 |
| Investments in securities and other financial assets | 9 | 84,292 | 114,792 |
| Long-term portion of reimbursable value added tax | | 6,369 | 5,899 |
| | | **2,761,054** | **2,699,488** |
| **Current assets** | | | |
| Inventories | 10 | 414,914 | 415,238 |
| Reimbursable value added tax | | 120,644 | 103,688 |
| Trade and other receivables | | 23,205 | 17,810 |
| Advances paid to suppliers | | 21,534 | 20,773 |
| Investments in securities and other financial assets | 9 | 162,446 | 312,733 |
| Income tax prepaid | | 13,951 | 27,152 |
| Other current assets | 11 | 45,377 | 20,637 |
| Cash and cash equivalents | 12 | 300,884 | 173,360 |
| | | **1,102,955** | **1,091,391** |
| **TOTAL ASSETS** | | **3,864,009** | **3,790,879** |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 14 | 6,871 | 6,871 |
| Additional paid-in capital | | 2,081,626 | 2,081,626 |
| Treasury shares | | (626,313) | (626,313) |
| Investments revaluation reserve | | 21,878 | 17,505 |
| Translation reserve | | (168,265) | (90,407) |
| Retained earnings | | 1,748,924 | 1,686,818 |
| **Equity attributable to shareholders of the parent company** | | **3,064,721** | **3,076,100** |
| Non-controlling interests | | 48,168 | 64,871 |
| | | **3,112,889** | **3,140,971** |
| **Non-current liabilities** | | | |
| Borrowings | 13 | 27,272 | 26,394 |
| Deferred tax liabilities | | 172,742 | 180,989 |
| Environmental obligations | | 92,534 | 90,518 |
| Other non-current liabilities | | 19,351 | 15,526 |
| | | **311,899** | **313,427** |
| **Current liabilities** | | | |
| Borrowings | 13 | 171,609 | 173,437 |
| Trade payables | | 42,651 | 24,332 |
| Other payables and accrued expenses | | 100,404 | 92,480 |
| Dividends payable | | 56,280 | - |
| Income tax payable | | 1,070 | 2,609 |
| Other taxes payable | | 67,207 | 43,623 |
| | | **439,221** | **336,481** |
| **TOTAL LIABILITIES** | | **751,120** | **649,908** |
| **TOTAL EQUITY AND LIABILITIES** | | **3,864,009** | **3,790,879** |

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

## POLYUS GOLD

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
### FOR THE SIX MONTHS ENDED 30 JUNE (UNAUDITED)
***(in thousands of US Dollars)***

| | 2010 | 2009 |
|---|---|---|
| **Operating activities** | | |
| **Profit before income tax** | **141,247** | **191,297** |
| Adjustments for: | | |
| Amortisation and depreciation | 73,632 | 40,454 |
| Expensed stripping costs | 32,482 | 6,277 |
| Finance costs | 19,883 | 1,754 |
| Non-recoverable value added tax on construction, repair, maintenance and exploration works | 9,625 | - |
| Loss/(income) from investments | 8,900 | (10,394) |
| Impairment of property, plant and equipment | 4,002 | - |
| Loss on disposal of property, plant and equipment | 717 | 1,371 |
| Foreign exchange gain | (800) | (6,479) |
| Other | (1,048) | 3,568 |
| | **288,640** | **227,848** |
| Movements in working capital | | |
| Inventories | (139,086) | (42,241) |
| Trade and other receivables | (7,540) | (1,330) |
| Advances paid to suppliers | (355) | (1,000) |
| Other current assets and reimbursable value added tax | (46,970) | (20,396) |
| Trade payables | 24,846 | 16,479 |
| Other payables and accrued expenses | 9,977 | 545 |
| Other taxes payable | 17,410 | 6,859 |
| Other non-current liabilities | 13,718 | - |
| **Cash flows from operations** | **160,640** | **186,764** |
| Interest paid | (9,911) | - |
| Income tax paid | (25,806) | (31,508) |
| **Net cash generated from operating activities** | **124,923** | **155,256** |
| **Investing activities** | | |
| Purchase of property, plant and equipment | (148,261) | (117,373) |
| Deferred stripping costs capitalised | (1,384) | - |
| Proceeds from sale of property, plant and equipment | 657 | 1,059 |
| Interest received | 4,554 | 5,794 |
| Purchase of promissory notes and other financial assets | (37,876) | (11,571) |
| Proceeds from sale of promissory notes and other financial assets | 207,738 | 13,253 |
| **Net cash generated from/(used in) investing activities** | **25,428** | **(108,838)** |
| **Financing activities** | | |
| Repayments of borrowings | (6,262) | - |
| Repayment of bank guarantee | (5,930) | - |
| Dividends paid to shareholders of non-controlling interests | (2,395) | - |
| **Net cash used in financing activities** | **(14,587)** | **-** |
| **Net increase in cash and cash equivalents** | **135,764** | **46,418** |
| **Cash and cash equivalents at beginning of the period** | **173,360** | **398,826** |
| Effect of translation to presentation currency on cash and cash equivalents | (8,240) | (3,877) |
| **Cash and cash equivalents at end of the period** | **300,884** | **441,367** |

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

## POLYUS GOLD

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
### FOR THE SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)
***(in thousands of US Dollars)***

| | | Equity attributable to shareholders of the parent company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Notes** | **Share capital** | **Additional paid-in capital** | **Treasury shares** | **Investments revaluation reserve** | **Translation reserve** | **Retained earnings** | **Total** | **Non-controlling interests** | **Total** |
| **Balance at 1 January 2009** | | **6,871** | **2,116,655** | **(724,927)** | **-** | **(43,406)** | **1,401,540** | **2,756,733** | **37,808** | **2,794,541** |
| Profit for the period | | **-** | **-** | **-** | **-** | **-** | 150,310 | **150,310** | (297) | **150,013** |
| Increase in fair value of available-for-sale investments | | - | - | - | 5,007 | - | - | **5,007** | - | **5,007** |
| Exchange difference on translation of foreign operations | | - | - | - | - | 67,891 | - | **67,891** | - | **67,891** |
| Effect of translation to presentation currency | | - | - | - | - | (200,123) | - | **(200,123)** | (2,350) | **(202,473)** |
| **Total other comprehensive income/(loss), net of tax** | | **-** | **-** | **-** | **5,007** | **(132,232)** | **-** | **(127,225)** | **(2,350)** | **(129,575)** |
| **Total comprehensive income/(loss), net of tax** | | **-** | **-** | **-** | **5,007** | **(132,232)** | **150,310** | **23,085** | **(2,647)** | **20,438** |
| Dividends to shareholders of non-controlling interests | | - | - | - | - | - | - | - | (439) | **(439)** |
| **Balance at 30 June 2009** | | **6,871** | **2,116,655** | **(724,927)** | **5,007** | **(175,638)** | **1,551,850** | **2,779,818** | **34,722** | **2,814,540** |
| **Balance at 1 January 2010** | | **6,871** | **2,081,626** | **(626,313)** | **17,505** | **(90,407)** | **1,686,818** | **3,076,100** | **64,871** | **3,140,971** |
| Profit for the period | | - | - | - | - | - | 116,379 | **116,379** | (11,757) | **104,622** |
| Increase in fair value of available-for-sale investments | | - | - | - | 21,270 | - | - | **21,270** | - | **21,270** |
| Realised gain on disposal of available-for-sale investments | | - | - | - | (16,897) | - | - | **(16,897)** | - | **(16,897)** |
| Exchange difference on translation of foreign operations | | - | - | - | - | 69,890 | - | **69,890** | (897) | **68,993** |
| Effect of translation to presentation currency | | - | - | - | - | (147,748) | - | **(147,748)** | (1,615) | **(149,363)** |
| **Total other comprehensive income/(loss), net of tax** | | **-** | **-** | **-** | **4,373** | **(77,858)** | **-** | **(73,485)** | **(2,512)** | **(75,997)** |
| **Total comprehensive income/(loss), net of tax** | | **-** | **-** | **-** | **4,373** | **(77,858)** | **116,379** | **42,894** | **(14,269)** | **28,625** |
| Dividends to shareholders of the parent company | 14 | - | - | - | - | - | (54,273) | **(54,273)** | - | **(54,273)** |
| Dividends to shareholders of non-controlling interests | | - | - | - | - | - | - | - | (2,434) | **(2,434)** |
| **Balance at 30 June 2010** | | **6,871** | **2,081,626** | **(626,313)** | **21,878** | **(168,265)** | **1,748,924** | **3,064,721** | **48,168** | **3,112,889** |

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

## 1. GENERAL INFORMATION

### Organisation

Open Joint Stock Company "Polyus Gold" (the "Company" or "Polyus Gold") was incorporated in Moscow, Russian Federation, on 17 March 2006. The Company was formed as a result of a spin-off from OJSC "Mining and Metallurgical Company Norilsk Nickel" ("Norilsk Nickel"). The principal activities of the Company and its subsidiaries (the "Group") are the extraction, refining and sale of gold. Mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and the Sakha Republic of the Russian Federation and in the Republic of Kazakhstan. The Group also performs research, exploration and development works, primarily at the Natalka field located in the Magadan region, Nezhdaninskoe field located in the Sakha Republic and in the Republic of Kazakhstan. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in note 18.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

### Basis of preparation

The interim condensed consolidated financial statements have been prepared using accounting policies consistent with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, except for accounting for the acquisition of KazakhGold Group Limited ("KazakhGold") as described below.

The statement of financial position at 31 December 2009 has been derived from the statement of financial position included in the Group's consolidated financial statements for the year ended 31 December 2009. These interim condensed consolidated financial statements do not include all of the information and disclosure required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2009, which have been prepared in accordance with IFRS.

The same accounting policies, presentation and methods of computation have been followed in these interim condensed consolidated financial statements as were applied in the Group's consolidated financial statements for the year ended 31 December 2009, except as described below.

### Acquisition of KazakhGold Group Limited and subsequent events

KazakhGold Group Limited was acquired on 30 July 2009. At the date of acquisition, the Group accounted for acquisition of 50.2% of KazakhGold Group Limited using the provisional values of identifiable assets, liabilities and contingent liabilities. The initial accounting for acquisition has not been completed within twelve months of the acquisition date, as required by IFRS 3 *Business Combinations*.

On 12 July 2010, JSC "MMC Kazakhaltyn" ("Kazakhaltyn"), a production subsidiary of the Group located in the Republic of Kazakhstan, received notification from the Ministry of Industry and New Technologies of the Republic of Kazakhstan indicating that the previous decisions of the competent authorities in the Republic of Kazakhstan providing a waiver of the state's pre-emptive right to acquire the KazakhGold's securities had been annulled. These waivers were obtained in connection with (a) the acquisition of 50.2% of the shares of KazakhGold in July 2009, (b) the issuance of shares by KazakhGold in July 2010 that resulted in proceeds of USD 100 million to the KazakhGold and (c) the proposed combination between Polyus Gold and KazakhGold announced on 30 June 2010.

Because the fair values have not been finally determined, the amount to be assigned to goodwill was not finalised, and therefore the amount of impairment, if any, could not be determined with certainty. Circumstances which indicate potential impairment have been identified, however goodwill was not tested for impairment as required by IAS 36 *Impairment of Assets* and was recognised as an asset at 30 June 2010, due to uncertainty regarding the resolution of the situation described above, and finalisation of the acquisition accounting.

In case of unfavourable resolution of the described situation the exposure of Polyus to KazakhGold includes: USD 338,451 thousand of fixed assets, USD 79,842 thousand in derivative financial asset, senior notes of USD 166,978 thousand, other liabilities of USD 226,388 thousand. KazakhGold has cash in the United Kingdom of USD 1,180 thousand.

**Critical accounting judgments, estimates and assumptions**

The critical accounting judgments, estimates and assumptions made by management of the Group and applied in the accompanying unaudited interim condensed consolidated financial statements for the six months ended 30 June 2010 are consistent with those applied in the preparation of annual consolidated financial statements of the Group for the year ended 31 December 2009.

**Adoption of new and revised Standards and Interpretations**

The Group has adopted all new Standards and Interpretations issued by International Financial Reporting Committee (“IFRIC”) that are mandatory for adoption in the annual periods beginning on or after 1 January 2010.

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

- IFRS 2 *Share-based Payments*;
- IFRS 3 *Business combinations*;
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- IFRS 8 *Operating Segments*;
- IAS 1 *Presentation of Financial Statements*;
- IAS 7 *Statement of Cash Flows*;
- IAS 17 *Leases*;
- IAS 28 *Investments in Associates*;
- IAS 31 *Investments in Joint Ventures*;
- IAS 36 *Impairment of Assets*;
- IAS 38 *Intangible Assets*;
- IAS 39 *Financial Instruments: Recognition and Measurement*.

**Foreign currency exchange rates**

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

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

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

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

| | 2010 | 2009 |
|---|---|---|
| ***Russian Rouble/US Dollar*** | | |
| 30 June | 31.20 | 31.29 |
| Average for the six months ended 30 June | 30.07 | 33.07 |
| 31 December | n/a | 30.24 |
| Average for the year ended 31 December | n/a | 31.72 |
| ***Kazakh Tenge/US Dollar*** | | |
| 30 June | 147.46 | n/a |
| Average for the six months ended 30 June | 147.24 | n/a |
| 31 December | n/a | 148.36 |
| Average for the year ended 31 December | n/a | 147.50 |

## 3. SEGMENT INFORMATION

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

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

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

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

***(in thousands of US Dollars)***

| | Gold sales | Statutory profit/(loss) before income tax |
|---|---|---|
| **Six months ended 30 June 2010** | | |
| Krasnoyarsk business unit | 441,204 | 129,024 |
| Yakutsk Kuranakh business unit | 65,375 | 15,747 |
| Irkutsk alluvial business unit | 44,711 | 14,775 |
| Kazakhstan business unit | 42,385 | (33,618) |
| Irkutsk ore business unit | 13,892 | 2,013 |
| Exploration business unit | - | (3,609) |
| Magadan business unit | - | (3,857) |
| **Segment result** | **607,567** | **120,475** |
| **Six months ended 30 June 2009** | | |
| Krasnoyarsk business unit | 334,003 | 204,127 |
| Yakutsk Kuranakh business unit | 66,147 | 16,194 |
| Irkutsk alluvial business unit | 30,968 | 6,126 |
| Irkutsk ore business unit | 10,568 | 442 |
| Exploration business unit | - | (6,747) |
| Magadan business unit | - | (6,023) |
| **Segment result** | **441,686** | **214,119** |

Gold sales reported above represents revenue generated from external customers. There were no inter-segment gold sales during the six months ended 30 June 2010 and 2009.

*Reconciliation of segment result to IFRS profit before income tax*

| | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|
| **Segment result** | **120,475** | **214,119** |
| *Differences between IFRS and management accounts:* | | |
| Capitalised exploration works | 13,824 | 9,392 |
| Provisions and accruals | (11,917) | (10,788) |
| Additional depreciation charge and amortisation of mineral rights | (22,881) | (16,298) |
| Revaluation of gold-in-process at net production cost | 16,286 | (20,050) |
| Difference in stripping costs capitalisation | (8,206) | (5,626) |
| Other | (3) | (2,673) |
| Unallocated | 33,669 | 23,221 |
| **Profit before income tax** | **141,247** | **191,297** |

*(in thousands of US Dollars)*

## 4. COST OF GOLD SALES

| | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|
| Consumables and spares | 156,650 | 101,832 |
| Labour | 96,968 | 53,657 |
| Tax on mining | 52,942 | 37,207 |
| Utilities | 20,425 | 10,352 |
| Outsourced mining services | 2,062 | 2,132 |
| Refining costs | 2,201 | 1,793 |
| Sundry costs | 19,766 | 5,979 |
| **Total cash operating costs** | **351,014** | **212,952** |
| Amortisation and depreciation of operating assets | 70,144 | 38,433 |
| Deferred stripping costs expensed | 30,824 | 6,277 |
| Increase in provision for land restoration | 810 | 2,850 |
| Increase in gold-in-process and refined gold | (107,573) | (51,154) |
| **Total** | **345,219** | **209,358** |

## 5. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

| | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|
| Salaries | 41,326 | 23,375 |
| Taxes other than mining and income taxes | 11,379 | 7,789 |
| Professional services | 9,198 | 2,096 |
| Other | 13,806 | 12,282 |
| **Total** | **75,709** | **45,542** |

## 6. OTHER EXPENSES, NET

| | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|
| Non-recoverable value added tax on construction, repair, maintenance and exploration works | 9,625 | - |
| Impairment of property, plant and equipment | 4,002 | - |
| Donations | 1,542 | 6,978 |
| Loss on disposal of property, plant and equipment | 717 | 1,371 |
| Other | 1,018 | 2,375 |
| **Total** | **16,904** | **10,724** |

***(in thousands of US Dollars)***

## 7. (LOSS)/INCOME FROM INVESTMENTS

| | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|
| ***Loss from financial assets at fair value through profit and loss*** | | |
| Loss on derivative financial asset | (30,069) | - |
| Income from investments in listed companies held for trading | 378 | 3,577 |
| ***Income from available-for-sale investments*** | | |
| Gain on disposal of available-for-sale investments | 16,897 | - |
| ***Income from held-to-maturity investments*** | | |
| Interest income on promissory notes | - | 890 |
| ***Income from loans given*** | | |
| Interest income on bank deposits | 3,894 | 5,927 |
| **Total** | **(8,900)** | **10,394** |

## 8. PROPERTY, PLANT AND EQUIPMENT

| | Exploration and evaluation assets | Mining assets | Non-mining assets | Capital construction-in-progress | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Balance at 1 January 2010** | **242,883** | **2,050,074** | **61,258** | **463,645** | **2,817,860** |
| Additions | 23,650 | 49,182 | 1,195 | 78,767 | **152,794** |
| Transfers | (4,262) | 144,201 | 2,225 | (142,164) | **-** |
| Disposals | - | (3,289) | (205) | (140) | **(3,634)** |
| Effect of translation to presentation currency | (7,874) | (60,224) | (1,927) | (10,320) | **(80,345)** |
| **Balance at 30 June 2010** | **254,397** | **2,179,944** | **62,546** | **389,788** | **2,886,675** |
| **Accumulated amortisation, depreciation and impairment** | | | | | |
| **Balance at 1 January 2010** | **(1,983)** | **(482,957)** | **(24,442)** | **(9,407)** | **(518,789)** |
| Charge for the period | - | (80,433) | (2,583) | - | **(83,016)** |
| Disposals | - | 2,112 | 148 | - | **2,260** |
| Impairment | (2,359) | - | (171) | (1,472) | **(4,002)** |
| Effect of translation to presentation currency | 145 | 16,765 | 831 | 340 | **18,081** |
| **Balance at 30 June 2010** | **(4,197)** | **(544,513)** | **(26,217)** | **(10,539)** | **(585,466)** |
| **Net book value** | | | | | |
| **1 January 2010** | **240,900** | **1,567,117** | **36,816** | **454,238** | **2,299,071** |
| **30 June 2010** | **250,200** | **1,635,431** | **36,329** | **379,249** | **2,301,209** |

*(in thousands of US Dollars)*

Mining assets at 30 June 2010 included mineral rights of USD 527,487 thousand (31 December 2009: USD 547,961 thousand).

Amortisation and depreciation capitalised during the six months ended 30 June 2010 amounted to USD 9,384 thousand (31 December 2009: USD 23,151 thousand).

At 30 June 2010, property, plant and equipment with a carrying value of USD 11,803 thousand (31 December 2009: USD 20,510 thousand) have been pledged to secure borrowings of the Group (refer to note 13).

Impairment loss recognised in respect of property, plant and equipment for the six months ended 30 June 2010 in the amount of USD 4,002 thousand (six months ended 30 June 2009: nil) was attributable to the greater than anticipated wear and tear of certain production assets and exploration and evaluation costs in the specific area that have not led to the discovery of commercially viable quantities of gold resources and the decision was made to discontinue such activities in the specific area.

## 9. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

| | **30 June 2010** | **31 December 2009** |
|---|---|---|
| **Non-current** | | |
| Derivative financial asset | 79,842 | 109,911 |
| Loans advanced | 4,149 | 4,562 |
| Other | 301 | 319 |
| **Total non-current** | **84,292** | **114,792** |
| **Current** | | |
| Available-for-sale equity investments | 102,652 | 203,376 |
| Equity investments in listed companies held for trading | 32,236 | 39,199 |
| Bank deposits | 26,223 | 70,158 |
| Loans advanced | 1,335 | - |
| **Total current** | **162,446** | **312,733** |

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

In connection with the acquisition of KazakhGold, the Group obtained call options to acquire all rights and obligations under convertible loan agreements between KazakhGold and its previous major shareholder. At acquisition date the fair value of the call options for convertible loans was USD 89,872 thousand. At 30 June 2010, the fair value of call options for convertible loans amounted to USD 79,842 thousand (31 December 2009: USD 109,911 thousand) and decrease of fair value of the instrument in the amount of USD 30,069 thousand was recognised in the interim condensed consolidated income statement.

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

***(in thousands of US Dollars)***

***Available-for-sale equity investments, carried at fair value***

At 30 June 2010, available-for-sale equity investments mainly represented investment in shares of Rosfund, SPC (Cayman Islands) acquired in July 2006. The principal amounts invested by the Group to Rosfund, SPC shares as of 30 June 2010 was USD 119,515 thousand (31 December 2009: USD 275,028 thousand).

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

During the six months ended 30 June 2010, the Group sold 56.5% of shares of Rosfund, SPC for USD 122,000 thousand. As a result of this transaction, the Group recognised a gain on sale in the amount of USD 16,897 in the unaudited interim condensed consolidated income statement.

Fair value of available for sale investment in Rosfund, SPC as at 30 June 2010 was determined based on quoted market prices of securities, included in the portfolio.

Increase in fair value of available-for-sale equity investments during the six months, ended 30 June 2010 in the amount of USD 21,270 thousand (six months ended 30 June 2009: USD 18,201 thousand) was recognised in equity within investments revaluation reserve.

***Loans and receivables, carried at amortised cost***

Bank deposits at 3.9-9.2% per annum are denominated in RUB and mature in July-November 2010.

## 10. INVENTORIES

| | 30 June 2010 | 31 December 2009 |
|---|---|---|
| **Inventories expected to be recovered after twelve months** | | |
| Stockpiles | 162,193 | 40,732 |
| **Total** | **162,193** | **40,732** |
| **Inventories expected to be recovered in the next twelve months** | | |
| Gold-in-process at net production cost | 185,997 | 202,647 |
| Refined gold at net production cost | 6,252 | 14,609 |
| **Total metal inventories** | **192,249** | **217,256** |
| Stores and materials at cost | 230,169 | 204,817 |
| Less: Allowance for obsolescence | (7,504) | (6,835) |
| **Total** | **414,914** | **415,238** |

*(in thousands of US Dollars)*

## 11. OTHER CURRENT ASSETS

| | 30 June 2010 | 31 December 2009 |
|---|---|---|
| Deferred expenditures | 41,289 | 16,918 |
| Other prepaid taxes | 4,088 | 3,719 |
| **Total** | **45,377** | **20,637** |

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

## 12. CASH AND CASH EQUIVALENTS

| | | 30 June 2010 | 31 December 2009 |
|---|---|---|---|
| Bank deposits | – RUB | 42,349 | 73,245 |
| Current bank accounts | – RUB | 141,376 | 44,416 |
| | – foreign currencies | 110,683 | 44,137 |
| Other cash and cash equivalents | | 6,476 | 11,562 |
| **Total** | | **300,884** | **173,360** |

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

## 13. BORROWINGS

| | | | 30 June 2010 | | 31 December 2009 | |
|---|---|---|---|---|---|---|
| | | **Currency** | **Rate,%** | **Outstanding balance** | **Rate,%** | **Outstanding balance** |
| Guaranteed senior notes | (i) | USD | 9.375 | 166,978 | 9.375 | 163,513 |
| Secured bank loan | (ii) | USD | 13.75 | 2,887 | 13.75 | 4,751 |
| Secured bank loan | (ii) | KZT | n/a | - | 16.0 | 1,854 |
| Unsecured bank loan | (iii) | USD | 11.0 | 1,744 | 11.0 | 4,348 |
| Other loans | (iv) | USD | 10.0 | 27,272 | 10.0 | 25,365 |
| **Total** | | | | **198,881** | | **199,831** |
| Less: current portion due within twelve months | | | | (171,609) | | (173,437) |
| **Long-term borrowings** | | | | **27,272** | | **26,394** |

***Summary of borrowing agreements***

**(i) Guaranteed senior notes**

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

KazakhGold is obliged to comply with a number of restrictive financial and other covenants, including maintaining of certain financial ratios. At 30 June 2010, KazakhGold is not in compliance with all the covenants, and accordingly, the Notes are classified as current. On 27 July 2010, the Group received the bondholders' waiver of the breaches existed at 30 June 2010 under the terms and conditions of the Notes.

**(ii) Secured bank loans**

In 2009, a subsidiary of the Group obtained a USD 4,751 thousand secured loan denominated in USD from JSC SB "Sberbank" at a fixed rate of 13.75% per annum. The loan is to be repaid on 5 December 2010. Interest is payable monthly.

In 2009, a subsidiary of the Group obtained a USD 1,854 thousand secured loan denominated in KZT from JSC "Kazkommertsbank" at a fixed rate of 16% per annum. The loan was fully repaid in February 2010.

**(iii) Unsecured bank loan**

In 2009, a subsidiary of the Group obtained a USD 4,348 thousand unsecured loan denominated in USD from JSC SB "HSBC Bank Kazakhstan" at a fixed rate of 11% per annum. The loan is to be repaid on 16 October 2010. Interest is payable monthly.

**(iv) Other loans**

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

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

***Pledges***

Property, plant and equipment with book value of USD 11,803 thousand were pledged to secure borrowings (31 December 2009: USD 20,510 thousand).

***(in thousands of US Dollars)***

## 14. SHARE CAPITAL

At 30 June 2010, authorised, issued and fully paid share capital of the Company comprised of 190,627,747 ordinary shares at par value of RUB 1.

On 21 May 2010, the Company declared dividends of RUB 9.28, or USD 0.30 (at 21 May 2010 exchange rate) per share related to the year ended 31 December 2009. Dividends in the amount of USD 54,273 thousand (net of USD 3,252 thousand attributable to treasury shares) remained unpaid at 30 June 2010.

## 15. RELATED PARTIES

Related parties include shareholders, entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of business, enter into various sale, purchase and service transactions with related parties. During the six months ended 30 June 2010 and 2009, related party transactions included only transactions with entities under common control. The terms of these transactions would not necessarily be on similar terms had the Group entered into the transactions with third parties.

At 30 June 2010 and 31 December 2009, the Group had the following outstanding balances with related parties:

| | **30 June 2010** | **31 December 2009** |
|---|---|---|
| Other current assets | 862 | 198 |
| Cash and cash equivalents | 527 | 22,574 |
| Other payables | 413 | - |

During the six months ended 30 June 2010 and 2009, the Group entered into the following transactions with related parties:

| | **Six months ended 30 June 2010** | **Six months ended 30 June 2009** |
|---|---|---|
| Purchase of goods and services | 1,425 | 284 |
| Income from investments | 425 | - |

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

Compensation of key management personnel for the six months ended 30 June 2010 amounted to USD 3,773 thousand (six months ended 30 June 2009: USD 3,165 thousand).

***(in thousands of US Dollars)***

## 16. CONTINGENCIES

### Operating leases: Group as a lessee

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases land through operating lease agreements, which expire in various years through 2057.

Future minimum lease payments due under non-cancellable operating lease agreements at 30 June 2010 were as follows:

| | |
|---|---:|
| Due within one year | 2,583 |
| From one to five years | 7,219 |
| Thereafter | 16,308 |
| **Total** | **26,110** |

### Litigation

The Group has a number of insignificant claims and litigation relating to sales and purchases of goods and services from suppliers. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group. Refer to note 2 and note 17 for description of the claims and litigations arisen after the reporting date with Government of the Republic of Kazakhstan.

### Taxation contingencies in the Russian Federation

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

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

With regards to matters where practice concerning payment of taxes is unclear, management estimated the tax exposure at 30 June 2010 of approximately USD 13,669 thousand (31 December 2009: USD 15,260 thousand). This amount had not been accrued at 30 June 2010 as management does not believe the payment to be probable.

### Russian Federation risk

As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of the Russian Federation is characterised by a currency that is not freely convertible outside the country, currency controls, low liquidity levels for debt and equity markets and continuing inflation. As a result operations in the Russian Federation involve risks that are not typically associated with those in more developed markets.

Stability and success of Russian economy depends on the effectiveness of the government economic policies and the continued development of the legal and political systems.

***(in thousands of US Dollars)***

## 17. SUBSEQUENT EVENTS

On 24 August 2010, the Company declared dividends of RUB 8.52, or USD 0.28 (at 24 August 2010 exchange rate) per share related to the six months ended 30 June 2010.

On 1 July 2010, KazakhGold issued 66,666,667 of ordinary shares, resulting in total proceeds of USD 100 million. Polyus Gold, through its subsidiary Jenington, subscribed for 51,194,922 of the shares increasing its ownership in KazakhGold to 65% of its issued share capital.

On 2 August 2010, the Group was notified that a freeze had been placed by the Agency on Economic and Corruption Crimes (“AECC”) in the Republic of Kazakhstan on certain bank accounts held in the Republic of Kazakhstan by Kazakhaltyn. This freeze is in connection with an investigation by the AECC into allegations of fraud by three members of its KazakhGold’s Board of Directors. After clarification, Kazakhaltyn was permitted limited access to make payments to employees and certain key suppliers.

On 7 September 2010, major production assets owned by Kazakhaltyn were frozen under AECC freezing order which had been made in the connection with the investigation being processed by AECC. The restriction only refers to possible disposal of property, plant and equipment of Kazakhaltyn and has no influence on its current operating activity.

On 23 August 2010, an unscheduled tax audit of Kazakhaltyn commenced for the fiscal years 2009 and 2010 and subsequently extended for 2007 and 2008 years.

## 18. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

| | | | Effective % held[1] | |
|---|---|---|---|---|
| **Subsidiaries** | **Country of incorporation** | **Nature of business** | **30 June 2010** | **31 December 2009** |
| CJSC “Gold Mining Company Polyus” | Russian Federation | Mining | 100.0 | 100.0 |
| OJSC “Aldanzoloto GRK” | Russian Federation | Mining | 100.0 | 100.0 |
| OJSC “Lenzoloto” | Russian Federation | Market agent | 64.1 | 64.1 |
| LLC “Lenskaya Zolotorudnaya Company” | Russian Federation | Market agent | 100.0 | 100.0 |
| CJSC “ZDK Lenzoloto” | Russian Federation | Mining | 66.2 | 66.2 |
| CJSC “Lensib” | Russian Federation | Mining | 40.4 | 40.4 |
| CJSC “Svetliy” | Russian Federation | Mining | 55.6 | 55.6 |
| CJSC “Marakan” | Russian Federation | Mining | 55.6 | 55.6 |
| CJSC “Dalnaya Taiga” | Russian Federation | Mining | 54.3 | 54.3 |
| CJSC “Sevzoto” | Russian Federation | Mining | 43.0 | 43.0 |
| CJSC “GRK Sukhoy Log” | Russian Federation | Mining | 100.0 | 100.0 |
| OJSC “Matrosov Mine” | Russian Federation | Mining (development stage) | 100.0 | 100.0 |
| CJSC “Tonoda” | Russian Federation | Mining (exploration stage) | 100.0 | 100.0 |
| OJSC “Pervenets” | Russian Federation | Mining (development stage) | 100.0 | 100.0 |
| OJSC “South-Verkhoyansk Mining Company” | Russian Federation | Mining (development stage) | 100.0 | 100.0 |
| Polyus Exploration Limited | British Virgin Islands | Geological research | 100.0 | 100.0 |
| KazakhGold Group Limited[2] | Jersey | Sub-holding company | 50.2 | 50.2 |
| JSC “MMC Kazakhaltyn”[2] | Kazakhstan | Mining | 50.2 | 50.2 |
| Jenington International Inc. | British Virgin Islands | Market agent | 100.0 | 100.0 |
| Polyus Investments Limited | Cyprus | Market agent | 100.0 | 100.0 |

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

[2] Acquired in 2009.