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Trading update for the FY2010

OJSC Polyus Gold (RTS, MICEX and LSE - PLZL), Russia's largest gold producer, today releases its preliminary operating results for the year 2010.

In the period under review the Group produced 1,386 thousand ounces of refined gold¹, compared to 1,261 thousand ounces in the year 2009, showing a 10% year-on-year growth. The increase in production is primarily a result of the launch in July of 2010 of the Blagodatnoe project in Krasnoyarsk region. A considerable contribution to the production was made by KazakhGold Group's subsidiaries, where the modernization of mining and processing facilities continued, as well as by Titimukhta project, which was launched in 2009 and where gradual increase of production facilities continued.

It is important to note, that a number of factors significantly complicated the Group's production units operations in the reporting year. First of all, Olimpiada mine, the largest producing unit of Polyus, faced the technological issues related to the processing of sulfide ores. When the plant transitioned to processing of ores from deep horizons with high pyrrhotine content, our bio-leaching technology BIONORD[®] showed high sensitivity to variations in material and mineralogical composition of the ore. This led to the decrease of the recovery rate. However, those difficulties are overcome. The Company is currently implementing a series of measures aimed at raising the efficiency of sulfide ore processing at Olimpiada mine and improving the bio-leaching technology. The first stage of that series of measures is to be completed by the middle of 2011. The expected recovery rate increase following the implementation of these measures – around 5-6%.

Other factors that affected the Group's operating results in 2010 were: reduction in average grade in ore processed at Titimukhta, as well as continued modernization works at the Kuranakh mine.

In the reporting period, the Group's operating mines and development projects moved 56.9 million cubic meters of total rock, which is 17% more than in 2009. The growth is primarily related to increasing mining works at new mines and projects – Titimukhta, Blagodatnoye, Verninskoye.

In the period under review 23.4 million tonnes of ore were mined at the Group's production units, compared to 18.4 million tonnes of ore mined in 2009. Ore processing in 2010 equaled to 19.8 million tonnes, compared to 13.9 million tonnes in 2009. The increase in mining and

¹ Including 110.5 k oz of gold produced by KazakhGold Group in a form of sludge, flotation and gravitation concentrates and other semi-products.

processing was also related to the development of new mines and projects, primarily, the launch of Blagodatnoye mine.

In 2010, exploration works continued in all the regions of the Group's operations – Krasnoyarsk, Irkutsk, Magadan, Amur regions, Yakutia, the Republic of Kazakhstan. Total volume of drilling in the reporting period, according to preliminary estimates, amounted to 187.5 thousand meters, compared to 141.4 meters in 2009.

In the period under review, the Group sold 1,382 thousand ounces of gold, compared to 1,238 thousand ounces in 2009. In accordance with preliminary estimates, the Group's gold sales amounted to USD 1,701 million², compared to USD 1,199 million in 2009. Weighted-average gold selling price, as preliminary estimated, amounted to USD 1,225.5 per ounce³, compared to USD 968.7 in 2009.

According to preliminary estimates, the Group's EBITDA in 2010 amounted to around USD 710 – 730 million, compared to USD 549 million in 2009. Therefore, EBITDA margin is expected at the level of 42%. Total cash costs (TCC) are expected at the level of USD 550 – 570 per ounce, compared to USD 391 in 2009. The increase of TCC is primarily related to the decrease in production at Olimpiada mine following above described technological issues while the decrease in mining and processing at the mine was insignificant, as well as to lower grades in Titimukhta ores.

According to preliminary estimates, total capital expenditure of the Group in 2010 amounted to USD 362 million⁴. The largest investment project in the period under review was Blagodatnoye mine, with capital expenditure at the level of USD 116 million. Around USD 32 million was spent on the Verninskoye mine construction in the Irkutsk region. According to preliminary estimates, USD 24 million was expenditure on the modernization programme carried out at Olimpiada mine. Investments into exploration amounted to around USD 40 million. Capital expenditure on maintenance of the existing facilities amounted to around USD 72 million.

Growing the mineral reserves base.

In 2010 the Group continued to develop its mineral reserves base. Exploration works were underway in all regions of operations. Major results of those efforts were: morphology elaboration of the ore bed of the Eastern section of Olimpiada deposit, confirmation of the assumption on possible common ore-bearing structure of Eastern and Western sections of the deposit; listing on the state balance of Zapadnoye deposit reserves in the amount of 14 tonnes (450 k oz) at the average grade of 2.6 g/t under categories C1+C2. At the Verninskoye deposit additional exploration was carried out at flanks and deep horizons. Scoping study and reserves calculation were prepared and submitted to the State reserves committee (GKZ).

In the reporting period the Company continued participating in auctions and obtaining new exploration licenses. Particularly, licenses for Vangashskaya, Verkhnekadrinskaya areas

² Includes USD 105 million of revenues from semi-products sales of KazakhGold Group.

³ Average weighted gold selling price for Polyus Gold excluding KazakhGold sales of the metal in semi-products amounted to USD 1,249.19 per ounce.

⁴ Capital expenditures (investments into projects) figures presented in this document are based on the management accounting data.

(Krasnoyarsk region) were acquired, as well as licenses for Smezhny area and six alluvial areas (Irkutsk region), licenses for Burgakhchan, Gus and Erguneiskiy areas (Chukotka region).

Expected mineral reserves base of the Group as at 01.01.2011 amounted to 3,379 tonnes (108.6 million ounces) of gold under categories B+C1+C2.

Polyus' production units operations in 2010

Olimpiada mine (Krasnoyarsk region)

In the reporting period refined gold production from sulfide ores of the Olimpiada deposit amounted to 584 thousand ounces, compared to 839 thousand ounces in 2009. The reduction was the result of technological difficulties that arose following the transition to deep level ores with high pyrrhotine content. The bio-leaching technology showed high sensitivity to the change in ore composition, which led to significant decline in recovery rate.

The programme to raise the efficiency of sulfide ore processing at Mill-2 and Mill-3 was developed by the Krasnoyarsk business unit and submitted to the Board. The programme consists of 11 measures aimed at upgrading the processing complex of Mill-2 and Mill-3. This programme forms the first stage of the complex of measures aimed at raising operating efficiency of the mills. Upon the completion of the first stage the second stage will be implemented, which will include the modernization of bio-leaching section, introduction of the automatic process control system and other.

Eight out of eleven measures have been already completed. One of the key results: in April Mill-2 and Mill-3 achieved the designed capacity of 8 million tonnes of ore per annum. The remaining measures shall be completed by the middle of 2011.

The Titimukhta project (Krasnoyarsk region)

100 thousand ounces of gold were produced by the Titimukhta project, which is a 2.5-fold increase compared to the 2009 output, but is somewhat below the targeted output. The major reason of the shortfall was lower than expected gold grade in the ore, complexity of the geological structure of the Titimukhta ore body, as well as continued adjustments of the technology at the plant impeding reaching the designed processing volumes.

Kuranakh mine (Sakha Republic (Yakutia))

The reduction in gold production at the Kuranakh mine is related to the continuing works on modernization of the mine and expand the capacity of the mill. In the reporting period construction and assembling works as well as precommissioning works were completed. In 2011 adjustment of technological regimes that began in 2010 were continued.

Zapadnoye mine (Irkutsk region)

The reduction in output at Zapadnoye mine is related to reserves depletion within the current pit outline.

Alluvials (Irkutsk region)

The increase in gold output at the alluvial production units is related to the increase of gold grade in the sands washed, which resulted from successful grade control drilling and additional exploration.

KazakhGold Group (Republic of Kazakhstan)

The growth in gold production at the operating units of the Kazakhstan business unit was a result of modernization programme implemented by the Company since the acquisition of the assets in 2009, as well as the launch of Akzhal production facilities in April 2010.

Table 1. Refined gold production by the Group's subsidiaries.

Refined gold production (in thousand ounces)	2010	2009	Change
Olimpiada mine	584	839	-30.4%
Titimukhta	100	39	156.2%
Blagodatnoye	249	–	–
Kuranakh mine	120	135	-10.8%
Zapadnoye mine	19	24	-21.7%
Pervenets pilot plant (Verninskoye and Pervenets ores) ⁵	7	–	–
Alluvials	197	194	1.3%
Natalka pilot plant ⁶	1	–	–
KazakhGold Group ⁷	110	30	271.0%
Total gold production	1,386	1,261	9.9%

**Table 2.
Mining works and ore processing.**

	2010	2009	Change
Total rock (in thousand m³)			
Krasnoyarsk region			
Olimpiada mine	22,053	24,055	-8.3%
<i>Including stripping</i>	18,529	20,084	-7.7%
Stripping ratio (m ³ /t)	1.95	1.89	3.2%
Titimukhta	8,073	5,003	61.4%
<i>Including stripping</i>	7,132	4,296	66.0%
Stripping ratio (m ³ /t)	3.04	2.66	14.3%
Blagodatnoye mine	11,148	7,740	44.0%
<i>Including stripping</i>	9,109	7,519	21.1%
Stripping ratio (m ³ /t)	1.64	12.64	-87.0%
Sakha Republic (Yakutia)			

⁵ Processing of ore of the Verninskoye and Pervenets deposits. See page 8 of this report for more details.

⁶ Dore gold produced in 2009 were refined in 2010.

⁷ Gold production by KazakhGold Group in a form of sludge, flotation and gravitation concentrates and other semi-products. In 2009, KazakhGold production was consolidated for August – December.

Kuranakh mine	9,831	8,606	14.2%
<i>Including stripping</i>	7,859	6,589	19.3%
Stripping ratio (m ³ /t)	2.26	1.83	23.5%
Irkutsk region			
Zapadnoye mine	2,462	1,733	42.1%
<i>Including stripping</i>	2,301	1,305	76.3%
Stripping ratio (m ³ /t)	5.29	1.13	368.1%
Verninskoye mine	2,043	1,340	52.5%
<i>Including stripping</i>	1,951	1,198	62.8%
Stripping ratio (m ³ /t)	7.84	3.12	151.3%
Magadan region			
Natalka deposit	18	6	–
<i>Including stripping</i>	7	–	–
Stripping ratio (m ³ /t)	0.24	–	–
Kazakhstan			
KazakhGold	1,264	153	726.4%
<i>Including stripping</i> ⁸	764	46	1560.4%
Stripping ratio (m ³ /t)	0.58	0.17	241.2%
Total rock moved	56,893	48,636	17.0%
Ore mining (in thousand tonnes)			
Krasnoyarsk region			
<i>Olimpiada mine, including:</i>	9,516	10,603	-10.3%
Average gold grade (g/t)	3.19	3.03	5.3%
<i>Titimukta</i>	2,345	1,618	44.9%
Average gold grade (g/t)	2.00	2.11	-5.2%
<i>Blagodatnoye mine</i>	5,563	595	834.9%
Average gold grade (g/t)	1.99	2.15	-7.4%
Sakha Republic (Yakutia)			
<i>Kuranakh mine</i>	3,476	3,606	-3.61%
Average gold grade (g/t)	1.33	1.39	-4.32%
Irkutsk region			
<i>Zapadnoye mine</i>	434.7	1,155	-62.4%
Average gold grade (g/t)	1.73	1.78	-2.8%
<i>Verninskoye mine</i>	248.7	384	-35.2%
Average gold grade (g/t)	2.32	2.71	-14.4%
Magadan region			
<i>Natalka deposit</i>	30.0	6.2	383.9%
Average gold grade (g/t)	1.39	1.94	-8.3%
Republic of Kazakhstan			
<i>KazakhGold</i>	1,757	432	306.8%
Average gold grade (g/t)	2.65	2.89	-8.3%
Total ore mined	23,370	18,399	27.0%
Ore processing (in thousand tonnes)			

⁸ For KazakhGold stripping volumes are given only for open pit mining works. Volumes of ore mined by open pit mining method were used in the calculation of the stripping ratio.

<i>Olimpiada mine, including</i>	7,377	8,877	-16.9%
Olimpiada deposit	7,377	8,561	-13.8%
Sulfide ore	7,354	7,398	-0.6%
Mixed ore	23.4	1,163	-98.0%
Olenye deposit	–	316	–
Average grade (g/t)			
Olimpiada deposit			
Sulfide ore	3.76	3.6	4.4%
Mixed ore	6.05	6.24	-3.0%
Olenye deposit	–	4.6	–
Recovery (%)			
Olimpiada deposit			
Sulfide ore	66.37	73.11	-9.2%
Mixed ore	76.71	79.71	-3.8%
Olenye deposit	–	75.4	–
<i>Titimukhta</i>	1,557	602	158.7%
Average gold grade (g/t)	2.36	2.84	-16.9%
Recovery (%)	84.11	76.29	10.3%
<i>Blagodatnoye mine</i>	5,363	–	–
Average gold grade (g/t)	1.98	–	–
Recovery (%)	76.73	–	–
Sakha Republic (Yakutia)			
<i>Kuranakh mine</i>	3,298	3,463	-4.8%
Average gold grade (g/t)	1.34	1.4	-4.3%
Recovery (%)	85.15	84.2	1.1%
Irkutsk region			
<i>Zapadnoye mine, including.:</i>	555	505	9.9%
Ore of Zapadnoye deposit	449	505	-11.1%
Average gold grade (g/t)	1.76	2.18	-19.3%
Recovery (%)	69.7	69.09	0.9%
Ore of Verniskoye deposit	106.3	–	–
Average gold grade (g/t)	1.85	–	–
Recovery (%)	55.6	–	–
<i>Pervenetsk pilot plant, including:</i>	80.1	–	–
Ore of Pervenetz deposit	39	–	–
Average gold grade (g/t)	2.63	–	–
Recovery (%)	79.5	–	–
Ore of Verninskoye deposit	41.1	–	–
Average gold grade (g/t)	1.65	–	–
Recovery (%)	72.06	–	–
Magadan region			
Natalka pilot plant ⁹	38	40	-5.0%

⁹ In 2009 and 2010 at the pilot plant of the Natalka project research works were carried out relating to technology development for the future Natalka mining complex, and later – adjustments and specification of technological parameters for gravitation, flotation and hydrometallurgical stages were done. That is why the achieved overall recoveries vary significantly and are not indicative for the operating results of the project.

Average gold grade (g/t)	1.38	1.50	-8.0%
Kazakhstan			
<i>KazakhGold, including</i>	1,574	392	301.9%
Ore processing at plant	757	233	224.5%
Average gold grade (g/t)	3.73	3.69	1.1%
Recovery (%)	83.4	75.2	11.0%
Heap leaching	818	159	415.8%
Average gold grade (g/t)	1.19	1.01	17.8%
Recovery (%)	43.9	38	15.2%
Total ore processing	19,843	13,879	43.0%
Sand washing (alluvials)			
Volumes of sands washed (million m ³)	8.89	9.00	-1.3%
Average gold grade (g/t)	0.69	0.66	4.2%

Projects development in 2010

Launch of the Blagodatnoye mine

In July 2010 the Polyus Group successfully commissioned the Blagodatnoye mine in the Krasnoyarsk region. Construction of the mine took slightly more than 2.5 years. The construction team, as well as the constructing equipment, previously engaged in construction of Mill-3 of the Olimpiada mine, were involved in the Blagodatnoye project.

The designed mill capacity is 6 mtpa. The average gold output is expected at 12.8 tonnes (412 k oz). Total capital expenditures for the project were USD 450 million. In 2010 construction and assembling works at the pit and the mill were completed. A 24MW power plant was launched. In addition, construction of warehouses, garage-repair shop, diversion facilities and tailing dam was completed. Construction works were performed on schedule and within the approved budget.

In 2010 operating results of the Blagodatnoye mine exceeded the planned targets. At the moment the mine seeks to achieve the designed recovery rate. In 2010 the mine produced 249 k oz of refined gold.

Capital expenditures in the Blagodatnoye project in the reporting year amounted to USD 116 mln.

Natalka deposit

Project documentation approval

In 2010 the project documentation was approved by the federal and local authorities, in particular:

On 4 August 2010 the Federal State Expertise Committee of Russia (Gravgosexpertiza) issued its positive opinion on the project of the Natalka mine construction.

On 28 September 2010 the project documentation was approved by the Central Committee for solid mineral deposits development of Rosnedra.

On 21 December the Board of Directors of Polyus Gold decided to begin construction of the first stage of the mine. Completion of construction of the 1st stage is scheduled for 4 quarter of 2013, commissioning is planned for December 2013. The mill is expected to achieve its full processing capacity of 10 mtpa in 2014. The 1st stage investment budget (2010-2013) of USD 31.5 bln was approved. According to the project, the launch of the mining complex at the Natalka deposit is

expected to be completed in 3 stages: 1st stage with 10 mtpa processing capacity to be launched in 2014; 2nd stage with 20 mtpa capacity – in 2016 and 3rd stage with 40 mtpa capacity – in 2020. At a processing capacity of 40 mtpa, gold production will amount to approximately 50 tonnes per year.

In the reporting year the project documentation was audited by the leading international engineering companies. Micon International Ltd. confirmed the possibility of an industrial-scale ore mining at an average grade exceeding 2 g/t. SRK Consulting audited the project documentation, including analysis of data for the Feasibility Study preparation, and gave recommendations on the project optimization. Hatch audited the project documentation and engineering survey results.

In 2010 Micon International Ltd. started to re-audit Natalka reserves under the JORC standards. According to preliminary results of the mine plan technical analysis, measured, indicated and inferred resources amount to 44.8 million ounces. Reconfirmation of proved and probable reserves is expected in 1 quarter 2011.

In the 3rd quarter 2010 the first stage of the pre-mining grade control drilling began. Equipment renewal, scheduled repairs and overhaul was implemented. Reconstruction of the tailing pit was completed. In addition, prospecting works were completed at the Omchak ore cluster, resources calculation is under way.

Processing technology development at the Pilot plant

In 2010 technological testing at the Natalka Pilot plant continued to model the processing technology of the future Natalka mine. Tests were carried out at the stages of ore grinding and classification, gravitation, flotation and intensive cyanidation. In December 2010 general testing of the designed technological scheme was implemented; designed recovery was achieved.

In the reporting period 30 thousand tonnes of ore were mined at the experimental pit. During the testing works 38 thousand tonnes of ore were processed, 697 ounces of refined gold were produced.

In 2010 capital expenditures for the Natalka development project amounted to USD 13 million.

Verninskoye deposit

After the successful launch of Blagodatnoye in the Krasnoyarsk region the Polyus Stroy team moved to the Verninskoye construction site. Currently about 300 people are engaged in construction of the Verninskoye mine.

In 2010 construction of the main building was completed; concrete mixer and crushing unit were installed. Works on equipment foundation laying are under way in the main building. Electric power objects were constructed and heat network was laid; the heat was supplied to the plant from the new power plant. Key camp facilities are ready. In the reporting period construction of materials warehouse, fuel and lubricants storage and tailing dam went on. General equipment supplier FL Smidth audited the processing technology; the mill equipment supply began.

In the reporting year supplementary exploration of the deposit's flanks and deep horizons was completed. A scoping study with reserves estimation was submitted to the State Reserves Committee (GKZ). In addition, MICON International Ltd. began re-audit of reserves in accordance with JORC standards, the results are expected in 1 quarter 2011.

In June 2010 the Subsoil Usage Agency of the Irkutsk Region granted the permission to commence mining operations at the Verninskoye pit. During the year capital mining works were conducted at the pit. In 2010 248.7 thousand tonnes of ore were mined.

In the reporting year the Pervenets pilot plant resumed its operations after several years of suspension to model the processing technology of the future Verninskoye mine. In 2010 80 thousand tonnes of ore from Verninskoye and its satellite deposit Pervenets were processed, 7.4 k oz of gold were produced.

In 2010 capital expenditures for the Verninskoye project amounted to USD 32 mln. The mine launch is scheduled for 4 quarter 2011.

Titimukhta

At Mill-1 of the Olimpiada mine adjustment of processing technology for the ores of Titimukhta continued. In 2010 the mill reached the designed recovery ratio. Mining and transport equipment was supplied (Komatsu dumper trucks, drilling rig); construction of the pit facilities was completed.

In 2010 capital expenditures for the Titimukhta project totaled USD 14 mln.

KazakhGold Group

In 2010 modernization of production facilities of KazakhGold Group, located in Northern Kazakhstan, went on. Renewal of underground and open pit mining fleet and processing equipment was implemented at the Aksu, Bestobe and Zholymbet mines.

In addition, at Aksu the primary mills were overhauled. Works on reconstruction of the process water supply and tailing dam reinforcement were performed. Refurbishment of the hoisting complex of shaft No 38 started.

At Bestobe, refurbishment of the Ventilyatsionnaya shaft allowed to involve the Dalnyaya zone into mining. A new flotation workshop and a new sludge line were constructed at the plant; a new mill and a press-filter were installed. Repair works on the camp are under way.

At Zholymbet, the Centralnaya shaft was overhauled, the tailing pit was reconstructed. The primary mills and thickeners were repaired; jaw and cone crushers were replaced. New mills were commissioned at the plant and Centralnaya compressor station was reconstructed.

At the moment a report on JORC audit and resources calculation of the Aksu, Bestobe and Zholymbet deposits is being prepared. Scoping study is under way at the Kaskabulak deposit.

In April 2010 a 0.3 mtpa pilot heap leaching facility was launched at the Akzhal deposit in Eastern Kazakhstan to model the technology of oxidized ore processing. The HL facility produces gold-bearing sorbent which is further processed at an in-house plant in Ust-Kamenogorsk (maximum processing capacity up to 5 tonnes of 160 k oz of Dore gold per annum) to produce Dore gold. In April – December 2010 8.1 k oz of gold were produced from the ore of the Akzhal deposit.

In 2010 capital expenditures of the Kazakhstan business unit amounted to USD 31 mln.