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Trading update for the 1H 2011

OJSC Polyus Gold (RTS, MICEX and LSE - PLZL), Russia's largest gold producer, today releases its preliminary operating results for the 1H2011.

Operating results

During the first six months of 2011 the Group's operating units produced 611,000 ounces of refined gold¹, compared to 503,000 ounces during the same period of the previous year. The 21% increase was primarily the result of the successful implementation of the Group's production process optimization programme at its key production unit – the Olimpiada mine, the ramp-up of production at the Blagodatnoye mine (launched in July 2010), and an upgrade of the mining fleet at the Group's alluvial deposits as well as ongoing modernization at the production facilities in Kazakhstan.

The dore gold (metal before refining) production in the reporting period amounted to 704,000 ounces, compared to 567,000 ounces in the first half of 2010. The difference resulted from substantial volumes of the metal produced but not refined in the reporting period, which remained as unfinished product at the mines and at the refining plants.

As at 30 June 2011 the balance of the metal at the refining plant (not refined in the reporting period) produced by the Krasnoyarsk business unit (Olimpiada, Blagodatnoye and Titimukhta) amounted to 45,000 ounces. The stock of the metal that remained at the Olimpiada mine as at 30 June 2011 also amounted to approximately 45,000 ounces. There were also some stocks of gold at other production units.

The tables below represent the production of refined and dore gold in the reporting period.

Table 1. Refined gold production

Refined gold production, k oz	1Q 2011 ²	1H 2011	1H 2010	Change, 1H11/1H10
Olimpiada mine	110	248	233	6%
Blagodatnoye mine	72	152	80	90%
Titimukhta	22	44	39	14%
Kuranakh mine	25	55	56	-3%
Zapadnoye mine	1	3	12	-79%
Pervenets pilot plant ³	-	7	-	-

¹ Total gold production includes 554,000 ounces of refined gold produced by the production units based in Russia and 57,000 ounces of gold produced by KazakhGold Group in sludge, float and gravity concentrates and other semi-products.

² In the Group's trading update for the 1Q 2011 only dore gold production was displayed.

³ Processing of Verninskoye ores. See page 8 for more details

Alluvials	-	45	36	25%
KazakhGold Group, including	27	57	46	24%
<i>Aksu</i>	5	11	12	-7%
<i>Bestobe</i>	10	22	13	73%
<i>Zholymbet</i>	10	21	20	4%
<i>Akzhal</i>	1	2	2	20%
Total gold production	258	611	503	21%

Table 2. Dore gold production

Dore gold production, k oz	1Q 2011	1 H 2011	1H 2010	Change, 1H11/1H10
Olimpiada mine	144	293	261	13%
Blagodatnoye mine	94	180	89	101%
Titimukhta	29	52	44	20%
Kuranakh mine	27	57	59	-3%
Zapadnoye mine	2	2	12	-80%
Pervenets pilot plant	-	5	-	-
Alluvials	0.3	56	54	3%
KazakhGold Group, including	27	57	46	24%
<i>Aksu</i>	5	11	12	-4%
<i>Bestobe</i>	10	22	13	75%
<i>Zholymbet</i>	10	21	20	5%
<i>Akzhal</i>	1	2	2	-2%
Total gold production	323	704	567	24%

In the first six months of 2011 the Group's production units moved 26.4 million cubic meters of rock, compared to 27.3 million cubic meters in the first six months of 2010.

In the reporting period the Group mined 11.1 million tonnes of ore, compared to 11.5 million tonnes in the same period of the previous year. Ore processing amounted to 10.5 million tonnes, compared to 9.1 million tonnes in the first half of 2010. The increase in ore processing was primarily the result of the Blagodatnoye mine reaching full processing capacity.

In the first half of 2011 the Group sold 629,000 ounces of gold, compared to 524,000 ounces in the similar period of the previous year⁴.

The Group's gold sales revenue is estimated to amount to approximately USD 909 million (unaudited), compared to USD 608 million (unaudited) in the first half of 2010. The 50% year-on-year increase in revenues is attributed to a 25% increase in the realized gold selling price as well as a 20% increase in sales volumes. The weighted average gold selling price is estimated to have amounted to approximately USD 1,445 per troy ounce, compared to USD 1,154 per ounce in the first half of 2010.⁵

⁴ Sales volume includes 566,000 ounces of refined gold sold in the reporting period produced by the Russian production units of Polyus Group (does not include volumes of gold produced at Pervenets pilot plant out or the ores of Verninskoye deposit; those sales are not consolidated in the Group's revenue due to non-commercial scale of production), as well as 63,000 ounces of the metal produced and sold by KazakhGold Group in semi-products.

⁵ Weighted average gold selling price of refined gold produced by the Russian production units of Polyus Group amounted to USD 1,459 per ounce. The lower selling price for the Group of USD 1,445 per ounce is due to KazakhGold's sales of gold in semi-products at a discount to the gold spot price.

In the reporting period the total volume of exploration drilling amounted to 33.7 thousand meters, compared to 101.6 thousand meters in the first half of 2010. The reduction was the result of the completion of exploration programmes at a number of large-size deposits: Verninskoye, deep level horizons of Olimpiada, and Poputninskoye. In addition, exploration works were suspended on licenses at the Kazakhstan Group, following the decision made by the Group to sell its operating subsidiaries in Kazakhstan, as previously announced.

IH 2011 Operational Review

Olimpiada mine (Krasnoyarsk region)

In the period under review, the Olimpiada mine produced 248 thousand ounces of refined gold, compared to 233,000 ounces in the first half of 2010. This growth was primarily due to the implementation of a series of measures aimed at increasing the recovery efficiency of sulfide ore processed at the Olimpiada mine, which were commenced in 2010. As a result, the average recovery rate in the reporting period increased by 12% (71.1% versus 63.7%). During the period under review recoveries continued to improve and reached 73.7% in June.

In the first half of 2011, the implementation of the first stage of the Olimpiada production process optimization project, which consists of 11 measures, was continued. In the reporting period, installation of the bio-cake dewatering equipment was undertaken and the equipment prepared for pre-commissioning. A gravity concentration processing equipment installation began in 2011. During the reporting period, the reconstruction of the lime workshop reconstruction was undertaken. The implementation of these measures is expected to be completed in the second half of 2011, and is expected to result in further improvement of the mine's operating efficiency.

Titimukhta (Krasnoyarsk region)

In the first half of 2011 Titimukhta produced 44,000 ounces of refined gold, compared to 39,000 ounces produced in the first half of 2010. The 14% increase was primarily the result of continued efforts to achieve the designed processing parameters at Titimukhta. During the reporting period, the grinding equipment operation was stabilized, which helped achieve a 27% increase in ore processing, as compared to the first half of 2010.

In the first half of 2011 the average recovery efficiency at Titimukhta increased by 5.7% as compared to the first half of 2010 and amounted to 84.1%. During the reporting period the recovery efficiency gradually improved and amounted to 87.3% in June 2011.

Blagodatnoye mine (Krasnoyarsk region)

In the first half of 2011 ore processing volumes reached its designed level. In the reporting period, refined gold production at Blagodatnoye amounted to 152,000 ounces, compared to 80,000 ounces in the first half of 2010 when the mine was being commissioned. The average recovery efficiency in the reporting period amounted to 85.3%. In June the recovery efficiency reached 86.3%

Alluvials (Irkutsk region)

Refined gold production at the Group's alluvial deposits in the reporting period amounted to 45,000 ounces, compared to 36,000 ounces in the first six months of 2010, a 25% increase. This increase was due to the accelerated repair and maintenance works done during the winter season as well as renewal of the mining fleet at the deposits, which enabled mining to commence earlier than planned.

Kuranakh mine (the Sakha Republic (Yakutia))

In the first six months of 2011 the Kuranakh mine produced 55,000 ounces of refined gold, compared to 56,000 ounces in the first half of 2010. In the reporting period the performance testing at the plant was implemented, as part of the expansion and upgrade programme at the Kuranakh mine. The required documentation to be submitted to Rostekhnadzor (Federal Agency on Environmental, Technological and Nuclear Control) was prepared with the Rostekhnadzor permission expected to be obtained in the third quarter of 2011.

Zapadnoye mine (Irkutsk region)

As a result of depletion of reserves in the pit contour of Zapadnoye deposit, in the reporting period a decision was made to suspend operations at the Zapadnoye mine. The pit suspension measures were developed and approved by the Irkutsk branch of Rostekhnadzor.

Production units of KazakhGold Group

In the reporting period, the operating subsidiaries of the KazakhGold Group produced 57,000 ounces of gold in semi-finished products, compared to 46,000 ounces in the first six months of 2010. The 24% growth was principally a result of the modernization programme at all of the production units that began after the acquisition of the assets in August 2009.

The tables below represent the total rock moved, ore mined and processed by the Group's operating units in the reporting period.

Table 3. Total stock moved, ore mining and processing

Total rock (in thousand m3)	IH 2011	IH 2010	Change	2010
Olimpiada mine	8,316	11,545	-28.0%	22,053
<i>Including stripping</i>	6,960	9,577	-27.3%	18,529
Stripping ratio (m ³ /t)	1.9	1.8	5.6%	1.95
Titimukhta	5,102	3,570	42.9%	8,073
<i>Including stripping</i>	4,673	3,129	49.3%	7,132
Stripping ratio (m ³ /t)	4.1	2.9	40.3%	3.0
Blagodatnoye mine	6,508	5,032	29.3%	11,148
<i>Including stripping</i>	5,201	4,179	24.5%	9,109
Stripping ratio (m ³ /t)	1.4	1.8	-20.0%	1.6
Kuranakh mine	4,877	4,647	4.9%	9,831
<i>Including stripping</i>	3,871	3,659	5.8%	7,859
Stripping ratio (m ³ /t)	2.2	2.1	4.8%	2.3
Zapadnoye mine	77	1013	-92.4%	2,462
<i>Including stripping</i>	54.9	892	-93.8%	2,301
Stripping ratio (m ³ /t)	0.9	2.7	-65.9%	5.3
Verninskoye	991	967	2.5%	2,043
<i>Including stripping</i>	842.8	955	-11.7%	1,951
Stripping ratio (m ³ /t)	2.1	-		7.8
Operating units of KazakhGold Group				
Aksu	72	136	-47.0%	379
<i>Including stripping</i>	28	50	-44.1%	162
Stripping ratio (m ³ /t)	0.5	0.4	35.0%	0.4
Bestobe	34	116	-70.6%	295
<i>Including stripping</i>	-	25		54
Stripping ratio (m ³ /t)	-	0.2		0.1
Zholymbet	282	115	145.4%	357
<i>Including stripping</i>	215.6	44	389.9%	216

Stripping ratio (m ³ /t) ⁶	8.8	0.6	1,358.3%	1.4
Akzhal	183	153	19.9%	453
<i>Including stripping</i>	126.7	111	14.1%	332
Stripping ratio (m ³ /t)	0.9	1.1	-19.1%	1.1
Total stock moved by KazakhGold Group	572	521	9.7%	1,264
Total stripping, KazakhGold Group	370	230	61.0%	764
Total rock moved by the Group	26,443	27,295	-3.1%	56,874
Total stripping	21,973	22,621	-2.9%	47,645

Ore mining (in thousand tonnes)	1H 2011	1H 2010	Change	2010
Olimpiada mine				
Ore mining	3,661	5,312	-31.1%	9,516
Average gold grade in ore mined (g/t)	3.3	3.1	7.5%	3.2
Titimukhta				
Ore mining	1,148	1,063	8.0%	2,345
Average gold grade in ore mined (g/t)	2.1	2.0	3.5%	2.0
Blagodatnoye mine				
Ore mining	3,614	2,302	57.0%	5,563
Average gold grade in ore mined (g/t)	2.1	2.0	3.0%	1.99
Куранахский ГОК				
Ore mining	1,759	1,757	0.1%	3,476
Average gold grade in ore mined (g/t)	1.3	1.3	-6.7%	1.3
Zapadnoye mine				
Ore mining	60	328	-81.7%	434.7
Average gold grade in ore mined (g/t)	1.9	1.7	11.5%	1.7
Verninskoye				
Ore mining	401	32	1,152.1%	248.7
Average gold grade in ore mined (g/t)	2.5	2.0	26.0%	2.3
Operating units of KazakhGold Group				
Aksu				
Ore mining	118	214	-45.0%	590
Average gold grade in ore mined (g/t)	2.8	2.4	16.0%	2.0
Bestobe				
Ore mining	88	200	-55.9%	546
Average gold grade in ore mined (g/t)	9.0	2.7	226.6%	2.8
Zholymbet				
Ore mining	155	162	-4.5%	308
Average gold grade in ore mined (g/t)	5.1	4.9	4.1%	5.0
Akzhal				
Ore mining	142	104	36.4%	314
Average gold grade in ore mined (g/t)	1.0	1.4	-33.3%	1.4
Total ore mining, KazakhGold Group	502	681	-26.2%	1,757
Total ore mining, the Group	11,145	11,475	-2.9%	23,370

⁶ The high stripping ratio at Zholymbet in 1H 2011 is related to widening of the pit that was underway in the reporting period.

Ore processing (in thousand tonnes)	1H 2011	1H 2010	Change	2010
Olimpiada mine				
Ore processing	4,022	3,537	13.7%	7,377
Average gold grade in ore processed (g/t)	3.4	3.7	-8.2%	3.8
Recovery (%)	71.1	63.7	11.7%	66.4
Titimukhta				
Ore processing	960	759	26.5%	1,557
Average gold grade in ore processed (g/t)	2.0	2.2	-9.5%	2.4
Recovery (%)	84.1	79.6	5.7%	84.1
Blagodatnoye				
Ore processing	3,028	2,250	34.6%	5,363
Average gold grade in ore processed (g/t)	2.1	1.9	9.3%	2.0
Recovery (%)	85.3	72.8	17.2%	76.7
Kuranakh mine				
Ore processing	1,656	1,646	0.6%	3,298
Average gold grade in ore processed (g/t)	1.3	1.3	-5.3%	1.3
Recovery (%)	85.2	85.1	0.2%	85.15
Zapadnoye mine				
Total ore processing, including:	155	298	-47.9%	555
Zapadnoye deposit ore processing	155	298	-47.9%	448.9
Average grade in ore processed (g/t)	0.8	1.9	-57.0%	1.8
Recovery (%)	55.1	70.2	-21.5%	69.7
Verninskoye deposit ore processing				106
Average grade in (g/t)				1.85
Recovery (%)				55.64
Pervenets pilot plant				
Total ore processing, including:	68	3	2,200.0%	80
Pervenets ore processing		3	-100.0%	39
Average grade in ore processed (g/t)		2.62	-100.0%	2.6
Recovery (%)		72.57	-100.0%	79.5
Verninskoye ore processing	68			41
Average grade in ore processed (g/t)	2.8			1.75
Recovery (%)	72.8			73.1
Operating units of KazakhGold Group				
Aksu				
Ore processing at plant	177	126	40.2%	314
Average grade in ore processed (g/t)	2.0	2.9	-30.3%	2.5
Recovery (%)	85.6	81.6	4.8%	84.0
Ore processing at heap leaching	47	50	-6.5%	170
Average grade in ore processed (g/t)	0.7	1.1	-32.7%	1.1
Bestobe				
Ore processing at plant	85	58	47.1%	142
Average grade in ore processed (g/t)	8.1	5.8	39.7%	6.7
Recovery (%)	88.4	83.4	5.9%	87.6
Ore processing at heap leaching	-	133		337
Average grade in ore processed (g/t)	-	1		1.05

Zholymbet				
Ore processing at plant	163	140	16.7%	301
Average grade in ore processed (g/t)	4.2	3.8	9.7%	3.59
Recovery (%)	77.4	77.3	0.1%	78.85
Akzhal				
Ore processing at heap leaching	127	106	20.1%	310
Average grade in ore processed (g/t)	1	1.45	-31.0%	1.4
Total, ore processing by KazakhGold Group	599	612	-2.1%	1,574
Total, ore processing by the Group	10,488	9,102	15.2%	19,843
Washing of sands (Alluvials)				
Washing of sands (million m ³)	2.6	2.4	10.2%	8.9
Average gold grade in sands (g/m ³)	0.66	0.71	-7.0%	0.69

Project development

Natalka mine construction (Magadan region)

On 21 December 2010 the Board of Directors of Polyus Gold approved the Natalka deposit development project and authorized commencement of the development of the mine.

Under the project as approved, completion of construction of the first stage is scheduled for the fourth quarter of 2013, with commissioning is planned for December 2013. The mill is expected to achieve its full processing capacity of 10 mtpa in 2014. The investment budget for the first stage (2010-2013) of RUB 31.5 billion was approved by the Board. The launch of the mining complex at the Natalka deposit is expected to be completed in three stages: the first stage with 10 mtpa processing capacity to be launched in 2014; the second stage with 20 mtpa capacity – in 2016 and the third^d stage with 40 mtpa capacity – in 2020. At a processing capacity of 40 mtpa, gold production would amount to approximately 50 tonnes per year.

In the reporting period, the tender process was started to choose a supplier of crushing and grinding equipment and a contract for the equipment supply is expected to be signed in the third quarter of 2011. Also, in the reporting period reconstruction of tailings facilities at the pilot plant was completed.

In March 2011 the first stage of pre-mining grade control drilling at the Natalka deposit, which commenced in September 2010, was completed. The total volume of drilling works amounted to 21 thousand meters. In total, 426 drill holes were drilled and 7,073 samples were taken.

A new reserves audit in accordance with JORC Code is currently being undertaken on the deposit. In April the second stage of pre-mining grade control drilling commenced. During the second stage, 7 thousand meters are planned to be drilled and 2,493 samples taken, including approximately 10-11 thousand meters to be drilled in the second half of 2011.

In February 2011 an agreement with OJSC MagadanEnergog was signed for the power supply to the mine. MagadanEnergog has begun the renewal of the grid, installing new 110 kV lines and replacing old wooden pylons.

In addition, negotiations with CJSC PeterGORproject have been completed for the preparation of the project documentation for the first stage of the mine.

In July 2011 the construction subsidiary of Polyus Gold – CJSC Polyus Stroy prepared the project and the detailed budget of the first stage of the mine, to be submitted to the Board of Polyus Gold.

Verninskoye mine (Irkutsk region)

In the reporting period substantial progress was made in the implementation of the Verninskoye mine construction. The mine commissioning and ramp-up is planned for the end of 2011, in accordance with the approved schedule.

Currently, over 500 construction people are engaged on the site, which includes the Group's in-house construction team (CJSC Polyus Stroy), as well as sub-contractors.

In the reporting period, laying of foundation for the technological equipment continued at the at ore-pretreatment and hydrometallurgy workshops of the plant and installation of equipment was also underway. In the ore pre-treatment workshop concreting and foundation laying for the sump for the material collected under the washing drum was undertaken, floatation cameras were installed with floatation machine, and control cleaning floatation was implemented. In addition, the assembling of a semi-autogenous grinding mill and the ball mill was undertaken. In the hydrometallurgy workshop foundations the laying for the neutralization phase, as well as assembling of conditioning tanks, were underway.

In the first half of 2011 the construction of the ore crushing unit and an ore supply unit was carried out and the construction of the assay laboratory continued. Construction of tailings facilities construction was also carried out.

By the end of the reporting period the construction of the warehousing facilities was nearly completed. The work was completed on the hypochlorite warehouse and, limestone and reagent warehouses construction was nearly completed.

In February 2011, Micon International Ltd. completed a new reserves audit of Verninskoye in accordance with JORC, as a result of which the proved and probable reserves were substantially increased and amounted to 5.8 million ounces of gold.

In the reporting period, the Group continued to develop technology for the future Verninsky mine. As a part of that process, the Pervenets pilot plant, which was previously suspended, continued its operations. In the first six months of 2011, the Pervenets pilot plant processed 69 thousand tonnes of ore (from the Verninskoye and Pervenets deposits) and produced 7.4 thousand ounces of gold.

Operating units of KazakhGold Group

In the first half of 2011, technical upgrade and equipment renewal aimed at stability of production process and increasing gold output, continued at the operating subsidiaries of the KazakhGold Group.

At the Aksu mine, the sinking of shaft No 41 was carried out and the repair of shaft No 38 (retimbering and armor replacement) was underway. In the reporting period, a new heap leaching unit was introduced to process low-grade ores from the stock-piles and development works at the new level 205 meters at shaft No 38 were carried out. In the first half of 2011, a strengthening of structure of the plant building also continued.

At Bestobe, during the reporting period, repairing of the Ventilyatsionnaya shaft was completed and stripping of the new horizon 745 meters began (with mining of stockyard completed and 745 meter cross-cut mining begun) at the Dalnyaya Taiga area, and a new diesel driven mining equipment (loading machines) was introduced. In addition, a strengthening of Bestobe plant's structure was carried out and foundation assembling was implemented for a new power grids sub-

station. At the reagents warehouse a new gauging section constructions was completed. An installation of weigh bridges was also completed.

At Zholymbet, during the reporting period the platform of Ventilyatsionnaya shaft repair was completed. The compressor house of the mine was renewed, and an additional compressor was installed. The body of the tunneling lifting machine was repaired with a headframe repair is underway. The ventilation channel construction began at the Ventilyatsionnaya shaft and the new laboratory building construction began. The construction of the new tailings facilities for 5 million cubic meters continued.