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Trading update for the FY 2009

OJSC Polyus Gold (RTS, MICEX and LSE - PLZL), Russia's largest gold producer, today releases its preliminary operating results for the year 2009.

In the period under review the Group produced 1,261 thousand ounces of refined gold¹, compared to 1,222 thousand ounces in the year 2008, showing a 3.2% year-on-year growth. The growth in production is primarily a result of the launch of the Titimukhta project in Krasnoyarsk region, as well as acquisition in the third quarter of 2009 of a controlling stake in KazakhGold Group Limited, one of the leading gold producers in Kazakhstan.

A number of factors significantly complicated the Group's production units operations in the reporting year. Firstly, due to depletion of high-grade oxide ores in 2008 and transition to the processing of refractory sulfide ores, there was a decrease in average gold grade of ore processed. Secondly, there were substantial volumes of ore at stock-piles accumulated during 1996-2007 years that needed to be processed to ensure stable chemico-mineralogical composition and physical-mechanical properties of the feed in future. As a result, the feed supplied to the mills was of various technological types that required re-adjustment of mills' operational schedules and additional time for technological process stabilization. At Mill-1, for example, ores of three different types were processed (Olenie deposit ore, mixed-type ore from Olimpiada deposit at the beginning of the year, and Titimukhta deposit ore during the rest of the year). At Mills 2 and 3, at the beginning of the year stockpiled, partly oxidized ores were processed, whereas in the second half of the year those mills were switched to newly mined ore.

Other significant factors influencing the Group's operating results in the reporting period were: the final stage of Olimpiada mine expansion project being implemented in the conditions of running production; modernization of the mill of Kuranakh mine.

Nevertheless, in order to offset the negative impact of the above factors, additional measures have been developed aimed at raising operating efficiency of Olimpiada mine.

In the year 2009 the volume of total rock moved at the Group's production units and projects amounted to 48.7 million cubic meters, compared to 50.8 million cubic meters in the previous year. In the reporting period the Group mined 18.4 million tonnes of ore, compared to 6.6 million tonnes mined in 2008. The multiple growth of ore mining resulted from transfer to sulfide ores at Olimpiada mine, as well as commencement of mining works at the Group's new projects: Titimukhta, Blagodatnoye and Verninskoye.

Ore processing in the reporting period amounted to 13.9 million tonnes, compared to 10.8 million tonnes in 2008. The increase in ore processing resulted from Mill-3 of Olimpiada mine reaching its designed capacity.

¹ Including 30 k oz of gold produced by KazakhGold Group in August – December 2009 in a form of sludge, flotation and gravitation concentrates and other semi-products.

Total volume of drilling in the reporting period, according to preliminary estimates, amounted to 141.4 thousand meters, compared to 332.1 thousand meters in 2008. Planned reduction in drilling works is related to most exploration projects reaching their final stages.

According to preliminary estimates, the Group's revenues in 2009 amounted to USD 1,204 million, compared to USD 1,062 million in 2008. Weighted-average gold selling price, according to preliminary estimates, amounted to USD 974 per ounce, compared to USD 867.3 per ounce in 2008.

According to preliminary estimates, the Group's EBITDA in 2009 amounted to around USD 510 – 540 million, compared to USD 436 million in 2008. EBITDA margin grew to 44%. Total cash costs (TCC), according to our estimates, demonstrated only a 5-6% year-on-year increase, which is lower than expected inflation in the Russian Federation. TCC are expected at the level of USD 410-420 per ounce of the metal, compared to USD 392 in 2008.

According to preliminary estimates, total volume of capital expenditures in 2009 amounted to approximately USD 326 million. Substantial portion (about 47%) of that amount was spent on the Group's currently largest investment project – construction of Blagodatnoye mine in Krasnoyarsk region. In addition to that, significant volume of investments (about 12%) was spent on exploration. About 12% of the investment budget was spent on the upgrade of Olimpiada mine. In the reporting period modernization programme carried on at the Kuranakh mine in the Sakha Republic (Yakutia) (approx. 3%), aimed at increasing the plant's capacity to 4.5 million tonnes of ore per annum. In addition, works carried on at the Group's other key development projects: Natalka (about 7%), Titimukta (about 5%), Verninskoye (about 5%).

One of the key events of the year was the acquisition of a 50.1% stake in KazakhGold Group Limited, one of the leading gold producers in Kazakhstan with a huge potential for further growth. The Group is currently working on a new long-term strategy to develop the assets of KazakhGold and expects to present it to the market in February 2010. At the same time, the Group has already begun to invest into modernization of the production facilities of KazakhGold as well as into exploration in the Republic of Kazakhstan, and has allotted on that approximately USD 7 million during the last 5 months of 2009.

In 2009 the Group has successfully completed one of the new projects within its long-term development strategy: the development of the production facilities to mine the Titimukhta deposit in Krasnoyarsk region. Modernization of Mill-1 of Olimpiada mine to process the Titimukhta ores was completed in the beginning of 2009. But as there were stockpiles of similar type ores (oxide ore of Olimpiada deposit, ore of Olenie deposit), the capacities of Mill-1 were used to process that ores during the first several months of the reporting period. The plant commenced processing the Titimukhta ores in the second quarter of 2009. Technology adjustment works continued during the second half of the year. The volume of the metal produced from the Titimukhta ores in 2009 amounted to 39 thousand ounces.

Developing the Group's mineral resources base in 2009

In the reporting year the Group continued to strengthen its mineral resources base. Following the successful completion of the exploration programme at Bamskoye deposit, 108 tonnes (3.5 m oz) of reserves were approved by the State reserves committee (GKZ Rosnedra) and listed on the state balance (including 39.0 tonnes for open pit mining and 68.5 tonnes for underground mining). The reserves growth under categories B+C1+C2 amounted to 94.3 tonnes of gold (3.0 m oz). In addition to that, GKZ Rosnedra listed on the state balance 302 tonnes of silver as by-product.

Also, in the reporting year the reserves of Nezhdaninskoye gold deposit have been approved by GKZ Rosnedra in the amount of 628.6 tonnes (20.2 m oz) of gold (including 611.6 tonnes for underground mining and 16.8 tonnes for open pit). The reserves growth amounted to 151.5 tonnes (4.9 million ounces). In addition, 2,229 tonnes of silver of Nezhdaninskoye deposit were listed on the state balance.

Reserves recalculation has been done on the Olimpiada deposit, which lead to expected growth of reserves under categories B+C1+C2 in the amount of 111.7 tonnes (3.6 m oz).

Total reserves growth² in 2009 under categories B+C1+C2 is expected at the level of 370 tonnes (11.9 m oz).

The Group's reserves³ under categories B+C1+C2 as at January 1st 2010 are expected at the level of 3,274 tonnes (105 m oz) of gold.

Production units

Olimpiada mine

In 2009 the Group's largest production unit – Olimpiada mine – produced 839 thousand ounces of gold, compared to 873 thousand ounces in 2008.

The reduction in output resulted from the switch to the processing of refractory sulfide ores, working with various types of feed, which required re-adjustments of the production schemes and additional time required to stabilize the technological process, as well as the final stage of Olimpiada expansion being done in the conditions of running production.

Nevertheless, in order to offset the negative impact of the above factors, additional measures have been developed aimed at raising operating efficiency of Olimpiada mine. In particular, additional blending was arranged at the mine, measures were taken to raise the mills' efficiency, within a programme designed for 2009-2010. As a result of those measures, technical parameters of the mills were improved at the end of 2009. The mills' technological efficiency will continue to be improved, as long as the programme goes on.

The increase in ore processing is a result of Mill-3 gradually reaching its designed capacities.

Kuranakh mine

The reduction in production volumes at Kuranakh mine is a result of modernization programme continued in the reported period. The modernization shall be completed in the second half of 2010.

Zapadnoye mine

In the reporting period Zapadnoye mine showed stable operating results. The metal production was kept at the level of the previous year and amounted to 24 k oz.

² Reserves growth does not take into account reserves depletion

³ Not including KazakhGold Group reserves

Alluvials

The 7.2% year-on-year production increase at alluvial deposits resulted from the acquisition of a new alluvial production unit.

Table 1. Refined gold production in 2008 – 2009.

Refined gold (k oz)	2009	2008	Change
Olimpiada mine	839	873	-3.9%
Titimukhta	39	-	
Kuranakh mine	135	144	-6.3%
Zapadnoye mine	24	24	0.0%
Alluvials	194	181	7.2%
KazakhGold Group⁴	30	-	
Total refined gold	1,261	1,222	3.2%

Table 2. Ore mined and processed in 2008-2009 (not including KazakhGold)

Item	2009	2008	Change
Total rock moved (thou cubic meters)			
Operating mines			
Olimpiada	24,055	30,622	-21.4%
<i>including stripping</i>	20,083	30,061	-33.2%
Stripping ratio	1.89	19.84	-90.5%
Titimukhta	5,003	2,849	75.6%
<i>including stripping</i>	4,296	2,755	55.9%
Stripping ratio	2.66	13.06	-79.7%
Kuranakh	8,606	11,084	-22.4%
<i>including stripping</i>	6,590	8,875	-25.7%
Stripping ratio	1.83	2.30	-20.5%
Zapadnoye	1,733	1,917	-9.6%
<i>including stripping</i>	1,305	1,565	-16.6%
Stripping ratio	1.13	1.60	-29.4%
Total rock moved, operating mines	39,397	46,472	-15.2%
Projects			
Blagodatnoye	7,740	1,660	366.3%
<i>including stripping</i>	7,519	1,660	353.0%
Verninskoye	1,340	2,627	-49.0%

⁴ Gold produced by KazakhGold Group in August – December 2009 in a form of sludge, flotation and gravitation concentrate and other semi-products.

<i>including stripping</i>	1,198	2,627	-54.4%
Total rock moved, projects	9,080	4,287	111.8%
Total rock moved	48,477	50,759	-4.5%
Ore mining (in thou tonnes)			
Olimpiada			
Ore mining, including	10,603	1,515	599.9%
<i>Olimpiada deposit</i>	10,603	1,254	745.5%
Average grade (g/t)	3.03	2.60	16.5%
<i>Olenie deposit</i>	-	261	
Average grade (g/t)		3.10	
Titimukhta			
Ore mining	1,618	211	666.8%
Average grade (g/t)	2.11	1.50	40.7%
Blagodatnoye			
Ore mining	595	0	
Average grade (g/t)	2.15		
Kuranakh			
Ore mining	3,606	3,899	-7.5%
Average grade (g/t)	1.39	1.40	-0.7%
Zapadnoye			
Ore mining	1,155	950	21.6%
Average grade (g/t)	1.78	1.82	-2.2%
Verninskoye	384		
Average grade (g/t)	2.71		
Total, ore mining	17,961	6,575	173.2%
Ore processing (in thou tonnes)			
Olimpiada mine, including	8,877	6,623	34.0%
<i>Olimpiada deposit</i>			
<i>Oxidized ore</i>	-	414	
<i>Sulfide ore</i>	7,398	4,801	54.1%
<i>Mixed type ore</i>	1,163		
<i>Olenie deposit</i>	316	1,408	-77.6%
Average grade (g/t)			
<i>Olimpiada deposit</i>			
<i>Oxidized ore</i>	-	14.60	
<i>Sulfide ore</i>	3.60	3.90	-7.7%
<i>Mixed type ore</i>	6.24		
<i>Olenie deposit</i>	4.60	6.30	-27.0%
Recovery (%)			
<i>Olimpiada deposit</i>			
<i>Oxidized ore</i>	-	96.9	
<i>Sulfide ore</i>	73.1	76.0	-3.8%
<i>Mixed type ore</i>	79.7		

<i>Olenie deposit</i>	75.4	86.0	-12.3%
Titimukhta			
Ore processing	602		
Average grade (g/t)	2.84		
Recovery	76.3		
Kuranakh			
Ore processing	3,463	3,696	-6.3%
Average grade (g/t)	1.40	1.44	-2.8%
Recovery (%)	84.2	84.6	-0.5%
Zapadnoye			
Ore processing	505	495	2.0%
Average grade (g/t)	2.18	2.20	-0.9%
Recovery (%)	69.1	74.4	-7.1%
Total, ore mining	13,447	10,814	24.3%
Sand washing (alluvials)			
Sands washed (million cubic meters)	9.00	9.70	-7.2%
Среднее содержание золота (г/ м ³)	0.66	0.60	10.0%

Table 3. Ore mining and processing at KazakhGold Group’s production units in August – December 2009

Item	August - December 2009
Total rock moved (in thou cubic meters) ⁵	233
Ore mining (in thou tonnes)	432
Ore processing (in thou tonnes)	432
Average grade	3.04

New projects development in 2009

Blagodatnoye deposit (Kranoyarsk region)

In 2009 the Group continued the construction of a new mine on the Blagodatnoye deposit in Krasnoyarsk region. During the reporting year equipment assembling carried on in the main building and the hydrometallurgical workshop. That included mill and floatation machines assembling, as well as metalware and frame filling installation in the main building of the plant. In the hydrometallurgical workshop floor concreting was done, as well as installation of sorption and neutralization tanks, assembling of metalware and walling.

Also, the construction of the crushing unit carried on. Stock house assembling was completed, back walls created.

Excavation works are underway, as well as concreting of underground part of the gallery, as well as above-ground foundation. Technological equipment assembling was carried out.

⁵ Total rock moved is given only for open-pit mining

In the reporting period the boiler house was created on the site. In October 2009 it was launched and began providing heat to the plant's newly constructed workshops.

In November 2009 pre-commissioning works were done at the Blagodatnoye mill. Trial launch was done at the crushing, grinding and flotation workshops. In February 2010 pre-commissioning will begin at sorption workshop.

Construction works were underway at other facilities of the future mine: tailings, dry chemical storage, chemical preparation shops, weighhouse.

Total investments in Blagodatnoye in 2009 amounted to USD152 million. The project development is going on in accordance with the schedule, with expected mine launch in 2010.

The plant's designed capacity is expected at the level of 6 MTPA, average annual gold production – 412 thousand ounces.

Titimukhta (Krasnoyarsk region)

In the beginning of 2009 technical re-equipment of Mill-1 of Olimpiada mine to process the ores of Titimukhta deposit was completed. That allowed to launch the mill and do the trial processing of ore. Key facilities of the project are located on the existing site of Olimpiada mine as well as on the area of Titimukhta pit, connected by a road. Ore mining at Titimukhta deposit began in 3Q 2008, but the ore went to processing only in April 2009. In the first months of the reporting year the modernized Mill-1 processed similar-type ores from stockpiles (mixed-type ore from Olimpiada and ore from Olenie deposit). Adjustment of the new technology at Olimpiada took a substantial portion of the year.

In the reporting year, mining works at Titimukhta were done fully. Also, construction and assembling works have been done at other facilities of the processing complex, followed by the launch of those facilities: crushing unit, pump station, thickener and other. In addition, tailings facilities construction carried on in 2009.

Automobile road, as well as 7-km of power lines were built in the reporting year, substation foundation as well as crushing unit construction were underway, mining equipment supply continued.

Total investments into Titimukhta in 2009 amounted to USD 15 million.

Verninskoye (Irkutsk region)

Since the beginning of 2009 mining works have been done on the deposit. Total rock moved amounted to 1.2 million cubic meters, and ore mining amounted to 384 thousand tonnes.

In May 2009 the positive opinion of GlavGosExpertiza (Federal State Enterprise Senior Department of State Expertise) was received to construct a mine on the deposit. The construction of the mill, suspended at the end of 2008, was resumed. Particularly, works were carried out to develop the mill's facilities (foundation and supporting frame for the main building created, mining administration building constructed, substantial part of the technological equipment contracted), social infrastructure facilities (2 camp residential buildings and canteen construction completed, the third camp building and a laundry continued), boiler house and as well as coal warehouse (close to completion). Power line from the existing transformer station was built.

Mining equipment supplies continued in the reporting year.

Total investments into Verninskoye project development in 2009 amounted to USD17 million. 2011 is targeted as launch time.

Natalka (Magadan region)

During the reporting year there were several key directions within Natalka project development: project documentation preparation, technology adjustment at the pilot plant, exploration works and other.

Project documentation development

In March 2009 the Board of Directors of OJSC Polyus Gold approved a new project to develop the Natalka deposit, consisting of 3 stages. In April a consortium of engineering designers headed by PeterGorProject began the preparation of the project documentation.

During the year laboratory, semi-industrial and industrial research works, as well as comprehensive engineering surveying were underway.

In November 2009 the project documentation preparation was completed. All the required approvals and permissions from the Magadan region authorities have been obtained.

In December the project documentation was submitted to the Federal Subsoil Management Agency of the Ministry of Natural Resources of the Russian Federation.

Also in December, the project documentation as well as the results of the engineering survey were submitted to the GlavGosExpertiza (Federal State Enterprise Senior Department of State Expertise).

The results of the industrial safety expertise conducted by CJSC GeoExpert were approved by the Federal service for environmental, technological and nuclear control of the Ministry of Natural Resources of the Russian Federation.

In December 2009 expert's opinion on the results of the sanitary and epidemiological expertise of the project documentation, conducted by the Federal State Enterprise Center of hygiene and epidemiology of the Magadan region, was submitted to the Federal service for consumers' rights protection (Rosпотребнадзор).

Technology development at the pilot plant

In 2008 a pilot plant was launched at the Natalka deposit, with the aim to adjust the technology of the future Natalka mine. On May 7, 2009 the first gold bullion was smelted on the pilot plant. In the first two quarters of the reporting year works were carried out at the plant to improve the parameters of ore grinding, testing works were done at the filtration and thickening stages, as well as in-process testing of intensive cyaniding process was underway. In the third quarter testing works were done to identify the relationship between recovery and the grade in the initial ore and in the fourth quarter testing of high-speed flotation and other works were carried out.

KazakhGold Group

In the third quarter of 2009 modernization began at the production units of KazakhGold Group, located in Stepnogosk region of Akmolinsky area of Kazakhstan: Aksu, Bestobe and Zholymbet. In the final 5 months of the year under review investments into those assets amounted to USD7 million. Exploration works were carried out during those months as well.

During this period upgrade of underground mine equipment was underway at all mines, as well as repair works at the mills.

At Zholymbet, the construction of hypochlorite preparation and tailings neutralization workshops was completed, as well as oxygen station of the plant. In addition, capital and maintenance repair works at the production workshops, administration building, as well as the industrial area of the mine were done.

Production at the heap leaching complexes at Aksu and Bestobe was resumed. Capital repair of the Ventilyatsionnaya shaft at Bestobe was done; the sludge line was reconstructed; water cleaning system was installed to ensure the stable supply of drinking water; capital repair of administration complex was done.

At Aksu, at shafts No39-40 modernization was done and operations resumed; capital repair of administration complex at shaft No40 was done. In addition, capital and maintenance repair works at a number of production and administration facilities were carried out.