



28 January 2009

Trading update for the FY 2008

OJSC Polyus Gold (RTS, MICEX and LSE - PLZL), Russia's leading gold producer, today released its operating results for the full year 2008. During the period under review the Group produced 38.0 tonnes (1 222 k oz) of refined gold, compared to 37.8 tonnes (1 214 k oz) produced in 2007, achieving the production target set for the year. At the same time, the production of Dore gold (the metal before refining stage) showed a 1.9% increase from 37.6 tonnes (1 208 k oz) in 2007 to 38.3 tonnes (1 233 k oz) in 2008¹.

In 2008 the Group's production units moved 43.6 million cubic meters of total rock, compared to 47.9 million cubic meters of total rock moved in 2007.

The mining of ore in 2008 amounted to 6.6 million tonnes, compared to 9.4 million tonnes in 2007. In 2008, the Group processed 10.8 million tonnes of ore, compared to 10.7 million tonnes in 2007. During 2008, at Olimpiada mine in Krasnoyarsk region some volumes of ore were supplied to the mills from the stockpiles, which is the reason of the surplus of ore processed over the ore mined. In the beginning of the period under review 15.4 million tonnes of ore were stockpiled at Olimpiada mine.

The Group achieved its targets on the exploration front. The combined volume of drilling in 2008 amounted to 332.1 thousand meters, compared to 356.6 thousand meters in 2007. The decrease is a result of the completion of the first stage of the long-term exploration programme, which included additional explorations works on a number of advanced-stage deposits. At the end of the reporting period the company's P&P reserves reached 74.1 million ounces, compared to 68.6 million ounces in 2007.

In 2008 all the produced gold was sold as well as the volumes remaining at the warehouse at the beginning of the reporting period in the amount of 0.12 tonnes (4 k oz), therefore the sales amounted to 38.1 tonnes (1 226 k oz), compared to 37.6 tonnes (1 210 k oz) in 2007. In 2008 all the volumes of the metal were sold on the domestic market, whereas in 2007 5.0 tonnes (161 k oz), or 13.3% of gold was exported. The gradual increase of sales in the domestic market and reduction of exports is primarily due to more favorable contracts terms concluded with Russian banks.

According to the preliminary estimates, the Group's capital expenses in 2008, amounted to USD443 million. This figure includes USD310 million spent on new projects as well as expansion and modernization projects, and innovations. Investments into exploration amounted to USD67 million.

The Group's cash, cash equivalents and investments in securities and other financial assets as at the end of the reporting period amounted to USD 668 million. As at December 31, 2008 the Company had no debt.

¹ Normally not all the volumes of the metal produced are refined during the same reporting period, which creates disparities between the volumes of Doré gold and refined gold.

In 2008 Boris Zakharov was appointed as Deputy General Director, production, a new senior managerial position introduced in Polyus Gold in the period under review. Mr. Zakharov's duties will cover coordination of the production process of all the Group's business units.

During 2008 substantial progress was made in the domain of new project development. All targets were met for all the Group's new projects.

Commenting on Polyus' 2008 operating results, General director of Polyus Gold Evgueni Ivanov said: "We are pleased with the Group's performance in 2008. All the targets set for the year were either met or exceeded. All the production units demonstrated stable performance, and the Group's key mine – Olimpiada – increased its output, in spite of the challenging period relating to the mine's transition to sulfide ores."

The Group's production units in 2008

Krasnovarsk region

Olimpiada mine

Production growth at Olimpiada mine was mainly a result of Mill-3 achieving its project capacity of 5 million tonnes of ore per year. The recovery rate amounted to 82%. In 2009 the technological improvements of Mill-3 continued.

The factors that influenced the performance of Mill-3 in 2008 included the shut down of Mill-1 after the depletion of oxide ores at Olimpiada deposit. In 2008 the Group's key production unit was successfully transferred to sulfide ores, that being achieved without temporary reduction in output. Olimpiada's transition to sulfide ores substantially extended the life of the mine, creating an opportunity to fully uncover the potential of the deposit, rich with sulfide ore reserves.

During 2008, within the framework of the mine's transition to mining and processing of sulfide ores (Olimpiada mine expansion project) the construction of drainage system and pit dewatering system at the Eastern pit was completed. 17.2 MW diesel power station was launched. Total expenditure on Olimpiada mine expansion project in 2008 amounted to USD 42 million.

In 2008 about 77% of processed ore were supplied for the stock piles (compared to 28% in 2007). The increase in stockpiled ore processing in 2008 was envisaged by the Olimpiada mine expansion project.

Table 1. Ore balances at stockpiles of Olimpiada mine

Deposit	2008	2007	2006
Olimpiada deposit			

<u>Oxide</u> ore at the beginning of the period	k tonnes	413.8	458.2	144.6
Ore added to stockpiles	k tonnes	0	928.3	1 646.4
Ore taken from stockpiles	k tonnes	413.8	972.8	1 332.8
Oxide ore stockpiled at the end of the period	k tonnes	0	413.8	458.2
<u>Sulfide</u> ore at the beginning of the period	k tonnes	13 475.1	16 293.1	13 479.3
Ore added to stockpiles	k tonnes	1 254.1	2 433.6	6 022.9
Ore taken from stockpiles	k tonnes	4 801.4	5 251.6	3 208.9
Sulfide ore stockpiled at the end of the period	k tonnes	9 927.8	13 475.1	16 293.1

Olenye deposit

Ore at the beginning of the period	k tonnes	1 463.1	358.3	0
Ore added to stockpiles	k tonnes	261.1	1 110.9	366.1
Ore taken from stockpiles	k tonnes	1 408.2	6.1	7.8
Ore stockpiled at the end of the period	k tonnes	316.0	1 463.1	358.3

Titimukhta deposit

Ore at the beginning of the period	k tonnes			
Ore added to stockpiles	k tonnes	211.3		
Ore taken from stockpiles	k tonnes			
Ore stockpiled at the end of the period	k tonnes	211.3		

Blagodatnoye deposit

In 2008 the Group continued to develop its new projects. In particular, substantial progress was made at Blagodatnoye deposit in Krasnoyarsk region. During the period under review the main building, as well as hydrometallurgical shop of the future mill, were under construction. Key camp facilities' construction was completed, including a residential building for 987 people and a canteen for 200 people. In 2008 mining equipment supplies continued, the site for tailings facilities was prepared, the construction of the boiler began, water-pipe laying and diversion facilities construction carried on, and roads construction and power grid construction were completed. Total investments into Blagodatnoye project in 2008 amounted to USD72 million. As of the end of 2008 approximately 37% of budgeted investments have been spent.

Blagodatnoye project is developing in accordance with the approved schedule, with the expected launch in 2010 with mill capacity of 6 million tonnes of ore per year and average annual gold production of 412 k oz.

In November 2008 a reserves audit in accordance with JORC standards was done at Blagodatnoye deposit. The audit followed additional exploration programme carried out at the deposit in 2007 -2008. The area between the North-West and the South-East ore bodies was explored using high-frequency exploration grid. The explored zone was included into the pit outline, which lead to reserves growth. Proved and probable (P&P) reserves were increased to 9.9 m oz, compared to 8.1 m oz based on the audit carried out in 2006. Measured and indicated resources of the deposit amounted to 10.5 m oz.

The reserves calculation was made at 1.0 g/t cut-off grade (the same cut-off grade was used for reserves calculation in 2006) and a gold price of USD712 per ounce.

Following the JORC audit of Blagodatnoye, the Group's total P&P reserves were increased to 74.1 m oz. Measured and indicated resources (M&I) amounted to 80.4 million ounces, inferred resources amounted to 29.8 million ounces.

Titimukhta deposit

In 2008 the reconstruction of Mill-1 of Olimpiada mine to process Titimikhta ores was successfully implemented. The reconstruction of Mill-1 was done between June and November 2008, exceeding the initial schedule by 6 months. The technological scheme was amended, which included the addition of a crushing stage. Some new equipment was installed at the plant: better mills, crushing units, modernized hydrocyclones.

In 2008 the road between the Titimukhta deposit and the plant was constructed, as well as a power grid. The substation foundation laying was carried out, the crushing complex was under construction, mining equipment supplies began.

In 2008, USD42 million were invested to Titimukhta project development. Therefore, as at December 31, 2008, approximately 54% of the budgeted investments have been spent. Titimukhta project is expected to be launched in the current year, within the initial timeframe, with the project annual mill capacity of 2.2 million tonnes of ore to be achieved in 2010.

Irkutsk region

Zapadnoye mine

The production decrease at Zapadnoye mine is related to the modernization programme being carried out at the mine aimed at improving the plant's technological process.

Verninskoye deposit

During 2008, at Verninkoye deposit in Irkutsk region the construction of the main building of the plant began, as well as ore receiving and crushing unit. Camp facilities preparation was underway, as well as power and heating facilities. Road construction was carried out.

During 2008, USD 37 million was invested into the Verninskoye project development. As at the end of the reporting period, approximately 36% of the budgeted investments were spent on the project.

Alluvials

The increase of gold production at the alluvial production units in the period under review is a result of the acquisition of a new alluvial enterprise in February 2008.

The Sakha Republic (Yakutia)

Kuranakh Mine

In 2008 the modernization programme at the Kuranakh mine was carried on. The programme is aimed at raising the plant's capacity from 3.6 million tonnes to 4.5 million tonnes of ore per annum. The modernization is expected to be completed in Q2 of 2009. The capital expenditure on the Kuranakh plant expansion in 2008 amounted to USD25 million. In the period under review the new truck operational control complex introduction was started. The production processes standardization (including excavation and transportation) was underway.

The year-on-year gold production growth at Kuranakh mine in 2008 is a result of the increase of the average grade of the ore processed.

Nezhdaninskoye deposit

On January 26, 2009, Polyus Gold and Kinross Gold Corporation concluded a Memorandum of understanding about the joint development of Nezhdaninskoye deposit in the Sakha Republic (Yakutia). According to the Memorandum, within the time frame of 18 months the companies are planning to jointly prepare a Feasibility Study for the industrial development of the Nezhdaninskoye deposit. Upon completion of the Feasibility Study and, if warranted by its results, the parties will review the possibility to enter into a joint venture agreement for developing the Nezhdaninskoye deposit. In accordance with the Memorandum, should such decision to set up a joint venture be made, Polyus and Kinross Gold Corporation will own 51% and 49% interest, respectively, in the proposed joint venture. In case the said joint venture is set up, Kinross Gold will be designated as the operator of the project.

Kinross Gold is one of the world's leading gold producers, and until recently was the leading producer of the metal in Russia. The two companies' rich experience in constructing and operating large gold mining complexes, coupled with the support of the government of the Sakha Republic (Yakutia), will provide a firm basis for successful development of the project.

Magadan region

Natalka deposit

On July 24, 2008 a pilot plant was launched at Nataalka deposit with a capacity of 87-100 thousand tonnes of ore per annum. The plant is the exact model of industrial-scale ore processing plant with professional equipment from world's leading producers. High reliability of results obtained in conditions identical to industrial will guarantee preciseness of technology to be applied at Nataalka mine.

In 2008 the preparation of pre-feasibility study of Nataalka mine continued.

Table 2. Operating results for 2006-2008.

	2008 г.	2007 г.	2006 г.
Total rock moved (k м3)			
Olimpiada mine²	30 622.4	32 840.9	26 737.9
<i>including stripping</i>	<i>30 061.2</i>	<i>30 947.6</i>	<i>23 343.3</i>
Stripping ratio	17.4 ³	6.9	2.9
Kuranakh mine	11 084.0	13 073.0	10 411.0
<i>including stripping</i>	<i>8 875.0</i>	<i>10 723.0</i>	<i>8 237.0</i>
Stripping ratio	2.3	2.6	2.1
Zapadnoye mine	1916.8	2 018.9	1 619.8
<i>including stripping</i>	<i>1 565.1</i>	<i>1 741.1</i>	<i>1 327.2</i>
stripping ratio	1.6	2.3	1.7
Total rock moved	43 623.2	47 932.8	38 768.7
Ore mined (in k tonnes or as stated)			
Olimpiada mine			
Ore mined			
Olimpiada deposit			
<i>Oxidized ore</i>	-		
<i>Sulfide ore</i>	1 254	928	1 646
Olenye deposit (sulfide ore)	261	2 434	6 023
Titimukhta deposit	211	1 111	366
		-	-
	1 727⁴	4 473	8 035
Average grade(g/t)			
Olimpiada deposit			
<i>Oxide ore</i>	-	14.2	14.3
<i>Sulfide ore</i>	2.6	4.9	4.1
Olenye deposit	3.1	6.2	7.6
Titimukhta deposit	1.5	-	-
Kuranakh mine			
Ore mined	3 899	4 154	3 847
Average grade (g/t)	1.4	1.4	1.5
Zapadnoye mine			
Ore mined	950	750	803
Average grade (g/t)		2.0	1.97
Total more mined	6 575.2	9 377	12 685
Ore processed (in k tonnes or as stated)			
Olimpiada mine			
Olimpiada deposit⁵			

² The volumes of total rock moved at Olimpiada mine don't include the volumes of total rock moved at Titimukhta and Blagodatnoye deposits.

³ Substantial increase of the stripping ratio in 2008 is a result of excessive stripping works at the Eastern pit of Olimpiada deposit.

⁴ The reduction of ore mining at Olimpiada mine in 2007 – 2008 is foreseen by the plan of mining and processing works. Certain portions of ore are supplied from the stockpiles. The increase in volumes of ore mined is to begin in 2009.

<i>Oxide ore</i>	414	973	1 333
<i>Sulfide ore</i>	4 801	5 252	3 208.9
<i>Olenye deposit (sulfide ore)</i>	1 408.2	6	8
Total for Olimpiada	6 623.4	6 231	4 550
Average grade (g/t)			
<i>Olimpiada deposit</i>			
<i>Oxide ore</i>	14.6	14.3	13.2
<i>Sulfide ore</i>	3.9	3.4	3.5
<i>Olenye deposit</i>	6.3	5.1	7.7
Recovery (%)			
<i>Olimpiada deposit</i>			
<i>Oxide ore</i>	96.9	95.4	96.9
<i>Sulfide ore</i>	76.0	75.9	82.1
<i>Olenye deposit</i>	86.0	-	-
Kuranakh mine			
Ore processed	3 696	3 905	3 737
Average grade (g/t)	1.44	1.35	1.54
Recovery (%)	84.6	85.6	86.5
Zapadnoye mine			
Ore processed	495	518	522
Average grade (g/t)	2.2	2.2	2.4
Recovery (%)	74.4	75.0	76.5
Total ore processed	10 814	10 654	8 809
Sands washed (Alluvials)			
Sands washed (million m ³)	9.7	9.1	9.4
Average grade (g/m ³)	0.6	0.6	0.6
Gold production (in k oz)			
Olimpiada mine	873	861	854
Kuranakh mine	144	142	156
Zapadnoye mine	24	32	32
Alluvials	181	179	172
Total refined gold production ⁶	1 222	1 214	1 215

⁵ The insignificant difference in volumes of oxide and sulfide ore processed at Olimpiada compared to previously stated is a result of analyses made by the scientific and technical council of Polyus Gold following which certain volumes of mixed-type ore previously classified as oxide ores were re-classified as sulfides.

⁶ The total gold production of Polyus Gold includes insignificant volumes of the metal obtained during waist clean-up of the closed production of OJSC SVMC.