



31 January 2008

### **Trading update for the FY 2007**

OJSC Polyus Gold (RTS, MICEX and LSE - PLZL), Russia's leading gold producer, today announces the operating results of the year 2007. The FY2007 gold production amounted to 37.8 tonnes (1 214 k oz) of refined gold maintaining the level of the year 2006. At the same time, production of Dore gold showed 1.65% year-on-year growth from 36,95 tonnes (1 187 k oz) in 2006 to 37,56 tonnes (1 207 k oz) in 2007.<sup>1</sup>

In the reporting year the company's production units mined 9.4 million tonnes of ore comparing to 12.7 million tonnes in 2006. The ore processed in 2007 amounted to 10.7 million tonnes comparing 8.8 million tonnes in the previous year.<sup>2</sup>

Significant progress was made in the development of the mineral reserves base. Successful completion of Natalka exploration project resulted in substantial reserves growth. The group's total proved and probable reserves (JORC) increased from 50.8 million ounces in 2006 to 68.6 million ounces in 2007.

In 2007 the exploration works were carried out in all the regions of the company's operations. The drilling works almost doubled to 365.5 km compared to 192.1 km in 2006.

Polyus Gold continued to grow its mineral resources potential by acquiring new licenses. During 2007 the company acquired 7 new exploration licenses for the total amount of prognostic resources (Russian P1+P2+P3) of over 1 700 tonnes of gold (55 million ounces).

According to preliminary estimations, the company's revenue in accordance with IFRS (not audited) in 2007 amounted to US\$855 million, comparing to US\$735 million in 2006. The 16% year-on-year growth in revenue is primarily a result of increase in gold price and the company's non-hedging sales policy allowing the substantial gold price increase to be fully reflected in 2007 financial results. The weighted-average price of gold sales grew from US\$604 in 2006 to US\$706.48. In 2007 the weighted-average price of gold sales exceeded the average London fixing (PM) by US\$10, compared to US\$0.23 last year.

According to preliminary estimates, EBITDA in 2007 is expected at the level US\$300-320 million, slightly exceeding the level of 2006.

Total cash costs (TCC) are expected at the level US\$365-375 per ounce comparing to US\$ 278 per ounce in 2006. The major factors driving the growth of TCC in 2007 were: 1) deterioration on mining conditions at Olimpiada mine: a 30% year-on-year increase in stripping works, decrease of the oxide ore share in the total volumes of processed ore from 33% in 2006 to 23% in 2007; 2) macroeconomic factors, such as depreciation of US dollar (the currency of sales), against Russian ruble (the currency of

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<sup>1</sup> 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 produced.

<sup>2</sup> In 2007 some volumes of the ore were supplied from the stock piles of ore.

expenses), and gold price growth leading to increase in royalty payments; 3) inflation growth of labour and consumables.

According to preliminary estimates, total investments of Polyus Gold in 2007 amounted to US\$ 363 million. This includes exploration expenses in the amount of approximately US\$ 109 million and investments into capital construction totaling approximately US\$ 175 million and including:

- Expenses on the construction of a new ore processing plant (Mill-3) at Olimpiada mine in Krasnoyarsk region, amounting to US\$98 million;
- Expenses on Verninkoye project development in Irkutsk region, totaling US\$ 27 million.

Commenting on the company's performance in 2007 General Director of Polyus Gold Evgueni Ivanov said: "In 2007 the company continued to develop in accordance with the strategy approved by the Board in September 2006, aimed at a three-fold growth in gold production by the year 2015 and substantial increase of the mineral resources base. I am pleased that the company achieved all the targets set by its strategy for the year 2007 – both in terms of gold production and growth of reserves, and in terms of corporate development, production facilities upgrade and developing new projects".

### **The company's production units in 2007**

#### *Olimpiada mine*

Production growth at the company's flagship production unit – Olimpiada mine in Krasnoyarsk region – resulted from, first of all, successful launch of the third mill (Mill-3), which became the largest ore processing plant in Russia. The addition of a new plant with a capacity of 5 million tonnes of ore per year will help maintain stable production volumes at Olimpiada for the coming years and significantly increase the life of the mine.

#### *Kuranakh mine*

The reduction in gold production at Kuranakh mine in the Sakha Republic (Yakutia) stems from decrease in average grade. The comprehensive modernization programme carried out at the mine is expected to result in the production increase in the coming years.

#### *Zapadnoye mine*

Zapadnoye mine in Irkutsk region maintained stable production volumes. The programme aimed at upgrading the processing technology carried out at the mine in 2007-2008 will lead to gradual increase in production in the coming years.

#### *Alluvials*

The growth in alluvial production is a result of modernization programme at production units of Lenzoloto in Irkutsk region, new appointments, as well as increase in the average grade of gold bearing sands.

### **2007 highlights**

**January** - Russian state audit of Natalka reserves; Natalka became Russia's largest gold deposit with 1,500 tonnes (over 48 m oz) of reserves.

**June** - Knight Piésold Consulting invited to prepare feasibility study for Nataalka project.

**July** – Launch of Mill-3 at Olimpiada mine in Kransoyarsk region. The mill’s capacity is 5 million tonnes of ore.

**August** – International audit of Nataalka completed.

**November** – Feasibility studies for Blagodatnoye and Titimukhta approved by the Board.

**December** - Russian state audit of Titimukhta reserves

**Table 1. Ore mining and processing**

Production unit	Mining of ore, k tonnes		Processing of ore, k tonnes	
	2007	2006	2007	2006
<b>Olimpiada mine ( total)</b>				
including:	4 473	8 035	6 231	4 557
Oxide ore	928	1 646	1 458	1 511
Sulfide ore	3 545	6 389	4 773	3 046
<b>Zapadnoye mine</b>	750	789.6	517,8	522
<b>Kuranakh mine</b>	4 154	3 847	3 905	3 736.9
<b>TOTAL</b>	<b>9 377</b>	<b>12 672</b>	<b>10 653</b>	<b>8 816</b>
<b>Alluvials,</b>				
Sands washed, k m3			9 091	9 428

**Table2. Gold production**

Production unit	2007		2006	
	tonnes	k oz	tonnes	k oz
Olimpiada mine	26.8	861	26. 6	854
Zapadnoye mine <sup>3</sup>	1	32	1	32
Alluvials				
	5.6	179	5.3	172
Kuranakh mine	4.4	142	4.8	156
Nezhdaninskoye <sup>4</sup>	0.036	1	0.032	1
<b>Total:</b>	<b>37.8</b>	<b>1 214</b>	<b>37.8</b>	<b>1 215</b>

<sup>3</sup> Zapadnoye gold production includes insignificant volumes produced at the pilot plant at Chertovo Koryto.

<sup>4</sup> The insignificant volumes of the metal were obtained as a result of waste clean-up at non-operational Nezhdaninskoye mine.