

30 January 2012

**Polyus Gold International Limited**  
("Polyus Gold" or "the Group")

**Trading update for the FY2011**

Polyus Gold, (LSE – PLGL, OTC (US) - PLZLY), the leading gold producer in Russia and one of the major producers of gold in Kazakhstan, today releases its preliminary operating results for the year 2011.

**Highlights**

- 2011 production target met: total refined gold production increased by 8% year-on-year to 1,497 thousand ounces (2010: 1,381 thousand ounces)
- Fourth consecutive year of increased production
- Blagodatnoye mine operated at the designed efficiency (85% recovery rate) and exceeded throughput capacity
- Verninskoye mine was commissioned on time (December 2011)
- Ongoing modifications to Mill-2,3 at Olimpiada resulted in higher recovery
- Natalka mine development on track: procurement started (mills and plant equipment under way), camp construction to be completed by March 2012. Commissioning of the mine is expected in December 2013
- EBITDA significantly increased to approximately US\$1.04-1.06 billion (2010: US\$717 million)

**James Nieuwenhuys, COO of Polyus Gold, commented:**

*"I am pleased to announce a solid 8% year-on-year growth in production, which was achieved thanks to the stabilization of operations at the Olimpiada mine, as well as improving production at the Blagodatnoye and Titimukhta mines, the Alluvial operations and Kazakhstan operations."*

*"In December 2011 we commissioned the Verninskoye mine on time, it should make a meaningful contribution to the Group's production in 2012. This year we will continue the process upgrades of Olimpiada and construction of Natalka."*

**Operating Results**

In the period under review the Group produced 1,497 thousand ounces of refined gold<sup>1</sup>, compared to 1,381 thousand ounces (including Kazakhstan operations) in the year 2010, showing an 8% year-on-year growth. The increase in production is primarily the result of ramping-up of the Blagodatnoye mine in the Krasnoyarsk region, which reached its projected recovery rate and exceeded the designed throughput capacity. Another project in the Krasnoyarsk region – Titimukhta – also improved its output thanks to increased throughput

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<sup>1</sup> Including 116.8 k oz of gold produced by KazakhAltyn (Kazakhstan operations) in a form of sludge, flotation and gravitation concentrates and other semi-products.

capacity of the plant as a result of an ongoing grinding circuit upgrade. A considerable contribution to the production was made by the group of the Alluvial subsidiaries, where the mining fleet and haulage equipment replacement was completed prior to the longer than usual mining season, as well as by operations in Kazakhstan, where upgrade of production facilities continued.

A number of factors significantly complicated the operations of the Group's production units in the reporting year. Firstly, the Olimpiada mine, the largest producing unit of the Group, faced technological issues related to the processing of sulfide ores in 2010 and started the implementation of a series of measures aimed at increasing the recovery efficiency of sulfide ore processing at the Olimpiada mine, and improving the bio-leaching process. In 2011 the Group continued these works; however, a delay in the commissioning of the final concentration step of primary concentrate, from gravity concentrate of Mills-2,3 (completed in December 2011) and difficulty encountered in the commissioning of the second stage centrifuges introduced to dewater the biopulp at hydrometallurgical circuit of Mill-3, resulted in the expected recovery rate not being achieved.

Other factors that affected the Group's operating results in 2011 were: reduction in the average grade in the ore processed at Olimpiada and Titimukta, as well as continued elimination of mining and processing challenges at the Kuranakh mine.

The Group's operating mines and development projects moved 54.2 million cubic meters of total rock, which is 5% less than in 2010. This relates to the reduction in mining volumes due to an optimized mine plan at Olimpiada and depletion of reserves at the Zapadnoye mine. 21.1 million tonnes of ore were mined at the Group's production units, compared to 23.3 million tonnes of ore mined in 2010. The decrease in mining also related to Olimpiada and Zapadnoye, as well as to Kazakhstan operations.

Ore processing in 2011 amounted to 21.4 million tonnes, compared to 19.8 million tonnes in 2010. The increase was due to full ramp up of the Blagodatnoe mine. The Olimpiada mine processed some ores from stockpiles and, in spite of the decrease in mining, the volumes of ore processed increased to 8.1 million tonnes in 2011 compared to 7.4 million tonnes in 2010.

In the period under review, the Group sold 1,500 thousand ounces of gold, compared to 1,382 thousand ounces in 2010.<sup>2</sup> The Group preliminary estimates that its gold sales amounted to USD 2,364 million<sup>3</sup>, compared to USD 1,711 million in 2010. The weighted-average gold selling price as preliminary estimated, amounted to USD 1,576 per ounce<sup>4</sup>, compared to USD 1,243 in 2010. According to preliminary estimates, the Group's EBITDA for 2011 is expected to be around USD 1,040 – 1,060 million, compared to USD 717 million in 2010. Therefore, EBITDA margin is expected at the level of around 40%. Total cash costs (TCC) are expected at the level of USD 685 – 695 per ounce, compared to USD 554 in 2010. The increase in TCC is primarily related to appreciation of the Russian rouble relative to the US dollar, increase in labour costs, an increase in mining tax charges due to higher gold prices, increase in oil prices, growing electricity tariffs

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<sup>2</sup> Sales for 2010 include 4.8 k oz of gold produced from the ores of the Verninskoye and Nataika deposits and sold in 2010, which were not consolidated for the purpose of financial reporting in accordance with IFRS standards.

<sup>3</sup> Includes USD 167 million of revenues from semi-products sales of KazakhAltyn (Kazakhstan operations).

<sup>4</sup> Average weighted gold selling price for Polyus Gold excluding KazakhAltyn (Kazakhstan operations) sales of the metal in semi-products amounted to USD 1,589 per ounce.

coupled with increased power consumption. In addition, lower grades at Olimpiada and Titimukhta, as well as the decrease in volumes of gold produced at Olimpiada, mine also resulted in the increase in TCC.

### Estimated capital expenditures

According to preliminary estimates, total capital expenditure of the Group in 2011 amounted to USD 395 million<sup>5</sup>. The largest investment project in the period under review was the Verninskoye mine, with capital expenditure at the level of USD 108 million. According to preliminary estimates, USD 76 million was invested in the process upgrade programme carried out at the Olimpiada mine. The Group also invested in the Blagodatnoye mine, the exploration programme, Alluvials and other projects.

Capital expenditures on construction of the Natalka mine were USD 32 million in the reporting period. In 2011 the Group was procuring equipment for the plant and mining fleet. The delivery and the payment for the equipment which was contracted in 2011 are expected in 2012-2013.

In the reporting year the Group also sought financing for this component of the project, and in October 2011 entered into a credit facility with Societe Generale of up to USD 67.5 million. The facility is guaranteed by Export-Import Bank of the United States and is provided for the purpose of financing of procurement of equipment and machinery manufactured in the USA.

**Table 1. Estimated capital expenditures**

Project	USD m	Description <sup>6</sup>
Verninskoye mine	108	Construction of the plant; expansion of electricity supply
Olimpiada mine	76	Modernization of Mills-2,3; expansion of the bio-leaching reactors; increase of the capacity of the plant; fleet and equipment replacement
Blagodatnoye mine	57	Development of Blagodatnoye deposit; fleet and equipment replacement; expansion of the plant
Exploration	33	Exploration works at 20 hard-rock and 24 alluvial deposits in Russia and Kazakhstan
Natalka mine	32	Project documentation development; procurement of the equipment for temporary construction camp; on-going exploration program; prepayment to Magadanenergo
Alluvials	18	Fleet and equipment replacement; camp construction
Titimukhta	14	Development of Titimukhta deposit; fleet and equipment replacement
Kuranakh mine	11	Fleet and equipment replacement; maintenance of the infrastructure
Others	45	Nezhdaninskoye development; development of Polyus Logistics; HQ
<b>Total</b>	<b>395<sup>7</sup></b>	

The Board of directors approved the Natalka project's capital expenditures for the construction of the mine in the amount of USD 1.1 billion. The project has been also approved by the State

<sup>5</sup> Capital expenditures (investments into projects) figures presented in this document are based on management accounting data and assume an average exchange rate of 29.39 RUB/USD.

<sup>6</sup> For more detailed description please see section Projects development in 2011.

<sup>7</sup> Sums may differ due to the rounding

Expertise Committee. Total capital expenditures for the first stage (10 mtpa plant) are expected at the level of USD 1.36 billion (due to the lack of local constructors in the region the Group started construction works itself and this entailed acquisition of additional equipment for the total sum of USD 200 million). The expected total capital expenditures are allocated in the period of construction as follows:

**Table 2. Capital expenditures for Natalka project development in 2011-2013**

USD mln	2011	2012	2013
Project documentation development	9	23	16
Construction works	-	234	439
Equipment procurement	4	314	283
Other	19	23	-
<b>Total</b>	<b>32</b>	<b>594</b>	<b>738</b>

In 2012 the Group plans to spend USD 594 million for the construction of Natalka. This sum includes USD 314 million as expected to be spent on procurement of the equipment for the plant and the mining fleet. As of late January 2012 the Group already signed agreements for the delivery of the equipment for the total sum of approximately USD 143 million (46% of total expenditures for the equipment procurement in 2012). The Group plans to complete contracting of the equipment in April 2012, so that key construction fleet to be delivered in April-June 2012.

## **2011 Group's operating units' results**

### **Olimpiada mine (Krasnoyarsk region)**

In 2011 the Olimpiada mine produced 566 thousand ounces of refined gold, compared to 585 thousand ounces in 2010.

Gold output decreased primarily due to the decline in average grade. During the reporting period, Mills-2,3 of Olimpiada mine were processing primary sulphide ore with an average grade of 3.43 g/t, compared to ore with an average grade of 3.76 g/t in 2010.

Measures aimed at increasing the Olimpiada mine's efficiency of sulphide refractory ore processing implemented at Mills-2,3 during 2010, allowed the mine to achieve its design capacity of 8 million tonnes of ore per annum in 2011.

During 2011 the upgrade program was continued. However, gold recovery rates for primary refractory ore processed at Mills-2 and 3 were lower than expected due to the delay in the commissioning of the final concentration step of primary concentrate, from gravity concentrate of Mills-2,3 (completed in December 2011) and difficulties encountered commissioning of the second stage centrifuges introduced to dewater the biopulp centrifuging at the hydrometallurgical circuit of Mill-3.

In Q2 2012 the first stage of the modernization program is expected to be completed and the upgrade of bioleach circuits at Mills-2,3 is expected to be finalized, which will help increase the overall bioleach reactor capacity.

The recovery rate in Q4 2011 was approximately 71%, which is slightly less than the Group had planned to achieve. However, separation and further concentration of the gravity concentrate at Mills-2,3, modifying of the 2nd stage centrifuges to achieve the required liquid solid separation, as well as expansion of Mill-3 BIOX reactor capacity, is expected to result in an improved recovery rate from sulphide ore of up to 78% at the end of 2012.

### **Blagodatnoye mine (Krasnoyarsk region)**

The Blagodatnoye mine produced 363 thousand ounces of gold, compared to 253 thousand ounces in the previous year. The 44% y-o-y increase in gold output reflects successful ramp-up of the mine, which was commissioned in July 2010. In 2011 the mine exceeded its design ore processing capacity of 6 mtpa and reached the targeted gold recovery levels.

### **Titimukhta project (Krasnoyarsk region)**

In 2011, 109 thousand ounces of gold were produced by the Titimukhta project, which was 9% more than in 2010. This increase was a result of the continued efforts to bring the plant's performance to the design parameters. During the year the grinding equipment operation was stabilized, which helped achieve a 23% y-o-y increase in the ore processing volumes.

In the period under review the Group continued introduction of gravity concentration technology at the Titimukhta plant, in order to increase the level of gold recovery from the current 84% to 86%.

In July 2011 the Board of Directors took a decision to expand the capacity of Mill-1, which processes the ores of Titimukhta, up to 2.4 million tonnes per annum. Expansion of the mill's capacity is expected to be completed in Q2 2012.

### **Alluvials (Irkutsk region)**

Gold production from the Group's alluvial deposits amounted to 210 thousand ounces, an increase of 7% over 2010 levels. The growth was the result of the accelerated repair and maintenance works performed in the winter period, as well as a renewal of the mining fleet at the deposits, which allowed the Company to commence mining earlier than planned. In addition, warm weather conditions in October-November 2011 allowed extending operations and as a result of this the Group produced 6 thousand ounces more in the Q4 2011 than in the Q4 2010.

### **Kuranakh mine (Sakha Republic (Yakutia))**

The Kuranakh mine produced 117 thousand ounces of gold in 2011, compared to 120 thousand ounces in 2010. The reduction in gold output was a result of challenging hydrogeological conditions at the Kuranakh ore fields. Excessive water in the producing open pits combined with a high clay content in the soil, slowed mining operations and reduced the ROM feed to the plant. An extensive hydrogeological assessment and pit dewatering program have been initiated to overcome this problem. In addition, increased hardness of the mined ore reduced the efficiency of the primary crushing circuit preparing the feed to the Kuranakh processing plant.

In 2011 the Group implemented performance testing at the processing plant as part of the expansion and upgrade programme at the Kuranakh mine. The required documentation for the expansion and upgrade was prepared and submitted to Rostekhnadzor (Federal Agency on Environmental, Technological and Nuclear Control). Permission for commissioning of a new crushing unit was obtained in August 2011.

### **Zapadnoye mine (Irkutsk region)**

In 2011 the mine produced 3 thousand ounces of gold out of the ores of the Zapadnoye deposit, compared to 16 thousand ounces produced in 2010. Due to the depletion of reserves in the pit contour of the Zapadnoye deposit, a decision was made to suspend the mine's operations. In April 2011 ore mining and processing at the Zapadnoye mine was terminated. In the first half of the year pit suspension measures were developed and approved by the Irkutsk branch of Rostekhnadzor (Federal Agency on Environmental, Technological and Nuclear Control).

## Kazakhstan operating units

In 2011 the Group's mines in Kazakhstan produced 117 thousand ounces of gold in semi-products, compared to 104 thousand ounces in 2010. The 13% y-o-y increase was achieved due to enhanced ore processing at plants achieved as a result of implementation of the investment program to upgrade existing operations. The Group also saw an increase in the average gold grade in the ore under processing at Bestobe and Zholymbet, which was partly offset by the material decline in the average grade in the ore processed at the Aksu mine from 2.5 g/t in 2010 to 1.9 g/t in 2011. Operations at the Akzhal mine were suspended from May 2011 due to the delay in the state listing of gold reserves. During the year Akzhal HL facilities were partly loaded by the ore from the Kaskabulak deposit. In December 2011 gold reserves of the Akzhal deposit were listed with the State Reserves Committee and operations at the mine resumed.

**Table 3. Refined gold production by the Group's subsidiaries**

Refined gold production (in thousand ounces)	2011	2010	Change
Olimpiada mine	566	585	-3.2%
Titimukhta	109	100	9.1%
Blagodatnoye mine	363	253	43.7%
Kuranakh mine	117	120	-3.2%
Zapadnoye mine	3	16	-82.0%
Pervenets pilot plant (Verninskoye and Pervenets ores) <sup>8</sup>	13	7	89.1%
Alluvials	210	197	6.8%
Kazakhstan operations <sup>9</sup>	117	104	12.5%
<b>Total gold production</b>	<b>1,497<sup>10</sup></b>	<b>1,381</b>	<b>8.4%</b>

**Table 4. Mining works and ore processing**

Total rock moved (in thousand m <sup>3</sup> )	2011	2010	Change
<b>Krasnoyarsk Region</b>	<b>40 833.7</b>	<b>41 273.8</b>	<b>-1.1%</b>
<b>Olimpiada mine</b>	<b>16 937.0</b>	<b>22 053.3</b>	<b>-23.2%</b>
<i>including stripping</i>	14 329.4	18 528.8	-22.7%
Stripping ratio (m <sup>3</sup> /t)	2.04	1.95	4.5%
<b>Titimukhta</b>	<b>10 374.3</b>	<b>8 072.5</b>	<b>28.5%</b>
<i>including stripping</i>	9 511.3	7 132.3	33.4%
Stripping ratio (m <sup>3</sup> /t)	4.09	3.04	34.4%
<b>Blagodatnoye mine</b>	<b>13 522.4</b>	<b>11 148.0</b>	<b>21.3%</b>
<i>including stripping</i>	11 187.2	9 109.1	22.8%
Stripping ratio (m <sup>3</sup> /t)	1.73	1.64	5.4%

<sup>8</sup> Processing of ore of the Verninskoye and Pervenets deposits. For a more detailed description please see section Projects Development in 2011 on page 8.

<sup>9</sup> Gold production by KazakhAltyn (Kazakhstan operations) in the form of sludge, flotation and gravitation concentrates and other semi-products.

<sup>10</sup> Sums may differ due to rounding

<b>Republic of Sakha (Yakutia)</b>			
<b>Kuranakh mine</b>	<b>10 357.0</b>	<b>9 831.0</b>	<b>5.3%</b>
<i>including stripping</i>	8 310.0	7 859.0	5.7%
Stripping ratio (m <sup>3</sup> /t)	2.34	2.26	3.3%
<b>Irkutsk Region</b>	<b>2 274.3</b>	<b>4 504.9</b>	<b>-49.5%</b>
<b>Zapadnoye mine</b>	<b>77.1</b>	<b>2 461.9</b>	<b>-96.9%</b>
<i>including stripping</i>	54.9	2 300.9	-97.6%
Stripping ratio (m <sup>3</sup> /t)	0.92	5.29	-82.7%
<b>Verninskoye mine</b>	<b>1 956.7</b>	<b>2 043.0</b>	<b>-4.2%</b>
<i>including stripping</i>	1 687.9	1 950.9	-13.5%
Stripping ratio (m <sup>3</sup> /t)	2.33	7.84	-70.4%
<b>Pervenets mine</b>	<b>240.5</b>	-	-
<i>including stripping</i>	235.0	-	-
Stripping ratio (m <sup>3</sup> /t)	15.8	-	-
<b>Republic of Kazakhstan</b>			
<b>Kazakhstan operations total</b>	<b>697.4</b>	<b>1 264.4</b>	<b>-44.8%</b>
Open pit operations	697.4	1 264.4	-44.8%
<i>including stripping</i>	590.1	763.8	-22.7%
<i>Stripping ratio (m<sup>3</sup>/t)</i>	2.35	0.58	305.2%
<b>Total rock moved</b>	<b>54 162.4</b>	<b>56 874.1</b>	<b>-4.8%</b>
<b>Ore mining (in thousand tonnes)</b>	<b>2011</b>	<b>2010</b>	<b>Change</b>
<b>Krasnoyarsk Region</b>			
<b>Olimpiada mine</b>	<b>7 040.5</b>	<b>9 516.1</b>	<b>-26.0%</b>
Average grade in ore mined (g/t)	3.43	3.19	7.5%
<b>Titimukhta</b>	<b>2 327.2</b>	<b>2 345.0</b>	<b>-0.8%</b>
Average grade in ore mined (g/t)	2.07	2.00	3.9%
<b>Blagodatnoye mine</b>	<b>6 479.7</b>	<b>5 562.6</b>	<b>16.5%</b>
Average grade in ore mined (g/t)	2.08	1.99	4.3%
<b>Republic of Sakha (Yakutia)</b>			
<b>Kuranakh mine</b>	<b>3 558.0</b>	<b>3 476.0</b>	<b>2.4%</b>
Average grade in ore mined (g/t)	1.28	1.33	-3.7%
<b>Irkutsk Region</b>			
<b>Zapadnoye mine</b>	<b>60.0</b>	<b>434.7</b>	<b>-86.2%</b>
Average grade in ore mined (g/t)	1.94	1.73	12.0%
<b>Verninskoye mine</b>	<b>725.7</b>	<b>248.7</b>	<b>191.8%</b>
Average grade in ore mined (g/t)	2.56	2.32	10.2%
<b>Pervenets mine</b>	<b>14.9</b>	-	-
Average grade in ore mined (g/t)	2.70	-	-
<b>Republic of Kazakhstan</b>			
<b>Kazakhstan operations total</b>	<b>850.7</b>	<b>1 757.4</b>	<b>-51.6%</b>
Underground operations	599.6	445.5	34.6%
Open pit operations	251.1	1 311.9	-80.9%
Average grade in ore mined (g/t)	4.67	2.65	76.3%
<b>Total ore mining</b>	<b>21 056.8</b>	<b>23 340.5</b>	<b>-9.8%</b>
<b>Ore processing (in thousand tonnes)</b>	<b>2011</b>	<b>2010</b>	<b>Change</b>
<b>Krasnoyarsk Region</b>	<b>16 475.6</b>	<b>14 297.0</b>	<b>15.2%</b>

Olimpiada mine	<b>8 050.7</b>	<b>7 377.3</b>	<b>9.1%</b>
<i>Sulphide ore</i>	8 050.7	7 353.9	9.5%
<i>Mixed type ore</i>	-	23.4	-
<b>Average grade in ore (g/t)</b>			
Olimpiada mine	3.43	3.77	-8.9%
<i>Sulphide ore</i>	3.43	3.76	-8.8%
<i>Mixed type ore</i>	-	6.05	-
<b>Recovery (%)</b>			
Olimpiada mine			
<i>Sulphide ore</i>	69.12	66.37	4.1%
<i>Mixed type ore</i>	-	76.71	-
<b>Titimukhta</b>			
Ore processing	1 919.8	1 557.2	23.3%
Average grade in ore (g/t)	2.11	2.36	-10.4%
Recovery (%)	83.81	84.11	-0.4%
<b>Blagodatnoye mine</b>			
Ore processing	6 505.1	5 362.5	21.3%
Average grade in ore (g/t)	2.09	1.98	5.9%
Recovery (%)	84.51	76.73	10.1%
<b>Republic of Sakha (Yakutia)</b>			
<b>Kuranakh mine</b>			
Ore processing	3 376.0	3 298.0	2.4%
Average grade in ore (g/t)	1.29	1.34	-3.8%
Recovery (%)	85.13	85.15	0.0%
<b>Irkutsk Region</b>	<b>309.2</b>	<b>635.3</b>	<b>-51.3%</b>
<b>Zapadnoye mine</b>			
Ore processing	155.3	448.9	-65.4%
Average grade in ore (g/t)	0.79	1.76	-55.4%
Recovery (%)	55.11	69.67	-20.9%
<b>Verninskoye mine</b>			
Ore processing	139.0	147.4	-5.7%
Average grade in ore (g/t)	2.88	1.82	57.8%
Recovery (%)	72.70	60.37	20.4%
<b>Pervenets mine</b>			
Ore processing	14.9	39.0	-61.8%
Average grade in ore (g/t)	2.70	2.63	2.3%
Recovery (%)	72.55	79.49	-8.7%
<b>Republic of Kazakhstan</b>			
<b>Ore processing at plant</b>	<b>893.9</b>	<b>756.8</b>	<b>18.1%</b>
Average grade in ore (g/t)	3.93	3.73	5.3%
Recovery (%)	83.8	83.4	0.4%
<b>Ore processing at HL</b>	<b>348.8</b>	<b>817.6</b>	<b>-57.3%</b>
Average grade in ore (g/t)	0.84	1.19	-29.7%
<b>Kazakhstan operations total</b>	<b>1 242.7</b>	<b>1 574.4</b>	<b>-21.1%</b>

<b>Ore processing total</b>	<b>21 403.4</b>	<b>19 804.7</b>	<b>8.1%</b>
<b>Sands washing (alluvials)</b>	<b>2011</b>	<b>2010</b>	<b>Change</b>
Sands washed (million m <sup>3</sup> )	9.86	8.89	11.0%
Average grade (g/m <sup>3</sup> )	0.67	0.69	-3.4%

## **Projects development in 2011**

### **Verninskoye mine**

In December 2011 the Group successfully commissioned the Verninskoye mine in the Irkutsk region. 2011 was the third year in a row of a new mine launch by the Group.

Construction of the facility commenced in 2009. In the succeeding two-year period the Group's specialists built a gold processing plant on a greenfield site with a design capacity of 2.2 million tonnes of ore per annum, procured all the necessary mining and haulage equipment, built roads, warehouses, a camp and a tailings facility.

The construction of the Verninskoye mine was performed in difficult conditions, when the principal supplier of the project, FL Smidth Wiesbaden GmbH, failed to deliver equipment in time (flotation equipment, gravity concentrators, thickeners, etc). The 6 month-delay in shipment resulted in the mine's commissioning in a short circuit mode, which was not planned initially. Thus, during the first half of 2012 the plant is expected to produce gravity concentrate, which will be subsequently processed to end product at the existing plant at the Zapadnoye mine.

As of late January 2012, 98% of the project equipment has been shipped and is expected to be on mine site in March 2012. This will allow to start pre-commissioning works on the full circuit mode in late May.

Simultaneously the Group continued exploration of flanks and deep horizons of the Verninskoye deposit. Based on the results of the reserves audit in accordance with JORC standards, undertaken by MICON International Ltd., proved and probable reserves of the deposit increased to 65.4 million tonnes of ore, or 5.8 million ounces (179 tonnes) of gold at an average grade of 2.7 g/t. The substantial increase in the deposit's mineral reserves base creates an opportunity to expand the mill's capacity to 3.6 million tonnes of ore per annum, provided an optimal mining plan is selected and a new power line is constructed to ensure sufficient electric power supply to the mine. The Group is currently considering options for the development of an extended pit.

During 2011 capital mining works were conducted at the Verninskoye pit. 741 thousand tonnes of ore were mined from Verninskoye and its satellite deposit Pervenets. In 2011 the Pervenets pilot plant continued its operations to model the processing technology of the Verninskoye mine. In the reporting year 154 thousand tonnes of ore were processed, from which 11 thousand ounces of gold were produced.

In 2011 capital expenditures for the Verninskoye project development amounted to USD 108 million.

### **Natalka deposit**

In 2011 the Group obtained all the required approvals from local and federal authorities to commence construction of the mine.

In April 2011 the second stage of pre-mining grade control drilling was initiated with a goal of confirming additional high-grade material and outlay mining works during the first five years of operations.

In July 2011 the Group signed an agreement with CJSC PeterGORproject to prepare a detailed construction schedule and necessary construction documentation.

On 17<sup>th</sup> August 2011 the license for the Natalka deposit was updated and its term was extended from 31<sup>st</sup> December 2013 to 31<sup>st</sup> December 2036. The new license anticipates the first stage of the plant to be commissioned by 31<sup>st</sup> December 2013.

In the third quarter of 2011 a leading international consulting company prepared a study reviewing work force requirements for the Natalka project. Based on this study the Group will start executing the program of hiring qualified managerial and operational staff.

In the reporting period, MagadanEnergo, in accordance with the terms of an agreement entered into with the Group, began the renewal of the grid, installing new 110 kV lines and replacing old wooden pylons.

Construction of a camp and repair workshop for road-building machinery commenced and delivery of the construction equipment is under way. The construction camp will be in place by March 2012.

In addition, the Group initiated contracting work for the equipment supply. A supplier of crushing and grinding equipment was chosen by tender process and manufacturing of a ball mill and SAG-mill commenced.

The Group initiated preparation of construction documentation for year-round river crossings from Magadan to the site, which will enable delivery of large-size equipment. The design company has been chosen.

In 2011 capital expenditures for the Natalka development project amounted to USD 32 million.

### **Blagodatnoye mine**

In 2011 the Group completed construction of the surface facilities of the Blagodatnoye mine, which had been commissioned in 2010. The capital expenditure program included procurement of technological equipment as well as mining and road-construction fleet, computerization of the technological processes, commissioning of the crushing complex, construction of the fuel and lubricants storage. Total capital expenditure for the project, totaled USD 455 million which was approximately USD 40 million less than it was initially budgeted and approved by the Board.

In the reporting year the Group commenced a program to increase the mining and processing capacity of the Blagodatnoye mine to 8 mtpa. In 2012 the Group plans to construct the camp and canteen and complete development of the construction documentation. The Group has also begun negotiation for the construction of the high-voltage power grid to secure operations of the plant of the enhanced capacity. In 2012-2013 the Group plans to spend around USD 150 million on increasing the mining and processing capacity of the Blagodatnoye mine.

### **Titimukhta**

In December 2011 the Group installed Knelson concentrators and trial works are in process at the gravity concentration. This will allow the achievement of throughout recovery of 86 per cent. The proposed expansion of Mill No. 1 grinding capacity is expected to increase the mill's capacity to 2.4 million tonnes of ore per annum in 2012 increasing gold production to 135 thousand ounces per annum. The current mining plan for the Titimukhta deposit contemplates that the deposit will be mined until 2021. After 2021, the strategy of the Group contemplates that Mill No. 1 will be modified in order to process deep horizon ores of the Olimpiada mine.

In 2011 capital expenditures for the Titimukhta project totaled USD 14 mln.

### **Kuranakh mine**

At the Kuranakh mine, during the reporting year the Group tested ore separating by clay and coarse fractions with further processing of coarse fraction at the heap leaching facility. The initial trial works confirmed separability of the ore and availability of further processing at heap leaching. The Group intends to continue trial works in 2012. Once finalized the Group expects the full-scale heap-leaching operation will result in an increase of annual ore mining and processing to 8 million tonnes by 2014. The proposed new mill and heap leaching facility are expected to add 70 thousand ounces and 60 thousand ounces of gold production per annum, respectively, which would double gold output as compared to the level of production in 2011.

In 2011 the Group invested USD 11 mln into the Kuranakh mine development.

Extensive drilling was initiated during the past year to extend the reserves and simultaneously to develop a strategy to effectively dewater the pits. The increased hardness of the ore has necessitated an upgrade of the primary crushing unit, from a mineral sizer to a robust double roll crusher. All of this work is planned for completion during Q2 2012.

### **Olimpiada mine**

Results of exploration works carried out between 2009 and 2011 indicate that a significant increase of Olimpiada gold reserves may be achieved. This could result in a need to review both the future mining and processing methods. A review is currently underway to establish an optimum transition from open pit to underground mining and a consultant has been engaged to develop a road map for the potential implementation of a Pressure Oxidation process to treat the Olimpiada ore in future.

### **Nezhdaninskoye deposit**

SNC-Lavalin in association with Gold Fields (BIOX) and AB Global Mining have undertaken a Pre-Feasibility Study for the challenging Nezhdaninskoye deposit and issued a draft report during December 2011. An optimization process was initiated after the submission of the report and financial model, aimed at maximizing the NPV of the project. It is expected that this work will be completed in the Q1 2012.