Financial results for the 6 months ended 30 June 2011

USD'000, unless specified otherwise	Six months ended 30 June 2011	2010	% change p-o-p[(1)]
Revenues from gold sales	901,752	607,567	48
Operating profit	279,631	169,230	65
Operating profit margin	30%	27%	-
Profit for the period	206,800	104,622	98
Earnings per share – basic and diluted (US Cents)	8	6	33
Weighted average number of ordinary shares	2,498,940,867	1,801,395,186	39
Capital expenditure and deferred stripping costs	180,273	148,988	21
Gold production ('000oz)	611	503	21
Gold sold ('000oz)	629	524	20
Average gold selling price (USD/oz)	1,433	1,160	24
EBITDA	398,644	247,582	61
EBITDA margin	43%	40%	-
Total cash cost per ounce sold (USD/oz)	616	515	20
Total cash cost per ounce sold (RUB/oz)	17,634	15,499	14

1. P-o-p – period-on-period

Financial highlights

- Gold sales amounted to USD 901,752 thousand in H1 2011, up 48% compared to H1 2010 resulting from a combination of increased sales volumes and higher realised gold prices:
  - Sales volumes were 629 thousand troy ounces compared to 524 thousand troy ounces in H1 2010.
  - The weighted-average gold selling price was USD 1,433 per troy ounce, up 24%.
- Total cash costs per ounce grew by 14% and 20% on a rouble and USD basis, respectively, affected mainly by growth in costs for consumables and spares, an increase in mining tax charges on the back of gold price growth as well as increased labour costs and power consumption.
- EBITDA in H1 2011 was USD 398,644 thousand, an increase of 61%.
- Group net cash of USD 347,669 thousand, up USD 184,861 thousand on year end as a result of strong operating cash inflow and withdrawal of funds from available-for-sale equity investments.

Production and project development

- The Group's operating units produced 611 thousand troy ounces of refined gold in H1 2011, up 21% on H1 2010, primarily the result of:
  - the ramp-up of production at the Blagodatnoye mine (launched in July 2010);
  - successful implementation of the Group's production process optimization programme at its key production unit – the Olimpiada mine;
  - an upgrade of the mining fleet at the Group's alluvial deposits; and
  - ongoing modernization at the production facilities in Kazakhstan.
- Capital expenditures increased 15% to USD 170,339 thousand, with the major investments into construction of the Blagodatnoye and Verninskoye mines, modernisation of production facilities at Olimpiada and upgrading of operating assets in Kazakhstan.
- Substantial progress was made in H1 2011 in the implementation of the Verninskoye mine construction with the mine commissioning and ramp-up planned for the end of 2011, in accordance with the approved schedule.

- The Group is progressing the development of Natalka and in July 2011 the construction subsidiary of Polyus Gold, CJSC Polyus Stroy, prepared the project plans and the detailed budget of the first stage of the Natalka development for submission to the Board of Polyus Gold.

Corporate update

- As previously communicated, the Group has commenced preparation for a move to the Premium Listing segment of the Official List.
- Successful completion of the reorganization of OJSC Polyus Gold together with KazakhGold on 25 July 2011 and subsequent launch of the OJSC Polyus Gold mandatory tender offer.
- Extension until 12 October 2011 of the 1st tranche completion of the Restated and Amended Principal Agreement with AltynGroup relating to the disposal of the KazakhGold operating assets.

The Group is an international gold mining company, the largest gold producer in Russia, according to the Russian Union of Gold Miners, one of the leading gold producers in Kazakhstan and one of the world's leading gold producers based on mineral resources and production volumes. The Group develops and mines hardrock gold and alluvial gold deposits, with operations in the Krasnoyarsk, Irkutsk, Magadan and Republic of Sakha (Yakutia) regions of Russia and in the Republic of Kazakhstan. In 2010, the Group produced 1,386 million troy ounces of gold, and 611 thousand troy ounces of gold in the six months ended 30 June 2011.

The Group was formed as a result of the reorganization of the OJSC Polyus Gold Group (the "Polyus Russia Group") and its subsidiaries and KazakhGold Group Limited and its subsidiaries which was substantially completed by 30 June 2011, and the final conditions were satisfied by 25 July 2011 and resulted in KazakhGold Group Limited becoming the legal parent of OJSC Polyus Gold. Following the completion of the reorganization, KazakhGold Group Limited was renamed: Polyus Gold International Limited (the "PGIL Group").

The reorganization represents a continuation of the Polyus Russia Group, and consequently, the comparative financial information for the six months ended 30 June 2010 and year ended 31 December 2010 reflects the consolidated financial information for OJSC Polyus Gold for those periods. As a result, references in this report to the "Group" for those financial periods are to the Polyus Russia Group, including the KazakhGold Group.

The following discussion and analysis represents management's opinion in relation to the Group's operating and financial results, including discussions of:

- key performance indicators;
- financial position as at 30 June 2011 and 31 December 2010;
- results of operations for the six months ended 30 June 2011 and 30 June 2010;
- the Group's liquidity, solvency and capital sources; and
- significant events affecting the Group's operating performance for these periods.

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1. THE GROUP'S OPERATING RESULTS

1.1 External market factors affecting the Group's financial results

The results of the Group are significantly affected by movements in currency exchange rates (principally the US dollar/rouble rate), and the prices of commodities, such as gold, oil and steel.

Average rates for these main external market factors in the first six months of 2011 and 2010 and the year ended 31 December 2010 were:

	Six months ended 30 June		Year ended 31 December
Average price/ rate	**2011**	**2010**	**2010**
London p.m.gold fixing price (USD per troy ounce)[(1)]	1,444.7	1,152.2	1,224.5
Oil (Brent brand) (USD per barrel)[(2)]	111.2	81.1	80.3
Steel (hot rolled) (USD per tonne)[(3)]	721.7	644.1	641
Average USD/RUB rate[(4)]	28.62	30.07	30.36
Period end USD/RUB rate	28.08	31.20	30.47
Average USD/KZT rate[(5)]	146.00	147.24	147.35
Period end USD/KZT rate	146.25	147.46	147.40

1. Source: London Bullion Market Association.
2. Source: Bloomberg.
3. Source: Steel Business Briefing.
4. Source: The Central Bank of Russia.
5. Source: The National Bank of Kazakhstan.

Gold prices

The market price of gold is the most significant factor influencing the profitability and operating cash flow generation of the Group. The global gold price is subject to volatile movements over short periods of time. In the six months ended 30 June 2011, the average gold p.m. fixing price in London was USD 1,444.7 per ounce, with gold reaching its lowest level of USD 1,319.0 per ounce on 28 January 2011 and a high of USD 1,552.5 on 22 June 2011.

Exchange rates

The Group's revenue from gold sales is denominated in US dollars, whereas most of the Group's operating expenses and capital expenditures are denominated in Russian roubles ("RUB"). Accordingly, an appreciation of the Russian rouble against the US dollar may negatively affect the Group's margins by increasing the US dollar value of its RUB-denominated costs. Conversely, an appreciation of the US dollar may positively affect the Group's margins by decreasing the US dollar value of its rouble-denominated costs.In the first six months of 2011 the average RUB/USD exchange rate decreased to RUB 28.62 per US dollar from 30.07 in the first half of 2010. This contributed to an increase in USD terms during the first half of 2011 in comparison with the first half of 2010 for salaries and other expenses denominated in Russian roubles, due to the effect of translation to the USD presentation currency. The decrease in the closing rate to RUB 28.08 per USD (31 December 2010: 30.47) led to a material increase in the statement of financial position items in USD terms.

Since its acquisition of a controlling stake in PGIL in August 2009, the Group has also been exposed to USD/KZT exchange rate movements since the operating expenses of PGIL's mining operations in Kazakhstan are incurred primarily in tenge.

Oil and steel prices

A significant portion of costs included in the Group's cost of sales are directly or indirectly impacted by the prices of oil and steel. Changes in oil prices impact the prices of heating oil, diesel fuel, gasoline and lubricants for mining and construction equipment. Steel forms the basis for the price of all rolled metal products, pipes, machinery and vehicles. In the reporting period average oil prices increased 37% in comparison with the first half of 2010, while average steel prices increased by 12% over the same period, driving consumables and spares costs higher.

Summary of performance results

The following table shows the summary of performance results of the Group for the first six months of 2011:

USD'000, unless specified otherwise	Six months ended 30 June		% change
	2011	**2010**	**p-o-p**
Gold sales	**901,752**	**607,567**	**48**
Other sales	29,007	14,879	95
Cost of gold sales	(478,053)	(345,219)	38
Cost of other sales	(23,223)	(14,368)	62
Gross profit, including	**429,483**	**262,859**	**63**
Gross profit on gold sales	**423,699**	**262,348**	**62**
Gross profit margin	**46.1%**	**42.2%**	**-**
Selling, general and administrative expenses	(93,462)	(75,709)	23
Impairment loss	48,625	4,002	-
Profit before income tax	**267,200**	**141,247**	**89**
Pre-tax margin	**28.7%**	**22.7%**	**-**
Income tax expense	(60,400)	(36,625)	65
Profit for the period	**206,800**	**104,622**	**98**
Net profit/(loss) attributable to non-controlling interests	17,953	(11,757)	-
Net profit attributable to shareholders of the parent company	**188,847**	**116,379**	**62**
Net profit margin	**22.2%**	**16.8%**	**-**
Earnings per share – basic and diluted (US Cents)	**8**	**6**	**33**

The following table shows key performance indicators of the Group's operations for the first six months of 2011 expressed in non-GAAP financial measures:

USD'000, unless specified otherwise	Six months ended 30 June		% change
	2011	**2010**	**p-o-p**
Operating profit(1)	279,631	169,230	65
Operating profit margin	30.0%	27.2%	-
EBITDA(2)	398,644	247,582	61
EBITDA margin	42.8%	39.8%	-

1.Operating profit is calculated as Gross profit, less Selling, general and administrative expenses, Research expenses, Impairment loss and Other expenses, net.
2. For details of the calculation of EBITDA refer to section 2.1 of this document.

1.2 Gold sales

The following table shows the results and breakdown of the Group's gold sales for the six months ended 30 June 2011 and 2010:

	Six months ended 30 June		% change
	2011	**2010**	**p-o-p**
Gold sales (USD thousands)	901,752	607,567	48
Gold sales (thousand troy ounces)	629	524	20
In the domestic market (thousand troy ounces)(1)	566	481	18
In the domestic market (%)	90	92	-
For export (thousand troy ounces)	63	43	46
Weighted-average gold selling price (USD per troy ounce)	1,433.3	1,160.3	24
London p.m.gold fixing price (USD per troy ounce)(2)	1,444.7	1,152.2	25
(Deficit)/excess of average selling price (under)/over average p.m. fixing price (USD per troy ounce)	(11.4)	8.1	-

1. Sales on the domestic market comprise of sales by the Group's Russian subsidiaries on the Russian market. Export sales comprise sales by the Kazakhstan business unit on the international market.
2. Source: London Bullion Market Association.

In the first six months of 2011, the Group's gold sales amounted to USD 901,752 thousand, showing an increase of 48% compared to the first six months of 2010.The increase in gold sales resulted from a combination of higher realized gold prices and increased sales volumes.

In H1 2011, the weighted-average gold selling price was USD 1,433.3 per troy ounce, a 24% increase as compared to the same period of 2010. This was USD 11.4 per ounce lower than the p.m. gold fixing price on the London market, as a result of the impact of the sale of semi-products by the Kazakhstan business unit at a considerable discount to the London fixing price. The weighted-average gold selling price for the refined gold sold by the Group's Russian subsidiaries amounted to USD 1,446.6 per ounce. In the first half of 2010, the weighted-average gold selling price exceeded the average p.m. gold fixing price because the major portion of gold was sold later in the period, when the gold price was higher than the average for the period.

The sales volumes in H1 2011were 629 thousand troy ounces, including 63 thousand ounces sold for export by the Kazakhstan business unit. The comparable sales volume in the first half of 2010 was 524 thousand troy ounces and 43 thousand troy ounces, respectively. In the first six months of 2011 the Group produced 611 thousand ounces of gold, compared to 503 thousand ounces in the same period of the previous year.[1] The 21% increase was primarily the result of the ramp-up of production at the Blagodatnoye mine (launched in July 2010), successful implementation of the Group's production optimization programme at its key production unit, the Olimpiada mine, an upgrade of the mining-fleet at the Group's alluvial deposits, and the ongoing modernization at the production facilities in Kazakhstan.

[1] Production volumes include 554 thousand ounces of refined gold produced by the Group's mines in Russia and 57 thousand ounces of gold produced by the Kazakhstan operations in the form of sludge, flotation and gravitation concentrates and other semi-products.

1.3 Cost of gold sales

The following table shows the results of the Group's cost of gold sales for the six months ended 30 June 2011 and 2010:

USD '000	Six months ended 30 June 2011	Six months ended 30 June 2010	Change %
Consumables and spares, out of which:	194,171	151,642	28.0
Materials and spares	*122,542*	*107,233*	*14.3*
Fuel	*71,629*	*44,409*	*61.3*
Labour	122,268	100,115	22.1
Tax on mining	71,393	52,942	34.9
Utilities, out of which:	29,595	21,485	37.7
Power	*28,996*	*21,158*	*37.0*
Other	*599*	*327*	*83.2*
Outsourced mining services	3,374	2,062	63.6
Refining costs	1,926	2,201	(12.5)
Other	26,481	21,377	23.9
	449,208	**351,824**	**27.7**
Amortisation and depreciation of operating assets	89,847	70,144	28.1
Deferred stripping costs, net	17,136	30,824	(44.4)
Increase in gold-in-process and refined gold	(78,138)	(107,573)	(27.4)
Cost of gold sales	**478,053**	**345,219**	**38.5**

Cost of gold sales increased from USD 345,219 thousand in the first half of 2010 to USD 478,053 thousand in the first half of 2011. The 38% increase resulted mainly from a 20% increase in the volume of gold sales, the growth of underlying commodities prices, an increase of mining tax charges in line with the gold price dynamics, higher amortisation and depreciation charges and the effect of the rouble appreciation against the US dollar.

Consumables and spares

Consumables and spares comprised 41% of cash operating costs in the first half of 2011. These include materials and spares (spare parts for trucks, excavators and for construction machinery, expenses on rolled metal products and cables, technological materials for plants, chemicals and other materials and spare parts used during the mining, concentration and smelting) and fuel.

Materials and spare parts

The cost of materials and spare parts consumed in the first half of 2011amounted to USD 122,542 thousand, an increase of 14% as compared with the same period of the previous year. All the Group's business units incurred increased expenses for the purchase of grinding balls, spare parts and chemical products. The increase in costs for materials and spares was largely driven by the growth in purchase prices for materials and components (steel, cyanides, lime, explosives). At the Krasnoyarsk business unit, requirements for spare parts for machinery and equipment, grinding balls, cyanides and explosives increased due to Blagodatnoye ramp-up to full capacity and enhancement of ore processing at Olimpiada. These increases were partly offset by a reduction in material consumption rates, which was achieved as a result of implementation of measures aimed at raising the Olimpiada mine's operational efficiency. The consumption of grinding balls reduced due to the processing of less rigid ores compared to those processed in the first half of 2010. The Irkutsk alluvial business unit increased consumption of spare parts due to increased volumes of sand washing and the implementation of repair and maintenance works. The earlier commencement of preparation and mining works by the alluvial enterprises required more explosives compared to the first half of 2010. Expenses on materials and spare parts at the Kazakhstan mines increased as a result of enhancement of ore processing at the plants. The rouble appreciation against the US dollar resulted in an additional 5% increase in material expenses.

Fuel

The cost of fuel, diesel oil and lubricants for trucks and excavators consumed during the first half of 2011 was USD 71,629 thousand, an increase of 61% in comparison to the first half of 2010. This increase was partly due to the increase of prices for diesel fuel and gasoline, as well as coal for the power plants at the Olimpiada and Blagodatnoye mines. In H1 2011 prices for oil products and coal increased by more than 30% in line with the global trend. Consumption of fuel by volume increased primarily at the Krasnoyarsk business unit as a result of increased mining operations at Blagodatnoye and intensified operation of the coal power plants, as well as the planned increase in mining volumes at Titimukhta. Fuel consumption also increased at the Irkutsk alluvial business unit due to the early commencement of mining works and an increase in volumes of sand washing. In addition, fuel costs were negatively impacted by the rouble strengthening against the US dollar.

Labour

Labour costs comprised 26% of cash operating costs in the first six months of 2011. These costs increased by 22% to USD 122,268 thousand, with the Krasnoyarsk business unit being the major contributor to payroll cost growth. Due to ramp-up of Blagodatnoye to full capacity, the average number of production personnel at the Krasnoyarsk business increased by 50% year-on-year. This increase was enhanced by the planned indexation of salaries. The appreciation of the rouble was the second important factor driving labour expenses higher. Payroll costs at the Kazakhstan business unit also increased due to an increase in the number of production personnel and increase in salaries. In addition, alluvial mining season in 2011 started earlier than in 2010, which led to higher payroll costs at the Irkutsk alluvial business unit.

Tax on mining

In H1 2011, expenses on mining tax represented 15% of cash operating costs. In the first half of 2011, the Group accrued USD 71,393 thousand of tax on mining, compared to USD 52,942 thousand in the same period of the previous year. The increase was driven by higher gold selling prices and enhanced sales volumes. The mining tax rates in Russia and Kazakhstan were established at 6% and 5%, respectively.

Utilities

Utilities expenses, comprising 6% of cash operating costs, increased from USD 21,485 thousand in the first half of 2010 to USD 29,595 thousand in the first half of 2011, mainly comprising power costs.The increase in power costs was attributable mainly to the Krasnoyarsk business unit and resulted from the full-scale operation of Blagodatnoye during the first half of 2011, while in the first half of 2010 the mine was operating in the pre-commissioning mode. In addition, electricity costs increased at the Yakutia business unit due to increase of power consumption for ore processing. The increase in electricity tariffs and the strengthening of the rouble exchange rate also contributed to an increase of utilities costs. Mines in Kazakhstan increased consumption of electricity due to commissioning of new electric equipment in accordance with the approved investment program. Additional electricity purchases were required to ensure heat supply to underground shafts and plants during the protracted 2011 winter season.

Deferred stripping costs expensed

The Group's accounting policy stipulates that stripping costs incurred in the period are deferred to the extent that the current period stripping ratio exceeds the expected life-of-mine ratio. If the current stripping ratio falls below the average life-of-mine stripping ratio, the stripping costs are charged to operating costs.

In the first half of 2011, the stripping ratio at Olimpiada was lower than the average life-of-mine ratio, and, therefore, previously capitalized stripping costs were expensed, which was partly offset by the capitalization of the excessive stripping costs incurred in H1 2011 at Titimukhta and Kuranakh mines. As a result, deferred stripping costs in the net amount of USD 17,136 thousand were charged to operating costs (USD 30,824 in the first half of 2010).

Amortisation and depreciation of operating assets

Amortisation and depreciation of operating assets increased by 28% from USD 70,144 thousand in the first half of 2010 to USD 89,847 thousand in the first half of 2011. The increase in depreciation charges was a result of commissioning of new property, plant and equipment at the Blagodatnoye mine and installation of additional processing equipment at Olimpiada as part of the modernization programme, enhanced by the effect of translation of roubles to the USD.

Change in gold-in-process and refined gold

In the first six months of 2011, metal inventories increased, which related mainly to Dore gold remaining at the plant stocks and refinery plants in the amount of 90 thousand troy ounces, which was not refined in the reporting period. Total gold-in-process of USD 78,138 thousand were recorded to inventory from cost of gold sales in the first half of 2011 (USD 107,573 thousand in 2010).

During the first half of 2011, gold-in-process increased mainly at the Krasnoyarsk business unit. At 30 June 2011 the balance of Dore gold remaining at the plant and refinery amounted to 90 thousand troy ounces, compared to 4 thousand ounces at 31 December 2010. In addition, short-term stocks of ore at Blagodatnoye and Titimukhta also increased.

This increase was partly offset by the decrease of stocks of unsold finished goods and long-term ore stock piles. At 31 December 2011 the Group had 19 thousand ounces of refined gold at the refinery, which was sold during H1 2011. Besides, in the first half of 2011 the Group impaired low-grade ore stocks at the Irkutsk hard rock business unit. Long-term ore stocks also decreased at the Krasnoyarsk business unit.

1.4 Selling, general and administrative expenses

The following table sets forth the selling, general and administrative expenses of the Group for the six months ended 30 June 2011 and 2010:

	Six months ended 30 June		% change
USD '000	**2011**	**2010**	**p-o-p**
Salaries	43,591	41,326	6
Taxes other than mining and income taxes	21,706	9,198	136
Professional services	14,214	11,379	25
Other	13,951	13,806	1
Total	**93,462**	**75,709**	**23**

In the first half of 2011, the Group's selling, general and administrative expenses increased by 23% from USD 75,709 thousand to USD 93,462 thousand. The major contributor to the growth was an increase in taxes other than mining and income taxes. Appreciation of the Russian rouble in the first half of 2011 relative to the first half of 2010 also had a negative impact on the selling, general and administrative expenses of the Group.

Salaries

In H1 2011, the Group's administrative labour costs increased by 5% to USD 43,591 thousand. The slight increase was largely attributable to the exchange rate factor. Cost control measures helped maintain payroll costs denominated in the national currencies approximately at the level of the first half of 2010.

Taxes other than mining and income taxes

The following table shows the components of taxes, other than mining and income taxes, for the first six months of 2011 and 2010:

	Six months ended 30 June		% change
USD '000	**2011**	**2010**	**p-o-p**
Property tax	10,228	7,136	43
VAT	772	506	52
Other taxes	10,706	1,556	588
Total	**21,706**	**9,198**	**136**

In H1 2011, the Group accrued USD 21,706 thousand in federal and regional taxes other than tax on mining and income tax, compared to USD 9,198 thousand in the first half of 2010. Property tax charges increased mainly due to commissioning of new property, plant and equipment at the Krasnoyarsk business unit following the Blagodatnoye mine launch in July 2010. Other taxes experienced a multiple increase mainly due to assessment of additional tax charges related to 2007 at the Krasnoyarsk business unit.

Professional services

In H1 2011, the Group expended USD 14,214 thousand on professional services, an increase of 25% compared to the first half of 2010. This reflects primarily legal and financial advisory services provided to the Group with regard to the reorganizaton of the Group, Private Exchange Offer, preparation for the proceedings against the former owners of PGIL and negotiations with AltynGroup for the sale of PGIL's operating subsidiaries.

1.5 Impairment loss

Impairment of exploration and evaluation assets

In the six months of 2011, the Group recognized an impairment loss of USD 15,100 thousand (USD 2,359 thousand in the first half of 2010) related to the previously capitalised exploration and evaluation costs that have not led to the discovery of commercially viable quantities of gold resources and the decision was made to discontinue such activities. Those exploration and evaluation costs had been incurred at the following exploration fields: Kuzeevskaya in the Krasnoyarsk region, Doroninskoye and Tokichan in the Magadan region, Mukodek in the Irkutsk region and Kaskabulak in the Republic of Kazakhstan.

Impairment of property, plant and equipment (excluding exploration and evaluation assets)

In addition, the Group recognized loss on impairment of property, plant and equipment in the amount of USD 7,644 thousand (USD 1,643 thousand in the first half of 2010), which related to suspension of the Zapadnoye mine.

Impairment of inventories

Loss on impairment of inventories totaling USD 25,881 thousand was recognized in respect of the ore stockpiled at the Zapadnoye mine in the amount of 1.7million tonnes. As a result of depletion of reserves in the pit contour of the Zapadnoye deposit, the Group decided to suspend the Zapadnoye mine, as processing of stockpiled ore with the grade of 1.3 g/t was considered not economically viable.

1.6 Income tax

Income tax expense in the first half of 2011 was USD 60,400 thousand, which was 65% more than in the same period of 2010. The increase in income tax expense for H1 2011 was driven by higher profit before taxation in comparison with the first half of 2010. The effective income tax rate (ratio of current and deferred tax expense to IFRS income before tax) was 23% (26% in the first half of 2010),while the statutory income tax rate in Russia was 20% in both periods. The difference between the statutory and the effective tax rates was due to a number of non-deductible items for tax purposes and other permanent differences. In the first half of 2010, the effective income tax rate was higher mainly a result of non-recognition of tax losses carried forward as deferred tax assets of KazakhGold and Kazakhaltyn due to uncertainty in respect of future taxable profits.

1.7 Other sales and cost of other sales

Revenue from the sale of products other than gold and services grew by 95% in the first six months of 2011 and amounted to USD 29,007 thousand compared to USD 14,879 thousand in H1 2010. This revenue includes sales of electricity, rent services sales, revenue from transportation, handling and storage services, exploration services, and other sales. The growth in other sales revenue resulted primarily from increased revenue from sales of electricity. Previously the selling prices for electricity were state-regulated and sometimes were set at levels below the cost of generation. In 2011 the pricing process was deregulated and prices were determined by supply and demand in the electricity market. This led to a substantial increase in electricity tariffs and consequently to higher revenue from sales of electricity received by the Group. For example, in 2010 the cost of generation for Mamakan HPS was higher than the state-regulated selling price in that year, whereas, in the first half of 2011, the cost of generation was almost two times lower than the market selling price.This effect of this revenue increase in the first half of 2011 was enhanced by the appreciation of the RUB relative to the US dollar.

Cost of other sales includes, in addition to electricity costs, payroll costs related to non-mining activities, expenses on materials and fuel, and depreciation. In H1 2011, cost of other sales amounted to USD 23,223 thousand. In the first half of 2011 revenue from other sales exceeded the cost of their sales, which resulted in a net gain from other sales in the amount of USD 5,784 thousand, compared to USD 511 thousand in the same period of 2010. Gross profit on other sales margin increased from 3% in the first half of 2010 to 20% in the first half of 2011.

2. NON-GAAP FINANCIAL MEASURES

In its own analysis of the Group's results, the Group uses key performance indicators which are not measures determined in accordance with IFRS.

2.1 EBITDA

"EBITDA" is defined by the Group as profit before finance costs, income tax, income/(losses) from investments, depreciation, amortisation and interest, and is further adjusted by certain items included in the table below. The Group has made these adjustments in calculating EBITDA to provide a clearer view of the performance of its underlying business operations and to generate a metric that it believes will give greater comparability over time with peers in its industry. The Group believes that EBITDA is a meaningful indicator of its profitability and performance. This measure should not be considered as an alternative to profit for the year and operating cash flows based on IFRS and should not necessarily be construed as a comprehensive indicator of the Group's measure of profitability or liquidity.

The following table sets forth the Group's EBITDA for the six months ended 30 June 2011 and 2010:

	Six months ended 30 June	
USD'000	**2011**	**2010**
Profit for the period	206,800	104,622
+ Income tax expense	60,400	36,625
+ Depreciation and amortisation	93,645	73,632
+ Finance costs	22,712	19,883
– Interest income	(6,902)	(5,927)
– Gain on disposal of investments	(17,023)	(16,897)
+ Gain from investments in listed companies held for trading	7,032	(378)
– Foreign exchange gain	(2,049)	(800)
+ Loss from disposal of property, plant and equipment	2,624	718
+ Impairment of property, plant and equipment	22,744	4,002
+ Change in fair value of derivative	8,661	30,069
EBITDA	**398,644**	**247,582**

The Group's EBITDA in the first half of 2011 was USD 398,644 thousand, compared to USD 247,582 thousand in the first half 2010.The increase of 61% over the levels of the first half of 2010 reflects higher gold selling prices combined with the increased sales volumes.

2.2 Total Cash Costs

The Group presents the financial items "total cash costs" ("TCC") and "total cash costs per troy ounce" which have been calculated and presented by management as TCC presentation is common industry practice, although its calculations of these items may differ from those of its industry peers. These items are non IFRS measures. An investor should not consider these items in isolation or as alternatives to cost of sales, profit for the year attributable to shareholders of the parent company, net cash generated from operating activities or any other measure of financial performance presented in accordance with IFRS.

Total cash costs per troy ounce are the total attributable cash costs divided by the attributable troy ounce of gold sold during the period.

The following table shows the Group's TCC for the six months ended 30 June 2011 and 2010:

	Six months ended 30 June		**% change**
USD'000, unless otherwise indicate	**2011**	**2010**	**p-o-p**
Cost of gold sales	478,053	345,219	38
– property, plant and equipment depreciation	(89,847)	(70,144)	28
– provision for annual vacation payment	(5,299)	(3,883)	36
– employee benefit obligations cost	(2,184)	(9,514)	(77)
– provision for land rehabilitation	-	(810)	-
– change in allowance for obsolescence of inventory	(2,189)	-	-
+ non-monetary changes in inventories(1)	12,638	14,143	(11)
+ non-monetary changes in deferred stripping costs(2)	(3,582)	(5,108)	(30)
Total cash costs	387,590	269,904	44
Gold sales ('000 troy ounces)	629	524	20
TCC (USD/oz)	**616**	**515**	**20**
TCC (RUB/oz)	17,634	15,499	14

1. "Non-monetary changes in inventories" is a calculation to estimate the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.

2. “Non-monetary changes in deferred stripping costs” is a calculation to estimate the non-cash portion of costs included in the change in the amount of deferred stripping costs, primarily representing depreciation and amortisation.

In the first six months of 2011, TCC per troy ounce increased by 14% on a rouble basis. The increase of 20% on a USD basis was higher due to the strengthening of the Russian rouble relative to the US dollar.

During the first half of 2011, total cash costs were affected mainly by a material increase in costs resulting primarily from rapid increases in prices for materials and components and increase in mining tax charges on the back of gold price growth. In addition, increased labour costs and power consumption contributed to a cash cost increase (Refer to paragraph 1.3 “Cost of gold sales”). Despite material improvements in the Group’s mines processing efficiency, the increase in gold production and sales volumes was not sufficient to meet the growth of costs, which led to an increase in the Group’s TCC indicator.

3. REVIEW OF FINANCIAL SUSTAINABILITY AND SOLVENCY

3.1 Analysis of statement of financial position items

The table below sets forth key items from the Group's consolidated statement of financial position as at 30 June 2011 and 31 December 2010:

USD '000	As at 30 June 2011	As at 31 December 2010	% change, p-o-p
ASSETS			
Non-current assets			
Property, plant and equipment	2,740,321	2,500,952	10
Deferred stripping costs	48,770	61,023	(20)
Inventories	187,559	201,030	(7)
Investments in securities and other financial assets	4,467	50,273	(91)
Other non-current assets[1]	55	1,860	(97)
Total non-current assets	**2,981,172**	**2,815,138**	**6**
Current assets			
Inventories	598,956	455,144	32
Investments in securities and other financial assets	213,066	177,332	20
Cash and cash equivalents	422,969	326,905	29
Other current assets[2]	267,837	229,655	17
Total current assets	**1,502,828**	**1,189,036**	**26**
TOTAL ASSETS	**4,484,000**	**4,004,174**	**12**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent company	2,681,848	3,183,645	16
Non-controlling interest	882,211	56,886	-
Total	**3,564,059**	**3,240,531**	**10.0**
Non-current liabilities			
Borrowings	209,969	29,686	607
Deferred tax liabilities	204,183	182,948	12
Environmental obligations	151,010	136,410	11
Other non-current liabilities	25,097	19,666	28
Total non-current liabilities	**590,259**	**368,710**	**60**
Current liabilities			
Borrowings	-	173,762	-
Trade and other payables and accrued expenses	287,852	169,037	70
Income tax payable	10,209	22,698	(55)
Other taxes payable	31,621	29,436	7
Total current liabilities	**329,682**	**394,933**	**(16)**
TOTAL LIABILITIES	**919,941**	**763,643**	**20**
TOTAL EQUITY AND LIABILITIES	**4,484,000**	**4,004,174**	**12**

1. Other non-current assets consist of the long-term portion of reimbursable value added taxand other non-current assets.
2. Other current assets consist of reimbursable value added tax, accounts receivable, advances paid to suppliers, income tax receivable and other current assets.

3.1.1 Assets

Non-current assets

Property, plant and equipment

The table below sets forth the components of the Group's property, plant and equipment at 30 June 2011 and 31 December 2010:

USD '000	As at 30 June2011	As at 31 December 2010	Change, %
Exploration and evaluation assets	293,422	273,184	7
Mining assets	2,046,745	1,891,464	8
Non-mining assets	42,350	40,722	4
Capital construction-in-progress	357,804	295,582	21
Total property, plant and equipment	**2,740,321**	**2,500,952**	**10**

As at 30 June 2011the value of property, plant and equipment totalled USD 2,740,321 thousand, compared to USD 2,500,952 thousand at 31 December 2010. The 10% increase was primarily due to the change in the RUB/USD exchange rate.

Apart from changes resulting from the exchange rate movements, the major changes were the increase in value of mining assets, which related to the Blagodatnoye mine and modernisation of Olimpiada processing facilities in the Krasnoyarsk region. The closing balance of the Group's mining assets was USD 2,046,745 thousand, compared to USD 1,891,464 thousand at 31 December 2010. The value of capital construction-in-progress increased from USD 295,582 thousand at the end of 2010 to USD 357,804 thousand at the reporting date, reflecting primarily construction of the Verninskoye mines and modernisation of operating assets in Kazakhstan. Exploration and evaluation assets increased by 7% and amounted to USD 293,422 thousand as at 30 June 2011 as a result of exploration works implemented in the Krasnoyarsk region at Olimpiada and Panimba, in the Republic of Sakha (Yakutia) at Nezhdaninskoye, in the Irkutsk region at Zapadnoye and Medvezhiy, in the Magadan region at Degdekan and in the Amur region at Bamskoye. The change in value of non-mining assets resulted only from the rouble appreciation.

In the first six months of 2011, the Group recognized a loss on impairment of property, plant and equipment in the amount of USD 22,744 thousand (USD 4,002 in the first half of 2010). This loss included USD 7,644 thousand related to suspension of the Zapadnoye mine and USD 15,100 thousand related to previously capitalised exploration and evaluation costs that have not led to the discovery of commercially viable quantities of gold resources, resulting in the cessation of such activities. Those exploration and evaluation costs had been incurred at the following exploration fields: Kuzeevskaya in the Krasnoyarsk region, Doroninskoye and Tokichan in the Magadan region, Mukodek in the Irkutsk region and Kaskabulak in the Republic of Kazakhstan.

Deferred stripping costs

In accordance with its accounting policy, the Group capitalizes stripping costs or charges previously capitalized stripping costs to operating costs on the basis of the average life-of-mine stripping ratio. In the first half of 2011, the stripping ratio at Olimpiada was lower than the average life-of-mine ratio and, therefore, previously capitalized stripping costs were charged to operating costs. This was partly offset by deferral of stripping costs incurred at Titimukhta and Kuranakh and the effect of translation to the USD presentation currency. As a result, this item declined by 20% from USD 61,023 thousand at 31 December 2010 to USD 48,770 thousand at 30 June 2011.

Inventories

In the first half of 2011 long-term inventories reduced by 7% from USD 201,030 thousand at 31 December 2010 to USD 187,559 thousand at 30 June 2011. During the period the Group impaired low-grade ore stocks at the Irkutsk hard rock business unit (1,742 thousand tonnes). The Group determined that gold production from this ore is not economically viable. Ore stocks also decreased at the Krasnoyarsk business unit, which was partly offset by the effect of the rouble appreciation relative to the US dollar.

Non-current investments in securities and other financial assets

At 31 December 2010, non-current investments in securities and other financial assets consisted mostly of derivative financial assets, comprising call options to acquire all rights and obligations under convertible loan agreements between PGIL and its previous major shareholder Gold Lion. These options had been obtained following the acquisition of a 50.15% stake in PGIL by the Group. The call options were classified as financial asset held through profit and loss and were carried at fair value. The fair value of the instrument was determined by financial modeling with reference to PGIL's spot market price. During the first half of 2011 PGIL's share price declined and the fair value of call options decreased from USD 46,136 thousand at 31 December 2010 to USD 37,475 thousand at 30 June 2011. The decrease in fair value of the instrument was recognized as an investment loss in the consolidated income statement. As a result of reorganization of the shareholding structure of the Group, the call options were recognized as treasury shares at an amount equal to fair value of the options at 30 June 2011.

Current assets

At 30 June 2011 the Group's current assets amounted to USD 1,502,828 thousand, compared to USD 1,189,036 thousand at 31 December 2010. This increase of 26% resulted primarily from growth of inventories and increased cash balance.

Inventories

During the first half of 2011, metal inventories increased from USD 164,855 thousand at 31 December 2010 to USD 261,466 thousand at 30 June 2011. Gold-in-process increased mainly at the Krasnoyarsk business unit. At 30 June 2011 the balance of Dore gold remaining at the plant and refinery amounted to 90 thousand troy ounces (4 thousand ounces at 31 December 2010). In addition, stocks of ore at Blagodatnoye and Titimukhta also increased. This increase was enhanced by an increase in the cost of production at which metal inventories were recorded to the statement of financial position and the impact of the exchange rate factor.

Stocks of unsold finished goods declined from USD 19,253 thousand at the beginning of the year to USD 4,047 thousand at 30 June 2011. The balance of finished goods was attributable to the Kazakhstan business unit.

The value of stores and materials increased by 16%, which was largely driven by the rouble appreciation and increase in purchase prices for consumables and spares. The closing balance at 30 June 2011 was USD 337,490 thousand.

Investments in securities and other financial assets

At 30June 2011, the short-term investments in securities and other financial assets totalled USD 213,066 thousand, compared to USD 177,332thousand at 31 December 2010, reflecting a 20% increase. Return on investments in the first half of 2011 amounted to 9%.

Movements in short-term investments during the six months ended 30 June 2010 are presented in the table below:

USD ‘000	As at 30 June 2011	As at 31 December 2010	Movements
Available-for-sale investments	43,311	99,721	The Group’s available-for-sale investments are mainly represented by shares of Rosfund. During the reporting period, the Group sold 56% of shares of these investments with a gain of USD 17,023 thousand, which was reflected as an investment income. In the first half of 2011, the fair value of these investments declined by USD 410 thousand. This decrease, net of gain on disposal of available-for-sale investments, was recognized in equity within the investment revaluation reserve.
Equity investments in listed companies held for trading	33,400	36,730	Investments in listed companies held for trading are represented by financial assets carried at fair value through profit and loss. During the first half of 2011, the Group disposed of USD 61 thousand of these investments. By the end of the reporting period, the fair value of held for trading investments decreased to USD 33,400 thousand.
Bank deposits	134,669	39,351	In the reporting period, the Group deposited cash to bank accounts in the total amount of USD 95,318 thousand. Bank deposits are denominated in roubles and bear interest of 4.5-5.7% per annum with original maturity of more than three months.
Other	1,686	1,530	
Total investments in securities and other financial assets:	**213,066**	**177,332**	

Cash and cash equivalents

At 30 June 2011, the balance of cash and cash equivalents amounted to USD 422,969 thousand, an increase of 29% as compared to 31 December 2010 due to the strong operating cash inflow during the period and withdrawal of funds from short-term investments.

3.1.2 Equity and liabilities

Capital and reserves

As at 30 June 2011, capital and reserves were USD 3,564,059 thousand compared to USD 3,240,531 thousand as at 31 December 2010. In the first half of 2011, the Group’s capital and reserves changed as a result of a business reorganization, which was substantially completed during the reporting period and finalized on 25 July 2011. The effect of the reorganization has been accounted for as if it was effective on 30 June 2011.

On 14 July 2011 the authorized share capital of PGIL was increased to 3,600,000,000 ordinary shares at par value of GBP 0.0001 per share (31 December 2010: 2,100,000,000 shares). The issued and fully paid-up share capital of PGIL comprised 3,032,149,962 ordinary shares (31 December 2010: 119,608,333 shares) at par value of GBP 0.0001 per share.

Treasury shares are held by a wholly-owned subsidiary of the Group, Jenington International Inc., and have been recorded at cost. As a result of the reorganization treasury shares increased from USD 626,313 thousand at 31 December 2010 to USD 884,636 thousand at 30 June 2011. Shares in PGIL held by Jenington, have become treasury shares of the reorganized Group, and were recorded at the amount of consideration paid for PGIL (USD 220,848 thousand). This includes consideration paid for the acquisition of a 50.15% stake in PGIL in 2009 and subsequent increase of the stake to 65% through the Group's participation in PGIL's equity placement in 2010, adjusted thereafter for the post-acquisition change in Jenington share of net assets of PGIL. Call options to acquire all rights and obligations under convertible loan agreements between PGIL and Gold Lion, have become treasury shares of the reorganized Group, and were recorded at the cost of USD 37,475 thousand equal to the fair value of the options at 30 June 2011.

Investment revaluation reserve decreased by USD 17,433 thousand in the first half of 2011, which reflected the decline in the fair value of available-for-sale investments, net of realized gain on disposal of available-for-sale investments. At the reporting date investment revaluation reserve amounted to USD 13,123 thousand.

During the reporting period, the Group's retained earnings decreased by 38% to USD 1,119,224 thousand, reflecting a net profit attributable to shareholders of the parent company of USD 188,847 thousand more than offset by the effect of reorganization (USD 807,937) and dividends accrued in respect of 2010 results (USD 72,327 thousand).

Dividends for 2010 at the rate of RUB 19.77 per ordinary share were declared by OJSC Polyus Gold's annual general shareholders' meeting on 20 May 2011. Taking into account the effected interim dividend payment of RUB 8.52 per ordinary share in respect of the results of the first half of 2010, the final dividend rate for the second half of the year was RUB 11.25 per Polyus Gold ordinary share, or USD0.40 per share(at 20 May 2011 exchange rate).This represents a dividend of RUB 0.71 or USD 0.03 per PGIL share, after giving effect to the reorganization. The total dividends payable at 30 June 2011 amounted to USD 72,327 thousand.

Due to reorganization of the Group, non-controlling interests increased by USD 807,937 thousand, reflecting non-controlling interest in the OJSC Polyus Gold, which became PGIL's subsidiary. Other changes of non-controlling interests included total comprehensive income for the period attributable to minorities in the amount of USD 31,128 thousand and dividends declared to shareholders of non-controlling interests by the Irkutsk alluvial business unit in the amount of USD 13,740 thousand.

Non-current liabilities

In the first half of 2011, non-current liabilities increased by 60% to USD 590,259 thousand at 30 June 2011. The major change was reclassification of liability under the PGIL Senior Notes to non-current liabilities.

Long-term borrowings of the Group at the reporting date were represented by the outstanding USD 200 million Senior Notes due in November 2013 and loans payable to Gold Lion, previously PGIL's major shareholder, due in November 2014.The Senior Notes are carried at amortized cost. At 30 June 2011, the fair value of the liability under the Senior Notes amounted to USD 178,047 thousand (USD 173,762 thousand at 31 December 2010). On 17 June 2011, PGIL obtained a waiver of certain covenants from the noteholders and, therefore, at 30 June 2011 the liability under the Senior Notes was classified as non-current. The sum due under the loans payable to Gold Lion at 30 June 2011 was USD 31,922 thousand (USD 29,686 thousand at 31 December 2010).

In the first half of 2011, environmental obligations increased from USD 136,410 thousand at the beginning of the period to USD 151,010 thousand at the end of the period primarily under the influence of the exchange rate factor.

Deferred tax liabilities increased from USD 182,948 thousand at 31 December 2010 to USD 204,183 thousand at 30 June 2011, which was also primarily due to the effect of the rouble appreciation.

Other non-current liabilities at 30 June 2011 included employee benefit obligations of USD 19,530 thousand, historical costs liability (amounts owing to the Government of Kazakhstan in respect of geological studies) in the amount of USD 5,267 thousand and certain other liabilities attributable to the Kazakhstan business unit.

Current liabilities

Current liabilities decreased from USD 394,933 thousand at 31 December 2010 to USD 329,682 thousand at 30 June 2011 primarily due to reclassification of liability under the PGIL Senior Notes from current to non-current liabilities, while at 31 December 2010 liability under the Senior Notes valued at USD 173,762 thousand comprised the largest part of the Group's current liabilities.

Trade, other payables and accrued expenses increased by 70% from USD 169,037 thousand at 31 December 2010 to USD 287,852 thousand at 30 June 2011. On 20 May 2011 OJSC Polyus Gold's annual general shareholders' meeting declared dividends for the year ended 31 December 2010 in the amount of RUB 19.77 per ordinary share. Taking into account the effected interim dividend payment of RUB 8.52 per ordinary share in respect of the results of the first half of 2010, the final dividend declared in favour of shareholders of OJSC Polyus Gold amounted to RUB 11.25 per ordinary share, or USD 0.40 per share based on the RUB/USD exchange rate as at 20 May 2011, the date of the AGM. The dividends were payable by 19 July 2011.Dividends in the amount of USD 86,750 thousand remained unpaid at 30 June 2011 and were paid in July 2011. Trade payables increased from USD 38,715 thousand at the beginning of the period to USD 68,176 thousand at the end of the period. This increase was due to the increased volumes of supplies of equipment and materials for construction at Verninskoye, the modernization of Olimpiada, consumables and spares delivered to Blagodatnoye and alluvial enterprises. The cost of supplies was also affected by the growth of purchase prices and appreciation of the Russian rouble.

In the first half of 2011, income tax payable decreased from USD 22,698 thousand to USD 10,209 thousand. Other taxes payable increased by 7% to USD 31,621 thousand at 30 June 2011, which resulted mainly from the rouble strengthening against the US dollar.

3.2 Cash flow analysis

The following table sets forth the main components of the Group's consolidated interim statement of cash flows for the six months ended 30 June 2011 and 2010:

	Six months ended 30 June	
USD '000	**2011**	**2010**
Operating activities		
Profit before income tax	**267,200**	**141,247**
Adjustments(1)	188,524	147,393
Operating profit before working capital changes	**455,724**	**288,640**
Changes in working capital	(89,603)	(128,000)
Cash flows from operations	**366,121**	**160,640**
Interest paid	(9,375)	(9,911)
Income tax paid	(65,872)	(25,806)
Net cash generated from operating activities	**290,874**	**124,923**
Investing activities		
Capital expenditures, acquisition of subsidiaries and deferred stripping costs(2)	(180,273)	(148,988)
Other investment(spendings)/proceeds (3)	(28,456)	174,416
Net cash (used in)/generated from investing activities	**(208,729)**	**25,428**
Net cash used in financing activities	**(9,097)**	**(14,587)**
Effect of translation to presentation currency	23,016	(8,240)
Net increase in cash and cash equivalents	**50,032**	**135,764**
Cash and cash equivalents at beginning of the period	**326,905**	**173,360**
Cash and cash equivalents at end of the period	**422,969**	**300,884**

1. Adjustments for non-cash items include: amortisation and depreciation, finance costs, loss on disposal of property, plant and equipment, impairment of property, plant and equipment, expensed stripping costs, change in allowance for reimbursable value added tax, income/(loss) from investments, change in fair value of derivative, net foreign exchange gain and other items.
2. Capital expenditures, acquisition of subsidiaries and deferred stripping costs include purchases of property, plant and equipment, deferred stripping costs capitalised and proceeds from sale of property, plant and equipment.
3. Other investing activities include interest received, purchase of promissory notes and other financial assets, proceeds from sale of promissory notes and other financial assets.

Operating activities

In the first six months of 2011, the Group generated profit before income tax in the amount of USD 267,200 thousand, compared to USD 141,247 thousand in the first six months of 2010. The increase in profit before taxation resulted from a combination of the increasing selling prices and higher gold sales volumes. Operating profit before working capital changes was USD 455,724 thousand, which was 58% more than in the same period of the previous year. In the first half of 2011 changes in working capital were substantially lower than in the first half of 2010, when the Group recorded a material increase in inventories. Net cash generated from operating activities increased from USD 124,923 thousand in the first half of 2010 to USD 290,874 thousand in the first half of 2011.

Investing activities

In the first half of 2011, the Group used USD 208,729 thousand in investing activities, while in the first half of 2010 it received USD 25,428 thousand. The largest spending during the reporting period comprised capital expenditures and deferred stripping costs totalling USD 180,273 thousand, compared to USD 148,988 thousand in the same period of 2010. In addition, the Group deposited cash in an amount of USD 137,564 thousand into current bank accounts with original maturity of more than three months, which was presented as acquisition of financial assets. This outflow was partly offset by proceeds from disposal of available-for-sale investments, bank deposits and held for trading investments for the total sum of USD 103,293 thousand (USD 207,738 thousand in the first half of 2010). In the reporting period the Group also received USD 5,815 thousand of interest income on bank deposits and loans given, as compared to USD 4,554 thousand in the same period of the previous year.

Financing activities

Cash outflow from financing activities in the six months ended 30 June 2011 totalled USD 9,097 thousand (USD 14,587 thousand in the six months ended 30 June 2010). This included repayment of a bank guarantee by JSC "MMC KazakhAltyn"(Kazakhstan business unit) in the amount of USD 5,359 thousand and payment of dividends to non-controlling shareholders by the Irkutsk alluvial business unit in the amount of USD 3,738 thousand.

3.3 Capital expenditures and deferred stripping costs

Capital expenditures represent the Group's purchase of property, plant and equipment adjusted for the proceeds from the sale of property, plant and equipment. The Group presents capitalised deferred stripping costs as a part of investing activities.

The following table shows the Group's capital expenditures, and deferred stripping costs for the six months ended 30June 2011 and 2010:

	Six months ended 30 June	
USD'000	**2011**	**2010**
+ Purchase of property, plant and equipment	170,566	148,261
– Proceeds from sale of property, plant and equipment	(227)	(657)
Net capital expenditures	**170,339**	**147,604**
Deferred stripping costs		
+ Deferred stripping costs capitalised	9,934	1,384
Total capital expenditures and deferred stripping costs	**180,273**	**148,988**

In the first six months of 2011, the Group's capital expenditures and deferred stripping costs amounted to USD 180,273 thousand, an increase of 21% as compared with the first six months of 2010.

The major part of funds was invested into construction of the Blagodatnoye and Verninskoye mines, modernisation of production facilities at Olimpiada and upgrading of operating assets in Kazakhstan. Net cash outflow on acquisition of property, plant and equipment amounted to USD 170,339 thousand, as compared to USD 147,604 thousand in the first half of 2010.

In the reporting period, the Group capitalised stripping costs incurred at Titimukhta and Kuranakh mine totalling USD 9,934 thousand, as compared to USD 1,384 thousand in the same period of the previous year.

3.4 Net debt

Net debt is defined as short-term and long-term debt less cash and cash equivalentsand short-term bank deposits. Short-term bank deposits with original maturity of more than 3 months can be withdrawn on demand and therefore have the same liquidity as cash and cash equivalents. Net debt should not be considered as an alternative to current and non-current loans and borrowings based on IFRS and should not necessarily be construed as a comprehensive indicator of the Group's measure of profitability or liquidity.

The following table sets forth the Group's net debt as at 30 June 2011 and 31 December 2010:

USD'000	**As at 30 June 2011**	**As at 31 December 2010**	**% change, p-o-p**
Non-current borrowings	209,969	29,686	607
+ Current borrowings	-	173,762	-
– Cash and cash equivalents	(422,969)	(326,905)	29
– Bank deposits	(134,669)	(39,351)	242
Net debt (cash and bank deposits)	**(347,669)**	**(162,808)**	**113**

Historically the Group's has maintained a strong cash position. In the first half of 2011 the Group's non-current and current borrowings slightly increased and at 30 June 2011 totalled USD 209,969 thousand. These borrowings included loans payable to Gold Lion and a liability under the Senior Notes. The increase in borrowings was more than offset by an increase in cash and cash equivalents and bank deposits. During the first six months of 2011, the Group's cash and cash equivalents increased by 29% to USD 422,969 thousand at 30 June 2011 from 31 December 2010, and short-term bank deposits increased by 242% to USD 134,669 thousand. These increases were due to the strong operating cash inflow and withdrawal of funds from available-for-sale equity investments. Thus, at 30 June 2011 the Group's cash and cash equivalents exceeded borrowings leading to a net cash position of USD 347,669 thousand (USD 162,808 thousand at 30 June 2010).