

DIRECTORS' RESPONSIBILITY STATEMENT

Mr Evgueni I. Ivanov, Chairman and CEO of KazakhGold Group Limited confirms on behalf of the Board of Directors that:

(a) the consolidated financial statements for the years 2008-2009, prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, give a true and fair view of the assets, liabilities, financial position and profit or loss of KazakhGold Group Limited and its consolidated subsidiaries; and

(b) the management report for the years 2008-2009 includes a fair review of the development and performance of the business and the position of KazakhGold Group Limited, together with a description of the principal risks and uncertainties that it faces.

Neither KazakhGold Group Limited nor the directors accept any liability to any person in relation to the management report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Section 90A of the Financial Services and Markets Act 2000.

EVGUENI I. IVANOV
Chairman and CEO

29 April 2010

Management report Management's discussion and analysis of financial condition and results of operations for 2008-2009

This Management report should be read in conjunction with KazakhGold's consolidated financial statements and the related notes thereto.

The KazakhGold Group is a leading gold miner in the Republic of Kazakhstan with a broad gold reserves and resources base. KazakhGold Group's key operating mines are located in Northern Kazakhstan, and it also has development properties in Eastern Kazakhstan and Romania, as well as potential development opportunities in Kyrgyzstan. Global Depositary Receipts representing the shares of KazakhGold Group Limited are traded on the main market of the London Stock Exchange under the symbol of KZG.

In July 2009 a 50.15% stake in KazakhGold was acquired by Jenington International, an indirect wholly owned subsidiary of Polyus Gold, the leading Russian gold producer and one of the largest gold mining companies globally.

This report represents the management's discussion of KazakhGold's operating and financial results, including:

- key performance indicators;
- financial position as at 31 December 2009 and 31 December 2008;
- results of operations for the years ended 31 December 2009 and 31 December 2008;
- the Company's liquidity, solvency and capital resources;
- significant events affecting the Company's operating performance for these periods;
- description of principal risks;
- description of the key features of internal control and risk management system in relation to the financial reporting process.

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1. KazakhGold's acquisition by Polyus Gold and recent developments

In June 2009, the Board of Directors of KazakhGold recommended to shareholders and holders of KazakhGold GDR's to accept a Partial Offer made by Jenington, an indirect wholly owned subsidiary of Polyus Gold, to acquire a 50.15% stake in KazakhGold. On 30 July 2009, Jenington announced that the Partial Offer had become unconditional as to acceptances and on 14 August 2009 announced that the Partial Offer had become unconditional in all respects.

Prior to completion of the Partial Offer, a lack of working capital and protracted underinvestment led to serious problems at all production units. Regular maintenance works had not been performed on either mining or processing equipment, resulting in an increasing number of emergency shutdowns and a significant amount of downtime. Defects in boiler operations led to breakdowns of the ventilation systems in the mines, resulting in disruption of blasting works in the winter period.

The mills used to process ore were found to be in an extremely deteriorated condition: the lack of proper armature had led to the deformation of drums and the plants had not been equipped with adequate controlling and measuring instrumentation resulting in inadequate monitoring, controlling, and management of the production process. Due to the high level of deterioration of the mills and the pumping equipment, ore processing operations were subject to frequent interruptions. In addition, a failure to perform adequate maintenance had also led to the freezing of sludge lines at the Bestobe plant.

In June 2009, there was a fire at an important administrative site in Stepnogorsk. During the fire and subsequent cleanup, substantially all historical financial information in respect of the activities of KazakhGold's subsidiaries were destroyed. Moreover, the accounting information and databases for the periods prior to 1 January 2009 were subsequently lost as a result of technical breakdowns with the subsidiaries' servers. The series of fires and other disruptions at the KazakhGold Group has led to the destruction of significant historical data, including the loss of historical financial information. Project documentation which remains available is mostly outdated or is incomplete. The new management of KazakhGold has expended substantial time and effort to gather information to understand the historical transactions which contributed to the KazakhGold Group's current difficult financial situation.

The KazakhGold Group's liquidity crisis in the first half of 2009 also resulted in delays to salary payments, and there was a substantial outflow of qualified personnel.

Following the completion of the Partial Offer, a majority of the incumbent Board of Directors were replaced by representatives of Polyus Gold, and a new executive management team was installed. The new management immediately undertook efforts to arrest the deterioration in production levels and stabilise the KazakhGold Group's financial situation. The new management identified that KazakhGold Group required an immediate injection of working capital and the performance of urgent maintenance and repairs works at its mines, improvements to its operations, strengthening of its internal systems of control and reconstruction of a significant portion of its production facilities.

The new management has initiated an extensive series of measures aimed at streamlining the KazakhGold Group's structure, improving control systems, upgrading production assets and strengthening its reserves base. A new long-term comprehensive strategy is being developed. Based on its initial assessment the new management estimates that the KazakhGold Group may require up to USD 600 million of investment in order to raise gold output, improve efficiency and increase reserves.

Since their appointment, following completion of the Partial Offer, the new management has taken a number of actions aimed at intensifying production and exploration activities, accelerating the implementation of measures required in order to undertake an audit of the KazakhGold Group's reserves in accordance with the JORC Code and improving controls over its operating and financial activities.

In the third quarter of 2009, modernization began at the three main production units of KazakhGold, located in Stepnogorsk region of Akmolinsky area of Kazakhstan: Aksu, Bestobe and Zholymbet. In the final five months of the 2009 total investments in these assets amounted to USD7 million.

During the final five months of 2009, an upgrading programme of underground mine equipment was initiated at all mines, and repair works were performed at all mills. At Zholymbet, the construction of hypochlorite preparation and tailings neutralization workshops was completed. In addition, KazakhGold Group performed capital and repair works at its production workshops, administration building and mines.

Other projects in the final five months of 2009 included: the resumption of production at the heap leaching complexes at Aksu and Bestobe; the completion of capital repair works at the Ventylyatsionnaya shaft at Bestobe; the reconstruction of the sludge line at Bestobe; the installation of a water cleaning system at Bestobe to ensure the stable supply of drinking water; and the performance of capital repair works at the KazakhGold Group's administration complex.

At Aksu, the modernisation of shafts Nos. 39-40 was completed and operations resumed, and capital repair works at the administration complex at shaft No. 40 were performed. In addition, capital and maintenance repair works at a number of production and administration facilities were carried out.

Investment plans for 2010

The investment budget for 2010 is USD 66 million, comprising USD 35 million for an upgrade of production facilities and USD 31 million for exploration. As a result of the ongoing production upgrades, improved gold production results are expected in 2010 and management is currently targeting an annual gold production of approximately 106 thousand ounces.

Following the completion of the planned JORC Code audit referred to above, the KazakhGold Group's proved and probable reserves in accordance with JORC Code are expected to reach 8 million ounces in 2010, and a further increase, to 10 million ounces, is anticipated in 2011. There can be no assurance that this audit will be completed, or that the expected amount of proved and probable reserves will be realised.

Restatement of the consolidated financial statements

Since their appointment-following completion of the Partial Offer, and as a result of fires and other disruptions which destroyed significant historical information, the new management has been focusing on recovering and restoring KazakhGold's primary accounting and production documentation, in order to understand and confirm the historical accounting information of the KazakhGold Group. In the course of preparing the consolidated financial statements for 2009, certain errors have been identified in respect of the previously published consolidated financial statements of KazakhGold for the years ended 31 December 2008 and 2007. Moreover, the new management team has reconsidered certain accounting policies and presentations and has addressed these items in the preparation of the financial statements for the year ended 31 December 2009.

The information included in this Management report is based on the consolidated financial statements for the years 2008 and 2009, prepared by the new management of KazakhGold. Information in this Management report includes the effects of the restatements of the previously published consolidated financial statements for 2008. Details of these changes are set below:

Common control transactions

In 2009, management of the KazakhGold Group changed its accounting policy for accounting for common control transactions. Previously, the accounting for the acquisition of the entire share capital of Romanshorn LC AG by KazakhGold Group Limited from the common controlling party (this acquisition occurred during the year ended 31 December 2005) was accounted as capital contribution with the acquired assets and liabilities initially recognised at fair value and the corresponding increase to equity within the line item, "capital contribution".

Management concluded that a change in accounting policy for common control transactions will result in the financial statements providing more reliable and relevant information about the effects of such transaction and the KazakhGold Group's financial position and results of its financial performance and will be more comparable to the KazakhGold Group's peers.

Revaluation model for property, plant and equipment

With effect from 1 January 2009 the KazakhGold Group has changed its accounting from the historical cost method to a revaluation model for subsequent measurement of its property, plant and equipment.

In June 2009, before the acquisition of the KazakhGold Group by Polyus Gold and after the issuance of the consolidated financial statements of the KazakhGold Group prepared in accordance with IFRS for the year ended 31 December 2008, there was a fire at the KazakhGold Group's premises which led to the loss of a significant amount of historical information including purchase and construction costs of property, plant and equipment. As a result of these circumstances, management was unable to restore information on opening balances for property, plant and equipment and the revaluation model for the measurement of property, plant and equipment became a tool to provide reliable and relevant information about the Group's assets.

As of 1 January 2009, the Group has revalued all classes of property, plant and equipment based on a valuation performed by an independent professionally qualified valuer. Most of the assets subject to revaluation represent specialised items of property, plant and equipment that are not widely traded on secondary markets. The Group used the depreciated replacement cost approach as the main approach to valuation of property, plant and equipment. The Group primarily used a market based approach for valuation of land.

Accounting for the acquisition of Norox Mining Company Limited

In 2009, management identified an error in the original accounting for the acquisition of 100% of the share capital of Norox Mining Company Limited in 2007. Norox Mining Company Limited is the owner of 66.7% of the share capital of Talas Gold Mining Company. At the time of the original accounting, the acquisition of Norox Mining Company Limited was treated as an asset acquisition. The fair values of identifiable net assets were determined and the difference between consideration transferred and fair value of identifiable net assets acquired was recognised as "Negotiation Rights" within intangible assets.

Management determined in 2009 that the negotiation rights did not meet the recognition criteria for intangible assets at the date of acquisition of Norox Mining Company Limited as these rights did not arise from contractual or other legal rights.

Capitalisation of certain construction, repair and maintenance works during the year ended 31 December 2008

In 2009, management identified errors in the treatment of certain costs that were recorded as asset additions during 2008. These costs did not meet the criteria for asset recognition and should have been expensed when incurred, together with finance costs capitalised on those assets, instead of

reflected as asset additions. Comparative financial information for 2008 has been restated to write off these additions and to reflect them as costs during the period.

In addition, management has made an assessment of taxes and penalties to which the KazakhGold Group is exposed due to inappropriate capitalisation of the property, plant and equipment. As a result, additional value added tax has been recorded in the 2008 restated statement of financial position. See “KazakhGold Group’s operating results – Discussion of results of operations for the years ended 31 December 2009 and 2008 – Other expenses, net”. The correction of the errors reduced retained earnings by USD 193 million at 31 December 2008.

Advances paid to contractors and revenue from sales of gold

In 2008, the Group recorded revenue from gold sales in the amount of USD 36,739 thousand to a customer, as part of a series of offsetting arrangements with certain suppliers to the Group. Accounts receivable from these gold sales were not repaid by 31 December 2008, but were purportedly settled by the customer with the Group’s suppliers. As a result of such purported settlement, advances paid to suppliers of the same amount were recorded in the Group’s consolidated financial statements for the year ended 31 December 2008.

In 2009, management performed an investigation of the relevant transactions and concluded that there was no substance to the transactions. The financial effect of this error has been corrected and the consolidated financial statements have been restated to reflect the reversal of previously recorded revenues and trade and other receivables..

Other errors

The new management also identified other errors which have been adjusted at 31 December 2008. Individually they are not as significant as those discussed above, and are described in detail in the consolidated financial statements.

The analysis in this Management report refers to results after adjusting for the aforementioned errors, reclassifications, and changes in accounting policy. The new management of KazakhGold is continuing to review and analyse the information it has received regarding these errors and the circumstances giving rise to these errors. Management has implemented a series of measures to improve its internal controls, including instituting stricter controls and monitoring processes.

Senior Notes

On 1 October 2009, KazakhGold notified the Trustee for its USD200,000,000 Senior Notes due 2013 (the “Senior Notes”) that it had decided not to publish interim financial statements for the first six months of 2009, covering the period prior to the completion of the Partial Offer, as required by the terms of the Senior Notes. On 15 February 2010 KazakhGold further notified the Trustee that the entry into the USD 50 million loan agreement with Jenington on 4 February 2010 did not comply with certain terms and conditions of the Senior Notes. Although KazakhGold has not received any enforcement notice from the Trustee, KazakhGold cannot be certain that Noteholders holding at least 25% of the outstanding Senior Notes will not take enforcement action in respect of this event of default, upon which the Senior Notes, together with accrued interest, will become immediately due and payable. KazakhGold is considering all its options with respect to the Senior Notes. As a result of the events of default, the Senior Notes have been re-classified as current liabilities in KazakhGold’s financial statements. See “Review of financial sustainability and solvency– Capital and liabilities”.

The Placing

In connection with the Partial Offer, Jenington agreed with KazakhGold to underwrite an announced USD 100 million placing of new ordinary shares of KazakhGold pursuant to the Backstop Underwriting Agreement. The Backstop Underwriting Agreement only ceases to be binding on

Jenington if (i) KazakhGold fails to obtain all necessary consents and regulatory approvals in respect of the Placing, (ii) KazakhGold breaches its warranties or obligations under the Backstop Underwriting Agreement or (iii) in the event of force majeure. The Backstop Underwriting Agreement provided that in the event that there was insufficient investor demand for the Placing or the Placing was not completed by 14 December 2009, then Jenington would underwrite the entire USD 100 million Placing at the placing price equal to USD 1.50 per GDR.

On 16 February 2010 KazakhGold announced that it had agreed with Jenington to extend Jenington's obligation to underwrite the Placing until 1 May 2010, in order to allow time for KazakhGold to obtain necessary Kazakh regulatory approvals in connection with the Placing.

Loan Agreements with Jenington

On 14 August 2009, KazakhGold entered into a USD 50 million loan agreement with its controlling shareholder, Jenington, in order to fund the consent solicitation fee payable in connection with the January 2009 consent solicitation with respect to its Senior Notes. The loan bears interest at the rate of USD one month LIBOR for the applicable period plus 6%. Interest may be capitalized provided that the aggregate of the principal amount outstanding under the loan and accrued interest would not exceed USD50 million. The loan is repayable no later than three months from the date on which KazakhGold receives the proceeds of the Placing. Jenington may elect to convert, in whole or in part, its rights to repayment of the loan into Shares at a conversion price of USD1.50 per Share, although it may not exercise this right before the date on which Polyus and Jenington have agreed the initial allocations for the Placing.

On 4 February 2010, KazakhGold entered into a USD 50 million loan agreement with its controlling shareholder, Jenington, for working capital purposes until the completion of Placing. The loan bears interest at the rate of 9.27% per annum. Interest is capitalized during the term of the loan. The loan is repayable no earlier than the date on which KazakhGold receives the proceeds of the Placing and no later than three months from such date, but in any event no later than nine months from the date of the loan agreement. KazakhGold may elect to convert, in whole or in part, Jenington's rights to repayment of the loan, together with the accrued interest, into Shares or GDRs at a conversion price per share or GDR equal to the average of the closing prices of the GDRs on the London Stock Exchange for the period of 20 trading days ending on a trading day immediately preceding the date on which the conversion notice is served on the lender.

The loans are expected to be repaid by KazakhGold from the proceeds of the Placing and are convertible into KazakhGold securities.

2. KazakhGold Group's operating results

2.1 External market factors affecting the financial results of the KazakhGold Group

The KazakhGold Group's operating results are affected by movements in the currency exchange rates, and the price of gold, as well as the price of other commodities, such as oil and steel.

The market price of gold is one of the most significant external factors influencing the profitability of the KazakhGold Group. During 2009, the global gold price experienced high volatility, reaching its lowest level of USD 810 per troy ounce (London p.m. fixing) in January and its highest level of USD 1,212.5 per ounce in December. The average annual gold price in 2009 (London p.m. fixing) was USD 972.4 per ounce, compared to USD 872 per ounce in 2008. The global price of gold increased by 24% from USD 874.5 on 2 January to USD 1087.5 per ounce on 30 December (the first and the last business days of 2009, respectively). In 2008, the average gold price reached a record of USD 871.96 per troy ounce, which is 25% higher than the previous record set in 2007 of USD 695.39 per troy ounce (in nominal values). The price peaked in March 2008 at USD 1,011.25 per troy ounce, surpassing the historic maximum in 1980, when the price of a gold troy ounce was USD 850 (in nominal value).

The results of the KazakhGold Group are also affected to a significant extent by currency exchange rates. The KazakhGold Group's revenue from gold sales is denominated in USD, whereas most of the operating expenses of KazakhGold are denominated in the Kazakh tenge. In February 2009, in response to deterioration of global macroeconomic conditions, the National Bank of Kazakhstan devalued the tenge by adjusting the exchange rate band for the tenge, which led to an immediate increase in the tenge exchange rate from tenge 120 per USD to tenge 150 per USD.

A significant portion of costs included in the cost of sales of the KazakhGold Group are also 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. Global prices for oil and steel had been increasing through the second half of 2008, prior to a substantial decline following the deterioration of global markets in the second half of 2008.

2.2. Discussion of results of operations for the years ended 31 December 2009 and 2008

The following table sets forth a summary of results of the operations of the KazakhGold Group for the years ended 2009 and 2008.

	Year ended 31 December		2009 against
	2009	2008 ⁽¹⁾	2008
	(US dollars in thousands, except for per share amount)		%
Gold sales	58,434	54,262	7.7
Other sales	1,943	-	100
Total revenue	60,377	54,262	11.3
Cost of gold sales	(57,296)	(71,304)	(19.6)
Cost of other sales	(2,846)	-	
Gross profit/(loss)	235	(17,042)	101.4
Gross profit/(loss) on gold sales	1,138	(17,042)	(106.7)
Gross profit margin	0.4%	(31.4%)	(101.2)
Selling, general and administrative expenses	(39,746)	(28,595)	39.0
Other expenses, net	(32,621)	(204,254)	(84.0)
Finance costs	(31,841)	(25,285)	25.9
Net income from investments	-	7,509	(100)
Foreign exchange (loss)/gain, net	(45,927)	452	(10,260.8)
Loss before income tax	(149,900)	(267,215)	(43.9)
Pre-tax margin	(248.3%)	(492.5%)	(49.6)
Income tax benefit	6,161	10,200	(49.6)
Loss for the year	(143,739)	(257,015)	(44.1)
Net loss attributable to minority interest	(840)	-	100
Net profit attributable to shareholders of the parent company	(142,899)	(257,015)	(44.4)
Net profit margin	(238.1%)	(473.7%)	(49.7)
Loss per share – basic and diluted (USD)	(2.70)	(4.89)	(44.8)

(1) The unaudited information for 2008 reflects adjustments made in connection with the effect of changes in accounting policies, reclassifications and correction of errors.

2.3. Gold sales

The following tables show the results and volumes of gold sales for the years ended 2009 and 2008:

	Year ended 31 December	
	2009	2008⁽¹⁾
	(US dollars in thousands)	
Gold sales (USD thousands)	58,434	54,262
Gold sales (thousand troy ounces),	69.34	62.38
Weighted-average gold selling price (USD per troy ounce)	842.7	n.d.
Average p.m. fixing price in London (USD per troy ounce) ⁽²⁾	972.4	872
Excess/(deficit) of average selling price over/(under) average evening fixing price (USD per troy ounce)	(129.7)	n.d.

(1) The unaudited information for 2008 reflects adjustments made in connection with the effect of changes in accounting policies, reclassifications and correction of errors.

(2) Source: London Bullion Market Association.

Gold sales revenue increased by 7.7% to USD 58,434 thousand in 2009 from USD 54,262 thousand in 2008, primarily due to higher realized gold prices, which offset the reduction in sales volumes. In 2009 KazakhGold Group sold 69.34 troy ounces of gold in the form of sludge, floatation and gravitation concentrates and other semi-products. The continuing decline in production during these years was due to a protracted period of underinvestment and mismanagement, which led to the deterioration of production facilities and created operating inefficiencies.

The table below shows a breakdown of the KazakhGold Group's revenue by product category for the year 2009.

USD thousand	2009
Product	
Cathodic gold	27,236
Free gold.....	6,109
Other.....	25,089
Total	58,434

In accordance with its modernization plans, in the future the KazakhGold Group intends to produce more higher-margin products such as cathodic gold and gold doré.

Kazakhaltyn sells all of its cathodic and free gold pursuant to arrangements with Metalor SA, a specialist in gold and precious metals processing based in Neuchatel in Switzerland. Under the terms of these arrangements, Metalor SA pays Kazakhaltyn per ounce of gold doré supplied at a fixed percentage discount to the price fixed by the LBMA and bears the cost of insurance from the time the products are transferred for international transportation by air. On May 15, 2007 the contract was extended.

The table below contains information on the KazakhGold Group's major customers in 2009, the type of products purchased from the KazakhGold Group, their location and the percentage of the KazakhGold Group's total revenue from the sale of gold products during that year:

<u>Customer</u>	<u>Type of Product</u>	<u>Location of Customer</u>	<u>Revenues (USD thousand)</u>
CJSC Karabashmed	Gravity and flotation concentrates, quartzite ore	Russia	22,915
Metalor Technologies	Cathodic and free gold	Switzerland	34,487
Other			1,032

Investments to upgrade KazakhGold's operating capacity, as well as the overall restructuring programme, began immediately after the acquisition of the KazakhGold by the Polyus Gold in August 2009. Those measures are expected to increase production to approximately 106 k oz in 2010.

In 2009, the weighted-average gold selling price was USD 842.7 per troy ounce compared to benchmark of 972.4. This discount reflects the fact that gold produced and sold by KazakhGold are semi-products and require further processing.

2.4. Cost of gold sales

Cost of gold sales decreased by 19.6% in 2009, to USD57,296 thousand in 2009, from USD 71,304 thousand in 2008. The decrease was primarily due to decreases in production volumes, as well as a decline in the costs of key cost drivers denominated in KZT (salaries, and overheads), which declined in USD as a result of devaluation of the KZT.

2.5. Selling, general and administrative expenses

Selling, general and administrative expenses increased by 39.0% to USD 39,746 thousand in 2009 from USD 28,595 thousand in 2008, primarily as a result of increased costs related to the Partial Offer, as well as consent fees paid to bondholders in connection with the Partial Offer.

2.6. Other expenses, net

Other expenses in 2009 primarily relate to the effects of new management's efforts to address many of the issues identified upon the takeover, including identifying and disposing of unneeded assets and inventory, clarifying bad debts and allowances, and settling uncertain provisions. Other expenses in 2008 in the amount of USD 204,254 thousand consist primarily of expenditures which were previously capitalised, which do not meet the criteria of assets, and therefore the expenditures were recorded as expenses. See "Recent Developments". These expenses principally comprised of payments made under contracts, but for which there was insufficient evidence that services or goods were received. The KazakhGold Group is investigating the circumstances surrounding such contracts. The new management team presumes the contracts to be with related parties. Recoverable taxes on these inappropriate expenses have been accrued as payable. In 2009, other expenses represent accruals for bank guarantee provision of USD 11,650 thousand due to the supplier defaulting, a loss on revaluation of property, plant and equipment of USD 11,079 thousand, and other items.

2.7. Finance costs, income from investments and foreign exchange gain/(loss)

	Year ended 31 December		2009 against 2008
	2009	2008 ⁽¹⁾	%
	(US Dollars in thousands)		
Finance costs	(31,841)	(25,285)	25.9
Income from investments	-	7,509	(100)
Foreign exchange (loss)/gain	(45,927)	452	(10,260.8)

- (1) The unaudited information for 2008 reflects adjustments made in connection with the effect of changes in accounting policies, reclassifications and correction of errors..

The substantial portion of the KazakhGold Group's finance costs are coupon payments for the Senior Notes. In addition, in June 2009, KazakhGold obtained a USD 31.0 million subordinated loan from Gold Lion Holdings Limited, then its controlling shareholder, in order to fund an interest payment on the Senior Notes and redemption payments on its outstanding Kazakh bonds, as well as for its immediate working capital requirements. In August 2009 KazakhGold also obtained a USD 50 million loan from Jenington, to provide it with funds for working capital purposes and to fund the consent fee payable to holders of the Senior Notes in connection with the Partial Offer.

In 2009 the KazakhGold Group's finance costs amounted to USD 31,841 thousand, an increase of 25.9% from USD 25,285 thousand in 2008. The finance costs included the interest on loans and borrowings in the amount of 27,436 thousand, the major portion being interest paid on Senior Notes in the amount of USD 19,484 thousand. The rest was related to interest payments on bank loans from Sberbank, Kazkommertzbank and HSBC in the amount of USD 2,063 thousand, and interest in respect of loans from Gold Lion; and Jenington.

In 2009, currency exchange losses amounted to USD 45,927 thousand, arising primarily from financing activities. The most significant loans are USD denominated, and the underlying records are in tenge. The effect of the depreciation in value of the tenge has led to an exchange loss at the subsidiary level.

2.8. Income tax

Effective income tax rates for 2009 and 2008 of 4.1% and 3.8%, respectively, were substantially below the rate effective in Kazakhstan of 20%, as a significant portion of the expenses are not deductible for tax purposes. Moreover, a tax recovery is not recognised as there is uncertainty over future collection.

2.9. Other sales and cost of other sales

In 2009, other sales amounted to USD 1,943 thousand. The cost of other sales amounted to USD 2,846 thousand. Other sales included revenues from hotels and ancillary services. The cost of other sales included non-mining operating expenses, such as hotel operations, and other ancillary services.

3. Review of financial sustainability and solvency

As at 31 December 2009, the KazakhGold Group had a working capital deficiency of USD 277,394 thousand. The deficit is primarily resulting from the amount owed on the Senior Notes in the amount of USD 200,000 thousand having an original maturity in 2013. The Senior Notes have been classified as current liabilities as at 31 December 2009 as a result of the KazakhGold Group's default on its financial and reporting covenants. Management believes that it can successfully negotiate the

repayment of the Senior Notes to 2013, the original maturity, or refinance it with another facility. The Group has modified its operational structure and increased its production at facilities during the period from August 2009. As a result of these adjustments, the Group has been able to decrease its loss in 2009 compared to 2008. If the maturity date of the Senior Notes, which are guaranteed by Polyus Gold, is not renegotiated or the KazakhGold Group's improved productivity is not sufficient to fund the Group's operations, the Group has the ability to obtain additional funding from its new parent, Jenington International Inc., or Polyus Gold. Jenington provided loan facilities to the KazakhGold Group of up to USD 50,000 thousand in 2009, and a further USD 50,000 thousand in February 2010. As part of the Partial Offer whereby Jenington acquired 50.15% of the Group, Jenington committed to underwrite a USD 100,000 thousand placement of shares in KazakhGold. Management intends to continue improving the operational results that were initiated in August 2009 as the new management continues to address maintenance shortcomings and underinvestment.

Based on the information discussed above, management believes that it will be able to meet its borrowings obligations and continue to finance its operational activities. Management has prepared a detailed forecast of cash flows for 2010 financial year and believes that future cash flows from operating and financing activities will be sufficient for the KazakhGold Group to meet its obligations as they become due.

3.1. Analysis of Balance sheet items

KazakhGold's consolidated balance sheet as at 31 December 2009 and 2008 was as follows:

(US dollars in thousands)	Year ended 31 December	
	2009	2008⁽¹⁾
ASSETS		
Non-current assets	199,918	260,389
Property, plant and equipment.....	197,051	258,439
Inventories	2,867	1,950
Investments in securities and other financial assets.....	-	-
Current assets	25,835	41,363
Inventories.....	14,265	17,567
Trade and other receivables.....	2,124	6,591
Advances paid to suppliers.....	1,905	1,267
Income tax prepaid	3,057	1,972
Other current assets	953	-
Cash and cash equivalents	3,531	13,966
TOTAL ASSETS	225,753	301,752
EQUITY AND LIABILITIES		
Share capital and reserves	(127,170)	(21,217)
Share capital	9	9
Additional paid-in capital	220,950	220,950
Capital contribution	12,686	12,686
Revaluation surplus	7,787	-
Option premium on convertible debt.....	15,598	-
Translation reserve	25,401	11,840
Accumulated losses	(409,601)	(266,702)

(US dollars in thousands)	Year ended 31 December	
	2009	2008 ⁽¹⁾
Equity attributable to shareholders of the parent company	(127,170)	(21,217)
Minority interest	-	-
Non-current liabilities	49,694	235,549
Borrowings	20,812	203,272
Environmental obligations.....	13,356	20,106
Deferred tax liabilities	-	6,772
Long-term obligations under finance lease.....	-	1,370
Other non-current liabilities	15,526	4,029
Current liabilities	303,229	87,420
Borrowings	257,816	41,306
Short-term obligations under finance lease	-	568
Trade payables.....	1,771	14,976
Other payables and accrued expenses	18,897	5,724
Income tax payable.....	-	-
Other taxes payable	24,745	24,846
TOTAL LIABILITIES	352,923	322,969
TOTAL EQUITY AND LIABILITIES	225,753	301,752

(1) The Unaudited information as at 31 December 2008 reflects adjustments made in connection with the effect of changes in accounting policies, reclassifications and correction of errors.

3.1.1. Assets

Non-current assets

The table below sets forth the components of the KazakhGold Group's property, plant and equipment at 31 December 2009 and 2008:

	As at 31 December,	
	2009	2008 ⁽¹⁾
	(US dollars in thousands)	
Exploration and evaluation assets	3,872	5,129
Mining assets	140,850	207,137
Non-mining assets	2,777	1,342
Capital construction-in-progress	49,552	44,831
Total property, plant and equipment	197,051	258,439

(1) The unaudited information as at 31 December 2008 reflects adjustments made in connection with the effect of changes in accounting policies, reclassifications and correction of errors.

KazakhGold's property, plant and equipment amounted to USD 197,051 thousand as at 31 December 2009 and USD 258,439 thousand as at 31 December 2008. The lack of capital investments over the three year period contributed to a decline in production.

Capital expenditure levels remained low in 2009 due to the KazakhGold Group's shortage of resources. The new strategy for KazakhGold is under development, and is expected to involve a significant increase in capital expenditures.

Current assets

Current assets amounted to USD 25,835 thousand as at 31 December 2009, a 37.5% decrease from USD 41,363 thousand as at 31 December 2008. The main contributor to the decrease was a reduction in cash and cash equivalents, which decreased from USD13,966 thousand as at 31 December 2008 to USD 3,531 as at 31 December 2009.

3.1.2. Capital and liabilities

Share capital and reserves

As at 31 December 2009 the KazakhGold Group's had a deficit of share capital and reserves of USD127,170 thousand, compared to deficit of USD21,217 thousand as at 31 December 2008.

Non-current liabilities

As at 31 December 2009, the KazakhGold Group's non-current liabilities amounted to USD 49,694 thousand, compared to USD 235,549 thousand in 2008. The change was primarily attributed to a decrease in the "Loans and borrowings" from USD 203,272 thousand as at 31 December 2008 to USD 20,812 thousand as at 31 December 2009. This decrease was due to the occurrence of an event of default under the Senior Notes which is continuing and the subsequent reclassification of obligations under the senior Notes as current liabilities. In addition, in June 2009, KazakhGold obtained a USD 31,025 thousand subordinated loan from Gold Lion, then its controlling shareholder, in order to fund an interest payment on the Senior Notes and redemption payments on its outstanding Kazakh bonds, as well as for its working capital requirements. In August 2009 KazakhGold also obtained a USD 50 million loan from Jenington, to provide it with funds for working capital purposes and to fund the consent fee payable to holders of the Senior Notes in connection with the Partial Offer.

Current liabilities

As at 31 December 2009, the KazakhGold Group's current liabilities amounted to USD 303,229 thousand, compared to USD 87,420 thousand as at 31 December 2008. The increase was attributable to reclassification as current liabilities of the Senior Notes for the reasons discussed above.

3.2. Cash flow analysis

The following table shows KazakhGold's consolidated cash flow statement for the years ended 31 December 2009, and 2008.

	2009	2008 As restated*
Operating activities		
Loss before income tax	(149,900)	(267,215)
Adjustments for:		
Amortisation and depreciation	17,659	20,164
Loss on revaluation of property, plant and equipment	11,079	-
Finance costs	31,841	25,285
Foreign exchange loss/(gain), net	45,927	(452)
Bank guarantee provision	11,650	-
Non-recoverable value added tax on construction, repair, maintenance and exploration works	5,219	27,112
Change in allowance for doubtful debts	3,594	6,002
Loss on disposal of property, plant and equipment	1,859	8,957
Income from investments	-	(7,509)
Other	1,881	(17,090)
	(19,191)	(204,746)
Movements in working capital:		
Inventories	(2,842)	(5,203)
Trade and other receivables	(229)	62,682
Advances paid to suppliers	(990)	(546)
Other current assets	(851)	(955)
Trade payables	(10,470)	(6,534)
Other payables and accrued expenses	11,177	(11,753)
Other taxes payable	(1,672)	16,719
Cash flows used in operations	(25,068)	(150,336)
Interest paid	(22,457)	(15,735)
Income tax paid	(1,462)	(19,489)
Net cash used in operating activities	(48,987)	(185,560)
Investing activities		
Purchase of property, plant and equipment	(7,372)	(64,159)
Proceeds from sale of property, plant and equipment	-	3,412
Interest received	-	7,509
Proceeds from sale of other financial assets	-	31,760
Net cash used in investing activities	(7,372)	(21,478)
Financing activities		
Proceeds from borrowings	91,288	23,000
Repayments of borrowings	(43,145)	(4,960)
Repayments of finance lease obligations	(501)	(10,289)
Proceeds from issuance of Company's share capital	-	50,406
Net cash generated from financing activities	47,642	58,157
Net decrease in cash and cash equivalents	(8,717)	(148,881)

Cash and cash equivalents at beginning of the year	13,966	160,285
Effect of translation to presentation currency on cash and cash equivalents	(1,718)	2,562
Cash and cash equivalents at end of the year	3,531	13,966

- (1) The unaudited information for the year ended 31 December 2008 reflects adjustments made in connection with the effect of changes in accounting policies, reclassifications and correction of errors.

KazakhGold has incurred losses in each of the past three years. Cash outflows from operations totalled more than USD 250 million for 2009 and 2008. On 5 May 2009, KazakhGold was unable to make the scheduled interest payment on its Senior Notes. In June 2009, KazakhGold obtained a USD 31 million subordinated loan from Gold Lion Holdings Limited, then its most significant shareholder, in order to fund this interest payment on the Senior Notes and redemption payments on its Kazakh bonds, as well as for working capital requirements. At the time, most creditor payments were delayed, and salaries for many of the staff were in arrears. In August 2009 KazakhGold also obtained a USD 50 million loan from Jenington, to provide it with funds for working capital purposes and to fund the consent fee payable to holders of the Senior Notes in connection with the Partial Offer.

Investing activities have declined in 2009, and this has contributed to the significant deterioration in production, sales, and to the large losses. Total cash balances have declined as the funds have been ineffectively spent, and not contributed to improving the productive capacity of the KazakhGold Group. Since 2008, the KazakhGold Group has had very restricted access to cash, and therefore has out of necessity reduced cash outflows.

4. Description of principal risks

The KazakhGold Group's activities are exposed to a number of risks, which may negatively impact its production and financial results.

The KazakhGold Group's risk management system is aimed at strengthening its internal controls while ensuring the achievement of its business targets. The KazakhGold Group's risk management system includes identification and assessment of key parameters of potential threats, as well as the development and implementation of measures aimed at mitigating the negative impact of risks it may face.

A summary of risks that may affect the KazakhGold Group and its business, operating results or financial condition is set forth below. Additional risks and uncertainties that KazakhGold is not aware of or that KazakhGold currently believes are immaterial may also adversely affect the KazakhGold Group's business, operating results and financial condition.

- The financial results of companies operating in the gold mining industry depend largely on the price of gold, which may be subject to significant volatility.
- The gold mining industry is highly competitive.
- Success in the gold mining industry depends on maintaining a highly qualified skilled workforce, including qualified geologists and other mining specialists.
- Gold exploration and the development of mines involves a high degree of risk and uncertainty.
- The volume and grade of the ore the KazakhGold Group recovers may not conform to current expectations.
- The KazakhGold Group's business could be adversely affected if it fails to obtain, maintain or renew necessary contracts, licenses and permits, including subsoil licenses, or fails to comply with the terms of its contracts, licenses and permits.
- The KazakhGold Group is subject to mining risks.

- The KazakhGold Group is subject to extensive environmental controls and regulation.
- The KazakhGold Group's operations depend to a significant extent on external contractors.
- The KazakhGold Group is responsible for maintaining part of the social and physical infrastructure in some of the regions in which it operates.
 - The KazakhGold Group's level or scope of insurance coverage may not be adequate.
 - The KazakhGold Group is subject to exchange rate risks.
 - Kazakh currency control regulations may hinder the KazakhGold Group's ability to conduct business.
 - Emerging markets such as Kazakhstan are subject to greater risks than more developed markets, including significant legal, economic and political risks.
 - The KazakhGold Group may not be able to generate sufficient cash to service its debt.
 - KazakhGold is currently in default of the terms of the Senior Notes.
 - The KazakhGold Group requires significant capital expenditures, which may require external financing that may not be provided.
 - KazakhGold is a holding company for the KazakhGold Group and is entirely dependent on the trading performance of members of the KazakhGold Group and their ability to make distributions to KazakhGold.
 - The Kazakh state may be entitled to exercise pre-emptive rights over assets acquired by the KazakhGold Group, transfers of shares in KazakhGold's subsidiaries and the issuance of new depository receipts over its shares.
 - Kazakh competition regulations and procedures are subject to uncertainties.
 - If transactions that KazakhGold and its subsidiaries have entered into are challenged for non-compliance with applicable Kazakh legal requirements, the transactions could be invalidated or liabilities imposed on the KazakhGold Group.

5. Main features of the internal control and risk management systems in relation to the financial reporting process

Following the completion of the Partial Offer, the new management team took an active role in addressing improvements needed in the internal control and risk management systems in relation to the financial reporting process.

On 14 August 2009 the composition of the Board of Directors was changed and four representatives of Polyus Gold were appointed to the Board. The Board established a newly-composed Audit Committee with Steven Oke appointed Chairman. Oleg Ignatov, a member of the Committee, is the Chief Financial Officer of the Polyus Group, and has financial education and experience, and German Pikhoya, the third member of the Audit Committee, has a degree in economics and a broad experience in finance.

On March 17, 2010, Steven Oke resigned from the Board of Directors. A new member was appointed, Adrian Coates, who was also appointed as the chairman of the Audit Committee. Mr. Coates has a MA degree in Economics from Cambridge University and a MBA from the London Business School.

Further steps with regard to control over financial reporting are expected to be implemented by the new Board and management in 2010.

6. Corporate governance report

6.1. As at 31 December 2009 the composition of the Board of Directors was the following:

Evgueni I. Ivanov

Chairman and Chief Executive Officer

Graduated from the State Finance Academy. Major – International Economic Relations. After the graduation he worked in the banking sector, including the State Bank of the USSR, and the Central Bank of the Russian Federation. In 1997 he came to work in Unexim Bank, where he created and

headed Precious Metals Department. In 1999 – 2000 he worked as Vice-Chairman of the Rosbank, being in charge of the relationship with the clients. In 2000 Evgueni Ivanov became the Chairman of Rosbank, and in the 2003 – the bank's President and Chairman of the Board. In March 2006 Mr. Ivanov was elected General Director (CEO) of the newly formed OJSC Polyus Gold.

German R. Pikhoya
Non-Executive Director

Graduated from history department of Urals State University. Later conducted post-graduate research in Bowdoin College (Brunswick, State of Maine, USA). Graduated from the Russian State Service Academy, specializing in economics. In 1994-1995 he worked as Project Manager at MOSEXPO company. In 1995-1997 he served as General Director of Palamos company. From 1994 to 1998 German Pikhoya also occupied position of General Director of Eurogold Financial and Industrial Group Managing Company. From 1998 to 2002 he served as Deputy Head of representative office in Russia and New Business Development Manager for Placer Dome International Ltd. In 2002 German Pikhoya joined Polyus Gold Mining Company as Deputy General Director for Corporate Development. Then he was named as Polyus Group Vice-President for Corporate Development. In July 2007 Mr. Pikhoya assumed the position of Deputy General Director for Strategy and Corporate Development at OJSC Polyus Gold public company.

Member of the Audit Committee

Boris A. Zakharov
Non-Executive Director

Mr. Zakharov graduated from the Moscow Institute of Steel and Alloys in 1978.

Mr. Zakharov held or continues to hold, as applicable, the following other posts: From 1977 to 1985 - various positions of measuring-floatation shop of processing plant of Norilsk Mine, the final position being chief foreman; From 1985 to 1992 - chief foreman of processing plant at Erdenet mine in Mongolia; From 1992 to 2008 - deputy head of measuring-floatation shop of Norilsk processing plant, chief engineer of processing plant, head of R&D department of OJSC Norilsk Nickel.

Mr. Zakharov has been Deputy General Director on production of CJSC Polyus since November 1, 2008.

The candidate of technical sciences.

Member of the Remuneration Committee

Oleg V. Ignatov
Non-Executive Director

Oleg Ignatov graduated from Moscow machine-tool institute in 1992, degree in electrical engineering.

In 1998 Mr. Ignatov graduated with honors from the Finance Academy under the government of the Russian Federation, with a degree in finance and credit. He worked in Unexim Bank and Rosbank, where he was gradually promoted to Senior vice-president. In 2002 he was appointed Deputy general director, finance of OJSC Chelyabenergo.

Since 2003 till 2005 he worked as first deputy city head of Norilsk. In 2005 - 2008 he worked as Deputy director, economy and finance of Zapolyarny unit of OJSC MMC Norilsk Nickel.

Member of the Remuneration Committee and the Audit Committee

Aidar K. Assaubayev
Non-Executive Director

Aidar Assaubayev graduated with honours from the Kazakh National Technical University in 2000, where he specialised in engineering and economics. In 2006 he received a Doctor of economics degree from the Institute of Systemic Analysis in Moscow.

David Netherway
Non-Executive Independent Director

David Netherway is a mining engineer with over 30 years of experience in the mining industry. He is currently the CEO of Shield Mining Limited, an Australian listed company exploring for gold and base

metals in Mauritania. From April 2002 until the completion of its takeover by Eldorado Gold Corporation in 2005, he served as the President and Chief Executive Officer of the Toronto listed Afcan Mining Corporation, a China focused gold mining company. He is a mine developer and operator who was involved in the construction and development of the Iduapriem, Siguiri, Kiniero and Samira Hill gold mines in West Africa and has mining experience which includes Australia, Canada, India, Nepal, Oman and Malaysia. Prior to joining Afcan, he held senior management positions in a number of mining companies, including Golden Shamrock Mines, Ashanti Goldfields and Semafo Inc. He received a B.E. in Mining Engineering from the University of Melbourne in 1975 and a Certified Diploma in Accounting and Finance from the Chartered Association of Certified Accountants in the United Kingdom in 1985.

Chairman of the Remuneration Committee

Stephen Oke

Non-Executive Independent Director

Mr. Stephen Oke is a qualified geologist and was formerly Head of International Corporate Finance at Standard Bank in London. Mr. Oke specialises in providing senior level corporate finance and capital markets advice to metals and mining sector companies

Chairman of the Audit Committee

8.3. Accounting policies

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS and IFRIC interpretations), as adopted by the European Union and also in accordance with the Companies (Jersey) Law 1991.

8.4. Share capital and reserves

Details of the Group's authorised and issued share capital as at 31 December 2009 are contained in Note 16 of the consolidated financial statements.

8.5. Substantial shareholdings

The Group is aware of the following beneficial shareholdings, representing 10 per cent or more of the issued ordinary share capital of the Group, as at 31 December 2009.

	Number of ordinary shares	% of issued share capital
Gold Lion Holdings Limited	10 599 539	20.02
Jenington International Inc.	26 550 495	50.15
BNY (Nominees) Limited ¹	15 791 632	29.83

¹ BNY (Nominees) Limited holds these shares as depository, against Global Depositary Receipts issued, each representing one ordinary share with a nominal value of £0.0001.

8.6. Corporate governance

There are no corporate governance recommendations applicable to companies incorporated in Jersey, but the Group intends as far as it is able, taking into account its size and stage of development, to comply with the recommendations of the Combined Code on Corporate Governance for UK registered and listed companies.

Board

The Board of Directors is composed of seven members: the Executive Chairman (Evgeni Ivanov) and six Non-Executive Directors (German Pikhoya, Boris Zakharov, Oleg Ignatov, David Netherway, Aidar Assaubayev and Stephen Oke), including two independent directors (David Netherway and Stephen Oke). The Board has established: Audit and Remuneration Committees with formally

delegated duties, responsibilities and written terms of reference. From time to time, separate committees may be set up by the Board to consider specific issues as and when the need arises.

Audit Committee

The Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing the Company's annual financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the Company's internal audit activities, internal controls and risk management systems. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports remains with the Board.

The Combined Code recommends that the audit committee should comprise of at least three members who should all be independent non executive directors, and that at least one member should have recent and relevant financial experience.

The Company's Audit Committee is composed of three members: Steve Oke, German Pikhoya and Oleg Ignatov. Steve Oke is considered by the Board to have recent and relevant financial experience. The Chairman of the Audit Committee is Steve Oke. The Company therefore considers that it complies with the Combined Code recommendations regarding the composition of the Audit Committee.

The Audit Committee meets formally at least three times a year and otherwise as required.

Remuneration Committee

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the Company's policy on executive remuneration, determining the individual remuneration and benefits package of each of the executive directors and recommending and monitoring the remuneration of senior management below Board level. The Combined Code provides that the Remuneration Committee should consist of at least three members who are all independent non executive directors.

The Company's Remuneration Committee comprises three Non Executive Directors (David Netherway, Oleg Ignatov and Boris Zakharov). The Chairman of the Remuneration Committee is David Netherway. The Company therefore considers that it complies with the Combined Code recommendations regarding the composition of the Remuneration Committee.

The Remuneration Committee meets formally at least twice a year and otherwise as required.

8.7. Directors and officers liability insurance

The Group has in place a Directors and Officers insurance policy to cover relevant individuals against claims arising from their work on behalf of the company. The Board intends to keep the level of cover provided under annual or more frequent review, as appropriate.