

**Ref. №**

**Open Joint Stock Company “Seligdar”  
And Subsidiaries Thereof**

**Consolidated Financial Statements for the Year  
Ended on December 31, 2010  
Prepared in Accordance with IFRS**

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## MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The statement below which is to be used in conjunction with the description of independent auditors' responsibilities provided in the presented auditors' report issued by independent auditors is made with a view to distinguishing the respective responsibilities of the management and those of the independent auditors in relation to the consolidated financial statements of OAO "Seligdar" and its subsidiaries (further referred to as "the Group").

The Group's Management is responsible for the preparation of the consolidated financial statements that present fairly and objectively in all material aspects the financial position of the Group as of December 31, 2010, as well as the results of its operations, cash flows and changes in equity of the Group for the year ended on December 31, 2010 in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared by the Group's Management in line with international financial reporting standards for the year ended on December 31, 2010. 1 January 2008 is the date of transfer from national accounting standards to international financial reporting standards.

In preparing the consolidated financial statements, Management is responsible for:

- selecting relevant accounting principles and their consistent application;
- applying appropriate estimates and calculations;
- compliance with relevant International Financial Reporting Standards and disclosure of all significant deviations in notes to consolidated financial statements;
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the entity will continue in business in the foreseeable future.

Management is also responsible within its authority for:

- designing, implementing and maintaining an effective system of internal controls of the Group;
- maintaining proper accounting records that allow, with reasonable accuracy at any time, preparing statements of the financial position of the Group, and ensuring that the consolidated financial statements comply with requirements of IFRS;
- ensuring compliance of accounting reporting with Russian legislation and accounting standards;
- taking measures to safeguard the assets of the Group;
- preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended on December 31, 2010 were approved on April 22, 2011 in the name of executives of OAO "Seligdar":

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**Labun A.N.**  
Chief Executive Officer  
June 9, 2011

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**Podoinikova L.D.**  
Chief Accountant  
June 9, 2011

## **INDEPENDENT AUDITOR'S REPORT**

### **TO SHAREHOLDERS OF OPEN JOINT STOCK COMPANY "SELIGDAR"**

We have audited the attached consolidated financial statements of Open Joint Stock Company "Seligdar" and its subsidiaries (further referred to as - the "Group"), which comprise the consolidated statement of financial position as of 31 December 2010, the consolidated statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The consolidated financial statements have been prepared by the Group's Management in line with international financial reporting standards for the year ended on December 31, 2010.

#### *Directors' Responsibility for Preparation of Consolidated Financial Statements*

Management is responsible for preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the indicated circumstances.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We have conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing certain procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements for the year ended on 31 December 2010 give a fair view in all material aspects of the financial position of the Group as of 31 December 2010, its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

General Director

Kozlov A.V.

IFRS Director

Potekhin V.V.

April 22, 2011

**OAO "SELIGDAR" AND ITS SUBSIDIARIES**  
**Consolidated Statement of Financial Position as of December 31, 2010**  
(In thousands of US dollars, unless otherwise stated)

	Note	As of December 31, 2010	As of December 31, 2009
<b>ASSETS</b>			
<b>Non-current assets:</b>			
Property, plant and equipment	10	289 195	247 268
Investment properties		8 062	-
Capitalized expenses on stripping		14 847	17 984
Intangible assets		29	39
Long-term financial assets available for sale	11	7 629	8 094
Share in associates	28	815	-
Other non-current assets		-	66
Deferred tax assets	12	45	179
<b>Total Non-current Assets</b>		<b>320 622</b>	<b>273 630</b>
<b>Current assets:</b>			
Inventories	13	56 674	29 416
VAT to recover		5 725	6 080
Receivables and advances given	14	21 161	29 666
Loans given	15	26	3 509
Short-term financial assets available for sale	16	7 330	16 486
Income tax receivable		2 159	56
Other current assets	17	4 514	4 567
Cash and cash equivalents	18	2 016	4 552
<b>Total current assets</b>		<b>99 605</b>	<b>94 332</b>
<b>TOTAL ASSETS</b>		<b>420 227</b>	<b>367 962</b>

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**Labun A.N.**  
Chief Executive Officer  
June 9, 2011

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**Podoinikova L.D.**  
Chief Accountant  
June 9, 2011

**OAO "SELIGDAR" AND ITS SUBSIDIARIES**  
**Consolidated Statement of Financial Position as of December 31, 2010**  
(In thousands of US dollars, unless otherwise stated)

	Note	For the year ended on December 31,2010	For the year ended on December 31,2009
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	19	20 039	20 039
Share premium		25 153	25 153
Retained earnings		112 631	112 597
Currency translation provision		(25 040)	(25 814)
<b>Capital Attributable to Equity Holders of the Parent Company</b>		<b>132 783</b>	<b>131 975</b>
Minority interest		17 337	12 092
<b>Total Equity and Minority Interest</b>		<b>150 120</b>	<b>144 067</b>
<b>Long-term Liabilities:</b>			
Long-term credits and loans	20	102 951	135 800
Long-term payables		-	2 366
Long-term financial lease liabilities	21	2 725	780
Long-term liabilities for environment rehabilitation	22	-	4 336
Deferred tax liabilities	12	38 309	26 914
<b>Total Long-term Liabilities</b>		<b>143 985</b>	<b>170 196</b>
<b>Short-term Liabilities:</b>			
Short-term borrowings	27	53 420	13 907
Short-term notes payable	24	1 403	15 437
Short-term payables and advances received	25	62 755	19 257
Short-term financial lease liabilities	21	691	779
Short-term liabilities for income tax		192	556
Short-term liabilities for environment rehabilitation	22	6 678	2 017
Provision for VAT to recover		983	1 746
<b>Total Short-term Liabilities</b>		<b>126 122</b>	<b>53 699</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>420 227</b>	<b>367 962</b>

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**Labun A.N.**  
Chief Executive Officer  
June 9, 2011

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**Podoinikova L.D.**  
Chief Accountant  
June 9, 2011

**OAO "SELIGDAR" AND ITS SUBSIDIARIES**  
**Consolidated Statement of Comprehensive Income as of December 31, 2010**  
*(in thousands of US dollars, unless otherwise stated )*

	Note	For the year ended on December 31, 2010	For the year ended on December 31, 2009
Revenue	4	121 080	107 414
Cost of sales excluding depreciation of licenses	5	(56 372)	(59 189)
Depreciation of licenses		(7 467)	(10 234)
<b>Gross Income</b>		<b>57 241</b>	<b>37 991</b>
Administrative expenses	6	(14 170)	(10 864)
Other operating expenses, net	7	(4 047)	(5 248)
<b>Operating Income</b>		<b>39 024</b>	<b>21 879</b>
Income from disposal of subsidiaries	27	5 571	-
Goodwill recognized in expenses when acquiring companies	28	(1,082)	-
Financial expenses, net	8	(20 735)	(7 131)
<b>Income before Tax</b>		<b>22 778</b>	<b>14 748</b>
Income tax	9	(6 395)	(1 891)
<b>Net Income for the year</b>		<b>16 382</b>	<b>12 857</b>
Currency restatement provision		(106)	(3 377)
<b>Comprehensive income for the year</b>		<b>16 276</b>	<b>9 480</b>
<b>Income for the Year Attributable to:</b>			
Shareholders of Parent Company		14 451	12 728
Minority Interest		1 931	129
<b>Income before Depreciation of Licenses</b>		<b>23 850</b>	<b>23 091</b>
<b>Earnings before Interest, Taxes and Depreciation– EBITDA</b>		<b>66 760</b>	<b>51 240</b>

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**Labun A.N.**  
Chief Executive Officer  
June 9, 2011

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**Podoinikova L.D.**  
Chief Accountant  
June 9, 2011

**OAO "SELIGDAR" AND ITS SUBSIDIARIES**  
**Consolidated Statement of Cash flows as of December 31, 2010**  
(In thousands of US dollars, unless otherwise stated)

	Note	For the year ended on December 31,2010	For the year ended on December 31,2009
<b>Cash Flows from Operating Activities</b>			
Proceeds from buyers		115 323	96 465
Other proceeds		7 648	12 614
Payments to suppliers of goods, works, services, raw materials and other current assets		(27 274)	(74 065)
Wages and salaries		(23 834)	(30 099)
Payments on taxes and excises		(22 116)	(19 218)
Other payments		(3 115)	(3 575)
<b>Net Cash from Operating Activities</b>		<b>46 632</b>	<b>(17 878)</b>
<b>Cash Flows from Investing Activities</b>			
Acquisition of property, plant and equipment and intangible assets		(17 727)	(3 963)
Proceeds from sale of investments in subsidiaries		747	-
Proceeds from acquisition of companies		403	-
Proceeds from disposal of control in companies		(297)	-
Acquisition of equity and debt instruments of other companies and participation shares in joint activity		(165)	(1 887)
Advance payments to other parties		(16 840)	(7 745)
Loans granted		(138)	(8 001)
Interest received		4 002	1
Acquisition of minority interest		(15 879)	-
Proceeds from repayment of loans given		3 239	754
Sale of notes of other entities		19 329	9 069
Acquisition of notes of other entities		(2 058)	(8 236)
<b>Net Cash Used in Investing Activities</b>		<b>(25 384)</b>	<b>(20 008)</b>
<b>Cash Flows from Financing Activities</b>			
Proceeds from loans received from other entities		108 627	119 367
Payment of interest on loans		(21 276)	(12 592)
Repayment of loans received		(91 589)	(63 813)
Proceeds from issue of equity circulating notes		329	21 774
Repayment of issued equity circulating notes		(16 865)	(23 437)
Payments under financial lease		(2 984)	(774)
<b>Net Cash used in Financing Activities</b>		<b>(23 758)</b>	<b>40 525</b>
Impact of restatement into presentation currency		(26)	1 747
<b>Net Increase in Cash and Cash Equivalents</b>		<b>(2 536)</b>	<b>2 639</b>
<b>Cash at the Year Beginning</b>		<b>4 552</b>	<b>166</b>
<b>Cash at the Year End</b>		<b>2 016</b>	<b>4 552</b>

**Labun A.N.**  
Chief Executive Officer  
June 9, 2011

**Podoinikova L.D.**  
Chief Accountant  
June 9, 2011

**OAO "SELIGDAR" AND ITS SUBSIDIARIES**  
**Consolidated Statement of Changes in Equity as of December 31, 2010**  
(In thousands of US dollars, unless otherwise stated)

	Share capital	Share premium	Retained Earnings	Foreign currency translation reserve	Total Capital of shareholders of the Parent Company	Minority Interest	Total capital
<b>Balance as of January 1, 2009</b>	20 039	25 153	102 830	(22 912)	125 110	12 438	137 548
Comprehensive income for the year	-	-	12 728	-	12 728	129	12 857
Impact of restatement to presentation currency	-	-	-	(2 902)	(2 902)	(475)	(3 377)
<i>Other changes in equity</i>							
Proceeds from acquisition of control over companies	-	-	(2 961)	-	(2 961)	-	(2 961)
<b>Balance as of December 31, 2009</b>	<b>20 039</b>	<b>25 153</b>	<b>112 597</b>	<b>(25 814)</b>	<b>131 975</b>	<b>12 092</b>	<b>144 067</b>
<b>Balance as of January 1, 2010</b>	<b>20 039</b>	<b>25 153</b>	<b>112 597</b>	<b>(25 814)</b>	<b>131 975</b>	<b>12 092</b>	<b>144 067</b>
Comprehensive income for the year	-	-	14 451	-	14 451	1 931	16 382
Impact of restatement to presentation currency	-	-	-	774	774	(880)	(106)
<i>Other changes in equity</i>							
Disposals due to loss of control over companies	-	-	2 395	-	2 395	-	2 395
Acquisition of minority interest due to acquisition of a company	-	-	-	-	-	12 895	12 895
Acquisition of minority interest	-	-	8 701	-	8 701	(8 701)	-
Remuneration for buyout of minority interest	-	-	(25 513)	-	(25 513)	-	(25 513)
<b>Balance as of December 31, 2010</b>	<b>20 039</b>	<b>25 153</b>	<b>112 631</b>	<b>(25 040)</b>	<b>132 783</b>	<b>17 337</b>	<b>150 120</b>

**Labun A.N.**  
Chief Executive Officer  
June 9, 2011

**Podoinikova L.D.**  
Chief Accountant  
June 9, 2011



## **1 GENERAL INFORMATION ABOUT THE GROUP AND ITS ACTIVITIES**

Open Joint Stock Company "Seligdar" was incorporated on April 9, 2007 in accordance with a decision of the sole founder – Artel Staratelei "Seligdar".

The principal activity of the Company and its subsidiaries is prospecting drilling followed by extraction, processing and selling of precious metals (gold, silver and platinoids) as well as consulting on matters of commercial activities and management.

Information about the Group is provided on its Internet website: [www.seligdar.ru](http://www.seligdar.ru)

## **2 OPERATING ENVIRONMENT OF THE GROUP**

The economy of Russian Federation displays risks and characteristics of an emerging market, including relatively high inflation rates over several years. Global financial crisis, downturn of business activities and drop in world oil prices has had a significant impact on the economic situation in Russian Federation.

Under the indicated circumstances, economic prospects of Russian Federation are mostly dependent on efficiency of stabilizing measures undertaken by the Russian Government.

The Group Management is unable to predict all developments which could have an impact on the economy of the Russian Federation and also what effect, if any, they could produce on the future financial position of the Group (Note 33.3).

## **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

### **3.1. Basis for Presentation of Consolidated Financial Statements**

The Group keeps its accounting records and prepares accounting statements in line with Federal Law on Accounting and Regulations of Accounting Reporting and Statements in Russian Federation (RAS).

The attached consolidated financial statements have been prepared on the basis of accounting reporting data and appropriately adjusted in order to observe the requirements of international financial reporting standards (IFRS).

International financial reporting statements comprise standards and interpretations approved by Committee for International Financial Reporting Standards (CIFRS) including International Accounting Standards (IAS) and interpretations published by Committee for Interpreting International Financial Reporting Standards (CIIFRS).

### **3.2. First Adoption of IFRS for Preparation of Consolidated Financial Statements**

These consolidated financial statements have been prepared by the Group's Management in accordance with International Financial Reporting Standards for the year ended on December 31, 2010.

January 1, 2008 is the date of transfer from national accounting standards to international financial reporting standards.

Taking into account some exclusions, IFRS 1 "First Adoption of International Financial Reporting Standards" requires a retrospective application of IFRS standards while preparing an opening balance as of January 1, 2008 and during consecutive periods till the balance sheet date of the first consolidated financial statements under IFRS. When preparing consolidated financial statements, the Group applied mandatory and voluntary exclusions permitted by IFRS 1.

### **3.3. Principles of Consolidation**

#### **3.3.1. Subsidiaries and Organizations Controlled by the Group**

Companies relate to the Group's subsidiaries when the Group has the power to determine the financial and operating policies in order to gain own benefits from their activities. Consolidated financial statements comprised subsidiaries in which the Group owns more than 50% of voting shares and can exert its control. Subsidiaries in which the Group owns less than 50% of voting shares but can exert its control through other means are also included into these consolidated financial statements. Such control is maintained through majority held in the Board of Directors or in analogous governing bodies.

The consolidated financial statements of the Group reflect the results of activities of acquired subsidiaries from the moment when the actual control over those appears till the date when such control ceases. While preparing consolidated financial statements, all balances for settlements and operations within the Group as well as unrealized gains and losses arising from operations within the Group are excluded.

A purchase method is used to account for the Group's acquisition of subsidiaries including companies under joint control. The cost of an acquisition is measured at the fair value of the assets given up, shares issued and liabilities

**OAO "SELIGDAR" AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements for the Year Ended on December 31, 2010**

*(In thousands of US dollars, unless otherwise stated)*

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incurred at the date of exchange plus costs directly attributable to the acquisition. The date of acquisition is the date when a business combination is accomplished. If a business acquisition is conducted in stages, costs of acquisition are measured on the date of each transaction.

All identifiable assets and liabilities and contingent liabilities of all subsidiaries are measured at fair value on the date of acquisition. The fair value is determined by an independent appraiser.

A minority interest in net assets of consolidated subsidiaries is presented separately from the Group's equity. A minority share comprises this share on the date of acquisition and a minority interest in changes in equity for the periods which follow the date. Losses affecting a minority interest and exceeding their share in the equity of a particular subsidiary are posted in the Group's results in an amount exceeding the existing liabilities of minority shareholders and possibility to additionally invest to cover such losses.

**3.3.2. Associates**

Associates are entities over which the Group has significant influence due to its participation in the financial and management decision-making process, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Associated organizations are accounted by the equity method from the moment such significant influence on the entities appears and till the moment such influence ceases.

Activities' results of associates are accounted for using the equity method on the basis of their latest financial statements. Losses of associates are recorded in the consolidated financial statements till the moment when investments into such associates are written off to zero. Afterwards, losses are recorded only in the amount of the Group's liabilities to provide financial aid to these associates.

The current book value of investments into associates is a value of acquisition including goodwill along with the Group's share in retained profits received after the acquisition and any other changes in reserves that make part of equity capital of these entities. A carrying value of investments into associates is regularly measured for impairment and decreased, if impairment occurs, in the period when this impairment is identified.

Unrealized gains and losses resulting from transactions that involve associates are eliminated in proportion equaling the Group's interest in the equity of the associates.

**3.3.3. Goodwill**

When acquiring a share in a subsidiary or an associate entity, any excess of the cost of a purchase over the fair value of the acquired assets, liabilities and contingent liabilities at the date of acquisition affects goodwill's quality. Goodwill on acquisitions of subsidiaries is presented separately in non-current assets, while goodwill on acquisitions of associates is included in a book value of investments in associates.

Goodwill is tested for impairment at least annually, and in case impairment arises the amount of impairment is recorded in profit and losses in the period when supporting evidence is identified and is not reversed afterwards.

When a subsidiary or an associate is disposed, goodwill is accounted for while determining profit or loss on disposal.

When acquiring a share in a subsidiary or an associate entity, any excess of the fair value of the acquired assets, liabilities and contingent liabilities over the cost of a purchase on the date of acquisition is recognized in profit and losses in the period when it occurs.

### **3.4. Adoption of New or Revised IFRS Standards and Interpretations**

#### **3.4.2. New standards and interpretations became effective in the reported period**

During the reported period certain new standards and interpretations relating to the Group activity's regulation came into force:

- Amendment to IFRS 2 "Payments Based on Shares" – "Terms of Receiving and Annulling Payments" (effective for annual periods beginning on or after 1 January 2009);
- Amendment to IFRS 3 "Business Combinations" and consecutive amendments to IAS 27, "Consolidated and Separate Financial Statements", IAS 28 "Investments in Associates", and IAS 31 "Participation in Joint Entrepreneurship" are effective for business combinations which acquisition date falls on the beginning (or later date) of the first annual reporting period beginning on or after 1 July 2009);
- IFRIC 17, "Distributions of Non-Cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009);
- IFRIC 18, "Transfers of Assets from Customers" (effective for annual periods beginning on or after 1 July 2009).

Adoption of the above new standards and introduced changes into existing standards beginning from January 1, 2010 has no significant impact on the financial statements of the Group for the period ended on December 31, 2010.

#### **3.4.2. New standards and interpretations to become effective**

Certain new standards and interpretations did not become effective on December 31, 2010 and were not used by the Group while preparing its financial statements:

- IFRS 9, "Financial Instruments Part 1: Classification and Measurement" - was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets;
- IAS 24, "Related Party Disclosures" (issued in November 2009 and is effective for annual periods beginning on or after 1 January 2011);
- IAS 32, "Financial Instruments: Representation" – "Classification of Rights to Acquire Additional Shares" (effective for annual periods beginning on or after 1 February 2010);
- IFRIC 19 – "Extinguishing financial liabilities with equity instruments" (effective for annual periods which start on or after July 1, 2010).

The Group's Management is evaluating the impact of these standards and interpretations on preparation of the financial statements for the future periods.

Unless otherwise is stated above, these new standards and interpretations are not expected to significantly affect the Group's financial statements.

### **3.5. Functional and Presentation Currency of Consolidated Financial Statements**

The national currency of the Russian Federation is Russian Rouble which is the functional currency of the Group as it reflects the economic essence of its operations.

Operations in foreign currencies are originally recorded in the functional currency according to the exchange rate on the date of an operation. Monetary assets and liabilities expressed in foreign currencies are restated into the functional currency according to the exchange rate on the reporting date. Differences arising in the course of restatements are carried in profit or loss. Non-monetary items recorded at historical value in foreign currencies are restated according to the exchange rate on the date of an operation. Non-monetary items recorded at fair value are restated according to the exchange rates effective for the date of determining a fair value.

The attached consolidated financial statements are presented in US dollars being the presentation currency of the Group's consolidated financial statements.

Restatement into the presentation currency of the Group's consolidated financial statements is carried out in the following way:

- All assets and liabilities (both monetary and non-monetary ones) are translated at the closing rate on each date of that balance sheet (including comparative information) except for Share Capital which is restated at the exchange rate on the date of transfer to IFRS;
- all items of an income statement are translated at average rates for the reported periods;
- all resulting exchange differences are recognized in equity in Line "Translation Difference"; and

**OAO "SELIGDAR" AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements for the Year Ended on December 31, 2010***(In thousands of US dollars, unless otherwise stated)*

- balances of cash resources as of the beginning and ending of each reported period are restated in a statement of cash flows at rates on the respective dates. All cash flows are restated at average rates for the reported periods. The resulting exchange differences are carried in Line "Impact of Restatement into Presentation Currency".

Official currency exchange rates set by the Central Bank of Russian Federation and used for translation of assets and liabilities of the Group as well as its earnings and expenses into the statements presentation currency were the following:

<b>Russian Ruble to US Dollar</b>	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Rate at the Balance Sheet Date	30,4769	30,2442
Average Rate for the Year	30,3692	31,7231

**3.6. Going Concern Principle**

The attached consolidated financial statements have been prepared based on the going concern assumption which stipulates sale of assets and repayment of liabilities to be taken in a regular established manner.

The Group's ability to sell its assets and its future activity can be subject to serious impact on the part of current and future economic situation in Russia. The attached consolidated financial statements do not contain any adjustments which are required if the Group would not be able to continue its activity in accordance with going concern principle.

**3.7. Property, Plant and Equipment****3.7.1. Estimate of Mineral Resources Deposits**

The amount of proven and estimated deposits of mineral resources represents itself volumes of mineral resources that can be profitably and legally extracted at identified fields in the future. The main part of mineral deposits of the Group is assessed in accordance with the requirements of Russian Classification of Mineral Deposits in regard to deposits of core (ore) gold.

**3.7.2. Capitalized Expenses on Prospecting and Assessment of Mineral Resources**

Capitalized expenses on prospecting and assessment of mineral resources capitalized due to performance of prospecting - survey works and shaft-sinking and tunneling works of gold-mine deposits comprise:

- topographical, geological, geo-chemical and geo-physical studies;
- prospecting drilling;
- prospecting with a help of trench tunneling;
- prospecting testing; and
- works of assessing technical-economic indicators and commercial value of extracted gold deposits.

Capitalized expenses on prospecting and assessment of mineral resources are capitalized in assets when it is expected that these expenses will be recovered in the course of the future commercial exploitation of the respective field, or as a result of its sale, or when prospecting and assessment activities on the reported date does not reach the stage which allows making a reasonable assessment of existence of commercially effective deposits. When technical possibility to extract gold deposits is proved, capitalized expenses on prospecting and assessment of mineral resources are transferred into assets for prospecting and assessment of mineral resources.

**3.7.3. Assets for Prospecting and Assessment of Mineral Resources**

Assets for prospecting and assessment of mineral resources are accounted for at initial value less amounts of accumulated depreciation.

Assets for prospecting and assessment of mineral resources are depreciated using a straight-line method with the account for the period of developing a field measured on the basis of assessment of proven and estimated deposits of mineral resources during the period from 4 till 20 years. Depreciation is charged from the moment a new field reaches commercial volumes of production. Depreciation is included into cost of sale of production.

**3.7.4. Licenses to Right to Use Subsoils**

Licenses to right to use subsoils are accounted at initial value less sums of accumulated depreciation and any

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accumulated losses from impairment. Depreciation of the value of acquired licenses to right to use subsoils is charged proportionally to the volume of production at each field based on proven deposits.

**3.7.5. Other Fixed Assets**

After initial recognition, items of fixed assets are recorded at initial value less accumulated amortization and losses from impairment, if any

Subsequent expenses are included into a separate asset or stated as a separate asset only if they increase future economic benefits for the Company from using this asset and if the value of the asset can be reliably measured. Costs related to repairs and technical maintenance are charged to expense of the current period. Costs of replacing major parts or components of property, plant and equipment items are capitalized and the replaced parts are concurrently retired.

Land is not depreciated. Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives provided below:

Buildings and Structures	3-81
Machinery and Equipment	1-50
Vehicles	2-15
Other	1-10

If an item of property, plant and equipment is made of several elements with various useful lives, such elements are stated as separate assets.

Gains and losses occurring due to the retirement of fixed assets are determined by comparing the proceeds with their book value. They are recognized in an income statement.

**3.7.6. Capital Construction in Progress**

Capital construction in progress comprises expenses directly related to preparation of the territory of a future quarry for extraction and production process, construction of buildings, processing units and creation of necessary infrastructure. These assets are depreciated since the moment of their putting into operation.

**3.7.7. Leased Fixed Assets**

A lease under which all the risks and benefits connected with a right to ownership of the asset is classified as a financial lease. Assets received on financial lease terms are capitalized in fixed assets at the least of the following: a fair value or a current discounted value of future minimal lease payments on the date of acquisition with concurrent recognition of lease liabilities at the same cost. Leased fixed assets are depreciated over the useful service period of the asset.

Payments under financial lease are distributed by the effective interest method between interest on financial lease included into interest expenses and a sum of repayment of the principal reducing an amount of liabilities before a lessor.

**3.7.8. Capitalized Expenses on Stripping**

The Group capitalizes incurred expenses on stripping and refers them to cost of sales of gold using an average stripping ratio calculated based on the time period of the field development. This ratio is calculated as ratio of a number of cubic meters of waste rock to one ton of ore measured for the total period of the field development and with the account for proven and estimated deposits of mineral resources. An average stripping ratio for the total period of a field development is reviewed annually or more often if there are data about changes in deposits of mineral resources. Changes of an average stripping ratio measured on the basis of the period of a field development are recorded in statements of the reported period in which they occur.

Incurred expenses on stripping are capitalized when a stripping ratio in the current period exceeds an average stripping ratio calculated on the basis of the period of a field development. These deferred expenses on stripping are written off to cost of sales of gold in the period when a current stripping ratio is less than an average stripping ratio calculated on the basis of the period of a field development.

Capitalized expenses on stripping are included into a respective unit generating cash flows. The Group reviews cost of capitalized expenses on stripping for impairment when there are indications of impairment of respective units which generate cash flows. Capitalized expenses on stripping are written off to cost of sales of gold.

**3.9. Impairment of Assets excluding Financial Assets**

### **3.9.1. Impairment of Capitalized Expenses on Prospecting and Assessment of Mineral Resources and Licenses to Right to Use Subsoils**

Capitalized Expenses on Prospecting and Assessment of Mineral Resources are valued by the Group for their impairment when there are indications that they are impaired through comparing a book value of assets with their recoverable value. The following indicators, among the others, point out to necessity to perform assessment of recoverable value of assets:

- Expiration of license within the reported period or in the nearest future without sufficient assurance in regard to its extension;
- expenses on further prospecting – survey and shaft-sinking and tunneling works are not planned and are not budgeted;
- there are no economic grounds and technical possibilities for further conducting of prospecting –survey and shaft-sinking and tunneling works resulting in taking a decision to terminate the works;
- there is high probability that even if prospecting –survey and shaft-sinking and tunneling works are completed successfully, a book value of these assets is unlikely to be paid off in the course of exploitation or sale.

For the purposes of reviewing capitalized expenses on prospecting and assessment of mineral resources for impairment such capitalized expenses relate to units generating cash flows, namely to licensed lots.

Impairment losses are promptly recognized as expense in accordance with accounting policies in respect to impairment of tangible assets presented below.

### **3.9.2. Impairment of Tangible Assets Excluding Capitalized Expenses on Prospecting and Assessment of Mineral Resources and Licenses to Right to Use Subsoils**

The Group tests the value of its tangible assets for their impairment when there are indications that they are impaired through comparing a book value of assets with their recoverable value. If it is impossible to estimate a recoverable value of a separate asset, the Group makes assessment of the recoverable value of the unit generating cash flows to which that asset relates to.

A recoverable value is determined as the most of the following figures: a fair value less expenses on sale or a value of an asset in use. If an established recoverable value of any asset (or a unit that generates cash flows) is lower than its book value, the book value of the asset (or a unit that generates cash flows) is reduced till the amount of its recoverable value. Impairment losses are immediately recognized as expense in the current period excluding instances when the respective asset is carried at overstated value and impairment loss is accounted for as a decrease in provision for revaluation.

In cases where impairment loss is subsequently reversed, a book value of the asset (a unit that generates cash flows) is increased to the amount determined as a result of new assessment of its recoverable value, though in a way that a new book value does not exceed a book value which would have been determined if the impairment loss for this asset (a unit that generates cash flows) had not been recorded in the previous periods.

Reversal of the impairment loss is carried in profit and loss excluding instances when the respective asset is stated at the value determined as a result of revaluation, and in this case the reversal of the impairment loss is carried as increase of provision for revaluation.

## **3.10. Financial instruments**

### **3.10.1. Financial assets**

The Group classifies financial assets in the following categories: financial assets "at fair value through profit or loss" (FVIS), "available-for-sale" financial assets and "loans and receivables". Financial assets held-to-maturity investments and. The classification depends on the nature and purpose of the particular financial asset and is determined at initial recognition.

#### **3.10.1.1. Method of Effective Interest Rate**

Method of effective interest rate is a method which calculates a depreciable value of the financial asset or liability, and interest income or expense for the respective period are distributed. An effective interest rate is a rate which properly discounts estimated future cash flows (including all remunerations on invoices paid or received which form an inherent part of the effective interest rate, operating costs and other considerations and discounts) over the expected service period of this financial asset or liability, or, if possible, a shorter period.

#### **3.10.1.2. Financial Assets at Fair Value through Profit or Loss**

Financial assets of FVIS are financial assets held for sale. Financial assets fall into this category if they are acquired only for the purpose of realization within a short time period. Derivative financial instruments are also classified in the category as held for sale until they are determined as being hedged. Assets in this category are classified as current assets.

### **3.10.1.3. Available-for-sale Financial Assets**

A fair value of non-quoted debt securities classified as available-for-sale financial assets is determined on the basis of methods of discounted cash flows using an existing market interest rate for analogous financial instruments.

Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity less income tax. When securities classified as available-for-sale are disposed or impaired, the accumulated fair value adjustments are included in the income statement as gain (loss) from disposal of available-for-sale financial assets. Interest income on debt securities available-for-sale is calculated by the efficient interest rate method and is recognized in the income statement.

### **3.10.1.4. Loans and Receivables**

Loans, trade and other receivables which have fixed or established payments and are not floated on stock markets are classified as loans and receivables. Commodity loans and receivables are recognized in the sum of the issued invoice less provision for impairment. Long-term receivables are recognized at fair value and subsequently at amortized cost using the effective interest rate method less provision for impairment. Interest income is recognized using effective interest rate method excluding short-term receivables when recognition of the interest will be not material.

### **3.10.1.5. Impairment of Financial Assets**

At each reporting date financial assets excluding those with fair value changes recorded in the income statement are estimated for existence of impairment indications. Financial assets are impaired where there is objective evidence that as a result of one or more events arising after initial recognition of the financial asset estimated future cash flows will be changed.

Objective evidence of impairment can comprise:

- significant financial difficulty of the issuer or counteragent; or
- non-fulfillment of obligations or non-payment of interest or the principal; or
- it becomes probable that a borrower will be considered a bankrupt or financially insolvent.

In respect to financial assets stated at amortized cost, a sum of impairment is a difference between the current value of the asset and the actual value of estimated future cash flows discounted at initial effective interest rate of the financial asset.

For the exception of debt instruments available for sale, if, over the respective period, a sum of loss from impairment decreases and the decrease can be directly referred to the event that occurs after this impairment is recognized, the earlier recognized loss from impairment is reversed in the income statement until the current value of investment at the date of impairment recognition exceeds the amortized cost which would have been posted without recognized impairment.

In respect to available-for-sale securities, impairment loss earlier recognized in the income statement is not reversed through it. Any increase of the fair value after impairment loss recognition is stated immediately in equity.

### **3.10.1.6. Derecognition of Financial Assets**

The Group does not recognize a financial asset only if rights to receive cash flows from the asset expire or the Group transfers the financial asset to another party and, respectively, all risks and benefits connected with the asset's ownership.

## **3.10.2. Financial Liabilities and Capital**

### **3.10.2.1. Classification of Instruments: Debt- or Equity -**

Debt and equity instruments are classified as financial liabilities or as equity in accordance with contractual terms.

### **3.10.2.2. Equity Instruments**

Equity instrument is any contract which confirms the remaining share in the asset of the entity after deduction of its all liabilities. Equity instruments issued by the Group are stated in received additions less direct costs of issue.

### **3.10.2.3. Financial Liabilities**

Financial liabilities are classified as financial liabilities "at fair value through profit or loss" with their changes carried in the income statement, or as "other financial liabilities".

### **3.10.2.4. Financial Liabilities at Fair Value through Profit or Loss**

Financial liabilities are classified as liabilities "at fair value through profit or loss", the changes of which are carried in the

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income statement when financial liabilities are designated for sale or defined as liabilities at fair value through profit or loss with the changes posted in the income statement.

Financial liabilities at fair value through profit or loss are carried at fair value; gains or losses from a change in the fair value are recognized in the income statement. Net gain or loss recognized in the income statement comprises any interest paid under the financial liability.

#### **3.10.2.5. Other Financial Liabilities**

Other financial liabilities including borrowings are initially recognized at fair value less transaction costs. The fair value is calculated through discounting future cash flows at the current market rate applied to financial instruments with similar conditions. Afterwards, other financial liabilities are estimated at depreciable value using the effective interest rate method and recognition of expenses on interest on the actual basis. Realized and unrealized gains and losses arising from changing fair value are carried in the income statement as financial income and expenses in the period when they occur.

Borrowings are classified as long-term if they are expected to be repaid in more than 12 months after the reporting date.

If the Group's Management intends to repay a credit within 12 months after the reporting date, the nominal cost of the credit with the account for corresponding adjustments is considered to be equal to its fair value.

Trade payables do not hold interest and are accounted by sums of presented invoices. If the Group's Management intends to repay a payable within 12 months after the reporting date, its nominal cost is considered to be equal to its fair value.

#### **3.10.2.6. Derecognition of Financial Liabilities**

The Group derecognizes financial liabilities only and exclusively when they are collected, cancelled or expire.

### **3.11. Inventories**

#### **3.11.1. Refined Gold**

Inventories of refined gold are carried at the lowest of the following amounts: net production cost of sales or net price of possible realization. Net production cost of sales of a gold unit is calculated dividing total costs of sales of production by total volume of extracted gold to be sold.

Production costs include expenses on materials and spare parts, wages and salaries, mineral resources extraction tax, utilities, costs of third parties' services to extract ore, costs of affintage, other expenses, depreciation of fixed assets, as well as capitalized expenses on stripping, changes in provision for land rehabilitation, changes of inventories of gold at the stage of processing and refined gold.

#### **3.11.2. Production in Progress and Ore Dumps**

Production in progress represents itself gold being at the stage of processing and ore dumps.

The Group makes assessment of net price of possible sale at least annually. A price of possible sale based on market prices less costs of completing production in progress till refined gold is equaled with net production cost of sales.

Gold being at the stage of processing is evaluated by net production cost of sales of a product unit with the account for degree of readiness at this stage of processing.

Ore dumps are evaluated based on the amount of tons of ore extracted and sent for processing from ore dumps, content of gold in ore and gold extraction percentage calculated based on a method of planned processing. Besides, the Group makes stock-taking of ore volumes in ore dumps.

#### **3.11.3. Other Inventories and Materials**

Other inventories and materials represent themselves disposable materials and are evaluated at average weighted cost of sales less provision for impairment.

### **3.12. Share Capital**

Share capital is carried at actual cost. Investments in Share Capital in the form of non-monetary assets are carried at fair value on the date the investment takes place. Shares bought out from a participant are carried at actual cost.

### **3.13. Dividends**

Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Information about dividends is disclosed in Notes to consolidated financial

statements if they are declared after the balance sheet date or declared after the balance sheet date but before consolidated financial statements are approved.

### **3.14. Deferred Income Tax**

Income tax for the reporting period includes sums of current and deferred tax. Current tax is a tax to be paid and calculated based on taxable income for the period and tax rates effective on the date of completing the statements and comprises income tax adjustments for the previous periods.

Deferred income tax is measured, using the balance sheet liability method in regard to temporary differences arising between the data from accounting reporting and data used for the purposes of calculating taxable income.

Deferred tax liabilities, as a rule, are recorded in respect to all temporary differences that increase taxable income, and deferred tax requirements are carried with the account for probable existence in the future of taxable income from which temporary differences taken for taxation purposes can be deducted.

Deferred tax requirements and liabilities are counted when they relate to income tax levied by the same tax body, and the Group has intention to count its tax requirements and liabilities.

Deferred taxes are calculated under rates which are expected to be applied in the period of an asset's realization or liability's repayment. They are carried in the income statement excluding cases when they are connected with items directly referred to equity in which case deferred taxes are stated in equity.

### **3.15. Payments to Employees**

#### **3.15.1. Retirement Payments**

The Group has no additional schemes for retirement plans other than participation in the state retirement system of Russian Federation which envisages current contributions from an employer as a per cent of current total payments to employees. Such expenses are recognized in the period to which the respective payments to employees relate to. Besides, the Group does not have benefits provided to employees on their retirement or other significant provided benefits that require charging.

#### **3.15.2. Payments on Termination of Labor Activities**

In accordance with relevant legislation the Group is obliged to ensure payments to its employees resigning due to certain circumstances. Management considers that in respect to the Group probability of occurrence of such circumstances is not high. Therefore, these circumstances have no significant impact on consolidated financial statements and work of the Group.

### **3.16. Estimate Liabilities (Provisions)**

Estimate liabilities are stated in the accounting when: (a) the Group has an existing liability (legal or practical) due to a past event; (b) it is probable that settlement of the liability would require outflow of resources bearing economic benefits; and (c) a sum of the liability can be reliably estimated.

### **3.17. Contingent Assets and Liabilities**

The nature of contingent assets and liabilities envisages that they are realized only if there is occurrence or absence of one or more future events. Assessment of such contingent assets and liabilities is inherently connected with application of significant subjective judgment and assessment of results of future events.

### **3.18. Revenue recognition**

#### **3.18.1. Revenue from Sale of Refined Gold**

Proceeds from sales of refined gold are recognized when all major risks and benefits resulting from ownership rights are transferred to the buyer. Revenue from sale of gold is a total sum of invoices presented to buyers for delivery of refined gold. Revenue from sale of side products is carried as decrease of production costs.

### **3.19. Liabilities for Environment Restoration**

Obligations to restore environment comprises expenses on land rehabilitation.

Obligations to restore environment are recognized at the moment when liabilities of the Group appear in respect to these expenses and their amount can be estimated with an adequate degree of authenticity.

Provision for rehabilitation of land destroyed in the course of production activities after the field reaches the level of commercial volumes of production is measured as a net current value of expected expenses while repaying the liability. Change in provision is carried in the income statement as production cost of sales. Increase of provision for land rehabilitation due to discount depreciation is stated in profit or loss as financial expenses.

Obligations to restore environment are regularly reviewed with the account for relevant legislation and regulations and, if necessary, the existing estimate is adjusted.

### **3.20. Significant Assumptions and Judgments when Applying Accounting Policies**

While preparing consolidated financial statements in line with IFRS, Management uses various assumptions and estimates that can affect the reported amounts of assets and liabilities of the Group, disclosure of contingent assets and liabilities as well as sums of earnings and expenses in the reporting period. Making estimates is of subjective nature and depends on previous experience, current and expected economic conditions and other available information. Actual results can vary from indicated estimates and Management can reconsider its estimates for the future both in positive and negative direction taking into account facts connected with each estimate.

Below assumptions are provided which can have the most significant impact on indicators of financial statements, as well as estimates that can lead to significant changes in the book value of assets and liabilities over the next financial year.

#### **3.20.1. Useful Service Periods of Assets for Prospecting and Assessment of Mineral Resources**

Assets for Prospecting and Assessment of Mineral Resources are depreciated using a straight-line method during the respective periods of fields' development on the basis of proven and estimated deposits of mineral resources. When determining a period of fields' development, assumptions effective at the time of the assessment can alter if additional information appears.

Factors which can affect determining a period for development of a field include:

- changes of proven and estimated deposits of mineral resources;
- significant change of metals' content in ore over the time;
- difference between actual and estimated prices for metals used when assessing deposits of mineral resources;
- arising of unforeseen operating problems on a field; and
- changes in capital expenditures, operating expenses, costs of extraction, metals' processing and environmental recovery, rates of discounting and foreign exchange rates which can negatively affect economic efficiency of deposits of mineral resources.

Changing of any of the listed factors can result in a change of depreciation periods of assets for prospecting and assessment of mineral resources and their current value.

#### **3.20.2. Capitalized Expenses on Stripping**

The Group capitalizes incurred expenses on stripping and writes them off to cost of sales of gold using an average stripping ratio calculated on the basis of a field development period.

Factors which can affect capitalization of expenses on stripping and their writing off to cost of sales are the following:

- Changes of proven and estimated deposits of mineral resources;
- changing of mining work plans due to new circumstances related to technical-economic indicators of the field; and
- changing of planned relation of a number of cubic meters of waste rocks to one ton of ore calculated for the whole period of the field development.

#### **3.20.3. Obligations to Restore Environment**

The Group's mining and geological-prospecting works are regulated by various laws and regulations in the field of environmental protection. The Group makes an assessment of liabilities in regard to environmental protection based on the Group's Management understanding of requirements of relevant legislation of various jurisdictions, terms of license agreements and internal engineering estimates. Provision for land rehabilitation is recognized based on a net discounted value at the moment of occurrence of a respective liability. Actual expenses of future periods can significantly vary from a sum of the provision. Besides, an amount of this provision can be affected by changes of laws and regulations for environmental protection in the future, estimates of time for developing fields and discounting rates.

### **3.21. Segment Reporting**

The Group operates in one operating segment: extraction, processing and sale of refined gold. All production enterprises of the Group are located on the territory of Russian Federation. Therefore, the Group's activities are subject to analogous risks and have analogous advantages and are presented in consolidated financial statements as a single reporting segment.

## **4. REVENUE**

	<b>For the year ended on December 31, 2010</b>	<b>For the year ended on December 31, 2009</b>
Revenue from sale of gold	113 360	97 820

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Revenue from other sales	7 720	9 594
<b>Total</b>	<b>121 080</b>	<b>107 414</b>

**5. COST OF SALES**

	For the year ended on December 31, 2010	For the year ended on December 31, 2009
<b>Cash Operating Expenses</b>	<b>(71 785)</b>	<b>(68 719)</b>
Wages and salaries	(30 988)	(25 506)
Material and spare parts	(23 069)	(24 225)
Electricity	(3 364)	(3 710)
Tax for extraction of mineral resources	(6 930)	(5 698)
Costs of Affinage	(4 681)	(3 912)
Expenses on payment for services of third parties to extract ore	(1 317)	(3 517)
Other expenses	(1 436)	(2 151)
<b>Depreciation excluding depreciation of licenses (Decrease)/ increase of gold reserves at the processing stage and at the stage of refined gold</b>	<b>(9 422)</b>	<b>(6 397)</b>
<b>Total Cost of Sales</b>	<b>(56 372)</b>	<b>(59 189)</b>

**6. ADMINISTRATIVE EXPENSES**

	For the year ended on December 31, 2010	For the year ended on December 31, 2009
Wages and salaries	(6 400)	(5 107)
Materials	(612)	(943)
Services	(4 976)	(2 405)
Taxes	(822)	(331)
Depreciation of fixed assets	(728)	(520)
Other	(632)	(1 558)
<b>Total Administrative Expenses</b>	<b>(14 170)</b>	<b>(10 864)</b>

**7. OTHER OPERATING EXPENSES, NET**

	For the year ended on December 31, 2010	For the year ended on December 31, 2009
<b>Other Income</b>		
Gain from sale of materials and fixed assets	6 890	196
Gain from sale of financial assets assessed at fair value	-	266
Gain from sale of financial assets available for sale	153	31
Other income	419	354
<b>Total Other Income</b>	<b>7 462</b>	<b>847</b>

**Other Expenses**

Expenses from sale of materials and fixed assets	(6 847)	(171)
Expenses from sale of financial assets assessed at fair value	-	(169)
Expenses from disposal of financial assets available for sale	(139)	(7)
Change in provision for VAT to recover	558	(647)
Provision for decrease in value of receivables	(2 123)	(993)
Penalties, fees, loss recovery	(1 561)	(2 515)
Money allowances, charity	(127)	(189)
Other expenses	(1 270)	(1 404)

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	For the year ended on December 31, 2010	For the year ended on December 31, 2009
<b>Total Other Expenses</b>	<b>(11 509)</b>	<b>(6 095)</b>
<b>Total Other Operating Expenses, net</b>	<b>(4 047)</b>	<b>(5 248)</b>

**8. FINANCIAL EXPENSES, NET**

	For the year ended on December 31, 2010	For the year ended on December 31, 2009
<b>Financial Income</b>		
Exchange rate differences income/(expenses)	(699)	6 912
Interest receivable	4 213	3 397
Discounting of long-term payments income/(loss)	(1 039)	(144)
<b>Total Financial Income</b>	<b>2 475</b>	<b>10 165</b>
<b>Financial Expenses</b>		
Interest payable	(22 250)	(16 313)
Interest on financial lease	(585)	(390)
Depreciation of discount on provision for land rehabilitation	(375)	(593)
<b>Total Financial Expenses</b>	<b>(23 210)</b>	<b>(17 296)</b>
<b>Total Financial Expenses, net</b>	<b>(20 735)</b>	<b>(7 131)</b>

**9. INCOME TAX**

	For the year ended on December 31, 2010	For the year ended on December 31, 2009
Current income tax charge	(4 429)	(5 411)
Deferred income tax	(1 966)	3 520
<b>Income Tax Charge for the Period</b>	<b>(6 395)</b>	<b>(1 891)</b>

The effective income tax of the Group before taxes differs from the theoretical tax amount which is calculated using an effective tax rate for the tax applied to income in the following way:

	For the year ended on December 31, 2010	For the year ended on December 31, 2009
Profit before taxation	22 778	14 748
Tax rate	20%	20%
Theoretical income tax	(4 556)	(2 950)
Income/(expenses) not accepted for taxation, net	(1 839)	1 059
<b>Total Income Tax</b>	<b>(6 395)</b>	<b>(1 891)</b>

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**10. PROPERTY, PLANT AND EQUIPMENT**

	Capitalized expenses on prospecting and assessment of mineral resources	Licenses for extraction	Buildings and structures	Machinery and equipment	Transportation	Other	Construction in progress	Total
<b>Initial Cost</b>								
<b>As of December 31, 2008</b>	<b>11 959</b>	<b>186 520</b>	<b>31 417</b>	<b>26 512</b>	<b>8 913</b>	<b>761</b>	<b>2 475</b>	<b>268 557</b>
Additions as a result of acquisition of subsidiaries	-	-	174	639	2 135	125	2 130	5 203
Addition	5 060	35	1 043	1 835	3 741	426	8 601	20 740
Internal transfer	-	-	165	324	88	16	(593)	-
Disposal	-	-	-	(713)	(235)	(3)	-	(951)
Translation difference	(240)	(5 325)	(830)	(655)	26	6	462	(6 556)
<b>As of December 31, 2009</b>	<b>16 779</b>	<b>181 230</b>	<b>31 969</b>	<b>27 942</b>	<b>14 667</b>	<b>1 331</b>	<b>13 075</b>	<b>286 993</b>
<b>Accumulated depreciation</b>								
As of January 1, 2009	(190)	(14 390)	(1 112)	(2 940)	(951)	(90)	-	(19 673)
Additions as a result of acquisition of subsidiaries	-	-	(28)	(280)	(1 877)	(80)	-	(2 265)
Addition	(177)	(10 234)	(1 260)	(3 900)	(2 101)	(178)	-	(17 849)
Disposal	-	-	-	41	19	1	-	61
Translation difference	(3)	329	(31)	(118)	(166)	(9)	-	1
<b>As of December 31, 2009</b>	<b>(370)</b>	<b>(24 294)</b>	<b>(2 431)</b>	<b>(7 198)</b>	<b>(5 075)</b>	<b>(357)</b>	<b>-</b>	<b>(39 725)</b>
<b>Residual Value</b>								
<b>As of December 31, 2008</b>	<b>11 769</b>	<b>172 130</b>	<b>30 305</b>	<b>23 572</b>	<b>7 962</b>	<b>671</b>	<b>2 475</b>	<b>248 884</b>
<b>As of December 31, 2009</b>	<b>16 409</b>	<b>156 936</b>	<b>29 538</b>	<b>20 744</b>	<b>9 593</b>	<b>973</b>	<b>13 076</b>	<b>247 268</b>

**OAO "SELIGDAR" AND ITS SUBSIDIARIES**

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(In thousands of US dollars, unless otherwise stated)

<b>Initial Cost</b>								
<b>As of December 31, 2009</b>	<b>16 779</b>	<b>181 230</b>	<b>31 969</b>	<b>27 942</b>	<b>14 667</b>	<b>1 331</b>	<b>13 075</b>	<b>286 993</b>
Disposal as a result of sale of subsidiaries	(1 912)	-	-	-	-	(291)	(40)	(2 243)
Disposal as a result of loss of control over companies	-	-	(294)	(2 583)	(776)	(32)	(2 978)	(6 663)
Addition	3 911	224	353	7 348	-	929	5 869	18 634
Reclassification	-	-	-	589	(589)	-	-	-
Internal transfer	-	-	3 363	860	-	14	(4 237)	-
Disposal	-	(902)	(1 012)	(810)	(299)	(234)	-	(3 257)
Additions as a result of acquisition of entities	-	46 790	880	1 039	887	25	2 639	52 259
Translation difference	(135)	(1 380)	(251)	(222)	(102)	(11)	(83)	(2 185)
<b>As of December 31, 2010</b>	<b>18 643</b>	<b>225 961</b>	<b>35 007</b>	<b>34 162</b>	<b>13 788</b>	<b>1 730</b>	<b>14 245</b>	<b>343 537</b>
<b>Accumulated depreciation</b>								
<b>As of December 31, 2009</b>	<b>(370)</b>	<b>(24 294)</b>	<b>(2 431)</b>	<b>(7 198)</b>	<b>(5 075)</b>	<b>(357)</b>	<b>-</b>	<b>(39 725)</b>
Disposal as a result of loss of control over companies	-	-	86	2 154	342	17	-	2 600
Addition	(29)	(7 467)	(1 879)	(5 319)	(2 456)	(621)	-	(17 772)
Disposal	-	-	25	114	62	11	-	211
Translation difference	3	210	24	58	44	6	-	345
<b>As of December 31, 2010</b>	<b>(396)</b>	<b>(31 551)</b>	<b>(4 175)</b>	<b>(10 192)</b>	<b>(7 083)</b>	<b>(944)</b>	<b>-</b>	<b>(54 341)</b>
<b>Residual Value</b>								
<b>As of December 31, 2009</b>	<b>16 409</b>	<b>156 936</b>	<b>29 538</b>	<b>20 744</b>	<b>9 593</b>	<b>973</b>	<b>13 075</b>	<b>247 268</b>
<b>As of December 31, 2010</b>	<b>18 247</b>	<b>194 409</b>	<b>30 832</b>	<b>23 971</b>	<b>6 705</b>	<b>786</b>	<b>14 245</b>	<b>289 195</b>

**OAO "SELIGDAR" AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements for the Year Ended on December 31, 2010**  
(In thousands of US dollars, unless otherwise stated))

**11. LONG-TERM FINANCIAL ASSETS AVAILABLE FOR SALE**

	Interest rate under contract	At December 31, 2010	At December 31, 2009
<b>Notes received from third parties in Russian Rubles:</b>			
OOO "Stroitekh"	15 %	-	861
<b>Notes received from related parties in Russian Rubles:</b>			
ZAO "Lunnoe"	11,5 %	7 498	7 233
<b>Loans given to related parties in Russian Rubles:</b>			
ZAO "Lunnoe"	0%	131	-
<b>Total Long-term Financial Assets Available for Sale</b>		<b>7 629</b>	<b>8 094</b>

For this category of assets the maximum exposure to credit risk corresponds to their full loss and equals to fair value of promissory notes received from third parties.

Information about pledges is provided in Note 32.1.

**12. DEFERRED TAX ASSETS AND LIABILITIES**

	As of December 31, 2010	As of December 31, 2009
Deferred tax assets	45	179
Deferred tax liabilities	(38 309)	(26 914)
<b>Deferred Tax Assets and Liabilities</b>	<b>(38 264)</b>	<b>(26 735)</b>
Changes of deferred assets and liabilities for income tax:		
	<b>2010</b>	<b>2009</b>
<b>As of January 1</b>	<b>(26 735)</b>	<b>(30 728)</b>
Income from deferred tax carried in the income statement	(1 966)	3 520
Translation difference	119	473
Impact from acquisition of subsidiaries		-
<b>As of December 31</b>	<b>(38 264)</b>	<b>(26 735)</b>

**OAO "SELIGDAR" AND ITS SUBSIDIARIES**  
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(In thousands of US dollars, unless otherwise stated)

**2010: DEFERRED TAX ASSETS:**

	<b>December 31, 2009</b>	Income/(expense) from deferred tax carried in the income statement	Translation difference	<b>December 31, 2010</b>
Inventories	255	(204)	(1)	50
Expenses of future periods	8 798	131	(23)	8 906
Short-term receivables and advances given	441	(396)	(2)	43
Liabilities for Environment Restoration	1 270	16	(5)	1281
Other assets and liabilities	351	7	(1)	357
<b>Total</b>	<b>11 115</b>	<b>(446)</b>	<b>(32)</b>	<b>10 637</b>

**DEFERRED TAX LIABILITIES:**

	<b>December 31, 2009</b>	Income/(expense) from deferred tax carried in the income statement	Acquisition of companies	Translation difference	<b>December 31, 2010</b>
Fixed Assets	(34 125)	(106)	(9 682)	136	(43 777)
Capitalized expenses on stripping	(1 374)	(599)	-	5	(1 968)
Inventories	(1 655)	(705)	-	6	(2 354)
Long-term payables	(180)	(94)	-	1	(273)
Other assets and liabilities	(516)	(16)	-	3	(529)
<b>Total</b>	<b>(37 850)</b>	<b>(1 520)</b>	<b>(9 682)</b>	<b>151</b>	<b>(48 901)</b>

**2009: DEFERRED TAX ASSETS:**

	<b>December 31, 2008</b>	Income/(expense) from deferred tax carried in the income statement	Translation difference	<b>December 31, 2009</b>
Inventories	895	(626)	(14)	255
Expenses of future periods	4 567	4 301	(70)	8 798
Short-term receivables and advances given	306	140	(5)	441
Short-term financial assets available for sale	599	(590)	(9)	-
Liabilities for Environment Restoration	1 180	108	(18)	1 270
Short-term payables and advances received	1 041	(1 025)	(16)	-
Loss	480	(473)	(7)	-
Other assets and liabilities	439	(81)	(7)	351
<b>Total</b>	<b>9 507</b>	<b>1 754</b>	<b>(146)</b>	<b>11 115</b>

**OAO "SELIGDAR" AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements for the Year Ended on December 31, 2010**  
*(In thousands of US dollars, unless otherwise stated)*

**DEFERRED TAX LIABILITIES:**

	<b>December 31, 2008</b>	Income/(expense) from deferred tax carried in the income statement	Translation difference	<b>December 31, 2009</b>
Fixed assets	(36 730)	2 040	565	(34 125)
Capitalized expenses on stripping	(1 404)	8	22	(1 374)
Inventories	(1 186)	(487)	18	(1 655)
Long-term payables	(270)	86	4	(180)
Other assets and liabilities	(645)	119	10	(516)
<b>Total</b>	<b>(40 235)</b>	<b>1 766</b>	<b>619</b>	<b>(37 850)</b>

**13. INVENTORIES**

	<b>As of December 31, 2010</b>	<b>As of December 31, 2009</b>
Ore dumps (less provision for decrease in value of inventories in the amount of 267 thousand US dollars on December 31, 2010 (2009: 1 292 thousand US dollars))	27 130	10 543
Gold at the stage of processing, at production cost of sales	14 822	6 126
Refined gold at net production cost of sales	-	36
Other inventories and materials	14 722	12 711
<b>Total Inventories</b>	<b>56 674</b>	<b>29 416</b>

Provision for price reduction is created for part of ore dumps acquired within the frame of business combinations. According to the Group's estimates the subsequent processing of these inventories is not economical due to low content of gold in ore.

**14. RECEIVABLES AND ADVANCES GIVEN**

	<b>As of December 31, 2010</b>	<b>As of December 31, 2009</b>
<b>Financial Assets</b>		
Receivables from buyers and customers (less provision for decrease in value of receivables in the amount of 204 thousand US dollars on December 31, 2010 (2009: 948 thousand US dollars))	188	1 574
Other receivables (less provision for decrease in value of receivables in the amount of 2 539 thousand US dollars on December 31, 2010 (2009: 1 257 thousand US dollars))	12 090	7 667
<b>Non-financial Assets</b>		
Advances given (less provision for decrease in value of receivables in the amount of 792 thousand US dollars on December 31, 2010 (2009: 0))	8 883	20 425
<b>Total receivables and advances given</b>	<b>21 161</b>	<b>29 666</b>

**OAO "SELIGDAR" AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements for the Year Ended on December 31, 2010***(In thousands of US dollars, unless otherwise stated)*

The estimated fair value of short-term receivables is approximately equal to its book value.

Other receivables include receivables from Mastco Holdings Limited in the amount of 4 530 thousand US dollars arisen as a result of selling an investment in OOO "Territoria".

As of December 31, 2010 other receivables in the amount of 2 539 thousand US dollars was impaired and a provision was created in respect to that. According to the Group's Management estimates the indicated debt will not be repaid.

The analysis of the receivables based on their durations is provided below:

	Total sum of debt		Changes in provision due to acquisition of subsidiaries		Sum of debt less provision	
	As of December 31, 2009	As of December 31, 2010	As of December 31, 2009	As of December 31, 2010	As of December 31, 2009	As of December 31, 2010
	From 2 to 4 years	693	1 282	(693)	(1 282)	-
Over 4 years	564	1 257	(564)	(1 257)	-	-
	<b>1 257</b>	<b>2 539</b>	<b>1 257</b>	<b>2 539</b>	-	-

**15. LOANS GIVEN**

	Interest rate under contract	As of December 31, 2010	As of December 31, 2009
<b>Loans granted to related parties in Russian Rubles:</b>			
ZAO "Lunnoe" (interest-free)	-	16	-
<b>Loans provided to third parties in Russian Rubles:</b>			
OOO "Spetzmontazhstroj"	15%	-	3 109
Pavlov S.V.	15%	-	4
Loans given to employees (interest-bearing)	from 1 to 15%	10	-
<b>Total loans granted</b>		<b>26</b>	<b>3 509</b>

**16. SHORT-TERM FINANCIAL ASSETS AVAILABLE FOR SALE**

	% rate under contract	As of December 31, 2010	As of December 31, 2009
<b>Promissory Notes received from third parties in Russian Rubles:</b>			
OOO "Stroitekh"	15%	854	-
<b>Promissory Notes received from related parties in Russian Rubles:</b>			
PK "Artel Staratelei "Seligdar"	15%	3 007	10 992
ZAO "Russian Funds"	15 %	-	5 494
ZAO "Lunnoe"	11,5%	3 114	-
OOO "Gaznefteinginiring"	from 8% to 12%	355	-

**OAO "SELIGDAR" AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements for the Year Ended on December 31, 2010**  
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<b>Total Short-term Financial Assets Available-for-Sale</b>	<b>7 330</b>	<b>16 486</b>
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**17. OTHER CURRENT ASSETS**

	<b>As of December 31, 2010</b>	<b>As of December 31, 2009</b>
Expenses of future periods	4 359	4 450
Prepayment for other taxes	155	117
<b>Total Other Current Assets</b>	<b>4 514</b>	<b>4 567</b>

Expenses of future periods related to pre-season preparation of production at gold-mining enterprises include, generally, expenses on stripping and ground excavation.

**18. CASH AND CASH EQUIVALENTS**

	<b>As of December 31, 2010</b>	<b>As of December 31, 2009</b>
Cash in hand	1	1
Cash resources on settlement accounts in bank – Russian Ruble	2 002	2 476
Cash resources on settlement accounts in bank – US Dollar	13	2 004
Other cash assets	-	71
<b>Total Cash Resources</b>	<b>2 016</b>	<b>4 552</b>

**19. SHARE CAPITAL**

As of December 31, 2010 and 2009 a sum of declared, issued and paid share capital of the Group is 20 039 thousand US dollars. As of December 31, 2010 and 2009 the Charter Capital consists of 500 000 000 ordinary shares with par value of 1 ruble which makes 0,04 US dollar.

As of December 31, 2010 and December 31, 2009 the shareholders were the following:

	<b>As of December 31, 2010</b>	<b>As of December 31, 2009</b>
PK "Artel Staratelei "Seligdar"	15%	15%
ALVE (SPC) LIMITED	1%	1%
HSBC BANK PLC	2%	2%
LAITA ASSOCIATED S.A.	6%	6%
Opian Financial Limited	1%	1%
PLASMA ENTERPRISES LIMITED	4%	4%
RBC Dexia Investor Services Bank S.A. PLC	-	-
VARMA MUTUAL PENSION INSURANCE COMPANY	-	-
GARDENCOM ENTERPRISES LIMITED	26%	26%
DANION INVESTMENTS LIMITED	3%	3%
ZAO "Bestinvest"	-	-
Kasatkin Maksim Alexandrovich	1%	1%
OOO "Azimut"	-	-
OOO "Preisish-Eilau"	15%	15%

**OAO "SELIGDAR" AND ITS SUBSIDIARIES**  
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FRT ASSETS LIMITED	4%	4%
Khudoliy Galina Vladimirovna	1%	1%
Yanygina Elena Alekseevna	1%	1%
THE BANK OF NEW YORK MELLON	8%	8%
OOO "Diapolyus"	2%	2%
OOO "Financial Investment Company "INTERFINANCE"	1%	1%
MASTKO HOLDINGS LTD	1%	1%
ZAO "Genezis Kapital"	1%	1%
Kasatkin Maksim Alexandrovich	1%	1%
Kiskin Vladimir Alexandrovich	2%	2%
Other legal entities and individuals	4%	4%
	<b>100%</b>	<b>100%</b>

**20. LONG-TERM CREDITS AND LOANS**

	<b>% rate under contract</b>	<b>As of December 31, 2010</b>	<b>As of December 31, 2009</b>
<b>Long-term credits in US dollars:</b>			
OAO "Sbergatelny Bank of RF"	9,35%	80 700	-
OAO "Promsvyazbank"	10 %	-	1 200
ZAO "Mezhdunarodny Aktzionerny Bank"	16 %	-	4 000
ZAO "YuniKreditBank"	from LIBOR +4,5% to 10,5% from 11% to 13 %	19 000 -	25 000 51 574
<b>Long-term bonds in Russian Rubles</b>	16,5 %	3 251	51 753
<b>Long-term loans in Russian Rubles:</b>			
PK "Artel Staratelei "Seligdar"	from 9,8 % to 15 %	-	2 273
<b>Total Long-term Credits and Loans</b>		<b>102 951</b>	<b>135 800</b>

Bonds represent themselves documentary unconvertible interest bonds payable to bearer of Series 1 and 4.

Bonds of Series 3 were issued on May 07, 2009 in the amount of 1 500 000 pieces with par value of 1 000 rubles (33 US dollars at the rate on the balance sheet date). Coupon period is 182 days. Bonds mature on April 30, 2014.

As of December 31, 2009 and 2010 long-term credits from banks are secured by revenue from sale of gold.

**21. FINANCIAL LEASE LIABILITIES**

As of December 31, 2010 the Group has the following liabilities related to financial lease:

<b>Maturity</b>	<b>Lease payments</b>	<b>Less interest expense of future periods</b>	<b>Financial lease payable</b>
Under 1 year	760	(69)	691
From 1 to 5 years	3 815	(1 090)	2 725
	<b>4 575</b>	<b>(1 159)</b>	<b>3 416</b>

As of December 31, 2009 the Group has the following liabilities related to financial lease:

<b>Maturity</b>	<b>Lease payments</b>	<b>Less interest expense of future periods</b>	<b>Financial lease payable</b>
Under 1 year	1 149	(370)	779
From 1 to 5 years	893	(113)	780

**OAO "SELIGDAR" AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements for the Year Ended on December 31, 2010***(In thousands of US dollars, unless otherwise stated)*

	<b>2 042</b>	<b>(483)</b>	<b>1 559</b>
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Under Financial Lease Agreement the Group leases cargo transportation vehicles and loading-unloading vehicles. When the lease finishes, ownership right to property is transferred to Lessee. Settlements under financial lease agreement are performed in US dollars.

**22. LIABILITIES FOR ENVIRONMENT RESTORATION****Provision for Land Rehabilitation**

Changes in provision for land rehabilitation are provided in the table below:

	<b>2010</b>	<b>2009</b>
As of January 1	6 353	5 899
Increase/decrease of liabilities including from change of discounting rate		-
Depreciation of discount on provision for land rehabilitation	375	593
Impact of restatement to presentation currency	(50)	(139)
<b>As of December 31</b>	<b>6 678</b>	<b>6 353</b>

Major applied assumptions:

	<b>2010</b>	<b>2009</b>
Discount rate	11,5 – 12,8 %	11,5 – 12,8 %
Expected date of quarries' closure	2011	2010-2011

The table below presents groups of discounted value of provision for land rehabilitation according to expected maturities:

	<b>As of December 31, 2010</b>	<b>As of December 31, 2009</b>
Under 1 year	6 678	2 017
From 1 to 2 years	-	4 336
	<b>6 678</b>	<b>6 353</b>

**23. SHORT-TERM LOANS**

	<b>% rate under contract</b>	<b>As of December 31, 2010</b>	<b>As of December 31, 2009</b>
<b>Short-term credits in foreign currency:</b>			
ZAO "Mezhdunarodny Aktzionerny Bank"	16%	-	2 000
OAO "Promsvyazbank"	10%	-	10 162
OAO "Sbergatelny Bank of RF"	9,35%	40 052	-
<b>Short-term bonds in Russian Rubles</b>	from 13 % to 14,5 %	4 139	-
<b>Current long-term credits in foreign currency:</b>			
ZAO "YuniKreditBank"	from LIBOR +4,5% to 10,5%	9 019	-
OAO "Sbergatelny Bank of RF"		120	-
<b>Current Long-term loans from related parties in Russian Rubles:</b>			
PK "Artel Staratelei "Seligdar"	from 0% to 15%	-	784

**OAO "SELIGDAR" AND ITS SUBSIDIARIES**  
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**Current short-term loans from related parties in Russian Rubles:**

PK "Artel Staratelei "Seligdar"	from 1% to 15%	-	953
Other	from 1% to 15%	90	8
<b>Total Short-term Credits and Loans</b>		<b>53 420</b>	<b>13 907</b>

Bonds of Series 1 were issued on June 13, 2006 in the amount of 300 000 pieces with par value of 1 000 rubles (33 US dollars at the rate on the balance sheet date). Coupon period is 91 days. Bonds mature on June 24, 2011.

Bonds of Series 2 were issued on November 23, 2007 in the amount of 500 000 pieces with par value of 1 000 rubles (33 US dollars at the rate on the balance sheet date). Coupon period is 182 days. Bonds mature on December 22, 2011.

As of December 31, 2010 and 2009 short-term credits from banks are secured by revenue from sale of gold.

**24. SHORT-TERM NOTES PAYABLE**

	<b>Interest rate under contract</b>	<b>As of December 31, 2010</b>	<b>As of December 31, 2009</b>
<b>Current part of long-term circulating notes payables transferred to related parties:</b>			
ZAO "Russian Funds"	5%	424	9 585
<b>Short-term circulating notes payable transferred to related parties:</b>			
OAO AB "Sir" Yakutsk	from 14% to 26%	9	634
ZAO AB "Aldanzolotobank"	from 16% to 20%	171	463
<b>Current part of long-term circulating notes payables transferred to third parties:</b>			
OOO "Diapolyus"	from 15% to 16,5%	317	131
<b>Other issuers</b>	from 15% to 25%	482	4 624
<b>Total Short-term Circulating Notes Payable</b>		<b>1 403</b>	<b>15 437</b>

The fair value of short-term promissory notes due is approximately equal to their book value.

**25. SHORT-TERM PAYABLES AND ADVANCES RECEIVED**

	<b>As of December 31, 2010</b>	<b>As of December 31, 2009</b>
<b>Financial liabilities</b>		
Trade payables to suppliers and contractors	16 257	5 019
Other payables	36 227	2 942
Payables to personnel	5 519	5 060
Payables for other taxes	2 284	2 785
<b>Non-financial liabilities</b>		
Advances received	2 468	3 451
<b>Total Short-term Payables and Advances Received</b>		<b>62 755</b>
		<b>19 257</b>

Other payables include payables to Backstar Holdings Limited, Tate Investments Limited and FRT Assets Limited in the amount of 7 571 thousand US dollars, 7 571 thousand US dollars, 14 900 thousand US dollars respectively for

**OAO "SELIGDAR" AND ITS SUBSIDIARIES**  
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the buyout of minority interest in the Group's subsidiaries and acquisition of 67% in OOO "Artel Staratelei "Sininda-1".

Tax payables are presented in the following way:

	<b>As of December 31, 2010</b>	<b>As of December 31, 2009</b>
Unified Social Charge	610	409
Individual Income Tax	1 046	1 961
Property tax	302	293
Transportation tax	23	18
Value added tax	-	2
Other taxes	303	102
<b>Total Short-term tax payables</b>	<b>2 284</b>	<b>2 785</b>

## 26. BUSINESS COMBINATIONS

As of December 31, 2010 the Group presents itself as combination of the following legal entities:

<b>Company</b>	<b>Activity</b>	<b>Ownership Share as of December 31, 2009</b>	<b>Ownership Share as of December 31, 2010</b>
OAO " Seligdar"	Prospecting, extraction and sale of gold	Parent Company	Parent Company
OAO "Zoloto Seligdara"	Prospecting, extraction and sale of gold	100%	100%
OOO "Ryabinovoe"	Prospecting, extraction and sale of gold	100%	100%
OOO "Teploservis"	Transportation services	70%	70%
OOO "Orenburgskaya Gornaya Kompania"	Prospecting, extraction and sale of gold	72%	90,57%
OOO "Evroart"	Extraction and sale of gold	100%	100%
OOO "Artel Staratelei "Poisk"	Prospecting, extraction and sale of gold	51 %	81,67%
OOO "Territoria"	Financial activities	66,8%	0%
OOO "A Z International"	Prospecting, extraction and sale of gold	50%	0%
OOO "Artel Staratelei "Sininda-1"	Extraction and sale of gold	- (earlier consolidated in respect to control)	67%

During 2010 the Group acquired a share in OOO "Artel Staratelei "Sininda-1" (Note 27).

During 2010 the Group sold its share in OOO "Territoria", OOO "AZ International" and lost control over OOO "Artel Staratelei "Sininda-1" (Note 28).

**OAO "SELIGDAR" AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements for the Year Ended on December 31, 2010***(In thousands of US dollars, unless otherwise stated)***27. ACQUISITION OF COMPANIES**

On December 31, 2010 the Group acquired 67% of OOO "Artel Staratelei "Sininda-1" from Backstar Holdings Limited, Tate Investments Limited and FRT Assets Limited for the total amount of 20,363 thousand US dollars.

As of December 31, 2010 the fair value of assets and liabilities of OOO "Artel Staratelei "Sininda-1" was presented in the following way:

	<b>OOO "Artel Staratelei "Sininda-1" (fair value)</b>
Cash and cash equivalents	403
Inventories	2 279
Receivables	2 380
Fixed and intangible assets	52 259
Payables	(3 493)
Loans	(11 970)
Deferred tax liability	(9 682)
<b>Total acquired net assets</b>	<b>32 176</b>
<b>Group's share with the account for fair value of minority interest</b>	<b>19,281</b>
<b>Minority interest at fair value</b>	<b>12,895</b>
Acquisition cost	20,363
<b>Acquisition result (recognized in Statement of comprehensive income)</b>	<b>1,082</b>
Sums paid for acquisition	-
<b>Inflow of cash from acquisition</b>	<b>403</b>

**28. DISPOSAL OF COMPANIES****OOO "Territoria" and "AZ International"**

On September 14, 2010 the Group sold its 29,9% stake in Share Capital of OOO "Territoria". On September 30, 2010 the Group sold the remaining 36,9% stake in Share Capital of OOO "Territoria".

As of September 30, 2010 assets and liabilities of OOO "Territoria" and "AZ International" are presented in the following way:

	<b>OOO "Territoria" and "AZ International"</b>
Cash and cash equivalents	5
Inventories	3
Receivables	17
Fixed and intangible assets	2 251
DTA	91
Loans	(23)
Long-term loans	(2 621)
<b>Total sold net assets</b>	<b>(277)</b>
<b>Cash received</b>	<b>5 294</b>

As of 01.01.2010 the Group did not consolidate OOO "Artel Staratelei "Sininda-1" due to the loss of control over this company:

	<b>OOO "Artel Staratelei "Sininda-1"</b>
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**OAO "SELIGDAR" AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements for the Year Ended on December 31, 2010***(In thousands of US dollars, unless otherwise stated)*

Cash and cash equivalents	297
Inventories	4 271
Receivables	2 892
Fixed and intangible assets	4 063
Loans	(13 728)
Long-term loans	(190)
<b>Total sold net assets</b>	<b>(2,395)</b>
<b>Cash received</b>	<b>-</b>

**29. INVESTMENTS IN ASSOCIATES**

	As of December 31, 2010	As of December 31, 2009
<b>Investments in Associates:</b>		
ZAO "Lunnoe"	47	-
ZAO AB "Aldanzolotobank"	768	-
<b>Total investments in associates</b>	<b>815</b>	<b>2 785</b>

Within the frame of acquiring a subsidiary OAO "Zoloto Seligdara" a share in the associate company ZAO "Lunnoe" was purchased which was created in order to develop gold-uranium field "Lunnoe". Within the frame of this project implementation the Group has been brought in as a private investor.

As of December 31, 2010 the owners of ZAO "Lunnoe" are a state structure OAO "Atomredmetzoloto" – in the amount of 50.03% and OAO "Zoloto Seligdara" - in the amount of 49.97%.

During 2008 and 2009 ZAO "Lunnoe" was operating at a loss, and therefore, the Group did not recognize the indicated investment.

	As of December 31, 2010	As of December 31, 2009
Assets	19 915	12 321
Liabilities	19 760	10 863
Profit / (loss)	-	(5)

In 2010 OAO "Seligdar" acquired 44,371% in ZAO AB "Aldanzolotobank", the aggregate statements of which are provided below:

	As of September 30, 2010 *	As of December 31, 2009
Assets	18 522	17 680
Liabilities	15 396	14 614
Profit / (loss)	84	98

\* the latest published statements of ZAO AB "Aldanzolotobank" as of September 30> 2010 in accordance with RAS.

**30. FINANCIAL RISK MANAGEMENT**

Within the frame of its operations the Group is exposed to a number of financial risks: market risk (including currency risk, interest rate risk), credit risk and liquidity risk.

**30.1. Market risk**

Market risk is the risk of impact of changes in market factors, including price on gold and quoted securities, foreign currency exchange rates, interest rates on the Group's financial performance or the value of financial instruments owned thereby.

**30.2. Risk of change in gold prices**

Risk of price changes is the risk of negative impact of changes in market gold prices on the Group's financial results. The Group's management monitors gold prices and also tracks forecasts prepared by the market experts and believes that the tendency for price increase will continue in future.

**30.2.1. Interest rate risk for cash flows**

Interest rate risk is connected with changes in interest rates that can adversely influence the financial results of the Group.

Credits and loans provided at variable interest rates subject the Group to the risk of impact of changes in interest rates on cash flows. Loans with fixed interest rates subject the Group to the risk of impact of changes in interest rates on fair value.

Book values of credits and loans at fixed and floating rates are presented below:

<b>Russian Rouble to US dollar</b>	<b>As of December 31, 2010</b>	<b>As of December 31, 2009</b>
<b>Long-term credits and loans</b>		
At fixed interest rates	83 951	135 800
At floating interest rates	19 000	-
<b>Short-term credits and loans</b>		
At fixed interest rates	44 401	13 907
At floating interest rates	9 019	-
<b>Short-term notes to pay</b>		
At fixed interest rates	1 403	15 437
<b>Total</b>	<b>157 774</b>	<b>165 144</b>

**30.2.2. Currency risk**

Currency risk is the risk of negative impact of currency exchange rate change on the Group's financial performance.

The Group purchases materials, primarily from Russian suppliers, while these transactions are completed in roubles.

The main part of revenue is expressed in US dollars and performed on the prepayment terms. As a result, a decrease in rouble value in regard to US dollar negatively influences the profit figures. The Group's management considers this risk in combination with a risk of gold price change. It is expected that increase in gold price will diminish a negative impact of US dollar rate decrease in respect to rouble.

Other currency operations are connected with receiving credit resources in US dollars; hence, there is a risk of negative impact on the Group's financial performance when a rouble value decreases in respect to US dollar.

Under conditions of unstable currency markets currency risk can significantly affect the Group's financial performance.

The book value of financial instruments expressed in foreign currency is presented below.

As of December 31, 2010, had a rouble value decreased in regard to US dollar by 10% with all the other variables being unchanged, the profit before tax for the year would have decreased by 1 984 thousand US dollars (2009: 1 635 thousand US dollars).

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**30.3. Credit risk**

Credit risk is the risk of a potential financial loss for the Group if counterparties fail to discharge their contractual obligations.

Financial assets of the Group with potential exposure to credit risk are represented, mainly, by receivables, financial assets available for sale and loans given. The table below provides information on maximum exposure of the Group to credit risk:

<b>Russian Rouble to US dollar</b>	<b>As of December 31, 2010</b>	<b>As of December 31, 2009</b>
Long-term financial assets available for sale	7 629	8 094
Other non-current assets	-	66
Short-term receivables from buyers and customers and other receivables	21 161	29 416
Short-term loans given	26	3 509
Short-term financial assets available for sale	7 330	16 486
Cash and cash equivalents	2 016	4 552
<b>Total maximum credit risk</b>	<b>38 162</b>	<b>62 123</b>

**30.4. Liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet its financial obligations at due time.

Prudent liquidity risk management implies maintaining sufficient cash resources available to repay credit resources and cover a market position. The Group's management follows the main forecast in regard to the Group's liquidity provision on the basis of estimated cash flows.

The Group's management controls liquidity using budgeting procedures.

The table below summarizes information as of December 31 2010 and 2009 about contractual undiscounted payments under financial obligations of the Group per maturity:

	<b>Note</b>	<b>Less than 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>From 1 to 2 years</b>	<b>From 2 to 5 years</b>	<b>Over 5 years</b>
<b>As of December 31, 2010</b>							
Long-term and short-term loan resources	<b>20, 23</b>	120	78	53 222	27 500	50 361	25 070
Short-term promissory notes due	<b>24</b>	1 106	-	297	-	-	-
Payables	<b>25</b>	62 755	-	-	-	-	-
<b>As of December 31, 2009</b>							
Long-term and short-term loan resources	<b>20, 23</b>	204	-	13 115	84 635	51 753	-
Short-term promissory notes due	<b>24</b>	6 710	106	8 621	-	-	-
Payables	<b>25</b>	11 743	569	6 945	-	2 366	-

**30.5. Capital Risk Management**

According to Management the main elements of capital risk management are equity and loan resources.

The main objective of the Group in respect to capital management is to ensure stable solvency and adequate level of equity in order to carry out the Group's activities and maximize shareholder's profit.

In order to keep the equity structure, the Group can review its investment program, draw new and repay existing loans and

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credits.

Equity is controlled by means of financial level ratio which is calculated through dividing net debt by sum of equity and net debt, while net debt comprises interest credits, notes due, trade and other payables less cash amount.

	Note	As of December 31, 2010	As of December 31, 2009
Long-term credits and loans	20	102 951	135 800
Long-term payables		-	2 366
Short-term loans	23	53 420	13 907
Short-term promissory notes due	24	1 403	15 437
Short-term payables and advances received	25	62 755	19 257
Less cash resources	18	(2 016)	(4 552)
<b>Net debt</b>		<b>218 513</b>	<b>182 215</b>
Equity		150 120	144 067
<b>Equity and net debt</b>		<b>368 633</b>	<b>326 282</b>
Financial level ratio		0,59	0,56

Management believes that the Group is able to generate a sufficient inflow of such resources to cover its liabilities.

### 31. RELATED PARTIES

#### 31.1 Related Parties of the Group as of December 31, 2010 and 2009 are the following:

##### Ultimate Beneficiaries:

##### Directors and Employees of Investment

##### Group "Russian Funds":

Beirit Konstantin Alexandrovich  
Vasiliev Sergey Anatolievich  
Ermachenko Vladimir Vladimirovich  
Ivanov Sergey Anatolievich  
Launer Gennady Alfredovich

##### Shareholders of PK "Artel Staratelei "Seligdar":

Vorotilin Boris Ivanovich  
Zinoviev Alexander Ivanovich  
Kiskin Vladimir Alexandrovich  
Labun' Anatoly Nikitovich  
Labun' Igor Anatolievich  
Labun' Oleg Anatolievich  
Mullina Lubov Ivanovna  
Nakul Viktor Evgenievich  
Pitasov Sergey Alexandrovich  
Podoinikova Lidia Dmitrievna  
Prokopiev Maxim Anatolievich  
Tatarinov Sergey Mikhailovich  
Yusupov Magomed Umarovich

##### Shareholders of the Group's Companies

ALVE (SPC) LIMITED  
DANION INVESTMENTS LIMITED  
FRT ASSETS LIMITED  
GARDENCOM ENTERPRISES LIMITED  
Gurwen Overseas Holdings Limited  
HSBC BANK PLC  
LAITA ASSOCIATED SA  
Mesner Investment Incorporated  
Opian Financial Limited  
PLASMA ENTERPRISES LIMITED  
RBC Dexia Investor Services Bank S.A  
Strategy Invest Limited  
S.L.Capital Services Limited

VARMA MUTUAL PENSION  
INSURANCE  
COMPANY

**OAO "SELIGDAR" AND ITS SUBSIDIARIES**

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OAO "IK "Prospekt"

OOO "Azimut"

OOO "Almazintekh-konsultatzi i inzhinering"

OOO "Maksimus"

PK "Artel Staratelei "Seligdar"

Balashova Ludmila L'vovna

Kasatkin Maxim Alexandrovich

Launer Gennady Alfredovich

Lozhkina Irina Borisovna

Mangilev Dmitry Viktorovich

Misko Alexander Konstantinovich

Semeiko Aleksey L'vovich

Seferyan Vartanush Ashotovna

ZAO "Bestinvest"

ZAO "Bronks-M"

ZAO "Genezis Kapital"

ZAO "Mezhdunarodny Aktzionerny Bank"

OAO "Atomredmetzoloto"

OOO "Preisish-Eilau"

Mastko Holdings Limited

Backstar Holdings Limited

Tate investments Limited

Sofronov Viktor Egorovich

Tegin Aleksey Vladimirovich

Khudoliy Galina Vladimirovna

Yanygina Elena Alekseevna

Petrov Ivan Ivanovich

**OAO "SELIGDAR" AND ITS SUBSIDIARIES**

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**Associate Company**

ZAO "Lunnoe"

**Key Directors – Members of the Group's Executive Board**

Asyunkin Viktor Serafimovich  
Beirit Konstantin Alexandrovich  
Borovko Georgy Viktorovich  
Daniichenko Valentina Nikitichna  
Zhivov Vladimir L'vovich  
Kiskin Vladimir Alexandrovich  
Kudryavtzev Andrey Vasilievich  
Labun' Anatoly Nikitovich

Levchenko Galina Nikitichna  
Podoinikova Lidia Dmitrievna  
Savina Irina Alexandrovna  
Suleimanov Valery Orudzhaliyevich  
Tatarinov Sergey Mikhailovich  
Tykheev Vladimir Leonidovich  
Shekhovtzev German Viktorovich

**Close Relatives of Individuals from the Category "Key Directors – Members of the Group's Executive Board»**

Labun' Ludmila Petrovna  
Labun' Igor Anatolievich

Labun' Oleg Anatolievich

**Companies whose Governing Bodies involve individuals from the Category "Key Directors- Members of the Group's Executive Board"**

ZAO "Russian Funds"  
ZAO "AB "Aldanzolotobank"

OOO KB "Alba Alians"  
OAO AB "SIR" Yakutsk

**OAO "SELIGDAR" AND ITS SUBSIDIARIES**  
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**31.2. Balances of Settlements with Related Parties**

As of December 31 2010 and 2009 the following balances existed for significant related party transactions:

	December 31, 2010		December 31, 2009	
	Assets	Liabilities	Assets	Liabilities
<b>Trade receivables</b>				
ZAO "Lunnoe"	-	-	4	-
PK "Artel Staratelei "Seligdar"	-	-	59	-
<b>Other receivables</b>				
PK "Artel Staratelei "Seligdar"	58	-	66	-
ZAO "Lunnoe"	4 448	-	-	-
Mastko Holdings Limited	4 503	-	-	-
<b>Advances given</b>				
OOO "Azimut"	74	-	-	-
<b>Long-term other payables</b>				
PK "Artel Staratelei "Seligdar"	-	-	-	2 759
<b>Trade payables</b>				
PK "Artel Staratelei "Seligdar"	-	543	-	954
<b>Advances received</b>				
ZAO "Lunnoe"	-	-	-	128
<b>Other payables</b>				
FRT ASSETS LIMITED	-	14 900	-	-
Backstar Holdings Limited	-	7 571	-	-
Tate investments Limited	-	7 571	-	-
ZAO "Russian Funds"	-	5 369	-	-

**31.3. Related Party Transactions**

Significant transactions carried out by the Group with related parties:

	For the year ended on 31.12.2010	For the year ended on 31.12.2009
		<i>Earnings</i>
<b>Proceeds from sale of gold</b>		
OOO KB "Alba Alians"	-	45 714
<b>Proceeds from other sales</b>		
ZAO "Russian Funds"	189	-
ZAO "Lunnoe"	-	19 639
<b>Other income from sale of materials</b>		
ZAO "Lunnoe"	3 921	1
<b>Other income</b>		
ZAO "Lunnoe"	61	28
		<i>Expenses</i>

**OAO "SELIGDAR" AND ITS SUBSIDIARIES****Notes to Consolidated Financial Statements for the Year Ended on December 31, 2010***(In thousands of US dollars, unless otherwise stated)*

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<b>Acquisition of items of fixed assets and investments</b>		
PK "Artel Staratelei "Seligdar"	3 007	482
FRT ASSETS LIMITED	14 900	-
Backstar Holdings Limited	7 571	-
Tate investments Limited	7 571	-
Mastko Holdings Limited	15 879	-
<b>Acquisition of raw materials and materials</b>		
PK "Artel Staratelei "Seligdar"	-	836
ZAO "Lunnoe"	-	52
<b>Expenses on Organization of Issue of Securities</b>		
ZAO "Russian Funds"	-	279
<b>Other Expenses</b>		
ZAO "Lunnoe"	-	75
<b>Interest payable</b>		
ZAO "Russian Funds"	5 387	593
PK "Artel Staratelei "Seligdar"	315	461

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**31.4. Compensations to Senior Management Personnel**

Key management personnel received compensation for the year ended December 31, 2010 in the amount of 1 867 thousand US dollars, for the year ended on December 31, 2009 their compensation was in the amount of 1 787 thousand US dollars.

**32. CONTINGENT FACTS OF ECONOMIC ACTIVITIES AND OPERATIONAL RISKS****32.1. Securities and Pledges Issued**

The Group has no significant collaterals and pledges with the exception of those described in Note 2.

**32.2. Taxation**

Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. The Group Management's interpretation of such legislation as applied to transactions and activity of the Group may be challenged by the relevant regional or federal authorities. Tax bodies may be taking a more assertive stance in their interpretation of the legislation and review of tax payments. Consequently, significant additional taxes, penalties and fines may be accrued.

The Group's Management follows with great attention current changes which directly affect main activities of the Group. The Group's specialists analyze modifications in tax legislation, rules of customs control, currency regulation, licensing and other tools of state regulation of market economy. The accomplished work allows minimizing negative impacts of legal risks.

**32.3. Crisis on World Financial Markets**

The ongoing global liquidity crisis has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the Russian banking sector, and higher interbank lending rates. These circumstances can affect the Group's ability to borrow, if necessary, on acceptable terms.

Debtors (Borrowers) of the Group may also be affected by the worsened liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for Debtors (Borrowers) may also have an effect on the Group Management's cash flow forecasts and assessment of the impairment of financial and non-

financial assets.

The Group's Management is unable to make assessment of probability of further lowering liquidity on financial markets, growth of volatility on stock and currency markets, and make a reliable forecast of the impact these factors could have on the financial status of the Group if they continue in future.

The Group's Management believes that it takes all necessary measures for sustainable operation of its business and improvement of the Group's financial position under the existing circumstances.

### **33. POST BALANCE SHEET EVENTS**

#### **33.1. Changing of Currency Exchange Rate**

The official exchange rate of Russian ruble to US dollar set by the Central Bank of Russian Federation for the period from December 31, 2010 through April 18, 2011 decreased from 30,4769 to 28,2212. During the period from December 31, 2010 through April 18, 2011 the official exchange rate of Russian ruble to EURO set by the Central Bank of Russian Federation increased from 40,3331 to 40,8304.

#### **33.2. Changing of Gold Prices**

Gold Prices in the period from December 31, 2010 through April 22, 2011 rose from 1420,50 to 1504,90 US dollars per ounce.

#### **33.3. Buy-out of subsidiaries' shares**

In February 2011 OAO "Seligdar" bought out a minority interest in the amount of 33% in Share Capital of OOO "Artel Staratelei "Sininda-1" and OOO "Artel Staratelei "Poisk" – in the amount of 18,33%.