POLYMETAL

Annual Financial and Management Report

2010

1. COMPANY OVERVIEW

1.1. ABOUT THE COMPANY

Polymetal is the leading Russian gold and silver mining company with a long term portfolio of high quality assets. It has its global depositary receipts listed on the London Stock Exchange since 2007. Polymetal is in the top five gold producers in Russia as well as the leading Russian primary silver producer. The company is also among the top five global primary silver producers.

The company has a three-pronged strategy focused on: investment in existing assets to extend their life-of-mine; further expansion and optimization of its centralised processing facilities with the aim of ensuring the most efficient utilisation of financial and human capital and driving greater return on the company's investments; and exploration aimed at identifying a new generation of assets. There has been a marked shift from silver to gold during the last couple of years of the company's operations, and now gold accounts for approximately 60% of the company's revenues.

Polymetal's share price, driven by the company's strategy and increasing investor interest in gold and other precious metals and related stocks, significantly outperformed its mid-tier mining peers and grew by 94% for the 12-month period ended March, 31 2011.

The company is steadily growing and consequently increasing its mining presence and production capabilities. During 2009 and 2010, the company completed six substantial acquisitions in Russia and Kazakhstan that added new deposit sites to its portfolio (bringing the Company's total audited 2P reserves at 17.2 Moz and its total resources to 17.0 Moz in gold equivalent). Furthermore, during 2010 and 2011, Polymetal commissioned two new processing facilities: the Kubaka Carbon-in-Pulp ("CIP") processing plant and the on-site flotation concentrator at the Albazino mine.

Quality assets with growing cash flows from operations, proven development and operational track record, substantial exploration pipeline, unique strategy focused on processing hubs, international best practice on corporate governance, and high-calibre professionals position Polymetal as a precious metals stock of choice and help to drive shareholder value.

1.2. COMPANY'S STRUCTURE

JSC Polymetal		
Production and facilities under construction	**Service companies**	**Exploration**
CJSC Magadan Silver Ducat, Lunnoye, Arylakh, Ducat prospect, Ducat ore field, Rogovik, Bulur area	JSC Polymetal Management	LLC North Ural Exploration Company
JSC Okhotsk Mining and Geological Company Khakanja, Yurievskoye, Amkinskaya area, Arkinsko-Selemzhinskaya area, Yuzhno-Urakskaya area, Khakarinska, Arkinskaya area	CJSC Polymetal Engineering	JSC Aurum Reftinskaya zone (Fevralskoye and Ikryanskoye)
LLC Mayskoye Gold Company Mayskoye	LLC Polymetal Trading	LLC Ducat Exploration Company
JSC Varvarinskoe (Kazakhstan) Varvarinskoe		CJSC Khabarovsk Exploration Company
CJSC Gold of Northern Ural Vorontsovskoe, Katasminskiy, Rudnichniy, Tamunierskiy, Volchanskiy		LLC PD Rus Svetloye
LLC Albazino resources Albazino, Agnie-Afanasievskiy		
LLC Omolon Gold Company Kubaka, Birkachan, Kroch, Prognoznoye, Pyatinakhskaya area, Burgali area		
LLC Rudnik Kvartseviy Sopka Kvartsevaya, Dalnii		
LLC Amursk Hydrometallurgical Plant		
LLC Ural Exploration Company Degtyarskoye		
LLC Rudnik Avlayakan Avlayakan		
LLC Rudnik Kirankan Kirankan		

1.3. KEY ACHIEVMENTS IN 2010 AND POST YEAR EVENTS

2010

February – Award of license for the geological survey, prospecting and mining of hard rock gold on the eastern flank of the Albazino ore field in the Khabarovsk territory

The results of geophysical and geochemical studies confirm that the eastern section of the Albazino ore field can become an attractive addition to the substantial resources of the Albazino deposit.

February – Announcement of positive first resource estimate for the Tsokol gold deposit

The Tsokol resource adds to our portfolio of high-grade open-pit properties which surround the Omolon processing hub. Tsokol is particularly attractive as it is conveniently located to the Kubaka plant

March – Award of 25-year license for the geological study, prospecting and mining of hard rock gold in the Magadan region's Krasin ore cluster

This licence covers an area of 18km^2 close to our existing Dukat plant, with its recently expanded production capacity. Its proximity to our existing operations, and year-round accessibility, make it a potential prospect for resource growth. We are planning to accelerate the detailed prospecting phase, with the intention of supplying ore to the Dukat plant from the deposits in the Krasin ore cluster by 2013 if the prospecting in the licence area indicates visible gold resources.

June – Admission to the FTSE Gold Mines Index

The purpose of the FTSE Gold Mines Index is to reflect the performance of the worldwide market in the shares of companies whose principal activity is the mining of gold. Eligibility for this index is based on the quantity of gold produced.

August – Successful completion of feasibility study for the Mayskoye gold project and start of processing plant construction at the mine site

The study was prepared by Polymetal Engineering and independently audited by Snowden Mining Industry Consultants, and confirms not only that the project is technically and economically feasible, but and that the resources are sufficient to sustain the operation of the facility for at least 13 years. According to the study, total resources are 7.5 million ounces of gold, and probable reserves are 2.4 million ounces of gold.

A go-ahead decision was made to build an underground mine and on-site flotation concentrator with an annual capacity of 850,000 tons of ore.

August – Successful completion of feasibility study for the Birkachan deposit, part of the Omolon project

The Study was prepared by Polymetal Engineering and independently audited by SRK Consulting (UK), and confirms the technical and economic feasibility of the project with a likely 13-year lifespan in terms of reserves.

August – First pouring of gold at the Kubaka plant

The first dore bar has been poured at the Kubaka Carbon-in-Pulp ("CIP") processing facility, a year ahead of schedule, the facility has a capacity of 850 Ktpa. Refurbished by Polymetal the Kubaka processing facility was originally commissioned in 1997 by Kinross Gold Corporation. Kubaka plant is part of the Omolon Hub, which also includes the Birkachan, Sopka Kvartsevaya, Oroch, Tsokol, and Dalneye deposits.

September – Launch of employee incentive programme

The objective of the programme is to attract, motivate, reward, and retain key employees, as well as to align their interests with those of the shareholders by linking long-term remuneration to the Company's share price performance. The Company has set up and financed a bonus fund of approximately 30 million ordinary shares, to be sold to participants at their nominal price of RUB1 per share.

September – Fitch upgrades Polymetal's credit rating outlook to stable

Fitch confirmed that the revision of Polymetal's rating reflected the refinancing actions taken by the Company's management resulting in a more balanced debt maturity profile.

October – Acquisition of the Avlayakan and Kirankan gold and silver deposits

The acquisition also includes exploration licenses for the Avlayakan-Kirankan and Maymakan-Kundumi watershed properties, all located in the Khabarovsk Territory in the Far East of Russia. The four licenses cover a total area of $323km^2$. The deposits may supply our existing Khakanja plant.

December – Acquisition of the Svetloye gold deposit

Polymetal acquired the license for gold prospecting and mining at Svetloye, located in the Khabarovsk territory, for USD 9.25 million. Acquisition of the Svetloye gold deposit is aimed at broadening Polymetal's late-stage exploration in the area and extending the life expectancy of the Company's Khakanja facility.

2011

February – Completion of long-term concentrate transportation arrangement with FESCO, Polymetal's long-term partner

The arrangement supports the Mayskoye project and should result in materially lower than projected combined transportation costs of 130-145 per tonne. The transportation involves shipment of the Mayskoye concentrate from the port of Pevek (Chukotka region) by sea to the railway station 12 kilometres from the city of Amursk (Khabarovsk region) to be processed at the Amursk POX facility.

February – Signing a letter of intent relating to the acquisition of the Kutyn gold deposit

Polymetal agreed to acquire the Kutyn gold deposit. With its proximity to Albazino and location next to the sea of Okhotsk, Kutyn is a natural extension of our portfolio of advanced exploration properties in the Khabarovsk region.

April – Launch of the Albazino on-site flotation concentrator

The on-site flotation concentrator at the Albazino mine was successfully put into operation starting with one of the two 750 Ktpa lines. The full 1,500 Ktpa capacity is expected to be reached by June 2011. The concentrator was completed in 30 months, and the start-up marks Polymetal's first launch of a greenfield mine since 2004.

2. BUSINESS REVIEW

2.1. OPERARTIONAL PERFOMANCE

HIGHLIGHTS

	12 months ended Dec 31,		%
	2010	2009	change
Ore mined, Kt	7,474	3,886	92%
Open-pit	6,509	3,026	115%
Underground	965	861	12%
Ore processed, Kt	7,845	4,764	65%
Production[2]			
Gold, Koz	444	311	43%
Silver, Moz	17.3	17.3	-
Copper, tonnes	4,003	1,053	NM
Sales[3]			
Gold, Koz	441	309	43%
Silver, Moz	17.9	16.5	9%
Copper, tonnes	4,003	1,053	NM
Revenue, USDmn	922	556	66%

Notes: (1) % changes can be even when absolute numbers are unchanged because of rounding. Likewise, % changes can be indicated zero when absolute numbers differ for the same reason. It applies to all the tables in this release

(2) Polymetal reports production of metals contained in concentrates based on percentages payable for these metals by off-takers of concentrates, unlike previously, when production was reported based on physical content of these metals in concentrates. Moreover, as final assays are typically determined at the receiving smelters several months after shipment of each lot of concentrate from the mine sites, production reported in relation to the most recent quarter is subject to further reconciliation

(3) Unaudited

- Polymetal's 2010 production grew 25% to 753 Koz of gold equivalent (based on 1:60 Ag/Au and 5:1 Cu/Au conversion ratios) with gold accounting for approximately 60% of revenues. Revenues increased 66% to US$ 922 million

- The Company produced a record 444 Koz of gold in 2010 (+43% year-on-year), which is in line with both the initial (Q4 2009, 430-450 Koz) and the updated (October 2010, 440-450 Koz) guidance. All Polymetal's gold mines performed according to plan in 2010

- Annual silver production remained flat at 17.3 Moz, which is less than 10% short of both the original (Q4 2009, 19-20 Moz) and the updated (October 2010, 18.5-19 Moz) guidance. The key reason for missing these was underperformance at the Dukat plant. The fourth quarter has shown marked improvement in recoveries at Dukat and the Copmany expects further progress in recoveries to be achieved after full ramp-up of the gravity circuit

- The Company plans to produce 470-500 Koz of gold, 18-19 Moz of silver, and 6.0-7.0 Kt of copper, or 800-850 Koz of gold equivalent (based on the same conversion ratios as above) in 2011. The key risk to this guidance remains the successful start-up and ramp-up to design parameters of the Amursk POX plant.

DUKAT OPERATIONS

	12 months ended Dec 31, 2010	2009	% change
MINING			
Dukat			
Waste mined, Kt	2,002	1,838	9%
Underground development, m	12,244	13,254	-8%
Ore mined, Kt	1,069	1,175	-9%
Open-pit	271	435	-38%
Underground	798	740	8%
Head grades			
Open-pit			
Gold, g/t	0.9	0.8	8%
Silver, g/t	340	319	6%
Underground			
Gold, g/t	1.2	1.1	1%
Silver, g/t	428	518	-17%
Goltsovoye			
Underground development, m	3,518	1,095	221%
Ore mined (underground), Kt	23	5	NM
Head grades			
Silver, g/t	623	521	20%
Lunnoye + Arylakh			
Waste mined, Kt	2,724	2,787	-2%
Underground development, m	3,139	2,268	38%
Ore mined, Kt	286	298	-4%
Open-pit	160	183	-12%
Underground	126	116	9%
Head grades			
Open-pit			
Gold, g/t	1.1	1.0	11%
Silver, g/t	493	536	-8%
Underground			
Gold, g/t	1.7	1.9	-12%
Silver, g/t	342	326	5%
PROCESSING			
Dukat			
Ore processed, Kt	1,259	978	29%
Head grades			
Gold, g/t	0.9	1.1	-15%
Silver, g/t	366	491	-26%
Recovery[1]			
Gold	70.4%	78.3%	-10%
Silver	71.8%	77.4%	-7%
Production			
Gold, Koz	27.3	26.4	4%
Silver, Moz	11.1	11.8	-7%
Lunnoye			
Ore processed, Kt	275	295	-7%
Head grades			
Gold, g/t	1.3	1.4	-8%
Silver, g/t	426	426	-
Recovery[2]			
Gold	94.2%	94.1%	-
Silver	90.3%	90.3%	-
Production			

Gold, Koz	10.5	12.7	-17%
Silver, Moz	3.4	3.7	-7%
TOTAL PRODUCTION			
Gold, Koz	37.9	39.1	-3%
Silver, Moz	14.5	15.6	-7%

Notes: (1) Technological recovery, includes gold and silver within work-in-progress inventory (concentrate, precipitate)

1,259 Kt of ore was processed at the Dukat plant in 2010. That was 29% more than was processed in 2009 processing volumes, was mined at Dukat during the year. The difference (190 Kt, or approximately 15%), came from stockpiles. Increased throughput did not offset low grades and inferior recoveries, and annual silver production fell by 7%.

These issues are planned to be addressed in 2011 by increasing underground ore mining volumes and the start-up of the gravity circuit, currently in the commissioning stage. Mining operations at Goltsovoye are ongoing 23 Kt of ore was mined at Goltsovoye during the year and 100 Kt is planned to be mined in 2011. This ore is expected to be processed through the gravity circuit together with material from the metallurgically challenging Dukat ore zones and stockpiles from Dukat (which do not yield good recoveries if processed using flotation technology).

Annual production of gold and silver at Lunnoye slipped by 17% and 7% respectively mostly as a result of lower throughput caused by a lengthy shutdown of the plant in the third quarter to replace the old SAG mill shell.

KHAKANJA

	12 months ended Dec 31,		%
	2010	2009	change
MINING			
Khakanja + Yurievskoye			
Waste mined, Kt	10,106	8,749	16%
Underground development, m	358	-	-
Ore mined, Kt	478	654	-27%
Open-pit	476	654	-27%
Underground	2	-	-
Head grades			
Open-pit			
Gold, g/t	6.6	6.4	3%
Silver, g/t	240	137	76%
Underground			
Gold, g/t	7.9	-	-
Silver, g/t	12.4	-	-
Avlayakan			
Waste mined, Kt	33	-	-
Ore mined (open pit), Kt	4	-	-
Gold head grades, g/t	1.3	-	-
PROCESSING			
Ore processed, Kt	622	610	2%
Head grades			
Gold, g/t	6.6	5.8	14%
Silver, g/t	205	139	47%
Recovery[1]			
Gold	94.9%	94.1%	1%
Silver	63.1%	61.1%	3%

TOTAL PRODUCTION			
Gold, Koz	127	108	18%
Silver, Moz	2.6	1.7	54%

Notes: (1) Technological recovery, includes gold and silver within work-in-progress inventory (precipitate)

As expected, 2010 was the record year for ore prosssed at Khakanja. Gold and silver production increased (by 18% and 54% respectively as compared to 2009) as a result of feed coming from Yurievskoye (a high-grade satellite deposit) and peak grades in the ore mined at the Khakanja pits. According to the mine plan, Khakanja grades will decline materially starting from 2011.

To address the issue of declining grades Polymetal has undertaken a number of initiatives. First, underground operations commenced at Yurievskoye in Q4 2010, with the aim that the supply of the high-grade feed to the Khakanja plant from Yuriveskoye will resume in 2012. Second, open-pit operations began at Avlayakan (part of the AK project acquired by the Company in Q4 2010) in December 2010 the Company plan to ship to and process at Khakanja 30 Kt of high-grade ore from Avlayakan in the second half of 2011. And finally, underground development at the Khakanja deposit is planned to commence in Q4 2011 with the goal of mining first ore in 2012.

VORO

	12 month ended Dec 31,		%
	2010	2009	change
MINING			
Voro			
Waste mined, Kt	9,465	10,446	-9%
Ore mined (open pit), Kt	956	666	44%
Oxidized	288	43	574%
Primary	668	623	7%
Gold head grades, g/t			
Oxidized ore	2.7	3.6	-25%
Primary ore	6.1	6.9	-11%
Degtyarskoye			
Waste mined, Kt	1,566	789	99%
Ore mined (open pit), Kt	274	152	81%
Gold head grades, g/t	5.7	4.4	31%
PROCESSING			
Voro Heap Leach			
Ore stacked, Kt	1,024	938	9%
Gold head grades, g/t	1.6	1.7	-5%
Gold recovery	72.5%	65.3%	11%
Gold production, Koz	33.7	33.1	2%
Voro CIP			
Ore processed, Kt	907	796	14%
Gold head grades, g/t	6.1	6.0	2%
Gold recovery	79.8%	79.2%	1%
Gold production, Koz	149	117	27%
TOTAL PRODUCTION			
Gold, Koz	183	150	22%
Silver, Moz	0.171	0.081	111%

Voro’s performance during the year was very strong with all key parameters (throughputs, grades, and recoveries) at both plants stable or improved, which resulted in production of 183 Koz of gold (+22% as compared to 150 Koz in 2009). That was achieved partially by processing ore from Degtyarskoye at the CIP plant. The Company increased production from Degtyarskoye, where it is planned to mine another 200 Kt of ore in 2011 (after that this deposit will be depleted).

According to the mine plan, grades at Voro are expected to decline starting from 2012. Polymetal is currently considering other potential high-grade ore sources to feed the plant. Introduction of feed from one such source, the Company's Fevralskoye deposit, is planned for Q2 2011.

VARVARA

At Varvara, there are two distinct ore types based upon their copper contents: high grade copper feed (HGCF) and low grade copper feed (LGCF).

HGCF is treated by flotation to maximize both copper and gold recovery; the final product of this process is a gold copper concentrate. LGCF is treated by CIL; the final product of this process is gold dore. The tailings from the HGCF flotation circuit were previously thickened and combined with CIL feed, but this practice was discontinued by Polymetal in Q3 2010.

	12 month ended Dec 31,		%
	2010	2009	change[1]
MINING			
Waste mined, Kt	21,955	3,396	NM
Ore mined (open pit), Kt	3,411	844	NM
HGCF	752	413	NM
LGCF	2,659	431	NM
Head grades			
Gold (HGCF), g/t	1.0	0.75	NM
Copper (HGCF)	0.70%	0.50%	NM
Gold (LGCF), g/t	0.87	0.81	NM
PROCESSING			
HGCF (Flotation)			
Ore processed, Kt	793	113	NM
Head grades			
Gold, g/t	1.1	1.3	NM
Copper	0.71%	0.92%	NM
Recovery[2]			
Gold	54.6%	77.0%	NM
Copper	81.8%	83.3%	NM
Production[3]			
Gold (in concentrate), Koz	13.8	3.6	NM
Copper (in concentrate), t	4,003	1,053	NM
Gold (in dore), Koz	3.4	0.7	NM
LGCF (CIL)			
Ore processed, Kt	2,283	397	NM
Gold head grades, g/t	1.1	1.0	NM
Gold recovery[2]	77.2%	78.4%	NM
Gold production (in dore), Koz	61.1	8.3	NM
TOTAL PRODUCTION			
Gold, Koz	78.3	12.6	NM
Copper, t	4,003	1,053	NM

Notes: (1) As the acquisition of Varvara (aka Varvarinskoye) was completed on 30 October 2009, Polymetal reported Varvara full year 2009 production results on the attributable basis, i.e. only for the months of November and December 2009. Therefore, comparison of full year 2010 to *full year 2009 numbers is not meaningful (NM)*

(2) Technological recovery, includes gold and ccopper within work-in-progress inventory

(3) Polymetal reports production of copper and gold contained in concentrate based on percentages payable for these metals by the off-taker of concentrate, unlike previously, when production was reported based on physical content of these metals in concentrate. Moreover, as final assays are typically determined at the receiving smelters several months after shipment of each lot of concentrate from the mine site, production reported in relation to the most recent quarter is subject to further reconciliation

After assuming control over Varvara on October 30 2009, Polymetal undertook a number of initiatives aimed primarily at improving grade and recovery at the operation. This resulted in marked increases in grades mined and milled, particularly in the gold circuit. Discontinuation of leaching of HGCF tails led to significant cost savings and reduced the environmental impact of the operations. Work is ongoing to improve gold recoveries at Varvara, particularly in the HGCF circuit.

The update of the reserve estimate and the mine plan, which was originally scheduled for Q3 2010, was postponed to Q1 2011 to accommodate the results of ongoing in-fill and step-out drilling.

OMOLON OPERATIONS

	12 months ended Dec 31,		%
	2010	2009	change
MINING			
Sopka			
Waste mined, Kt	2,025	579	339%
Ore mined (open pit), Kt	159	92	74%
Heap Leach	43	11	284%
Mill	116	80	44%
Gold head grades, g/t			
Heap Leach	3.0	2.5	20%
Mill	8.8	14.0	-37%
Silver head grades, g/t			
Heap Leach	151	143	6%
Mill	252	381	-34%
Birkachan			
Waste mined, Kt	3,039	-	-
Ore mined (open pit), Kt	521	-	-
Heap Leach	441	-	-
Mill	79	-	-
Gold head grades, g/t			
Heap Leach	1.2	-	-
Mill	2.8	-	-
PROCESSING			
Birkachan Heap Leach			
Ore stacked, Kt	459	639	-28%
Gold head grades, g/t	1.6	1.9	-17%
Gold recovery[1]	24.9%	2.5%	NM
Gold production, Koz	5.7	0.9	NM
Kubaka Mill			
Ore processed, Kt	223	-	-
Gold head grades, g/t	2.2	-	-
Gold recovery	90.7%	-	-
Gold production, Koz	12.6	-	-
TOTAL PRODUCITON			
Gold, Koz	18.3	0.9	NM
Silver, Moz	0.034	0.003	NM

Start-up of the Kubaka plant took place in August 2010; it has now successfully achieved production in accordance with all of its design parameters. The grade of ore processed at Kubaka is expected to improve as Birkachan pit gains access to higher-grade ore.

The road between Birkachan and Kubaka is expected to be completed with the 180-meter long bridge over the Omolon river to become operational in Q2 2011. Transportation to Kubaka of high-grade ore which was mined at Sopka in 2009 and 2010 to Kubaka is expected to commence in February 2011. Processing of this ore at Kubaka is scheduled to start in 2H 2011. All key equipment needed to complete the construction of the Merrill Crowe section at the Kubaka plant (this equipment is necessary to process silver-rich ore from Sopka), has arrived in Magadan and deliveries of the plant to the site started in Q1 2011 by winter road.

Heap leach production suffered from low temperatures throughout the year; the Company plans to improve this situation in 2011 after the commissioning of coal-fired boiler house to warm up the solutions returned to the heap.

ALBAZINO-AMURSK

	12 months ended Dec 31,		%
	2010	2009	change
MINING			
Waste mined, Kt	10,367	2,816	268%
Ore mined (open pit), Kt	278	-	-
Gold head grades, g/t	3.7	-	-

Mining works at Albazino have achieved design parameters and the first ore mined confirmed the existing tonnage and gold grade estimates for the site.

The on-site flotation concentrator at the Albazino mine was successfully started up with first dry gold concentrate bagged in April 2011. The works were hindered by extremely heavy snowfall in the Russian Far East, but 2011 production plans should not be influenced by this factor. The remaining site infrastructure (repair shop, administrative building, and permanent lab) is expected to be commissioned in Q3 2011.

The construction of the Amursk POX facility is in its final stage. The POX facility is expected to start commissioning in Q3 2011 with first gold produced in Q4 2011.

MAYSKOYE

	12 months ended Dec 31,		%
	2010	2009	change
MINING			
Underground development, m	4,318	948	355%
Ore mined (underground), Kt	16	-	-
Gold head grades, g/t	8.7	-	-

Underground development at Mayskoye sped up in 2010 considerably following the arrival of new underground equipment (2 drill rigs, 2 LHDs and 2 underground trucks). Extensive in-fill drilling consistently confirms the existing reserve estimates in terms of grade and thickness of main ore bodies.

Concentrator construction is in progress according to schedule with foundations 60% complete and structural steel works having commenced in November 2010. Mill installation is planned for Q2 2011 with the majority of other equipment to arrive in Q3 2011 during the summer navigation period.

EXPLORATION

In 2010 the Company completed 83 kilometers of exploration drilling compared with 53 kilometers in 2009, a 59% Increase. 146 kilometers of drilling is planned for 2011 with priority projects being Albazino deep levels, AK, Rogovik, and the Omolon regional programme. No major resource/reserve announcements are planned for 2011. In 2012 the Company expects to produce JORC-compliant resource updates for several of its properties.

2.2 FINANCIAL PERFOMANCE

HIGHLIGHTS[1]	12 months ended December 31,		% change
	2010	2009	
Operating highlights[2]			
Ore mined, Kt	7,474	3,886	92%
Open pit	6,509	3,026	115%
Underground	965	861	12%
Ore processed, Kt	7,845	4,764	65%
Production			
Gold, Koz	444	311	43%
Silver, Moz	17.3	17.3	-
Copper, tonnes	4,003	1,053	NM
Headcount	6,910	5,137	35%
Financial highlights (US$ million unless indicated otherwise)			
Gold sold, Koz	440	312	41%
Average realized gold price, US$/oz	1,232	983	25%
Average LBMA gold AM fixing price, US$/oz[3]	1,227	974	26%
Silver sold, Moz	18.0	16.5	9%
Average realized silver price, US$/oz	19.6	14.7	33%
Average LBMA silver fixing price, US$/oz[3]	20.2	14.7	37%
Copper sold, metric tonnes	3,991	1,053	279%
Revenues	925	561	65%
Adjusted EBITDA[4]	429	242	77%
Net income	250	94[5]	166%
Diluted EPS from continuing operations	0.69	0.28	146%
TCC/oz gold equivalent	571	479	19%
Capital expenditures	420	213[5]	97%
Cash flow from operations	230	165[5]	39%
Net debt	785	569	38%

Notes: (1) % changes can be different from zero even when absolute amounts are unchanged because of rounding. Likewise, % changes can be equal to zero when absolute amounts differ due to the same reason. This note applies to all the tables in this release
(2) Unaudited
(3) Derived using the data taken at www.lbma.org.uk
(4) The calculation of Adjusted EBITDA is explained below
(5) Restated

- 2010 saw a significant improvement in the Company's bottom line with net income more than doubling to US$250 million from US$94 million in 2009

- Financial results were driven by the expansion of the Company's activities which resulted in a 43% increase in gold production volumes (compared to 2009) and by rising gold and silver prices. Adjusted EBITDA in 2010 grew by 77% to US$429 million from US$242 million in 2009 driven by 65% increase in revenue while Adjusted EBITDA margin expanded from 43% to 46%

- Company-wide total cash costs per ounce of gold equivalent calculated on co-product basis increased 19% to US$571/ounce

- Capital expenditure nearly doubled to US$420 million in 2010 from US$213 million in 2009 as the Company proceeded to implement several large-scale investment projects and expanded its exploration efforts

- Net debt increased 38% to US$785 at year-end 2010 compared to US$569 million at year-end 2009. The Company's leverage improved from 2.4x to 1.7x Adjusted EBITDA and it's debt maturity profile improved significantly with only 12% of gross debt being short-term (i.e. less than 12 months)

"We are satisfied with our 2010 financial results as Polymetal managed to exercise effective cost control while significantly expanding the scale of the Company and investing heavily in growth," said Vitaly Nesis, CEO of Polymetal.

REVENUES

In 2010, revenues grew by 65% from US$561 million to US$925 million driven by growth in gold sales volume and rising gold and silver prices.

Polymetal's average realized gold price in 2010 increased approximately 25% (compared to 2009) to US$1,232/oz. Average realized silver price in 2010 increased approximately 33% (compared to 2009) to US$19.6/oz.

	12 months ended December 31,		% change
	2010	2009	
Gold revenues	542.1	306.6	77%
As a % of total	59%	55%	
Silver revenues	352.7	241.9	46%
As a % of total	38%	43%	
Copper revenues	29.2	7.6	284%
As a % of total	3%	1%	
Gold/ silver prices ratio	63	67	-6%
Other revenues	1.4	4.6	-70%
TOTAL	**925.4**	**560.7**	65%

The share of the Company's revenues which were derived from gold sales increased from 55% to 59% due to a strong rise in the volume of gold sales by the Company although there was a steeper increase in the price of silver in 2010 compared to the increase in the price of gold in 2010. The share of the Company's revenues that were derived from copper sales also increased from 1% to 3% as the Company booked a full year of sales in 2010 from Varvarinskoye compared with just 2 months of sales from Varvarinskoye in 2009.

COST OF SALES

Several factors led to a significant increase in the cost of sales in 2010. Expansions at Dukat and Voro, start-up of full-scale processing at Kubaka mill and Birkachan heap leach, and full-year contribution from the Varvarinskoye mine resulted in significant increases in volumes of ore mined (92%) and ore processed (65%). Domestic inflation in Russia (8.8% CPI) and a significant increase in the price of oil (28% from US$61/bbl in 2009 to US$78/bbl in 2010) were other major factors behind the increase in the cost of sales. Increases in oil price have in particular driven increases in the costs of diesel fuel and transportation services.

The Company's costs of consumables and spare parts increased by 59% in 2010 compared to 2009. In addition to a significant increase in production volumes and rising prices of diesel fuel, the Company also experienced significant increases in prices for other key consumables, most importantly steel grinding media, steel mill liners, and zinc dust.

Labor costs (including social security tax) increased by 38% in 2010 compared to 2009 as headcount increased by 35% on the back of the expansion in the Company's assets portfolio. The wages are denominated in roubles and rose in line with CPI. In addition the rouble appreciated against the US dollar by 4% over the year so the wage cost reported in dollar reflected this.

Costs of services (together with other costs) incurred by the Company increased by 74% reflecting the increased level of services procured by the Company as a result of the launch of new projects and also driven by a higher share of services in the costs of Varvarinskoye (compared to other operations of the Company) and increased reliance on outsourcing across the Company's mines. Another factor was above-inflation increases in tariffs charged by Russian railway and grid power tariffs at Dukat and Voro.

Purchases of ore from third parties more than doubled to US$11 million in 2010 compared to 2009 principally as a result of a full-year contribution from Varvarinskoye.

The amount which the Company paid in mining tax in 2010 increased by 70% compared to 2009 on the back of gold production growth and a significant rise in gold and silver prices. Depreciation increased by 60% as a result of a significant expansion in the Company's fixed assets base and also as a result of a 92% increase in ore mining volumes which led to an increase in unit-of-production D&A.

Work-in-process inventory grew by US$58 million (31 December 2010 compared to 31 December 2009) as ore mined at Sopka, Birkachan, and Albazino continued to be stockpiled ahead of future processing. In 2010, the Company wrote down by US$15 million the carrying value of low-grade ore which is stockpiled at Varvarinskoye (after deeming it uneconomic for future processing) and obsolete inventory.

As a result of all of the above, the Company's cost of sales increased by 58% from US$284 million in 2009 to US$450 million in 2010.

Costs of sales (US$ million)	12 months ended December 31,		% change
	2010	2009	
Consumables and spare parts	147.1	92.5	59%
Labor and other taxes (social security payments)	78.0	56.7	38%
Services and other costs	122.3	70.4	74%
Purchase of ore from a third parties	11.2	4.6	143%
Mining tax	57.2	33.7	70%
Total cash costs	415.9	257.9	61%
Depreciation and depletion	70.4	43.9	60%
Accretion of reclamation and mine closure obligation	4.5	2.9	55%
Increase in metal inventory	(57.9)	(24.7)	134%
Write-down of inventory to lower of cost or market	15.3	2.6	488%
Cost of other sales	1.5	1.8	-17%
TOTAL[1]	**449.7**	**284.4**	**58%**

Notes: (1) Taking into account the effect of rounding

GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

General, administrative, and selling expenses (GA&S) grew by 55% from US$52 million in 2009 to US$81 million in 2010. This was mainly caused by increases in the costs of services and a non-recurring non-cash employee stock option compensation expense of US$8 million recorded in 2010. Without the impact of the stock option expense, GA&S increased by 40% and, as a % of sales, declined from 9.3% to 7.9%.

GA&S personnel costs increased by only 20% despite a significant expansion in the Company's scope of operations, reflecting the Company's commitment to keeping personnel overhead under tight control.

A 122% increase in the cost of services component in GA&S was caused, among other things, by costs associated with Varvarinskoye project loan, an increase in personnel transportation expenses, and additional outlays for underground industrial safety services.

Other GA&S increased by 28%, mostly because of additional GA&S at new development projects (Mayskoye and Omolon). The most significant element of other GA&S is salary taxes amounting to $5 million in 2010 and $3 million in 2009.

	12 months ended December 31,		% change
	2010	2009	
GA&S (US$ million)			
Personnel costs	38.2	31.8	20%
Share based compensation	7.9	-	100%
Services	20.7	9.4	122%
Other	14.0	10.9	28%
TOTAL[1]	**80.8**	**52.0**	55%

Notes: (1) Taking into account the effect of rounding

OTHER OPERATING EXPENSES

Other operating expenses increased by 26% from US$42 million in 2009 to US$53 million in 2010. Other taxes (mostly property tax) increased 93% as the Company's asset base expanded and more assets were transferred from the construction-in-progress category to the assets-in-use category.

Exploration costs declined by 6% in 2010 compared to 2009 as most exploration outlay was capitalized. Voluntary social payments increased 48% in the same period as the Company re-activated programs being put on hold in the aftermath of the financial crisis and added new ones at Varvarinskoye, Omolon, and Amursk.

Other expenses decreased by 41% as other expenses in 2009 included non-recurring fines to suppliers and a one off settlement with a contractor at Mayskoye.

	12 months ended December 31,		% change
	2010	2009	
Other Operating Expenses (US$ million)			
Taxes other than income tax	14.5	7.5	93%
Exploration expenses	8.1	8.6	-6%
Omolon start-up costs	7.2	-	NM
Social payments	6.5	4.4	48%
Loss on fixed assets disposals	3.4	3.4	-
Housing and communal services	4.3	1.9	129%
Bad debt allowance	2.3	3.0	-22%
Consulting services (acquisitions related)	-	2.4	NM
Other expenses	6.3	10.6	-41%
TOTAL[1]	**52.5**	**41.7**	26%

Notes: (1) Takes into account the effect of rounding

OTHER INCOME STATEMENT ITEMS

The Company's interest expense halved from US$33 million in 2009 to US$16 million in 2010 despite a 38% increase in the Company's net debt at 31 December 2010 compared to the position at 31 December

2009. This is due to a significant reduction in the interest rates paid by the Company as well as to the capitalization of interest relating to development projects under construction (mostly Albazino and Amursk).

In 2010, the Company recorded only US$1 million in expenses to account for the change in fair value of derivatives as compared to US$42 million in 2009. In 2009 the derivative expense stemmed from the option the Company granted to co-investors to select either cash or a fixed number of Polymetal's shares as a payment for their 91% stake in the legal entity holding the license for the Mayskoye deposit. The option became exercisable after certain conditions precedent (most importantly, government approvals) were satisfied. Option holders elected Polymetal shares (rather then cash). For the purpose of these financial statements, Mayskoye option granted by Polymetal was valued as of the grant date (April 28, 2009) and was included into the purchase price of the acquisition. As Polymetal's share price increased over the period, the value of the option increased correspondingly. In 2010 the derivatives cost stems from the discounting of the forward sales contracts entered into by JSC Varvarinskoye using a current U.S. Treasury yield curve rate. This change in the fair value of derivatives appears as an expense on the income statement and is a non-cash item.

In 2010, the Company recorded US$4 million in expenses to account for a change in the fair value of contingent consideration liabilities (in 2009, these expenses accounted for US$13 million). The contingent liabilities stems from the perpetual deferred payments (equal to 2% of revenue from the deposits acquired as part of the acquisition of Kubaka in 2008) which the Company is liable to make, and from the deferred consideration of up to US$12 million (contingent on and calculable by reference to future prices of gold and copper) pursuant to the acquisition of Varvarinskoye in 2009. In 2010 certain assumptions mostly concerning future gold and copper prices were modified, which increased the estimated value of the contingent liabilities. The resulting change in the fair value of the contingent liability appears as an expense in the Company's income statement and is a non-cash item.

An exchange loss of US$0.2 million in 2010 followed an exchange gain of US$7.9 million in 2009 as the Company's debt is mostly dollar denominated and the appreciation of the ruble against the US dollar was not significant in 2010.

The Company's income tax expense roughly doubled to US$70 million in 2010 from US$38 million in 2009 as pre-tax income went from US$132 million to US$320 million in the period. The effective income tax rate declined to 22%, a move towards the statutory rate of 20%. In 2009 the effective tax rate of 29% reflected the fact that a significant portion of the Company's costs in the period was not tax deductible, most importantly the changes in the fair values of financial instruments.

As a result of the above, the Company reported net income of US$250 million compared with net income of US$94 million for 2009 (including a US$36 million gain from the acquisition of Rudnik Kvarzevy LLC). The increase in net income was mostly driven by increases in gold sales volumes and improvements in realized prices for gold and silver.

Diluted EPS for 2010 stood at US$0.69 per share as compared to US$0.28 in 2009.

ADJUSTED EBITDA

Adjusted EBITDA increased from US$242 million to US$429 million with increases in average realized gold and silver prices and gold sales volume. Adjusted EBITDA is calculated as detailed in the following table.

	12 months ended December 31,	
	2010	2009
Net income (loss)	249.8	94.0[1]
Interest expense[2]	16.4	32.5
Income tax expense	70.4	38.4
Depreciation and depletion	61.3	53.7
EBITDA	**397.9**	**218.6**
Loss on extinguishment of debt	-	5.9
Change in FV of derivative	0.9	41.9
Change in FV of contingent liability	3.6	13.4
Exchange loss (gain)	0.2	(7.9)
Extraordinary loss (gain)	-	(36.0)
Share based compensation	7.9	-
Loss on fixed assets disposal	3.4	3.4
Inventories impairment	15.3	2.6
Adjusted EBITDA[3]	**429.2**	**241.9**

Notes: *(1) Restated*
(2) Includes capital lease finance costs
(3) Taking into account the effect of rounding

CASH COSTS

Grade dynamics, domestic inflation (8.8%) and increasing diesel fuel prices were the key factors driving cash cost trends at the Company's mines in 2010.

Dukat cash cost per tonne milled grew by 3% as economies of scale driven by an increase in throughput have largely offset the impact of inflation. At the same time, cash cost per ounce of silver produced increased by 23% to USS$10/oz due to declining grades and recoveries.

Voro cash costs per tonne milled remained flat at US$41/tonne as an increase in throughput and cost reduction efforts balanced the impact of inflation and the additional cost of trucking ore from Degtyarskoye. Total cash cost per ounce of gold increased 20% to US$458/oz as grade at the heap leach operation declined significantly.

Khakanja cash costs per tonne milled increased 52% to US$144/tonne on the back of rising diesel fuel prices and increased mining and ore trucking costs at the remote Yurievskoye satellite operation. Total cash costs per ounce of gold grew more moderately to US$512/oz as grade improved due to the processing of high-grade ore from Yurievskoye and silver recoveries improved.

At Varvarinskoye no comparison with 2009 is available. The low cash cost per tonne milled (US$21/tonne) compensated for the relatively low grade resulting in a total cash cost of gold of US$629 per ounce which was roughly in line with the Company's other established operations.

At Omolon no comparison with 2009 is available. Total cash costs of US$981 per ounce of gold were significantly above the Company's and the industry average due to the fact that the mine started commercial production only in the third quarter of 2010 and processed low-grade ore from stockpiles.

Company-wide cash costs per tonne of ore milled decreased 24% mostly due the inclusion of production from Varvarinskoye, which more than offset inflationary pressures. However, the low grade at Varvarinskoye and the decline in grades at some of the Company's other mines led the Company's overall total cash costs per ounce of gold equivalent to increase by 19% to US$571/oz.

In 2011 the Company expects costs at established mines to be impacted mostly by the same three factors: grade dynamics, domestic inflation in Russia, and diesel fuel price.

Breakdown of the Company's cash costs calculated on a co-product basis is given in the following table:

	12 months ended December 31, 2010	2009	% change
Co-product total cash costs (US$ per ounce)			
Polymetal (gold equivalent)	571	479	19%
Dukat and Lunnoye (silver)	10.0	8.1	23%
Khakanja (gold)	512	463	11%
Voro (gold)	458	381	20%
Omolon (gold)	981	-	NM
Varvara (gold)	629	-	NM
Co-product total cash costs (US$ per tonne of ore milled)			
Polymetal	55	72	-24%
Dukat and Lunnoye	115	112	3%
Khakanja	144	95	52%
Voro	41	34	21%
Omolon (gold)	27	-	NM
Varvara (gold)	21	-	NM

CAPITAL EXPENDITURES

The Company's capital expenditures roughly doubled from US$213 million in 2009 to US$420 million in 2010. Part of this significant increase was not planned for at the beginning of 2010. The Company made a decision to upsize its exploration spending from US$18 in 2009 to US$49 in 2010 in response to improving market conditions. Also, efforts were made to accelerate the prepayment for new mining equipment in the face of growing tightness in this market, particularly for underground equipment and for surface drill rigs. Overall inflation in the construction industry in Russia also ran above the CPI (9.1% vs. 8.8%).

The below breakdown among operational segments accounts not only for cash spent on capital expenditures but also for account payables associated with these expenditures.

US$200 million was spent in 2010 on Albazino-Amursk project (2009 – US$123 million), including continuing exploration, the acquisition of a new mining fleet, capital pre-stripping at the pit, construction of the concentrator at Albazino, the POX facility in Amursk as well as for the building of remote site infrastructure at Albazino, including a 114 km access road.

US$44 million was spent in 2010 on Dukat (2009 - US$32 million). In both years the most significant outlays included the purchase of new underground mining equipment; capital underground development at Dukat, Lunnoye, and Goltsovoye underground mines; expansion of the Dukat processing plant; and brownfield exploration for additional sources of ore for the expanded mill.

US$62 million was spent in 2010 on investment in Mayskoye (2009 – US$21 million). In 2009 the bulk of investment was for underground capital development and purchase of underground mining equipment. In 2010, in addition to these capital programs, money went to buy equipment and construction materials for the flotation concentrator.

US$22 million was invested in 2010 at Varvarinskoye, mostly to buy new shovels and trucks (2009 – less than US$0.4 million).

Capital spending at Voro (US$12 million in 2010 and US$10million in 2009) was mostly for new open pit mining equipment and expansion of heap leach pads.

US$11 million in 2010 was spent on mining equipment for new underground mines at Yurievskoye and Khakanja as well as on establishing a new open pit mine at Avlayakan. US$3 million in 2009 was spent on new mining trucks and a drill rig.

US$76 was spent on Omolon (Birkachan, Sopka, Kubaka mill start-up) compared to US$17 million in 2009.

Corporate capital spending amounted to US$4.9 million in 2010 compared to US$32 million in 2009 and represents mostly exploration investment not tied to any operational segment and investment in head and regional office infrastructure, including Polymetal Engineering. The 2009 spend also included advance payments made by Polymetal Trading to suppliers and contractors (in 2010, these payments were allocated among the operational segments).

CASH FLOWS

Operating cash flows grew from US$165 million in 2009 to US$230 million in 2010, a modest 39% increase compared with the growth in other profitability measures. This was mostly due to a US$120 million increase in working capital comprising both initial investment in working capital at new projects (most importantly, Omolon, Albazino, and Mayskoye) and the general increase in the Company's physical scope of business.

Cash used to pay for investing activities increased from US$259 million in 2009 to US$425 million in 2010 mostly as a result of increased capital expenditures.

The excess of cash used to pay for investing activities over cash provided by operating activities amounted to US$195 million in 2010 compared with US$93 million in 2009. This gap was funded by cash inflows from financing activities of US$178 million compared with US$118 million in 2009. Cash at the end of 2010 was US$11 million compared with US$28 million at the end of 2009.

NET DEBT

Net debt during the period increased by 38% to US$785 million. In 2010 the Company made important steps towards the optimization of its credit portfolio resulting in the extension of the average effective duration and significant decrease of the interest rates. 88% of the debt as at 31 December 2010 was long term. As of the year-end 2010 the Company had access to US$237 million of unused credit facilities.

Net debt calculation is detailed in the following table:

	Dec 31, 2010	Dec 31, 2009	% change
Net debt calculation (US$ million)			
Short-term debt and current portion of long-ter debt	90.6	108.9	-17%
Current portion of capital lease liabilities	4.8	2.9	66%
Long-term portion of capital lease liabilities	-	4.9	-
Long-term debt	595.4	331.3	80%
Derivatives	105.4	149.5	-29%
Cash	(11.1)	(28.3)	-61%
TOTAL[1]	**785.1**	**569.1**	**38%**

Notes: (1) Takes into account the effect of rounding

2.3. OPERATIONAL RISKS

There are a number of potential risks and uncertainties which could have a material effect on the Company's performance and results. In order for us to deliver value to our stakeholders, we strive to mitigate these risks. In the normal course of its business, Polymetal encounters risks arising from market conditions, industry- and country-specific risks as well as risks generated by other factors. Effective risk management is a core part of our governance framework, as explained in our Corporate Governance Report.

Risk	Potential impact	Mitigation
Critical risks		
Market The Company's operational profitability and the cash flows it generates are directly related to the market price for gold and silver. While precious metal prices have been growing steadily for several years, and were comparatively high in 2010, price volatility may continue in the future.	Price volatility may affect the production and financial results of the Company.	There are market factors which support analyst and investor confidence in the growth of metal prices. Given a prolonged period of market growth, the Company regularly considers various strategies to hedge the price risk. Currently Polymetal does not hedge as its strategy is to offer stakeholders full exposure to potential gold and silver price upside potential.
Production The Company is constantly developing its production capacity to increase the volume of mining and processing it carries out. An inherent risk is that newly commissioned or refurbished production facilities may not reach processing targets or predicted recovery levels on expected terms and/or timeframes	Possible impacts are the failure to meet targets, or inefficient use of material and human resources.	Our mining operations plan their production processes on a monthly, quarterly and annual basis. These processes are supported technologically and organizationally by management and operational executives using detailed monitoring systems which seek to reveal any irregularities and enable implementation of appropriate remedial decisions.
Development and construction a) Development and construction projects focusing on the expansion of production capabilities of current deposits or the development of new ones, carry a certain level of inherent risk. At each stage of such projects, some technical and technological decisions need to be made which may be based on preliminary information. b) In addition, production facilities at new project sites may not be completed in time for various reasons, including the following: - Construction timeframes may be extended as a result of design, cost-estimate and regulatory permission documentation not being obtained in time; - Subcontractors may fail to meet contractual deadlines. Two or three subcontracting companies are usually involved in each project, and the performance of	a) As new information appears during a project's development, initial assumptions relating to projections and timeframes may be called into question. The cost of development and construction projects, and their duration and complexity, may therefore increase. b) Development and construction projects may miss target deadlines or prove loss making or not to be as profitable as initially planned.	In order to minimize the effects of this risk, the Company has special subdivisions tasked with the detailed management of construction projects, coordinating the interaction between design organizations, builders, other subcontractors and regulatory bodies. A significant proportion of each project's scope is carried out using the Company's own resources, in particular those within Polymetal Engineering.

other participants in the construction process depends on whether they meet deadlines; - Subcontractors may submit documentation that does not comply with required standards, causing delays in registration and production.		

Country-specific risks While there have been improvements in the Russian Federation's economic situation in recent years, the country continues to display certain attributes of an emerging market economy. Tax, currency, and customs legislation within the Russian Federation is subject to varying interpretation and change that may occur frequently. The Company's operations and earnings may be affected by political, legislative, fiscal, and regulatory developments, including those relating to environmental protection.		
Political In recent years the current government has presided over, in the main, an increase in political and economic stability. However, there remains a potential risk of political destabilisation that includes, but is not limited to, counter-productive changes in government, negative policy shifts, and social or ethnic unrest.	Political instability may have an adverse effect on our operations and consequently the value of our GDRs and/or ordinary shares.	Polymetal dedicates significant management and operational resources to monitoring and understanding the political risks associated with its business. We work to assess the current circumstances and potential developments and our contingency plans. At the local level, we undertake due diligence and work on developing relationships through social and community activities.
Legislative Russia continues to develop the legislative base necessary for a market economy. The process of developing fiscal legislation is currently in its final stages. The laws have been codified, the taxation system has been structured, and the mechanisms and rules of taxation have largely been completed. However, the appropriate law making and enforcement processes in these areas have not yet been finalised, and this raises the potential risk of differences in interpretation when dealing with the regulatory bodies.	On the whole, all Russian companies are affected by the risks surrounding the development of fiscal and other regulations, and the consequent ambiguities which exist in current enforcement practices in some aspects of fiscal legislation.	The Company seeks to comply with Russian law. Legislative and regulatory changes, however, very often cannot be predicted and come suddenly, especially with regard to foreign investment, private property and environmental protection. Such dramatic changes may present a risk to the Company's business.
Inflation Inflation was at 8.8% in Russia in 2010. A lower rate of 6.5% is projected for 2011. There is a possibility of increased inflation in the future.	The possibility of increased inflation may affect the results of the Company. Polymetal conducts most of its activities in Russia and incurs most of its costs in roubles. A high rate of inflation in Russia may	Inflation is outside the Company's control, although the Company evaluates this risk and undertakes all possible steps to address or mitigate it. As part of the budgeting process, the Company estimates and predicts

	therefore result in a growth of rouble expenditure, and if that growth is not balanced by a decline in rouble-to-dollar value or growth in the price of precious metals, it may lead to reduced profits.	a possible inflation level and incorporates it in costs planning.

Global risks		
Currency The company's revenue is in US Dollars and its business depends on the USD-denominated LBMA gold and silver fixings.	The Company's expenses, however, (inc. labour, services, materials, etc.) are generally denominated in Russian Roubles. Consequently, the appreciation of the Russian Ruble as compared to the US Dollar presents a risk to the results of operations and financial position of the Company because the appreciation of the Russian Ruble will result in higher expenses in US Dollars against revenue that will not necessarily be similarly affected. Likewise, the depreciation of the Russian Rouble against the US Dollar would generally carry a positive financial impact on the Company.	In order to minimize currency risks, the Company borrows in the currency in which its revenue is denominated. Most of the company's debt at the end of 2010 was USD denominated. The Company regularly monitors the potential effects of adverse currency rate changes.
Interest rates Being a major borrower, Polymetal is open to risks arising from interest rate variations. The larger part of the Company's debt portfolio is accounted for by USD-denominated credits, and the rate of interest on most of these is indexed to the LIBOR inter-bank credit rates.	If interest rates increase, the Company may have greater debt servicing costs. More expensive credit may affect the company's solvency and liquidity indicators.	Based on analysis of the current economic situation, the Company has decided to accept the risk of floating interest rate and not to hedge it or borrow at fixed rates. However the Company does not rule out the possibility of fixing the interest rate on its borrowings in future, if assessment of the ongoing economic situation suggests that this may be beneficial.
Industry-specific risks (precious metal mining)		
Geological exploration Geological exploration may not result in the discovery of deposits, and deposits that are discovered may be of insufficient quality and scope for an economically viable mining programme.	Such uncertainties may prevent exploration projects from resulting in increased production or the replacement of the current resources base.	Options for managing this risk are limited, since it is inherent to exploration activity. One way in which it is managed is by increasing investment in more detailed preliminary information regarding deposits prior to

In addition, the uncertainty inherent in gold and silver recovery from identified deposits may affect production that relies on current technologies. Moreover, it may take several years to confirm the presence of ore after a deposit has been identified. Consequently the economics of a project may change over that period of time.		acquisition. After a license has been granted, the Company carries out extensive additional sample-taking to evaluate reserves. The Company also conducts audits of mineral resources to verify the reserves, and will continue to do so. Nevertheless, we accept that this risk is inherent given the nature of the Company's business.
Environmental impact The Company's production facilities use hazardous and toxic chemicals and other substances whose impact may be detrimental to the environment. The storage and disposal of chemical waste is regulated by the environmental protection laws.	Revisions and amendments to current regulations may entail additional costs and liabilities that the Company had not envisaged.	The Company minimizes environmental impact risks by constantly monitoring the appropriate legislation, conducting independent expert reviews of waste classification, and implementing appropriate measures to ensure compliance with requirements for the concentration of harmful substances in waste.
Technological Prospecting and mining for minerals is a technology-intensive activity giving rise to a range of technological risks.	Failure to invest in modern technology may have a negative impact on the Company's ability to compete effectively.	The efficiency and safety of the equipment used in our production processes is critically important to Polymetal. Consequently, our production facilities use only technologically advanced equipment, with particular regard to safety and reliability.
Human resources The Company's growth and success depends on its ability to attract, retain, and motivate key senior management and highly qualified and suitably skilled personnel at the Company's headquarters and at each mining facility. The remote locations and severe climatic conditions associated with the Company's mining operations limit the supply of suitably qualified workers.	In particular, the Company may be unable to retain qualified personnel consistent with its internal compensation policy or may be unable to control the costs associated with retaining and motivating highly qualified employees.	To avoid this risk, the Company has an ongoing programme of improvements to working conditions. In addition, we have modernized our employee incentive systems by offering competitive salaries and benefits packages, and have developed a strong corporate culture, ensuring employees' social stability and facilitating a healthy psychological environment in the workplace.
Estimates and projections Polymetal's growth strategy is based on estimates of its future production and costs. However, there is no guarantee that these estimates will be proven correct. Production levels depend on a variety of factors, ranging from the mineral properties	Failure to achieve projected production targets may affect the Company's performance.	The Company uses its expertise and experience to make its projections as accurate as possible taking into consideration the circumstances in which they are made. The Company also appoints

of ore, successful supply chain management and weather conditions, some or all of which may vary widely.		international consulting agencies like SRK Consulting and Snowden Mining Services to verify its findings and projections.
Other risks		
Liquidity The management of liquidity risk is focused on sustaining cash resources at levels that are sufficient to meet production, managerial and investment needs, and to meet the Company's other financial obligations.	Failure to achieve an adequate level of liquidity would mean that there is a possibility of failure to meet operating and financial obligations.	In managing liquidity risk the Company principally relies on future cash flows from its operations. It also has access to committed lines of credit and does not take short-term loans to fund long-term assets. The efforts taken to manage liquidity risk enable to the company to remain competitive and financially stable in the long term.
Mergers and acquisitions Polymetal has made substantial investments in the gold-mining industry in Russia and Kazakhstan. As a consequence, new risks relating to individual acquisitions may arise.	Risks may occur in the event of new information being discovered post-completion or during the acquisition or integration process.	The Company minimizes these risks by conducting detailed due diligence of acquisition targets and analyses their consequences for the Company, taking into account all economic, environmental, political and social factors.

3. CORPORATE SOCIAL RESPONSIBILTY

3.1. COMMMITMENT TO UN GLOBAL COMPACT PRINCIPLES

In 2009 Polymetal joined the UN Global Compact, which marked a new stage in the Company's development. Participation in this voluntary initiative has taken the Company to a new level of corporate social responsibility.

The UN Global Compact's ten principles in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption

The decision has been made to integrate Polymetal's 2010 Progress Report on the implementation of the ten Global Compact principles into various stakeholder communications including the Social corporate responsibility report and the CSR section of its annual report. The Corporate Responsibility section of the Annual Report reflects the specific measures taken by the Company to address current CSR issues and to ensure sustainable.

The Corporate Social Responsibility report reflects the Company's commitment to greater transparency and the interests of the communities where it operates and society at large.

№	UN Global Compact Principle
Human Rights	
1	Businesses should support and respect the protection of internationally proclaimed human rights
2	Businesses should ensure that they are not complicit in human rights abuses
Labour relations	
3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
4	Businesses should uphold the elimination of all forms of forced and compulsory labour
5	Businesses should uphold the complete abolition of child labour
6	Businesses should uphold the elimination of discrimination in respect of employment and occupation
Environment	
7	Businesses should support a precautionary approach to environmental challenges
8	Businesses should undertake initiatives to promote greater environmental responsibility

9	Businesses should encourage the development and diffusion of environmentally friendly technologies
Anti-corruption	
10	Businesses should work against corruption in all its forms, including extortion and bribery

Commitment to sustainability

Polymetal's objective is to carry out its operations - geological exploration, mining and industrial activities - with the greatest possible levels of efficiency and safety, and in line with its long-term strategy. In addition, we aim to promote local economic sustainability and development, and raise our employees' standards of living. Our operations are often located in remote areas with harsh climates and underdeveloped social infrastructures. We have a significant impact on the growth of local communities in these areas, and are very serious about our responsibilities for people's living conditions and for local economic development.

All Polymetal's subsidiaries comply with the United Nations Global Compact Principles regarding human and labour rights, environmental protection, and anti-corruption. The Company considers Social Responsibility as an investment in the development of both its own employees and the local population.

Polymetal believes that sustainability can be achieved only through striking a reasonable balance between commercial interests and the interests of society. Our objective in the area of sustainable development is to create useful and safe jobs, to provide workers and their families with social security, to facilitate professional training, to foster a strong community spirit in the regions where we operate, and to ensure the ecological safety of our operations.

3.2. OCCUPATIONAL HEALTH AND SAFETY

Results, analysis and steps taken

The occupational health and safety of our employees are an absolute priority, and is a key consideration in the structuring and running of our business. The Company's subsidiaries use state-of-the-art, high performance technologies, including a considerable number of large-size mining and ore-processing equipment. The operation of such equipment and the application of sophisticated hydrometallurgical processes mean that the Company needs to be particularly focused on ensuring the safety of its employees.

As a result of the nature of its business, the accident rate in the Company's operations is relatively high. This means that we need to apply our best efforts to prevent emergencies in order to lower the risks to employees' health and safety.

The main objectives of the Company's efforts to ensure occupational health and safety in 2010 were:

1. To achieve accident-free operations within our subsidiaries
2. To reduce employee accident and mortality rates
3. To implement best practice and world standards in occupational safety

In 2010, the Company's subsidiaries operated 74 dangerous production facilities, including open pit and subsurface mines, geological exploration sites, ore processing facilities, facilities involved in the transportation of hazardous cargo and substances, explosive storage facilities and mineral separation plants. Compared to 2009, the number of dangerous production facilities increased by two as a result of production facilities at Albazino Resources and Mayskoye Gold Mining Company becoming operational.

During the period under review there were no emergencies. However, 39 accidents took place involving various degrees of property damage. This was a reduction of 30% compared to the previous year. 24 employees were injured as a result of the accidents, 6 of them fatally. The other 15 accidents related to equipment damage and road accidents.

Including fatalities: in 2006 – 1, in 2007 - 1, in 2009 – 1, in 2010 – 6.

Among the most frequent causes of injury resulting from the Company's operations are: impact of falling objects (36%), road accidents (26%) and falls from elevation (15%). Most accidents result from employees not complying with safety regulations and rules regarding discipline in the workplace. Specific steps were taken over the year to improve compliance with regulation and rules. These steps aim to change the pattern and approach to safety management from reacting after accidents have taken place to a preventative approach involving continuous implementation of preventative actions designed to reduce the risk of damage to employees' health. The cost of these actions and other steps taken to improve the Company's occupational safety, was 43.2 million roubles in 2010, an increase of more than 100% over the previous year.

Occupational Safety standards and guidelines

The Company relies on the following principal documents and standards in its efforts to ensure occupational safety:

- The Constitution
- The Labour Code
- Federal laws
- Occupational and industrial safety standards and regulatory framework

Our Industrial and Occupational Safety Management System, first implemented in 2006, is the Company's principal internal guideline for the regulation of safety issues. The Company has received positive conformation from an external auditor that the system conforms to the World Bank's requirements regarding occupational health and safety. The system is systematically updated, in keeping with the OHSAS 18001:2007 Occupational Health and Safety Management Systems Requirements Standard.

Accident rate reduction

The Company has been steadily implementing an integrated plan of action aimed at reducing the employee accident rate and preventing breaches of safety regulations in the workplace. With these objectives in mind, the following managerial and engineering steps were taken in 2010:

- Industrial and occupational safety services in the Company’s structural subdivisions were overhauled
- Special arrangements were put in place to ensure industrial safety
- A system designed to motivate the employees to behave in a safe and secure manner in the work place was put into practice
- Some machinery used by the Company’s subsidiaries was replaced with machinery which uses more advanced technologies to reduce employee exposure to the main production hazards
- Managerial staff were trained in the requirements of integrated quality, environment and safety managements systems (ISO 9001, 14001, OHSAS 18001), by Det Norske Veritas which is certified to operate in Moscow.

3.3. PERSONNEL MANAGEMENT

Polymetal recognizes that its people are its key asset, and it is therefore committed to a continuous programme of human resource development.

Due to the expansion of the Company’s operations during 2010, the number of employees increased by 1500 in 2010.

As part of our ongoing social policy development, we have established the following HR management objectives:

- creation of a system for monitoring employee relations, focusing on achieving a productive balance between the interests of employees and those of the Company;
- implementation of an effective employee motivation system, and ensuring that there is a fair level of wages and benefits linked not only to productivity, but also to collective and individual achievement;
- personnel training and development to ensure that our employees are qualified to deliver the level of expertise that we need throughout our operations;
- to increase safety and accident prevention levels;
- to improve working conditions at our production sites;
- development of effective internal communications and a positive corporate culture, in particular as this relates to creating a secure, stable and positive social environment in the workplace.

Employee relations and corporate culture

The Company has many years experience in managing employee relations, which includes the use of collective agreement programmes.

Our system of employee relations is based on the following main principles:

- equal rights of all parties;
- taking into account mutual interests in the decision-making and implementation process relating to the various aspects of the Company's operations;

- compliance with social and labour legislation and local regulations;
- taking responsibility for obligations agreed by employees and employer;
- consideration for social and labour issues which may be raised in the dialogue between employees and employer.

Employees' interests are represented throughout our businesses by workers' councils, which act on behalf of all employees in respect of their relations with their employer.

In order to further develop our corporate culture and to improve internal communications, we have implemented internal communication channels that are aimed at ensuring a full understanding of the Company's strategy, tactics and activities throughout the business.

One of the main tools for internal communication is a feedback system that enables employees to communicate their views directly, and that enables management to gather the most accurate information on all issues, including those relating to the workplace.

Staff selection and recruitment

It is strategically of great importance for Polymetal to become the employer of choice for young, highly educated and ambitious professionals. We greatly appreciate the contribution made by each employee, and we are committed to training and developing our employees on a continuous basis.

External staff selection

In order to recruit the best qualified staff to meet the Company's production and management needs, we select employees on a competitive basis and our objective is to establish strong, long-term employee relations.

The process of identifying and selecting candidates takes place in the Russian Federation, Kazakhstan and Uzbekistan. Lists of vacancies are posted on Polymetal's website as well as on various portals popular with job seekers. In 2010, we also used recruitment agencies to identify engineering, design and mining specialists from Kazakhstan.

Candidates with relevant specialist qualifications and experience can apply for vacancies throughout the business at management and operational level, and it is likely that successful candidates will be those with mining industry experience.

Staff development

Polymetal provides opportunities for training and career progression to all employees, and any employee may apply for promotion. When recruiting for managerial positions, we give preference to any internal candidates.

Ethical standards

Polymetal operates a zero tolerance policy towards discrimination of any kind, including race, gender, language, religion, political views, ethnic nationality or origin, status and place of birth.

The Company supports employees' rights to freedom of association and entering into collective agreements. In addition we use neither child labour, nor any other form of forced labour, and seek to guarantee that there is no discrimination in the workplace.

Training and development

We recognise that the ability of any organisation to compete effectively is dependent on the quality of its workforce. Given the current lack of specialists in the metallurgy industry, we are particularly committed to training workers with the appropriate skills.

Assessments relating to staff development are based on appraisals, and we have implemented a system for evaluating employee qualifications and development.

The main focus of the appraisals is on improving employees' professional qualifications and career prospects. Temporary assignments have also been arranged for workers at our subsidiaries in order to exchange knowledge and experience.

In 2010, training programmes for 92 employees considered to have the potential for promotion to senior positions were prepared following their appraisals; of these, 28 were identified as having being qualified to a level which made them suitable for promotion, 10 of whom were promoted.

Investing in the future

To secure a skilled workforce we need to attract and nurture workers who are familiar with our processes, and who have developed good skills and reputations. Consequently, we are developing ways of attracting young people to our operations and of providing training for them. We provide all trainees with accommodation during their work experience, as well as a time-based salary and reimbursement of travel expenses. The most promising trainees are paid additional grants, or given specific targets with a view to future employment by the Company.

We have launched a successful "Youth – Professionalism - Career" programme aimed at attracting young employees. In 2010, 82 students had on-site work experience, with most them expressing an interest in repeating this programme the following year, and 37 college and university graduates were employed throughout our operations. The increase in the number of graduates employed in 2010 was a result of the need for greater numbers of staff both at our new operations and those under construction.

In 2010, groups of young professionals were formed at five of our operations. Individual induction programmes were developed for these groups, along with training in production projects. There are now 33 young professionals working on production projects.

Training

In 2010, we provided training for 2,016 employees at a cost of $0.51 million.

A system of distance learning was implemented in 2010, involving extensive coursework and testing. Priorities in our training plans for 2011 include employee evaluation training in industrial and occupational safety, as well as in production and management disciplines. Thus, the Company's subsidiaries will provide training without the need for the services of external training providers, resulting in significant training budget efficiencies. This approach will enable us to considerably improve the skills of our employees, and will consequently improve the safety and efficiency of our production processes.

A large number of executives and white-collar employees received skills upgrade training, with some attending national and international conferences and forums.

Additionally in 2010, in-house training in management systems integration based on ISO and OHSAS standards was provided, as well as in environmental issues. A number of in-house vocational training courses were conducted by senior staff from relevant services.

Employee motivation and incentives

Remuneration

Competitive remuneration is a defining factor when individuals are considering who to work for and how they will fulfill their professional ambitions. The current incentivisation system incorporates a range of leading motivational tools designed to encourage and enable employees to help the Company achieve its objectives as efficiently as possible.

Our operational efficiencies enable us to award regular salary increases. According to data from the State Statistics Agency, the average income for Polymetal's employees is 1.5 times higher than the average for the Russian mining industry.

We are committed to offering balanced and fair remuneration depending on type of work and results, and employees' earnings are made up of fixed and variable elements.

The fixed element includes salary, which takes into account hours worked, type of work and working conditions, as well as considerations relating to position, workplace and qualifications.

The variable element consists of current and nonrecurring bonuses, bonuses based on the year's results and other payments relating to the performance of the individual employee, the corresponding production group or the Company in general.

Our remuneration policy is in compliance with the Labour Codes of the Russian Federation and Kazakhstan. We also take into consideration the geographic and socio-economic diversity of the regions in which we operate, and ensure that we meet all official standards relating to benefits and compensation for the far north districts and remote far east regions of the Russian Federation.

The Company adjusts wages annually based on the inflation rates in the countries in which it operates.

Non-material incentivisation

Non-material incentivisation is also an important factor in motivating employees to achieve the best production results, and to demonstrate their abilities in a creative and imaginative way. Results-driven incentivisation helps to develop a spirit of involvement and individual significance in achieving personal and corporate objectives, increasing employees' motivation to work more efficiently, and thus improving the efficiency of their departments and the company overall.

The Company gives incentives to the employees in the form of gifts, verbal and written appreciation, and recognition on our wall of fame for loyalty and length of service, as well as for the development and implementation of innovative ideas that have had positive economical or social impact. We organize sports competitions, celebrations for Metallurgist's Day, Company Anniversary Day, new year's celebrations, and children's creativity and photo contests.

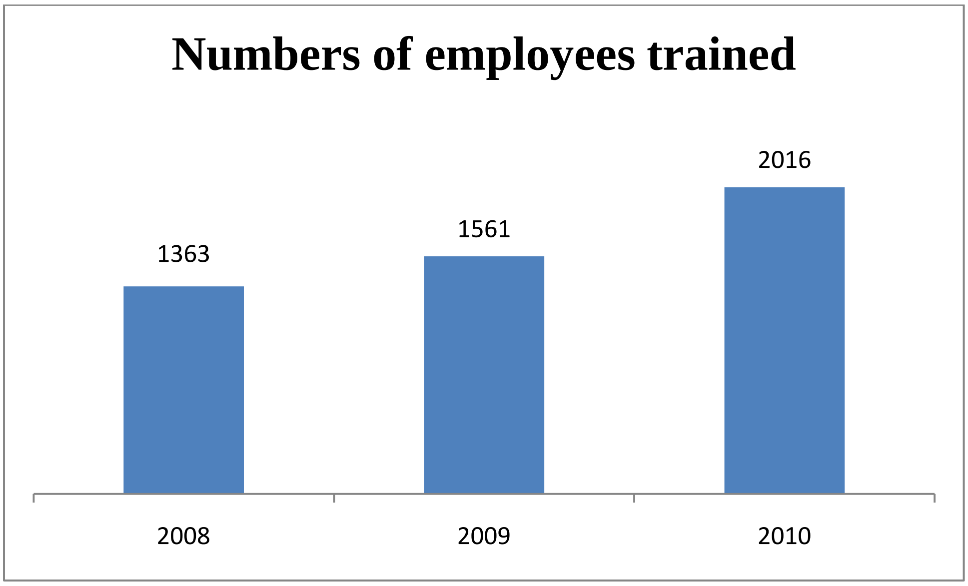
Employee benefits

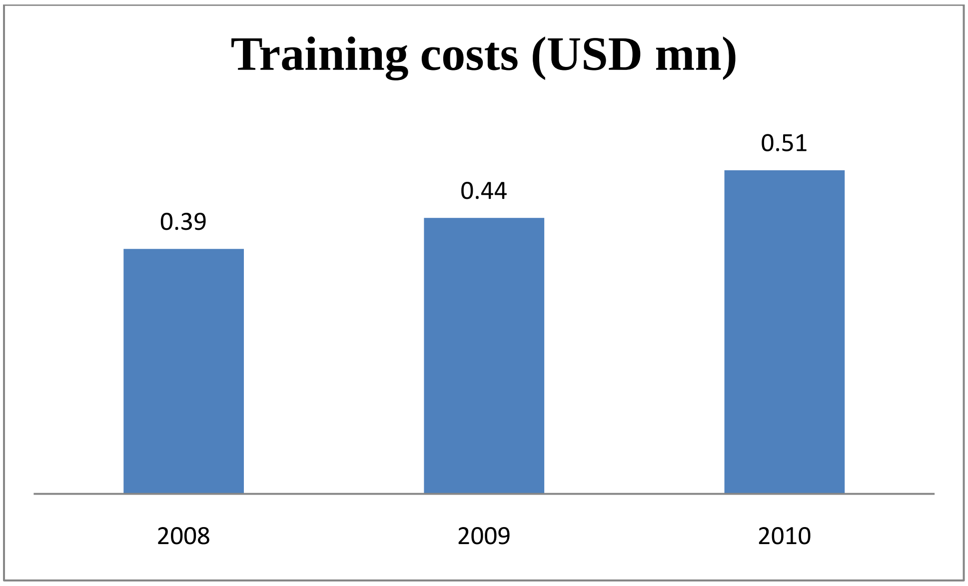
In addition to remuneration, employees receive a range of social benefits according to the Labour Code and relevant social programmes, which cover healthcare, leisure, medical treatment and other types of social care. The objective of providing these benefits is to create a positive environment throughout our operations, and to continue developing a strong corporate culture.

We provide our employees with the full social package guaranteed under Russian law. Each employee has medical and pension insurance policies, as well as entitlement to paid vacations and sick leave. Many employees are also provided with Company accommodation and transport.

In addition, the Company provides a wide range of health and personal development opportunities for its employees through additional medical programmes, health resort treatments and cultural and sports events.

Expenditure per employee in 2010 relating to social benefits exceeded $1,200, twice as much as in 2008.





3.4. ENVIROMENTAL PROTECTION

Environmental Protection and Nature Conservation policy

Polymetal recognizes that the production of precious metal ores carries a potential risk to the environment in locations that are exposed to the impact of the Company's activities.
Polymetal is an environmentally conscious company that has a defined and responsible attitude to the environment, and that has in place a strategy and processes designed to reduce any negative impact that its operations may have on the environment.

Our environmental policies are based on the statutory environmental requirements of the Russian Federation and the Republic of Kazakhstan, the World Bank directives and UN environmental principles, as well as the Company's own internal guidelines.

Polymetal has also developed practical systems and integrated solutions to tackle the issues of ecological safety and environmental protection at its production facilities. We have introduced a range of measures encompassing technology and working practices designed to reduce the negative environmental impact of our activities.

Environmental management

Polymetal's Environmental Management System, first implemented in 2006, is our principal internal system for regulating environmental issues. We are building on this to develop a wider-ranging environmental approach which encompasses objectives and processes for implementation, and which will enable us to enhance the environmental efficiency of our businesses.
In 2010, the current Environmental Management System was amended and updated to comply with changing Russian environmental standards and the requirements of ISO 14001:2004 standards.
In working to develop a revised environmental strategy that matches wider international standards, our objective is to develop a fully transparent system which sets out precise definitions of management responsibilities within all relevant departments.

Auditing

Polymetal carries out regular internal and external environmental audits in order to evaluate our compliance with legal requirements relating to environmental protection, and the requirements of the international standard ISO 14001certification.

In addition, the Company contracts independent experts to evaluate compliance with legal requirements. Canadian company Golder carried out the audit in 2010, confirming that the Company's environmental policy meets the required standards for mining companies.

Environmental training

One of Polymetal's environmental management aims is to ensure that our staff are trained and fully competent in to deal with environmental issues. Our Human Resources department carries out annual evaluations of leading training organisations in order to arrange training for our specialists at various international, national and regional workshops and conferences according to the specific requirements of our businesses. In addition we develop internal corporate programmes to help management achieve the highest levels of professional competence and skills, to help them implement operational standards, and to enable them to carry out environmental protection work more efficiently.

Environmental monitoring

To achieve environmental safety and compliance with environmental protection legislation we continuously monitor air quality, surface and ground water and snow cover at our facilities. The samples which we collect as a result of this monitoring work are analysed by laboratories certified and operate according to current legislation.

Environmental Performance Indicators

Polymetal pays particular attention to the reduction of the negative environmental impact of its production operations. Environmental safety and protection are given top priority, and Polymetal is committed to the reduction of negative environmental impact across all its operations. Polymetal constantly improves its systems for the production, storage and disposal of waste, and is implementing advanced methods and technologies designed to ensure that its environmental pollution prevention equipment and systems operate reliably.

Discharge of atmospheric pollutants

Some of the processes which Polymetal operates produce air pollution. Common pollutants produced during mining and ore processing operations are exhaust fumes from vehicle engines and diesel power stations.

Impact on water resources

Polymetal's production activities produce waste water including sanitary, production, pit-run, dump, drainage, and storm water from its production sites.

Sanitary and storm water from our production sites undergoes high-efficiency treatment and is then reused in the production process or discharged safely. Pit-run and dump wastewater undergo mechanical cleaning and are then used for dust suppression during warm weather.

Production wastewater is used in the closed-loop recirculation system that operates at all of Polymetal's operations. All Polymetal operations have authority to use bodies of water for intake and waste water discharge purposes, and we are careful to treat water resources responsibly.

Handling of waste and hazardous substances

Large quantities of waste are produced in the course of our operations, and the storage and disposal of this waste is our main task in terms of environment protection. The principal production waste is that produced during the extraction and concentration of ore - referred to as overburden rock in open-pit mining.

In order to reduce the quantity of overburden rock stored and consequently to reduce the area used for dumping, Polymetal's operations use overburden rock as far as possible for reclamation of mined land, construction of service roads and industrial sites.

Sludge cake (dewatered tailings) is stored at specially prepared sites with compressed and watertight bases, in order to prevent the penetration of hazardous substances into the ground water.

Protection of forest and land resources

Polymetal's operations are mostly located in permafrost regions where forests are scarce. We treat plant resources with great care and make sure that we preserve top soil on the sites where it is not disturbed by exploration and mining activities.

Polymetal operates in remote regions, so practically all land used for waste disposal is located in the tundra region and is therefore not suitable for agriculture and forestry. Waste is stored at sludge dumps and special landfills that occupy significant territories. Operations that are located in regions with fertile soils, for example Kazakhstan, transfer waste to third-party companies for disposal, burial and processing.

Land is reclaimed after completion of mine development, and sanitary protection areas are created around industrial operations where trees and shrubs are planted.

Energy conservation

Polymetal is committed to energy efficiency improvement, and updates its heat and energy conservation programmes every year.

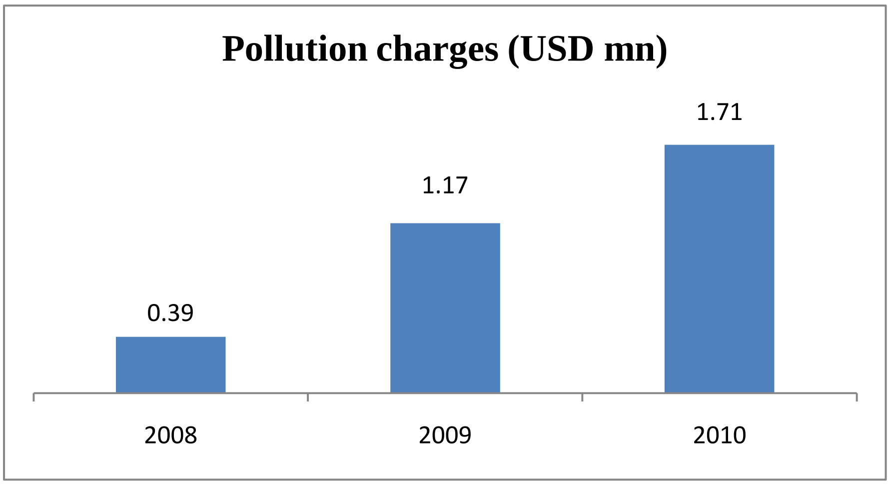
Pollution charges

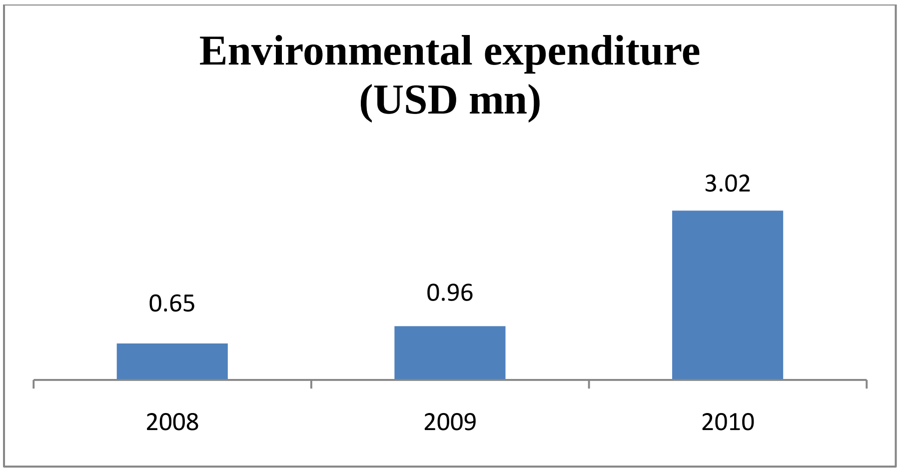
Pursuant to Russian Federation and Kazakh environmental legislation, the Company's operations pay quarterly fees to state agencies for environment pollution. In 2010 these amounted to US$1.7 million. With increasing production, there is a consequent increase in the rates of fees.

Environmental protection costs

In 2010, the Company incurred costs of US$2.7 million in respect of environmental protection internal measures.

Every year our operations implement measures aimed at environmental protection and the conservation of natural resources. In 2010, our total expenditure on environmental protection measures and the construction of environmental facilities was US$3.0 million, 3.1 times higher than in 2009.





3.5. SOCIALS PROJECTS AND CHARITY

Social responsibilities

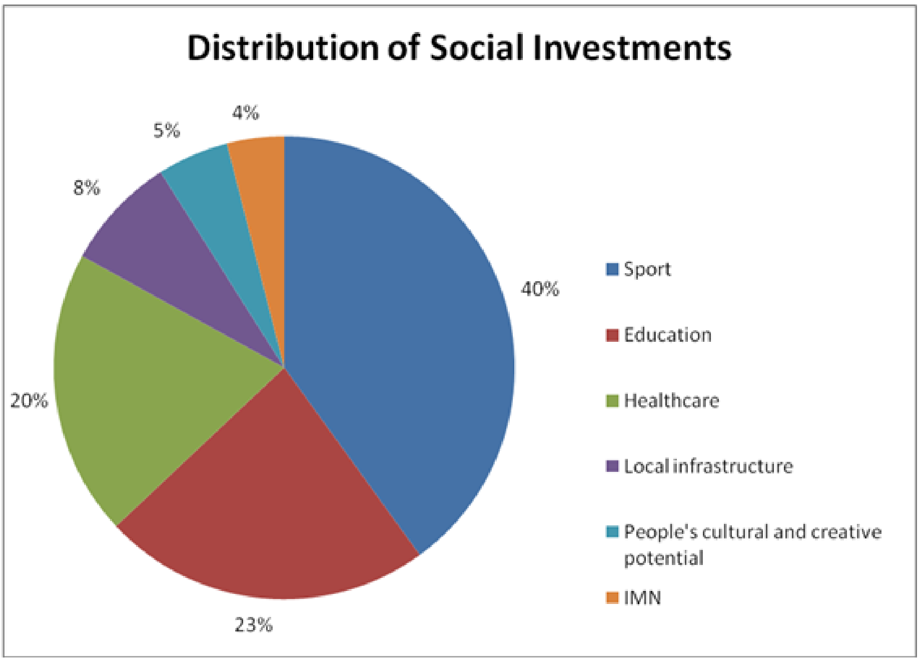
Implementation of long-term social programmes and pursuing a responsible social strategy is a key factor in the Company's long-term efficient operation.

Polymetal's social programmes focus on the social and economic development priorities in the regions where they operate: improving education and healthcare, developing local infrastructure, promoting sports and a healthy lifestyle, nurturing the cultural and artistic potential of the local population, and supporting the Indigenous Minorities of the North (IMN).

In 2010 Polymetal allocated funds for regional social and economic development, under 11 long-term agreements on social and economic cooperation with regional and municipal authorities. The Company also provided specific support to socially disadvantaged groups and implemented a number of charity projects. In addition, Polymetal signed specific agreements with organizations representing the IMN which fund programmes to develop deer-breeding and traditional culture and crafts, as well as national holiday celebrations and events.

In 2010 the Company's expenditure on social investments was $3.9 million distributed as detailed in the chart below.

Distribution of Social Investments:



20% - Healthcare
23% - Education
40% - Sport
5% - People's cultural and creative potential
8% - Local infrastructure
4% - IMN

Support for education and healthcare

In addition to the $ 3.9 million spent on social investments in 2010 the Company contributed over $0.6 million to support education and healthcare in the Sverdlovsk region. The funds were used in particular to complete extensive repairs to the children's hospital cafeteria and to renovate doctors' offices at the Krasnoturinsk maternity hospital. In addition, funds were dedicated to the refurbishment and conversion of the children's hospital buildings at the Zdorovye health centre, and to upgrade the Voskhod children's recreation camp. We also replaced the windows and doors at Karpinsk central hospital's maternity unit, and repaired and re-equipped the city hospital in Degtyarsk. We also sponsor a local school in Vorontsovka providing funds and technical assistance.

Projects in the Khabarovsk region received approximately $0.4 million in similar contributions from the Company. In the village of Kherpuchi in the Polina Osipenko District, our funds were used to repair a local school building and a kindergarten. We purchased and installed modular boiler houses in the kindergarten and in a local hospital and repaired the roof, the lighting system and hospital offices. Additionally, during the summer, we assigned primary care physicians and medical specialists from cities to work with the local population at the village hospital. We provided electric and kitchen appliances for the Oglongi village kindergarten and in the villages of Vladimirovka and Glavny Stan we purchased playground equipment and provided the local hospital with ward furniture and dental office equipment.

In Okhotsk we supplied medical equipment for the Central Regional Hospital's surgery department. We also sponsor a local orphanage and a local school in the Polina Osipenko District. In the city of Amursk, we funded repairs to one of the orphanage's outdoor sports ground and installed two further sports grounds for children living in apartment blocks. Polymetal supports education in general and a range of initiatives aimed at developing the creativity of children and youth. We have sponsored such events as a geological exhibition at the Museum of the Environment and Biology, and support the Youth Information Centre for the Development of Cinematography and Television for Children and Youth in Amursk.

In the Magadan region we allocated around $0.6 million for similar activities. Traditionally in the Omsukchan region our priority is children's education. We repaired the Omsukchan nurse's station and children's room at the kindergarten, renovated the summer playgrounds in the Dukat village kindergarten, and repaired the gym and bought computers for the Omsukchan Comprehensive School. We also funded an annual trip for schoolchildren to St. Petersburg, allocated funds to the local Technical College, as part of an annual programme, and completed repairs and window replacements in the library of the village of Dukat.

We purchased physiotherapy equipment for the central hospital in Omsukchan and repaired the hospital buildings, and in the villages of Omsukchan and Dukat we provided children's playgrounds. In the Srednekansk region, we supplied funds for kindergartens to buy furniture and sports equipment to repair gyms and verandas, and to acquire equipment for the children to enjoy active games. We also supplied sports equipment for the centre of supplementary education in Srednekansk.

The Srednekansk Central Hospital's outpatients department was repaired, and its electrical and lighting systems were refurbished. We replaced windows and made repairs in the village kindergarten in Evensk in the Severo-Evensk District, and constructed a new playground there. The village High School was also repaired, and we purchased furniture for the school assembly hall and equipped the school's nurse's station. We also supplied the boarding school with household appliances and provided medical equipment for Evensk's Central Hospital. In addition, we provide financial assistance to a range of other educational institutions including urban boarding schools, and to the Magadan Community Association for the disabled.

In the period under review Polymetal contributed $0.2 million to Kazakhstan's educational system. We funded the creation of The Kazakhstan Nations' Language Centre in the village of Taranovskoye, repaired and bought equipment and furniture for the Varvarinskoye High School and donated an infant incubator to the Taranovskoye Central Hospital.

As a member of the Kostanai Club of Patrons of the Arts, Polymetal also provides funds to award prizes to specialists working in culture and education in Kazakhstan.

Promotion of sports and a healthy lifestyle

In 2010 we contributed around $0.1 million to promote sports and a healthy lifestyle. We have supported the City of Karpinsk's Sputnik football and hockey club for several years. The club has access to Polymetal funds to buy uniforms and equipment, and to pay young players' travel expenses when they take part in competitions. We have also funded a project to build skiing facilities in the city of Krasnoturinsk, have supported the Konjak track-and-field marathon events and have helped to organise the finals of a field hockey tournament in the Sverdlovsk region.

In the Khabarovsk region we contributed around $1 million to promoting sports. For the past year we have supported the independent non-profit Neftianik-Khabarovsk Field Hockey Club and in the Polina Osipenko District we supplied sports equipment for Kherpuchi High School and repaired the village stadium. In the Children and Youth Sports School, we replaced windows, provided financial assistance to the Amurets football team, and organized the first Polymetal Mini-Football Cup tournament for local amateur teams.

In the Magadan region we have committed around $0.4 million to promoting sports. We funded repairs to young athletes' schools in the Omsukchan and Dukat Districts, and supplied gym equipment to the Dukat young athletes' schools. Further to funding the restoration and reopening in 2009 of the skating rink, the Company supplied sports equipment for the rink and installed comfortable locker rooms. Polymetal sponsored the Kozhany Myach 2010 regional football tournament, and supported the City's sports organizations.

In Kazakhstan we provided $0.07 million for the installation of a mini-football pitch in the village of Taranavskoye, and sponsored a young ballroom dancing couple from the town of Rudny. In the Chukotka region we also promoted sports and a healthy lifestyle, and supported the Pevek Children and Youth Sports School by providing construction and repair materials for building an outdoor hockey rink, to establish a junior hockey team, and to organize a city volleyball tournament.

Support for local infrastructure

In 2010 Polymetal contributed around $0.3 million to support local infrastructure. We supplied a search-and-rescue vehicle for the Amursk District of the Khabarovsk Region, and in the Sverdlovsk region we funded the design and construction of the outdoor gas supply system for the village of Vorontsovka, as well as repairs to an apartment block and road. We also provided funds for the Degtyarsk City authorities to purchase furniture and repair the administration building. In Kazakhstan Polymetal donated relief funds to flood victims in the village of Kyzyl Agash.

People's cultural and creative potential

In 2010 we allocated $0.04 million to fund cultural and artistic projects in the Sverdlovsk region, using the funds to organize the celebrations of the Day of the City and the Victory Day in Degtyarsk, and to buy a modular stage for Karpinsk.

In the Khabarovsk region Polymetal committed over $0.1 million to repair community cultural centres and movie theatres, to buy furniture and equipment for them, to organize exhibitions and holiday celebrations and marches, and to carry out annual Christmas charity missions to help economically disadvantaged families.

We allocated over $0.05 million to the Magadan region. We bought audio and lighting equipment and furniture for the Omsukchan Cultural Centre. We also repaired and renovated the Children’s Art School and purchased musical instruments for the Children’s Art Centre in Evensk. Polymetal gives regular assistance to the Geologists’ Foundation and other cultural associations in Magadan.

In Kazakhstan we organized a concert dedicated to Children’s Day. In Pevek, in the Chukotka region, the Company developed a project for children to watch the latest movies free of charge during their winter break.

During the year we co-organized cultural events, festivals, contests, and pageants, as well as other traditionally celebrated public cultural events in all of the areas in which we operate. Every year we fund new year celebrations for indigenous children and boarding schools, as well as giving financial assistance to large families every Christmas. We also organize Victory Day celebrations for veterans of the Great Patriotic War (WW2), and Day of Knowledge celebrations for school first-graders.

Support for indigenous people

In the Khabarovsk region Polymetal allocated over $0.07 million to projects which support indigenous people. A group funded by Polymetal took part in the 2nd International Far-Eastern Festival and a Children’s Drawing contest for indigenous people. Polymetal regularly supports the IMN Council of Amursk District.

We funded the celebration of IMN national holidays in two districts, and provided equipment for a boarding school for children from deer-breeding communities. In the Polina Osipenko District, we funded annual festivities in the indigenous village of Vladimirovka. In the Okhotsk District, we funded the annual Evensk North Festival which this year celebrated the 365th anniversary of the indigenous village of Arka.

In the Magadan Region we allocated over $0.09 million to projects which support indigenous people. We traditionally sponsor the annual Miss Duran contest for indigenous girls. In the Omsukchan District, financial support was given to the Balygychan Clan, and we funded healthcare services and the purchase of POL fuel and two Buran snowmobiles. In the Severo-Evensk District, the Company laid out the grounds for the IMN Association to hold national celebrations, bought and installed diesel power plants, and sponsored IMN participation in national holiday events known as Khebdenek and Northern Civilization.

In the Chukotka region we funded celebration of the International Day of Indigenous Peoples in two districts, and gave financial assistance to low-income families in the village of Billings. We also continued to support Deer-Breeding Team No9 by supplying goods, food and POL.

Jointly with the Department of Social Policies, we developed a project to buy antique musical instruments (Inuit drums) for performing groups in the district. Polymetal also sponsored the Festival of National Sports Competitions, Vykyn-Kar in the village of Billings. In the Chukotka region Polymetal allocated over $0.05 million in 2010.

Community outreach

Polymetal uses all available types of communication in order to keep up an effective and productive dialogue with the communities in which it operates, and to keep communities informed about the Company's activities. In 2009, as well as mass media and in-house publications, Polymetal decided to establish a feedback system for people living in the areas in which we operate.

In 2010 billboards with regularly updated information on our operations and activities relating to employment, environmental and social issues as well as Company's contacts were installed in public place like government buildings and libraries. Our representatives held a number of meetings and conducted large-scale surveys among IMN, and opinion polls on current local problems. A mass media contact hotline was set up, and we collected and analysed data on how people view the Company, its business and its social programmes. In 2011, we presented the results of our 2010 CSR activities at a number of public meetings and collected recommendations for our 2011 social programmes. People in all regions where the Company operates assessed the Company's activities positively, and their proposals were taken into account in drafting further social programmes and identifying priority funding targets.

Feedback from and direct contact with our communities help us to make informed decisions on designing social programmes, including those carried out under IMN agreements, to introduce better social policy techniques, to promptly and efficiently meet the expectations of local communities, and to take their views into account. The feedback system also enables communities to monitor the implementation of our programmes.

4. CORPORATE GOVERANCE

4.1. INTRODUCTION

The Directors are committed to ensuring that the appropriate corporate governance procedures are carried out throughout the Company. The Company bases its corporate governance procedures on international best practice and corporate governance guidelines, as well as the recommendations of the Corporate Governance Code of the Federal Commission for the Securities Market and of the Federal Financial Markets Service.

The Company's highest management body is the General Shareholders' Meeting, which sets its broad strategic aims. The Board of Directors is responsible for the implementation of strategy and the management of Polymetal's activities on an ongoing basis. The Board reviews the performance of management, ensures that the necessary resources are available and that appropriate controls, values and standards are in place.

Members of the Board of Directors are elected by the General Shareholders' Meeting. There are five independent directors as defined by the Regulations of the Board of Directors, a consequence of the Company’s belief that independent directors are a key factor in promoting and protecting shareholders' interests. Furthermore, the independent directors have broad international experience in the mining industry, and have served in senior management positions at leading international companies. As such, their presence raises the quality and effectiveness of the Board of Directors' decision making processes.

This report sets out our commitment to corporate governance and how the principles of corporate governance have been applied by us.

4.2. BOARD OF DIRECTORS

As of 1 January, 2010, Polymetal’s Board of Directors consisted of 10 members who were elected at the Annual General Meeting of Polymetal’s shareholders on 29 June 2009:

1. Ilya Yuzhanov – Chairman of the Board of Directors
2. Sergei Areshev – member of the Board of Directors
3. Jonathan Best - member of the Board of Directors
4. Marina Grönberg - member of the Board of Directors
5. Vitaly Nesis - member of the Board of Directors and Chief Executive
6. John O’Reilly - member of the Board of Directors
7. Russel Skirrow - member of the Board of Directors
8. Martin Schaffer - member of the Board of Directors
9. Ashot Khachaturyants - member of the Board of Directors
10. Konstantin Yanakov member of the Board of Directors

At the annual General Meeting of Polymetal’s shareholders which took place on 29 June 2010 the following members were elected to the Board of Directors:

1. Ilya Yuzhanov – Chairman of the Board of Directors
2. Sergei Areshev – member of the Board of Directors
3. Jonathan Best - member of the Board of Directors
4. Marina Grönberg - member of the Board of Directors
5. Vitaly Nesis - member of the Board of Directors and Chief Executive

6. Leonard Homeniuk - member of the Board of Directors
7. Russel Skirrow - member of the Board of Directors
8. Martin Schaffer - member of the Board of Directors
9. Ashot Khachaturyants - member of the Board of Directors
10. Konstantin Yanakov member of the Board of Directors

INDEPENDENT DIRECTORS

In 2010 the independent members of the Board, in accordance with the requirements of clause 2.10 of the Regulations for the Board of Directors of JSC Polymetal, were: Ilya Yuzhanov, Jonathan Best, John O'Reilly, Leonard Homeniuk, Russel Skirrow and Ashot Khachaturyants.

ILYA YUZHANOV

Chairman of the Board of Directors, member of the Remuneration and Nomination Committee

Mr. Yuzhanov has been Chairman of the Board since October 2008, and a member of the Board of Directors since September 2008. He is currently a member of the supervisory boards of ALROSA and NOMOS-BANK, a board member of Uralkali, a member of the Russian Consultation Council of the Russian branch of Orkla Foods CIS (Norway), and was an adviser to the chairman of the board of Computershare from April 2010 to April 2011. He has previously served on the boards of several of Russia's largest companies including NOVATEK, Kirovsky Zavod, IDGC Holding, RAO UES, Russian Railways, and Gazprom. Mr. Yuzhanov has held various positions with Leningrad and St. Petersburg City Administrations. He has also been Chairman of the State Committee on Land Resources and Land Utilization of the Russian Federation, a Minister of Land Policy, Construction and Utilities of the Russian Federation, and Minister of Antimonopoly Policy and Business Support of the Russian Federation.

Mr. Yuzhanov graduated from the Faculty of Economics of Leningrad State University, receiving a PhD in Economics in 1989.

JONATHAN BEST

Chairman of the Audit Committee

Mr. Best has been an independent director since 2006, and is currently an independent non executive board member on the boards of AngloGold Ashanti Holdings Plc, Metair Investments Limited, Gulf Industrials Limited and of Bauba Platinum Limited and Sentula Mining Limited where he is non executive chairman. Mr. Best has more than 30 years' experience in the mining industry at both corporate and operational level. During 2006 he was Interim Chief Executive of Trans-Siberian Gold Plc (UK), prior to which he was Chief Financial Officer and an Executive Director of AngloGold Ashanti Limited where he was involved in the formation of the company and its listing on the New York Stock Exchange.

Mr. Best is an associate of the Chartered Institute of Management Accountants and of the Chartered Institute of Secretaries and Administrators, and holds an MBA degree.

LEONARD HOMENIUK

Chairman of the Remuneration and Nomination Committee

Mr. Homeniuk has been an independent member of the Board of Directors since 2010, and is currently also a non-executive chairman of the board of directors of Trade Ideas LLC. Between 2004 and 2008 he served as president, chief executive officer and member of the board of directors of Centerra Gold Inc., a Canadian gold mining company listed on the Toronto Stock Exchange. He has over 35 years of experience in the mineral sector including gold and uranium exploration, development and production.

Mr. Homeniuk is a member of the Ontario Society of Professional Engineers, the Canadian Institute of Mining and Metallurgy and the Prospectors and Developers Association of Canada. He gained a Master of Science degree from the University of Manitoba and is an Honorary Professor of the Kyrgyz Mining Institute.

RUSSELL SKIRROW

Member of the Audit Committee

Dr. Skirrow has been an independent member of the Board of Directors since 2008, and is also currently a director of Pendlerow Pty Limited and non executive chairman of Dampier Gold Limited. Dr. Skirrow has many years' experience in the international mining industry, with Gold Fields in South Africa, and Western Mining Corporation in both Australia and the USA. Subsequently, Dr. Skirrow has worked in the stockbroking/investment banking industry in both Australia and UK for 17 years, including the last 10 years at Merrill Lynch in UK, firstly as Head of Global Metals, Mining & Steel Research, then as global chairman of the metals/mining team in investment banking, and in Australia as vice-chairman in investment banking.

Dr. Skirrow is a member of the Institute of Materials, Minerals & Mining with chartered engineer status and a fellow of the Financial Services Institute of Australia.

ASHOT KHACHATURYANTS

A member of the Board of Directors since 2009, Mr. Khachaturyants is also chief executive of Sberbank Capital and was senior deputy chairman of the Central Council of the Dinamo All Russian Sports Association until November 2010. Throughout his career, he has worked as Director of Investment Policy Department at the Ministry for Economic Development and Trade of the Russian Federation, and as Head of Administration for the Federal target programme "RF State Border".

Mr. Khachaturyants graduated from Gubkin Russian State University of Oil and Gas with a degree in economy and engineering, and from the Finance Academy of the Government of the Russian Federation with a degree in economics.

EXECUTIVE BOARD MEMBERS

KONSTANTIN YANAKOV

Deputy Chairman of the Board of Directors and Member of the Audit Committee

Mr. Yanakov has been a member of the Board of Directors since 2008, and is also Chief Financial Officer of ICT. He was previously a vice president of MDM Bank and chief financial officer of Polymetal.

Mr. Yanakov graduated from the Finance Academy under the Government of the Russian Federation with a degree in global economics, has a PhD in Economics from the Russian State University of Management, and in 2007 was awarded an MBA from the London Business School.

SERGEY ARESHEV

Mr. Areshev has been a member of the Board of Directors since 2008, and is currently Head of the International Legal Department of CJSC ICT. He was previously an associate with international law firms including Coudert Brothers LLP in Saint Petersburg and with CJSC ICT.

Mr. Areshev graduated from Saint Petersburg State University with a degree in law, and from the Management School of Vlerick Leuven Gent University with an MBA degree in international general management.

MARINA GRÖNBERG

Mrs. Grönberg has been a member of the Board of Directors since 2008, and she is also on the boards of JSC Zhelezobeton, Mozaik Holdings Limited, MLP Invest Limited, GLP (Global Logistic Partnership) Limited and Euroset. She is currently president of A&NN US Inc and managing director of A&NN (Schweiz) AG. Mrs Grönberg was chief executive of INFINS Limited and a director of the Moscow branch of A&NN Advisor Limited (Cyprus) until February 2011.

Mrs. Grönberg graduated from Moscow State University's faculty of applied mathematics, All-Russian State Distance Learning Institute of Finance and Economics with a degree in economics, finance and credit, and from Moscow State Law Academy with a degree in law.

MARTIN SCHAFFER

Member of the Remuneration and Nomination Committee

Mr. Schaffer has been a member of the Board of Directors since 2008. He is deputy chairman of the management board of Home Credit and Finance Bank LLC., a member of the supervisory board of PPF GATE AS, and a board member of Fosborn Home LLC. Mr Schaffer has also been chairman of the board of directors of Vector Leasing since November 2010, and chairman of the board of directors of Benotech Capital Group since March 2010.

Mr. Schaffer graduated from Charles University, Prague with a degree in law and medicine. He was previously head of the legal department at TV Nova, CET 21 Ltd, secretary general of PPF Investments Ltd and adviser to the board of directors of Home Credit and Finance Bank LLC.

VITALY NESIS

Chief Executive

Mr Nesis was appointed Chief Executive in 2003, having been a member of Polymetal's Board of Directors since June 2004.

From 2002 to 2003 Mr Nesis was Chief Executive of Vostsibugol, a major coal mining company based in eastern Russia. From 2001 to 2002 he headed the investment planning department at SUAL-Holding, having been Strategic Development Director at the Ulyanovsk Automobile Plant in 2000. From 1999 to 2000 he worked for McKinsey & Co. in Moscow and from 1997 to 1999 Mr Nesis worked as an analyst at Merrill Lynch in New York.

He has degrees in economics from both St. Petersburg University of Economics and Finance and Yale University (USA).

Mr Nesis is also Chief Executive of Polymetal Management Company, a subsidiary of Polymetal.

4.3. STATEMENT OF THE DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT

Each of the Director's confirms to the best of his or her knowledge that (i) the consolidated financial statements have been prepared in accordance with the Accounting Principles Generally Accepted in the United States (US GAAP), and give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole. (ii) the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

CAUTIONARY STATEMENT

The Annual Report contains certain forward-looking statements with regard to the Company's business activities, economic indicators, financial condition, commercial and production results, plans, projects and expected results, as well as product price trends, production and consumption volumes, costs, estimated expenses, development prospects, duration of value-added use of assets, estimates of stocks and reserves and similar factors, economic forecasts with regard to the industry and markets, scheduled launching and completion of individual geological exploration and/or production projects, and the closure or selloff of individual operations, including related costs.

The terms used in the Annual Report, such as 'intend', 'strive', expect', 'estimate', 'plan', 'consider', 'believe', 'suppose', 'assume', 'may'. 'can', 'should', 'will continue', and other similar words and expressions normally indicate the forward-looking nature of statements containing such terms.

Forward-looking statements, by their very nature, imply inherent risks and uncertainties of both general and specific nature, and there is always a danger that the suggestions, forecasts, projections and expectations contained in such statements may not materialize. These risks and uncertainties relate to future circumstances that may cause actual results to differ materially from those currently anticipated. In addition, applicable direct or indirect indications of likely future developments in such forward-looking statements reflect the knowledge and information available at the time of preparation, and are valid only at that time.

The Company does not claim or guarantee that any results indicated in forward-looking statements shall be achieved. The Company is not responsible for possible losses that individuals or legal entities may incur as a result of relying on such forward-looking statements. Each instance of forward-looking statements should be taken as outlining one of many possible options, and the course of developments predicted in any such statement should not be viewed as the most likely.

Vitaly Nesis,

CEO

4.4. BOARD ACTIVITIES IN 2010

The Board of Directors has overall responsibility for the executive management of the Company's activities, with the exception of those matters that the Federal Law on Joint-Stock Companies places under the jurisdiction of the General Shareholders' Meeting (GSM).

Meetings of the Board of Directors take place as needed and are called by the Chairman of the Board or upon the request of Board members, directors, an audit commission, an auditor, the Management Board or the Chief Executive. The procedure for calling and conducting meetings is set forth in an internal Company document Regulations for the Board of Directors of JSC Polymetal.

Board members, of whom there are ten, are elected by the GSM or the Extraordinary General Meeting (EGM) in the manner set out in the Federal Law on Joint-Stock Companies for a term ending at the next annual meeting. A Board meeting is considered quorate if no fewer than half the members are present. Decisions are reached by a majority vote cast by the members present.

In accordance with international corporate governance practices, and the recommendations of the Corporate Governance Code of the Federal Commission for the Securities Market and of the Federal Financial Markets Service, the Board of Directors has independent directors. Currently the Board has 5 independent directors: Ilya Yuzhanov, Jonathan Best, Leonard Homeniuk, Russell Skirrow and Ashot Khachaturyants.

There were nine meetings of the Board of Directors in 2010:

- 3 meetings in person;
- 6 meetings by proxy.

At the meetings, various aspects of the Company's activities were considered by the Board of Directors, including:

- Confirmation and implementation of corporate strategy
- Production and financial results for 2010;
- Acquisition and sale of assets, progress of investment projects;
- Approval of internal documents aimed at improving Corporate Governance
- Dividend policy
- Remuneration policy
- Approval of the Company's accounts and financial reports
- Timing and announcement of General Shareholders' Meetings

Board members' participation in board meetings:

Director	Meetings in person	Meetings by a proxy vote
Sergey Areshev	3	6
Jonathan Best	3	6
Marina Gronberg	3	6
Vitaly Nesis	3	6
John O'Reilly *	1	3
Russel Skirrow	3	6
Martin Schaffer	2	6
Ashot Khachaturyants	0	6
Leonard Homeniuk**	2	2
Ilya Yuzhanov	3	6
Konstantin Yanakov	2	6

* Mr.O'Reilly was a member of the Board until June 29, 2010.
** Mr. Homeniuk was elected to the Board on June 29, 2010

4.5. BOARD COMMITTEES

The Board has two committees: the Audit Committee and the Remuneration and Nomination Committee.

AUDIT COMMITTE

The Audit Committee is responsible for assisting in the selection of candidates for auditor of the Company, preliminary analysis and assessment of the Auditor's findings, monitoring the Company's financial activity and developing appropriate suggestions and recommendations for its improvement.

At least three members of the Board of Directors are elected to the Audit Committee. Any member of the Board of Directors with executive management responsibilities cannot serve on the Audit Committee, and the Chairman of the Committee must be an independent member of the Board of Directors.

For the reporting period under review the Committee members were:

Jonathan Best	Committee Chairman
Konstantin Yanakov	Committee member
Russell Skirrow	Committee member

The Audit Committee met three times in 2010.

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee is responsible for making recommendations to the Board of Directors regarding the Company's employment policy, selecting candidates for management positions and determining remuneration and compensation levels for employees and management.

At least three members of the Board of Directors are elected to the Remuneration and Nomination Committee. Any member of the Board of Directors with executive management responsibilities cannot serve on the Audit Committee, and the Chairman of the Committee must be an independent member of the Board of Directors.

For the reporting period the Committee members were:

John O'Reilly	Committee Chairman to 31 May 2010
Ilya Yuzhanov	Committee member, Committee Chairman from 31 May 2010 to 29 June 2010
Leonard Homeniuk	Committee Chairman from 8 July 2010
Martin Schaffer	Committee member
Sergey Areshev	Committee member from 31 May 2010 to 29 June 2010

The Remuneration and Nomination Committee met four times in 2010.

4.6. MANAGEMENT BOARD

The executive management of the Company is carried out by the Chief Executive and the Management Board.

The Chief Executive, Vitaly Nesis, chairs the Management Board, which was elected at a meeting of the Board of Directors on September 22, 2009 for a 3-year term, and which comprises Igor Venatovsky, Valery Tsyplakov and Sergey Cherkashin.

Members of the Management Board, whose number is determined by the Board of Directors but cannot comprise fewer than 4 individuals, are nominated by the Chief Executive and appointed for a term of 3 years.

The Management Board makes its decisions at meetings in person. Meetings are convened by the Chairman at his own initiative or at the request of a member. The procedures for the convening and conducting of meetings are set out in an internal document, 'Regulations for the Management Board of JSC Polymetal'. The quorum required for a meeting of the Management Board constitutes no less than two of its elected members. Decisions are passed by a simple majority with the vote of the Chairman being decisive in the event of a tied vote.

The Management Board held four meetings in 2010 at which it reviewed matters relating to the approval of a managing organization of subsidiary companies.

MANAGEMENT BOARD MEMBERS

VITALY NESIS

Chief Executive aged 35.

Mr Nesis was appointed Chief Executive in 2003, having been a member of Polymetal's Board of Directors since June 2004.

From 2002 to 2003 Mr Nesis was Chief Executive of Vostsibugol, a major coal-mining company based in eastern Russia. From 2001 to 2002 he headed the investment planning department at SUAL-Holding, having been Strategic Development Director at the Ulyanovsk Automobile Plant in 2000. From 1999 to 2000 he worked for McKinsey & Co. in Moscow and from 1997 to 1999 Mr Nesis worked as an analyst at Merrill Lynch in New York.

He graduated from St. Petersburg University of Economics and Finance with a degree in economics. In 1997 he graduated from Yale University (USA) with a degree in economics.

Mr Nesis is also Chief Executive of Polymetal Management Company, a subsidiary of Polymetal.

IGOR VENATOVSKY

Adviser to the Chief Executive aged 63.

A member of the Management Board since 2009, Mr Venatovsky is adviser to the Chief Executive, a position he has held since April 2009. Having previously been Polymetal's COO since 2000, Mr

Venatovsky has worked for Polymetal since its formation. From 1997 until 1999 he was Chief Executive of Olginskaya Mining and Geological Company and from 1995 to 1997 he was Chief Executive of Bashkirskaya Gold Mining Company. From 1971 to 1995, Mr. Venatovsky worked at the Krasnokholmsk Geological Association as an engineer and later as its Chief Executive.

Mr Venatovsky graduated from the Tashkent Polytechnic Institute with a degree in mining engineering and hydrogeology.

VALERY TSYPLAKOV

Managing Director of Polymetal Engineering aged 56.

A member of the Management Board since 2009, Mr. Tsyplakov is the Managing Director of Polymetal Engineering, a position he has held since 2004. From 1999-2000 he was the Deputy Head of Production, later heading the Technological Research Department, and subsequently becoming the Deputy General Director for Mineral Resources, Design and Technology. From 1988 to 1999, he held several senior management positions at a number of companies including Head of Department at the Soviet Union Research Institute of Aeronautical Automation. Mr. Tsyplakov also worked at the Physics Institute at Denmark's Orhus University from 1986 to 1987 and from 1978 to 1988 as Engineer, Chief Engineer, and then Research Fellow for the Plasma Physics Department of Moscow Physics and Engineering Institute.

Mr. Tsyplakov graduated from Moscow Physics and Engineering Institute with a degree in experimental nuclear physics, and has a PhD in physics and mathematics.

SERGEI CHERKASHIN

Chief Financial Officer, aged 49.

A member of the Management Board since 2009, Mr. Cherkashin is the Company's Chief Financial Officer, a position he has held since 2005. Prior to joining Polymetal, he was chief financial officer of the Timashevsk Dairy Plant, sales director of the Ulyanovsk Car Plant and deputy chief executive of development at the Volgograd Dairy Plant No. 3. He also served as a board member at JSC Meat Packaging Plant and Volgograd Dairy Plant No. 3. In 1996-1997, he worked as a consultant for AT Kearney in Moscow.

Mr. Cherkashin graduated from the Moscow Institute of Physics and Technology with a degree in applied mathematics, working in aerospace research for research and production association Energiya in Korolev. He also attended the University of Hartford (USA), majoring in accounting.

Mr. Cherkashin is also chief financial officer of Polymetal Management Company, a subsidiary of Polymetal.

4.7. TOP MANAGEMENT

Quality of management is at the heart of Polymetal's ability to deliver on its key strategic objectives, which are:

- to become the leading Russian precious metals mining company
- to generate value for our stakeholders
- to uphold the highest standards of corporate governance, industry best practice and transparency

Consequently, Polymetal has implemented policies and procedures which define management responsibilities and provide strict accountability, transparency and effective control of financial, operational and risk management activities.

The Board of Directors continuously assesses the Company's management structure, personnel and policies, in order to improve competitiveness and to support the Company's development, particularly in view of the geographical distribution of its businesses, its capital investment programme and the difficult natural conditions and strongly competitive environment in which the Company operates.

As a result, the Company has a well-defined management structure and an experienced team that is responsible for driving the Company forward. In addition to the Board of Directors and Management Board, our operational management includes the following individuals:

VITALIY SAVCHENKO
Chief Operating Officer

Mr. Savchenko has been Chief Operating Officer since April 2009. Prior to this, he ran the production and technical departments of Polymetal Management Company having previously been head of the Mining Division.

From 1994 to 2003, Mr. Savchenko worked at the Priargunskoe Mining and Chemical Company, progressing from shift manager to chief engineer of a uranium mine.

In 1994 he graduated from the Frunzenskiy Polytechnic Institute (Kyrgyz Republic) with a degree in underground mineral mining. Mr. Savchenko has been awarded a 3rd-category miner's glory medal.

ROMAN SHESTAKOV
Deputy Chief Executive, Project Development and Construction

Mr. Shestakov has been Deputy Chief Executive for Development and Construction since April 2009.

From 2007 to 2009 he was chief engineer at Gold of Northern Urals, having previously been a mine chief at the Okotsk Mining and Exploration Company and a mining engineer in Polymetal's production and technical department.

He graduated from the Mining Department of the St. Petersburg State Mining Institute, majoring in open pit mining.
SERGEY TRUSHIN

Deputy Chief Executive, Mineral Resources

Mr. Trushin has been Deputy Chief Executive for Mineral Resources in Polymetal Management Company since 2010.

Prior to this, Mr. Trushin was chief geologist at the Khabarovsk Exploration Company and from 2006 to 2008 he was chief geologist at Albazino Resources where he had previously held positions ranging from geologist to head of mining. Between 1991 and 1997 he was a geologist at Dalnevostochnie Resources and at the Production Geological Association "Dalgeology", and a geologist-operator for the Nizhne-Amursk field exploration expedition.

In 1991 Mr Trushin graduated from Novocherkassk Polytechnic Institute with a degree in geological survey and mineral resources prospecting.

DMITRY IGUMNOV
Managing Director, Polymetal Trading

Mr Igumnov has been Managing Director of Polymetal Trading since August 2008.

In 2005, he was appointed head of that company's Khabarovsk branch, having previously been deputy chief executive of Logistics at Magadan Silver and Silver Territory. Prior to this, he worked for Uni-Tankers, Maersk Gas Department, A.P. Moller, Red Sea Marine and Nordic Maritime.

Mr Igumnov studied at the Baltic State Marine Academy, Navigation Studies Department and graduated from the Kaliningrad Maritime College.

ANDREY JELTOVSKY
Deputy Chief Executive, Human Resources and Public Relations

Mr. Jeltovsky has been Deputy Chief Executive for Human Resources and Public Relations since 2006, having joined Polymetal in 2005 as Director for Public and Regional Government Relations.

From 2002 to 2005, he headed the public relations department at Siberian Coal and UEK-Baikal-Ugol and from 1999 to 2002 he was head of public relations at Vostsibugol. From 1997 to 1999 he was assistant to the public relations director of San-Roma. Previously he worked as chief specialist in the Irkutsk Region Administration's Committee for Public Relations.

Mr. Jeltovsky graduated from the Irkutsk State University with a degree in history.

PAVEL DANILIN
Deputy Chief Executive, Strategic Development

Mr. Danilin has been Deputy Chief Executive for Strategic Development from April 2009, having been Director of Corporate Finance and Investor Relations in Polymetal Management Company since 2007.

From 2005 to 2007 he attended the University of California Berkeley School of Business, specialising in Finance. In 2006, he was on secondment to the mining and metallurgy group at the Moscow office of Deutsche Bank, having previously worked at Polymetal as Head of Corporate Finance. From 2001 to 2003 he worked at ICT Group, where he was responsible for interacting with banks as well as leasing and insurance companies and between 1996 and 2001 he worked in the Kaliningrad office of Imperial Bank (renamed Petrocommerce Bank in 1998) as deputy head of export operations and treasurer.

Mr. Danilin graduated from Kaliningrad State Technical University in 1998 with a degree in enterprise economics and management.

ALEXANDER ZARYA
Executive Vice President, Security

Mr. Zarya has been Executive Vice President for Security since 2004. He joined the Company in 1999 as the Head of the Planning and Economics Department and Chief Financial Officer.

Mr. Zarya was previously director of the St. Petersburg branch of Zun Khada and deputy chief executive of Ulyanovka, a procurement company specialising in services to the gold mining industry. From 1991 to 1995, he was chief executive of Kvarts R&D in St. Petersburg and before this he worked at the Control Devices Research Institute of the USSR's Ministry of Engineering.

Mr. Zarya graduated from the Leningrad Institute of Aeronautical Instrument Engineering with a degree in electromechanical engineering.

ZUMRUD RUSTAMOVA
Executive Vice President, Compliance and Sustainable Development

Ms. Rustamova has been Executive Vice President for Compliance and Sustainable Development since 2006.

Before joining the Company, she was deputy managing director at the Russian Bank for Development and a vice president at the Siberian Coal Energy Company. From 2000 to 2004 Ms. Rustamova was Deputy Property Minister of the Russian Federation and prior to this was Deputy Chair of the Russian Federal Property Fund. From 1995 to 1999 she worked in various capacities in the Government Committee for Government Property Management.

Ms. Rustamova graduated from the Moscow Economics and Statistics Institute in 1992 with a degree in statistics and in 2003 received the title of Government Adviser to the Russian Federation, Category II.

VITALIY RAZINKOV
Project Manager, Albazino/Amursk and Mayskoe

Mr. Razinkov has been Project Manager for Mayskoe since 2009 and for Albazino/Amursk since 2007, having previously been Executive Vice President in charge of Development at Polymetal Trading. He has held various positions within Polymetal since 1988, including Finance Adviser to the Financial and Economic Division, CFO of Gold of Northern Urals, Head of Department of Regional Projects and Logistics in the Logistics Support Division.

He started his career in 1997 in AKB Anibank (later Inkasbank) as an economist in the internal transactions department.

Mr. Razinkov graduated in 1998 from Saint-Petersburg State Economics and Finance University with a degree in economics and management.

DMITRY RAZUMOV
Human Resources Director

Mr. Razumov has been Human Resources Director since May 2009.

From 2007 he held the post of head of organizational structure at the Evraz Company, and from 2005 to 2007 he worked for the Chelyabinsk Pipe Plant Group as a human resources director. Between 2000 and 2005 he worked at the Karelian Okatysh Plant, and was head of the organizational development department of the Vyksunsky Metallurgical Plant.

Mr. Razumov graduated from Saint-Petersburg State Mining Institute with a degree in open pit mining in 1999 and from the Institute of Economics and Finance with a degree in financial management in 2002.

IGOR KAPSHUK
Director, Legal Affairs

Mr. Kapshuk has been the General Counsel since April 2009, having started his career at Polymetal in 2003 as Deputy Head of the Legal Department, becoming its Head in 2005.

Between 2001 and 2003, he held various posts within the Siberia Energy Coal Company and Vostsibugol (Irkutsk), including deputy general counsel and head of the work claims department. Prior to this he was a legal adviser at the Irkutsk Pharmaceuticals Company and at the Irkutsk Tea-Packing Factory, where he was also acting head of the legal department.
He graduated from the Law School of Irkutsk State University in 1995.

SERGEY ANTIPIN
Managing Director of Albazino Resources and Director of the Khabarovsk branch of Polymetal Management Company

Mr. Antipin has been Managing Director of Albazino Resources since 2007 and Director of the Khabarovsk branch since 2010.

He was previously executive vice president of the Okhotsk Mining and Exploration Company and managing director of Silver Territory. Before this he was head of refining at the Kolyma Precious Metals Refinery. He also held a number of positions at the Deputatsk Mining and Processing Plant in Yakutiya, including head of the research laboratory, head of the processing department, and processing chief.

In 1987 Mr. Antipin graduated from the Irkutsk Polytechnical Institute with a degree in process engineering, and in 2000 he received a degree in finance from the Novosibirsk State Academy of Economics and Law.

BAKHADUR ZHAROV
Director, Kazakhstan Representative Office

Mr Zharov has been Director of Polymetal's Representative Office in Kazakhstan since March 2010.

Prior to this he was an advisor to the chairman of the Eurasian Development Bank in Astana, and between 1980 and 2008 he held a number of operational and executive positions in the USSR's state economic intelligence divisions. From 1975 he was a shift manager and then deputy supervisor at the Djezkazgan Mining and Metallurgical Plant (now the Kazakhmys Corporation).

Mr Zharov graduated from the Kazakh Polytechnic Institute with a degree in mining engineering.

VALENTIN KUZAKOV
Director of the Magadan branch of Polymetal Management Company

Mr. Kuzakov has run the Magadan branch of Polymetal Trading since 2004.

He founded and was chief executive of Robin-Bobin, a meat products company, in Irkutsk in 1998.

Mr. Kuzakov graduated from the Baikal State University of Economics and Law, majoring in economics and management in the service industries.

VLADISLAV REKHIN
Director, Khabarovsk Branch of Polymetal Trading

Mr. Rekhin has been the Head of the Khabarovsk branch of Polymetal Trading since November 2008 having been Executive Vice President since 2005.

Between 2004 and 2005 he worked at the Khabarovsk branch of Geotekhservice R&D as an engineer, and then as purchasing director. From 2001 to 2004 he worked as an engineer in the procurement division of the Khabarovsk branch of the Okhotsk Mining and Exploration Company. During the preceding five years, he was the CEO of Kart.

Mr. Rekhin graduated with a history degree from the Khabarovsk Teacher's College in 1995.

4.8. REMUNERATION OF BOARD MEMBERS AND MANAGEMENT

Remuneration policy

The Company has a remuneration policy which is designed to attract, motivate and retain our senior management. We therefore have a remuneration policy for independent members of the Board of Directors, as well as a reimbursement policy covering expenses incurred in connection with duties as Board of Directors members. As set out in the "Regulations for Fees and Reimbursements Payable to the Members of the Board of Directors of JSC Polymetal", which were approved by the General Meeting of Polymetal shareholders, the remuneration of our Directors consists of two parts: a fixed part, which relates to fulfilling the obligations of individual members of the Board of Directors, of the Chairman, and of committee members and committee chairmen, and a variable part which relates to attendance at meetings of the Board of Directors and its committees in person. The remuneration policy also allows for reimbursement of reasonable expenses incurred by members of the Board of Directors in connection with performing their duties.

The total remuneration paid to the Independent non-executive members of the Board of Directors in 2010 was US$998,750. Other members of the Board of Directors were not paid any remuneration or reimbursed in 2010, and the Chief Executive received no remuneration as a member of the Board of Directors.

The Chief Executive and members of the Management Board are remunerated in accordance with their employment contracts. Total salary for the Management Board in 2010 was US$140,640. No bonuses were paid to the Management Board in respect of 2010.

Board of Directors and Management Board members' Holdings in Company
Information relating to participation of members of the Board of Directors and the Management Board in the Company's equity capital is set out below:

Number of shares

	1 Jan 2010	31 Dec 2010
Board Members' Holdings in Company		
Sergey Areshev	10,800 (0.0027%)	0
Jonathan Best	0	0
Marina Grönberg	0	0
Vitaly Nesis	3,000,000 (0.7512%)	3,000,000 (0.7512%)
John O'Reilly	0	0
Russell Skirrow	0	0
Martin Schaffer	0	0
Ashot Khachaturyants	0	0
Ilya Yuzhanov	0	0
Konstantin Yanakov	0	0
Management Board Members' Holdings in Company		
Igor Venatovsky	250,000 (0.0626%)	250,000 (0.0626%)
Valery Tsyplakov	218,000 (0.0546%)	218,000 (0.0546%)
Sergey Cherkashin	165,000 (0.0413%)	165,000 (0.0413%)

In 2010 Sergey Areshev's participation in the share capital changed from 0.0027% to 0% (notification of the change dated 03.11.10). No other notifications regarding changes in holdings of the Company's shares by members of the Board of Directors and Management Board have been received be the Company.

4.9. INTERNAL CONTROL AND RISK MANAGEMENT

Internal control

The Board of Directors is responsible for reviewing and approving the Company's governance framework and ensuring its adequacy and effectiveness.

Internal controls, which include financial, operational and compliance and risk management systems, are central to this framework and are considered by the Company in three categories:

- Board of Directors
- business performance controls
- project controls

The Company's values and ethics permeate each category of the governance framework as do controls with regard to quality, safety and environment (QSE), as well as people and audit.

The governance framework reflects the specific structure and management of the Company. Under this structure, authority and control are delegated from the Chief Executive through the Management Board to the managers of the Company's principal businesses and then downward to business and project managers as appropriate. The Company's structure and operating procedures are considered key to its continuing success. As part of this structure, operational management is delegated to the Deputy Chief Executives and management teams of each subsidiary.
Within this framework:

- authority is delegated within clearly prescribed limits
- decisions are escalated where either project size or risk profile require a higher level of authority
- activity and performance are tracked through regular reports
- effectiveness is audited via internal audit and self-assessment controls

The governance framework is designed to manage the risk of failure to achieve stated business objectives. It can only provide reasonable, rather than absolute, assurance against misstatement or loss.

Business performance controls

Strategic plans and annual budgets are developed via a structured process designed to ensure that each business responds appropriately to market opportunities in line with the overall Company strategy. These plans and budgets are reviewed by the Chief Executive and the Management Board before being approved by the Board of Directors.

The performance of each business against its targets is reviewed quarterly by the Chief Executive and the Management Board. These reviews are wide-ranging, covering matters including quality, safety and environment, financial performance and forecasts, employee matters and commercial and strategy and operational matters.

In addition, the Chief Executive, Management Board and the management team of each business review management accounts for the business on a quarterly basis. The Chief Financial Officer and the operational financial controllers also review quarterly financial performance. These quarterly financial performance updates are consolidated and distributed to the Management Board and the Board of Directors.

Project controls

The primary objective of the Company's project systems and controls is to deliver business objectives in an efficient and consistent manner. These systems and controls are mandated in order to minimise the risk of errors on projects, and to ensure the delivery of the required quality and the required profitability to the Company. The Company has a project control system to ensure it is able to assess and manage overall business risks.

Within each business a framework of internal controls exists, forming a robust business management system. These systems include policies, processes, procedures, guidance, plans and other tools which may be specific to the needs of the business. They are implemented to manage and control risk and to ensure activities are effectively controlled.

Each geological exploration and prospect, and each project, has a project manager and a project director appointed to it. These individuals are responsible for ensuring that projects are carried out in accordance with the Company's service delivery process. Controls exist to identify individuals who are suitable for these roles.

Project audits are carried out by the internal audit function. The activities of this function are described in more detail below.

People

The Company's principal objective is to maintain a culture and an environment within which talented professionals can be recruited, retained, developed and deployed to work in support of its corporate objectives. Significant effort is made to treat staff consistently and fairly and at the same time as individuals.

A range of business controls are maintained to ensure that the Company:

- identifies and meets its HR resource requirements
- selects people with the requisite skills, qualifications and credentials
- manages employee performance and engagement
- develops the careers and capabilities of individuals
- makes skills and careers mobile across the organisation
- assures the health and well-being of all staff
- manages its employment obligations, liabilities and risks.

Internal audit

The Company aims to ensure that all its activities are adequately controlled to mitigate risk and support the achievement of its objectives, while avoiding the creation of excessive bureaucracy. The internal audit function supports this aim by providing the directors, through the Audit Committee, with an objective

evaluation of the Company's governance framework. The internal audit function also aims to raise levels of understanding and awareness of risk and control throughout the Company.
The head of internal audit reports to the CEO and, through the Audit Committee, to the Board of Directors. Where relevant, the internal audit function will additionally report its findings to members of the Management Board.

The internal audit function uses an annual self-certification process which requires managers throughout the Company to personally confirm the testing of the internal controls and compliance with Company policies within their business or function and the steps taken to address actual or potential issues that are identified. Central reporting enables good practice to be shared throughout the Company.
The head of internal audit will report any concerns about restrictions placed on the authority or scope of the team's work to the CEO, CFO and Audit Committee.

The internal audit function is independent and free from interference in determining the scope of internal auditing, performing audit work and communicating results. Should the head of internal audit become aware of material non-compliance with the Company's systems and controls, the CEO, CFO and Audit Committee would be informed.

Independent audit

The external audit is an important independent control.

The independent auditor is nominated by the Audit Committee and the Board of Directors and approved by the General Shareholders' Meeting. The independent auditor's audit of the Company's financial statements is conducted in accordance with International Standards on Auditing. The independent auditor currently provides the following:

- a report to the Audit Committee giving an overview of the results, significant contracts and judgements and observations on the control environment
- an opinion on the reliability and fairness of the Company accounts
- an internal controls report, following its audit, highlighting to management any areas of weakness or concern.

Adequacy and effectiveness of internal controls

The Board of Directors monitored and reviewed the adequacy and effectiveness of the Company's governance framework, which includes internal controls and risk management, on a continual basis throughout 2010 and up to the date of approval of this annual report.

4.10. CORPORATE CONDUCT CODES COMPLIANCE

REPORT ON COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE FEDERAL COMISSION FOR THE SECURITIES MARKET OF THE RUSSIAN FEDERATION (FCSM)

No.	Provision	Compliance status[i]	Comments
General meeting of shareholders			
1.	Shareholders should be given notice of a general meeting of shareholders at least 30 days in advance of the meeting's date regardless of the issues on the agenda of the meeting, unless otherwise provided by law.	Observed partially	As per Paragraph 8.6 of the Charter, notice relating to annual general meeting of shareholders is given at least 30 days in advance, while notice relating to extraordinary general meeting of shareholders is given at least 20 days in advance. These notice periods comply with the laws of the Russian Federation. Where possible, the Company gives more than 30 days notice. At least 30 days notice has been given for each of the general meetings that have taken place during the last two years.
2.	Companies should enable shareholders to familiarize themselves with the list of persons authorized to participate in a general meeting of shareholders, at any time from the moment of notice and until a general shareholders meeting held in person is over, or, in the case of a general meeting of shareholders held by means of absentee ballots, until the last date for submitting voting ballots.	Observed	As per Part 4 Article 51 of the Federal Law on Joint-Stock Companies, the list of persons authorized to participate in a general meeting of shareholders is provided by the Company at the request of any person included on this list and holding not less than 1 percent of the votes which may be cast at the general meeting of shareholders. Personal data and mailing addresses of the individuals listed are provided only with the consent of the individuals concerned.
3.	Shareholders should have the opportunity to access general meeting of shareholders-related information by electronic communication means, including the internet.	Not observed	The Board of Directors defines the procedure for accessing general meeting of shareholders-related information and the address of the location where such information is available, explaining this procedure in the notice of the general meeting of shareholders, in keeping with the Laws of the Russian Federation.
4.	A shareholder should have the right to propose an agenda item for a general meeting of shareholders or to call general meeting of shareholders. Companies should not require a shareholder appearing in the register to produce any documents as evidence of rights.	Observed	If and when an agenda item is proposed for a general meeting of shareholders (including nominations for membership of the Board of Directors), or a general meeting of shareholders is called by a shareholder, the Company requests that the holder of the Company's share register confirm that the said shareholder has a sufficient number of shares.

No.	Provision	Compliance status[i]	Comments
	Companies should check the existence of the shareholder's specific rights against the register. Provided the right to shares is recorded in a deposit account, it is recommended that a current statement of the account be regarded as ample proof of the shareholder's right to the shares.		
5.	The charter or internal documents of the joint-stock company should require an obligatory presence at a general meeting of shareholders of the chief executive, board members, management board members, revision commission members and company auditor.	Not observed	There is no such provision in the Company's Charter or internal documents. Since not all members of the Board of Directors are RF residents, the Company cannot guarantee the attendance of every one of them. In addition, there is no need for personal attendance at the meetings since most shareholders vote by proxy. If a large number of shareholders want to attend a meeting, steps are taken to make sure that as many Company officers as possible should be present at the meeting.
6.	Nominees should be required to be present at a general meeting of shareholders discussing the election of board of director members, chief executive, management board members, revision commission members and the approval of company auditor.	Not observed	There is no such provision in the Charter or internal documents of the Company. Since most shareholders vote by proxy there is no need for all the officers to personally attend the meetings. If a large number of shareholders want to attend a meeting, steps are taken to make sure that as many Company officers as possible are present at the meeting.
7.	A company's internal documents should specify a procedure for registering participants in the general shareholders' meeting.	Not observed	There is no such provision in the internal documents of the Company. The Company's procedure for registering participants complies with the laws of the Russian Federation.
	Board of Directors		
8.	The charter of the company should specify that the board of directors has the authority to endorse the annual financial and business plan.	Not observed	The Charter does not specify that the Board of Directors has such authority.
9.	There should be a procedure endorsed by the board of directors to manage the risks within the joint-stock company.	Observed	Paragraph 2.2 of the Regulations on Internal Control of the Financial and Business Activity of JSC Polymetal (endorsed by the Board of Directors on December 28, 2006) specifies timely identification and analysis of risks in the Company's activities as a goal of internal control. Paragraph 2.2 of the Regulations for the

No.	Provision	Compliance status[i]	Comments
			Audit Committee of the Board of Directors of JSC Polymetal (endorsed by the Board of Directors on December 28, 2006) specifies analysis of commercial and other risks and assessment of the risk management system as a duty of the Audit Committee.
10.	Specified in the charter of a joint-stock company should be the authority of the board of directors to suspend the powers of the chief executive appointed by a general meeting of shareholders.	Not applicable	Under the Company's Charter the Chief Executive is appointed and dismissed by the Board of Directors.
11.	Specified in the charter of a joint-stock company should be the authority of the board of directors to set forth requirements for qualifications and remuneration of chief executive, management board members and heads of the main subdivisions of the joint-stock company.	Observed partially	The Charter does not specify that the Board of Directors has such authority. The said authority is provided for in the Regulations for the Remuneration and Nomination Committee of the Board of Directors of JSC Polymetal. The Remuneration and Nomination Committee of the Board of Directors drafts recommendations on Company personnel policy and remuneration of officials and managers based on which the Board of Directors defines the terms of contracts with such individuals
12.	Specified in the charter of a joint-stock company should be the authority of the board of directors to endorse the terms of contracts with chief executive and management board members.	Observed partially	Such authority is not directly provided for in the Company's Charter. As per Paragraph.2.9 of the Regulations for the Management Board of JSC Polymetal (the Management Board Regulations) the Board of Directors endorses the terms of contracts with the Management Board members, including the Chief Executive, who is also a member of the Management Board.
13.	The charter or internal documents of a joint-stock company should specify that in approving the terms of contracts with chief executive (managing organization, manager) and management board members, the votes of individuals in the positions of chief executive and the management board members are not counted.	Observed partially	There is no such requirement in the Company's Charter. With respect to the Management Board members, Paragraph 2.9 of the Management Board Regulations includes such requirements. In 2008 when the terms of the contract with Chief Executive Vitaly Nesis were being approved, the transaction was recognized as an interested party transaction, and, as a result, Chief Executive Vitaly Nesis, who was a Board member, did not take part in the voting.
14.	The board of directors of a joint-stock company should include at	Observed	There are 9 independent directors on the Board of Directors, conforming with the

No.	Provision	Compliance status[i]	Comments
	least 3 independent directors conforming to the requirements of the corporate governance code[ii].		requirements of the corporate governance code: • Leonard Homeniuk • Russell Skirrow • Jonathan Best • IlyaYuzhanov • Marina Grönberg • Sergey Areshev • Martin Schaffer • Ashot Khachaturyants • Konstantin Yanakov
15.	The board of directors of a joint-stock company should not include individuals who have committed economic crimes or crimes against the government, public bodies or bodies of local self-government, or who have a record of administrative offences, primarily in such areas as entrepreneurial operations, finance, taxes and duties, stock market operation.	Observed	There are no individuals answering that description on the Board of Directors.
16.	The board of directors of a joint-stock company should not include individuals acting as a member of a managerial body, chief executive (manager) or employed by a legal entity competing with the joint-stock company.	Observed	There are no individuals answering that description on the Board of Directors.
17.	The charter of a joint-stock company must specify that members of the board of directors be elected by cumulative voting.	Observed	Paragraph 9.4 of the Company Charter.
18.	The internal documents of a joint-stock company should specify that it is a duty of board members to refrain from actions that lead or may lead to a conflict between their interests and the interests of a joint-stock company, and if such a conflict of interests has arisen, to inform the board of directors about it.	Not observed	Neither the Company Charter, nor the internal documents of the Company specify such a duty of the Board members.
19.	The internal documents of a	Observed	Paragraph 2.4 of the Regulations on the

No.	Provision	Compliance status[i]	Comments
	joint-stock company should specify that it is a duty of the members of the board of directors to notify the board of directors in writing of their intention to enter into transactions related to the securities of a company, or its subsidiaries (affiliates), where they serve as board members, and to disclose information about transactions concluded with such securities.		Uses of Information about the Activities and Securities of JSC Polymetal which is not in the Public Domain, and, which, if disclosed, may have a Major Effect on the Market Value of the Securities, and Paragraph 3.3 of the Regulations on Use of Confidential Information of JSC Polymetal.
20.	The internal documents of a joint-stock company should specify that the board of directors should meet at least once every six weeks.	Not observed	There is no such requirement in the internal documents of the Company. Meetings of the Board of Directors are held as necessary.
21.	The board of directors of a joint-stock company should meet during the year covered in the annual report of the joint-stock company at least once every six weeks.	Not observed	Nine meetings of the Board of Directors of the Company were held in 2010 and the intervals between some meetings were longer than 6 weeks. Meetings of the Board of Directors are held as necessary. Despite the evidence of formal non-compliance with the frequency of the Board of Directors meeting rule, the number of such meetings was not smaller than required to ensure sufficient operation of the Company and for the Board of Directors to achieve its aims.
22.	The internal documents of a joint-stock company should specify the procedure for conducting a meeting of the board of directors.	Observed	Section 7 of the Regulations for the Board of Directors of JSC Polymetal (the Board Regulations).
23.	The internal documents of a joint-stock company should specify that the board of directors must approve transactions by the joint-stock company worth 10% and more of the value of the company assets with the exception of transactions done as part of regular business.	Not observed	The general procedure for approving major transactions is applied as required by the Federal Law on Joint-Stock Companies.
24.	The internal documents of a joint stock company should specify that board of directors' members have a right to request information necessary for performance of their duties from executive bodies and managers	Not observed	The Company's internal documents do not give that right to Board members. Nevertheless, information needed to make decisions is sent to every member of the Board of Directors, in full and in good time. The Board of Directors have no complaints regarding the extent and

No.	Provision	Compliance status[i]	Comments
	of the main subdivisions of the company and also specify liabilities for failure to provide such information.		timeliness of information provided by the Company.
25.	There should be a committee for strategic planning, or such planning should be done by another committee (except for the audit committee and the remuneration and nomination committee).	Not observed	The internal documents of the Company do not provide for the formation of a strategic planning committee. There is currently no need to set up such a committee in the opinion of the Company and the Board of Directors.
26.	There should be a committee of the board of directors (audit committee), which recommends a company auditor to the board of directors and interacts with the auditor and the revision commission of the company.	Observed	According to Paragraph 4.1 of the Board Regulations, the Board of Directors creates the Audit Committee, the Remuneration and Nomination Committee and may create other committees to deal with current issues. The Regulations for the Audit Committee of the Board of Directors of JSC Polymetal were endorsed by the Board of Directors on 28.12.2006 (Minutes No.13 of the Board meeting). According to Sub-paragraph 1 of Paragraph 2.2 of such Regulations the Audit Committee makes recommendations to the Board of Directors regarding the post of Company auditor (including that of auditor of the Company’s consolidated financial statements which are prepared in accordance with generally accepted accounting principles (US GAAP)). According to Sub-paragraphs 6 and 7 of Paragraph 2.2 of such Regulations the Audit Committee reviews reports by the supervision and auditing department on violations identified and annual performance reports and draft proposals for improving internal control procedures.
27.	The audit committee should include only independent non-executive directors.	Observed	The Audit Committee was formed on 08.07.2010 (Minutes of the Board of Directors of JSC Polymetal No. 6/2009 of 08.07.2010). Members of the Audit Committee are: • Jonathan Best – committee chairman (independent non-executive director); • Konstantin P. Yanakov – committee member (independent

No.	Provision	Compliance status[i]	Comments
			non-executive director), • Russell Skirrow- committee member (independent non-executive director).
28.	The audit committee should be managed by an independent director.	Observed	Audit Committee Chairman, Jonathan Best, complies with the requirements to be met by an independent director under the Corporate Governance Code.
29.	The internal documents of a joint-stock company should specify the right of all audit committee members to access any documents or information of a joint-stock company provided they do not disclose confidential information.	Not observed	The Company's internal documents do not provide the right to Audit Committee members. Nevertheless, information needed to make decisions is sent to every member of the Audit Committee, in full and in good time. The Audit Committee members have no complaints regarding the extent and timeliness of information provided by the Company.
30.	There should be a committee under the board of directors (remuneration and nomination committee), defining the criteria for selecting candidates for board member positions and the company remuneration policy.	Observed	According to Paragraph 4.1 of the Board Regulations, the Board of Directors creates the Audit Committee, the Remuneration and Nomination Committee and may create other committees to deal with current issues. The Regulations for the Remuneration and Nomination Committee of the Board of Directors of JSC Polymetal were endorsed by the Board of Directors (Minutes of the Board of Directors meeting No. 15/2009 of 26.10.2009). According to Paragraph 2.2. of such Regulations the Remuneration and Nomination Committee drafts recommendations for the Board of Directors on: • General personnel policy; • Selection and attraction of skilled experts for positions in Company management; • Remuneration of officials and managers.
31.	The remuneration and nomination committee should be managed by an independent director.	Observed	Leonard A. Homeniuk, Remuneration and Nomination Committee Chairman (independent non-executive director) complies with the requirements to be met by an independent director under the Corporate Governance Code.
32.	The remuneration and nomination committee should not include officials of the joint-stock company.	Observed	There are no company officials on the Remuneration and Nomination Committee.

No.	Provision	Compliance status[i]	Comments
33.	There should be a committee of the board of directors on risk management, or the functions of such a committee should be performed by another committee (except for the audit committee and the remuneration and nomination committee).	Not observed	The internal documents of the Company do not provide for the creation of a risk management committee of the Board of Directors. There is currently no need to create such a committee in the opinion of the Company and the Board of Directors; risk management functions are performed by the Company's internal audit department, as well as by the Audit Committee.
34.	There should be a committee of the board of directors on corporate conflict resolution, or the functions of such a committee should be performed by another committee (except for the audit committee and the remuneration and nomination committee).	Not observed	The Company's internal documents do not provide for the creation of a corporate conflict resolution committee of the Board of Directors. There is currently no need to create such a committee in the opinion of the Company and the Board of Directors.
35.	The corporate conflict resolution committee should not include officials of a joint-stock company.	Not applicable	The Company's internal documents do not provide for the creation of a corporate conflict resolution committee of the Board of Directors.
36.	The corporate conflict resolution committee should be managed by an independent director.	Not applicable	The Company's internal documents do not provide for the creation of a corporate conflict resolution committee of the Board of Directors.
37.	There should be internal documents of the company endorsed by the board of directors setting forth the procedures for forming the committees of the board of directors and their operation.	Observed	The procedures for forming and operating the Audit Committee and the Remuneration and Nomination Committee of the Board of Directors are governed by the regulations for these committees, endorsed by the Board of Directors (Minutes No. 13 of 28.12.2006 and Minutes No. 15/2009 of 26.10.2009, respectively).
38.	There should be a procedure in the charter of a joint-stock company for defining the quorum of the board of directors so that mandatory participation of independent directors in board meetings could be assured.	Not observed	There is no such requirement in the Company Charter. The participation of independent directors in Board meetings is guaranteed as 9 out of 10 members of the Board of Directors are independent.
	Executive bodies		
39.	There should be a collegiate executive body (management board) of a joint-stock company.	Observed	The Company formed a collegiate executive body (Minutes of the Board of Directors meeting No. 14/2009 of 22.09.2009).
40.	There should be a provision in	Not observed	There is no such requirement in the

No.	Provision	Compliance status[i]	Comments
	the charter or internal documents of a joint-stock company whereby the management board must approve transactions involving real estate transactions and transactions to obtain credits, unless such deals are defined as major deals or unless they are part of regular business.		Company Charter or internal documents. Major transactions as defined by Russian law are approved by the Company's general meeting of shareholders or the Board of Directors.
41.	There should be a provision in the internal documents of a joint-stock company whereby transactions that go beyond the financial and business plan of the company must be coordinated.	Not applicable	There is no such requirement in the Company's internal documents.
42.	The executive bodies should not include individuals, acting as a member of a managerial body, chief executive (manager) or employed by a legal entity competing with the joint-stock company.	Observed	There are no individuals answering that description in the Company's executive bodies.
43.	The executive bodies of a joint-stock company should not include individuals who have committed economic crimes or crimes against the government, public bodies or bodies of local self-government, or who have a record of administrative offences, primarily in such areas as entrepreneurial operations, finance, taxes and duties, stock market operation. If the functions of a sole executive body are performed by a managing organization or manager, the chief executive and members of the management board of the managing organization should meet the requirements for chief executive and management board members of the joint-stock company.	Observed	There are no individuals answering that description in the Company's executive bodies.
44.	The charter or internal documents of a joint-stock company should prevent the managing organization (manager) from performing similar functions in a competing	Not observed	Neither the Charter, not the Company's internal documents impose such a restriction. The Company has no contract with a managing organisation (manager).

No.	Provision	Compliance status[i]	Comments
	company or maintain a relationship with the joint-stock company other than related to the provision of the services of a managing organization (manager).		
45.	The internal documents of a joint-stock company should specify that it is a duty of the executive bodies to refrain from actions that lead or may lead to a conflict between their interests and the interests of the joint-stock company, and if such a conflict has arisen, they must inform the board of directors about it.	Observed	Section 5 of the Management Board Regulations was endorsed by general meeting of shareholders (Minutes No. 5/2009 of 23.09.2009)
46.	The charter or internal documents of a joint-stock company should specify the criteria for selecting a managing organization (manager).	Not observed	Neither the Charter, nor the Company's internal documents specify criteria for selecting a managing organization (manager). The Company has no contract with a managing organisation (manager).
47.	The executive bodies of a joint-stock company must provide reports to the board of directors every month.	Observed partially	The Management Board must provide reports only at the request of a member of the Board of Directors (Paragraph 4.14 of the Management Board Regulations).
48.	The contracts concluded by a joint-stock company with the chief executive (managing organizations, manager) and management board members should specify liability for violating the provisions on the uses of confidential and internal information.	Observed	The Board of Directors endorsed the Regulations on the Uses of Information about the Activities and Securities of JSC Polymetal which is not in the Public Domain, and, which, if disclosed, may have a Major Effect on the Market Value of the Securities (Minutes of the Board meeting No. 13 of 28.12.2006). Paragraphs 2.2, 2.3 of the said Regulations set forth a number of measures enforced by the Company to safeguard insider information, by, among other things, including appropriate terms into the contract with the Company Chief Executive.
	Secretary of the company		
49.	A special officer (company secretary) should be appointed to assure that the bodies and officials of a joint-stock company comply with procedural requirements that guarantee that the legitimate rights and interests of the shareholders are duly exercised.	Partially Observed	The appointment of a secretary of the Board of Directors is provided for in Section 6 of the Board Regulations. The duties of the secretary are to support the Board of Directors of the Company organizationally and to enforce these corporate procedures specified in the internal documents of the Company. By the decision of 19.11.2008 of the

No.	Provision	Compliance status[i]	Comments
			Board (Minutes No. 12/2008 of 19.11.2008) A. E. Skorodumova was appointed as secretary of the Board of Directors. The Company has no secretary appointed specifically to assure that the bodies and officials of the Company comply with procedural requirements that guarantee that the legitimate rights and interests of the Company's shareholders are duly exercised.
50.	The charter or internal documents of a joint-stock company should specify a procedure for appointing (electing) the company secretary and defining the duties of the company secretary.	Observed	Paragraph 6.3 of the Board Regulations provides that the Board secretary is appointed by the Board of Directors.
51.	The charter of a joint-stock company must list requirements to be met by a person nominated to the position of company secretary.	Not observed	The Company Charter contains no requirements to be met by a person nominated to the position of company secretary.
Major corporate actions			
52.	The charter or internal documents of a joint-stock company must specify requirements for approving a major transaction before it is concluded.	Not observed	Neither the Charter, nor the internal documents of the Company specify requirements for approving a major transaction before it is concluded. However, in keeping with the established practice, the Company's major transactions are approved before they are concluded.
53.	An independent assessor must be invited to determine the market value of the assets constituting the subject of a major transaction.	Not observed	Neither the Charter, not the internal documents of the Company specify that it is mandatory to invite an independent assessor to determine the market value of assets which are the subject of a major transaction.
54.	The charter of a joint-stock company should prohibit any actions protecting the interests of executive bodies (members of such bodies) and members of the board of directors in acquiring major share packages of the joint stock company and actions worsening the position of the shareholders as compared to their current position. In particular, the board of directors may not decide on additional share issue before the timeframe	Not observed	There is no such restriction in the Company Charter. The Board of Directors members, apart from V.N. Nesis, are not shareholders of the Company.

No.	Provision	Compliance status[i]	Comments
	for share acquisition expires, on the issue of securities convertible to shares, or securities transferring the rights to purchase company shares even if the right to make such decisions is granted to the board by the charter.		
55.	The charter of a joint-stock company should require that an independent assessor be invited to evaluate the current market value of the shares and its possible change as a result of a merger.	Not observed	There is no such requirement in the Company Charter
56.	The charter of a joint-stock company must not exempt the buyer from the obligation to propose that shareholders sell ordinary (mass-issue securities convertible to ordinary shares) during the merger.	Not applicable	The Charter of the Company does not consider the issue of a merger.
57.	The charter or internal documents of a joint-stock company should require that an independent assessor be invited to determine the share conversion ratio during reorganization.	Not observed	There is no such requirement in the Company Charter
	Disclosure of information		
58.	There should be an internal company document setting forth rules of and approaches to disclosure of information (Regulation on Information Policy) approved by the board of directors.	Observed partially	The Company endorsed the Regulations on Disclosure of Insider Information of JSC Polymetal, endorsed by the Company Board of Directors on 07.08.2009 (Minutes No. 12/2009 of August 10, 2009). Disclosure of information is carried out in accordance with the requirements of the Laws of the Russian Federation and those applicable to listings of the Company's securities and admissions of the Company's securities to the stock exchanges on which the Company's securities are listed.
59.	The internal documents of a joint-stock company should require the disclosure of information about the goals of share placement, about the individuals wishing to buy the shares (major share packages) placed, and also about whether or not the top officials of a joint-	Not observed	The internal documents of the Company have no provision to such effect. The Company discloses significant facts and data that may have a major effect on the value of its securities in accordance with the Regulations for Information Disclosure by Securities Issuers, endorsed by the Federal Financial

No.	Provision	Compliance status[i]	Comments
	stock company will buy the company shares placed.		Markets Service of 10.10.2006, as well as with stock exchange requirements and also in compliance with the Rules for disclosure and control of inside information by issuers (DTR2), endorsed by the UK Financial Services Authority.
60.	The internal documents of a joint-stock company should list information, documents and materials that must be presented to shareholders for making decisions on agenda items before a general meeting of shareholders.	Not observed	The list of information, documents and materials that must be presented to shareholders for making decisions on agenda items at a general meeting of shareholders is defined by the Board of Directors. The list of information to be provided complies with the Laws of the Russian Federation but the right of the Board of Directors to approve such a list creates an opportunity to supply additional materials for their perusal.
61.	A joint-stock company should have a website to be able to regularly disclose information about itself.	Observed	All the information that needs to be disclosed under the laws of the Russian Federation is available on the Company's website: www.polymetal.ru.
62.	The internal documents of a joint-stock company should require that information be disclosed about: • the deals concluded by the joint-stock company with individuals, who according to the charter belong to the top management of the joint-stock company; • the deals concluded by the joint-stock company with organizations whose top officials directly or indirectly own 20% and more of the share capital of the company, or • the deals that may be significantly influenced by such individuals.	Not observed	The Company's internal documents carry no such requirement. The Company discloses information about transactions in accordance with the laws of the Russian Federation. The Company does not conclude any transactions, other than employment agreements with its officials; no shareholder of the Company owns more than 20% of its share capital.
63.	The internal documents of a joint-stock company should require that information be disclosed about all transactions that may have an effect on the market value of the shares of the joint-stock company.	Observed partially	Paragraph 3.1 of the Regulations on Disclosure of Insider Information of JSC Polymetal contains an open list of information subject to disclosure. The Company discloses information about transactions in accordance with the laws of the Russian Federation.

No.	Provision	Compliance status[i]	Comments
64.	There should be an internal document approved by the board of directors regulating the use of significant information about the activity of the joint-stock company, shares and other securities and transactions involving them, which is not in the public domain and which, if disclosed, may have a major effect on the market value of company shares and other securities.	Observed	The Board of Directors endorsed the Regulations on the Uses of Information about the Activities and Securities of the JSC Polymetal which is not in the Public Domain, and, which, if disclosed, may have a Major Effect on the Market Value of the Securities (Minutes No.13 of 28.12.2006) and the Regulations on Disclosure of the Insider Information of JSC Polymetal, endorsed by the Board of Directors on 07.08.2009 (Minutes No. 12/2009 of August 10, 2009).
Supervision of financial and business operations			
65.	There should be procedures endorsed by the board of directors for the internal supervision of the financial and business operations of a joint-stock company.	Observed	The procedures for dealing with the internal supervision of the financial and business activities are specified in the Regulations on the Internal Control over the Financial and Business Operations of JSC Polymetal (endorsed by the Board of Directors, minutes No.13 of 28.12.2006).
66.	There should be a dedicated subdivision of a joint-stock company assuring compliance with internal supervision procedures (supervision and auditing department).	Observed	The supervision and auditing department was created as the Company's internal dedicated subdivision (Chief Executive's order No. Pri-053 of 10.12.2003).
67.	The internal documents of a joint-stock company should require that the structure and lineup of supervision and auditing department be determined by the board of directors.	Not observed	The structure and lineup of the supervision and auditing department are determined by the Chief Executive in keeping with the Regulation on the Supervision and Auditing department of the Company.
68.	The supervision and auditing department should not include individuals who have committed economic crimes or crimes against the government, public bodies or bodies of local self-government, or who have a record of administrative offences, primarily in such areas as entrepreneurial operations, finance, taxes and duties, stock market operation	Observed	There are no individuals answering that description in the supervision and auditing department.
69.	The supervision and auditing department should not include individuals who are members of the executive bodies of a joint-stock company, or individuals who are members of managerial bodies, or employees of a legal	Observed	There are no individuals answering that description in the supervision and auditing service.

No.	Provision	Compliance status[i]	Comments
	entity competing with the joint stock company. Nor should the chief executive (manager) of a legal entity competing with the joint stock company be a member of the supervision and auditing department.		
70.	The internal documents of a joint-stock company should set deadlines for the submission to the supervision and auditing department of documents and materials for conducting a financial or business transaction and specify liabilities of officials and employees for failing to meet such deadlines.	Not observed	The internal documents of the Company set no deadlines for the submission to the supervision and auditing department of documents and materials for conducting a financial or business transaction and do not specify liabilities of officials and employees for failing to meet such deadlines. All documents and materials are provided in good time.
71.	The internal documents of a joint-stock company should specify the duty of the supervision and auditing department to report the violations identified to the audit committee, or in the absence thereof, to the board of directors of the joint-stock company.	Observed	According to Sub-paragraph 3 of Paragraph 4.3 of the Regulations on the Internal Control over the Financial and Business Operations of JSC Polymetal, the supervision and auditing department keeps a record of any violation while performing internal control procedures and informs the Audit Committee and the Chief Executive Officer of such violations.
72.	The charter of a joint-stock company should require that the supervision and audit service preliminarily evaluate the expediency of transactions not covered by the financial and business plan of the joint-stock company (non-standard operations.	Not observed	There is no such requirement in the Company Charter
73.	The internal documents of a joint-stock company should specify the procedure for coordinating a non-standard operation with the board of directors.	Not observed	There is no provision in the internal documents of the Company covering coordination of non-standard operations with the Board of Directors.
74.	There should be an internal document endorsed by the board of directors defining the procedure for conducting checks of the financial and business operations of the joint-stock company by the revision commission.	Not observed	The Company has no document defining the procedure for conducting checks of the Company's financial and business operations by the revision commission.
75.	The audit committee should evaluate the auditor's report before it is submitted to	Observed	Sub-Paragraph 5 of Paragraph 2.2 of the Regulations for the Audit Committee of the Board of Directors of JSC Polymetal.

No.	Provision	Compliance status[i]	Comments
	shareholders at a general meeting of shareholders.		
	Dividends		
76.	There should be an internal document endorsed by the board of directors which guides the board of directors in deciding on recommendations on the size of the dividends (dividend policy regulations).	Observed	The Dividend Policy Regulations were approved by the Board of Directors of JSC Polymetal (Minutes No. 4/2010 of May 24, 2010)
77.	The dividend policy regulations should contain the procedure on determining the minimum part of net profit of a joint-stock company spent to pay out the dividends and the terms and conditions, upon which the dividends on privileged shares are not paid or are not paid fully, the size of the privileged share dividend being defined by the charter of a joint-stock company.	Not observed	The Dividend Policy Regulations contain no such term, but they provide for the main factors that the Board of Directors takes into account in making a decision to recommend the pay-out and the size of dividends. The Company issues no privileged shares.
78.	Information about the dividend policy of a joint-stock company and amendments thereto should be placed in a periodical publication listed in the charter of the joint-stock company and selected for the publication of reports and notices about the holding of general meeting of shareholders. Said information should also be placed on the company's website.	Observed partially	The Company's Charter does not provide for publishing information in a periodical publication. Section 4 of the Dividend Policy Regulations provides for publishing dividend policy, dividend history, and decisions of the Board of Directors and general meeting of shareholders related to the announcement and payment of the dividends on the Company's website: www.polymetal.ru/

[i] "Compliance Status" should be construed as observance/non-observance by the Company of the substantive part of the recommendations of the Corporate Governance Code by reflecting it in the Charter or internal documents of the Company, or by virtue of the established corporate practice observance/non-observance of said recommendations by the Company. "Not applicable" should be construed as the non-applicability of a recommendation because the Company has no procedures/institutions relevant to the specific recommendation of the Corporate Governance Code.

[ii] The independence of directors is construed herein as defined by the Code of Corporate Conduct of the RF Federal Securities Commission. The Board Regulations of the Company stipulate a more stringent test of independence in relation to directors of the Company.

4.11. GOING CONCERN

The going concern basis is a fundamental principle on which Polymetal's financial reports are prepared.

Having made due enquiries, the Directors consider that Polymetal has adequate capital and resources to continue in operational existence for the foreseeable future. In addition, the Directors assert that Polymetal has no intention of seeking liquidation, termination of trading operations, or protection from creditors under the appropriate laws and normative acts. The assets and liabilities of the Company's business are accounted for on the assumption that the Company will be able to fulfil its obligations and realize its assets in the normal course of business.

The Company is vulnerable to industry- and country-specific risks and to other risks that may affect its ability successfully to operate in the future. The Directors' going concern assumption is based on analysis of the critical impact and possible effects of current risks. The Board of Directors' analysis and assessment of these risks confirm that:

1. The Company has a stable market for its products. The Company's source of revenue is the sale of gold, silver and copper. The products are sold at prices based on USD-denominated quotations on international markets. The revenue of the Company therefore largely depends on the variation of precious metal prices, and above all, gold prices. A continuing and substantial decline in the price of gold and silver may cause a decline in the cost-efficiency of gold exploration and extraction by the Company. However, as the world commodity and raw materials market conditions worsen, gold has traditionally stood out as an investment instrument of choice for hedging losses on currency and capital markets. The levels of the demand for gold lately have remained stable sustaining high values of price indexes. Precious metal prices grew in 2010 – 2011 and there are grounds for expecting its further growth. The Company has signed contracts with banks for the sales of its products in 2011; these are based on the LBMA spot prices.

2. The Company has no borrowed funds whose due repayment deadline is drawing near in the absence of real prospects for repaying the loans or extending the loan deadlines. The company does not take short-term loans for funding long-term assets. On 31.12.10 the short-term debt amounted to 12% of the current asset value.

3. The Company is not experiencing substantial labour resource problems or shortages of significant production capabilities.

4. The Company has no main suppliers or buyers whose actions may critically affect its ability to assure the supply of materials for production or the sales of its products.

5. The Company's ability to operate as a going concern basis is not significantly dependent on the successful implementation of any single project or the functioning of any single production facility.

6. The Company is not incurring losses from its main activities, and based on the results of 2009 and 2010 was profitable. The Company has no uncovered accrued loss.

7. None of the Company's subsidiaries has displayed signs of a bankruptcy as defined by the laws of the Russian Federation.

8. The operations of the Company's principal extracting and prospecting businesses are based on subsoil use licenses. These businesses are vulnerable to the risk of such licenses being revoked or terminated. The Company's seeks to comply with the requirements of the current legislation on licensing subsoil uses and comply with the requirements in the licenses held by group members. There has not been a single instance of the licenses held by group members having been withdrawn or terminated prematurely.

9. None of the possible outcomes of any current legal actions brought against any Polymetal business will cause the Company not to be able to operate as a going concern.

5. DIVIDEND POLICY

Polymetal's dividend policy is geared to achieving a balance between providing an annual return on shareholders' investment in the Company, and investing in the Company's development. Decisions on the payment of dividends are taken by the Annual General Shareholders Meeting on the basis of recommendations by the Board of Directors which, in turn, are based on the evaluation of the Company's financial status and stability, its investment requirements and availability of resources.

In full compliance with Russia's legal requirements, Polymetal makes the relevant information relating to dividends public through Russian and foreign media, including those in the UK, as well as on its corporate website.

In 2010 the Board of Directors, as required by the Code of Corporate Conduct, approved the Company's Regulations on Dividend Policy which specify the procedure for making decisions on the payment of dividends and the procedure for the payment of dividends. These Regulations are aimed at ensuring the transparency of the Board of Directors' decisions regarding its recommendations on the amount and procedure for the payment of dividends.

Based on the results of 2010, the Board of Directors recommended that the Annual General Shareholders Meeting for 2010 withhold the payment of a dividend. It was the view of the Board of Directors that, at this stage of the Company's development, reinvesting the Company's profits was the most efficient way of increasing shareholder value.

6. CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

OPEN JOINT STOCK COMPANY POLYMETAL

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OPEN JOINT STOCK COMPANY POLYMETAL

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of Open Joint Stock Company "Polymetal" ("JSC Polymetal") and its subsidiaries (the "Group") as at December 31, 2010 and 2009, and the results of its operations, cash flows and changes in equity for the years then ended, in compliance with Accounting Principles Generally Accepted in the United States of America ("U.S. GAAP").

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in U.S. GAAP are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with U.S. GAAP;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the years ended December 31, 2010 and 2009 were approved by management on April 25, 2011:

On behalf of the Management Board:

Nesis V.N.
Chief Executive Officer

Cherkashin S.A.
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Open Joint Stock Company “Polymetal”:

We have audited the accompanying consolidated balance sheets of Open Joint Stock Company “Polymetal” and its subsidiaries (the “Group”) as at December 31, 2010 and 2009, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the Group’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Open Joint Stock Company “Polymetal” and its subsidiaries as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche

April 25, 2011

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2010 AND 2009
(In thousands of U.S. Dollars, except share and per share data)

	Note	December 31, 2010	December 31, 2009
Assets			
Cash and cash equivalents		11,056	28,317
Accounts receivable	5	19,765	1,601
Prepayments to suppliers		29,025	15,601
Inventories and spare parts	6	362,874	284,486
Short-term VAT receivable		94,148	77,323
Current deferred tax asset	7	17,062	12,833
Other current assets	8	36,120	20,450
Total current assets		**570,050**	**440,611**
Property, plant and equipment, net	9	1,519,243	1,087,503
Goodwill	10	114,712	115,729
Equity method investments	11	22,302	17,047
Long-term loans to related parties	12, 30	5,187	9,715
Long-term VAT receivable		-	7,799
Non-current deferred tax asset	7	42,189	30,118
Other non-current assets		21,017	18,291
Total non-current assets		**1,724,650**	**1,286,202**
Total assets		**2,294,700**	**1,726,813**
Liabilities and equity			
Accounts payable and accrued liabilities	13	90,468	67,930
Short-term debt and current portion of long-term debt	14	90,610	108,873
Taxes payable		14,981	10,957
Current deferred tax liability	7	8,015	2,666
Current portion of capital lease liabilities	15	4,819	2,928
Total current liabilities		**208,893**	**193,354**
Contingent consideration liability	4, 27	23,754	21,775
Long-term portion of capital lease liabilities	15	-	4,857
Long-term debt	16	595,359	331,293
Non-current deferred tax liability	7	83,735	60,519
Reclamation and mine closure obligation	17	51,317	43,004
Liability for uncertain tax benefits	7	2,265	3,916
Other non-current liabilities		2,578	3,810
Derivatives, net	28	105,437	149,514
Total non-current liabilities		**864,445**	**618,688**
Total liabilities		**1,073,338**	**812,042**
Commitments and contingencies	31	-	-
Equity			
Share capital (2,275,625,000 shares authorized with par value of Ruble 0.2 per share; 399,375,000 shares issued at December 31, 2010 and 2009; 361,424,643 and 357,924,643 shares outstanding at December 31, 2010 and December 31, 2009, respectively)	18	7,223	7,223
Additional paid-in capital		866,468	797,418
Treasury stock	18	(457)	(481)
Accumulated other comprehensive loss		(75,818)	(63,528)
Retained earnings		423,946	174,139
Total equity		**1,221,362**	**914,771**
Total liabilities and equity		**2,294,700**	**1,726,813**

The accompanying consolidated notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of U.S. Dollars, except share and per share data)

	Note	December 31, 2010	December 31, 2009
Revenue	20	925,376	560,737
Cost of sales	21	(449,669)	(284,416)
Gross profit		**475,707**	**276,321**
General, administrative and selling expenses	25	(80,760)	(52,042)
Other operating expenses	26	(52,518)	(41,706)
Operating income		**342,429**	**182,573**
Interest expense, net of amounts capitalised		(16,391)	(32,515)
Loss from equity method investments	11	(1,170)	(342)
Change in fair value of contingent consideration liability	27	(3,616)	(13,404)
Change in fair value of derivative financial instruments	28	(909)	(41,938)
Loss on extinguishment of debt		-	(5,873)
Excess of fair value of acquired net assets over cost		-	36,031
Foreign exchange (loss)/gain, net		(151)	7,869
Income before income tax		**320,192**	**132,401**
Income tax expense	7	(70,385)	(38,386)
Net income		**249,807**	**94,015**
Earnings per share (expressed in U.S. Dollars)	18		
From continuing operations			
Basic earnings per share		0.696	0.292
Diluted earnings per share		0.690	0.284
Weighted average number of shares outstanding			
Basic	18	358,732,335	322,343,391
Diluted	18	361,929,830	331,025,789

The accompanying consolidated notes are an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of U.S. Dollars)

	Note	December 31, 2010	December 31, 2009
Cash flows from operating activities			
Net income		249,807	94,015
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and depletion		61,261	53,744
Write-down of inventory to lower of cost or market	21	15,319	2,622
Share-based compensation	19	7,896	-
Accretion of reclamation and mine closure obligation	17	4,490	2,895
Loss on disposal of property, plant and equipment	26	3,449	3,401
Change in contingent consideration liability	27	3,616	13,404
Write-off of irrecoverable VAT receivable		2,583	2,909
Change in bad debt allowance	26	2,333	2,993
Unwinding of borrowing discount		2,138	928
Loss from equity method investments	11	1,170	342
Change in fair value of derivatives	28	909	41,938
Exchange loss/(gain), net		151	(7,869)
Excess of fair value of acquired net assets over cost	4	-	(36,031)
Loss on extinguishment of debt		-	5,873
Deferred income tax (benefit)/expense	7	(3,529)	872
Other non-cash (income)/expenses, net		(2,404)	1,346
Changes in operating assets and liabilities			
Prepayments to suppliers		(13,296)	(3,729)
Inventories and spare parts		(86,424)	(35,430)
VAT receivable		(13,074)	7,087
Other current assets		(13,847)	3,167
Accounts receivable		(18,176)	(1,601)
Accounts payable and accrued liabilities		21,628	11,751
Taxes payable		3,592	658
Net cash provided by operating activities		**229,592**	**165,285**
Cash flows from investing activities			
Acquisitions of property, plant and equipment, net		(419,646)	(212,812)
Acquisition of subsidiaries, net of cash acquired		(8,479)	(10,708)
Loans provided to third parties		(421)	(10,321)
Receipt of repayment for loans provided to third parties		14	9,238
Loans provided to related parties		(3,871)	(55,022)
Receipt of repayment for loans provided to related parties		7,845	21,007
Net cash used in investing activities		**(424,558)**	**(258,618)**

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (CONTINUED)
(In thousands of U.S. Dollars)

	Note	December 31, 2010	December 31, 2009
Cash flows from financing activities			
Proceeds from:			
Short and long-term debt		741,573	815,828
Short and long-term debt obtained from related parties		401,354	641,921
Repayments of:			
Short and long-term debt		(589,451)	(671,806)
Short and long-term debt obtained from related parties		(371,330)	(750,345)
Proceeds from issuance of shares, net of costs incurred		-	87,432
Payments on capital lease obligations		(4,225)	(5,118)
Purchase of treasury shares		-	(223)
Net cash provided by financing activities		**177,921**	**117,689**
Effect of exchange rate changes on cash and cash equivalents		(216)	(116)
Cash and cash equivalents at the beginning of the year		**28,317**	**4,077**
Net (decrease)/increase in cash and cash equivalents		(17,261)	24,240
Cash and cash equivalents at the end of the year		**11,056**	**28,317**
Supplementary info			
Interest paid		28,616	49,144
Income tax paid		80,256	30,952
Non-cash investing and financing activities			
Non-cash additions to property, plant and equipment, net		3,302	8,994
Additions to property, plant and equipment under capital lease agreements		-	10,137
Issue of shares for acquisitions	4	-	156,000
Issue of treasury shares for acquisitions of group of assets	4	60,200	-
Exercise of a call option	19	-	152,721
Non-cash equity method investments	4	6,577	-
Contingent consideration on acquisition	4	-	3,419

The accompanying consolidated notes are an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Note	Number of shares outstanding	Share capital	Additional paid-in capital	Treasury shares	Accumulated other comprehen-sive loss	Retained earnings	Total equity
Balance at December 31, 2008		**315,000,000**	**6,698**	**400,122**	**-**	**(37,276)**	**80,124**	**449,668**
Comprehensive income:								
Net income		-	-	-	-	-	94,015	94,015
Other comprehensive loss: currency translation adjustment		-	-	-	-	(26,252)	-	(26,252)
Total comprehensive income		-	-	-	-	-	-	**67,763**
Amortization of bonus received from depositary		-	-	978	-	-	-	978
Issuance of shares for cash	18	9,524,643	59	87,805	-	-	-	87,864
Issue of shares for acquisitions	4	17,500,000	109	155,891	-	-	-	156,000
Exercise of a call option	4	15,925,000	99	152,622	-	-	-	152,721
Treasury shares issued to subsidiary	18	-	258	-	(258)	-	-	-
Acquisition of treasury shares	18	(25,000)	-	-	(223)	-	-	(223)
Balance at December 31, 2009		**357,924,643**	**7,223**	**797,418**	**(481)**	**(63,528)**	**174,139**	**914,771**
Comprehensive income:		-	-	-	-	-	-	-
Net income		-	-	-	-	-	249,807	249,807
Other comprehensive loss: currency translation adjustment		-	-	-	-	(12,290)	-	(12,290)
Total comprehensive income		-	-	-	-	-	-	**237,517**
Amortization of bonus received from depositary		-	-	978	-	-	-	978
Share based compensation	19	-	-	7,896	-	-	-	7,896
Issue of treasury shares in exchange for assets	4	3,500,000	-	60,176	24	-	-	60,200
Balance at December 31, 2010		**361,424,643**	**7,223**	**866,468**	**(457)**	**(75,818)**	**423,946**	**1,221,362**

(In thousands of U.S. Dollars, except share data)

The accompanying consolidated notes are integral part of these consolidated financial statements.

(In thousands of U.S. Dollars, except share data)

BACKGROUND

Business activities

Open Joint Stock Company Polymetal (hereinafter JSC "Polymetal" or "the Company") and its subsidiaries ("the Group") is engaged in gold, silver and copper mining and related activities, including exploration, extraction, processing and reclamation. Since incorporation, the Group has acquired a number of gold and silver mining properties, which require significant investment to bring to commercial production.

As at December 31, 2010, the Company had the following significant mining and production subsidiaries:

		Voting interest, %	
Name of subsidiary	Deposit	December 31, 2010	December 31, 2009
CJSC Zoloto Severnogo Urala	Vorontsovskoye	100	100
JSC Okhotskaya GGC	Khakandjinskoye	100	100
CJSC Serebro Magadana	Dukat, Lunnoe, Arylakh, Goltsovoye	100	100
ZK Mayskoye LLC	Mayskoye	100	100
JSC Omolon Gold Mining Company	Kubaka, Birkachan	100	100
Albazino Resources LLC	Albazino	100	100
Amursky Hydrometallurgy Plant LLC	N/A	100	100
Rudnik Kvartseviy LLC	Sopka Kartsevaya, Dalniy	100	100
JSC Varvarinskoye	Varvarinskoye	100	100

The Group has six reportable segments which are based on their regional locations (see Note 29). All of the Group's operations and assets are located in Russian Federation and Kazakhstan.

Ownership structure

The Company (formerly Open Joint Stock Company "Interregional Research and Production Association Polymetal") was incorporated on March 12, 1998 in the Russian Federation.
In February 2007, the Company placed 40,000,000 ordinary shares with par value of Rubles 0.2 per share in the form of Global Depositary Receipts ("GDRs"), one GDR represents one common share, on the London Stock Exchange, as well as shares on the "Stock Exchange Russian Trading System" ("RTS") and the "Moscow Interbank Currency Exchange" ("MICEX").

In October 2010 and October 2009, the Company issued 3,500,000 and 42,949,643 of its treasury shares with par value of Rubles 0.2 per share, respectively (see Note 18).

At December 31, 2010, the Company's shares are owned by Pearlmoon Limited, the ultimate beneficiary owner of which is Petr Kellner (19.58%), Powerboom Investments Limited, the ultimate beneficiary owner of which is Alexander Nesis (18.90%), and Vitalbond Limited and its affiliated companies, the ultimate beneficiary owner of which is Alexander Mamut (10.73%). As at December 31, 2010, Deutsche Bank Trust Company Americas controlled 13.20% of the voting shares in the Company as a GDR holder. Company subsidiaries own 9.50% of the Company's shares. This is presented as treasury shares in the consolidated statement of changes in equity. No other parties control more than 5% of the Company shares.

Operating environment

Beginning late 2008, a number of major economies around the world experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or required support through government funding. The Group has been most directly impacted by the credit crisis through an increase in its cost of capital. Notwithstanding any potential economic stabilization measures that may be put into place by the Russian government, there exist economic uncertainties surrounding the continual cost of credit both for the Group and its counterparties.

BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Company and its significant subsidiaries are all domiciled in the Russian Federation and Kazakhstan and maintain their accounting records and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR") and Kazakhstan.
The accompanying consolidated financial statements have been prepared from these accounting records and adjusted, where necessary, to comply with U.S. GAAP.

Recently issued accounting pronouncements

Accounting pronouncements effective during the reporting period

In August 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2009-05, *Measuring Liabilities at Fair Value* ("ASU 2009-05") that amends ASC 820, *Fair value measurements and disclosures* ("ASC 820"). ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market is not available, a reporting entity is required to use one or more of the following valuation techniques: valuation based on quoted price of identical liability when traded as an asset; quoted prices of similar liabilities or similar liabilities when traded as an asset, or any other technique consistent with the principles of ASC 820, such as a present value technique. ASU 2009-05 also clarifies that a reporting entity is not required to include a separate input to existence of restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance. The Group adopted ASU 2009-05 effective January 1, 2010. ASU 2009-05 did not have any impact on the Group's consolidated financial position and results of operations.

In January 2010, the FASB issued ASU 2010-6, *Improving Disclosures about Fair Value Measurements* ("ASU 2010-6") that amends ASC 820. ASU 2010-6 requires separate disclosure of significant transfers between Level 1 and Level 2 fair value measurement inputs and a description of the reasons for the transfers. Entities are also required to present separately information about purchases, issuance, and settlements in the reconciliation for fair value measurements using Level 3 inputs. ASU 2010-6 amends existing disclosure requirements with regards to the level of disaggregation and inputs and valuation techniques. ASU 2010-6 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about activity in Level 3 fair value measurements that are effective for interim and annual periods beginning after December 15, 2010. The Group adopted ASU 2010-6 in the six months ended June 30, 2010, resulting in enhanced disclosure of the Group's fair value measurements.

In February 2010, the FASB issued authoritative guidance that amends the disclosure requirements related to Subsequent Events. This guidance removes the definition of a public entity, redefines the reissuance disclosure requirements and allows public companies to omit the disclosure of the date through which subsequent events have been evaluated. This guidance is effective for financial statements issued for interim and annual periods ending after February 2010.

In July 2010, the FASB issued ASU 2010-20, *Receivables: Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ("ASU 2010-20") related to new disclosures about the credit quality of certain financing receivables and their related allowance for credit losses. ASU 2010-20 amends existing disclosures and requires entities to provide additional disclosures to facilitate financial statement users' evaluation of the following: 1) the nature of the credit risk inherent in the entity's portfolio of financial receivables; 2) how this risk is analyzed and assessed in arriving at the allowance for credit losses; 3) the changes and reasons for those changes in the allowance for the credit losses. Among other things, the expanded disclosures require information to be disclosed at disaggregated levels ("segments" or "classes"), along with roll-forward schedules of the allowance for credit losses and information regarding the credit quality of receivables (including their aging) as of the end of a reporting period. For public entities, the disclosures are effective as of the end of the reporting period ending on or after December 15, 2010.
The Group adopted ASU 2010-20 for the 2010 annual financial statements. This adoption did not have an impact on the Group's results of operations, financial position or cash flow.

Accounting pronouncements effective in future

In January 2011, the FASB issued ASU 2011-01, Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 ("ASU 2011-01"). The amendments in this update temporarily delay the effective date of the disclosures about troubled debt restructurings in ASU 2010-20, enabling public entity creditors to provide those disclosures after the FASB clarifies the guidance for determining what constitutes a troubled debt restructuring. The deferral in this update will result in more consistent disclosures about troubled debt restructurings. This amendment does not defer the effective date of the other disclosure requirements in Update 2010-20. The FASB proposed that the clarification on guidance determining what constitutes a troubled debt restructuring would be effective for interim and annual periods ending after June 15, 2011. For the new disclosures about troubled debt restructurings in ASU 2010- 20, those clarifications would be applied retrospectively to the beginning of the fiscal year in which the proposal is adopted. The adoption of this guidance is not expected to have a significant impact on the Group's financial statements.

In December 2010, the FASB issued ASU 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* ("ASU 2010- 28"). This ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. As a result, ASU 2010-28 eliminates an entity's ability to assert that reporting unit is not required to perform Step 2 because the carrying amount of the reporting unit is zero or negative despite the existence of qualitative factors that indicate that goodwill is more likely than not impaired. Therefore, goodwill impairments might be reported sooner than under current practice. The ASU 2010-28 is effective for interim and annual reporting periods beginning on or after December 15, 2010. Early adoption is not permitted. The Group will adopt ASU 2010-28 from January 1, 2011. The Group does not expect
ASU 2010-28 to have a material impact on the Group's results of operations, financial position or cash flows.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary ProForma Information for Business Combinations* ("ASU 2010-29"). This ASU requires that the pro forma information be presented as if the business combination occurred at the beginning of the prior annual reporting period for purposes of calculating both the current reporting period and the prior reporting period proforma financial information. The ASU also requires that this disclosure be accompanied by a narrative description of the

(In thousands of U.S. Dollars, except share data)

amount and nature of material nonrecurring proforma adjustments.
The ASU is effective prospectively for business combinations that occur on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Group will adopt ASU 2010-29 for business combinations occurring on or after January 1, 2011. ASU 2010-29 will not have a material impact on the Group's results of operations, financial position or cash flows.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, including discussion and disclosure of contingent liabilities. Significant areas requiring the use of management estimates relate to the determination of mineral reserves, useful lives of long-lived assets, mine closure obligations, reclamation and environmental obligations, estimates of recovery rates for the heap leach process, the valuation of inventory, the valuation of the financial instruments using level 2 and level 3 inputs, the valuation of stock-based compensation, the valuation of acquired assets and liabilities under business combinations, uncertain tax positions, impairment of assets and valuation allowances for deferred tax assets. Actual results could differ from these estimates.

Reporting and functional currency

The functional currency is determined separately for each of the Group's entities. For all Russian entities the functional currency is the Russian Ruble. The functional currency of the Group's entity located in Kazakhstan is the Kazakh Tenge. The U.S. Dollar is the reporting currency selected by the Group for purposes of financial reporting in accordance with U.S. GAAP.

As a result, the transactions and balances in the accompanying consolidated financial statements have been translated into U.S. Dollars in accordance with the relevant provisions of ASC 830, Foreign Currency Matters. Consequently, assets and liabilities are translated at period closing exchange rates. Revenue, expenses, gains and losses have been translated using period average exchange rates. Translation differences resulting from the use of these exchange rates have been included as a separate component of equity.

Transactions in foreign currencies (currencies other than the entities' functional currencies) are recorded at the exchange rate prevailing on the date of the transaction. Assets and liabilities denominated in foreign currencies are expressed in the functional currency of the Group at the exchange rates in effect at the balance sheet date.

The following exchange rates were used at the reporting dates:

	December 31, 2010	December 31, 2009
Russian Ruble to the U.S. Dollar	30.48	30.24
Average exchange rate for the year, Russian Ruble to the U.S. Dollar	30.37	31.72
Kazakh Tenge to the U.S. Dollar	147.40	148.36
Average exchange rate for the year, Kazakh Tenge to the U.S. Dollar[1]	147.34	149.21

[1] The average exchange rate for 2009 represents the average for the period from October 30, 2009 to December 31, 2009 as the Group started operations in Kazakhstan only after its acquisition of JSC Varvarinskoye (see Note 4).

SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the results of operations of all entities in which the Company directly or indirectly controls more than 50 percent of the voting power and all variable interest entities in which the Company, or a subsidiary in the Group, is regarded to be the primary beneficiary.

All intercompany transactions and balances between the Group companies have been eliminated.

Business acquisitions

Business acquisitions from third parties are accounted for using the purchase method of accounting. Under this method, the purchase price is allocated to the assets acquired and liabilities assumed based on the fair value at the time of the acquisition. The excess purchase price over the fair value of identifiable assets and liabilities acquired is treated as goodwill. Any excess of Group's interest in net fair value of identifiable assets, liabilities and contingent liabilities over the cost of the business combination is recognized in earnings on the acquisition date. The results of operations of entities acquired from third parties are included in the Group's results of operations from the date of acquisition.

Acquisitions of entities under common control are accounted for on a carryover basis, which results in the historical book value of assets and liabilities of the acquired entity being combined with the assets and liabilities of the Group. The consolidated historical statements of the Group are retroactively restated to reflect the effect of the acquisition during the entire period in which the entities were under common control. Any difference between the purchase price and the net assets acquired is reflected in equity.

Investments

The Group accounts for investments, including joint ventures, using the equity method if the investment gives the Group the ability to exercise significant influence over, but not control of, an investee. Significant influence generally exists if the Group has an ownership interest representing between 20% and 50% of the voting stock of the investee although other factors such as representation on the board of directors and the impact of commercial arrangements, are considered in determining whether equity accounting is appropriate.

Under the equity method of accounting, the initial investment is recorded at cost and adjusted for subsequent additional investments and the Group's proportionate share of earnings or losses and distributions. The Group's share of profits or losses is recognized in the statement of operations as loss from equity method investments.

The carrying value of equity method investments is evaluated for impairment when events or changes in circumstances indicate that a decline in fair value below the carrying amount may have occurred. An impairment loss is recognized when fair value is less than the carrying value of an equity method investment and the difference is considered by management to be other than temporary. In such circumstances, the excess of the carrying value over the estimated fair value is recognized as an impairment in the statement of operations.

Asset impairment – Long-lived assets and goodwill

The Group assesses its held-for-use long lived assets for impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable. If the sum of estimated future cash flows on an undiscounted basis is less than the carrying amount of the related assets, impairment of the long-lived asset is considered to exist. The related impairment loss is measured by comparing the carrying value of the impaired assets to their fair value. Fair value is calculated by the Group by estimating the future cash flows on a discounted basis. In estimating future cash flows, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of future cash flows from other asset groups.

In accordance with the provisions of ASC 350, Intangibles – Goodwill and Other ("ASC 350"), the Group performs a review of goodwill for impairment, at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is reviewed for impairment by comparing the carrying value of each reporting unit's net assets (including allocated goodwill) to the fair value of those net assets. In assessing the fair value management estimates the future cash flows on a discounted basis to be generated by each reporting unit, being the individual mines, smelting and refining operations. If the reporting unit's carrying amount is greater than its fair value, then a second step is performed whereby the portion of the fair value that relates to the reporting unit's goodwill is compared to the carrying value of that goodwill. The Group recognizes a goodwill impairment charge for the amount by which the carrying value of goodwill exceeds the fair value. The Group has determined that there are no impairment losses in respect of goodwill for any of the reporting periods covered by these financial statements.

Cash and cash equivalents

Cash and cash equivalents include cash and other highly liquid investments that are readily convertible to known amounts of cash with an original maturity of three months or less at the date of purchase.

Inventories and spare parts

Inventories including metals in process, refined metals, dore, ore stockpiles, spare parts and consumable supplies are stated at the lower of cost or market value. Cost is determined as the sum of the applicable expenditures and expenses incurred directly or indirectly in bringing inventories to their existing condition and location. The portion of slow-moving consumables and spare parts not reasonably expected to be realized in cash within one year, but realizable in future periods, is classified as a long-term asset in the Group's balance sheet.

Work in-process and dore are valued at the average total production costs at the relevant stage of production. Ore stockpiles are valued at the average moving cost of mining ore. Spare parts and consumable supplies are valued at the weighted average cost. Refined metals are valued at the cost of production per unit of metal.

Financial instruments

A financial instrument is defined as cash, evidence of an ownership interest in an entity, or a contract that imposes an obligation to deliver or right to receive cash or another financial instrument. The Group's non-derivative financial instruments carried on the balance sheet include cash and cash equivalents, investments in equity investees, accounts receivable and payable, short-term loans receivable, debt, capital lease obligations and contingent consideration liability.

The carrying values of cash and cash equivalents, short-term loans receivable and accounts receivable and payable approximate their fair values because of the short maturities of these instruments.

Long-term financial instruments consist primarily of investments in equity investees, capital lease obligations, long-term debt and the contingent consideration liability.

The contingent consideration liability is recorded at fair value. Gains and losses resulting from a change in fair value of this liability are included in the consolidated statement of operations.

The fair values of financial instruments are determined with reference to various market information and other valuation methods, as considered appropriate. However, considerable judgment is required when applying valuation methodologies to interpret market data and to develop the estimates of fair value. Accordingly, the estimates presented herein may differ from the amounts the Group could receive in current market exchanges.

Derivative financial instruments

ASC 815, *Derivatives and Hedging*, establishes accounting and reporting standards for derivative financial instruments, including certain derivative financial instruments embedded in other contracts, and for hedging activities.

ASC 815 requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. Such financial assets and liabilities are remeasured to their fair values at each balance sheet date. The Group does not apply hedge accounting to any of its derivatives, and accordingly, the resulting gain or loss is recognized in the statement of operations immediately.

ASC 815 provides that normal purchase and normal sale contracts, when appropriately designated, are not subject to the statement. Normal purchase and normal sale contracts are contracts which provide for the purchase or sale of something other than a financial instrument or derivative instrument that will be delivered in quantities expected to be used or sold by the reporting entity over a reasonable period in the normal course of business. To qualify for the normal purchase and normal sale exception, it must be probable at inception and throughout the term of the individual contract that the contract will not settle net and will result in physical delivery. Except for the Varvarinskoye sale and purchase forward contracts and copper, gold and silver concentrate sales contracts that contain provisional pricing mechanism (see Note 28), the Group's forward sales contracts qualify for this exception.

As the Group has legally enforceable master netting agreement with counterparties, the flat forward gold sales and purchase contracts are presented net in the balance sheet as derivative financial instruments.

Property, plant and equipment

Property, plant and equipment consist of assets of the Group directly related to mining and processing of ore and include costs of development of the mining properties, the costs of acquisition or construction of property, plant and equipment and capitalized interest. Expenditures for major improvements and renewals are capitalized. The cost of maintenance, repairs and replacement of minor items of plant and equipment is charged to operations as incurred. Interest attributable to the acquisition or construction of property, plant and equipment is capitalized using an overall borrowing rate as a cost of the asset during the construction phase. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction is interrupted for an extended period or when the asset is substantially complete. All other interest is expensed as incurred. Gains and losses on the disposal of assets are included in the statement of operations in the period of disposal.

(In thousands of U.S. Dollars, except share data)

Mineral exploration costs are expensed as incurred. When it has been determined that a mineral property can be economically developed as a result of established proven and probable reserves, the costs incurred in exploration and development of such property, including costs to further delineate the ore body and remove any overburden to initially expose the ore body are capitalized.

In accordance with ASC 330, Inventory, subtopic 330-930, *Extractive activities – Mining*, post-production stripping costs are considered as costs of the extracted minerals under a full absorption costing system and are recognized as a component of inventory to be recognized in cost of sales in the same period as the revenue from the sales of inventory.

Leased property, plant and equipment meeting the capital lease criteria are capitalized and valued at the lower of the assets fair value and net present value of the total minimum future lease payments. Depreciation of capitalized leased assets related to mining is computed using the units-of-production method or over the term of the lease, if shorter.

Depletion of property, plant and equipment related to mining are computed using the units-of-production method based on the actual production for the period compared with total estimated proven and probable reserves. In respect of those items of property, plant and equipment whose useful lives are expected to be less than the life of mine, depreciation over the period of the items' useful life is applied.

Depreciation of non-mining assets is provided on a straight-line basis over the economic useful lives of these assets at the following annual rates:

Machinery and equipment	Greater than 1 year to 20 years (weighted average useful life – 11 years)
Transport and other	Greater than 1 year to 15 years (weighted average useful life – 10 years)

Construction in-progress comprises costs directly related to mine development, construction of buildings, infrastructure, processing plant, machinery and equipment. Cost also includes finance charges capitalized during the development and construction periods where such costs are financed by borrowings. Amortization or depreciation of these assets commences when the assets are put into production.

Pension obligations

The Group pays mandatory contributions to the state social funds, including the Pension Fund of the Russian Federation and Kazakhstan, which are expensed as incurred. For the years ended December 31, 2010 and 2009, the Group contributed U.S. Dollar 16,916 and U.S. Dollar 15,329, respectively.

Reclamation and mine closure

The Group accounts for reclamation, site restoration and closure obligations based on the provisions of ASC 450, *Contingencies*. When the liability is initially recorded, the Group capitalizes the cost by increasing the carrying amount of the related long lived asset. Over time, the liability is accreted to its present value at the end of each period and accretion is recorded as cost of sales. The capitalized cost is amortized over the mine life or the useful life of the related asset.

Income taxes

The Group accounts for income taxes using the balance sheet liability method required by ASC 740, *Income Taxes*. Deferred income tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates for periods in which these temporary differences are expected to reverse. Valuation allowances are provided for deferred income tax assets when management believes that it is more likely than not that the assets will not be realized.

Uncertain tax positions are recognized in the financial statements for positions which are considered more likely than not of being sustained based on the technical merits of the position upon an audit by the tax authorities. The measurement of the tax benefit recognized in the financial statements is based upon the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized based on a cumulative probability assessment of the possible outcomes.

The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying consolidated statement of operations. Accrued interest and penalties are included within the related income tax liability line in the consolidated balance sheet.

Revenue recognition

Revenue is derived principally from the sale of gold and silver bullion and copper, gold and silver concentrate and is measured at the fair value of consideration received or receivable, after deducting discounts.

Sale of gold and silver bullion

A sale is recognized when the significant risks and rewards of ownership have passed. This is usually when title and risk have passed to the customer and the goods have been delivered to the customer. Revenue is presented in the consolidated statement of operations net of value added tax ("VAT").

The Group sells gold and silver bullion to banks through long-term agreements. The sales price, as determined in the agreement, may be variable based upon the London Bullion Market Association ("LBMA") spot price or fixed.

Sale of copper, gold and silver concentrate

Starting from November 2009, the Group sells copper, gold and silver concentrate of JSC Varvarinskoye and CJSC Serebro Magadana under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. Revenue for the sale of copper, gold and silver concentrate is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, no obligations remain and collectability is probable. Concentrate sales are initially recorded based on forward prices for the expected date of final settlement. Revenue on provisionally priced copper, gold and silver concentrate sales is recorded on the date of shipment, net of refining and treatment charges, using the forward London Metal Bulletin ("LMB") or London Metal Exchange ("LME") price to the estimated final pricing date, adjusted for the specific terms of the relevant agreement. Until final settlement occurs, adjustments to revenue are made to take into account the changes in metal quantities upon receipt of new information and assay.

The Group's sales of copper, gold and silver concentrate are based on a provisional price and as such, contain an embedded derivative that is required to be separated from the host contract for accounting purposes. The host contract is the receivable from the sale of the concentrates at the forward exchange price at the time of sale. The embedded derivative, which does not qualify for hedge accounting, is marked to market through revenue each period prior to final settlement.

Share-based compensation

In 2010, the Group's board of directors awarded stock appreciation rights to certain employees (see Note 19). The Group applies ASC 718, *Compensation – Stock Compensation* ("ASC 718") to its accounting for share based compensation. ASC 718 requires companies to recognize compensation costs for share-based payments to employees based on the grant-date fair value of the award.

The fair value of share-based payments is calculated by the Group at the grant date using the two – stage Monte-Carlo simulation model. The expense is recognized on a straight-line basis over the vesting period of the awards.

The fair value of the awards granted is recognized as an employee benefit expense with a corresponding increase in additional paid-in-capital over the vesting period. Where relevant, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and additional paid-in-capital when the awards are exercised.

Comprehensive income

Comprehensive income is defined as all changes in equity, except those arising from transactions with shareholders. Comprehensive income includes net income and other comprehensive loss, which for the Group consists of changes in foreign currency translation gains or losses.

Basic and diluted earnings per share

Basic earnings per share amounts are calculated by using the weighted-average number of common shares outstanding during the year. Diluted earnings per share amounts reflect the potential dilution that could occur if securities or other contracts that may require the issuance of common shares in the future were converted unless their inclusion would be anti-dilutive. Potential shares to be issued from the assumed exercise of call option were included in the computation of diluted earnings per share in 2009. In 2010, potential shares to be issued from the assumed exercise of the stock appreciated awards were included in the computation of diluted earnings per share.

Reclassifications

In order to reflect the application of ASC 805, Business Combinations, the Group has reclassified U.S. Dollar 36,301 from extraordinary gain to an item before income before income tax in the consolidated statement of operations for the year ended December 31, 2009. This reclassification has no impact on the Group's consolidated balance sheet, consolidated statement of cash flows, or consolidated statement of changes in equity as of and for the year ended December 31, 2009, nor did it affect the Group's net income for the year ended December 31, 2009.

In 2010, the Group has changed the presentation of the consolidated balance sheets to separately present accounts receivable, which was included in other current assets in previous years.
As a result, amounts in the 2009 consolidated balance sheets have been reclassified to conform to the current year presentation.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

ZK Mayskoye LLC

On April 28, 2009, the Group acquired a 9% interest in Zolotorudnaya Kompaniya Mayskoye LLC ("ZK Mayskoye") from Highland Gold Mining Limited, an unrelated party. ZK Mayskoye holds the mining license for Mayskoye gold deposit located in the Chukotka region. The Group paid cash consideration of U.S. Dollar 14. The remaining 91% equity stake in ZK Mayskoye was simultaneously acquired by four Russian private companies (the "Equity Buyers"), unrelated parties, for U.S. Dollar 137.

On April 28, 2009, the Company and the Equity Buyers entered into a legally binding agreement ("Agreement") under which:

(a) The Company and the Equity Buyers agreed to recapitalize ZK Mayskoye by contributing a total of U.S. Dollar 104,852 to ZK Mayskoye's share capital pro rata to their equity ownership stakes (i.e., the Company agreed to contribute U.S. Dollar 9,437 and the Equity Buyers agreed to contribute U.S. Dollar 95,415 to the recapitalization).

(b) The Company agreed, subject to obtaining necessary regulatory approvals, to buy a 91% equity stake in ZK Mayskoye for U.S. Dollar 95,550 in cash or 15,925,000 ordinary shares of the Company plus a recapitalization adjustment in cash (see paragraph (c) below). The Equity Buyers had the right to choose the method of settlement (i.e. cash or the Company's shares) they will receive.

(c) A 14% per annum charge was applied to the total investment contributed by the Equity Buyers under the terms of the transaction. This amount was added to the purchase consideration as a recapitalization adjustment payable in cash by the Company at completion.

The Group determined that at April 28, 2009, the initial acquisition of the 9% equity stake in ZK Mayskoye met the definition of a variable interest entity. Furthermore, it was concluded that the agreement discussed in paragraph (b) above represented a call option embedded into the agreement. The Company was determined to be the primary beneficiary of ZK Mayskoye as a consequence of the written call option over the 91% interest held by the Equity Buyers and accordingly, consolidated ZK Mayskoye from April 28, 2009.

The call option was accounted for at fair value and included at the initial fair value of the purchase consideration. Subsequent changes in fair value were recorded in "change in fair value of derivative financial instruments" in the consolidated statement of operations.

On October 27, 2009, following necessary regulatory approvals, the Group completed the acquisition of the 100% equity stake in ZK Mayskoye. The Group and the Equity Buyers signed a legally binding supplement to the Agreement under which the Equity Buyers chose to receive 15,925,000 Polymetal common shares for the 91% equity stake in ZK Mayskoye (see Note 18).

This acquisition was accounted for using the purchase method.

(In thousands of U.S. Dollars, except share data)

Assets acquired and liabilities assumed at the acquisition date

Machinery and equipment	18,860
Construction in-progress	16,099
Non-current deferred tax asset	15,266
Mineral rights	9,540
Inventories and spare parts	29,210
Taxes receivable	8,157
Current deferred tax asset	1,243
Short-term debt	(80,000)
Long-term debt	(24,852)
Other liabilities, net	(3,489)
Net liabilities acquired	**(9,966)**
Cash consideration paid	14
Fair value of call option issued	11,460
Liability to the Equity Buyers	137
Goodwill	**21,577**

Goodwill is mainly attributable to the synergy expected as a result of the acquisition and was not assigned to a reportable segment. The goodwill is not deductible for income tax purposes.

From the date of acquisition to December 31, 2009, ZK Mayskoye contributed a net loss of U.S. Dollar 7,921. The acquisition of ZK Mayskoye would have contributed a net loss of approximately U.S. Dollar 9,897 (unaudited) from January 1, 2009 through December 31, 2009, had the acquisition occurred in the beginning of 2009. This amount has been calculated after applying the Group's accounting policies. On acquisition, ZK Mayskoye was in the development stage and did not generate any revenue during 2009.

JSC Varvarinskoye

In October 2009, the Group acquired 100% of the shares in Three K Exploration and Mining Limited ("Three K") which owns 100% of JSC Varvarinskoye in Kazakhstan ("Varvarinskoye") from Orsu Metals Corporation, an unrelated party. The Group acquired Varvarinskoye as it holds the mining license for Varvarinskoye gold-copper deposit located in Kazakhstan. Under the terms of the sale and purchase agreement, the Group acquired the shares for cash consideration of U.S. Dollar 8,000 and contingent consideration of up to a maximum of U.S. Dollar 12,000 (with estimated fair value of U.S. Dollar 3,419 as at the date of acquisition), calculated using a formula where published future prices of gold and copper are compared to the gold strike price applied pursuant to the terms of the gold forward purchase contracts entered into (see Note 28) and copper fixing price as published by the LME as at the date when the gold forward purchase contracts mentioned above are entered into.

The acquisition-related costs comprised U.S. Dollar 1,496 and have been included in the "other operating expenses" in the consolidated statement of operations.

Prior to the acquisition Three K and Varvarinskoye held certain debt and hedging obligations with a syndicate of banks including Investec Bank Ltd, Investec Bank Plc, Nedbank Limited and Natixis Bank (collectively, the "Syndicate of Banks"). Specifically:

(a) Debt obligations in the amount of U.S. Dollar 85,660 (see Note 16); and

(In thousands of U.S. Dollars, except share data)

(b) A flat forward gold sales contract (see Note 28) based on the expected production of gold at the Varvarinskoye deposit. The flat forward sales contract has a total notional amount of 320,160 ounces of gold at the fixed forward price of U.S. Dollar 574.25 per ounce and has monthly settlement dates between November 2009 and April 2014.

In October 2009, the Group entered into a flat forward gold purchase contract at the fixed forward price of U.S. Dollar 1,129.65 per ounce, with the same notional amount and monthly settlement dates as the aforementioned flat forward gold sales contract (see Note 28). The gold forward purchase contract economically locks in the losses on the existing flat forward gold sales contract.

As a result of the execution of the offsetting transaction, the Group is liable to pay a net settlement amount on each delivery date (at the end of each month for the period starting from September 30, 2009 to April 30, 2014). If any settlement is not paid on its applicable delivery date, such settlement amount will accrue interest at 3 months LIBOR plus 3% and shall be payable on December 31, 2013 (35% of the total and all interest accrued thereon to date) and on December 31, 2014 (the full balance of the settlement amount and all interest accrued thereon to date). In addition, a cash sweep mechanism applies to all free cash flows generated by Varvarinskoye until all the obligations are fully repaid.

The Group has provided the Syndicate of Banks with a corporate guarantee of U.S. Dollar 90,000, which may be called upon in certain limited circumstances.

The acquisition was accounted for using the purchase price method.

Assets acquired and liabilities assumed at the acquisition date	
Property, plant and equipment	137,213
Mineral rights	8,990
Inventories and spare parts	2,993
Current deferred tax asset	27,833
VAT receivable	8,236
Cash and cash equivalents	5,149
Other assets, net	4,339
Derivatives, net	882
Long-term debt	(157,199)
Non-current deferred tax liability	(76,314)
Reclamation and mine closure obligation (Note 17)	(10,342)
Accounts payable and accrued liabilities	(9,197)
Net liabilities acquired	**(57,417)**
Cash consideration paid	8,000
Contingent consideration payable	3,419
Goodwill	**68,836**

Preliminarily, goodwill was estimated at U.S. Dollar 65,423. In the second half of 2010, the Group finalized the purchase price allocation resulting in the recognition of additional contingent consideration of U.S. Dollar 3,413, (initially estimated at U.S. Dollar 6) resulting in an offsetting adjustment to goodwill.

(In thousands of U.S. Dollars, except share data)

Goodwill related to the acquisition is mainly attributable to the benefits of expected revenue and business growth related to positioning the Group in a more competitive position for the acquisition of new licenses in the region. Goodwill related to the acquisition was assigned to the Kazakhstan segment. It is not deductible for tax purposes.

Since its acquisition date and through December 31, 2009, Varvarinskoye contributed revenue of U.S. Dollar 21,981 and a net loss of U.S. Dollar 94 to the Group. The acquisition of Varvarinskoye would have contributed revenue of U.S. Dollar 98,512 (unaudited) and net loss of approximately U.S. Dollar 37,478 (unaudited) during the period from January 1, 2009 through December 31, 2009, if the acquisition had occurred in the beginning of 2009. These amounts have been calculated after applying the Group's accounting policies and adjusting the results of Varvarinskoye to reflect the additional depreciation and amortization arising from the purchase price allocation.

Rudnik Kvartseviy LLC

In April 2009, the Company signed a non-binding memorandum of understanding with four Russian private companies, unrelated parties, under which the Company could acquire 100% of Rudnik Kvartseviy LLC ("RK") in exchange for 10,000,000 of its shares. RK owns the mining license for the Sopka Kvartsevaya gold and silver deposit and a 100% stake in Vneshstroygroup LLC, owning the mining license for the Dalniy gold and silver deposit, which are located in the Severo-Evensky district of the Magadan region of Russia. In addition to the license areas, RK owns mining fleet and infrastructure at the Sopka mine site. The Group expects to supply ore mined at RK to one of its processing facilities in the Magadan region.

In October 2009, the Group acquired 100% of RK for cash consideration of U.S. Dollar 3,391 and 10,000,000 of Polymetal's common shares (see Note 18) valued at the transaction date at U.S. Dollar 90,600.

The acquisition was accounted for using the purchase price method

Assets acquired and liabilities assumed at the acquisition date	
Mineral rights	110,000
Property, plant and equipment	34,675
Inventories and spare parts	10,425
Investments	7,429
Other assets, net	5,566
Long-term debt	(19,651)
Non-current deferred tax liabilities	(17,059)
Reclamation and mine closure obligation (Note 17)	(1,363)
Net assets acquired	**130,022**
Cash consideration paid	3,391
Shares consideration paid	90,600
Gain	**36,031**

The excess of the fair value of acquired net assets over cost of U.S. Dollar 36,031 arose primarily as a result of the Group's competitive advantage during negotiations given that the Group is the only owner of processing facilities in that region.

From the date of acquisition to December 31, 2009, RK contributed a net loss of U.S. Dollar 4,117.The acquisition of RK would have contributed a net loss of approximately U.S. Dollar 4,280 (unaudited) during the period January 1, 2009 through December 31, 2009, had the acquisition occurred in the beginning of 2009. This amount has been calculated after applying the Group's accounting policies. At the acquisition date, RK had started the ore extraction process but was yet to generate any revenue during 2009.

(In thousands of U.S. Dollars, except share data)

CJSC Artel of prospectors Ayax

In January 2009, the Group purchased 4,166 shares (10.39%) in CJSC Artel of prospectors Ayax ("Ayax") from Silver Ster Ltd., a subsidiary of an unrelated party, Ovoca Gold Plc., for U.S. Dollar 3,926 in cash. Ayax owns the mining license for the Goltsovoye silver deposit, which is located in the Magadan region of Russia. In addition to the license Ayax owns a mining fleet and infrastructure at the Goltsovoye mine site. Verda Financial Ltd. ("Verda"), an unrelated party, acquired the remaining 89.61% of Ayax.

Simultaneously with these transactions, the Company signed a non-binding letter of intent with Verda, which granted the Company the right to purchase the remaining 89.61% interest in Ayax in exchange for 7,500,000 of the Company's common shares. As part of this agreement, the Company provided a loan of U.S. Dollar 10,000 to Verda, which it used to finance the acquisition of the 89.61% interest in Ayax. This loan was repayable to the Company upon the completion of the acquisition of the shares from Verda or upon the decision by the Company to cancel the letter of intent.

In October 2009, the Group acquired the remaining 35,934 shares (89.61%) in Ayax from Verda, for 7,500,000 of the Company's common shares (see Note 18). The loan of U.S. Dollar 10,000 was repaid by Verda upon the purchase of these shares.

Ayax does not meet the definition of the business pursuant to ASC 805 thus it was accounted for as acquisition of a group of assets. The allocation of the cost of acquisition to the group of assets acquired was as follows:

Assets acquired and liabilities assumed at the acquisition date	
Mineral rights	97,019
Property, plant and equipment	5,569
Other assets	1,450
Non-current deferred tax liability	(17,276)
Long-term debt	(14,848)
Accounts payable	(2,588)
Net assets acquired	**69,326**
Cash consideration paid	3,926
Shares consideration paid	65,400

Rudnik Avlayakan LLC and Kirankan LLC

On October 8, 2010, the Group acquired a 100% interest in Rudnik Avlayakan LLC ("Avlayakan") and Kirankan LLC ("Kirankan") from Doland Business Limited, an unrelated party, in exchange of 3,500,000 of its treasury shares. Avlayakan and Kirankan hold the mining licenses for Avlayakan and Kirankan gold and silver deposits located in the Khabarovsk region.

Avlayakan and Kirankan do not meet the definition of a business pursuant to ASC 805 thus these acquisitions were accounted for as an acquisition of a group of assets. The allocation of the cost of acquisition to the group of assets acquired was as follows:

(In thousands of U.S. Dollars, except share data)

Assets acquired and liabilities assumed at the acquisition date	
Mineral rights	78,963
Other assets, net	1,102
Non-current deferred tax liability	(14,800)
Long-term debt	(5,065)
Net assets acquired	**60,200**
Shares consideration paid	60,200

PD RUS LLC

On December 9, 2010, the Group acquired a 100% interest in PD RUS LLC ("PD RUS") from Castalian Trading Limited, an unrelated party. PD RUS holds the mining and exploration license for Svetloye gold deposit located in the Khabarovsk region. The Group paid cash consideration of U.S. Dollar 9,250 which was used to settle PD RUS's liabilities.

PD RUS does not meet the definition of a business pursuant to ASC 805 thus it was accounted for as an acquisition of a group of assets. The allocation of the cost of acquisition to the group of assets acquired was as follows:

Assets acquired and liabilities assumed at the acquisition date	
Mineral rights	8,651
Other assets, net	599
Long-term debt	(9,250)
Net assets acquired	**-**
Cash consideration paid	9,250
Intercompany debt	(9,250)

Disposal of subsidiaries

A Group subsidiary signed an agreement to establish JSC Ural-Polymetal ("Ural-Polymetal"), with Valentorskiy Rudnik LLC and Kuzmichev V.V. The Group contributed 100% of its interest in Polymetals of North Ural LLC, a subsidiary of the Group, holding the Galka gold, zinc and silver mining licence to Ural-Polymetal (see Note 11).

The book value of the net assets transferred to the equity investment on the date of disposal was as follows:

Assets disposed of as at the date of disposal	
Mineral rights	3,936
Other assets, net	2,641
Net assets disposed of	**6,577**

(In thousands of U.S. Dollars, except share data)

ACCOUNTS RECEIVABLE

	December 31, 2010	December 31, 2009
Trafigura	11,096	-
Kazzink	4,901	-
Metalor S. A.	3,014	1,601
VTB	754	-
Total	**19,765**	**1,601**

Accounts receivable are due to JSC Varvarinskoye and CJSC Serebro Magadana for their sales of provisional copper, gold and silver concentrate, which began in 2009. Before the end of 2009, all Group sales were to the Group's lenders and were settled with the banks as an offset against borrowings received.

INVENTORIES AND SPARE PARTS

	December 31, 2010	December 31, 2009
Consumables and spare parts	172,370	137,061
Ore stock piles	103,754	51,113
Work in-process	67,502	72,829
Dore	16,629	15,891
Gold/copper concentrate	2,401	502
Refined metals	218	7,090
Total	**362,874**	**284,486**

During the year ended December 31, 2010, the Group recognized a U.S. Dollar 13,401 write down of its ore stock piles due to poor gold and copper recovery on ore with lower content of precious metals (see Note 21). This write-down relates to inventory in the Kazakhstan segment.

Additionally the Group wrote-down consumables and spare parts obsolete inventory during the year ended December 31, 2010 at the amount of U.S. Dollar 1,918 (2009: U.S. Dollar 2,622).

INCOME TAXES

The income tax expense for the years ended December 31, 2010 and 2009 is as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Current income taxes	84,134	38,635
Income tax benefit of operating loss carryforward	(10,220)	(1,121)
Deferred income taxes	(3,529)	872
Total income tax expense	**70,385**	**38,386**

(In thousands of U.S. Dollars, except share data)

A reconciliation between the reported amount of income tax expense attributable to income before income tax that would result from applying the statutory income tax rate for the years ended December 31, 2010 and 2009 is as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Income before income tax	**320,192**	**132,401**
Statutory income tax expense at the tax rate of 20%	64,038	26,480
Excess of fair value of acquired net assets over cost	-	(7,205)
Loss incurred in tax-free jurisdictions	234	8,385
Share based compensation	1,579	-
Permanent tax differences (non-deductible expenses)	4,534	10,726
Total income tax expense	**70,385**	**38,386**

The actual tax expense differs from the amount which would have been determined by applying the statutory rate of 20% for the Russian Federation and Kazakhstan to income before income tax as a result of the application of relevant jurisdictional tax regulations, which disallow certain deductions which are included in the determination of accounting profit. These deductions include share-based compensation, social related expenditures and other non-production costs, certain general and administrative expenses, financing expenses, foreign exchange related and other costs.

As at December 31, 2010, the Group has a liability associated with unrecognized income tax benefits of U.S. Dollar 2,265 (2009: U.S. Dollar 3,916). The reconciliation of the beginning and ending amount of this liability is as follows:

	December 31, 2010	December 31, 2009
Beginning balance	**3,916**	**2,301**
Additions based on tax position related to the current year	179	2,092
Expiring statute of limitations	(1,728)	(411)
Translation gain	(102)	(66)
Total	**2,265**	**3,916**

As at December 31, 2010 and 2009, U.S. Dollar 85 and 276, respectively, were included in the liability for uncertain tax positions for the probable payment of interest and penalties.

The items that are affected by expiring statute of limitations within the next 12 months amount to U.S. Dollar 481 (2009: U.S. Dollar 1,728).

In the normal course of business, the Group is subject to examination by taxing authorities throughout the Russian Federation and Kazakhstan. Out of the large operating companies of the Group, tax authorities audited JSC Okhotskaya GGC, CJSC Serebro Magadana and JSC Varvarinskoye for the period up to 2007, CJSC Zoloto Severnogo Urala for the period up to 2006. According to the Russian and Kazakhstan tax legislation, previously conducted audits do not fully exclude subsequent claims relating to the audited period. No significant adjustments have been proposed by the Federal Tax Service of the Russian

(In thousands of U.S. Dollars, except share data)

Federation and Tax Service of the Republic of Kazakhstan as at December 31, 2010.

The components of deferred tax assets and liabilities were as follows:

	December 31, 2010	December 31, 2009
Deferred tax assets:		
Accounts payable and accrued liabilities	4,377	6,769
Inventories and spare parts	5,167	2,713
Other current assets	5,199	6,152
Tax losses carried forward	36,216	39,835
Reclamation and mine closure obligation	10,295	8,607
Property, plant and equipment	7,768	6,004
Other non-current assets	759	781
Intercompany loan	5,288	-
Total deferred tax assets	**75,069**	**70,861**
Deferred tax liabilities:		
Inventories and spare parts	6,965	4,465
Property, plant and equipment	92,953	86,025
Accounts payable and accrued liabilities	6,385	381
Other current assets	1,265	224
Total deferred tax liabilities	**107,568**	**91,095**
Net deferred tax liabilities	**32,499**	**20,234**

Net deferred income tax liabilities are classified as follows:

	December 31, 2010	December 31, 2009
Net deferred income tax liabilities consist of:		
Non-current deferred tax assets	42,189	30,118
Current deferred tax assets	17,062	12,833
Non-current deferred tax liabilities	(83,735)	(60,519)
Current deferred tax liabilities	(8,015)	(2,666)
Net deferred tax liabilities	**(32,499)**	**(20,234)**

Tax losses carried forward represent amounts available for offset against future taxable income generated by CJSC Serebro Magadana, JSC Okhotskaya GGC, JSC Varvarinskoye and the Company during the period up to 2020. Each legal entity within the Group represents a separate tax-paying component for income tax purposes. The tax losses of one entity cannot be used to reduce taxable income of other entities of the Group.

As at December 31, 2010 and 2009 the aggregate tax losses carried forward were U.S. Dollar 181,080 (Russian Ruble 5,518,757 thousand) and U.S. Dollar 199,175 (Russian Ruble 6,023,052 thousand), respectively.

The Group’s tax losses carried forward expire as follows:

(In thousands of U.S. Dollars, except share data)

		December 31, 2010
Year ended	December 31, 2011	-
	December 31, 2012	-
	December 31, 2013	13
	December 31, 2014	2,462
	December 31, 2015	7,990
	December 31, 2016	12,947
	December 31, 2017	22,778
	December 31, 2018	61,055
	December 31, 2019	54,995
	December 31, 2020	18,840
Total loss carryforwards for tax purposes		**181,080**

The deferred tax assets for the respective periods were assessed for recoverability. No valuation allowance has been recorded as at December 31, 2010 and 2009 and all tax losses carried forward have been fully recognized as at those dates. Although realization is not assured, management concluded that it is more-likely-than-not that the deferred tax assets will be realized based on the available evidence, including the timing of projected income from operating activities. The amount of the net deferred tax assets considered realizable, however, could change in the near term if actual future income or income tax rates differ from that estimated, or if there are differences in the timing or amount of future reversals of existing taxable or deductible temporary differences.

The Group does not recognize a deferred tax liability on undistributed earnings of its subsidiaries as according to the tax legislation distribution of the subsidiary’s earnings is tax free.

(In thousands of U.S. Dollars, except share data)

OTHER CURRENT ASSETS

	December 31, 2010	December 31, 2009
Non-trade receivables	14,843	6,734
Taxes receivable	12,475	7,100
Other current assets	8,802	6,616
Total	**36,120**	**20,450**

PROPERTY, PLANT AND EQUIPMENT

	December 31, 2010	December 31, 2009
Mineral rights	438,900	355,486
Buildings and underground workings	382,931	324,306
Machinery and equipment	287,858	262,976
Transport and other	111,118	71,568
Total cost	**1,220,807**	**1,014,336**
Less: Accumulated depreciation and depletion	(299,764)	(224,625)
Net book value	**921,043**	**789,711**
Construction in-progress	598,200	297,792
Total	**1,519,243**	**1,087,503**

Mineral rights of the Group comprise assets acquired upon purchase of subsidiaries. Accumulated depletion of mineral rights was U.S. Dollar 57,555 and U.S. Dollar 40,579 at December 31, 2010 and 2009, respectively.

At December 31, 2010 and 2009, property, plant and equipment included leased assets with net book value of U.S. Dollar 10,552 and U.S. Dollar 10,633 (all of which was machinery), respectively.

Interest capitalized during the years ended December 31, 2010 and 2009, included in property, plant and equipment amounted to U.S. Dollar 15,795 and 17,086, respectively.

Construction in-progress as at December 31, 2010 and 2009 consisted of the following:

	December 31, 2010	December 31, 2009
Construction of production facilities	292,986	144,791
Long-term deferred exploration costs	129,850	74,413
Advance payments for property, plant and equipment	102,213	44,391
Other construction in-progress	73,151	34,197
Total	**598,200**	**297,792**

(In thousands of U.S. Dollars, except share data)

Construction in-progress is not depreciated as it was not yet put into use as at December 31, 2010 and 2009, respectively.

Property, plant and equipment with a total net book value of U.S. Dollar 137,795 and U.S. Dollar 144,884, respectively (including mineral rights with net book value of U.S. Dollar 9,196 and U.S. Dollar 8,990, respectively) were pledged as collateral to secure the Group's borrowings at December 31, 2010 and 2009 (see Note 16).

GOODWILL

	December 31, 2010	December 31, 2009
Beginning balance	**115,729**	**23,741**
Additions (Note 4)	-	90,413
Translation effect	(1,017)	1,575
Total	**114,712**	**115,729**

EQUITY METHOD INVESTMENTS

The Group's investments in joint ventures and equity method investees as at December 31, 2010 and 2009 consisted of the following:

	December 31, 2010		December 31, 2009	
	Voting power, %	Carrying value	Voting power, %	Carrying value
Joint venture with AngloGold Ashanti Limited	50	15,920	50	17,047
JSC Ural-Polymetal	33.3	6,382	-	-
Total		**22,302**		**17,047**

Joint venture with AngloGold Ashanti Limited

In February 2008, the Company signed an agreement to set up a strategic alliance and a joint venture (the "Joint Venture") with AngloGold Ashanti Limited. Within the framework of this agreement each party owns 50% in the Joint Venture. The Joint Venture was created in order to execute development projects in several territories of the Russian Federation.

Equity investment in JSC Ural-Polymetal

In November 2010, a Group's subsidiary signed an agreement to establish JSC Ural-Polymetal ("Ural-Polymetal"), with Valentorskiy Rudnik LLC and Kuzmichev V.V. The Group contributed 100% of its interest in Polymetals of North Ural LLC, a subsidiary of the Group, holding Galka gold, zinc and silver mining licence (see Note 4) to Ural-Polymetal. In addition to Galka, assets contributed to Ural-Polymetal by other investors consist of an operating copper and zinc open-pit mine, an operating copper and iron ore underground mine and a processing plant. Within the framework of this agreement the Group, Valentorskiy Rudnik LLC and Kuzmichev V.V. own 33.3%, 55.7% and 11% of Ural-Polymetal, respectively. Ural-Polymetal was established in order to execute development projects in North Ural region of the Russian Federation concerned with silver, zinc, copper and iron ore extraction and processing.

(In thousands of U.S. Dollars, except share data)

The Group’s ownership interests in the subsidiaries of the Joint Venture and Ural-Polymetal as at December 31, 2010 and 2009 are as follows:

	Ownership interest, %	
Joint venture with AngloGold Ashanti Limited	**December 31, 2010**	**December 31, 2009**
CJSC Enisey Mining and Geological Company	50	50
Imitzoloto LLC	50	50
Amikan LLC	50	50
Zoloto Taigi LLC	50	50
JSC Ural-Polymetal		
Polymetals of North Ural LLC	33.3	-
Valentorskiy Medniy Karier LLC	33.3	-
Uraldragmet LLC	33.3	-

The following tables summarize the aggregate financial position and the Group’s share in net loss of the Joint Venture and Ural-Polymetal:

Joint venture with AngloGold Ashanti Limited	December 31, 2010	December 31, 2009
Non-current assets	89,159	85,496
Current assets	477	53
Non-current liabilities	(25,013)	(28,598)
Current liabilities	(2,592)	(1,618)
Equity	(62,031)	(55,333)

	Year ended December 31, 2010	**Year ended December 31, 2009**
Net loss	1,820	684
Group’s share in joint venture’s net loss	910	342

JSC Ural-Polymetal	December 31, 2010
Non-current assets	18,028
Current assets	14,598
Non-current liabilities	(7,236)
Current liabilities	(12,636)
Equity	(12,754)

	Year ended December 31, 2010
Net loss	780
Group’s share in equity investment's net loss	260

(In thousands of U.S. Dollars, except share data)

LONG-TERM LOANS TO RELATED PARTIES

	Interest rate	December 31, 2010	December 31, 2009
AngloGold Ashanti Limited	8.5% – 13%	3,455	3,269
Employees	6%	1,732	1,855
Prime LLC note	nil	-	4,591
Total (Note 30)		**5,187**	**9,715**

As at December 31, 2009 the fair value of the note issued by Prime LLC was estimated as U.S. Dollar 4,591; the carrying value of the note was U.S. Dollar 5,564. The note was fully repaid in 2010.

Carrying values of the other long-term loans provided to related parties as at December 31, 2010 and 2009 approximate their fair values.

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2010	December 31, 2009
Trade payables	54,217	45,048
Labor liabilities	30,788	19,333
Other	5,463	3,549
Total	**90,468**	**67,930**

The increase in trade payables and labor liabilities relates to the start of commercial production at Albazino Resources LLC and Rudnik Kvartseviy LLC, as well as to the expansion of the production at CJSC Serebro Magadana.

(In thousands of U.S. Dollars, except share data)

SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

	Interest rate (actual rate as at December 31, 2010)	December 31, 2010	December 31, 2009
Debt from third parties			
U.S. Dollar denominated			
Raiffeisenbank	1m LIBOR + 3.75% (4.06%)	3,000	23,235
Current portion of long-term debt (Note 16)		62,403	81,667
Total U.S. Dollar denominated		**65,403**	**104,902**
Russian Ruble denominated			
Other		-	604
Current portion of long-term debt (Note 16)		10,828	-
Total Russian Ruble denominated		**10,828**	**604**
Total debt from third parties		**76,231**	**105,506**
Debt from related parties U.S. Dollar denominated			
Nomos-Bank	13% - 18%	-	3,367
Total U.S. Dollar denominated		**-**	**3,367**
Current portion of long-term debt (Note 16)		14,379	-
Total debt from related parties (Note 30)		**14,379**	**3,367**
Total		**90,610**	**108,873**

CAPITAL LEASE LIABILITIES

The Group entered into certain Russian Ruble denominated financial leases for machinery, equipment and transport vehicles.

Future minimum lease payments for the assets under capital leases as at December 31, 2010 are as follows:

	December 31, 2010	December 31, 2009
Current portion	4,819	2,928
Long-term portion	-	4,857
Present value of minimum payments	**4,819**	**7,785**
Interest payable over the term of lease	81	2,272
Total future minimum lease payments	**4,900**	**10,057**

The Group proposed to the lessor to purchase the leased property and settle its leasing liabilities prior to the maturity dates. Accordingly, the total amount of leasing obligations is classified as current as of December 31, 2010. The purchase was completed in January 2011 for the amount of U.S. Dollar 4,900 (including leasing liability of U.S. Dollar 4,819 and interest of U.S. Dollar 81).

(In thousands of U.S. Dollars, except share data)

LONG-TERM DEBT

	Interest rate (actual rate as at December 31, 2010)	December 31, 2010	December 31, 2009
Debt from third parties			
U.S. Dollar denominated			
Raiffeisenbank	3m LIBOR + 3.5% (3.79%)	150,000	100,000
Syndicate of Banks (Note 4)	3m LIBOR + 3% (3.29%)	127,133	85,572
UniCredit bank AG	3m LIBOR + 3.35% (3.64%)	100,000	-
UniCredit bank	3m LIBOR + 3.35% (3.64%)	100,000	70,000
ING bank (Eurasia)	1m LIBOR + 2.5% (2.76%)	75,000	-
Sberbank	3m LIBOR + 6.5% (6.81%)	50,000	-
Gazprombank	3.5% - 4.5%	21,000	-
HSBC	1m LIBOR + 3.5% (3.85%)	8,070	-
VTB	3m LIBOR + 6.3% (6.55%)	-	150,000
Less current portion of long-term debt (Note 14)		(62,403)	(81,667)
Total U.S. Dollar denominated		**568,800**	**323,905**
Russian Ruble denominated			
HSBC	MOSPRIME + 3% (6.42%)	10,828	-
Less current portion of long-term debt (Note 14)		(10,828)	-
Total Russian Ruble denominated		**-**	**-**
Total debt from third parties		**568,800**	**323,905**
Debt from related parties			
Euro denominated			
Nomos-Bank	EURIBOR + 4.15%- EURIBOR + 5.4% (5.25% - 6.48%)	30,291	7,388
Less current portion of long-term debt (Note 14)		(6,446)	-
Total Euro denominated		**23,845**	**7,388**
U.S. Dollar denominated			
Nomos-Bank	4.5 - 6%	7,700	-
Less current portion of long-term debt (Note 14)		(7,700)	-
Total U.S. Dollar denominated		**-**	**-**
Russian Ruble denominated			
Polymetals of North Ural LLC	8%	1,739	-
Total Russian Ruble denominated		**1,739**	**-**
Canadian Dollar denominated			
Nomos-Bank	CAD-BA-CDOR + 4.3% (5.41%)	1,208	-
Less current portion of long-term debt (Note 14)		(233)	-
Total Canadian Dollar denominated		**975**	**-**
Total debt from related parties (Note 30)		**26,559**	**7,388**
Total		**595,359**	**331,293**

(In thousands of U.S. Dollars, except share data)

The table below summarizes maturities of the long-term debt:

Year ended,	December 31, 2011	87,610
	December 31, 2012	150,000
	December 31, 2013	136,163
	December 31, 2014	84,375
	December 31, 2015	216,334
	December 31, 2016	8,487
Total		**682,969**

Raiffeisenbank

In October 2010, the Group received a long-term facility from Raiffeisenbank which allows the Group to borrow funds, denominated in U.S. Dollar, up to U.S. Dollar 150,000. The Group used the funds in part, to refinance long-term credit obtained from Raiffeisenbank in December 2009. The remainder is being used to finance its current operations. The loan facility is available through September 2015. Interest is payable monthly.

Covenants to this long-term credit facility require the Group to maintain certain financial ratios and prohibit any change to the general nature of the business. At December 31, 2010, under the most restrictive financial covenant, the Group is not allowed to pledge or dispose certain of its property, plant and equipment without the prior written consent of Raiffeisenbank.

Syndicate of Banks

Upon the acquisition of JSC Varvarinskoye (see Note 4), the Group assumed a long-term loan of U.S. Dollar 85,660, payable to a Syndicate of Banks including Investec Bank Ltd, Investec Bank Plc, Nedbank Limited and Natixis Bank (“Syndicate of Banks”). The nominal interest rate is three months LIBOR plus 3% per annum during the term. The fair value of the obligation at the date of acquisition was estimated as U.S. Dollar 74,735. The amortized cost as at December 31, 2010 is U.S. Dollar 76,156, and the effective interest rate is 6.39% (including amortization of premium).

In addition to the loan described above, the Group assumed obligations under flat forward gold sales and purchase contracts (see Note 4 and 28). As at December 31, 2010, the Group has not settled its liability under these contracts.

For repayment of these two liabilities a cash sweep arrangement applies to all free cash flows generated from JSC Varvarinskoye. In accordance with the cash sweep agreement, on each day following the quarter-end, JSC Varvarinskoye shall pay 100% of the amount by which the cash inflow for the quarter exceeds U.S. Dollar 5,000. In 2013 and 2014, 35% and 65%, respectively, of the obligation becomes due if not previously repaid through the cash sweep arrangement.

As at December 31, 2010, property, plant and equipment with a total net book value of U.S. Dollar 137,795 were pledged as collateral for the loan from the Syndicate of Banks (see Note 9).

UniCredit bank AG (incorporated in the Great Britain)

In November 2010, the Group received a long-term loan from UniCredit bank of U.S. Dollar 100,000 to finance its current operations and to refinance other credit facilities. The loan is repayable in equal installments on a quarterly basis through November 2015. Interest is payable quarterly.

The repayment of this long-term loan is partially guaranteed by the pledge of revenue under a sale agreement concluded with HSBC Bank and The Bank of Nova Scotia (see Note 31). Covenants to this long-term loan require the Group to maintain certain financial ratios. At December 31, 2010, under the most restrictive covenant, the Group is not allowed to dispose certain of its property, plant and equipment.

UniCredit bank (incorporated in the Russian Federation)

In November 2010, the Group received a long-term loan from UniCredit bank of U.S. Dollar 100,000 to finance its current operations and to refinance long-term facilities obtained from UniCredit bank in August and September 2009. The loan is repayable in equal installments on a quarterly basis through November 2015. Interest is payable quarterly.

The repayment of this long-term loan is guaranteed by the pledge of revenue under a sale agreement concluded with HSBC Bank and The Bank of Nova Scotia (see Note 31). Covenants to this long-term loan require the Group to maintain certain financial ratios. At December 31, 2010, under the most restrictive covenant, the Group is not allowed to dispose certain of its property, plant and equipment.

ING bank (Eurasia)

In December 2010, the Group received a long-term loan from ING Bank (Eurasia) of U.S. Dollar 75,000 to finance its current operations. The loan is repayable in nine equal installments on a quarterly basis through December 2013. Interest is payable quarterly.

Covenants to this long-term loan require the Group to maintain certain financial ratios and prohibit any change to the general nature of the business. At December 31, 2010, under the most restrictive covenant, the Group is not allowed to pledge or dispose certain of its property, plant and equipment. Assets that have been pledged under the loan agreement with the Syndicate of Banks are excluded from the calculation of pledged property of the Group per the terms of the agreement.

Sberbank

In February 2010, the Group received a long-term loan from Sberbank for U.S. Dollar 50,000 to finance its current operations and to refinance other long-term facilities. The loan is repayable in equal installments on a quarterly basis through February 2013. Interest is payable quarterly.

Sberbank has the power to change the interest rate unilaterally.

Covenants to this long-term loan prohibit any change to the general nature of the business.

Nomos-Bank

In January 2010, the Group received two long-term credit facilities from Nomos-Bank, a related party, which allows the Group to borrow funds, denominated in Euros, up to U.S. Dollar 8,651 (Euro 6,537 thousand as at December 31, 2010) to finance the purchase of equipment for Amursky Hydrometallurgy Plant LLC. The credit facilities are repayable in ten equal semi-annual installments over five years starting from April 2011. Interest is payable quarterly.

In July 2010, the Group received two long-term credit facilities from Nomos-Bank, a related party which allow the Group to borrow funds, denominated in Euro, up to U.S. Dollar 2,329 and 1,775 (Euro 1,760 thousand and 1,341 thousand as at December 31, 2010, respectively) to finance the purchase of equipment for Amursky Hydrometallurgy Plant LLC. Borrowings under these credit facilities are available through October and November 2016. The credit facilities are repayable in ten equal semi-annual installments over five years starting from October and November 2010, respectively. Interest is payable quarterly. As at December 31, 2010, the available undrawn balance under these credit facilities was U.S. Dollar 2,624.

In September 2010, the Group received an additional long-term credit facility from Nomos-Bank, a related party which allows the Group to borrow funds, denominated in Canadian Dollars, up to U.S. Dollar 1,513 (Canadian Dollar 1,512 thousand as at December 31, 2010) to finance the purchase of equipment for Amursky Hydrometallurgy Plant LLC. Borrowings under this credit facility are available through December 2015. The credit facility is repayable in ten equal semi-annual installments over five years starting from December 2010. Interest is payable quarterly.

As at December 31, 2010, the available undrawn balance under this credit facility was U.S. Dollar 305.

In August 2010, the Group received a long-term credit facility from Nomos-Bank, a related party which allows the Group to borrow funds, denominated in U.S. Dollars, Russian Rubles or Euros, up to U.S. Dollar 100,000 to finance its current operations. Borrowings under this credit facility are available through November 2012. The repayment term and interest rate are established separately for each tranche received from the credit facility at the moment of draw down. As at December 31, 2010, the available undrawn balance under this credit facility was U.S. Dollar 92,300. The borrowings under the credit facility will be repaid in January and February 2011.

The associated covenants require the Group to maintain certain financial ratios, prohibit any change to the general nature of the business and limit the disposal of assets. At December 31, 2010, under the most restrictive financial covenant, the Group is not allowed to pledge or dispose certain of its property, plant and equipment without the prior written consent of Nomos-Bank.

Gazprombank

In February 2010, the Group entered into a long-term credit facility with Gazprombank which allows the Group to borrow funds, denominated in Russian Rubles or U.S. Dollars, up to U.S. Dollar 68,905 (Russian Ruble 2,100,000 thousand as at December 31, 2010) to finance its current operations. Borrowings under this credit facility are available through December 2011. The repayment term is established separately for each loan received from the credit facility at the moment of draw down. Each loan received from the credit facility must be repaid within twelve months of the draw down. Interest is payable monthly, based on a fixed rate determined by Gazprombank for each tranche but not to exceed 14% annually for funds borrowed in Russian Rubles and 9% for funds borrowed in U.S. Dollars. As at December 31, 2010, the available undrawn balance under this credit facility was U.S. Dollar 47,905.

Covenants to this long-term facility require the Group to maintain certain financial ratios and prohibit any change to the general nature of the business. At December 31, 2010, under the most restrictive financial covenant, the Group is not allowed to pledge or dispose certain of its property, plant and equipment.

HSBC

In June 2010, the Group entered into a long-term credit facility with HSBC Bank which allows the Group to borrow funds, denominated in U.S. Dollars or Russian Rubles, up to U.S. Dollar 25,000 (Russian Ruble 716,922 thousand as at December 31, 2010) to finance its current operations. Borrowings under this credit facility are available through April 2012. The repayment term is established separately for each tranche. Each loan received from the credit facility must be repaid within twelve months of the draw down. As at December 31, 2010, the available undrawn balance under this credit facility was U.S. Dollar 6,102.

The repayment of this long-term facility is guaranteed by a pledge of revenue under a sales agreement with Nomos-Bank (see Note 31). Covenants to this long-term credit facility require the Group to maintain certain financial ratios and prohibit any change to the general nature of the business. At December 31, 2010, under the most restrictive financial covenant, the Group is not allowed to pledge or dispose certain of its property, plant and equipment.

As at December 31, 2010, total balances available for drawing down under existing short-term and long-term loan facilities are U.S. Dollar 86,412 and U.S. Dollar 150,882, respectively.

(In thousands of U.S. Dollars, except share data)

RECLAMATION AND MINE CLOSURE OBLIGATION

The reclamation and mine closure obligation includes decommissioning and land restoration costs and is recognized on the basis of existing project business plans as follows:

	December 31, 2010	December 31, 2009
Beginning balance	**43,004**	**26,128**
Additional obligations recognized from business combinations occurring during the year (Note 4)	-	10,560
Obligation arising in the year	-	7,160
Revision of estimated future cash flows	4,069	(3,230)
Accretion of reclamation and mine closure obligation	4,490	2,895
Settlement of obligation	(159)	-
Translation effect	(87)	(509)
Total	**51,317**	**43,004**

The Group does not have assets that are legally restricted for purposes of settling asset retirement obligations.

EQUITY AND EARNINGS PER SHARE

As at December 31, 2010 and 2009, the authorized share capital of the Company comprised of 2,275,625,000 ordinary shares with a par value of Ruble 0.2 per share.

As at December 31, 2010 and 2009, the issued share capital of the Company comprised 399,375,000 ordinary shares with a par value of Ruble 0.2 per share. As at December 31, 2010 and 2009, the outstanding share capital of the Company comprised 361,424,643 and 357,924,643 ordinary shares with a par value of Ruble 0.2 per share, respectively. The Group held 37,950,357 and 41,450,357 treasury shares as at December 31, 2010 and 2009, respectively.

In October 2009, the Company issued 84,375,000 ordinary shares with par value of Rubles 0.2 per share, as follows:

(a) 9,524,643 ordinary shares by way of a closed subscription. The proceeds from issuance comprised U.S. Dollar 87,864 in cash;

(b) 10,000,000 and 7,500,000 ordinary shares in exchange for 100% of RK and 89.61% of Ayax, respectively (see Note 4);

(c) 15,925,000 ordinary shares as execution of the call option written by the Company at acquisition of Zolotorudnaya Kompaniya Mayskoye LLC (see Note 4).

(d) 41,425,357 ordinary shares were transferred to JSC Polymetal Management, the Company’s 100% subsidiary. The transfer of these newly issued shares has been accounted for as an increase in share capital and an increase in treasury shares of U.S. Dollar 258.

(In thousands of U.S. Dollars, except share data)

In 2010, 3,500,000 treasury shares were issued in exchange for 100% of Avlayakan and Kirankan (see Note 4).

As at December 31, 2009, the Group pledged 512,033 of its treasury shares (2010: nil), with a carrying value of U.S. Dollar 3, as a collateral for a loan from Nomos-Bank.

Reserves available for distribution to shareholders are based on the statutory financial statements of the Company as a stand-alone entity, which are prepared in accordance with RAR, and which differ significantly from U.S. GAAP. Russian legislation identifies the basis of distribution as accumulated profit. However, current legislation and other statutory regulations dealing with distribution rights are open to legal interpretation; consequently, actual distributable reserves may differ from the amount of accumulated profit under Russian statutory accounting rules.

The Group had potentially dilutive securities, namely the Group's share appreciation plan, which was established during 2010 (see Note 19). During 2009, the Group had potentially dilutive securities, namely a call option issued by the Group in respect of business acquisitions (see Note 4); this was settled during 2009.

Basic/dilutive earnings per share were calculated by dividing net income by the weighted average number of outstanding common shares before/after dilution. The calculation of the weighted average number of outstanding common shares after dilution is as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Weighted average number of outstanding common shares	358,732,335	322,343,391
Add back treasury shares held in respect of share appreciation plan	3,197,495	-
Call option	-	8,682,398
Weighted average number of outstanding common shares after dilution	**361,929,830**	**331,025,789**

SHARE-BASED PAYMENTS

In 2010, the Group established an equity incentive plan (the "Plan") for executive directors and senior employees of the Group in which the grant of stock appreciation rights up to 30 million shares (the "Bonus Fund") was approved. The number of awards to which a qualifying participant is entitled to was determined by the Board of Directors on November 9, 2010. The management of the Group believes that such awards better align the interests of its employees with those of its shareholders.

The aggregate number of shares comprising the Bonus Fund will be determined on September 11, 2013 and will depend on the excess of the weighted average price of the Company's shares during the period between March 11, 2013 and September 11, 2013 over an established price of U.S. Dollar 16.74.

Stock appreciation rights granted have an exercise price of 1 ruble, vest at the end of a 2.6 year service period and are exercisable on the vesting day or for a period of up to one year from the vesting date. The awards provide for accelerated vesting if there is a change in control or change of the Company's domicile (as defined in the Plan).

(In thousands of U.S. Dollars, except share data)

The fair value of the awards granted during the year ended December 31, 2010, was estimated using a two – stage Monte-Carlo model. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Use of two – stage Monte-Carlo option pricing requires management to make certain assumptions with respect to selected model inputs. The following assumptions were used to determine the grant date fair value:

- *Expected forfeitures.* This assumption is estimated using historical trends of executive director and employee turnover. As the Group typically only grants awards to senior employees and the turnover rate for such employees is minimal, the Group has estimated expected forfeitures to be 5%.

- *Expected volatility.* Expected volatility has been estimated based on an analysis of the historical stock price volatility of the Company's global depositary receipts ("GDRs") from February 2007, when the Group's GDRs became publicly traded.

- *Expected life.* The average expected life was based on the contractual term of the option of 3.6 years. As the Plan has a 2.6 year vesting condition and the participant may exercise his right to redeem shares within one year after such right is obtained, the Group used the 2.6 years expected term for the first stage of the Monte-Carlo simulation (the "First date") and 3.6 – for the second stage (the "Second date").

- *Fair value of common stock* is equal to the market price of underlying GDR's at the grant date.

- *Risk-free interest rate.* The risk-free rate is based on US Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant.

The Group has not historically declared dividends and management does not believe the Company will declare a dividend in the foreseeable future. As such, the expected annual dividend per share is nil.

Stock-based compensation expense includes the estimated effects of forfeitures, which are adjusted over the requisite service period to the extent actual forfeitures differ or are expected to differ from such estimates. Changes in estimated forfeitures are recognized in the period of change and impact the amount of expense to be recognized in future periods.

Risk free rate	0.79% for the First date, 1.24% for the Second date
Expected dividend yield	nil
Expected volatility	40%
Expected life, years	2.6 for the First date, 3.6 for the Second date
Fair value per share, U.S. Dollars	16.97

A summary of option activity under the Plan for the year ended December 31, 2010, is presented below:

(In thousands of U.S. Dollars, except share data)

	Awards	Weighted average exercise price (per share), U.S. Dollar	Weighted average fair value of awards (per share), U.S. Dollar	Weighted average remaining contractual term
Awards at January 1, 2010	-	-	-	-
Granted	30,000,000	0.03	4.96	-
Forfeited	(82,540)	0.03	4.96	-
Non-vested awards at December 31, 2010	**29,917,460**	**0.03**	**4.96**	**3.45**

None of the share awards outstanding as at December 31, 2010 were fully vested. For the year ended December 31, 2010, share based compensation in the amount of U.S. Dollar 7,896 (2009 – nil) was recognized in general, administrative and selling expenses in the consolidated statement of operations (see Note 25). As at December 31, 2010, the Group had U.S. Dollar 162,414 of unrecognized share based compensation expense related to non-vested stock appreciated rights with a weighted average expected amortization period of 2.45 years.

(In thousands of U.S. Dollars, except share data)

REVENUE

	Year ended December 31, 2010	Year ended December 31, 2009
Sales to third parties		
VTB	301,015	151,825
Metalor S. A.	80,942	10,251
Sberbank	76,316	-
Gazprombank	54,148	56,422
Trafigura	44,515	11,730
Rosbank	24,269	-
HSBC	9,703	-
Russian Federation State Fund of precious metals (GOHRAN)	7,752	-
The Bank of Nova Scotia	5,031	-
Kazzink	4,901	-
Total sales to third parties	**608,592**	**230,228**
Sales to related parties		
Nomos-Bank	315,405	325,855
Total sales to related parties	**315,405**	**325,855**
Total metal sales	**923,997**	**556,083**
Other	1,379	4,654
Total	**925,376**	**560,737**

Revenue from transactions with individual customers which composed 10% (or more) of the Group's total revenue analyzed by reporting segments is presented below:

	Year ended December 31, 2010				
	Magadan	Khabarovsk	North Ural	Omolon	Total
Nomos-Bank	81,641	167,208	42,084	24,472	315,405
VTB	235,146	32,797	33,072	-	301,015
Total	**316,787**	**200,005**	**75,156**	**24,472**	**616,420**

	Year ended December 31, 2009			
	Magadan	Khabarovsk	North Ural	Total
Nomos-Bank	170,577	64,107	91,171	325,855
VTB	86,485	34,652	30,688	151,825
Gazprombank	-	23,897	32,525	56,422
Total	**257,062**	**122,656**	**154,384**	**534,102**

(In thousands of U.S. Dollars, except share data)

Revenue analyzed by geographical regions is presented below:

	Year ended December 31, 2010	Year ended December 31, 2009
Sales within the Russian Federation	780,284	538,756
Sales to China	44,515	11,730
Sales to Europe	95,676	10,251
Sales to Kazakhstan	4,901	-
Total	**925,376**	**560,737**

Presented below is an analysis of revenue from gold, silver and copper sales:

	Year ended December 31, 2010			Year ended December 31, 2009		
	Thousand ounces/ tons	Average price (U.S. Dollar per troy ounce/ton)	U.S. Dollars	Thousand ounces/ tons	Average price (U.S. Dollar per troy ounce/ton)	U.S. Dollars
Gold (thousand ounces)	440	1,232.09	542,118	312	982.62	306,576
Silver (thousand ounces)	17,961	19.64	352,721	16,491	14.67	241,915
Copper (tons)	3,991	7,305.94	29,158	1,053	7,209.88	7,592
Total			**923,997**			**556,083**

COST OF SALES

	Year ended December 31, 2010	Year ended December 31, 2009
Cash operating costs		
On-mine costs (Note 22)	173,922	103,382
Smelting costs (Note 23)	173,540	116,258
Purchase of ore from third parties	11,198	4,615
Mining tax	57,210	33,669
Total cash operating costs	**415,870**	**257,924**
Depreciation and depletion of operating assets (Note 24)	70,382	43,860
Accretion of reclamation and mine closure obligation (Note 17)	4,490	2,895
Total costs of production	**490,742**	**304,679**
Increase in metal inventory	(57,906)	(24,720)
Write-down of inventory to lower of cost or market (Note 6)	15,319	2,622
Total change in metal inventory	**(42,587)**	**(22,098)**
Cost of other sales	1,514	1,835
Total	**449,669**	**284,416**

(In thousands of U.S. Dollars, except share data)

ON-MINE COSTS

	Year ended December 31, 2010	Year ended December 31, 2009
Consumables and spare parts	66,810	41,392
Services	60,536	28,670
Labor	37,326	27,130
Taxes, other than income tax	6,659	4,630
Other expenses	2,591	1,560
Total (Note 21)	**173,922**	**103,382**

SMELTING COSTS

	Year ended December 31, 2010	Year ended December 31, 2009
Consumables and spare parts	80,339	51,110
Services	57,249	38,787
Labor	27,760	20,959
Taxes, other than income tax	6,274	3,996
Other expenses	1,918	1,406
Total (Note 21)	**173,540**	**116,258**

DEPRECIATION AND DEPLETION OF OPERATING ASSETS

	Year ended December 31, 2010	Year ended December 31, 2009
Mining	46,803	26,188
Smelting	23,579	17,672
Total (Note 21)	**70,382**	**43,860**

GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

	Year ended December 31, 2010	Year ended December 31, 2009
Labor	38,156	31,808
Services	20,748	9,354
Share based compensation (Note 19)	7,896	-
Taxes, other than income tax	4,615	3,189
Other expenses	9,345	7,691
Total	**80,760**	**52,042**

(In thousands of U.S. Dollars, except share data)

OTHER OPERATING EXPENSES

	Year ended December 31, 2010	Year ended December 31, 2009
Taxes, other than income tax	14,467	7,478
Exploration expenses	8,105	8,596
Omolon plant pre-commissioning expenses	7,156	-
Social payments	6,468	4,372
Housing and communal services	4,269	1,864
Loss on disposal of property, plant and equipment	3,449	3,401
Bad debt allowance	2,333	2,993
Acquisition related costs	-	2,440
Other expenses	6,271	10,562
Total	**52,518**	**41,706**

FAIR VALUE ACCOUNTING

The ASC 820 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

The valuation techniques required by ASC 820 are based upon observable and unobservable inputs. Observable or market inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's assumptions about market participant assumptions based on best information available. Observable inputs are the preferred source of values. In accordance with ASC 820, these two types of inputs create the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) for identical instruments in active markets;

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 – Prices or valuations that require management inputs that are both significant to the fair value measurement and unobservable.

The Group reviews its fair value hierarchy classification every six months. Changes in significant observable valuation inputs identified during these reviews may trigger reclassification of fair value hierarchy levels of financial assets and liabilities. During the years ended December 31, 2010 and 2009 no such reclassifications occurred.

The following fair value hierarchy table presents information regarding the Group’s assets and liabilities measured at fair value on a recurring basis as at December 31, 2010 and December 31, 2009:

(In thousands of U.S. Dollars, except share data)

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Receivables from provisional copper, gold and silver concentrate sales	-	19,011	-	**19,011**
Derivatives, net	-	105,437	-	**105,437**
Contingent consideration liability	-	-	23,754	**23,754**
	-	**124,448**	**23,754**	**148,202**

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
Derivatives, net	-	149,514	-	**149,514**
Contingent consideration liability	-	-	21,775	**21,775**
	-	**149,514**	**21,775**	**171,289**

Receivables from provisional copper, gold and silver concentrate sales

The fair value of receivables arising from copper, gold and silver concentrate sales contracts that contain provisional pricing mechanisms is determined using the appropriate quoted forward price from the exchange that is the principal active market for the particular metal. As such, these receivables are classified within Level 2 of the fair value hierarchy. The fair value of the embedded derivative as at December 31, 2009 was minimal.

Derivative financial instruments

The fair value of derivative financial instruments is determined using either present value techniques or option pricing models that utilize a variety of inputs that are a combination of quoted prices and market-corroborated inputs. The fair value of the Group's derivative contracts is adjusted for the Group's credit risk based upon the observed credit default swap spread as appropriate.

Commodity forward contracts

Except for the forward sales contracts entered by JSC Varvarinskoye (see Note 28), other Group's forward sales contracts qualify for the normal purchase/sales exception. The fair value of Varvarinskoye commodity forward contracts is determined by discounting contractual cash flows using a discount rate derived from observed U.S. Treasury yield curve rates. Contractual cash flows are calculated using a forward pricing curve derived from market forward prices for each commodity. The commodity forward contracts are classified within Level 2 of the fair value hierarchy.

Call option

In addition to the above financial instruments outstanding as at December 31, 2009, the Group had a call option for the Company's common shares (see Note 4), although which was settled during 2009 (see Note 19). The call option for the Company's common shares was valued using the Monte-Carlo model considering various assumptions, including quoted prices and volatility for the Company's common shares, time value, risk free rate, as well as other relevant non-market measures. This fair value measurement was based on significant inputs not observable in the market and thus represents Level 3 measurement as defined by ASC 820.

(In thousands of U.S. Dollars, except share data)

Contingent consideration liability

In 2008, the Group recorded a contingent consideration liability related to the acquisition of 98.1% of shares in OGMC. The fair value of the contingent consideration liability was determined using a valuation model which simulates expected production of gold and silver at the Kubaka mine and future gold and silver prices to estimate future revenues of OGMC.

In 2009, the Group recorded a contingent consideration liability related to the acquisition of 100% of shares in JSC Varvarinskoye (see Note 4). The fair value of the contingent consideration liability was determined using a valuation model which simulates expected future prices of gold, silver and copper, gold strike price applied pursuant to the terms of the gold forward purchase contracts entered into (see Note 28) and copper fixing price as published by the LME as at the date when the gold forward purchase contracts mentioned above is entered into.

The contingent consideration liability is classified within Level 3 of the fair value hierarchy.

The table below sets forth a summary of changes in the fair value of the Group's Level 3 financial liabilities for the year ended December 31, 2010:

	Contingent consideration liability
Beginning balance	21,775
Change in fair value, included in earnings	3,616
Translation effect	(137)
Settlement	(1,500)
Total	**23,754**
The amount of total gains and losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	498

Financial instruments also include cash, evidence of ownership in an entity, or contracts that impose an obligation on one party and conveys the right to a second entity to deliver/receive cash or another financial instrument. The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and short-term debt approximate their fair values because of the short maturities of these instruments. The estimated fair value of the Group's long-term debt, calculated using market interest rate available to the Group as at December 31, 2010, is U.S. Dollar 702,409, and the carrying value as at December 31, 2010 is U.S. Dollar 682,969 (see Note 16). Carrying values of the other long-term loans provided to related parties as at December 31, 2010 and 2009 approximated their fair values.

(In thousands of U.S. Dollars, except share data)

DERIVATIVE FINANCIAL INSTRUMENTS

Presented below is a summary of the Group's derivative contracts recorded on the balance sheet at fair value.

	Balance sheet location	December 31, 2010	December 31, 2009
Flat forward gold sales and purchase contracts	Derivatives, net	(105,437)	(149,514)
Receivable from provisional copper, gold and silver concentrate sales	Accounts receivable	19,765	1,601

	Location of gain (loss) recorded in earnings	Year ended December 31, 2010	Year ended December 31, 2009
Flat forward gold sales and purchase contracts	Change in fair value of derivative financial instruments	(909)	(2,332)
Receivable from provisional copper, gold and silver concentrate sales	Revenue	1,660	917
Call option	Change in fair value of derivative financial instruments	-	(39,606)

Risk management activities

In the normal course of its operations, the Group is exposed to commodity price, currency, interest rate, liquidity and credit risk. In order to manage these risks, the Group has developed a comprehensive risk management process to facilitate control and monitoring of these risks.

Concentration of credit risk

The Group's financial instruments that are potentially exposed to concentration of credit risk consist primarily of prepayments to suppliers and accounts receivable. Accounts receivable are regularly monitored and assessed and where necessary an adequate level of provision is maintained.
The Group has a concentrated number of suppliers to which the Group has made prepayments.
As at December 31, 2010 and 2009 bad debt allowance related to the prepayment to suppliers and non-trade receivables and amounted to U.S. Dollar 8,300 and 3,621, respectively. Generally, the Group does not require any collateral to be pledged in connection with its investments in the above financial instruments.

Accounts receivables are represented by provisional copper, gold and silver concentrate sales transactions (see Note 5), subject to final pricing in the first quarter of 2011. A significant portion of the Group's accounts receivable is due from reputable export trading companies.

(In thousands of U.S. Dollars, except share data)

Foreign currency and commodity price risk

In the normal course of business the Group enters into transactions for the sale of its commodities, denominated in U.S. Dollars. In addition, the Group has assets and liabilities in a number of different currencies (primarily Russian Ruble and Kazakh Tenge). As a result, the Group is subject to transaction and translation exposure from fluctuations in foreign currency exchange rates.
The Group does not currently hedge its exposure to foreign currency risk.

As at December 31, 2010, the Group held the following derivative financial instruments to protect its exposure to adverse movements in commodity prices:

(a) Flat forward gold sales and purchase contracts assumed in acquisition of JSC Varvarinskoye (see Note 4). The contracts have total notional amounts of 320,160 ounces of gold; fixed forward sales price of U.S. Dollar 574.25 per ounce and fixed forward purchase price of U.S. Dollar 1,129.65 per ounce; and monthly settlement dates between November 2009 and April 2014.

The Group is liable to pay a net settlement amount on each delivery date. If any settlement is not paid on its applicable delivery date, such settlement amount will accrue interest at 3 months LIBOR plus 3% and shall be payable on December 31, 2013 (35% of the total and all interest accrued thereon to date) and on December 31, 2014 (the full balance of the settlement amount and all interest accrued thereon to date). In addition, a cash sweep mechanism applies to all free cash flows generated by Varvarinskoye until all the obligations are fully repaid.
As at December 31, 2010 and 2009 net settlement amount of U.S. Dollar 50,977 and U.S. Dollar 10,007, respectively, has not been paid and was recorded in the “long-term debt” line of the balance sheet (see Note 16).

These contracts have not been designated as hedging instruments. Changes in the fair value are recorded as part of gain/loss on financial instruments in the statement of operations. As the Group has legally enforceable master netting agreement with counterparties, the flat forward gold sales and purchase contracts are presented net in the balance sheet as derivatives.

During the year ended December 31, 2010 and 2009, the Group settled derivative contracts resulting in realized derivative losses of U.S. Dollar 274 and U.S. Dollar 955, respectively.

The change in fair value of the Group’s derivative financial instruments gave rise to an unrealized derivative loss for the year of U.S. Dollar 635 (2009: U.S. Dollar 1,377).

The Group had the following forward pricing commitments outstanding against future production as at December 31, 2010:

Years	2011	2012	2013	2014
Flat forward gold sales contracts				
Amount (ounces)	76,142	62,000	53,000	20,000
Price (U.S. Dollar per ounce)	574.25	574.25	574.25	574.25
Flat forward gold purchase contracts				
Amount (ounces)	76,142	62,000	53,000	20,000
Price (U.S. Dollar per ounce)	1,129.65	1,129.65	1,129.65	1,129.65

(b) Under the long-established practice prevalent in the industry, copper, gold and silver concentrate sales are provisionally priced at the time of shipment. The provisional prices are finalized in a contractually specified future period (generally one to three months) primarily based on quoted LMB or LME prices. Sales subject to final pricing are generally settled in a subsequent month. The forward price is a major determinant of recorded revenue.

LME copper price averaged U.S. Dollar 7,541 per ton for 2010 compared with the Group's recorded average provisional price of U.S. Dollar 7,254 per ton. The applicable forward copper price at December 31, 2010 was U.S. Dollar 9,408. During 2010 increasing copper prices resulted in a provisional pricing mark-to-market gain of U.S. Dollar 53 (included in revenue). At December 31, 2010 the Group had copper sales of 1,065 tons priced at an average of U.S. Dollar 8,812 per ton, subject to final pricing in the first quarter of 2011.

LMB gold prices averaged U.S. Dollar 1,131 per ounce since November 2009, compared with the Group’s recorded average provisional price of U.S. Dollar 1,141 per ounce. The applicable forward gold price at December 31, 2010 was U.S. Dollar 1,418 per ounce. During 2010 increasing gold prices resulted in a provisional pricing mark-to-market gain of U.S. Dollar 1,607 (included in revenue) At December 31, 2010 the Group had gold sales of 15,126 ounces priced at an average of U.S. Dollar 1,376 per ounce, subject to final pricing in the first quarter of 2011.

In December 2010 CJSC Serebro Magadana, the Group subsidiary, started selling silver concentrate under provisional pricing arrangements. At December 31, 2010, the Group had silver sales of 164,090 ounces priced at an average of U.S. Dollar 28.4 per ounce, subject to final pricing in the first quarter of 2011.

Interest rate and liquidity risk

Fluctuations in interest rates impact the value of investments and financing activities, giving rise to interest rate risk. The Group does not currently hedge its exposure to interest rate risk. In the ordinary course of business, the Group receives cash proceeds from its operations and is required to fund working capital and capital expenditure requirements. Substantial contractual arrangements for uncommitted borrowing facilities are maintained with several banking counterparties to meet the Group’s normal contingency funding requirements.

SEGMENTS

The Group has six reportable segments:

- North Ural region (CJSC Zoloto Severnogo Urala);
- Khabarovsk region (JSC Okhotskaya GGC, Rudnik Avlayakan LLC and Kirankan LLC, see Note 4);
- Magadan region (CJSC Serebro Magadana, CJSC Ayax, see Note 4);
- Omolon region (JSC Omolon Gold Mining Company, Rudnik Kvartseviy LLC, see Note 4);
- Albazino region (Albazino Resources LLC, Amursky Hydrometallurgy Plant LLC);
- Kazakhstan (JSC Varvarinskoye, see Note 4).

Reportable segments are determined based on the Group's regional geographic profile. Minor companies and activities (management, exploration, purchasing and other companies) which do not meet the reportable segment criteria are disclosed within Corporate and other. Each segment is engaged in gold, silver and copper mining and related activities, including exploration, extraction, processing and reclamation.

The measure which management and the Chief Operating Decision Maker (the "CODM") use to evaluate the performance of the Group is Segment gross profit, which is defined as segment revenue less cost of sales for each segment. Segment cost of sales represents costs incurred to produce gold, silver and copper at each operating mine, and excludes costs that are not allocated to operating segments: amortization and depreciation of corporate assets, administration costs, cost of financing and other non-operating costs.

Revenue shown as corporate and other comprise, principally, of intersegment revenue relating to supply of inventories, spare parts and fixed assets to the production companies. Intersegment revenue is recognized based on costs incurred plus a fixed margin basis. External revenue of the Corporate and other segment represents revenue from services provided to third parties by the Group's non-mining subsidiaries. These include exploration works for mining companies and design services related to ore deposit development and precious metal extraction technologies.

(In thousands of U.S. Dollars, except share data)

As of and for the year ended December 31, 2010	North Ural	Khabarovsk	Magadan	Omolon	Albazino	Kazakhstan	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	213,906	215,300	345,457	24,649	-	125,456	**924,768**	608	-	**925,376**
Intersegment revenue	310	57	116	-	-	-	**483**	287,462	(287,945)	-
Cost of sales	(90,305)	(92,965)	(179,790)	(17,945)	-	(82,379)	**(463,384)**	(231,223)	244,938	**(449,669)**
Gross profit	**123,911**	**122,392**	**165,783**	**6,704**	**-**	**43,077**	**461,867**	**56,847**	**(43,007)**	**475,707**
General, administrative and selling expenses										**(80,760)**
Other operating expenses										**(52,518)**
Interest expense, net of amounts capitalised										**(16,391)**
Loss from equity method investments										**(1,170)**
Change in fair value of derivative financial instruments										**(909)**
Change in fair value of contingent consideration liability										**(3,616)**
Foreign exchange loss, net										**(151)**
Total income before income tax										**320,192**
Segment assets:										
Property, plant and equipment, net	75,690	170,893	315,077	203,222	352,126	162,284	**1,279,292**	239,951	-	**1,519,243**
Goodwill	-	13,364	8,201	-	-	68,177	**89,742**	24,970	-	**114,712**
Other current and non-current assets	134,022	97,236	138,954	70,087	57,652	69,816	**567,767**	108,411	(170,366)	**505,812**
Total segment assets	**209,712**	**281,493**	**462,232**	**273,309**	**409,778**	**300,277**	**1,936,801**	**373,332**	**(170,366)**	**2,139,767**
Unallocated assets:										
Cash and cash equivalents										**11,056**
Other assets										**143,877**
Total assets										**2,294,700**
Expenditure for additions to long-lived assets	11,932	10,771	43,831	75,523	200,210	21,876	**364,143**	66,876	-	**431,019**
Depreciation and depletion of operating assets	21,230	11,687	16,317	8,293	3,435	9,420	**70,382**	-	-	**70,382**

(In thousands of U.S. Dollars, except share data)

As of and for the year ended December 31, 2009	North Ural	Khabarovsk	Magadan	Omolon	Albazino	Kazakhstan	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	154,446	122,691	257,450	1,107	-	21,981	**557,675**	3,062	-	**560,737**
Intersegment revenue	169	460	115	-	-	-	**744**	153,169	(153,913)	-
Cost of sales	(62,267)	(66,945)	(145,990)	(846)	-	(11,947)	**(287,995)**	(124,154)	127,733	**(284,416)**
Gross profit	**92,348**	**56,206**	**111,575**	**261**	**-**	**10,034**	**270,424**	**32,077**	**(26,180)**	**276,321**
General, administrative and selling expenses										**(52,042)**
Other operating expenses										**(41,706)**
Interest expense, net of amounts capitalised										**(32,515)**
Loss from equity method investments										**(342)**
Loss on extinguishment of debt										**(5,873)**
Change in fair value of derivative financial instruments										**(41,938)**
Change in fair value of contingent consideration liability										**(13,404)**
Excess of fair value of acquired net assets over cost										**36,031**
Foreign exchange gain, net										**7,869**
Total income before income tax										**132,401**
Segment assets:										
Property, plant and equipment, net	84,285	98,592	299,838	158,999	166,889	145,219	**953,822**	133,681	-	**1,087,503**
Goodwill	-	13,467	8,265	-	-	68,836	**90,568**	25,161	-	**115,729**
Other current and non-current assets	123,180	112,026	137,071	32,649	33,060	40,005	**477,991**	94,940	(169,431)	**403,500**
Total segment assets	**207,465**	**224,085**	**445,174**	**191,648**	**199,949**	**254,060**	**1,522,381**	**253,782**	**(169,431)**	**1,606,732**
Unallocated assets:										
Cash and cash equivalents										**28,317**
Other assets										**91,764**
Total assets										**1,726,813**

(In thousands of U.S. Dollars, except share data)

Expenditure for additions to long-lived assets	9,690	3,478	31,600	16,574	122,609	388	**184,339**	53,357	(4,997)	**232,699**
Depreciation and depletion of operating assets	11,241	16,173	14,766	516	-	1,164	**43,860**	-	-	**43,860**

RELATED PARTY TRANSACTIONS

Related parties are considered to include shareholders, affiliates and entities under common ownership and control with the Group and members of key management personnel. In the course of its business the Group entered into various transactions with Nomos-Bank, an entity under common control, equity method investments and its employees and officers as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Interest expense on loans provided by related parties	1,886	23,394
Interest income on loans provided to related parties	217	501
Revenue from sales to related parties	315,405	325,855

Outstanding balances as at December 31, 2010 and 2009 are presented below:

	December 31, 2010	December 31, 2009
Short-term loans provided to employees	2,507	837
Long-term loans provided to employees	1,732	1,855
Long-term loans provided to equity method investments	3,455	3,269
Long-term loan provided to entity under common control	-	4,591
Short-term loans provided by Nomos-Bank	14,379	3,367
Long-term loans provided by Nomos-Bank	24,820	7,388
Long-term loans provided by equity method investments	1,739	-

Details of the significant terms of the loans provided to and by related parties are disclosed in the Notes 12, 14 and 16. As at December 31, 2010 and 2009, the Group has certain forward sales commitments to related parties (see Note 31).

COMMITMENTS AND CONTINGENCIES

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the companies of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in its interpretation of the legislation and assessments.
As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Group has identified contingencies related to taxes other than income tax. Such possible tax contingencies could materialize and require the Group to pay additional amounts of tax. As at December 31, 2010, Group management estimates contingencies related to taxes other than income tax to be approximately U.S. Dollar 13,691 (December 31, 2009: U.S. Dollar 2,121). The Group believes the estimated losses related to these contingencies are not probable and, as such, have not been accrued for as at December 31, 2010 and 2009.

Transfer pricing legislation, which was introduced from January 1, 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. Arbitration court practice in this respect is contradictory and inconsistent.

The Group's subsidiaries regularly enter into controllable transactions (e.g. intercompany transactions) and based on the transaction terms the Russian tax authorities may qualify them as non-market. Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated although it may be significant.

Political environment

The operations and earnings of the Group are affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection. Because of the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. The nature and frequency of these developments and events associated with these risks, which generally are not covered by insurance, as well as their effect on future operations and earnings, are not predictable.

Forward sales commitments

Under the sale agreements with HSBC Bank and The Bank of Nova Scotia, CJSC Zoloto Severnogo Urala, the Company's subsidiary, is required to sell 57,871 ounces during 2011 at a price determined by London Bullion Market Association ("LBMA").

Under the sale agreements with Nomos-Bank, a related party, CJSC Zoloto Severnogo Urala and JSC Okhotskaya GGC, the Company's subsidiaries, are required to sell 129,000 ounces of gold and 2,025,000 ounces of silver during 2011 at a price determined by LBMA.

Under the sale agreements with VTB, CJSC Serebro Magadana, the Company's subsidiary, is required to sell 32,000 ounces of gold and 4,823,000 ounces of silver during 2011 at a price determined by LBMA.

Under the sale agreements with Rosbank, CJSC Zoloto Severnogo Urala, the Company's subsidiary, is required to sell 58,000 ounces of gold during 2011 at a price determined by LBMA.

Under the sale agreement with Sberbank, CJSC Zoloto Severnogo Urala, the Company's subsidiary, is required to sell 64,000 ounces of gold during each of the years 2011 and 2012 at a price determined by LBMA.

Under the sale agreement with Trafigura Beheer B.V., JSC Varvarinskoe, the Company's subsidiary, is required to sell 26,400,000 dry metric tons of copper concentrate during 2011 and 2012 at a price determined by LME and adjusted for further processing costs.

Under the sale agreement with Metalor, JSC Varvarinskoye, the Company's subsidiary, is required to sell 2.1 tons of dore alloy with approximate gold content of 1.9 tons during 2011 at a price determined by LBMA and adjusted for further processing costs.

Litigation

During 2010, the Group was involved in a number of court proceedings (both as a plaintiff and as a defendant) arising in the ordinary course of business.

In the opinion of management of the Group, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations, financial position or cash flows of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Insurance policies

The Russian insurance market is in the development stage and some forms of insurance protection common in other parts of the world are not yet generally available in the Russian Federation.

The Group has entered into insurance contracts to insure property, plant and equipment, and land transport and purchased accident, health and medical insurance for employees. Furthermore, the Group has purchased civil liability coverage for operating entities with unsafe working conditions.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes there are no significant liabilities for environmental damage.

SUBSEQUENT EVENTS

In February 2011, the Group signed a binding letter of intent with Olsen Business Limited, an unrelated party, under which it has agreed to acquire a 100% interest in Kutynskaya Mining and Geological Company LLC holding the mining and exploration license for Kutyn gold deposit ("Kutyn") in the Tuguro-Chumikan district of the Khabarovsk Region for a consideration of 3,500,000 of the Company's ordinary treasury shares with a market value of U.S. Dollar 18.7 per share on the date of the letter of intent. The transaction is subject to satisfaction of various conditions, including successful completion of certain corporate actions and procedures as well as approval of the transaction by the Federal Antimonopoly Service of the Russian Federation. As at the date of issuance of these financial statements, most of the conditions have been met and the transaction is expected to be executed in the second quarter 2011.

In April 2011, the Group began the operation of an on-site flotation concentrator at the Albazino mine, producing first gold concentrate. The concentrate will be stockpiled with first shipments on river barges to the Amursk hydrometallurgy plant planned for June 2011. The hydrometallurgy plant facility is expected to start commissioning in the fourth quarter 2011.

In April 2011, the Group signed an agreement to restructure its debt obligations and related flat forward sale and purchase contracts assumed as a result of the acquisition of JSC Varvarinskoye (see Note 4, 16). As a result of this restructuring, the Group's forward pricing commitments
(see Note 28) outstanding as at the date of the restructuring were converted to debt obligations based on the present value of future net settlement payments on these derivative contracts. Following a partial immediate repayment of U.S. Dollar 14,819, the remaining debt obligations in the amount of U.S. Dollar 230,000 were transferred to the Company. Certain security arrangements held with, the counterparty under the debt obligations and forward sale and purchase agreements, such as pledges of shares and movable and immovable property, plant and equipment, have been foregone as part of this restructuring. The following repayment schedule was agreed as replacement of the cash sweep mechanism under the original Syndicate of Banks facility: U.S. Dollar 30,000 in each of 2011 and 2012, U.S. Dollar 50,000 in 2013, and U.S. Dollar 60,000 in each of 2014 and 2015. The Group will pay interest quarterly at a rate of three months LIBOR plus 3% per annum to the Syndicate of Banks.

In accordance with the requirements of ASC 855 the Group evaluated subsequent events through the date the financial statements were available to be issued. Therefore subsequent events were evaluated by the Group up to April 25, 2011.