





annual report
2006

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Company overview

Company profile

Polymetal is a market leader in the precious metals mining industry. In 2006, the Company was the world's fifth largest producer of silver, according to GFMS, and the largest primary silver producer globally, according to CRU. During the same year, the Company was also Russia's third largest producer of gold, according to the Association of Russian Gold Producers.

The Company was incorporated as Polymetal (Open Joint Stock Company Polymetal) in Saint Petersburg, Russia in 1998 by ICT Group. Today Polymetal operates through a vertically integrated organisational structure comprising production units, in-house engineering, stand-alone exploration and development projects and regional exploration subsidiaries.

At present, Polymetal actively mines at five sites: Dukat, Lunnoye, Arylakh, Khakanjinskoye and Vorontsovskoye. The operating lives of its mines range from ten to twenty years based on current ore reserves. Dukat and Lunnoye, mines situated in the vicinity of Magadan in the Northeast of Russia, are primary silver mines with significant by-product gold production. Dukat is currently the world's second largest primary silver deposit by ore reserves and the third largest silver mine by production according to data published by the Silver Institute. Khakanjinskoye, located in the Khabarovsk Territory, and Vorontsovskoye, situated in the Sverdlovsk region, are both gold mines, with the former also producing significant quantities of silver. Arylakh is the satellite deposit of Lunnoye and Yurievskoye is the satellite deposit of Khakanjinskoye.

Ore Reserves Proved&Probable	Tonnage (kt)	Grade (Au, g/t)	Grade (Ag, g/t)	Content Au (Koz.)	Content Ag (Koz.)
Dukat	18,385	1.1	542.8	642	320,817
Lunnoye&Arylakh	4,481	1.4	393.2	201	56,648
Khakanja&Yurievskoye	5,287	5.6	212.1	945	36,056
Voro	21,855	2.8	4.0	1,957	2,797
Total	50,008	2.3	258.9	3,745	416,317

Notes: The estimates for ore reserves (Proved and Probable) presented above are based on the following economic cut-off grades (in situ): Dukat: 205-235 g/t Ag equivalent for open-pit and 290 g/t Ag equivalent for underground operations; Lunnoye: 270 g/t Ag equivalent for open-pit and 370-665 g/t Ag equivalent for underground operations; Khakanja: 3.0-3.3 g/t Au equivalent for open-pit and 4.6-4.7 g/t Au equivalent for underground operations; Voro: 0.9 g/t Au equivalent for oxidized ore, 1.2 g/t Au equivalent for primary ore; Arylakh: 330 g/t Ag equivalent for open-pit; Yurievskoye: 4.0 g/t Au equivalent.

The Company's ore reserves are based on a gold price of US\$ 450/oz and a silver price of US\$ 7.00/oz.

In addition to its five operating mines, Polymetal has a significant pipeline of exploration and development projects that is expected to continue to fuel the Company's growth. In particular, the Company recently acquired the Albazino deposit in the Khabarovsk Territory to add to its current portfolio of twelve development and exploration projects. According to an audit of mineral resources conducted by Snowden, Albazino contained 769 thousand ounces of indicated gold mineral resources at November 7, 2006. Of its stand-alone exploration projects, the Company currently expects to bring two projects (Fevralskoye and Khakarinskiy) to feasibility study or pre-feasibility study by the end of 2008, and to upgrade mineralization at Aprelkovskoye-Peshkovskiy Unit (APU) to mineral resource status by the end of 2007 and to bring the Galkinskiy field to pre-feasibility study till the third quarter of 2008. The Company also has three grassroots regional exploration programs around the Dukat, Khakanjinskoye (Khakanja) and Vorontsovskoye mines aimed at extending the economic life and increasing the production capacity of the existing mines and finding deposits with stand-alone economic significance. The Company's exploration portfolio includes sixteen licenses covering an area of approximately 3,100 sq. km.

The table below sets out the ore reserves at each of the Company's operating mines as at 31 December 2006. The table also includes information on ore reserves and mineral resources at Lunnoye's satellite deposit (Arylakh) and the satellite deposit of Khakanja (Yurievskoye).

Since its inception, the Company has designed, built and managed eight mines in Russia, three of which have since been divested. The Company has built up its mine portfolio by developing greenfield mines or by entirely rebuilding mines from inactive operations. Polymetal has achieved strong growth in recent years in its production levels for both silver and gold. Silver production has grown at a compound annual growth rate of 13.6% during the period from 2003 to 2006, and gold production has grown at a compound annual growth rate of 23.2% over the same period. The Company has achieved much of this growth by managing the transition of many of its operating mines from development projects into full scale, producing operations, leveraging the considerable in-house expertise of its employees.

The table below sets out Polymetal production output, revenues, EBITDA and Adjusted EBITDA for the years ended 31 December 2006, 2005 and 2004.

	2006	2005	2004
Silver Production (Moz.)	17.3	18.9	17.3
Gold Production (Koz.)	256	243	212
Revenues (US\$, mln)	315.6	239.0	204.5
EBITDA (US\$, mln)	154.9	78.3	93.5
Adjusted EBITDA (US\$, mln)	134.3	93.0	102.1

In September 2006, Polymetal entered into a preliminary agreement to establish a joint-venture with AngloGold Ashanti, an international gold producer with operations on four continents, in order to identify, explore and develop gold mining opportunities in Russia. Initially, the proposed strategic alliance will involve four sites located in the Krasnoyarsk and Chita regions: the Anenskiy and APU sites (contributed by Polymetal) and the Bogunay and Veduga sites (contributed by AngloGold Ashanti). Polymetal believes that this proposed alliance will benefit the Company both in terms of opportunities generated and access to best-in-class geological expertise and processing technology.

Summary consolidated financial and other information

This summary consolidated financial and other information sets forth the Company's historical consolidated financial information and other operating information as of and for the years ended 31 December 2006, 2005 and 2004. The financial information as of and for the years ended 31 December 2006, 2005 and 2004 was derived from, and should be read in conjunction with, the Company's audited consolidated financial statements included elsewhere in this Annual Report.

	2006	2005	2004
US\$ in thousands (except as indicated)			
Consolidated income statement data			
Revenues	315,596	238,973	204,487
Sales of silver	161,056	136,520	117,695
Sales of gold	153,849	100,472	85,959
Cost of sales	(171,283)	(136,173)	(92,850)
Income from mining operations	144,313	102,800	111,637
Operating income	94,755	67,265	88,969
Income from continuing operations before income tax and minority interest	93,703	31,607	62,930
Income from continuing operations before minority interest	67,948	22,588	45,098
Income from continuing operations	61,687	14,705	27,732
Income (loss) on discontinued operations	–	2,894	44,712
Net income	61,687	17,599	72,444

	2006	2005	2004
US\$ in thousands (except as indicated)			
Non-GAAP measures, operational and other data			
Silver production (in millions of ounces)	17.3	18.9	17.3
Gold production (in thousands of ounces)	256	243	212
Average silver sales price (US\$ per ounce)	9.33	7.22	6.80
Average gold sales price (US\$ per ounce)	603.3	429.4	403.6
EBITDA	154,872	78,334	93,502
Adjusted EBITDA	134,349	93,043	102,143
Total cash costs per ounce (US\$ per ounce of silver) (co-product basis)	4.7	3.8	3.1
Total cash costs per ounce (US\$ per ounce of gold) (co-product basis)	289.6	237.4	185.4
Capital expenditures	60,311	26,523	29,595
Number of employees at the end of the period	4,785	4,284	4,352

Key Highlights and Milestones

2006 Highlights

Gold production rose 5.3% to 256 Koz. in 2006 from 243 Koz. in 2005 while silver production declined 8.7% to 17.3 Moz. in 2006 from 18.9 Moz. in 2005;

Revenues increased by 32.1% to US\$ 315.6 million in 2006 from US\$ 239.0 million in 2005;

Operating profit increased by 40.9%, to US\$ 94.8 million in 2006 from US\$ 67.3 million in 2005;

Net income rose significantly - 250.6% to US\$ 61.7 million in 2006 from US\$ 17.6 in 2005;

Capital expenditures increased to US\$ 60.3 million in 2006 from US\$ 26.5 million in 2005;

Dukat and Lunnoye combined total cash costs in 2006 decreased to US\$ 3.93/oz of silver on a by-product basis from US\$.04/oz. despite a significant drop in average head grade. The total cash costs at Khakanja increased to US\$ 80.10/oz of gold on a by-product basis in 2006 from US\$ 64.43/oz in 2005. The total cash costs at Voro in 2006 increased to US\$ 308.87/oz of gold on a by-product basis from US\$ 220.69/oz in 2005 due to a serious drop in gold head grade in oxidized ore;

Three major expansion projects started – Dukat processing plant expansion, Voro CIP plant expansion and Albazino development;

Launch of mining operations at Arylakh, the satellite deposit of Lunnoye;

Underground construction started at Lunnoye;

Four new exploration and mining licenses received;

Active exploration program started at the flanks and deep levels of the existing mines and new stand-alone projects.

2006 Milestones

JANUARY – a report on the JORC-compliant ore reserves and mineral resources audit;

FEBRUARY – two specialized exploration companies established – Northern Urals Exploration Company (the Sverdlovsk region) and Dukat Exploration Company (the Magadan region);

MARCH – a 4-year social-economic partnership agreement with the administration of the Omsukchan district, the Magadan region signed, with an annual funding commitment of 20 million rubles;

JUNE – US\$ 160 million risk insurance contracts for production assets in the Magadan region (Dukat and Lunnoye) signed;

JUNE – a license for geological exploration of ore gold and silver at the Arkinskaya field (the Khabarovsk Territory) received;

JUNE – the Anenskoye gold deposit in the Krasnoyarsk Territory discovered;

JULY – acquisition of 100% stake in Resource Albazino, holding the license for the Albazino gold deposit (the Khabarovsk Territory), from JSC Far East Resources;

AUGUST – a license for geological exploration (search and estimation) for the Rudnichny gold field (the Sverdlovsk Region) received;

AUGUST – a license for geological exploration (search and estimation) for the Dukat Prospective Area (the Magadan Region) received;

SEPTEMBER – an environmental audit of production facilities in compliance with the World Bank Guidelines (auditor – SRK Consulting Ltd., Great Britain) completed;

SEPTEMBER – a strategic alliance with AngloGold Ashanti for geological exploration, acquisition and development of gold deposits in Russia;

OCTOBER – an exploration and production license for Dukat Ore Field (the Magadan region) received;

NOVEMBER – A JORC Code-compliant mineral resource audit was published for the Albazino deposit (Snowden);

DECEMBER – Jonathan Best, John O'Reilly and Pavel Gratchev joined the Company's Board of Directors. Jonathan Best (an independent non-executive director) chairs the Audit Committee, John O'Reilly (an independent non-executive director) chairs the Remuneration and Nomination Committee.





Vitaly N. Nesis

Chief Executive Officer

Letter to shareholders

CEO'S Statement

Dear Shareholders, Colleagues and Partners,

2006 is the first year of the Company's new development stage.

_ We have completed the construction and commissioning of the first generation of assets by forming base production units in key regions of our operation. Now we proceed to form a second generation of assets, which represents our strategic goal as part of our declared mission, i.e. to ensure growth in the value of our Company for the benefit of its shareholders, investors, employees and society.

_ Our main goal is to become the best precious metals mining company in Russia through exploration, acquisitions, development and operation of quality production sites in an effective and socially responsible manner.

_ A milestone event of 2006 was the start of active preparation for the initial public offering of the Company's stock on the Russian and international markets.

_ This is one of the ambitious goals set by Polymetal shareholders as part of the Company's mission and strategy.

_ The IPO on the Russian and international markets represents Polymetal's transition to a new level of development. It will solidify the Company's reputation and serve as proof of compliance with international standards of corporate governance, placing a quality mark on its portfolio of assets and Company personnel.

_ We do realize the additional commitments that come with public status. We hope our Company will fully meet international standards of corporate governance and disclosure, as well as the demands and expectations of investors and shareholders.

_ The foundations laid in previous periods, the reporting year 2006 included, enable us to look forward with confidence at the Company's future development prospects.

_ The global gold industry, with Russia being no exception, is experiencing a period of serious pressure on the profitability of the mining business as all key cost drivers are moving up. Significant price hikes for electricity, fuel and expendables, a strengthening ruble and inflation have been the primary factors behind rising costs in Russia.

_ Against this backdrop, in 2006 the Company managed to implement a number of measures to keep the prime cost of production below the average international level.

_ Polymetal boasts some of the lowest gold and silver production costs both in Russia and internationally.

_ Today we are confident in our solid positions in being Russian and international markets of precious metals. The Company manages five production sites, with one among the world's top ten largest silver deposits in terms of output. Polymetal is the leading primary silver producer in the world and holds the fifth position in the rank of the world's top silver producing companies. According to the Russian Union of Gold Producers, we occupy a solid third place in Russia in terms of gold output.

_ Last year we achieved successful results in all areas of our operation, with production and financial performance indicators showing positive dynamics.

_ We have preserved the predicted growth rates in the production of precious metals and reached a record level of gold production, the highest in the Company's entire history, with output totaling 256 Koz.

_ Polymetal remains the leading Russian producer of silver, with 17.3 Moz produced in 2006.

_ We anticipate that the Company's 2007 year-end production will be approximately 230-250 Koz of gold and 16-18 Moz. of silver with capital expenditures totaling US\$ 60-70 million. We forecast that total cash costs growth will not exceed the inflation rate in USD.

_ Last year we launched another stage of the Company's medium-term development strategy, which involves creating major centers of effective production of precious metals on the basis of existing production sites by increasing the capacity of enrichment factories, enhancing technological processes, building new stages of mining and smelting complexes and securing additional commercial reserves.

_ As part of these efforts, in 2006 we launched two major investment projects at the Dukat and Vorontsovskoye deposits to boost the production capacity of the plant at the Dukat deposit to 1.5 mln tons of ore per year and to increase the processing capacity of the plant at the Vorontsovskoye deposit to 900,000-940,000 tons per year.

_ We have also started preparations for commissioning a new site – the Arylakh deposit in the Magadan region and have switched to underground mining at the Lunnoye deposit.

_ In addition, in 2006 we made the first steps toward development of the Yuryevskoye deposit in the Khabarovsk Territory. The Company plans to start full-scale development of Yuryevskoye toward the end of the year 2007.

_ Among the key events of 2006, I would like to highlight the start of a vigorous exploration campaign. Since active growth in reserves is a precondition for continued growth of the Company as a whole, investments in exploration have come to dominate our investment policy. Last year investments in exploration totaled US\$ 15.8 million and the Company both replenished and augmented the reserves of all its production sites.

_ Extensive exploration both on the flanks and deep levels of the existing deposits and within new license areas, as well as continuing expansion in the regions, will enable us to replenish and augment the reserves of production sites and prolong their life-of-mine status.

_ While in 2006 our exploration efforts focused largely on existing deposits, in 2007 we will start active development of new license areas. During the reporting period we received quite a number of new licenses in the areas of our operations. Today we can speak of a tremendous potential discovered on the flanks of the Dukat deposit. The early months of active exploration efforts have yielded a significant increase in silver reserves, which have now reached 16-19 Moz.

_ The Company views the Albazinskoye lode-gold deposit as a potentially new stand-alone project. Its resources of 1.1 Moz of gold, confirmed by an international audit, already significantly surpass our planned increase in gold reserves. To develop the deposit from scratch, we will build a new ore processing plant at the site and a concentrate processing plant in Amursk.

_ As we face the challenge of extensive reimbursement of reserves, we have all preconditions to achieve superior exploration results in 2007. We will also carry on with our strategy of accumulating licenses for mines in the immediate vicinity of our mines. Development of several mines in the same region will enable the Company to achieve a high synergetic result.

_ In 2006, Polymetal announced a strategic alliance with AngloGold Ashanti, a world leader in the gold industry. We have thus created numerous opportunities for joint projects, while preserving our freedom of action in

our strategic regions: the Magadan and Sverdlovsk regions, the Khabarovsk Territory and potentially the Irkutsk region.

_ We continue to focus particular attention on a responsible approach toward environmental protection and industrial safety. In 2006, we completed an international audit of our environmental policy and health and safety system, which have been found to comply with the World Bank Group guidelines.

_ It is people that are behind the Company's quick-paced development. In the reporting year 2006 we continued implementing our staff training system and a number of long-term programs to attract and motivate young specialists. We cooperate with the best Russian institutes, enrolling their students and graduates in our "Youth. Professionalism. Career" program, as part of which they complete industrial internships at Polymetal's producing mines, acquire experience and are offered employment opportunities.

_ We believe that investments in human resources will ensure future growth and achievement of our strategic priorities.

_ Investments in the social stability in our regions of operation represent another important precondition for dynamic business growth. As a way to ensure fruitful cooperation with the population, in 2006 we signed long-term agreements with the administrations of our regions of operation to develop the social infrastructure of these territories. Social partnership that we have pursued throughout the reporting year 2006 creates conditions for stable development of the regions, streamlines financial and economic relations, and gives these territories greater investor appeal, thus raising their competitive ability.

_ With a strong team of professionals and solid foundations, our Company is prepared for the next important stage of its development. The Company has proven itself as an effective manager capable of designing, financing, building and operating major mining sites. We possess considerable human, natural and financial resources to withstand the negative cost trends in the industry and effectively use the favorable market situation to boost the Company's capitalization.

_ I wish to express my heartfelt gratitude to the Company's personnel in all regions for their dedication, which has enabled us to achieve successful results in the complex watershed year of 2006, and to our partners for their faith in the Company and the mutual respect that we share. I am certain that we have what it takes to cope with the new challenging tasks that the Company faces at this new stage of its development.


 Vitaly N. Nesis
 Chief Executive Officer

Strategy

Key Strengths

Proven development and operational track record

Polymetal has a strong track record in developing both greenfield and brown-field sites to full production. The Company has designed and successfully developed seven mines since its inception in 1998, each one leveraging the Company's considerable in-house engineering and construction expertise. The Company believes that its in-house engineering expertise provides a significant competitive advantage and constitutes a knowledge base within the Company that is exceptional in the Russian mining industry. The Company's experience extends to successfully operating mines in remote areas with severe climatic conditions, as well as a proven ability to manage costs in an inflationary environment. The Company believes that AngloGold Ashanti's choice of Polymetal as its strategic partner reflects the Company's proven operational track record.

Leading precious metals producer

The Company is the world's largest primary silver producer. The Company's silver production represents 2.7% of the world silver mine production. Additionally it is the third largest producer of gold in Russia. The Company's production represents 43.7% of Russia's total silver production and 4.6% of the country's total gold production. The Company offers investors exposure to a well-balanced portfolio of gold and silver producing assets.

Exceptional mine portfolio with low cash costs

Polymetal's mine portfolio is characterized by relatively long reserve life and low cash costs. The Company operates mines of world class sophistication and scale, with mine lives of between ten and twenty years. Dukat is the third largest silver mine in the world by production and the second largest primary silver deposit in terms of ore reserves, and the Lunnoye mine is one of the world's 20 largest silver mines.



Dedicated in-house geological and engineering expertise

Polymetal's wholly-owned in-house research and engineering subsidiary, Polymetal Engineering, is one of the largest in-house engineering operations in the Russian mining industry, employing approximately 100 engineers. Polymetal Engineering adds value throughout all stages of mine development – from the exploration stage of a project to the production of silver and gold. The quality of Polymetal's in-house engineering is demonstrated by the significant number of projects that have been completed for outside clients, including the design and construction of complex mining projects for leading Russian mining companies producing diamonds, iron ore, tin and copper (such as Alrosa, Mikhailovsky GOK, Russian Copper Company and others). Polymetal invests significant resources in research and development activities and currently possesses 22 patents for inventions and proprietary processes. The Company believes that its research and engineering expertise provides it with a competitive advantage in the appraisal, acquisition and development of new exploration and development opportunities whilst also assisting in continually optimizing the operation of its current mines.

Attractive growth opportunities from a significant pipeline of exploration and development projects

The Company has been successful in securing a series of key development projects (for example, Albazino and Khakarinskiy) and numerous exploration licenses in the Chita, Khabarovsk, Krasnoyarsk, Magadan and Sverdlovsk regions of Russia. Furthermore, the Company believes that there are significant exploration opportunities in the areas surrounding Polymetal's four principal operating mines, and there remains significant potential to expand mineral resources in these areas as they become better developed and defined.

Experienced management team and highly skilled employees

Polymetal benefits from the deep and diverse experience of its management team in the metals and mining industries. The Company's management has demonstrated its ability to locate, acquire and develop precious metals mining properties. The management team's experience operating within the Russian federal and regional regulatory environment facilitates the Company's ability to procure additional mining licenses, as well as access to acquisition opportunities. Polymetal also benefits from a highly qualified and motivated workforce with low employee turnover levels. The Company's leading market position allows it to attract and retain top specialists and to maintain the highest operational and technological standards. In addition, the Company enjoys a positive relationship with its workforce. The Company believes that its experienced management and skilled employees make Polymetal an exceptional local partner for the development and operation of mining projects in Russia, as demonstrated by its proposed strategic alliance with AngloGold Ashanti.

Strategy

Polymetal's strategy is to create shareholder value by continuing to consolidate its position as one of the leading producers of precious metals while maintaining an attractive profitability profile. The key elements of this strategy are as follows:

Maintain profitability while increasing production at existing operations

Polymetal plans to continue to increase production of silver and gold whilst maintaining a sound operating cash flow profile. In line with this strategy, the Company plans to expand the production capacity of its processing plants over the next three years and to launch targeted exploration campaigns around existing sites in order to increase ore reserves and maintain mine life as production increases. In order to achieve its strategy of maintaining profitability and operating cash flow, the Company intends to manage actively its operations so that its cash costs of production remain in the lowest half of the cash cost curve for both gold and silver. In order to facilitate this, the Company intends to continue optimizing performance at its existing mines through reengineering, debottlenecking and technological innovation.

Acquire new exploration licences and development projects

Polymetal plans to primarily achieve growth organically; however, it will also evaluate acquisition opportunities as and when they arise. These opportunities will be assessed based on their stand-alone economic merits as well as on how they can achieve synergies with the Company's core assets. The Company intends to continue to seek similar opportunities by focusing on acreage around its currently active ore bodies, as well as on stand-alone projects that are at an advanced stage of development and on further regional campaigns in areas of high geological prospective potential. The Company's current exploration strategy targets are world class ore bodies capable of producing in excess of 5 million ounces of silver or 200 thousand ounces of gold per annum, with the potential for strong financial performance in the medium term and which are capable of being developed quickly.

Continue to commission new mines and develop exploration projects

Polymetal aims to manage the complete cycle of its deposits' development, from the exploration phase to final production (including engineering, construction and operational activities). In the medium term, the Company currently plans to bring the recently acquired Albazino project into operation by 2010. In addition, the Company currently plans to be able to bring three to four exploration projects into the feasibility stage over the next few years.

Maximize the benefits from the proposed strategic alliance with AngloGold Ashanti

Polymetal will seek to leverage its proposed strategic alliance with AngloGold Ashanti. In particular, Polymetal will work with AngloGold Ashanti to bring the Veduga deposit (which is expected to be acquired by AngloGold Ashanti and contributed to the strategic alliance) into operation as quickly as possible, and will work together to develop further world class projects. In addition, the Company expects to benefit from AngloGold Ashanti's position as a leading international gold producer in terms of gaining access to best practices, particularly with respect to geological expertise, processing technology and Western business techniques.

Focus on development of the Company's human capital

A key component of the Company's strategy is the retention and further development of its human capital. The Company's ability to attract, retain and train to the requisite level a skilled and growing workforce is critical to its future success and growth ambitions. The Company focuses on recruiting talented newly qualified young geologists, mining engineers and processing engineers from regional universities through a partnership with technical universities in Irkutsk, Tomsk and Magnitogorsk. The Company seeks to capitalize on and continue its successful recruitment efforts.

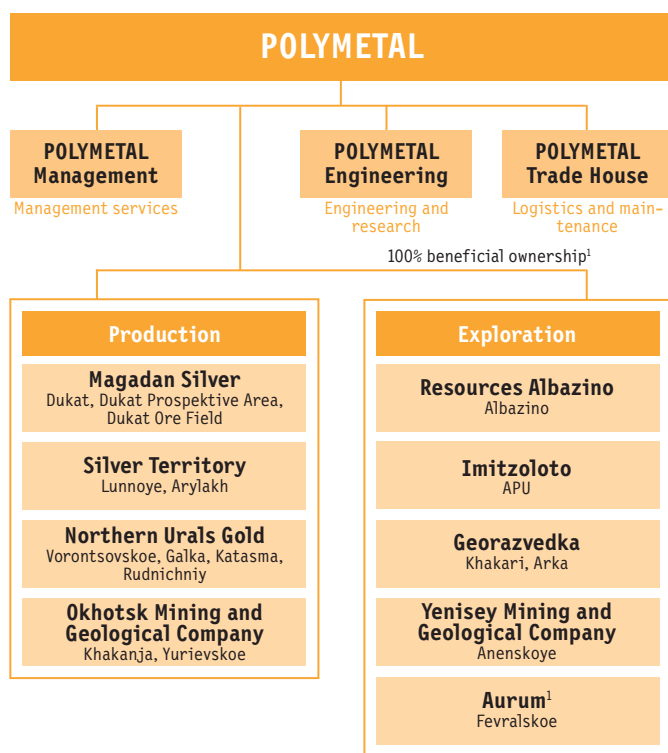
Corporate History and Structure

CORPORATE HISTORY. The Company was incorporated in Saint Petersburg by the ICT Group in 1998. Prior to 2000, the Company acquired seven silver and gold deposits (Barun-Kholba, Dukat, Khakanja, Kirovskoe, Lunnoye, Murtykty and Voro). During this phase, the Company's main objective was to obtain mining licenses for deposits that, although not in production at that time, had already been sufficiently explored to warrant investment to establish commercial production. The Company successfully designed, obtained permits for, constructed and started up commercial operations at each of the seven deposits between 2000 and 2003. In 2000, the Company launched mining and processing operations (heap leaching of oxidized ores) at Voro (Stage I) and in 2001 commenced mining and milling operations at Lunnoye. In 2002, the Company determined that Murtykty and Kirovskoe lacked sufficient production capacity and ore reserves, and sold those deposits to third parties. The Company launched mining and processing operations at Dukat in 2002 and at Khakanja in 2003. The Company disposed of Barun-Kholba in 2004, due to its lack of sufficient capacity and ore reserves. The four remaining deposits namely, Dukat, Lunnoye, Khakanja, and Voro, are the Company's core assets.

In 2004, the Company was reorganized, and, as part of this reorganization, Polymetal Management and Polymetal Engineering were established as separate subsidiaries, in order to provide streamlined management services and enhance corporate governance, accountability and transparency. In 2004, the Company also launched processing operations (tank leaching of primary ores by the carbon-in-pulp method) at Voro (Stage II) and in 2005 expanded the processing plant at Khakanja. ICT and its subsidiaries, including Polymetal, were sold by ICT's shareholders to Nafta Moskva in November 2005. In 2006, the Company acquired Resources Albazino (the Albazino deposit, Khabarovsk Territory). In September 2006 the Company signed a preliminary agreement to establish a strategic alliance with AngloGold Ashanti.

CORPORATE STRUCTURE. Polymetal operates its business through four production subsidiaries, five exploration subsidiaries, a management subsidiary, an engineering and scientific research subsidiary and a logistics and maintenance subsidiary. The following chart illustrates the Company's corporate structure and indicates, where applicable, the services provided by ore deposits operated by each subsidiary.

Polymetal acts as a holding company and derives its revenues entirely from the operations of its subsidiaries. The Company's mining operations are conducted through its production subsidiaries, which hold the production and exploration licenses for its mines. Dukat and Lunnoye are closely aligned technologically and are managed as a single business unit. The Company's exploration and development activities are conducted through its explora-



Notes: ¹ Each of the Company's subsidiaries is 100% beneficially owned by the Company, except for Aurum, in which the Company holds an 85% interest.

tion subsidiaries, which hold licenses for stand-alone exploration projects such as Albazino, and its production subsidiaries, which hold licenses for regional exploration campaigns. Polymetal Management provides management services to each of the Company's subsidiaries. Polymetal Engineering provides research and engineering services to the Company's production and exploration subsidiaries as well as to third parties. Polymetal Trade House provides logistical, supply, purchasing and maintenance services to each of the Company's subsidiaries.

The Company's corporate office, as well as its engineering subsidiary, is located in Saint Petersburg. The Company also has regional representative and supply chain management offices in Magadan and Khabarovsk. As of 30 September 2006, the Company employed 4,785 employees, of whom 8% were based in Saint Petersburg and its representative offices, 81% were based at its four operating mines and 11% were employed at its specialized exploration subsidiaries or stand-alone exploration and development projects.

Properties and Mining Operations

The Company's mining operations include five active mines: Dukat, Lunnoye, Arylakh, Khakanjinskoye and Vorontsovskoye. In addition to its five active deposits (three primary silver and two primary gold deposits respectively), the Company also has a pipeline of development projects, the most advanced of which include Albazino, Fevral'skoye and Khakarinskaya. The Company also holds exploration licenses for deposits in the Khabarovsk, Magadan and Sverdlovsk regions of Russia, among other areas.

Map of operations



■ production □ exploration ■ development

Asset Portfolio

The table below shows the Company's assets by deposit, subsidiary and region, with information on type of mine, type of license and the expiration date of the license under which the Company conducts its mining and exploration operations as of December 31st, 2006.

Deposit	Subsidiary Holding Licence	Region	Type of Mine	Type of Licence	Licence Expiration Date
Dukat	Magadan Silver	Magadan Region	Open-pit & underground	Production	December 2017
Lunnoye	Silver Territory	Magadan Region	Open-pit (underground planned from 2008)	Exploration and production	December 2016 ¹
Khakanjinskoye	Okhotsk Mining and Geological Company	Khabarovsk Territory	Open-pit (underground planned from 2011)	Exploration and production	December 2014
Vorontsovskoye	Northern Urals Gold	Sverdlovsk Region	Open-pit	Exploration and production	December 2018
Arylakh	Silver Territory	Magadan Region	Open-pit (from 2007)	Exploration and production	December 2016
Yurievskoye	Okhotsk Mining and Geological Company	Khabarovsk Territory	Open-pit	Exploration and production	December 2014
Fevralskoye	Aurum	Sverdlovsk Region	Not yet known	Exploration and production	September 2018
APU	Imitzoloto	Chita Region	Open-pit	Exploration	September 2008
Anenskoye	Yenisey Mining and Geological Company	Krasnoyarsky Territory	Not yet known	Exploration and production	December 2027 ²
Galkinskiy	Northern Urals Gold	Sverdlovsk Region	Open-pit	Exploration	December 2010
Katasminskiy	Northern Urals Gold	Sverdlovsk Region	Open-pit	Exploration and production	March 2031
Rudnichniy	Northern Urals Gold	Sverdlovsk Region	Open-pit	Exploration	August 2011
Khakarinskaya	Georazvedka	Khabarovsk Territory	Not yet known	Exploration and production	December 2025
Arkinskaya	Georazvedka	Khabarovsk Territory	Open-pit	Exploration	March 2011
Albazino	Resources Albazino	Khabarovsk Territory	Open-pit	Exploration and production	January 2015
Dukat Prospective Area	Magadan Silver	Magadan Region	Not yet known	Exploration	July 2011
Dukat Ore Field	Magadan Silver	Magadan Region	Not yet known	Exploration and production	November 2031

Notes: (1) The Company has applied for amendment of the license to reduce the required minimum production levels in 2007.
(2) The Company received three exploration and production licenses for gold-silver fields in the Khabarovsk Territory in the first quarter of 2007.

Reserves and Resources

Ore Reserves and Mineral Resources Statement

The table below sets forth the Company's ore reserves and mineral resources, classified in accordance with the JORC Code, as of 31 December 2006.

The breakdown of the Company's ore reserves and mineral resources by degree of geological certainty demonstrates that the Company's mineral resource base is relatively well defined.

	Tonnage (kt)	Grade		Content	
		Au (g/t)	Au (g/t)	Au (koz)	Au (koz)
Proved					
Dukat	12,554	1.1	561.1	424	226,488
Lunnoye	515	2.4	379.7	39	6,283
Vorontsovskoye	17,601	3.0	4.1	1,721	2,317
Khakanja	3,642	5.2	253.5	604	29,682
Arylakh	1,071	0.9	445.8	31	15,351
Yurievskoye	381	13.4	11.4	164	140
Subtotal	35,764	2.6	243.7	2,983	280,261
Probable					
Dukat	5,831	1.2	503.1	218	94,329
Lunnoye	2,306	1.6	339.8	122	25,192
Vorontsovskoye	4,254	1.7	3.5	236	480
Khakanja	1,260	4.3	153.9	176	6,233
Arylakh	589	0.5	518.8	9	9,822
Yurievskoye	4	8.3	8.6	1	1
Subtotal	14,244	1.7	297.1	762	136,057
Total Ore Reserves	50,008	2.3	258.9	3,745	416,317
Mineral Resources Measured					
Dukat	13,178	1.2	658.8	523	279,025
Lunnoye	569	2.8	447.1	52	8,185
Vorontsovskoye	19,211	3.1	4.4	1,903	2,710
Khakanja	3,287	6.0	297.0	630	31,383
Arylakh	924	1.2	558.1	37	16,588
Yurievskoye	584	11.8	11.9	222	224

continue on the next page »
gold resource

» start on previous page

	Tonnage (kt)	Grade		Content	
		Au (g/t)	Ag (g/t)	Au (koz)	Ag (koz)
Subtotal	37,754	2.8	278.6	3,366	338,115
Indicated					
Dukat	6,221	1.3	577.9	264	115,581
Lunnoye	2,027	2.1	473.5	135	30,855
Vorontsovskoye	4,663	1.9	3.7	283	553
Khakanja	1,078	5.4	197.3	187	6,836
Arylakh	767	0.7	589.5	18	14,533
Yurievskoye	130	7.9	10.9	33	46
Albazino	4,300	5.6	-	769	-
Subtotal	19,186	2.7	273.0	1,688	168,404
Total Measured+Indicated	56,939	2.8	276.7	5,055	506,519
Inferred					
Dukat	16	1.0	437.5	1	229
Lunnoye	741	1.0	562.7	24	13,412
Vorontsovskoye	64	2.5	3.4	5	7
Khakanja	77	5.0	258.7	12	642
Arylakh	82	1.4	506.5	4	1,341
Yurievskoye	26	13.9	14.0	12	12
Albazino	2,305	4.4	-	329	-
Subtotal	3,312	3.6	146.9	387	15,643
Total Mineral Resources	60,251	2.8	269.6	5,443	522,162

NOTES: (1) The estimates for ore reserves (Proved and Probable) presented above are based on the following economic cut-off grades (in situ): Dukat: 205-235 g/t Ag equivalent for open-pit and 290 g/t Ag equivalent for underground operations; Lunnoye: 270 g/t Ag equivalent for open-pit and 370-665 g/t Ag equivalent for underground operations; Khakanja: 3.0-3.3 g/t Au equivalent for open-pit and 4.6-4.7 g/t Au equivalent for underground operations; Voro: 0.9 g/t Au equivalent for oxidized ore, 1.2 g/t Au equivalent for primary ore; Arylakh: 330 g/t Ag equivalent for open-pit; Yurievskoye: 4.0 g/t Au equivalent.
 (2) The Company's ore reserves are based on a gold price of US\$ 450/oz and a silver price of US\$ 7.00/oz; mineral resources are based on a gold price of US\$ 550/oz and a silver price of US\$ 8.00/oz.
 (3) Measured and indicated mineral resources are stated inclusive of ore reserves but with no allowance for ore loss or dilution. The estimates for Mineral Resources (Indicated and Inferred) presented above for Albazino are based on the economic cut-off grades (in situ) 2.0 g/t Au.
 (4) Inferred mineral resources are stated exclusive of reserves and measured and indicated mineral resources.

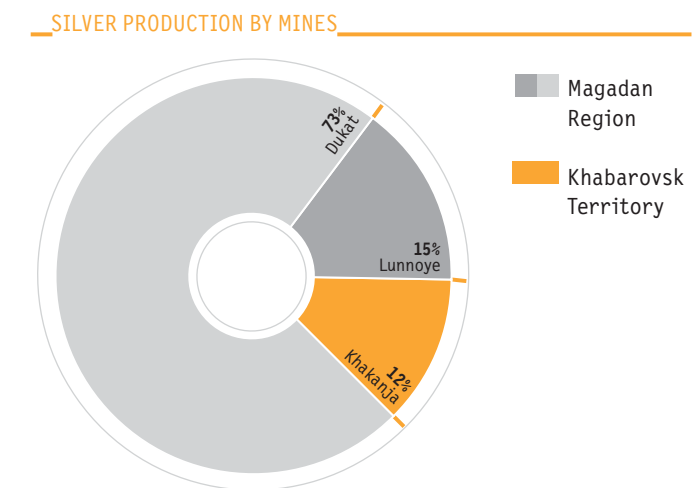
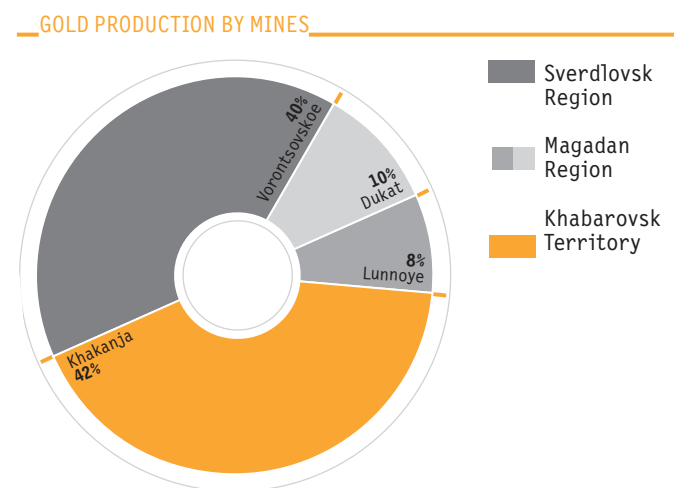
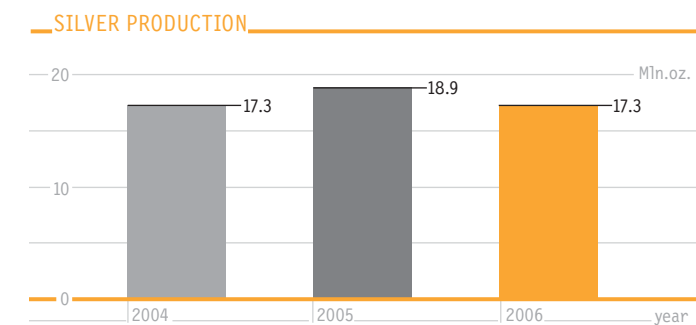
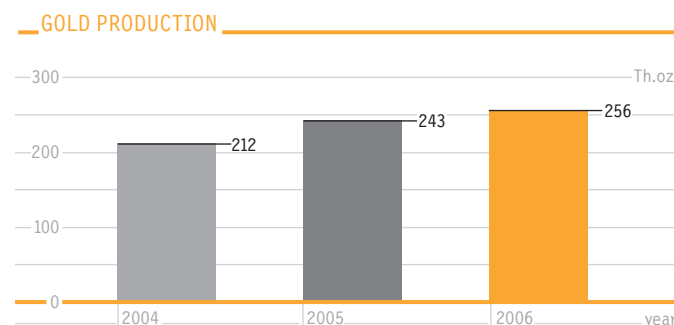
Operational Overview

The yearly results of 2006 show a 4% decrease in mined ore to 2.6 million tons compared with the same period in 2005. This decrease was primarily due to a 6% drop in open-pit mined ore to 2.1 million tons. At the same time, ore mined from underground operations increased 5% to 487 thousand tons. This increase was primarily due to higher mined volumes at the Company's flagship Dukat mine.

Processed ore increased 15% for 2006 (compared to 2005) to reach 2.9 million tons including ore purchased from third party's deposit and processed at Voro. This increase can primarily be attributed to two factors: the increase in production capacity from 500k to 600k tpa at Khakanja and production growth at Voro's CIP plant.

During the twelve months of 2006, gold production rose 5% to 256 thousand ounces. Again this was primarily due to increased gold production at Vorontsovskoye, as a result of increased processing capacity at the primary ore processing plant.

The Company's silver production declined 9% in the reported period to 17.3 million ounces. This was due to lower average head grades at the Lunnoye and Khakanjinskoye deposits.



Dukat

LOCATION, ACCESS AND HISTORY. The Dukat mine is located approximately 40 km north of the town of Omsukchan in the Magadan region of the Russian Federation. Omsukchan is located approximately 600 km north of the city of Magadan and can be accessed from Magadan via unpaved roads, ongoing improvements to which are being made by regional authorities.

Dukat was discovered in 1967 and is the third largest silver deposit globally and the largest in Russia by ore reserves, containing 60% of Russia's total silver reserves. Exploration commenced in 1971 and, by 1977, 84 ore zones had been identified over approximately 1.4 km of strike length and to a depth of 500 m. Between 1980 and 1997, the deposit was mined by the Dukat Mining and Processing Complex through a combination of underground and open-pit methods. During 1998, the legal rights to the deposit were acquired by a joint venture between Pan American Silver (70%) and various Russian companies (30%). The Company acquired a controlling interest in Dukat in 2000 through a joint venture between the Company (68% indirect interest), Pan American Silver (20% indirect interest), and various other Russian companies (12% indirect interest), which restarted production through a combination of underground and open-pit methods in 2002 with an initial processing capacity of 750 ktpa. The treatment plant was refurbished in 2002 and reached capacity of 750 ktpa in 2004. Plant capacity was expanded to 850 ktpa in 2005 with the addition of a parallel grinding circuit, flash flotation automation and a new flotation reagent. The Company bought out the minority shareholders in 2004 and 2005.

MINE LIFE, GEOLOGY AND MINERALIZATION. The mine life of Dukat is expected to be in excess of twenty years, including five years of open-pit mining (until 2011) and twenty years of underground mining (until 2026). The Dukat deposit covers 11.4 sq. km and comprises 84 distinct ore veins and ore zones. Ore bodies are steeply dipping with an average width of 6 to 15 meters. The five largest ore zones display continuity over several hundred meters and account for 85% of the ore reserves of the deposit. The largest ore body has a maximum thickness of up to 50 m, a strike length of 2 km and has been investigated by drilling and underground sampling to a depth of 600 m. Some smaller veins and zones have not been fully explored and there is potential to discover more ore beyond the currently known ore boundaries. Major ore minerals are silver sulfides, silver sulfosalts, native silver and native gold associated with sulfides.

In 2006, the Company acquired an exploration license for the Dukat Ore Field and commenced an extensive exploration campaign. The Dukat Ore Field comprises a highly prospective area of 40.6 sq. km immediately surrounding the Dukat mine. Drilling was completed in 2006, and the geology consists of gold and silver mineralization associated with quartz-chlorite-adularia and quartz-rhodonite veins, vein zones and areas of silicification. The Company plans to conduct 22,000 m of drilling at eight targets in 2007.

Several highly promising prospective areas have been identified near the existing operations and five exploration rigs are currently drilling the prospective sites of Nachalnoye-1, Nach-

alnoye-2, Neyag, and Irguchan. The best intersection at Nachalnoye-2 is 25 m with 1200 g/t silver starting at a depth of 50 m. The Company plans to continue drilling at these target sites in 2007 and 2008 and expects to define additional resources to feed the expanded Dukat processing plant scheduled to reach capacity in 2009.

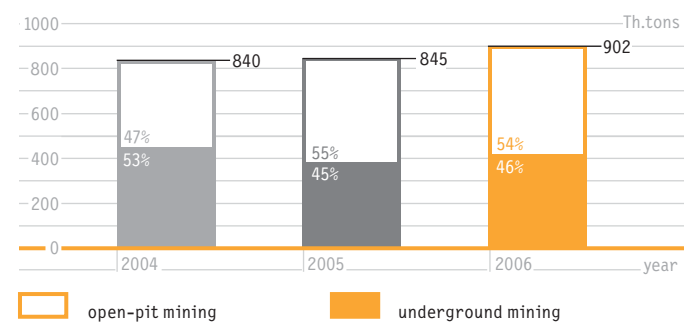
MINING AND PROCESSING. Mining at Dukat is conducted both by open-pit and underground methods using conventional mechanized mining equipment and techniques. The current total production rate is 950 ktpa with open-pit and underground produced ore contributing 400 ktpa and 550 ktpa respectively. Open-pit mining is being conducted in three stages and operations are currently focused on three of the seven identified pits.

Underground mining at Dukat employs sublevel open stopping, which makes use of the permafrost conditions throughout the mine making both host rock and ore very stable. Currently ore is transported to the surface through a system of adits. In 2005 the Company started the construction of the underground railway haulage designed to handle ore from the open-pit and underground mines and in order to reduce ore transportation costs. The Company currently expects this project to be completed by the end of 2007.

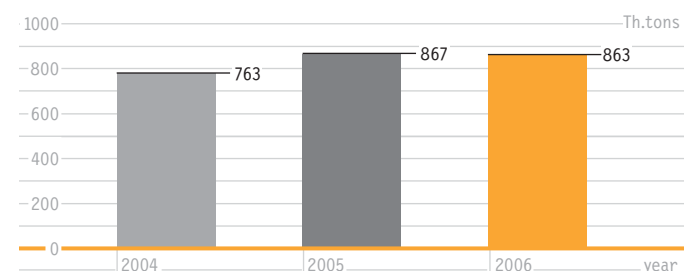
At Dukat, ore is processed using conventional sulfide flotation technology with a designed production capacity of 950 ktpa. The Dukat flowsheet comprises conventional flotation to produce a mixed sulfide concentrate which is transported to the Lunnoye processing plant where it is mixed with the Lunnoye ore and processed into zinc precipitate via agitated-tank cyanide leaching

	2006	2005	2004
Ore mined (Kt)	901	845	840
open-pit (Kt)	415	383	448
underground (Kt)	487	462	392
Ore milled (Kt)	863	867	763
Processing capacity (Ktpa)	950	850	750
Ag av. head grade (g/t)	558	603	606
Ag av. head grade (g/t)	1.2	1.2	1.4
Recovery rate, Ag	82%	79%	82%
Ag produced (Moz.)	12.6	13.4	12.1
Au produced (Koz.)	26	25	24
CapEx (US\$ mln)	9.7	5.6	5.0
Total Cash Costs, by-product basis (US\$/oz. Ag)	3.93	4.04	2.40
Total Cash Costs, co-product basis (US\$/oz. Ag)	4.81	4.57	3.14
Total Cash Costs, co-product basis (US\$/oz. Au)	320.66	275.07	184.25

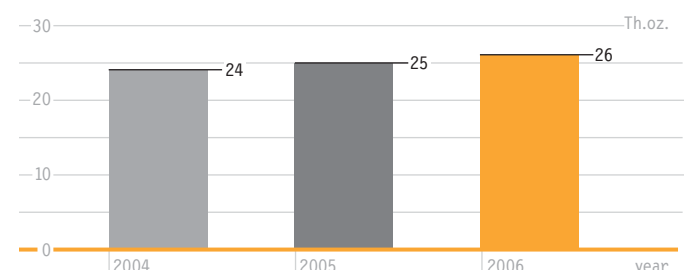
ORE MINED



ORE PROCESSED



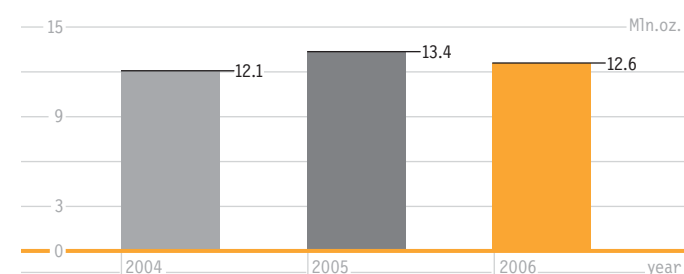
GOLD PRODUCTION



and the Merrill Crowe process. Collective precipitate is then processed into dore bars at the Company-owned smelter immediately adjacent to the Dukat processing plant. The tailings dam is a traditional ring-dyke impoundment, which was expanded during 2005 and 2006 in anticipation of the potential increase in processing capacity.

Production of silver at Dukat decreased from 13.4 million ounces in 2005 to 12.6 million ounces in 2006. Gold production at Dukat remained relatively constant throughout the periods presented. Recovery rates have risen steadily over the last three years as the new concentrate loading facility has minimized transportation losses and flotation technology has been customized for ores from various ore bodies. The Company plans to further improve recovery rates by commissioning a new gravel flotation circuit in the 2nd quarter of 2007. The amount of ore milled has been increased beyond the initial designed capacity by de-bottlenecking the grinding circuit at the processing plant. The Company has started a major capital project aimed at increasing processing plant capacity to 1.5 Mtpa. The Company plans to construct a new SAG mill adjacent to the current plant at an estimated capital cost of US\$ 1.1 million and to complete this capacity expansion at Dukat by the end of 2008.

SILVER PRODUCTION



The Company plans to increase grinding circuit throughput, to expand flotation and concentrate drying circuit as well as to build a new tailings storage facility. In the 4th quarter of 2007 the Company plans to commission a new SAG mill, a ball mill is to follow in 2008 as well. The new tailings facility is expected to be complete in the 3rd quarter of 2007. Company has recently commissioned flash flotation circuit, an investment targeted to increase recovery rate by 2-3%. The second flotation line comprising both flash and conventional flotation is planned to be commissioned in the 4th quarter of 2008. The ore feed will come initially from Nachalnoye-2 located on Dukat flanks where the company expects to publish the initial JORC-compliant reserve audit in the 4th quarter of 2007.

The current LOM plan includes production of 400 ktpa from the open-pit and 550 ktpa from underground operations until 2010. Thereafter, the production rate of 950 ktpa will be derived solely from underground operations. The transition to exclusively underground mining at Dukat is not expected to impact operating costs compared with open-pit mining costs. Open-pit mining costs at Dukat are relatively high due to the high stripping ratio, small size of the pits, and severe climatic conditions, which result in fuel and maintenance costs that are higher than usual. Underground mining at Dukat, on the other hand, is characterized by wide, steeply dipping ore bodies with good wall stability and consistent geometry down-dip and along strike. Also, with the completion of the underground railway haulage, underground mining costs are expected to decline as haulage distances are reduced and equipment productivity improves. The Company plans to provide ore for the second section of the expanded processing plant from several highly prospective ore occurrences on the flanks of the known orebodies.

INVESTMENT COSTS AND CASH COSTS. During 2006, the Company's capital expenditures at Dukat amounted to US\$ 9.7 million, mainly representing investments to build the new tailings dam and to expand processing plant capacity. In 2006, the Company purchased new tunneling machines and excavating equipment for underground works at Dukat. The Company has budgeted US\$ 0.4 million for installation of the underground railway haulage system in 2007. The actual costs of the Company's investments at Dukat and its other mines may exceed the amounts budgeted by the Company. Dukat and Lunnoye are closely linked technologically and are managed as a single business unit. In 2006 the combined Gold Institute Standard ("GIS") total cash costs were US\$ 3.93/oz of silver on a by-product basis and US\$ 4.81/oz of silver (and US\$ 320.66/oz of gold) on a co-product basis.

Lunnoye

LOCATION, ACCESS AND HISTORY. Lunnoye and Arylakh are located in the Magadan region; the nearest town Omsukchan. Lunnoye located approximately 150 km from Omsukchan can be accessed by an unpaved road. The satellite deposit Arylakh is located approximately 20 km from Lunnoye.

The Lunnoye deposit, discovered in 1987, is located in the southern part of the Arylakh ore basin and comprises 13 ore zones, four of which have been the focus of extensive exploration. Surface exploration and drilling programs at Lunnoye were completed between 1992 and 1995. A feasibility study was completed in 1994 and ore reserves were estimated to a depth of 400 m, the first 60 m of which were considered to be amenable to open-pit mining. Polymetal acquired the company holding the exploration and production licenses for Lunnoye in 1999. In 2001, construction of the processing plant was completed and open-pit mining commenced, with a processing capacity of approximately 300 ktpa. From 2003, the mine began co-processing ore from Lunnoye and concentrate from Dukat.

In 2006, the construction of the access adit marked the beginning of the construction of the underground mine, which the Company currently expects to reach its design capacity of 300 ktpa in 2008. The Company expects that the open pit will be fully depleted by the end of 2007. The Arylakh deposit was discovered in 1986 and, between 1987 and 1988, preliminary exploration was conducted, comprising a combination of trenching, diamond drilling and underground development.

The Company obtained an exploration and production license for Arylakh in 1999, and a feasibility study was completed in 2000. In the third quarter of 2006, the Company completed the construction of an all-year road from Lunnoye to Arylakh and purchased a mining fleet for this operation. Mining at Arylakh began in the fourth quarter of 2006, at which time the Company began processing ore from Arylakh at the Lunnoye plant.

MINE LIFE, GEOLOGY AND MINERALIZATION. LUNNOYE. According to the Company's current LOM plan, the Lunnoye mine life comprises a year of open-pit mining during 2007 and fifteen years of underground mining (from 2008). The Lunnoye deposit consists of thirteen zones of mineralization with the largest zone containing 85% of known ore reserves. The steeply dipping main ore body is 5 m to 35 m wide and lies on the immediate footwall of a major fault zone having a strike length in excess of 1 km. The ore zone is visually distinctive, which helps to contain dilution when mining. Major ore minerals present include silver sulfides and native free gold. The ore body is currently not fully defined at depth. Drilling in 2006 has identified several zones of mineralization, and the best intersections are 4.5 m at 11 g/t gold and 1,233 g/t silver. The Company expects to proceed with further delineation of deep-level mineral resources after underground mining commences.

The Company's exploration near Lunnoye consists of exploration at the Lunnoye deep levels, which has reached the feasibility study stage. The Company plans to conduct an extensive drilling program at Lunnoye in 2007.

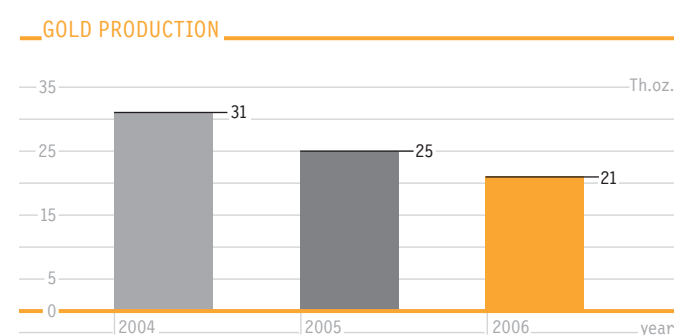
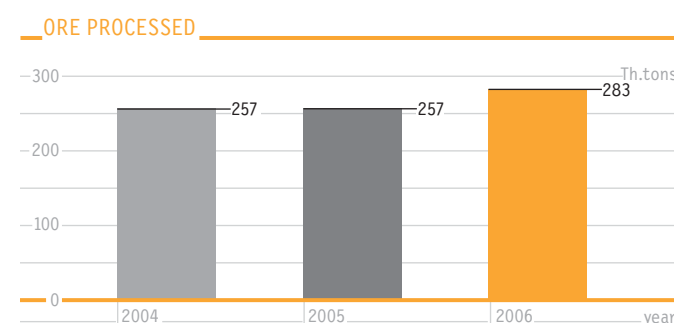
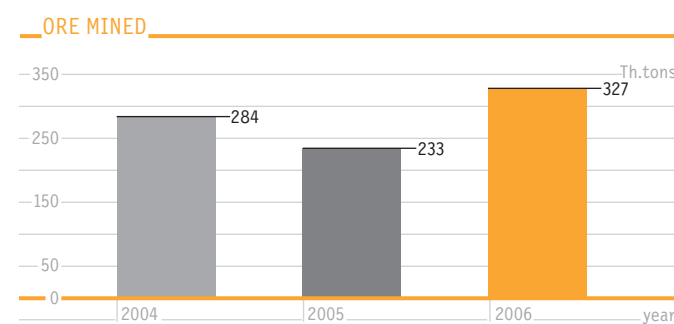
ARYLAKH. According to the Company's current LOM plan, Arylakh's mine life comprises nine years of open-pit mining from 2007. The Arylakh deposit's main ore body is a zone of multiple quartz veins up to 1.4 km in length and extending to a depth of 250 m. The ore body is currently open at depth. Several small veins are present parallel to the main ore structure. The main ore body has highly variable width from less than 1 m to 15 m which necessitates extensive grade control when mining. The ore contains very few sulfides, and most silver is in free form.

MINING AND PROCESSING. The Lunnoye operation comprises open-pit mining at a capacity of 300 ktpa with underground mining at a designed capacity of 150 ktpa planned from 2007 and rising to 300 ktpa by 2011. The operation comprises a conventional truck and shovel operation with drilling and blasting of ore and waste. The Lunnoye underground mine will use conventional sublevel open stopping.

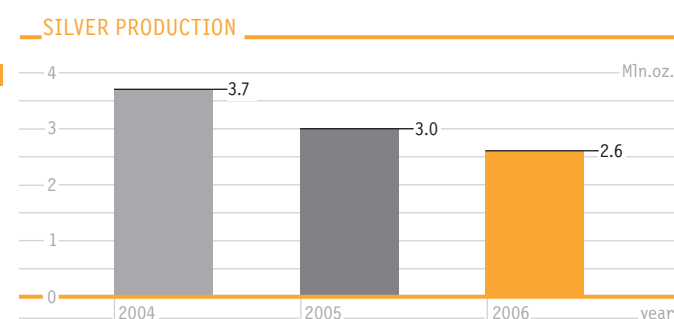
The Arylakh operation comprises open-pit mining at a production rate of 150 ktpa. Only open-pit mining is planned at this stage, although an extension by underground methods may be considered in the future. The deposit is planned as a satellite operation to Lunnoye and will utilize some of Lunnoye's open-pit mining equipment when Lunnoye's operations move underground. The same shift patterns used at Lunnoye are likely to be employed at Arylakh.

The Lunnoye Processing Plant processes ore from both the Lunnoye deposit and the Arylakh deposit, as well as concentrate from Dukat, by agitated-tank cyanide leaching and the Merrill Crowe process. The designed processing capacity of the plant is 300

	2006	2005	2004
Ore mined (Kt)	327	233	284
Ore milled (Kt)	283	257	257
Processing capacity (Ktpa)	300	300	300
Ag av. head grade (g/t)	335	382	499
Ag av. head grade (g/t)	2.5	2.9	3.7
Recovery rate, Ag	91%	96%	90%
Recovery rate, Ag	86%	94%	96%
Ag produced (Moz.)	2.6	3.0	3.7
Au produced (Koz.)	21	25	31
CapEx (US\$ mln)	5.0	1.3	1.8
Total Cash Costs, by-product basis (US\$/oz. Ag)	3.93	4.04	2.40
Total Cash Costs, co-product basis (US\$/oz. Ag)	4.81	4.57	3.14
Total Cash Costs, co-product basis (US\$/oz. Au)	320.66	275.07	184.25



NOTES: Production of silver at Lunnoye decreased from 3.0 million ounces in 2005 to 2.6 million ounces in 2006, due to falling head grades. Gold production at Lunnoye, decreased from 25 thousand ounces in 2005 to 21 thousand ounces in 2006.



ktpa of ore and 50 ktpa of concentrate. The tailings dam is a conventional valley-type impoundment. The processing plant at Lunnoye produces zinc precipitate which is subsequently converted to dore bars at the smelter.

INVESTMENT COSTS AND CASH COSTS. During 2006, the Company spent US\$ 5.0 million to start construction of the underground mine at Lunnoye and to build a road and buy a mining fleet for the newly commissioned Arylakh mine. During 2007 and 2008, the Company has budgeted US\$ 3.3 million to expand the underground mine and to build housing accommodation for employees at Lunnoye.

In 2006, their combined Gold Institute Standard ("GIS") total cash costs were US\$ 3.93/oz of silver on a by-product basis and US\$ 4.81/oz of silver (and US\$ 320.66/oz of gold) on a co-product basis.

Khakanjinskoye

LOCATION, ACCESS AND HISTORY. The Khakanja mine is located in the Khabarovsk Territory, approximately 1,100 km north of Khabarovsk and 480 km west of the city of Magadan. The only access to Khakanja from Khabarovsk or Magadan is by air; however, the port of Okhotsk lies 100 km to the south and can be accessed by road.

The Khakanja deposit was discovered in 1960 and extensive exploration was conducted in 1963 and 1971. The Company acquired the company holding the licenses for Khakanja in 1998. Development of the project commenced in 1999 with the construction of a road from the town of Okhotsk, which was completed during 2002. A pre-feasibility study was prepared in 2001 based on ore reserves of approximately 6 Mt of ore and a production rate of approximately 500 ktpa. The mine and mill complex at Khakanja was launched in 2003, and expansion of the mill capacity to 600 ktpa was completed in 2006.

The Yurievskoye deposit, located approximately 60 km from Khakanja, will be mined as a satellite operation. The deposit was discovered in 1975 and exploration was conducted between 1976 and 1980 by trenching, diamond drilling and underground development. The Company obtained a licenses for exploration and mining of the Yurievskoye deposit in 1998. During 2002, the Company conducted a feasibility study which established ore reserves of over 300 m of strike length. The Company plans to mine Yurievskoye by open-pit methods to a depth of 60 m to supplement production at Khakanja.

MINE LIFE, GEOLOGY AND MINERALIZATION.

KHAKANJA. According to the Company's current LOM plan, Khakanja's mine life consists of seven years of open-pit mining (from 2006) and six years of underground mining (from 2011). The mineralized horizon at Khakanja varies in thickness between 5 m and 90 m. The three distinct ore zones are separated by a series of fractures. The central ore zone containing 70% of the ore reserves has a strike length of 600 m and a proven down dip extension of 650 m. The northern ore zone has a strike length of 260 m and a down dip extension of 100 m, and the southern ore zone has a strike length of only 150 m and dips downward for 60 m. Gold is mostly free milling and fine-grained. Silver contained in the Khakanja ore zone is mostly in sulfide form. Very fine association with manganese accounts for the relatively low recovery of silver from the central ore zone. The Company has completed exploration of the Khakanja flanks and deep levels and currently plans conduct a feasibility study by the end of 2008.

YURIEVSKOYE. According to the Company's current LOM plan, Yurievskoye's mine life is three years of open-pit mining. The Yurievskoye deposit has a single ore body representing a steeply dipping vein system extending 700 m along strike with width varying from 0.5 to 15 m. The ore body extends to over 200 m below the surface, but the grade reduces with depth. The gold is free milling and relatively fine grained.

MINING AND PROCESSING. The Khakanja operation comprises open-pit mining at the Khakanja deposit at a designed capacity of 500 ktpa until 2008 and then at 350 ktpa from 2009, and is expected to be supplemented by underground production at a rate of 150 ktpa from 2009. Open-pit mining is expected to commence at the Yurievskoye satellite deposit in 2008.

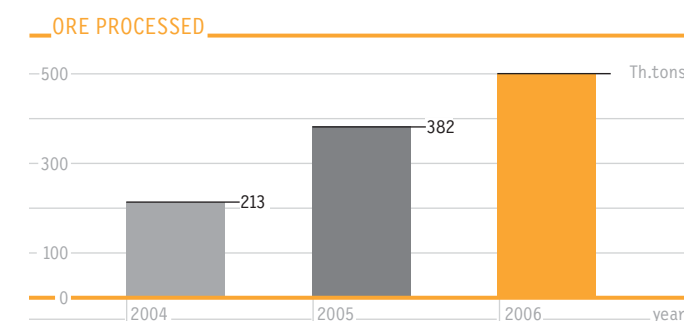
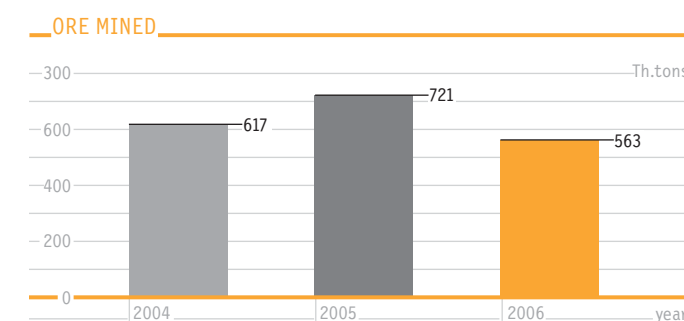
The Khakanja open-pit is a conventional truck and shovel operation. Three pits are planned at Khakanja. The central pit has thus far been the only source of ore, but operations will commence at the southern pit in 2009 to be followed by the northern pit in 2011. Underground production at Khakanja will only commence later in the life of the mine and at a production rate of 150 ktpa. Underground mining methods are expected to be fully mechanized and employ large non-entry stopping methods to extract ore at depths of 250 m below the surface. Approximately 900 people work at the mine.

The Yurievskoye deposit is located approximately 80 km from Khakanja, and the Company plans to blend ore from the Yurievskoye pit with ore from Khakanja at a production rate of 100 ktpa. The operation will be mined by two open-pits, which are planned to extract ore to approximately 60 m in depth. The Khakanja processing plant uses agitated-tank cyanide leaching and the Merrill Crowe process to extract metals from ore mined at Khakanja and, in the future, Yurievskoye. The plant's production capacity was increased to 600 ktpa in 2006 by replacing the secondary and tertiary crushing circuits with a SAG mill. Initially, the tailing dam was constructed as a conventional valley-type impoundment. In 2006, a new dry-stacked tailings facility was commissioned to avoid the necessity of raising the impoundment dam as well as to improve recoveries and lower reagent consumption. The plant produces zinc precipitate which is transported to the Krasnoyarsk refinery where it is toll-processed into commercial gold and silver bars.

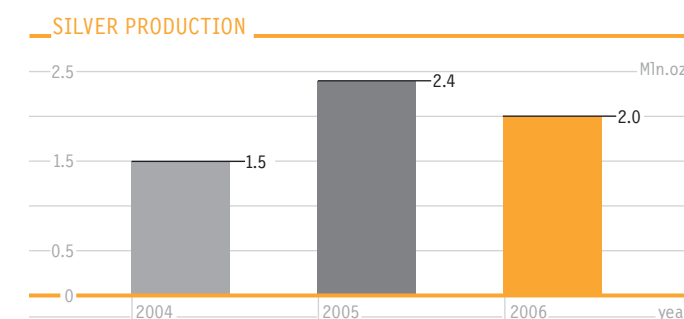
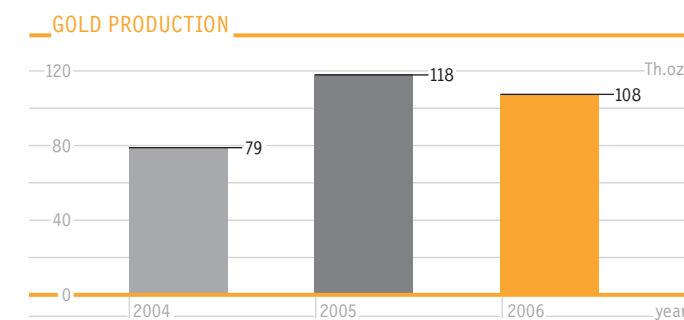
By the end of 2007 all the infrastructure facilities will be commissioned and the Company will start full-scale open-pit mining at Yurievskoye in the first quarter of 2008. The main objective of launching Yurievskoe is to fast-track mining higher-grade ore (13.3 g/ton of gold) and speed up the development of nearby exploration assets, which will share Yurievskoe's infrastructure. By now the Company has repaired the accommodation camp buildings at Yurievskoye, started constructing maintenance facilities, built the fuel storage depot and the explosives warehouse, completed the helicopter landing strip, and installed diesel-powered gensets. In the summer site development will continue with the construction of the winter road for future ore transportation to Khakanja (to be handled by contractors). The Company plans to use winter-road for 100–120 days a year, while in warm season the site can be accessed by helicopter. By the end of 2007 the construction of all site roads, ore storage, and the administrative building will be completed.

	2006	2005	2004
Ore mined (Kt)	563	721	617
Ore milled (Kt)	500	382	213
Processing capacity (Ktpa)	600	500	500
Ag av. head grade (g/t)	7.0	9.9	13.0
Ag av. head grade (g/t)	259	389	431
Recovery rate, Ag	96%	97%	90%
Recovery rate, Au	48%	51%	49%
Ag produced (Moz.)	108	118	79
Au produced (Koz.)	2.0	2.4	1.5
CapEx (US\$ mln)	8.5	6.0	7.0
Total Cash Costs, by-product basis (US\$/oz. Ag)	80.10	64.43	97.96
Total Cash Costs, co-product basis (US\$/oz. Ag)	216.26	160.26	158.17
Total Cash Costs, co-product basis (US\$/oz. Au)	3.94	2.38	2.56

During twelve months ended 31 December 2006, gold production decreased to 108 thousand ounces from the 118 thousand ounces produced in the twelve months ended 31 December 2005, and is expected to decrease further in 2007, due to falling head grades. Silver production at Khakanja decreased from 2.4 million ounces in 2005 to 2.0 million ounces in 2006 also due to significantly falling head grades.



INVESTMENT COSTS AND CASH COSTS. The Company spent US\$ 8.5 million in 2006 for the purchase of five dump trucks, a drill rig, a wheel dozer and an excavator for the open-pit mine and to complete mill expansion. In 2006, the GIS total cash costs for Khakanja were US\$ 80.10/oz of gold on a by-product basis and US\$ 216.26/oz of gold (and US\$ 3.94/oz of silver) on a co-product basis.



Vorontsovskoye

LOCATION, ACCESS AND HISTORY. Voro is located approximately 450 km north of the city of Ekaterinburg and 20 km south of the town of Krasnoturinsk in the Sverdlovsk region of the Russian Federation. There is good access from Ekaterinburg along a federal highway.

The deposit was discovered in 1985 and comprises both oxide and sulfide mineralization. In 1998, the Company acquired the company holding the mining license for Voro. In 1999, the Company instituted a pilot scale project to commence mining from the oxidized ore zone. The Company commenced mining and processing of the oxidized ore at Voro in 2000, with a processing capacity of 800 ktpa. Construction of the processing facilities for treating the primary ore using carbon-in-pulp ("CIP") technology was completed in November 2004. In 2005, processing operations for the primary (unoxidized) ore commenced at the Voro site with a project capacity of 600 ktpa.

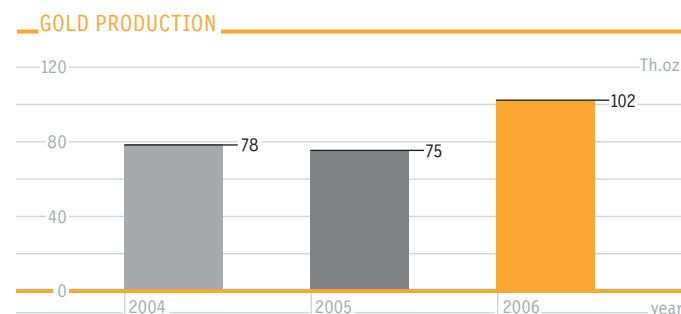
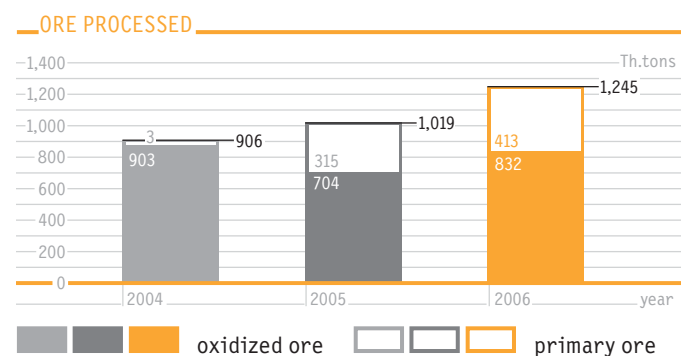
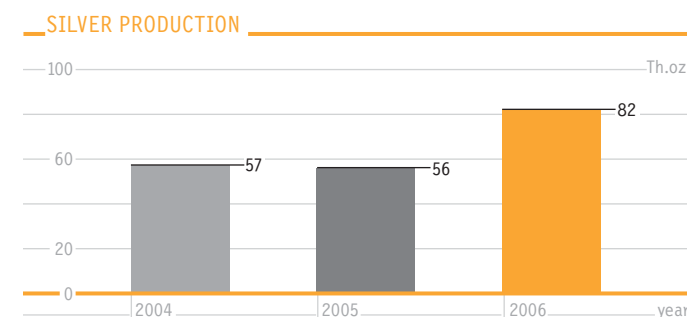
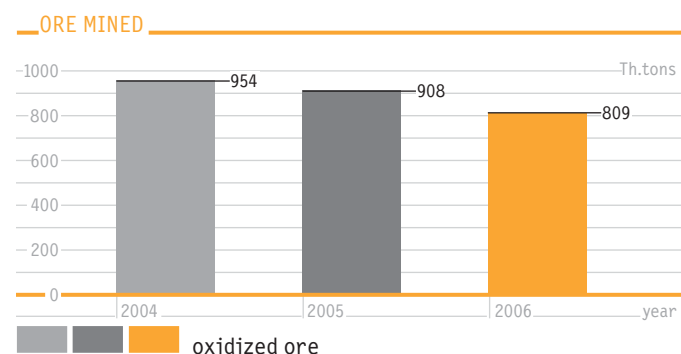
MINE LIFE, GEOLOGY AND MINERALIZATION. According to the Company's current LOM plan, Voro's mine life consists of twelve years of open-pit mining (from 2006) at the northern pit, including mining of oxidized ore until 2012 followed by mining of primary ore until 2018. The mine life at Voro's southern pit comprises five years of open-pit mining (from 2011), mainly of oxidized ore.

The Voro deposit is a fracture zone with the main ore body dipping at approximately 40 degrees. The ore body generally lies in the footwall of the fault. The upper 40 m of the ore body is characterized by strong oxidation making the ore amenable to heap leaching. High-grade mineralized zones within the main ore envelope are erratic in shape and distribution. Oxidized gold at Voro is mostly in free form. In primary (unoxidized) ore, gold occurs in a variety of forms including: intergrown with host rock minerals, coated with iron oxides, sulfide locked and attached to silicates. The highly variable mineralogy of primary ore requires careful selection of processing regimes and accounts for relatively low recovery rates for gold at Voro.

MINING AND PROCESSING. The Voro deposit is mined solely by open-pit mining methods and is expected to continue until the end of its mine life as an open-pit mine. Ultimately the mine design will result in the excavation of two pits: a deep pit to the north, to a depth of 240 m, and a shallow pit to the south to a depth of 80 m. A conventional truck and shovel operation is employed; drilling and blasting are used in the deep pit but are not expected to be required in the shallow pit. There is very little oxidized ore left in the deep pit so in the future heap leaching will mainly be sourced from the shallow pit and stockpiles. Drilling operations at production and exploration sites are carried out by third-party contractors. Voro processes two types of ore: primary and oxidized. For primary ore (processed using CIP technology, the plant's current designed production capacity is 600 ktpa. Following reconstruction and upgrades which the Company plans to complete during 2008, capacity is expected to increase to 940 ktpa starting in 2009.

For oxidized ore (processed using heap leaching and the Merrill Crowe process), the plant's current designed production capacity is 800 ktpa. Heap stacking is carried out from April to October while cyanide solutions are applied and gold is recovered year-round. Before stacking, oxidized ore is processed through two-stage crushing and agglomerated using cement. Leach pads are constructed on a solid base of clay and crushed stone with a 2 mm low density polyethylene liner to ensure full containment of cyanide-bearing solutions. The CIP plant performed below expectations in 2005 as variable ore characteristics and large amounts of clay depressed recoveries and reduced throughput due to unfavorable climatic conditions during the rainy months of February–March and November–December. In 2006, the Company modified the CIP plant to increase recovery rates by improving carbon transfer, increasing pulp aeration and introducing carbon attrition screens, among other things. Tailings from the CIP plant are filtered and dry-stacked on a lined pad preventing cyanide discharge and providing minimal disturbance of the landscape.

	2006	2005	2004
Ore mined (kt)	809	908	954
Ore milled, oxidized ore (kt)	832	704	906
Ore milled, primary ore (kt)	413	315	3
Processing capacity (ktpa)	1,400	1,400	800
Au av. head grade, oxidized ore (g/t)	2,2	2,9	3,6
Au av. head grade, primary ore (g/t)	5,9	4,3	4,0
Recovery rate Au, oxidized ore	70%	67%	73%
Recovery rate Au, primary ore	77%	70%	–
Ag produced (Moz.)	102	75	78
Au produced (Koz.)	82	56	57
CapEx (US\$ mln)	8.1	7.6	8.3
Total Cash Costs, by-product basis (US\$/oz. Ag)	308.87	220.69	218.54
Total Cash Costs, co-product basis (US\$/oz. Ag)	311.44	223.15	220.75



Production of gold at Voro increased to 102 thousand ounces in 2006 compared with 75 thousand ounces produced during 2005. Increases in gold production at Voro were due to rising production capacity at the CIP plant. Production increased during 2006 following enhancements at the facility for processing primary ore, but the Company expects to incur increased costs in 2007 in connection with the high clay content of ore at Voro. Voro does not currently produce significant quantities of silver. Voro produces dore bars which are shipped for tolling treatment to third-party state-owned refineries, with the end product being commercial gold bars.

In the third quarter of 2006, the Company began construction in order to increase the capacity of the CIP plant. The Company plans to add additional capacity to process resources expected to result from the Sverdlovsk regional exploration campaign, and plans to increase production capacity at Voro to up to 940 ktpa in 2008 and 2009. The Company believes that increased throughput will be made possible by a substantial increase in ore reserves following the re-estimation of cut-off grades. In the first stage, the Company expects to replace the existing secondary and tertiary crushing circuit with a SAG mill by the end of 2007. The Company currently believes that the plant should reach its new capacity of 900–940 ktpa by the end of 2008 following renovation of the leaching and filtering sections.

INVESTMENT COSTS AND CASH COSTS. The Company spent US\$ 8.1 million in 2006 to increase the production capacity of the CIP plant and to build a walking dragline. In 2007, the Company plans to purchase two excavators and a drill rig. In 2006, the total GIS cash costs for Voro were US\$ 308.87/oz of gold on a by-product basis and US\$ 311.44/oz of gold (and US\$ 5.35/oz of silver) on a co-product basis.

Exploration and Development

Strategy

The Company's exploration and development activities consist of stand-alone development projects, regional exploration campaigns and extensive exploration around its existing deposits. The Company's exploration portfolio as of December 31st, 2006 includes sixteen licenses covering an area of approximately 3,100 sq. km. The Company has established specialized exploration subsidiaries to conduct exploration campaigns and carry out all necessary work, including drilling, trenching, geochemical work, and sample preparation. From time to time, the Company may make acquisitions or participate in auctions to acquire properties in order to expand its exploration and development portfolio.

_ The Company has exploration programs around the Dukat, Lunnoye, Khakanja and Voro mines aimed at extending the economic life of the existing mines and finding mineral resources to supply expanding production. Through its exploration activities near existing mine sites, the Company also seeks to leverage existing infrastructure and available human resources.

_ The areas represented by the operating mines include six licenses covering an area of approximately 165km². The stand-alone exploration projects include one project and 9 prospects with a combined area of 323km² represented by six specific licenses. In the first quarter of 2007 the Company has obtained 3 longterm licenses - which expire in 2032 - for geological exploration and gold and silver mining in the Khabarovsk Territory of Russia. The newly licensed areas cover more than 2,500 sq. km

Exploration property	Area (km ²)	Location	Licence Type	Licence Expiration Date
Stand-Alone Exploration Projects				
Albazino	82.00	Khabarovsk Territory	Exploration and production	January 2015
APU	161.50	Chita Region	Exploration	September 2008
Anenskoye	11.80	Krasnoyarsk Territory	Exploration and production	December 2027
Fevralskoye	0.59	Sverdlovsk Region	Exploration and production	September 2018
Galkinskiy	3.50	Sverdlovsk Region	Exploration	December 2010
Khakarinskaya	64.00	Khabarovsk Territory	Exploration and production	December 2025
Subtotal	323.39			
Regional Exploration Campaigns				
Omsukchan Exploration Campaign				
Dukat Ore Field	40.60	Magadan Region	Exploration and production	November 2031
Dukat Prospective Area	2,420.00	Magadan Region	Exploration	July 2011
Okhotsk Exploration Campaign				
Arkinskaya	135.00	Khabarovsk Territory	Exploration	March 2011
Sverdlovsk Exploration Campaign				
Kataminskiy	28.00	Sverdlovsk Region	Exploration and production	March 2031
Rudnichniy	7.90	Sverdlovsk Region	Exploration	August 2011
Subtotal	2,631.70			
Total	2,955.09			

NOTES: _ as of December 31st, 2006

_ In addition to the above the Company has entered into a preliminary agreement to establish a strategic alliance with AngloGold Ashanti.

Stand-Alone Exploration Projects

ALBAZINO. In July 2006, the Company purchased 100% of Resources Albazino, including the operating licenses for the Albazino gold deposit in the Khabarovsk Territory, for total cash consideration of US\$ 7 million. A recent mineral resource audit conducted by Snowden estimated the indicated and inferred mineral resources to be 6,605 thousand tons at a grade of 5.2 g/t yielding approximately 1,098 thousand ounces of contained gold. The Albazino deposit was discovered in the 1950s, and sporadic exploration continued in the 1980s and during 2002–2003. The total licenses area is 82 sq. km. The main ore zone (Anfisinskaya) is traced for 400 m along strike on the surface and up to 270 m deep with drill holes. Ore bodies are up to 60 m wide, with surface outcrops containing dips of 45–50 degrees. The ore zone is open along the strike and at depth and shows significant intersections, including 7 m at 13.3 g/t, 20 m at 2.3 g/t, 60 m at 3.9 g/t and 5 m at 13 g/t.

_ The ore consists of refractory sulfides, including pyrite and arsenopyrite. Several areas with significant surface gold geochemical anomalies exist outside the main mineralized zone and will be drill tested in the future.

_ Albazino is located in the remote Polina Osipenko district of the Khabarovsk Territory, approximately 500 km from the city of Khabarovsk and approximately 700 km from Khakanja. Access is from Khabarovsk by river to the seasonal port of Oglongi, which is located 90 km from the site. From January to March there is also a 300 km winter road from the railway station of Solnechny. The Company believes that significant transportation synergies with Khakanja can be realized by joint handling of cargo.

_ Albazino is suitable for open-pit mining with a targeted capacity of up to 1.5–2 Mtpa, and the Company has completed a preliminary metallurgical testwork program which has proved the viability of conventional flotation followed by pressurized oxidation (POX). In-house development of the complete flow-sheet is currently scheduled for the third quarter of 2007. The Company is currently undertaking an extensive drilling campaign and conducting metallurgical testwork and geotechnical sampling to bring this project to a feasibility study by the third quarter of 2008. 750 m of drilling was completed in 2006. The Company believes that the existing mineral resource can be significantly expanded and is currently targeting at up to 3 Moz of contained gold by 2009. The Company currently expects to start producing at Albazino in 2010.

ANENSKOYE. The Anenskoye project is located in the Sukhoi Buzim district of the Krasnoyarsk Territory, approximately 200 km from Krasnoyarsk and 15 km from the paved roads and an energy transmission line. Anenskoye forms part of the proposed strategic alliance with AngloGold Ashanti. The site has produced more than 20 tons of placer gold since the 1940s. Extensive drilling on site has identified an ore body with strike length of approximately 400 m dipping and traced by drill holes to a depth of 200 m and an average width of 1.5 m at 10 g/t. The mineralization at Anenskaya comprises a greenstone-hosted quartzlode deposit. The Company has completed a 'Cobra' drilling bedrock geochemical program which revealed several strong gold-zinc-lead-arsenic geochemi-

cal anomalies. Two ore zones have been defined to date by diamond drilling to a depth of 120m. The average vein thickness is 1.5m. Approximately 550 Koz of gold has been mined from placers in the surrounding drainages. The Company has stopped field work pending the grant of the new licenses but has already identified six further targets for warrant testing. Existing evidence suggests that the Anenskaya Ore Field is a significant exploration target with a high potential.

_ In the second quarter of 2007, the exploration license for Anenskoye deposit has been successfully converted into a combined license (exploration and production) through the procedure based on pioneer discovery rights. The Company intends to explore additional targets within the license area using geochemical and geophysical surveys. Further exploration is clearly warranted and by the second quarter of 2009 the company is expected to complete JORC-compliant audit of the mineral resources of Anenskoye deposit. The resource potential of the license area presently estimated at 2 Moz of gold.

APU (APRELKOVSKO-PESHKOVSKIY UNIT). The APU project is located in the Balei district of the Chita region, 100 km from the town of Balei along mostly roads unpaved all year round. An operating gold heap leach mine is located immediately adjacent to the property. The license covers an area of 161.5 sq. km, and the site has been identified as highly prospective due to the discovery of porphyry-style disseminated mineralization. The APU Prospect comprises three targets, namely: the Talovy Prospect, the Rudni Prospect, and the Aprelovsko-Peshkovsky Prospect.

_ In 2006, the Company evaluated the area with extensive geochemical sampling and trenching. Several mineralized targets were identified with some trenches showing material gold grades (~1 g/t) for up to 50 m intervals. The Company commenced drilling on the property in the first quarter of 2007 with the aim to upgrade mineralization to mineral resource status by the end of 2007. The Company's exploration strategy for APU comprises detailed mapping, over 2,700 m of bedrock geochemical drilling, 42,000 m³ of trenching and approximately 5,000 m of drilling. APU is part of the proposed strategic alliance with AngloGold Ashanti.

FEVRALSKOYE. The Fevralskoye project is located in the Sverdlovsk region, approximately 600 km from Voro and 20 km from the town of Sukhoi Log, of which 3 km are along an all-year paved road. The licensed area was home to eight shallow underground mines which exploited high-grade portions of mineralization and produced in total approximately 10 tons of gold in the nineteenth and early twentieth centuries.

_ At Fevralskoye, geochemical and geophysical sampling along with several drill holes revealed presence of gold in quartz veins as well as in zones of weathering and oxidation in 2002. Currently the Company is drilling several targets with the goal of confirming the potential of economic mineralization by the end of 2007. The Company currently intends to bring Fevralskoye to the feasibility study stage in the second half of 2008.

GALKA. The Galka project is located in the Karpinsk district of the Sverdlovsk region, approximately 20 km from the town of Karpinsk and 40 km from the Voro mine along all-year roads, 10 km of which are unpaved.

The area was explored for copper and zinc in the 1960s with little success. The Company has identified Galka as prospective for gold and silver on the basis of the information of the State archives. The Company obtained an exploration license for Galka in 2006.

The Company started drilling in the third quarter of 2006, and so far has identified three mineralized zones of 500-700 m length, each on surface outcrop. Several drill holes have traced steeply dipping mineralization to 150 m in depth. Intersections vary from 9 m to 29 m in width with average grades of 2.5 g/t gold and 60 g/t silver. The upper 5-10 m of mineralized zones are oxidized with material at greater depths consisting of sulfidic non-refractory ores. In the second quarter of 2007, the Company completed a JORC-compliant audit of resources at the gold-silver-zinc Galka deposit. Audited resources in indicated and inferred categories are estimated at 1.6 Moz of gold equivalent to an average head grade of 3.5 g/t of Au equivalent. Galka is only 20 km away from Polymetal's operating Voro mine in Russia's Sverdlovsk region and should benefit from well-developed infrastructure in the immediate vicinity of the deposit. The Company aims to expand the size of the resource to at least 3 Moz of gold equivalent by undertaking further exploration. Polymetal intends to complete the pre-feasibility study and prepare JORC-compliant estimate of ore reserves at Galka by the end of 2008.

The Galka resource is presently fully open-pit, which together with the opportunity to rely on the existing Voro infrastructure should ensure its competitive cost position. The Galka ores are mostly represented by non-refractory sulfides with no penalty elements present and are thus amenable to conventional processing.

Over the next two years, the Company plans to continue extensive exploration at the site. During 2007, Polymetal plans to drill 7000 meters, as well as conduct magnetic and electrical surveys on the flanks of the deposit. In the third quarter of 2008, the Company plans to complete the pre-feasibility study, including JORC-compliant ore reserves and mineral resources estimation, and to conduct State expert review of the reserves. In the fourth quarter of 2008, the Company intends to convert the exploration license into a combined license (exploration and production) through the pioneer discovery procedure.

The Company believes that further exploration at Galka can at least double the mineral resources by the end of 2008. Some ore bodies have not been drilled yet, while some of the discovered ore bodies remain open at depth and along strike.

KHAKARI. The Khakari project is located in the Okhotsk district of the Khabarovsk Territory, approximately 170 km from the Yurievskoye deposit. The area is very remote with seasonal access (December to March) along a winter road. Emergency supplies are delivered by helicopter or light aircraft (there is a landing strip adjacent to the site). Mineralization at Khakari was discovered in

the mid-1990s, and Polymetal acquired a combined production and exploration license for the area in 2006 and conducted surface sampling in 2006.

The Company has identified a mineralized zone (Krasiviy) with an outcrop of more than 400 m long strike with grades from 2 g/t to 30 g/t gold with widths ranging from 2 m to 12 m. Historic drill holes have found intercepts of up to 25 m at Au 9.1 g/t and numerous high grade rock-chips have been reported. The best intersection at the depth of 50 m is 18 m at 12 g/t. The Krasiviy zone is open both at depth and along strike.

In 2006, Polymetal also identified surface outcrops of two similar structures with surface samples having significant gold grades for 200-250 m along strike. The mineralization is of epithermal type with free milling gold amenable to conventional cyanidation. The Company has begun drilling, and currently plans to proceed to complete in-house pre-feasibility study by the end of 2008. The Company considers Khakari to be a very promising project, given consistently high grades in surface samples, significant strike lengths of mineralized zones on the outcrop, and relatively simple metallurgy.

Regional Exploration Campaigns

OMSUKCHAN REGIONAL PROGRAM. The Company owns two licenses which completely surround the Dukat Mine. The Company's exploration activities in the Magadan region include its exploration license for the Dukat Prospective Area. The regional exploration team has been formed under the leadership of the exploration team that discovered Lunnoye. In the third quarter of 2006, the Company was granted a license for the Dukat Prospective Area for a 2,420 sq. km area covering roughly 70% of the Omsukchan silver belt, where Dukat, Lunnoye and Arylakh, as well as other operating mines and known deposits are located. There are numerous mineralized occurrences with significant silver content received from surface samples and rare drill holes. Significant Soviet-era exploration data is available for the Dukat Prospective Area.

Detailed exploration comprising of geological mapping, geochemistry, trenching and some diamond drilling was completed throughout the smaller license area in 2006. Drilling is ongoing and a total of 22,000m of drilling is planned at 8 targets in 2007. Gold/silver mineralization is associated with quartz-chlorite-adularia and quartz-rhodonite veins, vein zones and areas of silicification. Currently the information available is insufficient to derive any Mineral Resource estimates as defined by the JORC Code. The available geological data, however, indicates that the license is highly prospective, that further exploration is justified, as the area has the potential to materially add to the Mineral Resources as currently presented for the Dukat Mine.

In 2006 the Company also received the license for the Dukat Ore Field License, which is situated in the immediate area of the Dukat Mine situated in the Omsukchansky administrative division of the Magadan Oblast, the Far Eastern Federal District of Russia, some 410km northeast of the city of Magadan, the administrative centre of the Magadan Oblast and a port on the Sea of Okhotsk.

The Company performed reconnaissance work in 2005 and 2006 with the aim of performing detailed geochemical surveys on selected targets in 2007 and the commencement of drilling at eight targeted sites in 2008. The Company plans to conduct full geochemical sampling and 40,000 m of drilling in the Dukat Prospective Area by 2009. The Company is currently targeting the Omsukchan region as a key part of its strategy to expand its mineral resource base by 2010. The Company is focusing on discovering large deposits suitable for the development of stand-alone operations.

In the first quarter of 2007, the Company obtained its first geological results from one of its targets in the area, Pereval. Preliminary results from the drilling suggest that the ore-bearing zone is approximately 300 to 400 meters in length and open along strike in both directions. The zone is located approximately 30 km from the Dukat deposit and 1 km from the road that connects Dukat with Lunnoye.

Preliminary results indicate that this zone may lead to a substantial increase in Dukat's mineral resource base with the potential to feed the existing plant, which is currently being expanded to a capacity of 1.5 Mtpa. The Company has already carried out 1,000 meters of drilling at the site and expects to complete an additional 3,000 meters of drilling in 2007. The overall exploration program at the project calls for 19,000 meters of drilling, geochemical prospecting and trenching. The Company plans to complete a JORC-compliant mineral resources and reserves audit at the Nachalniy-II area of the Dukat Ore Field in the third quarter of 2007.

OKHOTSK REGIONAL PROGRAM. The Company intends to capitalize on the excellent infrastructure assets, including a fuel depot, port warehouses, and the road to Khakanja and take advantage of the vast under-explored potential of the Okhotsk district with its numerous known gold and silver occurrences and, in addition to Khakanja and Yurievskoye, several smaller deposits identified during the Soviet times. The Company received an exploration license for Arkinskaya in 2006 and intends to significantly expand its license areas in the district in 2007. At Arka, the Company plans to perform reconnaissance and geochemical work in 2007 in order to define the mineral resource potential of the area in 2008.

In the first quarter of 2007, the Company obtained three long-term licenses for geological exploration and gold and silver mining at the Amkinskaya, Arkinsko-Selemdzhinskaya and Yuzhno-Uraskaya areas in the Khabarovsk Territory of Russia. The newly licensed areas cover more than 2,500 sq. km. and are located in close proximity to Polymetal's silver and gold producing Khakanja mine and its satellite Yurievskoye deposit in the Okhotsk District of the Khabarovsk Territory, allowing the Company to potentially capitalize on existing infrastructure in the area. The Company plans to launch extensive geological study at the newly licensed areas in 2007.

According to the conditions in the licensing agreements, the two flanks areas have mineralizations similar to what are seen at Khakanja and Yurievskoye. The Company will aim to use the two flanks areas to expand the mineral resource base and increase

the life of mine at Khakanja. Khakanja currently has an estimated life of mine until 2013 for open-pit and from 2011-2017 for underground operations.

SVERDLOVSK REGIONAL PROGRAM. In 2006, the Company received two licenses for Katasminskiy and Rudnichniy, both the areas are in close proximity of the Voro mine. The Katasminskiy and Rudnichniy deposits are located 20 km and 4 km from the mine site respectively. The Company intends to expand its licensed holdings in the area, as it believes the northern part of the Sverdlovsk region to be of strategic importance. The Company has targeted the area for Greenfield exploration effort due to its historic and current prospectivity, excellent infrastructure, and qualified personnel. The Company intends to leverage Voro's resources through these exploration efforts at Katasma and Rudnichniy. During the third quarter of 2006, the Company commenced preparations for geological exploration at the Rudnichniy site. Primary geological exploration and deep geochemical searches are currently ongoing at Katasma. The Company currently intends to start drilling at both Katasma and Rudnichniy in 2007.

Exploration Program

The Company has developed an exploration program to advance both on-mine exploration, expansion and the exploration properties. The exploration expenditure encompasses the Company's commitments in respect of grass-roots exploration activities, technical studies and regional expenditures for logistical support.

Total exploration related expenditures in 2006 was US\$ 15.8 m compared with historical expenditures (including acquisition costs) of US\$ 2.3m in 2005.



Expansion projects

Dukat

In 2006, Polymetal started a capacity expansion project at the Omsukchan Processing Plant. The construction of the stage II of the plant will result in increased capacity of 1.5 Mtpa of ore and improved recovery. The project involves modernization of the processing plant and introduction of new technological facilities, namely increasing the capacity of the grinding circuit, expanding the flotation and concentrate drying sections, and building a new section of the tailings impoundment.

The Company performed technological and conceptual design of the plant modernization project based on the results of Polymetal Engineering's research.

In 2006, Polymetal Engineering designed the tailings impoundment No. 3 construction project that passed all expert evaluations required by the current legislation. By the end of 2006, the actual construction of the tailings impoundment entered its final stage.

The construction of the plant's new flash flotation and gravity concentration section that is planned to commence production in the 2nd quarter of 2007 also started in 2006. Implementation of this project will increase recovery on the ore-to-concentrate stage.

At present, all the necessary design criteria for the capacity expansion have been finalized, and Polymetal Engineering has already begun to prepare operation documentation. The project will be implemented in several stages: the new SAG mill and the tailings impoundment will be available by the end of 2007; the ball mill and flotation and drying sections in 2008. The planned capacity of 1.5 million tons of ore is expected to be achieved by the end of 2008.

Total investment in the project is estimated at approximately US\$ 50 million, of which US\$ 20 million has already been spent. In 2006, investment in the project totaled US\$ 10.8 million, of which US\$ 3.8 million was spent on geological exploration. In the years 2007 and 2010, US\$ 18 million of the total amount will be used for geological exploration of potential deposit extensions within the existing license areas – the Dukat Prospective Area and the Dukat Ore Field.

All the necessary exploration and mining licenses were obtained by Polymetal in the 3rd quarter of 2006. Initially, the plant's additional demand for ore will be satisfied by exploration of Nachalny-II target located on the flanks of the deposit. There are plans to audit and publish a JORC standard resource for this target in the 4th quarter of 2007. Geological exploration performed in 1960-1980 identified the Dukat Ore Field and the Dukat Prospective Area as having potential for discovering gold and silver.

In the years 2007-2010, the Company plans to further explore the Dukat Ore Field and the Dukat Prospective Area to define gold and silver resources and reserves in 2010. Taking into account inadequate exploration to date and given the launch of the intensive exploration program involving 22 thousand meters of drilling, the Company expects to discover 193 million ounces of silver by 2010. As a result of the construction of the stage II of the plant, Polymetal's additional annual silver output will amount to 6 million ounces by 2009.

Vorontsovskoye

In 2006, Polymetal launched expansion of the primary ore processing plant from 500 to 900-940 Ktpa.

The Company developed design solutions of the gold processing plant reconstruction. In the 1st quarter of 2007 Polymetal Engineering developed a program for geotechnical survey of new construction sites.

The key areas of the plant intended to be upgraded are:

- _ grinding circuit;
- _ preliminary cyanidation and CIP;
- _ desorption and electrolysis;
- _ filtration of leach cakes.

Through the installation of new or additional equipment and the modification of the existing facility areas, the Company expects to increase ore capacity and decrease production costs.

The first stage of facility modification includes the expansion of the grinding circuit. By 2008 Polymetal plans to commence operation of the SAG mill, which will increase plant throughput to 600 Ktpa in the 1st quarter of 2008.

To improve the preliminary cyanidation and CIP process, there are plans to locate new leach tanks [1,400 m³] and a thickener [diameter - 22 m] outside the primary ore processing area.

Ore processing expansion requires to implement state-of-the-art equipment at the desorption and electrolysis circuit and build a new leach cake filtration facility. The Company plans to install three new desorption columns [4 m³] and auxiliary equipment at the desorption and electrolysis circuit.

As part of the conversion of cake filtration circuit, Polymetal plans to launch a state-of-the-art semiautomatic press-filters unit, as well as to install a tank with pumps to feed pulp to the filters, and a new conveyors for cake transportation.

This project is expected to be completed in the second half of 2008 to enable the gold processing plant to reach its design capacity of 900-940 Ktpa in 2009 which will result in additional annual production of 30-40 Koz of gold.

Total investment in the ore processing plant expansion project at the Vorontsovskoye deposit is estimated at US\$ 10-12 million.

Albazino

In July 2006, Polymetal paid US\$ 7 million to acquire a 100 percent stake in Albazino Resources LLC – the Albazino gold deposit license owner.

The Albazino deposit is located in a remote district of the Khabarovsk region, about 500 km from Khabarovsk, and 700 km from the Khakanja deposit. Access to Albazino is available only through the river port of Oglongi, 80 km away from the deposit. Polymetal is planning to achieve significant transport synergies by combining freights for Khakanja and Albazino.

The license area covers 82 square kilometers. The primary ore zone Anfisinskaya stretches over 400 meters and is up to 270 meters deep. Ore bodies reach the widths of up to 60 meters. The ore zone is open along strike and depth and exhibits layering. Indicative drill intersections include: 13.3 grams per ton at 7 meters, 2.3 grams per ton at 20 meters, 3.9 grams per ton at 60 meters, and 13 grams per ton at 5 meters. The ore is refractory, sulfide-rich, and contains pyrite and arsenopyrite (iron arsenide sulfide). Several areas with significant gold geochemical anomalies were also discovered outside of the main mineralization zone. The Company plans to conduct drilling in these areas in the future.

The Company considers the deposit a potentially independent site. Albazino will be mined by the open pit method, and its annual output is estimated to be at 1.5-2 Mt of ore. The Company has already completed preliminary technological research confirming viability of the traditional flotation technology of concentration, with subsequent pressure oxidation and carbon-in-pulp (CIP) recovery method. The Company plans to develop a detailed development plan by the end of the 4th quarter of 2007.

In 2006, Polymetal Engineering developed a Declaration of Intent to build a mining and ore concentration complex on the Albazino gold deposit that stipulates construction of the two processing plants. The first will be on site and will produce only gold concentrate; the second, located in the town of Amursk of the Khabarovsk region, will further process this concentrate.

As a result of the public hearings held by the Company in the 1st quarter of 2007, the local communities supported construction of the mining and processing complex at Albazino.

A geological audit conducted jointly by Polymetal and Snowden Mining Industry Consultants (Australia) and completed in the 4th quarter of 2007 resulted in the following JORC compliant resources:

ALBAZINO RESOURCES (JORC CODE)

	Tonnage (kt)	Content (Au, g/t)	Metal (Au, Koz)
Indicated	4,300	5.56	769
Inferred	2,305	4.44	329
Total mineral resources	6,605	5.17	1,098

Snowden Mining Industry Consultants concluded that further active exploration may lead to a significant increase in the scope of the project.

In the summer of 2006, the Company started a large-scale geological exploration program along with the necessary research and geotechnical testing so that the feasibility study of the project can be completed by the 3rd quarter of 2008. Geochemical surveys over a total area of 12 square kilometers were completed as preparation for the 2007 exploration program. During 2006, core drilling totaled 1,293 meters, with drilling operations continuing during the winter months.

Previous geological exploration of the Albazino deposit has not fully tested the extent of the ore zones. Planned exploration activities have the potential to increase resources to 1.45-1.6 Moz of gold. In 2007 the company intends to perform exploration drilling totaling 6,500 m, expected to increase the resource base by 150-250 Koz of gold.

Within the Albazino license area (total 82 km²) there are known prospective and still insufficiently explored project areas including: Ekaterininsky, Inilokhansky, Riolitovy, Vodorazdelny. It is expected that intensive exploration and evaluation works may lead to a discovery of new Albazino-type deposits. In 2007, the Company intends to continue exploration of these prospective areas by trenching (30,000 m³) and drilling (2,000m).

The Company considers that by the end of 2008 there is potential to increase the mineral resources of the Albazino area to about 3 Moz of gold.

The Company expects to start producing precious metals on the Albazino deposit in 2010 at an estimated rate of 200 – 250 Koz per year. According to the preliminary estimates, total investment in the mining and concentration complex construction on the Albazino deposit will amount to US\$ 150-200 million. In 2007 the Company plans to invest US\$ 6 million in pre-construction activities.

Strategic Alliance and Joint Venture

Strategic Alliance with AngloGold Ashanti

In September 2006, the Company entered into a preliminary agreement to establish a strategic alliance with AngloGold Ashanti, a leading international gold producer with operations on four continents.

It is planned that the proposed alliance will be formed on a 50/50 basis and will pursue gold mining opportunities through exploration, development and, potentially, selected acquisitions of mining properties in Siberia and the Russian Far East, excluding regions where the Company already has established operations. Both parties will contribute assets and hold a stake equal to 50% of the proposed strategic alliance. The Company will contribute two exploration properties to the proposed strategic alliance: Anenskoye in the Krasnoyarsk Territory and APU in the Chita Region. In addition, the Company will pay approximately US\$ 12 million in cash to AngloGold Ashanti to match the value of the assets contributed by AngloGold Ashanti to the proposed strategic alliance.

AngloGold Ashanti will contribute the advanced Veduga project, with approximately 2.8 million ounces of gold mineral resources, as well as the Bogunay exploration project, both of which are located in the Krasnoyarsk Territory. The assets contributed by the Company and by AngloGold Ashanti to the proposed strategic alliance are currently valued by the parties to the proposed strategic alliance at US\$ 56 million.

The exploration license for Anenskoye deposit has been successfully converted into a combined license [exploration and production] through the procedure based on pioneer discovery rights. Further exploration is clearly warranted and by the second quarter of 2009 the Company is expected to complete JORC-compliant audit of mineral resources of Anenskoye deposit

Pursuant to the terms of the proposed strategic alliance, the parties' interests in Russia will be divided into three broad regions:

- exclusive areas, comprising all of Russia east of the Ural mountains with the exception of the non-exclusive areas, within which the parties may only pursue gold mining opportunities through the proposed strategic alliance. However, should the proposed strategic alliance elect not to pursue any such opportunity, the party that pro-

- posed and was in favour of such opportunity may pursue it outside of the proposed strategic alliance;
- non-exclusive areas, including the regions of Chukotka, Irkutsk, Kamchatka, Khabarovsk, Koryakia, Magadan and Sverdlovsk, within which the proposed strategic alliance imposes no restrictions on the pursuit of gold mining opportunities by the parties. However, the pursuit of gold mining opportunities through the proposed strategic alliance is also possible should both parties agree to do so;
- other areas, representing the rest of Russia other than the exclusive areas and the non-exclusive areas (essentially all of Russia west of the Ural mountains), within which either party may pursue gold mining opportunities solely and independently, but not together with a third party as part of a consortium unless the proposed strategic alliance elects not to pursue such opportunity.



Financial Overview

The Company's revenues are derived primarily from the sale of silver and gold produced at its four operating mines (Dukat, Lunnoye, Khakanja, and Voro). Production levels, in turn, reflect the amount of ore milled, average head grades, and the recoveries of silver and gold from processing. Gold and silver sales account for substantially all of the Company's revenues. In 2006, revenues from other sources of US\$ 0.7 million represented less than 1% of the Company's total revenues and were mainly attributable to the services provided by Polymetal Engineering to third parties.

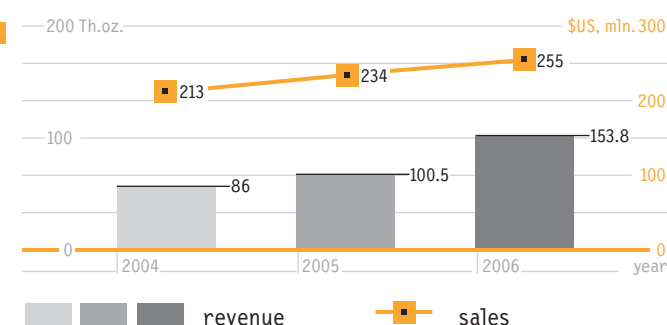
Revenues

During the year ended 31 December 2006, revenues increased by 32.1%, from US\$ 239.0 million for the year ended 31 December 2005 to US\$ 315.6 million for the year ended 31 December 2006. The increase in revenues was mainly due to higher precious metals prices and a slight increase in volume of gold sales despite a decrease in silver sales. During each of the years ended 31 De-

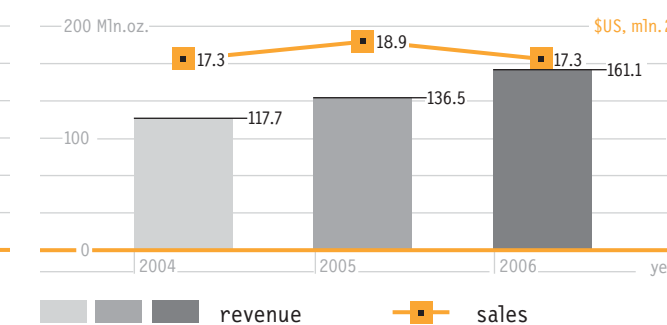
ember 2006 and 2005, silver sales represented more than half of the Company's sales revenues, although in 2006 the relative contribution of silver sales decreased compared to 2005. In particular, for the years ended 31 December 2006 and 2005, silver sales accounted for 51.0% and 57.1% of the Company's revenues and gold sales accounted for 48.7% and 42.0% of the Company's revenue. The remaining revenues primarily resulted from sales of services attributable to Polymetal Engineering to third parties.

	Year ended 31 December 2006			Year ended 31 December 2005			Change in revenues (in percentages)
	Thousands ounces	Average realized price (US\$ per ounce)	Revenues (US\$ in thousands)	Thousands ounces	Average realized price (US\$ per ounce)	Revenues (US\$ in thousands)	
Silver	17,267	9.33	161,056	18,918	7.22	136,520	18.0
Gold	255	603.33	153,849	234	429.37	100,472	53.1

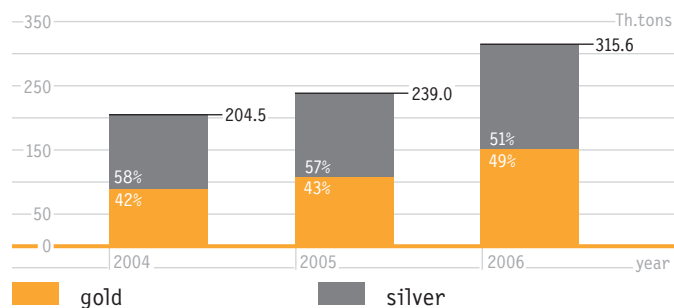
GOLD SALES AND REVENUE



SILVER SALES AND REVENUE



REVENUE FROM SALES

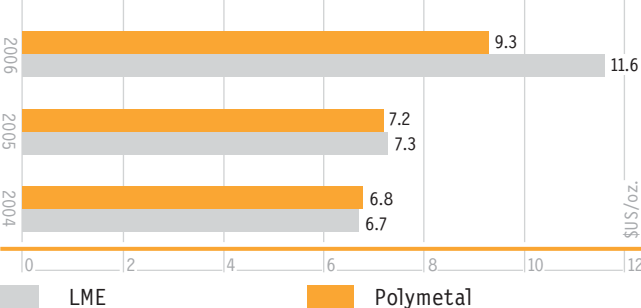


SALES OF SILVER. In the year ended 31 December 2006, silver sales increased by 18.0%, from US\$ 136.5 million for the year ended 31 December 2005 to US\$ 161.1 million for the year ended 31 December 2006 as a result of higher silver prices, as discussed below. The volume of silver sold in the year ended 31 December 2006 decreased by 8.7% to 17.3 million ounces from 18.9 million ounces for the year ended 31 December 2005.

In the year ended 31 December 2006, the average London fixed price for silver increased by 57.8% from US\$ 7.32 per ounce in the year ended 31 December 2005 to US\$ 11.55 per ounce in 2006. During the same period, Polymetal's average realized sales price for silver increased by 29.2% from US\$ 7.22 per ounce in 2005 to US\$ 9.33 per ounce in 2006. In the year ended 31 December 2006, the lower average price realized by the Company, compared to the average London fixed price, was attributable to the lower average price of US\$ 7.12 per ounce, realized by the Company in respect of 54.0% of its total silver sales, which were subject to minimum and maximum price limitations or fixed prices under the sales of future production.

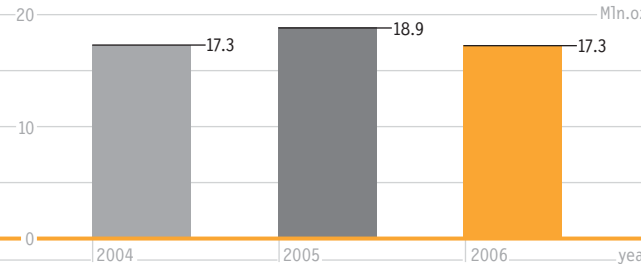
In the year ended 31 December 2006, the Company realized an average price of US\$ 9.33 per ounce while the average London fixed price was US\$ 11.55 per ounce. In the year ended 31 December 2006, the average price realized by the Company over its total silver sales reflected an aggregate difference from London fixed prices of US\$ 40.0 million, compared with US\$ 3.1 million for the same period in 2005. The substantial increase in the aggregate difference from London fixed prices for silver sales in the year ended 31 December 2006 reflects the effects of the sales under fixed price contracts as discussed above, and the significantly higher London fixed prices, as well as standard discounts in connection with transportation which remained essentially unchanged from the levels since 2005.

AVERAGE SILVER SALES PRICE



The decrease in volume of silver sold resulted primarily from decreased silver production, which dropped by 8.5% to 17.3 million ounces in the year ended 31 December 2006 from 18.9 million ounces in the year ended 31 December 2005, as further decreases in production took place primarily at Dukat, Lunnoye and Khakanja due to lower silver grades. In particular, silver production recorded at Lunnoye decreased by 13.3% from 3.0 million ounces produced in the year ended 31 December 2005 to 2.6 million ounces produced in the year ended 31 December 2006. Silver production at Khakanja decreased by 16.7% from 2.4 million ounces produced in the year ended 31 December 2005 to 2.0 million ounces produced in the year ended 31 December 2006. Production of silver at Dukat in the year ended 31 December 2006 declined to 12.6 million in ounces from 13.4 million ounces from the output in the year ended 31 December 2005.

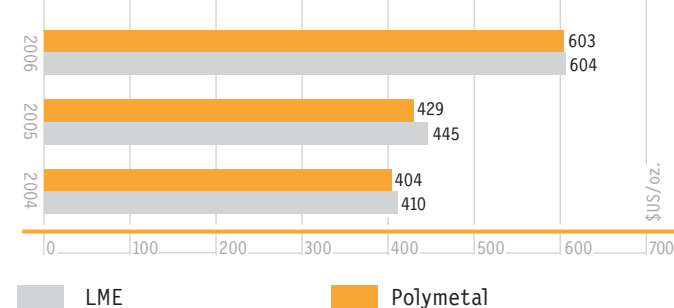
SILVER SALES



In the year ended 31 December 2006, Dukat, Khakanja, Lunnoye and Voro accounted for 72.9%, 11.6%, 15.0% and 0.5%, respectively, of the Company's silver production and for the year ended 31 December 2005, they accounted for 70.8%, 12.9%, 16.0% and 0.3%, respectively, of the Company's silver production.

SALES OF GOLD. In the year ended 31 December 2006, gold sales increased by 53.1%, from US\$ 100.5 million in the year ended 31 December 2005 to US\$ 153.8 million in the year ended 31 December 2006, as a result of the increased gold prices and sales volume. The volume of gold sold in year ended 31 December 2006 increased by 9.0% to 255 thousand ounces from 234 thousand ounces for the year ended 31 December 2005.

AVERAGE GOLD SALES PRICE

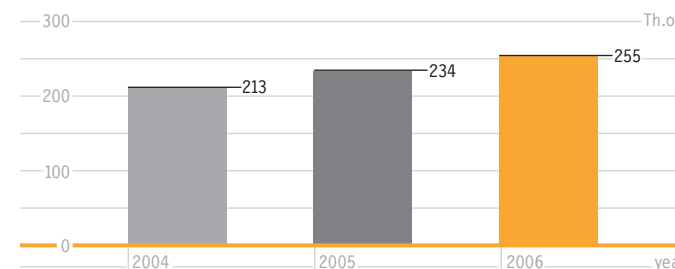


During the year ended 31 December 2006, the average London fixed price for gold increased by 35.7% from US\$ 444.75 per ounce in the year ended 31 December 2005 to US\$ 603.46 per ounce in the year ended 31 December 2006. Polymetal's average realized sales price for gold increased by 40.5% from US\$ 429.37 per ounce in the year ended 31 December 2005 to US\$ 603.33 per ounce in the year ended 31 December 2006. In the year ended 31 December 2005, the lower average price realized by the Company, compared to the average London fixed price, was attributable to the lower average price of US\$ 412.05 per ounce, realized by the Company in respect of 26% of its total gold sales, which was subject to fixed prices under forward sales contracts.

In the year ended 31 December 2006, in the absence of sales subject to fixed prices, the Company realised an average price substantially in line with the average London fixed price, subject to the discount offered by the Company to partially compensate its customers for their expenditures of transporting the metal from the refinery to the final destination. In the year ended 31 December 2006 and 2005, the average price realised by the Company over its total gold sales reflected an aggregate difference of US\$ 0.9 million and US\$ 2.4 million, respectively, from the London fixed prices, reflecting the impact of sales at fixed prices in 2005.

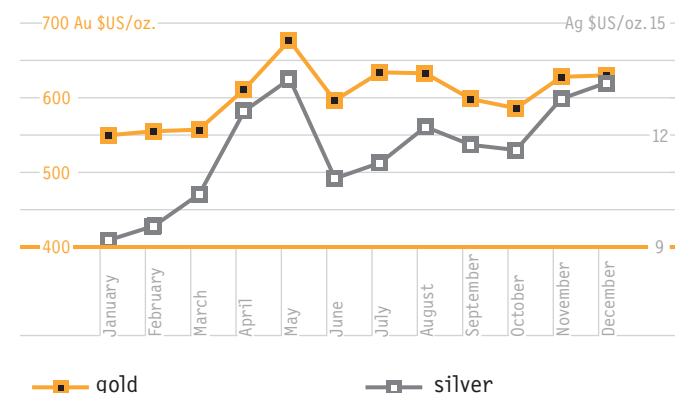
The volume of gold sold in the year ended 31 December 2006 increased as a result of a decrease in inventory in connection with acceleration of the processing and refinery cycle and an increase in the levels of gold production, which grew by 5.3% from 243 thousand ounces in the year ended 31 December 2005 to 256 thousand ounces in the year ended 31 December 2006, mainly as a result of increased production at Voro.

GOLD SALES



In particular, the 36.2% increase in gold production recorded at Voro, mainly due to increased plant capacity and production, which increased from 75 thousand ounces produced in the year ended 31 December 2005 to 102 thousand ounces produced in the year ended 31 December 2006, was partially offset by the 9.0% decrease in production at Khakanja as a result of lower grade ore, from 118 thousand ounces in the year ended 31 December 2005 to 108 thousand ounces in the year ended 31 December 2006, and the 15.4% decrease in production at Lunnoye as a result of lower grade ore, from 25 thousand ounces in the year ended 31 December 2005 to 21 thousand ounces in the year ended 31 December 2006. Gold production at Dukat increased slightly from 25 thousand ounces for the year ended 31 December 2005 to 26 thousand ounces for the year ended 31 December 2006. In the year ended 31 December, Dukat, Khakanja, Lunnoye and Voro accounted for 10.1%, 42.0%, 8.2% and 39.7%, respectively, of the Company's gold production and in the year ended 31 December 2005, they accounted for 10.4%, 48.7%, 10.2% and 30.7%, respectively, of its gold production.

GOLD & SILVER PRICES IN 2006 (LONDON PM FIXING)



COST OF SALES. In the year ended 31 December 2006, total cost of sales increased by 25.8% to US\$ 171.3 million, from US\$ 136.2 million in the year ended 31 December 2005. As a percentage of revenues, cost of sales decreased from 57.0% in the year ended 31 December 2005 to 54.3% in the year ended 31 December 2006. The increase in cost of sales was mainly due to increased operating costs, driven by the increase in staff costs and energy, as well as increase in amortization, depreciation and depletion. Appreciation of the Russian ruble against the U.S. dollar and an inflation rate of 9.0% in the year ended 31 December 2006 contributed to an overall increase in costs.

	Year ended 31 December 2006		Year ended 31 December 2005		Change (in percentages)
Operating costs, of which	<i>(US\$ in millions, except percentages)</i>				
Material and spare parts	36.3	21.2%	30.7	22.5%	18.2%
Staff costs	28.5	16.6%	28.0	20.6%	1.7%
Energy	16.8	9.8%	11.0	8.1%	52.7%
Services and refinery	11.3	6.6%	10.3	7.6%	9.7%
Other	14.1	8.2%	6.2	4.6%	127.4%
Total operating costs	106.9	62.4%	86.2	63.3%	24.0%
Mining tax	15.3	8.9%	13.6	10.0%	12.5%
Other taxes, except for income taxes	6.2	3.6%	6.7	4.9%	(8.5%)
Amortization, depreciation and depletion ¹	39.4	23.0%	25.1	18.4%	57.0%
Accretion of reclamation and mine closure obligation	0.2	0.1%	0.6	0.4%	(64.6%)
Development costs written off	0.4	0.2%	2.5	1.8%	(82.8%)
Other costs	2.8	1.7%	1.4	1.0%	100.6%
Total cost of sales	171.3	100%	136.2	100%	25.8%

NOTES: (1) Includes depreciation and depletion, amortization of intangible assets and depletion of mineral rights.

OPERATING COSTS. In the year ended 31 December 2006 the total operating costs increased by 24.0% to US\$ 106.9 million from US\$ 86.2 million for the year ended 31 December 2005. In the year ended 31 December 2006, the costs on material and spare parts increased by 18.2%, compared to the previous year, mainly due to increased mining activities and processing operation, including processing costs incurred in respect of the Voro CIP plant and an increase in ore milled at Khakanja and Dukat, as well as inflation.

In the year ended 31 December 2006, energy costs significantly increased by US\$ 5.8 million, from US\$ 11.0 million in 2005 to US\$ 16.8 million, as a result of higher diesel fuel prices, ruble appreciation and increased consumption attributable to higher production levels, including the ramp up in production at Khakanja starting in August 2005. Costs related to contractor services increased by 9.7% in the period ended 31 December 2006 over the same period in 2005. This increase was driven by increased transportation of ore and concentrates at Dukat and Voro, which, in turn, led to a significant increase in transportation expenses for these mines.

In the year ended 31 December 2006, staff costs remained almost stable at the level of US\$ 28.5 million due to outsourcing and productivity improvements. In the previous years staff costs demonstrated significant growth, exceeding the inflation rate.

CASH COSTS. In the year ended 31 December 2006, Dukat and Lunnoye combined total cash costs decreased by 2.7% to US\$ 3.93/oz of silver on a by-product basis and total cash costs per ton of ore processed decreased by 3.6% to US\$ 76.49/ton despite a significant drop in average head grade of silver in the ore at Dukat by 7.5% and at Lunnoye by 12.3%.

The total cash costs at Khakanja increased significantly by 24.3% to US\$ 80.10/oz of gold on a by-product basis in the year ended 31 December 2006 from US\$ 64.43/oz in the year ended 31 December 2005 and to US\$ 3.94/oz of silver on a co-product basis in the year ended 31 December 2006 from US\$ 2.38/oz. This growth in total cash costs was mainly attributable to steep decline in head grade for gold and silver - 29.3% and 33.4% respectively - due to the fact that 2006 was the last full year that the Company processed ore at pit No. 1. As a result, the ore quality was significantly lower than the average grade at the deposit. Despite that the Company managed to keep the total cash costs per ton of ore processed relatively stable at US\$ 63.00/ton in the year ended 31 December 2006 from US\$ 60.71/ton in the year ended 31 December 2005.

The total cash costs at Voro increased dramatically (a 40.0% growth) to US\$ 308.87/oz of gold on a byproduct basis in the year ended 31 December 2006 from US\$ 220.69/oz in the year ended 31 December 2005. This increase was partially related to a serious drop in gold head grade in oxidized ore by 24.1% and partially driven by growth in total cash costs per ton of ore processed - from US\$ 16.42/ton in the year ended 31 December 2006 to US\$ 25.50/ton in the year ended 31 December 2005.

NON-OPERATING COSTS. In the year ended 31 December 2006, mining tax increased by US\$ 1.7 million, or 12.5%, to US\$ 15.3 million from US\$ 13.6 million in the year ended 31 December 2005. This increase was mainly due to increased market prices for gold and silver. Other taxes, except for income taxes decreased by US\$ 0.5 million to US\$ 6.2 million from US\$ 6.7 million in the year ended 31 December 2005.

In the year ended 31 December 2006, amortization, depreciation and depletion increased by 57.0%, to US\$ 39.4 million from US\$ 25.1 million in the year ended 31 December 2005. This increase resulted primarily from increased ore extraction. In the year ended 31 December 2006, depletion of mineral rights increased by US\$ 5.5 million to US\$ 5.8 million from US\$ 0.3 million in the year ended 31 December 2005 as a result of mineral rights acquired in 2006 and in last quarter of 2005.

In the year ended 31 December 2006 accretion of reclamation and mine closure obligation decreased to US\$ 0.2 million from US\$ 0.6 million in the year ended 31 December 2005 due to the increase in life of Dukat and Lunnoye mines which lowered the present value of closure obligations. In the year ended 31 December 2006 development costs written off decreased to US\$ 0.4 million, other costs increased to US\$ 2.8 million.

INCOME FROM MINING OPERATIONS. In the year ended 31 December 2006, the Company's income from mining operations rose by 40.4%, from US\$ 102.8 million in the year ended 31 December 2005 to US\$ 144.3 million, as a result of higher revenues that outpaced the growth in cost of sales in the year ended 31 December 2006.

	Year ended 31 December 2006	Year ended 31 December 2005	Change (in percentages)
	<i>(US\$ in millions, except percentages)</i>		
Revenues	315.6	239.0	32.1
Cost of sales	(171.3)	(136.2)	25.8
Income from mining operations	144.3	102.8	40.4
Income from mining operations margin ¹	45.7%	43.0%	

NOTES: (1) Income from mining operations margin is calculated as income from mining operations divided by revenues.

OPERATING EXPENSES. In the year ended 31 December 2006, operating expenses increased by 30.8% from US\$ 33.8 million for the year ended 31 December 2005 to US\$ 44.2 million in the year ended 31 December 2006. The increase in operating expenses was mainly attributable to a significant increase in general, administrative and selling expenses.

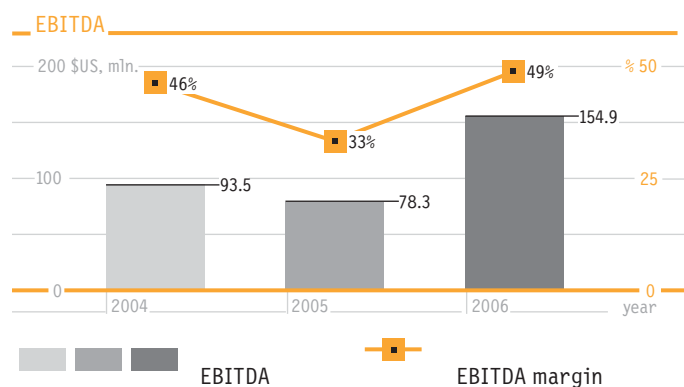
	Year ended 31 December 2006	Year ended 31 December 2005	Change (in percentages)
	<i>(US\$ in millions, except percentages)</i>		
General, administrative and selling expenses	28.4	22.4	26.8
Other expenses, net	15.9	11.4	39.5
Total operating expenses	44.2	33.8	30.8

The Company's general, administrative and selling expenses increased by 26.8% in the year ended 31 December 2006 to US\$ 28.4 million from US\$ 22.4 million in the year ended 31 December 2005. This increase was largely due to rising salaries, increased headcount at the head office in new projects development and exploration group, an increase in professional fees for the auditors and consultants and the strengthening of the ruble against the dollar. Other expenses, net increased by 39.5% in the year ended 31 December 2006 to US\$ 15.9 million from US\$ 11.4 million in the year ended 31 December 2005. The increase in other expenses, net was related to banks' fees for organization of loan facilities for producing subsidiaries.

OPERATING INCOME. In the year ended 31 December 2006, operating income increased by US\$ 27.5 million, or 40.9%, to US\$ 94.8 million from US\$ 67.3 million in the year ended 31 December 2005, primarily as a result of the increase in revenues.

INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX AND MINORITY INTEREST. Income from continuing operations before income tax and minority interest increased by 196.5% to US\$ 93.7 million in the year ended 31 December 2006 from US\$ 31.6 million in the year ended 31 December 2005.

	Year ended 31 December 2006	Year ended 31 December 2005	Change (in percentages)
	<i>(US\$ in millions, except percentages)</i>		
Operating income	94.8	67.3	40.9
Interest expense	(25.3)	(24.9)	1.6
Capital lease finance costs	(2.6)	(4.0)	(35.0)
Exchange (loss) gain, net	26.8	(6.8)	494.1
Income from continuing operations before income tax and minority interest	93.7	31.6	196.5



Interest expense increased by 1.6% from US\$ 24.9 million in the year ended 31 December 2005 to US\$ 25.3 million in the year ended 31 December 2006. This slight increase was mainly attributable to the increase in absolute amount of the total debt.

Capital lease finance costs decreased by US\$ 1.4 million from US\$ 4.0 million in the year ended 31 December 2005 to US\$ 2.6 million in the year ended 31 December 2006 due to a reduction in the number of active leasing contracts. In the year ended 31 December 2006, the Company recorded an exchange gain of US\$ 26.8 million, compared to an exchange loss of US\$ 6.8 million in the year ended 31 December 2005 resulting primarily from fluctuations in the rouble/dollar exchange rate and its impact on the rouble value of the Company's U.S. dollar-denominated debt. As the rouble is the Company's functional currency and most of its debt is dollar denominated, a falling rouble generally leads to exchange losses while a strengthening rouble leads to exchange gains. Because the Company has significant amounts of U.S. dollar-denominated debt, significant appreciation of the rouble may lead to significant exchange gains in no way related to the Company's operational performance.

USD/RUR RATE DYNAMICS



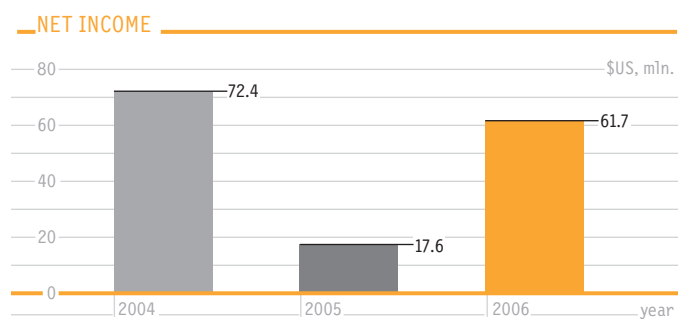
INCOME TAX EXPENSE. Income tax expense increased by 186.7% to US\$ 25.8 million in the year ended 31 December 2006 from US\$ 9.0 million in the year ended 31 December 2005, due to the sig-

nificant increase in income before tax and increase in deferred tax liability related to purchasing minority shares in Okhotskaya GGK and Northern Urals Gold and acquisition of 100% shareholding interest in Resource Albazino. The effective tax rate was higher than the statutory tax rate due to non-deductible expenses.

MINORITY INTEREST. Minority interest decreased by 20.3% to US\$ 6.3 million in the year ended 31 December 2006 from US\$ 7.9 million in the year ended 31 December 2005. This decrease resulted from the increase in effective ownership in Okhotskaya GGK from 67.35% to 100% through acquisition of 30.75% shareholding interest in July 2006 and the remaining 1.89% shareholding interest in August 2006. The decrease in minority interest also reflected the acquisition in August 2006 of 0.01% shareholding interest in Northern Urals Gold, 0.48% shareholding interest in Silver Territory in August-October 2006.

INCOME FROM DISCONTINUED OPERATIONS. In the year ended 31 December 2005 the Company had losses from operations of disposed subsidiaries of US\$ 0.7 million and a gain on disposal of subsidiaries of US\$ 3.6 million resulting from the sales in September 2005 of its 100% shareholding in Kuril'skaya GGK, a subsidiary holding the license development of the Prasolovskoye field, its 100% stake in Olginskaya GGK, a subsidiary holding license for development of the Olginskaya gold prospective area, its 100% stake in Imitzoloto, a subsidiary holding the license for development of the Aprel'kovsko-Peshkovskiy ore cluster and its 50% stake Yeniseiskaya Investment Company. In the year ended 31 December 2006, the Company had no discontinued operations.

NET INCOME. For the reasons given above, the net income increased by US\$ 44.1 million, from US\$ 17.6 million in the year ended 31 December 2005 to US\$ 61.7 million in the year ended 31 December 2006.



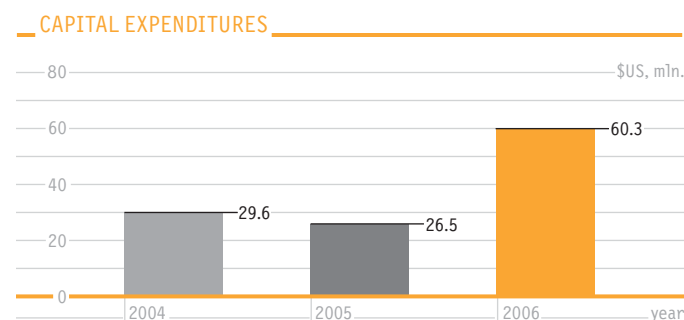
Liquidity and Capital Resources

CAPITAL EXPENDITURES. The Company primarily incurs capital expenditures to:

- _ build new mines and processing plants;
- _ expand, upgrade and improve existing mines, processing plants, and related infrastructure;
- _ purchase mining and processing equipment to replace aged, inefficient, or obsolete machines; and
- _ discover new reserves.

In the year ended 31 December 2006, capital expenditures amounted to US\$ 60.3 million mainly representing investments to:

- _ build a new tailings impoundment and expand the processing plant capacity at Dukat;
- _ build a road to and to buy a mining fleet for the newly commissioned Arylakh mine;
- _ start the construction of the underground mine at Lunnoye;
- _ purchase additional open pit mining equipment for the start-up of pit 2, replace the secondary and tertiary crushing circuits with a SAG mill and complete the filtration section of the plant at Khakanja;
- _ build a walking dragline at Voro;
- _ conduct exploration work at various prospective field and areas.



Cash flows

OPERATING ACTIVITIES. Net cash from operating activities decreased by US\$ 53.6 million to US\$ 29.1 million in the year ended 31 December 2006 from US\$ 82.7 million in the year ended 31 December 2005, primarily due to changes in operating working capital.

Net cash provided by operating activities before changes in operation working capital was higher in 2006 amounting to US\$ 88.5 million, compared to US\$ 57.9 million in 2005. This increase principally reflected higher net income of US\$ 61.7 million in 2006 compared to US\$ 17.6 million in 2005, partially offset by non-cash foreign exchange adjustments to net income (US\$ 26.8 million exchange gain in 2006 compared to a US\$ 6.8 million loss in 2005).

	Year ended 31 December 2006	Year ended 31 December 2005	Change (in percentages)
(\$US in millions)			
Net cash provided by (used in) operating activities	29.1	82.7	37.5
Net cash provided by (used in) investing activities	(142.7)	(12.9)	(63.4)
Net cash provided by (used in) financing activities	99.5	(52.2)	25.2

Changes in working capital, excluding cash and debt, were negative US\$ 59.4 million in 2006 compared to positive US\$ 24.9 million in 2005. The significant negative adjustment resulted mainly from an increase in work-in-progress inventory (mainly consisting of ore stockpiled at Voro in anticipation of increases in processing capacity, ore stacked at Voro in connection with heap leaching operations, as well as ore stockpiled at Khakanja due to mine sequencing).

INVESTING ACTIVITIES. Net cash used in investing activities was US\$ 142.7 million in 2006, primarily as a result of US\$ 93.7 million paid for acquisitions of subsidiaries and minority interests, including Okhotsk Mining and Geological Company, Resources Albazino and Aurum, additions to property, plant and equipment of US\$ 60.3 million, partially offset by repayment of loans made to related parties of US\$ 15.1 million.

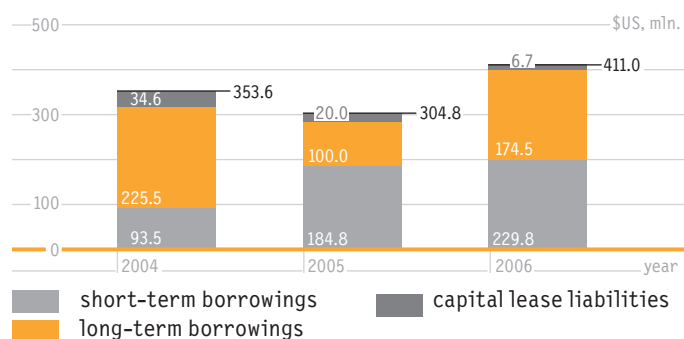
FINANCING ACTIVITIES. Net cash provided by financing activities was US\$ 99.5 million in the year ended 31 December 2006, as compared to net cash used in financing activities of US\$ 52.2 million in the year ended 31 December 2005. The change in 2006 reflected the net proceeds from borrowings of US\$ 144.9 million compared to net repayments of US\$ 22.8 million in 2005.

INDEBTEDNESS. As of 31 December 2006, the Company had bank loans outstanding in an aggregate principal amount of US\$ 396.5 million, of which US\$ 64.9 million were secured by collateral consisting of plant and equipment (excluding pledges of stockpiled ore) with an aggregate carrying value of US\$ 21.0 million. As of 31 December 2006, all of the shares of Magadan Silver and Silver Territory were pledged as collateral under the Company's secured lending agreements. The Company obtained the release of the pledges of shares of Magadan Silver and Silver Territory in February 2007.

As of 31 December 2006, the Company had US\$ 30 million available to be drawn down under various loan facilities.

	Year ended 31 December 2006	Year ended 31 December 2005	Change (in percentages)
(\$US in millions)			
Short-term borrowings	229.8	184.8	93.5
Long-term borrowings	174.5	100.0	225.5
Capital lease liabilities	6.7	20.0	34.6
Total debt	411.0	304.8	353.6

DEBT STRUCTURE



SALES OF FUTURE PRODUCTION AND PRICE LIMITS. In accordance with the terms of a syndicated loan agreement in December 2004, the Silver Territory and the Magadan Silver entered into an export contract with CJSC Standard Bank ("CJSC SB"), acting as a selling agent for the relevant subsidiary of the Company, and Standard Bank London ("Standard Bank"), pursuant to which the Silver Territory and the Magadan Silver agreed to sell to Standard Bank all of the precious metals they produced in the period from 1 January 2005 to 31 December 2009, with silver sales until the end of 2007 subject to price limitations. The rights and obligations of Standard Bank under these agreements were largely assumed by ABN AMRO Bank N.V. ("ABN") following the refinancing of the loan facility with Standard Bank pursuant to a loan facility entered into among, inter alia, ABN, Silver Territory and Magadan Silver. In particular, pursuant to the export agreements, through Silver Territory and Magadan Silver, the Company agreed:

- for each of the years 2005 and 2006, to sell a minimum of 8.1 million and 9.0 million ounces of silver, respectively, at average price of US\$ 7.81 per ounce;
- for the year of 2007, to sell a minimum of 13.9 million ounces of silver at London fixed prices, determined two business days prior to the delivery, subject to an average price of US\$ 7.79 per ounce;

- for year of 2008, to sell a minimum of 9.0 million ounces of silver at London fixed prices, determined on the second business day prior to the delivery;
- to sell for each of 2005 and 2006 a minimum aggregate quantity of 43.3 thousand and 42.4 thousand ounces of gold, respectively, at London fixed prices, determined on the next business day after delivery.

For the full year of 2006, the Company delivered to Standard Bank 14.9 million ounces of silver at an overall average realized price of US\$ 9.06 per ounce, including 9.0 million ounces sold at fixed prices with an average realised price of US\$ 7.14 per ounce, and 45.8 thousand ounces of gold sold at London fixed prices subject to standard discounts as agreed with Standard Bank. In 2005, the Company delivered 15.5 million ounces of silver, including 8.1 million ounces sold at fixed prices, and 46.5 thousand ounces of gold sold at London fixed prices.

In connection with the financing arrangements with Nomos Bank, a related party, in 2005 and 2006 the Company sold gold and silver to Nomos Bank at fixed prices (prices were fixed during a short period within each year) and market prices, subject to discounts ranging from 0.85 to 1.0% for gold and 1.5 to 2.5% for silver, as described below:

- in 2005, the Company sold 61.4 thousand ounces of gold at prices fixed in the range of US\$ 409–417 per ounce and 2.5 million ounces of silver at US\$ 6.7 per ounce as well as 34.4 thousand ounces of gold and 56.5 thousand ounces of silver at London fixed prices;
- in 2006, the Company sold 316.8 thousand ounces of silver at US\$ 6.5 per ounce as well as 91,160 ounces of gold and 1.0 million ounces of silver at London fixed prices.

Other than the agreements described above, the Company does not intend to enter into additional contracts under fixed price or similar arrangements for the sale of silver and gold, unless required to do so as part of any financing arrangements.

	Quantity sold subject to maximum price limit		Average realize price in respect of quantity sold subject to subject to maximum price (US\$ per ounce)	Average afternoon London Bullion market fixed price
	Ounces in thousands	As a percentage of total amount sold in relevant period		
Year ended 31 December 2006				
Silver	9,330	54%	7.12	11.55
Gold	—	—	—	603.46
Year ended 31 December 2005				
Silver	11,210	59%	7.03	7.31
Gold	61.4	26%	412.05	444.45
Year ended 31 December 2004				
Silver	6,623	38%	6.97	6.66
Gold	85.7	40%	398.52	409.17

Market position

Silver Market Overview

BACKGROUND. Silver is a precious metal which uses stem from its unique collection of properties comprising anti-bacterial qualities, corrosion resistance, malleability, ductility, reflectivity and conductivity. These have contributed to an increasing number of other industrial applications, in addition to its traditional uses in jewelry and photography.

DEMAND. Total global silver fabrication dipped by a bit under 1% in 2006 to 840.5 Moz, in spite of a trend toward significantly higher and more volatile silver prices. Most notably, industrial applications, a key component of the demand complex, posted a 6% gain to 430.0 Moz, recording the fifth consecutive year of growth in this category. China posted strong industrial demand growth at 10.4%, and Japan recorded an equally impressive 10% increase in 2006. Last year represented a record for the United States with respect to total industrial silver use, posting a 6% increase to 106.8 Moz. Total industrial demand exceeded 50% of total global fabrication demand for the first time in 2006.

Demand in the jewelry and silverware sectors represented about 25% of total silver consumption in 2006. Traditionally, India is a key market in this respect as jewelry is viewed as a store of wealth, and items are bought more for their intrinsic worth than as an adornment. Jewelry fabrication posted a nearly 5% loss in 2006, largely due to price-related losses in India. Indonesian and Chinese jewelry fabrication, however, grew by an impressive 18% and 16%. Lower fabrication in price sensitive countries and structural taste shifts accounted for the 7.5 Moz dip in global silverware demand in 2006. About 60% of the silverware decline was due to India, where the price rise was evident in rupee terms.

Photographic demand continued to fall, decreasing by 10% in 2006 to 145.8 Moz. The decline was primarily the result of lower consumer film demand due to growth of digital imaging technology. Coinage represents another historic use of silver. Though digital photography is leading to a decrease in demand for silver in the industrially developed countries, this has been offset by strong demand for photographic products from developing countries where recycling tends to be less developed and there is very limited digital technology. X-rays account for 30% to 40% of the silver used in photography annually, and the number of X-rays taken each year is rapidly growing. Despite higher fabrication in the U.S. and Germany, lower minting in a number of European countries, together with some weakness in China, resulted in a decline of coins and medal fabrication by 1% in 2006. Coinage and medal sectors represented about 4% of total silver consumption in 2006.

The range of silver's industrial applications is immense and growing because the metal demonstrates the following characteristics:

- the highest thermal conductivity of all metals;
- the highest electrical conductivity of all metals (silver is defined as having electrical conductivity of 100, against which other metals such as copper (97) and gold (76) are measured);
- the highest reflectivity of all metals.

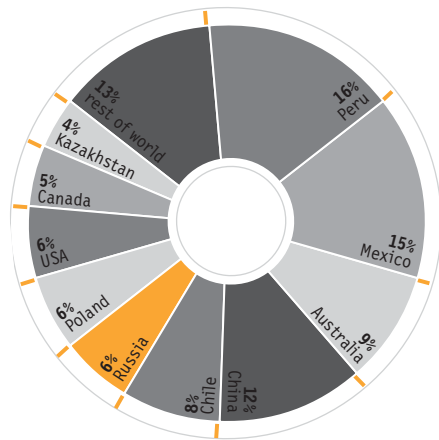
The best known industrial applications are in electronics, and some examples are given below. Unlike other metals, silver does not 'spark' and so is used to make electrical contacts where there are risks from fire or explosion. Furthermore, silver is easily alloyed with many metals at temperatures far below their melting points and is therefore replacing tin and lead solder in many applications, having the added benefit of eliminating the use of the environmentally unfriendly lead. Industrial applications represented about 47% of total silver demand in 2006 and demonstrated 6% increase from 406 Moz. in 2005 to 430 Moz. in 2006.

Implied net investment totaled 64.5 Moz last year. Much of the drive came from the launch of a silver ETF in April, plus a lesser contribution from net OTC buying. The motivation to buy in both arenas included strength in other commodities and the dollar weakness. The 2006 implied figure was some 17% lower than in 2005, chiefly due to long liquidations on Comex.

Hedging swung to the demand side in 2006, to the tune of 6.8 Moz (211 t), partly due to greater use of purchase agreements.

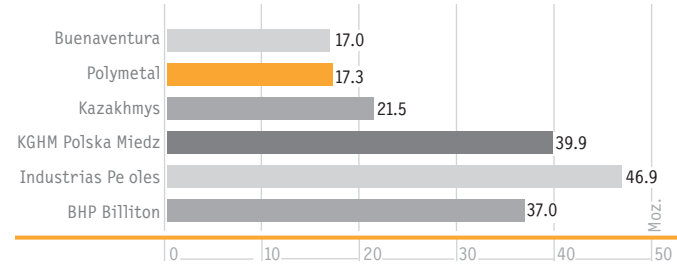
SUPPLY. Global silver mine production edged up fractionally in 2006, with notable gains in Latin America and Asia. Total silver mine production reached 646.1 Moz last year, with Peru, Mexico, China, Australia and Chile the top five silver mining countries. Last year, silver generated at the primary mines fell by 10% to 161.4 Moz, representing 25% of global silver production. In other words, the other 75% comes out of the ground as a by-product credit to copper, leadzinc and/or gold, i.e. for nothing or at negative costs, as illustrated above. Production from primary lead/zinc mines was once again the largest contributor to mine supply, accounting for 33% of total, while copper supplied 26%, primary silver, as noted above, 25% and gold, 13%. Other mines accounted for the 3% of the balance.

WORLD SILVER PRODUCTION BY COUNTRY



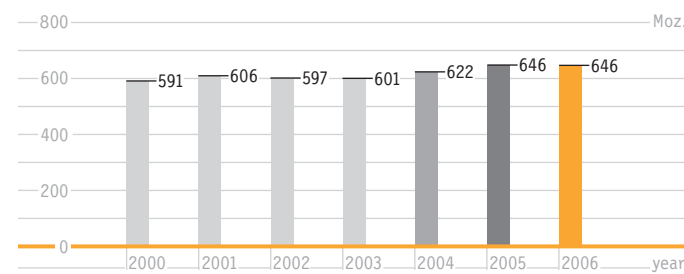
Output in Australia "plummeted" although this was offset by a strong growth in the world's top three producers, Peru, Mexico and China, leaving global mine production at a record high of 646.1 million ounces. Australia's problems revolved around ground stability and metallurgical problems at the country's two largest mines. Output at BHP's Cannington mine in Queensland, which was the world's largest producing mine in 2005, dropped by 16.2 million ounces because operations were idled at the property's southern zone during a period of rehabilitation that occupied much of the second half of the year. Australian output overall dropped by 28% to 55.6 million ounces, which meant that Australian production last year accounted for 9% of total, against 12% in 2005.

TOP WORLD SILVER PRODUCERS



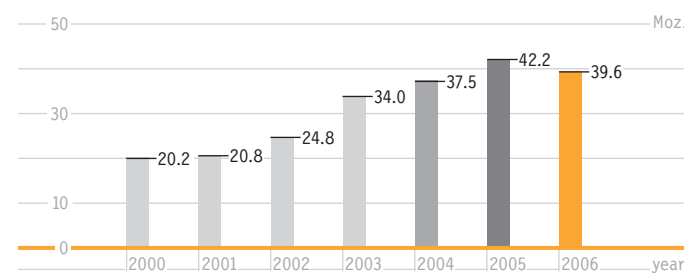
Peru was the world's largest producer, accounting for 17% of total, followed by Mexico (15%) and China (12%). These three countries, and Australia, thus accounted for 53% of global mine production last year. The study expects "robust" growth of approximately 3% in 2005 as fresh mine supply, particularly in South America and Mexico, rather than offsets declining production at maturing mines, for example the Eskay Creek, which is expected to close in 2008.

WORLD SILVER MINE PRODUCTION



Silver production in Russia has been stable since 2005. Polymetal was the largest Russian silver producer with 17.3 Moz. of silver produced in 2006.

RUSSIA'S SILVER PRODUCTION



Cash costs at primary silver mines contracted last year by 16% to average US\$ 2.74 per ounce down a hefty 51 cents from the average of US\$ 3.25/ounce in 2005. The decline (compared with a 17% increase in gold mining costs) is attributable to the commodities boom as the value of secondary lead, gold, copper and zinc production has risen by 32%, 36%, 83% and 137% respectively. As a result of these high prices, costs of silver production at, for example, the Greens Creek (Rio Tinto and Hecla), worked out at a negative US\$ 3.47/ounce; Morococha, however, takes the major plaudits with full year cash costs recorded at negative US\$ 3.71/ounce, a "greater than six dollar reduction year-on-year".

The supply of silver from above-ground stocks on a net basis dropped by 4% in 2006 to 194.4 Moz. The decline was the result of a shift of net producer hedging to the demand side. Total scrap supply provided the market with 188.0 Moz of silver in 2006. Scrap grew by less than 1%, reflecting the price inelastic nature of industrial scrap and the countervailing behavior of photographic scrap (down heavily due to digital inroads) and jewelry scrap (up notably due to the price).

Net government sales crept up to 77.7 Moz in 2006. The increase in government sales in 2006 was the result of marked increases in Russian sales, coupled with ongoing sales from Indian government silver stocks. Elsewhere, a decline in sales from China partly offset these increases.

PRICING. Last year, the silver price experienced a 58% increase over the average 2005 price of US\$ 7.32 per ounce. The daily high within 2006, US\$ 14.94 on 12th May, was a 26-year high. In 2006, the silver price reached levels not seen in 26 years and was the leader when compared with gold (36% increase) and platinum (27% increase). The primary factor driving the stronger silver price was the continued strength of investment demand, which returned in earnest in 2005, was sustained in 2006 and has remained resilient in 2007. Much of the investment demand last year can be attributed to the successful launch of Barclays' Global Investors iShares Silver Trust Exchange Traded Fund (ETF), which was introduced in late April 2006 and now holds over 135 Moz of silver. The annual silver price, led by growing investor demand, averaged a remarkable US\$ 11.55 in 2006. At the same time, industrial demand for silver saw a fifth consecutive year of growth, despite the higher silver price.

Gold Market Overview

BACKGROUND. Gold has been used to store value and produce jewelry since antiquity. Gold remains a popular investment tool and is widely used in jewelry. Due to its malleability, ductility, reflectivity, resistance to corrosion, and excellent thermal and electric conductivity, gold is also used in a variety of industrial and medical applications.

Gold is also used for coins. Apart from gold coins, gold ingots and gold bars, gold is available in many forms including pure gold and alloys such as gold flakes, foil gauzes, grain, powders, sheet, sponges, tubes, wires and even single gold crystals. Recently, gold catalysts have become increasingly useful in the chemical industry. Many other gold compounds including neutral gold halides, aurates, gold cyanides, gold oxides, phosphine gold complexes, gold hydroxides and gold nitrates are available for industrial uses. Chloroauric acid is used in photography to tone the silver image. Finally, gold is useful in electronics due to its inert nature and other physical properties. Gold is used for electrical contacts, bonding wire, solder alloys, and electroplating. Gold is also a useful brazing material and is used for coating space satellites, as it is a good infrared reflector and is inert. As an alloy, gold is used extensively for dentistry in gold teeth, dental attachments, inserts and solders and is used increasingly for medical implants in eyes and ears, as well as many other medically useful wires, tubes, sheets, and foils. Disodium aurothiomalate is administered (intramuscularly) as an arthritis treatment.

DEMAND. Jewelry production in 2006 fell by 16%. The first and second halves of the year, however, were markedly different, with the former suffering an almost 30% slump (year-on-year) and the latter managing a slight increase. Some of the greatest declines were seen in the Middle East and East Asia, though, largely thanks

to robust GDP growth, China saw a slight increase, while India's decline was comparatively minor. Heavy western trade destocking was the key to the sharp fabrication declines in Italy and the slump in US imports.

World jewelry production fell to 2,280 tons, a 15-year low, and a 428 ton decrease from 2005. The chief reason for this decline was the increase in gold prices and high price volatility. This was much more a feature of the first six months, compared to the second half of the year, and largely explains why first half jewelry demand was 29% lower year-on-year, but the second half was relatively unchanged compared to the previous year.

A total of three countries accounted for half of the gross decline in total jewelry demand last year: India, Turkey and Italy. The close to 90-ton drop in India was primarily due to first-half performance; price volatility led to a more than 200-ton year-on-year fall in the first six months, which was followed by a sharp upswing in demand in the second half of the year as consumers adjusted to higher, but more stable prices.

Lower production in India and Turkey, the two price sensitive markets, was of little surprise. However, part of the decline in Turkey was due to weak export demand, particularly in the United States, which has historically shown little response to changing gold prices. Destocking by the retail trade, which delayed stock replenishment, in the expectation that prices would eventually stabilize, further affected manufacturing. Together, these trends largely explained the 21% fall posted by Italy in 2006, the product of weak export demand, not only in the United States, but also across Europe and East Asia.

Last year the one positive, among top jewelry manufacturers, was the marginal growth seen in China (which set a nine-year high), which enabled the country to become the second largest global manufacturer, following India (but ahead of Italy and Turkey).

Other production grew just over 10% last year, with strong gains seen in electronics, official coins and imitation coins and only small declines in dentistry. Last year saw a slip of almost 20% in implied net investment to a little under 400 tons. This decline was a reflection of the swing from a buy-side dominated 2005 to a more two-way market, with activity on both the buy- and sell- sides. This change was largely a function of the stop loss selling and heavy profit taking emerging after the May high, as suggested by the disinvestment apparent on the main commodity exchanges. Other institutional and high net worth arenas such as the OTC market, in contrast, saw increased levels of interest. More retail-focused areas of investment tended to remain quiet in 2006. Last year saw a 14% decline in (non-western) bar hoarding though this seemingly mid-sized change masks major gains seen in India and Vietnam and heavy losses in Japan. Producer dehedging in 2006 more than quadrupled to just over 370 tons. The scale of the increase was somewhat unexpected, as corporate activity had a strong impact in the first half (in which volumes were almost three times second half volumes). At year-end, the combined producer hedge book stood at levels last recorded in 1994.

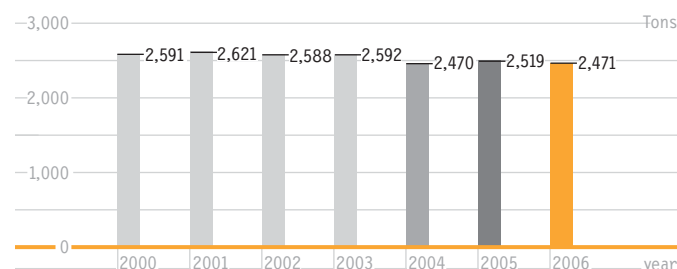
World Investment declined 13% and reached 743 tons in 2006. World investment comprises implied net investment - bar hoarding and coin fabrication demand. Interestingly, in approximate value terms, the figure was up 18% year-on-year to US\$ 14.4 billion.

Dollar weakness, geopolitical tensions and other commodity prices remained important drivers of investment demand over the year. A significant portion of investment in gold, particularly in the first half of the year, came about through trading in commodity baskets products with gold weighting.

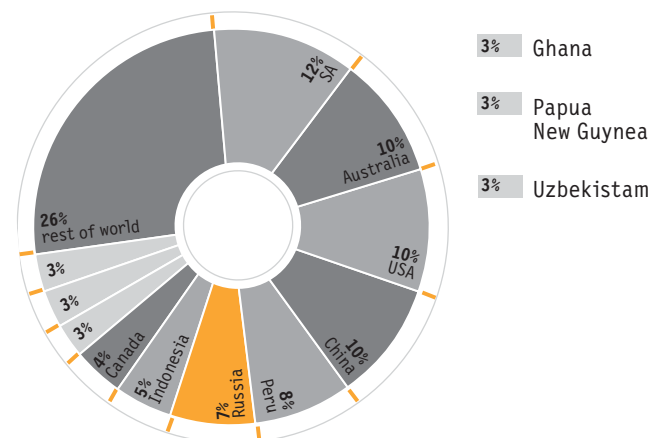
After years of lacklustre performance, 2006 saw investment in physical metal experience make a small come-back. Interest in gold ETFs, as well as in the over-the-counter market, also grew last year. In contrast, evidence suggests that speculative activity on the main commodity exchanges declined in 2006. It is worth noting that for yet another year, the market was dominated by institutional players and high net worth individuals, while the impact of small retail investors remained limited.

SUPPLY. Global mine production in 2006 fell by 3% (79 tons) to a ten-year low. Declines were greatest in Asia, despite gains in China, while notable decreases were also recorded in North America, Africa and Oceania. Latin America was the only area to experience significant growth, though new mines in Africa meant that, excluding South Africa, the continent saw a modest gain.

WORLD GOLD MINE PRODUCTION

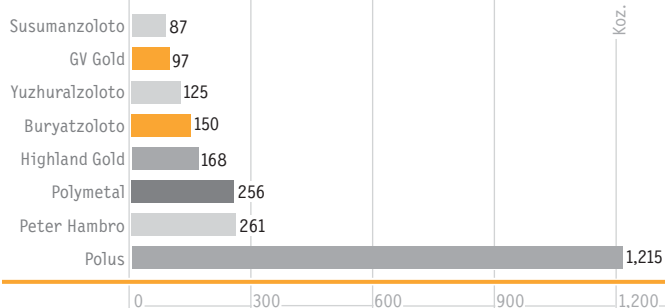


WORLD GOLD MINE PRODUCTION BY COUNTRY

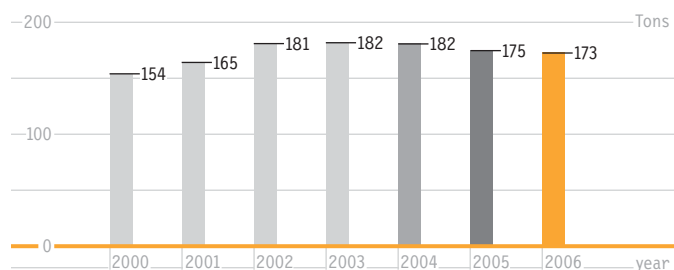


Despite some isolated positive results in Asia, including China's impressive 8% output increase, the region's output dropped 46 tons, compared to relatively modest losses in North America and Africa, where output declined 26 tons and 17 tons respectively. Elsewhere, Oceania registered a 21 ton decline in output and lastly, in the CIS, production volumes dropped less than six tons. Latin America, on the other hand, posted a 35 ton (7%) gain year-on-year.

TOP GOLD RUSSIAN PRODUCERS



RUSSIA'S GOLD PRODUCTION



On a country-wide level, Mali and Ghana showed increases, as did Kazakhstan. Russia and Kyrgyzstan, however, showed declines in production. Latin American "winners," included: Argentina, Mexico, Venezuela, Brazil, Bolivia, Colombia and Chile. The world's largest mine in 2006, Yanacocha, actually registered a sharp 22% drop in output.

There was no let up in cost pressures in 2006, with cash cost increases of US\$ 45/oz, which is more than double to the previous year's hike. Despite the sharp increase, a large part of this was due to factors outside miners' control, such as energy price increases. However, producers' simple cash margins increased by a healthy 66% year-on-year.

Net official sector sales more than halved in 2006, reaching their lowest level since 1997. This was the result of both a fall in CBGA sales (which in the 2005/06 Agreement year were more than 100 tons under quota) and a swing by other countries to small scale net purchases. Central bank lending fell yet further in 2006, decreasing by almost 400 tons, due primarily to low interest rates. Net official sector sales declined 51% year-on-year to a level of 328 tons. The decrease was the largest contributor to the 5% decline in total supply in 2006.

The dramatic decline in net official sector sales was the product of significantly lower gross sales from Central Bank Gold Agreement (CBGA) signatories, coupled with countries outside the group acting as net purchasers for the first time since the mid-1990s. With regards to the former, Agreement signatories undersold their 500-ton quota in the second CBGA year. Concerning the shift of countries outside the CBGA to modest net purchasers of bullion, this was the product of a handful of opportunistic transactions of limited magnitude, which occurred over the year. Philip Klapwijk, GFMS' Executive Chairman, commented that "both the decline in CBGA sales and the increasing number of gross purchases appearing elsewhere are indicative of a change in attitude towards gold as a reserve asset within the central banking community".

Scrap surged by approximately a quarter to record levels of just over 1,100 tons. Traditionally, price-sensitive countries saw the bulk of gains (although scrap slipped in India) but volumes in the industrialized world also grew strongly.

PRICING. The gold price averaged US\$ 603.77 in 2006, its second highest level ever since 1980's US\$ 614.50. The year-on-year rise of 36% in the annual average marked a notable acceleration in the pace of the rally that started in 2001. Gold traded at a 26-year high of US\$ 725 per ounce in mid-May 2006, before falling back to around US\$ 560 per ounce, influenced by institutions divesting commodities, and since then has recovered to US\$ 635.70 as of 31 December 2006. There are a number of factors which appear to support future gold demand. These include investment demand for gold as a 'safe haven' driven by the renewed weakness in the U.S. dollar due to the U.S. twin fiscal and current account deficits and concerns over rising oil prices fuelling inflation. On the supply side, scrap production, like mine production, is forecast to increase moderately in the short- to medium- term with the market remaining in physical surplus and with increases in mine production expected to come from Latin America, Australia and the United States. In terms of supply from central bank sales, the largest holders are covered by the specified limits in the second CBGA.



Engineering and Innovations

A key competitive advantage of Polymetal is its engineering center (Polymetal Engineering) which provides the entire range of deposit development services, including ore sampling to determine its suitability for concentration, selecting the optimum processing technology, and designing ore mining and processing sites.

Over a short period of time, the subsidiary Polymetal Engineering earned the reputation of a leader in the Russian market of ore concentration technologies and design of production sites for deposits of precious, ferrous, nonferrous metals and precious stones. The Company employs over 100 highly-skilled specialists with successful experience of implementing major mining projects.

The accumulated experience of designing and implementing development projects for precious metals deposits of Polymetal in several regions of Russia, using a variety of ore concentration techniques, makes it possible to provide real-time design with instant information updating and sharing among participants of the design process. Specialists of Polymetal Engineering are directly and actively involved in bringing production sites up to design capacity during the installation and commissioning stage, and providing designer supervision of the implementation of technological and design solutions. All of this allows to implement any complex investment projects within very short timeframes.

Development of technological procedures and design work performed by the Company's internal departments, as well as constant supervision of project implementation at all stages allow to perform a thorough selection of technology and equipment based on reliable evaluation, determine the amount of reserves with due account of the specifics of each particular site, perform a detailed analysis of the infrastructure and environmental aspects, and do all of this using a balanced approach to planning the volume of capital investments. Ultimately, implementation of our own designs and innovative solutions combined with stringent control of capital investments lead to significant reductions in the prime cost and improvement of production effectiveness.

The following examples represent the most significant technological innovations implemented at Polymetal's mines:

- combined processing of flotation concentrate from the Dukat deposit and ore from the Lunnoye deposit at the Lunnoye plant;

- semi-dry tailings storage at the Vorontsovskoye and Khakanjinskoye deposits;
- recirculation of heat generated by a diesel power plant to heat rotational settlement and administrative buildings;
- introduction of a roll mill at the Khakanjinskoye deposit, which makes it possible to reduce metallic component of the equipment significantly, taking into account the specific logistical and engineering conditions;
- cooling down of the concentrate from the Dukat deposit to enable its loading and transportation in soft containers;
- use of a walking dragline to re-excavate old leach pads at the Vorontsovskoye deposit.

Polymetal Engineering registers patents for intellectual property based on the results of its research and projects. As of December 31, 2006, the Company had 22 current patents for inventions.

In the reporting year of 2006, the Company developed engineering documentation for 96 production facilities and performed 55 projects at various stages of design, technical and economic feasibility studies, and technical and economic estimation. The Company's specialists have completed 61 research projects aimed at developing technologies, expanding the mineral resource base of production sites, enhancing existing technological processes, finding new reagents, etc.

DESIGN PROJECTS OF POLYMETAL ENGINEERING COMPLETED AT POLYMETAL SUBSIDIARIES IN 2006.

In 2006, as part of preparations for the initial public offering of Polymetal shares on international and Russian stock markets, and in accordance with the requirements of the World Bank and international standards, Polymetal Engineering developed Enterprise Liquidation Plans for all producing mines of the Company, which include models of responses to emergencies and force-majeure circumstances.

The Company also calculated ore and mineral reserves of all deposits in compliance with international standards (JORC Code).

DUKAT. Due to the gradual decline of open-pit mining operations on the Dukat deposit and increasing volumes of underground mining, in 2006 Polymetal Engineering developed a project to develop the reserves of the Central Plot of the Dukat deposit above the 930-meter level. This project has been used to draw up a plan for continued development of mining operations at the deposit until 2010.

Polymetal Engineering has drawn up a modernization project for the plant to increase its annual processing capacity to 950,000 tpa.

This project has laid the groundwork for the next project involving further expansion of the plant processing capacity to 1.5 mln tons per year. The project involves plant modernization along with the introduction of new technological limits. Polymetal Engineering performed pre-design of the plant's modernization that will involve construction of a second concentration section.

In 2006, Polymetal Engineering conducted pilot production tests of X-ray radiometry batch sorting of ores. Test results justified this method at the conveyor of the ore preparation complex. This will enable processing of ores and tailings from previous years. Next period the Company plans to design an ore control station for the conveyor of the ore preparation complex of the Dukat mine.

In connection with the planned capacity expansion of the plant, Polymetal Engineering developed a project for the construction of tailings dam No. 3, which has passed all forms of expert approvals required. At the end of the 4th quarter of 2006, construction of the facility entered its final stage. Tailings dam No. 3 will be commissioned in the next reporting period.

In 2006, Polymetal Engineering developed technical and economic proposals for the development of the Dukat Ore Field licensed area, which include the near and far flanks of the Dukat deposit.

LUNNOYE. In 2006, Polymetal Engineering initiated a modernization project for the tailings dam of the Lunnoye plant in order to increase its capacity and improve stability and safety. The project involves reconstruction of the pond's levee and construction of new facilities: a water drain channel and a drainage pumping plant, a drainage collector, an emergency settling pond, water piping, a collector for purified water, two emergency collectors, and water treatment plants.

As open-pit mining is declining at the Lunnoye deposit with a planned transition to underground mining, in 2006 Polymetal Engineering developed a project of technical reclamation of mined lands at the deposit.

ARYLAKH. In connection with the planned output reduction at the Lunnoye deposit and the resulting need to replenish reserves for maintaining an appropriate level of precious metals production, in 2006 Polymetal Engineering developed a project for open-pit mining at Arylakh. Simultaneous implementation of projects in-

volving open-pit mining at Arylakh and underground mining at Lunnoye will allow to maintain annual ore processing capacity of the plant at 300,000 tpa. The project envisions long-term development of mining operations until 2016. The estimated output level at the Arylakh deposit is 150,000 tons of ore per year.

VORONTSOVSKOYE. In the reporting period, Polymetal Engineering introduced changes into the project to build a mining and ore concentration complex on the Vorontsovskoye deposit in order to optimize technological solutions involving processing of oxidized and primary ores. As a way to increase the depth of processing of oxidized ores, the changes involved re-excavation of old leach pads by means of a dragline. Its introduction in 2006 has led to an increase in the level of metal extraction and a reduction in capital expenditures for the construction of foundations for new pads. To optimize the technological process of primary ores processing, the project envisioned changes in the scheme of ore preparation by introducing the semiautogenous grinding technology.

KHAKANJINSKOYE. In 2006, the Company raised the annual processing capacity of the plant at the Khakanjinskoye deposit to 600,000 tons by implementing a project developed by Polymetal Engineering, which involved introduction of the ore processing technology that used a semiautogenous grinding and a section for semi-dry tailings storage.

Introduction of a tailings filtration section eliminated need in building a second stage of a liquid tailings pond, which is a potentially hazardous production facility, and organize a site for semi-dry storage of tailings cake in the immediate vicinity of the plant instead. Technological processes on the tailings cake storage site have been organized under a special technological instruction drawn up by Polymetal Engineering specialists. Introduction of the semi-dry storage technology has resulted in an increase of metal extraction and improved the production site environmental safety. In addition, it allowed to cut back on the consumption of reagents used for ore concentration by recycling them in the technological processing scheme.

In connection with the planned development of pit No. 2 at the Khakanjinskoye deposit, Polymetal Engineering had developed a project to optimize the boundaries of the pit, taking into account the exploration data available.

In 2006, the Company developed a project to modernize the explosive depot at the Khakanjinskoye deposit to address the need to improve delivery of explosives to the production site during the season when rivers are not navigable.

In addition, in 2006 Polymetal Engineering implemented local projects on sites under construction and developed sets of engineering documentation for purposes of construction, reconstruction and technical modernization of facilities at all active production sites of the Company.

YURJEVSKOYE. Due to cessation of open-pit mining at the Khakanjinskoye deposit by 2013, Polymetal Engineering has developed a project to start open-pit mining at the Yuryevskoye deposit in order to replenish the ore reserves needed to maintain optimum precious metals production. The estimated output level at the Yuryevskoye deposit is 100,000 tons of ore per year.

_ In the reporting year, Polymetal Engineering specialists developed engineering documentation for the selection of mining sites and land parcels for the facilities of the gold mine at the Yuryevskoye deposit and an winter road to connect the Yuryevskoye deposit with the production site of the Khakanjinskoye deposit. In view of the remoteness of location of the deposit, it has been decided that construction of a motorway would be inexpedient, which is why the project envisions building a winter road that can be used 100 days a year. For the rest of the year, all transportation between the deposit and the mainland will take place by helicopter.

ALBAZINO. During the reporting period, Polymetal Engineering developed a Declaration of Intention to build a mining and ore concentration complex at the Albazino gold deposit. The Declaration envisions the construction of two facilities – an ore processing plant in the immediate vicinity of the deposit, which will produce concentrate, and a concentrate processing plant located in an area with a developed energy and transport infrastructure. The start of open-pit mining operations at the deposit is planned in 2010.

DESIGN PROJECTS OF POLYMETAL ENGINEERING COMPLETED FOR OUTSIDE CONTRACTOR IN 2006

MIKHAILOVSKY GOK. In 2006, following the success of the 2005 project for the construction of the first stage of the flotation section at the Mikhailovsky Ore Mining and Processing plant, the Company signed a new contract with MGOK and began the first stage of scientific research and design to develop the Reconstruction Project for the Peletizing Plant of Mikhailovsky GOK. In 2006, the Company developed the procedures for the reconstruction of the peletizing plant.

SEVERALMAZ. In 2006, Polymetal Engineering successfully completed design work to develop the "Calendar Plan Optimization for the Transition of Mining Operations from the Pilot Production Plot to the First Stage of the Quarry of the Lomonosov diamond mine".

_ While working on this project, the Company concluded that it is necessary and possible to change the strategy of developing the Lomonosov deposit. Further implementation of this concept has made it possible to accomplish significant results:

- _ reduction in the volume of overburden from 4.5 million cubic meters in 2007 to 33.3 million cubic meters by 2013.
- _ a threefold reduction in the mileage of temporary and quarry-face roads.
- _ stabilization of the maximum technological transport fleet for a period of 5-7 years.
- _ creation of favorable conditions for highly-productive operation of mining equipment by mining operations

concentration on wider areas and a 4-6-fold reduction in the number of quarry faces being developed at the same time.

_ postponing until a later date of the drilling of new de-watering wells by extending the useful life of the already functioning wells.

_ The Company has thus secured a discounted economic effect of 3.2 billion rubles, which has been calculated by considering changes in direct expenditures for the removal of overburden only and the cost of construction and maintenance of quarry roads. On completing optimization, the improved general production cost dynamics of the quarry will have a positive effect on the production site operation, thus boosting the economic effectiveness indicators of the development of the deposit.

_ This engineering work has been highly rated by Severalmaz.

TIKHVIN FERROALLOYS PLANT. In 2006, the Company developed engineering designs for a compressor plant of the high carbon ferrochrome shop.



Corporate Governance

The Company complies in all material respects with the Russian corporate governance practices which are applicable to it.

MAIN PRINCIPLES. Polymetal's corporate governance principles are based on a philosophy of protecting, observing and maintaining the rights and interests of shareholders, workers and society. The Company actively works to add value, build new sites and enhance financial stability and profitability.

_ Polymetal organizes its business operations to ensure that it meets best practice standards for protecting shareholders' rights and fully and transparently discloses all relevant information. One of the Company's principal targets is to guarantee that its environmental standards and health and workplace safety programs meet and exceed the Russian and international standards. Polymetal also actively cooperates with the regions to actively boost social and economic development.

_ On 28 December, 2006, the Company's board of directors adopted a number of regulations relating to its corporate governance, including internal regulations determining the procedures for appointment and work of certain committees of the Company's board of directors.

Dividend Policy

As a Russian holding company, the Company's ability to pay dividends depends upon receipt of dividends and distributions from its subsidiaries and its ability to make dividend payments under the Russian legislation.

_ The payment of dividends by the Company's subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves and their ability to make, in accordance with relevant legislation, company laws and exchange controls, dividend payments to the Company.

_ The Board of Directors yearly discusses and decides on the dividend payments for the previous financial year. Dividend payments are made on a yearly basis after the financial statements are available, depending on several factors, including: net profit, capital expenditure needs and the effect of the hedge on profits. Net profit from the accounting period and undistributed profit from previous period(s) are the source of potential dividend payments.

_ To the extent that the Company declares and pays dividends, owners of Ordinary Shares and GDRs on the relevant respective record dates entitled to receive dividends payable in respect of Ordinary Shares or, as the case may be, Ordinary Shares underlying the GDRs subject to the terms of the Deposit Agreements. Under the Deposit Agreements, the Depositary may charge fees and expenses with respect to distributions of such dividends to GDR holders. Cash dividends (net of withholding taxes, if any) may be paid to the Depositary in any currency and, except as otherwise specified in "Terms and Conditions of the Global Depositary Receipts-Foreign Currency Conversion", are converted into U.S. dollars by the Depositary and paid to holders of GDRs net of currency conversion expenses. The Company anticipates that cash resources will be retained for the development of the Company's business and does not expect to make any dividend payments in the foreseeable future. However, the declaration and payment by the Company of any dividends and the amount thereof will depend on the results of the Company's operations, its financial position, cash requirements, acquisition or investment opportunities, prospects, profits available for distribution and other factors deemed to be relevant at the time.

Directors and Management

BOARD OF DIRECTORS. The Board of Directors consists of 7 members, two of whom are independent members of the Board.

ALEXANDER I. MOSIONZHNIK has served as the Chairman of the Company's board of directors since November 2005. He currently serves as Chairman of the Board of Directors of LTD Nafta Moskva. Prior to joining LTD Nafta Moskva, Mr. Mosionzhnik held several positions in the field of finance, economics and banking in Moscow, including the position of Financial Director at the investment company Alfa-Eco. He received his degree in Applied Mathematics from the Tula Technical Institute in 1983 and later received his Ph.D. in Technical Sciences from the Civil Aviation Institute of Moscow in 1990.

VITALY N. NESIS has served as the Company's Chief Executive Officer (General Director) since 2003 and as a member of the Company's board of directors since June 2004. In 1995, Mr. Nesis graduated from Yale University in 1997, receiving his degree in Economics. From 1997 to 1999, Mr. Nesis worked as an Analyst for Merrill Lynch in New York and from 1999 to 2000 for McKinsey & Co. in Moscow. In 2000, he was the Strategic Development Director at OJSC Ulyanovsk Automobile Plant, and from 2001 to 2002 he was the Director of the Investment Planning Department in OJSC SUAL-Holding. From 2002 to 2003, he was the Executive Director and later General Director of OJSC Vostsibugol, a major coal mining company based in Eastern Russia.

NIKOLAI Y. BELYKH has served as a member of the Company's board of directors since November 2005. He currently serves as the General Director and member of the board of directors of LTD Nafta Moskva. Mr. Belykh graduated from the Moscow Commercial University with a degree in World Economics in 1995. From 1995 to 1999, Mr. Belykh was the Head of the Sugar Department in LLC Alfa-Eco and from 1999 to 2000, he was a Deputy Commercial Director at OJSC Holding Company Kuban-Sugar. During 2001, Mr. Belykh was the Head of the Resources Department at OJSC Nafta Moskva and from 2002 to 2005, he was the Head of Projects Division of the Investment Department and the Head of the Development Department at OJSC Gas and Oil Company Nafta Moskva. He was appointed General Director of LTD Nafta Moskva in 2006.

ANDREI M. RODIONOV has served as a member of the Company's board of directors since November 2005. He currently serves as Financial Director of LTD Nafta Moskva. Mr. Rodionov graduated from the Yaroslavl High Military Financial School with a degree in Economics. From 1994 to 1995, Mr. Rodionov was a Chief Accountant and Financial Director at T00 Ankor and from 1995 to 1997, he was the Head of the Department of Finance Planning and Analysis at AOZT Alfa-Eco. From 1997 to 1999, he was the Mergers and

Acquisitions Director and Financial Director at CJSC Vremya and from 1999 to 2000 Mr. Rodionov was Director of Finance and Deputy General Director at CJSC FTK Vremya. From 2000 to 2003, Mr. Rodionov was Director of the Finance and Economics Department at Teboil in Helsinki, Finland. He was appointed Financial Director of OJSC Gas and Oil Company Nafta Moskva in 2003, a position he held until 2005, when he was appointed Financial Director at LTD Nafta Moskva.

PAVEL S. GRATCHEV has served as a member of the Company's Board of Directors since December 2006. He currently serves as Chief Legal Counsel and Executive Director of LTD Nafta Moskva. Mr. Gratchev graduated from Trieste University (Italy) in 1997 and Saint Petersburg State University in 1998, receiving his Law degree from both the universities. From 1998 to 2006, Mr. Gratchev worked as Director and Managing Partner of the Moscow Office of Pavia e Ansaldo, a major Italian law firm.

JONATHAN BEST has served as an independent member of the Company's Board of Directors since December 2006. Mr. Best has more than 30 years of experience in the mining industry. In 2006, he served as the interim CEO of Trans Siberian Gold. Prior to that, Mr. Best was the CFO and Executive Director at AngloGold Ashanti from 1998-2005. He received his MBA from the University of Witwatersrand (South Africa). Mr. Best is an Associate of the Chartered Institute of Management Accountants and the Chartered Institute of Secretaries and Administrators.

JOHN O'REILLY has served as an independent member of the Company's Board of Directors since January 2007. Mr. O'Reilly received his Bachelor's degree in Metallurgy from Imperial College, London University in 1966 and a M.Sc. in Mineral Process Design from the same university in 1967. Mr. O'Reilly joined Rio Tinto Plc in 1987 and from 1993 to 1998, he served as Chief Executive at Lihir Gold Limited in Papua New Guinea. From 1998 to 2005 Mr. O'Reilly was the Head of Gold and Other Minerals and later Head of Technology at Rio Tinto Plc. Mr. O'Reilly holds several directorship positions in mining and engineering companies, including Lion Selection Group Ltd, AuSelect Limited, Indophil Resources NL, Cambrian Mining plc and Ausenco Ltd.

The terms of the Directors expire on the date of the Company's next annual general shareholders' meeting, which will take place in the first half of 2008.



Polymetal Management

AUDIT COMMITTEE. The Company's audit committee consists of three members: Jonathan Best, Andrei Rodionov and Pavel Gratchev. The committee is chaired by an independent director, Jonathan Best. The Company's audit committee shall consist of not less than three members, the election procedure requiring the affirmative vote of the majority of the Company's board of directors' members present at the meeting or participating in an absentee voting. The audit committee must be chaired by an independent director and shall convene as often as necessary, but at no times shall such committee meet less than once every three months. The audit committee is authorized to carry out the following functions relating to the control of the Company's financial and business operations:

- _ to evaluate the Company's potential auditors and to develop recommendations for its board of directors pertaining to the auditor to be selected;
- _ to develop recommendations for the Company's board of directors on the fees of auditors and the scope of services to be provided by auditors;
- _ to assess the auditors' reports;
- _ to review the Company's internal controls procedures and make appropriate reports and recommendations to the Company's Board of Directors.

REMUNERATION AND NOMINATION COMMITTEE. The Company's remuneration and nomination committee consists of John O'Reilly, Alexander Mosionzhnik and Nikolai Belykh. The committee is chaired by John O'Reilly. The Company's remuneration and nomi-

nation committee shall consist of not less than three members, the election procedure requiring the affirmative vote of the majority of the Company's board of directors' members present at the meeting or participating in an absentee voting. The committee assists the board of directors with development of the Company's remuneration and benefits policies, elaborates remuneration system for the members of the board of directors as well as the Company's General Director, considers and interviews potential new members of the board of directors and a nominee for the General Director's position and makes recommendations to the Company's board of directors with respect to these matters.

DIRECTORS INTERESTS. On June 18th, 2007 pursuant to the Disclosure and Transparency Rules Polymetal was notified of the transaction related to the Stock Option Plan of Nafta Moskva.

_ Mr. Alexander Mosionzhnik, Mr. Nikolai Belykh, Mr. Andrei Rodionov and Mr. Pavel Gratchev who are the Directors of the Company have purchased ordinary shares of Polymetal from its major shareholder Nafta Moskva (Cyprus) Ltd. Mr. Alexander Mosionzhnik has purchased 2,000,000 shares (0.63%), Mr. Nikolai Belykh – 700,000 shares (0.22%), Mr. Andrei Rodionov – 700,000 (0.22%) and Mr. Pavel Gratchev – 500,000 (0.16%). The shares were purchased at nominal price of 0.2 rubles.

_ As of June 28th, no other Directors had an interest in the shares of the Company.

BOARD OF DIRECTORS

Name	Year of birth	Position
Alexander I. Mosionzhik	1961	Chairman of the Board of Directors
Vitaly N. Nesis	1976	Member of the Board of Directors, Chief Executive Officer
Nikolai Y. Belykh	1974	Member of the Board of Directors
Andrei M. Rodionov	1968	Member of the Board of Directors
Pavel S. Gratchev	1973	Member of the Board of Directors
Jonathan Best	1948	Member of the Board of Directors
John O'Reilly	1945	Member of the Board of Directors

MANAGEMENT

Name	Year of birth	Position
Vitaly N. Nesis	1976	General Director (Chief Executive Officer)
Igor V. Venatovsky	1948	First Deputy General Director (Chief Operating Officer)
Sergey A. Cherkashin	1962	Deputy General Director of Economics and Finance (Chief Financial Officer)
Vladimir T. Ryabukhin	1946	Deputy General Director for Mineral Resources
Alexander A. Zarya	1949	Deputy General Director for General Matters
Valery N. Tsyplakov	1955	Managing Director of Polymetal Engineering
Yuri E. Malakh	1959	Deputy General Director for Business Development
Maxim N. Kuzemchenko	1980	Managing Director of Trading House Polymetal
Andrey Y. Zheltovsky	1971	Deputy General Director for Human Resources and Public Relations
Victor N. Demeschik	1959	Managing Director of Silver Territory and Magadan Silver
Andrey V. Novikov	1970	Managing Director of Northern Urals Gold
Sergey G. Antipin	1965	Managing Director of Okhotsk Mining and Geological Company

Management



IGOR V. VENATOVSKY is the Company's Chief Operating Officer and has been with the Company since its inception. Mr. Venatovsky graduated from the Tashkent Polytechnical Institute with a degree in Mine Engineering and Hydrogeology. From 1971 to 1995, Mr. Venatovsky worked at the Krasnokholmskgeology Association as an Engineer and later as its Chief Executive Officer. From 1995 to 1997, Mr. Venatovsky was General Director at Bashkirska Gold Producing Company and from 1997 until 1999 he was General Director at LLC Olginskaya Mining and Geological Company. He was appointed Chief Operating Officer of Polymetal in 2000.



VLADIMIR T. RYABUKHIN is the Deputy General Director for Mineral Resources, a position he has held since April 2004. Mr. Ryabukhin graduated from the Tomsk Polytechnical Institute with a certificate in Prospecting and Exploration of Radioactive Ore Deposits and received a Ph.D in Geology from the All-Soviet Union Geological Institute in 1978. From 1989 to 1992, Mr. Ryabukhin worked for Krasnokholmsk Geologia Production Geological Amalgamation in Tashkent, Uzbekistan, and from 1992 to 1998 he worked as Chief Geologist at Nevskgeologia in Saint Petersburg. In 1998 he joined Polymetal as one of its founders.



SERGEY A. CHERKASHIN is the Company's Chief Financial Officer, a position he has held since February 2005. Mr. Cherkashin graduated from the Moscow Institute of Physics and Technology with a degree in Applied Mathematics in 1985; after graduating from the University, he worked in aerospace research for NPO Energy in Korolev. Mr. Cherkashin also attended business school at the University of Hartford, specializing in Accounting. Upon completing his degree at business school, he worked as a Consultant for AT Kearney (Moscow) from 1996 to 1997. Mr. Cherkashin then moved into industry, where he has held several positions in the fields of food processing and machine building. These positions include: CFO at Timashevsk Dairy, Sales Director at Ulyanovsk Automobile Plant and Deputy General Director of Development at Volgograd Dairy No. 3, and served as a member of the board of directors of OJSC Meat-Packaging Plant and Volgograd Dairy No. 3.



ALEXANDER A. ZARYA is the Deputy General Director for General Matters, a position he has held since May 2004. Mr. Zarya graduated from the Leningrad Institute of Aeronautic Instrument Engineering with a degree in Electrical Engineering. Prior to 1991, Mr. Zarya worked in the Central Devices Research Institute of the USSR Ministry of General Machine Building. From 1991 to 1995, he served as the General Director of Research and Production Association Kvarts in Saint Petersburg. From 1995 to 1997, he was the Deputy General Director at LLC Ulyanovka, a company engaged in procurement for gold mining enterprises. From 1998 to 1999, Mr. Zarya was a Director of CJSC Zun Khada's branch in Saint Petersburg and later, in 1999 he joined the Company as the Head of the Planning and Economic Department and Deputy General Director of Finance and Economics, the positions he held prior to his present position.



VALERY N. TSYPLAKOV is the Managing Director of Polymetal Engineering, a position he has held since June 2004. Mr. Tsyplakov graduated from the Moscow Engineering and Physical Institute as a Specialist in Experimental Nuclear Physics. He holds a Ph.D. in Physics and Mathematics. Mr. Tsyplakov worked as an Engineer, the Chief Engineer and the Research Engineer for the Plasma Physics Chair of Moscow Engineering and Physical Institute from 1978 to 1988, and worked at the Physic Institute at Denmark's Orhus University from 1986 to 1987. From 1988 to 1993, he served as Head of Department at the All-Soviet Union Scientific Institute of Automatics, and from 1993 to 1999 he held several management positions in various companies, including those of the Head of the Foreign Economic Department at T00 Firm Kare, a Leading Specialist at CJSC Narodny Kapital and President of LTD Rendzh. From 1999 to 2000, Mr. Tsyplakov worked as Deputy General Director for Construction at CJSC IST-M. He joined Polymetal in 2000, serving as Deputy Head of Production and the Technical Department, Head of the Technological Research Department and Deputy General Director for Mineral Resources, Design and Technology and General Director of Polymetal Engineering, prior to being appointed to his present position.



YURI Y. MALAKH is the Deputy General Director for Business Development, a position he has held since April 2006. Mr. Malakh graduated from the Kazan State University with a degree in Radio Physics. From 1986 to 1994, Mr. Malakh worked for the Kazan branch of the USSR Academy of Science. From 1994 to 1996, he was a General Director of the Joint Russian-Polish Enterprise Polteks and from 1996 to 2000 he was a Vice-president at CJSC Spektra. From 2000 to 2001, he served as Head of the IT department of JSC Oil and Gas Company Slavneft. From 2001 to 2003, he was the Director of the All-Soviet Union Association Tyazhpromexport. From 2003 to 2004, he was the Russian Co-director of the Russia-EU Energy Technologies Centre. He joined the Company in 2004, serving as Deputy General Director for Supply Chain Management, prior to being appointed to his present position.



MAXIM N. KUZEMCHENKO is the Managing Director of Trading House Polymetal, a position he has held since September 2005. Mr. Kuzemchenko graduated from the Tomsk State University of Management Systems and Radio Electronics as a Specialist in Information Systems and Electronic Instruments and Devices. From 2002 to 2003, he worked as the Head of the Planning and Control Department and Deputy Director for Supplies at the coal company Kuzbassugol, and from 2003 to 2004, he was the Deputy Director for Supplies at OJSC Severstal-Resource. From 2004 to 2005, Mr. Kuzemchenko held the position of the first Deputy General Director and Deputy Chairman of the supervisory board at OJSC Kharkov Tractor Plant in the Ukraine and later in 2005 he was the Director of Finance Planning and Monitoring Department of an asset management company Castle Finance. In 2005 he worked as Director for Economics at OJSC The Baltics Plant, prior to being appointed to his present position.



ANDREY Y. ZHELTOVSKY is the Deputy General Director for Human Resources and Public Relations, a position he has held since July 2006. Mr. Zheltovsky graduated from Irkutsk State University with a degree in History in 1993. From 1994 to 1997, he worked as a chief specialist of the Committee for Public Relations for the Irkutsk Region Administration. From 1997 until 1999, he worked as Assistant to the Public Relations Director of Individual Enterprise San-Roma. From 1999 to 2002, he was the Head of the Public Relations Department at OJSC Vostsibugol, and from 2002 to 2005 he was Deputy Branch Manager for Public Relations at CJSC SUEK-Baikal-Ugol. He joined Polymetal in 2005, serving as Director for Public Relations and Regional Authorities Relations, prior to being appointed to his present position.



VICTOR N. DEMESCHIK is the Managing Director of Silver Territory and Magadan Silver, a position he has held since July 2006. In 1982, Mr. Demeshik graduated from Irkutsk Polytechnical Institute with a degree in Technology and Complex Mechanisation of Underground Development Deposits of Mineral Resources. He also completed specialised management training at New York International Institute in 1995 and the Russian Management Institute at the Federal Academy of Economics in 1997. In 1982, Mr Demeschik was appointed Mining Foreman at the Azei Coal Mine and was promoted to the position of Mining Superintendent in 1987. In 1990, he was appointed the Chief Engineer at the Mugun strip coal mine and the Mine Manager at Mugun in 2000, the position he held prior to his present position.



ANDREY V. NOVIKOV is the Managing Director of Northern Urals Gold and the General Director of Northern Urals Mining Company, the positions he has held since April 2004. In 2002, Mr Novikov received a degree in Accounting from the Baikal University of Economics and Law. After studying at Irkutsk Polytechnical Institute, he was appointed Mining Foreman at the Tulun strip coal mine. From 1992-1997, he held a series of positions at the mine, including: Mining Shift Boss, Blasting Superintendent, Ore Mining Superintendent and Head of Mine Planning. In 1997, Mr. Novikov was appointed Deputy General Director at the Tulun mine. He was appointed the General Director of OJSC Tulunsky strip coal mine in 1997, a position he held until 2004, after which he was appointed to his present positions.



SERGEY G. ANTIPIIN is the Managing Director of Okhotsk Mining and Geological Company, a position he has held since July 2004. In 1987, Mr. Antipin graduated from Irkutsk Polytechnical Institute with a degree in Enrichment Engineering. In 2000, he received a second degree in Finance from Novosibirsk State Academy of Economics and Law. In 1986 he was appointed Senior Laboratory Assistant at Irgiredmet. In 1987, he was appointed Shift Head at Deputatsk tin mine's concentrator in Yakutia. Over the next decade, Mr. Antipin held numerous positions at Deputatskiy Mining and Processing Complex, including: Head of the Research Laboratory (1990-1992), Milling Superintendent (1992-1994) and Chief Processing Engineer (as of 1994). In 1998, he was appointed Head of the Refining Section at the Kolyma Refinery. In 2001, Mr. Antipin was appointed Managing Director of Silver Territory. In 2003, Mr. Antipin was appointed the First Deputy General Director of Okhotsk Mining and Geological Company, prior to being appointed to his present position.

Human Resources

Personnel Development

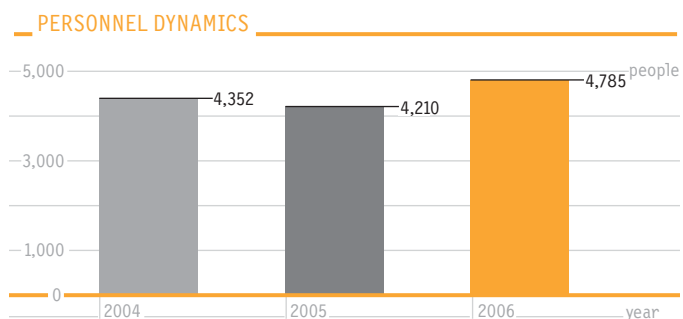
Development of the Company's HR potential is an integral part of Polymetal's growth strategy.

The Company's success on the market is attributed (among other things) to a competent HR policy, whose main objective is to form a team of like-minded individuals dedicated to the Company's corporate goals and actively involved in Company's strategy development and implementation. Polymetal views the Company's personnel and its quality not as a means of resolving problems or a cost driver, but as the Company's key investment potential.

- _ The main objectives of the Company's HR policy are:
 - _ to hire employees whose strength and skills would satisfy the needs of business development.
 - _ to expand existing and create new assets of the Company by investing in the human resources.
 - _ to optimize staff costs.
 - _ to provide staff training and protect the health of employees in accordance with the international standards of managing industrial and environmental safety.
 - _ to stimulate innovation and boost staff performance at all levels.

- _ In 2006, these goals have been achieved by means of personnel management system comprised of the following:
 - _ forecasting and planning the need for human resources, forming an effective HR pool;
 - _ retaining skilled specialists and enlisting workers of rare professions;
 - _ training, retraining and refresher training of employees;
 - _ raising staff performance by introducing modern management technologies, rationalizing structures and staff lists;
 - _ improving employees' remuneration and incentive systems;
 - _ ensuring professional and career advancement of the employees;
 - _ developing social partnership and corporate culture as a way to motivate employees to work effectively.

STAFF STRENGTH. As of December 31, 2006, Polymetal employed 4,785 employees.

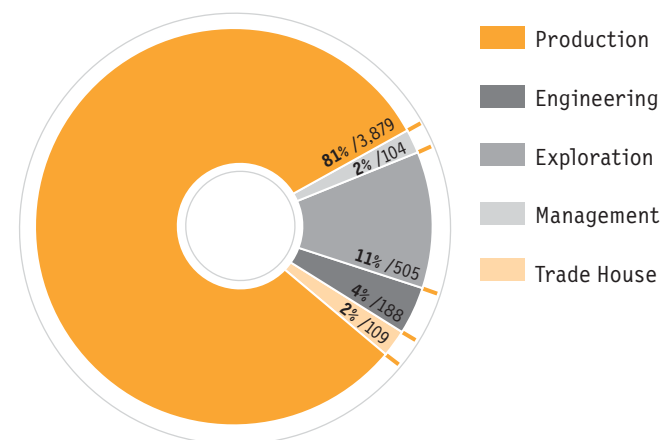


_ Approximately 92% of the total number of employees worked at mining and exploration companies in 2006. Due to the remoteness of some locations, employees of some Company subsidiaries (Lunnoye and Khakanjinskoye) work rotational shifts.

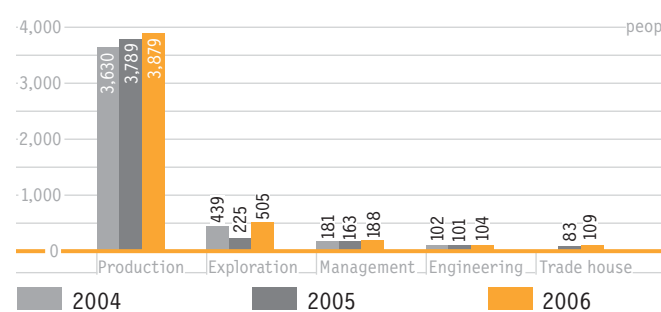
_ The number of workers employed by exploration companies was 505, which makes 11% of the Company's personnel at the end of 2006. The number of exploration workers increased by 5.75%, compared to 2005.

_ The Company has a positive view of the fact that in the reporting period the number of employees in the managing Company remained unchanged – 3.9% of the Company's personnel – since year 2005.

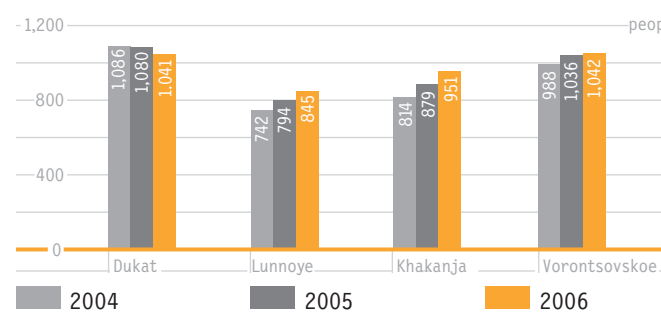
PERSONNEL DYNAMICS BY FUNCTIONAL GROUPS



PERSONNEL DYNAMICS BY FUNCTIONAL GROUPS



PERSONNEL DYNAMICS BY MINES



_ Additional hiring at the Company's production assets in 2006 was due to the 2nd stage launch of the Vorontsovskoye deposit and growing production capacities at the Khakanjinskoye deposit, as well as the start of development of the Albazino and Yuryevskoye deposits. At the same time, the growth dynamics of production indicators significantly outpaces staff growth at the existing production mines.

_ In 2006 employees turnover rate at the mining enterprises of Polymetal was on average 20%.

_ Employees turnover rate at the enterprises of Polymetal is the only downside. Objective reasons include the specifics of the min-

ing industry, population migration in the northern territories, as well as the fact that a significant percentage of the workforce is hired under fixed-term contracts. Employees turnover is also caused by external factors, such as an unfavorable demographic situation in the country, the low quality of human resources (in terms of education, health, mentality), and fierce competition for skilled employees.

_ The Company has developed and introduced various staff management programs designed to form an effective HR pool, retain skilled employees, and minimize staff turnover: a staff motivation program, internal rotation program, and project groups. The Company developed a staff selection program and regularly analyzes the available and required HR pool in order to forecast and plan demand for employees.

_ Due to the fact that the Company started forming a second generation of assets and expanding its production capacities in 2006, the specialized company Polymetal Trading House has expanded the network of regional branches with their functions involving the provision of logistical support for production and exploration enterprises.

_ In 2006, the Company established specialized exploration enterprises in the key regions: Northern Urals Exploration Company and Dukat Exploration Company. These enterprises have been established to conduct survey, estimation and exploration both within the boundaries of license areas of existing enterprises and as part of new exploration licenses.

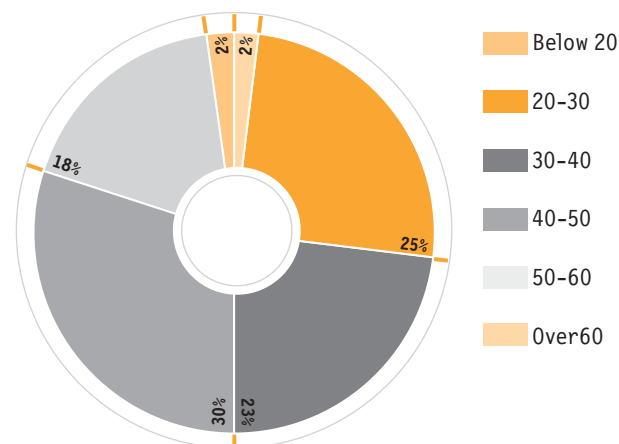
_ We expect the workforce of exploration enterprises and its percentage of the total Company workforce to increase in the future due to the continuing active exploration programs both in the existing regions and in new territories.

_ The Company expects an increase in the workforce of CJSC Silver Territory due to the start of mining operations on the Arylakh deposit in 2007. Additionally, changes in staff strength and structure are planned at the Lunnoye and Dukat deposits due to the folding of open mining operations and transition to underground mining.



STAFF DEVELOPMENT, FORMING AN EFFECTIVE HR POOL. An annual growth in the number of young specialists is one of the Company's development trends, which is also one of the priorities of the staff development policy. The percentage of young specialists (aged under 30) rose from 21% to 25% in 2005 and from 25% to 26.6% in 2006.

PERSONNEL AGE STRUCTURE



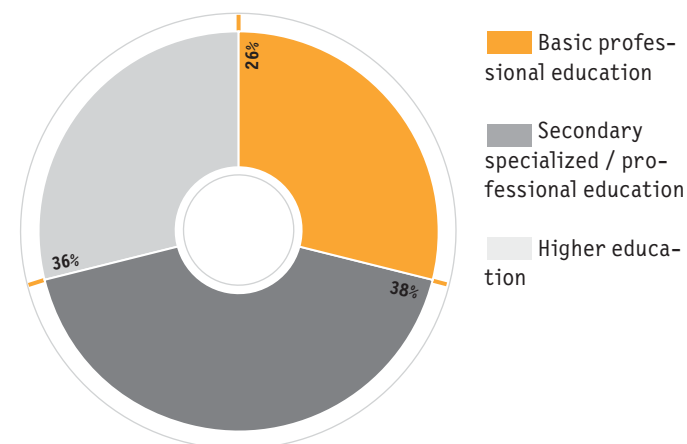
The percentage of employees aged under 40 was more than 50% in 2006, which is a clear evidence of the Company's significant accomplishments. Notably, in 2006 a total of 155 young specialists (aged under 30) occupied engineering and technical positions. The "youngest" enterprise is Northern Urals Gold, where the percentage of young specialists is 31%.



Over 48% of the Company's workforce has a higher education or professional credentials.

In 2006, the percentage of specialists with a higher education in the total workforce was 16% in production, 23% in exploration, and close to 85% at management company.

PERSONNEL EDUCATION PROFILE



The majority of the Company's workforce are highly skilled specialists, including 1 Doctor of Science and 28 Ph.D.s in 2006.

In the reporting period, 199 employees underwent training at higher and secondary specialized educational institutions or in postgraduate training courses.

The Company is actively recruiting highly-skilled specialists from across Russia for its mining subsidiaries and pays special attention to the local labor market.

The Company demonstrates its social commitments in seeking to create additional jobs for the local population. This helps the Company's employees and local residents to form common interests and understand the common nature of the objectives pursued, in addition to help in resolving various issues faced by the regional authorities. Approximately 70% of the Company's total number of employees were local residents in 2006.

The main regions of personnel recruitment are predetermined by the location of the mining enterprises. They include the Sverdlovsk, Magadan, Chita, and Irkutsk regions, Krasnoyarsk, Khabarovsk and Primorsk territory. With the help of recruitment agencies and employment centers, the Company has expanded the geography of specialists recruitment to other traditional gold producing regions in Russia and the CIS.

REFRESHER TRAINING, RETRAINING AND COACHING OF EMPLOYEES. The Company's goals are to form an internal HR pool and provide opportunities for self-education, self-improvement, and advancement by evaluating not only knowledge and skills, but also personal qualities of employees. The Company attaches great significance to employees training in all categories and at all levels, which demonstrates its readiness to invest in human resources.

One of the objectives identified by the Company is to raise the workers' qualifications and provide professional training, including increasing of the responsibility level for associated professions (e.g., combining the functions of operational control and daily maintenance of equipment).

In 2006, workforce training was provided by means of group and individual training methods under relevant licenses. Additionally, the Company practiced extensive cooperation with various centers of training and refresher training for workers and specialists, such as the Northern International University, Magadan Industrial Training Center, Krasnoyarsk Branch of the Nature State Center, Krasnoturinsk Industrial College and Professional Lyceum, Atlas Kopko, and advanced professional training institution DV-Techcenter, Khabarovsk Territory Course Training Combine, Scientific Research and Expert Design Center Promhydrotehnika in Khabarovsk, Hydrotechnical Engineers Association Hydrouzel in Moscow, Hoisting and Transport Machines Center of Moscow State Bauman Technical University, etc. Each year, about 25% of the Company's employees undergo professional training and improve their qualifications.

The Company started work to create its own corporate training center in 2006, with its main objective to consolidate the efforts aimed at training, refresher training, and retraining of specialists of the Company's mining enterprises. The corporate center's goal is to ensure a constant on-the-job training process for the Company's workforce.

PROGRAM FOR YOUNG SPECIALISTS. As part of the specialized student recruitment program "Youth. Professionalism. Career" the company's enterprises have organized all kinds of internships based on Polymetal's close cooperation with educational institutions in St. Petersburg, Yekaterinburg, Magnitogorsk, Irkutsk, Tomsk, Seversk, and Magadan. Over 120 students were offered internships within this program in 2006, 93 of them completing internships at the Company's production facilities.

Approximately 47% of all graduates and students involved in the program are students of Irkutsk State Technical University, where the Company has made presentations in order to prepare a solid groundwork for long-term cooperation in training the workforce for Polymetal.

During the reporting year, 29 graduates of institutions of higher education were hired, and 33 more graduating students signed contracts under which they will be hired in the following year. Over one half of all students who have completed internships have applied for jobs with our Company after their graduation or completion of internships in 2007.

In 2006, Polymetal opened its scientific and educational center at Irkutsk State Technical University. Its tasks include targeted training of specialists of the required professions for Polymetal, adapting educational programs to the requirements of modern production, organizing training and other events at the University aimed at raising the qualifications of the Company's specialists.

Each year, approximately 20% of the Company's employees undergo professional retraining. Throughout 2006, over 200 Company employees participated in at least one training program.

IMPROVING EMPLOYEES REMUNERATION AND INCENTIVE SYSTEMS

In 2006, Polymetal started the implementation of its incentive program for specialists.

It involves introducing a target-based management system for top and middle managers, a system of key performance indicators for rank-and-file and junior staff, a system of project motivation, and programs of constant effectiveness improvements. In 2006, this program encompassed all employees of the Company and managed enterprises.

In 2006, the Company developed and adopted Provisions on Material Incentives for Polymetal Employees, which regulate the organization of the bonus plan and bonuses calculating procedure:

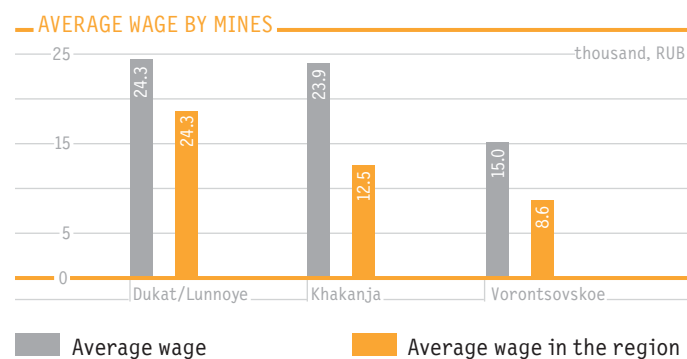
- _ bonuses for key results of production and economic performance;
- _ special bonuses (individual target-based management card, project card);
- _ bonuses for annual performance results.

The major principles of organizing material incentives include the status of a bonus as an additional reward that depends on performance results and is not a guaranteed payment, and dependence of the bonus size on collective and individual performance results that are evaluated on the basis of the extent to which specific targets have been met.

The Company seeks to achieve the following results through consistent implementation of its incentive program over the coming years:

- _ improved performance indicators and higher production effectiveness along with cost reductions; ensuring profitability sufficient for sustainable development;
- _ recruitment and retention of skilled employees;
- _ stimulating personal motivation of employees and combining material interests of employees with strategic goals of the Company;
- _ securing a real return on each ruble invested in the remuneration of each employee.

In 2006, the wage levels in the Company matched the wage levels in the mining industry and exceeded the average wage levels in the relevant regions where Polymetal operates.



SOCIAL PARTNERSHIP AND CORPORATE CULTURE. The Company views its social partnership system in staff management as one of the prerequisites for forming attractive conditions for the recruitment and retention of skilled employees, which is ultimately aimed at ensuring effective production growth.

In 2006, the management of Polymetal approved the initiative by representatives of the workforce of Magadan Silver to draw up a collective bargaining agreement. Both parties jointly examined the issues of employment, staff training, working hours and leisure time, remuneration and conditions of work, occupational safety, and social guarantees for workers and their family members. The Company intends to continue supporting staff initiatives to develop social partnership in the sphere of employment and collective bargaining agreements.

The Company provides mandatory insurance for all its employees, but does not support any voluntary pension funds and has no contracts with its employees concerning pension plans. Polymetal has assumed voluntary commitments to reimburse the costs of travel to a resort location on the territory of Russia every two years for employees of the production facilities at the Dukat, Lunnoye and Khakanja deposits.

The Company has introduced social programs as part of its efforts to form attractive conditions for the retention of skilled workers: a program of industrial and occupational safety, a program for workers' children, a program for the World War II veterans whose children work for the Company, a program of reimbursement of the cost of summer recreation for Company workers' children under 14, preferential medical services at medical institutions, gratuities for retiring workers depending on their work history with the Company.

In order to stimulate the staff to raise their performance and take an active part in the Company's development, the Company has introduced the following types of corporate awards: entry into the Book of Honor, placement on the Board of Honor, a letter of gratitude, a valuable gift, as well as cash bonuses for distinguished accomplishments on the job. Over 500 employees received awards in 2006.

THE COMPANY ATTACHES GREAT SIGNIFICANCE TO PROGRAMS AIMED AT REINFORCING THE CORPORATE CULTURE. Such programs are an integral part of the staff training system. They represent an investment in the present stability, future development, and the Company's goodwill.

We view corporate culture as a system of corporate communications aimed at achieving a balance of interests within the Company and ensuring non-material motivation of workers.

- In 2006, the Company proceeded to a new stage of its large-scale action plan for developing its corporate culture, which includes:
 - re-branding of the Company (changes in the corporate symbols in the internal and external environments as a mark of the Company's transition to a new development stage);
 - creating a new system of intra-corporate communications designed to rebroadcast the key corporate values and ensure feedback from the personnel to the management (corporate website, corporate newspaper, informational thematic bulletins, call-ins with the Company's management);
 - organizing intracorporate events designed to form a close-knit staff and support the employees' emotional dedication to the Company's values;
 - implementing a program of special events designed to speed up the adaptation of the Company's new hirelings.

This plan scopes the years of 2006 and 2007. Its natural result should be the formation of a favorable environment created to enable every employee to use their skills most effectively taking into account the current development stage of the Company.

In the financial year of 2006, the combined staff costs of the managing Company, mining and geological exploration enterprises totaled US\$ 6.4 mln, US\$ 27.8 and US\$ 12.4 mln, respectively.

Total staff costs amounted to 21% of all production costs of Polymetal in 2006.

In the following years the Company will continue implementing its key HR policy tasks, striving to improve staff management within the adopted system. We are confident that ultimately this system will increase the Company's ability to adapt to the changing technologies and market requirements that can be predicted in the foreseeable future, thus increasing the Company's reliability, stability and investor attractiveness.

Health and Safety Policy

Industrial and Occupational Safety

Polymetal acknowledges the primary importance of ensuring occupational safety at its production sites and protecting the workers' health at all stages of the production cycle.

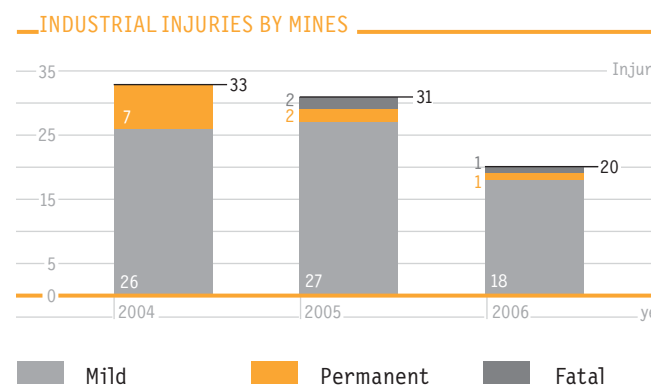
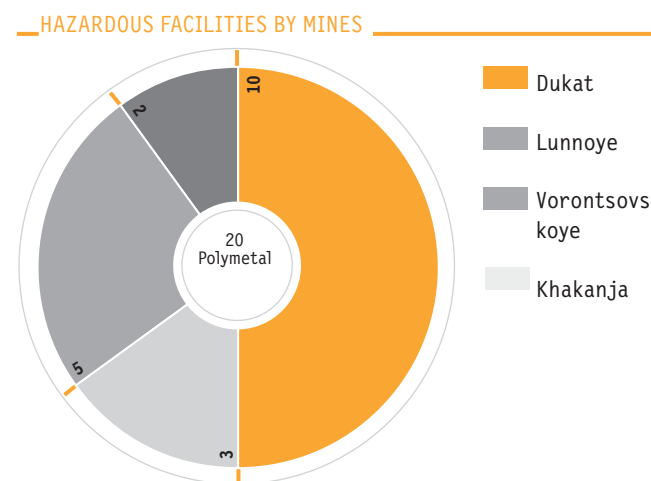
The Company strives to enhance its prevention methods to rule out safety rules violations by workers.

In 2006, producing companies implemented a series of measures to prevent violations of safety rules, thus lowering the rate of incidence of industrial injuries by 1.6 times compared to 2005 (by 11 incidents).

COMPLIANCE WITH THE WORLD BANK DIRECTIVES. In 2005, with the view to enhance the control of observance of industrial and occupational safety standards and minimize the risk of accidents and injuries during the operation of hazardous facilities, the Company began implementing a System of Industrial and Occupational Safety Management developed in accordance with the Russian and international standards. Implementation was completed in 2006.

In the 3rd quarter of 2006, Polymetal received a positive audit feedback (Steffen Robertson and Kristen, Great Britain) on its Company System of Industrial and Occupational Safety Management compliance with the World Bank requirements.

The opinion of an independent auditor confirms that Polymetal is actively implementing staff training program in occupational safety standards, while allocating substantial funding toward ensuring compliance of the actual practices with all applicable standards. As recommended by the auditor, by 2006 the Company had developed the required procedures and is ready to adopt the best international practice to further enhance its occupational safety.



Environmental Policy

Polymetal acknowledges its social responsibility for preserving a healthy environment and rational use of the natural resources. Polymetal expects the public to understand the complexity of challenges faced by production companies.

The environmental policy adopted by Polymetal is consistent with the nature and scale of its environmental impact. It outlines the key environmental aspects of its operation and sets out the objectives and commitments of its continuous improvement.

_ The striving to minimize the environmental impact of all operations and processes throughout their entire life cycles is the Company's priority proclaimed in its environmental policy.

_ In 2006, as part of its efforts in aforesaid directions, the Company participated in the development of design plans and specifications, and provided environmental support for the mining operations of managed companies.

_ In all of its activities, the Company acts in accordance with Russian laws on environmental protection, rational use of the natural resources and industrial hygiene, as well as with directives of the World Bank.



ENVIRONMENTAL MANAGEMENT SYSTEM. In 2006, the Company implemented an environmental and industrial hygiene management system in accordance with the requirements of the World Bank and ISO 14100 international standards, which regulate all efforts in this sphere.

_ In 2005, the Company started implementation of this system at the Vorontsovskoye deposit. During the reporting period, the environmental and industrial hygiene management system has been introduced at all functioning production facilities of the Company.

_ The system involves organization and practical implementation of environmental protection measures that are based on the allocation of responsibility for the environmental protection, an environmental training system for the staff, streamlined communication among various levels, a system for handling documents that regulate or register all aspects of environmental protection efforts, and identification and control of operations that produce an environmental impact.

COMPLIANCE WITH THE WORLD BANK DIRECTIVES. In August 2006, Polymetal jointly with international consultants Steffen Robertson and Kirsten (SRK Consulting Ltd., Great Britain) completed an environmental audit of the managed production facilities. As a result, the Company's environmental protection program compliance with the World Bank directives was confirmed by an independent audit opinion. An assessment of the environmental impact has been made for every production facility of the Company in accordance with the requirements of the Russian environmental laws. These documents have been approved by the relevant governmental overseeing agencies.

_ SRK Consulting specialists evaluated the Company program of environmental protection, industrial safety and industrial hygiene. In particular, the consultants evaluated the monitoring system (air quality control, surface and ground water, etc.). According to the monitoring reports, the production facilities' impact on the environment is within the permissible limits. The Company makes regular and full payments for the environmental contamination and has not been fined for any violations or breaches of the norms over the last three financial years.



Community and Social Programs

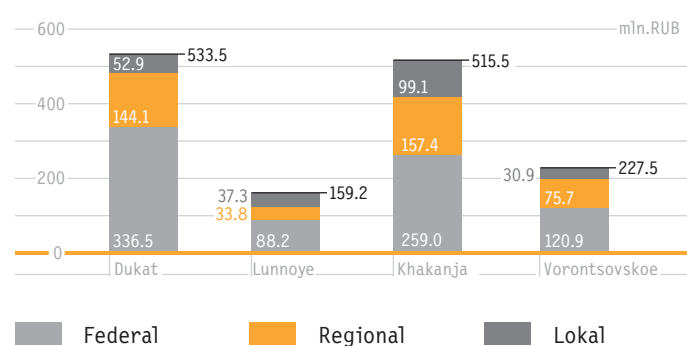
Polymetal views social partnership as an investment in social stability that is essential for dynamic business development.

In pursuing its social policy, the Company proceeds from the premise that its production sites are centers of urban development in most regions the Company operates in, while these regions are commonly viewed as underprivileged. The Company strives to provide continuous financial assistance to these regions in addressing their pressing problems. The Company is also willing to implement projects in the areas of infrastructure development, education, healthcare and sports.

The Company's operations, which involve constructing and launching of major mines, exploration at new fields and increasing production capacity of existing plants, help to create new jobs and indirectly stimulate the need in infrastructure development of the regions.

Polymetal is a major taxpayer in the regions where it operates. Tax payments made by the Company business units into the budgets of various levels totaled 1.8 bln rubles in 2006 with more than 630 mln rubles sent to the regional and local budgets.

TAX PAYMENTS BY MINES



Additionally, throughout the year of 2006, the Company fulfilled its commitments under the license agreements to make additional non-tax payments into the local budgets for purposes of socioeconomic development.

Business connections between the Company and the regions are based on the principle of cooperation between equal business partners in addressing socioeconomic issues.

The Company actively implemented its long-term social development plan in the reporting period, which includes the following priorities:

- development of the potential of municipal authorities to ensure the necessary level of infrastructure and adequate competitiveness of the regions;
- improvement of healthcare quality;
- improvement of educational conditions;
- development and implementation of effective ways of allocating charitable donations;
- development and support of environmental Protection projects;
- development and support of organizations providing social services (healthcare, education, culture).

The core principle of the Company's social partnership efforts is social investments in long-term programs drawn up in cooperation with regional administrations and public organizations and aimed at developing these regions.

A guarantee of the effectiveness of these programs is the long-term agreements with municipal administrations of the regions where the Company operates. In 2006, in accordance with those agreements, Polymetal organized and funded various social and humanitarian projects, sponsored local healthcare institutions (outpatient clinics, hospitals), educational institutions (schools, daycare centers), and infrastructure (roads, power supply facilities, etc.).

In 2006, Polymetal completed another phase of its extensive social program in the Sverdlovsk region, which included funding of the first municipal bathhouse complex construction in the town of Krasnoturinsk. The cost of the project is 60 mln rubles. The Company financed 20 mln rubles in construction work in 2005 and 30 mln rubles in 2006. The complex will be opened in 2007.

The Company has allocated over 800000 rubles to support other socially significant projects in the region. Currently, a key target of social investments in the Urals is financial aid to the Vorontsovka settlement. The Vorontsovka settlement is located in the immediate vicinity of the Vorontsovskoye deposit. The Company is providing corporate assistance to the local school, daycare center, and medical aid station.

In the reporting period, the Company has financed repairs and construction of district roads and construction of a seaport in Okhotsk, the Khabarovsk Territory.

The Company provided a total of 19 mln rubles worth of assistance to the Okhotsk district in 2005-2006. As a sole major taxpayer in the district, Polymetal provided assistance to the district in the form of machinery, materials and diesel fuel through its managed enterprise Okhotsk Mining and Exploration Co. This assistance proves especially valuable in the wintertime, when harsh climatic conditions and the absence of sea navigation make the life of the local population very complicated.

The Company donated 5 mln rubles worth of transport vehicles, bulldozers, dump trucks, and a steam shovel to the district administration, needed for maintaining the utility infrastructure. The company has prepared engineering and cost documentation for the construction of a water pumping facility and water mains in Okhotsk worth 4.5 mln rubles, since one of the biggest problems in the district is the lack of adequate water supply.

The Company signed a socioeconomic partnership agreement with the administration of the Omsukchan district, the Magadan region, in 2006. The 4-year agreement envisions a 20 mln rubles annual financing commitment for projects that involve refitting, construction and modernization of the social infrastructure facilities.

Assistance to educational and healthcare institutions in 2006 was one of the key priorities of this agreement, along with the principle of social partnership.

In accordance with the agreement, approximately 3.4 mln rubles (US\$ 130,000) has been provided to the Omsukchan middle school renovation. Approximately 2 mln rubles (US\$ 76,000) went to educational institutions in the settlement of Dukat: a school and a daycare center. The Company's funding was used to repair the pool at the daycare center of Omsukchan.

Approximately 6 mln rubles (US\$ 230,000) has been directed to buy medical equipment for the district's central hospital. Each year Polymetal helps with organizing a summer recreation campaign for local children. In 2006, the Company paid for the children's trips to health resorts on the Black Sea coast: Snezhnyi, Severnyi Artek, Talaya.

Additionally, Polymetal helped to create temporary jobs for teenagers in the Omsukchan district. Overall, Polymetal provided approximately 2 mln rubles (US\$ 76,000) in the form of its contribution to the summer campaign in 2006.

In 2006, the Company completed preparations for the signing of long-term agreements with the Khabarovsk Territory administration, which will include agreements with the administrations of the Okhotsk district (the Khakanjinskoye deposit) and the Polina Osipenko district (the Albazino deposit), as well as agreements with the administration of the Srednekansk district, the Magadan region, where the Company is developing the Arylakh deposit.

Following public hearings, sociological surveys, and monitoring of regional budgets, the partners have performed a comprehensive assessment of the potential of municipal entities and the condition of the entire local social infrastructure, and identified the areas that require the attention of the company as a strategic partner interested in the stability and competitive attractiveness of these territories.

Apart from the measures implemented under agreements with the regions, the Company pursues a well thought out and active charitable policy geared toward achieving clear objectives in the social sphere.

"Respect the past, care for the present, and look into the future" is the main principle of the Company in its charitable programs. This represents a kind of investment in the future, since we believe that a positive and proven image of a socially responsible company that respects traditions is a guarantee and integral part of successful business development in the long term.

The Company focuses its particular attention on the development of sports, especially among youngsters. In the regions where it operates the Company is an active supporter and organizers of major sporting competitions. In 2006, the Company revived and sponsored a number of sports organizations in the regions and organized sporting events – a regional soccer tournament among school children "Leather Ball" in the Magadan region, a winter sports competition for school children, and became a permanent partner of the children's hockey team in the settlement of Omsukchan, thereby enabling young athletes to come fully prepared for competitions at various levels. The Company organizes the international mountain marathon "Konzhak" in the Sverdlovsk region.

Polymetal supports gifted youth, helping children to realize their creative potential. For instance, in 2006 the Company once again supported the children's vocal singing contest "Zvezdopad" in the Magadan region; joined regional civic organizations in sponsoring a project to support and provide social rehabilitation to musically gifted children "Zolotoy Vocal-DV" in Khabarovsk; and implemented a long-term support program for vocal singing and choreography competitions among schoolchildren and students in Krasnoturinsk. Honoring the Russian business tradition, the Company joined regional and international civic organization in implementing projects to support social centers for orphaned and neglected children.

The Company honors the national culture and traditions of the regions where it operates, implementing a number of programs to support indigenous peoples of the North, who reside on the territory of the Magadan region and the Khabarovsk Territory. It supports national economies and takes part in the activities of the regional environmental organizations that provide environmental education to children.

The Company staged a number of events to mark the 80th anniversary of the Okhotsk district in 2006, implemented special programs for World War II veterans residing in the regions, sponsored and initiated a revival of a traditional national holiday of the North in the Okhotsk district, made a decision to renovate the Okhotsk district museum which is one of the region's main attractions, and approved a program of the Company's participation in the celebration of the 360th anniversary of Okhotsk. Also in 2005 and 2006, Polymetal provided funding for the construction of Orthodox churches in Magadan and Khabarovsk.

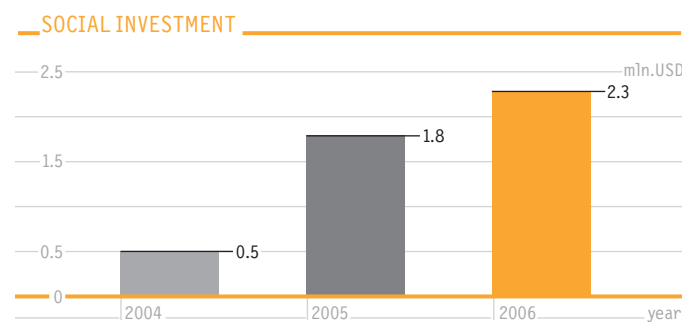
In 2006, the Company became a corporate sponsor and participant of the international economic forum "The Far East and Transbaikalia", held in Khabarovsk under the auspices of the Interregional Association for Economic Cooperation among the Constituent Entities of the Russian Federation.

Besides in 2006, the Company reached an agreement on its participation in the Congress of Dressers from CIS Member States and sponsorship of the event. The Congress will attract specialists from over 250 mining and metallurgical enterprises, equipment manufacturers, scientific research, design and engineering, and educational institutions.

In 2006, total Polymetal investments amount in social projects, comprised 64.5 mln rubles.

	Northern Urals Gold	Magadan Silver	Silver Territory	Okhotsk Mining and Exploration
2006 investments in social projects mln rubles	30.8	22.9	6.1	4.7

In the years of 2006, 2005, 2004, the volume of the Company's investments in social programs in the regions where it operates totaled US\$ 2.3 mln, US\$ 1.8 mln, and US\$ 0.5 mln respectively.



Social partnership that we continued to pursue in the reporting year of 2006 creates conditions for the stable development of the regions and improves the investment climate of these territories, which all together raises their competitive ability.



CONSOLIDATED
FINANCIAL STATEMENTS
AND REPORT
OF INDEPENDENT
ACCOUNTANTS
FOR THE YEARS ENDED
DECEMBER 31,
2006 AND 2005

Report of Independent Auditors

To the Board of Directors and Shareholders of Joint-Stock Company Polymetal

We have audited the accompanying consolidated balance sheets of Joint-Stock Company Polymetal and its subsidiaries (the "Company") at December 31, 2006 and 2005 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Joint-Stock Company Polymetal and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

21 June 2007

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Consolidated Balance Sheets

(in thousands of U.S. Dollars, except as indicated)

	Note	At December 31, 2006	At December 31, 2005
Assets			
Cash and cash equivalents	3	6,532	18,925
Accounts receivable and prepayments to suppliers	4	17,090	10,312
Related party receivables and prepayments	5	126	5,323
Short-term loans to related parties	6	-	13,867
Short-term loans to third parties		442	431
Inventories	7	155,629	92,137
Short-term VAT receivable	10	45,335	20,288
Short-term deferred tax asset	22	816	955
Other current assets	9	13,336	6,420
Total current assets		239,306	168,658
Goodwill		31,896	-
Investments	26	250	-
Property, plant and equipment, net	8	406,418	314,827
Long-term loans to related parties		6,138	-
Long-term loans to third parties		365	-
Long-term VAT receivable	10	9,019	23,222
Long-term deferred tax asset	22	3,962	4,443
Total assets		697,354	511,150

	Note	At December 31, 2006	At December 31, 2005
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	11	29,216	26,538
Accounts payable - related parties	12	302	2,263
Short-term debt and current portion of long-term debt	13	229,770	184,786
Taxes payable		7,292	7,824
Short-term deferred tax liability	22	14,902	8,910
Current portion of capital lease liabilities	16	4,210	11,020
Total current liabilities		285,692	241,341
Long-term capital lease liabilities	16	2,445	8,932
Long-term debt	14	169,895	-
Long-term debt - related parties	15	4,574	100,000
Long-term deferred tax liability	22	35,284	23,224
Reclamation and mine closure obligation	17	7,230	4,915
Total liabilities		505,120	378,412
Minority interest		-	16,937
Commitments and contingent liabilities	26	-	-
Shareholders' equity			
Share capital*	18	6,397	6,397
Additional paid-in capital		56,710	56,710
Accumulated other comprehensive income (loss)		10,447	(4,299)
Retained earnings		118,680	56,993
Total shareholders' equity		192,234	115,801
Total liabilities and shareholders' equity		697,354	511,150

* Share capital (2,444,000,000 ordinary shares authorized at December 31, 2006 and 2,400,000,000 ordinary shares authorized at December 31, 2005, par value Rubles 0.2 per share; 275,000,000 ordinary shares issued and outstanding at December 31, 2006 and 2005). Given the effect of stock split effective December 7, 2006 (see Note 18).

Approved on behalf of the Board of Directors on June 21, 2007


Nesis V.N., General Director


Cherkashin S. A., Finance Director

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

Consolidated Statements of Income

(in thousands of U.S. Dollars, except as indicated)

	Note	Year ended December 31, 2006	Year ended December 31, 2005
Revenues	19	315,596	238,973
Cost of sales	20	(171,283)	(136,173)
Income from mining operations		144,313	102,800
Exploration expenses		(5,347)	(1,751)
General, administrative and selling expenses		(28,351)	(22,397)
Other expenses, net	21	(15,860)	(11,387)
Operating income		94,755	67,265
Interest expenses, net		(25,267)	(24,869)
Capital lease finance costs		(2,569)	(3,963)
Exchange gain (loss), net		26,784	(6,826)
Income from continuing operations before income tax and minority interest		93,703	31,607
Income tax expense	22	(25,755)	(9,019)
Income from continuing operations before minority interest		67,948	22,588
Minority interest		(6,261)	(7,883)
Income from continuing operations		61,687	14,705
Discontinued operations, net of income tax			
Loss from operations of disposed consolidated subsidiaries		-	(691)
Gain on disposal of interest in consolidated subsidiaries		-	3,585
Income from discontinued operations		-	2,894
Net income		61,687	17,599
Basic and diluted earnings per share (expressed in U.S. Dollars)	18		
Income from continuing operations *		0.224	0.053
Income from discontinued operations *		-	0.011
Net income *		0.224	0.064
Average number of shares outstanding *		275,000,000	275,000,000

* Given the effect of stock split effective December 7, 2006 (see Note 18).

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

Consolidated Statements of Cash Flows

(in thousands of U.S. Dollars, except as indicated)

	Year ended December 31, 2006	Year ended December 31, 2005
Cash flows from operating activities		
Net income	61,687	17,599
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and depletion	39,366	25,134
Accretion of reclamation and mine closure obligation	228	644
Gain on disposal of subsidiaries	-	(3,585)
Capital lease finance costs	2,569	3,963
Deferred income tax expense (benefit)	3,801	(3,951)
Loss on disposal of property, plant and equipment	1,339	3,291
Minority interest	6,261	7,883
Exchange loss (gain), net	(26,784)	6,875
Changes in operating working capital, excluding cash and debt:		
Accounts receivable and prepayments to suppliers	(5,819)	(5,340)
Related party receivables and prepayments	5,692	20,157
Inventories	(46,427)	(10,835)
VAT receivable	(6,615)	6,702
Other current assets	(5,166)	15,714
Accounts payable and accrued liabilities	231	(4,368)
Taxes payable	(1,261)	2,860
Net cash provided by operating activities	29,102	82,743
Cash flows from investing activities		
Additions to property, plant and equipment	(60,311)	(26,523)
Proceeds from sale of property, plant and equipment	2,845	1,399
Acquisitions of subsidiaries and minority interests	(93,705)	(49,643)
Equity investment	(250)	-
Proceeds from disposal of interest in consolidated subsidiaries	-	989
Proceeds from sale of investments	-	7,211
Loans to third parties	(764)	(131)
Repayment of loans to third parties	501	61,966
Loans to related parties	(6,138)	(13,867)
Repayment of loans to related parties	15,088	5,656
Net cash (used in) provided by investing activities	(142,734)	(12,943)

	Year ended December 31, 2006	Year ended December 31, 2005
Cash flows from financing activities		
Proceeds from short - term debt	433,303	70,841
Repayment of short - term debt	(396,396)	(22,929)
Proceeds from long - term debt	292,000	-
Repayment of long - term debt	(88,599)	(21,976)
Proceeds from short - term debt - related parties	171,520	32,774
Repayment of short - term debt - related parties	(171,520)	(72,751)
Proceeds from long - term debt - related parties	4,574	124,002
Repayment of long - term debt - related parties	(100,000)	(132,753)
Redemption of bonds	(27,680)	-
Lease payments	(17,725)	(29,387)
Net cash (used in) provided by financing activities	99,477	(52,179)
Exchange effects on cash balances	1,762	(49)
Net increase (decrease) in cash and cash equivalents	(12,393)	17,572
Cash and cash equivalents at the beginning of the year	18,925	1,353
Cash and cash equivalents at the end of the year	6,532	18,925
Supplementary cash flow information		
Interest paid	27,024	39,691
Income taxes paid	22,328	10,175
Non-cash additions to property, plant and equipment - capital lease	-	9,664

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

Consolidated Statement of Changes in Shareholders' Equity

(in thousands of U.S. Dollars, except as indicated)

	Ordinary shares issued and outstanding*	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
Balance at January 1, 2005	275,000,000	6,397	52,124	1,792	39,394	99,707
Comprehensive income						
Net income		-	-	-	17,599	17,599
Currency translation adjustment		-	-	(6,091)	-	(6,091)
Total comprehensive income						11,508
Effect from restructuring			4,586			4,586
Balance at December 31, 2005	275,000,000	6,397	56,710	(4,299)	56,993	115,801
Comprehensive income						
Net income		-	-	-	61,687	61,687
Currency translation adjustment		-	-	14,746	-	14,746
Total comprehensive income						76,433
Balance at December 31, 2006	275,000,000	6,397	56,710	10,447	118,680	192,234

* Given the effect of stock split effective December 7, 2006 (see Note 18).

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

Notes to the Consolidated Financial Statements

Note 1: Background

DESCRIPTION OF BUSINESS. Open Joint Stock Company "Interregional Research and Production Association "Polymetal" was incorporated on March 12, 1998 in the Russian Federation. In accordance with the resolution of the meeting of shareholders held on December 19, 2006, the open joint stock company "Interregional Research and Production Association "Polymetal" was renamed as open joint stock company "Polymetal" (hereinafter, JSC "Polymetal" or "the Company"). The Company is engaged in gold and silver mining and related activities, including exploration, extraction, processing and reclamation. Since incorporation, the Company has acquired a number of gold and silver mining properties, which require significant investment to bring to commercial production. The Company owns producing assets at Vorontsovskoye and Lunnoye fields, Dukat and Khakanjinskoye mines.

The Company majority shareholder prior to November 2005 was ZAO ICT, which, together with its subsidiaries formed the ICT group. In November 2005, the ultimate beneficial owners of the Company sold their interests in ZAO ICT to OAO NAFTA MOSKVA. The consolidated financial statements of JSC "Polymetal" reflect its historical cost basis and, accordingly, do not reflect any purchase accounting adjustments related to acquisition of its 99.99% interest by OAO NAFTA MOSKVA.

In 2006, after restructuring NAFTA MOSKVA (CYPRUS) LIMITED became a sole shareholder of the Company until Company's public offering in February 2007 (see Note 27).

Mr. V. N. Nesis, the General Director of JSC "Polymetal", has close family relationship with the owner of ZAO ICT. Accordingly, transactions with companies of the ICT group continue to be disclosed in these financial statements as related party transactions.

The Company's ability to meet its obligations and maintain operations is contingent upon continuing support from OAO NAFTA MOSKVA, the successful development and future profitable production of its mining assets, its mining licenses being maintained in good standing, fair use of such licenses and the political, economic and legislative stability in the Russian Federation.

COMPOSITION OF THE GROUP. JSC "Polymetal" and its subsidiaries are collectively referred to as "the Group".

The structure of the Group as at December 31, 2006 includes the following significant mining subsidiaries:

Name of subsidiary	Field	Voting interest, %	Effective ownership interest, %
ZAO Zoloto Severnogo Urala	Vorontsovskoye	100.00	100.00
OAO Okhotskaya GGC	Khakanjinskoye, Urjevskoe	100.00	100.00
ZAO Serebro Territorii	Lunnoye, Arylakh	100.00	100.00
ZAO Serebro Magadana	Dukat	100.00	100.00

Changes in the Group structure and voting and ownership interests in major production subsidiaries in 2006 and 2005 are discussed in Notes 24 and 25.

The Company holds the following significant mining licenses: Vorontsovskoye field (Sverdlovsk region), Lunnoye field, Arylakh field and Dukat field (Magadan region), Khakanjinskoye field and Urjevskoye field (Khabarovsk region).

In March 2005, JSC "Polymetal" incorporated a subsidiary OJSC "Trade House Polymetal" whose core activity is to provide production entities with fixed assets through leasing, materials and inventories.

Note 2: Basis of Presentation and Summary of Significant Accounting Policies

BASIS OF PRESENTATION. These consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Company and its subsidiaries domiciled in the Russian Federation maintain their accounting records and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying financial statements have been prepared from these accounting records and adjusted as necessary to comply with U.S. GAAP.

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, revenues and expenses, including discussion and disclosure of contingent liabilities. Significant areas requiring the use of management estimates relate to determination of mineral reserves, mine closure liabilities, reclamation and environmental obligations, impairment of assets and valuation allowances for deferred tax assets. Actual results could differ from these estimates.

REPORTING AND FUNCTIONAL CURRENCY. The Russian Ruble ("Ruble") is considered to be the functional currency of the Company and

its subsidiaries domiciled in the Russian Federation. Most of the Company's sales revenues and purchases and certain financing agreements are settled in Russian Rubles. The U.S. Dollar is the reporting currency selected by the Group for purposes of financial reporting in accordance with U.S. GAAP.

_ The transactions and balances in the accompanying financial statements have been translated into U.S. Dollars in accordance with the relevant provisions of SFAS No. 52, Foreign Currency Translation. Consequently, assets and liabilities are translated at period closing exchange rates. Revenues, expenses, gains and losses have been translated using historical or period average exchange rates as appropriate. Translation differences resulting from the use of these exchange rates have been included as a separate component of stockholders' equity.

_ The exchange rates as at December 31, 2006 and December 31, 2005 were Ruble 26.33 and Ruble 28.78 for U.S. Dollar 1.00, respectively. Average exchange rates for 2006 and 2005 were Ruble 27.19 and Ruble 28.32 for U.S. Dollar 1.00, respectively.

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the results of operations of all entities in which the Group directly or indirectly controls more than 50 percent of voting power and all variable interest entities for which the Group is determined to be the primary beneficiary.

_ Joint ventures and investment in which the Group holds ownership interests between 20 and 50 percent or otherwise has the ability to exercise significant influence over an investee are accounted under the equity method and adjusted for estimated impairment.

_ Long-term investments over which the Company does not exercise significant influence are accounted for at cost and adjusted for estimated impairment.

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

_ Variable Interest Entities are consolidated if the Group is the primary beneficiary in accordance with FASB Interpretation No. 46(R) Consolidation of Variable Interest Entities ("FIN 46 (R)").

SEGMENTS The Group management manages its business by operating segment. The Group has three operating segments.

_ Segment income for operating segments comprises segment revenues less segment operating costs (including depreciation). Segment expenses represent internal presentation of costs incurred to produce gold and silver at each operating mine, and exclude the following costs that are not allocated to operating segments: amortization of corporate assets; administration costs, costs of financing and other non-operating costs.

PURCHASE PRICE ALLOCATION (INCLUDING GOODWILL) Business acquisitions 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 goodwill. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of property, plant and equipment acquired generally require a high degree of judgment and include estimates of mineral reserves acquired, future commodity prices and applicable discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in purchase price allocation. Future net earnings can be affected as a result of changes in future depreciation and depletion, asset impairment or goodwill impairment.

_ In accordance with provisions of SFAS 142, goodwill is not amortized but is reviewed for impairment annually at December 31, or whenever circumstances indicating impairment are present.

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

INVENTORIES Raw materials, spare parts, supplies, ore and dore are valued at lower of cost and net realizable value, using the weighted average cost method.

PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment consist of assets of the Company 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 income as incurred. Interest directly attributable to the acquisition or construction of property, plant and equipment is capitalized as a cost of the asset up to the time the asset is put into use. All other interest is expensed as incurred. Gains and losses on the disposal of assets are included in the statement of income in the period of disposal.

_ Mineral exploration costs are expensed as incurred. When it has been determined that a mineral property can be economically developed as a result of establishing 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.

_ Depreciation and depletion of PPE related to mining are computed using the units-of-production method based on the actual production for the year compared with total estimated proven and probable reserves (in thousands of tons of gold- and silver-bearing ore). In respect of those items of property, plant and equipment whose useful lives are expected to be less than the period of the mine operation, depreciation over the period of the item useful life is applied.

_ Leased property, plant and equipment meeting the criteria of capital lease is capitalized; valued at the lower of the assets fair value and net present value of total minimum lease payments. The corresponding part of lease payments is recorded as a liability. Amortization of capitalized leased assets related to mining is computed using the units-of-production method.

_ Property, plant and equipment are assessed for possible impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires long-lived assets with recorded values that are not expected to be recovered through future cash flows to be written down to current fair value. Fair value is generally determined from estimated discounted future net cash flows.

DEFERRED DEVELOPMENT EXPENDITURES In general, mining costs are charged to operations as incurred. However, some of the Company's deposits require significant capital expenditures, such as tunnelling in preparation of a new mining area. These expenditures are charged to cost of production in the proportion that the amount of ore extracted bears to the amount estimated to be accessed by the preparation work.

_ Unamortized balances of capitalized development expenditure are expensed when the area that they cover is depleted, or deemed to be depleted by management.

RECLAMATION AND MINE CLOSURE The Company accounts for reclamation, site restoration and closure obligations based on the provisions of SFAS No. 143 Accounting for Asset Retirement Obligations. When the liability is initially recorded, the Company capitalizes the cost by increasing the carrying amount of the related long lived asset. Over time, the liability is accreted to its present value each period, and capitalized cost is amortized over the useful life of the related asset.

REVENUE RECOGNITION The Company recognizes revenue upon the delivery of refined gold and silver to customers.

INCOME TAXES Deferred income tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, in accordance with SFAS No. 109 Accounting for Income Taxes. 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.

CONTRIBUTIONS TO LOCAL AUTHORITIES Infrastructure expenditure, which is required to be contributed to the local authorities as a condition of mineral license agreements, is charged as incurred to Other expenses, net line of statement of income.

COMPREHENSIVE INCOME SFAS No. 130 Reporting Comprehensive Income requires disclosure of all changes in equity during a period except those resulting from investments by, and distributions to the Company's shareholders.

PENSION OBLIGATIONS The Company pays mandatory contributions to the state social funds, which are expensed as incurred.

ACCOUNTING CHANGES As of January 1, 2006, the Group adopted Statement of Financial Accounting Standard No. 151, Inventory Costs—an amendment of ARB No. 43, Chapter 4, ("SFAS No. 151") which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material as current period costs. It also requires that allocations of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The adoption of SFAS No. 151 did not have any material impact on the Group's financial statements.

_ As of January 1, 2006, the Group adopted Emerging Issues Task Force Consensus 04-06 ("EITF 04-06"), Accounting for Stripping Costs Incurred during the Production Stage in the Mining Industry. EITF 04-06 concludes that stripping costs incurred during the production phase of the mine are variable production costs that should be included in the costs of the inventory produced during the period that stripping costs are incurred. The Consensus does not change the accounting for stripping costs incurred during the pre-production phase of a mine. The adoption of SFAS No. 151 did not have any material impact on the Group's financial statements.

RECENTLY ISSUED ACCOUNTING STANDARDS In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 ("SFAS No. 159"). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 will become effective for the Group on January 1, 2008. Management is currently evaluating the potential impact that the adoption of SFAS No. 159 will have on its consolidated financial statements.

_ In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS No. 157"). This Statement defines fair value, establishes a framework for measuring fair value under other accounting pronouncements that permit or require fair value measurements, changes the methods used to measure fair value and expands disclosures about fair value measurements. SFAS No. 157 will become effective for the Group on January 1, 2008. Management is currently evaluating the potential impact that the adoption of SFAS No. 157 will have on its consolidated financial statements.

_ In June 2006, the FASB issued FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of uncertain tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in periods, disclosure, and transition. FIN 48 will become effective for the Group on January 1, 2007. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption, with the cumulative effect adjustment reported as an adjustment to the opening

balance of retained earnings. Management is currently evaluating the potential impact that the adoption of FIN 48 will have on the Group's consolidated financial statements.

FINANCIAL INSTRUMENTS FAIR VALUE 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 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 to interpret market data and to develop the estimates of fair value. Accordingly, the estimates presented herein may differ from the amounts the Company could receive in current market exchanges.

The carrying values of cash and cash equivalents, other short-term investments, accounts and notes receivable, accounts and notes payable and accrued liabilities, taxes payable and short-term debt, approximate their fair values because of the short maturities of these instruments.

Long-term investments in unquoted companies are valued at their historical cost adjusted for impairment, as appropriate. Management believes that the carrying values of long-term investments and long-term debt approximate their fair values.

CREDIT RISKS A significant portion of the Company's accounts receivable is VAT receivable from local tax bodies (see Note 10). Management believes there is no significant risk of loss to the Company associated with recoverability of these balances.

CONCENTRATION RISKS Management believes that no significant concentration risk was associated with any cash and cash equivalents, accounts receivable and prepayments balances at December 31, 2006.

Note 3: Cash and Cash Equivalents

The Company maintains both Ruble and U.S. Dollar bank accounts.

	December 31, 2006	December 31, 2005
Denominated in U.S. Dollars	345	2,887
Denominated in Rubles	6,187	16,038
Total cash and cash equivalents	6,532	18,925

Note 4: Accounts Receivable and Prepayments to Suppliers

	December 31, 2006	December 31, 2005
000 Intertrade Logistic Group	2,323	60
000 Expromstroy	1,413	-
000 Vostochnaya Tekhnika	1,218	-
ZAO Standard Bank	3,218	1,342
Other receivables	8,918	8,910
Total accounts receivable and prepayments to suppliers	17,090	10,312

Major portion of prepayments related to prepayments for materials and transport.

Note 5: Related Party Receivables and Prepayments

	December 31, 2006	December 31, 2005
Prepayments to 000 Geotekhservice	-	5,018
Other	126	305
Total related party receivables and prepayments	126	5,323

Geotekhservice is a subsidiary of ZAO ICT (see Note 1). In late 2005, the Group changed its procurement arrangements ceasing to use the services of Geotekhservice.

Note 6: Short-Term Loans to Related Parties

	Interest rate, %	December 31, 2006	Interest rate, %	December 31, 2005
ZAO ICT (RR), Note 1	-	-	11.5%	13,687
Other short-term loans to related parties (RR)	-	-	0-1%	180
Total short-term loans to related parties	-	-	-	13,867

Note 7: Inventories

	December 31, 2006	December 31, 2005
Raw materials, spare parts and supplies	66,335	44,361
Ore	48,634	21,361
Work in progress	28,341	17,196
Dore	1,890	2,544
Gold and silver in bullion	10,429	6,675
Total inventories	155,629	92,137

14,548 (of which Machinery & Equipment was U.S. Dollar 11,403 and Transport & Other was U.S. Dollar 3,145).

Included within Other property, plant and equipment were long-term deferred exploration expenditures of U.S. Dollar 11,766 and U.S. Dollar 2,617 at December 31, 2006 and December 31, 2005, respectively.

Mineral rights of the Group comprised of mineral rights acquired by the Group upon purchase of subsidiaries. Accumulated depletion of mineral rights was U.S. Dollar 10,969 and U.S. Dollar 1,782 at December 31, 2006 and December 31, 2005, respectively.

Note 8: Property, Plant and Equipment, net

	December 31, 2006	December 31, 2005
Buildings & underground workings	147,358	140,205
Machinery & equipment	161,571	111,005
Transport & other	33,896	27,380
Mineral rights	130,175	87,495
Construction in progress	47,004	8,718
Cost	520,004	374,803
Accumulated depreciation and depletion	(113,586)	(59,976)
Total property, plant and equipment, net	406,418	314,827

At December 31, 2006, capital leases included within property, plant and equipment total U.S. Dollar 79,335 (of which Machinery & Equipment was U.S. Dollar 62,183 and Transport & Other was U.S. Dollar 17,152) (as at December 31, 2005: U.S. Dollar 71,597 (of which Machinery & Equipment was U.S. Dollar 56,118 and Transport & Other was U.S. Dollar 15,479).

At December 31, 2006, total accumulated depreciation and depletion of capitalized leases was U.S. Dollar 20,328 (of which Machinery & Equipment was U.S. Dollar 15,972 and Transport & Other was U.S. Dollar 4,356). At December 31, 2005, total accumulated depreciation and depletion of capitalized leases was U.S. Dollar

Note 9: Other Current Assets

	December 31, 2006	December 31, 2005
Deferred development expenditure	1,616	1,245
Taxes receivable	7,977	2,890
Other debtors	2,000	551
Other current assets	1,743	1,734
Total other current assets	13,336	6,420

Note 10: VAT Receivable

	December 31, 2006	December 31, 2005
Short-term VAT receivable	45,335	20,288
Long-term VAT receivable	9,019	23,222

Long-term VAT receivable at December 31, 2006 and December 31, 2005 primarily represents VAT balances resulting from capital expenditures which are not expected to be recovered within twelve months of the respective balance sheet dates due to specifics of tax regulations. Management believes that these balances are fully recoverable from the tax authorities when the respective capital assets qualify as put into operation for VAT purposes.

Note 11: Accounts Payable and Accrued Liabilities

	December 31, 2006	December 31, 2005
P.A.S. Silver (Cyprus) Limited (see Note 24)	10,317	12,317
000 Modern Machinery Co	1,878	-
Hagforce Limited	2,444	-
ZA0 Shemur	1,315	-
Trade accounts payable	7,534	6,873
Accrued interest payable to third parties	1,003	2,294
Other accounts payable	4,725	5,054
Total accounts payable and accrued liabilities	29,216	26,538

Note 12: Accounts Payable – Related Parties

	December 31, 2006	December 31, 2005
Accounts payable to 000 Geotekhservice	-	2,029
Accounts payable to 000 Press-Invest	-	231
Accounts payable to Barylite Services Limited (U.S. Dollars)	302	-
Trade accounts payable	-	3
Total accounts payable – related parties	302	2,263

As at December 31, 2005 000 Press-Invest was a subsidiary of ZA0 ICT (see Note 1).

As at December 31, 2006 Barylite Services Limited was under common control with JSC "Polymetal" through the parent company Nafta Moskva (Cyprus) Limited.

Note 13: Short-Term Debt and Current Portion of Long-Term Debt

	Interest rate	December 31, 2006	Interest rate	December 31, 2005
Sberbank (U.S. Dollar)	7.6-8%	69,591	-	-
Nikoil Bank (U.S. Dollar)	-	-	9-9.5%	20,410
MDM Bank (U.S. Dollar)	-	-	10%	25,000
Uralsib (U.S. Dollar)	9%	20,000	-	-
Alfa Bank (U.S. Dollar)	8%	14,920	-	-
Khanti-Mansiyski Bank (RR)	-	-	10%	24,841
Investros (RR)	0%	3,154	-	-
Current portion of long-term debt	-	122,105	-	114,535
Total short-term debt and current portion of long-term debt	-	229,770	-	184,786

Short-term debts are repayable as follows:

January 2007	4,920
March 2007	72,400
June 2007	3,158
July 2007	100,502
August 2007	7,758
September 2007	7,758
October 2007	7,758
November 2007	7,758
December 2007	17,758
Total	229,770

As at December 31, 2006, inventory (ore) with carrying value of U.S. Dollar 15,097 and equipment with carrying value of U.S. Dollar 7,132 were pledged as collateral for the loan from Alfa Bank.

Other short-term debt facilities are not collateralized.

Note 14: Long-Term Debt

	Interest rate	December 31, 2006	Interest rate	December 31, 2005
ABN Amro Bank (U.S. Dollar)	LIBOR + 2.0%	60,000	-	-
Standard Bank London (U.S. Dollar)	-	-	LIBOR + 3.5-4.0%	85,071
Gazprombank (U.S. Dollar)	8%	100,000	-	-
Sberbank (U.S. Dollar)	LIBOR + 2.0%	132,000	-	-
Magadan Region Administration (U.S. Dollar)	-	-	6%	3,406
Bonds (RR)	-	-	17-19%	26,058
Less current portion of long-term debt	-	(122,105)	-	(114,535)
Total long-term debt	-	169,895	-	-

The table below summarized the maturities of long-term debt as of December 31, 2006.

	December 31, 2006
2008	42,895
2009	127,000
Total	169,895

In March 2003, JSC "Polymetal" issued 750,000 non-convertible bonds. Interest on bonds of 17-19% is paid semi-annually. The bonds were redeemed in full in March 2006.

In 2004, the Company received a long-term loan totalling U.S. Dollar 105,000 from Standard Bank London for the purpose of re-financing its debts and development of current operations.

As at December 31, 2005 certain financial covenants were breached, and no waiver has been received, accordingly, the total

debt to Standard Bank London was included into current portion of long-term debt (see Note 13). The loan was repaid in full amount in December 2006.

As at December 31, 2006 23,443 shares (97.11% of issued and outstanding share capital) of ZA0 Serebro Territorii and 5,400 shares (80% of issued and outstanding share capital) of ZA0 Serebro Magadana were pledged as collateral for the loan from Standard Bank London. This encumbrance was released in February 2007.

In July 2006, the Company received a long-term loan from Gazprombank amounting to U.S. Dollar 100,000 for equipment purchase and replenishment of working capital. The loan was repayable in monthly instalments due to commence July 31, 2007 up to the last instalment in 2009. In connection with the loan the Company undertook to sell to Gazprombank future production of gold and silver (see Note 26), by which breached certain covenants under long-term loan from Sberbank. As a condition of Sberbank waiver the Company committed to repay Gazprombank loan in 2007, accordingly, the total debt to Gazprombank as at December 31, 2006 was classified as short-term and included into current portion of long-term debt (see Note 13). In March 2007, the loan to Gazprombank was fully repaid (see Note 27).

In December 2006, the Company received a long-term loan from Sberbank of Russia under credit facility agreements dated April 28, 2006 in the amount of U.S. Dollar 132,000 to finance its current operations, contract financing, including replenishment of working capital. The credit facility is valid up to 2009. The Company has to comply with certain financial and non-financial covenants to prevent the closure of the credit facility. One of such covenants is a requirement to obtain consent for the granting of collateral interests under the Company's subsequent financing arrangements. During 2006 the Company breached these covenants by pledging collateral to secure its U.S. Dollar 100 million loan from Gazprombank without obtaining prior written approval from Sberbank. In January 2007 Sberbank confirmed in writing that, taking into account the planned early redemption during 2007 of the Gazprombank loan, it would not demand early repayment of the Sberbank loans. In March 2007, the loan to Sberbank of Russia was partially repaid (see Note 27).

In December 2006, the Company received a long-term loan from ABN Amro Bank (ABN Amro) in the amount of U.S. Dollar 60,000 to refinance its debt to Standard Bank London. The loan is repayable in monthly instalments commencing June 2007 up to the last instalment in December 2009. Under the loan agreement with ABN Amro, the Group has to comply with certain financial and non-financial covenants. The loan agreement restricts the Company from (i) disposing of its assets (including transfers, leases or sales); (ii) undertaking any type of corporate reorganization (including mergers and demerges); (iii) creating or incurring other forms of financial indebtedness (such as making loans or granting guarantees); and (iv) taking any actions in respect of its shares, capital or participatory interest (including issuing new shares or otherwise altering its existing share capital) without prior written consent of ABN Amro except for the offer and listing of up to 40% of the Company's share capital.

Furthermore, the loan agreement restricts the Company's ability to pay dividends for any of its financial years or to make acquisitions in excess of U.S. Dollar 5,0 million without the prior written consent of ABN Amro. As at December 31, 2006, property, plant and equipment with carrying values of U.S. Dollar 13,860 were pledged as collateral for the loan from ABN Amro.

Note 15: Long-Term Debt-Related Parties

	Interest rate	December 31, 2006	Interest rate	December 31, 2005
Nomos Bank (U.S. Dollar)	-	-	9%	100,000
Accord-Invest (RR)	0-1%	4,574	-	-
Total long-term debt - related parties	-	4,574	-	100,000

Nomos-Bank is a subsidiary of ZA0 ICT (see Note 1).

Initial maturity date of Nomos Bank loan was December 20, 2007, however loan was early repaid.

At December 31, 2006 Accord-Invest was under common control with JSC "Polymetal" through the parent company Nafta Moskva (Cyprus) Limited (see Note 1).

Debt to Accord-Invest is due in September 2008.

Note 16: Capital Lease Liabilities

The Group entered into certain Russian Ruble denominated leases for machinery, equipment and transport vehicles. The third party lessors generally provide payment of taxes, maintenance and certain other operating costs related to the leased property. At December 31, 2006 and December 31, 2005, such leases have been treated as capital leases, the total present value of lease obligations were U.S. Dollar 6,655 and U.S. Dollar 19,952 (current

portion of capital lease liability is U.S. Dollar 4,210 and U.S. Dollar 11,020) respectively.

Future minimum lease payments for the assets under capital leases at December 31, 2006, are as follows:

Future payments under capital leases	
Year ended December 31,	
2007	5,319
2008	2,631
2009	24
Later years 2009	10
Total	7,984
Less amount representing interest (17%)	(1,329)
Total present value of minimum payments	6,655
Less current maturities of capital lease liabilities	(4,210)
Long-term capital lease liabilities	2,445

Note 17: Reclamation and Mine Closure Obligation

Mine closure obligations are recognized on the basis of existing project business plans as follows:

Deposit:	Vorontsovskoye mine	Khakandjinskoye mine	Dukat mine	Lunnoe mine	Total
Reclamation and mine closure obligation at December 31, 2005	1,023	1,122	1,835	935	4,915
Revision of estimated cash flows	329	917	217	165	1,628
Accretion of reclamation and mine closure obligation	46	129	30	23	228
Translation effects	97	104	171	87	459
Reclamation and mine closure obligation at December 31, 2006	1,495	2,272	2,253	1,210	7,230

In 2006, the provision for mine closure obligation was revised on the basis of a new valuation of the Groups' asset retirement obligations (in terms of both cost and timing).

As of December 31, 2006, JSC "Polymetal" reported accumulated profit under Russian statutory accounting rules in total sum of Ruble 17,116 thousand (unaudited). 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 disclosed.

Note 18: Shareholders' Equity and Earnings Per Share

Basic earnings per share were calculated by dividing income from continuing operations, income from discontinued operations and net income, as appropriate, by weighted average number of ordinary shares outstanding during the respective reporting period.

On 7 December 2006 the Company completed a 500 for 1 stock split for ordinary shares. The authorized share capital of the Company was increased to 2,400,000,000 ordinary shares with par value of Ruble 0.2 per share of which 275,000,000 shares were issued, and 100,000 series A preference shares with par value of Ruble 100 of which none were issued. This split was recorded retrospectively.

On December 28, 2006, the Company adopted a decision on additional authorization of ordinary shares with par value of Ruble 0.2 per share totally amounting to 44,000,000 shares, from which 40,000,000 shares were issued in the course of an initial public offering in February 2007 (see Note 27).

At December 31, 2006, the authorized share capital of the Company is comprised of 2,444,000,000 ordinary shares with par value of Ruble 0.2 per share of which 275,000,000 shares are issued and outstanding, and 100,000 series A preference shares with par value Ruble 100 of which none are issued.

Reserves available for distribution to shareholders are based on the statutory accounting reports of the Company as a stand-alone entity, which are prepared in accordance with Regulations on Accounting and Reporting of the Russian Federation and which differ significantly from U.S. GAAP. Russian legislation identifies the basis of distribution as accumulated profit.

The Company does not have any potentially dilutive ordinary stock. Accordingly, only basic earnings per share are presented in these consolidated financial statements.

Note 19: Revenues

	Year ended December 31, 2006	Year ended December 31, 2005
Sales to third parties: Sberbank	59,915	-
Sales to third parties: Uralsib	6,606	-
Sales to third parties: MDM-Bank	-	8,195
Sales to third parties: Standard Bank London	165,885	134,691
Sales to third parties: Khanty-Mansiysky Bank	-	1,266
Sales to third parties: NIKoil	3,329	36,460
Sales to third parties: ZA0 Gazprom	12,001	-
Sales to related parties: Nomos-Bank	67,169	56,380
Subtotal revenue from gold and silver sales	314,905	236,992
Other sales	691	1,981
Total revenue	315,596	238,973

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

	Year ended December 31, 2006			Year ended December 31, 2005		
	Thousand ounces	Average price (U.S. Dollar per troy ounce)	U.S. Dollars	Thousand ounces	Average price (U.S. Dollar per troy ounce)	U.S. Dollars
Gold	255	603.33	153,849	234	429.37	100,472
Silver	17,267	9.33	161,056	18,918	7.22	136,520

Discounts from the London Metals Exchange (LME) quotation on sales to banks for the year ended December 31, 2006, amounted to U.S. Dollar 948 (2005: U.S. Dollar 2,424) for gold and U.S. Dollar 40,040 (2005: U.S. Dollar 3,089) for silver sales. Sales are recorded in the financial statements net of discount.

In 2006, the Group delivered silver to the Standard Bank London (SBL) at fixed prices (see Note 26). Prices were fixed in the range from U.S. Dollar 6.6575 to U.S. Dollar 7.95 per troy ounce for sales of 280,399 kg (total sales of silver to SBL for year ended December 31, 2006 were 469,838 kg). The aggregate discounts from the LME quotation totalled U.S. Dollar 347 for sold gold (for the year ended December 31, 2005: U.S. Dollar 65) and U.S. Dollar 38,701 for sold silver (for year ended December 31, 2005: U.S. Dollar 1,182) from sales of metals to SBL.

Note 20: Cost of Sales

	December 31, 2006	December 31, 2005
Operating costs (excluding staff costs)	78,471	58,193
Staff costs	28,473	27,965
Subtotal operating costs	106,944	86,158
Mining tax	15,307	13,617
Other taxes, except for income taxes	6,166	6,740
Depreciation and depletion	33,607	24,847
Depletion of mineral rights	5,759	287
Accretion of reclamation and mine closure obligation	228	644
Development costs written off	442	2,460
Other costs	2,830	1,420
Total cost of sales	171,283	136,173

Note 21: Other Expenses, net

	December 31, 2006	December 31, 2005
Bank services	6,788	1,004
Social payments	2,976	2,225
Loss on fixed asset disposals	1,339	3,291
Miscellaneous taxes and other payments	1,021	2,004
Other	3,736	2,863
Total other expenses, net	15,860	11,387

Note 22: Income Tax

The actual tax expense (or tax credit) differs from the amount which would have been determined by applying the statutory rate of 24% (2005: 24%) to the income from continuing operations before taxes and minority interest as a result of the application of Russian tax regulations, which disallow certain deductions which are included in determination of income before taxes under U.S. GAAP (social related expenditures and other non-production costs, certain general, administrative, financing, foreign exchange related and other costs). At the same time certain gains and revenues recognized under U.S. GAAP may represent nontaxable income.

	Year ended December 31, 2006	Year ended December 31, 2005
Income from continuing operations before income tax and minority interest	93,703	31,607
Theoretical income tax expense at tax rate of 24 percent	22,489	7,586
Permanent tax differences (non-deductible expenses)	2,816	1,433
Other	450	-
Income tax expense	25,755	9,019
Attributable to Current Tax	21,954	12,970
Attributable to Deferred Tax	3,801	(3,951)

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

	December 31, 2006	December 31, 2005
Deferred tax assets:		
Accounts payable and accrued liabilities	299	535
Tax losses carried forward	3,962	4,443
Other current assets	517	420
Total deferred tax asset	4,778	5,398
Deferred tax liability:		
Property, plant and equipment	(35,284)	(23,224)
Inventory	(14,902)	(8,910)
Total deferred tax liability	(50,186)	(32,134)
Net deferred tax liability	(45,408)	(26,736)

Tax losses carried forward represent the amounts, which will be off-set against future taxable profits by Silver Territory, Serebro Magadana, Okhotskaya GGC and JSC "Polymetal" during the period up to 2010. Each legal entity within the Group represents a separate tax-paying component for income tax purposes. Tax losses at one entity cannot be used to reduce taxable income of other entities in the Group.

As at December 31, 2006 and December 31, 2005 aggregated tax losses carried forward were U.S. Dollar 16,509 (Rubles 434,711 thousand) and U.S. Dollar 18,511 (Rubles 532,795 thousand) respectively.

	North Ural	Khabarovsk	Magadan	Corporate and Other	Total
Revenues:					
Year ended December 31, 2006	62,189	86,975	166,052	380	315,596
Year ended December 31, 2005	32,281	63,611	142,742	339	238,973
Cost of sales:					
Year ended December 31, 2006	(41,647)	(39,001)	(92,829)	2,194	(171,283)
Year ended December 31, 2005	(25,827)	(29,062)	(87,021)	5,737	(136,173)
Income from mining operations:					
Year ended December 31, 2006	20,542	47,974	73,223	2,574	144,313
Year ended December 31, 2005	6,454	34,549	55,721	6,076	102,800
Unallocated interest expenses, net:					
Year ended December 31, 2006					(25,267)
Year ended December 31, 2005					(24,869)
Unallocated other expenses, net:					
Year ended December 31, 2006					(25,343)
Year ended December 31, 2005					(46,324)
Total income from continuing operations before income tax and minority interest:					
Year ended December 31, 2006					93,703
Year ended December 31, 2005					31,607

In 2005 the deferred tax liability was not accrued on undistributed accumulated net earnings of subsidiaries, as management regarded these earnings as permanently invested.

Deferred tax liability has not been accrued on the excess of the amounts for financial reporting purposes over tax bases of investments in subsidiaries as the Group expects that it will ultimately recover such investments tax-free due to implementation of new regulation. On May 16, 2007, an amendment to the Tax Code of the Russian Federation was adopted establishing a 0% rate for dividend distributions from majority owned subsidiaries meeting certain continuity criteria. The amendment becomes effective starting January 1, 2008.

Note 23: Segments

The Company's management distinguishes three operating/reportable segments: North Ural region (ZAO Zoloto Severnogo Urala), Khabarovsk region (OAO Ohotskaya GGC), Magadan region (ZAO Serebro Territorii and ZAO Serebro Magadana). The operating segments determination is based on management units structure of the Company, which is linked to its regional profile. ZAO Serebro Territorii and ZAO Serebro Magadana represent a single reportable segment as their technological processes of production are closely linked with each other, they have a single chief operating decision maker and no discrete management information is available for them on individual basis. Minor companies (management, exploration, purchasing and other companies) which were not included to operating segments, were included to Corporate and Other.

Sales on geographical basis are not presented as all sales are conducted within the Russian Federation.

_ Included in Operating expenses is depreciation, depletion allocated by segments as follows:

	Year ended December 31, 2006	Year ended December 31, 2005
Depreciation, depletion (including mineral rights)		
North Ural	11 995	10,923
Khabarovsk	12 062	8,818
Magadan	14 932	5,299
Corporate and Other	377	94
Total	39 366	25,134

	Property Plant and Equipment		Accumulated depreciation		Accounts Receivable, Inventory and others		Goodwill	
	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005
Mining assets:								
North Ural	129,377	108,530	(42,025)	(24,074)	52,334	32,476	-	-
Khabarovsk	182,411	104,580	(42,779)	(22,104)	76,043	56,440	24,261	-
Magadan	189,095	159,766	(28,541)	(13,593)	77,441	57,136	855	-
Total	500,883	372,876	(113,345)	(59,771)	205,818	146,052	25,116	-
Corporate and Other	19,121	1,927	(241)	(205)	31,359	8,671	6,780	-
Total	520,004	374,803	(113,586)	(59,976)	237,177	154,723	31,896	-
Cash and cash equivalents	6,532	18,925						
Other assets	15,331	22,675						
Total Assets	697,354	511,150						

Note 24: Acquisitions

ZAO ENISEY MINING-AND-GEOLOGICAL COMPANY

_ In June 2006, the Company acquired a 74.17% interest in ZAO Enisey Mining-and-Geological Company, an undeveloped mine, which holds a mining license to prospect and evaluate lode gold in the Anenskiy field, from the unrelated party for U.S. Dollar 2,379. In August 2006, the Company acquired from this unrelated party the remaining 25.83% of this company for U.S. Dollar 990. These acquisitions were recorded using the purchase method of accounting.

_ The final acquisition price allocation is presented below:

_ Assets acquired and liabilities assumed in 2006:

Mineral rights	1,300
Goodwill	2,381
Deferred tax liabilities	(312)
Cash paid on acquisition	3,369

OAO OKHOTSKAYA GGC

_ In July 2006, the Company acquired a 30.76% interest in OAO Okhotskaya GGC, an existing consolidated subsidiary of the Company, from a related party for U.S. Dollar 73,857. In August 2006, the Company purchased the remaining 1.89% of this company for U.S. Dollar 7,500. These acquisitions were recorded using the purchase method of accounting.

_ The final acquisition price allocation is presented below:

_ Assets acquired and liabilities assumed in 2006:

Property, plant and equipment	17,339
Mineral rights	27,557
Goodwill	24,260
Deferred tax liabilities	(10,775)
Decrease in minority interest	22,976
Cash paid on acquisition	81,357

000 ALBAZINO RESOURCES

_ In July 2006, the Company acquired the 100% interest in 000 Albazino Resources (a development stage enterprise), which holds a mining license for gold exploration and mining in the Albazinskiy section for U.S. Dollar 7,000.

_ This acquisition was recorded using the purchase method of accounting.

_ The final acquisition price allocation is presented below:

_ Assets acquired and liabilities assumed in 2006:

Mineral rights	5,400
Property, plant and equipment	95
Goodwill	2,801
Deferred tax liabilities	(1,296)
Cash paid on acquisition	7,000

_ In June 2006, the Company acquired a 85% interest of ZAO Aurum, which holds a mining license for gold exploration and mining within the Reftinskaya ore zone, from an unrelated party for U.S. Dollar 19.

_ In August 2006, the Company acquired a 0.01% interest in ZAO Zoloto Severnogo Urala from an unrelated party for U.S. Dollar 19. In October 2006, the Company acquired a residual 0.03% interest in ZAO Zoloto Severnogo Urala from a related party for U.S. Dollar 19.2.

_ In August-October 2006, the Company acquired from an unrelated party 0.48% interest in ZAO Serebro Territorii, for the consideration of U.S. Dollar 33.4. In October 2006, the Company acquired from a related party 2.41% interest in ZAO Serebro Territorii, for the consideration of U.S. Dollar 10.7.

ZAO SEREBRO MAGADANA

_ In November 2004, the Company acquired the remaining 20% in its subsidiary ZAO Serebro Magadana, the license owner for the Dukat mine, from company P.A.S. Silver (Cyprus) Ltd. The Company paid U.S. Dollar 21,226 in cash and would pay up to U.S. Dollar 22,500 in contingent future payments. The future payments will be determined annually based on the average yearly silver price per troy ounce (FPS) in the range U.S. Dollar 5.5 per ounce to U.S. Dollar 10.0 per ounce:

	Annual installments
5.5 < FPS < 6.0	500
6.0 < FPS < 7.0	1,000
7.0 < FPS < 8.0	2,000
8.0 < FPS < 9.0	5,000
9.0 < FPS < 10.0	6,000
10.0 < FPS	8,000

_ The acquisition has been accounted for using the purchase method of accounting. Since this purchase involved a contingent consideration agreement that might result in recognition of an additional element of cost of the acquired interest when the contingency is resolved, and the initial purchase price allocation revealed an excess of U.S. Dollar 12,317 of the fair value of the acquired share of net assets over the cash portion of the acquisition cost, the Company recognized a portion of the maximum amount of the contingent consideration as acquisition cost and a deferred credit, respectively, to the extent of such excess in accordance with paragraph 46 of SFAS 141, Business Combinations.

_ Of the above liability recognized, the amount of U.S. Dollar 2,000 was paid in December 2006 (the average FPS for first annual period, which expired in December 2005, amounted to U.S. Dollar per troy ounce 7.32) and amount of U.S. Dollar 8,000 must be paid not later than December 2007 (the average FPS for second annual period, which expired in December 2006, amounted to U.S. Dollar per troy ounce 11.7).

_ The remaining contingent consideration amounting to U.S. Dollar 10,183 has not been recorded in the accompanying consolidated financial statements as the outcome of the contingency and the amounts of consideration that will become issuable were not determinable beyond reasonable doubt at December 31, 2006. Such amounts will be recorded when, and if, they become due.

_ The agreement also contains provisions for early repayment on the occurrence of certain events, such as a public share offering. In the event of public offering the Company will pay 50% of the outstanding consideration, which is equal to U.S. Dollar 10,250, 30 days after listing. Due to IPO took place in February 2007, the Company became liable to pay the amount of U.S. Dollar 10,250. This payment was made in March 2007 (see Note 27).

Note 25: Disposal of Subsidiaries

_ There were no major disposals during 2006.

_ In September 2005, the Company sold to a related party all of its interests in the following subsidiaries:

- 100% of shares of Kurilskaya GGC, a subsidiary holding the license for development of the Prasolovskoye field for U.S. Dollar 300;
- 100% of shares of Olginskaya GGC, a subsidiary holding the license for development of the Olginskaya gold prospective area for U.S. Dollar 13;
- 100% of shares of Imitzoloto, a subsidiary holding the license for development of the Aprelkovsko-Peshkovsky mining unit for U.S. Dollar 18. In June 2006, the Company reacquired from an unrelated party 100% of shares in Imitzoloto for the consideration of U.S. Dollar 49. As the Group assumed net liabilities as a result of this transaction; on that basis, mineral rights were recognized in the amount of U.S. Dollar 1,759 and deferred tax liability related to these mineral rights was recognized in the amount of U.S. Dollar 422.

Note 26: Commitments and Contingent Liabilities

OPERATING ENVIRONMENT. Whilst there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

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.

As at December 31, 2006, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

Out of large operating companies of the Group, tax authorities audited OAO Okhotskaya GGC, ZAO Serebro Magadana and ZAO Serebro Territorii for the period through 2004, and ZAO Northern Urals Gold for the period through 2005. Nevertheless, according to the Russian tax legislation previously conducted audits do not fully exclude subsequent claims relating to the audited period.

TRANSFER PRICING. 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. The arbitration court practice with this respect is contradictory.

The Group companies occasionally perform controllable transactions (e.g. intercompany transactions) based on the terms

which Russian tax authorities may qualify 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 Company 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 Company 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.

SALES COMMITMENTS. In December 2004, the Group entered into a tripartite sales agreement with Standard Bank London (SBL) and commission agent ZAO Standard Bank (ZAO SB). According to the terms of the agreement the Group committed to sell all precious metals produced by ZAO Serebro Magadana (see Note 1) and ZAO Serebro Territorii (see Note 1) to SBL. The commitment was effective during the period from January 1, 2005 to December 31, 2009. The Group had to deliver silver to SBL at the following terms:

- from January 1, 2007 to December 31, 2007 London silver fix price is applied, but the minimum and maximum prices are specified for every day and these are in the range of U.S. Dollar per troy ounce 6.0-7.0 (minimum price) and U.S. Dollar per troy ounce 7.25-8.6 (maximum price); the minimum quantity to be sold is 432,961 kg;
- from January 1, 2008 to December 31, 2009 London silver fix price is applied, the minimum quantity to be sold is 934,560 kg.

For gold, prices and quantities are stipulated for the entire period of the agreement as follows: London gold fix price is to be applied; minimum quantity to be sold is 7,080 kg.

On December 28, 2006, the agreement on sales of metal with SBL was novated resulting in changes of one of the parties to the agreement and of the amounts of metal sales commitments. ABN Amro became a new party to the agreement instead of SBL. The Group has to deliver silver to ABN Amro for the period from January 1, 2007 to December 31, 2008 under the same terms as applied to deliveries to SBL. The amount of metal sales commitments for the period from January 1, 2007 to December 31, 2007 was kept unchanged, the amount of deliveries for the period from January 1, 2008 to December 31, 2008 was fixed at 280,000 kg. There is no commitment on sales of silver to ABN Amro for the period from January 1, 2009 to December 31, 2009.

Prices and amounts of gold sales were not determined in the agreement.

In connection with a bank loan facility provided to the Company by Gazprombank in July 2006, the Company undertook to sell to Gazprombank future production of gold and silver of the Company's two subsidiary: OAO Okhotskaya GGC (see Note 1) and ZAO Serebro Territorii (see Note 1) at the following terms:

- for each 2007 and 2008 to sell 3,001 kg of gold, and for 2009 to sell 1,002 kg of gold, respectively at the price calculated by reference to London gold fix price pursuant to the formula set out in the sales contract;
- for each 2007 and 2008 to sell 25,001 kg of silver, and for 2009 to sell 8,000 kg of silver, respectively at the price calculated by reference to London silver fix price pursuant to the formula set out in the sales contract;

In March 2007, loan to Gazprombank was repaid in full (see Note 27). These sales commitments were not released and remained valid at the moment of current Financial Statements preparation.

In connection with General Framework Credit Line Agreement No 3608 and 3610 dated April 28, 2006 entered into between Sberbank and ZAO Zoloto Severnogo Urala (see Note 1) and OAO Okhotskaya GGC (see Note 1) respectively, OAO Okhotskaya GGC, ZAO Zoloto Severnogo Urala, ZAO Serebro Territorii and ZAO Serebro Magadana undertook to sell gold and silver to Sberbank at the following terms:

- for each 2007 and 2008 to sell 4,152 kg of gold, respectively at the price calculated by reference to London gold fix price pursuant to the formula set out in the sales contract;
- for each 2007 and 2008 to sell 199,062 kg of silver, respectively at the price calculated by reference to London silver fix price pursuant to the formula set out in the sales contract.

In March 2007, loan to Sberbank was repaid in major part (see Note 27). These sales commitments were not released and remained valid at the moment of current Financial Statements preparation.

ISSUED GUARANTEES. As at December 31, 2006, the Group issued the following guarantees: for OOO Press-Invest to third party in the amount of U.S. Dollar 804 for the period up to October 20, 2007; for OOO SZLK to third party in the amount of U.S. Dollar 543 for the period up to November 1, 2007. The Company's management estimates that the likelihood that a loss would be incurred on these guarantees is remote and the fair values of the resultant liabilities are negligible.

LITIGATION. During the year, the Group was involved in a number of court proceedings (both as a plaintiff and 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 or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

INSURANCE POLICIES. The Russian insurance market is in a developing 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, land transport and purchased accident and health insurance, medical insurance for employees. Furthermore, the Group has purchased operating entities civil liability coverage for dangerous production units.

ENVIRONMENTAL MATTERS. The enforcement of environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsid-

ered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised 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 that there are no significant liabilities for environmental damage.

JOINT VENTURE WITH ANGLOGOLD ASHANTI LIMITED In September 2006, the Company signed an agreement to set up a strategic alliance and joint venture with AngloGold Ashanti Limited in 2007. Within the framework of this agreement each party will own 50% in the new joint venture, to which the Company will contribute its shares in ZAO Enisey Mining-and Geological Company and OOO Imitzoloto.

JOINT VENTURE WITH MONGOLROSTSVETMET JV On December 8, 2006, the Company signed an agreement with Mongolian-Russian MongolRostsvetmet JV to set up a joint venture AsgatPolymetal LLC. As at the date of this agreement, the parties anticipate that the funding requirements of this joint venture will be as follows:

- In 2007 in the amount of U.S. Dollar 4,000
- In 2008 in the amount of U.S. Dollar 10,000
- In 2009 in the amount of U.S. Dollar 17,500

As at December 31, 2006 the Company invested U.S. Dollar 250 in shared capital of the joint venture AsgatPolymetal LLC. This investment was accounted under equity method.

Note 27: Subsequent Events

INITIAL PUBLIC OFFERING In February 2007, the Company completed its public offering of 40,000,000 shares at U.S. Dollar 7.75 each and placed global depository receipts on the London Stock Exchange and shares in Russian Trading System and Moscow Interbank Currency Exchange. Cash in the amount of U.S. Dollar 310,000 generated from the public offering was used for partial repayment of debt to P.A.S. Silver (Cyprus) Ltd in the amount of U.S. Dollar 10,250 (see Note 24) and partial repayment of bank loans totally amounting to U.S. Dollar 285,085:

- in March 2007, the Company repaid a loan to OAO Uralsib Bank in the amount U.S. Dollar 28,495;
- in March 2007, the Company repaid a loan to Gazprombank in the amount U.S. Dollar 100,000;
- in March 2007, the Company repaid a loan to Sberbank of Russia in the amount U.S. Dollar 156,590.

SHARE-OPTION PLAN

In March 2007 the Company has introduced the long-term incentive plan regarding provision of options for 5,540,322 its shares to the employees of the Company. Shares are provided by the controlling shareholder. During the period of March-June 2007 the terms of the plan were communicated to employees. Shares are to be provided in three tranches (1,846,774 shares each). Respective agreements with employees for the first tranche of shares are planned to be signed in July 2007. The options for shares of the first, second and third tranches will vest in February 2008, February 2009 and February 2010 respectively. The exercise price of respective options is 1 Ruble per share.

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