POLYMETAL

Annual Report 2007

Contents

Company Background

Polymetal is a leading precious metals mining company. According to the 2007 GFMS ratings, Polymetal is one of the top ten silver producers in the world and the largest in Russia. The Russian Union of Gold Producers ranks Polymetal as the third-largest gold producer in Russia.

In 2007 Polymetal held an initial public offering. 24.8% of the Company was placed in the form of GDRs on the London Stock Exchange and ordinary shares on the RTS and MICEX exchanges.

Polymetal owns gold and silver mines in three regions of Russia: the Magadan Region, where it operates the Dukat and Lunnoye mines (and the Lunnoye satellite Arylakh), the Khabarovsk Territory, where it operates the Khakanja mine (together with its satellite Yurievskoye) and the Sverdlovsk Region, where it operates the Voro mine.

The Company has formed its portfolio of mining operations by both developing greenfield deposits and radically restructuring inoperative mining sites. It now has solid experience managing the full cycle of deposit development, from conducting exploration work to full-scale production (including all engineering, construction and implementation).

In 2007 Polymetal produced 242koz of gold and 15.9Moz. of silver. The Company's gold reserves are estimated at 3.7Moz. and its silver reserves are estimated at 416Moz.[1] The life expectancy for Company deposits ranges from ten to 20 years.

Polymetal is conducting exploration in five regions of Russia: the Magadan, Sverdlovsk and Chita Regions and the Khabarovsk and Krasnoyarsk Territories. Its portfolio of exploration projects, including those in its Strategic Alliance with AngloGold Ashanti, contains 24 licenses covering a territory of over 6,500 sq. km.

According to Company estimates, future exploration work on the flanks of existing mines and at new prospective sites will allow Polymetal to increase its gold reserves to 8Moz. and its silver reserves to 600Moz. by 2010.

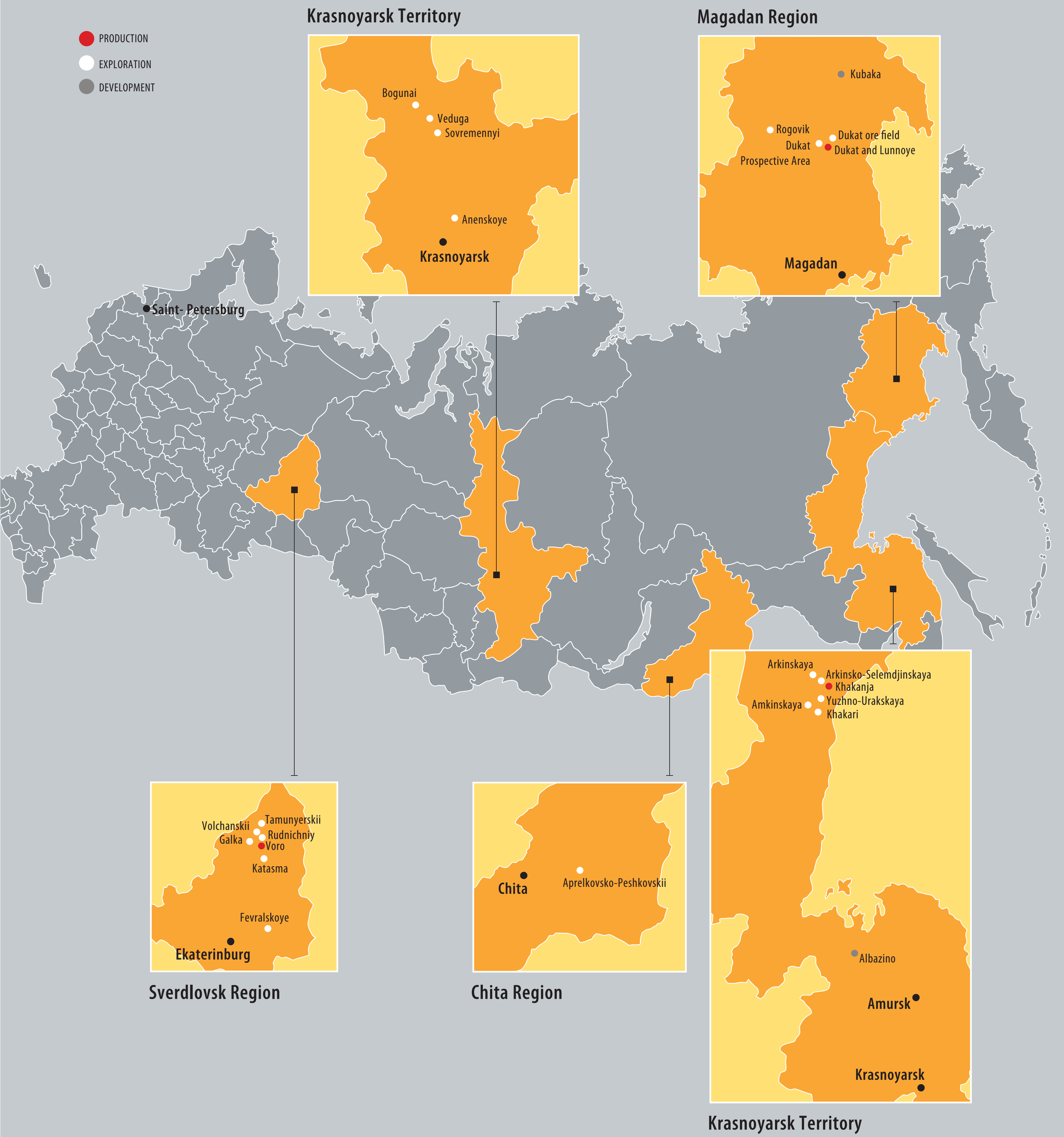
The Company's most promising deposit is Albazino (Khabarovsk Territory), with mineral resources estimated at 2.2Moz.[2] Polymetal is planning to expand the deposit's resource base to 3Moz. by the end of 2008. Over the next three years, the Company plans additional exploration work at the Albazino deposit and expects that the ore base will increase to 5-6Moz. The start of construction for a processing plant at Albazino is planned for 2009 and the first gold production is planned for 2010.

Polymetal acquired the Kubaka gold deposit (Magadan Region) in February 2008 and is planning to bring a gold processing plant online at the site in 2010. Currently the Company is also expanding the production capacity at its Dukat and Voro deposits.

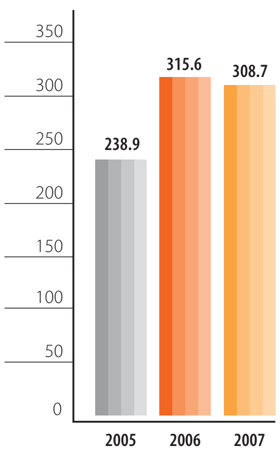
In 2008 Polymetal plans to produce 250-270koz. of gold and 17-18Moz. of silver, maintaining its costs of mining operations at no more than 50% of EBITDA.

By 2011 the Company plans to more than double its gold production volumes and increase silver production volumes by 50%.

[1,2] JORC Code audit by Snowden Mining Industry Consultants in December 2007.

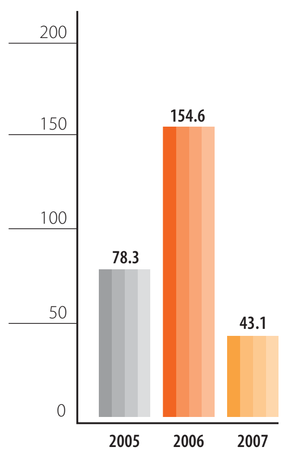

PRODUCTION
EXPLORATION
DEVELOPMENT
Krasnoyarsk Territory
Bogunai
Veduga
Sovremennyi
Anenskoye
Krasnoyarsk
Magadan Region
Kubaka
Rogovik
Dukat ore field
Dukat
Dukat and Lunnoye
Prospective Area
Magadan
Saint- Petersburg
Volchanskii
Tamunyerskii
Galka
Rudnichniy
Voro
Katasma
Fevralskoye
Ekaterinburg
Sverdlovsk Region
Chita
Aprelkovsko-Peshkovskii
Chita Region
Arkinskaya
Arkinsko-Selemdjinskaya
Khakanja
Amkinskaya
Yuzhno-Urakskaya
Khakari
Albazino
Amursk
Krasnoyarsk
Krasnoyarsk Territory

2007 Performance Highlights



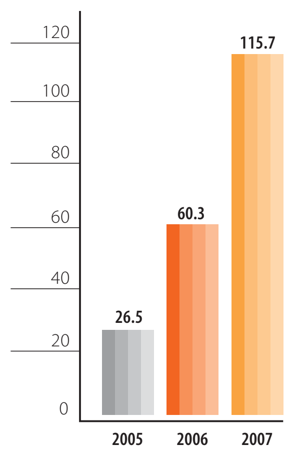
Polymetal Revenues 2005–2007

$ mln



Polymetal EBITDA 2005–2007

$ mln



Polymetal Capital Expenditures 2005–2007

$ mln

	2007	2006	change, %
Ore mined (kt)	3,029	2,600	+16%
- Open pits	2,431	2,113	+15%
- Underground	598	487	+23%
Processed ore (kt)	3,135	2,890	+8%
Gold processed (koz.)	242	256	- 5%
Silver processed (Moz.)	15.9	17.3	- 8%
Gold sales (koz.)	235	254	-8%
Silver sales (Moz.)	16.2	17.2	-7%
Average realized gold price ($/oz.)	701	603	16%
Average realized silver price ($/oz.)	8.8	9.3	-5%
Cost of sales per oz. of gold ($)	397	258	54%
Cost of sales per oz. of silver ($)	7.6	4.9	55%

$ mln	2007	2006	change, %
Revenues	308.7	315.6	-2%
Net cash flow provided by operating activities	(2.806)	29.102	-110%
EBITDA	43.1	154.6	-72%
Adjusted EBITDA	71.4	134.1	-47%
Net income	(22.8)	61.7	-137%
Capital expenditures	115.7	60.3	92%

Key 2007 Events

Polymetal held its initial public offering (IPO) on the London Stock Exchange and on the Russian RTS and MICEX exchanges. Approximately 24.8% of the charter capital was placed in the form of common shares and GDRs. The ask price for a share or GDR was $7.75, valuing Polymetal's market capitalization at $2.44 billion. Funds received from the IPO were used to reduce the Company's debt load and invest in key development projects.

Progress on three mid-term growth projects was completed according to plan (increasing production capacity at the Voro and Dukat deposits and initiating activity at the Albazino deposit).

JORC Code audits were completed on three sites:
the Galka area, the Albazino deposit and Nachalnoye 2.

Development of the Arylakh deposit (Magadan Region) began and preparation work to develop the Yurievskoye deposit (Khabarovsk Territory) was concluded.

A Memorandum of Understanding was signed with Kinam Magadan Gold Corporation concerning the acquisition of the Kubaka gold deposit in the Magadan Region.

All commitments were fulfilled under a hedging agreement with ABN Amro Bank. The Company will now enjoy greater benefit from any future gold and silver price increases.

Six new licenses for geological surveying, exploration and mining gold ore were received. These licenses were obtained as part of the Company's active exploration strategy to increase its mineral resources base at both existing operations and new, freestanding projects.

For the first time in the history of the Russian gold mining industry, the Company converted an exploration license into an integrated exploration/production license to develop the Anenskoye deposit in the Krasnoyarsk Territory.

Eight social and economic partnership agreements were signed with various local administrative bodies in territories where Polymetal is active, including the Magadan and Sverdlovsk Regions and the Khabarovsk Territory. These agreements are part of the Company's efforts to develop a socially responsible relationship with local communities.

One of the most ambitious options program in the Russian mining industry was created. This program gives more than 300 Polymetal employees the right to acquire Company stock in equal installments in 2008, 2009 and 2010 for one Russian ruble (approximately $0.04) per share. Polymetal sees this options program as an important element of its strategy.

Statement from the CEO

Dear shareholders, colleagues and partners,

2007 was an important watershed in Polymetal's development.

In February 2007 the Company went public with an IPO on the London Stock Exchange and on Russian stock markets. We did everything possible to enter the market with a specific plan for developing our proven resources in order to provide the investment community with complete and transparent information about the Company's growth plans.

The foundation laid by Polymetal's progress in the preceding years allowed us to not only to gain investor confidence and secure adequate market valuation, but also to receive the funds needed to accelerate the Company's growth. Today we are at the beginning of the next development stage that I am confident will bring the Company to a qualitatively new level.

In June 2008 significant changes were made to Polymetal's ownership structure. Our new shareholders, including the company's founder IST Group, have a solid understanding of the market and have implemented many successful projects. The return of IST and its partners to Polymetal is more than just a change in ownership – it is a significant development that effectively means that the Company is now positioned for a great leap forward. Polymetal's stable production base, promising prospective sites and unique exploration technology will complement our new partners' experience and expertise. We are particularly excited by our new partners' openness to ambitious projects. Our priority today is to augment the value of the Company while emphasizing risk management and applying international best practice in corporate governance. We have a clear vision of where to direct our investment, how much money is required and how to monitor the effectiveness of these investments.

Polymetal's development in the mid-term will depend on two factors: the second generation of assets created at the start of 2007 and our new production capacity at the Albazino, Kubaka, Voro and Dukat deposits.

In 2007 the Company worked in generally favorable market conditions. Throughout the year we witnessed a significant increase in average prices for gold and silver, which translated into increased investor interest in the precious metals market. This helped to justify our decision to invest in boosting production capacity and exploration work. However, we have not yet fully enjoyed the potential of these positive pricing trends. In 2007 most of the silver produced by Polymetal was committed to forward contracts with ABN Amro Bank. These contracts were fulfilled by the end of the year. In 2008 all metal produced by the Company will be sold at market rates, which should lead to a substantial increase in profitability.

Starting last year, the worldwide financial crisis has had a significant influence on the mining industry. In the mid-term, small and medium businesses in the industry are expected to face a reduction in investment capacity due to the lack of liquidity on the market and investors' conservative strategy. Polymetal plans to take advantage of this market climate to acquire new assets and develop projects in collaboration with other market players.

In 2007 we focused on a strategy to boost production capacity and profitability by intensifying geological exploration, building new units and expanding the capacity of existing ones.

Polymetal acquired six new licenses in 2007. We also continued a geological exploration program of the flanks and deep levels of existing units. Furthermore, we began work on newly licensed areas and conducted intensive geological studies of assets within the framework of our Strategic Alliance with AngloGold Ashanti. This ensures significant growth of our mineral resource base in the future.

In 2007 the Company completed a JORC Code audit of its resources at the Galka, Nachalnoye 2 and Albazino deposits. Thanks to the excellent work of our geologists in these areas, we nearly doubled our mineral resources in one year. Polymetal is continuing to actively explore Albazino and expects to increase its mineral base to 6Moz. by 2010. Furthermore, the new Perevalnoye silver deposit has been discovered at the Dukat Flanks. This deposit has been estimated to hold at least 22Moz. of silver.

The Company invested approximately $27 million in exploration in 2007.

In 2007 Polymetal's production fully reached forecast levels. The Company maintained its leadership position in Russian silver production. We brought the Arylakh deposit in the Magadan Region online and also began full-scale production at the Yurievskoye deposit in the Khabarovsk Territory.

Over the course of 2007 the Company implemented investment projects to expand production capacity at the Omsukchan Processing Plant at the Dukat deposit and at the Voro deposit's plant. The preparation work to begin the construction of a new facility at Albazino is nearly complete and we anticipate that this site will be producing gold by 2010.

We have significantly expanded our portfolio of production assets. We expect that the newly acquired Kubaka deposit will bring its gold processing plant online within the next three years.

Polymetal's most important goal in 2008 is to increase the mining volume of precious metals. We plan to reverse the tendency of the last two years, in which our level of gold and silver production declined. In 2008 the Company plans to produce 250-270koz. of gold and 17-18Moz. of silver and will lay the groundwork for future growth of the reserves and resources in the regions where we operate.

We have everything we need to realize these goals. Most importantly, we have a wealth of experience in developing precious metals deposits in Russia from the ground up. Our in-house engineering company and exploration units give us the necessary technical resources to make our plans reality. The Company's highly qualified personnel are our most valued asset.

We believe that a motivated team is a key success factor needed to implement our strategy. In 2007 we launched an options program for Polymetal employees in which more than 300 employees were given the opportunity to acquire shares of the Company at the symbolic price of one ruble. This will help us increase the loyalty of key managers and specialists. It will also clearly establish a direct relationship between the effectiveness of their work and the Company's success.

I want to thank our employees for their steadfast work and commitment to advancing the Company's interests. I would also like to express gratitude to our shareholders and Polymetal's partners for their understanding and support, which have been so important to the Company during all stages of our development. I am confident that we will continue to work as a team to achieve our most ambitious goals.

Sincerely,
Vitaly Nesis
CEO of Polymetal

Polymetal's strategy and effective corporate governance, backed by concrete resources, are key competitive advantages.

Corporate Governance

General Principles

Polymetal's strategic goal is to become the leading Russian precious metals mining company while continuously generating value for its shareholders. One of the most important conditions for achieving this goal is the creation of an effective corporate governance system. The Company's corporate governance is founded on the principles of rigorously observing the rights and interests of its shareholders, clearly delineating management responsibilities and providing strict accountability, transparency and effective control of financial activities. It is a key factor in both the Company's market competitiveness and its pace of development.

The geographical distribution of Polymetal's business, its broad capital investment program, the difficult natural conditions in which the Company operates and stiff competition all demand serious attention to corporate management. The Company accounts for the specifics of its business and structures its internal procedures to achieve the optimal result in all of its areas of activity.

Polymetal's corporate management system is based on Russian legislation regulating public companies and the stock market. But Polymetal does not restrict itself to following the requirements of Russian normative acts. It strives to conform to current worldwide standards and apply international best practice. The Company's public status adds further responsibility to ensure transparent corporate management and open access to information in accordance with the requirements of the stock markets and British legislation.

The Company's main internal normative documents, which determine management procedures and rules of corporate conduct, are:

- Company Charter;
- Regulations on the Board of Directors;
- Regulations on the Audit Committee of the Board of Directors;
- Regulations on the Remuneration and Nomination Committee of the Board of Directors;
- Regulations on internal control of financial activities;
- Regulations on use of information regarding activities and shares.

These documents are founded on the basic principles of good corporate conduct and transparency. Polymetal adjusts them to reflect changes in the normative base and the latest developments in corporate governance.

Board of Directors

ALEXANDER MOSIONZHIK

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

Mr. Mosionzhik 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 Nafta Moskva (Cyprus) Ltd and the Head of the Russian branch of the Cyprus-based Nospelt Ltd. Prior to joining Nafta Moskva, Mr. Mosionzhik held several positions in the field of finance, economics and banking in Moscow, including Financial Director at Alfa-Eco investment company. He received his degree in Applied Mathematics from Tula Technical Institute in 1983 and later received his Ph.D. in Technical Sciences from the Civil Aviation Institute of Moscow in 1990.

VITALY NESIS

Chief Executive Officer, Member of the Board of Directors

Mr. Nesis has served as the Company's CEO since 2003 and as a member of the Company's Board of Directors since June 2004. From 2002 to 2003, he was the General Director of Vostsibugol, a major coal mining company based in eastern Russia. In 2000 Mr. Nesis was Strategic Development Director at the Ulyanovsk Automobile Plant and, from 2001 to 2002, he was the Director of the Investment Planning Department at SUAL-Holding. From 1999 to 2000, he worked for McKinsey & Co. in Moscow and, from 1997 to 1999, Mr. Nesis worked as an Analyst for Merrill Lynch in New York. He graduated from St. Petersburg University of Economics and Finance with a degree in Economics. In 1997 he graduated from Yale University (USA) with a degree in Economics.

PAVEL GRATCHEV

Member of the Board of Directors, Member of the Audit Committee

Mr. Gratchev has served as a member of the Company's Board of Directors since December 2006. Starting in April 2008, he has served as Managing Director of the Moscow branch of Nafta Moskva (Cyprus) Ltd. From 2006 to March 2008, Mr. Gratchev was the Executive Director and Chief Legal Counsel of Nafta Moskva. From 1998 to 2000, Mr. Gratchev worked as the Head of the Moscow office of the Pavia e Ansaldo law firm, and, from 2000 to April 2006, he served as the Director of that firm's Russian operations. Mr. Gratchev graduated from Trieste University (Italy) in 1997 and St. Petersburg State University in 1998, receiving law degrees from both universities.

ANDREI RODIONOV

Member of the Board of Directors, Member of the Audit Committee

Mr. Rodionov has served as a member of the Company's Board of Directors since November 2005. Starting in April 2008, he has served as Managing Director of the Moscow representative office of Nafta Moskva (Cyprus) Ltd. From January 2006 to March of 2008, he was the Financial Director of Nafta Moskva Ltd. He was appointed Financial Director of GNK Nafta Moskva in 2003, a position he held until 2005. From 2000 to 2003, Mr. Rodionov was the Director of the Finance and Economics Department at Teboil in Helsinki, Finland. From 1999 to 2000, Mr. Rodionov was the Director of Finance and a Deputy General Director at Vremya and, from 1997 to 1999, he was the Director of Mergers and Acquisitions and Financial Director at Vremya. From 1995 to 1997, he was the Head of the Department of Financial Planning and Analysis at Alfa-Eco and, from 1994 to 1995, Mr. Rodionov was the Chief Accountant and Financial Director at Ankor. Mr. Rodionov graduated from the Yaroslavl Academy of Military Finance with a degree in Economics.

NIKOLAI BELYKH

Member of the Board of Directors, Member of the Remuneration and Nomination Committee

Mr. Belykh has served as a member of the Company's Board of Directors since November 2005. From 2006 to January 2008, Mr. Belykh was the General Director of Nafta Moskva (Cyprus) Ltd. From 2002 to 2005, he was the Head of both Nafta Moskva's Projects Division in the Investment Department and of the company's Development Department. In 2001 Mr. Belykh was the Head of Nafta Moskva's Resources Department. From 1999 to 2000, he was a Deputy General Director and Commercial Director at Kuban-Sugar and, from 1995 to1999, Mr. Belykh was the Head of the Sugar Department in Alfa-Eco. Mr. Belykh graduated from the Moscow Commercial University with a degree in International Economics in 1995.

JOHN O'REILLY

Independent Member of the Board of Directors, Chairman of the Remuneration and Nomination Committee

Mr. O'Reilly has served as an independent member of the Company's Board of Directors since January 2007. Mr. O'Reilly holds several directorship positions in mining and engineering companies, including Lion Selection Group, AuSelect Limited, Indophil Resources, Cambrian Mining, Ausenco and Nautilus Minerals. Mr. O'Reilly joined Rio Tinto in 1987, where he worked until his retirement in 2005. From 1993 to 1998, he served as Chief Executive of Lihir Gold Limited in Papua New Guinea. Mr. O'Reilly has worked in a number of international mining companies in Zambia, Botswana, Iran and Oman. Mr. O'Reilly received his Bachelor's degree in Metallurgy from Imperial College, London (Great Britain) in 1966 and a M.Sc. in Mineral Process Design from the same university in 1967.

JONATHAN BEST

Independent Member of the Board of Directors, Chairman of the Audit Committee

Mr. 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 (Great Britain). Prior to that Mr. Best was the CFO and Executive Director at AngloGold Ashanti from 1998 to 2005. He received his MBA from the University of the Witwatersrand (South Africa). Mr. Best is an Associate of the Chartered Institute of Management Accountants and the Chartered Institute of Secretaries and Administrators.

Corporate Structure

The Company's highest management body is the General Meeting of shareholders. The Board of Directors is responsible for Polymetal's activities during the time between shareholders' meetings. Members of the Board of Directors are elected at the General Meeting of shareholders through cumulative voting. On June 25, 2007 the shareholders elected the current seven members of the Board. They will serve until the next General Meeting of shareholders, at which point a new Board will be elected.

There are two independent directors on Polymetal's Board of Directors. The Company believes that independent directors are an important factor in protecting shareholders' interests. Furthermore, both Jonathan Best and John O'Reilly have broad international experience in the mining industry, and they have served in top management positions at leading international companies. As such, their presence raises the quality and effectiveness of the Board of Directors' decision-makinng. The Board of Directors holds regular meetings and meetings in absentia when necessary. In 2007 the Board met 14 times, with 5 of the meetings held in presentia. During these meetings the Board reviewed 84 issues regarding:

- Asset acquisition;
- The Company's interests in other organizations;
- Preparing for and holding special shareholders' meetings and the annual shareholders' meeting;
- Approval of Polymetal's consolidated interim financial statements, prepared in accordance with International Financial Reporting Standards;
- Company HR policy;
- Approval of major transactions and those transactions in which the Company holds an interest;
- Listing global depository receipts on the London Stock Exchange.

The Board of Directors held three fewer meetings in 2007 than in 2006. However, the number of reviewed issues increased.

Audit Committee

Not less than 3 members of the Board of Directors are elected to the Audit Committee. The member of the Board of Directors that fulfills executive management functions (the CEO) may not serve on the Audit Committee. The Chairman of the Committee must be an independent member of the Board of Directors.

Members of the Audit Committee:

Jonathan Best – *Chairman of the Audit Committee*

Andrei Rodionov

Pavel Gratchev

The Audit Committee is responsible for assisting in the selection of candidates for the Company Auditor, the preliminary analysis and assessment of the Auditor's conclusions, monitoring Polymetal's financial activity and developing suggestions for its improvement. The Audit Committee met four times in 2007. It reviewed the following issues:

- Recommendations to the Board of Directors regarding approval of Deloitte & Touche CIS for the 2007 audit of the Company's consolidated financial statements, prepared in accordance with US GAAP;
- Recommendations to the Board of Directors regarding the maximum compensation to the Company Auditor, as well as the nature and the extent of its services;
- Review of consultants' suggestions regarding optimization of the Company's internal control system and corporate governance;
- Analysis of the Company's internal control system.

Remuneration and Nomination Committee

Not less than 3 members of the Board of Directors are elected to the Remuneration and Nomination Committee. The member of the Board of Directors that fulfills executive management functions (the CEO) may not serve on the Remuneration and Nomination Committee. The Chairman of the Committee must be an independent member of the Board of Directors.

Members of the Remuneration and Nomination Committee:

John O'Reilly –

Chairman of the Remuneration and Nomination Committee

Nikolai Belykh

Alexander Mosionzhik

The Remuneration and Nomination Committee is responsible for makings recommendations to the Board of Directors regarding Polymetal's HR policy, selecting candidates for management positions and determining compensation for corporate executives and management.

Compensation of the Members of the Board of Directors

Compensation for members of the Company's Board of Directors and/or reimbursement of expenses incurred while fulfilling duties as members of the Board is paid in accordance with the Polymetal's Regulations on the Board of Directors by resolution of the General Meeting of shareholders.

The total compensation paid to members of Polymetal's Board of Directors in 2007 was $370,000.

Transactions by members of the Board of Directors

On June 18, 2007 the Company was informed of transactions by members of the Board of Directors concerning shares of Polymetal under the Stock Option Program for the Nafta Moskva group of companies. Alexander Mosionzhik, Nikolai Belykh, Andrei Rodionov and Pavel Gratchev acquired common paperless shares of the Company from the main shareholder Nafta Moskva (Cyprus) Ltd.

Members of the Board of Directors owned 1.3% of total share capital of the Company as of December 31, 2007.

On March 18, 2008 the Company was informed that Polymetal's CEO Vitaly Nesis became the owner of 1,000,000 common shares of Polymetal, equal to 0.3175% of the Company's share capital.

This transaction was conducted within the framework of the first tranche of Polymetal's stock option program. Over 300 employees participate in this program, with the right to acquire 5.5 million shares of the Company held by the controlling shareholder at a nominal price of 1 ruble ($0.04). The next two tranches of the stock option program will be exercised in February 2009 and February 2010.

Management

VITALY NESIS

Chief Executive Officer

Mr. Nesis has served as the Company's CEO since 2003 and as a member of the Company's Board of Directors since June 2004. From 2002 to 2003, he was the General Director of Vostsibugol, a major coal mining company based in eastern Russia. In 2000 Mr. Nesis was the Strategic Development Director at the Ulyanovsk Automobile Plant and, from 2001 to 2002, he was the Director of the Investment Planning Department at SUAL-Holding. From 1999 to 2000, he worked for McKinsey & Co. in Moscow and, from 1997 to 1999, Mr. Nesis worked as an Analyst for Merrill Lynch in New York. He graduated from St. Petersburg University of Economics and Finance with a degree in Economics. In 1997 he graduated from Yale University (USA) with a degree in Economics.

IGOR VENATOVSKY

Chief Operating Officer

Mr. Venatovsky has been Polymetal's COO since 2000 and has been with the Company since its inception. From 1997 until 1999, he was the CEO of Olginskaya Mining and Geological Company and, from 1995 to 1997, Mr. Venatovsky was the CEO of Bashkirskaya Gold Mining Company. From 1971 to 1995, Mr. Venatovsky worked at the Krasnokholmsk Geological Association as an Engineer and later as its CEO. Mr. Venatovsky graduated from the Tashkent Polytechnic Institute with a degree in Mining Engineering and Hydrogeology.

VLADIMIR RYABUKHIN

Deputy CEO for Mineral Resources

Mr. Ryabukhin is Deputy CEO for Mineral Resources, a position he has held since 2004. In 1998 he joined the Company as the General Manager for Mineral Resources. From 1992 to 1998, he worked as the Chief Geologist at Nevskgeologia in St. Petersburg and, from 1989 to 1992, Mr. Ryabukhin worked for Krasnokholmsk Geological Association in Tashkent, Uzbekistan. Mr. Ryabukhin graduated from Tomsk Polytechnic Institute with a degree in Prospecting and Exploration of Radioactive Ore Deposits and received a Ph.D. in Geology from the Soviet Union Geological Institute in 1978.

ALEXANDER ZARYA

Deputy CEO for General Matters

Mr. Zarya is Deputy CEO for General Matters, a position he has held since 2004. He joined the Company in 1999 as the Head of the Planning and Economics Department and Deputy CEO of Finance and Economics. From 1998 to 1999, Mr. Zarya was the Director of the St. Petersburg branch of Zun Khada. From 1995 to 1997, he was the Deputy CEO of Ulyanovka, a procurement company that specialized in services for the gold mining industry. From 1991 to 1995, he served as the CEO of Kvarts Research and Production Association in St. Petersburg. Prior to 1991 Mr. Zarya worked at the Control Devices Research Institute of the USSR's Ministry of General Machine Building. Mr. Zarya graduated from the Leningrad Institute of Aeronautical Instrument Engineering with a degree in Electrical Engineering.

SERGEY CHERKASHIN

Chief Financial Officer

Mr. Cherkashin is the Company's CFO, a position he has held since 2005. Mr. Cherkashin has held several positions in the fields of food processing and machine building, including CFO of the Timashevsk Dairy Company, Sales Director of the Ulyanovsk Automobile Plant and Deputy CEO of Development at the Volgograd Dairy # 3. He served as a member of the Board of Directors of Meat-Packaging Plant Ltd. and the Volgograd Dairy # 3. From 1996 to 1997, he worked as a Consultant for AT Kearney in Moscow. He also worked in aerospace research for Energy in Korolev. Mr. Cherkashin graduated from the Moscow Institute of Physics and Technology with a degree in Applied Mathematics in 1985 and attended business school at the University of Hartford (USA), majoring in Accounting.



ZUMRUD RUSTAMOVA

Deputy CEO, Head of Polymetal's Representative Office in Moscow

Ms. Rustamova has served as the Deputy CEO of the Company since 2006. Before joining the Company, she served as the Deputy Chair of Management of the Russian Bank of Development. From 2004 to 2006, she was the Vice President of Siberian Coal and Energy Company. From 2000 to 2004, Ms. Rustamova was the Deputy Property Minister for the Russian Federation. From 1999 to 2000, she was the Deputy Chair of the Russian Fund of Federal Property. From 1995 to 1999, she worked in various capacities in the Government Committee of the Russian Federation for Management of Government Property. In 1992 Ms Rustamova graduated from the Moscow Economics and Statistics Institute with a degree in statistics. In 2003 Ms Rustamova received the qualification of Government Advisor to the Russian Federation, 2nd Class.

VALERY TSYPLAKOV

Managing Director of Polymetal Engineering

Mr. Tsyplakov is the Managing Director of Polymetal Engineering, a position he has held since 2004. He joined the Company in 1999 and has served as Deputy Head of Construction and later Head of the Technological Research Department and Deputy General Director for Mineral Resources, Design and Technology. From 1993 to 1999, he held several management positions in various companies. From 1988 to 1993, he served as Department Head at the Soviet Union Research Institute of Aeronautical Automation. Mr. Tsyplakov worked at the Physics Institute at Denmark's Orhus University from 1986 to 1987. From 1978 to 1988, Mr. Tsyplakov worked as an Engineer, Chief Engineer and then Research Fellow for the Plasma Physics Department of Moscow Physics and Engineering Institute. Mr. Tsyplakov graduated from Moscow Physics and Engineering Institute with a degree in Experimental Nuclear Physics and has a Ph.D. in physical mathematics.

YURI MALAKH

Deputy CEO for Business Development

Mr. Malakh is the Deputy CEO for Business Development, a position he has held since 2006. From 2004 to 2006, he served as Deputy CEO for Supply Chain Management at Polymetal. From 2003 to 2004, he was the Russian Director of the Russia-EU Energy Technologies Center. From 2001 to 2003, he was the Director of Tyazhpromexport. From 2000 to 2001, Mr. Malakh served as Head of the IT Department of Slavneft. From 1996 to 2000 he was a Vice-president at Spektra, and, from 1994 to 1996, he was the CEO of the Russian-Polish joint venture Poteks. From 1986 to 1994, Mr. Malakh worked for the Kazan branch of the USSR Academy of Sciences. Mr. Malakh graduated from Kazan State University with a degree in Radio Physics.



ANDREY ZHELTOVSKY

Deputy CEO for Human Resources and Public Relations

Mr. Zheltovsky is the Deputy CEO for Human Resources and Public Relations, a position he has held since 2006. He joined Polymetal in 2005, serving as the Director for Public and Regional Government Relations. From 2002 to 2005, he was Deputy Branch Manager for Public Relations at Siberian Coal and SUEK-Baikal-Ugol. From 1999 to 2002, he was the Head of the Public Relations Department at Vostsibugol and, from 1997 to 1999, he worked as Assistant to the Public Relations Director of San-Roma. From 1994 to 1997, Mr. Zheltovsky worked as a Chief Specialist of the Committee for Public Relations of the Irkutsk Region Administration. Mr. Zheltovsky graduated from Irkutsk State University with a degree in history in 1993.

MAXIM KUZEMCHENKO

Managing Director of Polymetal Trading

Mr. Kuzemchenko is the Managing Director of Polymetal Trading, a position he has held since 2005. Before joining the company, he was the Director of the Financial Planning and Monitoring Department of Castle Finance and also worked as Director for Economics at the Baltics Plant. From 2004 to 2005, Mr. Kuzemchenko was First Deputy CEO and Deputy Chairman of the Supervisory Board at the Kharkov Tractor Plant in Ukraine. From 2003 to 2004, he was the Deputy Director for Supplies at Severstal-Resource and, from 2002 to 2003, he worked as the Head of the Planning and Control Department and Deputy Director for Supplies at Kuzbassugol. Mr. Kuzemchenko graduated from Tomsk State University of Management Systems and Radio Electronics with a degree in Information Systems, Electronic Instruments and Devices.

ANDREY NOVIKOV

Managing Director of Gold of Northern Urals

Mr. Novikov has served as the Managing Director of Gold of Northern Urals since 2004. In 1997 Mr. Novikov was appointed Deputy CEO at the Tulun mine (a division of SUEK) and later that year became its CEO. From 1992 to 1997, he held a series of positions at the Tulun mine, including: Blasting Superintendent, Ore Mining Superintendent and Head of Mine Planning. Mr. Novikov graduated from Irkutsk Polytechnic Institute in 1992. In 2002 Mr. Novikov received a degree in Accounting from Baikal University of Economics and Law.

VICTOR DEMESCHIK

Managing Director of Silver Territory and Magadan Silver

Mr. Demeschik is the Managing Director of Silver Territory and Magadan Silver since 2006. From 2000 to 2006, he worked as the Mine Manager at the Mugun mine. From 1990 to 2000, he served as the Chief Engineer at the same mine. From 1987 to 1992, he worked as the Mining Superintendent at the Azei mine and, from 1982 to 1987, he was the Mining Foreman. In 1982 Mr. Demeschik graduated from Irkutsk Polytechnical Institute with a degree in Technology and General Mechanization of Underground Mineral Deposits Development. He also completed specialized management training at New York International Institute in 1995 and the Russian Management Institute at the Federal Academy of Economics in 1997.

SERGEY ANTIPIN

Managing Director of Albazino Resources, CEO of the Amur Hydrometallurgical Plant

Mr. Antipin has served as Managing Director of Albazino Resources and CEO of the Amur Hydrometallurgy Plant since 2007. From 2003 to 2007, he worked as First Deputy CEO and then Managing Director of Okhotskaya Mining and Exploration Company. From 2001 to 2003, he was the Managing Director of Silver Territory and, from 1999 to 2001, he was Head of Refining at the Kolyma Refinery. From 1987 to 1999, Mr. Antipin worked in numerous positions, including Head of the Research Laboratory (1990-1992), Milling Superintendent (1992-1994) and Chief Processing Engineer (1994), at the Deputatsk Tin Mine's concentrator in Yakutsk. In 1987 Mr. Antipin graduated from Irkutsk Polytechnical Institute with a degree in Enrichment Engineering. In 2000 he received a degree in Finance from Novosibirsk State Academy of Economics and Law.

GENNADY KUZMENKO

Managing Director of Okhotskaya Mining and Exploration Company

Mr. Kuzmenko has served as the Managing Director of Okhotskaya Mining and Exploration Company since 2007. From 2004 to 2007, he was the Deputy Managing Director for Human Resources at Silver Magadan and Silver Territory. From 2001 to 2003, Mr. Kuzmenko was the Head of the Human Resources at Karelia Briquettes mining company. From 1997 to 2000, he worked at Karelia Briquettes as General Production Manager, Production Supervisor and Program Economist for Production Improvement. In 1993 he graduated from St. Petersburg Plekhanov Institute with a degree in enrichment engineering. In 2003 he received a degree in economics from the St. Petersburg Engineering and Economics University.

Internal Controls and Audits

Audit Commission
The General Meeting of shareholders elects the Audit Commission to monitor the Company's financial activities. The Commission provides regular monitoring of the Company, as well as its subsidiaries and management bodies. It also audits the Company's financial standing and the internal controls system. The Audit Commission confirms the reliability of financial reports and investigates any reports of the use of insider information. The Audit Commission is also responsible for developing and presenting to the Board of Directors recommendations to improve financial activities.

Polymetal's Audit Commission has been working since June 25, 2007 and consists of three individuals.

Audit Division
Internal audits of financial and production activities are conducted by the Audit Division, an independent department that reports directly to the CEO. The Audit Division's functions are regulated by the Audit Division Statutes; the division conducts internal audits and checks and also evaluates risk management, internal review and corporate governance activities. The division works closely with the Board of Director's Audit Committe.

In 2007 the Audit Division conducted five checks and audits of inventory accounts and Company expenditures. It also developed instructions for receiving, storage, release and accounting for oil products at fuel warehouses, filling points and gas stations at Polymetal-controlled sites.

Policy on Information Disclosure

Polymetal's policy on information disclosure is designed to satisfy all information requirements of shareholders and other interested parties. It stipulates providing open access to reliable information about the Company and its activities. In order to maintain this policy, the Company has created separate public relations and investor relations departments.

Polymetal discloses information about its activities in correspondence with the requirements of Russian legislation and British regulations.

The Company maintains the following principles of disclosure of corporate information to interested parties:

- Complete and reliable information;
- Timely disclosure of all relevant facts concerning Company activities;
- A high level of security for information that constitutes government, administrative or commercial secrets;
- Fair and non-discriminatory disclosure practices.

Information Disclosure in Electronic Media
The Company regularly publishes press releases, announcements and other information in electronic media outlets.

Announcements of important facts concerning Polymetal's financial activities and data that may influence its share price, as well as other information that the Company is required to disclose according to Russian law, are published on newswires on the Internet no later than one day after the given event has taken place.

Being is a public company, Polymetal notifies exchange authorities about the need to disclose any information, as well as the content of the news, before the information is published on newswires.

Information Published on the Internet
The Company regularly publishes press releases, announcements, articles, interviews and other information on Polymetal's official website www.polymetal.ru.

Announcements of material facts and data that may influence the Company's share price, as well as other information that the Company is required to disclose according to Russian law, are published on the Internet no later than two days after the given event has taken place.

Publication of Information in Printed Media, Brochures and Booklets
The Company regularly publishes press releases, announcements, articles, interviews and other information in periodicals, brochures and booklets.

Press Conferences and Shareholder Meetings
Polymetal organizes press conferences to publicize important events that take place at the Company. It also regularly holds

meetings with shareholders, investors, analysts and government officials.

The Company strives to play an active role in Russian and international conferences and symposiums.

Company Structure

Polymetal owns 18 subsidiaries that are involved in exploration, mining and processing ore, engineering and management.

Polymetal conducts its business as a holding company, receiving income exclusively from the operational activities of its subsidiaries that hold the exploration and development licenses for their corresponding deposits.

The Company's exploration work is preformed by its exploration subsidiaries that hold licenses for separate exploration projects (including those in its Strategic Alliance with AngloGold Ashanti), its production subsidiaries that hold licenses to explore specific sites and areas in their respective regions and by its outside service companies that conduct exploration within the framework of regional exploration programs aimed at expanding the mineral ore reserves of the production subsidiaries.

Polymetal Engineering provides scientific research and planning work for the Company's exploration and production subsidiaries. It also provides services for third parties.

Polymetal Trading provides logistics, supply, procurement and technical services to all Polymetal subsidiaries.

The efficient management and control of the Company is implemented by Polymetal Management. It provides the Company's subsidiaries with management services and is the subsidiaries' sole executive organ.

Polymetal's headquarters and its engineering division are located in St. Petersburg. The Company also maintains regional offices in Magadan and Khabarovsk.

Company Structure as of December 31, 2007

Polymetal

100 % beneficial ownership

Production and Development

Magadan Silver
Dukat, Dukat Perspective Field, Dukat Ore Field, Rogovik

Silver Territory
Lunnoye, Arylakh

Okhotskaya Mining and Exploration Company
Khakanja, Yurievskoye, Amkinskaya Field, Arkinsko-Selemdjinkskaya,Yuzhno-Urakskaya Field

Gold of Northern Urals
Voro, Galka, Katasma, Rudnichniy, Tamunyerskii, Volchanskii

Albazino Resources
Albazino

Amur Hydrometallurgical Plant

Service Companies

Polymetal Management

Polymetal Engineering

Polymetal Trading

Northern Urals Exploration

Dukat Exploration

POLYMETAL ESOP LIMITED

Exploration

Yeniseiskaya Mining and Exploration Company
Anenskoye

100 %

Penchenga Gold [1]
Sovremennyi

Imitzoloto
Aprelkovsko-Peshkovskii Ore Field

Aurum [2]
Reftinskaya Zone
(Fevralskoye and Ikryanskoye Fields)

Georazvedka
Khakari, Arka

Asgatpolymetal [3]

[1] Penchenga Gold was transferred to a joint venture (Zoloto Taigi) after the venture's establishment.

[2] Polymetal has a 65%stake in Aurum's charter capital.

[3] Polymetal has a 50% stake in Asgatpolymetal's charter capital .

Note (1). In February 2008 the Company formed Zoloto Taigi, a 50-50 joint venture with AngloGold Ashanti. Polymetal's contribution to the joint venture was its subsidiary Yeniseiskaya Mining and Geological Company and Imitzoloto, while AngloGold Ashanti contributed the Amikan Mining Company and the Angarskaya Processing Company.

Note (2). In April 2008, as a result of reorganization, Silver Territory was dissolved and all its assets and liabilities were transferred to Magadan Silver. This merger took place to optimize the two companies' organizational structure. The necessary records were entered into the General Register of Legal Entities of the Russian Federation.

Corporate Strategy

Polymetal's strategic goals emphasize long-term growth in shareholder value by strengthening the Company's leadership position on the precious metals market and increasing production profitability.

Increasing Productivity at Existing Sites while Preserving Yields

The Company is planning to significantly expand the production capacity of its sites by 2009, concentrating on the Dukat and Voro deposits. At the same time, Polymetal plans to conduct exploration in the areas surrounding its existing deposits with the goal of increasing its reserves and extending the sites' production life. Along with the emphasis on increasing production, the Company also prioritizes maintaining current yields and aims to achieve total production costs before amortization of less than 50% of market prices.

Building New Production Units

A key element of Polymetal's strategy is increasing capacity by building new production units. The Company's mid-term plans include developing a third generation of production assets. By 2010 Polymetal plans to bring processing plants online at both the Albazino deposit and the recently acquired Kubaka deposit. The Company anticipates opening an additional two production units by 2012. Within five years Polymetal intends to double its gold production and increase silver production by 50%.

Developing Exploration Projects

In order to achieve dynamic production growth, Polymetal focuses its energy on developing exploration projects. The Company's stated goal is to double its gold reserves and add at least 50% to its silver reserves by 2010. Polymetal intends to develop primarily using its own resources. However, the Company is also open to acquisition of new assets. All potential deposit purchases will be rated based on the fields' individual potential as well as possible synergies with current assets.

Training and Motivating Employees

Polymetal believes that retaining its highly skilled workforce and further developing employees' potential is an essential part of achieving the Company's strategic goals. HR development is a priority because implementation of the planned large-scale exploration and production projects depends on the availability and skill of the workforce. The Company focuses its attention on retaining qualified employees through the use of incentive programs and by creating opportunities for professional and career growth. Polymetal also attracts talented young mining industry specialists by offering excellent conditions for developing their professional potential. The Company is committed to creating a work environment that will allow it to achieve maximum.

Market Overview

Gold Market

Gold Prices

Recent years have witnessed a steady growth in investors' interest in gold. The precious metal is viewed as a reliable shelter against fluctuations in exchange rates, particularly the American dollar's volatility. Gold investments are attractive not only because of their profitability, but also because their growth rate is not correlated with prices of other assets due to the unique factors that contribute to gold's valuation.

In 2007 the value of gold continued to rise. The average price per ounce grew by 15.2%, from $603.77/oz. in 2006 to $695.39/oz. in 2007. In 2002 the price of gold was $271/oz.

According to GFMS, the price of gold could reach $1,100/oz. in 2008. The main driver of growth will be the high investment demand for the metal. However, according to the GFMS forecast, in the second half of the year the price will most likely top at around $800/oz. The growth in prices is unlikely to trigger an increase in available metal on the market because mining output in 2008 is expected to remain at the same level as the year before. The imbalance between supply and demand means that gold prices will eventually drop. However, this is not expected before 2009[1].

Demand

In 2007 worldwide demand for gold shrunk by 1.7% to 125.8Moz.[2] The main factor in the drop was the reduction in implied net investment to 5.1Moz., from 13Moz. in 2006. At the same time, demand for gold for the jewelry industry grew significantly, reaching 77.2Moz. (compared to 73.4Moz. in 2006).

On the whole, industrial demand for gold grew by 4.8% in 2007, to 97.3Moz. This positive trend was visible over the first three quarters, but industrial demand had shrunk significantly by the fourth quarter because of high prices. This trend has continued in 2008.

The volume of de-hedging in 2007 grew by 1.1Moz. to 14.3Moz. The growth was due to the signing of forward contracts with producers made in anticipation of more profitable gold sales against a background of rising prices.

Bar hoarding demand in 2007 grew to 7.6Moz. Demand for official gold coins grew by 6% to 4.4Moz. due to an increase in production in China and South Africa. In 2007 there was a significant increase in demand (24%, up to 2.3Moz) for imitation coins that was mainly driven by India, where these coins are acquired as investments.

According to the GFMS forecast, high prices and market volatility will negatively impact demand in the jewelry industry, where purchase volumes may fall below 2007 levels. Demand for the metal for other industrial uses will be affected by the slowing growth of the global economy.

At the same time, investment demand for gold is expected to remain high throughout 2008 and into 2009.

Demand indicators on the Russian gold market should remain stable. 5.4Moz. of gold were purchased in Russia in 2007, a 0.9% drop from 2006.

Against a background of stable demand in 2007, there were significant changes in the structure of demand. In 2006 53% of gold in Russia was marked for export, while in 2007 this indicator dropped to 21.2%. At the same time, the share of official purchases grew from 8.5% to 30.7%. The share of the jewelry industry was 42.4%. All other industries accounted for 5.1%.

Supply

In 2007 worldwide gold production dropped by 321.5koz. to 79.6Moz., the lowest level in the last 11 years. This trend was due to the slow pace of bringing new production sites online, as well as the growing level of depletion of existing gold deposits. The slip in productivity was seen for most gold producers, with South Africa, Australia and the United States leading the decline.

The decline in output was partially compensated by a growth in mining in China, which grew by 1.1Moz., and Indonesia, which grew by 964.5koz. 2007 was a historic year for the mining industry, as China surpassed South Africa, the longtime leader in output, and produced 9Moz. of gold. From 2001 to 2007, Chinese output has grown by nearly 1.5 times.

The reduction in mining volumes was accompanied by reduced levels of scrap production. In 2007 scrap gold fell by 15% to 31Moz. The reduction could have been even more pronounced, but the growth in gold prices in the fourth quarter of 2007 led to an increase in supply of recycled gold. The biggest decline in scrap production was in the Middle East, where it dropped by 34%.

The decline in gold mining and recycling was partially compensated for by the growth in sales in the net official sector, which grew by 30% to 15.5Moz. on the year. The high rate of growth compared to the low sales volume in 2006 was due to a growth in sales by central banks as a part of the Central Bank Gold Agreement (CBGA). Banks that have not signed the CBGA became net buyers of gold for the first time

[1] GFMS forecast.

[2] GFMS data.

in ten years. The volumes of gold credits given by central banks during the year remained insignificant.

According to the GFMS forecast, the volume of gold production in 2008 will stay on the level of 2007. The decline of production in Indonesia and South Africa will be compensated by production growth in Russia, West Africa and Brazil. Furthermore, GFMS analysts expect growth in recycling.

In Russia gold output shrank by 1.9% in 2007. At the same time, output of gold as a byproduct and through recycling grew by 3.4% and 17.8%, respectively. 4.6Moz. of gold were mined in 2007, while 389koz. were produced as a byproduct of base metals mining and 189.7koz. were recycled.[1]

Krasnoyarsk Territory is the largest gold producing region in Russia. It is followed by the Republic of Sakha, Magadan Region, Irkutsk Region, Khabarovsk Territory and the Amur Region. According to a forecast by the Union of Gold Producers of Russia, the Khabarovsk Territory output will increase in the mid-term due to the start of production at the Albazino deposit.

There is a trend in Russia towards the replacement of alluvial mining, which currently represents approximately 45% of output, with mining ore fields. The latter's share, according to the Union of Gold Producers of Russia, could reach 80 to 85% by 2010-2015.

Silver Market

Silver Prices

The average weighted price of silver was $13.38/oz. in 2007, a 15.9% increase over 2006. The steady growth in silver prices since 2001 has been supported by high investment and industrial demand.

The growth rate of silver prices in 2007 surpassed price increases in gold, platinum and palladium. In 2008 the metal's price reached new highs. In March 2008, silver prices topped $20/oz. for a period of several days.

Demand

Worldwide demand for silver dropped from 913.7Moz. in 2006 to 894.5Moz. in 2007, according to GFMS. At the same time, industrial demand for silver grew by 0.9% to 843.7 Moz. The implied net investment for silver fell from 70.8Moz. to 25.8Moz., while the volume of de-hedging grew by 6.8Moz. to 25Moz.

The largest growth rate in 2007 was seen in industrial use of silver, which grew by 7% to 455.3Moz. 54% of worldwide demand on the year was from industrial use. A key factor in the growing demand was a 6% increase in demand by the electronics industry. 70% of growth in industrial demand was concentrated in India, the United States and Canada.

Demand in photography fell by 11% in 2007, to 128.3Moz. The downward trend is due to the replacement of traditional film by modern digital technologies. Against a background of rising prices for silver and a high demand from industry, the use of the metal for jewelry fell by 2%. At the same time, demand for silver in this segment grew by 11% in China.

According to the GFMS forecast, the share of industrial use of silver in worldwide demand will continue to grow and will compensate for the drop in demand in photography. This is related to the expanding spectrum of physical demand for silver in various industries. Silver is being studied as a cheaper alternative to platinum in the production of catalytic converters. Silver is also being looked at as an important component in cartridges for electronic printers. According to a NanoMarkets report, the volume of the world market for silver inks could reach $2.4 billion by 2015. Furthermore, silver is being used in healthcare for its disinfectant and antibacterial properties and is also in demand in construction and shipbuilding.

Supply

In 2007 silver output at deposits worldwide grew by 4% to 670.6Moz. The most impressive growth was seen in Chile, China and Mexico. Peru remained the leading silver producer in 2007. Primary silver mining grew by 11% in the reporting period and consisted of 30% of all silver production at deposits.

Silver production in Russia dropped by 4% to 30Moz., primarily because of a decrease in silver content in ore. More than 40% of silver in Russia is produced at Polymetal deposits Dukat, Lunnoye and Khakanja.

The total supply volume of silver dropped from 913.7Moz. in 2006 to 894.5Moz. in 2007. A key factor was the drop in sales volumes from the official sector by 46% to 42.3Moz. The main sellers, China and India, were not active on the market in 2007, while the Russian government increased its volume of silver sales. The volume of recycled silver fell by 3% in 2007 to 181.6Moz.

In 2008 GFMS expects growth of about 6% in silver output, primarily because of increased output in Mexico, Bolivia, Argentina and Russia. Recycled silver is expected to remain at the same level as 2007, while sales from national reserves will likely drop. In total GFMS expects the silver supply in 2008 to increase by approximately 2%.

[1] Union of Gold Producers of Russia

Reserves and Resources

Polymetal is currently mining precious metals at four locations: Dukat, Lunnoye (including the Arylakh satellite deposit), Khakanja (including the Yurievskoye satellite deposit) and Voro.

Given current reserve levels, the life expectancy for the Company's production sites ranges from ten to 20 years. The Dukat and Lunnoye deposits, which are silver mining units with a significant volume of gold mining as a byproduct, are located in the Magadan Region in Russia's northeast. Khakanja (Khabarovsk Territory) and Voro (Sverdlovsk Region) are gold deposits. Significant amounts of silver are also mined at Khakanja.

The significant increase in market prices for gold and silver was accompanied by a virtually direct proportional growth in the total cost of mining those metals due to the sharp growth in prices for fuel, reagents and materials. As a result, the Company's revaluation of its reserve base based on current gold and silver prices and actual production costs did not lead to growth in the amount of mineable reserves during the reporting period. Nonetheless, the gold and silver reserve base established on January 1, 2008 is a solid foundation for the Company's successful long-term operating activities.

As a result of exploration work and revaluation with respect to current economic conditions, in 2007 the Company's gold and silver mineral resources grew significantly. This growth fully compensated for the volume of reserves extracted during the reporting period.

Gold mineral resources confirmed by the JORC Code grew by 1,799koz. This increase is the result of exploration work at the Albazino deposit (Khabarovsk Territory) and valuation work at the Galka gold, silver and zinc deposit (Sverdlovsk Region).

Silver mineral resources grew by 20,037koz. in 2007 due to exploration work at the Nachalnoye 2 (Magadan Region) and the Galka (Sverdlovsk Region) deposits.

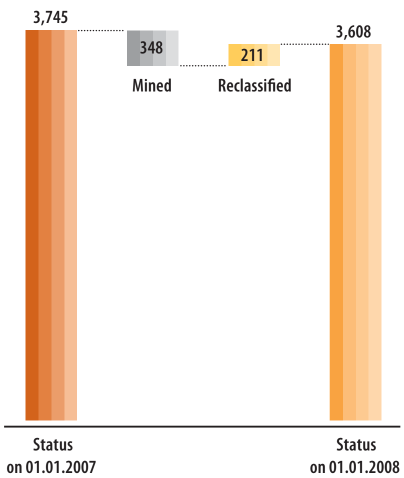
Ore Reserves at Each of the Company's Production Sites, as of January 1, 2008

Reserves (Proved and Probable)	Tonnage (kt)	Grade (Au, g/t)	Grade (Ag, g/t)	Content Au (koz.)	Content Ag (koz.)
Dukat	24,620	0.9	406.1	724	320,178
Lunnoye	4,966	1.3	361.1	204	57,648
Khakanja	5,035	5.1	207.2	832	33,533
Voro	21,145	2.7	3.6	1,848	2,480
Total	**55,766**	**2.0**	**230.8**	**3,608**	**413,839**

Notes (1). Calculation of Company reserves is based on the price for gold of $600/oz. and the price for silver of $11/oz.

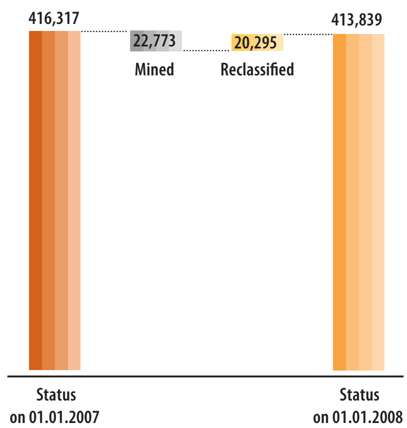
Notes (2). Calculation of reserves is made based on Measured and Indicated resources (without accounting for Inferred resources).

Notes (3). Reserves at the Lunnoye deposit include reserves from the Arylakh satellite deposit, and reserves at Khakanja include the Yurievskoye satellite deposit.



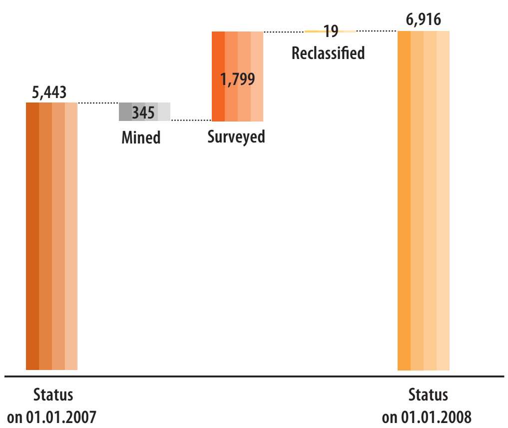
Changes
in Gold Reserves in 2007

koz.



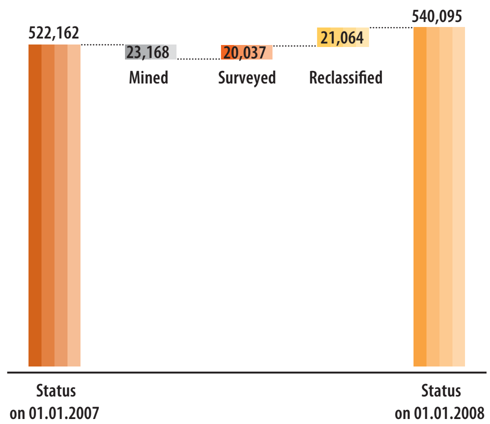
Changes
in Silver Reserves in 2007

koz.



Changes
in Gold Mineral Resources in 2007

koz.



Changes
in Silver Mineral Resources in 2007

koz.

Polymetal is implementing a strategy to create large precious metals production centers: some will be developed from ground up, while others will be based on existing units. The Company plans to increase production volumes by boosting processing plants' capacity and launching new projects.

Operational Review

The development strategy adopted by Polymetal through 2012 is aimed at optimizing operations and increasing the effectiveness of existing plants. It also calls for improving current assets through the development of their mineral ore base and forming a new generation of assets, while maintaining total unit production costs at a level of no more than 50% of market prices.

The total volume of ore mined by the Company grew to 3.03Mt in 2007, a 16.48% increase from 2006. Open pit mined ore grew by 15%, to 2.43Mt, and underground mined ore grew by 23%, to 598kt.

The volume of processed ore grew by 8.47% in 2007, reaching 3.13Mt.

The increase in volume of mined and processed ore was the result of steady work of the Company's mining and processing divisions. Automation of the gold processing plants, the increase in the equipment readiness rate and planned implementation of technology upgrade programs also helped increase production indicators.

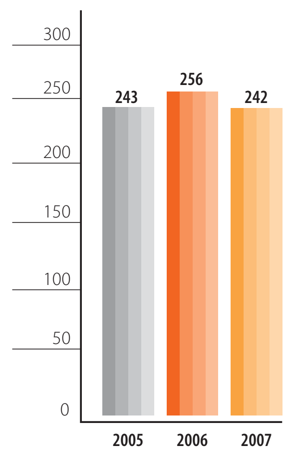
During the reporting period, the Company's mining divisions expanded their operations. Work began at the Arylakh deposit, open pit #2 at the Khakanja deposit was tapped, the northeast flank at the Voro deposit was developed and the first batch of ore was brought up from underground mines at the Lunnoye deposit as work progressed on the haulage system.

In 2007 the Company conducted work to increase the effectiveness of technical processes at gold processing plants. This work included implementation of investment projects aimed at increasing capacity and productivity at the production units. The switch to outsourcing of auxiliary functions, including maintenance, electrical and mechanical servicing, as well as transportation, also contributed to overall efficiency.

Due to the anticipated drop in the average metal content at mines in the Lunnoye and Khakanja deposits, annual gold production declined by 5% to 242koz. and silver production declined by 8% to 15.9Moz. This was partially compensated by growth in the annual ore processing volume and a higher recovery rate.

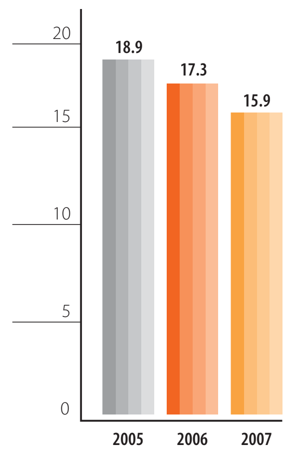
The production results correspond with the Company's forecasts that were announced in April 2007 (230-250koz. of gold and 16-18Moz. of silver) and confirmed in October 2007 (240-245koz. of gold and 16-16.5Moz. of silver).

The Company expects to produce 250-270koz. of gold and 17-18Moz. of silver in 2008 due to further increases in processing volumes and the optimization of technical processes.



Gold Production

koz.



Silver Production

Moz.

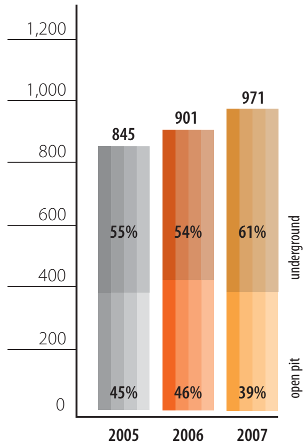
Dukat

The Dukat deposit is located approximately 40km north of the town of Omsukchan in the Magadan Region of the Russian Federation.

Dukat is the third largest silver deposit globally and the largest in Russia by ore reserves, containing 60% of Russia's total silver reserves.

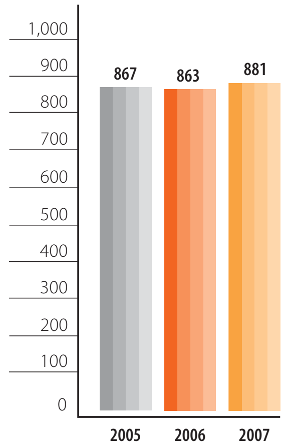
The ore is processed using conventional sulfide flotation technology. The Dukat technical process uses conventional flotation to produce a mixed sulfide concentrate, which is then transported to the Lunnoye processing plant. Once there, it is mixed with Lunnoye ore and processed into zinc precipitate via agitated-tank cyanide leaching and the Merrill Crow process. The precipitate is then processed into dore bars at a Company-owned smelter immediately adjacent to the Dukat processing plant.

In 2007 a campaign to optimize the production flow sheet began, reorienting the smelter to prepare the precipitate for delivery to refineries. The elimination of the dore bars production stage will lower expenses by reducing expenditures on electricity and diesel fuel.



Dukat Mine Ore Mining

kt



Dukat Mine Ore Processing

kt

Mining at Dukat in 2007 was conducted both by open-pit and underground methods. The total production rate was 971ktpa, with open-pit ore contributing 381ktpa and underground ore contributing 590ktpa. As per the current plan to develop the mine, production will be increased by developing the mine's flanks and tapping into the prospective Nachalnoye 2 and Perevalnoye sites.

The increase in the proportion of underground mining at Dukat has not impacted operating costs. Open-pit mining costs at Dukat are relatively high due to the high stripping ratio, small pit sizes and severe climatic conditions, which together result in higher than average fuel and maintenance costs.

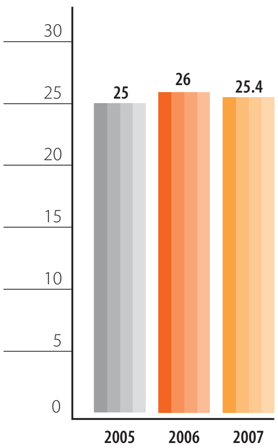
In 2007 most of the construction of an underground railway haulage system was completed. The rail passage for hauling ore opened, as did the ventilation system. Boring of vertical openings and the construction of infrastructure for the new ore processing complex has begun. The Company plans to complete this project by mid-2008. Bringing the railway haulage system online to transport ore to above-ground processing facilities will reduce expenses by decreasing the distance that ore needs to be transported, which in turn will allow for production growth.

The Omsukchan processing plant experienced a reduction in the recovery rate in 2007 because of the substantial increase in the share of complex ore processed. However, the introduction of a flash flotation section towards the end of the year restored the original rate and facilitated adaptation of flotation technology to various strands of ore. The flash flotation section has created the opportunity to further improve recovery rates.

Dukat Mine. Key Operational Indicators

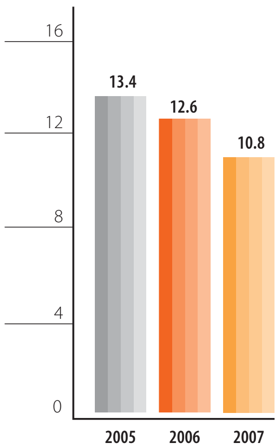
Operational Indicator	2007	2006	2005
Ore mined (kt)	971	901	845
Open pit (kt)	381	415	383
Underground (kt)	590	487	462
Ore processed (kt)	881	863	867
Processing capacity (ktpa)	950	950	850
Ag avg. head grade (g/t)	494	558	603
Au avg. head grade (g/t)	1.1	1.2	1.2
Au production (koz.)	25.4	25.9	25
Ag production (Moz.)	10.8	12.6	13.4
Recovery rate, Au[1]	79%	80%	74%
Recovery rate, Ag[1]	79%	81%	80%

[1] *Technical recovery; includes gold and silver in the work-in-progress inventory (concentrate, precipitate).*



Dukat Mine Gold Production

koz.



Dukat Mine Silver Production

Moz.

In 2007 the Company instituted several new practices at the plant's industrial areas in order to increase the gold processing plant's production capacity to 1.5Mtpa. Assembly of a new grinding sequence began in 2007 and a new SAG mill is scheduled to go online in 2008. The two upgrades will increase ore processing capacity.

Completing this project will allow the Company to add 6Moz. of silver processing capacity to its annual rate and increase the recovery rate by 2.5-3%. The project is scheduled for completion in the fourth quarter of 2008.

In 2007 an automated management system was installed at the gold processing plant. The system has increased productivity and reduced expenses.

In connection with the expansion of ore processing capacity at the plant and the corresponding increase in tailings runoff from the processing plant, tailings impoundment #3 was readied for service. All excavation and insulation work for the first stage of the impoundment has been completed, the transformer substation has been modified, and a water drainage channel, a drainage pumping plant and a 2km pipeline have been built.

The impoundment station is scheduled to go online in 2008.

Silver processing at Dukat dropped by 15% in 2007 compared to 2006. The primary reason for the decrease was the anticipated reduction in silver recovery in the open pit mines. However, in the fourth quarter of 2007 silver content in processed ore substantially increased to 538g/t, which is close to the average reserve level of 543g/t.

In keeping with the Company's standards for publishing production results, production is calculated by shipments of dore bars and precipitate to refineries. Therefore, the 2007 results do not show all of the silver processed in the fourth quarter of the year. 0.6Moz. of silver processed in 2007 will be credited to 2008. This explains the decline in silver production in 2007 despite growth in content and processing volume.

Given the increase in silver prices, the Company is reexamining its cutoff grade policy and is considering reprocessing a large volume of ore with lower content after the first stage of its recovery center expansion goes online before mining begins on Dukat's Flanks.

"Preparation for the introduction of our new primary mill continued throughout the year. It required technical work and the assembly of new equipment and drainage systems. The mill is the heart of the factory and its installation was at the core of the plant's overhaul. Processing volumes will increase greatly because of the new mill."

Alexei Dudetsky
Processing Mill Mechanic
Magadan Silver

The Company plans to further expand processing volumes of ore with below average silver content reserves (543g/t) in 2008. Current high prices for precious metals should improve the cost effectiveness of mining and processing.

Lunnoye

The Lunnoye and Arylakh deposits are located in the Magadan Region. Lunnoye is located approximately 150km from the town of Omsukchan and its satellite mine Arylakh is 20km from Lunnoye.

The Lunnoye processing plant processes ore from both the Lunnoye deposit and the Arylakh deposit, as well as concentrate from Dukat. It uses agitated-tank cyanide leaching and the Merrill Crow process.

In 2007 most open pit mining at Lunnoye stopped. In the fourth quarter, frozen backfill from the open pit mine was used to eliminate operational expenses on water removal and reduce spending on transportation of waste rock.

A planned shift to the underground mining method is taking place; mining operations are expanding as new underground mine shafts are being built. According to the current development plan, work at Lunnoye will continue through 2025. The plan estimates that the underground mines will extract 150ktpa of ore when working at the designed capacity.

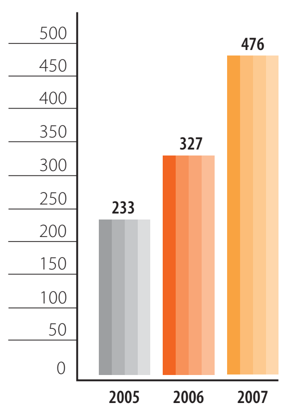
The phased expansion of the underground mines will allow for ore extraction at full capacity by the third quarter of 2008. The underground mines are expected to recover ore with a higher silver content than the average content of the reserves (347g/t). The plan calls for advancing trenching by 2,000m in 2008.

At the beginning of 2007 the Company began to process ore from Arylakh at the Lunnoye plant. Arylakh operates open-pit mining with a production rate of 150ktpa. In 2006 the Company completed the construction of a year-round road from Lunnoye to Arylakh and purchased a fleet of mining vehicles. Mining at Arylakh began in the fourth quarter of 2006.

Lunnoye Mine. Key Operational Indicators

Operational Indicator	2007	2006	2005
Ore mined (kt)	476	327	233
Ore processed (kt)	286	283	257
Processing capacity (ktpa)	300	300	300
Ag avg. head grade (g/t)	401	335	382
Au avg. head grade (g/t)	1.9	2.5	2.9
Au production (koz.)	17.2	21	25
Ag production (Moz.)	3.3	2.6	3.0
Recovery rate, Au[1]	88%	89%	90%
Recovery rate, Ag[1]	93%	93%	93%

[1] *Technical recovery; includes gold and silver in the work-in-progress inventory (concentrate, precipitate).*



Lunnoye Mine Ore Mining

kt

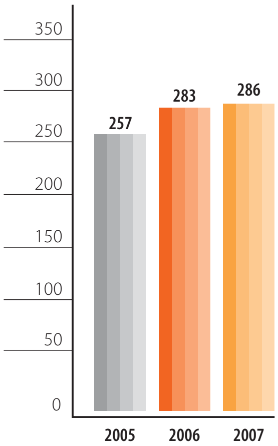
In 2007 the Lunnoye ore processing plant was upgraded to increase its recovery rate in order to accommodate the ore from the new underground mining operations. Additional cyanidation tanks (#8 and 9) were introduced to the plant in 2007, allowing the plant to increase the pulp's cyanidation time, which in turn improved recovery rates of precious metals. An experimental automated technical processes management system designed to increase equipment efficiency was introduced and is now being tuned and tested.

Work on the gold processing plant's hydraulic equipment was concluded, raising the level of the dam. The tailings impoundment now holds 150 cubic meters of mined rock. Preliminary work to build a new drainage system was also completed. These measures were intended to further develop the hydraulic equipment in connection with the expected increase in mining and ore processing from the underground mines.

The volume of ore processed in 2007 at the plant was 286kt, a 1% increase over 2006. The increase is related to a series of measures to improve the equipment readiness rate that were initiated in 2006 and completed in 2007.

Silver processing at Lunnoye increased from 2.6Moz. in 2006 to 3.3Moz. in 2007. Gold processing dropped from 21koz. in 2006 to 17.2koz. due to the diminishing quality of recovered ore. In the fourth quarter of 2007 most of the ore processed at the Lunnoye plant was mined at Arylakh. This explains the higher silver content and lower gold content in the processed ore.

The Company will continue to mine at Arylakh in 2008 and therefore this trend is expected to continue.



**Lunnoye Mine
Ore Processing**

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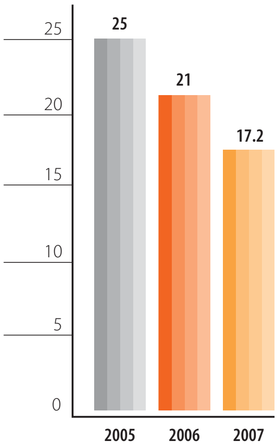
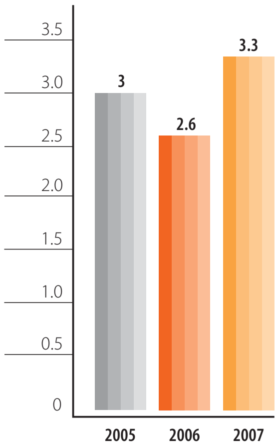


**Lunnoye Mine
Gold Production**

koz.



**Lunnoye Mine
Silver Production**

Moz.

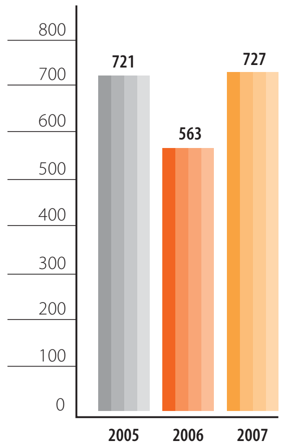
Khakanja

The Khakanja deposit is located in the Khabarovsk Territory, approximately 1,100km north of Khabarovsk and 480km west of the city of Magadan.

The Yurievskoye deposit, located approximately 60km from Khakanja, will be mined as a satellite operation starting in 2008 for three years. The Company plans to mine Yurievskoye using open pit methods to supplement production at the Khakanja gold processing plant.

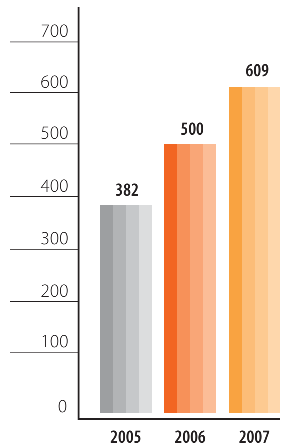
The Khakanja processing plant uses agitated-tank cyanide leaching and the Merrill Crow process. The plant produces zinc precipitate, which is then transported to the Krasnoyarsk refinery to be toll-processed into commercial gold and silver bars.

Three pits are planned at the Khakanja deposit. The central pit was the only source of ore until 2007, when the development of the southern pit began. Work on the northern pit is scheduled to begin in 2011. Work on the southern pit was started early to compensate for a decline in ore content from the central pit. According to the development plan, work at the Khakanja mine will continue through 2014 and will include open pit mining with an anticipated capacity of 500ktpa through 2008 and then dropping to 350ktpa starting in 2009. Underground production at a rate of 150ktpa at Khakanja is scheduled to begin in 2009.



Khakanja Mine Ore Mining

kt



Khakanja Mine Ore Processing

kt

As anticipated, in 2007 gold content at the deposit increased with the start of operations at the second pit. Further growth in gold content is expected in 2008. This will maintain the production volume of precious metals at their present levels.

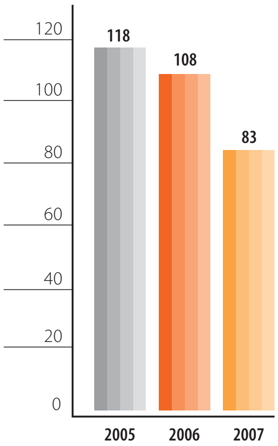
In 2007 the gold recovery rate was 94%, compared with 92% in 2006. This increase was due to the optimization of the gold processing plant's flow sheet and the modernization of both the reagent regime and the filtration unit.

In 2007 gold production at Khakanja dropped to 83koz., compared to 108koz. in 2006, because of a reduction in gold content in the ore. Silver production dropped from 2Moz. in 2006 to 1.7Moz. in 2007 for the same reason.

Khakanja Mine. Key Operational Indicators

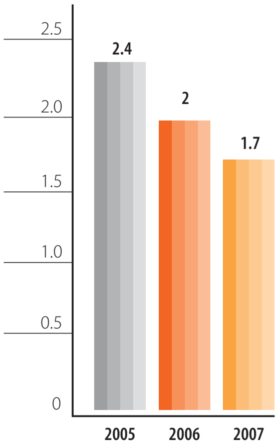
Operational Indicator	2007	2006	2005
Ore mined (kt)	727	563	721
Ore processed (kt)	609	500	382
Processing capacity (ktpa)	600	600	500
Ag avg. head grade (g/t)	177	259	389
Au avg. head grade (g/t)	4.5	7	9.9
Au production (koz.)	83	108	118
Ag production (Moz.)	1.7	2	2.4
Recovery rate, Au[1]	94%	92%	93%
Recovery rate, Ag[1]	49%	47%	51%

[1] Technical recovery; includes gold and silver in the work-in-progress inventory (concentrate, precipitate).



Khakanja Mine Gold Production

koz.



Khakanja Mine Silver Production

Moz.

"Accurate, carefully considered work by all the employees and divisions at Khakanja's open pits maintained a tight schedule throughout the year. The well-planned pace of drilling and excavation helped our miners over-fulfill their production goals."

Valery Chashchin
Superintendent of Open Pits
Okhotskaya Mining and Exploration Company

In order to prolong the mine's lifespan and further study Khakanja's potential mineral resources, the Company is conducting a systematic analysis of the deposit's near flanks on licensed sections acquired in 2007.

Construction of mine infrastructure and accommodation camp buildings at the Yurievskoye deposit was completed in 2007 and preparations to accelerate development have been made. Specifically, work to refurbish the temporary accommodation camp was finished and progress was made constructing maintenance facilities and engineering infrastructure. A winter road connecting the mine with the town of Okhotsk was built, and site roads, machine storage facilities and an explosives warehouse were completed. A helicopter landing pad and a diesel power station were also added.

The intense pace of work at Yurievskoye and the creation of an effective infrastructure in the shortest time possible have created the opportunity for the Company to begin processing ore with a high metal content (average gold content of 13.3g/t) at the Khakanja plant in 2008. The Company can now focus on the exploration of areas near Yurievskoye, including the Khakari (the Krasiviy zone) and the Yuzhno-Urakskaya licensed sites.

Over the next three years, the Company plans to mine and process up to 100ktpa of ore.

According to a plan to reduce expenses, starting next season all mining and transportation work on the site will be carried out by contractors. Ore transfer from Yurievskoye to Khakadja will also be outsourced.

Voro

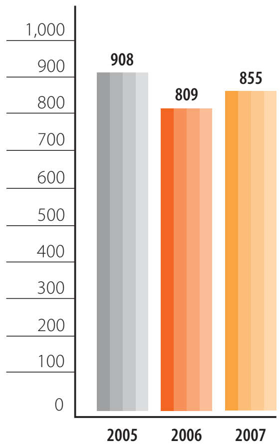
The Voro deposit is located approximately 450km north of the city of Ekaterinburg and 20km south of the city of Krasnoturinsk in the Sverdlovsk Region.

Voro contains both oxide and sulfide mineralization. The plant's current production capacity for primary gold-sulfide ore (using carbon-in-pulp, or CIP, technology) is 600ktpa. The reconstruction and modernization of this plant, scheduled for completion in 2008, will increase production capacity to 900-950ktpa by 2009. This will allow the Company to raise gold production to 5tpa by 2010.

The current production capacity for oxidized ore (processed using heap leaching and the Merrill Crow process) is 800ktpa.

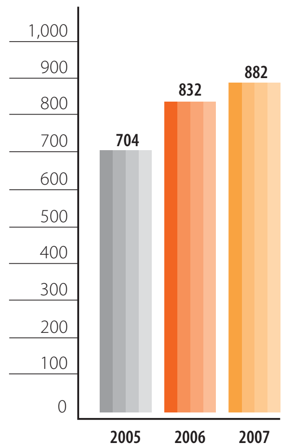
The Voro deposit is mined solely by open pit mining methods and this is expected to continue until the end of its mine life. Ultimately, two pits will be excavated at the mine: a deep pit to the north and a shallow pit to the south.

In 2007 mining work at Voro focused on developing the open pit in the north and northeast areas. The volume of mined and processed ore grew substantially in 2007 compared to 2006, allowing both plants to process better quality ore with higher precious metals content.



**Voro Mine
Ore Mining**

kt



**Voro Mine
Ore Processing (Heap Leach)**

kt

Over the course of the year, construction progressed on a water-lowering system of deep wells that will be used to keep the open pit areas dry as the mines go lower. This will help reduce operational expenses on blasting operations by reducing the use of water-resistant explosives.

In 2007 the Company began to develop the southern section of the Voro deposit. Exploration work was conducted to map the mine's contours.

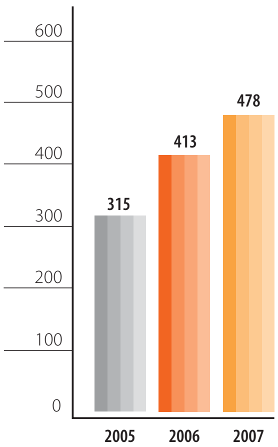
Goals for heap stacking oxidized ore were significantly exceeded. Previously stacked heaps were reprocessed using a walking dragline in order to recover additional precious metal volumes and free space for new heaps.

Gold production at the Voro deposit increased to 117koz. in 2007 from 101koz. in 2006 due to growth in the plant's output.

Voro Mine. Key Operational Indicators

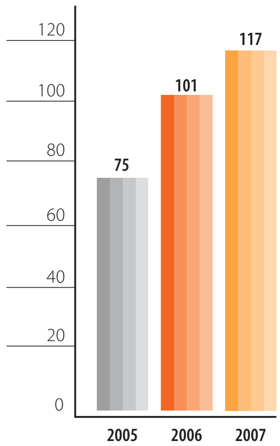
Operational Indicator	2007	2006	2005
Ore mined (kt)	855	809	908
Ore processed, oxidized ore (kt)	882	832	704
Ore processed, primary ore(kt)	478	413	315
Processing capacity (ktpa)	1,400	1,400	800
Au production (koz.)	117	101	75
Ag production (koz.)	71.3	82	56
Recovery rate, Au, oxidized ore[1]	69%	70%	66%
Recovery rate, Au, primary ore	80%	78%	74%

[1] *Technical recovery; includes gold and silver in the work-in-progress inventory (concentrate, precipitate).*



Voro Mine
Ore Processing (CIP)

kt



Voro Mine
Gold Production

koz.

In 2007 a series of measures were implemented at Voro within the framework of increasing the plant's production capacity for processing sulfate ore with CIP technology.

At the plant's CIP mill, construction work was completed to initiate a new flow sheet using a semi-autogenous grinding mill (SAG) instead of the expensive three-stage grinding process that was used earlier.

The introduction of the SAG mill with a production capacity of 900-950ktpa of ore in the first quarter of 2008 meant that the volume of processed sulfate ore with a lower gold content could increase.

In 2007 within the framework of this project, contracts were signed for all remaining equipment necessary to expand cyanidation, carbon movement management circuits and tailings filtration.

In 2007 automated systems controlling the CIP plant's production processes and monitoring energy use were installed, allowing the plant to stabilize its technical processes and reduce use of its main reagents.

Over the course of 2007 a program to control metal content was implemented. As a result the gold content in mined and processed sulfate ore increased by 7%, from 5.9g/t in 2006 to 6.3g/t in 2007. This happened in conjunction with the significant growth in processing volumes (up 16%, from 413kt in 2006 to 478kt in 2007) that was achieved when the plant was brought to full production capacity.

The plant's electrical and mechanical services have been outsourced as part of the cost-reduction program.

"Construction of a semi-autogenous grinding mill using CIP technology was the project of the year. The mill weighs more than 400 tons. It's almost unbelievable that a single person can operate such a massive machine! This mill's introduction represents a qualitatively new level for our plant and has helped us increase our production volumes."

Yuri Brazhnikov
Hydrometallurgical Mill Mechanic
Gold of Northern Urals

Exploration

Strategy

In 2007 Polymetal's Board of Directors outlined a strategic plan to develop the Company's mineral resource base through 2010. The Company plans to increase its mineral resources from 7Moz. to 12Moz. of gold and from 300Moz. to 800Moz. of silver by the end of 2010 using in-house exploration campaigns and acquiring new assets.

The Company's exploration campaigns in 2007 had the following two goals:

- Uncovering additional mineral resources at existing mining units in order to prolong their long-term production prospects. Exploration was conducted in the near flanks of existing sites.

- Discovering mineable ore deposits of precious metals at other sites in order to provide the Company with new production assets.

New prospective areas for licensing and exploration are selected by constantly assessing available geological information. In addition to its portfolio of exploration projects that added 11 licenses in 2006, Polymetal subsidiaries acquired six licenses for exploration and mining of precious metals in 2007. The new sites are located in Magadan Region, Khabarovsk Territory and Krasnoyarsk Territory. These new licenses were part of the Company's strategy to conduct exploration campaigns in order to increase existing units' mineral resources base and develop new stand-alone projects.

In 2007 the Company conducted exploration campaigns to secure its mining licenses at 15 licensed areas (excluding work done within the framework of the AngloGold Ashanti Strategic Alliance), covering a total area of more than 5,500 sq. km.

The search for and development of deposits is conducted by the Company's specialized exploration subsidiaries located in the Urals and Russia's Far East, as well as in Krasnoyarsk Territory and the Chita Region. During the reporting period, the Company founded Penchenga Gold, a specialized exploration company, to search for new deposits in the Krasnoyarsk Territory within the framework of the Strategic Alliance with AngloGold Ashanti.

The Company's exploration campaigns in 2007 included stand-alone projects and projects within the framework of regional programs.

Stand-Alone Exploration Projects

Galka

The Galka project is located in the Karpinsk district of the Magadan Region, approximately 20km from the town of Karpinsk and 40km west of the Voro deposit. The Company acquired an exploration license for the 3.5 sq. km area in 2006. The exploration campaign in the area was initiated based on the Company's belief that there was a mineable ore deposit containing gold, silver and polymetallic ore.

The site's 2006-2007 exploration program proved the Company's forecasts correct. Two flats containing gold, silver, copper and zinc ore, each dozens of meters in depth, were discovered. The gold content in the ore body ranges from 1-5g/t, the silver content ranges from 30-180g/t, the copper content is 0.5-5% and the zinc is 1.2-15.6%. In May 2007 an audit of the deposit's mineral resources based on the current level of exploration was conducted. **The audit confirmed 590koz. of gold, 15.4Moz. of silver and 176kt of zinc at the deposit.**

Additional exploration work from May to December 2007 led to a substantial increase in the estimate of the deposit's resources. According to Polymetal specialists, the site's mineral resources could increase by 1.5 to 2 times. An international JORC Code audit of mineral resources and ore reserves at the Galka deposit is planned for the end of 2008.

The Company is planning to confirm the Galka deposit's reserves at the State Committee on Reserves in October or November 2008 in order to convert the exploration license into a mining license to develop the deposit.

Albazino

The Company acquired the Albazino deposit in July 2006. Polymetal holds a license to explore and mine for gold in an 82 sq. km area at the site through January 1, 2015.

The deposit is located in the east of the Khabarovsk Territory in the Polina Osipenko administrative district. The district, which has a low level of economic development, is 500km from the city of Khabarovsk. Transportation access is seasonal. In the summer it can be reached from Khabarovsk by traveling along the Amur and Amgun rivers to the port of Oglongi and then along a 110km temporary freight road. In December-March, there is a functional winter road stretching 300km to the Solnechny railroad station.

When the Albazino deposit was acquired, its confirmed gold mineral resources were approximately 10 tons. As a result of the Company's exploration campaigns carried out in 2006-2007 (including 33,758m of drilling), the Albazino deposit is now classed as a large mineable deposit. The deposit's mineral resources increased significantly and, according to an audit performed at the end of 2007, contain:

Category	Ore, kt	Au, g/t	Gold, koz.
Measured+ Indicated	11,900	5.42	2,073
Inferred	1,163	4.46	167

Note (1). JORC Code audit by Snowden Mining Industry Consultants in December 2007

During the reporting period, exploration was started along the Albazino deposit's flanks. As a result of deep geochemical searches and trenching, three perspective mineable gold ore bodies were found in the area. The Company believes that the deposit's mineral base could realistically be expanded to 3.0 to 3.2Moz. of gold by the end of 2008. By the time the processing plant goes online at the end of 2010, the Company expects to increase the ore base to 5-6Moz. of gold.

The site's morphological characteristics (wide, shallow ore zones with access to the ground surface) suggest that open-pit mining will be practical. Annual production is estimated at up to 1.5Mt of ore with an average gold content of 5.0-5.2g/t. The deposit's ore is refractory. Trial samples taken for processing in 2007 indicate a high gold extraction rate can be achieved using flotation processing and pressurized oxidation technology. The Company plans to complete the processing plant's design stage in 2008 and to begin industrial development in 2010.

Dukat Flanks

The license to explore, develop and mine gold and silver at the Dukat ore field (40.6 sq. km) was acquired by the Company in October 2006. Exploration campaigns began in the licensed area in 2007 (9,865m of drilling) to uncover new silver deposits with reserves that would add to the mineral base of the Dukat processing plant within the framework of the planned 50% increase of the plant's annual production capacity.

During the reporting period, the Company received encouraging geological results from the Nachalnoye 2 area, located 2km south of the Dukat mine. A silver deposit was discovered as a result of exploratory drilling at the site in 2007. Silver metallization is localized in pipes and lens-shaped steep-grade ore bodies located 150-250m below the surface. The width of the ore bodies ranges from 4-13m.

At the end of 2007 a JORC Code audit of Nachalnoye 2's mineral resources was conducted. **It established 340kt of ore and 4.6Moz. of silver with an average content of 339g/t at the deposit.**

The Company plans to begin development of the Nachalnoye 2 deposit in 2009. Ore from the site will be processed at the Dukat plant.

In 2008 exploration campaigns will continue along the flanks of the Dukat deposit, with 15,000m of exploratory drilling.

Reftinskaya Zone

The site is located in an economically developed area 80km northeast of Ekaterinburg, the administrative center of the Sverdlovsk Region.

The licensed section is localized in a regional fault zone covered with tectonic plates with widths of up to 250m. In this tectonic zone, there are multiple veined gold ore bodies in the rock and stretched ribbons of oxidized gold ore in weathered surfaces. Estimates based on previous exploration work suggest that the 5km tectonic zone covered in the license potentially contains a deposit with 1.9 to 3.2 Moz. of gold.

In 2007 the Company completed the first stage of exploration work, aimed at evaluating the scale of gold mineralization in the weathered surfaces. Drilling with spacing of 100-2000x10-25m and well depths of up to 50m uncovered stretched ribbons of oxidized gold-bearing ore with widths of 3-15m and depths of up to 35m. The average gold content in the ore bodies is 2.5-3.5g/t. According to the technical experiments on the ore, it is amenable to heap leaching. According to the Company's preliminary data, the gold mineral resources in the oxidized ore are evaluated at 190-300koz. Economic evaluations have established that open-pit mining of the oxidized ore reserves will be profitable and call for extracting the gold by heap leaching on location. The Company plans to continue the second stage of its exploration campaigns, which is aimed at rating the scale of gold mineralization in the primary ore.

"The Urals offer a difficult geological cross-section that looks like a layer cake. The difficulty of exploring them is compounded by the fact that the Company's licensed areas in the Sverdlovsk Region are hard to reach. But thanks to new technology and cutting-edge equipment, we were able to retrieve extremely high-quality core samples. By analyzing them, our geologists will be able to judge ore content and confirm reserve levels. Besides, looking for easy-to-find gold just isn't as exciting."

Ivan Ansimov
Superintendent of Drilling
Northern Urals Exploration

Regional Exploration Programs

In 2007 the Company updated its regional exploration programs, which lay out plans for exploration and prospecting on the Company's licensed mining territories. The goal of these regional programs is to create a future ore base of precious metals to compensate for the depletion of reserves mined from Company operations. They will also help increase the productivity of the Company's mining operations and justify new production assets that take full advantage of existing infrastructure.

At this time there are three regional exploration programs: the Northern Urals Regional Program in the Sverdlovsk Region, the Dukat Regional Program in the Magadan Region and the Okhotsk Regional Program in the Khabarovsk Territory. According to historical exploration and Polymetal's in-house data, these regions have a high likelihood of containing industrial-class gold and silver deposits.

The Company expanded its areas of operation on the territories of its regional programs in 2007. It received mining permits in an additional six licensed sections, covering a total area of 2,950 sq. km.

Northern Urals Regional Program

There are four exploration areas (Rudnichniy, Katasma, Volchanskii and Tamunyerskii), all located between six and 220km from the Gold of Northern Urals mining unit at the Voro deposit. The Company's exploration work in 2007 concentrated on the Katasma and Rudnichniy areas.

Rudnichniy Area. This site is located 2-4km from an active open pit at Voro. During the reporting period, small prospect mapping drill holes were made at Rudnichniy to study the gold content of its weathered ore. Three possible ore deposits with weathered ore were established, with expected gold resources of 96-128koz. Appraisal drilling at these prospective areas will be conducted in 2008. If the results are encouraging, these ore bodies could supply the heap leaching facilities at the Voro processing plant for two to three summers.

Katasma Area. This area is located 20km south of the Voro deposit. In 2007 geophysical samples were taken and structural wells drilled to clarify the area's geological features. The wells revealed ore veins with mineable gold content. The prospects of the industrial development of this gold deposit have not yet been confirmed.

Volchanskii and Tamunyerskii Areas. The licenses for these areas were acquired by the Company in the first half of 2007 and the Company approved an exploration plan by the end of the year. According to Company estimates, these areas have promising geological conditions for the discovery of new gold deposits with mineral resources of 1.0-1.5Moz. The ore could be processed using the technology available at the Voro processing plant.

Dukat Regional Program

This program calls for exploration in the central and northern sections of the Balygychano-Sugoisky depression, including investigation of the area's geological structure and metallogenic concentrations of gold and silver. The Company's Dukat, Lunnoye and Arylakh deposits, which are currently being exploited, are all within this territory. Historically this territory has been rich with mineralization containing high gold and silver content and still contains many promising sites with mineable ore content.

Polymetal holds exploration licenses for two sections of mineralization: the Dukat Prospective Area (2,420 sq. km) and Rogovik Prospective Area (397 sq. km). The Company plans to significantly increase its exploration campaigns in the region in 2008-2009 and is currently conducting in-house geological surveys in order to identify new sections for licensing.

In 2007 the bulk of drilling (8,849m) at the **Dukat Prospective Area** was used to assess the silver ore prospects of the Pereval area. This site is located 30km to the northeast of the Dukat processing plant. In 2007 bore wells were drilled in the area to a depth of 150m to establish the silver mineralization in the steep-grade tectonic structure covered by igneous-sedimentary rock. A network of 50x100m of wells uncovered a 350m ore vein in the structure that contains mineral resources preliminarily estimated at 24Moz. of silver with a content of 450g/t. "Blind" ore bodies have been established at a depth of 150-280m from the surface, with widths of 10-14m. In addition to silver, lead (3.2%) and zinc (2.8%) have also been identified in the ore bodies. The strike length and the depth of the ore have yet to be established. In 2008 the Company plans to continue exploration work, drilling 22,000m along the vein of the ore-bearing fault that was traced from the drilled section along a 5.2km section. Forecasts suggest that the Pereval deposit's reserves could grow to 50-60Moz. of silver.

"How can we find something interesting on a territory that's already been explored? It's not a secret. The most important elements in modern exploration are implementation, qualifications, professionalism and the willingness to utilize new technology, approaches and solutions. We create and apply new models based on geological advances that have developed in recent years. This helps us find promising sections on areas that have already been explored multiple times."

Saniya Gorshkova
Engineer-Geologist
Dukat Exploration

The license for the **Rogovik area**, which the Company acquired in 2007, significantly expands the Company's prospective mineral ore base in the region. The area is located 220km north of the Dukat deposit.

As a result of earlier exploration campaigns, government geologists estimate the area's gold ore potential at 3-4Moz. In 2007 the Company conducted reconnaissance work at a section of the Rogovik area, including geochemical investigations and large scale geological surveying. Initial indications suggest that the earlier forecasts are accurate. In 2008 the Company plans to begin more comprehensive exploration of the area.

"Exploration is a living, constantly changing job that doesn't ever get routine. It means nonstop searches using new solutions and ideas. In 2007 we were able to lower the cost of drilling per meter thanks to the effective use of our drilling and support equipment."

Alexei Seredov
Integration Engineer
Georazvedka

Okhotsk Regional Program

This program aims to develop the gold ore potential of the Okhotsk District in the Khabarovsk Territory in order to reinforce the long-term mineral base for the Company's mining units that are processing reserves at the Khakanja and Yurievskoye deposits. More than 50 prospective gold ore occurrences have been identified in the district. Exploration work was stopped last century during the prospecting stage due to the difficulty of accessing the territory. However, the infrastructure developed by the Company to access the Khakanja and Yurievskoye deposits now permits it to effectively and rapidly implement the regional exploration program.

In 2007 the Company significantly increased its area of operations in the district by acquiring three new licenses to explore and mine gold ore, covering a territory of 2,500 sq. km. Plans for exploration campaigns have been prepared for the new sections and they have already been approved by state regulators.

The Company plans to start prospecting in the Okhotsk district in 2008. Eight prospective ore occurrences have been identified for the initial geological assessment. They are located within a radius of 30-50km from the Khakanja and Yurievskoye deposits that are currently under development. During the first stage of prospecting in 2008, a significant number of geophysical surveys (covering more than 500km) are planned using ground crews and helicopters. 27,000 cubic meters of trenches and 9,500m of drilling are also planned. If the results are encouraging and suggest new gold deposits, the program calls for increasing the volume of drilling in 2009 to 45,000-50,000m.

The Company spent a total of $27 million on exploration campaigns in 2007 for both freestanding projects and regional programs. 96,100m of prospecting and exploration wells were drilled under the Company's exploration programs. As a result of exploration work in 2007 the Company's mineral resources increased by 1,799koz. of gold and 20,037koz. of silver.

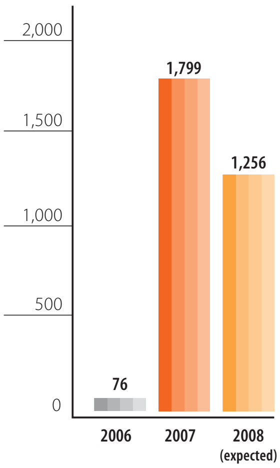
In 2006 the Company decided to create specialized exploration units and committed the necessary financial and technical resources in order to increase the effectiveness of its exploration activities.

Exploration Work for the Strategic Alliance with AngloGold Ashanti

Polymetal's Strategic Alliance with AngloGold Ashanti, a world leader in gold production, aims to develop gold ore projects through exploration, development and the acquisition of deposits in Siberia and Russia's Far East.

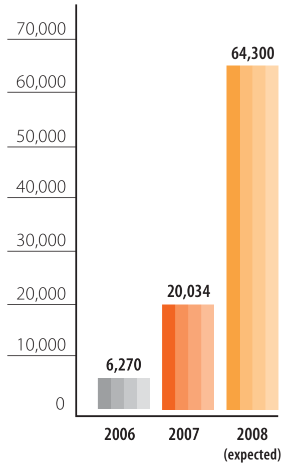
In February 2008 a deal was signed that created Zoloto Taigi, a joint venture. Both members of the alliance contributed assets and received a 50% stake in the new company. Polymetal contributed two exploration projects: the Anenskoye deposit (Krasnoyarsk Territory) and the Aprelkovsko-Peshkovskii unit (Chita Region). AngloGold Ashanti contributed the Veduga field and its Bogunai exploration project, both of which are in the Krasnoyarsk Territory. The total value of assets contributed by Polymetal and AngloGold Ashanti to the Strategic Alliance was $56 million.

The equitable partnership will allow both Polymetal and AngloGold Ashanti to maximize the strengths that each company brings to the alliance. Polymetal has the necessary skills and knowledge needed to



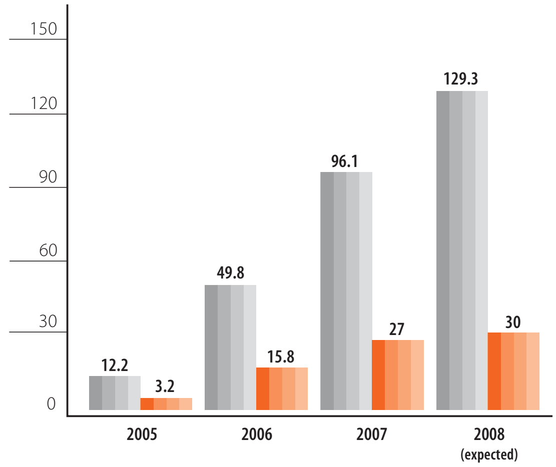
Polymetal Gold Resources 2006–2008

koz.



Polymetal Silver Resources 2006-2008

koz.



Investment and Drilling Volume for Exploration

Drilling (km)
Investment ($ mln)

successfully develop large precious metal projects in Russia. AngloGold Ashanti brings its experience in exploring and developing deposits around the world, as well as its world-class technical innovations.

In 2007 the Strategic Alliance's exploration work focused on developing existing sites, as well as the search for new sites and identifying their potential. Polymetal invested a total of $4.1 million into the alliance's exploration work (not including acquisitions).

Polymetal believes that most developed project within the framework of the alliance is the Veduga deposit. This deposit's JORC Code-certified resources are valued at 2.8Moz. (with a gold content of 5.3g/t).

Exploration work in 2007 was conducted to identify additional ore reserves. Drilling at prospective areas was conducted within the borders of prospecting territories delineated with interpretations of Spectrem arial electromagnetic photographs and other field data. In total 12,326m of exploratory drilling was conducted in the mining allotment, of which 5,714m fell within the borders of the exploration territory. In 2008 this work will continue.

Financial modeling based on the February 2007 resource model was made using a variable plan for mining work and different versions of processing the ore. The model will optimize the economic results of this project. As a result of exploration, 500koz. of gold was added to existing volumes of recoverable reserves.

Reserve levels also grew thanks to exploration of the eastern and southeastern sections of the Veduga mining allotment, where several intersections with high gold concentrations were found. In 2007 mineable resources grew by approximately 120koz., with an approximate gold content of 8g/t. There are 200-300koz. in new resources. An updated audit of reserves and resources (corresponding to Russian assessments and the JORC Code) will be released in the first half of 2008. This document will take into account all results from sample analyses taken from all new intersections through December 31, 2007.

The Company believes that the area's well-developed power grid, the growth in reserves and the high price of gold, together with innovative development strategies will assure a good level of profitability at Veduga.

Work at the Aprelkovsko-Peshkovskii deposit in 2007 included 3,560m of exploratory drilling and 2,819 auger holes. A geophysical and geochemical program was developed in order to get reliable data from across a 191 sq. km area. In November 2007 the Company submitted a request to extend the license's term for another three years.

At the Anenskoye deposit in 2007 Polymetal converted its exploration license into a comprehensive license after uncovering exploitable reserves. The Company spent $0.65 million to convert this license. This money was compensation to the government for state-sponsored exploration of the area between 1935 and 2003. The new license gives Polymetal the right to prospect and mine gold ore at the Anenskoye deposit through December 31, 2027.

In October 2007 Polymetal subsidiary Penchenga Gold (which was transferred to the joint venture with AngloGold Ashanti after the venture's establishment) won an auction for the right to a license to explore, prospect and mine gold ore at the Sovremennyi area in the Krasnoyarsk Territory, 350km north of Krasnoyarsk.

There are four gold ore project sites at Sovremennyi, with projected gold reserves estimated at 1.3Moz. The ore bodies' widths range from 1-7m, with gold content ranging from 1-12.9g/t. The acquisition of the Sovremennyi site was a key contribution to the Strategic Alliance, as its proximity to the Veduga deposit will create logistical and technical synergies in the region.

Currently a geological and environmental development plan is being finalized and will be submitted to regulatory authorities. Exploration work is planned for 2008 in order to establish a more accurate evaluation of the entire licensed area's prospects. This will help concentrate the Company's work on promising zones while allowing it to avoid already discovered occurrences. The Company will conduct geochemical testing and trenching at known gold occurrences.

In 2008 the alliance plans to continue exploration, as called for in the development plan. Most of the work will be focused in the Krasnoyarsk Territory, where drilling will be used at existing sites to continue analysis and to rate the prospects of new sites.

The Company's shareholders are planning to invest approximately $15 million into the Alliance's exploration work in 2008, not including the costs of any acquisitions.

Expansion Projects

Albazino

Status	Feasibility Study prepared in June 2008
Source of ore	Albazino deposit
Scope	Flotation concentrator, POX facility, infrastructure
Capacity of the flotation concentrator	1,500kt per annum
Capacity of the POX facility	150kt per annum
Contribution, gold	150-230koz. per annum
Total capex	$219 million
Expected completion	4Q 2010

Albazino is Polymetal's most advanced greenfield project and perhaps the most exciting project in the Company's pipeline. When Polymetal acquired it in July 2006, it was just a small deposit with unknown upside. By November 2006, it had established JORC Code-compliant resources of 1.1Moz. of gold. Over the next 12 months, this number doubled without compromising the grade. Moreover, to date it appears that the ore is fully accessible via open pits. Even though Polymetal expects to hit the 3Moz. target by the end of 2008, the existing reserves are already sufficient to justify starting construction of both the mine and processing facilities. Given that the current reserves are from only two out of eight identified ore bodies, the Company believes Albazino shows excellent potential to become a world-class asset with 5-6Moz. of gold.

Due to its remote location and refractory nature, Albazino mineralization will be concentrated on site and transported 680km along the Amgun and Amur Rivers to Amursk, a city with developed transportation and energy infrastructure. A pressure oxidation (POX) plant will be located in Amursk. The selection of Amursk is also a strategic move. Given the extensive practical applications of POX technology and the fact it has never been used for gold processing in Russia, Amursk could become a regional hub for processing various refractory concentrates from different locations across Russia's Far East and, potentially, China's northeast.

In the second half of 2007 the Company selected land plots in Amursk for both a concentrate stockpile/overload warehouse and the POX facility and received approval from local authorities. In December 2007 a long-term land lease agreement was signed between the Amursk municipality and Polymetal.

In 2008 the project's feasibility study was prepared and all permitting procedures are planned to be completed by February 2009. Construction is scheduled to begin in early 2009 and the first gold pour is expected by the fourth quarter of 2010.

Dukat

Status	Under construction
Source of ore	Dukat Flanks, stockpiles
Scope	Flotation concentrator
Capacity before expansion	900kt per annum
Capacity after expansion	1,500kt per annum
Contribution, silver	5-7Moz. of per annum
Total capex	$50 million
Expected completion	4Q 2008

Dukat is one of the largest primary silver deposits in the world. It consists of more than 85 ore bodies that are physically located within the limits of a single mountain. While this mountain was extensively explored by Soviet geologists (with underground development at Dukat exceeding 100km in length), the surrounding flat terrain was virtually ignored because its exploration required usage of drilling rigs that were not available at that time.

Polymetal licensed the area in 2006, at a time when exploration was being reemphasized as part of its corporate strategy. Polymetal identified several promising targets and started drilling at some of them. In December 2007 the Company published the first JORC Code-compliant resource numbers verified by an independent auditor for one of these targets, Nachalnoye 2, located only 1.2km from Dukat open pit. The results are testimony to both the success of the Company's exploration strategy and the high overall potential of the Dukat Flanks. Polymetal expects to publish maiden resource statement for another target, Perevalnoye, in December of 2008.

Based on an expected reserves increase, the Company decided to expand the capacity of the Dukat processing plant by introducing additional SAG and ball mills, as well as a new flotation section. Plans were made to expand flotation section and to build a new tailings impoundment. In 2007 the SAG mill was erected and flash flotation and tailings impoundment were both commissioned. The project was 70% complete as of December 31, 2007, and Polymetal is confident that the new capacity will be commissioned in December 2008.

The resulting silver production growth during 2009-2011 is expected to be linear due to build-up of grades as the expanded processing plant will first be fed by lower-grade ore stockpiles and then gradually shift to higher-grade Dukat Flanks ore.

Voro expansion

Status	Under construction
Source of ore	Re-optimized open pit, stockpiles
Scope	CIP plant
Capacity before expansion	450kt per annum
Capacity after expansion	900-950kt per annum
Contribution, gold	35-50koz. per annum
Total capex	$25 million
Expected completion	1Q 2008 (1st stage), 4Q 2008 (2nd stage)

The Voro expansion project started in 2006, when higher assumptions for the price of gold made the re-optimization of the Voro open pit feasible. The new design calls for a wider and deeper pit to access an additional 0.5Moz. of gold reserves in primary ore. To fully exploit the economic benefits from these reserves, the Company decided to expand Voro's carbon-in-pulp processing plant. The project involves de-bottlenecking the comminution area and installing additional leaching and filtration capacity.

During 2007 all detailed design and permitting were completed and all key equipment was tendered for and contracted. The SAG mill was commissioned in the first quarter of 2008, while leaching tanks and filter-presses are expected to arrive on site and be commissioned by year-end. Ramping up of the expanded plant will take place in 1Q 2009 and the expansion will reach full capacity in 2Q 2009.

Kubaka

Status	Feasibility Study prepared in March 2009
Source of ore	Birkachan, Oroch
Scope	Re-optimized pit, Heap leaching facility
Capacity	850ktpa CIP, 3 Mtpa heap leach
Contribution, gold	150-250koz.
Total capex	$60 million
Expected completion	2Q 2010

In October 2007 Polymetal announced the acquisition of the Kubaka deposit. For many years, this was the largest gold producing mine in Russia. However, by 2006 it was largely depleted and mothballed. In the second quarter of 2008 the Company consolidated 100% ownership in this promising asset.

The Company's excitement about this project stems from three sources. First, it obtained Kubaka's mining and processing infrastructure (including 850kpta CIP processing plant, water treatment plant, two power plants, maintenance facilities, man camp, assay laboratories etc.), which is in excellent condition, for just a fraction of its replacement cost. Second, the Company strongly believes in the geological potential of the Magadan Region and the particular area in which Kubaka is located. Finally, Kubaka creates synergies with Polymetal's existing businesses since it can leverage its technological, logistical and human infrastructure in the Region.

After the acquisition, the Company focused its attention on Birkachan, the closest deposit to the processing plant and the most promising area in the Kubaka licensed area. An extensive exploration program has already been outlined, including 7,200m of diamond drilling aimed at establishing enough reserves to justify the reopening of the processing plant by 2010.

Additionally, Polymetal Engineering is investigating the possibility of seasonal heap leaching of low-grade Birkachan material. This process was not considered economically feasible by the previous owner but, given high gold prices, it may be justified. Technical analysis will be conducted on site in the summer of 2008 and the study results will be released in the third quarter of that year.

Capital Expenditures

In 2007 the Company's capital expenditures on its primary activities were $115.7 million.

Capex in 2007 was primarily directed at development projects at active production sites to increase production volumes, exploration work in order to replenish reserves and prolong the life-of-mine status at production sites (including newly acquired sites) and the development of promising new projects.

Development Projects

$6.1 million for the Central Mine project at the Dukat deposit. This project optimized the ore delivery system to increase the volume of underground mining and ore recovery. Work was completed on tunnels for the electric haulage of ore. Work was also finished on the construction of specialized facilities for the central transportation tunnel of the underground mine and of unloading facilities for mine cars.

- $3 million to acquire and assemble two new sand flotation cells and to renovate supporting equipment in order to increase precious metal extraction rates at the Dukat processing plant in Omsukchan.

- $6.7 million on the construction of a second grinding chain at the Dukat processing plant in Omsukchan. This included an ore-receiving bunker, a tunnel for a conveyer to transfer the ore into the main building, renovations to the main building and the addition of a semi-autogenous (SAG) mill. New equipment necessary for optimizing the plant's production was also acquired.

- $10.6 million on the construction of tailings storage facility #3 at the Dukat deposit, which allowed for uninterrupted stacking of production waste during the 2007-2008 winter. This facility is expected to remain in operation until 2010.

- $7.1 million to develop underground mines at the Lunnoye deposit.

- $2.5 million on the reconstruction of cyanide leaching facilities at the Lunnoye processing plant to increase its silver recovery rate. The plant also processes concentrate from the Dukat deposit.

Polymetal's 2007 Capital Expenditures

Target of Capital Expenditures	Size of Capital Expenditure	Total Polymetal Expenditures
Development Projects		**$61.1 million**
Dukat	$38.7 million	
Albazino	$12.8 million	
Voro	$9.6 million	
Maintenance		**$24.6 million**
Dukat and Lunnoye	$13.6 million	
Voro	$4.2 million	
Khakanja	$6.8 million	
Exploration		**$27 million**
Dukat Regional Program	$10.5 million	
Northern Urals Regional Program	$7.3 million	
Okhotsk Regional Program	$5.1 million	
Exploration as part of the Strategic Alliance with AngloGold Ashanti	$4.1 million	
Capitalized Interest		**$3 million**
TOTAL		**$115.7 million**

• $2.7 million on the reconstruction of a tailings storage facility at the Lunnoye deposit and preparation work for the assembly of a new drainage system to further develop the site's hydrotechnical facilities. This work was related to the anticipated start of mining and processing of ore from underground mines.

• $7.4 million to increase capacity at the Voro processing plant to 900-950kt of ore annually. Part of the processing plant's equipment was reconstructed, and a new filtration facility and leaching complex were built. Part of this budget was spent on the construction and equipping of a SAG mill, a storage facility for roughly crushed ore and a compression station.

• $1.4 million for a mine drainage project at the Voro deposit (construction of de-watering holes, pumping wells, inner-mine extensions and a northern drainage ditch using both a gravity pipeline and a pressurized pipeline). This will help keep the mines free of ground water.

• $0.8 million to finish construction of the second stage of the Voro processing plant and modernize the infrastructure at the production site.

• $12.8 million to prepare the Albazino deposit for development. This sum includes prepayments to contractors to purchase materials and equipment needed to build the processing plant and conduct expedited exploration of the deposit's central zone. As a result of the exploration work performed in 2006-2007, Albazino is now classified as a large mineable deposit.

Maintenance

• $3.4 million on construction of facilities at the Yurievskoye satellite deposit in order to initiate industrial mining and ore transfer to the Khakanja processing plant (including a winter road and ice fords to transport ore across the Urak and Okhota rivers).

• $1.1 million to build infrastructure (an explosives warehouse, a maintenance section, machine storage facilities, an ore-transfer warehouse and a fuel storage area) and a temporary accommodation camp to service the Yurievskoye deposit.

• $2.3 million to modernize the first stage of the Khakanja processing plant.

• $13.5 million to equip the Dukat, Lunnoye and Voro deposits for open pit mining.

• $4.3 million to equip the Dukat deposit for underground mining work.

Exploration

• $12.2 million invested into exploration work to replenish the resource base of functioning Company units within the framework of its regional exploration programs. Of that sum, $4.1 million was spent to implement the Dukat Regional Program (at the Dukat Prospective Area and the Rogovik), $3 million on exploration of licensed areas surrounding the Voro deposit and $5.1 million to implement the Okhotsk Regional Program (including preparation work for sections acquired in 2007).

• $10.7 million was spent on stand-alone exploration projects to find mineable deposits of precious metals that will form new production assets for the Company. Of that sum, $6.4 million was invested in exploration of the Dukat deposit's flanks, resulting in the discovery of the Nachalnoye 2 silver deposit. $4.3 million was invested in the exploration of the Galka deposit.

• $4.1 million was spent on exploration and the development of licensed sections within the framework of the Company's Strategic Alliance with AngloGold Ashanti.

In 2008 approximately $136 million is earmarked for Polymetal's capital expenditures.

The funds will be primarily targeted at exploration, development projects and maintenance. Approximately $30 million will be spent on exploration, including $5 million at the Albazino deposit to expand its resource base. Around $10 million will be used to explore the Dukat deposit and the Rogovik site acquired in 2007, within the framework of the Dukat Regional Program. $7 million will be used for exploration of new territories in the Khabarovsk Territory (the Okhotsk Regional Program) and $8 million will be used for exploration within the framework of the Northern Urals Regional Program.

The Company plans to spend approximately $76 million to implement development projects. $15 million will be spent to finish the project that will expand the capacity of the Dukat processing plant to 1.5Mt annually. Around $17 million is budgeted to complete the project that will increase the Voro processing plant's capacity to 900-950kt annually, while $39 million will be spent to build a production area and the first stage of a plant at the Albazino deposit. $5 million will be spent on exploration, technical surveys and preparation for the reactivation of the Kubaka deposit's plant.

The Company also plans to spend approximately $30 million on maintenance work in 2008.

Engineering and Innovation

One of Polymetal's key competitive advantages is its in-house engineering center Polymetal Engineering. The center conducts the full cycle of work related to developing subsoil deposits, including studying ore's concentration, selecting optimal refining technologies and designing mines and processing plants. Polymetal Engineering is a leader on the Russian market for developing processing technology and detailed engineering plans for mining ore deposits of precious, ferrous and nonferrous metals and gems.

In 2007 the Company employed 108 highly qualified specialists with experience in implementing large-scale mining projects.

Polymetal Engineering has gained its knowledge by implementing projects to develop precious metals deposits in several Russian regions. The projects involved a variety of technologies for mining and processing ore. This experience allows the Company to use real-time information with constant updates from the project participants throughout the engineering process. Polymetal Engineering specialists play an active, direct role in bringing plants online and monitoring their design performance during the test stages. They also supervise the implementation of technical and design solutions, allowing investment projects of any difficultly level to be implemented on a tight schedule.

The ability to create technical surveys and design work using the Company's in-house services and to maintain control over all stages of a project's implementation has several benefits. The Company can select the optimal technology and equipment and accurately evaluate reserves while accounting for the specific natural conditions of each site. Using this information, Polymetal conducts a detailed, three-dimensional analysis of infrastructure and environmental conditions to put together a balanced capital expenditure plan. Ultimately, relying on in-house design and innovative solutions while maintaining strict control over capital expenditures leads to a significant reduction in production costs and an increase in production efficiency.

During the reporting period, Polymetal Engineering provided the Company's production units and third-party organizations with reports containing relevant design and technical documentation that helped them effectively solve difficult issues concerning the construction and exploitation of deposits in current market conditions. In the long-run, this expertise will help Polymetal to join the ranks of the world's top mining companies.

In 2007 the Company developed technical documentation for 79 development sites and worked on 43 projects that were in the technical and economic assessment stage. Company specialists carried out 84 scientific research projects, developed eight operational procedures for engineering work and wrote two sets of technical instructions.

The bulk of the Company's work in 2007 was focused on developing raw data for the Albazino gold mine project. The first step was to conduct a technical analysis of the ore. A series of lab tests was performed using gravitation and floatation processing, and then a pilot flotation unit was created to hold experiments. The test results were used to develop the technical requirements for the processing plant at Albazino.
In order to develop the appropriate pressurized oxidation (POX) technology for the recovered refractory concentrate, a pressure unit was produced and the corresponding lab tests were conducted. The data was used for test trials of POX technology preformed by SGS Lakefield Research Limited (Canada). Refractory concentrate samples of Albazino ore from the pilot flotation unit were sent to SGS.

The Company is perfecting new methods of technical trials for the hydrometallurgical processing of nonferrous metal ore such as copper and nickel. In a short time, the Company has gone from familiarizing itself with international experience in heap leaching oxidized copper ore to mastering the chemistry and technical details of the process. It now can model heap leaching facilities and has received its first positive results.

Some noteworthy examples of technical solutions Polymetal introduced to its plants in 2007 were:

- Using frozen backfill from the Lunnoye and Dukat deposits to eliminate operational expenses for water removal and reduce spending on the transport of waste rock.

- Expanding the use of gravitation and flotation processing at the Omsukchan gold processing plant;
- Implementing improved warehousing technology for semidry cakes at the Voro deposit to achieve the maximum height of the warehoused heaps;
- Introducing semi-autogenous grinding (SAG) technology for sulfate ore at the Gold of Northern Urals processing plant instead of the costly three-stage grinding process that was used before.

During an international audit, in order to meet the requirements of the World Bank and international standards, an inventory was created and reports prepared according to international JORC Code standards about changes in ore reserves and mineral resources at all Company mines.

Polymetal Engineering regularly registers its intellectual property rights created as the result of its research and work. The Company held 23 active patents as of December 31, 2007.

Work Performed for Subsidiaries

Khakanja and Yurievskoye

Technical documentation for the system of major openings at open pits #2 and 3 was developed for the Khakanja deposit. As a result, given the difficult topography, it was decided to improve transportation accessibility to the lower levels of open pit #2 and develop strip mining at open pit #3.

Technical documentation for the construction of key facilities at the Yurievskoye deposit's mining complex was prepared. It was based on the deposit's comprehensive development plan. A winter road project was completed to improve transportation connections between the remote Yurievskoye deposit and the Khakanja processing plant. The full set of design documentation for the new mine was finished extremely quickly, allowing the unit to complete construction of the mine and begin extraction at Yurievskoye the same year.

Dukat

In 2007 a series of technical and economic assessments was undertaken to increase production to 1.5Mtpa of ore at the Omsukchan processing plant at Magadan Silver. Company employees' excellent qualifications and impressive teamwork by all involved divisions meant that the assessments' recommendations were implemented in an extremely efficient fashion. The technical and economic assessments addressed various options for the plant's technical equipment, water-reuse schemes as well as the reconstruction of the tailings impoundment and the processing plant. Presently, a comprehensive plan that incorporates all of the technical recommendations is being developed.

A full set of technical documentation for the reconstruction of the Omcukchan gold processing plant has been prepared in order to increase production to 950ktpa of ore and to design tailings impoundment #3.

Technical documentation has also been drawn up for the construction of a mine at Dukat to develop the Central section of the deposit above 930m.

Polymetal Engineering's leading specialists actively participated in the preparation work for upgrades to the technical design of the processing plant that uses gravitation and flash (sand) floatation. The upgrades will increase the extraction rate of precious metals.

Polymetal Engineering completed the development of design specifications, placed the order and received the detector devices for an ore-sorting substation. The upgrade enables the industrial use of a small-lot x-ray radiometrical sorting process at Dukat's ore preparation facility.

Lunnoye

A report examining the technical challenges and economic potential of developing the Lunnoye deposit's gold and silver reserves was completed. It determined the scope of recoverable reserves for the deposit's underground development.

The report outlines a plan for expanding the unit's resource base to compensate for cessation of open pit mining at Lunnoye. Furthermore, a set of technical documentation for the construction of an underground pilot section of the mine was completed. This section will further help clarify the geological conditions of the underground parts of the deposit. Information gathered while mining this pilot section will be used to design mines to tap all of Lunnoye's reserves.

A full set of technical documentation has been prepared for the reconstruction of the tailings impoundment at the processing plant, including designs for a drainage pumping station, a drainage system, a water filtration station, a compressor station, emergency sump capacity and a bypass channel for the local river.

Projects using frozen backfill to refill the pits were implemented at open pit mines of Magadan Silver and Silver Territory, where open pit mining has been discontinued. The measures eliminated operational expenses on water removal and increased safety conditions for the development of underground mining at the Dukat and Lunnoye deposits. The use of frozen backfill is rare and these unique projects are helping to develop the technology.

A plan was developed to reconstruct the production unit's smelter in order to optimize its work.

Voro

During the reporting period, a flow sheet for the renovation of Gold of Northern

Ural's facilities at the Voro deposit was completed. This technical documentation calls for processing sulfate ore with a new SAG mill that will replace the expensive old three-stage grinding process. It will help the plant achieve its potential capacity and reach its goal of 900ktpa of ore, a 50% increase.

A number of amendments to the construction plans of the site's production facilities were also implemented. These were introduced in order to respond to changes in the technical and economic conditions of the site's operations. The report calls for broadening contours, increasing the depth of open pits and facilitating the more complete exploitation of the deposit's reserves.

By the end of the year, a project to renovate the plant's carbon-in-pulp mill for sulfite ore was developed. This project's main goal was to increase the production capacity for processing sulfide ore to 900ktpa. This work calls for reconstruction of the existing stripping and electrolysis facilities, expanding cyanide leaching and introducing a new hydraulic grade line of tailings to leach with imported high-tech equipment.

A flow sheet on how to extract gold from oxidized ore has been developed that details the work and creates optimal conditions for reprocessing ore to achieve the highest concentration of gold.

Albazino

A large volume of work on the new Albazino processing plant's design was completed.

The preliminary designs were presented at a public hearing about the construction of the processing plant in the Polina Osipenko district. Polymetal's plans for the plant have received broad-based support from the local population and authorities.

Given the latest updates on the exploration work and a steady growth in the size of the reserves, the planned plant's optimal production capacity is estimated at around 1.5Mtpa of ore.

The locations of the main building and its surrounding facilities have already been selected. The total area needed for buildings to develop the processing plant's infrastructure is nearly 600 hectares.

All components of the processing plant have been laid out. Additional planning and construction will be based on a two-section processing plant, with each section having a capacity of 750ktpa of ore.

Based on a technical and economic comparison of various plans, an electrical plan for the plant's industrial zone has been developed. The primary source of electricity will be diesel stations located on-site.

The plant's major external infrastructure objects will be located in the town of Oglongi.

The enterprise's development plan is ready.

In preparation for Albazino's expansion, a study was conducted of the geotechnical conditions surrounding the construction of the Amursk processing plant in Amursk.

The preliminary technical requisites for linking with Amursk's engineering network have been received.

In 2007 a pilot floatation unit was developed and produced. The pilot allowed a large volume of ore to be processed in a relatively short time. This unit also helped determine the parameters of the technical process that forms the basis of the technical plan for processing ore. The concentrate collected as a result of these large-scale experiments was sent to SGS Lakefield Research Limited for a pressurized oxidation analysis. The resulting data was received this year for additional study of the recovery process using refractory gold-sulfite concentrate in a lab equipped for POX. Thanks to this process, Polymetal Engineering's research lab has significantly expanded the spectrum of experiments it is qualified to perform.

The results were included in a declaration of the Company's construction plans for a hydrometallurgical plant in the city of Amursk and presented a public hearing in Amursk. Polymetal's initiative to build a processing plant in Amursk is supported by the local population, the city administration of Amursk and Amursk district officials.

Works Commissioned for Third Parties

In keeping with Polymetal's strategic development plan for 2006-2008, Polymetal Engineering continued to actively participate in projects on the domestic market for specialized engineering services, with the goal of strengthening the Company's brand recognition among potential strategic and portfolio investors.

Mikhailovsky Processing Plant

A project to reconstruct the concentrate pellitizing facilities at the Mikhailovsky plant was designed. It was the second project commissioned by the largest iron-ore pellet producer in Russia. As a result of the project, the company was able to significantly increase its production of iron-ore pellets while simultaneously improving the product's quality. The plant's management commissioned Polymetal Engineering in the wake of their successful partnership on another project, in which Polymetal installed, together with a foreign supplier, unique technical equipment that later successfully passed government inspections.

In 2007 Polymetal Engineering partnered with Celtic Resources during a project's conceptual stages to evaluate the prospects for developing two large copper mines.

The Mikheyevskoye deposit

The following work was preformed:

- Optimizing mining operations on the edges of oxidized ore with a copper cutoff grade of 0.2%;
- Optimizing mining operations in the entire mine of oxidized ore with a copper cutoff grade of 0.2% and, in sulfite ore, a variant shift of the cutoff grade to produce under-variant ore.

As a result of the optimization, the client decided to consider two additional minimal content alternatives with a different productivity rate for sulfite ore (for a total of six alternatives).

The optimal freight loads, the space needed for equipment, material expenses and the staff schedule were calculated for each alternative.

The Tominskoye deposit

An analytical optimization report based on the NPV Scheduler program was created. With the help of a Mining Reserves Optimizer (MRO) program, a model for each approach for recoverable reserves was created.

Using a HEADGGADE (with a minimum content of market-grade reserves), the following valuations changed:

- Recoverable reserves of ore and copper in open pit;
- Recoverable reserves of ore and rock in open pit;
- Profit and NPV revenues in open pit.

Strategic Alliance with AngloGold Ashanti

Within the Beduga deposit partnership agreement with AngloGold Ashanti, the technical and economic indicators for developing the mine were revalued as conditional after receiving the base data for developing technical solutions from numerous sources, including from partners. The results of this work formed the basis for the development of further strategic expansion to tap the mine.

Russian Copper Company

Polymetal Engineering pioneered research into sulphuric acid leaching of copper from Mikheyevskoye deposit ore. The process consisted of developing and preparing the corresponding lab equipment, becoming familiar with the research process methodology and conducting laboratory testing on the technical samples. It was determined that the oxidized ore could be treated with a KB-Cu sulphuric solution. The Company established the major geotechnical parameters for processing the ore, as well as breakage, chemical discharge, pelletization and the chemical concentration.

On the whole, third party contracts accounted for 18% of Polymetal Engineering's business.

The timely delivery of Polymetal Engineering's high-quality, relevant design documentation helped the Company's enterprises effectively resolve difficult issues concerning the construction and development of mines in current market conditions. This has guaranteed the Company a respected place among international gold mining companies.

Sustainable Development

The Company's social mission is to conduct exploration, mining and production activities in the most effective and safe way possible. This corresponds with the long-term strategy of working toward economic progress, stable development of production regions and improving employees' standards of living.

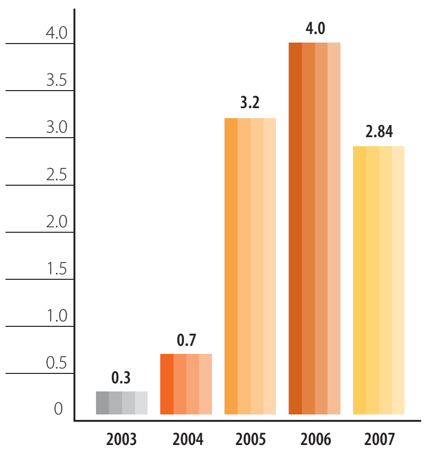
Environmental Responsibility

Polymetal has improved production safety by introducing economically effective technology that reduces or eliminates negative impact on the environment. Such measures include:

- Reducing the volume of resources used for each unit of production and placing stronger emphasis on rational use of natural resources;
- Utilizing secondary resources;
- Gradually phasing out environmentally dangerous materials and processes from production;
- Increasing the efficiency of production management, technology and operating activities;
- Involving all employees in their units' environmental initiatives;
- Improving the effectiveness of all environmental and post-production impact monitoring systems;
- Utilizing early-warning systems to prevent accidents with potential environmental fallout and creating an environmental risk management system.

A total of $2.84 million was directed towards environmental protection measures in 2007, a 20% drop from 2006 levels. The 2007 drop in expenditures on environmental protection at operations was due to the completion of several major improvements in 2005-2006, including acquisition and installation of most of the Company's gas-cleaning equipment and the construction and expansion of tailings facilities. In 2007 the majority of funds were devoted to acquiring and installing additional equipment, equipment maintenance and completing the construction and renovation of tailings facilities.

Polymetal has a successful Environmental and Industrial Sanitation Management System in place that the Company updates as needed. The current system was launched at Polymetal and its subsidiaries in 2006 and corresponds to all World Bank requirements and ISO 14001 international standards.



Expenditures on Environmental Protection

$ mln

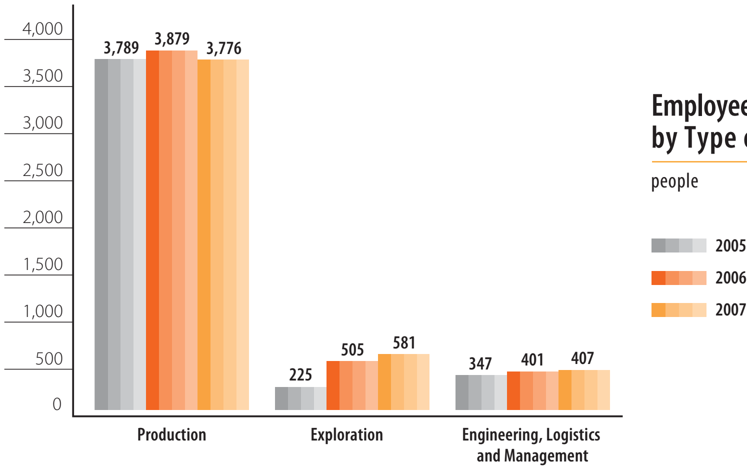
Employee Responsibility

The Company employed 4,764 people as of December 31, 2007, compared to 4,785 people at the end of 2006. Approximately 91% of all employees work in mining and exploration. Of those, approximately 40% work according to a rotating schedule due to the geographic isolation of some sites, such as the deposits at Lunnoye, Khakanja, Yurievskoye and Albazino.

The growth in the number of employees involved in exploration units and their corresponding increase as a percentage of the Company total is related to new exploration projects, including the work that commenced at the Albazino deposit in the Khabarovsk Territory. The Khakanja operations site has experienced growth in the number of employees because of the start of development work at the Yurievskoye satellite deposit. The reduction of employees at the other operations is

Employee Distribution by Type of Activity

people



due to outsourcing of certain processes (including maintenance facilities and secondary auto transport).

Compensation and Benefits

Employee compensation is based on a pay scale that reflects each position's complexity, employee qualifications and working conditions. In addition to the base salary, Polymetal offers other forms of compensation in correspondence with Russian laws, the Collective Agreement and each employee's labor contract. The effectiveness of Company personnel is rated according to the quality and quantity of labor and the ability to achieve results.

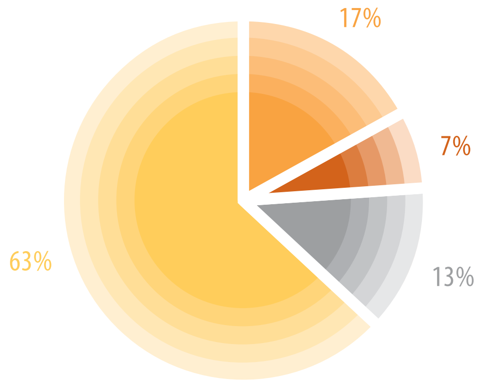
In 2007 Polymetal implemented one of the most ambitious stock options programs in the Russian mining industry as part of its long-term development strategy. Nearly 300 employees have been given the right to acquire Polymetal shares at the price of one Russian ruble (approximately $0.04) per share in equal installments in 2008, 2009 and 2010. The size of the stock options program is equal to approximately 1.76% of the Company's charter capital. The participants are not only top executives, but also geologists, engineers, miners and other specialists. Just one-third of the eligible employees work at the Company's headquarters in St. Petersburg, with the rest employed at regional operations sites and offices.

Social Partnership and Corporate Culture

Polymetal believes that internal unity is a key factor that allows it to achieve its long-term goals and targets. The Company greatly values the spirit of long-term partnership with its employees and makes every effort to promote it.

In 2007 Collective Labor Organizations were founded to represent employees at several of the Company's units. The goal of these Collective Labor Organizations is to represent the interests of all Polymetal employees and to handle questions of social and labor relations, including issues concerning collective bargaining and the creation of collective bargaining agreements. During the reporting period, collective bargaining agreements went into force at three Polymetal subsidiaries: Magadan Silver, Okhotskaya Mining and Exploration Company and Gold of Northern Urals. The collective bargaining agreements regulate social and labor relations and contribute to social stability at each organization. They establish benefits for employees and their families that greatly exceed the minimum level of benefits required by Russian law; they are tied to growth in labor productivity and other production achievements and take the Company's financial standing into account. The agreement is meant to stimulate employees in order to improve their efficiency and quality of work.

In 2007 Polymetal significantly increased the effectiveness of its internal communications, with the goal of keeping employees informed about the Company's strategy and current activities. To this end, Polymetal's corporate newspaper *Northern Latitude* is published to transmit internal communications to the Company's operations, with four original editions published monthly (one for each region Polymetal operates in). The Company introduced system designed to address employee concerns about social and labor issues within the framework of the collective bargaining agreements. The system collects and reviews questions and then the Company responds either



Social Package Structure

%

17% - Disability pay, maternity benefits, etc.
7% - Employee relocation expenses
13% - Other expenditures on social programs
63% - Vacation travel

directly or in corporate publications. It then monitors the resolution process. In 2007 employees sent 268 messages, all of which were then addressed.

Education and Skills Development
Polymetal devotes serious attention to attracting and retaining qualified specialists. It also emphasizes the professional training of employees and the development of their talents and abilities.

The following types of professional training are available, as Company production requirements warrant:

- Training new employees;
- Retraining employees;
- Training employees in a second (complementary) profession;
- Skill upgrades for employees;
- Skill upgrades for management and specialists.

In 2007 the Company invested more than $110,000 in employee training. 1,331 employees received mandatory certifications and skill development training.

Attracting and molding young specialists is a priority at Polymetal, and to this end the Company uses a corporate program called "Youth. Professionalism. Career." The search for and selection of promising young workers takes place on the labor market and at Russia's leading universities, as well as at vocational schools in the regions where the Company is present.

Cooperating with the country's leading universities to prepare specialists helps satisfy Polymetal's requirements for qualified engineers and technical workers.

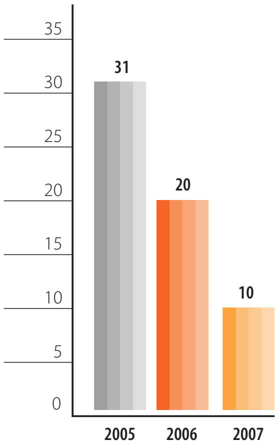
Industrial and Occupational Safety

Polymetal's 2007 industrial health and safety efforts were based on Russia's laws and regulations: the Russian Constitution, the Labor Code, various federal laws and standards of industrial safety and healthcare.

The Company institutes safe working conditions by:

- Requiring employee training and certification;
- Adapting methods to create a safer work environment;
- Providing personal protective gear;
- Timely maintenance and equipment upgrades;
- Conducting internal audits to ensure that health and safety management systems are effective.

The Company has received a positive review from an external audit conducted by the British company SRK Exploration Services.



Workplace Injuries

incidents

This audit confirmed that Polymetal has implemented its Occupational Safety Management System in compliance with World Bank guidelines. Additional System upgrades will include the implementation of OHSAS 18001 (Occupational Health and Safety Assessment Series).

The number of 2007 workplace injuries was half of number of the previous year, dropping to only ten injuries. As a result of the reduction in workplace injuries, the number of lost labor hours also fell. In 2007 the number of lost workdays was only 35% of 2006 levels, down to 217 days.

The long-term downward trend in the number of work-related injuries continued in 2007. However, there were two very serious accidents at the Company's production sites during the reporting period, equaling the 2006 level. One resulted in a fatality and the other resulted in severe injury. These accidents, as has been the case in previous years, were caused by human error resulting from violations of safety rules and production procedures by experienced and trained employees.

The incident resulting in severe injuries took place in February of 2007 at Silver Territory. An employee fell as he was moving through a smelting plant. He hit his head on a metal piece of production equipment.

The single workplace fatality took place in May 2007 at Gold of Northern Urals, during repair work at a tire-fitting stand for oversized machinery. The accident occurred due to a violation of the device's rules of operation.

The occupational safety service analyzed all incidents of employee injuries during the year and evaluated the details of each case. It then developed special programs and preventative measures to eliminate the recurrence of similar incidents in the future.

Community Responsibility

Many Polymetal operations are located in regions with difficult climatic conditions and poorly developed labor markets. The Company's subsidiaries make significant contributions to the development of the regions where their main production assets are located. These include areas in the Far East (Omsukchan and Srednekansk Districts in the Magadan Region and Okhotsk and Polina Osipenko Districts in the Khabarovsk Territory) and the Northern Urals (the city of Krasnoturinsk and the towns of Karpinsk and Vorontsovka).

Tax payments by Polymetal subsidiaries constitute a significant part of the tax base in the regions in which the Company operates. In a number of administrative districts in the Far East and the Magadan Region, these tax payments account for the majority of tax income. In 2007 the Company paid approximately $57.5 million to various levels of government, with more than $23.2 million going to regional and local budgets.

Development and Support for Infrastructure Projects

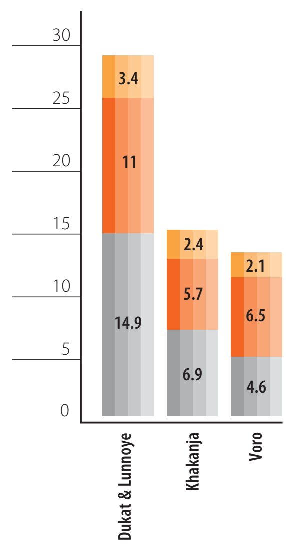
Polymetal invested $3.2 million in community aid projects in 2007. The Company financed a municipal bathhouse construction project in Krasnoturinsk (Sverdlovsk Region). In the Khabarovsk Territory, the Company helped acquire machinery and equip a gas-powered generator for the town of Kherpuchi. It also supported local electrical infrastructure in the Okhotsk District, bringing power to several towns and settlements, and financed the repair and construction of significant local roads in the Magadan Region.

Social investments are made both within the framework of social partnership agreements with local authorities (eight such agreements were signed with authorities in the Khabarovsk Territory and Magadan and Sverdlovsk Regions) and within the framework of Polymetal's general social policy.

Support for Education, Healthcare and Sports

Polymetal believes its investments in education, healthcare and sports are strategically important.

In 2007 the Company financed the modernization of the Omsukchan central district hospital, as well as renovations and equipment for the Srednekansk central district hospital (Magadan Region).



Polymetal Tax Payments

$ mln

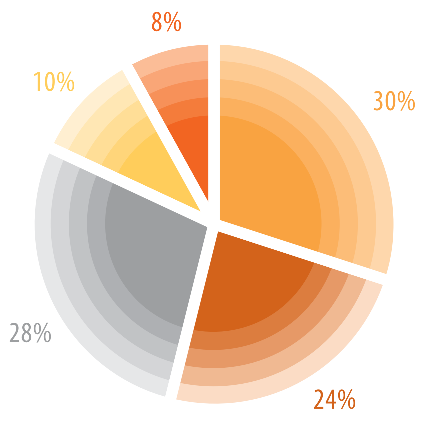
Federal
Regional
Non-budgetary funds

Within the framework of a local agreement with the local administration, Polymetal committed funds to the renovation of the central district hospital in the town of Polina Osipenko.

In the Magadan Region, the Company provided support for the design and construction of a preschool education facility in the town of Omsukchan. An art school will also be located in the building. In the Sverdlovsk Region, the Company provided corporate assistance to a kindergarten and a school in the town of Vorontsovka. In the Khabarovsk Territory, the Company provided support for Orphanage #8, a boarding school for orphans in the town of Okhotsk.

In 2007 the Company provided financing for the construction of an athletics complex in the town of Okhotsk and renovated the children's sports school in the town of Omsukchan. The Company became the general sponsor of the regional volleyball federation in Magadan (which currently has 17 teams).

Polymetal provides support for the development of hockey in all the regions in which it is present. The Company is a long-term sponsor of several hockey teams. It supports the Bars children's club in the town of Vorontsovka, the town of Omsukchan's children's team and the SKA Energiya team in Khabarovsk. The Company also installed a covered hockey rink in Vorontsovka and renovated the covered rink in Omsukchan during the reporting period.



Structure of Social Investments

%

30% - Development and maintenance of infrastructure in populated areas

24% - Support for education and healthcare

28% - Support for athletic programs and healthy lifestyles

10% - Support for local cultural and creative initiatives

8% - Support for religious institutions, ethnic traditions and the indigenous population

Developing Local Cultural and Creative Potential

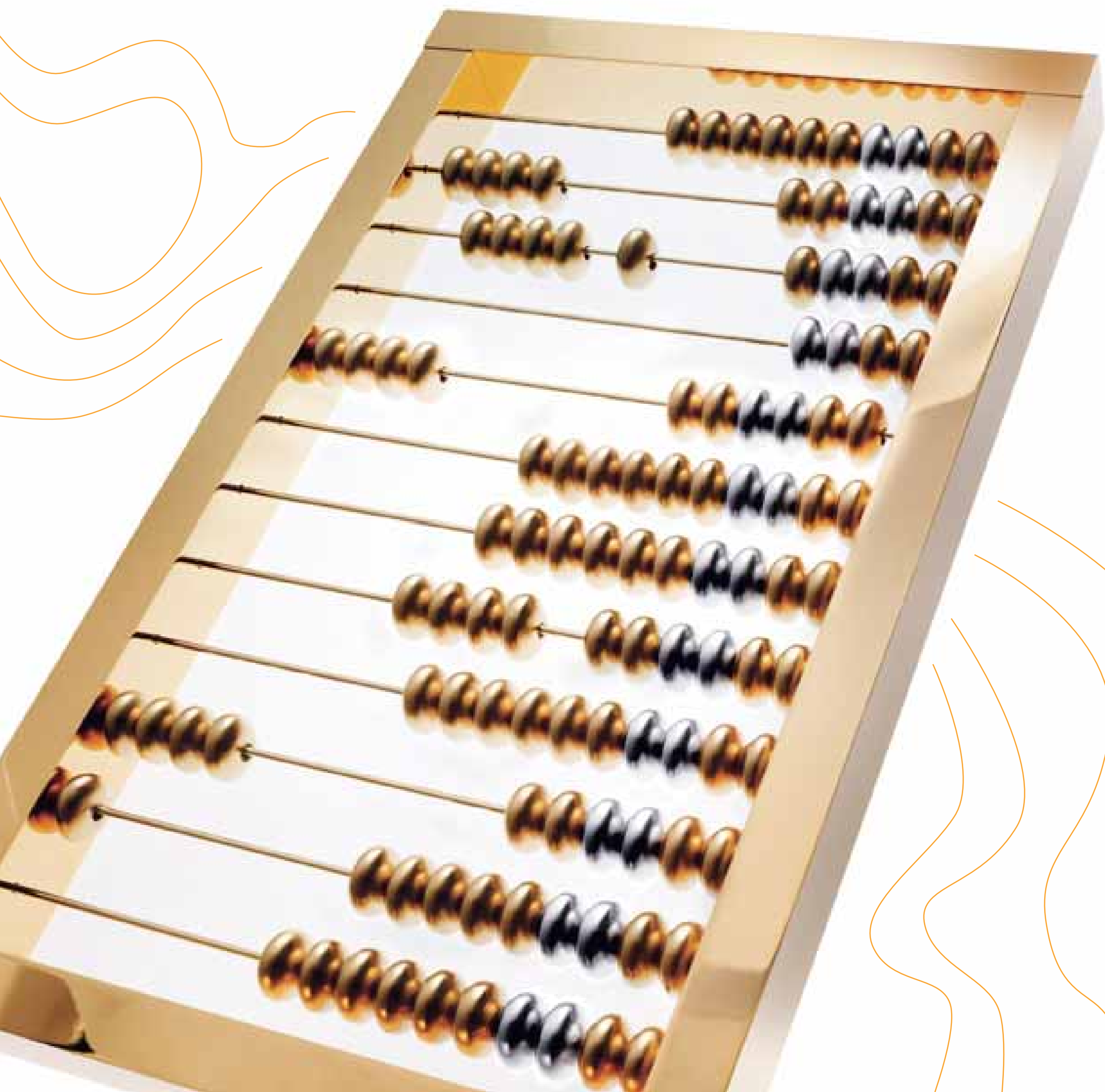
Various community talent shows, festivals and athletic competitions are held with Polymetal's active support. In 2007 the Company sponsored The Falling Star talent show and a fireside bard music festival in the Magadan Region. The Company also traditionally supports singing and dance competitions for school and university students in the Northern Urals. It is a partner of the Golden Voices of the Far East charity project that brings the best Russian opera singers to Khabarovsk to work with disabled children and orphans.

Support for Religious Institutions, Ethnic Traditions and the Indigenous Population

In 2007 the Company supported the construction of an Orthodox cathedral in Magadan, financing part of the project. During the reporting period, Polymetal financed the reconstruction of an Omsukchan church of the Holy Life-Giving Trinity in the Magadan Region and contributed to the construction of a church in the Ekaterinburg Episcopate in the Sverdlovsk Region.

The Company understands the importance of supporting ethnic culture and provides help to develop it. In 2007 the Company provided financing to restart the Northern Festival in the Okhotsk district and provided support to the Buksunda indigenous organization in the Omsukchan district and to the Balygychan clan.

Polymetal's strategic goal is to provide shareholders with a high return on investment while exposing them to minimal risk. Management constantly monitors the Company's financial results and the growth of shareholder value.



Financial Results

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 recovery of silver and gold from processing. Revenues directly depend on production levels. In 2007 revenues from other sources were $2.8 million, representing less than 1% of the Company's total revenues, and were mainly attributable to services Polymetal Engineering provided by to third parties.

Revenues

In 2007 revenues decreased by 2% to $308.7 million, down from $315.6 million in 2006. The decrease was due to a drop in sales of gold and silver as a result of smaller production volumes compared to 2006. Annual production of gold dropped 5%. Silver production dropped by 8% due to an anticipated reduction in content, and was partially compensated for by an 8% increase in processing volume and a higher recovery rate.

The drop in revenues was partially compensated by growth in the average sale price of gold (up 16% to $701/oz., in line with the market). The average sale price of silver dropped by 6% to $8.75.

In 2005 and 2006 silver sales represented more than half of the Company's sales revenues, even though the relative contribution of silver sales in 2006 decreased compared to 2005. In 2005 and 2006 silver sales accounted for 57.1% and 51.0% of the Company's revenues, respectively. Gold sales over the same periods accounted for 42.0% and 48.7% of revenue

Given that the precious metals market remains strong and the Company plans to produce 250-270koz. of gold and 17-18Moz. of silver, Polymetal expects that its 2008 revenues will increase significantly compared to the reporting period.

Silver Sales

Silver sales decreased 12%, from $161.1 million in 2006 to $141.3 million in 2007. The volume of silver sales dropped by 6%.

The London fixed price of silver grew by 16%, from $11.5 to $13.4/oz.. The average realized price for silver dropped by 5%, from $9.3/oz. in 2006 to $8.8/oz. in 2007.

The realized price for silver was significantly lower than market prices because Polymetal had to fulfill a forward contract with ABN Amro Bank. Of the 16.2Moz. of silver delivered in 2007, 13.3Moz. was sold to ABN Amro Bank at a price well below the market rate (and no higher than $7.83/oz.).

	2007			2006			Change, %
	Sales volume	Average realized price ($/oz.)	Revenue ($, thousands)	Sales volume	Average realized price ($ per oz.)	Revenue ($, thousands)	
Silver koz.	16,152	8.75	141,285	17,267	9.33	161,056	-12%
Gold koz.	235	700.52	164,622	255	603.33	153,849	7%

In 2007 silver sales at below market prices lead to a cumulative discount of $76 million, compared with a $40 million discount in 2006. The sharp increase in the 2007 discount is attributable to the significant growth in market prices for silver, as well as standard discounts that the Company received for transport, which remained virtually unchanged since 2006.

Gold Sales

Gold sales increased by 7%, from $153.8 million in 2006 to $164.6 million in 2007. This increase was due to higher realized prices for gold, despite the volume of gold sold dropping by 8%.

The average price of gold grew by 16% from $603/oz. in 2006 to $701/oz. of gold in 2007. This increase was roughly equal to the growth in the London fixed price to $696/oz. from $604/oz. in 2006.

In 2007 the Company's higher average realized price compared with average world prices led to additional earnings of $1.1 million.

Cost of Sales

In 2007 total cost of sales grew by 49% to $254.6 million, compared to $171.3 million in 2006. As a percentage of revenues, the cost of sales grew from 54% in 2006 to 82% in 2007.

Growth in operating costs was connected to an increase in mining and processing, price inflation for materials and higher wages, as well as one-time expenses and extraordinary charges (including acquiring gold at market prices to meet a futures contract, expenses related to the launch of the Company's options program, costs related to preparing for the IPO and the write-off of an increase in the book value of assets).

Cost of sales grew by 37%, excluding expenditures related to silver acquisition from third parties at market prices.

Operating Costs

Operating costs grew by 35% in 2007, from $106.9 million to $144.1 million. Operating expenses excluding staff costs grew by approximately 35% due to a 20% growth in the physical volume of mining (including stripping and underground development) and processing, as well as inflation in Russia (20% in dollar terms).

Staffing costs grew by 34% as a result of significant growth in average salaries (which outstripped the inflation rate), as well as a small growth in the number of employees related to the increased production volume. The average salary of highly qualified employees grew significantly faster than the inflation rate in 2007.

Amortization of fixed assets and rights to develop deposits increased by 20%, from $39.4 million in 2006 to $47.22 million. This was largely due to an increase in the book value of assets after the purchase of a minority stake in the Khakanja and Dukat

	2007		2006		Change, %
Operating costs, of which	$ mln, except percentages				
Cash costs (except for staff costs)	105.9	42%	78.5	46%	35%
Staff costs	38.2	15%	28.5	17%	34%
Total operating costs	**144.1**	**57%**	**106.9**	**62%**	**35%**
Mining tax	15.8	6%	15.3	9%	3%
Other taxes, except for income tax	7.3	3%	6.2	4%	18%
Amortization, depreciation and depletion[1]	47.3	19%	39.4	23%	20%
Influence of change of accounting principles	7.1	3%	-	-	100%
Acquisition of metal from third parties	20.5	8%	-	-	100%
Other costs	12.5	5%	3.4	2%	257%
Total cost of sales	**254.6**	**100%**	**171.3**	**100%**	**49%**

[1] *Includes depreciation and depletion, amortization of intangible assets and depletion of mineral rights.*

units because the purchase price was significantly higher than their book value.

A switch in accounting principles reduced the planned cumulative extraction rate of silver at the Company's heap leaching plant. This triggered a write-off of the current cost of incomplete heap leaching production.

In 2007 mining tax increased by $0.5 million to $15.8 million. This was mainly due to increases in market prices for gold and silver.

Other operating costs included expenses for transporting materials and employees to remote units. This had formerly been included in operating costs.

Cash Costs

Inflation in Russia and reduced head grade were the main factors influencing total cash costs per ounce at each production unit.

Cash costs per ton of processed ore at Dukat and Lunnoye grew with inflation by 22% (mainly caused by rising wages in the Magadan Region). The total cast costs for an ounce of silver grew at a faster rate of 37%, up to $6.6, due to a drop in silver head grade to 16% related to the scheduled transfer to a poorer ore zone.

At Khakanja and Voro, cash costs for a ton of processed ore grew significantly (by 29% and 37%, respectively), primarily because of inflation and increased stripping volumes. Total cash costs for an ounce of gold at Khakanja more than doubled to $442 due to a serious drop in the head count. This happened because of the halt of mining in the first open pit and the need to reprocess already stockpiled ore while the second open pit was being prepared for mining operations. The head count has already improved in 2008 now that it is processing ore from the second Khakanja open pit and the Yurievskoye deposit (a Khakanja satellite). Cash costs per ounce in 2008 are projected to drop significantly. The total cash costs at Voro grew by 35% to $420/oz., with cash costs growing per ton of processed ore, despite the fact that the head count was stable.

Given the factors listed above, the total cash costs per ounce of gold equivalent grew by 54% to $397, while cash costs per ounce of silver equivalent grew by 55% to $7.6. The breakdown of cash costs calculated by byproduct is as follows:

	2007	2006	Change, %
Total cash costs (byproduct method, $/oz. of metal)			
Polymetal (silver equivalent)	7.6	4.9	55%
Polymetal (gold equivalent)	397	258	54%
Dukat and Lunnoye (silver)	6.6	4.8	37%
Khakanja (gold)	442	216	104%
Voro (gold)	420	311	35%
Total cash costs (byproduct method, $/ton of ore)			
Polymetal	66	52	26%
Dukat and Lunnoye	93	76	22%
Khakanja	81	63	29%
Voro	35	26	35%

Income from Mining Operations

In 2007 income from mining operations at the Company dropped to $54.1 million, down from $144.3 million in 2006, because of a drop in income and the increase in cost of sales. The profit margin from mining operations was 17.5%, compared to 46% in 2006.

	2007	2006	Change, %
	$ mln, except percentages		
Revenues	308.7	315.6	-2%
Cost of sales	(254.7)	(171.3)	49%
Income from mining operations	54.1	144.3	-62%
Income from mining operations/ profit margin	17.5%	45.7%	

General, Administrative and Selling Expenses

General, administrative and selling expenses at the Company grew by $14 million in 2007 to $42.3 million. This 49% growth was primarily due to expenses related to the options program. After the IPO, the majority shareholder provided Polymetal with 5.5 million shares (a total of 1.76% of the Company's equity) to create an options program. Key employees received the right to purchase share at the nominal price of approximately $0.04 per share in equal installments in February 2008, February 2009 and February 2010. Part of the cost of these options contracts is included in other expenses in accordance with the relevant accounting standards.

If the cost of the options program is eliminated, the growth in general, administrative and selling expenses was 12%, mainly due to inflation and higher wages. This was partially compensated for by a 10% reduction in the numbers of employees in Company's administration.

Other Operating Expenses

Other operating expenses grew by 29% during the reporting period, from $21.2 million to $27.4 million. This was primarily due to costs associated with the consulting services commissioned for the IPO and write-offs for part of the cost of fixed assets. This happened because of the ahead-of-schedule stoppage of open pit mining at the Lunnoye deposit, which resulted in the mine's book value dropping to zero. The open pit mining was stopped based on an economic analysis that showed that it would be more cost effective to use underground mining for the remaining two benches.

In 2007 costs associated with mine closings cost $0.28 million, compared with $0.23 million the year before. This was mainly due to the reduced production life of a mine at the Khakanja deposit, which increased the number of costs related to its closing.

$2.0 million was spent on acquiring the rights for mining development and exploration in 2007, compared to $5.8 million in 2006. Given the positive results of exploration, including JORC Code audits of the Company's main projects, most expenditures on exploration have been justified.

The cost of banking services dropped by nearly ten times because after the Company restructured its credit line because it did not include commissions paid to Standard Bank London and ABN Amro Bank in 2006.

	2007	2006	Change, %
	$ mln, except percentages		
General, administrative and selling expenses	42.3	28.4	49%
Other expenses	27.4	21.2	29%
Total operating expenses	69.7	49.6	40%

Operating Profits (Losses)
In 2007 operating losses were $15.6 million, compared to operating profits of $94.8 million in 2006.

Income from Continuing Operations before Income Tax and Minority Interest
In 2007 losses from continuing operations before income tax and minority interest were $16.8 million, compared to profits of $93.7 million in 2006.

	2007	2006	Change, %
	$ mln, except percentages		
Operating income	(15.6)	94.8	-116%
Interest expense	10.5	25.3	-58%
Capital lease finance costs	2.1	2.6	-19%
Exchange gain (loss), net	(11.4)	(26.8)	-57%
Income from continuing operations before income tax and minority interest	(16.8)	93.7	-118%

Interest expense dropped by 58%, from $25.3 million in 2006 to $10.5 million in 2007. This drop was related to a reduction in long- and short-term loans. These loans were retired with funds raised by the IPO.

Capital lease finance costs dropped by $0.5 million, from $2.6 million in 2006 to $2.1 million in 2007, thanks to a reduction in the number of leasing agreements.

Exchange gain dropped by 57% to $11.4 million because the ruble did not strengthen as much as in 2006, when the size of the dollar-denominated debt dropped sharply. This was because the Company's operating currency is the ruble, but most of its debt is in US dollars.

Income Tax
Income tax expenses dropped by 76%, from $25.3 million to $6.1 million, because of losses before tax during the reporting period. Income tax was still paid because a significant part of expenses didn't reduce the Company's tax base (including the options program, the write-off of the book value of assets after the purchase of minority stakes and expenses related to the IPO).

Minority Share
In 2007 the minority share was reduced to zero because Polymetal consolidated 100% of its subsidiaries.

Net Profit
Because of the reasons listed above, the Company's net losses in 2007 were $22.8 million, compared with a net profit of $61.7 million in 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;
- Open new deposits.

Capital expenditures in 2007 nearly doubled compared to 2006, growing to $115.7 million. Of that, approximately $27 million was spent on exploration of promising deposits, $24 million was spend on new equipment and upgrades, $38 million was spent on expanding production capacity at Dukat, $9 million was spent on expanding production capacity at Voro and $15 million was spent on pre-paying suppliers for material and equipment for Albazino and Dukat. The remaining $3 million went to capitalized interest.

Cash Flows

Operating Activities

As a result of the 61% drop in inflow from operating activities before changes in working capital, to $34.9 million in 2007, net cash from operating activities was -$2.8 million (compared with $88.5 million in 2006). This was primarily due to net losses of $22.8 million during the reporting period.

Changes in working capital, without accounting for cash and long-term debt, were negative (-$37.7 million) in 2007, a 36% drop compared to $59.4 million in 2006. This took place because of a drop in reserves, VAT related to compensation from the budget and a growth in accounts payable.

	2007	2006	Change, %
		$ mln	
Net cash provided by (used in) operations	(2.8)	29.1	-110%
Net cash provided by (used in) investment activities	(128.8)	(142.7)	- 10%
Net cash provided by (used in) financial activities	129.7	99.5	30%

Investment Activities

Cash used in investment activities in 2007 was $128.8 million, a $13.9 million drop year-on-year. In 2006 $93.7 million was spend on acquiring daughter companies and minority shares and $60.3 million was spend on capital expenditures. During the reporting period, investment in acquiring fixed assets and exploration was $115.7 million, while $18.5 million was spent on purchasing new assets and minority shares, including a 100% stake in Omolonskaya Gold Mining Company.

Financial Activities

Cash flow from financial activities was $129.7 million in 2007, compared to $99.5 million in 2006. This 30% change was primarily related to $299.3 million in funds received from the IPO. This money was spent on restructuring the Company's long-term debts to banks.

Indebtedness

As of December 31, 2007 the Company had bank loans outstanding for a total of $223 million. Its capital lease liabilities dropped by 61% to $2.6 million.

	2007	2006	2005
		$ mln	
Short-term borrowings (including current payments for long-term debt)	152.0	229.8	184.8
Long-term borrowings	71.2	174.5	100
Capital lease liabilities	2.6	6.7	20.0
Total	225.8	411.0	304.8

Sales of Future Production

In accordance with the terms of a syndicated loan agreement in December 2004, Silver Territory and Magadan Silver entered into an export contract with Standard Bank. In the contract, Silver Territory and Magadan Silver agreed to sell to Standard Bank all of the precious metals they produced between January 1, 2005 and December 31, 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 following the refinancing of the loan facility with Standard Bank.

During the reporting period, the Company continued to fulfill its obligations to sell silver at a fixed price. Of the total silver delivered in 2007 (16.2Moz.), more than 13.3Moz. was sold to ABN Amro Bank for a total of $104 million at prices significantly below market rates. Furthermore, approximately 1.4Moz. was purchased at market rates in order to fulfill the forward contract's obligations ahead of schedule.

The final sale of future production was made in January 2008, after which sales did not have any price limits. The Company is now positioned to fully benefit from any potential growth in prices for gold or silver.

Polymetal's Board of Directors reviewed its hedging policies in June 2008 and confirmed the current strategy, in which the Company will not sign any additional price fixing agreements for gold or silver sales.

Period/Metal	Quantity Sold Subject to Maximum Price Limit		Average Realized Price ($/oz.)	Average Fixed Price, Afternoon London Bullion Market ($/oz.)
	koz.	As a percentage of total amount sold		
2007				
Silver	13,340	82%	7.80	13.38
Gold				696
2006				
Silver	9,330	54%	7.12	11.55
Gold				603.46
2005				
Silver	11,210	59%	7.03	7.31
Gold	61.4	26%	412.05	444.45

Shareholder Capital

Polymetal's charter capital as of December 31, 2006 was 55,000,000 rubles, which was divided into 275,000,000 ordinary nominal uncertified shares with a nominal value of 0.2 rubles each.

In February 2007 the Company held its Initial Public Offering (IPO) on the London Stock Exchange, as well as on the Russian RTS and MICEX exchanges. During Polymetal's global offering, 38,000,000 shares were placed by the sole shareholder in the form of shares and Global Depository Receipts (GDRs) and 40,000,000 shares were placed as an additional GDR emission. One GDR was equal to one share. The stock debuted at a price of $7.75 per share/GDR, placing the Company's net capitalization at $2.44 billion. In all, 24.8% of Polymetal's charter capital was involved in the placement.

As of December 31, 2007 the Company's charter capital was split among 315,000,000 ordinary nominal uncertified shares with a nominal value of 0.2 rubles each, for a total of 63,000,000 rubles.

Structure of Shareholder Capital

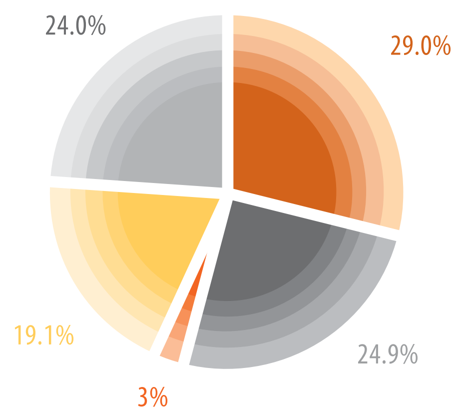
Until the IPO, Nafta Moskva (Cyprus) Ltd. was the sole shareholder of Polymetal. After the placement, Nafta Moskva's stake in Polymetal's charter capital was reduced to 75.2%.

In June 2007 Nafta Moskva sold 3,900,000 shares in the Company to four members of the Board of Directors within the framework of the options program. In October of the same year Polymetal acquired 100% of the company Polymetal ESOP, the sole asset of which was a share packet of Polymetal's containing approximately 5,500,000 shares. These shares were transferred from Polymetal ESOP to the controlling shareholder after the IPO with the goal of implementing a three-tranche options program for Company employees. The first tranche of the options program was released in February 2008, resulting in more than 300 employees becoming shareholders in the Company.

In December 2007 Nafta Moskva transferred 210,476,043 shares of Polymetal to its affiliated Aniketa Investments Ltd. In June 2008 the sale of the controlling stake in this company to three investors was announced.

On June 17, 2008 the Company received the official announcement of the number of shares held by each of the new owners.

The structure of the Company's shareholder capital on June 17, 2008 was as follows:



Structure of Shareholder Capital

%

- 24.0% - Powerboom Investments Ltd.
- 19.1% - VITALBOND Ltd.
- 3.0% - Board members, employees and the options program
- 24.9% - Pearlmoon Ltd.
- 29.0% - Others

As of June 1, 2008 approximately 54 million shares, or 17% of the Company's shareholder capital, were in the form of GDRs, mainly traded on the LSE. According to data received during regular meetings with investors, the Company's GDRs are held by funds from many countries around the world, including Great Britain, the United States, Australia, Germany, France, Singapore, Switzerland and others. The funds tend to focus on investments in the gold mining sector and in developing markets.

Over the last 12 months, trade in the Company's common stock on Russian exchanges has also picked up. Specifically, the number of individual shareholders over that period has grown by more than three times to over 4,500 people.

Share Price Performance

Approximately 25% of Polymetal's shares are in free float. Company stock is listed on the London Stock Exchange (under the ticker PMTL), the RTS (under the ticker PMTL) and on the MICEX (under the ticker PMTL).

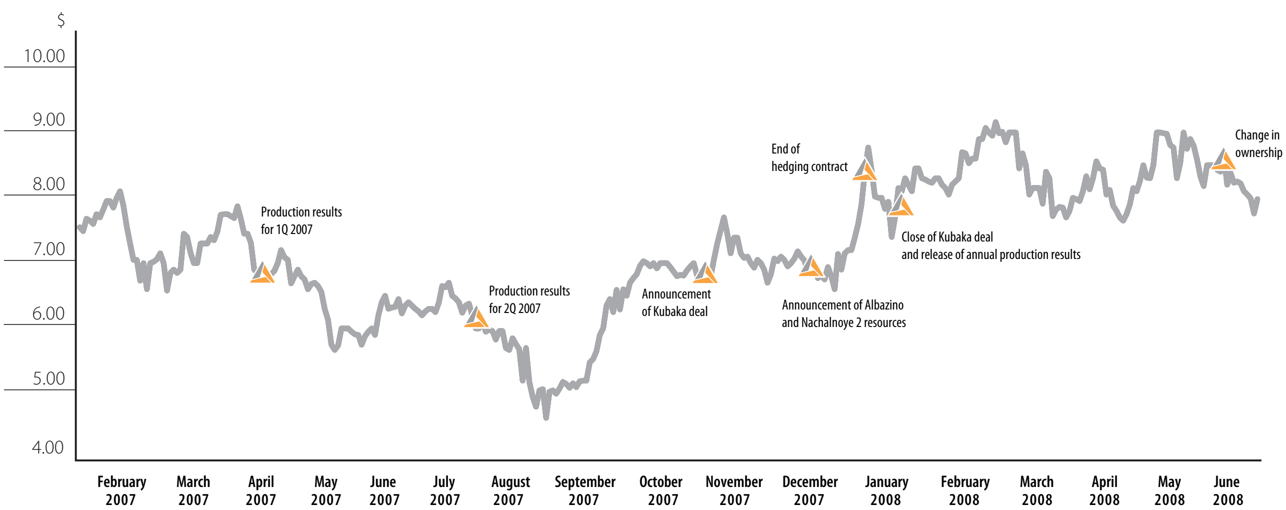
Since February 2007 the Company's share price has moved both up and down. In the period until August 2007, against a background of instability on stock exchanges and a lack of liquidity on developing countries' markets, the Company's share price dropped gradually and reached its minimum value of $4.5 per GDR. It then saw steady growth in the stock's quotation based on Polymetal's positive operational results and rising prices for precious metals on international markets. The maximum price of $9.85 per GDR was hit in January 2008 after news about the complete liquidation of the Company's hedging position, which was 27% higher than its IPO price.

Dividend Policy

Polymetal's dividend policy is based on balancing shareholders' desire for an annual return on their investment in the form of dividends and the goal of investing net profit into the Company's development. The decision of calculating and paying dividends is made at the annual General Meeting of shareholders based on the recommendation of the Board of Directors. These recommendations are based on an analysis of the Company's current financial situation, its prospects, investment requirements and the availability of resources.

Information about the decision making process is publicized in the Russian and foreign media, including in Great Britain, and on the corporate website, in full correspondence with the requirements of Russian legislation.

At the Company's General Meeting of shareholders that took place on June 27, 2008, the shareholders, following the Board of Directors' recommendation, voted to not pay dividends for 2007. Polymetal's Board of Directors believes that given the current stage of development of the Company's growing business, the reinvestment of all profits is the most effective way to increase shareholder value. Nonetheless, in 2009 and beyond, the Board of Directors and the General Meetings of shareholders will consider the annual payout of dividends.



Polymetal GDRs Price Performance in 2007

Risk Management

In the course of doing business, Polymetal is exposed to a range of risks related to domestic and international market conditions, the state of the industry and the country, and other factors. The Company understands these risks and, thanks to its multi-tiered risk management system, is able to analyze and, when possible, neutralize them. Risk management helps the Company's short- and long-term planning processes and allows the Company to minimize potential losses, guarantee stability and ensure transparency for shareholders and investors.

Risks Related to the Company's Activities

Polymetal's earnings and cash flow are directly dependant on market prices for gold and silver

Despite large swings in the price of gold and silver on commodities markets, increased macroeconomic instability in 2007 led to price increases of more than 30% in dollar terms. After the reporting period, price growth continued and it currently appears unlikely that prices will fall in 2008. Nonetheless, given the cycles that the metals market is known for and the experience of 2005-2006, when the market displayed a negative trend, the Company devotes serious attention to controlling this risk.

Growth in inflation rates and the large swings in foreign exchange rates could negatively affect Company performance

A large part of the Company's revenue comes from export earnings denominated in US dollars, while most of the Company's expenditures are in Russian rubles. This category of risks can influence Polymetal's financial results in various ways. In 2007 the combination of the ruble's continuing assent versus the US dollar and record inflation rates negatively affected the Company's profitability. Exchange and inflation risks are typical in the entire mining sector and market players have little control over it.

Risks related to the cost of construction materials, equipment and fuel

Fuel, energy and materials used during operations are a substantial part of the Company's operating expenses. Depending on the type of material, their cost is to varying degrees dependent on oil prices and government regulation. Furthermore, operational expenses and capital expenditures are directly dependent on the price of steel, which determines the cost of equipment used by the Company. The risk of price fluctuations for fuel and raw materials can significantly influence Polymetal's profits, cash flow and operational margins, as well as the valuation of its mines. The Company tries to minimize the impact of this category of risks whenever possible with reasonable hedging tools, including long-term contracts with suppliers at fixed prices.

Risks related to receiving and holding licenses

The Company's activities in surveying, mining and developing mineral resources are regulated by the corresponding legislation and are subject to required licensing. Most of Polymetal's licenses do not expire before 2018-2020. However, the suspension, revocation or refusal to extend any license, or any changes in legislation, could directly influence the Company's activities, as well as its financial and production results. Receipt and use of licenses is contingent on observing numerous demands and standards relating to personnel, production technology, workplace safety, equipment use and the environment. As such, any noncompliance with the licensing agreement on the part of the Company could potentially serve as a basis to cancel, suspend, discontinue or not issue the license. Furthermore, any audit connected with providing documentation to the licensing body, or performed as a result of societal demands or court order, could have significant influence on Company activities and force changes in a project's timeframe.

Risks related to evaluating reserves and available resources

Any mining company's performance is directly dependent on its reserves and resources. Even though Polymetal relies on leading independent auditors and adheres to the JORC Code during exploration, the evaluations of its resource potential and the cost effectiveness of a mine can be imprecise or be modified during the development process. Furthermore, mine valuation and the classification of its reserves are dependent on economic factors, including fluctuations in market prices for its final product.

Risks related to mining work

Polymetal's activities are subject to all risks that are standard for the mining industry connected to surveying, developing and mining mineral resources. In particular, losses may be connected to shutdowns, breakage or idleness, as well as fires at the workplace or vandalism by third parties. The Company relies on insurance to manage and minimize these risks, and maintains adequate insurance coverage of risks that may significantly influence its activities and financial stability. Nonetheless, the Company cannot guarantee insurance coverage of all industry risks that could affect the Company's actions.

Risks Related to the Mining Industry

The Company's financial position is directly dependent on the condition of the mining industry and support for exploration. Negative changes to either the domestic or international markets in the sector would significantly lower the investment appeal of projects to develop precious metals deposits and, consequently, reflect on the level of demand for services. The Company monitors risks related to rising costs to recover precious metals, the lack of a qualified workforce, shrinking reserves and recovery rates and the competitions' development of new technologies. In order to neutralize these risks, the Company is constantly expanding its resource base, creating programs to increase workers' qualifications and motivation, promoting qualified employees to key positions and attracting young specialists from leading specialized institutes to work on new projects.

Environmental risk

In its work, the Company upholds the highest environmental standards. Currently, Polymetal's work corresponds with all legal requirements. Nonetheless, changes in the regulatory framework for environmental protection involving matters of production technology, use of runoff or other steps in the production process, as well as the creation of new or increasing existing fees for funds to protect the environment, could require additional time and money expenditures by the Company. This, in turn, could influence the Company's activities.

Risks Related to Operating in the Russian Federation

All of the Company's business activities take place in the Russian Federation, and therefore its activities are potentially vulnerable to risks related to the economic situation in the country or its regions. The Russian Federation is a developing economy. For developing economies, boom/bust cycles are common and economic stability is not a given. Despite the fact that over the last several years Russia has experienced positive changes in all public areas, including economic growth, political stability and the election of a new president, Russia is still perceived as a government with evolving political, economic and financial systems. It has not yet completed reforms aimed at creating stable banking, judicial, tax and legislative systems. This means risks remain that could lower industrial production, negatively affect exchange rates, increase unemployment and other negative outcomes. Any of these could lead to a decline in quality of life in the country and negatively affect the Company's activities. If the domestic situation begins to negatively influence its activities, the Company will adopt anti-crisis mechanisms that have been developed to reduce the influence of negative factors on its activities.

Risks related to changes in interest rates

Financial risks, which are particularly important when considering Russia, influence the Company's relationships with banks and other financial institutions. Because part of Polymetal's portfolio of long-term debt consists of borrowed funds with floating interest rates, the Company is subject to changes in interest rates. The higher the proportion of borrowed funds to net worth, the more dependent the Company is on its creditors and the more serious its financial exposure. In order to manage this category of risks, Polymetal does not use interest rate swaps or other financial tools. The decision about the order, duration and terms of financing are made after considering the market, with the goal of receiving the best possible terms for debt servicing until the debt is completely repaid.

OPEN JOINT STOCK COMPANY POLYMETAL

Consolidated Financial Statements

For The Years Ended December 31, 2007 and 2006

OPEN JOINT STOCK COMPANY POLYMETAL

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

for the years ended December 31, 2007 and 2006

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company Polymetal ("JSC Polymetal") and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at December 31, 2007 and 2006, and the results of its operations, cash flows and changes in shareholders' equity for the years then ended, in compliance with Accounting Principles Generally Accepted in the United States of America ("U.S. GAAP").

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

- Selecting suitable accounting policies and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether U.S. GAAP has been followed, subject to any material departures disclosed and explained in the consolidated financial statements;
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

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

The consolidated financial statements for the years ended December 31, 2007 and 2006 were approved by management on July 3, 2008:

On behalf of the Board of Directors:

Nesis V.N.
Chief Executive Officer

Cherkashin S.A.
Chief Financial Officer

Deloitte.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Open Joint Stock Company "Polymetal":

We have audited the accompanying consolidated balance sheet of Open Joint Stock Company "Polymetal" and its subsidiaries (the "Group") as at December 31, 2007, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Group for the year ended December 31, 2006 were audited by other auditors whose report, dated June 21, 2007, expressed an unqualified opinion on those statements.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche

July 3, 2008

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED BALANCE SHEETS

at December 31, 2007 and 2006

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

	Note	December 31, 2007	December 31, 2006
Assets			
Cash and cash equivalents		5,019	6,532
Accounts receivable		-	3,218
Prepayments to suppliers		12,540	13,872
Inventories	5	213,141	155,629
Short-term VAT receivable	6	52,078	45,335
Short-term deferred tax asset	7	3,806	816
Other current assets	8	18,057	13,904
Total current assets		**304,641**	**239,306**
Property, plant and equipment	9	502,470	406,418
Goodwill	10	30,141	31,896
Investments and long-term loans to third parties		269	615
Long-term loans to related parties	11	6,119	6,138
Long-term VAT receivable	6	10,288	9,019
Long-term deferred tax asset	7	3,926	3,962
Total non-current assets		**553,213**	**458,048**
Total assets		**857,854**	**697,354**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities		32,252	29,216
Accounts payable to related parties		-	302
Short-term debt and current portion of long-term debt	12	152,006	229,770
Taxes payable		9,453	7,292
Short-term deferred tax liability	7	11,437	14,902
Current portion of capital lease liabilities	13	2,417	4,210
Total current liabilities		**207,565**	**285,692**
Long-term portion of capital lease liabilities	13	147	2,445
Long-term debt	14	71,200	169,895
Long-term debt from related parties		2	4,574
Deferred tax liability	7	37,628	35,284
Reclamation and mine closure obligation	15	8,035	7,230
Deferred payments	16	7,438	-
Total non-current liabilities		**124,450**	**219,428**
Total liabilities		**332,015**	**505,120**

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED BALANCE SHEETS (CONTINUED)

at December 31, 2007 and 2006
(In thousands of U.S. Dollars, except share and per share data)

	Note	December 31, 2007	December 31, 2006
Commitments and contingencies	**26**	-	-
Shareholders' equity			
Share capital (2,444,000,000 shares authorized with par value of Rubles 0.2 per share; 315,000,000 and 275,000,000 shares issued at December 31, 2007 and 2006, respectively; 309,459,677 and 275,000,000 shares outstanding at December 31, 2007 and 2006, respectively)	17	6,698	6,397
Additional paid-in capital		367,129	56,710
Treasury shares, at cost (5,540,323 ordinary shares at December 31, 2007)	17	(50)	-
Accumulated other comprehensive income		56,208	10,447
Retained earnings		95,854	118,680
Total shareholders' equity		**525,839**	**192,234**
Total liabilities and shareholders' equity		**857,854**	**697,354**

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

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended December 31, 2007 and 2006

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

	Note	December 31, 2007	December 31, 2006
Revenues	19	308,747	315,596
Cost of sales	20	254,638	171,283
Gross profit		**54,109**	**144,313**
General, administrative and selling expenses		42,275	28,351
Other operating expenses	21	27,423	21,207
Operating (loss)/income		**(15,589)**	**94,755**
Interest expense		10,519	25,267
Capital lease finance costs		2,088	2,569
Exchange gain, net		(11,433)	(26,784)
(Loss)/income before income tax and minority interest		**(16,763)**	**93,703**
Income tax expense	22	6,063	25,755
(Loss)/income before minority interest		**(22,826)**	**67,948**
Minority interest		**-**	**6,261**
Net (loss)/income		**(22,826)**	**61,687**
Basic and diluted (loss)/earnings per share (expressed in U.S. Dollars)	17	(0.074)	0.224
Weighted average number of shares outstanding		307,581,330	275,000,000

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

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2007 and 2006
(In thousands of U.S. Dollars)

	December 31, 2007	December 31, 2006
Cash flows from operating activities		
Net (loss)/income	(22,826)	61,687
Adjustments to reconcile net (loss)/ income to cash provided by operations:		
Depreciation and depletion	47,329	39,366
Capital lease finance costs	2,088	2,569
Deferred income tax (gain)/expense	(6,379)	3,801
Loss on disposal of property, plant and equipment	343	1,339
Minority interest	-	6,261
Share based compensation	10,584	-
Exchange gain, net	(11,433)	(26,784)
Loss on impairment of asset	6,676	-
Other non-cash expense	8,489	228
Changes in working capital, excluding cash:		
Accounts receivable	3,587	-
Prepayments to suppliers	1,813	(127)
Inventories	(36,174)	(46,427)
VAT receivable	(4,060)	(6,615)
Other current assets	(11,074)	(5,166)
Accounts payable and accrued liabilities	8,655	231
Taxes payable	(424)	(1,261)
Net cash (used in) / provided by operating activities	**(2,806)**	**29,102**
Cash flows from investing activities		
Additions to property, plant and equipment	(115,654)	(60,311)
Proceeds from the sale of property, plant and equipment	4,211	2,845
Acquisition of subsidiaries and minority interest, net of cash acquired	(18,250)	(93,705)
Equity investment	-	(250)
Loans provided to third parties	-	(764)
Repayment of loans provided to third parties	392	501
Loans provided to related parties	-	(6,138)
Repayment of loans provided to related parties	465	15,088
Net cash used in by investing activities	**(128,836)**	**(142,734)**

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

for the years ended December 31, 2007 and 2006
(In thousands of U.S. Dollars)

	December 31, 2007	December 31, 2006
Cash flows from financing activities		
Proceeds from short-term loans and borrowings	242,907	433,303
Repayment of short-term loans and borrowings	(352,110)	(396,396)
Proceeds from long-term loans and borrowings	388,506	292,000
Repayment of long-term loans and borrowings	(450,996)	(88,599)
Proceeds from issuance of shares, net of costs incurred of U.S. Dollar 10,716	299,284	-
Bonus received from depositary	8,560	-
Proceeds from long-term loans and borrowings from related parties	45,013	4,574
Repayments of long-term loans and borrowings from related parties	(44,797)	(100,000)
Purchase of treasury shares	(50)	-
Redemption of bonds	-	(27,680)
Capital lease payments	(6,663)	(17,725)
Net cash provided by financing activities	**129, 654**	**99,477**
Exchange effects on cash balances	475	1,762
Net decrease in cash and cash equivalents	**(1,513)**	**(12,393)**
Cash and cash equivalents at the beginning of the year	6,532	18,925
Cash and cash equivalents at the end of the period	**5,019**	**6,532**
Supplementary cash flow information		
Interest paid	18,800	27,024
Income taxes paid	2,345	22,328

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

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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	Note	Number of shares	Share capital	Additional paid-in capital	Treasury shares	Accumulated other comprehensive (loss)/ income	Retained earnings	Total shareholders' equity
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**
Comprehensive income:								
Net loss		-	-	-	-	-	(22,826)	(22,826)
Currency translation adjustment		-	-	-	-	45,761	-	45,761
Total comprehensive income		-	-	-	-	-	-	22,935
Share issuance, net of transaction costs of 10,716	17	40,000,000	301	299,835	-	-	-	300,136
Share based compensation		-	-	10,584	-	-	-	10,584
Acquisition of treasury shares	17	(5,540,323)	-	-	(50)	-	-	(50)
Balance at December 31, 2007		**309,459,677**	**6,698**	**367,129**	**(50)**	**56,208**	**95,854**	**525,839**

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

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1. Background

Ownership structure
Open Joint Stock Company "Interregional Research and Production Association "Polymetal" was incorporated on March 12, 1998 in the Russian Federation. 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's majority shareholder prior to November 2005 was Closed Joint Stock Company ICT ("CJSC ICT"), which, together with its subsidiaries formed the ICT group. In November 2005, CJSC ICT sold their interests in the Company to Open Joint Stock Company Nafta Moskva ("JSC Nafta Moskva").

In 2006, after restructuring of JSC Nafta Moskva, Nafta Moskva (Cyprus) Limited, a subsidiary of JSC Nafta Moskva, became the sole shareholder of the Company until the Company's public offering. In February 2007, the Company placed 40,000,000 ordinary shares with par value of Rouble 0.2 per share in the form of Global Depositary Receipts ("GDR's") on the London Stock Exchange, as well as shares on the Non-for-profit Partnership "Stock Exchange "Russian Trading System" and Closed Joint Stock Company "Moscow Interbank Currency Exchange".

In June 2008 Nafta Moskva (Cyprus) Limited sold all of its interest in the Company (68.0%) to three parties: Quotan International Limited, controlled by ICT Group (24.05%), PPF Group NV, controlled by Petr Kellner (24.9%), and Inure Enterprises Limited, controlled by Alexander Mamut (19.05%).

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

Composition of the Group
The Company and its subsidiaries are collectively referred to as "the Group". As at December 31, 2007, the Company had the following significant mining subsidiaries:

Name of subsidiary	Field	Voting interest %	Effective ownership interest %
CJSC Zoloto Severnogo Urala	Vorontsovkoye	100	100
JSC Okhotskaya GGC	Khakandjinskoye, Urjevskoe	100	100
CJSC Serebro Territorii	Lunnoe, Arylakh	100	100
CJSC Serebro Magadana	Dukat	100	100

Changes in the Group structure and voting and ownership interests in major production subsidiaries in 2007 and 2006 are described in Note 24.

Business activities
The Group is engaged in gold and silver mining and related activities, including exploration, extraction, processing and reclamation. Since incorporation, the Group has acquired a number of gold and silver mining properties, which require significant investment to bring to commercial production. The Group owns producing assets at Vorontsovkoye and Lunnoe fields, Dukat and Khakandjinskoye mines.

The Group has three reportable segments which are based on regional locations in Russia. All of the Group's customers, operations and assets are located in Russia.

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The Group holds the following significant mining licenses: Vorontsovskoye field (Sverdlovsk region), Lunnoe field, Arylakh field and Dukat field (Magadan region), Khakandjinskoye field and Urjevskoe field (Khabarovsk region).

2. Basis of presentation

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

Recent issued accounting pronouncements

Accounting pronouncements effective during the period

In June 2006, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 06-03, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation) ("EITF No. 06-03"). EITF No. 06-03 provides that the presentation of taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer on either a gross basis (included in revenues and costs) or on a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. The provisions of EITF No. 06-03 became effective for fiscal years beginning after December 15, 2006. The Group continues to present such taxes on a net basis in the consolidated statement of operations, and therefore, the adoption of EITF No. 06-03 had no effect on the Group's consolidated financial position or results of operations.

In June 2006, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 became effective for fiscal years beginning after December 15, 2006. The Group adopted FIN 48 on January 1, 2007. The adoption of FIN 48 had no impact on the Group's beginning retained earnings.

Accounting pronouncements effective in the future

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 creates a fair value hierarchy, which prioritizes the inputs that should be used in determining fair value. Under this pronouncement, companies must provide disclosures containing relevant information in the financial statements, allowing users to assess inputs used to measure fair value, as well as the effect of those measurements on earnings for the periods presented, including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Group is currently evaluating the provisions of SFAS No. 157 to determine the potential impact, if any, the adoption will have on the Group's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financials Liabilities – Including an Amendment of FASB Statement No. 115 ("SFAS No. 159"). This standard permits, but does not require, measurement of certain financial assets and financial liabilities at fair value. If the fair value option is elected, the unrealized gains and losses are reported in earnings at

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each reporting date. Generally, the fair value option may be elected on an instrument-by-instrument basis, as long as it is applied to the instrument in its entirety. The fair value option election is irrevocable, unless a new election date occurs. SFAS No. 159 requires prospective application and also establishes certain additional presentation and disclosure requirements. The standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Group adopted the provisions of SFAS No. 159 effective January 1, 2008. Management has decided not to designate any additional financial instruments to be accounted for at the fair value effective January 1, 2008 and therefore believes that the adoption will not have a material impact on the Group's financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ("SFAS No. 141R"). SFAS No. 141R significantly changes the accounting for business combinations. Under SFAS No. 141R, an acquirer entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions. SFAS No. 141R will change the accounting treatment for certain specific acquisition related items including expensing acquisition related costs as incurred, valuing noncontrolling interest at fair value at the acquisition date and expensing restructuring costs associated with the acquired business. SFAS No. 141R is to be applied prospectively to the business combinations for which the acquisition date is on or after January 1, 2009. The Group is currently assessing the impact of adopting the statement.

In December 2007, FASB issued SFAS No. 160, Noncontrolling Interest in Consolidated Financial Statements - an amendment of Accounting Research Bulletin ("ARB") 51, Consolidated Financial Statements ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by third parties, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when the subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interest of the noncontrolling owners. SFAS No. 160 is effective for fiscal periods beginning on or after December 15, 2008. Earlier adoption is prohibited. The Group will apply this standard for its consolidated financial statements issued for fiscal year beginning January 1, 2009. The Group has not yet determined the impact of this standard will have on the Group's consolidated results of operations, financial position or cash flows.

In May 2007, the FASB issued FASB Staff Position FIN 39-1, Amendment of FASB Interpretation No. 39 ("FSP FIN 39-1"). FSP FIN 39-1 modifies FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts ("FIN No. 39") and permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. The Group believes that the adoption of FSP FIN 39-1 will not have material effect on its consolidated financial statements.

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 the 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 all its subsidiaries domiciled in the Russian Federation. Most of the Group'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.

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As a result, the transactions and balances in the accompanying consolidated financial statements have been translated into U.S. Dollars in accordance with the relevant provisions of 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 period average exchange rates. Translation differences resulting from the use of these exchange rates have been included as a separate component of shareholders' equity.

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. Assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in the effect at the balance sheet date.

The following exchange rates were used at the reporting dates:

	December 31, 2007	December 31, 2006
U.S. Dollar	24.55	26.33
Average exchange rate for the year, U.S. Dollars	25.55	27.14

3. Significant accounting policies

Principles of consolidation

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

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

Business acquisitions

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

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

Asset impairment

The Group assesses its held-for-use long lived assets for impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable. If the sum of estimated future cash flows on an undiscounted basis is less than the carrying amount of the related assets, an impairment is considered to exist. The related impairment loss is measured by comparing the estimated future cash flows on a discounted basis to the carrying amount of the asset.

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An individual operating mine is not a typical "going-concern" business because of the finite life of its reserves. The allocation of goodwill to an individual operating mine will result in an eventual goodwill impairment due to the wasting nature of the mine reporting unit. In accordance with the provisions of SFAS 142, Goodwill and Other Intangibles ("SFAS 142"), the Group performs a review of goodwill for impairment, at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

In accordance with SFAS No. 142, goodwill is reviewed for impairment by comparing the carrying value of each reporting unit's net assets (including allocated goodwill) to the fair value of those net assets. If the reporting unit's carrying amount is greater than its fair value, then a second step is performed whereby the portion of the fair value that relates to the reporting unit's goodwill is compared to the carrying value of that goodwill. The Company recognizes a goodwill impairment charge for the amount by which the carrying value of goodwill exceeds the fair value. The Company has determined that there are no impairment losses in respect of goodwill for any of the reporting periods covered by these financial statements.

Cash and cash equivalents

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

Accounts receivable

Accounts receivable are measured at cost less an allowance for doubtful accounts, which is established based upon an assessment of the aging of accounts and the Group's past experience of collecting payments. The Group had no allowance for doubtful accounts outstanding at December 31, 2007 or 2006.

Inventories and spare parts

Inventories including gold and silver in process, refined metals, dore, ore stockpiles, spare parts and consumable supplies are stated at the lower of cost or market value. Cost is determined as the sum of the applicable expenditures and charges directly or indirectly incurred in bringing inventories to their existing condition and location.

Gold and silver in process, dore are valued at the average total production costs at the relevant stage of production. Ore stockpiles are valued at the average moving cost of mining ore. Spare parts and consumable supplies are valued at the lower of weighted average cost or market value. Refined metals are valued at the cost of production per unit of gold or silver.

Write downs are made for unrealizable inventory in full.

Financial instruments

A financial instrument is defined as cash, evidence of an ownership interest in an entity, or a contract that imposes an obligation to deliver or right to receive cash or another financial instrument. The 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 Group could receive in current market exchanges.

For long-term borrowings, the difference between the fair value and carrying value was not material as interest rate as at December 31, 2007 approximates market rate and there was no change for the credit rating of the Group in 2007. The carrying values of cash and cash equivalents, other short-term investments, accounts and notes receivable, accounts and notes payable, other accrued liabilities, taxes payable and short-term debt, approximate their fair values because of the short maturities of these instruments.

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Derivatives

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended ("SFAS No. 133"), establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 133 provides that normal purchase and normal sale contracts, when appropriately designated, are not subject to the statement.

Normal purchases and normal sales are contracts which provide for the purchase or sale of something other than a financial instrument or derivative instrument that will be delivered in quantities expected to be used or sold by the reporting entity over a reasonable period in the normal course of business. To qualify for the normal purchases and normal sales exception, it must be probable at inception and throughout the term of the individual contract that the contract will not settle net and will result in physical delivery. The Group's forward sales contracts are designated as normal purchases and sales. The Group does not have any other derivative financial instruments.

Property, plant and equipment

Property, plant and equipment consist of assets of the Group directly related to mining and processing of ore and include costs of development of the mining properties, the costs of acquisition or construction of property, plant and equipment and capitalized interest. Expenditures for major improvements and renewals are capitalized. The cost of maintenance, repairs and replacement of minor items of plant and equipment is charged to operations as incurred. Interest attributable to the acquisition or construction of property, plant and equipment is capitalized using an overall borrowing rate as a cost of the asset 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 operations 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 established proven and probable reserves, the costs incurred in exploration and development of such property, including costs to further delineate the ore body and remove any overburden to initially expose the ore body are capitalized.

In accordance with EITF Issue 04-6, Accounting for Stripping Costs in the Mining Industry, post production stripping costs are considered the costs of the extracted minerals under a full absorption costing system and recognized as a component of inventory to be recognized in cost of sales in the same period as the revenue from the sales of inventory.

Leased property, plant and equipment meeting the criteria of capital lease are capitalized; valued at the lower of the assets fair value and net present value of the total minimum future 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 or over the term of the lease, if shorter.

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

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

- Machinery and equipment 1–20 years;
- Transport and other 1–10 years.

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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"). 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.

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

Pension obligations
The Group pays mandatory contributions to the state social funds, which are expensed as incurred. For the year ended December 31, 2007 and 2006, the Group contributed U.S. Dollar 11,781 and 14,919, respectively.

Reclamation and mine closure
The Group 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 Group capitalizes the cost by increasing the carrying amount of the related long lived asset. Over time, the liability is accreted to its present value at the end of each period, and capitalized cost is amortized over the mine life or the useful life of the related asset.

Income taxes
The Group accounts for income taxes using the balance sheet liability method required by SFAS No. 109. 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. 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.

In the normal course of business the Group is subject to examination by taxing authorities throughout the Russian Federation. Interregional Inspectorate of the Federal Tax Service ("IIFTS") have commenced examinations of the Group's tax returns for 2003 through 2005. No significant adjustments have been proposed by IIFTS as at December 31, 2007.

Uncertain tax positions are recognized in the financial statements for positions which are considered more likely than not of being sustained based on the technical merits of the position on audit by the tax authorities. The measurement of the tax benefit recognized in the financial statements is based upon the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized based on a cumulative probability assessment of the possible outcomes. As at December 31, 2007, the Group's liability for unrecognized tax benefit was U.S. Dollar 1,839. The whole amount would affect the Group's effective tax rate if recognized.

The Group records penalties and accrued interest related to uncertain tax positions in income tax expense. As at December 31, 2007, U.S. Dollar 91 were included in the liability for uncertain tax positions for the probable payment of interest and penalties.

There are no items that are affected by expiring statute of limitations within the next 12 months.

Revenue recognition
Revenue is derived principally from the sale of gold and silver and is measured at the fair value of consideration received or receivable, after deducting discounts. A sale is recognized when the significant risks and rewards of ownership have passed. This is usually when title and risk have passed to the customer and the goods have been delivered to the customer. Revenue is presented in consolidated statement of operations net of VAT.

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The Group sells metal to banks through long-term agreements. The sales price, as determined in the agreement, may be variable based upon the London Bullion Market Association spot price or fixed.

Share based compensation

The Group's board of directors awards share options to certain employees. The Group applies SFAS No. 123 (revised 2004), Share-Based Payment ("SFAS 123(R)"), to its accounting for share based compensation. SFAS 123(R) requires companies to recognize compensation costs for share-based payments to employees based on the grant-date fair value of the award.

The fair value of the share-based payments is calculated at the grant date using the Black-Scholes option pricing model. For equity-settled share-based payments, the fair value is determined using the Black-Scholes model and expensed on a straight-line basis over the vesting period based on the Group's estimate of the shares that will eventually vest.

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

Comprehensive income

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

4. Reclassifications

Certain comparative information presented in the consolidated balance sheet as at December 31, 2006 has been reclassified in order to achieve comparability with the presentation used in the consolidated balance sheet as at December 31, 2007. After considering all relevant quantitative and qualitative information, the Group concluded that these reclassifications are not material to the consolidated financial statements as at December 31, 2006:

	Before reclassifications	**After reclassifications**	**Difference**
Accounts receivable	17,090	3,218	(13,872)
Prepayments to suppliers	-	13,872	13,872
Short-term loans to third parties	442	-	(442)
Related party receivables and prepayments	126	-	(126)
Other current assets	13,336	13,904	568
Investments and long-term loans to third parties	-	615	615
Investments	250	-	(250)
Long-term loans to third parties	365	-	(365)
Total	**31,609**	**31,609**	**-**

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In previous reporting periods prepayments to suppliers were not presented separately in the consolidated balance sheet, and were instead included in accounts receivable. In 2007, it was decided to present the balance of prepayments to suppliers separately.

In previous reporting periods short-term loans to third parties and related party receivables and prepayments were presented separately in the consolidated balance sheet. As at December 31, 2007 as there is no balance in short-term loans to third parties and related party receivables and prepayments, management decided to aggregate the December 31, 2006 balances within other current assets.

In previous reporting periods investments and long-term loans to third parties were presented separately in the consolidated balance sheet. As at December 31, 2007, as there is no balance in long-term loans to third parties, management decided to aggregate the December 31, 2006 balances of investments and long-term loans to third parties.

5. Inventories

	December 31, 2007	December 31, 2006
Consumables and spare parts	73,613	66,336
Ore stock piles	62,106	48,634
Work-in-process	35,566	28,340
Dore	12,784	1,890
Refined metals	29,072	10,429
Total	**213,141**	**155,629**

6. VAT receivable

	December 31, 2007	December 31, 2006
Short-term VAT receivable	52,078	45,335
Long-term VAT receivable	10,288	9,019
Total	**62,366**	**54,354**

Long-term value-added tax (“VAT”) receivable primarily represents VAT balances resulting from capital expenditures and operating activities which are not expected to be recovered within the next calendar year due to specific requirements of the tax regulations. Management believes that these balances are fully recoverable from the tax authorities when the respective capital assets qualify as having been put into operation for VAT purposes.

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7. Deferred tax

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

	December 31, 2007	December 31, 2006
Deferred tax assets:		
Tax losses carried forward	2,140	3,962
Deferred payments	1,786	-
Other current assets	1,326	517
Accounts payable	2,480	299
Total deferred tax assets	**7,732**	**4,778**
Deferred tax liabilities:		
Property, plant and equipment	(37,628)	(35,284)
Inventories	(11,437)	(14,902)
Total deferred tax liabilities	**(49,065)**	**(50,186)**
Net deferred tax liabilities	**(41,333)**	**(45,408)**
Deferred tax asset, short-term	3,806	816
Deferred tax asset, long-term	3,926	3,962
Deferred tax liability, short-term	(11,437)	(14,902)
Deferred tax liability, long-term	(37,628)	(35,284)

The tax losses carried forward represent the amounts, which will be off-set against future taxable income to be generated by CJSC Serebro Territorii, CJSC Serebro Magadana, JSC Okhotskaya GGC and the Company during the period up to 2015. Each legal entity within the Group represents a separate tax-paying component for income tax purposes. The tax losses of one entity cannot be used to reduce taxable income of other entities in the Group.

As at December 31, 2007 and 2006 the aggregated tax losses carried forward were U.S. Dollar 8,917 (Rubles 218,878 thousand) and U.S. Dollar 16,509 (Rubles 434,711 thousand) respectively.

As at January 1, 2007 the Group changed the tax base calculation of its work-in-progress, ore, dore and refined metals, allocating certain direct production costs previously treated as costs of the period incurred and not allocated to inventory for statutory tax purposes. As a result of the change, deferred tax liability as at December 31, 2007 and net loss for the year ended December 31, 2007 decreased by U.S. Dollar 8,136, basic and diluted loss per share decreased by U.S. Dollars 0.026.

The Group does not recognize a deferred tax liability on undistributed earnings of its subsidiaries as it expects that these earnings will ultimately be recovered in tax-free transactions.

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8. Other current assets

	December 31, 2007	December 31, 2006
Taxes receivable	12,442	7,977
Other receivables	4,111	2,000
Other current assets	1,504	3,927
Total	**18,057**	**13,904**

9. Property, plant and equipment

	December 31, 2007	December 31, 2006
Buildings and underground workings	210,710	147,358
Machinery and equipment	155,607	161,571
Transport and other	52,079	22,130
Mineral rights	159,294	130,175
Construction-in-progress	96,090	58,770
Total cost	**673,780**	**520,004**
Less: Accumulated depreciation and depletion	**(171,310)**	**(113,586)**
Net book value	**502,470**	**406,418**

At December 31, 2007, capital leases included within property, plant and equipment total U.S. Dollar 47,555 (of which machinery and equipment was U.S. Dollar 39,197 and transport and other was U.S. Dollar 8,358) (as at December 31, 2006: U.S. Dollar 79,335, of which machinery and equipment was U.S. Dollar 62,183 and transport and other was U.S. Dollar 17,152).

At December 31, 2007, total accumulated depreciation and depletion of capitalized leases was U.S. Dollar 31,749 (of which machinery and equipment was U.S. Dollar 26,525 and transport and other was U.S. Dollar 5,224). At December 31, 2006, total accumulated depreciation and depletion of capitalized leases was U.S. Dollar 20,328, of which machinery and equipment was U.S. Dollar 15,972 and transport and other was U.S. Dollar 4,356).

Long-term deferred exploration expenditures, which are included within construction-in-progress, amounted to U.S. Dollar 41,520 and U.S. Dollar 11,766 at December 31, 2007 and 2006, respectively.

Mineral rights of the Group are comprised of mineral rights acquired by the Group upon purchase of subsidiaries. Accumulated depletion of mineral rights was U.S. Dollar 28,467 and U.S. Dollar 10,969 at December 31, 2007 and 2006, respectively.

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Construction-in-progress in the amount of U.S. Dollar 96,090 and U.S. Dollar 58,770 is not being amortized as it was not yet put into use as at December 31, 2007 and 2006, respectively.

In 2007, management of the Group decided that it was no longer economically viable to mine the open pit reserves located at Lunnoe field. Therefore, the related open pit mine is not currently used in operations and has been written off entirely, which has resulted in impairment losses of U.S. Dollar 6,676 (see Note 21), which relates entirely to Magadan segment.

As at December 31, 2007, property, plant and equipment with carrying value of U.S. Dollar 13,860 was pledged as collateral for the loan from ABN Amro (see Note 14).

10. Goodwill

	December 31, 2007
Beginning balance	31,896
Additions during the current year (see Note 24)	10,183
Reclassification	(13,226)
Effect of foreign exchange rate	1,288
Total	**30,141**

During the year ended December 31, 2007, the Group has reclassified certain amounts from goodwill to mineral rights within property, plant and equipment related to 2006 acquisitions. Subsequent to the issuance of the consolidated financial statements of the Group for the year ended December 31, 2006, management determined that in accordance with EITF 04-3, Mining Assets: Impairment and Business Combination, value beyond proven and probable reserves not previously identified separately from goodwill in the purchase price allocation, should instead be classified as mineral rights, which are a component of property, plant and equipment. In addition, management determined that the interests acquired during 2006 in ZAO Enisey Mining-and-Geological Company and Albazino Resources LLC did not meet the definition of acquired businesses in accordance with SFAS No. 141, Business Combinations, and should instead have been accounted for as acquisitions of mineral rights. After considering all relevant quantitative and qualitative information, the Group concluded that these reallocations were not material to the consolidated financial statements for the year ended December 31, 2006. As a result, an amount of goodwill of U.S. Dollar 13,226 as at December 31, 2007 was reclassified to mineral rights within property, plant and equipment, net of deferred taxes equal to U.S. Dollar 2,422.

11. Long-term loans to related parties

	Interest rate	December 31, 2007	December 31, 2006
Accord-Invest LLC	10.5%	5,334	5,343
Employees	1%	785	795
Total		**6,119**	**6,138**

Accord-Invest LLC together with the Company was under common control of the parent company Nafta Moskva (Cyprus) Limited (see Note 1). The loan to Accord-Invest is unsecured and is due in January 2010.

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12. Short-term debt and current portion of long-term debt

	Interest rate	December 31, 2007	December 31, 2006
U.S. Dollar denominated			
Sberbank	7.6–8%	-	69,591
Uralsib	9%		20,000
Alfa Bank	8%	-	14,920
Current portion of long-term debt (see Note 14)		152,006	122,105
Total U.S. Dollar denominated		**152,006**	**226,616**
Russian Ruble denominated			
Investros LLC	0%	-	3,154
Total Russian Ruble denominated		**-**	**3,154**
Total		**152,006**	**229,770**

Short-term debt facilities are not collateralized.

13. Capital lease liabilities

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

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

	December 31, 2007	December 31, 2006
Current portion	2,417	4,210
Long-term portion	147	2,445
Present value of minimum payments	**2,564**	**6,655**
Interest payable over the term of lease	239	1,329
Total future minimum lease payments	**2,803**	**7,984**

The table below summarizes the maturities of the capital lease liabilities:

	December 31, 2007
For the year ending December 31, 2008	2,628
2009	141
2010	34
Total	**2,803**

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14. Long-term debt

	Interest rate	December 31, 2007	December 31, 2006
U.S. Dollar denominated			
Sberbank	Libor + 2%	98,000	132,000
ABN Amro Bank	Libor + 2%	50,525	60,000
Bank Uralsib	8%	44,000	-
Gazprombank	8%	15,200	100,000
Total		**207,725**	**292,000**
Russian Ruble denominated			
Gazprombank	8%	15,481	-
		15,481	**-**
Total		**223,206**	**292,000**
Less current portion of long-term debt (see Note 12)		(152,006)	(122,105)
Total		**71,200**	**169,895**

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

	December 31, 2007
Year ending December 31, 2008	152,006
2009	71,200
Total	**223,206**

Sberbank

In December 2006, the Group received a long-term loan facility from Sberbank of Russia which allows the Group to borrow up to U.S. Dollar 153,000 to finance its current operations, contract financing, including replenishment of working capital. The credit facility is valid until December 2009. Interest is payable monthly, and is based on LIBOR plus 2%, which resulted in rates of 6.4875% and 5.3138% as at December 31, 2007 and 2006, respectively. As at December 31, 2007, the outstanding balance under the credit facility was U.S. Dollar 98,000.

The Group has to comply with certain financial and non-financial covenants to prevent the closure of the Sberbank credit facility. One such covenant is a requirement to obtain consent for the granting of collateral interests under the Company's subsequent financing arrangements. During 2006 the Group 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 loan.

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ABN Amro Bank

In December 2006, the Group 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 installments commencing in June 2007 up to the last installment in December 2008. Interest is payable monthly and is based on LIBOR plus 2%, which resulted in rates of 6.4875% and 5.3138% as at December 31, 2007 and 2006, respectively. Under the loan agreement with ABN Amro, the Group has to comply with certain financial and non-financial covenants. The loan agreement restricts the Group 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 the prior written consent of ABN Amro except for the offer and listing of up to 40% of the Company's share capital.

The loan agreement restricts the Company's ability to pay dividends for any of its financial years during the term of the loan or to make acquisitions in excess of U.S. Dollar 5 million without the prior written consent of ABN Amro.

As at December 31, 2007, property, plant and equipment with a carrying value of U.S. Dollar 13,860 was pledged as collateral for the loan from ABN Amro (see Note 9).

Gazprombank

In July 2006, the Group 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 installments due to commence July 31, 2007 up to the last installment in 2009. As a condition of Sberbank waiving any right to early repayment of the Sberbank loan as a result of a covenant violation, the Group committed to repay the Gazprombank loan in 2007. Accordingly, the total debt to Gazprombank as at December 31, 2006 was classified as short-term and included in the current portion of long-term debt (see Note 12). In March 2007, the loan to Gazprombank was fully repaid.

In September 2007, the Group received a long-term facility from Gazprombank which allows the Group to borrow funds, denominated in either U.S. Dollar or rubles, up to U.S. Dollar 62,969 (1,545,654 thousand rubles as at December 31, 2007) to finance its current operations. The credit facility is valid until December 2008. Interest is payable on a monthly basis. As at December 31, 2007, the outstanding balance under the credit facility was U.S. Dollar 30,681, including U.S. Dollar 15,200 denominated in U.S. Dollars and U.S. Dollar 15,481 (380,000 thousand rubles as at December 31, 2007) denominated in rubles.

Covenants to the loan agreements require the Group to maintain certain financial ratios, prohibit any change to the general nature of the business and limit the disposal of assets.

Bank Uralsib

In June 2007, The Group received a long-term facility from Bank Uralsib which allows the Group to borrow up to U.S. Dollar 60,000 to finance its current operations. The credit facility is valid until July 2008. Interest is payable on a monthly basis. As at December 31, 2007, the outstanding balance under the credit facility was U.S. Dollar 44,000. Covenants to the loan agreements require the Group to maintain certain financial ratios, prohibit any change to the general nature of the business and limit the disposal of assets.

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15. Reclamation and mine closure obligation

Mine closure obligations include decommissioning and land restoration costs and are recognized on the basis of existing project business plans as follows:

Name of subsidiary	CJSC Zoloto Severnogo Urala	JSC Okhotskaya GGK	CJCS Serebro Magadana	GJSC Serebro Territorii	Total
Balance as at December 31, 2006	**1,495**	**2,272**	**2,253**	**1,210**	**7,230**
Accretion of reclamation and mine closure obligation	57	157	37	28	279
Translation effects	108	167	163	88	526
Balance as at December 31, 2007	**1,660**	**2,596**	**2,453**	**1,326**	**8,035**

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

16. Deferred payments

Deferred payments as at December 31, 2007 comprised of an upfront payment received from Deutsche Bank Trust Company Americas. This payment was made to the Company in exchange for the Company selecting Deutsche Bank Trust Company Americas (the "Bank") as its executive depositary bank for GDR program at the London Stock Exchange. According to the terms of depositary agreement, the Bank should execute the function of the depositary for a seven year period. In case of early termination of the depositary agreement, the Company will have to pay back certain part of the granted bonus as compensation.

17. Shareholders' equity and earnings per share

As at December 31, 2007 and 2006, the authorized share capital of the Company comprised of 2,444,000,000 ordinary shares with a par value of Ruble 0.2 per share and 100,000 series A preference shares with a par value of Ruble 100.

As at December 31, 2007 and 2006, the issued share capital of the Company comprised of 315,000,000 and 275,000,000 ordinary shares, respectively, with a par value of Ruble 0.2 per share. As at December 31, 2007 and 2006, the outstanding share capital of the Company comprised of 309,459,677 and 275,000,000, respectively, ordinary shares with a par value of Ruble 0.2 per share. No preference shares were issued or outstanding.

As discussed in Note 1, in February 2007, the Company placed 40,000,000 ordinary shares with a par value of Ruble 0.2 per share in the form of GDR's on the London Stock Exchange. The Company received U.S. Dollar 307,844 in cash, which was reduced by transaction costs of U.S. Dollar 10,716.

In September 2007, as part of the Group's acquisition of Polymetal ESOP, the Group acquired 5,540,323 treasury shares (see Note 24).

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

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The Company has potentially dilutive securities including the Group's share option plan, which was established during 2007 (see Note 18). As the Company was in a net loss position for the period ended December 31, 2007, the stock options were anti-dilutive and therefore excluded from the calculation of diluted (loss)/earnings per share. Accordingly, basic and diluted (loss)/earnings per share were equal for the year ended December 31, 2007. The Group had no potentially dilutive securities outstanding during 2006, and accordingly, basic and diluted (loss)/earnings per share were also equal for the year ended December 31, 2006.

Basic (loss)/earnings per share were calculated by dividing net (loss)/income, as appropriate, by the weighted average number of ordinary shares outstanding during the respective reporting period.

18. Share-based payments

In 2007, the Group established a share option plan (the "Option Plan") for executive directors and senior employees of the Group.

The number of shares which a qualifying participant has become entitled to was determined by the Board of Directors on March 1, 2007. The options vest over a three year period from the grant date, contingent on continued employment with the Group.

A summary of the Group's Option Plan is presented below:

	Number of shares	Weighted average exercise price (per share), U.S. Dollar	Weighted average fair value of options (per share), U.S. Dollar	Aggregate intrinsic value, U.S. Dollar
Outstanding at December 31, 2006	-	-	-	-
Granted	5,540,332	0.04	6.97	38,848
Exercised	-	-	-	-
Forfeited	(230,847)	0.04	6.97	(1,155)
Outstanding at December 31, 2007	**5,309,485**	**0.04**	**6.97**	**37,693**

As at December 31, 2007 the Group had the following share options outstanding:

Exercise prices, U.S. Dollar	Number of shares	Remaining weighted average life in years	Average intrinsic value
0.04	5,309,485	2.17	7.10

None of the share options outstanding as at December 31, 2007 were fully vested, and will vest over a three-year period from the grant date.

The fair value of share options granted during the year ended December 31, 2007, was estimated using the Black-Scholes option pricing model. The following assumptions were used to value share based awards:

- *Expected forfeitures.* This assumption is estimated using historical trends of employees turnover. As the Group typically only grants options to senior employees and the turnover rate for such employees is minimal, the Group has estimated expected forfeitures to be 5% a year.
- *Expected volatility.* Since the Group's ordinary shares are publicly traded only since February 2007, expected volatility has been estimated based on an analysis of the historical stock price volatility of comparable public companies for a preceding period equal to the expected term of the option grant being valued.

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- *Expected term.* As the option plan has a three year vesting condition and the participant may exercise his right to redeem shares within three month of the date of obtaining the right to do so, the Group has estimated expected term as three years.
- *Fair value of common stock* is equal to the market price of underlying shares at the grant date.
- *Risk-free interest rate.* To estimate the risk-free rate, the Group used the implied yield currently available on Russian Eurobonds with a remaining term equal to the expected term of the option grant being valued.

Risk free rate	5.5%
Expected dividend yield	0%
Expected volatility	35.0%
Expected life, years	3
Fair value of shares, U.S. Dollars	7.05

For the year ended December 31, 2007, share based compensation in the amount of U.S. Dollar 10,584 (2006 – nil) was recognized in general, administrative and selling expenses. As at December 31, 2007, the Group had U.S. Dollar 28,761 of unrecognized share based compensation.

19. Revenues

	Year ended December 31, 2007	Year ended December 31, 2006
Sales to third parties		
Sberbank	115,510	59,915
ABN Amro Bank	104,079	-
Gazprombank	60,674	12,001
Uralsib	25,644	6,606
Standard Bank London	-	165,885
IBG NIKoil	-	3,329
Total sales to third parries	**305,907**	**247,736**
Sales to related party		
Nomos Bank	-	67,169
Subtotal revenue from gold and silver sales	**305,907**	**314,905**
Other	2,840	691
Total	**308,747**	**315,596**

Revenues from Sberbank, ABN Amro Bank and Gazprombank individually exceed 10% of total revenue of the Group for 2007. Revenue from Sberbank was included in revenue of the North Ural segment – U.S. Dollar 65,476; the Khabarovsk segment – U.S. Dollar 45,773; and the Magadan segment – U.S. Dollar 4,261. Revenue from ABN Amro Bank was entirely included in revenue of the Magadan Segment. Revenue from Gazprombank was included in revenue of the North Ural segment – U.S. Dollar 14,632; the Khabarovsk segment – U.S. Dollar 26,155; and the Magadan segment – U.S. Dollar 19,887.

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Revenues analyzed by geographical regions are presented below:

	Year ended December 31, 2007	Year ended December 31, 2006
Sales within Russian Federation	204,668	149,711
Sales to Europe	104,079	165,885
Total	**308,747**	**315,596**

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

	Year ended December 31, 2007			Year ended December 31, 2006		
	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	235	700.52	164,622	255	603.33	153,849
Silver	16,152	8.75	141,285	17,267	9.33	161,056
Total			**305,907**			**314,905**

In 2007, the Group delivered silver to ABN Amro Bank at fixed prices as determined by the terms of the sales contract ranging from U.S. Dollar 7.7891 to U.S. Dollar 7.82 per troy ounce for total sales of 14,493,940 troy ounces. The variance between the sales at fixed prices under the contract as compared to market prices quoted on the London Bullion Market Association ("LBMA") resulted in a reduction to revenues of U.S. Dollar 75,704.

In 2006, the Group delivered silver to the Standard Bank London ("SBL") at fixed prices as determined by the terms of the sales contract ranging from U.S. Dollar 6.6575 to U.S. Dollar 7.95 per troy ounce for total sales of 9,015,036 troy ounces. The variance between the sales at fixed prices under the contract as compared to market prices quoted on the LBMA resulted in a reduction to revenues of U.S. Dollar 38,701.

Discounts from the LBMA market prices on sales to banks for the year ended December 31, 2007, amounted to U.S. Dollar 722 (2006: U.S. Dollar 948) for gold and U.S. Dollar 1,752 (2006: U.S. Dollar 1,339) for silver sales. Sales are recorded in the financial statements net of discounts.

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20. Cost of sales

	Year ended December 31, 2007	Year ended December 31, 2006
Operating costs (excluding staff costs)	105,943	78,471
Staff costs	38,242	28,473
Depreciation and depletion	47,329	39,366
Purchase of metal from third party	20,499	-
Mining tax	15,763	15,307
Other taxes, except for income taxes	7,319	6,166
Effect of change in accounting estimate	7,068	-
Other	12,475	3,500
Total	**254,638**	**171,283**

The nature of the heap leaching process inherently limits the ability to precisely monitor inventory levels and, as a result, the balancing process is constantly monitored and estimates of recovery rates are refined based on actual results over time. As a result of reviews done to meet regulatory requirements, during 2007 the Group determined that the estimated recovery rates for heap leach process at Vorontsovskoye field applied previously to record costs associated with heap leach activities should be revised to reflect actual experience. As a result of the change, an amount of U.S. Dollar 7,068 was charged to costs of the period incurred as a result of this change in accounting estimate.

21. Other operating expenses

	Year ended December 31, 2007	Year ended December 31, 2006
Impairment of property, plant and equipment (see Note 9)	6,676	-
Consulting services	6,137	-
Social payments	4,407	2,976
Taxes, other than income	4,367	1,021
Exploration expenses	1,973	5,347
Bank services	713	6,788
Loss on fixed asset disposals	343	1,339
Other expenses	2,807	3,736
Total	**27,423**	**21,207**

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22. Income tax

	Year ended December 31, 2007	Year ended December 31, 2006
Current income taxes	12,442	21,954
Deferred income taxes	(6,379)	3,801
Total	**6,063**	**25,755**

A reconciliation between the reported amount of income tax expense attributable to (loss)/income before minority interest and the amount of income tax expense that would result from applying the statutory income tax rate for the years ended December 31, 2007 and 2006 is as follows:

	Year ended December 31, 2007	Year ended December 31, 2006
(Loss)/income before income tax and minority interest	**(16,833)**	**93,703**
Statutory income tax (benefit)/expense at tax rate of 24 percent	(4,040)	22,489
Share based compensation	2,540	-
Permanent tax differences (non-deductible expenses)	7,563	2,816
Other	-	450
Total income tax expense	**6,063**	**25,755**

The actual tax expense differs from the amount which would have been determined by applying the statutory rate of 24% (2006: 24%) to the (loss)/income from operations before tax 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. These deductions include social related expenditures and other non-production costs, certain general, administrative, financing, foreign exchange related and other costs.

23. Segments

The Group has three reportable segments:

- North Ural region (CJSC Zoloto Severnogo Urala);
- Khabarovsk region (JSC Ohotskaya GGK); and
- Magadan region (CJSC Serebro Territorii and CJSC Serebro Magadana).

The reportable segments are determined based on the Group's geographic regional profile. Minor companies (management, exploration, purchasing and other companies) which were not included into operating segments, were included into Corporate and other.

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Segment results comprises of segment gross profit, calculated as segment revenues less cost of sales for each segment. Segment expenses represent cost of sales, which are 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.

Corporate and other revenues comprise revenues from services provided to third parties by Group's non-mining subsidiaries. These include exploration works for mining companies and design services related to ore field development and precious metal extraction technologies.

For the year ended December 31, 2007	North Ural	Khabarovsk	Magadan	Corporate and other	Total
Revenue	80,132	77,822	148,557	2,236	**308,747**
Cost of sales	(57,729)	(59,649)	(136,246)	(1,014)	**(254,638)**
Gross profit	22,403	18,173	12,311	1,222	**54,109**
Interest expenses, net					**(10,519)**
Other expenses, net					**(60,353)**
Total income from continuing operations before income tax and minority interest:					**(16,763)**
Segment assets:					
Property, plant and equipment, net	96,269	145,229	190,265	70,707	**502,470**
Accounts receivable, inventories, prepayment to suppliers, and VAT receivables	62,316	65,679	109,119	50,934	**288,048**
Goodwill	-	16,592	10,183	3,366	**30,141**
Total segment assets	158,585	227,500	309,567	125,007	**820,659**
Unallocated assets:					
Cash and cash equivalents					**5,019**
Other assets					**32,176**
Total assets					**857,854**

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For the year ended December 31, 2006	North Ural	Khabarovsk	Magadan	Corporate and other	Total
Revenue	62,189	86,975	166,052	380	**315,596**
Cost of sales	(41,647)	(39,001)	(92,829)	2,194	**(171,283)**
Segment results – Gross profit	20,542	47,974	73,223	2,574	**144,313**
Interest expenses, net					**(25,267)**
Other expenses, net					**(25,343)**
Total income from continuing operations before income tax and minority interest:					**93,703**
Segment assets:					
Property, plant and equipment, net	87,352	139,632	160,554	18,880	**406,418**
Accounts receivable, inventories, prepayment to suppliers, and VAT receivables	52,334	76,043	77,441	31,359	**237,177**
Goodwill	-	24,261	855	6,780	**31,896**
Total segment assets	139,686	239,936	238,850	57,019	**675,491**
Unallocated assets:					
Cash and cash equivalents					6,532
Other assets					15,331
Total assets					**697,354**

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24. Acquisition of subsidiaries

CJSC Serebro Magadana

In November 2004, the Group acquired the remaining 20% interest in its subsidiary CJSC Serebro Magadana, the license owner for the Dukat mine, from company P.A.S. Silver (Cyprus) Ltd. The Group paid U.S. Dollar 21,226 in cash at the time of the acquisition and agreed to pay up to U.S. Dollar 22,500 in additional contingent future payments. The future payments were to 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:

Range of silver price per troy 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 agreement also contained a provision for early repayment on the occurrence of certain events, such as a public share offering. In the event of public offering the Group would pay 50% of any remaining contingent consideration within 30 days after listing.

The Group paid U.S. Dollar 2,000 during 2006 related to 2005 actual silver prices. In March 2007, as a result of the IPO in February 2007, the Group paid U.S. Dollar 10,250, which represented 50% of the total remaining potential contingent consideration of U.S. Dollar 20,500. The Group paid an additional amount of U.S. Dollar 8,000 during 2007 related to 2006 actual silver prices. The remaining contingent consideration, which will be paid based upon 2007 actual silver prices, amounting to U.S. Dollar 2,250 must be paid no later than December 2008 and is recorded within accounts payable as of December 31, 2007.

As a result of the additional contingent payments made and accrued for during 2007, bringing the total consideration to U.S. Dollar 43,726, the Group recorded goodwill of U.S. Dollar 10,183, representing the excess cost of the acquisition over the fair value of net assets acquired of U.S. Dollar 33,543.

JSC Okhotskaya GGC

In July 2006, the Group acquired an additional 30.76% interest in JSC Okhotskaya GGC, an existing consolidated subsidiary of the Group, from a related party for U.S. Dollar 73,857. In August 2006, the Group purchased the remaining 1.89% of this company for U.S. Dollar 7,500. These acquisitions were recorded using the purchase method of accounting. Goodwill that arose on acquisition of additional interest in JSC Okhotskaya GGC was primarily attributable to the expected business synergy.

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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 (see Note 10)	24,260
Deferred tax liabilities	(10,775)
Decrease in minority interest	22,976
Cash paid on acquisition	81,357

Other acquisitions

In September 2007, the Group acquired 100% of Polymetal Esop Limited, which holds 5,540,323 of the Company's shares, from its parent company Nafta Moskva (Cyprus) Limited. The purchase consideration comprised of U.S. Dollar 50. The acquisition of Polymetal ESOP Limited was accounted for as acquisition of treasury shares as it did not constitute the business. These treasury shares will be used for distribution among the Share Option Plan participants (see Notes 17 and 18).

During 2007 the Group acquired a 100% of shares in Fiano Investment Limited, Imitzoloto Holdings Limited and Eniseyskaya Holdings Limited for U.S. Dollar 8. Net asset of the companies were equal to the purchase price at the date of acquisition.

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

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

Amursky Hydrometallurgy Plant LLC

In April 2007, the Group incorporated a new subsidiary -Amurskiy Hydrometallurgy Plant LLC. The Group plans on building a new plant in the Khabarovsky Region in order to process ore extracted by Albazino resources LLC.

25. Related party transactions

Related parties are considered to include shareholders, affiliates and entities under common ownership and control with the Group and members of key management personnel. In the course of its business the Group entered in the various non-operating transactions with related parties.

In July 2006, the Group acquired an additional 30.76% interest in JSC Okhotskaya GGC, an existing consolidated subsidiary of the Company, from Accord-Invest LLC – a related party – for U.S. Dollar 73,857 (see Note 24).

In June 2007 the Group sold 85% in CJSC GRK Dukat for U.S. Dollar 0.3 to a related party. CJSC GRK Dukat did not perform any operations during 2006 and 2007. The amount of net assets at the date of disposal comprised U.S. Dollar 0.01.

As at December 31, 2007 and December 31, 2006 the amount of outstanding short-term loans provided to related parties comprised nil and U.S. Dollar 126 respectively.

As at December, 2007 and December 31, 2006 the amount of outstanding long-term loans provided to related parties comprised U.S. Dollar 6,119 and U.S. Dollar 6,138 respectively (see Note 11). The amount of interest income in 2007 is equal to U.S. Dollar 466.

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26. Commitments and contingencies

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.

Out of the large operating companies of the Group, tax authorities audited JSC Okhotskaya GGC, CJSC Serebro Magadana and CJSC Serebro Territorii for the period up to 2004, and CJSC Zoloto Severnogo Urala for the period up to 2005. Nevertheless, according to the Russian tax legislation previously conducted audits do not fully exclude subsequent claims relating to the audited period.

The Group has identified contingencies related to taxes other than income tax. Such possible tax contingencies could materialize and require the Group to pay additional amounts of tax. As at December 31, 2007 management estimates such contingencies related to taxes other than income tax to be up to approximately U.S. Dollar 361. The Group believes the estimated loss related to these contingencies is not probable and, as such, it is not accrued at December 31, 2007.

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 enter into controllable transactions (e.g. intercompany transactions) and based on the terms the Russian tax authorities may qualify it as non-market. Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated although it may be significant.

Political environment

The operations and earnings of the Group are affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection. Because of the capital-intensive nature of the industry, the Group is also subject to physical risks of various

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kinds. The nature and frequency of these developments and events associated with these risks, which generally are not covered by insurance, as well as their effect on future operations and earnings, are not predictable.

Forward sales commitments

The Group is required to deliver a minimum quantity of 9,002,208 troy ounces of silver to ABN Amro over the period from January 1, 2008 to December 31, 2008 at the London silver fix price. If the Group defaults in the performance of its obligations under this contract, it shall pay to ABN Amro an amount, reasonably determined by ABN Amro, equal to the total cost and damages reasonably incurred, or to be reasonably incurred by ABN Amro, including without limitation, in respect of its insurance, vaulting, transportation and borrowing costs (if any) resulting from the default in the performance on such delivery obligation.

In connection with the General Framework Credit Line Agreement dated April 28, 2006 entered into between Sberbank and the Company's subsidiaries, CJSC Zoloto Severnogo Urala and JSC Okhotskaya GGC, JSC Okhotskaya GGC, CJSC Zoloto Severnogo Urala, CJSC Serebro Territorii and CJSC Serebro Magadana are required to sell certain quantity of gold and silver calculated based on the amount of loan facility outstanding to Sberbank during 2008 at the price determined by LBMA.

Litigation

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and as a defendant) arising in the ordinary course of business. In the opinion of management of the Group, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated interim 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 and medical insurance for employees. Furthermore, the Group has purchased civil liability coverage for operating entities with 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 reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

27. Subsequent events

In January 2008 the Group acquired 97% of shares in JSC Omolon Gold Mining Company from Kinam Magadan Gold Corporation, an unrelated party, for U.S. Dollar 15,000. In March 2008 the Group acquired 2% of shares in JSC Omolon Gold Mining Company from the Russian Federal Property Fund for U.S. Dollar 814.

In February 2008, the Group signed an agreement to set up strategic alliance and joint venture with AngloGold Ashanti Limited. Within the framework of this agreement each party will own 50% in the joint venture, to which the Group will contribute its shares in CJSC Enisey Mining and Geological Company and Imitzoloto LLC in addition to a cash contribution amounting to U.S. Dollar 13,454.

In February 2008 1,826,853 ordinary shares were transferred to the employees in accordance with share option plan (see Note 18).

APPENDIX 1. Polymetal List of Subsoil Licenses (as of December 31, 2007)

№	License	Licensed Object	Area of Licensed Section	License Holder	Period of Validity for the License
1. Geological surveying and mining. Mining operations					
1	SVE 00696 BR	Geological survey and development of the Voro gold deposit	3.2 sq. km	Gold of Northern Urals	Until December 31, 2018
2	MAG 03211 BE	Mining gold and silver and foreign metal impurities from the Dukat gold and silver deposit	11.4 sq. km	Magadan Silver	Until December 31, 2017
3	MAG 02871 BR	Geological survey of minerals and mining gold, silver and foreign metal impurities from the Lunnoye gold and silver deposit and its flanks	48 sq. km	Silver Territory	Until December 31, 2016
4	KhAB01160 BE	Geological survey and industrial development of the Khakanja gold and silver deposit	50.2 sq. km	Okhotskaya Mining and Exploration Company	Until December 31, 2014
5	MAG 04150 BR	Geological survey of minerals and mining gold, silver and foreign metal impurities from the Arylakh gold and silver deposit and its flanks	1.45 sq. km	Magadan Silver (transferred from Silver Territory)	Until December 31, 2016
6	KhAB01161 BE	Geological survey and industrial development of the Yurievskoye gold and silver deposit	50.2 sq. km	Okhotskaya Mining and Exploration Company	Until December 31, 2016
2. Geological surveying, exploration and mining					
7	MAG 13850 BR	Geological survey, exploration and mining gold and silver at the Dukat ore field	40.6 sq. km	Magadan Silver	Until November 30, 2031
8	SVE02417 BR	Geological survey and mining gold within the limits of the Reftinskaya zone, including the Fevralskoye and Ikryanskoye deposits	0.59 sq. km	Aurum	Until September 16, 2018
9	SVE13533 BR	Geological survey, exploration and mining gold ore at the Katasma area	28.2 sq. km	Gold of Northern Urals	Until March 1, 2031
10	SVE02394 BR	Geological survey, exploration and mining gold ore at the Tamunyerskii area	21 sq. km	Gold of Northern Urals	Until October 1, 2032
11	KhAB01960 BR	Geological survey, exploration and mining gold and silver at the Khakari area	64 sq. km	Georazvedka	Until December 31, 2025
12	KhAB01966 BR	Geological survey and mining gold ore at the Albazino area	82 sq. km	Albazino Resources	Until January 1, 2015
13	KhAB14040 BR	Geological survey, exploration and mining gold and silver ore at the Arkinsko-Selemdjinskaya area	1,580 sq. km	Okhotskaya Mining and Exploration Company	Until April 20, 2032
14	KhAB14041 BR	Geological survey, exploration and mining gold and silver ore at the Amkinskaya area	86 sq. km	Okhotskaya Mining and Exploration Company	Until April 20, 2032

№	License	Licensed Object	Area of Licensed Section	License Holder	Period of Validity for the License
15	KhAB14054 BR	Geological survey, exploration and mining gold and silver ore at the Yuzno-Urakskaya area	834 sq. km	Okhotskaya Mining and Exploration Company	Until April 20, 2032
16	MAG 04116 BR	Geological survey, exploration and mining gold and silver ore at the Rogovik Prospective Area	397 sq. km	Magadan Silver	Until February 17, 2033
3. Geological surveying					
17	MAG 03894 VP	Geological surveying, search and evaluation of gold and silver ore at the Dukat Prospective Area	2,420 sq. km	Magadan Silver	Until July 18, 2011
18	SVE13448 VP	Geological surveying, search and evaluation of gold ore deposit at the Galka area	3.5 sq. km	Gold of Northern Urals	Until January 31, 2010
19	SVE02227 VP	Geological surveying, search and evaluation of the gold ore deposit at the Rudnichniy area	7.9 sq. km	Gold of Northern Urals	Until August 31, 2011
20	KhAB01992 VP	Geological surveying of the gold and silver ore deposit within the limits of the Arkinskaya ore area	135 sq. km	Georazvedka	Until March 31, 2011
21	SVE02442 VP	Geological survey of the gold deposit at the Volchanskii area	31.5 sq. km	Gold of Northern Urals	Until December 31, 2012
4. Strategic Alliance with AngloGold Ashanti					
22	KRR01757BR	Exploration and mining of gold ore at the Anenskoye deposit	11.8 sq. km	Yeniseiskaya Mining and Exploration Company	Until December 31, 2032
23	KRR01833 BR	Geological survey, exploration and mining of gold ore at the Sovremennyi area	390 sq. km	Penchenga Gold	Until December 31, 2032
24	ChIT 01422 VP	Geological survey of the Aprelkovsko-Peshkovskii ore cluster	161.5 sq. km	Imitzoloto	Until December 31, 2010

Note (1). In February 2008 the Company formed Zoloto Taigi, a joint venture with AngloGold Ashanti. AngloGold Ashanti contributed the Amikan Mining Company and the Angarskaya Processing Company, which hold the licenses for the geological survey, exploration and mining of gold ore at the Veduga deposit and Veduga area in the Krasnoyarsk Territory and the Bogunai deposit in the Chita Region.

Note (2). In February 2008 the Company acquired the Omolonskaya Gold Mining Company, which holds licenses for the geological survey, exploration and mining of gold and silver in four areas in the Magadan Region: the Kubaka deposit, the Birkachan , the Oroch and the Prognoznoye.

APPENDIX 2. Ore Reserves and Mineral Resources Statement

This table sets forth the Company's reserves and mineral resources, classified in accordance with the JORC Code, as of January 1, 2008. .

		Content		Grade	
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au (koz.)	Ag (koz.)
Reserves					
Proved					
Dukat	17,363	0.9	406.1	494	226,685
Lunnoye	2,295	1.7	308.2	123	22,738
Voro	19,570	2.7	3.7	1,729	2,303
Khakanja	3,922	4.4	221.3	551	27,904
Arylakh	1,027	1.0	397.8	32	13,134
Yurievskoye	407	12.9	11.2	168	147
Total	**44,584**	**2.2**	**204.3**	**3,097**	**292,911**
Probable					
Dukat	7,257	1.0	400.7	230	93,493
Lunnoye	991	1.2	397.6	38	12,665
Voro	1,574	2.4	3.5	119	177
Khakanja	694	5.0	245.7	110	5,480
Arylakh	654	0.5	433.6	11	9,110
Yurievskoye	12	7.5	8.8	3	3
Total	**11,182**	**1.4**	**336.3**	**511**	**120,928**
Total Reserves	**55,766**	**2.0**	**230.8**	**3,608**	**413,839**
Mineral Resources					
Measured					
Dukat	18,497	0.9	430.1	510	255,782
Lunnoye	3,400	1.9	322.1	207	35,209
Voro	19,541	2.9	3.9	1,805	2,427
Khakanja	3,932	4.7	240.9	589	30,458
Arylakh	1,077	1.1	452.5	37	15,662
Yurievskoye	530	12.6	12.4	216	212
Albazino	3,089	6.32	0	628	0
Nachalnoye 2	296	0	367.9	0	3,504
Total	**50,362**	**2.5**	**210.9**	**3,992**	**343,254**
Indicated					
Dukat	7,337	1.0	442.8	235	104,460
Lunnoye	1,808	1.1	347.6	65	20,205

		Content		Grade	
	Tonnage (kt)	Au (g/t)	Ag (g/t)	Au (koz.)	Ag (koz.)
Voro	1,509	2.6	3.8	124	186
Khakanja	814	5.4	274.3	142	7,178
Arylakh	1,245	0.5	414.3	22	16,579
Yurievskoye	96	9.2	12	29	37
Albazino	8,787	5.1	0	1,445	0
Galka	4,255	1.4	43.7	196	5,975
Nachalnoye 2	96	0	330	0	1,021
Total	**25,947**	**2.7**	**186.6**	**2,258**	**155,641**
Total Measured and Indicated	**76,309**	**2.5**	**202.6**	**6,250**	**498,895**
Inferred					
Dukat	17	1.0	424	1	235
Lunnoye	1,579	1.3	550.6	63	27,954
Voro	114	2.8	4.6	10	17
Khakanja	133	3.7	199	16	853
Arylakh	117	1.0	426.2	4	1,597
Yurievskoye	19	17.5	16.4	11	10
Albazino	1,163	4.5	0	167	0
Galka	9,982	1.2	29.4	394	9,447
Nachalnoye 2	13	0	215	0	87
Total	**13,137**	**1.6**	**95.3**	**666**	**40,200**
Total Mineral Resources	**89,446**	**2.4**	**186.9**	**6,916**	**540,095**

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