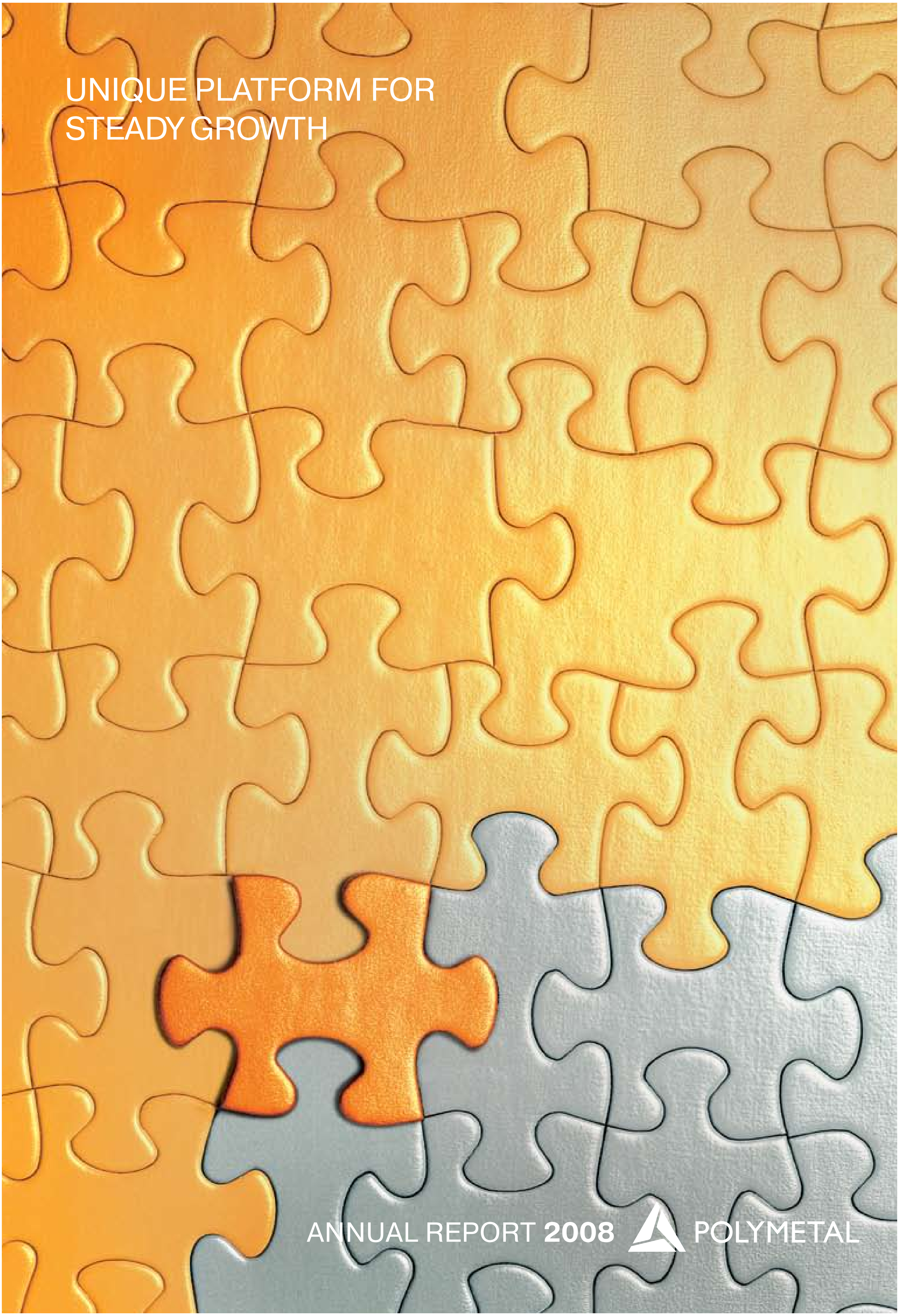


UNIQUE PLATFORM FOR STEADY GROWTH

ANNUAL REPORT **2008** POLYMETAL

CONTENTS

Who We Are

Polymetal is a leading Russian gold and silver mining company with a long-term portfolio of high-quality assets. The Company is the third global primary silver producer, the largest silver and forth gold producer in Russia.

Our vision is to become the leading precious metals mining company in Russia and the CIS as measured by creation of shareholder value.

Polymetal was founded over 10 years ago, and has demonstrated a proven capability of identifying and bringing into production high quality gold and silver assets in three Russian regions: Sverdlovsk Region, Magadan Region and the Khabarovsk Territory.

The Company has created its portfolio of mining assets by developing greenfield deposits, as well as through the complete reconstruction of non-operational mines. It now has excellent experience in managing the full development cycle for deposits, from geological exploration to full-scale production, including engineering, construction and exploitation.

Polymetal's most promising deposit is Albazino located in the Khabarovsk Territory, which contains JORC reserves estimated at 2.1 Moz and mineral resources at approximately 3 Moz of gold. The Company plans to continue active exploration work at Albazino and expects that its resource base will grow to 5–6 Moz by the time the operation begins production. Construction of a processing plant at Albazino is scheduled to begin in 2009, and it should produce its first gold in 2010.

The Company is currently completing work on projects to expand the production capacity at its Dukat and Voro operations.

In 2008, Polymetal acquired the Kubaka and Degtyarskoye gold deposits and signed an agreement to acquire the Goltsovoye silver deposit. In 2009, the Company signed a deal to acquire Sopka Kvartsevaya gold deposit (Magadan Region). These new deposits are expected to be brought on-line in 2010.

In 2009, the Company plans to produce 280–300 Koz of gold and 17–18 Moz of silver.

By 2012, Polymetal aims to increase its gold production by more than 100% to 630 Koz and its silver production by 50%, to 25.6 Moz. This target will be achieved through further development of our existing projects, without taking into account potential acquisitions.

Polymetal at a Glance

Production

- Active in three Russian regions
- Four operating mines
- Mine life ranging from ten to over 20 years

Projects to expand the processing plants at Dukat and Voro are progressing smoothly. In addition, the Company recently acquired Degtyarskoye, which will provide high-grade ore to Voro, and Goltsovoye, which will provide high-grade ore to Dukat.

Development

By 2012, Polymetal expects to increase gold production by 100% and silver production by 50%. This is to be achieved primarily through the commencement of operations at Albazino-Amursk. By 2012, planned gold production at Albazino is expected to be more then 160 Koz per annum and 120 Koz per annum at Kubaka.

Exploration

- Total licensed area of 6,500 km^2
- 29 exploration licenses
- 126.1 km^2 of drilling completed in 2008

By 2011, Polymetal aims to increase gold reserves at our deposits to 8 Moz and silver reserves to 600 Moz. We expect to achieve these goals through the active exploration of the areas near our existing assets and in other prospective areas.

SVERDLOVSK REGION

Voro

Production: 132 Koz Au
Reserves: 1.7 Moz Au@2.8 g/t

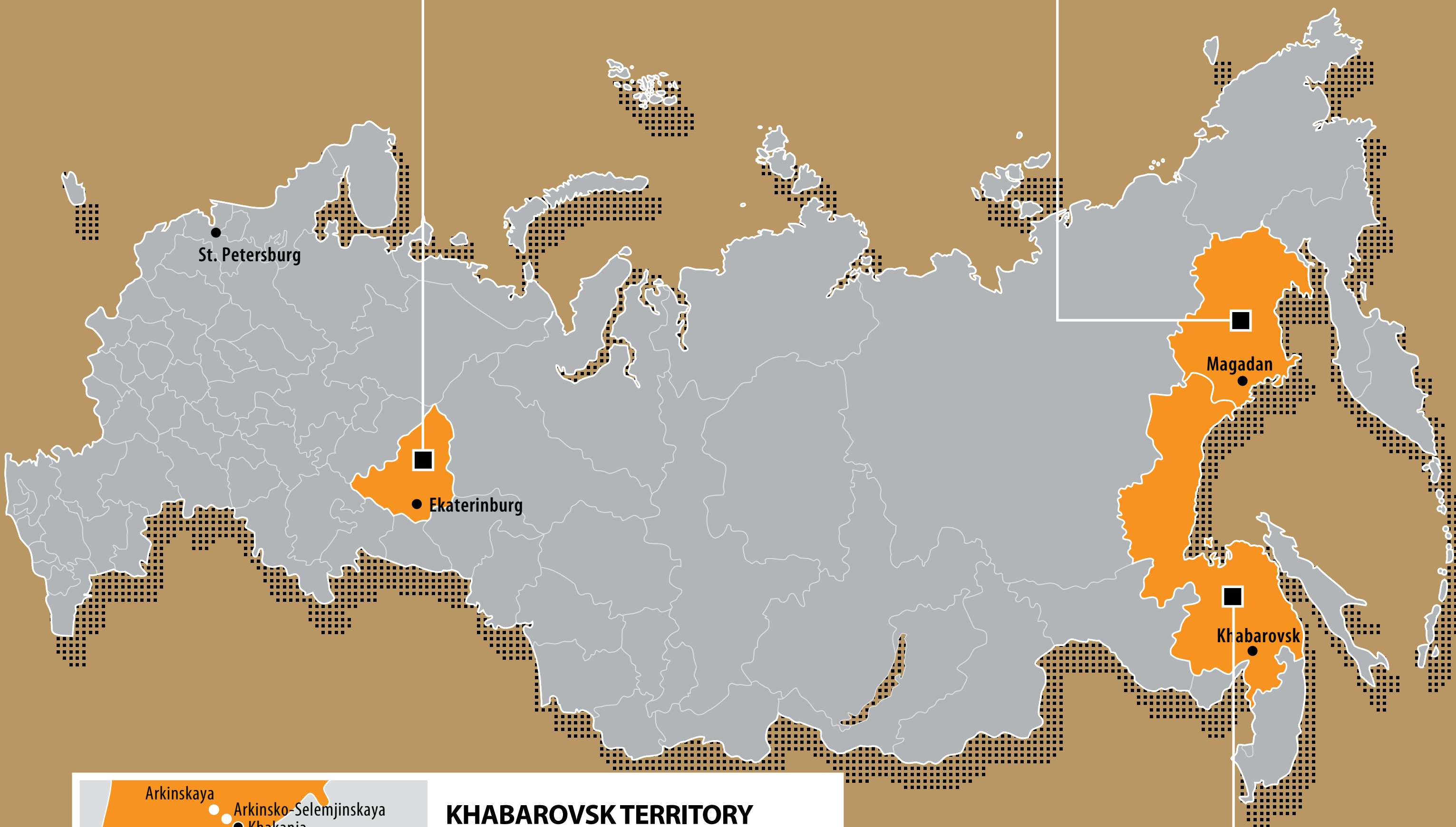
MAGADAN REGION

Dukat & Lunnoye

Production: 15.9 Moz Ag
and 45.1 Koz Au
Reserves: 360 Moz Ag@405.3 g/t
0.85 Moz Au@1.0 g/t

Kubaka

Resources: 1.6 Moz Au@2.5 g/t



KHABAROVSK TERRITORY

Khakanja

Production: 109 Koz Au
and 1.3 Moz Ag
Reserves: 0.6 Moz Au@5.4g/t
29 Moz Ag@245.3 g/t

Albazino

Reserves: 2.1 Moz Au@4.3 g/t

Performance Highlights 2008

Revenues
$502.7 mln [+63%]

Adjusted EBITDA
$192.6 mln [+161%]

Net Loss
$15.7 mln [-31%]

Cash Flow from Operations
$80.8 mln

Capex
$112.5 mln [-3%]

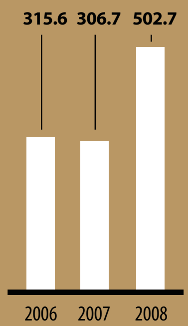
Gold Production
285 Koz [+18%]

Silver Production
17.2 Moz [+8%]

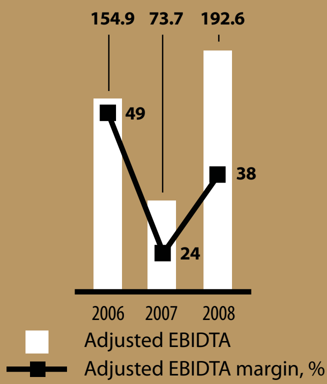
Gold Reserves
5.3 Moz [+47%]

Silver Reserves
391 Moz

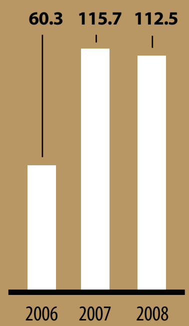
REVENUES, *$ mln*



ADJUSTED EBITDA, *$ mln*



CAPITAL EXPENDITURE, *$ mln*



	2008	2007	Change, %
Ore mined, Kt	2,477	3,029	-18
- Open pit	*1,812*	*2,430*	*-25*
- Underground	*665*	*598*	*11*
Ore processed, Kt	3,396	3,135	8
Gold produced, Koz	285	242	18
Silver produced, Moz	17.2	15.9	8
Gold sold, Koz	280	235	19
Silver sold, Moz	17.4	16.2	7
Average realized gold price, $/oz	871	701	24
Average realized silver price, $/oz	14.7	8.8	67
Total cash costs per ounce of gold equivalent, $/oz	472	397	19
Total cash costs per ounce of silver equivalent, $/oz	8.0	7.6	5

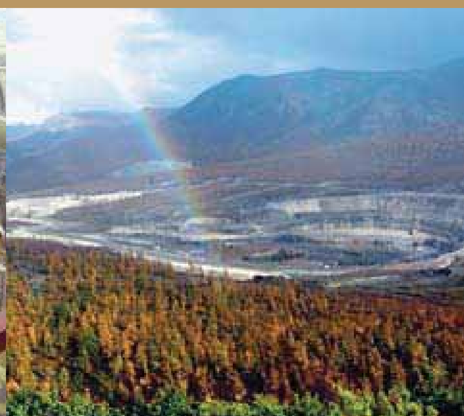
$ mln	2008	2007	Change, %
Revenues	502.7	308.7	63
Net cash flow provided by operating activities	80.8	(2.8)	NM
Adjusted EBITDA	192.6	73.7	161
Net loss	(15.7)	(22.8)	-31
Capital expenditure	112.5	115.7	-3

Key Events 2008

Mid-term growth projects to boost throughput at Voro and Dukat neared completion.

Acquisition of Kubaka in the Magadan Region and increase in the gold resource base with 1.6 Moz of Birkachan and Oroch resources. Polymetal plans to prepare a Feasibility Study and JORC-compliant resource estimate by 2010 and commission a plant with a 150–250 Koz capacity by 2011.

Feasibility study for Albazino yielded positive results with 2.1 Moz of JORC-compliant gold reserves and 2.3 Moz of JORC-compliant gold resources established.



Change in major shareholders. Nafta Moskva (Cyprus Ltd) sold its 68% stake in the Company to three investors: Powerboom Investments Limited (23.7%), the ultimate beneficiary owner of which is Alexander Nesis, Pearlmoon Limited (24.9%), the ultimate beneficiary owner of which is Peter Kellner, and Vitalbond Limited (19.0%), the ultimate beneficiary owner of which is Alexander Mamut.

Election of a new Board of Directors to reflect the new ownership structure and increase the number of independent directors.

Closed deal to acquire Goltsovoye in the Magadan Region. The strategic goal of this acquisition was to expand silver resources, facilitate long-term high-grade ore deliveries to the Dukat plant and reduce production costs at Dukat and Lunnoye by processing high-grade ore. Construction of the mine and supporting infrastructure will start in 2009.

Reserves and Resources

One of the Company's development priorities is to create the optimal portfolio of assets that facilitate a high-quality, long-term resource base. Polymetal uses JORC standards to assess its reserves and resources.

Audited existing reserve base will ensure ongoing profitable performance of the Company's operating gold and silver mines for the next 10–20 years.

POLYMETAL JORC-COMPLIANT ORE RESERVES BY MINING ASSETS

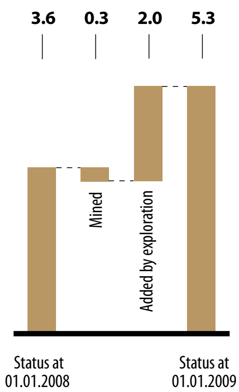
Deposit	Ore, Kt	Au, g/t	Ag, g/t	Au, Moz	Ag, Moz
Dukat, Lunnoye	27,599	1.0	405.3	0.8	360
Khakanja	3,661	5.4	245.3	0.6	29
Voro	19,154	2.8	3.2	1.7	2
Albazino	15,070	4.3	0	2.1	0
Total	**65,484**	**2.5**	**185**	**5.3**	**391**

Notes:
(1) Ore reserves are quoted as at January 1, 2009 in accordance with the JORC Code, confirmed by SRK Consulting (UK) Ltd.
(2) Underlying price assumptions: $600/oz for gold and $11 /oz for silver.
(3) Reserves are estimated on the basis of Measured and Indicated resources (not accounting for Inferred resources).
(4) Dukat reserves include Nachalnoye-2 satellite deposit, Lunnoye reserves include Arylakh satellite deposit, Khakanja reserves include Yurievskoye satellite deposit.

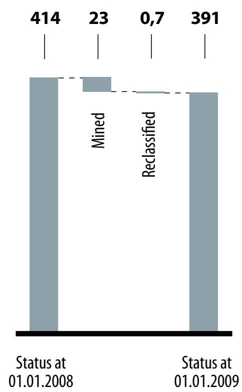
In 2008, Polymetal mined gold and silver at Voro (Sverdlovsk Region), Khakanja and Yurievskoye (Khabarovsk Territory) and Dukat, Lunnoye and Arylakh (Magadan Region). The Company is currently building a new mine in Albazino which is scheduled to produce its first gold in 2010.

An external audit by SRK Consulting (UK) Ltd confirmed Polymetal mineral resources and ore reserves as at December, 31 2008 in accordance with the JORC Code. Gold reserves grew by 47% (1.7 Moz), primarily due to Albazino, which was added to Polymetal's reserve portfolio in 2008. Silver reserves have not significantly changed since 2007.

CHANGES IN GOLD RESERVES IN 2008, *Moz*



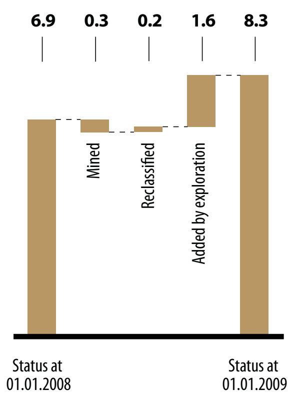
CHANGES IN SILVER RESERVES IN 2008, *Moz*



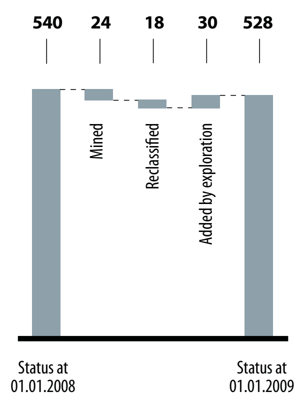
The Company's independently audited gold resources grew by 21% (1.4 Moz) as a result of exploration and a re-evaluation of economic conditions in 2008. The growth stemmed primarily from the Birkachan and Oroch deposits, where the Company has been actively developing its resource base in anticipation of the planned commissioning of Kubaka in 2010.

The addition of new silver resources (30 Moz) was achieved through successful exploration at Perevalnoye, Birkachan and Oroch in the Magadan Region. This increase almost fully (98%) compensated the depletion due to mining and reclassification of the Company's silver resources in 2008.

CHANGES IN GOLD MINERAL RESOURCES IN 2008, *Moz*



CHANGES IN SILVER MINERAL RESOURCES IN 2008, *Moz*



Ilya Yuzhanov
Chairman of the Board of Directors

Chairman's Statement

Overview
2008 was a highly successful year for the Company as we made excellent progress towards our strategic objectives. This was accomplished on a number of fronts, including the elimination of all hedging contracts in January and the expansion of our processing capacity at Dukat and Voro. We also made significant progress on the development of our flagship Albazino-Amursk project and acquired new high-grade deposits at Goltsovoye and Degtyarskoye.

Despite the substantial drop in silver prices and the onset of the global financial crisis in the second half of the year, we achieved a robust operating income of $75.6 million. The Group is on track to achieve its 2012 goal of increasing gold and silver production by 100% and 50%, respectively.

Shareholders
In June, Polymetal's largest shareholder, Nafta Moskva (Cyprus Ltd) sold its 68% stake to three financial investors. Powerboom Investments Limited (23.7%), the ultimate beneficiary owner of which is Alexander Nesis, Pearlmoon Limited (24.9%), the ultimate beneficiary owner of which is Peter Kellner, and Vitalbond Limited (19.0%), the ultimate beneficiary owner of which is Alexander Mamut.

Board
The composition of the Board was also changed in June to reflect the changes in the Company's ownership structure. Martin Schaffer became Non Executive Director representing PPF Group, Konstantin Yanakov and Sergey Areshev became Non Executive Directors representing ICT Group, and Marina Gronberg became Non Executive Director representing Inure Enterprises. In September, Russell Skirrow joined the Board as an Independent Non Executive Director.

In October, I was honored to be appointed as Non Executive Chairman. I believe Polymetal is Russia's top precious metals mining company. It has a highly qualified management team and an excellent platform for growth, and I look forward to working with my Board colleagues to support the Company's continued development and success.

The composition of the Board's committees was also confirmed in October, with Jonathan Best and John O'Reilly remaining Chairmen of the Audit and Remuneration committees, respectively.

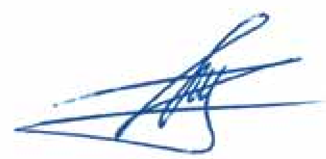
In making these changes, the Company has taken an important step toward achieving best practice in its corporate governance standards. It now has a Board that consists of ten experienced professionals, five of whom are independent.

Corporate Social Responsibility
Our business strategy recognizes and upholds our responsibilities to our employees, the environment and the communities in which we work. Our vision is to operate responsibly, to minimize our environmental impact and to ensure that we support the economic development of the communities in which we operate.

The Company has a number of programs in place that focus specifically on the modernization of local schools, health and cultural facilities, as well as the maintenance and upgrade of roads and other infrastructure. During the year, the Group spent $4 million and continued to develop a number of projects through agreements with local governments in the Kahabarovsk Territory and Magadan and Sverdlovsk Regions. Funding from the Company covered projects such as the complete renovation of a kindergarten and arts school in Omsukchan (Magadan Region), the construction of sports and athletics complexes in the areas of Okhotsk and Amursk (Khabarovsk Territory) and the initial stages of a complete upgrade of the Central City Children's Hospital in Krasnoturinsk (Sverdlovsk Region).

Outlook
We have had a strong start to 2009, with the announcement of a 30% increase in resource estimates for our Albazino project, as well as the first resource estimates at our Birkachan and Oroch properties. These encouraging developments are testament to the outstanding growth potential of the Company's assets. A combination of Polymetal's highly qualified management, proven development and operational track record, and in-house engineering expertise gives the Board confidence that the Company will prove a continued success for its shareholders into 2009 and beyond.

Ilya Yuzhanov
Chairman of the Board of Directors



Vitaliy Nesis
Chief Executive Officer

Chief Executive's Review

Ten years after the foundation of Polymetal, we have continued to build on our solid foundation to achieve a number of key milestones in 2008. It has been a record year for Polymetal, with significant increases in gold and silver production, revenues, EBITDA, reserves and resources.

Our vision is to become the leading precious metals mining group in Russia and the CIS, as measured by the creation of shareholder value. We have a proven track record of asset development and operations management and a clear strategy in place to achieve this.

Our Strategy

Polymetal's strategy is focused on three key areas: investment in existing assets to extend their mine life; investment in the development of centralised processing facilities; and exploration aimed at identifying a new generation of Polymetal assets. All of these initiatives are focused around our strategy to create regional hubs. These hubs enable us to benefit from the advantages that a concentration of both human and financial resources delivers and keep our production costs relatively low. By pursuing development in this way, we are able to create synergies, whether through shared infrastructure or technical knowledge, that enable us to increase the scale and improve the economics of our mines.

A key priority for Polymetal is the investment in brownfield projects that further grow our existing operating assets. By leveraging existing infrastructure and human capital, these projects can be implemented more quickly, decreasing technical risks while improving profitability. During the year, we made good progress on a number of brownfield developments, including expanding the processing plant at Dukat, due to be completed in Q3 2009, and doubling the processing capacity at Voro, which was completed in January 2009. These projects are expected to add approximately 15 Koz to gold production and 0.8 Moz to silver production in 2009.

The second element of our strategy is to build on our regional presence and technical expertise to create centralized processing facilities. Our flagship Albazino-Amursk project in the Khabarovsk Territory involves the development of a gold mine and a flotation concentrator at Albazino and the construction of a POX plant in Amursk, both expected to be commissioned in 2010. The Feasibility Study for Albazino was announced in June 2008, and it confirmed an increase in reserves to 2.1 Moz. We were very pleased to announce, in January 2009, a further 30% increase in the resource estimates to 3 Moz. Given this increase and the current favorable gold price and exchange rate, we anticipate that this project is likely to deliver more attractive returns than originally anticipated. During 2009, we expect to devote approximately 70% of capex to the development of this project.

The Amursk POX plant employs cutting edge technology and will be the first of its kind in the region. Amursk will create a processing hub for refractory gold concentrates from all over Russia's Far East. The first-mover advantage this project gives us will deliver significant economies of scale and increase the Group's access to resources.

As part of the development of Kubaka, acquired in January 2008, we plan to restart its 850 Ktpa CIP plant. Once the plant is re-commissioned in 2011, it will serve as a hub for small to medium deposits in the Northeastern part of the Magadan Region.

Although the Group has a proven track record of organic growth, in order to further develop our asset base, we review potential acquisition targets on an on-going basis. Potential targets must add to our regional footprint, deliver near term production and cash flow and meet our criteria for returns on investment. In 2008, we acquired Kubaka and Goltsovoye, both in the Magadan Region. Kubaka provides us with access to strategic infrastructure, including both winter road access and a processing facility, and is expected to contribute to gold production by 2010 and silver production by 2012. Goltsovoye expands our silver resource base at Dukat and ensures the long-term supply of high-grade ore to the Dukat and Lunnoye processing plants. It will also contribute to cost reductions at Dukat and Lunnoye when the project becomes operational in 2010. In April 2009, we signed a deal to acquire Sopka Kvartsevaya in the Magadan Region. This deposit is a new source of ore for the Kubaka plant and represents another step in the process of creating a large processing center in the Magadan Region.

In 2009, we will continue to consider acquisitions that deliver value in our target regions, including projects that could supply ore to the Amursk processing plant and deposits close to existing mines.

The final element of our strategy is the identification and exploration of the next generation of Polymetal's assets. Although we scaled back our 2009 exploration budget as a result of the global financial crisis, we remain committed to longer term exploration. Our program is predominantly focused on the regions in which we are currently active.

Financials

In 2008, the Company delivered record growth in revenue and operating income. Revenue increased by 63%, exceeding $500 million for the first time in the Company's history. Operating profit increased very significantly to $75.6 million (2007: loss of $15.5 million). Notwithstanding a net loss of $15.7 million, resulting from material foreign exchange losses, the costs associated with the employee stock option program, and other non-recurring expenses, the Company delivered excellent operating results with adjusted EBITDA improving by 161% to $193 million (2007: $74 million) and adjusted EBITDA margin increasing to 38% (2007: 24%).

This strong performance was driven by healthy sales volume growth and much improved average realized prices resulting from record gold prices and the elimination of all hedge positions.

The Company's cash costs at all mines remained in the bottom half of the global cost curve with total cash cost per ounce of gold equivalent amounting to $472/oz.

Net debt as at December, 31 2008 was $312.3 million (1.6 times adjusted EBITDA), a level at which the Company is comfortable that its liquidity position is sufficient to continue key growth projects. Capital expenditure was $112.5 million (2007: $115.6 million), including $45.6 million invested in our flagship Albazino-Amursk project and $24.5 million in the completion of plant expansion projects at Dukat and Voro. The remainder was spent on exploration and maintenance.

Overall, the Company delivered strong financial performance, achieving cash flow from operating activities of $80.8 million.

In 2009, we anticipate robust financial results. Gold and silver sales volumes are expected to remain at 2008 levels with ruble devaluation, already impacting in the first half of 2009, supporting our competitive cash cost position.

Colleagues

I would like to thank all of our colleagues for their hard work throughout 2008. Our achievements in 2008 are a direct result of their steadfast commitment to developing the Company. I am very pleased that 330 employees have become shareholders during the year as a result of the vesting of share options issued during the Company's IPO. The employee share option program is an important part of our employee engagement initiative, which supports the recognition and development of talent within the Company. Finally, I would also like to take this opportunity to welcome our new corporate investors, whose contributions to Board deliberations have already proven beneficial.

Summary and Outlook

I am extremely pleased with the Company's performance in 2008 and the progress that we have already made in 2009. Our focus on the development of assets that deliver near term production and shareholder value clearly sets Polymetal apart, as does the fact that the majority of our reserves come from operating mines.

In 2009, we expect to produce 280–300 Koz of gold and 17–18 Moz of silver. We will also continue to grow our reserves and resources in order to achieve the goals we have set for 2012. We believe gold prices will continue to rise, given the current global economic and financial environment. Gold is now more attractive than ever, given its role as an inflation hedge and "safe haven". Furthermore, the global supply of gold is limited, which, combined with anticipated growth in demand, should be supportive of further price increases.

Russia has the potential to become the global leader in gold production. Its under-explored deposits, complemented by stable regulatory and political environments, create significant opportunities for Polymetal. These opportunities will be enhanced by the on-going decline in the resource base of the world's largest gold-producing countries and will support our goal of increasing gold's share of our total revenue to 75% over the long term. Given our competitive advantages and progress to date, I believe Polymetal is well positioned to achieve this goal. I look forward to the future with confidence.

Vitaliy Nesis
Chief Executive Officer

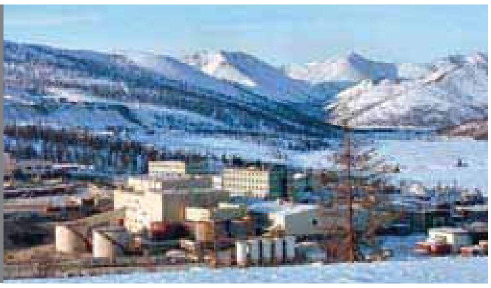
Our Strategy

Polymetal aims to become the leading precious metals mining company in Russia and the CIS through sustainable long-term growth and superior returns on invested capital.

We aspire to create value for all stakeholders through a three-pronged strategy. We seek to:

invest in existing assets to extend mine life and improve production efficiencies

create centralized processing facilities to benefit from increase economies of scale



pursue regional exploration campaigns to identify the next generation of producing assets

Market Overview

Against the backdrop of worsening global financial crisis in 2008, the prices of virtually all mineral assets continued to fall sharply. Gold was the exception, as its price continued to grow.

In 2008, the price of gold on the world market reached a high of $1032/oz, even though the average production cost globally was approximately $500/oz. The average price of gold on the international market grew by 25% over 2007 levels, to $872/oz. According to GFMS forecasts, the price of gold could reach $1100/oz in 2009. High investment demand for the metal is expected to be the main factor behind any price increases in 2009.

Gold: Supply and Demand

Worldwide demand for gold dropped in 2008 to 3,880 tons from 3,920 tons in 2007, according to GFMS. The jewelry industry suffered as a result of high prices and market volatility (the jewelry industry is the largest gold consumer, with a market share of approximately 65%). Demand in this industry dropped 10%, from 2,404 tons to 2,159 tons. Demand for other industrial uses of the metal was influenced by slowing growth in the world's economies. The volume of de-hedging also shrunk in 2008, from 444 tons in 2007 to 358 tons.

Investment demand for gold grew against the backdrop of reduced industrial demand, leading to growth in ETF (Exchange Traded Funds) volumes of gold quotations on exchanges. Market players speculated more actively with gold derivatives.

According to GFMS, in 2008 implied net investment soared by 76% to 288 tons. Gold bar hording grew by 63% to 384 tons, compared to 236 tons the year before. Thus investors compensated for the 10% drop in jewelry industry demand and a moderate reduction in industrial demand.

According to GFMS estimates, the world investments in broader category rose by 52% to 927 tons. In value terms this represents $26 billion invested in gold in 2008, compared to $14 billion in 2007.

Worldwide gold supply is constant and limited by mining volumes. In 2008, the production of gold dropped to 2,416 tons from 2,478 tons the year before. This was its lowest level in 12 years, according to GFMS.

A number of trends are currently influencing gold mining worldwide: production is declining due to a lack of new large-scale projects, the processing complexity of gold extraction is increasing, whilst gold grades are declining and the cost of mining is growing. These trends are, however, being off-set by increases in the price of gold.

In recent years mining output dropped significantly in South Africa (to the lowest gold extraction level in 86 years), Australia and Indonesia. However, China and Russia increased production in 2008 by 3% and 13%, respectively. Russia is now the fifth-largest gold producer in the world.

According to GFMS, there was a reduction in the gold supply in 2008 to 3,880 tons (2007: 3,920 tons).

The sources of gold supplied to the market were: mining (60%), central bank sales (10%)

PRICE OF GOLD 2006–2008
$/oz

and gold scrap sales (30%). The main gold buyers of gold were the jewelry industry (65%), other industries, including hi-tech (14%), bullion and coin producers (12%), and investment funds (9%).

In 2008, 184.5 tons of gold were produced in Russia, according to the Russian Gold Union. This represents approximately 10% of total production worldwide and is a 13% increase over 2007, when 169.2 tons were produced. Gold production through mining increased by 13.1% to 163.891 tons, while by-product and scrap production grew by 2.8% to 12.5 tons and 38.8% to 8.1 tons, respectively.

97% of extracted gold in Russia was produced in the 11 leading gold mining regions. The regions that increased gold mining and production the most were Krasnoyarsk Territory, the Chukotka Autonomous Area, Khabarovsk Territory, and the Amur, Magadan, Sverdlovsk and Irkutsk regions. Currently, there is a trend in Russian mining to switch from alluvial mining, which represents approximately 30% of all mining (down from 45% in 2007), to mining hard rock deposits.

Silver: Supply and Demand

In the first half of 2008, the price of silver grew more than those of gold, platinum and palladium, reaching $20.75/oz. The average price of silver in 2008 grew by 11% year-on-year to $14.90/oz.

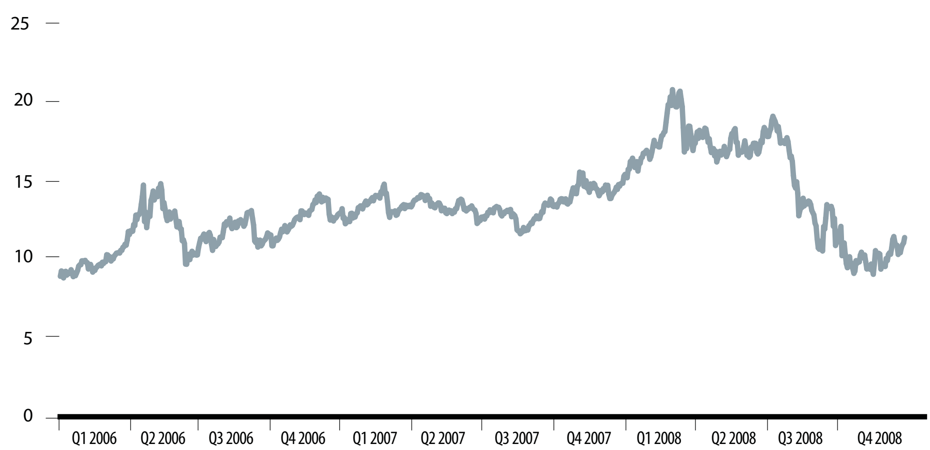
Global mine production was up 2.5% to 680.9 Moz in 2008, according to GFMS. Industrial demand for silver decreased slightly from 455.3 Moz to 447.2 Moz, and the increase in the metal's price led to a drop in demand and sales for jewelry and ornaments. In 2008, photography demand was down 16% to 104.8 Moz.

Silver net investment demand doubled to 50.2 Moz.

The sources of silver supply to the market were: mining (77%), scrap sales (21%) and central bank sales (2%). The main sources of demand were: industrial (48%), the jewelry industry (23%), photography (13%), investment fund purchases (14%) and de-hedging (2%).

In Russia, silver production for export grew by 34% and is estimated at 1,500 tons in 2008. Growth was primarily due to increased mining in the Magadan Region (613.1 tons) and in Chukotka (180 tons). Russia was the world's sixth largest silver producer in 2008.

PRICE OF SILVER 2006–2008
$/oz



Operational Overview

Operations

+18%

GROWTH IN GOLD PRODUCTION

+8%

GROWTH IN SILVER PRODUCTION

Polymetal operates gold and silver mines in three Russian regions: Dukat and Lunnoye (including the Arylakh satellite deposit) in the Magadan Region, Khakanja (including the Yurievskoye satellite deposit) in the Khabarovsk Territory, and Voro in the Sverdlovsk Region. Dukat and Lunnoye also produce a significant amount of gold as by-product. Khakanja and Voro are gold deposits. Silver is also mined at Khakanja.

The development strategy that Polymetal has adopted is aimed at optimizing Company operations and increasing the effectiveness of its existing plants.

The total volume of ore mined at Company operations was 2.5 Mt in 2008 (2007: 3.0 Mt). The volume of ore mined from open pits was 1.8 Mt, and the volume of ore mined underground was 665 Kt.

The 11% increase in the volume of ore mined underground resulted from the commencement of mining work at Lunnoye and increased production at Dukat. Open pit mined ore dropped by 25% due to the cessation of open pit mining at Lunnoye and a significant decrease in oxidized ore mined at Voro.

Gold production grew by 18%, to 285 Koz, the highest level in the Company's 10-year history. Silver production grew by 8%, to 17.2 Moz. Increased volumes of ore processed and precious metals production were achieved through the implementation of growth initiatives, including commissioning additional capacity.

The Company provides the following production guidance for 2009: 280–300 Koz of gold and 17–18 Moz of silver.

Key Events 2008

- New MMS 70×23 mill began operation at Dukat.
- New MMS 70×23 mill began operation at Voro.
- Centralized rail haulage was introduced to the underground mine at Dukat, leading to an increase in productivity and a reduction in ore transportation expenditure.
- Underground mining began at Lunnoye.
- Mining and delivery of ore for processing began at Yurievskoye.

Major Goals 2009

- Ramp up the expanded processing plants at Voro and Dukat to full capacity.
- Significantly increase underground ore production at Lunnoye (to 150 Ktpa) and Dukat (to 700 Ktpa).
- Start mining at Albazino.
- Mine first ore at recently acquired assets Goltsovoye and Degtyarskoye.
- Conduct large-batch ROM dump leach trials at Birkachan; heap leaching of approximately 1 Mt of ore to study the ore's metallurgy and the impact of arctic climatic conditions on use of this technology for processing ore.

POLYMETAL OPERATIONAL INDICATORS

Operational Indicators	Unit	2004	2005	2006	2007	2008	Change, % 2008/2007
Waste mined	km^3	6,536	5,917	7,425	8,704	9,823	13
Ore mined	Kt	2,688	2,706	2,600	3,029	2,477	-18
Open pit	*Kt*	*2,296*	*2,244*	*2,113*	*2,430*	*1,812*	*-25*
Underground	*Kt*	*392*	*462*	*487*	*598*	*665*	*11*
Underground development	m	8,076	11,361	10,694	11,452	14,217	24
Ore processed	Kt	2,141	2,524	2,890	3,135	3,396	8
Gold produced	Koz	212	242	256	242	285	18
Silver produced	Moz	17.3	18.9	17.3	15.9	17.2	8

Dukat and Lunnoye

Dukat and Lunnoye are located in the northeast of Russia in the Omsukchan district of the Magadan Region, 650 km from Magadan and 40–150 km from the town of Omsukchan.

Dukat and Lunnoye share many support functions and are managed as a single operating unit.

Dukat is the third-largest primary silver deposit in the world in terms of reserves.

Capex in 2008: $26.5 million.

DUKAT PROCESSING PLANT THROUGHPUT IS BEING EXPANDED FROM 0.9 Mtpa TO 1.5 Mtpa

- Improved operational and cost efficiencies
- Completion is expected in Q3 2009
- Expanded capacity to enable processing of high-grade Goltsovoye ore beginning in 2010

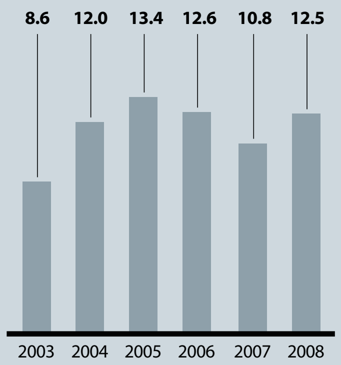
+16%
GROWTH IN SILVER PRODUCTION AT DUKAT

+22%
GROWTH IN GOLD PRODUCTION AT DUKAT

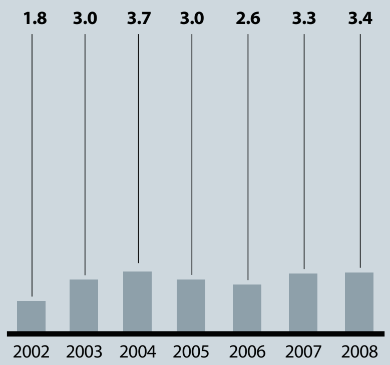
+3%
GROWTH IN SILVER RECOVERY AT DUKAT

15.9 Moz
SILVER WAS PRODUCED AT DUKAT/LUNNOYE

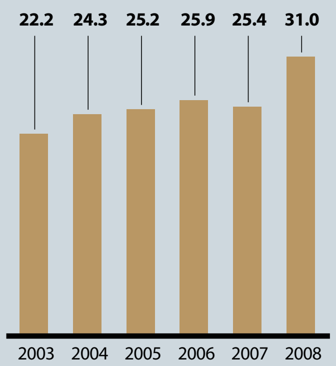
DUKAT MINE. SILVER PRODUCTION *(Moz)*



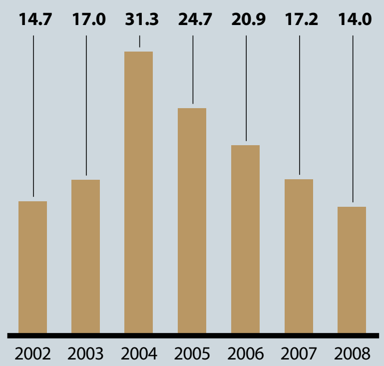
LUNNOYE MINE. SILVER PRODUCTION *(Moz)*

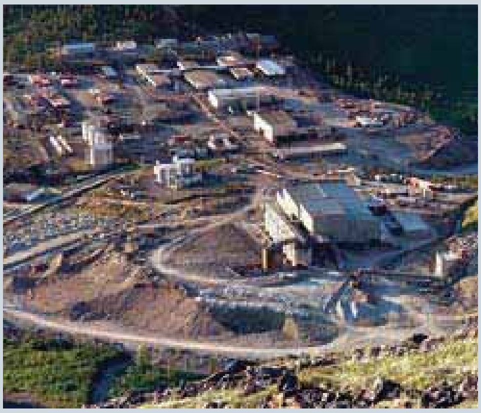


DUKAT MINE. GOLD PRODUCTION *(Koz)*



LUNNOYE MINE. GOLD PRODUCTION *(Koz)*





DUKAT AND LUNNOYE. 2008 OPERATIONAL RESULTS

	Dukat			Lunnoye		
	2008	**2007**	**2006**	**2008**	**2007**	**2006**
Waste mined, Kt	2,720	2,714	2,128	2,583	2,827	2,235
Underground development, m	12,305	10,570	10,396	1,912	882	298
Ore mind, Kt	1,017	971	901	277	476	327
Open pit	*403*	*381*	*415*	*226*	*467*	*327*
Underground	*614*	*590*	*487*	*52*	*8*	*0*
Ore processed, Kt	983	881	863	283	286	283
Head grades: Gold, g/t Silver, g/t	 1.2 462	 1.1 494	 1.2 558	 1.6 404	 1.9 401	 2.5 335
Recovery[1]: Gold Silver	 83.0% 81.7%	 79.3% 79.4%	 79.8% 81.2%	 93.8% 90.2%	 93.0% 87.8%	 93.4% 88.8%
Production: Gold, Koz Silver, Moz	 31 12.5	 25 10.8	 25.9 12.6	 14 3.4	 17 3.3	 20.9 2.6

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

Operations

DUKAT
Aerial view in 2008

In 2008, Dukat was mined through a combination of open pit and underground mining. The total production volume was 1,017 Kt, a 4.7% increase over 2007, with open pit and underground contributing 403 Kt and 614 Kt respectively. The volume of underground development grew by 16% compared to 2007, reaching 12,305 m.

New equipment was introduced to the underground mine. Development has expanded to the flanks of the mine's underground sections, including the Central, Eastern and the Smelyj. Work on a road to the Nachalnoye-2 section is progressing smoothly.

Small veins were discovered during mining. Compact heavy machinery specifically intended for efficiently mining these veins was acquired.

The total production volume of precious metals at Dukat increased in 2008, with gold production up 21.7% to 30.9 Koz (2007: 25 Koz), and silver production up 15.6% to 12.5 Moz (2007: 10.8 Moz). This increase was achieved as a result of additional production capacity being brought on-line as part of the expansion of the Dukat processing plant's throughput to 1.5 Mt. Upon completion, this project will add 6.0 Moz of silver to current production levels and increase the recovery rate by 2.5–3%.

The recovery rate at Dukat grew by 5% for gold and 3% for silver as a result of a series of measures taken to improve production efficiency.

Production will be increased by mining the deposit's flanks and by introducing high-grade ore from the recently acquired Goltsovoye deposit.

The launch of a centralized underground ore railway haulage system was a key event at Dukat in 2008. This helped increase the volume of underground mining and laid the foundations for increasing the underground mine's throughput to 900 Ktpa of ore. The new system will also save approximately $2 million in haulage costs annually.

In 2008, the project to increase Dukat's production capacity to 1.5 Mtpa of ore moved into its final stage. Trial tests of the flash flotation section and the second SAG mill were completed.

Additional capacity was partially brought on-line, allowing production volumes in 2008 to reach 983 Kt, an 11.6% increase over 2007. The construction of the equipment needed to expand the plant was initially expected to be completed in Q1 2009. However, given low prices for silver, the launch of production at full capacity has been slightly delayed.

In order to ensure a full load at the renovated Dukat plant, the Company acquired and began to develop Goltsovoye, located 80 km from Dukat. This deposit is considered a new source of high-grade ore for the Dukat plant.

The conceptual plan for mining work prepared by the Company during its study of Goltsovoye envisions an underground mine with annual ore production of 120–170 Kt. After the ore is crushed on site, it will be delivered to the Dukat plant

LUNNOYE
Aerial view in 2008

by truck and blended with ore from Dukat for floatation and subsequent cyanide leaching at the Lunnoye plant.

A thorough technical study of the ore metallurgy has shown that the recovery rate ranges from 83-87%. In 2007, ore similar to that at Goltsovoye, mined from a Dukat satellite deposit, was successfully processed at the Dukat plant, substantiating these results. The expansion of the gravity circuit at Dukat has improved the effectiveness of processing massive sulfide grains in the Goltsovoye ore.

The development of Goltsovoye will allow the Company to ensure long-term delivery of ore with high silver grade to the expanded Dukat plant and will reduce total cash cost per ounce at Dukat/Lunnoye.

Construction of Goltsovoye's mine and infrastructure is planned for Q4 2009, with mining scheduled to begin in Q2 2010.

Mining work at Nachalnoye-2, a section on the Dukat flanks, is scheduled to begin in 2009.

The volume of open pit mining at Lunnoye in 2008 dropped 52% to 226 Kt, due to the termination of open pit operations. The volume of underground ore mined increased 525% to 52 Kt, as underground mining was ramped up. In 2008, underground development increased by 117%, to 1,912 m.

Ore processed in 2008 was 283 Kt, 3 Kt less than in 2007. Recovery levels for gold and silver increased by 0.9% and 2.7%, respectively, to 94% for gold and 90% for silver. Gold production dropped by 20.2%, to 13.7 Koz, while silver production increased by 1.4%, to 3.4 Moz. The decline in gold production was a result of the 14.9% reduction in the gold grade (1.6 g/t compared to 1.9 g/t in 2007) and the difficult geological conditions in the underground section in Lunnoye.

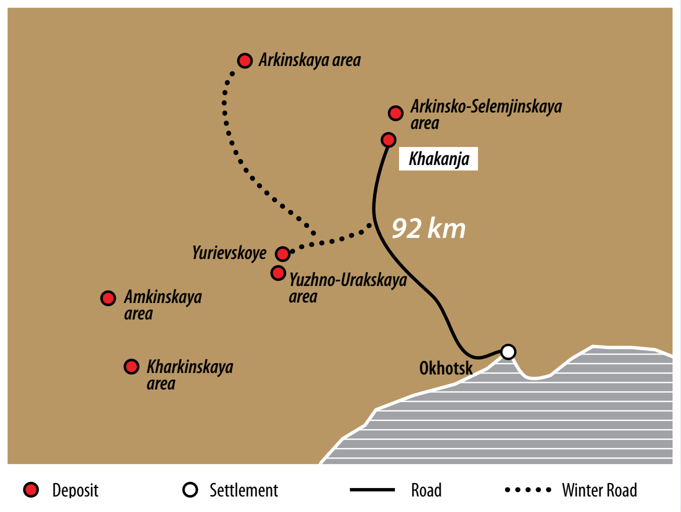
The increased share of ore from the underground mine had a positive effect on the volume processed and recovery rate. According to the current development plan, future work at Lunnoye anticipates mining up to 150 Ktpa of ore. The Company is planning to achiev this production goal at Lunnoye underground mine in 2009.

The majority of open pit mining took place at Arylakh, Lunnoye satellite deposit with lower gold grade and higher silver grade.

The reduction in gold grade was somewhat mitigated by the introduction, in 2007, of two additional leaching tanks, a fully automated recovery cycle, the successful blending of ore mined at Arylakh (which represented the majority of ore processed at the plant), and ore from the open pit mine at Lunnoye that remained stockpiled.

Total mining volumes are expected to grow by 8% in 2009, with silver production expected to grow by 14% and gold production expected to fall by 16%. The drop in gold production is related to a 15% reduction in the processed ore's gold grade. A 17% increase in the silver grade will drive the expected increase in silver production.

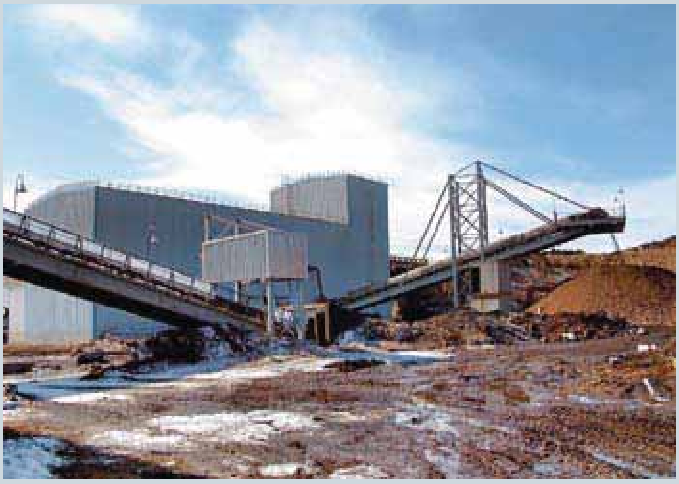
Operations



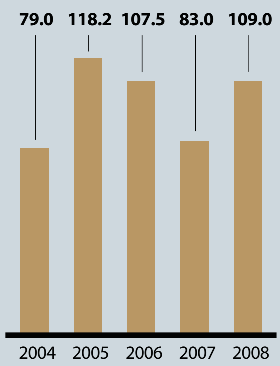
Khakanja

Khakanja is located in the Khabarovsk Territory, 1,100 km north of Khabarovsk and 480 km west of Magadan. The Yurievskoye satellite deposit, 60 km of Khakanja, was commissioned in 2008. The Company plans to develop Yuriesvkoye over the next three years using open pit mining and the ore will be processed at the Khakanja processing plant.

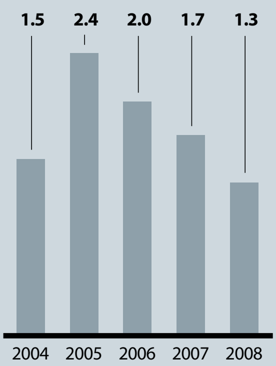
Capex in 2008: $6.9 million.



KHAKANJA MINE.
GOLD PRODUCTION *(Koz)*



KHAKANJA MINE.
SILVER PRODUCTION *(Moz)*



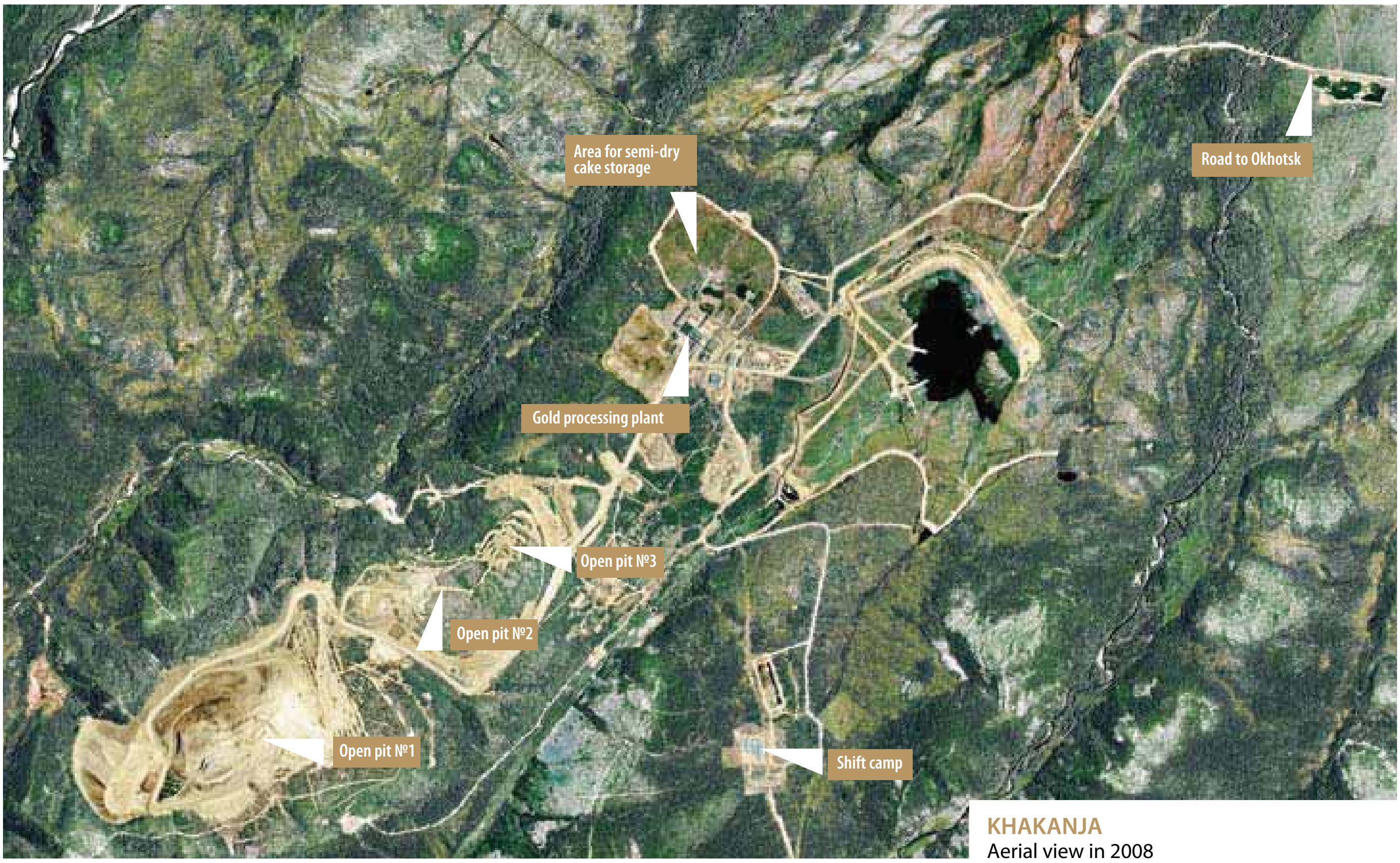
+31%
GROWTH IN GOLD PRODUCTION

26 Kt
HIGH GRADE PROCESSED ORE AT YURIEVSKOYE

KHAKANJA. 2008 OPERATIONAL RESULTS

	2008	2007	2006
Waste mined, Kt	8,219	5,618	3,914
Ore mined (open pit), Kt	601	727	563
Ore processed, Kt	602	609	563
Head grades:			
Gold, g/t	5.8	4.5	7.0
Silver, g/t	117	177	259
Recovery[1]:			
Gold	94.4%	94.3%	92.2%
Silver	52.5%	49.5%	46.8%
Production:			
Gold, Koz	109	83	108
Silver, Moz	1.3	1.7	2.0

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



KHAKANJA
Aerial view in 2008

In 2008, the total volume mined at Khakanja dropped 17% to 601 Kt of ore, including 61 Kt of ore mined at Yurievskoye (a Khakanja satellite deposit with higher gold and lower silver grades).

Full-scale development of Yurievskoye started in 2008. A wide variety of work was carried out to prepare Yurievskoye for mining, including the construction of a winter road.

Ore processing in 2008 dropped 1% to 602 Kt (including 26 Kt processed from Yurievskoye). The recovery rate for gold remained the same as in 2007, while the silver recovery rate grew by 6.2%. Despite a reduction in grade, this was achieved in large part through the optimization of the process flow at the processing plant. Other factors that led to the increase in the silver recovery rate included improvements to the reagent mixture, work on the filter area, and the inclusion of ore from Yurievskoye.

Gold production increased to 109 Koz, a 30.8% increase over 83 Koz in 2007. Silver production dropped to 1.3 Moz, a decrease of 25.7% (2007: 1.7 Koz). The growth in gold production was the result of a 28.5% increase in the gold grade to 5.8 g/t (2007: 4.5 g/t). The lower grade of ore mined at Yurievskoye led to a 33.9% reduction in the silver grade and a subsequent decrease in silver production.

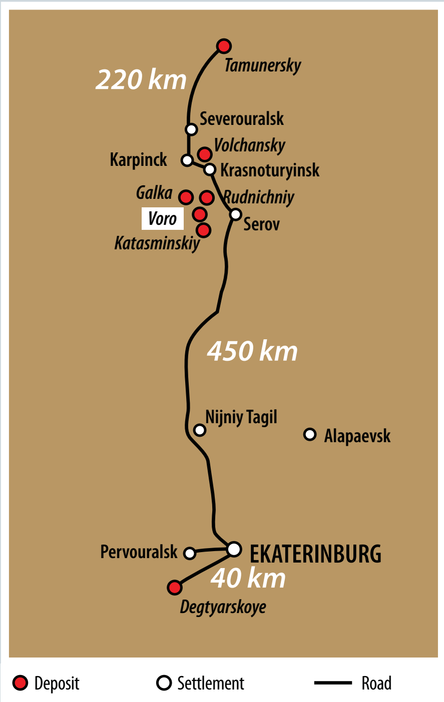
Even though mining at Yurievskoye is conducted year-round, transportation of the ore to the Khakanja processing plant is only possible when the winter road is passable, from January to April. In 2009, approximately 90 Kt of rich ore is scheduled to be transported to the plant. This will increase the plant's share in the volume of processed ore, which should have a positive effect on gold grade. As a result, the plant expects higher gold grade in Q1 2009 than in Q4 2008.

Mining at the second pit at Khakanja was halted in Q4 2008 and preparation work is on-going at the third pit. This explains the significant increase in volume of waste removal (up over 80%) and the reduced volume of ore mining in 2008. The initiation of ore mining at the third pit is planned for Q1 2010.

In 2008, the Company began a systematic survey of the deposit's flanks throughout the licensed area acquired in 2007. The Company intends to increase the useful life of the mine and to estimate the potential of Khakanja's resource base.

Mining, service and transportation work at the mine are being performed by contractors as part of a program to reduce expenditure. Transportation of ore from Yurievskoye to Khakanja has also been outsourced.

Operations



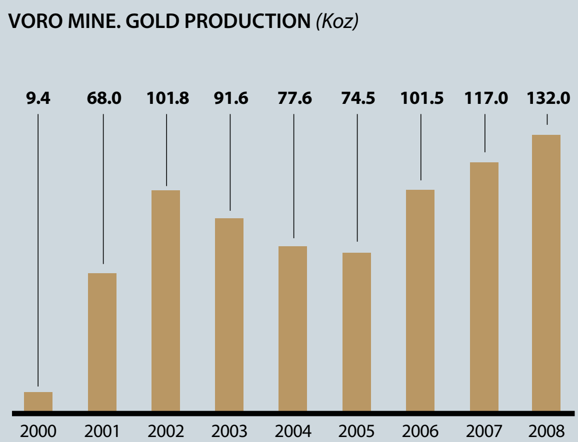
Voro

Voro is located 450 km north of Ekaterinburg and 20 km south of the city of Krasnoturinsk in the Sverdlovsk Region. Two types of ore are mined at Voro: sulfide and oxide. The renovation and modernization of the carbon-in-pulp plant (CIP), for processing sulfide ore, is expected to increase its throughput to 900–950 Ktpa of ore.

Capex in 2008: $16.7 million.

VORO CIP PLANT EXPANSION PROJECT

- Construction work 100% completed in 2008
- Commissioned in January 2009
- Throughput expected to grow to 0.95 Mtpa



+26%

GROWTH IN ORE PROCESSING AT THE CARBON-IN-PULP PLANT

+13%

GROWTH IN GOLD PRODUCTION

In 2008, the volume of ore mined at Voro was 582 Kt, of which 193 Kt vas oxidized ore and 389 Kt vas sulfide ore. Compared to 2007, volumes of oxidized and sulfide ore mined dropped 12% and 39%, respectively. This is due to the emphasis being placed on processing ore from the stockpile and the focus on stripping. Virtually all of the oxidized ore reserves have been removed from the active open pit. Sulfide ore reserves have been stripped and prepared for the increase in milling throughput.

New technology that uses emulsion explosives for blasting has been introduced at Voro. This has significantly reduced expenditure on explosives in the wet areas of the open pit. All initiatives related to fleet upgrade have been completed, with Komatsu dump trucks (55 t capacity) replacing the smaller BelAZ dump trucks. This led to a significant reduction in the size of the fleet. An automated GPS dispatcher system has also been introduced, significantly increasing the mining fleet's efficiency.

VORO: 2008 OPERATIONAL RESULTS

	2008	2007	2006
Waste mined, Kt	9,087	9,286	9,272
Ore mined, (open pit), t	582	855	809
Oxidized	*193*	*220*	*152*
Primary	*389*	*635*	*658*
Ore processed, t	1,529	1,360	1,244
Oxidized	*925*	*882*	*832*
Primary	*604*	*478*	*413*
Gold head grades, g/t Oxidized Primary	 1.5 6.5	 2.0 6.3	 2.2 5.9
Gold recoveries[1] Oxidized Primary	 73.0% 79.2%	 68.6% 80.1%	 70.0% 78.1%
Gold production, Koz	132	117	101
Heap leach	*33*	*39*	*41*
CIP	*99*	*78*	*60*
Silver production, Koz	65	71	82

Notes: [1] Heap leach recoveries are meaningful for full year only due to the impact of seasonality.

Gold production at the two plants in 2008 increased by 12.7% reaching 131.6 Koz. Silver production at the plants decreased 8.4% to 65 Koz.

In 2008, virtually all work required to boost production capacity at the CIP plant to 900 Ktpa was completed. The following is a list of equipment installed in 2008 to prepare for commissioning of the CIP plant expansion:

- MMS 70×23 SAG mill;
- 22 m diameter thickener;
- Tanks for initial leaching, each with a 1,200 m^3 capacity;
- Two filter presses;
- New desorption/electrolysis equipment.

Commissioning started in January 2009 and was completed in April, with the plant achieving planned levels of throughput.

The volume of processed ore at the CIP plant grew by 26%, with the heap leach achieving record processing volumes of 925 Kt.

In 2008, more than 1.5 million m^3 of oxidized ore were restacked at the heap leach facility by a dragline excavator. Re-stacking helped not only to improve oxide recoveries but also to prepare foundations for the new heaps on the basis of the old ones. This contained expansion of the total are a of the heaps and, therefore, costs.

After the CIP plant reaches its full projected capacity, the heap leach plant will primarily process ore from the Southern Voro pit. This pit is scheduled to become operational in Q3 2009.

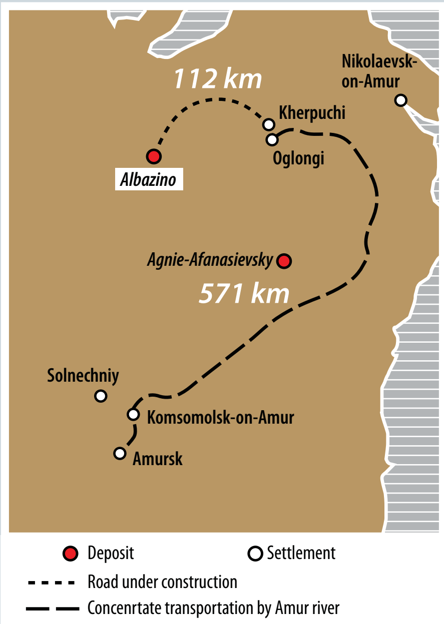
In 2008, infill drilling at the Southern Voro pit was completed. This has added 2.4 Mt of ore that is amenable to heap leaching. Processing the oxidized ore from this section will maintain the current gold grade in the heap leach.

Since acquiring Degtyarskoye in August 2008, the Company has performed 3,000 m of drilling. The results confirm the reserves that the site's previous owner had estimated in a Feasibility Study (approximately 0.1 Moz of gold in 0.6 Mt of ore, with an average grade of 5.3 g/t). All licensing procedures and documentation are scheduled to be completed in 2009 and Polymetal anticipates commencing stopping work in Q2 2010.

Mined ore will be sent by truck to a railroad depot and then transported to Voro, where it will be processed at the existing plant.

Development Projects

Polymetal aims to become a major Russian company and industry leader by delivering its development projects. These projects are critical to sustaining the Company's production growth, increasing profitability and the creation of shareholder value.



Albazino-Amursk

LOCATION: Khabarovsk Territory

RESERVES AND RESOURCES (JORC)
Resources* (non-audited): 3 Moz (22 Mt@4.2 g/t)
Reserves: 2.1 Moz (15 Mt@4.3 g/t)

MINING: Open pit

PROCESSING: Flotation Concentrator, Pressure Oxidation (POX) Plant

PROCESSING CAPACITY, FLOTATION CONCENTRATOR: 1.5 Mt of ore per annum

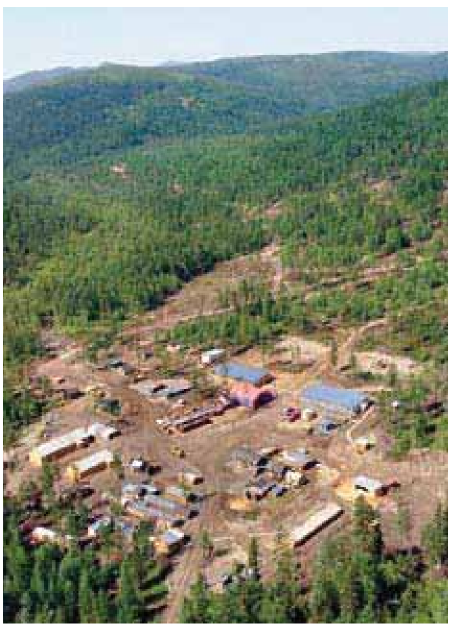
PROCESSING CAPACITY, POX PLANT : 150 Kt of concentrate per annum

GOLD : More then160 Koz per annum (average during mine life)

CAPEX: $219 million

CONSTRUCTION: 2008–2010

** Reflects unadited JORC resource estimate by the Company as at December, 31 2008. The mineral resources as audited by Snowden Mining Industry Consultants in February 2008 acounted for 2.3 Moz.*



Albazino-Amursk is the Company's largest and most prospective project.

The project involves processing the Albazino deposit's ore on site into a flotation concentrate, which will then be filtered, dried and delivered by truck and barge to Amursk. A processing plant will be built in Amursk that utilizes pressure oxidation technology for gold extraction. Road transport will be accessible year-round, while barge traffic will only be available six months a year, when the rivers are navigable.

The construction of the Amursk plant is part of the Company's strategy to create large processing centers. The Amursk POX Plant has the potential to become a processing hub for refractory concentrates from across Russia's Far East, where there are many refractory gold deposits that have not been developed due to the lack of economically viable processing technology. Design of both the Albazino concentrator and the Amursk POX facility were undertaken with a view to doubling processing capacity at each of the plants.

The decision to use high-pressure oxidation was made after carefully examining existing technologies for extracting gold from refractory ores, including pressure oxidation (autoclaving), roasting, and bioleaching. The Company chose pressure oxidation as the preferred option because it is the most universal method and provides the ability to process refractory concentrates of varying content without significantly modifying the technology. It is also relatively energy efficient and delivers high levels of gold recoveries. This will be the first time that autoclave technology will be used to produce gold in Russia.

An important step in the development of the project was the completion, in 2008, of a Feasibility Study, and JORC-compliant reserve estimates, audited by Snowden Mining Industry Consultants. The Feasibility Study demonstrated that the project is technically feasible and that its implementation, including open pit ore mining and processing of 1.5 Mtpa at the flotation and autoclave plants, is economically viable. In Q2 2009, Polymetal expects to provide new reserve estimates in accordance with the JORC Code audited by independent consultants and based on an updated feasibility study.

In 2008, Polymetal completed 36,509 m of diamond drilling and 105,204 m^3 of trenching at Albazino, mostly on the Anfisa and Olga ore zones with the aim of expanding the project's mineral resource. As a result, Albazino's resources increased substantially to 3 Moz of gold.

Exploration at Albazino continues with 26,000 m of diamond drilling and 41,000 m^3 of trenching planned for 2009. Efforts will be concentrated on tracing the Olga ore zone to the south and establishing initial resource estimates for the Yekaterina and Inilokhan ore zones.

In November 2008, construction of the plant commenced. The Company ordered various long lead items, including SAG mills, ball mills, diesel power jets, and diesel fuel storage tanks.

The reconstruction of the road from Albazino to the Oglongi river port also began, as did the construction of the mining camp at the deposit and the fuel storage facility at Oglongi. Modern Machinery, a Komatsu dealer, will deliver mining equipment worth over $10 million in 2009.

In 2008, tenders to design and supply the construction of the POX were held. The French company, Air Liquide, won the tender to supply the oxygen plant and the Canadian company, SNC Lavalin, won the tender for the autoclave design.

The basic project engineering for the POX plant has already been completed. The contract to assemble the oxygen plant was signed in Q1 2009 and all remaining equipment will be contracted by July.

Delivery of the mining equipment is scheduled for June and strip mining is expected to start in July 2009.

Amursk Hydrometallurgical Plant layout

Development Projects

Kubaka

LOCATION: Magadan Region

RESOURCES (JORC):

Birkachan
Gold: 1,378 Koz (17.5 Mt@2.4 g/t)
Silver: 6.6 Moz (17.5 Mt@11.8 g/t)

Oroch
Gold: 201 Koz (1.9 Mt@3.3 g/t)
Silver: 10.3 Moz (1.9 Mt@167 g/t)

PROCESSING: Heap leaching, CIP

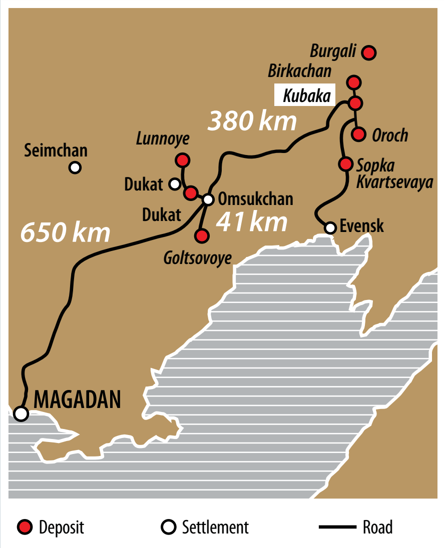
PROCESSING CAPACITY (ESTIMATED), HEAP LEACHING: 3 Mt per annum

PROCESSING CAPACITY, CIP: 850 Kt per annum

GOLD: 150–250 Koz per annum

CAPEX: $60 million

EXPECTED COMPLETION: 2011



In 2008, the Company completed the acquisition of the Kubaka deposit from Kinross.

Kubaka has ready-to-use mining and processing infrastructure that is in excellent condition. It can easily be integrated into Polymetal's existing technical, logistical and social structures in the Magadan Region.

Once acquired, the Company focused on exploration work at the Birkachan and Oroch deposits, which are closest to the processing plant and the most prospective.

In addition, an extensive exploration program was conducted at these deposits in order to ensure re-commissioning of the plant by 2011. The Company completed a total of 11,000 m drilling in 2008.

In February 2009, Polymetal announced JORC-compliant resources for Birkachan and Oroch. These resource estimates support the Company's plans for development of these deposits. In 2009 the Company expects to confirm the estimated reserves in the State Reserve Commission with the next step being the development of the mine design plan. The Company expects to produce a JORC-compliant reserve report and detailed development plan for four assets in Q1 2010, with a view to commencing mining at the site in the second half of 2010.

Metallurgical testing of seasonal heap leaching of Birkachan's low-grade ore was conducted by Polymetal Engineering in 2008. This option was not considered by Kinross, former owners of the deposit, due to unfavorable gold prices at the time. However, the results of field and lab work conducted by Polymetal show gold recovery of 40% over an eight- to nine-week period and confirm the potential of heap leaching technology at this site.

In 2009, large-scale bulk testing of ROM ore dump leach is planned, the results of which are required to complete the Feasibility Study. 26,000 m of core and reverse circulation (RC) drilling focused on the Birkachan and Oroch flanks, is also planned for 2009.

In April 2009, Polymetal agreed to acquire Sopka Kvartsevaya, which is approximately 180 km from Kubaka.

The proposed acquisition achieves a number of strategic objectives:

- It provides an additional substantial source of high-grade feed to the existing Kubaka processing plant. It will also contribute to significantly increased production at low capital and operating costs;
- It supports the development of Kubaka as a regional processing hub with multiple feed sources (Birkachan, Oroch, Sopka, Dalniy) and substantial technological flexibility. The addition of a new source of feed is also expected to improve the overall economics of the mill's operation;
- It consolidates a portfolio of land holdings and unique transportation infrastructure in the east of the Magadan Region with numerous highly prospective epithermal gold-silver ore occurrences.

In order to develop the Kubaka project, Polimetal is aiming to produce a JORC-compliant reserve report and detailed development plans for Birkachan, Oroch, Sopka and Dalniy in Q1 2010. Re-commissioning of the Kubaka plant is currently scheduled for Q3 2010 and the Company expects to be producing in excess of 100 Koz of gold equivalent from ore extracted from Sopka starting 2011.

KUBAKA
Aerial view in 2008

BIRKACHAN
Aerial view in 2008

Exploration

+21%

GROWTH IN GOLD RESOURCES

11,440 m

DRILLED AT BIRKACHAN

126.1 km

DRILLED

+47%

GROWTH IN GOLD RESERVES

Polymetal is conducting exploration work in four Russian regions: the Magadan and Sverdlovsk Regions and the Khabarovsk and Krasnoyarsk Territories. Its exploration portfolio includes 29 licensed areas covering more than 6,500 km^2.

By 2011, the Company aims to increase its gold resources to 12 Moz and its silver resources to 800 Moz as a result of in-house exploration and acquiring new assets. It also seeks to increase its gold reserves to 8 Moz and silver reserves to 600 Moz.

The Company's exploration activities are focused on two goals:

- Expansion of our existing operations' resource base in order to ensure their long-term production outlook;
- Identification and development of deposits in other territories to create new production assets.

In 2008, the Company conducted exploration and prospecting on 10 licensed areas. Geographically, the areas marked for exploration tend to be on the periphery of ore fields of deposits that are currently developed by the Company, or located around processing plants of greenfield units that are being prepared for commissioning.

The Company drilled 126,100 m for its exploration program in 2008. In total, $32.7 million was spent on exploration, including standalone projects and regional programs. This amount excludes investment in operational exploration.

Key Events 2008

- Gold resources at Albazino (Khabarovsk Territory) grew by 772 Koz to 3 Moz.
- The search for mineral resources in the Southern Voro pit was completed and confirmed by the State Reserves Committee of the Ministry of Natural Resources. The deposit's resource base grew by 2.4 Mt of ore.
- Supplementary exploration and a re-examination of gold and silver resources undertaken at Birkachan and Oroch. As a result of an external audit, gold resources are now 1.6 Moz at 2.5 g/t and silver resources are 17.0 Moz at 27.2 g/t .
- Aerial reconnaissance of a 1,450 km^2 area was conducted, significantly increasing the effectiveness of our regional exploration programs.
- Completion of exploration at Galka (Sverdlovsk Region).
- Commencement of exploration at Tamunerskoye (Sverdlovsk Region).
- Completion of evaluation of drilling at Perevalnoye in the Magadan Region (Dukat flanks) resulting in a JORC-compliant mineral resource estimate of 13.7 Moz of silver at 364g/t.

Major Goals 2009

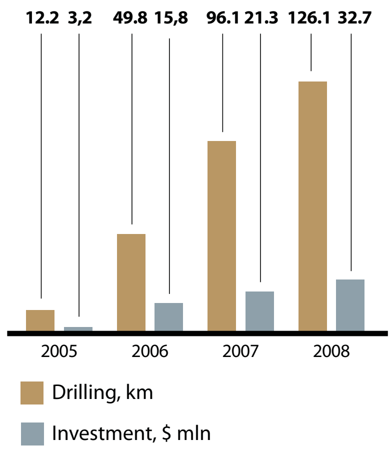
- Increase gold reserves by 1.3 Moz and silver reserves by 22.5 Moz in regions where the Company has operating mines.
- Continue exploration and evaluation work at promising sections of Albazino in order to further increase gold resources by 500–600 Koz prior to commissioning of the mine.
- Register the gold and silver resources at Birkachan, Perevalnoye and Galka with the State Reserves Committee.
- Conduct a preliminary Feasibility Study at Tamunerskoye.
- Conduct a detailed drilling program at Goltsovoye and prepare the site for mining.

Drilling volumes are expected to decrease by 40% in 2009 as a result of:

- The completion of extensive drilling programs at Albazino, Galka, Perevalnoye and Birkachan in 2008;
- Preliminary exploration at licensed areas in 2008 remained, by and large, in its early stages and will not require a significant amount of drilling in 2009;
- The current global economic crisis has, to a certain degree, led to the reduction of drilling volumes. The Company will be focusing its exploration efforts on already developed projects in the late exploration stage.

Sites targeted for exploration by the Company in 2008 were divided into two categories: standalone and regional programs to supplement the resource base of existing plants or plants currently under construction.

DRILLING AND INVESTMENT



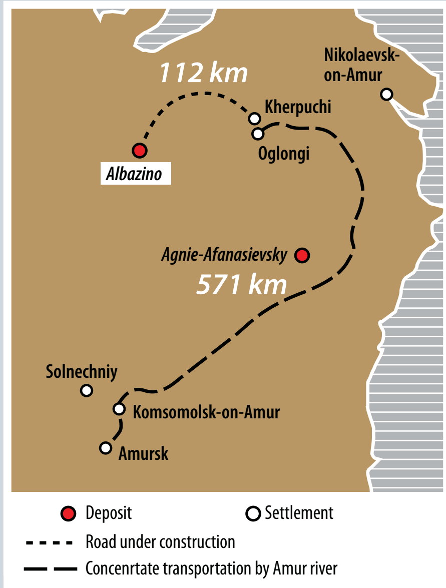
Stand-alone Exploration Projects

Albazino

Albazino covers a total area of approximately 83 km² in the eastern part of the Khabarovsk Territory in the Polina Osipenko district. It is about 500 km from the Territory's capital. During shipping season ore is transported to Khabarovsk via a 110 km access road to the port of Oglongi onto the Amur and Amgun rivers. From December to March, a 300 km winter road operates from the deposit to the Solnechnaya railroad station. The deposit is now represented by two ore zones (Anfisa and Olga) within a single ore body extending to the northwest. Gold mineralization is concentrated within gently sloping occurrences, mostly located at the ground level. According to preliminary estimations, these occurrences are 150–350 m long, 150–450 m deep, and a 1–45 m wide. Albazino ore is refractory.

License: *Geological survey and mining gold ore at the Albazino area* ***through 2015.***

DRILLING IN 2008: **36,509 m**



When acquired, Albazino had approximately 0.3 Moz of confirmed gold resources. As a result of the Company's exploration campaigns from 2006–2008, Albazino is now classed as a large mineable deposit.

In June 2008 Albazino mineral resources and ore reserves were confirmed in accordance with the JORC Code by Snowden Mining Industry Consultants as follows (as of February 2008):

JORC Gold Resources: 2.3 Moz (15 Mt@4.7 g/t)

JORC Gold Reserves: 2.1Moz (15 Mt@4.3 g/t)

In November 2008, the reserves were confirmed by the State Reserves Committee (protocol №1778). 2.1 Moz of gold at an average grade of 6 g/t were registered with the State Resource Commission. This enabled the Company to initiate development of the Albazino project design documentation and to start purchasing the required mining equipment.

In 2008, Polymetal completed 36,509 m of diamond drilling (including 16,000 m for prospecting), 105,204 m³ of trenching, and 500 km² of aerial geological surveillance with the objective of expanding and upgrading the mineral resources. As a result of this exploration campaign Polymetal received a new internal estimate of the gold resources which are now 3 Moz (22 Mt@4.2 g/t).

In addition, several prospective gold mineralization zones were established within the Albazino license area (Yekaterina, Inolokhan, Vodorazdelny, Maslovsky and others). This confirms Polymetal's position that known ore zones at Albazino are substantially underexplored and have tremendous resource expansion potential.

At the end of 2008, Polymetal had its first exploration success at the Yekaterina deposit, located 1.2 km south of the Albazino license contours. Yekaterina mineral resources are estimated at more than 10 tons of gold.

The Company will continue exploration in these areas in 2009–2010.

Goltsovoye

The 5.7 km² Goltsovoye area is located in the Magadan Region, 84 km south of the Dukat processing plant. The acquisition of Goltsovoye in 2008 has helped the Company consolidate its exploration area around Dukat and maximize the potential for discovery of new deposits in an ore region known for its highly promising silver prospects. The Goltsovoye Ore Area is located predominantly in rhyolitic ignimbrites. The mineable silver and complex ore bodies are localized in gently sloping (35–45°) faults. The ore bodies are complex sheets containing local bulges with widths that can expand by 1.5–2 times or more. The ore bodies' strike lengths range from 50–450 m, with depths of up to 400 m and an average width of between 0.8–4.0 m. The quality of the deposit's ore is exceptional. In exploratory cross-sections, the silver grade was consistently around 1000 g/t or more, reaching a maximum of 20 kg/t.

License:** Silver mining from the Goltsovoye ore deposit **through 2012.

As at January 1, 2008, Goltsovoye resources represented 10% of Polymetal's Measured and Indicated resources and 13% of the Company's Measured, Indicated and Inferred resources. The acquisition of Goltsovoye in December 2008 has expanded the Company's silver resource base. The deposit's proximity to active processing capacity will also enable the utilization of existing infrastructure.

In February 2008, Goltsovoye mineral resources were confirmed in accordance with the JORC Code by Wardell Armstrong International as follows:

M&I	**42.7 Moz (1.5 Mt@993 g/t)**
Inferred	**21.8 Moz (0.8 Mt@738 g/t)**

In 2009, the Company plans to process trial ore from Goltsovoye at Dukat's processing complex.

The Company believes that the territory licensed for exploration and mining at Goltsovoye has high geological potential, as only two of the five identified ore zones have been explored with a regular drilling grid. Drilling at the deposit is expected to continue in 2009–2010, in order to expand the survey's scale. According to available geological data, the five ore zones could hold additional silver resources of up to 16–24 Moz (500–750 t). Through active exploration of this deposit the Company intends to consolidate the exploration area around Dukat and maximize the potential for discovering new deposits in a region known for its highly promising silver prospects.

The Company plans to conduct a JORC-compliant audit of Goltsovoye's resources in Q3 2009.

Dukat Flanks

This program calls for exploration in the central and northern sections of the Balygychano-Sugoisky depression. It covers virtually all silver deposits in Russia's Northeast in the region of Dukat and Lunnoye, including both small and large deposits. The Company holds the rights to these deposits and has effective processing infrastructure in this region that can support 450–550 tpa of silver mining. This capacity requires an active exploration program in order to reveal significant gold and silver deposits that can supplement the resource base of its existing plants. The acquisition of mining rights in these sections has resulted in the Company increasing throughput at the Omsukchan processing plant to 1.5 Mtpa of ore. In turn, this has created the need to discover additional sources of ore relatively close to Dukat. The total area of the licensed sections is approximately 2,800 km².

> ***License:*** *Geological survey, prospecting and evaluation of gold and silver ore at the Dukat prospective area* ***through 2011.***
>
> *Geological survey, exploration and mining gold and silver at the Dukat Ore Area* ***through 2031.***
>
> *Geological survey, exploration and mining gold and silver at the Rogovik prospective area* ***through 2033.***

DRILLING IN 2008: 44,705 m

The exploration program at the Nachalnoye-2 silver deposit 2 km north of Dukat was completed in 2008. This deposit was discovered in the region of the Dukat Ore Area in 2007. The final stage of exploration included developing a Statutory Feasibility Study (TEO Konditsii) and calculating reserves for the State Reserves Committee.

As at December 31, 2008, an audit of Nachalnoye-2 by SRK Consulting confirmed:

JORC Silver Resources 4,7 Moz (430 Kt@339 g/t)

Mining at Nachalnoye-2 is scheduled to begin in 2009.

In 2008, the Company continued exploration of Svetloye and Nachalnoye. Initial drilling has been encouraging, with the discovery of a zone, more than 10 m wide, containing fragments of silver grades ranging from tens to hundreds g/t. A deep diamond drilling program is planned to commence in 2009 when an exploration target area will be identified.

In 2008, further field exploration continued on the Dukat prospective area, including specialized geological mapping and detailed geochemical photographing. This work aims to identify areas that contain potentially promising mineable reserves. The Vetrenoye and Volnistoye pits were the first ore occurrences to be marked for subsequent exploration (trenching and drilling). These areas have been included in the Company's 2009 exploration program.

The Company completed its evaluation of the Perevalnoye silver deposit in the Dukat prospective area, located 35 km northeast

of the Dukat plant. A 50-100×50 m network of boreholes was drilled and a study of the metallurgical properties of the deposit's ore was conducted. Sample tests have identified flotation as a potentially effective method of processing the Perevalnoye ore into a concentrate.

As at December 31, 2008, an audit by SRK Consulting of Perevalnoye confirmed:

JORC Silver Resources: 14 Moz (1.2 Mt@364 g/t)

The Company is planning to conduct a Feasibility Study of Perevalnoye in the second half of 2009 and confirm its reserves to the State Reserves Committee. This study will be used to determine how best to develop the area.

The Company will continue to search for deposits similar to Perevalnoye in uncharted and promising sections of the area.

In 2008, the Company acquired a license to conduct geological surveying, exploration and mining at Rogovik. The licensed area (397 km^2) is located in the northern fault of the Balygychano-Sugoisky depression, 220 km north of Dukat. The most significant find during recent exploration has been the Rogovik ore occurrence. The five-year exploration program was approved in March and field exploration is scheduled to begin in June. This will include geological traverses and 500 m of drilling.

Projections indicate that the area could hold mineable gold deposits with 70–100 tons of ore containing a gold grade of at least 3–5 g/t.

Galka

This 3.5 km² deposit is in the Karpinsk district of the Sverdlovsk Region, 40 km west of Voro. Since acquiring a license for geological surveying in 2006, the Company has explored the area and discovered an average-size copper and zinc deposit containing gold and silver as associated components.

License: *Geological surveying, search and evaluation of gold ore deposit in the Galka area* ***through January 31, 2010.***

DRILLING IN 2008: 14,089 m

In 2008, work to measure the contours of Galka using a 100-200×50 m net of boreholes was completed. Given the complexity of the ore's composition, a broad testing cycle was performed. The results concluded that flotation processing would produce a saleable concentrate of zinc and copper with high metal extraction from the ore. The Company began to work on a Feasibility Study of the deposit's mineable resources at the end of the year.

In May 2007, Galka's mineral resources were confirmed in accordance with the JORC Code by Snowden Mining Industry Consultants as follows:

JORC Gold Resources 590 Koz (14,2 Mt@1.3 g/t)

JORC Silver Resources 15,4 Moz (14.2 Mt@33.7 g/t)

JORC Zinc Resources 176 Kt (14.2 Mt@1.24%)

The Company originally planned to submit this study to the State Reserves Committee in 2009. However, given the drop in silver and zinc prices, Polymetal halted drilling at Galka to consider strategic alternatives for the site.

Regional Exploration Programs

In 2008, the Company continued to actively search for resources in the Khabarovsk Territory and the Sverdlovsk and Magadan Regions as part of its regional programs. These programs aim to supplement the resource bases of existing plants in order to ensure their economic viability. For the Company's new production assets, the regional programs aim to identify resources with a mid-term time horizon.

The primary goal of the regional programs is to produce an in-house assessment of the regional prospects, using detailed analysis of results from previous exploration and in-house field work. This assessment aims to determine the investment required to identify mineable gold and silver deposits with an acceptable quality and quantity of ore.

In 2008, the Company worked on eight licensed sections under its regional exploration programs, covering a total area of 4,994 km^2. Aerial reconnaissance with a 1:10,000 scale was used on a 1,450 km^2 area, while 135,719 m^3 of boreholes were drilled to explore and evaluate the significance of various other areas.

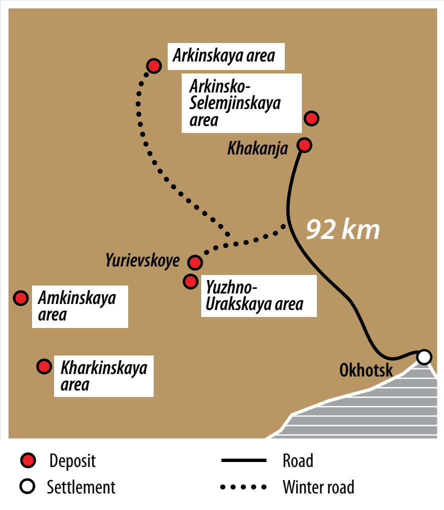
Khabarovsk Territory

Okhotsk Regional Program

This program's goal is to identify substantial gold and silver resources to ensure the long-term operation of the Company in the Khabarovsk Territory. The program covers a territory in the central section of the Okhotsk district along the periphery of ore fields being developed at Khakanja and Yurievskoye. The Okhotsk Regional Program began active exploration in 2008. The total area of the licensed sections is 2,700 km².

> ***Licenses:*** *Geological survey, exploration and mining of gold and silver in the Khakari area* ***through 2025.***
>
> *Geological survey, exploration and mining of gold and silver ore in the Arkinsko-Selemdjinskaya area* ***through 2032.***
>
> *Geological survey, exploration and mining of gold and silver ore in the Amkinskaya area* ***through 2032.***
>
> *Geological survey, exploration and mining of gold and silver ore in the Yuzhno-Urakskaya area* ***through 2032.***
>
> *Geological survey of the gold and silver ore deposit within the limits of the Arkinskaya area* ***through 2011.***

DRILLING IN 2008: **8,730 m**



Field exploration for the Okhotsk program in 2008 concentrated on two licenses: Arkinsko-Selemdjinskaya and Yuzhno-Urakskaya. Aerial geophysical photos with a 1:10,000 scale were taken over a 500 km² area located north of Khakanja. The data received is currently being analyzed.

In 2008, exploration covered a two-part section of Arkinsko-Selemdjinskaya, adjacent to Khakanja. Lithogeochemical searches of the secondary dissemination aureole were conducted at a scale of 1:25,000 at the two sections, which have a total area of 18 km². Specialized geological mapping was also used. The work in 2008 identified a favorable geological structure, similar to that of Khakanja. The presence of geological, geochemical and geophysical anomalies means that exploration will continue on these sections in 2009.

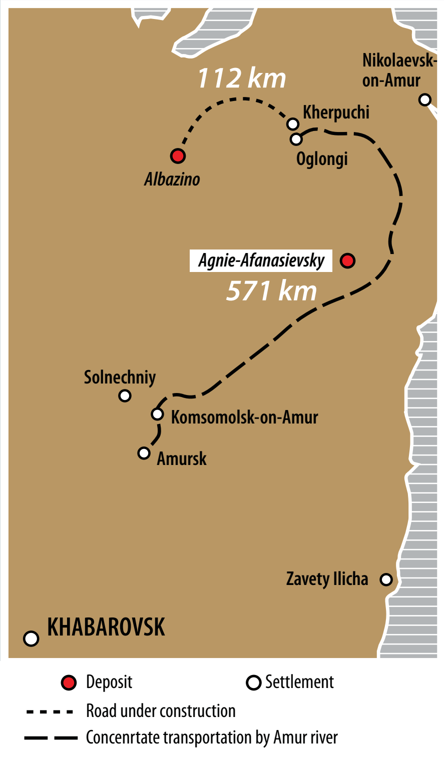
In 2008, reconnaissance was conducted over 350 km at the prospective sections of Yuzhno-Urakskaya. 3,000 m of mapping boreholes and 30,515 m of channels were drilled.

Encouraging geological results were gathered at the LUPZ, ore occurrence located 22 km southeast of Yurievskoye. Gold mineralization in the boreholes at LUPZ begins at the surface and has the following characteristics: 9.0–10.7 m thickness, with an average gold grade of 1.3–1.7 g/t and silver grade of 50.0–63.3 g/t. The Company plans to continue exploration of this section in 2009.

Amur Regional Program

This program, which began in 2008, aims to identify long-term gold and silver resources for the Company's new production assets in the Khabarovsk Territory, the Albazino and Amursk plants. The new regional program will investigate a series of ore clusters and other prospective areas located between the Amur and Amgun rivers. The Company began to create a portfolio of licensed sections for this regional program in H2 2008. Requests for licensed subsoil sections at Vostochny, Kherpuchinsky, Uchaminsky and other areas have been submitted.

Licenses: *Geological survey and mining of gold at the Agnie-Afanasievsky prospective area* ***through 2033.***



The territory of the Amur program is of a similar mineral composition to that of the Pildo-Limuriiskaya area, which has been designated as a gold metallogenic zone. The Company's analysis of geological archive material has identified a litho-structural setting with indications of the presence of gold that could contain a deposit of a similar type and class to Albazino.

In January 2009, a license for the geological surveying, exploration and mining of the gold vein within the Agnie-Afanasievsky prospective area was acquired (441 km^2). Exploration and reconnaissance of the ore cluster's grade will start in 2009.

Magadan Region

Omolon Regional Program

This program calls for exploration to create a high-quality reserve base for the Kubaka plant, which was acquired in 2008, including four subsoil licenses. The Kubaka plant's existing infrastructure will help to achieve the Company's strategic goal of increasing precious metal mining to over 70% of 2008 levels by 2011–2013. The current reserve base includes the remnants of Kubaka's reserves and initial assessments of the under-explored reserves at Birkachan and Oroch. The total area of the licensed sections is 230 km².

> ***Licenses:*** *Survey, exploration and subsequent exploitation of gold and silver deposits in the Birkachan and Avlandinskaya prospective areas* ***through 2012.***
>
> *Mining gold and silver at the Kubaka deposit, geological survey of subsoil and mining of gold and silver in the Evenskoye deposit* ***through 2011.***
>
> *Geological survey of subsoil, exploration and mining of gold and silver veins in the Oroch prospective area* ***through 2030.***
>
> *Geological survey of gold mineralization at Prognoznoye* ***through 2011.***

DRILLING IN 2008: 11,440 m

In 2008, the Company started to prepare Birkachan for mining in connection with the planned re-commissioning of the Kubaka plant. During the reporting period, supplementary exploration of the site was conducted to study the hydro-geological conditions and to further define the ore's properties.

45 boreholes, extending to 11,440 m in total, were drilled in 2008. The results of this exploration campaign, together with confirmation of historical data, were used to prepare a JORC-compliant assessment of Birkachan's resources.

As of December 31st 2008, an audit by SRK Consulting of Birkachan confirmed:

JORC Gold Resources 1.4 Moz (17.51Mt@2.4 g/t)

JORC Silver Resources 6.6 Moz (17.51 Mt@11.8 g/t)

The Company plans to seek approval of the estimated mineral resources with the State Reserves Committee in H1 2009 and then start development of the mine design project.

The resource estimate supports Polymetal's development strategy for Birkachan.
A bankable Feasibility Study is currently being developed and its completion is expected in Q4 2009. Mining at Birkachan is currently scheduled to begin in 2010.

Mineralization at Birkachan remains unexplored along one prong of the strike.

An additional 3,000 m of core drilling and 2,000 m of RC drilling are planned in 2009. The Company hopes to further expand the deposit's resource base to enable an increase in the capacity of a potential heap leach.

As at December, 31 2008, an audit by SRK Consulting of Oroch confirmed:

JORC Gold Resources 201 Koz (1.93 Mt@3.3 g/t)

JORC Silver Resources 10.3 Moz (1.93 Mt@167 g/t)

There is significant potential for further exploration at Oroch, as there are several known ore zones that have yet to be studied in detail. For 2009, 12,600 m of core drilling and 8,000 m of RC drilling are planned. The grade at Oroch is high enough to justify transporting the ore to the Kubaka plant for processing.

In accordance with the regional program, additional exploration will be conducted to determine the gold ore potential at the Company's licensed subsoil sections. A review of all prospective areas within a 100 km radius of the Kubaka plant will be conducted simultaneously to select additional sites for licensing.

Exploration

Sverdlovsk Region

Northern Urals Regional Program

This program is focused on the exploration of the Sverdlovsk Region in the Northern Urals, a territory in which the Company has a significant presence. The program covers five areas all of which are located within a 200 km radius of the Voro mine. The total area of the licensed sections is 93 km².

Licenses: *Geological survey, exploration and mining gold ore at the Katasminskiy area* ***through 2031.***

Geological survey, exploration and mining gold ore at the Tamunersky area ***through 2032.***

Geological surveying, exploration and evaluation of the gold ore deposit at the Rudnichniy area ***through 2011.***

Geological survey of the gold deposit at the Volchanksky area in the Sverdlovsk Region ***through 2012.***

Geological survey, exploration and mining of gold and silver at the Degtyarskoye deposit ***through 2029.***

DRILLING IN 2008: **10,601 m**

In 2008, most of the work for the Northern Urals program was conducted at Tamunersky. Following aerial geophysical mapping and hypogene geochemical prospecting, six large anomalies of induced polarization with geochemical gold envelopes and mineral assemblage elements, were discovered. Initial exploration drilling has revealed the presence of gold in one anomaly. The mineral composition of Tamunersky's ore is similar to that of Voro.

The Company plans to conduct exploration drilling at other anomalous zones in 2009. Polymetal believes that, given the encouraging geological results at Tamunersky, there is the possibility of a large gold ore deposit discovery.

In 2008, the Company devised a detailed program to explore Volchanksky and submitted it to the authorities for approval. According to initial forecasts, the deposit could contain resources of over 600 Koz of gold. Analysis of geological archives has so far indicated that the geology of Volchansky could be similar to that of Voro. In 2009, the Company is planning to start exploration at the lease, including geophysical photography and geochemical samples of the primary aureole.

The Company acquired a license in 2008 for geological surveying and mining of gold and silver at Degtyarskoye, located 80 km from Voro. The Company has studied the exploration results and conducted a technical survey that indicates high rates of extraction could be achieved using either heap leaching (over 75%) or carbon-in-pulp technology (over 85%) at Voro.

According to a Feasibility Study (with a cut-off grade of 0.5 g/t) completed in H1 2008, the area has the following Category C1 and C2 reserves in the Russian classification system:

Ore — 562 t;
Gold — 93 Koz@5.3 g/t;
Silver — 450 Koz@25 g/t.

In 2009, exploration will continue at the deposit, as mineralization along the strike may continue in a direction that has yet to be drilled.

Unfavorable geological results came in from data gathered in 5,045 m of drilling at Rudnichniy and Katasminskiy. The gold mineralization in the boreholes was dissipated and characterized by narrow-veined ore intervals (for the first few meters) with sparse gold grade of roughly 1–2 g/t. As a result, exploration was terminated at these leases.

Capital Expenditure

Polymetal's capital expenditure totalled $112.5 million in 2008, compared to $115.7 million in 2007. The Company's prioritized projects are to build large regional processing hubs and increase production volumes, and it devoted over 60% of capital expenditure to such projects. Polymetal also spent a significant amount on exploration programs to replenish its resource base with promising new projects and to prolong the mine life of existing assets.

Of the $70.3 million that Polymetal invested in development projects in 2008, $45.6 million was spent on construction at the Albazino-Amursk project. This investment project, which is the largest in the Company's portfolio, is located in the Khabarovsk Territory in Russia's Far East. It includes the construction of a mine and flotation concentrator in Albazino and a POX plant in Amursk. Currently, work is proceeding on schedule. Approximately 90% of the equipment needed in Albazino has been contracted, as well as the oxygen plant and filter presses for the Amursk plant. The mine and new processing plants are scheduled to be commissioned in Q4 2010.

$24.7 million was invested in the expansion of the Dukat and Voro plants, which was 23% less than the budgeted $32 million. The cost reduction was partially due to the devaluation of the rouble in H2 2008 and also because a portion of the start-up expenses was postponed to 2009. In January 2009, the renovation of the Voro plant was completed, doubling its capacity to 950 Kt of ore. The modernization of the Dukat plant is expected to be completed in Q3 2009.

The total investment in exploration was $32.7 million, with the portion of expenditure that did not yield results, as JORC-compliant measured and indicated resources, included in operating expenses. As such, the Company accounted $11.1 million from the Okhotsk Regional Program and $4.8 million from the joint venture with AngloGold Ashanti in the operating expenses.

Maintenance expenses were kept close to last year's level (US$25.4 million in 2008 compared to $24.6 million in 2007) as a result of the rouble's devaluation and cost optimication program introduced in response to the financial crisis.

CAPITAL EXPENDITURE IN 2008

	$ mln
Development projects	
Dukat	12.8
Voro	11.9
Albazino	45.6
Total development projects	**70.3**
Maintenance	
Dukat and Lunnoye	13.7
Voro	4.8
Khakanja	6.9
Total maintenance	**25.4**
Exploration	
Dukat flanks	9.8
Okhotsk Regional Program	2.1
Omolon Regional Program (Kubaka)	2.3
Northern Urals Regional Program, Galka	2.6
Total exploration	**16.8**
TOTAL CAPITAL EXPENDITURE	**112.5**
Exploration expenditure accounted in the operating expenses	
JV with AnlgoGold Ashanti	4.8
Okhotsk Regional Program	11.1
Total investment in exploration	**32.7**
TOTAL INVESTMENTS (including expenditure accounted in the operating expenses)	**128.4**

Engineering and Research

122
HIGHLY QUALIFIED SPECIALISTS

93
PROJECTS IN 2008

23
PATENTS

8
SITES DESIGNED FROM START TO COMPLECTION

One of Polymetal's key advantages is its in-house engineering center, Polymetal Engineering. The center conducts the full cycle of work related to developing subsoil deposits, including the study of ore grades, the selection of optimal processing technologies, and the design of mines and processing plants. Polymetal Engineering leads the Russian market in the development of concentrate processing technologies and detailed engineering plans for mining ore deposits of precious, ferrous and nonferrous metals and gems.

Polymetal Engineering's primary role is to provide technical and design plans for the Company during all stages of a project. This includes evaluating potential investments and assessing deposit reserves prior to development, as well as the construction and operation of processing plants.

During 2008, Polymetal Engineering assisted Polymetal's production subsidiaries and third-party organizations with preparation of technical and design documentation concerning construction and the operation of deposits in current market conditions it completed 164 industry projects at various stages of planning and 97 scientific research projects. It also developed eight instructions for design documentation development and six sets of technical instructions, and it published 11 articles.

Polymetal Engineering regularly registers results of its surveys and work as intellectual property. As at December 31, 2008, the Company held 23 valid patents.

Polymetal Engineering's major goals 2009:

- To develop technology to mine ore at Goltsovoye, Perevalnoye and Oroch and to evaluate the metallurgical characteristics of the ore at these deposits.
- To undertake a Feasibility Study at Birkachan, Perevalnoye, Galka and Fevralskoye in order to register reserves with the State Reserves Committee (GKZ) and prepare for development of these assets.
- To carry out projects that will support the expansion of the resource base of existing projects, including the Southern Voro pit, Goltsovoye and Nachalnoye-2, and the underground mining project at Lunnoye, and projects to support the development of the next generation of assets, including the Albazino processing plant, the Amursk POX plant and a pilot program for heap leaching ore at Birkachan.
- To provide the necessary technical documentation for the Company's sites currently under construction.

Work Performed for Subsidiaries

Khakanja

Over the course of 2008, technical documentation was completed for site development of open pit mining at Yurievskoye. Technical instructions were also provided to allow for the joint processing of ore from Khakanja and Yurievskoye.

Currently, the Company has the full set of project documentation needed to effectively develop Yurievskoye deposit. In 2008, based on the Polymetal Engineering's project plan, a mine at Yurievskoye was built. This allowed the Company to significantly expand Khakanja ore reserves and increase the average grade of ore refined at the Khakanja plant.

Dukat and Lunnoye

In 2008, Polymetal Engineering completed two projects of long-term significance to Polymetal: the reconstruction of the Omsukchan plant and the expansion of Dukat underground mine.

The project to reconstruct the Omsukchan plant was instigated to increase production levels. It included the expansion of grinding and flotation processing, the installation of new filters, and the reconstruction of both the tailings impoundment and the processing plant. As a result of the project, the plant's throughput increased to 1.5 Mtpa, and TSF has now the capacity to store 15 years worth of tailings. In order to optimize ore extraction, the project has adopted an ore-sorting technology that utilizes x-ray ore analysis with a coordinated actuator to determine the quality of the ore during preparation work, prior to being sent to the processing plant. The ore assessment technology (ore sorting facility) has been successfully tested on the main conveyer at the Omcukchan plant. All of the documentation necessary for completion of this project was produced by Polymetal Engineering.

The project to expand Dukat underground mine will allow for the development of whole Dukat reserve base accounting for over 15 Mt of ore. The project includes transportation solutions and a newly designed primary ventilation circuit.

In order to replenish the resource base after the cessation of open pit mining at Dukat in 2008, a study of the ore metallurgy of Dukat's flanks (Nachalnoye-2 and Perevalnoye) was conducted. A report examining the technical challenges and economic potential of developing Nachalnoye-2 was also completed.

Engineering and Research

Voro

In 2008, Polymetal Engineering conducted the following work to determine the sustainability and profitability of the existing operation for the next ten years:

1. A set of technical documentation for construction and repair work at the carbon-in-pulp (CIP) mill to accommodate the sulfate ore feed. This work will increase the mill's throughput to 900 Ktpa;

2. A project to design a network to handle the mine's water supply, including water from open pit mines, filtered service water and run-off. This network will ensure the uninterrupted supply of water to the mill, leading to increased productivity when processing ore. It will also significantly reduce the volume of run-off from both the open pit mine and the industrial area of the plant, thereby significantly reducing the amount of environmental issues associated with this run-off;

3. An assessment of the major technical parameters for processing the oxidized ore from the Southern Voro pit using heap leaching and CIP. A Feasibility Study to assess the gold and silver reserves of the Southern Voro pit was also completed. These reserves have been confirmed by the State Reserves Committee, which enabled the development of a project to expand open pit mining and develop the Southern Voro pit. Implementing this project will increase both the production life of the oxidized ore processing facilities and annual production volumes.

In 2008, a survey of ore concentration at Galka was conducted to determine its mineable resources.

Albazino

A series of pilot tests using a high-pressure flotation facility was conducted on high-volume metallurgical samples taken from Anfisa and Olga. These tests helped fine-tune and optimize the flowsheet, process parameters and use of reagents. A revised procedure was introduced at the Albazino plant based on these results.

In the first half of 2008, a Feasibility Study to assess Albazino's gold reserves was conducted. It was submitted to the State Reserves Committee and confirmed on November 19, 2008.

In order to define the parameters found in the Statutory Feasibility Study (TEO Konditsii), a series of internal studies were conducted to determine the best type of tailings impoundment, as well as the optimal configuration of the general plan, mine complex and concentrate-drying sections.

At the same time, a Feasibility Study for development of Albazino was completed and submitted for an international audit. The study looked at the following:

- The Albazino processing plant;
- The Kherpuchi-Albazino road;
- The construction site in Oglongi;
- The Amursk Hydrometallurgical Plant.

In 2008, Polymetal Engineering commenced work on a project to develop the Albazino processing plant.

A report to determine the amount of investment needed for a centralized power supply at the Albazino plant was submitted to the Russian Investment Fund.

In order to facilitate the construction of a 115 km road that will improve the Albazino plant's access to neighboring regional infrastructure, an estimate of the materials needed for various types of roads was undertaken. A project to design the road was also completed.

Technical documentation for the processing plant's foundation was prepared in order to ensure the availability of supplies in 2008. Technical documentation for the preparation and assembly of the processing plant's steel framework and a concrete mixer were also completed.

Furthermore, subcontractors provided technical support for the project documentation relating to the mining settlement, fuel storage facilities at the processing plant, and both port and fuel storage facilities in Oglongi.

A series of studies on autoclaves for oxidized concentrates from Albazino was conducted to determine the necessary parameters for the POX, cyanide leaching, occlusion, and stripping of gold. Tests were conducted at both DNTI laboratories and in collaboration with SGS Lakefield at their high-pressure pilot autoclave in Canada. The operating procedure for the design of the Amur Hydrometallurgy Plant was developed based on the resulting data, together with the criteria for the POX plant developed by the Canadian company SNC Lavalin. This procedure features the development of a technical flow sheet that uses a universal instrument to execute two phases of sulfide sulfur processing with the more than double difference in capacities During the first phase, the Amursk plant processes concentrate from Albazino in volumes that correspond with the maximum productivity of the Albazino plant. In the second phase, in addition to the above volume of Albazino concentrate, the Amursk plant will process concentrate from external supplies.

A series of internal feasibility estimates were made regarding options for electricity supply, waterworks and sewage at the Amursk POX plant. Design decisions were made on the basis of these studies.

Contractors provided technical support for the project documentation and will continue to provide assistance to the division that will run the POX plant, which was developed in partnership with SNC Lavalin.

In 2008, Polymetal Engineering began construction of the Amursk POX plant.

Kubaka

In 2008, a series of laboratory and field geotechnical surveys was conducted to evaluate the use of gold heap leaching, taking into consideration the arctic conditions and low grade ore at Birkachan. Based on the data, a pilot procedure for the design of the gold heap leaching division was prepared and tested.

A series of tests concerning extraction and the development of technology to process ore were conducted at Oroch to determine its mineable resources.

Work Commissioned to Third Parties

In keeping with Polymetal's strategic development plan for 2006–2008, Polymetal Engineering continued to actively participate in domestic projects for third party clients, with the goal of strengthening the Company's brand recognition among potential portfolio investors. Priority is given to work commissioned by Polymetal, allowing Polymetal Engineering to be selective when accepting external contracts. Contracts are therefore selected on basis of project's significance and Polymetal Engineering's ability to deliver an efficient solution based on its experience in the given sector. Seventeen percent of Polymetal Engineering's earnings were derived from third-party commissions and 6 percent of working hours were devoted to these projects.

The following were the most important projects commissioned by third-party clients.

Arkhangelskgeoldobycha

In 2008, experts from Polymetal Engineering participated in a Feasibility Study commissioned for the V. Grib diamond deposit. They completed the mining, overall engineering and economic sections of the Study. Given the difficult conditions at the deposit and the necessity for a resolution of key issues in a short time-frame, the parties that commissioned the work, Lukoil and DeBeers (the principle shareholders of Arkhangelskgeoldobycha), divided the study into several sections and assigned them to various leading Russian project and research institutes. Polymetal Engineering was selected as the overall supervisor throughout the entire process of developing the Feasibility Study. Other participants included the Hydronickel Institute, Mekhanobr Engineering, Nordeko Eurasia, VNIMI and the St. Petersburg State Mining Institute.

The work was completed on time due to the well-coordinated efforts of all the participants under the supervision of Polymetal Engineering. This allowed Arkhangelskgeoldobycha to honor all the terms of its existing licensing agreements and present both the Feasibility Study and an estimate of the V. Grib deposit's diamond reserves to the State Reserves Committee.

Mikheyevsky Processing Plant

Polymetal Engineering conducted a series of scientific studies and pilot tests for processing ore using sulfuric heap leaching at the Mikheyevsky copper deposit. As a result of large-scale pilot tests in conditions that were modeled on real stockpiles for heap leaching, the parameters of the technical process were established and a technical procedure for the design of copper heap leaching at the operation was developed.

This project will represent the first copper heap leaching facility in Russia. The fact that a company as experienced as Russian Copper Company, which is the principle shareholder of the Mikheyevsky processing plant, contracted Polymetal Engineering to develop the innovative technology needed for this project demonstrates the high level of confidence in Polymetal Engineering's expertise.

Financial Overview

The Company's revenue is 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 2008, other revenue, mainly attributable to services provided by Polymetal Engineering to third parties, was $3.7 million (2007: $ 2.8 million). This represents less than 1% of total revenue in 2008.

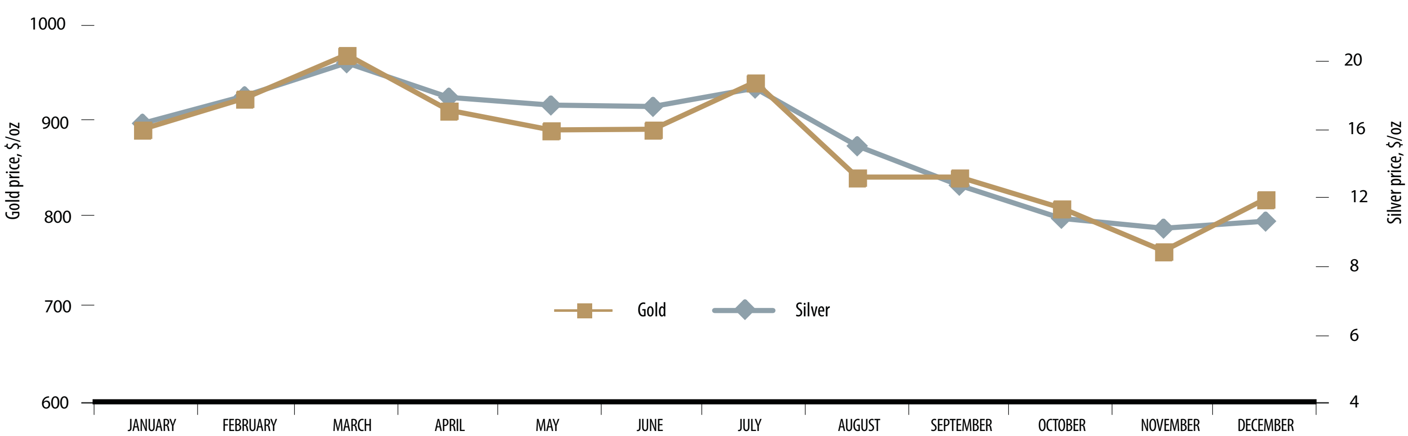
Revenues

In 2008, revenues grew by 63% from $308.8 million to $502.7 million with healthy sales volume growth supplementing significant increases in average realized metal prices. Average realized gold price rose 24% to $871/oz. Average realized silver price dropped by 67% to $14.7/oz, more than silver market prices due to the sales at below-market prices under forward sales contracts having been fully discontinued.

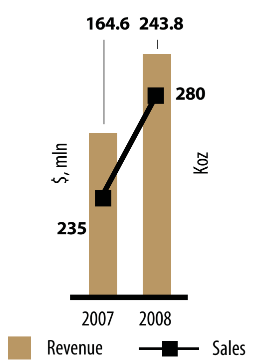
Silver accounted for $255.2 million or 51% of revenues while gold accounted for $243.8 million or 48% of revenues. Other revenues, mostly from third-party contracts of Polymetal Engineering, stood at $3.7 million or less than 1% of total sales. Silver sales increased by 7% from 16.2 Moz to 17.4 Moz in 2008. Gold sales increased by 19% from 235 Koz to 280 Koz.

	2008			2007		
	Sales, Koz	Average price, $/oz	Revenue, $ thousands	Sales, Koz	Average price, $/oz	Revenue, $ thousands
Silver	17,386	14.7	255,240	16,152	8.75	141,285
Gold	280	871	243,805	235	700.52	164,622

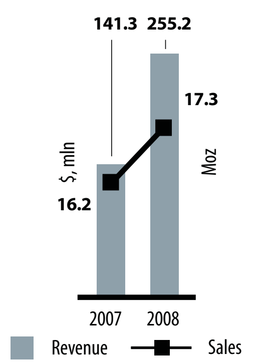
GOLD AND SILVER MARKET FIXINGS



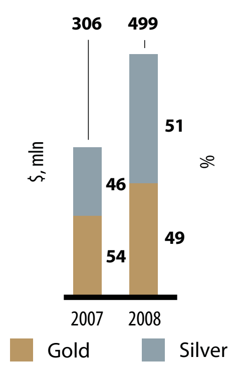
GOLD SALES AND REVENUE



SILVER SALES AND REVENUE



GOLD AND SILVER REVENUE



Cost of Sales

In 2008, total cost of sales increased to $300.7 million (2007: $254.6 million). Notwithstanding this the increase in revenue more than offset growth in the cost of sales and the Company more than doubled its gross profit margin to 40% (2007: 18%).

Total cash operating costs grew from $217.8 million (excluding purchase of metal from a third party) to $247.9 million or by 14%, largely in line with domestic inflation and despite significant increases in the physical amounts of material mined (including waste which amounted to 22.6 Mt vs. 20.5 Mt in 2007) and processed, as well as in meters of underground development (14.2 km in 2008 vs. 11.5 km in 2007). After taking into account purchases of metal from a third party in 2007, cash operating costs increased by only 4%.

Cash operating costs excluding staff costs grew by approximately 13%, due to a 20% growth in the physical volume of mining (including stripping and underground development) and processing, as well as inflation in Russia.

Mining tax increased by 64% on the back of production growth and increases in metal prices. Depreciation decreased by 16% in line with the 18% decrease in volumes of ore mined (the Company calculates depreciation on a unit-of-production basis).

Work-in-process metal inventory continued to grow, but at a slower pace than in 2007 as the Company continued to stockpile ore at Voro and Dukat, but started to draw on stockpiles at Khakanja. At Khakanja the Company wrote down the value of low-grade ore stockpile to zero as there can presently be no assurance that this ore can be profitably processed in the future.

Cash Costs

Domestic inflation in Russia in general and domestic price of diesel fuel in particular were the key drivers of cash costs per ounce of metal produced at each of the operations. Given a relatively long work-in-process cycle, particularly at Dukat and Lunnoye, and seasonality of supplies to Khakanja, ruble depreciation and the resulting decrease in dollar costs was not felt until Q1 2009.

Dukat and Lunnoye cash costs per ounce and ton milled grew in parallel by 23% and 28% respectively with diesel fuel costs at Lunnoye and labor inflation in the Far East being the most important factors behind the increase.

Costs of sales, $ mln	**2008**	**2007**	**Change, %**
Consumables and spare parts	97.9	92.6	6
Labor and other taxes (social security payments)	58.0	55.0	5
Services	55.5	44.1	26
Other	3.9	2.9	34
Cash operating costs	215.3	194.6	11
Purchase of metal from a third party	–	20.5	–
Mining tax	30.0	18.3	64
Other costs	2.6	4.9	-47
Total cash costs	247.9	238.3	4
Depreciation and depletion[1]	46.6	55.3	-16
Accretion of reclamation and mine closure obligation	1.3	0.5	160
Increase in metal inventory	(10.6)	(46.5)	-77
Effect of change in accounting estimates	2.6	7.1	-63
Write-down of ore to lower of cost or market	10.6	–	–
Cost of other sales	2.3	–	–
TOTAL[2]	300.7	254.6	18

Notes: [1] Includes depreciation and depletion attributable to increase in metal inventory.
[2] Taking into account the effect of rounding.

Voro demonstrated excellent cost performance with cash costs per ton milled flat year-on-year. This was achieved thanks to scale efficiencies after the completion of Stage 1 of CIP plant expansion as well as due to consistent and successful efforts to reduce headcount by implementing mine-wide outsourcing programs. Grades at Voro remained stable and cash cost per ounce remained essentially flat in line with cash cost per ton milled.

Despite a 29% improvement in gold grades at Khakanja (silver grades declined by 34%), cash costs per ounce at the mine grew as expensive diesel purchased in 2007 and 2008 was expensed in the period and this lead to a significant cost increase with fuel accounting for almost 50% of total cash costs.

Overall, despite significant weakening of precious metals prices in H2 2008, Polymetal managed to maintain robust operating margins at every operation. The Company expects very significant cost declines in 2009 as ruble depreciation will have very favorable impact on costs given that 75-80% of operating costs are denominated in rubles.

USD/RUR DYNAMICS IN 2008

Breakdown of cash costs calculated on a co-product method is given in the table below.

Income from Mining Operations

In 2008 income from mining operations at the Company dropped to $202.0 million from $54.1 million in 2007, as revenue growth far outpaced increases in operating costs. The gross profit margin from mining operations increased to 40% from 18%.

General, Administrative and Selling Expenses

General, administrative and selling (GA&S) expenses more than doubled from $42.3 million to $90.1 million, mostly as a

	2008	2007	Change, %
Co-product total cash costs, $/oz			
Polymetal (silver equivalent)	8.0	7.6	5
Polymetal (gold equivalent)	472	397	19
Dukat and Lunnoye (silver)	8.1	6.6	23
Khakanja (gold)	513	442	16
Voro (gold)	413	420	-2
Co-product total cash costs, $/t of ore milled			
Polymetal	80	66	22
Dukat and Lunnoye	119	93	28
Khakanja	109	81	35
Voro	35	35	1

result of the non-cash employee stock option compensation expense of $31.9 million.

Following the IPO in February 2007, the controlling shareholder granted 5.5 million shares of Polymetal (representing 1.76% of the Company's share capital) to fund the employee stock option program through which employees received a right to purchase shares for the nominal price of approximately $0.04 per share in equal installments in February 2008, February 2009, and February 2010. Following the change of control event in June 2008, all of the options became fully vested and the shares under the program were distributed to participants. As a result, full value of these option contracts is included in GA&S for the period as mandated by relevant accounting rules.

Without taking into account the stock option plan, GA&S expenses grew by 84% from $31.7 million to $58.2 million driven mostly by above-inflation increases in salaries, increases in employee headcounts at development projects as well as rising rents and utility bills. Other GA&S also grew substantially, representing increased headquarters costs such as consulting fees, directors' compensation, and insurance.

	2008	2007	Change, %
$ mln			
Revenues	502.7	308.7	63
Cost of sales	(300.7)	(254.6)	18
Income from mining operations	202.0	54.1	274
Gross profit margin	40%	18%	

Other Operating Expenses

Other operating expenses increased by 32% from $27.4 million to $36.2 million. Exploration costs rose from $2.0 million to $11.1 million as all investment in greenfield exploration on properties not containing any JORC-compliant resources was expensed immediately, including some costs previously capitalized. Voluntary social payments increased from $4.4 million to $7.7 million as new municipalities were added to the program in conjunction with the development of Kubaka and Albazino. Other taxes (mostly property tax) increased as Company's asset base expanded. The Company also realized non-cash loss on disposal of certain fixed assets of $4.6 million.

Operating Income

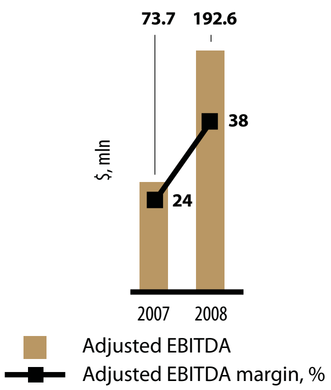
In 2008 the Company reported robust operating income of $75.6 million as compared to $15.6 million operating loss in 2007.

	2008	2007	Change, %
$ mln			
General, administrative and selling expenses	90.1	42.3	113
Other expenses	36.2	27.4	32
Total operating expenses	**126.3**	**69.7**	**81**

Adjusted EBITDA

Adjusted EBITDA increased from $73.7 million to $192.6 million with increases in metal prices and sales volume growth being partially offset by increased costs of sales and particularly GA&S.

ADJUSTED EBITDA



	2008	2007
$ mln		
Net loss	(15.7)	(22.8)
Interest expense[1]	20.7	12.6
Income tax expense	18.6	6.1
Depreciation and depletion[2]	48.5	47.3
Exchange gains	44.5	(11.4)
Share based compensation	31.9	10.6
Asset impairment	–	6.7
Sales of third party metal	–	(11.3)
Costs of third party metal	–	20.5
IPO costs	2.0	6.1
Work in progress impairment	10.6	–
Changes in accounting estimates	2.6	7.1
Loss on fixed assets disposal[3]	4.6	0.3
Exploration expenses[3]	11.1	2.0
Other non-cash expenses	4.8	–
Loss from investments in affiliates	8.4	–
Adjusted EBITDA[4]	**192.6**	**73.7**

Notes: [1] Includes capital lease finance costs.
[2] Excludes depreciation and depletion attributable to increase in metal inventory but includes depreciation attributable to GA&S.
[3] Was not included into FY 2007 Adjusted EBITDA reconciliation in the relevant press-release (dated July 11, 2008).
[4] Taking into account the effect of rounding.

Income before Income Tax and Extraordinary Gain

As compared to the negative result in 2007, this year the Company received $2 million income before income tax and extraordinary gain.

Interest expense increased by 64% from $12.6 million to $20.7 million as interest rates spiked in Q3 and Q4 while net debt increased. Loss from investment in JVs of $8.4 million represents the amount of exploration expenditures, borne by the JV with AngloGold Ashanti ("AGA") and written off as they have not resulted in the estimation of JORC-compliant resources or reserves. Exchange losses of $44.5 million were in contrast to exchange gains of $11.4 million in 2007 as ruble depreciated sharply in the Q4.

Income tax expense increased to $18.6 million from $6.0 million as pre-tax income went from the loss of $16.8 million to the profit of $2.0 million. The effective income tax rate was substantially above the statutory rate of 24% as a significant portion of costs in the period was not tax deductible, most importantly the stock option expense.

Net Profit

As a result of the above, the Company reported net loss before extraordinary items of $17.0 million compared with net loss of $22.8 million for 2007. Extraordinary gain of $0.8 million was recorded in the period as a result of the Kubaka acquisition. The gain is due to the fair value of the assets acquired exceeding the purchase price. Full net loss for 2008 was $15.7 million.

	2008	2007
$ mln		
Operating income (loss)	75.6	(15.6)
Interest expense (including capital lease)	20.7	12.6
Loss from investments in joint ventures	8.4	–
Exchange gain (loss), net	44.5	(11.4)
Income (loss) before income tax and minority interest	**2.0**	**(16.8)**

Cash Flows

Cash flow provided by operating activities grew from negative $2.8 million to a healthy $80.8 million.

Capital expenditures decreased slightly from $115.7 million to $112.5 million as the Company continued to invest in the construction of the new mine at Albazino while spending on Dukat expansion and Voro expansion was largely completed in H1 2008. During the year, the Company spent $22.0 million on the acquisition of subsidiaries. Of this amount, $19.7 million was spent on the acquisitions of Kubaka and Degtyarskoye and $2.3 million was used to settle the remaining deferred consideration for acquisition of a minority stake in Dukat from Pan American Silver. This compares with $18.3 million spent in 2007 to partially pay the conditional delayed payment for Dukat acquisition. Investment in the JV with AngloGold Ashanti ("AGA"), including payment for the acquisition of 50% stake in assets previously fully owned by AGA, amounted to $27.4 million. As a result of the above cash used by investing activities increased from $128.8 million to $164.0 million.

The excess of cash used by investing activities over cash provided by operating activities amounted to $83.2 million compared with $131.6 million in 2007. This gap was funded by cash inflows from financing activities of $83.1 million compared with $129.7 million in 2007. Cash at the end of 2008 was effectively unchanged at $4.1 million compared with $5.0 million at the end of 2007.

	2008	2007	Change, %
$ mln			
Net cash provided by (used in) operations	80.8	(2.8)	–
Net cash provided by (used in) investments	(164.0)	(128.8)	27
Net cash provided by (used in) investment activities	83.1	129.7	-36

Net Debt

Net debt during the period increased by 41% and as at December 31, 2008 amounted to $312.3 million.

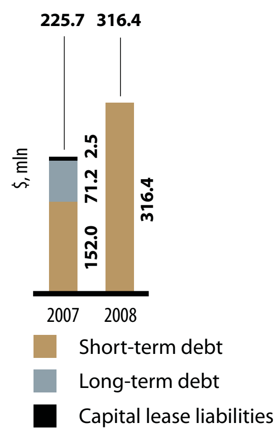
In December 2008, the Company converted approximately 50% of its debt portfolio from US Dollars into Russian rubles. Although interest rates on ruble loans are higher than those on dollar loans, the overall effect of this conversion was positive due to ruble depreciation.

Net debt calculation is detailed in the following table:

	As at Dec 31, 2008	As at Dec 31, 2007	Change, %
$ mln			
Short-term debt and current portion of long-term debt	316.4	152.0	108
Current portion of capital lease liabilities	–	2.4	-100
Long-term portion of capital lease liabilities	–	0.1	-100
Long-term debt	–	71.2	-100
Total debt	**316.4**	**225.7**	**40**
Cash	(4.1)	(5.0)	-19
Net Debt	**312.3**	**220.8[1]**	**41**

Notes: [1] Taking into account the effect of rounding.

DEBT STRUCTURE



Corporate Governance

General Principles

Polymetal's vision is to become the leading precious metals mining company in Russia and the CIS as measured by the creation of shareholder value. An important component of this vision 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's responsibilities, and maintaining strict accountability, transparency and effective control of its financial activities. Corporate governance is a key element in both the Company's development and its competitiveness in the market place.

Polymetal's corporate management system is based on Russian legislation. However, in addition to meeting the requirements of Russian legislation, Polymetal strives to conform to current global business standards and to apply international best practice. The Company's public status increases its responsibility to ensure transparent corporate management and open access to information in accordance with the requirements of the London Stock Exchange and British legislation.

Currently, the Company's main internal regulatory documents that determine management procedures and rules of corporate conduct are:

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

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

The Company's highest managerial body is the General Shareholders' Meeting. The Board of Directors is responsible for Polymetal's activities in the periods between Shareholders' Meetings. Members of the Board of Directors are elected at the General Shareholders' Meeting through cumulative voting.

The geographical distribution of Polymetal's business, its broad capital investment program, and the difficult natural conditions in which the Company develops its business activities all rely on serious adherence to corporate governance. The Company fully accounts for every detail of its business and structures its internal procedures to be both effective and thorough. This is fully reflected in the Company's organizational structure.

In response to Polymetal's on-going growth and development, a review of the Company's operational structure was initiated. The review resulted in the creation of the Project Development and Construction Division, which reports directly to the Chief Executive Officer. This Division is responsible for managing the Albazino-Amursk and Kubaka projects as well as any future additions to the development portfolio.

In April 2009, senior executive requirements were also reviewed in light of significant growth in development projects and in anticipation of further potential acquisitions. This led to the creation of new positions, including Executive Vice President for Strategic Development, and Executive Vice President for Project Development and Construction. A new Chief Operating Officer was also appointed.

Company Structure

Polymetal conducts its business as a holding company. The Company's production subsidiaries, which hold the licenses to develop their corresponding deposits, are located in three Russian regions: the Magadan and Sverdlovsk Regions and the Khabarovsk Territory.

The Company's exploration work is performed by its exploration subsidiaries, as well as by its production subsidiaries that hold licenses to explore specific sections and areas of the regions.

Report on the Board of Directors' Activities

On June 27, 2008, a seven-member Board of Directors was elected by the shareholders.

In June 2008, significant changes to Polymetal's shareholding structure took place. As a result of these changes, the authority of the existing Board of Directors was terminated and a new Board was elected.

In March 2009, in accordance with an extraordinary General Shareholders' Meeting, the Board of Directors was expanded to ten members. As a result, the Board now has five independent directors. The Company believes that independent directors play an important role in protecting shareholders' interests.

The current Board of Directors will fulfill their responsibilities until the next General Shareholders' Meeting, at which point a motion to elect a new Board will be introduced.

POLYMETAL[1]

PRODUCTION AND DEVELOPMENT

Magadan Silver
Dukat, Lunnoye, Arylakh,
Dukat Prospective Area,
Dukat Ore Area, Rogovik

Okhotskaya Mining and Exploration Company
Khakanja, Yurievskoye, Amkinskaya Area,
Arkinsko-Selemdjinskaya Area, Yuzhno-Urakskaya Area,
Khkarinskaya, Arkinskaya Area

Gold of Northern Urals
Voro, Katasminskiy, Rudnichniy,
Tamunersky, Volchansky

↓

Northern Urals Polymetal
Galka

Albazino Resources
Albazino, Agnie-Afanasievsky

Omolon Gold Mining Company
Kubaka, Burgali

Prospectors Artel "Ayax"[4]
Goltsovoye

Amursk Hydrometallurgical Plant

SERVICE COMPANIES

Polymetal Management

Polymetal Engineering

Polymetal Trading

EXPLORATION

Northern Urals Exploration

Urals Exploration
Degtyarskoye

Dukat Exploration

Khabarovsk Exploration[2]

Aurum[3]
Reftinskaya Zone
(Fevralskoye and Ikryanskoye)

Notes:

[1] This information about the Company's structure is not presented in full and only reflects the most relevant information.
[2] In 2008, Polymetal's stake in the charter capital of Aurum was 84% and in 2009 its share rose to 95%.
[3] In October 2008, Georazvedka was renamed Khabarovsk Exploration.
[4] In December 2008, Polymetal signed a legally binding purchase agreement for 100% of Prospectors Artel "Ayax".

Board of Directors





ILYA YUZHANOV

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

Mr. Yuzhanov is currently on the Boards of Kirovsky Zavod, NOMOS-BANK, Uralkali, NOVATEK, and MRSK Holding. Mr. Yuzhanov has also served on the Boards of several of Russia's largest companies such as RAO UES, Russian Railways, and Gazprom. Throughout his career, he has held various positions with the Leningrad and St. Petersburg City Administrations. He has been Chairman of the State Committee on Land Resources and Land Utilization of the Russian Federation, Minister of Land Policy, Construction and Utilities of the Russian Federation, and Minister of Antimonopoly Policy and Business Support of the Russian Federation. Mr. Yuzhanov graduated from Leningrad State University, Faculty of Economics in 1982 and received a PhD in Economics from the same University in 1989.

KONSTANTIN YANAKOV

Deputy Chairman of the Board, Member of the Audit Committee

Currently, Mr. Yanakov is Chief Financial Officer of ICT. He was previously a Vice President at MDM Bank and CFO of Polymetal. In 2007, Mr. Yanakov was awarded an MBA from London Business School (UK). He graduated from the Finance Academy under the Government of the Russian Federation with a degree in global economics and received a PhD in Economics from the State University of Management (Russia).

VITALIY NESIS

Board Director, Chief Executive Officer of Polymetal

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 CEO of Vostsibugol, a major coal mining company based in eastern Russia. In 2000, Mr. Nesis was Strategic Development Director of the Ulyanovsk Automobile Plant and, from 2001 to 2002, he was 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.

JONATHAN BEST

Independent Director, Chairman of the Audit Committee

Currently, Mr. Best is an independent Board Director and a Member of the Audit Committee at AngloGold Ashanti Holdings Plc. He is also an independent Board Director, Chairman of the Audit Committee and the Investment Committee, and a Member of the Remuneration and Nomination Committee at Sentula Mining Limited. Mr. Best has served as an independent Director on Polymetal's Board since December 2006. Mr. Best has more than 30 years' experience in the mining industry, both at the Corporate and Operational levels. In 2006, he served as the interim CEO of Trans-Siberian Gold Plc (UK). Prior to that, Mr. Best was the CFO and Executive Director at AngloGold Ashanti Limited and was involved in both the formation of that company and its listing on the New York Stock Exchange. Mr. Best is an associate of the Chartered Institute of Management Accountants and the Chartered Institute of Secretaries and Administrators, and holds a Master of Business Administration degree.

JOHN O'REILLY

Independent Director, Chairman of the Remuneration and Nomination Committee

Currently, Mr. O'Reilly is a Board of Director of Nautilus Minerals NL. Mr. O'Reilly has also served on the Boards of Lion Selection Group Ltd., Cambrian Mining plc and Ausenco Ltd. Mr. O'Reilly has more than 40 years' experience in the mining industry in executive management operations and major project development. Mr. O'Reilly worked for 18 years with Rio Tinto Plc, holding the positions of Head of Technology and Head of Gold and other Minerals. He was the CEO of Lihir Gold Limited (Papua New Guinea) from 1993-1998. He has a background in mining and metallurgy, including a Bachelor's degree in Metallurgy and a Master's degree in Mineral Process Design from Imperial College (London University).

Board of Directors





RUSSELL SKIRROW

Independent Director, Member of the Audit Committee

Dr. Skirrow worked for 12 years in the international mining industry with Gold Fields in South Africa and with Western Mining Corporation in both Australia and the USA. Subsequently, Dr. Skirrow worked in the investment banking industry in both Australia and the UK for 17 years, including 10 years at Merrill Lynch in the UK, first as Head of Global Metals, Mining & Steel Research, and then as Global Chairman of the Metals/Mining team in Investment Banking. In Australia, Dr. Skirrow acted as Vice-Chairman of Investment Banking, leaving that position in August 2008. Dr. Skirrow is a Member of Institute of Materials, Minerals & Mining (M.I.M.M.M.) with Chartered Engineer (C.Eng) status and is a Fellow of FINSIA (Financial Services Institute of Australia).

SERGEY ARESHEV

Board Director

Currently, Mr. Areshev holds the position of Head of the International Legal Department at CJSC ICT. He previously worked as an associate with international law firms including Coudert Brothers LLP in St. Petersburg and CJSC ICT. Mr. Areshev graduated from St. Petersburg State University with a degree in Law and from the Management School of Vlerick Leuven Gent University with a Master of Business Administration degree in International General Management.

MARINA GRÖNBERG

Board Director

Mrs. Grönberg is currently working as CEO for A&NN Advisor Limited and is the President of A&NN US Inc. Mrs. Grönberg is on the Boards of JSC Zhelezobeton, Unitrans Logistic Ltd, Mozaik Holdings Ltd, MLP, GLP, Bookberry Ltd, and Atticus. Mrs. Grönberg worked for 6 years for INFINS Ltd as the Chief Executive Officer. She graduated from Moscow State University Faculty of Applied Mathematics and All-Russian State Distance Learning Institute of Finance and Economics with a degree in Economics, Finance and Credit, and from Moscow State Law Academy with a degree in Law.

ASHOT KHACHATURYANTS

Board Director

Mr. Khachaturyants was appointed to the Board of Directors in March 2009. He is currently CEO of Sberbank Capital and Executive Vice Chairman of the Central Council of Dinamo Association. He was previously Director of Investment Policy Department at the Ministry for Economic Development and Trade of the Russian Federation and Head of Administration of the Federal target program "RF State Border" (2003–2010). Mr. Khachaturyants graduated from Gubkin Russian State University of Oil and Gas with a degree in Economics and Engineering and from the Finance Academy of the Government of the Russian Federation, with a degree in Economics.

MARTIN SCHAFFER

Board Director, Member of the Remuneration and Nomination Committee

Currently, Mr. Schaffer works as Director of the Legal Maintenance and Business Protection Department at Home Credit and Finance Bank LLC. Most recently, he was Secretary General at PPF Investments Ltd and prior to this, he was Adviser to the Board of Home Credit and Finance Bank LLC. He has served on the Boards of TV Nova and CET 21 Ltd, where he was also Head of the Legal Department. Mr. Schaffer graduated from Charles University (Prague) with degrees in Law and Medicine and practiced otolaryngology at the university's hospital.

Board of Directors

The Board of Directors holds meetings in the form of absentee and attendance voting when necessary.

In 2008, the Board met 14 times, with 4 of the meetings being in the form of attendance voting. During these meetings, the Board reviewed 92 issues regarding:

- Asset acquisitions and sales;
- The Company's ownership of other organizations;
- The preparing for and holding of special shareholders' meetings and the annual General Shareholders' Meeting;
- The approval of Polymetal's consolidated interim financial statements, prepared in accordance with International Accounting Standards;
- The approval of the Company's production guidance, the Social Responsibility Report and the development of business priorities;
- Company HR policy;
- Approval of potential transactions.

The number of issues considered by the Board of Directors in 2008 increased in comparison to 2007, which is testament to the growing role of the Board of Directors in Company activities.

Audit Committee

No less than 3 members of the Board of Directors are elected to the Audit Committee. Members of the Board of Directors who fulfill 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 selected by the Board of Directors on October 10, 2008 are:

Jonathan Best — Chairman of the Audit Committee;
Konstantin Yanakov — Member of the Committee;
Russell Skirrow — Member of the Committee.

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 findings, monitoring Polymetal's financial activity and developing suggestions for its improvement. The Audit Committee met six times in 2008 to review the following issues:

- Recommendations to the Board of Directors regarding a candidate for Company Auditor, the maximum compensation for the Company Auditor, and the details of the Auditor's required services;
- Recommendations to the Board of Directors regarding approval of Deloitte & Touche CIS as Auditor, as well as the work schedule for delivering the 2007 Auditor's findings and the 2008 consolidated interim financial statement, prepared in accordance with US GAAP;
- Review of changes to accounting standards as well as suggested changes to accounting policy;
- Review of interim results to assess risks to the Company;
- Review of the 2007 findings prepared by Company Auditor HLB Vneshaudit in accordance with Russian legislation and evaluation of the Auditor's findings for the Board of Directors;
- Recommendations to the Board of Directors regarding a candidate for Company Auditor for an audit of the Company's consolidated financial report, prepared in accordance with US GAAP, as well as specifying the Auditor's maximum compensation and the type of services required;
- Review and approval of US GAAP report and Annual Report;
- Review of Polymetal's annual consolidated financial report for 2007, prepared in accordance with US GAAP, as well as review of Deloitte & Touche's findings on this report;
- Review of the report and recommendations for an Auditor of the interim (first half) report, prepared in accordance with US GAAP for 2008;
- Review of reports by the internal audit service;
- Review of Polymetal's interim (first half) consolidated financial report for 2008, prepared in accordance with US GAAP, as well as review of Deloitte & Touche's findings on this report;
- Analysis of the Company's internal controls.

Remuneration and Nomination Committee

Not less than 3 members of the Board of Directors are elected to the Remuneration and Nomination Committee. Members of the Board of Directors who fulfill executive management functions (such as 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 selected by the Board of Directors on October 10, 2008 are:

John O'Reilly — Chairman of the Remuneration and Nomination Committee;
Martin Schaffer — Member of the Committee;
Ilya Yuzhanov — Member of the Committee.

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

Director Sharedealings

On July 31, 2008, the Company was informed of an agreement between Chief Executive Officer and a member of the Company's Board of Directors that involved shares of Polymetal. The deal was in connection with an options program for shares in the Nafta Moskva group of companies. Board of Directors member Vitaliy Nesis' stake grew from 0.3175% to 0.9524%. This deal was made within the framework of the final tranche of an options program whose timetable was cut short as a result of the change of Polymetal's shareholders.

As of December 31, 2008, members of the Board, Vitaliy Nesis and Sergey Areshev, owned shares in Polymetal totaling 0.96% of the Company's charter capital.

Board of Directors' Report on Polymetal's Key Developments in 2008

In 2008, Polymetal continued to develop as a leading precious metals mining company in Russia and the CIS. This year's results demonstrated the Company's ability to maintain impressive growth in its financials and strengthen its position on the market for precious metals.

Despite financial instability on global markets, the Company hit its forecasts for earnings and production volumes. It also concluded investment programs to expand the capacity at existing assets, grew its resource base with successful exploration campaigns and continued to finance construction at its flagship Albazino-Amursk project.

Over the course of the year, we saw significant growth in the average prices for precious metals. This, combined with increased production volumes, helped the Company achieve record revenue of $502.7 million.

Gold production grew 17% to 285 Koz and silver production increased by 8% to 17.2 Moz.

Polymetal's net loss was down from a year earlier to $15.7 million. The Company achieved a notable sales profit of $202.0 million and operating profit of $75.6 million. Adjusted EBITDA more than doubled, from $73.7 million to $192.6 million.

Our 2008 financial results demonstrate the Company's excellent fundamentals despite the global financial crisis. The growth in operating profit and our competitive operating costs helped the Company continue to implement its aggressive expansion program.

During the reporting period, Polymetal remained an active player on the M&A market and acquired companies with licenses at promising gold and silver deposits. Through its M&A activities, the Company consolidated a portfolio of projects with a high-quality resource base around its existing assets.

In February 2008, Polymetal acquired 100% of Omolon Gold Mining Company, which owns the Kubaka gold deposit, including all of the mine's infrastructure, a gold processing plant and four licenses for subsoil development. By the end of the year, the Company had confirmed JORC-compliant gold resources of 1.6 Moz with a grade of 2.5 g/t at two deposits in the Kubaka licensed area (at Birkachan and Oroch). A Feasibility Study and JORC-compliant reserves estimate is scheduled for completion in 2010.

Work continues on Polymetal's strategic plans to develop the Kubaka processing plant into a regional processing center with multiple ore sources and production flexibility. Currently the Company is in talks to acquire Sopka Kvartsevaya (JORC-compliant reserves of 530 Koz of gold and 12.0 Moz of silver) and Dalniy (C1+C2 reserves of 152 Koz of gold and 3.9 Moz of silver).

The development of Birkachan, Oroch and Sopka will boast annual gold throughput of the Kubaka plant to 150–250 Koz by 2011.

The Urals Exploration Unit, which holds a license to explore and mine gold and silver at Degtyarskoye, was acquired in August 2008. Degtyarskoye is 350 km from Voro and was acquired to help create an asset portfolio containing high-grade metals in order to increase the operational efficiency of our existing production assets.

In December 2008, the Company signed a purchase agreement for a stake in Prospectors Artel "Ayax", which holds the license for exploration and silver mining at Goltsovoye in the Magadan Region, approximately 81 km from the Dukat plant. The high-grade silver ore at Goltsovoye will help ensure long-term ore supplies for Dukat's expanded capacity. Goltsovoye's JORC-compliant silver resources are 64.5 Moz with an average grade of 836 g/t.

The Company continued to acquire new exploration licenses in regions deemed important for development. Licenses through 2033 were acquired for the Rogovik prospective area in the Magadan Region and at the Agnie-Afanasievsky ore cluster in the Khabarovsk Territory.

These deals reflect the fact that Polymetal remains focused on acquiring assets that add to shareholder value via clear, feasible synergies.

The foundation build over the last several years will allow the Company to maintain its strategy for stable long-term growth and will facilitate high investment returns. In 2009, the Company will continue to expand its mineral base and its gold and silver production via new acquisitions and by commissioning plants that are currently under construction.

Management





VITALIY 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 CEO of Vostsibugol, a major coal mining company based in eastern Russia. In 2000 Mr. Nesis was the Strategic Development Director of the Ulyanovsk Automobile Plant and, from 2001 to 2002, he was 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.

VITALIY SAVCHENKO

Chief Operating Officer

Mr. Savchenko has served as Chief Operating Officer (COO) since April 2009. Prior to his appointment as COO, Mr. Savchenko was Director of the Production Department (2008-2009) and Head of the Production and Technical Division of Polymetal Management JSC (2005–2008). Mr. Savchenko joined Polymetal in 2004 as Head of the Mining Division of the Production and Technical Department at Polymetal Management JSC. From 1994 to 2003, he held a number of positions at Priargunskoe Production Mining and Chemical Company JSC (Chita Region), where he started as a mining engineer and was promoted to Chief Engineer of a uranium mine by the time he left. Mr. Savchenko graduated from the Frunzenskiy Polytechnic Institution (Kyrgyzstan) in 1994, majoring in Underground Mineral Mining. Mr. Savchenko has been awarded a Mining Honor medal.

SERGEY CHERKASHIN

Chief Financial Officer

Mr. Cherkashin is the Company's CFO, a position he has held since 2005. Mr. Cherkashin has also worked in the food processing and machine building industries, as 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 on the Board of Directors of Meat-Packaging Plant Ltd. and the Volgograd Dairy. From 1996 to 1997, he worked as a Consultant for AT Kearney in Moscow. He also worked in aerospace research for Energy Science and Production Association 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.

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 as Deputy Head of Construction later becoming Head of the Technological Research Department and Deputy CEO for Mineral Resources, Design and Technology. From 1993 to 1999, he held management positions in a number of companies. From 1988 to 1993, he was Department Head at the Soviet Union Research Institute of Aeronautical Automation. Prior to this, Mr. Tsyplakov worked at the Physics Institute at Denmark's Orhus University (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. He graduated from Moscow Physics and Engineering Institute with a degree in Experimental Nuclear Physics and has a PhD in Physical Mathematics.

VLADIMIR RYABUKHIN

Executive Vice President, Mineral Resources

Mr. Ryabukhin has been Executive Vice President of Mineral Resources since 2004. In 1998, he joined the Company as General Manager for Mineral Resources. Prior to this, he was the Chief Geologist at Nevskgeologia in St. Petersburg (1992–1998) and, from 1989 to 1992, he 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 PhD in Geology from the Soviet Union Geological Institute in 1978.

Management





DMITRY IGUMNOV

Managing Director of Polymetal Trading

Mr. Igumnov is Managing Director of Trading House Polymetal, a position he has held since August 2008. At the end of 2005, Mr. Igumnov was appointed Head of Polymetal Trading House LLC in Khabarovsk. Previously, he acted as Deputy Director General for logistics support of Silver Magadan and Silver Territory. He has worked for Uni-Tankers Co. (Denmark), Maersk Gas Department, A.P. Moller (Denmark-Panama), Red Sea Marine Co. (Saudi Arabia) and the Nordic Maritime Co. (Norway). From 1993–1999, Mr. Igumnov studied at the Baltic State Marine Academy, Navigator Department. In 1993 he graduated from Kaliningrad Marine College.

ANDREY JELTOVSKY

Executive Vice President, Human Resources and Public Relations

Mr. Jeltovsky is Executive Vice President 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. Jeltovsky worked as a Chief Specialist of the Committee for Public Relations of the Irkutsk Region Administration. Mr. Jeltovsky graduated from Irkutsk State University with a degree in history in 1993.

PAVEL DANILIN

Executive Vice President, Strategic Development

Executive Vice President for Strategic Development since April 2009, Mr. Danilin has been the Director of Corporate Finance and Investor Relations at Polymetal Management since 2007. In 2007, he received his MBA with a focus on finance from the University of California Berkeley School of Business. During his MBA studies (Summer 2006), Mr. Danilin interned in the mining and metallurgy group of Deutsche Bank's Moscow office. In 2003, he worked at Polymetal as the Head of Corporate Finance and prior to this he was responsible for relations with banks, leasing companies and insurance companies at the ICT group of companies (2001–2003). From 1996 to 2001, he was Deputy Head of Export Operations and Head of the Treasury at the Kaliningrad office of Imperial Bank, renamed Bank Petrocommerce in 1998. Mr. Danilin graduated from the Kaliningrad State Technical University in 1998 with a degree in Economics and Management.

ALEXANDER ZARYA

Deputy Chief Executive Officer

Mr. Zarya has been Deputy CEO since April 2009. Prior to this, he was Polymetal's Deputy CEO for General Matters (2004–2009). 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 Director of the St. Petersburg's branch of Zun Khada (1998-1999) and prior to this he was Deputy CEO of Ulyanovka (1995–1997), a procurement company that specializes 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.

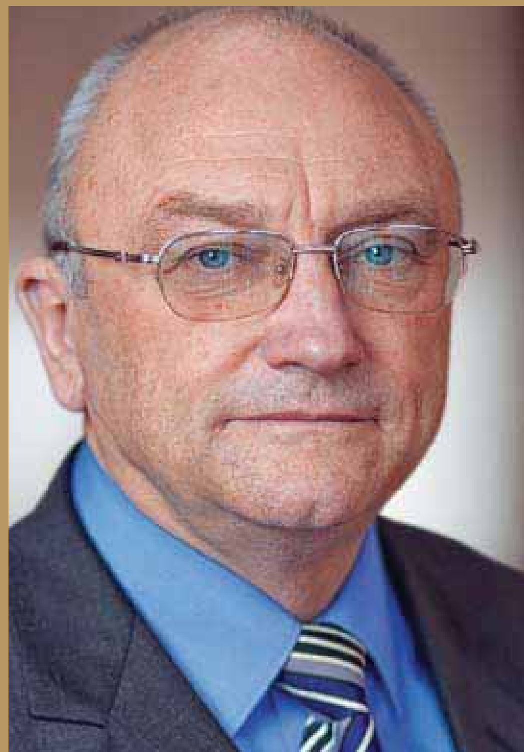
ROMAN SHESTAKOV

Executive Vice President, Project Development and Construction

Mr. Shestakov has been Executive Vice President for Project Development and Construction since April 2009. Prior to this, he was Chief Engineer (2007–2009) and Voro Mine Chief (2005–2007) at Gold of Northern Ural CJSC He was, Mine Chief at Okhotsk Mining and Geological Company JSC from January 2004 to July 2005 and worked as an Open Pit Mining Engineer in the Production and Technical Department of Polymetal Management JSC (2002–2004). In 2002, he graduated from the mining department of St. Petersburg State Mining Institution, majoring in Deposit Development by Open Pit Mining.

Management





ZUMRUD RUSTAMOVA

Deputy Chief Executive Officer

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

IGOR KAPSHUK

Director, Legal Affairs

Director, Legal Affairs since April 2009, Mr. Kapshuk has been at Polymetal since December 2003. Until July 2005, he was Deputy Head of the Legal Department, becoming Department Head in 2005. Prior to joining Polymetal, Mr. Kapshuk was Deputy Head of Legal Administration, Head of the General Legal Department, and Head of the Claims Work Department (2001-2003) in a subsidiary company of Siberia Carbon Energy Company JSC and in Vostsiburol JSC (Irkutsk). He worked as a legal advisor for Farmasintez Irkutsk Pharmaceutical Company JSC (1999–2001), the Irkutsk Tea-Packing Factory JSC (1997–1999), where he was also Head of the Law Department, and at an insurance company in Irkutsk (1994–1997). In 1995, he graduated Irkutsk State University's Faculty of Law.

IGOR VENATOVSKY

Advisor to the Chief Executive Officer

Mr. Venatovsky has been the Advisor to the CEO since April 2009. He previously worked as the First Deputy CEO for Production, a position he had held since 2000. Prior to joining Polymetal, he was CEO of Olginskaya Mining and Geological Company (1997–1999) and CEO of Bashkirskaya Gold Mining Company (1995–1997). From 1971 to 1995, Mr. Venatovsky was an Engineer and then CEO of the Krasnokholmsk Geological Association. Mr. Venatovsky graduated from the Tashkent Polytechnic Institute with a degree in Mining Engineering and Hydrogeology.

SERGEY ANTIPIN

Managing Director, Albazino Resources and Amursk Hydrometallurgical Plant

Mr. Antipin has been Managing Director of Albazino Resources and Amursk Hydrometallurgical Plant since 2007. Prior to this, he worked first as Deputy CEO and then Managing Director of Okhotskaya Mining and Exploration Company (2003–2007). From 2001 to 2003, he was the Managing Director of Silver Territory and Head of Refining at the Kolyma Refinery (1999–2001). From 1987 to 1999, Mr. Antipin had numerous roles, 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. Mr. Antipin graduated from Irkutsk Polytechnical Institute in 1987 with a degree in Enrichment Engineering. In 2000, he received a degree in Finance from Novosibirsk State Academy of Economics and Law.

VICTOR DEMESHIK

Managing Director, Magadan Silver

Mr. Demeshik has been the Managing Director of Magadan Silver since 2006. Previous to this, he was Mine Manager (2000–2006) and Chief Engineer (1999–2000) at the Mugun coal strip mine. He was also Mining Superintendent (1987–1992) and Mining Foreman (1982–1987) at the Azei coal strip mine. In 1982, Mr. Demeshik 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 at the Russian Management Institute at the Federal Academy of Economics in 1997.

Management





VALENTIN KUZAKOV

Head of Polymetal Trading, Magadan branch and Acting Managing Director of Omolon Gold Mining Company

Mr. Kuzakov has been Head of Polymetal Trading Magadan branch since February 2004. He has also been Acting Managing Director of Omolonskaya Gold-Mining Company JSC since March 2009. Prior to joining Polymetal Mr. Kuzakov was the General Director of Robin-Bobin LLC, an Irkutsk-based company producing meat products, which he founded and expanded into wholesale and retail distribution networks. Mr. Kuzakov graduated from Baikal Sate University of Economics and Law majoring in Economics and Service Industry Management.

GENNADY KUZMENKO

Managing Director, Okhotskaya Mining and Exploration Company

Mr. Kuzmenko has been Managing Director of Okhotskaya Mining and Exploration Company since 2007. Prior to this, he was Deputy Managing Director of Human Resources at Silver Magadan and Silver Territory (2004–2007). He has also been Head of the Human Resources (2001–2003) General Production Manager, Production Supervisor and Program Economist for Production Improvement at Karelia Briquettes Mining Company (1997–2000). In 1993, he graduated from St. Petersburg Plekhanov Institute with a degree in Enrichment Engineering and in 2003 he received a degree in Economics from the St. Petersburg Engineering and Economics University. He has been a Candidate of Science (Education) since 2008.

ALEXANDER MITROPOLSKY

Construction Director, Albazino Resources and Amur Hydrometallurgical Plant

Mr. Mitropolsky has been the Construction Director since 2009. He joined the Company in 1999 as foreman, first at Zun-Khada (1999–2001) and then at Magadan Silver (2001–2003). From 2003–2005, he was Head of Construction at Gold of Northern Urals. In 2005, he became Technical Director of Polymetal Management and from 2006–2009 he was Director of various Polymetal Management projects. Mr. Mitropolsky graduated from the St. Petersburg State Architecture and Construction University in 1997 with a degree in Industrial and Civilian Construction.

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, he was appointed Deputy CEO of 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, he received a degree in Accounting from Baikal University of Economics and Law.

VLADISLAV REKHIN

Head of Polymetal Trading, Khabarovsk branch

Mr. Rekhin has acted as Head of the Polymetal Trading branch in Khabarovsk since November 2008. Prior to this, he was Deputy Director of the branch (2005–2008). From 2004–2005, Mr. Rekhin was an Engineer and then Purchasing Director for the Khabarovsk branch of Geotekhservice Research and Production Company Ltd. He was also an Engineer for the Supply Department at the Khabarovsk branch of Okhotskaya Mining and Geological Company JSC (2001–2004). Before this, he was General Manager of Kart Ltd. for five years. Mr. Rekhin graduated from the Faculty of History at Khabarovsk's Teacher Training Institute in 1995.

Internal Controls and Audits

Internal Controls and Audits

In February 2008, an internal audit function was created at Polymetal and Statement of Internal Control and Audit was ratified. Supervision of financial activities at Polymetal is also handled by the following branches of the Company:

Internal Audit Division. Internal audits of financial and production activities are conducted by the Internal Audit Division, an independent department that reports to the CEO. The Internal Audit Division's functions are regulated by the Audit Division Statutes and the division is used to conduct internal audits and checks, as well as to evaluate the activities of each element of the Company for risk management, internal review and corporate governance. The Division works closely with the Board of Director's Audit Committee.

Revision Commission. The General Shareholders' Meeting elects the Revision Commission to monitor the Company's financial activities. It provides regular monitoring of Company activities, subsidiaries and management bodies. It also audits the Company's financial position and internal review systems. The Revision Commission confirms the reliability of financial reports and investigates any reports of the dubious use of insider information. The Audit Commission is also responsible for developing and presenting recommendations to the Board of Directors regarding optimization of the Company's financial activities.

Polymetal's Audit Committee consists of three people and has been operating since June 28, 2008.

Audit Committee of the Board of Directors. This committee performs evaluations of the effectiveness of internal control procedures over financial activities and prepares suggestions to update them.

Remuneration Policy

In 2008, total remuneration of the Company's top managers (eight people, including the CEO and his deputies) was 45,097,684 rubles, of which 9.8% was paid as bonuses. Remuneration for members of the Board of Directors and/or compensation for expenses related to carrying out their duties as members of the Board was paid in correspondence with the Statute on Polymetal's Board of Directors and approved by the decision of the General Shareholders' Meeting. The total remuneration paid to members of the Board of Directors in 2008 was $582,247.

Policy on Information Disclosure

Polymetal's policy on information disclosure is aimed at meeting the informational requirements of shareholders and other interested parties by providing open access to reliable information about the Company and its activities. In order to maintain this policy, the Company has created divisions for public relations and investor relations.

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

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

- Guarantee of comprehensive and reliable disclosure of information;
- Willingness to disclose information about all relevant facts concerning Company activities;
- Maintenance of a high level of informational integrity relating to government, official and commercial secrets, as dictated by internal documents;
- Openness and non-selectivity in disclosing information.

The Company regularly publishes press releases, announcements and other information in electronic media outlets as it deems necessary.

Announcements of material facts concerning Polymetal's financial activities 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 newswires and on the Internet no later than one day after the given event has taken place.

Since Polymetal is a public company with shares traded on stock exchanges, the Company notifies exchange authorities about the intent to disclose information, as well as the content of the news, before the information is published on newswires.

The Company publishes press releases, announcements, articles, interviews and other information on Polymetal's official website (www.polymetal.ru) when such publication is deemed necessary.

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.

The Company publishes press releases, announcements, articles, interviews and other information in periodicals, brochures and booklets when such publication is deemed necessary.

Polymetal organizes press conferences to publicize important events that have taken place or that will take place at the Company. It also regularly holds meetings with shareholders, investors, analysts and government representatives.

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

Social Responsibility

Employee Responsibility

The Company highly values its employees and strives to constantly develop human resources.

We have identified the following strategic goals for our HR policy:

- Create a system to regulate labor relations and develop a social partnership that takes into consideration both employee and Company needs;
- Modernize the employee incentive system, offering competitive salaries and benefits packages that lead to increased productivity and improved results;
- Train personnel in order to ensure that all Polymetal subsidiaries have an adequate number of qualified specialists;
- Improve labor conditions and safety equipment;
- Improve living conditions at our operations;
- Develop our corporate culture, creating good social and working environment for employees.

Polymetal had 4,818 employees at the end of 2008 (end 2007: 4,764 employees). 90% of them work in mining, exploration and construction units. Approximately 40% of these work on rotation, due to the geographic isolation of specific resources, such as at Lunnoye, Khakanja, Yurievskoye, Albazino and Kubaka.

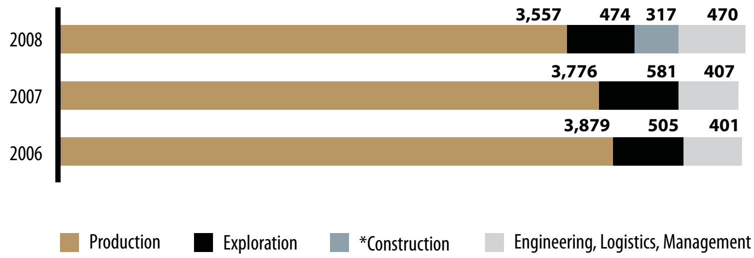
Whilst there was an increase in the number of employees on construction projects, resulting from developments at the new production assets Albazino and Kubaka, the overall number of employees at production assets has decreased. This is the result of introducing a more efficient management structure and outsourcing some functions.

Neither the average age nor the educational level of the Company's workforce changed significantly in comparison to 2007.

Incentives and Motivation

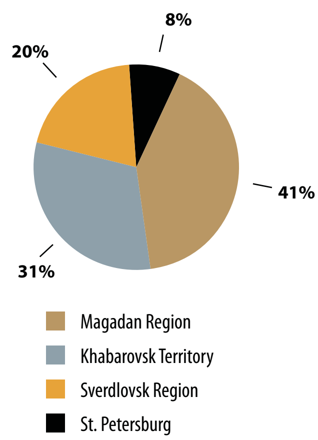
A key factor in achieving the Company's long-term goals, and the primary objective of incentives and motivation, is to inspire employees to work efficiently. This is done by maintaining a coordinated compensation policy and by on-going modernization of the incentive plan.

NUMBER OF EMPLOYEES BY ACTIVITY

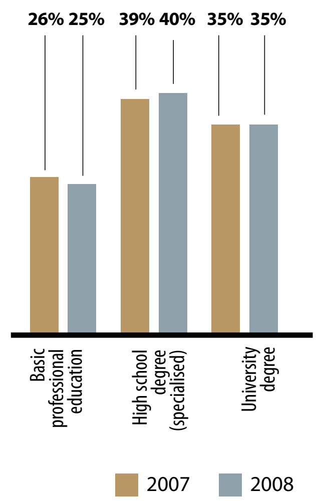


*Notes: 1. Omolon Gold Mining Company (Kubaka)
2. Amursk Hydrometallurgycal Plant and Albazino Resources (Albazino)

DISTRIBUTION OF EMPLOYEES IN REGIONS WHERE POLYMETAL OPERATES



EMPLOYEE EDUCATION LEVEL AT POLYMETAL



Compensation is based on the following principles to ensure the recruitment and retention of qualified employees:

- Production results;
- Each individual's contribution and quality of work;
- Labor laws of the Russian Federation;
- The Collective Agreement;
- Offering a decent standard of living;
- Competitive wages in the regions in which the Company operates.

By modernizing the incentive system, the Company is striving to develop and adopt fair and unambiguous criteria to determine key efficiency indicators. It also strengthens the connection between each employee's contribution and the overall results of the work performed.

The Company regularly carries out programs aimed at boosting its employees' incomes. The growth rate of wages is in line with the inflation rate and is linked to increases in production volumes and productivity.

Employee Responsibility

Polymetal's corporate compensation policy adheres strictly to Russian legislation. It also meets all government standards that relate to regions in the Far North and other isolated regions in Russia.

Rewards and Bonuses for Employees

In 2008, Polymetal established new criteria for rewarding employees. Going forward, there will be both financial and non-monetary incentives for employees who demonstrate exceptional work when achieving production targets. Under the new system, rewards are distributed on equal terms to employees from all the Company's operations. The system includes various types of rewards, from bonuses for completing a particularly important task to the highest honor handed out at the Company, the "Honored Employee" of Polymetal.

During the financial year, four Polymetal employees were awarded official medals of distinction from the Russian Ministry of Industry and Trade. Three of these employees work for Magadan Silver and the fourth is Head of the Northern Urals Gold heap leaching plant. The Head of the processing plant at Okhotskaya Mining and Geological Company was awarded the "Honored Metal Worker of Russia" title.

The Company regularly nominates its top performing employees for awards in the metallurgy, mining and exploration sectors.

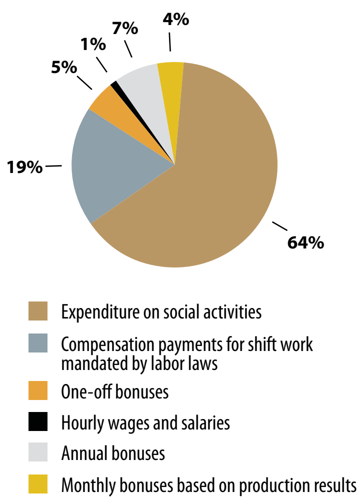
In 2008, 321 employees were commended, representing approximately 7% of the Company's workforce. Employees that were commended also received monetary bonuses. The total amount of bonuses distributed in 2008 was approximately 4.5 million rubles.

Personnel Recruitment

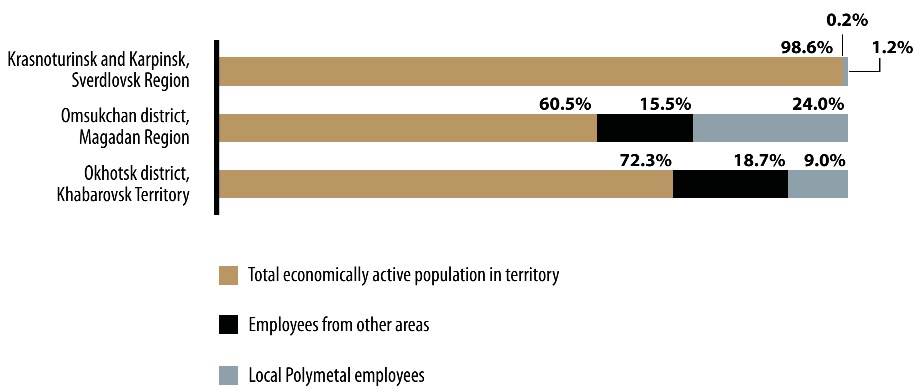
In 2008, more than 1,800 employees were hired to meet staffing demands. This figure included more than 270 people hired to develop the Albazino and Amursk projects, as well as replacements for employees who left the Company.

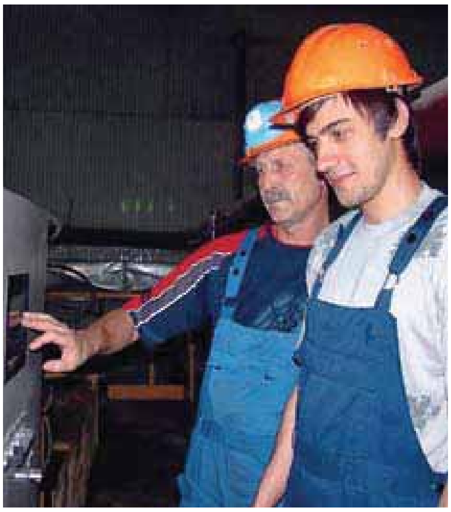
The recruitment of candidates takes place throughout Russia, as well as in Kazakhstan, Uzbekistan and Ukraine. The Company uses HR agencies, employment services and mass media (including print media, Internet sites and other outlets) to reach potential

REMUNERATION STRUCTURE



POLYMETAL EMPLOYEES AS A PERCENTAGE OF THE TOTAL ECONOMICALLY ACTIVE POPULATION IN KEY TERRITORIES





employees. Polymetal also actively recruits in the regions in which it operates. In the Far East, the Company's operations lead to significant expansion of local towns which are located in remote, sparsely populated regions. In the economically developed Northern Urals, our operations are large local producers and taxpayers; however, they are not significant employers in this region

An introduction and mentoring program has been implemented at all of Company's operations in order to settle employees into their new positions and to transfer and preserve expert knowledge.

Polymetal works hard to attract and retain qualified personnel. In 2008, employee turnover was 21%, which falls well within the average retention rate of a dynamically growing organization, such as Polymetal. Employee turnover is dependent on general Russian labor market conditions and is influenced by the country's demographics, the high level of migration from the Far East and Far North, and a lack of qualified industry specialists. These factors create intense competition in the employment market.

Employee Development and Training. Young Specialists.

Attracting and shaping 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 employees takes place on the labor market and at Russia's leading universities, as well as at vocational schools in regions in which the Company operates.

In 2008, 84 students participated in the "Youth. Professionalism. Career." program. 55 of them expressed interest in continuing their training or entering into employment at Polymetal. During the training period, each student signs a labor agreement and is assigned to a mentor from amongst the most experienced engineers available. The Company provides the students with room and board, roundtrip transportation to the facilities and pays them for their labor. During the internship, students also take part in cultural and social projects. Students who receive positive recommendations during their internship also receive an additional stipend.

During 2008, as part of the "Youth. Professionalism. Career." program, Polymetal sponsored targeted training for employees' children in order to prepare them for higher education in their chosen field of study. Studying a profession that is in demand will help ensure their future employment.

In order to ensure it has a sufficient number of qualified engineers and technical workers, Polymetal works with the country's leading universities to train specialists.

Training programs for the Company's young specialists also devote special attention to helping them adjust and develop to the workplace. Currently, there are 171 employees at the Company who have recently graduated and are under the age of 30.

POLYMETAL'S EXPENDITURE ON EMPLOYEE TRAINING

	Description	Thousands of Rubles	Employees
1	**Mandatory Training**	**3,866.31**	**709**
1.1.	Executives	1,454.81	353
1.2.	Specialists	402	80
1.3.	Workers	2,009.5	276
2	**Skill Development**	**5,045.96**	**412**
2.1.	Executives	2,666.73	221
2.2.	Specialists	2,367.36	188
2.3.	Workers	11.87	3
3	**Refresher Training**	**395.37**	**75**
3.1.	Executives	67	7
3.2.	Specialists	30	3
3.3.	Workers	298.37	65
Total Professional Training		**9,307.64**	**1196**

Employee Responsibility

Employees at the Company undergo training annually. The primary goals of training are to:

- Provide consistent support for highly qualified employees at operational divisions;
- Improve the quality of work performed and effectively achieve goals;
- Motivate employees to further develop their skills, providing the opportunity for self-improvement and advancement.

Polymetal has created training programs for employees, that take into account evolving production terms, the development of the business and changes in legislation.

In 2008, the Company launched the Personnel Pool program. This program defines Polymetal's specific management requirements and has led to the identification of a pool of potential managers. The program also involves increasing potential managers' motivation and developing their knowledge, business acumen and personal qualities.

Candidates for the personnel pool underwent an evaluation of their professional skills, knowledge and leadership abilities in 2008. The results were used to create a list of potential replacements for key positions at the Company, as well as to draw up individual development plans for each.

Polymetal's human resource development plans for 2009 include the expansion of work with young specialists, the personnel pool, and working to receive accreditation for the Company's educational activities, including professional training and skill development for employees at plants.

Social Protection and Partnership

In 2008, the Company continued to improve communications between management and union representatives via the Labor Commission which regulats social and labor relations. The work of the Labor Commission made it possible to find common ground on social and labor issues through constructive dialogue between all representatives of the social partnership.

The Company's corporate compensation policy adheres strictly to Russian labor law, including all government standards for regions in the Far North and other remote areas of Russia and for employees working in potentially harmful or dangerous conditions. Furthermore, at operations with collective agreements, the list of benefits and guarantees provided to workers and members of their families is significantly broader than the terms mandated in current legislation.

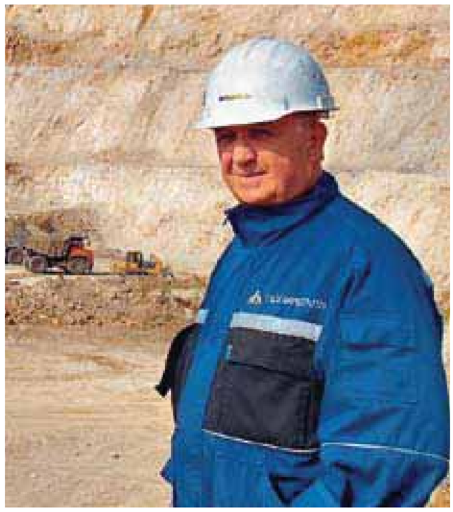
Structure of compensation packages:

- Benefits, guarantees and compensation for employees from other regions who are stationed in the Far North and other remote areas, as mandated by existing legislation and local legislative acts;
- Material assistance for employees for various extraordinary situations;
- Additional severance pay for employees who reach retirement age;
- Compensation for employees with children attending pre-school or after-school programs;
- Compensation for comprehensive summer camp packages for employees' children;
- Compensation for employees asked to work in a region other than their own, covering moving expenses from their permanent residence to their place of work;
- Compensation for employees and their families equal to the price of round-trip tickets to a vacation destination once every two years;
- Reimbursement for business trip expenses above the prescribed allowances;
- Provision of housing and transportation.

The Company provides daily transportation for all employees to their workplace and back. For employees who work according to a fly-in-fly-out schedule, transportation from the collection point to the workplace is provided, including airfare.

Corporate Culture

Corporate culture is important for creating cohesion across Polymetal and ensuring a focus on the Company's principal strategic objectives.



In order to develop the Company's corporate culture and further modernize its social partnership, Polymetal developed a number of channels for internal communications in 2008. These are used to ensure that employees have up-to-date knowledge of the Company's strategies and current projects.

The corporate "Northern Latitude" newspaper is published in all Company operations. Whilst it facilitates the sharing of information relevant to specific territories, it is also used to encourage cohesion across the Company. The newspaper's slogan is "We're together!" to reflect the Company's primary corporate goal of developing a team of employees who are working towards common goals.

Other corporate publications and information also play an important role in promoting corporate culture. A Polymetal news bulletin is released regularly and production results are posted on information stands, as is news about Company events and management decisions.

A survey was conducted amongst employees in 2008 to identify social and individual challenges related to the Company's current stage of development and as a result to optimize internal communications policy.

In 2008, the Company worked actively to address employee concerns. To this end, it adopted a "comment box" to ensure communication between management and employees. 508 messages were submitted by employees, covering questions on Polymetal's future prospects and development plans, wages and social benefits, training and skill development, opportunities for professional growth, living conditions and the organization of leisure activities.

This area will continue to be developed in order to increase the effectiveness of internal communications, react more quickly to issues that are of concern to employees, and develop relations between management and employees, which in turn, should positively influence results.

Company also hold sporting, cultural and corporate events for employees.

Decent Living Conditions and Healthcare

The Company attracts professionals from around the country to its mining operations, including young specialists, and strives to create comfortable conditions for work and leisure. For employees who work according to a fly-in-fly-out schedule, accommodation camps are equipped with all necessities, including a medical unit, cafeteria, laundry services, book and video library, and gym.

Catering and domestic services at Polymetal's operations are supplied by a special company that was selected by tender. In 2008, this company began providing a range of services at the Okhotsk settlement and at Khakanja and Yurievskoye. These helped to significantly improve the quality of food served to employees and service in general.

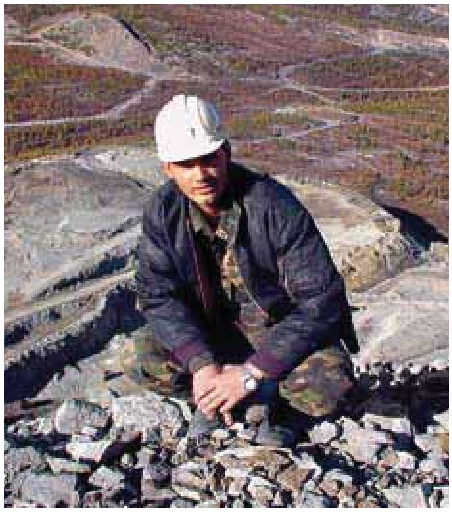
Local administration constantly monitors the condition of its cafeterias. It ensures that there is varied cuisine and that camps are supplied with all the necessary goods and services. Close attention is also paid to ensuring the provision of specialized nutrition for employees working in hazardous conditions.

Caring for the health of employees and their families is very important to the Company. One key priority in this area is the reduction of lost work days. This is done by reducing the incidence of illness, taking preventative measures against the flu and infectious diseases, preventing orthopedic injuries, and discouraging unhealthy habits like smoking and drinking.

The Company is particularly focused on developing preventative care. We provide free medical checks for employees and give vaccinations. Doctors inform workers about occupational diseases and provide them with information on disease prevention.

Employees are given access to medical treatment at healthcare facilities with which Polymetal has signed contracts . There are also first aid medical stations at all Company's operations. .

Industrial and Occupational Safety



Industrial and Occupational Safety

Polymetal's processing facilities use heavy-duty equipment and the latest technology in all of their projects. Technical processes use large mining equipment (boring and drilling rigs, load-haul-dump units and self-propelled supporting vehicles) and mining and transport equipment (drilling machines, excavators and dump trucks), as well as complex ore processing machines (grinding mills, ball mills, concentrators, flotation devices, thickeners, driers, pressers, ovens and automatic drives and systems). Use of this type of equipment, as well as the constant growth in processing capacity, has led the Company to expand safety requirements for its employees.

The Company's primary goals with regards to industrial and occupational safety in 2008 were to:

- Achieve an accident-free workplace at its operations;
- Reduce the level of workplace injuries and health risks;
- Introduce best practice requirements that are in line with international standards with regards to industrial and occupational safety.

The Company conducted employee training and refresher courses and sought to protect employees from harmful and dangerous production factors. It also encouraged domestic health and preventative care.

INDUSTRIAL AND OCCUPATIONAL SAFETY ACHIEVEMENTS AND GOALS

Major Goals 2008	Achievements 2008	Major Goals 2009
Introduce the Management System for Industrial and Occupational Safety (MSIOS) at exploration and construction operations.	Successfully introduced.	Focus on personnel health and safety policies.
Develop and improve the MSIOS's regulations for the organization and application of industrial safety requirements at riskful production sites.	New regulations were reconfirmed by the Russian Technical Supervisory Authority.	Identify primary dangers and risks in the workplace.
Increase responsibility of operations' managers, technical supervisors, engineers, technicians, and employees for violating safety rules and regulations.	A system for supervision and accountability was introduced and the number of disciplinary measures and fines for violations increased.	Improve work ethos and employee responsibility for the condition of their workplaces.
Conduct an analysis of operating efficiency and rate the quality of preventative measures introduced.	A quarterly analysis was conducted and corrective measures were developed.	Introduce preventative measures to reduce the primary causes of accidents and emergencies.

Production Control
In 2008, within the framework of a complex plan to implement production control, the following actions were taken:
- < Analysis of all Company divisions, departments and personnel responsible for production control and subsequent development of recommendations to improve their efficiency;
- < Evaluation of production controls in the workplace;
- < Research into more effective means of collective and individual safety;
- < Utilization of measures to increase the quality of mining work (ensuring the stability of open pit mine faces, conducting seminars concerning safety when working in areas affected by subsurface mining, modernizing drilling and blasting operations) ;
- < Completion of the Company's plan to modernize and refit equipment;
- < Implementation of best practice and international standards.

Completion of the workplace evaluation process at Dukat and exploration operations has been delayed until 2009.

In 2008, work was conducted at each of the Company's operations to identify potential dangers and risks relating to their primary activities. The following were assessed:
- < Workplace evaluations;
- < Expert data on industrial safety;
- < Analysis of the condition of technical equipment, buildings and facilities;
- < Analysis of workplace injuries, occupational illnesses, mishaps, incidents, and information on accidents and emergencies.

Employee Preparation and Training
In 2008, training for employees and managers in various categories was organized and implemented in accordance with the existing Training Method for Industrial and Occupational Safety.

Professional development and knowledge checks were conducted at training facilities run by federal institutions (the Central Evaluation Commission of the Russian Technical Supervisory Authority) and at regional learning centers (Territorial Commissions of the Russian Technical Supervisory Authority, Det Norske Veritas in Moscow, Labor and Safety in St. Petersburg, the Center for Occupational Safety in Yekaterinburg, and others).

We provide our employees with introductory trainings and regular training at local learning centers

Occupational Safety Days are held at all Company operation for introductory and follow-on instruction. Specially equipped facilities are used to introduce work practices that improve industrial and occupational safety. During this training, modern teaching methods are utilized, including the use of multimedia devices, demo films, learning aids and technical literature.

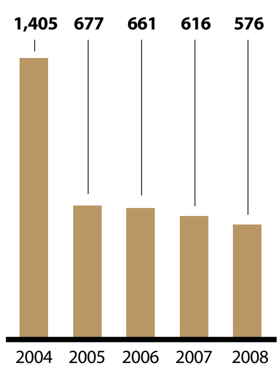
In order to ensure that employees are aware of updates to industrial safety rules and regulations, materials (including posters, educational films, factsheets for digital media and a Directory of Industrial and Environmental Safety) are prepared for distribution at operations (including retraining facilities and exploration sites).

Protecting Employees from Exposure to Harmful and Dangerous Situations
In 2008, the following actions were taken in order to reduce exposure to potentially harmful and dangerous situations:
- < Adoption of more effective work practices;
- < Monitoring the way personal protective equipment is used;
- < Organization of employee training and certification;
- < Timely equipment repair and modernization;
- < Implementation of preventive measures and works.

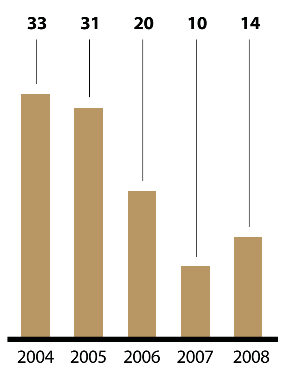
As a result of Company efforts, a number of positive results were achieved in 2008:
- < There were no workplace fatalities;
- < Lost man hours due to workplace injuries were down;
- < Lost man hours due to general illness among employees were down.

Lost workdays due to accidents and workplace injuries to employees at the Company operations totaled 576 days in 2008

LOSSES DUE TO WORKPLACE INJURIES,
number of lost workdays



WORKPLACE INJURIES,
incidents



Industrial and Occupational Safety

(2007: 616 days). Compared to 2007, this indicator dropped by 40 days, or 6%.

The significant drop in the level of lost workdays related to general illness among workers was achieved at both a Company-wide and operations levels. A number of measures taken to improve employee health led to this result, including regular testing for diseases according to division and profession, use of preventative measures, such as vaccinations, trips to treatment centers, and provision of special nutrition during fall and winter and systematic monitoring of employee health.

Workplace Injuries

Over the course of 2008, a series of measures was introduced aimed at reducing the number of workplace injuries to employees and preventing violations of the safety rules. There were no fatal accidents in 2008. However, there were 14 accidents resulting in injuries to employees during production activities (1 of which was categorized as a severe injury).

The number of workplace injuries grew by 40% as compared to 2007.

The overall increase in instances of injury results from changes made to the reporting system. In 2008, for the first time, the data reported included information from exploration operations and projects under construction. The frequency rate of workplace injuries was virtually unchanged (3.7) and was within the statistical average of the mining industry. In overall, starting 2004 the Company was reducing the number of injuries.

The primary reason for injury among workers in 2008 was the violation of safety rules and production disciplines by the injured employees, as well as a non-optimal labor organization during production. A significant number of the incidents were linked to personal negligence and a lack of attention, a combination that is not permitted in the safety guidelines. The severe injury took place in August 2008 at the Lunnoye processing plant when the brakes failed in a car and the driver was seriously injured.

As a result of investigations into the factors surrounding each incident of workplace injury, special measures were taken in order to prevent similar incidents from occurring in the future.

State of Industrial and Occupational Safety

The state of industrial and occupational safety and workplace injuries at Polymetal in 2008 can be characterized as satisfactory, labor conditions were organized in accordance with the corresponding legal requirements.

Despite the increase in production volumes and activities in difficult geological and climate conditions at hazardous production sites, there were no accidents, severe incidents or employee injuries that resulted in multiple injuries or fatalities.

Sustainable Development

Polymetal recognizes that a key factor in the Company's long-term effectiveness is maintaining a sustainable policy for its community relations and playing a direct, active role in promoting economic stability in the territories in which the Company is present.

The Company has established successful methods for implementing its external social policy. In 2008, Polymetal's approach to sustainable development in its work with local communities was based on principles of openness and transparency. It aimed to:

- Provide employment to a significant portion of the workforce in the regions in which it operates;
- Pay taxes and social security payments that support local and regional governments;
- Implement long-term partnership agreements with regional authorities;
- Implement charity projects in the regions where it is present.

Tax revenue from Polymetal is the primary tax base for many of the regions in which the Company is present. In 2008, the total amount of taxes that Company's production subsidiaries paid to all levels of state governments and extra-budgetary funds was $100.2 million. Of that $39.7 million went to regional and local governments.

The Company strives to create as much employment as possible for local communities. Polymetal's large investment projects in the Far East support this goal.

In 2008, Polymetal maintained an active social policy in regions in which it has production activities. This policy is reliant upon long-term partnership agreements and charity programs. During 2008, there were ten active agreements between Polymetal and regional authorities that covered socio-economic partnerships in all the territories in which Polymetal is present. The Company invested a total of $3.9 million (97.4 million rubles) in 2008 to support the implementation of socio-economic programs under these agreements.

The Company's social investments, including agreements with the regions and charity programs, totaled $4 million (101.6 million rubles) in 2008.

Polymetal's social investments in 2008 were focused on supporting education and healthcare, as well as promoting sports, exercise, and a healthy lifestyle. The Company recognizes the value and necessity of investing in people's health and in improving the quality and level of education in the regions.

Support for Education and Healthcare

In 2008, the Company spent over 20 million rubles ($803,000) on renovations and equipment for Krasnoturinsk's healthcare facilities in the Sverdlovsk Region. Projects included the Central City Hospital №1 (Emergency Care Unit), the Children's Hospital (Intensive Care) and a complete renovation

of the Krasnoturinsk Municipal Children's Hospital. In addition, Polymetal allocated 1.5 million rubles ($60,200) for renovations at the Karpinsk Central City Hospital.

Providing modern medical equipment and strengthening the talent pool at district hospitals is core to the Company's social investment programs. In 2008, the Company spent approximately 4.5 million rubles ($181,000) on medical equipment and training in districts in which the Company is present in the Far East. Support was also provided to central district hospitals in Omsukchan, Srednekansk and Severo-Evensk (all in the Magadan Region), rural hospitals in Glavnyi Stan and Kherpuchi, and an obstetrics clinic in the Polina Osipenko District (Khabarovsk Territory).

The Company has played a direct role in reducing the lack of pre-school facilities in the town of Omsukchan in the Magadan Region. Construction of a pre-school facility that will also serve as the base for an arts school was completed in 2008. The Company committed 11.3 million rubles ($455,000) to the project as part of an agreement with the district.

Approximately 5.7 million rubles ($230,000) was spent on improving the buildings that house kindergartens in the Magadan Region (in the towns of Dukat, Omsukchan, Seimchan and Gizhiga).

In the Khabarovsk Territory, the Company provided assistance to an orphanage in Amursk, a children's healthcare facility in the Polina Osipenko District and grammar schools in the Polina Osipenko District and town of Kherpuchi. The Company spent approximately 2.1 million rubles ($84,000) on these projects.

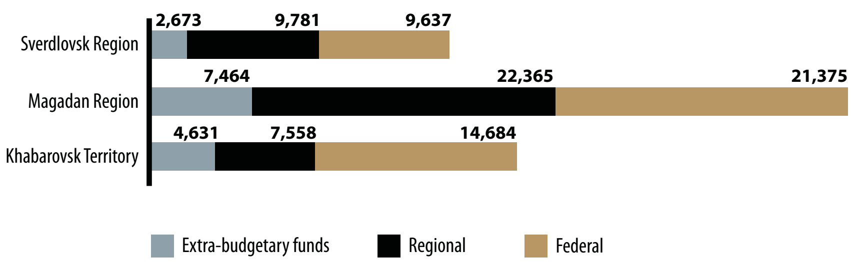
Developing Sport and Supporting Healthy Lifestyles

Polymetal strongly believes in the active promotion of sport and a healthy lifestyle in local communities. The Company has traditionally devoted particular attention to this area and regularly makes social investments to develop large-scale projects related to sports and exercise.

In 2008, the Company began construction of a sports complex in the town of Okhotsk in the Khabarovsk Territory. It will be the town's first large sporting venue that offers modern athletic facilities to the local population. 20 million rubles ($602,000) were invested in the project in 2008.

Within the framework of a partnership agreement with the government of the Khabarovsk Territory, the Company provided 15 million rubles ($602,000) for sponsorship

POLYMETAL TAX PAYMENTS,
$ mln



Sustainable Development

of the independent non-profit Neftyanik-Khabarovsk hokey club.

During 2008, the Company also provided 2.3 million rubles ($92,000) for sporting equipment to the Children's Athletic School and United Athletic Facilities in the town of Omsukchan in the Magadan Region. These funds were also used for renovations at the Yunost stadium in Amursk in the Khabarovsk Territory.

The Company regularly sponsors athletic events to promote sports and exercise and has participated in organizing tournaments in mini-football, boxing, hockey and other games.

Developing Local Cultural and Creative Initiatives, Supporting the Indigenous Population

The Company has also consistently made social investments to develop local cultural and creative initiatives and to support the indigenous population's spiritual traditions. It views these projects as important investments to create sustainable social conditions and improve people's quality of life.

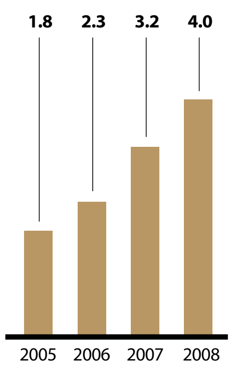
In 2008, the Company helped organize trades fairs, festivals and competitions in all the regions in which it operates. It spent 2.5 million rubles ($100,400) on equipment for an Amursk movie theater (Khabarovsk Territory). It also spent over 2.2 million rubles ($88,400) on renovations to the Community and Folk Arts Center in the town of Omsukchan and the House of Culture in the town of Evensk (Magadan Region). Part of this amount was also invested in equipment for cultural facilities in the Polina Osipenko District (Khabarovsk Territory) and support for the Buben Druzhby folklore festival in the Khabarovsk Territory.

As part of its program to support the indigenous people in the north of the Magadan Region, the Company acquired two Buran snowmobiles and fuel for the Balygychan clan in the Srednekansk District. It also bought tents for reindeer herders in the Severo-Evensk District. The total cost of these programs was 1.4 million rubles ($56,000).

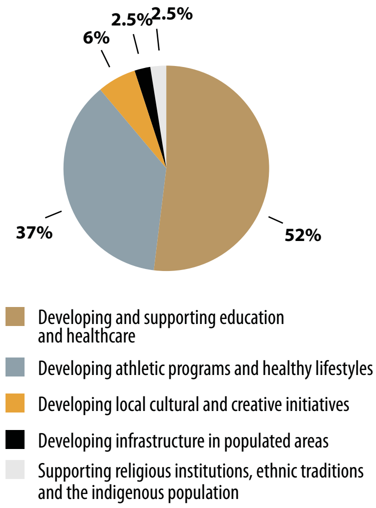
The company also financed infrastructure improvements. It acquired a passenger bus for the Polina Osipenko District and provided funds for improving public areas and courtyards in all of the regions in which the Company is present.

The Company's total charitable donations in 2008 were 4.2 million rubles ($168,700). When selecting charitable projects, Polymetal focuses on the program's goal, the economic situation of the area the project will benefit, and information on the local communities affected.

POLYMETAL'S SOCIAL INVESTMENT,
$ mln



POLYMETAL'S SOCIAL INVESTMENTS



In the Khabarovsk Territory, the Company organized a trip by a delegation of doctors to the Polina Osipenko District to perform medical examinations of residents in the town of Kherpuchi. In the Sverdlovsk Region, the Company sponsored and helped organize athletic events in Krasnoturinsk, including the Konzhak international mountain marathon. In the Magadan Region, most charitable contributions went to social events in the city of Magadan, including organizing a patriotic song competition, the city-wide Leather Ball football tournament, and several children's athletics events held on Child Protection Day. Polymetal has also continued to provide targeted aid to disadvantaged members of society.

Environmental Responsibility

As society grows more concerned about preserving the environment and health protection, Polymetal has devoted more attention to improving environmental conditions in the regions in which it operates.

In 2008, Polymetal continued to improve production safety by introducing economically effective technology and implementing measures aimed at preventing or reducing the impact of potentially harmful incidents on the environment. A new environmental policy was introduced that lays out the general direction of our approach to land preservation and protection while setting out specific Company guidelines.

Company monitors environmental indicators at all stages of production, starting from the initial investment in construction to planning, operation and closure.

Environmental Impact

The Company implemented environmental monitoring programs at its operations to measure their effect on the environment.

Impact on Air Quality

The major sources of atmospheric pollution are linked with mine exploitation, processing plants and infrastructure objects. Air pollution is primarily related to exhaust emissions from diesel-operated mining machinery and diesel electric stations.

Air-quality targets are achieved by managing and filtering atmospheric emissions, and using dust suppression at open pit mines, dumps and technical roads.

Impact on Surface and Ground Water

Across the Company's operations, there are multiple types of waste water, including quarry water, underspoil water, industrial run-off, storm run-off from the industrial production area, and service water. Most industrial run-off is used in a water recirculation system. After use in industrial processes, waste water is filtered and decontaminated. The quality of the waste water meets environmental protection standards after filtration. In order to limit the disposal of waste water into natural water sources, the filtered waste water is re-circulated into the water system and used for dust suppression during warm months.

Treatment of Industrial Waste

The storage and utilization of industrial waste is one of the most significant environmental protection issues when exploiting mineral deposits.

The main volume of waste consists of rock produced during mining and extracting ore, including waste rock and tailings.

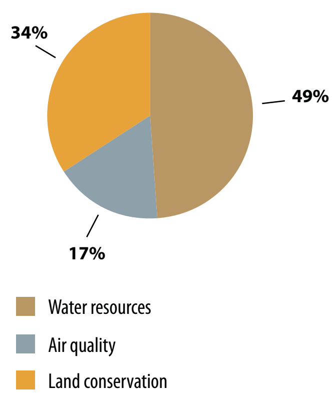
Waste rock and tailings from ore extraction are stored onsite within the borders of the operations' territorial allotments. When a dump reaches capacity with waste rock or a tailings impoundment is filled, the territory is reclaimed. In order to monitor waste processing and to evaluate the environmental impact of waste rock and tailings, biological toxicity testing is conducted to determine the level of environmental danger represented by the waste.

Liquidation and Reclamation

All projects' design documentation is developed with the provision for mine reclamation and rehabilitation in the end of the deposits' useful life.. The reclamation of waste areas takes place during operational period after such areas have reached their capacity, whilst the reclamation of tailings storage facilities takes place once the impoundments are filled. After mining a deposit, all above-ground sections are in-filled to allow for effective natural uses.

In accordance with World Bank requirements for environmental protection, all Polymetal production units have established mine closure plans in the event that further exploitation becomes impossible or unprofitable due to economic, environmental, technical or any other reason. The liquidation plans address the reorientation of all buildings and objects on the site, taking into account industrial safety, resource conservation and environmental concerns.

SPENDING ON ENVIRONMENTAL PROTECTION MEASURES



Environmental Responsibility

Environmental Support of Subsidiaries

Water discharge and collection facilities were built at Khakanja, as were filtration facilities to clean run-off to acceptable standards. The filtration facilities can process rain, run-off from industrial production areas, run-off from open pit mines and underspoil water before releasing it into the natural watershed. Waste channels and a water re-circulation system were constructed at Dukat.

Reconstruction of the tailings impoundment was completed at Lunnoye. In order to prevent water from filtering into the Leviy Bulur stream in the valley in which the impoundment is located, a frozen curtain was built below the impoundment's dam.

In order to reduce the amount of drainage water discharged into the natural watershed at Northern Urals Gold, construction of a water pipe from the drainage wells at Voro's open pit mines to the processing plant's industrial area was begun in Q4 2008. Furthermore, there are plans to utilize filtered service water and rain run-off from the industrial area in the preparation of leaching solutions during the heap leaching process. The completion of the water pipe that will run from the drainage wells to the industrial area's treatment facilities is planned for Q2 2009.

In 2008, exhausted stockpiles from heap leaching at Voro were used to build a foundation for the placement of new stockpiles in order to conserve land resources. Waste rock at Voro is used to produce serviceable gravel in order to reduce the volume of waste when mining ore.

The Company's environmental departments developed and approved regulations in 2008 that were aimed at limiting the negative impact of production sites on the environment. These measures included:

- Setting standards that limit the discharge of pollutants into waste water at Magadan Silver;
- Setting standards that limit emissions at Northern Urals Gold, Northern Urals Exploration Unit and Omolon Gold Mining Company.

Company makes payments to compensate for polluting activities as required by the Federal Law "On protecting the environment". In 2008, the Company paid a total of 11.7 million rubles ($0.5 million) to compensate for the negative impact of its activities on the environment. This was a 10.3% increase over 2007. The increase was due to increase of environmental charges and production growth.

Monitoring

The Company is continuously monitoring air quality, surface and ground waters, and snowpack in areas in which it operates. Based on the results of this monitoring, changes to monitoring programs and operational modifications to the production technology, as well as to mine closure and reclamation plans are considered. Programs are modified on a regular basis in order to ensure the Company has the most complete data on the environmental impact of production facilities. Areas of modification include study subjects,

observation points, place and time during which samples are taken.

Monitoring of environmental conditions is done at all Polymetal's mining and exploration units.

The high quality of monitoring activities helped Omolon Gold Mining Company receive a license to conduct hydrometeorological activities, including appraising meteorological characteristics of the environment.

The majority of funds was spent on the conservation and rational use of water and land resources.

Development and Introduction of an Environmental Management System

The Company has had a successful Environmental and Industrial Sanitation Management System in place since 2006, which it continues to improve.

This system is used to formulate the Company's environmental policy, set environmental goals, list the processes that are required to reach them, and adopt measures that are necessary to improve environmental sensitivity and demonstrate compliance with the GOST R ISO 14001-98 state standards.

One element of the Environmental and Industrial Sanitation Management System is regular internal checks to confirm that environmental and industrial sanitation norms are being maintained at Company operations. These checks of operations' activities include environmental monitoring, tests and production audits. Any non-compliance results in warnings and other corrective actions.

In 2008, the Company began to develop and introduce an environmental management system that is based on the Russian GOST R ISO 14001-2007 state standards.

Employee Environmental Education

Polymetal strives to keep its employees informed about relevant environmental issues and involves them in Company environmental initiatives. Employees in jobs that can regularly impact the environment receive on-going training about environmental safety and management.

In 2008, over 40 specialists at the Company received training at the Institute of Environmental Engineering at the Urals State Mining Academy (Yekaterinburg), the Chelyabinsk House of Scientists, the Center for Natural Resource Expertise (Yekaterinburg) and the Legal Center of Industrial Ecology (Moscow).

Shareholder Information

Polymetal's charter capital is 63,000,000 rubles, divided into 315,000,000 ordinary nominal uncertified shares with a nominal value of 0.2 rubles each. The number of issued shares and the size of the Company's charter capital did not change in 2008 and the Company did not issue preferred shares.

In February 2007, the Company held its Initial Public Offering (IPO), in which 24.8% of its shares and Global Depository Receipts (GDRs) were placed. As a result, the shares are traded on the RTS and MICEX and the GDRs are traded on the London Stock Exchange (ticker PMTL). The relationship between a GDR and an ordinary share is 1:1 in correspondence with rule 144A and rule S.

INTERNATIONAL SHARE ID CODES

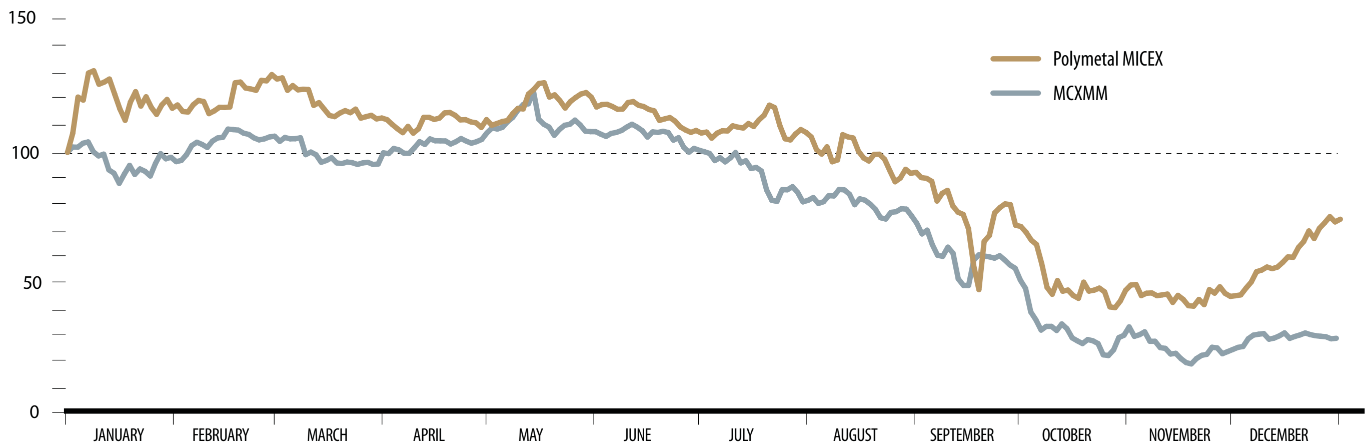
	ISIN	SEDOL	CUSIP
Ordinary	RU000A0JP195	B1NXP96	
GDR 144A	US7317891031		731789103
GDR Rule S	US7317892021	B1N73K5	731789202

TRADING VOLUMES ON LSE, MICEX IN 2008

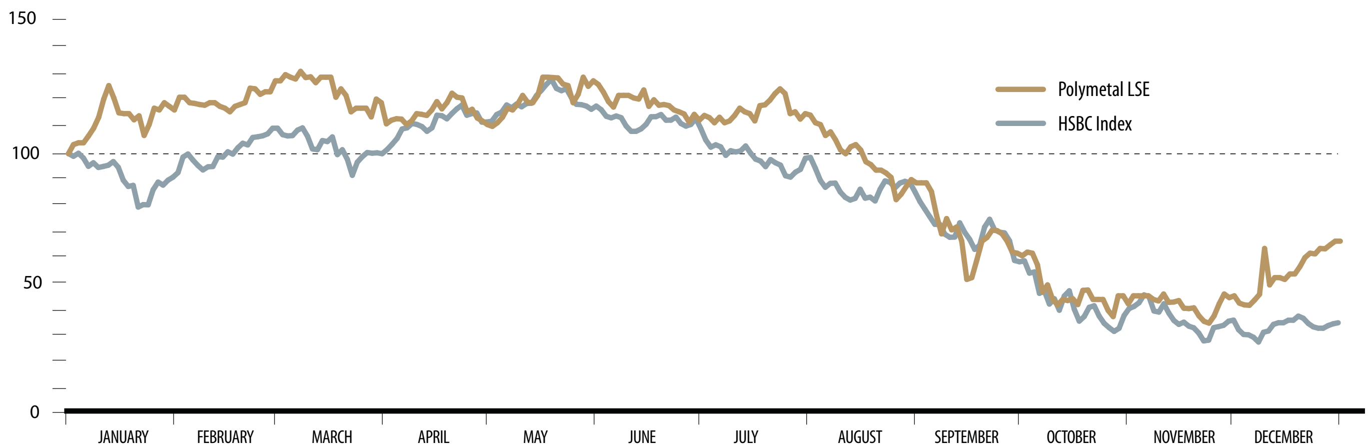
	Volume, $ mln		Volume, mln shares	
	MICEX	LSE	MICEX	LSE
2007	134	646.5	19.8	93.6
2008	2,067.5	461.4	576.1	69.1

**MICEX – including trade volume in all sessions.*

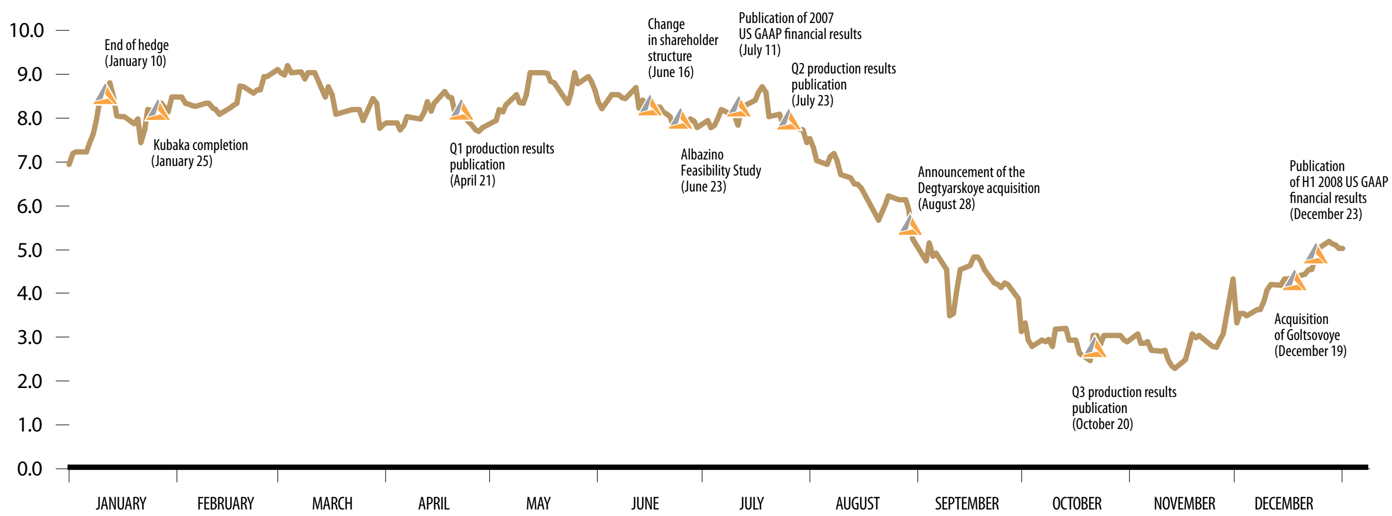
POLYMETAL SHARE PRICE ON THE MICEX AND THE MICEX METALLURGY AND MINING INDEX



POLYMETAL SHARE PRICE ON THE LSE AND THE HSBC DIVERSIFIED INDEX



GDR PRICE, $



Structure of Shareholder Capital

In the summer of 2008, the Company was informed that approximately 68% of the Company's shares were sold by its major owner ANIKETA INVESTMENTS LIMITED to the current shareholders.

As of December 31, 2008, Polymetal's principle shareholders were:

- **POWERBOOM INVESTMENTS LIMITED** — share of charter capital: 23.9662%

  The principle shareholder of POWERBOOM INVESTMENTS LIMITED is Quotan International Limited. The ultimate beneficiary is Alexander Nesis.
- **PEARLMOON LIMITED** — share of charter capital: 24.8237%

  The principle shareholder of PEARLMOON LIMITED is PPF Group NV. The ultimate beneficiary is Peter Kellner.
- **VITALBOND LIMITED** — share of charter capital: 19.0181%

  The principle shareholder of VITALBOND LIMITED is Inure Enterprises Limited. The ultimate beneficiary is Alexander Mamut.

As of December 31, 2008, the following shareholders control more than 5% of voting shares in the Company:

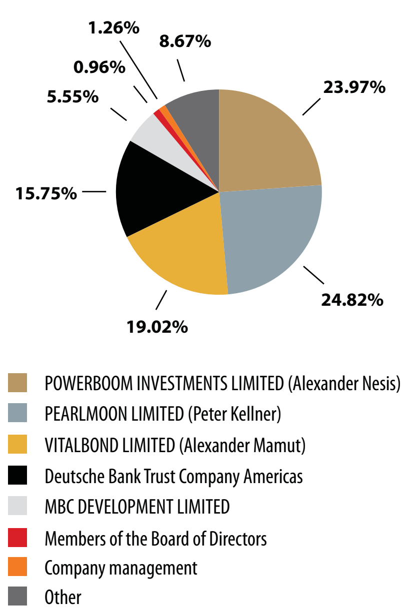
- Deutsche Bank Trust Company Americas — 15.9415%
- MBC DEVELOPMENT LIMITED — 5.5512%

Shares in the Company owned by members of the Board of Directors as of December 31, 2008:

Ilya Yuzhanov	0%
Konstantin Yanakov	0%
Vitaliy Nesis	0.9524%
Jonathan Best	0%
John O'Reilly	0%
Russell Skirrow	0%
Sergey Areshev	0.0034%
Marina Grönberg	0%
Martin Schaffer	0%

In 2008, as a result of the change in the shareholder base, the implementation of the options program, covering 5.5 million shares, was triggered ahead of the originally scheduled date. As a result, as of December 31, 2008, 330 Company employees were Polymetal shareholders, including employees at subsidiaries.

SHAREHOLDER CAPITAL



Company management (eight people, including the CEO and his deputies) own a total 1.2623% of voting shares in the Company. Polymetal has no further information on existing shareholders with a stake over 5%, other than what is declared above.

Dividend Policy

Polymetal's dividend policy is based on balancing the shareholders' desire for an annual return on their investment and re-investment of net profit into the Company's development. The decision on the amount and payment of dividends is made at the annual General Shareholders' Meeting, based on the recommendation of the Board of Directors. These recommendations are based on an analysis of the Company's current financial situation, prospects and investment requirements, as well as the availability of resources.

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

The decision on payment of dividends for 2008 will be made at the annual General Shareholders' Meeting on June 29, 2009 based on the recommendations of the Board of Directors.

On May 20, 2009 the Polymetals' Board voted against paying dividends for 2008.The Board of Directors believes that, given the Company's current stage of development, 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 Shareholders' Meetings will further consider recommendations on the annual payout of dividends.

Consolidated Financial Statements

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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, 2008 and 2007, 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.

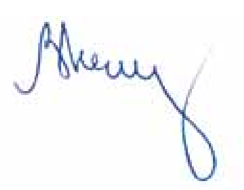
Management is also responsible for:

- 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, 2008 and 2007 were approved by management on April 28, 2009.

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 sheets of Open Joint Stock Company "Polymetal" and its subsidiaries (the "Group") as at December 31, 2008 and 2007, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

April 28, 2009

Deloitte & Touche

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED BALANCE SHEETS

at December 31, 2008 and 2007
(In thousands of U.S. Dollars, except share and per share data)

	Note	December 31, 2008	December 31, 2007
Assets			
Cash and cash equivalents		4,077	5,019
Prepayments to suppliers		11,827	12,540
Inventories	5	202,419	213,141
Short-term VAT receivable	6	62,718	52,078
Short-term deferred tax asset	7	11,758	3,806
Other current assets	8	23,862	18,057
Total current assets		**316,661**	**304,641**
Property, plant and equipment, net	9	484,134	502,470
Goodwill	10	23,741	30,141
Investments in joint ventures	11	18,124	269
Long-term loans to related parties	12	8,214	6,119
Long-term VAT receivable	6	13,953	10,288
Long-term deferred tax asset	7	11,648	3,926
Total non-current assets		**559,814**	**553,213**
Total assets		**876,475**	**857,854**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities		28,738	32,254
Short-term debt and current portion of long-term debt	13	316,369	152,006
Taxes payable		10,060	9,453
Short-term deferred tax liability	7	6,338	11,437
Current portion of capital lease liabilities		–	2,417
Total current liabilities		**361,505**	**207,567**
Long-term accounts payable and accrued liabilities	28	4,523	–
Long-term portion of capital lease liabilities		–	147
Long-term debt	14	–	71,200
Deferred tax liability	7	29,458	37,628
Reclamation and mine closure obligation	15	26,128	8,035
Deferred payments	16	5,193	7,438
Total non-current liabilities		**65,302**	**124,448**
Total liabilities		**426,807**	**332,015**

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

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED BALANCE SHEETS

at December 31, 2008 and 2007(continued)
(In thousands of U.S. Dollars, except share and per share data)

	Note	December 31, 2008	December 31, 2007
Commitments and contingencies	**31**	**–**	**–**
Shareholders' equity			
Share capital (2,444,000,000 shares authorized with par value of Ruble 0.2 per share; 315,000,000 shares issued at December 31, 2008 and 2007; 315,000,000 and 309,459,677 shares outstanding at December 31, 2008 and 2007, respectively)	17	6,698	6,698
Additional paid-in capital		400,122	367,129
Treasury shares, at cost (5,540,323 ordinary shares at December 31, 2007)	17	–	(50)
Accumulated other comprehensive (loss)/income		(37,276)	56,208
Retained earnings		80,124	95,854
Total shareholders' equity		**449,668**	**525,839**
Total liabilities and shareholders' equity		**876,475**	**857,854**

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, 2008 and 2007
(In thousands of U.S. Dollars, except share and per share data)

	Note	December 31, 2008	December 31, 2007
Revenue	19	502,731	308,747
Cost of sales	20	300,729	254,638
Gross profit		**202,002**	**54,109**
General, administrative and selling expenses	24	90,142	42,275
Other operating expenses	25	36,231	27,423
Operating income/(loss)		**75,629**	**(15,589)**
Interest expense		20,675	12,607
Loss from investments in joint ventures	11	8,393	–
Exchange loss/(gain), net		44,520	(11,433)
Income/(loss) before income tax and extraordinary gain		**2,041**	**(16,763)**
Income tax expense	26	18,611	6,063
Loss before extraordinary gain		**(16,570)**	**(22,826)**
Extraordinary gain – Excess of fair value of acquired net assets over cost	28	840	–
Net loss		**(15,730)**	**(22,826)**
Basic and diluted loss per share (expressed in U.S. Dollars):	17		
Loss per share from continuing operations		(0.053)	(0.074)
Earnings per share from extraordinary gain		0.003	–
		(0.050)	(0.074)
Weighted average number of shares outstanding		312,450,725	307,581,330

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, 2008 and 2007
(In thousands of U.S. Dollars)

	Note	December 31, 2008	December 31, 2007
Cash flows from operating activities			
Net loss		(15,730)	(22,826)
Adjustments to reconcile net loss to cash provided from operations:			
Depreciation and depletion		48,522	47,329
Deferred income tax benefit	26	(11,254)	(6,379)
Loss on disposal of property, plant and equipment	25	4,624	343
Share-based compensation	24	31,902	10,584
Exchange loss/(gain), net		44,520	(11,433)
Loss on impairment of long-lived asset	25	–	6,676
Write-down of inventory to lower of cost or market	20	10,583	–
Loss from investments in joint ventures		8,393	–
Other non-cash expenses		4,820	10,577
Changes in working capital, excluding cash:			
Accounts receivable		–	3,587
Prepayments to suppliers		(2,811)	1,813
Inventories		(29,058)	(36,174)
VAT receivable		(22,907)	(4,060)
Other current assets		(8,799)	(11,074)
Accounts payable and accrued liabilities		17,328	8,655
Taxes payable		636	(424)
Net cash provided by/(used in) operating activities		**80,769**	**(2,806)**

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, 2008 and 2007 (continued)
(In thousands of U.S. Dollars)

	Note	December 31, 2008	December 31, 2007
Cash flows from investing activities			
Additions to property, plant and equipment		(112,490)	(115,654)
Proceeds from the sale of property, plant and equipment		1,808	4,211
Acquisition of subsidiaries and minority interest, net of cash acquired	28	(22,014)	(18,250)
Proceeds from sale of subsidiaries		55	–
Investments in joint ventures		(27,422)	–
Loans provided to third parties		(526)	–
Repayment of loans provided to third parties		–	392
Loans provided to related parties		(4,566)	–
Repayment of loans provided to related parties		1,131	465
Net cash used in investing activities		**(164,024)**	**(128,836)**
Cash flows from financing activities			
Proceeds from short-term borrowings		367,256	242,907
Repayment of short-term borrowings		(356,992)	(352,110)
Proceeds from long-term borrowings		–	388,506
Repayment of long-term borrowings		(67,614)	(450,996)
Proceeds from issuance of shares, net of costs incurred of U.S. Dollar 10,716	17	–	299,284
Bonus received from depositary	16	–	8,560
Proceeds from long-term loans and borrowings from related parties		200,142	45,013
Repayments of long-term loans and borrowings from related parties		(57,681)	(44,797)
Purchase of treasury shares	28	–	(50)
Proceed from issuance of shares under employee stock option plan		212	–
Capital lease payments		(2,182)	(6,663)
Net cash provided by financing activities		**83,141**	**129, 654**
Effect of foreign currency translation on cash and cash equivalents		(828)	475
Net decrease in cash and cash equivalents		**(942)**	**(1,513)**
Cash and cash equivalents at the beginning of the year		5,019	6,532
Cash and cash equivalents at the end of the year		**4,077**	**5,019**
Supplementary cash flow information			
Interest paid		23,050	18,800
Income taxes paid		37,983	2,345
Non-cash investing and financing activities:			
Investments in joint ventures	29	3,482	–

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

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

for the years ended December 31, 2008 and 2007
(In thousands of U.S. Dollars, except share data)

	Note	Number of shares outstanding	Share capital	Additional paid-in capital	Treasury shares	Accumulated other comprehensive (loss)/income	Retained earnings	Total shareholders' equity
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)
Other comprehensive income: 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	18	–	–	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**
Comprehensive loss:								
Net loss		–	–	–	–	–	(15,730)	(15,730)
Other comprehensive loss: currency translation adjustment		–	–	–	–	(93,484)	–	(93,484)
Total comprehensive loss								(109,214)
Amortization of the bonus received from depositary	16	–	–	929	–	–	–	929
Share based compensation	18	–	–	31,902	–	–	–	31,902
Issuance of treasury shares	17	5,540,323	–	162	50	–	–	212
Balance at December 31, 2008		**315,000,000**	**6,698**	**400,122**	**–**	**(37,276)**	**80,124**	**449,668**

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

OPEN JOINT STOCK COMPANY POLYMETAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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1. BACKGROUND

Business activities

Open Joint Stock Company Polymetal (hereinafter JSC "Polymetal" or "the Company") and its subsidiaries ("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.

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

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".

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 ("GDRs") on the London Stock Exchange, as well as shares on "Stock Exchange Russian Trading System" ("RTS") and "Moscow Interbank Currency Exchange" ("MICEX").

In June 2008 Nafta Moskva (Cyprus) Limited sold all of its interest in the Company (68.0%) to three parties: Quotan International Limited, ultimate beneficiary owner of which is Alexander Nesis (24.05%), PPF Group NV, ultimate beneficiary owner of which is Petr Kellner (24.9%), and Inure Enterprises Limited, ultimate beneficiary owner of which is Alexander Mamut (19.05%). Another 17.1% of the Company's shares are held by Deutsche Bank Trust Company Americas and as at December 31, 2008 there are no other shareholders who hold more than 10% of the total share capital of the Company.

Operating environment and working capital deficit

In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding.

As a consequence of the recent market turmoil in capital and credit markets both globally and in Russia, notwithstanding any potential economic stabilisation measures that may be put into place by the Russian Government, there exists as at the date these consolidated financial statements are authorised for issue economic uncertainties surrounding the continual availability, and cost, of credit both for the Group and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that assets may be not be recovered at their carrying amount in the ordinary course of business, and a corresponding impact on the Group's profitability. As of December 31, 2008 the Group's current liabilities exceeded its current assets by U.S. Dollar 44,844. Additionally, the Group incurred a net loss of U.S. Dollar 15,730 for the year ended December 31, 2008.

Management's efforts to improve the Group's liquidity position are concentrated primarily on extending and refinancing the existing borrowings and obtaining new debt from existing lenders, including Nomos-Bank, Gazprombank and VTB (see Notes 13, 14 and 32) and equity financing by the issue of ordinary shares (see Note 32). While access to such financing has become more difficult with the tightened credit markets, management believes it will be able to obtain, however expects the associated financing costs to increase.

Management is of the opinion that the Group will continue as a going concern.

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

Composition of the Group

The Company and its subsidiaries are collectively referred to as "the Group". As at December 31, 2008, 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 Magadana	Dukat, Lunnoe, Arylakh	100	100

On April 1, 2008 the Group merged two of its subsidiaries – CJSC Serebro Territorii and CJSC Serebro Magadana. Starting from the second quarter of 2008 all production activities of these subsidiaries are performed by CJSC Serebro Magadana. Other changes in the Group structure and voting and ownership interests in major production subsidiaries in the years ended December 31, 2008 and 2007 are described in Notes 28 and 29.

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.

Recently issued accounting pronouncements

Accounting pronouncements effective during the reporting period

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.

In September 2006, the FASB issued 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. The adoption of the relevant effective provisions of SFAS No. 157 in 2008 did not have a material impact on the Group's financial position or results of operations.

In October 2008, the FASB issued Staff Position ("FSP") No. 157-3, Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active ("FSP No. 157-3"), effective October 2008, to clarify the application of the provisions of SFAS No. 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP No. 157-3 was effective upon issuance, including prior periods for which financial statements have not been issued and applies to the Group's December 31, 2008 financial statements. The adoption of FSP No. 157-3 in 2008 did not have a material impact on the Group's financial position or results of operations other than expanded disclosures.

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 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.

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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 the adoption of this standard did not have an impact on the Group's financial position or results of operations.

Accounting pronouncements effective in the future

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 will be effective to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

In February 2008, the FASB released FASB Staff Position ("FSP") FAS No. 157-2, Effective Date of FASB Statement No. 157 ("FAS 157-2"), which delayed the effective date of SFAS No. 157 for all nonfinancial assets and liabilities to fiscal years beginning after November 18, 2008, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Group is currently evaluating the impact of FAS No. 157-2 on the consolidated financial statements, and the adoption of this statement is not expected to have a material effect on the consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, Disclosure about Derivative Instruments and Hedging Activities ("SFAS No. 161"). This statement improves financial reporting about derivative instruments and hedging activities by enhanced disclosures of their effects on entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. The Group does not believe that SFAS No. 161 will have an impact on its financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, the Hierarchy of Generally Accepted Accounting Principles ("SFAS No. 162"), which identifies a consistent framework for selecting the accounting principles to be used in preparing financial statements for nongovernmental entities that are presented in conformity with U.S. GAAP. The current GAAP hierarchy was criticized due to its complexity, ranking position of FASB Statements of Financial Accounting Concepts and the fact that it is directed at auditors rather than entities. SFAS No. 162 will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The FASB does not expect that SFAS No. 162 will change the current practice, and the Group does not believe that SFAS No. 162 will have an impact on its financial position, results of operations or cash flows.

In November 2008, the FASB ratified Emerging Issues Task Force ("EITF") 08-6, Equity Method Investment Accounting Considerations ("EITF No. 08-6"). EITF No. 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments in the context of issuance of FAS141(R), Business Combinations, and Statement 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. EITF No. 08-6 applies to all investments accounted for under the equity method.

Among other things EITF No. 08-6 clarifies initial measurement of equity investments; impairment testing of equity investments; accounting by equity investor for a share issuance by an investee. EITF No. 08-6 is effective in fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. Earlier application is not permitted. The Group will adopt EITF No. 08-6 effective January 1, 2009. The Group does not expect EITF No. 08-6 to have a material impact on the Group's consolidated financial position and results of operations.

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, estimates of recovery rates for the heap leach process, the valuation of inventory, impairment of assets and valuation allowances for deferred tax assets. Actual results could differ from these estimates.

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

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.

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 effect at the balance sheet date.

The following exchange rates were used at the reporting dates:

	December 31, 2008	December 31, 2007
U.S. Dollar	29.38	24.55
Average exchange rate for the year, U.S. Dollars	24.85	25.55

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 difference between the purchase price and the net assets acquired is reflected in shareholders' equity.

Investments in incorporated joint ventures

A joint venture is an entity in which the Group holds a long-term interest and which is jointly controlled by the Group and one or more external joint venture partners under a contractual agreement that provides for strategic, financial and operating policy decisions relating to the activities requiring unanimous consent of the parties sharing control.

Investments in incorporated joint ventures are accounted for using the equity method. The initial investments in these entities are recorded at cost. After the acquisition, the Group's share of profits or losses of incorporated joint ventures is recognized in the income statement as earnings from equity method investees. The carrying amount of investments in incorporated joint ventures is adjusted to recognize all cumulative post-acquisition movements in the equity of the investee.

The carrying value of equity method investments in incorporated joint ventures is evaluated for impairment when conditions indicate that a decline in fair value below the carrying amount is other than temporary, at least annually. When an indicated impairment exists, the carrying value of the Group's investment in those entities is written down to its fair value.

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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.

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 No. 142, Goodwill and Other Intangibles ("SFAS No. 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. In assessing the fair value the management estimates the future cash flows on an discounted basis to be generated by each reporting unit, being the individual mines, smelting and refining operations. If the reporting unit's carrying amount is greater than its fair value, then a second step is performed whereby the portion of the fair value that relates to the reporting unit's goodwill is compared to the carrying value of that goodwill. The 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.

Inventories

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.

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

Write downs for unrealizable inventory are made 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, as at December 31, 2007, was not material as interest rates as at December 31, 2007 approximated market rates and there was no change in the credit rating of the Group in 2007. The Group has no long-term borrowings as at December 31, 2008.

As at December 31, 2008 and 2007, the carrying values of cash and cash equivalents, accounts payable and accrued liabilities, short-term debt, and loans to related parties approximate their fair values because of the short maturities of these instruments.

As at December 31, 2008 and 2007, it is not practicable for the Group to estimate the fair values of all of its investments in affiliates, as quoted market prices are not readily available and, due to nature of the investments, valuations are not being completed or obtained.

Derivatives

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, ("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 purchase and normal sale contracts are contracts which provide for the purchase or sale of something other than a financial instrument or derivative instrument that will be delivered in quantities expected to be used or sold by the reporting entity over a reasonable period in the normal course of business. To qualify for the normal purchase and normal sale exception, it must be probable at inception and throughout the term of the individual contract that the contract will not settle net and will result in physical delivery. The Group's forward sales contracts qualify for this exception. 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 are recognized as a component of inventory to be recognized in cost of sales in the same period as the revenue from the sales of inventory.

Leased property, plant and equipment meeting the 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. Depreciation of capitalized leased assets related to mining is computed using the units-of-production method or over the term of the lease, if shorter.

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

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

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

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

Pension obligations

The Group pays mandatory contributions to the state social funds, including the Pension Fund of the Russian Federation, which are expensed as incurred. For the year ended December 31, 2008 and 2007, the Group contributed U.S. Dollar 14,923 and 14,919, respectively.

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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 the capitalized cost is amortized over the mine life or the useful life of the related asset.

Income taxes

The Group accounts for income taxes using the balance sheet liability method required by SFAS No. 109. Deferred income tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates for periods in which these temporary differences are expected to reverse. Valuation allowances are provided for deferred income tax assets when management believes that it is more likely than not that the assets will not be realized.

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 ("the IIFTS") have commenced examinations of the Group's tax returns for 2006 through 2007. No significant adjustments have been proposed by the IIFTS as at December 31, 2008.

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

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 the consolidated statement of operations net of VAT.

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 award share options to certain employees. The Group applies SFAS No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123(R)"), to its accounting for share based compensation. SFAS No. 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 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 share capital (nominal value) and additional paid-in-capital when the options are exercised.

Comprehensive (loss)/income

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

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

4. RECLASSIFICATIONS

Certain comparative information presented in the consolidated balance sheet as at December 31, 2007 and consolidated statement of operations for the year ended December 31, 2007 has been reclassified in order to achieve comparability with the presentation used in the consolidated balance sheet as at December 31, 2008 and consolidated statement of operations for the year ended December 31, 2008. After considering all relevant quantitative and qualitative information, the Group concluded that these reclassifications are not material to the consolidated financial statements as at and for the year ended December 31, 2007:

	Before reclassifications	After reclassifications	Difference
Consumables and spare parts	73,613[a]	90,466	16,853
Refined metals	29,072[a]	12,219	(16,853)
Interest expense	10,519[b]	12,607	2,088
Capital lease finance costs	2,088[b]	–	(2,088)

[a] In the consolidated financial statements for the year ended December 31, 2007, certain consumables and spare parts were classified as refined metals. In the consolidated financial statements for the year ended December 31, 2008, these amounts were reclassified to consumables and spare parts within Note 5.

[b] In the consolidated statement of operations for the year ended December 31, 2007, capital lease finance costs were presented separately. As the amount of such costs 2008 was insignificant, capital lease finance costs was combined with interest expense in the consolidated statement of operations for the year ended December 31, 2008; the prior period statement was revised to conform with this presentation.

These reclassifications had no impact on profit for the year or shareholders' equity for 2007.

5. INVENTORIES

	December 31, 2008	December 31, 2007
Consumables and spare parts	101,803	90,466
Ore stock piles	47,225	62,106
Work-in-process	48,912	35,566
Dore	81	12,784
Refined metals	3,840	12,219
Other than metal work-in-progress	558	–
Total	**202,419**	**213,141**

During the year ended December 31, 2008, management of the Group identified a balance of ore stockpiles which had a lower content of precious metals. The management determined that the net realizable value of such ore was lower than its cost. Accordingly, the Group wrote down this inventory, in the amount of U.S. Dollar 10,583, to zero at December 31, 2008 (see Note 20). The write-down adjustment relates to the Khabarovsk segment.

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6. VAT RECEIVABLE

	December 31, 2008	December 31, 2007
Short-term VAT receivable	62,718	52,078
Long-term VAT receivable	13,953	10,288
Total	**76,671**	**62,366**

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.

7. DEFERRED TAX

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

	December 31, 2008	December 31, 2007
Deferred tax assets:		
Tax losses carried forward	7,308	2,140
Reclamation and mine closure obligation	5,226	1,359
Property, plant and equipment	3,216	–
Inventories	2,712	–
Accounts payable and accrued liabilities	2,142	1,121
Deferred payments	1,124	1,786
Other current assets	1,678	1,326
Total deferred tax assets	**23,406**	**7,732**
Deferred tax liabilities:		
Property, plant and equipment	(29,458)	(37,628)
Inventories	(6,338)	(11,437)
Total deferred tax liabilities	**(35,796)**	**(49,065)**
Net deferred tax liabilities	**(12,390)**	**(41,333)**
Deferred tax asset, short-term	11,758	3,806
Deferred tax asset, long-term	11,648	3,926
Deferred tax liability, short-term	(6,338)	(11,437)
Deferred tax liability, long-term	(29,458)	(37,628)

Tax losses carried forward represent the amounts, available for offset against future taxable income generated by 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, 2008 and 2007 the aggregate tax losses carried forward were U.S. Dollar 36,542 (Rubles 1,073,629 thousand) and U.S. Dollar 8,917 (Rubles 218,878 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. The impact of this change on the deferred tax liability and income tax expense as at December 31, 2007 was 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.

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

8. OTHER CURRENT ASSETS

	December 31, 2008	December 31, 2007
Taxes receivable	11,941	12,442
Other receivables	4,472	4,111
Other current assets	7,449	1,504
Total	**23,862**	**18,057**

9. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2008	December 31, 2007
Buildings and underground workings	221,742	210,710
Machinery and equipment	141,354	155,607
Transport and other	42,263	52,079
Mineral rights	135,795	159,294
Construction-in-progress	125,653	96,090
Total cost	**666,807**	**673,780**
Less: Accumulated depreciation and depletion	**(182,673)**	**(171,310)**
Net book value	**484,134**	**502,470**

Construction-in-progress is not being amortized as it was not yet put into use as at December 31, 2008 and 2007, respectively. Construction-in-progress consists of long-term deferred exploration expenditures which amounted to U.S. Dollar 52,627 and U.S. Dollar 41,520 at December 31, 2008 and 2007, respectively. The rest of construction-in-progress represents the construction of the production facilities and development of the underground mine at CJSC Serebro Magadana.

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 32,978 and U.S. Dollar 28,467 at December 31, 2008 and 2007, 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 was written off entirely, which has resulted in an impairment loss of U.S. Dollar 6,676 (see Note 25), which relates entirely to the Magadan segment.

At December 31, 2008 there were no property, plant and equipment under the capital lease agreements. At December 31, 2007, capital leases included within property, plant and equipment totalled 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).

At December 31, 2008 no property, plant and equipment was pledged as collateral. 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 14).

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10. GOODWILL

	December 31, 2008	December 31, 2007
Beginning balance	**30,141**	**31,896**
Additions during the current year (Note 28)	–	10,183
Disposals during the current year (Note 29)	(1,792)	–
Reclassification	–	(13,226)
Translation effect	(4,608)	1,288
Total	**23,741**	**30,141**

During the year ended December 31, 2007, the Group 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 CJSC 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. 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. INVESTMENTS IN JOINT VENTURES

Investments in joint ventures as of December 31, 2008 and 2007 consisted of the following:

	December 31, 2008		December 31, 2007	
	Voting power, %	Carrying value	Voting power, %	Carrying value
Asgat Polymetal LLC	50	225	50	269
Joint Venture with Anglogold Ashanti Limited	50	17,899	–	–
Total		**18,124**		**269**

In February 2008, the Company signed an agreement to set up a strategic alliance and a joint venture with AngloGold Ashanti Limited (the "JV"). Within the framework of this agreement each party owns 50% in the JV, to which the Company contributed its shares in CJSC Enisey Mining and Geological Company and Imitzoloto LLC, holding Anenskoye and Aprelovskoye gold mining licenses, respectively, and made a cash contribution of U.S. Dollar 14,298. The JV was set up in order to execute development projects in several territories of the Russian Federation.

Currently, the JV's development projects are at an early stage: the research activities have begun and prepayments are being made to the geological and engineering companies, however the proven and probable reserves have not yet been identified. The Group expects to start production and generate cash flows from precious metals sales in 2011. Until proven and probable reserves has been identified and measured, an uncertainty exists regarding the recoverability of the investment in the JV.

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

The JV holds investments in several companies. As of February 14, 2008 and December 31, 2008 the Company's share of these investments included:

	Ownership interest, %
CJSC Enisey Mining and Geological Company (Note 29)	50
Imitzoloto LLC (Note 29)	50
Amikan LLC	50
AS APK LLC	50
Zoloto Taigi LLC	50

The aggregate financial position and results of operations of these companies as of December 31, 2008 and for the period from February 14, 2008 to December 31, 2008 are as follows:

As of December 31, 2008	
Non-current assets	54,895
Current assets	26,888
Non-current liabilities	(50,763)
Current liabilities	(3,074)
For the period from February 14, 2008 to December 31, 2008	
Net loss	16,786
Group's share in joint venture's net loss	8,393

As at December 31, 2008, there were no indicators of impairment associated with the Group's investment in joint ventures.

12. LONG-TERM LOANS TO RELATED PARTIES

	Interest rate	December 31, 2008	December 31, 2007
Accord-Invest LLC	10.5%	5,260	5,334
Employees	1%	839	785
Other		2,115	–
Total (Note 30)		**8,214**	**6,119**

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

Carrying value of the long-term loans provided to related parties approximate their fair value as interest rates as at December 31, 2008 reflect the market conditions.

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

	Interest rate (actual rate as at December 31, 2008)	December 31, 2008	December 31, 2007
Debt from third parties U.S. Dollar denominated			
VTB	Libor + 5% (6.68%)	100,297	–
UniCredit Bank	Libor + 3.25% (4%)	45,066	–
Current portion of long-term debt (Note 14)		–	152,006
Total U.S. Dollar denominated		**145,363**	**152,006**
Russian Ruble denominated			
Bank of Khanty-Mansiysk	15%	34,491	–
Total Russian Ruble denominated		**34,491**	**–**
Total debt from third parties		**179,854**	**152,006**
Debt from related parties – Russian Ruble denominated			
Nomos-Bank	18%	49,523	–
Other		199	–
Current portion of long-term debt (Note 14)		86,793	–
Total debts from related parties – Russian Ruble denominated (Note 30)		**136,515**	**–**
Total		**316,369**	**152,006**

During 2008 the Group entered into short-term loan agreements with VTB, UniCredit Bank and Bank of Khanty-Mansiysk. Interest for funds drawn under these agreements is payable on a monthly basis.

These agreements contain restrictive conenants, conditions and default provisions. At December 31, 2008, under the most restrictive covenant, 10% of the Group's property cannot be pledged or alienated.

Short-term debt facilities are not collateralized.

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

14. LONG-TERM DEBT

	Interest rate	December 31, 2008	December 31, 2007
Debt from third parties U.S. Dollar denominated			
Sberbank	Libor + 2%	–	98,000
ABN Amro Bank	Libor + 2%	–	50,525
Bank Uralsib	8%	–	44,000
Gazprombank	8%	–	15,200
Total U.S. Dollar denominated		**–**	**207,725**
Russian Ruble denominated			
Gazprombank	8%	–	15,481
Total Russian Ruble denominated		**–**	**15,481**
Total debt from third parties		**–**	**223,206**
Less current portion of long-term debt (Note 13)		–	(152,006)
Total debt from third parties		**–**	**71,200**
Debt from related parties – Russian Ruble denominated			
Nomos-Bank	18%	86,793	–
Total debts from related parties – Russian Ruble denominated		**86,793**	**–**
Less current portion of long-term debt (Note 13)		**(86,793)**	–
Total debt from related parties – Russian Ruble denominated		**–**	**–**
Total		**–**	**71,200**

Nomos-Bank

In November 2008, the Group received a long-term loan facility from Nomos-Bank which allows the Group to borrow funds, denominated in Ruble, up to U.S. Dollar 102,109 (Roubles 3,000,000 thousand as at December 31, 2008) to finance current operations. All amounts drawn down under this long-term facility are repayable within one year. The loan facility is valid until November 2011. Interest is payable on a monthly basis. As at December 31, 2008, the outstanding balance under the credit facility was U.S. Dollar 86,793 (the available undrawn balance was U.S. Dollar 15,316).

The repayment of this long-term facility is guaranteed with a pledge of revenues under the sales contracts with Nomos-Bank (see Note 31). Covenants to the long-term loan facility require the Group to maintain certain financial ratios, prohibit any change to the general nature of the business and limit the disposal of assets. At December 31, 2008, under the most restrictive covenant, 20% of the Group's property cannot be pledged or alienated.

VTB

In May 2008, the Group received a long-term loan facility from VTB which allows the Group to borrow funds, denominated in Rubles, up to U.S. Dollar 25,527 (Rubles 750,000 thousand as at December 31, 2008) to finance its current operations. The loan facility is valid until January 2010. Interest is payable on a monthly basis. As at December 31, 2008, the outstanding balance under the credit facility was nil, the available undrawn balance was U.S. Dollar 25,527.

Covenants to the long-term loan facility require the Group to maintain certain financial ratios, prohibit any change to the general nature of the business and limit the disposal of assets. At December 31, 2008, under the most restrictive covenant, 10% of the Group's property cannot be pledged or alienated.

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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. Interest on amounts drawn was payable monthly, and is based on LIBOR plus 2%, which resulted in rates of 6.4875% as at December 31, 2007. As at December 31, 2007 U.S. Dollar 98,000 was drawn under this facility. In December 2008, this loan facility was fully repaid.

The Group was required to comply with certain financial and non-financial covenants to prevent the closure of the Sberbank credit facility.

Gazprombank

In September 2007, the Group received a long-term facility from Gazprombank which allowed the Group to borrow funds, denominated in either U.S. Dollars or Rubles, up to U.S. Dollar 62,969 (using exchange rates as at December 31, 2008) to finance its current operations. The credit facility was valid through December 2008. As at December 31, 2007 U.S. Dollar 15,200 was drawn under this facility. Interest for funds drawn under this facility was payable on a monthly basis at a fixed rate of 8%. In December 2008, this loan facility was fully repaid.

Covenants related to the long-term facility required the Group to maintain certain financial ratios, prohibited any change to the general nature of the business and limited the disposal of assets.

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 was repayable in monthly installments commencing in June 2007 up to the last installment in December 2008. Interest was payable monthly, and is based on LIBOR plus 2%, which resulted in rates of 6.4875% as at December 31, 2007. Under the loan agreement with ABN Amro, the Group was required to comply with certain financial and non-financial covenants.

The loan agreement restricted 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 restricted 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. In 2008 the loan facility from ABN Amro was fully repaid.

Bank Uralsib

In June 2007, the Group received a long-term facility from Bank Uralsib which allowed the Group to borrow up to U.S. Dollar 60,000 to finance its current operations. The credit facility was valid until July 2008. Interest was payable on a monthly basis. Covenants to the loan agreements required the Group to maintain certain financial ratios, prohibit any change to the general nature of the business and limit the disposal of assets. In 2008 the loan facility from Bank Uralsib was fully repaid.

As at December 31, 2008, the total balance available for drawing down under existing loan facilities is U.S. Dollar 40,843.

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

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	JSC Omolon Gold Mining Company	Total
Balance as at December 31, 2006	**1,495**	**2,272**	**3,463**	**–**	**7,230**
Accretion of reclamation and mine closure obligation	57	157	65	–	**279**
Translation effects	108	167	251	–	**526**
Balance as at December 31, 2007	**1,660**	**2,596**	**3,779**	**–**	**8,035**
Additional obligations recognized from business combinations occuring during the year (Note 28)	–	–	–	9,582	**9,582**
Revision of estimated future cash flows	2,667	3,070	4,493	–	**10,230**
Accretion of reclamation and mine closure obligation	64	174	74	1,045	**1,357**
Translation effects	(283)	(454)	(634)	(1,705)	**(3,076)**
Balance as at December 31, 2008	**4,108**	**5,386**	**7,712**	**8,922**	**26,128**

During 2008 the Group reassessed the amount of reclamation and mine closure obligation due to changes in the future cash flows and the inflation rates. As a result, the additional reclamation and mine closure obligation raised, which was presented as a change in estimate.

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, 2008 comprised of an upfront payment received from Deutsche Bank Trust Company Americas. This payment was made to the Company in 2007 in exchange for the Company selecting Deutsche Bank Trust Company Americas (the "Bank") as its executive depositary bank for a GDR program on the London Stock Exchange. According to the terms of depositary agreement, the Bank is required to 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 an element of this as compensation.

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17. SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

As at December 31, 2008 and 2007, 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, 2008 and 2007, the issued share capital of the Company comprised of 315,000,000 ordinary shares with a par value of Ruble 0.2 per share. As at December 31, 2008 and 2007, the outstanding share capital of the Company comprised of 315,000,000 and 309,459,677 ordinary shares with a par value of Ruble 0.2 per share, respectively. 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 proceeds from issuance of such shares were U.S. Dollar 307,844 in cash, which were 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 28). In February and August 2008, options to purchase all these ordinary shares were exercised by the employees in accordance with share option plan (see Note 18).

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 the 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 rules.

The Company had potentially dilutive securities, namely the Group's share option plan, which was established during 2007 (see Note 18). As the Company generated a net loss for each of the years ended December 31, 2008 and 2007, the stock options were anti-dilutive and therefore excluded from the calculation of diluted loss per share. Accordingly, basic and diluted loss per share were equal for the years ended December 31, 2008 and 2007.

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 was entitled to was determined by the Board of Directors on March 1, 2007. The options vested over a three year period from the grant date, contingent on continued employment with the Group.

In accordance with the Option Plan among other conditions the qualifying participant has the right to early redemption and acquisition of all shares due to change in the Group's controlling shareholders' structure. As a result of such change (see Note 1) all the share options fully vested in June 2008.

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	5,540,323	0.04	6.97	38,848
Exercised	–	–	–	–
Forfeited	–	–	–	–
Outstanding at December 31, 2007	**5,540,323**	**0.04**	**6.97**	**38,848**
Exercised	(5,540,323)	0.04	6.97	(38,848)
Forfeited	–	–	–	–
Outstanding at December 31, 2008	–	–	–	–

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

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 was 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 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.
- *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 estimated the 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, 2008, share based compensation in the amount of U.S. Dollar 31,902 (for the year ended December 31, 2007 — U.S. Dollar 10,584) was recognized in general, administrative and selling expenses. As at December 31, 2008, the Group had no unrecognized share based compensation.

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19. REVENUES

	Year ended December 31, 2008	Year ended December 31, 2007
Sales to third parties		
Sberbank	235,906	115,510
VTB	115,399	–
ABN Amro Bank	108,970	104,079
Gazprombank	26,603	60,674
Uralsib	12,167	25,644
Total sales to third parties	**499,045**	**305,907**
Other	3,686	2,840
Total	**502,731**	**308,747**

Revenue from Sberbank was included in revenue of the North Ural segment — U.S. Dollar 67,610; the Khabarovsk segment — U.S. Dollar 84,550; and the Magadan segment — U.S. Dollar 83,746.

Revenue from VTB was included in revenue of the North Ural segment — U.S. Dollar 32,714; the Khabarovsk segment — U.S. Dollar 27,514; and the Magadan segment — U.S. Dollar 55,171.

Revenue from ABN Amro Bank was entirely included in revenue of the Magadan Segment.

Revenues analyzed by geographical regions are presented below:

	Year ended December 31, 2008	Year ended December 31, 2008
Sales within Russian Federation	393,761	204,668
Sales to Europe	108,970	104,079
Total	**502,731**	**308,747**

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

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

	Year ended December 31, 2008			Year ended December 31, 2007		
	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	280	870.73	243,805	235	700.52	164,622
Silver	17,386	14.68	255,240	16,152	8.75	141,285
Total			**499,045**			**305,907**

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.

Discounts from the LBMA market prices on other sales to banks for the year ended December 31, 2008, amounted to U.S. Dollar 323 (2007: U.S. Dollar 722) for gold and U.S. Dollar 2,073 (2007: U.S. Dollar 1,752) for silver sales. Sales are recorded in the financial statements net of discounts.

20. COST OF SALES

	Year ended December 31, 2008	Year ended December 31, 2007
Cash operating costs		
On-mine costs (Note 21)	102,364	85,920
Smelting costs (Note 22)	112,892	108,634
Purchase of metal from a third party	–	20,499
Mining tax	30,024	18,332
Other costs	2,639	4,891
Total cash operating costs	**247,919**	**238,276**
Depreciation and depletion of operating assets (Note 23)	46,621	55,266
Accretion of reclamation and mine closure obligation	1,357	531
Total costs of production	**295,897**	**294,073**
Increase in metal inventory	(10,648)	(46,503)
Effect of change in accounting estimates	2,616	7,068
Write-down of ore to lower of cost or market (Note 5)	10,583	–
Total change in metal inventory	**2,551**	**(39,435)**
Cost of other sales	2,281	–
Total	**300,729**	**254,638**

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 2008 and 2007 the Group determined that the estimated recovery rates for the heap leach process at the 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 in estimate, an amount of U.S. Dollar 2,616 (2007: U.S. Dollar 7,068) was charged to costs of sales.

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21. ON-MINE COSTS

	Year ended December 31, 2008	Year ended December 31, 2007
Consumables and spare parts	47,962	42,976
Labour	23,411	22,202
Services	21,850	15,013
Taxes, other than income	5,544	3,704
Other expenses	3,597	2,025
Total (Note 20)	**102,364**	**85,920**

22. SMELTING COSTS

	Year ended December 31, 2008	Year ended December 31, 2007
Consumables and spare parts	49,902	49,583
Labour	23,450	24,273
Services	33,653	29,062
Taxes, other than income	5,550	4,796
Other expenses	337	920
Total (Note 20)	**112,892**	**108,634**

23. DEPRECIATION AND DEPLETION OF OPERATING ASSETS

	Year ended December 31, 2008	Year ended December 31, 2007
Mining	26,705	30,917
Smelting	19,916	24,349
Total (Note 20)	**46,621**	**55,266**

24. GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

	Year ended December 31, 2008	Year ended December 31, 2007
Labour	31,991	16,675
Share based compensation (Note 18)	31,902	10,584
Services	17,270	11,147
Other	8,979	3,869
Total	**90,142**	**42,275**

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

25. OTHER OPERATING EXPENSES

	Year ended December 31, 2008	Year ended December 31, 2007
Exploration expenses	11,123	1,973
Social payments	7,723	4,407
Taxes, other than income	6,151	4,367
Loss on fixed asset disposals	4,624	343
Consulting services	1,984	6,137
Impairment of property, plant and equipment (Note 9)	–	6,676
Other expenses	4,626	3,520
Total	**36,231**	**27,423**

26. INCOME TAX

	Year ended December 31, 2008	Year ended December 31, 2007
Current income taxes	29,865	12,442
Deferred income taxes	(11,254)	(6,379)
Total	**18,611**	**6,063**

A reconciliation between the reported amount of income tax expense attributable to income/(loss) before income tax and extraordinary gain that would result from applying the statutory income tax rate for the years ended December 31, 2008 and 2007 is as follows:

	Year ended December 31, 2008	Year ended December 31, 2007
Income/(loss) before income tax and extraordinary gain	**2,041**	**(16,763)**
Statutory income tax expense/(benefit) at tax rate of 24 percent	408	(4,023)
Effect of change in tax rate	(2,455)	–
Share based compensation	7,656	2,540
Permanent loss from investment in joint ventures	398	–
Permanent tax differences (non-deductible expenses)	12,604	7,546
Total income tax expense	**18,611**	**6,063**

The actual tax expense differs from the amount which would have been determined by applying the statutory rate of 24% (2007: 24%) to the income/(loss) from operations before tax and extraordinary gain as a result of the application of relevent jurisdictional tax regulations, which disallow certain deductions which are included in the determination of accounting profit. These deductions include share-based compensation, social related expenditures and other non-production costs, certain general, administrative, financing, foreign exchange related and other costs.

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In November 2008, the government of the Russian Federation enacted a law decreasing the statutory tax rate from 24% to 20% effective from January 1, 2009. These changes in tax rates resulted in a reduction in the net deferred income tax liability in the amount of U.S. Dollar 2,455 as at December 31, 2008.

As at December 31, 2008, the Group included accruals for unrecognized income tax benefits of U.S. Dollar 2,301. The reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	December 31, 2008	December 31, 2007
Beginning balance	**1,839**	**411**
Translation (gain)/loss	(303)	30
Additions based on tax position related to the current year	765	1,398
Total	**2,301**	**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, 2008 and 2007, U.S. Dollar 362 and 91, respectively, were included in the liability for uncertain tax positions for the probable payment of interest and penalties.

The items that are affected by expiring statute of limitations within the next 12 months amount to U.S. Dollar 411 (2007: nil).

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27. SEGMENTS

The Group has three reportable segments:

- North Ural region (CJSC Zoloto Severnogo Urala);
- Khabarovsk region (JSC Ohotskaya GGK); and
- Magadan region (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 are not included within any of the aforementioned operating segments, are included within Corporate and other.

Segment results comprise 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.

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

As of and for the year ended December 31, 2008	North Ural	Khabarovsk	Magadan	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue	113,466	118,372	274,035	**505,873**	135,224	(138,366)	**502,731**
Cost of sales	(61,760)	(86,681)	(161,432)	**(309,873)**	(141,791)	150,935	**(300,729)**
Gross profit	51,706	31,691	112,603	**196,000**	(6,567)	12,569	**202,002**
General, administrative and selling expenses							**(90,142)**
Other operating expenses							**(36,231)**
Interest expense							**(20,675)**
Loss from investments in joint ventures							**(8,393)**
Exchange loss							**(44,520)**
Total income before income tax and extraordinary gain							**2,041**
Segment assets:							
Property, plant and equipment, net	87,223	119,225	189,038	**395,486**	88,648	–	**484,134**
Accounts receivable, inventories, prepayment to suppliers and VAT receivables	64,655	79,850	106,403	**250,908**	59,893	(19,884)	**290,917**
Goodwill	–	13,863	8,508	**22,371**	1,370	–	**23,741**
Total segment assets	151,878	212,938	303,949	**668,765**	149,911	(19,884)	**798,792**
Unallocated assets:							
Cash and cash equivalents							**4,077**
Other assets							**73,606**
Total assets							**876,475**

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for the years ended December 31, 2008 and 2007 (continued)
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As of and for the year ended December 31, 2007	North Ural	Khabarovsk	Magadan	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue	80,661	77,947	150,430	**309,038**	112,261	(112,552)	**308,747**
Cost of sales	(66,892)	(61,320)	(146,955)	**(275,167)**	(102,633)	123,162	**(254,638)**
Gross profit	13,769	16,627	3,475	**33,871**	9,628	10,610	**54,109**
General, administrative and selling expenses							**(42,275)**
Other operating expenses							**(27,423)**
Interest expense							**(12,607)**
Exchange gain							**11,433**
Total loss before income tax and extraordinary gain							**(16,763)**
Segment assets:							
Property, plant and equipment, net	96,269	145,229	190,265	**431,763**	70,707	–	**502,470**
Accounts receivable, inventories, prepayment to suppliers and VAT receivables	64,259	74,233	133,666	**272,158**	138,424	(122,534)	**288,048**
Goodwill	–	16,592	10,183	**26,775**	3,366	–	**30,141**
Total segment assets	160,528	236,054	334,114	**730,696**	212,497	(122,534)	**820,659**
Unallocated assets:							
Cash and cash equivalents							**5,019**
Other assets							**32,176**
Total assets							**857,854**

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

28. 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 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, based upon 2007 actual silver prices, amounting to U.S. Dollar 2,250 was paid in 2008.

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. Goodwill arose in the business combination because the consideration paid effectively included amounts in relation to the benefits of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

JSC Omolon Gold Mining Company

In January 2008, the Group acquired 98.1% of shares in JSC Omolon Gold Mining Company (the "OGMC") from Kinam Magadan Gold Corporation, an unrelated party. OGMC holds four subsoil licenses related to the Kubaka gold mine deposit located in the Magadan region. The Group paid cash consideration of U.S. Dollar 15,000, including payment for shares of U.S. Dollar 0.001 in cash and settlement of the OGMC's liabilities of U.S. Dollar 15,000. In addition, the Group is liable for perpetual deferred payments in the amount of 2% of the revenue derived from production and sales minerals extracted from the deposit. The perpetual deferred payments are uncapped in respect of the size and the timing of such future gold production, sale or other disposal. At the time of the acquisition, the Group recognized an estimated contingent consideration of U.S. Dollar 5,459 (U.S. Dollar 4,523 at the exchange rate as at December 31, 2008).

In March 2008, the Group acquired the remaining 1.9% of shares in JSC Omolon Gold Mining Company from the Russian Federal Property Fund for U.S. Dollar 811.

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This acquisition was accounted for using the purchase method and was as follows:

Assets acquired and liabilities assumed at the date of acquisition	
Deferred tax asset	17,461
Other current assets	16,146
Reclamation and mine closure obligation (Note 15)	(9,582)
Deferred tax liability	(1,875)
Other liabilities	(15,040)
Net assets acquired	**7,110**
Cash paid on acquisition	15,811
Contingent consideration	5,459
Intercompany debt	(15,000)
Extraordinary gain – excess of fair value of acquired net assets over cost	**840**

Excess of fair value of acquired net assets over cost of U.S. Dollar 840 arose primarily due to the Company's competitive position in negotiations due to the time restriction in the sales process and lack of the ability of the Kinam Magadan Gold Corporation to serve its debts.

Other acquisitions

In August 2008, the Group acquired 100% of shares in Ural Exploration Enterprise LLC (a development stage enterprise), which holds a license for gold exploration and mining in Degtyarnoe field, from Russian Copper Company, an unrelated party, for U.S. Dollar 6,203. Amounts of mineral rights and attributable deferred tax liabilities acquired amounted to U.S. Dollar 7,989 and U.S. Dollar 1,834, respectively. The residual amount of U.S. Dollar 48 represents other current assets and liabilities.

In September 2007, the Group acquired 100% of Polymetal ESOP Limited, which held 5,540,323 of the Company's shares, from its parent company Nafta Moskva (Cyprus) Limited (see Note 1). 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 a business. These treasury shares were used for distribution among the share option plan participants (see Notes 17 and 18).

During 2007 the Group acquired 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.

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.

29. DISPOSAL OF SUBSIDIARIES

In February 2008, the Group contributed 100% of the shares in CJSC Enisey Mining and Geological Company and Imitzoloto LLC, holding Anenskoye and Aprelovskoye gold mining licenses, respectively, to form the joint venture with AngloGold Ashanti Limited (see Note 11).

The book value of the net assets disposed was as follows:

Assets and liabilities disposed of as at the date of disposal	
Goodwill	1,792
Property, plant and equipment	4,820
Cash and cash equivalents	13,448
Deferred tax liability	(1,113)
Other liabilities	(2,017)
Net assets disposed of	**16,930**

In December 2008 the Group sold 100% in CJSC North-Ural Mining Company for U.S. Dollar 55 to an unrelated party. CJSC North-Ural Mining Company did not perform any operations during 2008 and 2007. The amount of net liabilities at the date of disposal comprised U.S. Dollar 264.

30. 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 transactions with related parties.

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

As at December 31, 2008 and 2007 the amount of outstanding short-term loans provided to related parties comprised U.S. Dollar 334 and U.S. Dollar 126, respectively.

As at December, 2008 and 2007 the amount of outstanding long-term loans provided to related parties comprised U.S. Dollar 8,214 and U.S. Dollar 6,119 respectively (see Note 12). The amount of interest income in 2008 and 2007 amounted to U.S. Dollar 844 and U.S. Dollar 466, respectively.

As at December 31, 2008 the amount of short-term loan provided by related parties comprised U.S. Dollar 136,515 (see Note 13). The amount of interest expense on loans from related parties in 2008 was U.S. Dollar 1,398.

31. 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 for the period up to 2004, CJSC Zoloto Severnogo Urala for the period up to 2005, and CJSC Serebro Magadana for the period up to 2007. 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, 2008 management estimates such contingencies related to taxes other than income tax to be up to approximately U.S. Dollar 7,395. The Group believes the estimated losses related to these contingencies are not probable and, as such, have not been accrued for as at December 31, 2008.

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

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Political environment

The operations and earnings of the Group are affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection. Because of the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. The nature and frequency of these developments and events associated with these risks, which generally are not covered by insurance, as well as their effect on future operations and earnings, are not predictable.

Forward sales commitments

In connection with the General Framework Credit Line Agreement dated November 2008 entered into between Nomos-Bank and the Company's subsidiaries, CJSC Zoloto Severnogo Urala, CJSC Serebro Magadana and JSC Okhotskaya GGC are required to sell 3,650,000 gram of gold and 120,000,000 gram of silver during 2009; 3,500,000 gram of gold and 60,000,000 gram of silver during 2010; and 3,500,000 gram of gold and 60,000,000 gram of silver during 2011 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, financial position or cash flows of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Insurance policies

The Russian insurance market is in the development stage and some forms of insurance protection common in other parts of the world are not yet generally available in the Russian Federation.

The Group has entered into insurance contracts to insure property, plant and equipment, and land transport and purchased accident, health and medical insurance for employees. Furthermore, the Group has purchased civil liability coverage for operating entities with dangerous production units.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes there are no significant liabilities for environmental damage.

32. SUBSEQUENT EVENTS

In January 2009, the Group acquired 10.4% of shares of JSC Artel of prospectors Ayax ("Ayax") from Ovoca Gold Plc, an unrelated party. Ayax holds an exploration and mining license for Goltsovoye silver deposit located in the Magadan region of Russia. The Group paid a total cash consideration of U.S. Dollar 11,697 which included U.S. Dollar 3,043 in cash and settlement of the Ayax's liabilities of U.S. Dollar 8,654. In December 2008, the Group and Verda Financial Ltd. (Seychelles) ("Verda") signed a letter of intent under which the Group will transfer to Verda 7,500,000 of its ordinary shares in exchange for 89.6% of the shares of Ayax which Verda was in process of acquiring. In January 2009, Verda acquired the remaining 89.6% of shares of Ayax. The Group's obligation is secured by a cash deposit of U.S. Dollar 10,000.

In January 2009, the Group signed a long-term loan facility agreement with Gazprombank which allows the Group to borrow up to U.S. Dollar 70,000 to finance its current operations, contract financing, including replenishment of working capital. The facility bears interest of 13% per annum and is payable monthly.

In February 2009, the tax authorities performed an audit of activities of CJSC Serebro Magadana in 2007. As a result of the audit the Group was assessed U.S. Dollar 19,515 of additional income and mining taxes and respective penalties. The management believes that the risk that the Group can't sustain its position in full at court is not probable.

In March 2009, the Extraordinary General Meeting of Shareholders of the Company approved the issuance and placement of 30,000,000 new shares of the Company in the form of a closed subscription.

In March 2009, the Group entered into a Memorandum of Understanding with a group of Russian companies, an unrelated parties, under which the Group commited to acquiring 100% stake of Rudnik Kvartsevyi LLC ("RK") for the total consideration of 10,000,000 of the Company's ordinary shares. RK owns the mining license to the Sopka Kvartsevaya gold-silver deposit and a 100% stake in Vneshstroygroup LLC, owning the mining license to the Dalniy gold-silver deposit, which are located in the Severo-Evensky district of Magadan region of Russia. In addition to the license areas, RK owns a substantial mining fleet as well as infrastructure at the Sopka mine site.

In March 2009, the Group signed a long-term loan facility agreement with Nomos-Bank which allows the Group to borrow up to U.S. Dollar 50,870 (Roubles 1,700,000 thousand as at March 31, 2009) to finance its current operations, contract financing, including replenishment of working capital. The facility bears interest of 18.5% per annum, which is payable monthly.

Appendix 1

LIST OF SUBSOIL LICENSES (as at April, 1 2009)

№	License	Licensed Object	Status and Area	License Holder	License's Period of Validity	
					Registration Date	Expiration Date
1. Exploration and Mining, Mining operations						
1	SVE 00696 BR	Geological survey and open pit development of the Voro gold deposit	Mining allotment 3.2 km^2 Revised mining allotment 2.55 km^2	Gold of Northern Urals	17.09.1998	31.12.2018
2	MAG 03211 BE	Mining gold, silver and associated metals from the Dukat gold and silver deposit	Mining allotment 11.4 km^2	Magadan Silver	05.12.2000	31.12.2017
3	MAG 14476 BR	Geological survey of the subsoil and mining of gold and silver from the Lunnoye gold and silver deposit and its flanks	Revised mining allotment 5.76 km^2	Magadan Silver	22.05.2008	31.12.2016
4	MAG 04150 BR	Geological survey of the subsoil and mining of gold and silver from the Arylakh gold and silver deposit and its flanks	Mining allotment 48 km^2	Magadan Silver	21.04.2008	31.12.2016
5	KHAB 01160 BE	Geological survey and industrial development of the Khakanja gold and silver deposit	Revised mining allotment 18.7 hectares	Okhotskaya Mining and Exploration Company	06.10.1998	31.12.2014
6	KHAB 01161 BE	Geological survey and industrial development of the Yurievskoye gold and silver deposit	Mining allotment 1.45 km^2	Okhotskaya Mining and Exploration Company	06.10.1998	31.12.2014
2. Exploration and Mining, Projects Under Construction						
7	SVE 01865 BR	Geological survey, exploration and mining of gold and silver from drilled metal occurrences at the Degtyarskoye deposit	Mining allotment 2.35 km^2	Ural Exploration	15.12.2004	30.11.2029
8	KHAB 01966 BR	Geological survey and mining of gold ore at the Albazino area	Mining allotment 82 km^2	Albazino Resources	02.03.2006	01.01.2015
9	MAG 03075 BR	Survey, exploration and exploitation of the gold and silver deposit within the limits of the Birkachan and Avlandin prospective areas	Mining allotment 21.2 km^2	Omolon Gold Mining Company	27.06.2000	31.12.2012
10	MAG 10141 BE	Mining of gold and silver at the Kubaka deposit, geological survey of the subsoil and mining gold and silver at the Evenskoye deposit	Mining allotment 8.9 km^2 Revised mining allotment 54.2 hectares	Omolon Gold Mining Company	02.08.1993	31.12.2011
11	MAG 03516 BE	Mining silver from the Goltsovoye ore deposit	Mining allotment 5.76 km^2	Prospectors Artel «Ayax»	27.09.2002	31.12.2012
3. Geological Surveying, Exploration and Mining						
12	SVE 13533 BR	Geological survey, exploration and mining of gold ore at the Katasma area	Mining allotment 28.2 km^2	Gold of Northern Urals	17.03.2006	01.03.2031
13	SVE 02394 BR	Geological survey, exploration and mining of gold ore at the Tamunerskii area	Mining allotment 21 km^2	Gold of Northern Urals	11.09.2007	01.10.2032
14	SVE 02417 BR	Geological survey and mining of gold within the limits of the Reftinskaya zone, including the Fevralskoye and Ikryanskoye deposits	Mining allotment 0.59 km^2	Aurum	19.10.2007	16.09.2018
15	MAG 13850 BR	Geological survey, exploration and mining of gold and silver at the Dukat ore field	Mining allotment 40.6 km^2	Magadan Silver	29.11.2006	30.11.2031

№	License	Licensed Object	Status and Area	License Holder	License's Period of Validity	
					Registration Date	Expiration Date
16	MAG 04116 BR	Geological survey, exploration and mining of gold and silver ore at the Rogovik prospective area	Geological allotment 397 km^2	Magadan Silver	11.03.2008	17.02.2033
17	MAG 03819 BR	Geological survey of the subsoil, exploration and mining of hard rock gold and silver at the Oroch perspective area	Mining allotment 150 km^2	Omolon Gold Mining Company	22.08.2005	31.12.2030
18	KHAB 02093 BR	Geological survey, exploration and mining of gold and silver at the Khakari area	Mining allotment 64 km^2	Okhotskaya Mining and Exploration Company	23.07.2008	31.12.2025
19	KHAB 14040 BR	Geological survey, exploration and mining of gold and silver ore at the Arkinsko-Selemdjinskaya area	Mining allotment 1580 km^2	Okhotskaya Mining and Exploration Company	27.04.2007	20.04.2032
20	KHAB 14041 BR	Geological survey, exploration and mining of gold and silver ore at the Amkinskaya area	Mining allotment 86 km^2	Okhotskaya Mining and Exploration Company	27.04.2007	20.04.2032
21	KHAB 14054 BR	Geological survey, exploration and mining of gold and silver ore at the Yuzno-Urakskaya area	Mining allotment 834 km^2	Okhotskaya Mining and Exploration Company	07.05.2007	20.04.2032
22	KHAB 02098 BR	Geological survey and mining of gold ore within the limits of the Agnie-Afanasievskoye ore cluster	Geological allotment 441 km^2	Albazino Resources	20.11.2008	31.12.2033
23	MAG 00000 BR	Geological survey, exploration and mining of gold ore at the Burgaliyskaya area		Omolon Gold Mining Company	Currently pending	
4. Geological Surveying						
24	SVE 02227 BP	Geological surveying (prospecting and evaluation) of gold ore at the Rudnichniy area	Geological allotment 7.9 km^2	Gold of Northern Urals	10.08.2006	31.08.2011
25	SVE 02442 BP	Geological survey of gold ore at the Volchanskii area in the Sverdlovsk Region	Geological allotment 31.5 km^2	Gold of Northern Urals	04.12.2007	31.12.2012
26	SVE 14517 BP	Geological surveying (prospecting and evaluation) of gold ore deposit at the Galka area in the Sverdlovsk Region	Geological allotment 3.5 km^2	Northern Urals Polymetal	03.07.2008	01.12.2010
27	MAG 03894 BP	Geological surveying, prospecting and evaluation of gold and silver ore deposit at the Dukat prospective area	Geological allotment 2,420 km^2	Magadan Silver	25.08.2006	18.07.2011
28	MAG 03893 BP	Geological surveying of gold ore occurrences at Prognoznoye	Geological allotment 49.7 km^2	Omolon Gold Mining Company	17.07.2006	11.07.2011
29	KHAB 02094 BP	Geological surveying of the gold and silver ore within the limits of the Arkinskaya ore area	Geological allotment 135 km^2	Okhotskaya Mining and Exploration Company	23.07.2008	31.03.2011

Appendix 2

MINERAL RESOURCE AND ORE RESERVE STATEMENTS

Mineral Resources and Ore Reserves are quoted as at December, 31 2008 in accordance with the JORC Code, confirmed by SRK Consulting (UK) Limited

Polymetal detailed Ore Reserve Statements

(As at December, 31 2008[1, 2])

Ore Reserves	Tonnage	Grade				Content			
	Kt	Au, g/t	Ag, g/t	Au Eq, g/t	Ag Eq, g/t	Au, Koz	Ag, Koz	Au Eq, Koz	Ag Eq, Koz
Proved									
Dukat[3]	16,284	0.9	410.4	8.5	456.9	451	214,883	4,435	239,220
Lunnoye	451	1.8	298.4	6.8	400.7	25	4,326	99	5,808
Arylakh	1,117	0.8	387.4	7.4	435.9	30	13,910	266	15,649
Voro	17,591	2.8	3.3	2.8	307.6	1,593	1,842	1,610	173,952
Khakanja	2,829	4.6	260.3	7.7	672.0	420	23,667	705	61,108
Yurievskoye	339	11.2	12.7	11.4	686.4	122	138	124	7,479
Subtotal	**38,609**	**2.1**	**208.5**	**5.8**	**405.4**	**2,640**	**258,767**	**7,238**	**503,217**
Probable									
Dukat[3]	7,552	1.0	393.7	8.3	445.6	234	95,574	2,006	108,196
Lunnoye	1,907	1.6	421.6	8.9	517.0	100	25,847	543	31,699
Arylakh	289	0.8	545.5	10.0	590.0	7	5,069	93	5,482
Voro	1,563	2.4	2.9	2.4	361.2	119	144	120	18,154
Khakanja	486	6.3	323.7	9.6	960.5	98	5,063	150	15,023
Yurievskoye	7	7.8	9.5	8.0	481.4	2	2	2	114
Albazino	15,070	4.3	0.0	4.3	193.4	2,095	0	2,095	93,704
Subtotal	**26,875**	**3.1**	**152.4**	**5.8**	**315.2**	**2,655**	**131,700**	**5,009**	**272,372**
Ore Reserves									
Dukat[3]	23,835	0.9	405.1	8.4	453.4	685	310,457	6,441	347,416
Lunnoye	2,358	1.7	398.0	8.5	494.8	126	30,173	642	37,508
Arylakh	1,406	0.8	419.9	8.0	467.5	37	18,979	359	21,132
Voro	19,154	2.8	3.2	2.8	312.0	1,712	1,986	1,730	192,106
Khakanja	3,315	4.9	269.6	8.0	714.3	518	28,731	855	76,131
Yurievskoye	346	11.1	12.6	11.3	682.0	123	140	126	7,593
Albazino	15,070	4.3	0.0	4.3	193.4	2,095	0	2,095	93,704
Total	**65,484**	**2.5**	**185.5**	**5.8**	**368.4**	**5,296**	**390,467**	**12,247**	**775,589**

Notes:
[1] Unless otherwise stated all Ore Reserves are quoted on an equity attributable basis assuming 100% ownership as at 31 December 2008.
[2] All references to Ore Reserves are stated in accordance with the JORC Code.
[3] Includes Nachalnoye-2 Ore Reserves.

Polymetal detailed Mineral Resource Statements

(As at December, 31 2008[1, 2, 3])

Mineral Resources	Tonnage	Grade				Content			
	Kt	Au, g/t	Ag, g/t	Au Eq, g/t	Ag Eq, g/t	Au, Koz	Ag, Koz	Au Eq, Koz	Ag Eq, Koz
Measured									
Dukat[4]	13,260	1.1	549.5	11.8	604.2	455	234,251	5,023	257,567
Lunnoye	670	2.0	282.4	7.0	390.7	42	6,079	151	8,409
Arylakh	1,477	0.8	396.1	7.9	440.0	37	18,809	375	20,897
Voro	20,069	2.8	4.0	2.9	294.2	1,815	2,608	1,840	189,847
Khakanja	3,100	4.6	263.5	8.0	655.3	458	26,257	796	65,301
Yurievskoye	459	11.2	13.6	11.4	654.0	165	201	168	9,649
Albazino	7,090	5.5	0.0	5.5	248.0	1,264	0	1,264	56,535
Subtotal	**46,124**	**2.9**	**194.3**	**6.5**	**410.1**	**4,236**	**288,204**	**9,616**	**608,206**
Indicated									
Dukat[4]	6,661	1.1	503.8	10.9	561.4	241	107,883	2,345	120,234
Lunnoye	3,737	1.6	325.9	7.5	414.1	191	39,154	896	49,750
Arylakh	882	0.6	381.5	7.4	413.6	16	10,816	211	11,724
Voro	2,456	2.3	4.0	2.4	312.0	183	312	186	24,640
Khakanja	998	4.5	234.8	7.0	679.9	146	7,537	226	21,821
Yurievskoye	92	9.3	12.2	9.5	548.1	28	36	28	1,628
Albazino	7,380	3.9	0.0	3.9	176.3	935	0	935	41,820
Galka	4,255	1.4	43.7	3.9	235.6	196	5,975	537	32,235
Birkachan	15,542	2.1	10.9	2.2	211.1	1,052	5,422	1,109	105,475
Perevalnoye	1,096	0.0	375.3	4.8	537.9	0	13,229	169	18,959
Oroch	1,365	3.3	143.2	4.8	450.7	143	6,284	209	19,780
Subtotal	**44,465**	**2.2**	**137.6**	**4.8**	**313.4**	**3,130**	**196,649**	**6,850**	**448,068**
Measured + Indicated									
Dukat[4]	19,921	1.1	534.2	11.5	589.9	696	342,134	7,368	377,801
Lunnoye	4,406	1.6	319.3	7.4	410.5	233	45,234	1,047	58,160
Arylakh	2,359	0.7	390.6	7.7	430.1	54	29,624	585	32,622
Voro	22,525	2.8	4.0	2.8	296.2	1,998	2,920	2,026	214,487
Khakanja	4,098	4.6	256.5	7.8	661.3	604	33,793	1,021	87,122
Yurievskoye	551	10.8	13.4	11.1	636.3	192	237	196	11,277
Albazino	14,470	4.7	0.0	4.7	211.4	2,199	0	2,199	98,355
Galka	4,255	1.4	43.7	3.9	235.6	196	5,975	537	32,235
Birkachan	15,542	2.1	10.9	2.2	211.1	1,052	5,422	1,109	105,475
Perevalnoye	1,096	0.0	375.3	4.8	537.9	0	13,229	169	18,959
Oroch	1,365	3.3	143.2	4.8	450.7	143	6,284	209	19,780
Total	**90,589**	**2.5**	**166.5**	**5.7**	**362.7**	**7,366**	**484,853**	**16,467**	**1,056,274**
Inferred									
Dukat[4]	31	0.5	324.7	6.9	352.1	1	327	7	354
Lunnoye	2,089	1.0	365.0	7.6	421.4	68	24,513	510	28,296
Arylakh	143	0.9	367.5	7.5	414.9	4	1,690	34	1,908
Voro	226	2.3	4.6	2.3	319.2	17	33	17	2,315
Khakanja	358	2.0	116.4	3.2	316.7	23	1,341	37	3,648
Yurievskoye	19	17.6	16.3	17.9	1026.2	11	10	11	615
Albazino	520	3.5	0.0	3.5	155.2	58	0	58	2,594
Galka	9,982	1.2	29.4	3.3	195.0	394	9,447	1,043	62,587
Birkachan	1,966	5.2	19.1	5.4	510.6	327	1,206	339	32,279
Perevalnoye	78	0.0	205.9	4.1	453.3	0	513	10	1,130
Oroch	561	3.3	224.9	5.6	532.4	59	4,056	101	9,603
Subtotal	**15,973**	**1.9**	**84.0**	**4.2**	**283.0**	**960**	**43,136**	**2,167**	**145,329**
Mineral Resources									
Dukat[4]	19,952	1.1	533.9	11.5	589.5	696	342,461	7,375	378,155
Lunnoye	6,495	1.4	334.0	7.5	414.0	301	69,746	1,557	86,455
Arylakh	2,502	0.7	389.3	7.7	429.3	58	31,315	620	34,530
Voro	22,751	2.8	4.0	2.8	296.4	2,015	2,954	2,043	216,802
Khakanja	4,456	4.4	245.2	7.4	633.6	627	35,134	1,058	90,771
Yurievskoye	570	11.1	13.5	11.3	649.0	203	247	207	11,892
Albazino	14,990	4.7	0.0	4.7	209.5	2,257	0	2,257	100,949
Galka	14,237	1.3	33.7	3.5	207.2	590	15,422	1,580	94,822
Birkachan	17,508	2.4	11.8	2.6	244.7	1,378	6,629	1,448	137,754
Perevalnoye	1,174	0.0	364.1	4.8	532.3	0	13,742	180	20,089
Oroch	1,926	3.3	167.0	5.0	474.5	201	10,341	310	29,383
Total	**106,561**	**2.4**	**154.1**	**5.4**	**350.7**	**8,326**	**527,990**	**18,634**	**1,201,604**

Notes:

[1] Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce Ore Reserves.

[2] Unless otherwise stated all Mineral Resources are quoted on an equity attributable basis assuming 100% ownership as at 31 December 2008.

[3] All references to Mineral Resources are stated in accordance with the JORC Code.

[4] Includes Nachalnoye-2 Mineral Resources.

Appendix 3

INTERESTED PARTY TRANSACTIONS

Interested party transactions approved by the Company's Board of Directors:

1. *Parties to the transaction, beneficiary (beneficiaries) of the transaction*
POLYHOLDING LIMITED — seller
Polymetal — buyer
Subject of transaction: **additional contribution to the charter capital of POLYHOLDING LIMITED, the sole shareholder of which is Polymetal, via a buy-sell agreement for 2 (two) shares of POLYHOLDING LIMITED**
Transaction cost: **US$8,312,000 (eight million, three hundred twenty thousand)**
Date of transaction: **06.02.2008**
Evidence of the transaction's approval by an authorized body of the corporation (name of the authorized body and date of decision): **the transaction was approved by Polymetal's Board of Directors on February 4, 2008 (Protocol #1/2008 of 04.02.2008)**

2. *Parties to the transaction, beneficiary (beneficiaries) of the transaction:*
Polymetal
Polymetal Trading — beneficiary
Subject of transaction: additional contribution to the charter capital of Polymetal Trading.
Transaction cost: **203,000,000 (two hundred three million) rubles**
Date of transaction: **05.03.2008**
Evidence of the transaction's approval by an authorized body of the corporation (name of the authorized body and date of decision): **the transaction was approved by Polymetal's Board of Directors on March 5, 2008 (Protocol #2/2008 of 05.03.2008).**

3. *Parties to the transaction, beneficiary (beneficiaries) of the transaction:*
Polymetal
Polymetal Trading — beneficiary
Subject of transaction: **additional contribution to the charter capital of Polymetal Trading**
Transaction cost: **11,000,000 (eleven million) rubles**
Date of transaction: **05.03.2008**
Evidence of the transaction's approval by an authorized body of the corporation (name of the authorized body and date of decision): **the transaction was approved by Polymetal's Board of Directors on March 5, 2008 (Protocol #2/2008 of 05.03.2008)**

4. *Parties to the transaction, beneficiary (beneficiaries) of the transaction:*
POLYHOLDING LIMITED — seller
Polymetal — buyer
Subject of transaction: **additional contribution to the charter capital of POLYHOLDING LIMITED, the sole shareholder of which is Polymetal, via a buy-sell agreement for 2 (two) shares of POLYHOLDING LIMITED**
Transaction cost: **US$8,312,000 (eight million, three hundred twenty thousand)**
Evidence of the transaction's approval by an authorized body of the corporation (name of the authorized body and date of decision): **the transaction was approved by Polymetal's Board of Directors on March 19, 2008 (Protocol #3/2008 of 19.03.2008)**

5. *Parties to the transaction, beneficiary (beneficiaries) of the transaction:*
Polymetal
Polymetal Trading — beneficiary
Subject of transaction: additional contribution to the charter capital of Polymetal Trading
Transaction cost: 199,000,000 (one hundred ninety nine million) rubles
Date of transaction: 13.05.2008
Evidence of the transaction's approval by an authorized body of the corporation (name of the authorized body and date of decision): **the transaction was approved by Polymetal's Board of Directors on May 13, 2008 (Protocol #5/2008 of 13.05.2008)**

6. *Parties to the transaction, beneficiary (beneficiaries) of the transaction:*
Polymetal
Amur Hydrometallurgical Plant — beneficiary
Subject of transaction: **additional contribution to the charter capital of Amur Hydrometallurgical Plant.**
Transaction cost: **60,000,000 (sixty million) rubles**
Date of transaction: **13.05.2008**
Evidence of the transaction's approval by an authorized body of the corporation (name of the authorized body and date of decision): **the transaction was approved by Polymetal's Board of Directors on May 13, 2008 (Protocol #5/2008 of 13.05.2008)**

7. *Parties to the transaction, beneficiary (beneficiaries) of the transaction:*
POLYHOLDING LIMITED — seller
Polymetal — buyer
Subject of transaction: **additional contribution to the charter capital of POLYHOLDING LIMITED, the sole shareholder of which is Polymetal, via a buy-sell agreement for 2 (two) shares of POLYHOLDING LIMITED**
Transaction cost: **180,000,000 (one hundred eighty million) rubles**
Evidence of the transaction's approval by an authorized body of the corporation (name of the authorized body and date of decision): **the transaction was approved by Polymetal's Board of Directors on July 7, 2008 (Protocol #7/2008 of 07.07.2008)**

8. Date of transaction: **23.07.2008**
Parties to the transaction, beneficiary (beneficiaries) of the transaction:
Polymetal
Polymetal Trading — beneficiary
Subject of transaction: **additional contribution to the charter capital of Polymetal Trading**
Transaction cost: **180,000,000 (one hundred eighty million) rubles**
Evidence of the transaction's approval by an authorized body of the corporation (name of the authorized body and date of decision): **the transaction was approved by Polymetal's Board of Directors on July 23, 2008 (Protocol #8/2008 of 25.07.2008)**

9. *Parties to the transaction, beneficiary (beneficiaries) of the transaction:*
Royal Bank of Scotland — creditor
Polymetal — borrower
Subject of transaction: **changes to the overdraft line of credit agreement in order to extend the term of the credit facility until 03.09.2009**
Date of transaction: **29.08.2008**
Evidence of the transaction's approval by an authorized body of the corporation (name of the authorized body and date of decision): **the transaction was approved by Polymetal's Board of Directors on August 29, 2008 (Protocol #10/2008 of 29.08.2008)**

10. *Parties to the transaction, beneficiary (beneficiaries) of the transaction:*
Royal Bank of Scotland — creditor
Polymetal — guarantor
Magadan Silver — beneficiary
Polymetal Trading — beneficiary
Subject of transaction: **changes to the guarantee agreement in order to extend the duration of the guarantor's liabilities until 03.09.2010**
Date of transaction: **29.08.2008**
Evidence of the transaction's approval by an authorized body of the corporation (name of the authorized body and date of decision): **the transaction was approved by Polymetal's Board of Directors on August 29, 2008 (Protocol #10/2008 of 29.08.2008**

Interested party transactions approved at the General Shareholders' Meeting:

1. *Date of transaction:* **19.11.2008**
Subject of transaction and other relevant terms of the transaction: **extension of a loan**
Parties to the transaction:
Polymetal — borrower
Gold of Northern Urals — lender
Full and abbreviated company names (name in the case of a non-commercial organization) of the legal entity or name, patronymic and surname of an individual recognized by Russian legislation to be an interested party in the settlement of the deal, as well as the reason (reasons) that the party was recognized as interested in the settlement of said deal:
Vitaliy Natanovich Nesis (exercises function of the sole executive organ of the Issuer) — holds an appointment to a management body of a legal entity that is a party, beneficiary, intermediary or representative to the transaction, as well as an appointment to the management body of the managing company of that legal entity
POWERBOOM INVESTMENTS LIMITED (party controlling over 20% of the Issuer's voting shares) — controls via affiliated parties 20% or more of the shares (stake, equity) of a legal entity that is a party, beneficiary, intermediary or representative to the transaction
PEARLMOON LIMITED (party controlling over 20% of the Issuer's voting shares) — controls via affiliated parties 20% or more of the shares (stake, equity) of a legal entity that is a party, beneficiary, intermediary or representative to the transaction
Transaction size: **800,000,000 (eight hundred million) rubles**
Management organ to make the decision to approve the transaction, date that said transaction was made (record date and protocol number) **— General Shareholders' Meeting 18.11.2008 (Protocol of 25.11.2008)**
Other voluntarily disclosed information about the transaction: **this type of transaction was approved ahead of time by the General Shareholders' Meeting as a deal that may be effected in the future.**

2. *Date of transaction:* **19.11.2008**
Subject of transaction and other relevant terms of the transaction: **extension of a loan**
Parties to the transaction:
Polymetal — lender
Omolon Gold Mining Company — borrower
Full and abbreviated company names (name for a non-commercial organization) of the legal entity or name, patronymic and surname of an individual recognized by Russian legislation to be an interested party in the settlement of the deal, as well as the reason (reasons) that the party was recognized as interested in the settlement of said deal:
Vitaliy Natanovich Nesis (exercises function of the sole executive organ of the Issuer) — holds an appointment to a management body of a legal entity that is a party, beneficiary, intermediary or representative to the transaction, as well as an appointment to the management body of the managing company of that legal entity
POWERBOOM INVESTMENTS LIMITED (party controlling over 20% of the Issuer's voting shares) — controls via affiliated parties 20% or more of the shares (stake, equity) of a legal entity that is a party, beneficiary, intermediary or representative to the transaction
PEARLMOON LIMITED (party controlling over 20% of the Issuer's voting shares) — controls via affiliated parties 20% or more of the shares (stake, equity) of a legal entity that is a party, beneficiary, intermediary or representative to the transaction
Transaction size: **500,000,000 (five hundred million) rubles**
Management organ to make the decision to approve the transaction, date that said transaction was made (record date and protocol number) **— General Shareholders' Meeting 18.11.2008 (Protocol of 25.11.2008)**
Other voluntarily disclosed information about the transaction: **this type of transaction was approved ahead of time by the General Shareholders' Meeting as a deal that may be effected in the future.**

Appendix 4

REPORT ON COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE FEDERAL COMMISSION FOR THE SECURITIES MARKETS

№	Provision of the Code of Corporate Governance	In compliance/not in compliance	Notes
General Meeting of Shareholders			
1	Notice given to shareholders not less than 30 days prior to the General Meeting regardless of the issues on the agenda, unless legislation provides for a longer notice period	In compliance	According to Clause 8.6. of the Charter, notice of the Annual General Meeting shall be announced not later than 30 days prior to the date of the Meeting, and notice of an extraordinary General Meeting shall be announced not later than 20 days prior to the date of the Meeting.
2	Access of the shareholders to the list of persons entitled to attend the General Meeting, starting from the date of announcement of the General Meeting until the closing of the General Meeting held in person, and in the case of a General Meeting held by correspondence — until the deadline for the collection of voting ballots.	Not in compliance	In accordance with Section 4 Article 51, the list of persons authorized to participate in the General Meeting shall be made available by the Company at the request of persons included in such a list and having at least 1% of votes. The personal data and mailing addresses of persons included in such a list are provided only with the consent of such persons.
3	Access of the shareholders to information (materials) to be provided during the preparation for the General Meeting through electronic media, including the Internet.	Not in compliance	The Company's Board of Directors determines when to make available information (materials) to be provided during the preparation for the General Meeting, and the address (or addresses) at which such information (materials) can be found, which is indicated in the notice announcing the General Meeting.
4	Ability of a shareholder to put an issue on the agenda of the General Meeting or require a General Meeting to be called without presenting an extract from the shareholder register if title to shares is recorded in the shareholder register system, and by presenting only a statement from the depot account if title to shares is recorded in a depot account.	In compliance	When collecting proposals for the agenda of the General Meeting, including those regarding the candidates to the Board of Directors, or a submission from shareholders requiring a General Meeting to be called, the Company on its own requests confirmation from the shareholder register that said shareholder has an adequate number of shares.
5	The Charter or internal By-laws of the company contain a requirement for the obligatory presence of the General Director, members of the Management Board, members of the Board of Directors, members of the audit commission and the external auditor of the company at the General Meeting.	Not in compliance	This provision is not provided for in the Charter and By-laws of the Company.
6	Obligatory presence of the nominees for the positions of members of the Board of Directors, the General Director, members of the Management Board, members of the audit commission and external auditor during consideration by the General Meeting of their election and appointment.	Not in compliance	This provision is not provided for in the Charter and By-laws of the Company.
7	The By-laws of the company establish a registration procedure for the participants in the General Meeting.	Not in compliance	This provision is not provided for in the By-laws of the Company.
Board of Directors			
8	The company's Charter provides for the authority of the Board of Directors to approve annual financial and operating plans.	Not in compliance	This authority of the Board of Directors is not included in the Charter.
9	The company has a risk management procedure approved by the Board of Directors.	In compliance	The Company's Board of Directors approved the Regulation on Internal Control of the Company's Financial and Operational Activities on December 28, 2006.
10	The company's Charter provides for the right of the Board of Directors to take a decision on suspending the authorities of the General Director appointed by the General Meeting.	Not applicable	According to the Charter of the Company, appointment or suspension of the authorities of the General Director is the right of the Board of Directors.
11	The Charter of the company provides for the right of the Board of Directors to establish requirements for the qualifications and the level of compensation of the General Director, members of the Management Board and managers of the key structural divisions of the company.	Not in compliance	This right of the Board of Directors is not included in the Charter.

№	Provision of the Code of Corporate Governance	In compliance/not in compliance	Notes
12	The company's Charter provides for the right of the Board of Directors to approve the terms of the contracts with the General Director and members of the Management Board	Not in compliance	The above right is provided in the Regulation on the Remuneration and Nomination Committee of the Company's Board of Directors.
13	The Charter and By-laws of the company contain a requirement that votes of the members of the Board of Directors who act as the General Director and members of the Management Board should not be taken into account when the terms of the contracts with the General Director (managing entity, manager) and members of the Management Board are approved.	Not in compliance	The Remuneration and Nomination Committee of the Company's Board of Directors prepares and presents recommendations for the Company's Board of Directors to set Company HR policy and remuneration for executives and managers.
14	The Board of Directors includes at least 3 independent directors meeting the requirements of the Code of Corporate Conduct.	In compliance	The Board of Directors includes 4 independent directors: - John O'Reilly - Russell Skirrow - Jonathan Best - Ilya Yuzhanov
15	There are no persons on the Board of Directors recognized as guilty of committing offences in the sphere of economic activity; against the government or against the interests of the federal, regional and local government service; or that have been subjected to administrative penalties for offences in the sphere of entrepreneurial activities or in the sphere of finance, taxes and levies and the securities market.	In compliance	
16	There are no persons on the Board of Directors who serve as members, the General Director (manager), members of the management body or employees of any competitor to the company.	In compliance	
17	The company's Charter contains a requirement that the Board of Directors be elected by cumulative vote.	In compliance	Clause 9.4. of the Charter of the Company.
18	The By-laws of the company include the obligation of the members of the Board of Directors to refrain from any actions that will or may potentially lead to a conflict of interests with the company, and in the case of such conflict –their obligation to disclose information on such conflict to the Board of Directors	Not in compliance	This obligation of the members of the Board of Directors is not included in the Charter and By-laws of the Company.
19	The By-laws of the company provide for the obligation of the members of the Board of Directors to notify the Board of Directors in writing of their intention to perform any transactions and disclose information on any transactions performed with securities of the company or subsidiaries (associates) of the company.	In compliance	Clause 2.4. of the Regulation on the Use of Information on the Activity and Securities of Polymetal which is not Publicly Available and the Disclosure of which may have a Material Impact on the Market Value of Shares.
20	The By-laws of the company contain a requirement that a meeting of the Board of Directors should be held at least once every six weeks.	Not in compliance	This requirement is not included in the By-laws of the Company.
21	Meetings of the Board of Directors of the company were held at least once every six weeks in the year for which the annual report is presented.	In compliance	IIn the 2007 reporting year, there were 14 meetings of the Company's Board of Directors. As a rule, the meetings take place monthly.
22	The By-laws of the company establish a procedure for the conducting of the meetings of the Board of Directors.	In compliance	Chapter 7, the Regulation on the Board of Directors of Polymetal
23	The By-laws of the company include a provision on the need to have approval of the Board of Directors for company transactions amounting to 10% or more of the company's asset value, other than transactions performed in the ordinary course of business.	Not in compliance	A standard procedure is used for the approval of large transactions and is set by the Federal Law on Joint Stock Companies.

№	Provision of the Code of Corporate Governance	In compliance/not in compliance	Notes
24	The By-laws of the company provide for the right of the members of the Board of Directors to receive information necessary for the performance of their functions from the executive bodies and managers of the key structural divisions, and liability of the latter for non-provision of such information.	Not in compliance	This right of the members of the Board of Directors is not provided for in the By-laws of the Company.
25	There is a strategic planning committee of the Board of Directors or functions of such committee are assigned to some other committee (other than the Audit Committee or the Nomination and Compensation Committee).	Not in compliance	The creation of a strategic planning committee of the Board of Directors is not provided for in the By-laws of the Company.
26	There is a committee (Audit Committee) of the Board of Directors that recommends an external auditor to the Board of Directors and communicates with the external auditor and the internal audit commission of the company.	Not in compliance	According to Clause 4.1. of the Regulation on the Board of Directors of Polymetal, the Board of Directors creates Committees composed of members of the Board of Directors for the preliminary review of the most important issues, including an Audit Committee and a Remuneration and Nomination Committee, and can create other committees. The Regulation on the Audit Committee of the Board of Directors of Polymetal was approved by the Board of Directors on December 28, 2006 (minutes of Board of Directors' meeting 13/2006). According to paragraph 1 of Clause 2.2. of this Regulation, the Committee prepares recommendations for the Company's Board of Directors of a candidate for the Company Auditor, including the candidate for the auditor of the consolidated financial report of the Company prepared in accordance with US GAAP. Furthermore, according to paragraphs 6 and 7 of Clause 2.2. of this Regulation, the Audit Committee will review messages and yearly reports from the internal audit service of the Company and prepare suggestions on how to update the internal audit procedures of the Company.
27	The Audit Committee includes only independent and non-executive directors.	In compliance	The Committee was created on October 10, 2008 (minutes of Board of Directors' meeting 11/2008 on October 10, 2008). The members of the Committee are: Jonathan Best — chairman of the Audit Committee (independent non-executive director) Constantine Yankov — member of the Committee (non-executive director) Russell Skirrow — member of the Committee (independent non-executive director);
28	The Audit Committee is chaired by an independent director.	Not in compliance	Jonathan Best — chairman of the Audit Committee (independent non-executive director) The chairman of the Audit Committee is an independent director, as called for in the Corporate Governance Code
29	The By-laws of a joint stock company provide for access by all members of the Audit Committee to any company documents and information company subject to non-disclosure of confidential information.	Not in compliance	The By-laws of the Company do not provide this right to members of the Audit Committee.

№	Provision of the Code of Corporate Governance	In compliance/not in compliance	Notes
30	There is a committee (Nomination and Compensation Committee) of the Board of Directors that is responsible for the determination of the criteria for the selection of candidates to the Board of Directors and development of the company's compensation policies.	In compliance	According to Clause 4.1. of the Regulation on the Board of Directors of Polymetal, the Board of Directors creates Committees composed of members of the Board of Directors for the preliminary review of the most important issues, including an Audit Committee and a Remuneration and Nomination Committee, and can create other committees. The Regulation on the Remuneration and Nomination Committee of the Board of Directors of Polymetal was approved by the Board of Directors on December 28, 2006 (minutes of Board of Directors' meeting 13/2006). According to Clause 2.2. of this Regulation, the primary function of this Committee is to prepare recommendations for the Board of Directors about the following issues: The overall HR policy of the Company; Company policy concerning the selection of candidates for the executive bodies of the Company, with the aim of attracting highly-qualified specialists to manage the Company; Determining remuneration for executives and managers.
31	The Nomination and Compensation Committee is headed by an independent director.	In compliance	John O'Reilly — chairman of the Committee (independent non-executive director) The chairman of the Remuneration and Nomination Committee is an independent director, as called for in the Corporate Governance Code.
32	The Nomination and Compensation Committee is headed by an independent director.	In compliance	
33	The existence of a risk committee of the Board of Directors or the assignment of the functions of such a committee to another committee (other than the Audit Committee or the Nomination and Compensation Committee).	Not in compliance	The creation of a risk committee of the Board of Directors is not provided for in the By-laws of the Company.
34	The existence of a committee for the settlement of corporate conflicts of the Board of Directors or the functions of such a committee are assigned to another committee (other than the Audit Committee or the Nomination and Compensation Committee).	Not in compliance	The creation of a committee for the settlement of corporate conflicts of the Board of Directors is not provided for in the By-laws of the Company.
35	There are no executives of the company on the committee for the settlement of corporate conflicts.	Not in compliance	The creation of a committee for the settlement of corporate conflicts of the Board of Directors is not provided for in the By-laws of the Company.
36	The committee for the settlement of corporate conflicts is headed by an independent director.	Not in compliance	The creation of a committee for the settlement of corporate conflicts of the Board of Directors is not provided for in the By-laws of the Company.
37	The company has internal By-laws approved by the Board of Directors providing for the procedure of formation and operation of the committees of the Board of Directors.	In compliance	The procedure for formation and operation of the Audit Committee and the Remuneration and Nomination Committee of the Company's Board of Directors is monitored by the Regulations on these committees approved by the Company on December 28, 2006 (minutes of Board of Directors' meeting 13/2006).
38	The company's Charter provides for a procedure to determine the quorum of the Board of Directors that would ensure obligatory participation of independent directors at the Board meetings.	Not in compliance	This requirement is not defined in the Charter of the Company.

№	Provision of the Code of Corporate Governance	In compliance/not in compliance	Notes
Executive bodies			
39	The company has a collegiate executive body (Management Board).	Not in compliance	The Company has a single executive body.
40	The Charter or By-laws of the company contain provisions on the need to have approval of the Management Board for real-estate transactions and loans received by the company unless such transactions are major deals or are performed in the ordinary course of business.	Not applicable	The Company does not have a Management Board.
41	The By-laws of the company establish procedures for the approval of transactions which are outside the scope of the company's financial and operational plan.	Not in compliance	The By-laws of the Company do not contain a procedure for the approval of such transactions.
42	There are no persons on executive bodies who serve as members, the General Director (manager), members of the management body or employees of any competitor of the company.	In compliance	
43	There are no persons on management bodies recognized guilty of committing offences in the sphere of economic activity; against the government, against interests of the federal, regional and local government service; or who have been subject to administrative penalties for offences in the sphere of entrepreneurial activities or in the sphere of finance, taxes and levies and the securities market. If the functions of the sole executive body are performed by a managing entity or a manager — whether the General Director and members of the Management Board of the managing entity or manager meet the requirements established for the General Director and members of the Management Board of the company.	In compliance	
44	The Charter or By-laws of the company contain a prohibition for the managing organization (manager) to perform similar functions for a competitor or have any other property relations with the company other than the provision of management services.	Not in compliance	The Charter and By-laws of the Company do not contain such a prohibition.
45	The By-laws of the company include the obligation of the members of the executive bodies to refrain from any actions that will or may potentially lead to a conflict of interests with the company and in the case of such conflict — of their obligation to inform the Board of Directors of the existence of such a conflict.	Not in compliance	The By-laws of the Company do not contain such an obligation.
46	Executive bodies provide monthly reports on their activities to the Board of Directors.	Not in compliance	The Charter and By-laws of the Company do not contain criteria for the selection of the managing organization (manager).
47	Executive bodies provide monthly reports on their activities to the Board of Directors.	Not in compliance	The Charter and By-laws of the Company do not require this from the executive body of the Company.
48	The contracts made by the company with the General Director (managing organization, manager) and members of the Management Board stipulate liability for violation of the provisions on the use of confidential and insider information.	In compliance	The Company's Board of Directors approved the Regulation on the Use of Information on the Activity and Securities of Polymetal which is not Publicly Available and the Disclosure of which may have a Material Impact on the Market Value of Shares (minutes of Board of Directors' meeting 13/2006 on December 28, 2006). Clause 2.2. and 2.3. of this Regulation make provision for a series of measures that the Company has taken to protect insider information, including the provision of corresponding conditions in the General Director of the Company's contract.

№	Provision of the Code of Corporate Governance	In compliance/not in compliance	Notes
Company secretary			
49	There is a special official in the company (company secretary) whose function is to ensure that the company's bodies and officials comply with procedural requirements guaranteeing the exercise of the legal rights and interests of the company's shareholders.	Not in compliance	The Company does not have a Company Secretary whose function is to ensure that the Company's bodies and officials comply with procedural requirements guaranteeing the exercise of the legal rights and interests of the Company's shareholders.
50	The Charter or By-laws of the company establish a procedure for the appointment (election) of the company secretary and responsibilities of the company secretary.	Not applicable	The Company does not have a Company Secretary.
51	The company's Charter contains requirements for the candidate for the position of the company secretary.	Not applicable	The Company does not have a Company Secretary.
Major corporate actions			
52	The Charter or By-laws of the company contain a requirement on approval of any major deal before it is concluded.	Not in compliance	The Charter and By-laws of the Company do not contain the obligatory engagement of an independent appraiser to determine the market value of any property that is subject to major transactions.
53	Obligatory engagement of an independent appraiser to determine the market value of any property that is subject to major transactions.	Not in compliance	The Charter and By-laws of the Company do not contain the obligatory engagement of an independent appraiser to determine the market value of any property that is subject to major transactions.
54	In the event of acquisition of any large stakes in the company (takeover), the Charter of the company prohibits the taking of any actions aimed at the protection of interests of the executive bodies (members of such bodies) and members of the Board of Directors, and also such actions that make the position of shareholders worse than their current position (in particular, prohibition of a decision by the Board of Directors to issue additional shares, securities convertible into shares or securities granting the right to acquire shares in the company before the end of the expected time of the acquisition of shares, even if the right to take such decision is granted by the Charter).	Not in compliance	This prohibition is not defined in the Charter of the Company.
55	The company's Charter contains a requirement for the obligatory engagement of an independent appraiser to determine the current market value of shares and potential changes in their market value as a result of takeover.	Not in compliance	This requirement is not defined in the Charter of the Company.
56	The company's charter contains no exemption of the acquirer from the obligation to offer a buyout of the company's ordinary shares (other securities convertible into ordinary shares) to the shareholders upon takeover.	Not applicable	The issue of acquisition is not addressed in the Charter of the Company.
57	The Charter or By-laws of the company contain a requirement for the obligatory engagement of an independent appraiser to determine the proportion for the conversion of shares upon reorganization.	Not in compliance	This requirement is not defined in the Charter of the Company.

№	Provision of the Code of Corporate Governance	In compliance/not in compliance	Notes
Information disclosure			
58	There is an internal document approved by the Board of Directors determining policies and procedures used by the company for the disclosure of information (Regulation on Information Policies).	Not in compliance	There is no internal document at the Company to determine policies and procedures used by the Company for the disclosure of information.
59	The By-laws of the company contain a requirement for the disclosure of the purposes of a placement of shares, persons that intend to acquire shares placed, including large stakes, and participation of company officials in the acquisition of the shares placed.	Not in compliance	This requirement is not defined in the By-laws of the Company. The Company discloses relevant facts and events that may have material impact on the price of shares of the Company in accordance to the Regulation on Information Disclosure by Issuers of Emitted Securities, approved by the Resolution of FCSM of Russia on October 10, 2006.
60	The By-laws of the company contain a list of information, documents and materials that should be provided to shareholders for the decision on the issues put for the consideration of the General Meeting.	Not in compliance	The list of information, documents and materials that should be provided to shareholders for the decision on the issues put for consideration of the General Meeting is determined by the Company's Board of Directors.
61	The company has a web site and regularly discloses information about the company on the web site.	In compliance	All information whose disclosure is required in accordance with Russian law is published on the Company website www.polymetal.ru.
62	The By-laws of the company contain a requirement to disclose information about any deal carried out by the company with persons who are senior executives of the company in accordance with the Charter, and deals of the company with entities of which senior executives of the company directly or indirectly hold 20% or more of the share capital or upon which such persons may otherwise exercise significant influence.	Not in compliance	This requirement is not defined in the By-laws of the Company. The Company discloses information on a deal only in accordance with the requirements of current Russian law.
63	The By-laws of the company contain a requirement to disclose information on all transactions that may affect the market value of the company's shares.	Not in compliance	This requirement is not defined in the By-laws of the Company. The Company discloses information on a deal only in accordance with the requirements of current Russian law.
64	There is an internal document approved by the Board of Directors on the use of significant information on the activity, shares and other securities of the company and transactions with such shares and other securities, which is not publicly available and the disclosure of which may have material impact on the market value of shares and other securities of the company.	In compliance	The Company's Board of Directors approved the Regulation on the Use of Information on the Activity and Securities of Polymetal which is not Publicly Available and the Disclosure of which may have a Material Impact on the Market Value of Shares (minutes of Board of Directors' meeting 13/2006 on December 28, 2006).

№	Provision of the Code of Corporate Governance	In compliance/not in compliance	Notes
Control of financial and economic operations			
65	There are internal control procedures over the financial and operational activities of the company approved by the Board of Directors.	In compliance	Internal control procedures over the financial and operational activities of the Company are laid out in the Regulation on Internal Control over the Financial and Operational Activities of Polymetal (minutes of Board of Directors' meeting 13/2006 on December 28, 2006).
66	There is a special division in the company ensuring compliance with internal control procedures (internal control service).	In compliance	The General Director of the Company issued Order Pri-053 of December 10, 2003, creating an internal control service at the Company.
67	The By-laws of the company contain a requirement that the structure and members of the internal control service should be determined by the Board of Directors.	Not in compliance	In accordance with the Regulation on the Internal Control Service of the Company, the structure and members of the internal control service are determined by the General Director of the Company.
68	There are no persons in the internal control servicerecognized as guilty of committing offences in the sphere of economic activity; against the government, against interests of the federal, regional and local government service; or that have been subjected to administrative penalties for offences in the sphere of entrepreneurial activities or in the sphere of finance, taxes and levies and the securities market.	In compliance	
69	There are no persons in the internal control service who serve as members of the executive bodies of the company, as well as members, the General Director (manager), members of the management bodies or employees of any competitor of the company.	In compliance	
70	The By-laws of the company establish dates for the submission of documents and materials to the internal control service for the assessment of financial and operational transactions performed, and liability of officials and employees of the company for failure to provide them in time.	Not in compliance	The dates for the submission of documents and materials to the internal control service for the assessment of financial and operational transactions performed, and liability of officials and employees of the company for failure to provide them in time, are not defined in the By-laws of the Company.
71	The By-laws of the company provide for the obligation of the internal control service to communicate any violations detected to the Audit Committee, and where there is no such committee to the Board of Directors.	In compliance	In accordance with Paragraph 3 Clause 4.3. of the Regulation on Internal Control over Financial and Operational Activities of Polymetal, the internal control service shall inform the Audit Committee of the Company's Board of Directors and the General Director of any identified breaches of internal control procedures.
72	The company's Charter contains a requirement on preliminary assessment of the practicality of transactions not envisaged in the company's financial and operational plan (unusual transactions) by the internal control service.	Not in compliance	This requirement is not defined in the Charter of the Company.
73	The By-laws of the company establish a procedure for the agreement of any unusual transactions with the Board of Directors.	Not in compliance	The By-laws of the Company do not address a procedure for the agreement of unusual transactions with the Board of Directors.
74	There is an internal document determining the procedure of audits of the financial and operating activities by the internal audit commission approved by the Board of Directors.	Not in compliance	There is no internal document at the Company determining the procedure of audits of the financial and operating activities at the Company by the internal audit commission.
75	The Audit Committee performs an assessment of the auditor's report before it is presented to the shareholders in the General Meeting.	In compliance	Paragraph 5 Clause 2.2. of the Regulation on the Audit Committee of the Board of Directors of Polymetal.

№	Provision of the Code of Corporate Governance	In compliance/not in compliance	Notes
Dividends			
76	There is an internal document approved by the Board of Directors used as guidance by the Board of Directors in developing recommendations on the size of dividends (Regulation on Dividend Polices).	Not in compliance	The company does not have any regulations on dividend policies.
77	The Regulation on Dividend Policies contains a procedure for the determination of the minimum share of the net profit of the company used for the payment of dividends, and conditions under which dividends are not paid or are not paid in full on preferred shares for which the size of dividends is determined in the company's Charter.	Not applicable	The company does not have any regulations on dividend policies.
78	The publication of information on dividend policies of the company and any amendments thereto in a periodical stipulated in the company's charter for the publication of announcements on General Meetings, and on the web site of the company on the Internet.	Not applicable	The company does not have any regulations on dividend policies.

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