ANNUAL REPORT 2009

A GOLDEN FUTURE

POLYMETAL

Anzhelika Priemchenko

My Mum works
at the lab.
She does chemical
research and finds
gold in ore.
I think that's awesome!

THE COMPANY AT A GLANCE

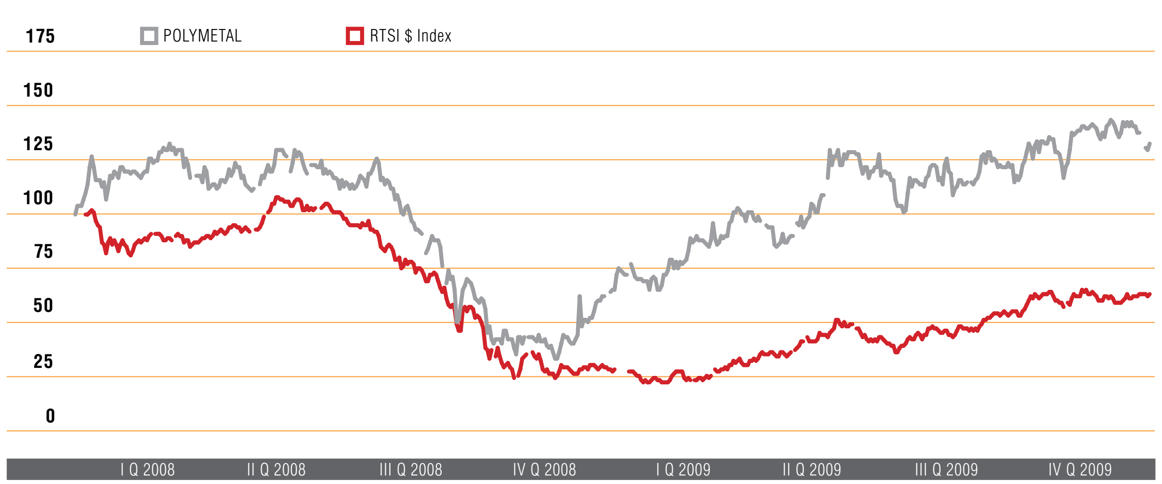
Polymetal is a leading Russian gold and silver mining company with a long-term portfolio of high-quality assets in Russia and Kazakhstan. The Company is the largest primary silver producer in Russia and fourth globally, and in the top five largest gold producers in Russia. Our vision is to become the leader in the Russian precious metals mining sector while delivering sustainable long-term growth in shareholder value.

RISING CAPITALISATION

As of year-end 2009, Polymetal's market capitalisation reached USD 3.3bn, up by 120% on the previous year.

Polymetal became the first Russian company whose capitalisation returned to the 2008 pre-crisis level by mid-2009.

SHARE PRICE DYNAMICS vs. RTS INDEX in 2008–2009 (%)



KEY ASSETS*

RUSSIA

Magadan region

CJSC Magadan Silver **1.** Dukat, **2.** Lunnoye, **3.** Goltsovoye, **4.** Arylakh
LLC Rudnik Kvartseviy **5.** Sopka Kvartsevaya,
OJSC Omolon Gold Mining Company **6.** Birkachan, **7.** Kubaka, **8.** Oroch

Khabarovsk territory

OJSC Okhotskaya Mining and Exploration Company **9.** Khakanjinskoye (Khakanja), **10.** Yuryevskoye
Albazino Resources Ltd. / Amur hydrometallurgical plant LLC **11.** Albazino, **12.** Amursk HMP

Sverdlovsk region

CJSC Gold of Northern Urals **13.** Vorontsovskoye (Voro)
LLC Uralskoye geologorazvedochnoye predpriyatiye **14.** Degtyarskoye

Chukotka

LLC Zolotorudnya kompaniya Mayskoye **15.** Mayskoye

KAZAKHSTAN

JSC Varvarinskoye **16.** Varvarinskoye

* More detailed information about operations and deposits is presented in "Operations" section

LEAGUE TABLES

Gold Producers Worldwide

(mid-tier – annual production up to 1Moz/32 tonnes of gold equivalent.)

No.	Company	2009 Production (Koz of gold equivalent)	2008 Production (Koz of gold equivalent)	Change
1	Yamana Gold	1026	983	4%
2	Centerra Gold	676	749	-10%
3	Polymetal	605	573	6%
4	Agnico-Eagle Mines	493	277	78%
5	Randgold Resources	488	428	14%
6	Hochschild Mining	470	435	8%
7	Eldorado Gold	364	309	18%
8	Red Back Mining	342	261	31%

Leading Russian gold producers

No.	Company	2009 Production (Koz of gold equivalent)	2008 Production (Koz of gold equivalent)	Change
1	Polyus Gold	1261	1222	3%
2	Kinross Gold (Kupol)	694	470	48%
3	Polymetal	605	573	6%
4	Petropavlovsk	487	394	24%
5	Severstal Resources*	473	177	167%
6	Uzhuralzoloto	170	169	1%
7	Highland Gold	163	159	3%

* without Taparko-Bouroum in West Africa.

KEY 2009 INDICATORS

	2009	2008	Change
Revenues	USD 560.7mln	USD 502.7mln	+12%
Adjusted EBITDA	USD 242mln	USD 192.6mln	+49%
Net profit	USD 96mln	USD -15.7mln	
Cash flow from operating activities	USD 174.3mln	USD 80.8mln	+116%
Capital expenditures	USD 222.2mln	USD 112.5mln	+98%
Gold production	311 Koz	285 Koz	+9%
Silver production	17.3 Moz	17.2 Moz	+1%
Gold reserves	7.2 Moz	5.3 Moz	+36%
Silver reserves	365 Moz	391 Moz	-6%

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Yernur Bagaliev and Arnur Bagaliev

Our Dad works
as a mechanic
at the factory
and is really good
with all sorts
of technical things.
Everyone says he's got
hands of gold.

Ilya Yuzhanov
Chairman of the Board
of Directors of Polymetal

MESSAGE FROM THE CHAIRMAN OF THE BOARD

Polymetal had another excellent year in 2009. Crucially, continued growth was based not just on favourable trading conditions but also on the Company's strong competitive advantages. A solid strategy and its effective implementation enabled Polymetal to return in 2009 to a pre-crisis market capitalisation ahead of all the other Russian companies in the industry.

That rapid rebound, which the Company had achieved faster than any of its competitors, was based on five key factors.

First, Polymetal is a hi-tech rather than a mere mining company. It has its own engineering and geological exploration divisions, which translates into a crucial competitive advantage.

Second, the Company has been pursuing an aggressive M&A strategy. The acquisition of high-quality assets – i.e. promising new deposits – has made Polymetal an industry leader in terms of the speed at which its geological reserves are growing.

Third, Polymetal pressed ahead with its formidable capital investment programme despite the global economic crisis. In 2009, it invested USD 222mln laying solid foundations for further growth.

Fourth, Polymetal has been pursuing a programme of creating centralized ore-processing hubs, each serving several mining operations. This strategy has enabled the Company to achieve synergies in the use of financial capital and labour, substantially reduce risks, and focus its available resources on a limited number of core projects.

Finally, Polymetal is a diverse operation – a serious competitive advantage. It is one of the largest producers not only of gold, but of silver as well. The ongoing global trend of falling inventories and silver production has boosted Polymetal's resilience and competitiveness.

In 2009, Polymetal continued with a programme aimed to improve its corporate governance system. A new collegial executive body, the Management Board, has been set up and is already functioning. That change should improve the managerial decision-making process and strengthen the management's accountability to the Board of Directors.

I would like to thank all our employees for their dedicated work in 2009. They deserve full credit for the fact that Polymetal has become a firmly established Top 3 Russian precious metals company, and that its market capitalisation now exceeds USD 3bn. Our highly skilled team, a rich and well-balanced resource base, and solid finances are a reliable foundation for long-term success.

Ilya Yuzhanov,
Chairman of the Board
of Directors of Polymetal

Vitaly Nesis
CEO

MESSAGE FROM THE CEO

Gold and silver markets continued their robust growth globally in 2009 on the back of investors' and central banks' search for a traditionally safe haven. Polymetal was there to help meet this growing demand, whilst dramatically expanding its business and generating impressive returns for its shareholders.

Our most important achievement in 2009 was clearly the expansion of the Company's asset portfolio via acquisitions that were either negotiated or completed within the year. Polymetal's new generation of assets has significantly expanded growth prospects, paving the way for the Company's current plans to more than double metal production by 2013.

There are currently three large development projects in the pipeline: Omolon is scheduled to launch in 2010; Albazino-Amursk is expected to produce its first gold in 2011; and the Mayskoe plant launch is in line for 2012. These three projects should vault Polymetal's precious metal production above the crucial level of onemln ounces per year. The Company strives to be in a higher league among the world's gold and silver producers, with a clear focus on regional growth and the projects the Company has already launched.

Polymetal's short-term goal for 2010 is to take production to the record level of 800,000 ounces of gold equivalent. In terms of operations, the Company intends to take the Dukat expanded plant to full capacity, launch the Omolon project, turn around Varvarinskoye mine in Kazakhstan, and start the commissioning of Albazino.

Polymetal did well not only financially but also operationally last year. Even though 2009 started out inauspiciously for Polymetal because of a dip in metals prices, the Company performed well financially for the year due to a price recovery in mid-2009 as well as cost containment. After a net loss in 2008, Polymetal made a sizable profit in 2009, and there was a two-fold increase in 2009 cash flows from operations compared to 2008. Perhaps most importantly, the Company successfully reduced the cost of sales despite the increase in the physical amount of production. In terms of 2009 capital expenditures, Polymetal forged ahead with its ambitious investment campaign and continued project execution. In general, CAPEX for the year increased significantly, thereby paving the way for further production growth.

Overall, the gold mining industry was less exposed to the global financial crisis than many other sectors. Consequently, the Company did not have to retrench personnel or cut back operations. In terms of reacting to the crisis, Polymetal clearly strengthened its cost controls, for example, by significantly reducing discretionary CAPEX on early-stage exploration. Steps have also been taken toward the centralisation of all cash flows within the Company, and Polymetal has been successful in controlling outlays, resulting in an overall cost reduction for 2009 compared to 2008.

Polymetal has three main competitive advantages. First is the Company's very clear strategy, which is a result of the key core competencies, and the consistent implementation of the strategy. At the heart this is the creation of processing hubs to save on both capital and operating expenses and to generate a superior return on capital. The second advantage is our people. Polymetal Engineering, for instance, is unique in the former Soviet Union in terms of combining all aspects of asset development, from technological testing through feasibility studies to detailed design drawings. In fact, the bulk of the engineering work is completed in-house, thus ensuring quality and stability as well as immediate feedback from our operators throughout the lifecycle of a mine.

Another advantage is the Company's approach to corporate governance. Indeed, Polymetal seems to stand apart from many of the other companies, in that there is a consistent adherence to the best industry practices, such as information transparency, adherence to health, safety, and environment standards, as well as the composition and procedures of the Board. This is important, because investors are aware of the Russia-specific corporate-governance risks; therefore, the Company demonstrates our commitment to being at the forefront of compliance via corporate responsibility guidelines and protecting the rights of our shareholders.

Even though our share price started the year at the USD 4 level, it rallied handsomely to finish in the USD 9.50-10.00

per share range. Indeed, ours was the first stock on the Russian Trading System (RTS) and MICEX to return to pre-crisis levels, and this is a testimony to the management team's focus on creating shareholder value. Obviously, the price performance of gold and silver assisted in this area; however, not all gold companies have returned to their pre-crisis levels, both in Russia and globally. Polymetal would like to thank our shareholders for their support and for returning to the stock. We intend to continue meeting with our investors to communicate our ongoing strategy and plans to implement it. There is plenty of firepower to take the stock higher over 2010.

The management team places great emphasis on the importance of both the spirit of corporate responsibility and the letter of the law, and the Company intends to keep corporate responsibility a top priority. For example, the Board is 50% composed of independent directors, including the Chairman, and most directors on the Audit and Remuneration committees are independent. Our disclosure policy is transparent, and the Company's 2008 Annual Report was ranked the best in the industry in Russia. In terms of social responsibility, Polymetal contributes an average of USD 4.5mln per year to social projects in the communities surrounding our operations. Protecting the environment is important, as is protecting our employees' health and safety. Furthermore, Polymetal is compliant with the World Bank's 2006 guidelines in the area of corporate responsibility, and the Company intends to be so going forward. In 2009, Polymetal also joined the UN Global Compact Initiative. An important goal is to bring assets acquired in 2009 fully in line with global standards by the end of 2010.

I would like to thank all our colleagues for their hard work, as well as for their commitment to Polymetal's values and strategic goals. The achievements of the Company in 2009 are their achievements.

For investors, Polymetal is quite unique among Russian companies, in that the Company has a very open investment story. It is very easy to understand why investors should be interested in buying Polymetal shares. We have the assets, the strategy, the management team, and all of these points are objective and do not depend on the vagaries of market conditions. We are proud to think of Polymetal as being probably among the most Westernised companies in Russia in terms of transparency, consistency, and focus on shareholders' interests. In a country where the economy and stock market are by-and-large dominated by state-controlled companies or large privatised enterprises with political issues surrounding them, Polymetal stock is a relatively unique value proposition. In short, Polymetal is easy to understand and has accessible management. This Annual Report is intended to help investors judge for themselves based on the merits of our performance and company-wide strategy.

Vitaly Nesis,
CEO

THE BUSINESS

Polymetal is a publically traded company with a market capitalisation of USD 3.3bn (as of late 2009). In 2007 the Company offered 24.8% of its stock to the market (ordinary shares and GDRs) in an IPO. The shares are traded on the London Stock Exchange (LSE) and the Russian RTS and MICEX exchanges.

Polymetal's mission is to become the leading gold and silver producer in Russia and the CIS countries by achieving steady long-term growth, which will guarantee a high return on investment for its shareholders.

> Polymetal is a Russian gold and silver producer. It has mining and exploration operations in four Russian regions (the Magadan region, the Sverdlovsk region, the Khabarovsk territory and Chukotka) and in Kazakhstan. The main customers for its precious metals, both in Russia and abroad, are financial institutions..

> The Company's assets include four production facilities already in operation and three development projects. Its projects portfolio consists of 37 licences covering a total area of 8,200 sq.km. Its reserves are estimated at 7.2 Moz of gold, 365 Moz of silver and 69,000 tonnes of copper.

> Polymetal is the largest producer of primary silver in Russia and the fourth in the world. It is also in the top 5 of Russia's producers of gold. In 2009, the Company's gold output was 0.6 Moz of gold equivalent. That figure is projected to double by 2012 after production begins at three new projects which are now at the construction stage. These projects, which are a product of the Company's M&A expansion strategy, will continue production for many years, generating steady cash flows.

> One of the Company's key development priorities is to form a balanced asset portfolio that will deliver a high-quality and long-term resource base. Polymetal uses JORC standards to estimate its reserves and mineral resources. Its audit-confirmed gold and silver resource base is solid enough to maintain production at the existing mines for the next 10-20 years.

> The Company conducts the entire range of work needed to launch new production in-house, from geological exploration to actual mining, in-house. A key element of Polymetal's strategy is setting up processing hubs to centralize the processing of ore and concentrate from various sources, thereby maximizing the return on financial and human capital investment. Another source of synergy is the Company's geological exploration and engineering divisions. High quality in-house engineering and design resources represent one of the Company's key competitive advantages both domestically and internationally. Polymetal has formidable experience in designing, building and operating various mining facilities. Since the establishment of the Company in 1998, it has launched precious metals production at 10 deposits.

> Polymetal sells precious metals domestically (96%), in China (2%) and in Europe (2%). In 2009, the Company's largest customers were Nomos Bank, VTB, and Gazprombank. Aggregate sales rose by 11.5% in 2009 to USD 561mln.

CORPORATE HISTORY

JSC Polymetal was founded in 1998 in St. Petersburg by ICT Group. The objective was to create a modern Russian precious metals mining company incorporating the entire cycle "from exploration to bullion".

1998 – 2000
- Acquisition of the main assets in three Russian provinces

2001
- First tonne of gold produced at the Voro deposit (CJSC Gold of Northern Urals)
- BProcessing plant launched at the Lunnoye deposit in Magadan (CJSC Magadan Silver)

2002
- Processing plant launched at the Dukat deposit after the old gold-concentration plant was restored and refurbished (CJSC Magadan Silver)

2003
- Processing plant launched at the Khakanja deposit (OJSC Okhotskaya Mining and Exploration Company)

2004
- JSC Polymetal Engineering set up

2006
- A strategic alliance formed with AngloGold Ashanti, the world's largest goldmining company
- Acquisition of the Albazino deposit in the Khabarovsk territory (Albazino Resources Ltd.)

2007
- JSC Polymetal shares are listed on the LSE, RTS, and MICEX exchanges.
- The Albazino development project kicks off
- Development begins at the Arylakh deposit in the Magadan region (satellite deposit to Lunnoye)
- JORC-compliant resource audit completed at the Galka field, Nachalnoye-2 and Albazino

2008
- Acquisition of the Kubaka deposit in the Magadan region and the launch of active exploration activity there (OJSC Omolon Gold Mining Company)
- Launch of development works at the Yuryevskoye deposit in the Khabarovsk territory (satellite deposit to Khakanja)
- Mid-term projects to increase production at the Voro and Dukat deposits enter final stages
- Results of the feasibility study and reserves estimate for the Albazino deposit announced
- Change of the key shareholders in JSC Polymetal and the election of the new Board of Directors
- Acquisition of the Degtyarskoye deposit in the Sverdlovsk region

2009 – KEY EVENTS

Acquisition of the Goltsovoye silver deposit in the Magadan region

The deal was announced on September 19, 2008 with the closing on January 23, 2009

Polymetal bought the deposit from a subsidiary company belonging to Ovoca Gold Plc for USD 11.7mln in cash and USD 7.5mln in ordinary Polymetal shares. The acquisition bolstered the Company's silver resource base in the immediate vicinity of the refurbished Omsukchan processing plant.

Acquisition of the Sopka Kvartsevaya gold and silver deposit in the Magadan region

The deal was announced on April 8, 2009 with the closing on October 12, 2009

Polymetal paid 10mln of its ordinary shares for this deposit. The new asset has supplemented the resource base of the Omolon project and became another step towards transforming the Kubaka plant into a regional processing hub supplied from a number of deposits.

Acquisition of the Mayskoye gold deposit

The deal was announced on April 28, 2009 with the closing on October 27, 2009

Mayskoye is in the Top 5 of Russia's largest gold deposits. The JORC-compliant estimate of its resources is 7.5 Moz. The deposit was bought for 15,925,000 ordinary Polymetal shares plus a USD 1.5mln cash payment linked to the recapitalisation of Mayskoye operating company. The acquisition has given Polymetal a foothold in Chukotka, which has some of the largest gold reserves in Russia. Refractory concentrate produced here will be taken to the Amursk hydrometallurgical plant in the Khabarovsk territory. The new asset will enable Polymetal to implement its strategy of creating a hub in Amursk to process refractory gold concentrate from deposits in the Russian Far East.

Acquisition of the Varvarinskoye gold deposit in Kazakhstan

The deal was announced on June 15, 2009 with the closing on November 2, 2009.

The deposit was bought for USD 8mln in cash and another USD 12mln in deferred payment. Polymetal also took on the Company's debt and hedging liabilities to the total amount of USD 252mln. Varvarinskoye benefits from excellent infrastructure, cheap energy, and promising geological conditions. Its acquisition has enabled Polymetal to increase the proportion of gold in its precious metals output and diversify the geography of its asset portfolio.

On June 1, Polymetal stock was included in the MSCI (Morgan Stanley Capital International) index

On June 14, the Company announced completion of the feasibility studies for the Albazino gold deposit in the Khabarovsk territory

The results of the feasibility study were submitted for an audit to Snowden Mining Industry Consultants Inc., an independent consultancy. The study established the size of the deposit's resources at 2.9 Moz, with an average grade of 4.3 g/t, and reserves at 2.3 Moz with an average grade of 4.1 g/t. Polymetal expects Albazino to produce its first gold in 2011. The mine itself, the flotation plant in Albazino and the POX (autoclave) plant in Amursk should both be working at full rated capacity by 2012.

On September 16, the new Management Board of JSC Polymetal was created

An extraordinary General Shareholders Meeting approved the decision to set up a collegial executive body. The decision has demonstrated management's commitment to improving corporate governance standards at Polymetal.

On October 26, the Company completed a private offering of new ordinary shares by closed subscription

In autumn of 2009 Polymetal issued an additional 84,375,000 ordinary shares. The shares issue was done to raise capital to pay for a number of newly acquired assets and to reduce the Company's floating debt. Some 9.5mln shares were taken up by existing Polymetal shareholders, raising RUB 2.6bn (USD 89mln). Another 7.5mln shares were swapped for the stock of CJSC Prospectors Artel Ayax, which holds the licence for silver production at the Goltsovoye deposit. Some 10 mln shares were swapped for 100% of the stock of LLC Rudnik Kvartseviy, which holds the licence for gold and silver mining at the Sopka Kvartsevaya and Dalniy deposits. The remaining 57.35mln shares were taken up by Polymetal subsidiaries.

On November 24, Polymetal stock was put on MICEX Quotation List A1.

The decision to move Polymetal from Quotation List B to Quotation List A1 means recognition of the Company's high corporate governance standards. It will also translate into a higher liquidity for Polymetal stock in Russia.

Aktoty Alkhdzhayeva

My Dad drills
the earth looking
for precious metals.
I'm very proud of him.

STRATEGY

Polymetal's strategic ambition is to become the top gold and silver producer in Russia and the CIS via sustainable long-term growth. The Company also aspires to earn itself a place among the world's top precious metals industry players.

Recent trends in the domestic and international precious metals markets suggest that this aspiration is entirely realistic. The Company can further expand its resource base by M&A activity, geological exploration and development of new assets in Russia and abroad. Polymetal has been pursuing that strategy very successfully for the past two years. Meanwhile, thanks to the Company's increasingly sophisticated technology and machinery, as well as the ongoing search for new synergies in precious metals production, further growth will be accompanied by better operational efficiency. The Company's strategy is based on careful monitoring of the long-term trends in the industry and on a clear understanding of its own strengths and competitive advantages. That strategy is based on three pillars.

Increasing output at existing facilities

The Company's existing assets have excellent prospects for improving operational indicators. An ambitious investment programme has enabled Polymetal to build world-class industrial infrastructure worthy of the quality of the deposits themselves. Investment into existing operations will increase their output, improve efficiency and extend their working lifespan.

Building regional hubs

Increasing the scale of operations is a benefit in itself but Polymetal also aspires to extract additional benefits from that growing scale by improving operational efficiency. A smart and disciplined corporate M&A strategy, combined with growing output at the existing facilities, enables the Company to create large regional processing centres known as processing hubs. This further allows Polymetal to make use of various operational synergies and substantially reduce production cost per ounce.

Ambitious exploration programme

Polymetal takes the long view and pursues sustainable long-term growth. That is why one of the top corporate priorities is to identify new assets that will in the long term replace the existing deposits, which will serve as the foundation of Polymetal's success in the next few years. By 2011, the Company hopes to increase its reserves to 25 Moz of gold equivalent.

Paulina Tsigankova

My Dad works
at Polymetal
as a communications
specialist.
They mine for gold
all over Russia,
and even in other
countries.
They've got to have
good communications.

RESERVES AND RESOURCES

Mineral Resources

One of the top corporate priorities is to increase the precious metals resource base and thereby improve the efficiency of the existing mining operations. In 2007, the Board of Directors set out the objective of ramping up Polymetal's resource base to 10.4 Moz of gold and 803.8 Moz of silver by 2011. In order to achieve that strategic goal, the Company intends to step up its own exploration programme and acquire new deposits large enough to sustain independent commercial production.

In 2009, the Company made great strides towards achieving that goal. At the existing operations (Voro, Dukat, Lunnoye, Arylakh, Khakanja, Yuryevskoye, and Albazino), newly identified gold resources covered the 2009 production volume twice over. The growth came from new exploration and the revision of previous estimates based on the current trading conditions (Table 1).

Table 1. Change in precious metals mineral resources (3R) for 2009, by deposits in operations*

	Mineral resources Audit as of January 2009			Attenuated in 2009 via processing			Growth from exploration and revaluation in 2009			Mineral resources Audit as of January 2010		
	Ore, thousand tonnes	Au, Koz	Ag, Moz	Ore, thousand tonnes	Au, Koz	Ag, Moz	Ore, thousand tonnes	Au, Koz	Ag, Moz	Ore, thousand tonnes	Au, Koz	Ag, Moz
Total	**71,717**	**6,157**	**482**	**2,990**	**384**	**27**	**6,448**	**710**	**27**	**75,178**	**6,483**	**482**

* Excluding Galka, Birkachan, Perevalnoye, Oroch, Tsokel, Degtyarskoye

In 2009 and late 2008 Polymetal acquired six new deposits, with JORC-audited total resources of 11.9 Moz of gold and 92 Moz of silver (Table 2.)

Table 2. Mineral resources (3R) for deposits acquired in Q408-2009

	Ore, thousand tonnes	Grade Au, g/t	Grade Ag, g/t	Content Au, kg	Content Ag, tonnes	Content Au, Koz	Content Ag, Moz
Total	**119,829**	**3,1**	**23,8**	**369,873**	**2,847**	**11,892**	**92**

As a result, the Company's mineral resources increased compared to 2008 in the Measured, Indicated and Inferred categories by:

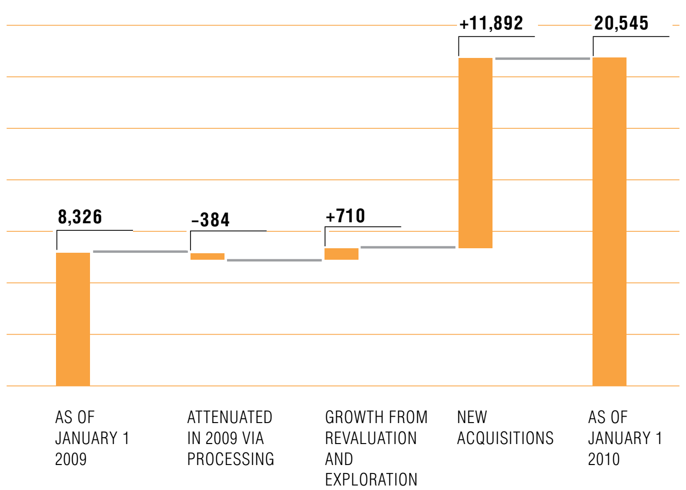
- ore – 123.5 mln tonnes;
- gold – 12,218 Koz;
- silver – 92 Moz.

Table 3. Information on the mineral resources of Polymetal (estimate as of January 1, 2010)*

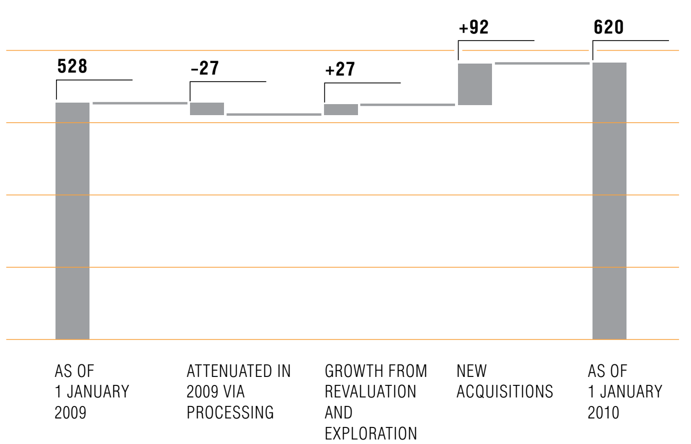
Category	Tonnage, thousand tonnes	Content Au, Koz	Ag, Koz	Cu, thousand tonnes	Pb, thousand tonnes	Zn, tonnes
Measured	48,997	4,636	297,105	–	9	–
Indicated	139,697	9,654	246,775	132	57	83
Measured&Indicated	188,694	14,290	543,880	132	66	83
Inferred	41,164	6,254	75,688	14	27	121
Total	**229,858**	**20,545**	**619,568**	**146**	**92**	**204**

* mineral resources estimated per JORC (2004). Mineral Resourses are inclusive of Ore Reserves

CHANGES IN MINERAL GOLD RESOURCES (KOZ)



CHANGES IN SILVER MINERAL RESOURCES (KOZ)



Ore reserves

The gold and silver mineral base estimated as of January 1, 2010 in the Proved and Probable categories is sufficient to maintain efficient production at the existing facilities over the medium term (Table 4).

Table 4. Information on the ore reserves of Polymetal (estimate as of January 1, 2010)*

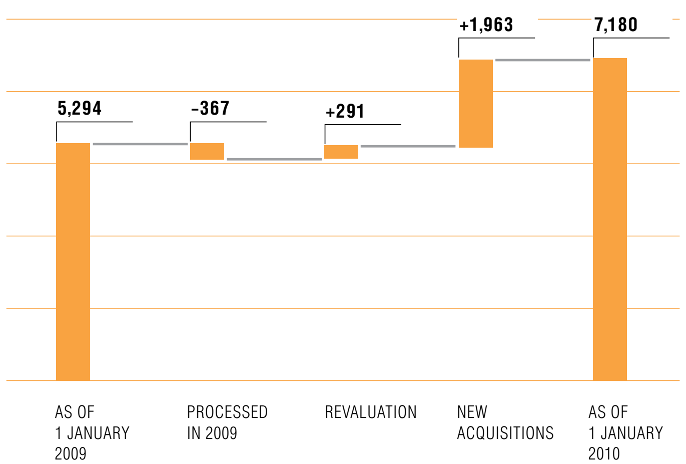
Category	Tonnage, thousand tonnes	Content Au, Koz	Ag, Koz	Cu, thousand tonnes
Proved	43,682	3,936	229,460	
Probable	55,771	3,244	135,902	69
Total	**99,453**	**7,180**	**365,361**	**69**

* ore reserves estimated per JORC (2004)

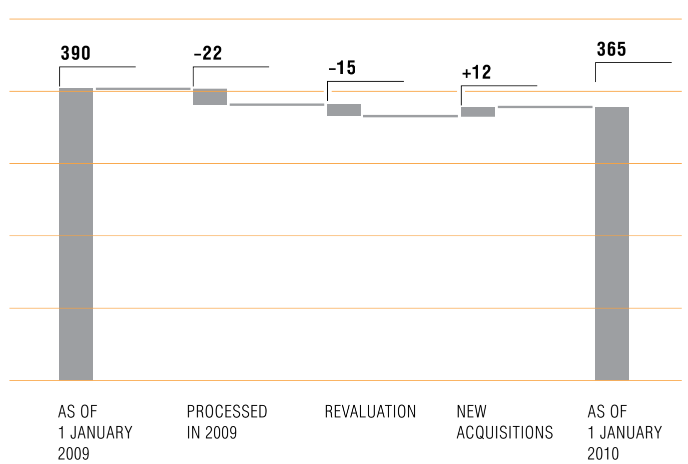
As of January 1, 2010 the overall ore reserves showed an increase of 52% for ore and 36% for gold as a result of new acquisitions and the revision of previous estimates. The silver ore reserves showed a drop of 6% after new exploration results failed to confirm previous estimates for the quantity and quality of ore at some of the Dukat sites.

Changes in the audited ore reserves as of January 1, 2010 are illustrated by the graphs below:

CHANGES IN ORE GOLD RESERVES (KOZ)



CHANGES IN ORE SILVER RESERVES (MOZ)



OPERATIONS

Key figures:

+57% – ore mining in 2009

+40% – ore processing in 2009

+9% – gold production in 2009

Polymetal is an ambitious company that strives to improve efficiency in every aspect of its operations. This is achieved by a combination of the industry's best specialists, production processes and technology. The Company continuously works to boost productivity, improve the technology and achieve reasonable cost optimisation. The resources released by improving the efficiency of the existing operations are channelled into achieving new goals, thereby fuelling the Company's continued growth and development.

The Company's development strategy for the period until 2012 aims to improve efficiency and streamline existing operations. Another priority is to form a new generation of assets by building new facilities, and to develop the existing ones by means of supplementing their mineral resource base. The Company aims to achieve those goals whilst also keeping the overall cost per unit below 50% of the current prices for precious metals.

Operational results for 2009 illustrate the Company's ongoing drive towards greater efficiency.

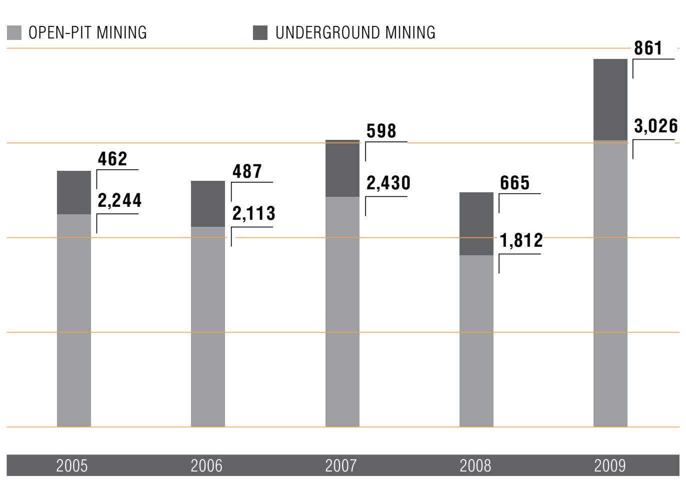
Ore mining rose by 57% on the previous year to 3,886,000 tonnes. Open-pit production reached 3,026,000 tonnes, and the volume of ore mined underground 861,000 tonnes. In that latter category, the growth of 29% on the previous year was achieved thanks to increased output at Lunnoye and improved productivity at Dukat. Open-pit production growth was 67%. Most of it came from the acquisition of the Varvarinskoye deposit and the launch of production at Degtyarskoye and Sopka Kvartsevaya. Mining footage rose by 23%, to 17,565 meters.

Ore processed grew by 40% on the previous year to 4,764,000 tonnes. The growth came from the acquisition of Varvarinskoye, ROM heap leach trials at Birkachan and the completed refurbishment of the gold concentration plant at the Northern Urals Gold division.

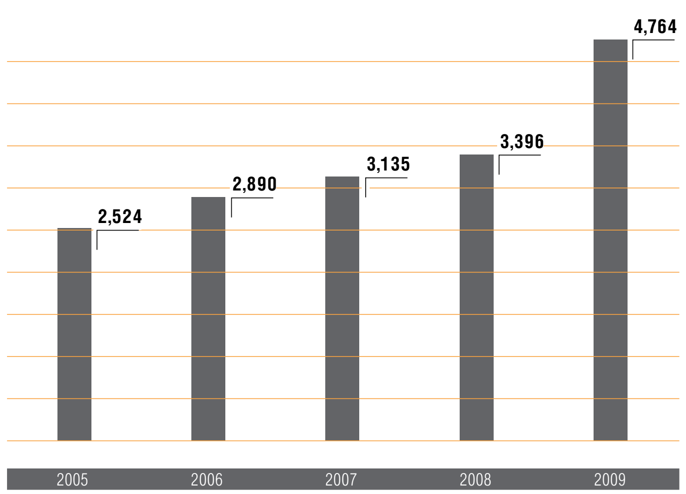
Gold production rose by 9% on the previous year, to 311 Koz - an all-time record in the Company's 10-year history. Silver production grew by 1%, to 17.3 Moz. This growth in ore-processing and precious metals production was achieved thanks to consistent implementation of the medium-term growth programme, with projects to increase the capacity of the Company's gold concentration plants entering final stages and the partial launch of some new facilities.

The volume of waste removal during open-pit operations grew sharply to 12,741,000 cub. m., an increase of almost 30% on 2008's volume.

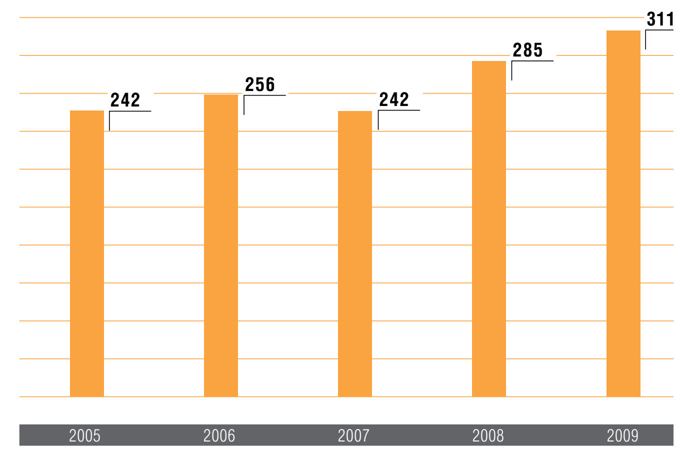
ORE MINING, THOUSAND TONNES



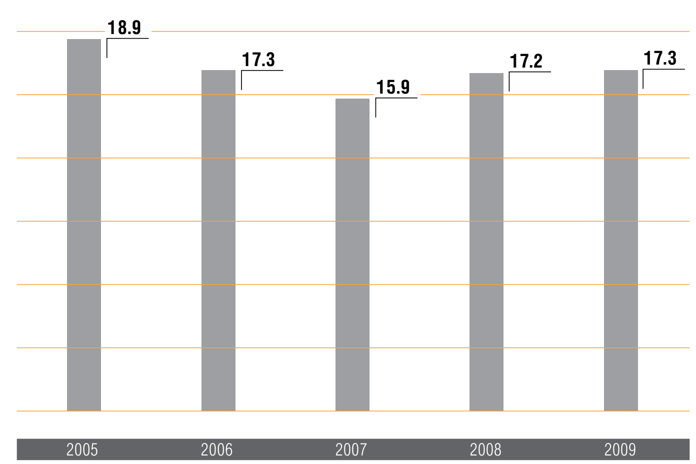
ORE PROCESSING, THOUSAND TONNES



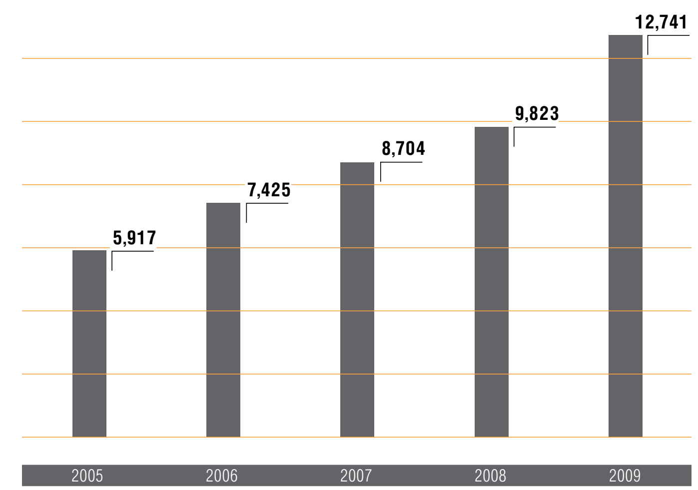
GOLD PRODUCTION, KOZ



SILVER PRODUCTION, MOZ



WASTE MINED, THOUSAND CUB. M.



Polymetal's key operational 2005-2009 indicators are listed in the table below:

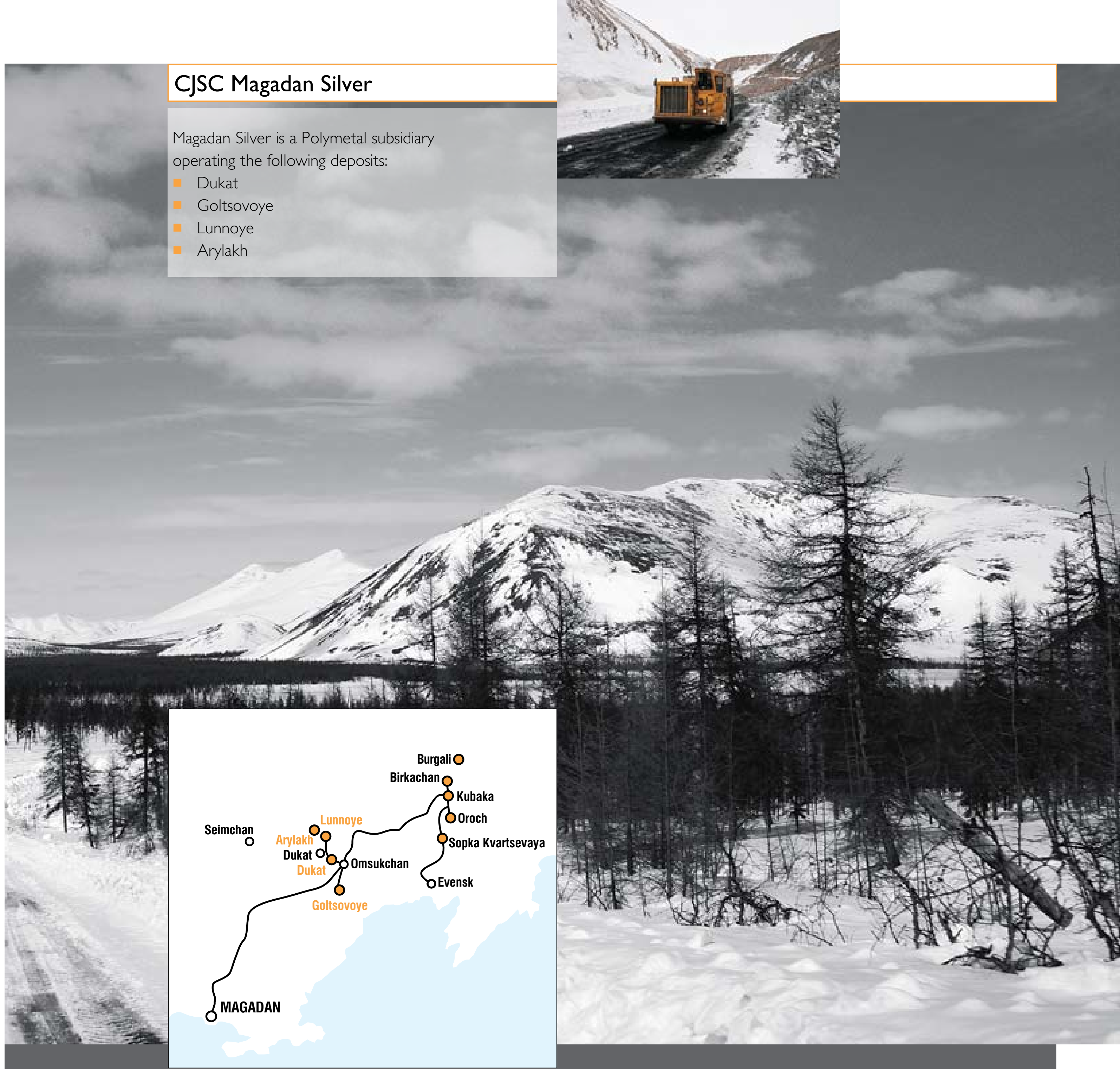
Operational indicators	Unit of change	2005	2006	2007	2008	2009
Waste mined	thousand cub. m	5,917	7,425	8,704	9,823	12,741
Ore mined, incl.	thousand tonnes	2,706	2,600	3,029	2,477	3,886
Open-pit	thousand tonnes	2,244	2,113	2,430	1,812	3,026
Underground	thousand tonnes	462	487	598	665	861
Underground development	linear metre	11,361	10,694	11,452	14,217	17,565
Ore processed	thousand tonnes	2,524	2,890	3,135	3,396	4,764
Gold production	Koz	242	256	242	285	311
Silver production	Moz	18.9	17.3	15.9	17.2	17.3

Key operational highlights for 2009:

- Beginning of open-pit production at Degtyarskoye, Albazino Resources and Sopka Kvartsevaya;
- Growing underground production at Lunnoye and Dukat;
- Commencement of underground mining at Goltsovoye and Mayskoye;
- Growing productivity of processing plants as part of investment projects;
- Acquisition of new assets:
  - LLC Rudnik Kvartseviy;
  - LLC ZK Mayskoye;
  - CJSC Prospectors Artel Ayax;
  - JSC Varvarinskoye;
- Successful large-scale heap leach trials at Birkachan;
- Commencement of the retooling programme at the mining and transport divisions;
- Implementation of comprehensive measures to cut the cost of drilling and blasting operations at the mining divisions and to improve work safety and productivity. Introduction of mix-pump trucks at the underground mining operations and the use of high-tech emulsion explosives; efficient sourcing of drilling equipment and tools;
- Further automation of production operations in order to improve reliability, increase efficiency, and optimise staff numbers.

Key operational objectives for 2010:

- Commencement of production at the new assets:
  - Launch of the processing plant at the Kubaka processing facility of Omolon Gold Mining Company, continuation of the heap leach project at Birkachan;
  - Launch of the processing plant at Albazino Resources;
- Development and launch of a programme to achieve compliance with the World Bank industrial safety and environmental requirements;
- Reorganisation of the existing energy and machinery services to centralise their operations and focus their scope;
- Reducing costs of all the key operations;
- Streamlining the drilling and blasting operations (increasing production of ore per blast and reducing dilution);
- Further improving automation systems at the processing plants to increase labour productivity, improve efficiency and gradually increase precious metals recovery;
- Optimise grinding technology at the processing plants to achieve a sustainable increase in usable output. Improve precious metals recovery figures;
- Refurbish the gravity-separation unit at the Omsukchan processing plant to improve recovery and create additional capacity to process ore from new mines in the Omsukchan region;
- Complete the refurbishment of the filtration and drying unit at the Omsukchan processing plant;
- Optimise payroll numbers by improving productivity and achieving greater specialisation of operations among the Company's divisions.



CJSC Magadan Silver

Magadan Silver is a Polymetal subsidiary operating the following deposits:

- Dukat
- Goltsovoye
- Lunnoye
- Arylakh

The Dukat and Lunnoye deposits are located in Russia's north-eastern Magadan region, 650 kilometers from the city of Magadan. Dukat is Russia's largest silver deposit in terms of reserves and production, and the third largest in the world

Magadan Silver's total output in 2009 was 39.1 Koz of gold (a fall of 12.5% on 2008) and 15.6 Moz of silver (a fall of 2% on 2008).

Dukat processing plant

The Dukat deposit is situated 40km north of the Omsukchan settlement in Russia's Magadan region. It is the world's third-largest silver deposit and the largest in Russia in terms of ore reserves. It contains 60% of Russia's total silver reserves. Ore processing here relies on the traditional flotation technology. The concentrate obtained by flotation is then sent to the Lunnoye processing plant. There it is blended with the ore from Lunnoye itself and from the Arylakh deposit for processing using cyanide leaching in tanks with mechanical stirring and the Merrill-Crowe process. The resulting zinc concentrate is then sent to the refining plant, which produces gold and silver bullions.

CJSC Magadan Silver Dukat Mineral Processing Company indicators:

Operational indicators	Unit of measurement	2005	2006	2007	2008	2009
Waste mined	thousand cub. m	828	818	1,041	1,056	801
Underground development	line metre	11,361	10,396	10,570	12,305	14,349
Ore mined, incl.	thousand tonnes	844	901	971	1,017	1,180
Open-pit	thousand tonnes	383	415	381	403	435
Underground	thousand tonnes	462	487	590	614	745
Processing capacity	thousand tonnes	850	950	950	950	1 500
Ore processed	thousand tonnes	867	863	881	983	978
Gold head grades	g/t	1.2	1.2	1.1	1.2	1.1
Silver head grades	g/t	603	558	494	462	491
Recovery of Au(1)	%	74	80	79	83	78
Recovery of Ag(1)	%	80	81	79	82	77
Gold production	Koz	25.0	25.9	25.4	31.0	26.4
Silver production	Moz	13.4	12.6	10.8	12.5	11.8

(1) technological recovery includes the gold and silver in circuit (precipitate)

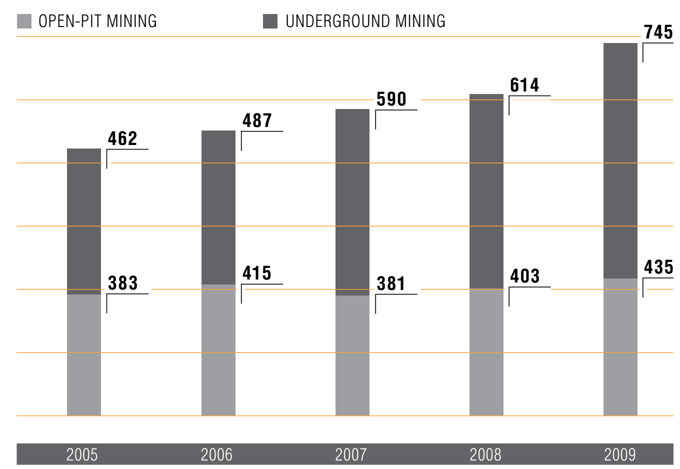
Ore mining at Dukat uses a combination of open-pit and underground mining. Total ore output rose by 16% on the previous year to 1,180,000 tonnes (the figure includes 5,000 tonnes produced at Goltsovoye). Mining footage rose by 16.6% on the previous year to 14,349 metres (including 1,095 metres at Goltsovoye).

Production volume at the Omsukchan processing plant remained unchanged compared to 2008 at 978,000 tonnes.

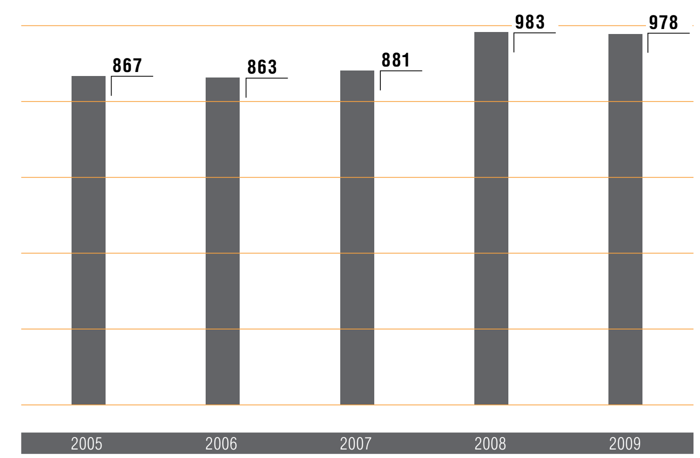
Gold production at Dukat fell by 14.6% to 26.4 Koz; silver production was down 4.9% to 11.8 Moz. The decline was due to delays in the launch of additional production facilities; the refurbishment programme, which will enable the Company to increase productivity in the future, was running behind schedule. The recovery rate also fell in 2009 by 4.7% for gold and 4.3% for silver due to increased quantities of lower-grade ore and the presence of rebellious material.

The refurbishment of the Omsukchan processing plant was completed in late 2009; its annual processing capacity was increased to 1.5 Mtpa. Section No 2 of the Omsukchan gold concentration plant was also fully launched. The gravity and filtration unit of Section No 2 is due to be commissioned in 2010. The second tumble dryer tumbler of the filtration and drying floor was replaced, and its aspiration unit was partially refurbished.

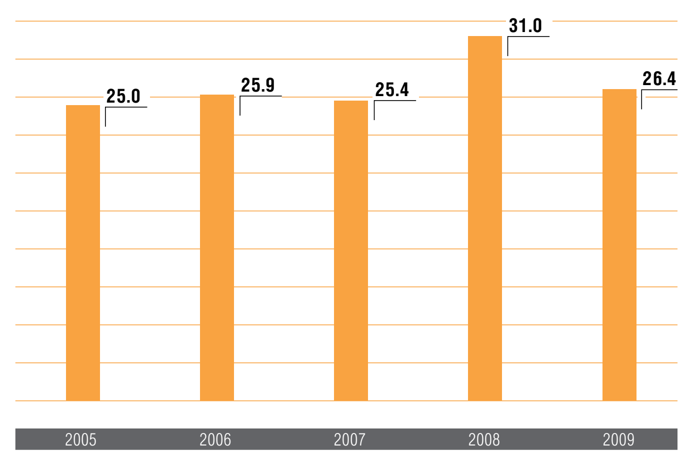
ORE MINING, THOUSAND TONNES



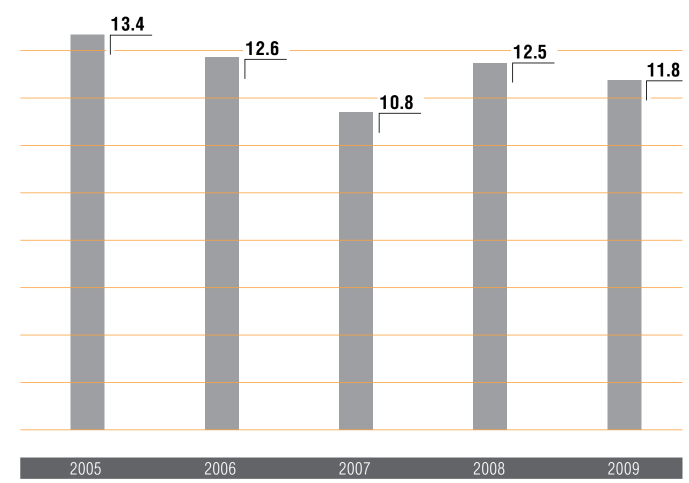
ORE PROCESSING, THOUSAND TONNES



GOLD PRODUCTION, KOZ



SILVER PRODUCTION, MOZ



Lunnoye processing plant

The Lunnoye and Arylakh deposits are situated in the Magadan region. Lunnoye is 150 km away from the Omsukchan settlement and its satellite deposit Arylakh is only 20 km from Lunnoye.

The Lunnoye plant processes ore from Lunnoye and Arylakh as well as concentrate from the Dukat deposit. It uses the agitation cyanide leaching in tanks technology and the Merrill-Crowe process. The resulting zinc concentrate in then sent to the refining plant, where it is turned into gold and silver bullion.

Lunnoye Mineral Processing Company indicators:

Operational indicators	Unit of measurement	2005	2006	2007	2008	2009
Waste mined	thousand cub. m	632	905	1,103	983	1,063
incl. the Arylakh deposit	thousand cub. m	0	0	670	970	1,063
Underground development	line metre	0	298	882	1,912	2,268
Ore mined, incl.	thousand tonnes	233	327	476	277	298
Open-pit	thousand tonnes	233	327	467	226	183
Underground	thousand tonnes	0	0	8	52	116
Processing capacity	thousand tonnes	300	300	300	300	300
Ore processed	thousand tonnes	257	283	286	283	295
Gold head grades	g/t	2.90	2.52	1.9	1.6	1.4
Silver head grades	g/t	382	335	401	404	426
Recovery of Au[1]	%	93	93	93	94	94
Recovery of Ag[1]	%	90	89	88	90	90
Gold production	Koz	24.9	20.9	17.2	14.0	12.7
Silver production	Moz	3.0	2.6	3.3	3.4	3.7

(1) technological recovery includes the gold and silver in circuit (precipitate)

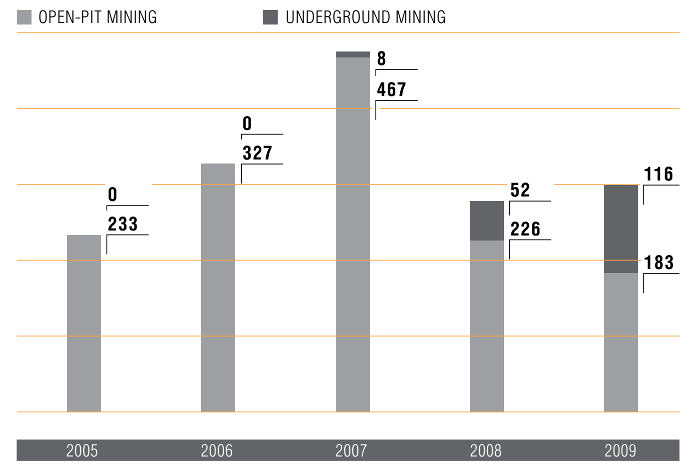
The volume of waste mined at Arylakh rose by 9.6% in 2009 in an effort to reach higher-grade ore.

Ore mining at Lunnoye rose by 7.5%. The fall of 19.1% in open-pit mining was offset by a 123.8% increase in underground mining. Ore processed at the Lunnoye gold concentration plant was up 4.4% to 295,000 tonnes.

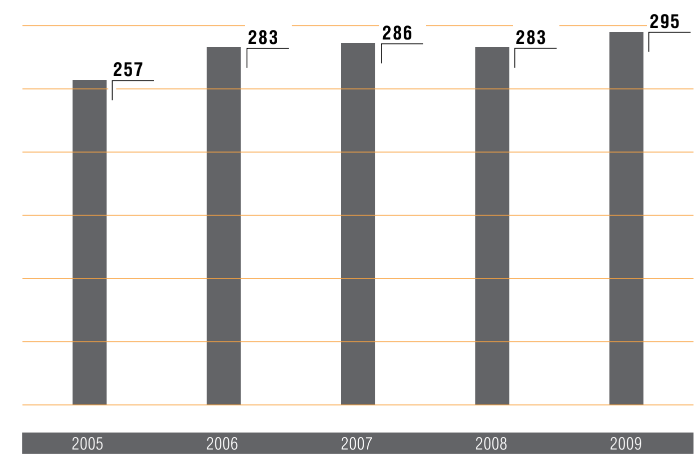
Gold production dropped by 7.5% to 12.7 Koz due to a 12.3% fall in the ore grade.

Silver production was up 10.2% to 3.7 Moz thanks to an increase in ore-processing and a higher ore grade.

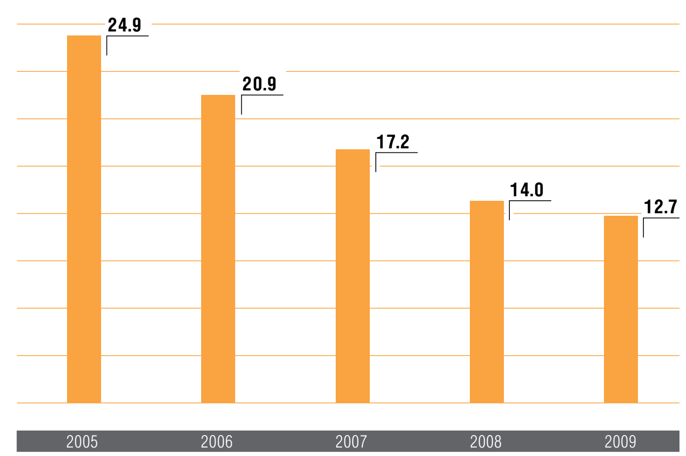
ORE MINING, THOUSAND TONNES



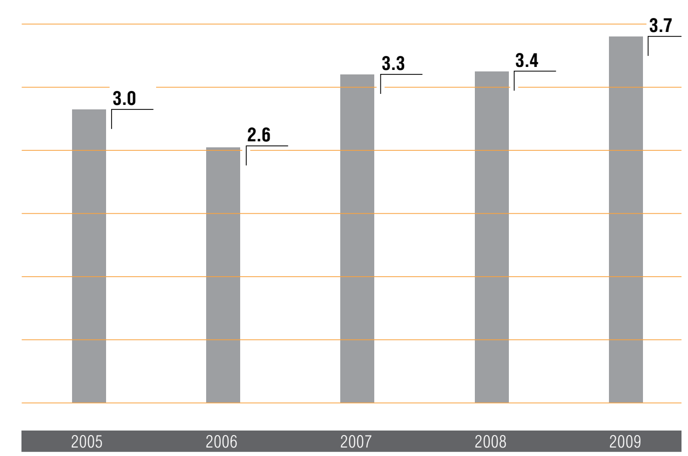
ORE PROCESSING, THOUSAND TONNES



GOLD PRODUCTION, KOZ



SILVER PRODUCTION, MOZ



OJSC Okhotskaya Mining and Exploration Company

Okhotskaya Mining and Exploration Company is a Polymetal subsidiary operating the following deposits:

- Khakanja
- Yuryevskoye
- Yuzhno-Urakskaya
- Amkinskaya
- Arkinskaya
- Khakarinskaya
- Arkino-Selemjinskaya area

Khakanja and Yuryevskoye form the core of this production company's operations. The Khakanja deposit is located in the Khabarovsk territory, 1,100 km north of Khabarovsk and 480 km west of Magadan. The development of its satellite deposit Yuryevskoye, which is 60 km away from Khakanja, began in 2008. The ore produced at Yuryevskoye by open-pit mining is then processed by the Khakanja gold concentration factory. Development of the Yuryevskoye deposit is due to be completed in 2010.

The Khakanja gold concentration plant uses the agitation cyanide leaching technology and the Merrill-Crowe process. The resulting zinc precipitate is then sent to the refining plant, where it is processed into gold and silver bullions.

OJSC Okhotskaya Mining and Geological Company indicators:

Operational indicators	Unit of measurement	2005	2006	2007	2008	2009
Waste mined	thousand cub. m	1,524	1,706	2,407	3,527	3,807
Ore mined	thousand tonnes	721	563	727	601	654
Processing capacity	thousand tonnes	500	600	600	600	600
Ore processed	thousand tonnes	382	500	609	602	610
Gold head grades	g/t	9.91	7.00	4.49	5.8	5.84
Average grade of Ag	g/t	389	259	177	117	139
Recovery of Au(1)	%	93	92	94	94	94
Recovery of Ag(1)	%	51	47	49	52	61
Gold production	Koz	118	108	83	109	108
Silver production	Moz	2.4	2.0	1.7	1.3	1.7

(1) technological recovery includes the gold and silver in circuit (precipitate)

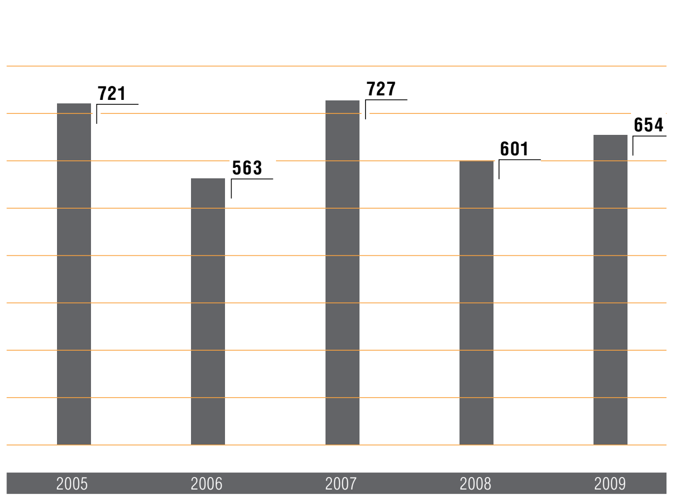
Okhotskaya Mining and Exploration Company's ore mining rose 8.8% in 2009 to 654,000 tonnes. Most of that increase came from a 163.6% rise in the output of the Yuryevskoye deposit.

Ore processed was up 1.3% to 610,000 tonnes. Processing of the ore produced by Yuryevskoye rose by 150% to 65,000 tonnes.

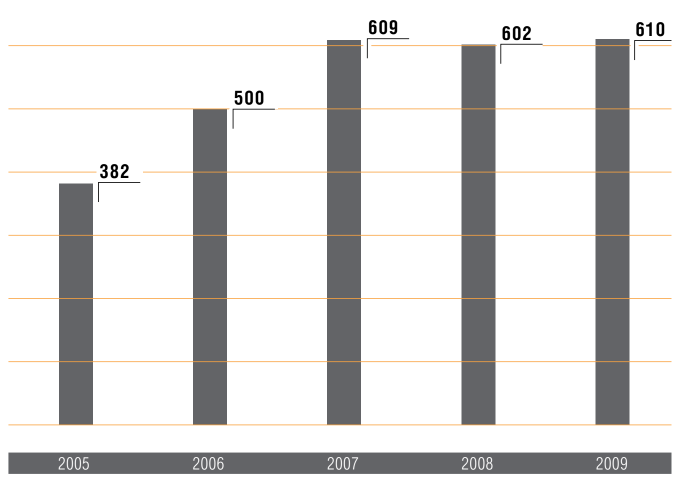
Gold production rate remained unchanged at 94%. Silver production figures rose from 52% in 2008 to 61% in 2009, thanks largely to an improved leaching process.

Gold production was unchanged compared to 2008 at 108 Koz. Silver production was up 33.3% to 1.7 Moz. The growth resulted from a 19.3% increase in the silver grade of the ore being processed and a 16.5% increase in the recovery rate.

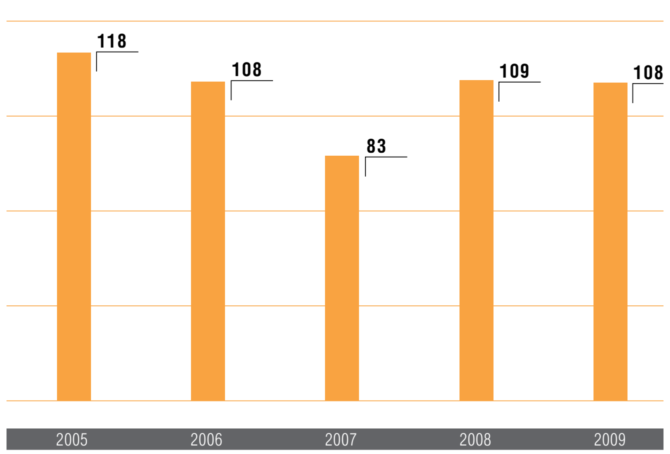
ORE MINING, THOUSAND TONNES



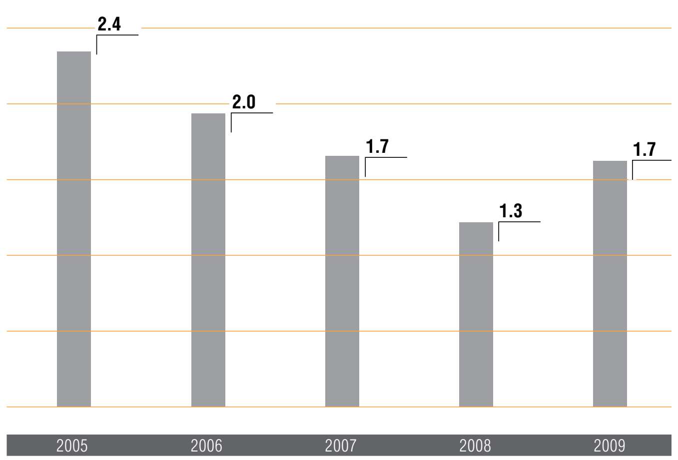
ORE PROCESSING, THOUSAND TONNES



GOLD PRODUCTION, KOZ



SILVER PRODUCTION, MOZ



CJSC Gold of Northern Urals

Northern Urals Gold is a Polymetal subsidiary operating the following deposits in the Sverdlovsk region:

- Voro
- Degtyarskoye (LLC UGRP)
- Tamuner
- Volchanskiy
- Galka
- Rudnichniy
- Katasminskiy

The Voro and Degtyarskoye deposits form the core of this production company's operations.
The Voro deposit produces two types of ore: primary and oxidised. Primary ore is processed at the gold concentration plant using the carbon-in-pulp technology (CIP). Oxidised ore-processing relies on the heap leach technology and the Merrill-Crowe process (HL plant).

The division's ore mining rose by 40.6% in 2009 to 817,000 tonnes. Oxidised ore mining was down 77.8% to 43,000 tonnes whilst primary ore mining was up 99.3%, to 775,000 tonnes (including 152,000 tonnes produced by Degtyarskoye).

Gold production in 2009 was up 14.1% to 150.2 Koz. Silver production was also up by 23.9% to 81 Koz.

Production at Degtayrskoye commenced in 2009 using open pit mining. Ore from Degtyarskoye was blended with Voro ore for processing at the CIP plant on a trial basis in 2009. The trial has been a success, and another 220,000 tonnes of Degtyarskoye ore will be processed in 2010.

Primary ore (CIP plant)

Primary ore-processing was up 31.9% to 796,000 tonnes. Gold production rose by 18.9% on 2008 to 117.4 Koz. Silver production was also up by 70.8% to 46.2 Koz. Gold production ratio remained unchanged at 79%, silver production was up by 6 percentage points to 57.1%.

As part of an upgrade project to increase the annual capacity of the primary ore-processing factory to 900,000 tonnes, installation and set-up of new equipment was completed in 2009, with the launch of a new filtration unit and an upgraded carbon-stripping and electrolysis unit.

Oxidised ore (HL plant)

Oxidised ore-processing fell substantially in 2009 from 193,000 to 43,000 tonnes. However, pelletized ore mining was up 1.3% to 938,000 tonnes. The average gold grade was up from 1.51 g/t in 2008 to 1.68 g/t in 2009. The average silver grade fell from 3.75 g/t to 3.52 g/t.

In 2009, the Company restacked the old heap leach ore to free up some space for future heaps.

Gold production remained unchanged compared to 2008 at 32.9 Koz. Silver production was down 9% to 34.8 Koz.

Heap leach
A technique used to recover precious metals compounds from ore that is crushed into small chunks and heaped on a specially prepared pad. After that the ore is irrigated with a leach solution to dissolve the precious metals.

Carbon-in-Pulp (CIP)
An extraction method for recovery of gold as part of the gold cyanidation process. Activated carbon acts like a sponge, and the gold cyanide complex is adsorbed onto it.

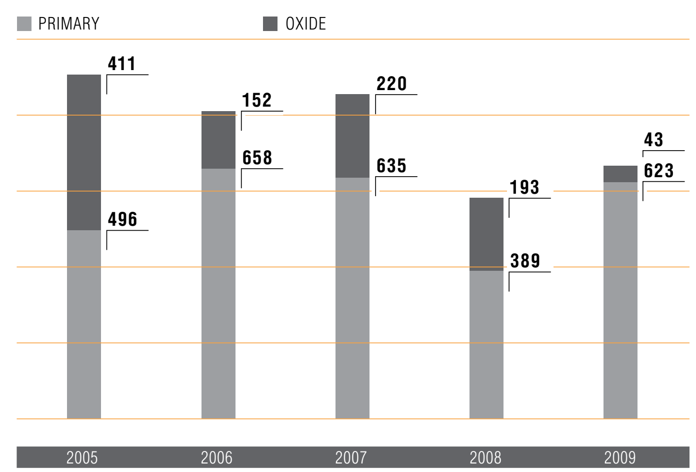
CJSC Gold of Northern Urals indicators:

Operational indicators	Unit	2005	2006	2007	2008	2009
Waste mined	thousand cub. m	2,933	3,996	4,153	4,258	4,572
Ore mined, incl.	thousand tonnes	908	809	855	582	666
oxide	thousand tonnes	411	152	220	193	43
primary	thousand tonnes	496	658	635	389	623
Processing capacity	thousand tonnes	800	1,400	1,400	1,400	1,800
Primary ore processed (CIP)	thousand tonnes	315	413	478	604	796
Gold head grades in primary ore	g/t	4.3	5.9	6.3	6.5	6.0
Silver head grades in primary ore	g/t	5.8	5.2	3.1	2.7	3.5
Oxide ore stacked (heap leach)	thousand tonnes	704	832	882	925	938
Gold head grades in oxide ore	g/t	2.9	2.2	2.0	1.5	1.7
Silver head grades in oxide ore	g/t	7.0	12.1	5.9	3.8	3.5
Gold recovery at CIP(1)	%	74	78	80	79	79
Gold recovery at heap leach(2)	%	66	70	69	73	65
Gold production	Koz	74.5	101.2	116.8	131.6	150.2
Silver production	Koz	56	82	71	65	81

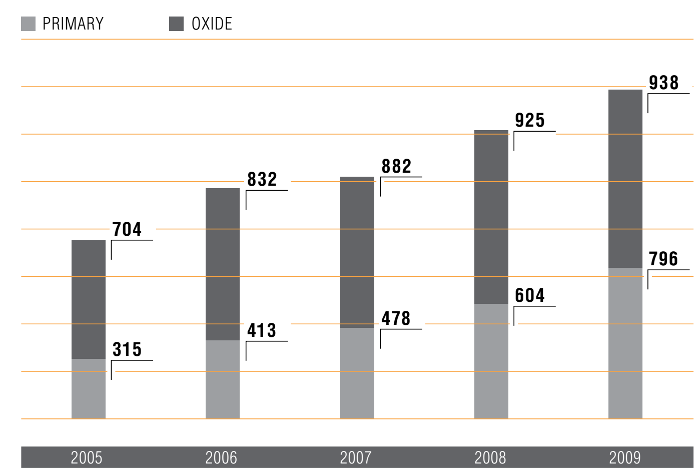
(1) technological recovery includes the gold and silver in circuit

(2) recovery done at a heap leach plant is calculated only for the whole year because of the seasonality factor

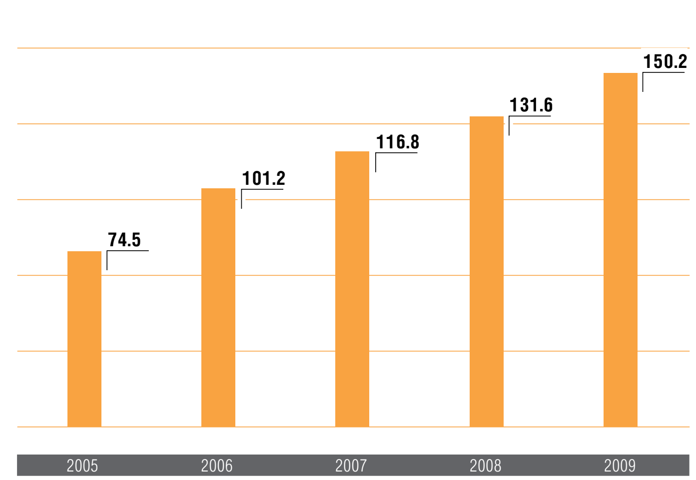
ORE MINING, THOUSAND TONNES



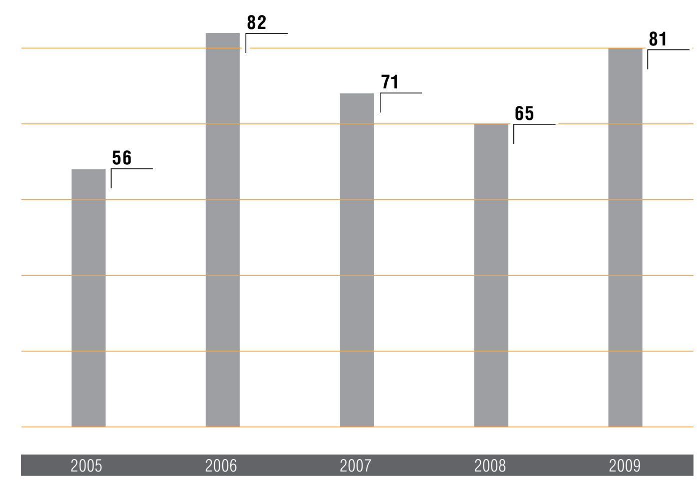
ORE PROCESSING, THOUSAND TONNES



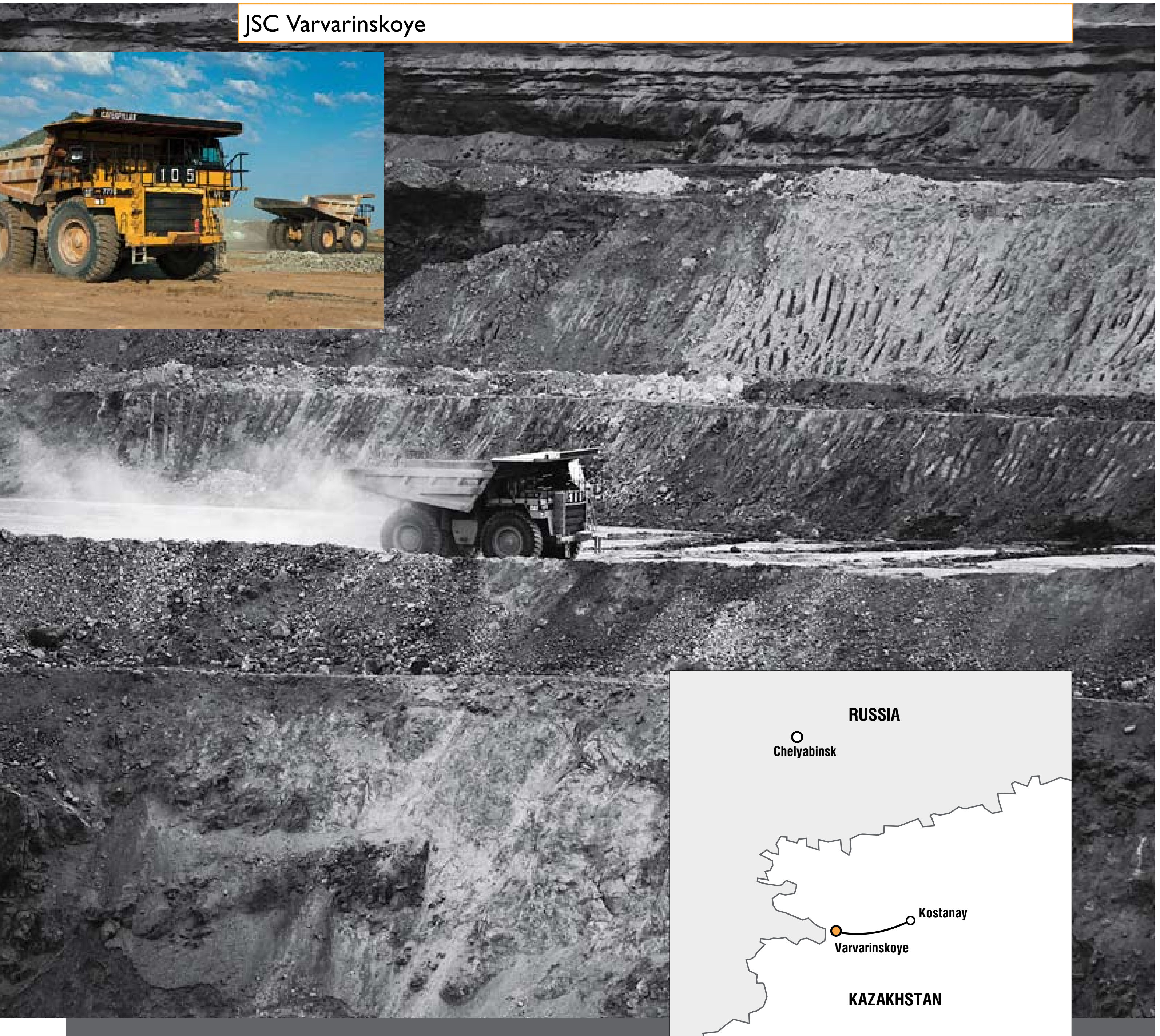
GOLD PRODUCTION, KOZ



SILVER PRODUCTION, MOZ



JSC Varvarinskoye



The Varvarinskoye deposit is situated in the northwest of Kazakhstan. It was acquired by Polymetal in Q4 2009.

The deposit already has an operational ore-processing plant (which uses flotation technology) and a gold concentration plant (CIL-cyanide technology). The overall capacity of the whole plant is 4.2 Mtpa. The finished product is gold-copper flotation concentrate and dore gold.

The LGCF (copper-poor) and HGCF (copper-rich) types or ore produced at Varvarinskoye are processed separately. The first is sent to the flotation plant, the second to the CIL-cyanide plant.

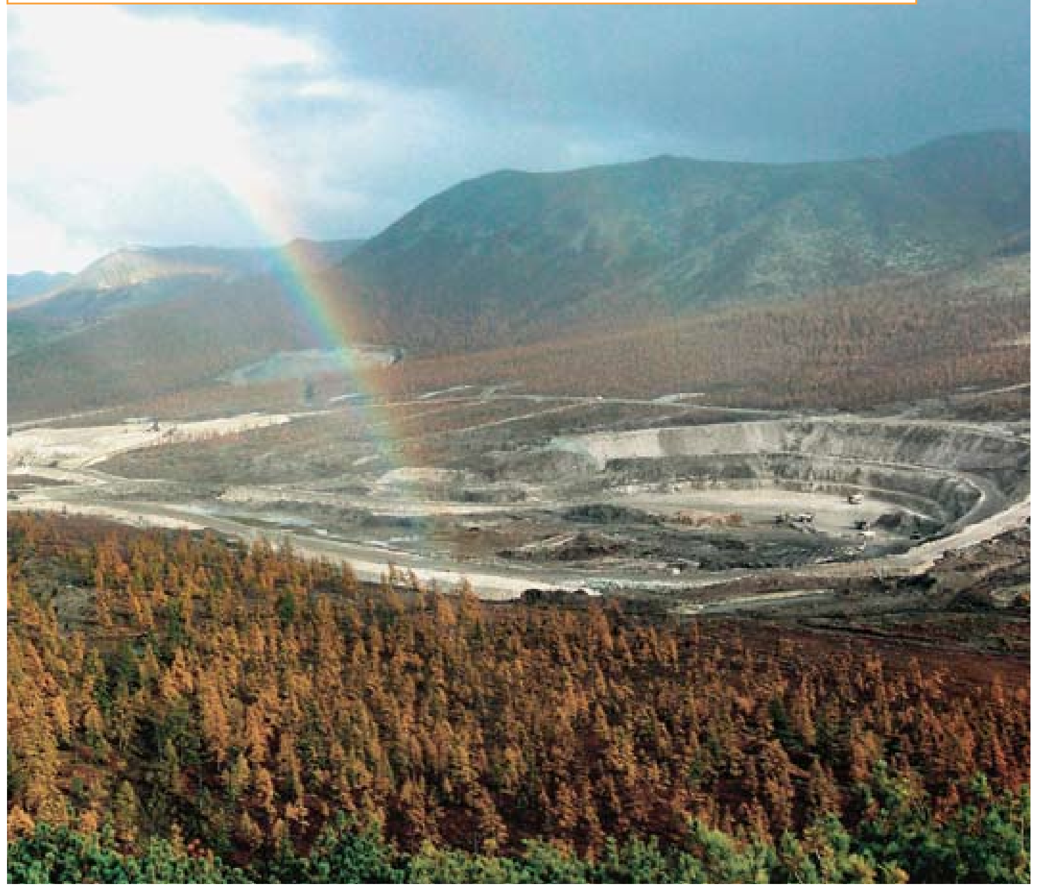
JSC Varvarinskoye indicators:

Operational indicators	Unit	2008	November 2009	December 2009	2009
Waste mined	thousand cub. m	–	586	634	1,220
Ore mined, incl.	thousand tonnes	–	488	356	844
LGCF	thousand tonnes	–	202	165	367
HGCF	thousand tonnes	–	68	96	164
LGCP+HGCP	thousand tonnes	–	218	95	313
Ore (HGCP) processed (Flotation + CIL)	thousand tonnes	–	57	56	113
Gold head grades	g/t	–	1.26	1.30	1.28
Copper head grades	%	–	0.91	0.92	0.92
Ore (LGCF) processed (CIL)	thousand tonnes	–	214	183	397
Gold head grades	g/t	–	0.87	1.09	0.97
Total recovery of Au(1)	%	–	78	78	78
Total recovery of Cu(1)	%	–	83	83	83
Gold production	Koz	–	9.1	3.5	12.6
Copper production	tonnes	–	711	334	1,045
incl. gold in concentrate	Koz	–	2.6	1.1	3.7
incl. copper in concentrate	tonnes	–	711	334	1,045
incl. gold in dore	Koz	–	6.5	2.4	8.9

(1) technological recovery

DEVELOPMENT PROJECTS

OJSC Omolon Gold Mining Company



Location: Magadan region

Resources:

Birkachan

Au 1.4 Moz (17.5 mln tonnes of 2.4 g/t ore)

Ag 6.6 Moz (17.5 mln tonnes of 12 g/t ore)

Sopka Kvartsevaya

Au 820 Koz (3.2 mln tonnes of 8.0 g/t ore)

Ag 20.6 Moz (3.2 mln tonnes of 200 g/t ore)

Oroch

Au 201 Koz (1.9 mln tonnes of 3.2 g/t ore)

Ag 10.3 Moz (1.9 mln tonnes of 167 g/t ore)

Tsokol

Au 337 Koz (1.3 mln tonnes of 8.1 g/t)

Processing:

Birkachan heap leach plant – 1 Mtpa

Kubaka processing plant: 800-850 Ktpa, including:

Carbon-in-pulp (CIP) circuit: Birkachan ore – 300-500 Ktpa (2010), Oroch ore – 200 Ktpa (2012)

Merrill-Crowe circuit: Sopka Kvartsevaya ore – 200 Ktpa (2011)

Production capacity: 200.6 Koz of gold equivalent per annum (starting from 2012)

Capital expenditure: USD 60 mln

Start/Completion: 2010–2011

As part of its strategy to set up large processing hubs, Polymetal has launched several big investment projects.

One of them is the Kubaka-Birkachan-Sopka Kvartsevaya project.

The goal of this project is to turn the Kubaka plant into a regional processing hub with multiple sources of raw materials and a substantial degree of technological flexibility.

In 2009 Polymetal began preparations for launching the processing of Birkachan ore on-site in Q3 2010.

Processing of the Sopka Kvartsevaya ore, which has a different set of mineral characteristics, will require the installation of a Merrill-Crowe circuit on-site.

More floor space will have to be added to the existing factory to house the Merrill-Crowe unit.

In 2009 ore mining commenced at only one field, Sopka Kvartsevaya. A total of 92,000 tonnes was produced by year end.

The 2010 ore mining target for the whole of Omolon Goldmining Company has been set at 770,000 tonnes. That ore will be processed by the heap leach plant and the flotation concentrator. The projection for Gold production is 53.5 Koz and 125 Koz for silver.

CJSC Omolon Gold Mining Company indicators:

Operational indicators	Unit	2008 actual	2009 actual
Waste mined	thousand cub. m	–	226
Ore mined, incl.	thousand tonnes	–	92
Sopka Kvartsevaya	thousand tonnes	–	92
Birkachan	thousand tonnes	–	–
Ore processed (CIP)	thousand tonnes	–	–
Gold head grades	g/t	–	–
Silver head grades	g/t	–	–
Ore stacked (heap leach)	thousand tonnes	–	639
Gold head grades	g/t	–	1.87
Silver head grades	g/t	–	6.70
Gold recovery (CIP)(1)	%	–	–
Gold recovery (heap leach)(2)	%	–	2
Gold production	Koz	–	0.9
Silver production	Koz	–	3
incl. gold (CIP)	Koz	–	–
incl. silver (CIP)	Koz	–	–
incl. gold (heap leach)	Koz	–	0.9
incl. silver (heap leach)	Koz	–	2.5

(1) technological recovery

(2) recovery done at a heap leach plant is calculated only for the whole year because of the seasonality factor

Birkachan – heap leach (HL)

In 2009 the Company conducted a large-scale ROM heap leach trial at Birkachan. As part of the trial, 639,000 tonnes of uncrushed ore (average gold grade 1.87 g/t, average silver grade 6.7 g/t) was piled into heaps for leaching. The trial produced 0.9 Koz of gold and 2.5 Koz of silver.

The result was deemed a success.

Kubaka processing plant

In 2009 the Company began refurbishment of the Kubaka processing plant, acquired in 2008. The core mining and processing infrastructure is gradually being restored. The project will continue in 2010. The Company also plans to equip the plant for processing ore produced at Birkachan.

Sopka Kvartsevaya (LLC Rudnik Kvartseviy)

Development of the Sopka Kvartsevaya deposit began immediately after its acquisition in 2009. 226,000 tonnes of waste was removed in 2009. Ore mining reached 92,000 tonnes.

Albazino Resources Ltd., LLC Amur Hydrometallurgical Plant

Location: Khabarovsk territory
Deposit: Albazino
Resources: Au 2.9 Moz (21.3 mln tonnes of 4.3 g/t ore)
Reserves: Au 2.3 Moz (17.4 mln tonnes of 4.1 g/t ore)
Processing: flotation; the concentrate is then transported to the Amursk processing facility for autoclave leaching (POX plant)
Capacity: 1.5 Mtpa for ore, 5.5 tonnes of gold per annum
Capital expenditure: USD 270mln (including 190 mln for the Albazino processing plant and 80 mln for the Amursk POX plant)
Start date/completion: 2008 – Q2 2011.

Albazino-Amursk is the Company's largest and most promising investment project. Polymetal expects to receive first gold from Albazino concentrate at the Amursk POX plant in Q2 2011.

Ore will be produced at Albazino by open-pit mining and processed at the onsite flotation plant. Flotation concentrate will be taken by truck and river barge to the town of Amursk where Polymetal is building a gold-concentrate processing plant designed by SNC Lavalin. The plant that will use the autoclave leaching (POX) technology will be the first of its kind in Russia. The project was 80% complete as of late 2009.

In winter, concentrate from the Albazino flotation concentrator will be taken to Amursk by a winter snow road, which has been in use since December 2009. In summer, it will be shipped from the Oglongi settlement to the port of Komsomolsk-upon-Amur and then hauled to the Amursk POX plant by trucks.

The construction of hydrometallurgical plant in Amursk is part of the corporate strategy to create large processing hubs. The Amursk facility will be the processing hub for refractory ore mined at all the Far Eastern deposits. The region has a large concentration of refractory gold ore deposits that have remained undeveloped due to the lack of a viable processing technology. The design of the flotation plant in Albazino and the autoclave facility in Amursk make it possible to double their initial capacity. Polymetal expects to receive first gold from the Albazino concentrate at the Amursk POX plant in Q2 2011. This plant will also process approximately 70,000 tonnes per annum of concentrate produced at the Mayskoye deposit. The Company expects to have the first gold from Mayskoye concentrate at the Amursk facility in 2012.

The decision to use POX (autoclave) technology for concentrate processing was made after careful study of all the existing technologies of extracting gold from refractory ores, including autoclave leaching, roasting and biological oxidation. The Company chose POX as the preferred option because it is the most universal method suitable for processing a variety of refractory ores without any major changes to the equipment. The method is relatively energy-efficient and offers higher recovery rates due to oxidation of pyrites and arsenic pyrites in fairly extreme conditions. The Amursk plant will be the first in Russia to use POX for gold production.

In June 2009, Snowden Mining Industry Consultants conducted an audit of the feasibility study for the Albazino-Amursk project and a JORC-compliant audit of the Albazino reserves. The findings confirmed the economic feasibility of the comprehensive project to produce ore by open-pit mining method, process it at the on-site flotation plant and then take the concentrate for POX processing. The feasibility study also reflects the potential for further expansion of the project as the Albazino resource base and is supplemented by the nearby ore deposits.

All design and project documentation for all the facilities of the Albazino flotation concentrator and the Amursk POX plant was completed in 2009.

In June 2009, full-scale mining operations began at an open pit of the Anfisinskaya ore field using Komatsu mining equipment brought in at the start of the shipping season.

In 2009, builders completed the foundations of the main floor of the processing plant in Albazino and began erecting steel structures. The building will have thermal insulation and all the equipment should be in place in Q3 2010. Start-up and production of the first concentrate is expected in Q4 2010. An automated operations control system, work on which began in 2009, should be up and running in time for the launch of the plant. The first concentrate will be transported to the Amursk POX plant by winter motorways in early 2011.

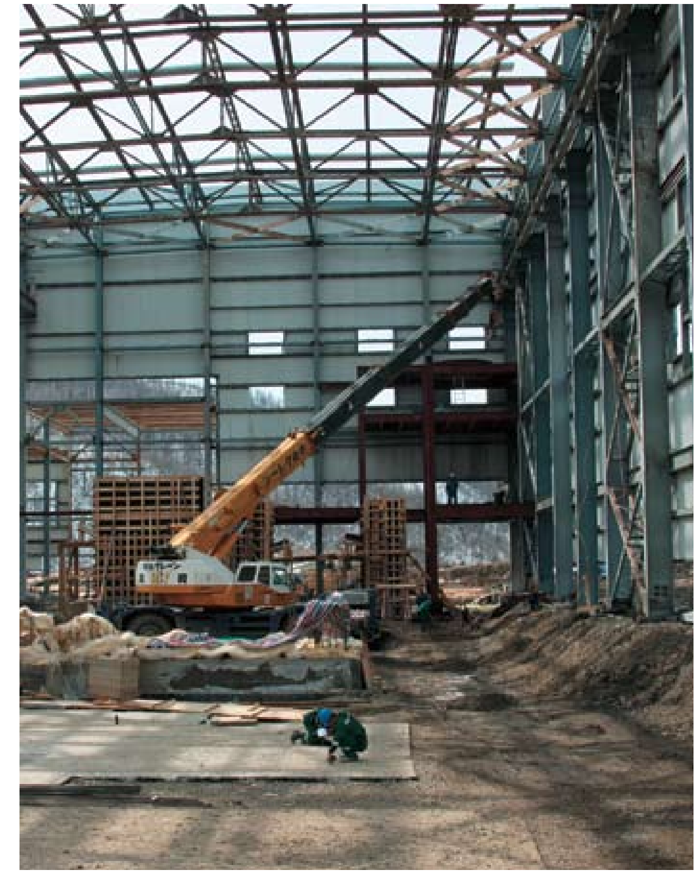
Groundworks at the site of the tailings dam have already been completed. Work has begun to install the barrels of the catch drains. The completion of the construction works on the tailings dam, including the installation of the anti-filtration screen, pulp lines and water lines for the plant, is scheduled for Q3 2010.

Two of the seven 3,000 cu.m. tanks at the main fuel warehouse in the settlement of Oglongi and all five 1,000 cu.m. tanks at the fuel warehouse in Albazino had been installed by the end of 2009. Works have begun to install pipelines and other equipment. The completion date has been set for the summer of 2010, so that the fuel for the mining equipment and diesel power plants could be brought in before the end of the shipping season.

The erection of the facility housing the hydrometallurgical floor is scheduled to begin in Q2 2010, once the foundation blocks and steel frames have been manufactured. All the building works need to be completed before the onset of winter so that engineers could proceed to install the machinery. The installation of the footing for the machinery –especially the 160-tonne autoclave – will also begin in Q2 2010. The autoclave will be brought in August and immediately installed on the footing. The installation of the remaining equipment will follow in September.

The Company has hired a team of foreign specialists to oversee the installation of the equipment and the start-up of the hydrometallurgical floor. This team has overseen the commissioning of several similar projects in various parts of the globe. The decision to bring in foreign consultants will reduce the risks posed by unfamiliar technology and enable the new plant to achieve full capacity much sooner. The team will also train the Russian engineers working at the Amursk plant.

The auxiliary floors of the Amursk plant, including the repairs shop, the administrative building, the laboratory, etc. should all be completed by the end of 2010. An apartment block in Amursk that can accomodate 30 families was refurbished in 2009 for the Amursk POX plant staff.



Albazino Resources Ltd.

Operational indicators	Unit of measurement	2008	2009
Waste mined	tousand cub. m	–	1,051
Ore mined, incl.	thousand tonnes	–	–
Primary ore	thousand tonnes	–	–
Oxide ore	thousand tonnes	–	–
Ore processed at a gold-processing plant	thousand tonnes	–	–
Gold head grades	g/t	–	–
Silver head grades	%	–	–
Total recovery of Au	%	–	–
Total recovery of Ag	%	–	–
Gold production	Koz	–	–
Silver production	Koz	–	–

LLC Zolotorudnaya kompaniya Mayskoye

Location: Chukotka Autonomous District
Deposit: Mayskoye
Resources: Au 7.5 Moz (19.8 mln tonnes of 11.8 g/t ore)
Processing: flotation; the resulting concentrate will then be shipped to the Amursk POX plant for autoclave leaching
Capacity: 850,000 tonnes of sulphide ore annually, over 200,000 Koz of gold annually
Capital expenditure: USD 160mln
Start/completion: 2009–2012

Mayskoye is one of Russia's five largest gold deposits. It is located in the northwest of Russia, in Chukotka, some 180 km away from the port of Pevek. There is currently no JORC-compliant audited estimate of the deposit's reserves. The Company plans to submit the findings of the Mayskoye feasibility study for an audit at the beginning of Q3 2010.

More than 90% of the Mayskoye ore is of the refractory type and requires pre-treatment to improve recovery. It is due to these difficulties that the numerous previous attempts to develop this deposit have all ended in failure. Extensive technological tests on the Mayskoye ore have confirmed its suitability for bacterial leaching (BIOX) and autoclave leaching (POX).

Before the acquisition of the Mayskoye deposit by Polymetal, Australia's Aker Kvaerner and several Russian institutes worked on the designs for the Mayskoye processing plant for the previous owner. Ore would have been mined using the underground mining method and then processed using flotation, biological leaching and adsorption with ion-exchange resin (RIL) technology. The previous owner had begun development at the site. The railway branch, the staff compound, heated warehouse and repair shops had actually been completed by the time the deposit was acquired by Polymetal. Work had

also begun to build a 35 kW transmission line to connect the site to the regional electricity grid. Large sections of the groundworks at the future concentration plant site had also been completed.

Polymetal revised the previous owners' designs and decided to use another technology for ore processing. The Company is confident that its extensive experience in building and operating mining facilities in remote locations with harsh climates and difficult logistics will be the determining factor in ensuring the success of the Mayskoye project.

Polymetal views Mayskoye as one of the sources of refractory concentrate for the Amursk hydrometallurgical plant in the Khabarovsk territory. Processing of Mayskoye concentrate at the Amursk facility will be part of the overall corporate strategy of building a hub in Amursk to process refractory gold ore from various deposits in the Russian Far East. Mayskoye concentrate will be shipped from the port of Pevek to other Far Eastern ports during the navigation season and then taken to Amursk by rail.

The acquisition of Mayskoye has enabled Polymetal to achieve a number of strategic objectives:

- To acquire a world-class gold asset with large resources of high-grade ore and excellent prospects for converting these resources into reserves;
- To secure a foothold in Chukotka, which is considered to be Russia's most promising region in terms of the chances of discovering new world-class gold deposits;
- To achieve savings in the capital expenditure programme through synergies with the Amursk POX plant.

In 2009 the Company developed a new procedure for processing the Mayskoye ore, which includes the traditional grinding, flotation, concentration, and drying stages. The first-stage mill has already been purchased and delivered to Vladivostok, from where it will be brought to Mayskoye. Orders for the remaining equipment will be placed in Q2 2010 for delivery to Mayskoye during the 2010 and 2011 shipping seasons.

Groundworks have begun at the water reservoir dam site. The reservoir will supply water to the staff compound and the plant itself. The dam should be completed in 2010, once the seasonal refrigeration unit is installed.

The fire assay lab with a new sample preparation unit was built and commissioned in 2009. It will improve the quality and volume of the mineral sampling programme.

The construction of the 35 kW electricity transmission line will be completed in the summer of 2010. Engineers will then install a 35/6 kW substation. The switch from the autonomous diesel power plants now supplying Mayskoye with electricity to Chukotka regional grid is scheduled for Q1 2011.

Groundworks and concrete works at the site of the main floor of the gold concentration factory will begin in 2010 as soon as the warm season starts. Steel frames and wall panels for the future plant will be brought during the 2010 shipping season and installed starting from Q3 2010, with a completion date in early 2011.

Polymetal has scheduled the launch of the Mayskoye concentrator for Q2 2012. First concentrate from the plant will be brought to the Amursk POX plant during the navigation season that same year.

LLC ZK Mayskoye

Operational indicators	Unit of measurement	2008	2009
Underground development	linear metre	–	948
Ore mined	thousand tonnes	–	–

EXPLORATION

Polymetal views the task of increasing its resource base as a top priority. Geological exploration is the foundation of sustainable growth in the medium and long term. In 2009 Polymetal conducted exploration programmes in three Russian regions: the Magadan region, the Sverdlovsk region and the Khabarovsk territory. In the second half of 2009, the geography of exploration was expanded through the acquisition of assets in Kazakhstan (the Varvarinskoye gold deposit and the surrounding exploration area of 217 sq.km.) By the end of 2009, the Company's exploration projects portfolio included 23 mining licences with a total licenced area of 6,300 sq.km.

The Company's exploration programme pursues three main objectives. The first is to replenish and supplement the mineral resources of the existing mining operations. The second is to discover industrial-scale deposits where new mining facilities could be built. The Company is also exploring for new coal deposits, which can be a source of fuel for its mining facilities and other industrial infrastructure.

Amid the global economic crisis, the Company scaled back its exploration programme in 2009. The key indicators as of January 1, 2010 were as follows:

- Drilling

61,000 meters;

- Exploration ditches

183,000 cub.m.;

- Geochemical exploration

19,000 samples;

- Geophysical surveying

10 sq. km.

Total expenses on exploration amounted to USD 26mln in 2009. USD 18.5mln were capitalised, while USD 7.5mln were expensed as part of operational expenses because this part of expenditure did not result in new resources measured and estimated in compliance with the JORC code. As the economic situation continues to improve, the Company expects that the 2010 figure will return to the pre-crisis level of USD 30mln.

Key 2009 exploration highlights:

- As a result of acquisitions and own exploration programme, the Company increased its JORC-compliant mineral resources estimate from 8.3 Moz of gold in 2008 to 20.5 Moz in 2009; silver resources rose from 514.4 Moz to 610.9 Moz;
- At the Albazino deposit, which is now being developed ahead of the launch of commercial production, the resources of gold in high-grade ores rose by 437.3 Koz. The resource base of the new asset has now reached 3.5 Moz (Polymetal's internal estimate);
- A new gold ore deposit, Tamuner, has been discovered in the Sverdlovsk region. Exploration there is not yet complete, but the current estimate of the gold resources at the new deposit as of January 1 2010 is 800-1,000 Koz, with a realistic chance, based in the geological conditions, of that figure rising to 2.6-3.2 Moz;
- Following a comprehensive exploration programme, the Goltsovoye deposit in the Magadan region is now ready for industrial-scale production. Additional exploration has confirmed the findings of the State Reserves Commission concerning the amount and grade of the silver ore at the site.
- Promising results have been obtained during exploration in the Magadan region, in the Burgali, Prognozniy, and Rogovik areas, suggesting a fair chance of finding commercially viable deposits of gold ore there;
- Exploratory drilling in the Arylakh area has been done to assess the mineral resources of high-quality anthracite coal there as part of the first stage of the Company's coal programme.

Key exploration objectives for 2010:

- Identify additional mineral resources at the existing mining operations to the tune of 2.6 Moz of gold and 26.6 Moz of silver;
- Create a solid mineral base of gold and silver for the launch and sustainable long-term operation of the Kubaka processing plant (Omolon hub);
- Obtain official confirmation of the size of the reserves at the Birkachan an Oroch fields;
- Conduct additional exploration at the Dalneye deposit;
- Explore the Rogovik (the Magadan region) and Agniye-Afanasyevskiy (the Khabarovsk territory) areas to estimate the gold ore resources there as part of the corporate programme to develop a new generation of mining assets;
- Conduct JORC-compliant assessment of anthracite coal resources at the Bulursk deposit. Secure rights to the Bulursk coal resources at the State Reserves Commission so as to develop the deposit for commercial production;

Independent geological exploration projects

Albazino

The licenced area (82 sq.km) is part of the Polina Osipenko administrative district in the east of the Khabarovsk territory. The distance to Khabarovsk is 500 km.

The ore body here is represented by flat-dipping deposits in two main zones (Anfisinskaya and Olginskaya), which belong to a single ore controlling structure aligned along the north-eastern axis. The length of the ore-bearing zone is 1,700 meters.

In 2008, the Albazino deposit was estimated in the official government records as containing 2.15 Moz of gold, with an average ore grade of 6 g/t. In late 2008, a JORC-compliant audit estimated the Albazino resources at 2.94 Moz of gold, with an average grade of 4.3 g/t.

In 2009, the Company drilled 28,135 metres of exploratory boreholes at Albazino and mined 121,692 cu.m. of sub-surface shafts. The objective was to increase the resource base of the deposit and locate promising new ore zones at the edges of the ore field. Thanks to exploratory drilling, the mineral resources of the Olginskaya zone have almost doubled in just one year, reaching 858.4 Koz as of late 2009.

In 2010 the Company will continue exploration in a number of areas where industrial-grade cross-sections were found in some shafts in 2009. It will continue validation at the promising geochemical and geophysical anomalies found at the edges of the licenced territories.

Rogovik area

The licenced area of 397 sq.km is part of the Srednekanskiy administrative district in the Magadan region. It is situated on the left bank of the river Kolyma, some 200 km north-north-west of the Dukat deposit.

The known ore occurrence at Rogovik is a near-surface gold and silver formation or the vein-disseminated type.

Government experts have estimated the resource potential of the Rogovik ore field at 3.2-4.5 Moz of gold, with an average grade of 3-5 g/t and more.

In 2009 the Company conducted initial-stage exploration in the licenced area, including observations along the prospecting traverse, geochemical prospecting

and some mining (2,660 cu.m) to confirm the previous exploration findings. As a result, the area of the productive geochemical gold anomaly at the Rogovik ore occurrence increased substantially, and new potentially gold bearing structures were found. Most of the samples collected during the prospecting season are now being processed.

In 2010 the Company intends to explore the ore-bearing structures of the Rogovik area by drilling 100-200 metres deep and digging exploration trenches at other already identified geochemical anomalies and structures. It will also continue surface exploration of the licenced area.

Arylakh area

Polymetal has launched an independent geological exploration programme aimed at securing its own resource base of power-generation coal. That coal will be used to supply the needs of Russia's Far Eastern regions, Polymetal's own operations in the Magadan region and foreign buyers.

The licence to explore and develop coal deposits in the Arylakh area was obtained in 2008.

The area is situated 10 km north-east of the Lunnoye deposit. It is part of the Bulursk coalfield. That coalfield is part of the large Omsukchan coal basin, which lies in the direct vicinity of the Company's existing precious metals exploration and production operations.

In 2009 the Company explored the coal deposits at the Arylakh area by drilling 42 boreholes with a total length of 4,448.5 meters. The preliminary estimate of coal reserves in the three main coal beds is 24 mln tonnes. The reserves are rated as Category C1 in terms of their exploration maturity. All of them are situated in a continuous permafrost zone and are suitable for open-pit production. Tests suggest that most of the Arylakh coal is rank AB (anthracite).

A test pit was dug in late 2009 to reach the Moschniy coal bed and take large-volume technological samples. The pit is now in production.

In 2010 Polymetal expects to complete coal exploration at Arylakh to register the reserves at the site with the State Reserves Committee and conduct a JORC-compliant audit. The Company will also work to secure mining licences for adjacent areas of the Omsukchan coal basin.

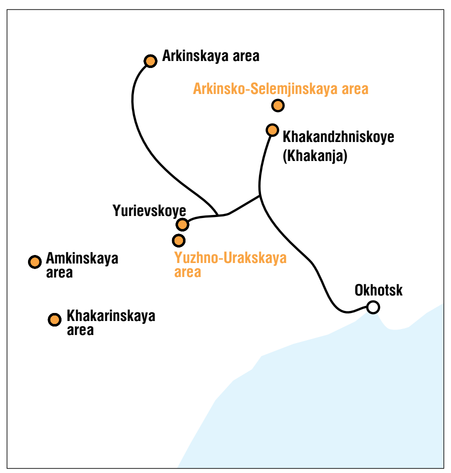
Galka deposit

The area is situated in the Karpinskiy District of the Svedlovsk region, some 40 km west of Polymetal's existing Voro operation. Working under an exploration licence issued in 2006, the Company conducted an extensive exploration programme in the area in 2006-2008. It found a medium-size copper and zinc deposit, with gold and silver as by-products.

In May 2007 Snowden Mining Industry Consultants estimated the Galka mineral resources under the JORC guidelines at 588.4 Koz of gold, 15.4 Moz of silver and 175,000 tonnes of zinc, all contained in 14.2 mln tonnes of ore with the respective average grades of 1.3 g/t, 33.7 g/t and 1.24 g/t.

In 2009 the Company completed a technical and economic feasibility study for the deposit. A government audit of this feasibility study and the results of the assessment of the deposit's resources by the State Resources Committee is expected in the third quarter of 2010.

Regional programmes



Okhotsk regional programme

The overall area under licence for this programme is 2,700 sq.km.

The programme is aimed at developing the mineral resources base in the area of the existing Khakanja processing plant. The geographic scope of the programme includes promising areas adjacent to the ore fields of the Khakanja and Yuryevskoye deposits, which are already in production.

Exploration efforts in 2009 focused on two areas: Arkinsko-Selemdjinskaya and Yuzhno-Urakskaya.

Exploration work (1,726 metres of drilling and 26,700 cu.m of ditches) was conducted at two Yuzhno-Urakskaya sites, Skarnoviy and Goreliy, located within a 15 km radius from Yuryevskoye. It was established that the previously discovered sub-surface ore bodies here have a very limited potential and their gold resource is below 32 Koz. Exploration at other areas yielded negative results. In late 2009, exploratory drilling began at the Yuryevskoye deposit to establish the commercial viability of the sub-pit gold reserves if they were to be produced by underground mining. In the event of positive geological findings, ore mining at the existing Yuryevskoye operation will be extended by another two or three years.

Exploration at the Arkino-Selemdjinskaya area focused on the south-eastern part of it, which abuts the Khakanja ore field. In order to confirm areas with promising geological structures (similar to the Khakanja deposit), the Company conducted geochemical exploration at the secondary mineral dispersion halo and manual digging of exploratory trenches (2,000 cu.m). The results obtained are ambiguous. The samples already tested have a grade of less than 1 g/t. Some of the samples are still being processed. Aerial surveying of the northern parts of the territory has identified several areas (Ozerniy, Mankandja) which have geological and geochemical features similar to the Khakanja deposit. The Company will continue exploration in these areas in 2010.

Amursk regional programme

The overall area under licence for this programme is 1,162 sq.km.

This regional prospecting programme aims to secure a long-term precious metals resource base for Polymetal's new assets in the region: the Albazino processing plant and the Amursk POX plant.

Exploration efforts here are focused on the Nizhneamurskaya metallogenic zone, which covers the northeastern fault area from Komsomolsk-upon-Amur in the south to Shantar Islands in the north.

The key mineral resource in this area is gold. Two large gold deposits have been discovered within the metallogenic zone: Mnogovershinnoye and Albazino. There are also several smaller deposits, including Kutyn, Belaya Gora, and others. The exploration maturity of the area for lode gold is generally low. Government geological surveys have discovered numerous direct signs of gold ore mineralisation. Exploration efforts in previous years focused mainly on areas showing quartz veining but only small sub-commercial deposits were found. The discovery of the large Albazino gold ore deposit calls for a revision of the existing view that the chances of finding gold ore in the Nizhneamursk metallogenic zone are low. Polymetal believes that a radical change in the prospecting approach here could lead to the discovery of several world-class gold ore deposits.

The new processing conglomerate now being built (the Albazino concentrator plus the Amursk POX plant) is situated within the boundaries of the Nizhneamursk metallogenic zone. The regional exploration programme will gradually be expanded to cover the majority of the new promising areas in this zone. The Company will secure the prospecting and mining licences for these areas. The first steps in that direction were made in 2008 and 2009, when Polymetal secured licences for the Agniye-Afanasyevskiy, Kherpuchinskiy, Vostochniy and other areas. The Company will work to secure additional licences for the Amursk regional programme in 2010-2011.

Agniye-Afanasyevskaya area

In 2009 Polymetal acquired a licence for prospecting, exploration and production of vein gold in the Agniye-Afanasyevskaya area (441 sq.km) In recent years, several reputable specialists from the government geological service have expressed the opinion that there is a good chance of finding large gold deposits in this area's carbonic sulphide rock.

Reconnaissance work conducted by the Company in 2009 confirmed the presence of gold-bearing rock and identified a number of priority areas for further exploration in 2010.

Omsukchan regional programme

The overall area under licence for this programme is 2,800 sq.km.

The programme aims to secure a high-quality mineral resource base for the Company's existing processing facilities in the area. The industrial infrastructure already built here by Polymetal is sufficient for annual production of 16-17.7 Moz of silver. In 2009, the capacity of the Omsukchan gold concentration plant was increased by 50% to 1.5 Mtpa.

Goltsovoye deposit

The deposit is situated 84 km south of the Dukat processing plant. The acquisition of this asset in 2008 will enable the Company to significantly improve the quality of the ore being sent to the Dukat plant for processing in the very near future.

A 2007 estimate by Wardell Armstrong International puts the silver resources at the deposit at 69 Moz, with an average grade of 878 g/t.

In 2009, the Company conducted preliminary operational exploration of the ore bodies at the ore zones of the first and second deposits to prepare the reserves for production. The findings of the exploration almost completely confirmed the figures arrived at under the Russian classification.

Taking this new data into account, the Company plans to conduct a JORC-compliant external audit of the Goltsovoye resources and reserves and then commence development work at the site.

In order to increase the resource potential of the deposit, further exploration will be conducted using exploratory drilling and mining of the established and newly discovered ore bodies.

Dukat flanks

Exploration conducted in the Dukat ore field in 2008 (using prospect mapping drilling and aerial surveying) indentified several promising silver sites (Zvezdniy, Svetliy, Nachalniy-1). In 2009, the Company began digging exploration trenches and drilling boreholes at those sites.

In 2009, the Company found some silver mineralisation at the Zvezdniy site, with the average silver grade within the zone at 107.5 g/t and the average thickness of 5.8 meters. Further drilling will be conducted in 2010 to see whether commercially viable ore shoots can be found here.

At the Svetliy site, prospectors found a series of steep dipping crush zones of the north-eastern bearing. The best of them showed a silver grade of 147 g/t at 3.0 meters. Column drilling was launched in the hope of finding a blind ore body of the silver-polymetallic type. Yet, four boreholes in two profiles did not show any improvement and drilling was stopped.

The Vetreniy-Volynskiy site is situated 30 km southwest of the Omsukchan gold-concentration factory. In 2008, prospectors found contrasting silver anomalies with a grade of up to 100 g/t in the secondary dispersion halos. Silver concentration in some of the grab samples was as high as 1-5 kg/t. Three exploration ditches were dug at the site in 2009, discovering ores with a silver grade of up to 451 g/t. The Company will conduct drilling here in 2010 to ascertain commercial viability.

Omolon regional programme

The overall area under licence for this programme is about 780 sq.km.

The objective is to secure a high-quality resource base in order to resume operations at the refurbished Kubaka processing plant on a sustainable long-term basis.

Further exploration will be conducted at the Company's existing deposits (Birkachan, Oroch, Sopka Kvartsevaya, Dalneye, Kubaka) and ore occurrences (Prognoznoye, Burgali).

In 2009, prospectors drilled 2,571 metres of boreholes and mined 11,025 cu.m of underground workings.

Sopka Kvartsevaya deposit

The deposit is located 140 km south of the Kubaka processing plant. A total of five ore bodies have been discovered here.

The 2009 JORC-compliant (by AMC auditor in 2007) estimate of the deposit's resources is 820 Koz of gold and 20.6 Moz of silver, with the respective average grades of 8 g/t and 200 g/t.

In 2009, the Company conducted preliminary operational drilling (2,596 metres) and began open-pit mining. Ore mining at the site reached 91,691 tonnes in 2009, including 1.2 tonnes of gold and 32 tonnes of silver.

Birkachan deposit

The Birkachan gold and silver deposit is situated 25 km north of the Kubaka plant. Most of the gold and silver mineralisation is located within the Birkachan ore zone.

As of 31 December 2008, the deposit's gold resources confirmed by the auditor (SRK Consulting Limited) were estimated at 1.4 Moz of gold and 6.7 Moz of silver, with the respective average grades of 2.4 g/t and 11.8 g/t.

In 2009, Polymetal began industrial-scale processing of low-grade gold ore using heap leach technology. By the year's end, 30 kg of gold (in dore gold form) had been produced. Recovery of gold and silver by heap leach will resume at the start of the warm season of 2010. The Company began preparations in 2009 to obtain all the required permits from the government agencies ahead of launching full-scale production.

Roughly 4,800 metres' worth of exploration drilling is scheduled for 2010 at the eastern flank of the Birkachan ore zone. The Company hopes that the deposit's mineral resources will increase by 100-130 Koz of gold as a result.

Oroch deposit

The deposit is located some 80 km south of the Kubaka plant.

As of December 31 2008, the deposit's gold resources confirmed by the auditor (SRK Consulting Limited) stood at 201 Koz of gold and 10.3 Moz of silver, with the respective average grades of 3.2 g/t and 167 g/t.

In 2009, Polymetal began its own exploration works at the deposit, completing 2,571 metres of drilling and 11,025 cu.m of underground mining. Promising new sites have been identified as a result.

Some 4,000 metres of exploratory drilling is scheduled for 2010 at the flanks of the ore zone aiming to confirm promising new geophysical anomalies at the periphery of the zone. Surface geophysical surveying and confirmation drilling will be done at the eastern edges of the main ore-bearing zone, covered by basalt rock. If geological projections are confirmed, the mineral base of the deposit will increase by at least 50%.

Dalneye deposit

This small deposit is situated 5 km from the Sopka Kvartsevaya operation. Estimated reserves in the C1+C2 categories stand at 176.8 Koz of gold and 4.5 Moz of silver. The total amount of ore is 947,000 tonnes, with the respective average grades of 6.5 g/t and 150.5 g/t.

The blueprint for additional exploration of the deposit was completed in 2009. The geological testing for the project was conducted and its findings accepted by Magadannedra, the government mineral resource agency.

Exploratory core drilling is scheduled for 2010 at the No 1 and No 3 main ore bodies. Once it is completed, findings of the feasibility study will be submitted to the appropriate government agency for approval.

Prognoznoye ore occurrence

The deposit is situated 95 km south-south-west of the Kubaka plant. Two flat-inclined ore bodies have been found in the central part of the site in 2009. The projection for gold resources in these two formations is 331.2 Koz. Other anomalies have been found but not yet confirmed. The estimated total resources at the site are therefore at least 1.3-1.6 Moz

To ascertain the commercial viability of the site, the Company will conduct further exploration in 2010 including trenching, drilling, and surface geophysical surveying.

Burgali site

In 2009, Polymetal acquired a gold and silver exploration and production licence for this site, located some 65 km northeast of the Kubaka plant.

Field work conducted in 2009 confirmed the presence of gold in commercially viable concentrations.

The Company has scheduled 25,000 cu.m of mining at the site as well as wider-area geophysical and geochemical exploration for 2010. The results will be used to assess the commercial prospects of the site and schedule further drilling for 2011.

Pyatinakh area

In September 2009 Polymetal won the licence for this site at an auction. The area is situated to the northeast of the Birkachan deposit. The distance from the center of the area to the

Omsukchan GCP is 40-50 km. In 2010 the Company will prepare blueprints for exploration work and field reconnaissance to select the most promising sites for further exploration.

Also in 2010, Polymetal will review the most promising sites in a 50-60 km radius from the existing mines (Kubaka, Birkachan, Sopka Kvartsevaya) to select candidates for licensing in 2011.

Northern Urals regional programme

The overall area under licence for this programme is 93 sq.km.

Exploration is being done in the Sverdlovsk region, where Polymetal already has a processing plant supplied by the Voro deposit. The objective is to increase the mineral resource base of the Voro processing facility and discover new deposits or gold ore.

As part of the programme, the Company conducted exploration works at the Tamuner and Volchansk areas in 2009.

Volchansk area

The site is situated some 45 km north of the Voro processing plant. Available exploration data indicate the presence of a gold sulphide deposit of the Voro type in the licenced area.

In 2009, the Company conducted a range of geophysical and geochemical works in the area. Prospecting for ore gold will continue here in 2010 using the surface mining method. The entire area of potential sites will be explored using geophysical and geochemical methods.

Tamuner site

The site is located 300 km north of the Voro processing plant. Two ore bodies (Upper and Lower) have been identified at this stage. Gold grade in the available samples has been low to moderate (1.5-5 g/t), with only sporadic silver grade.

In 2010, the Company will conduct exploratory drilling to ascertain the resource potential of the Stvolovaya zone.

CAPITAL EXPENDITURE

In 2009, Polymetal spent USD 222.2mln on capital investment, which is almost double the previous year's figure of USD 112.5mln. Creating large processing hubs and increasing output remains at the focus of the corporate investment policy, accounting for 82% of CAPEX spending in 2009. Four large acquisitions have also contributed to growing capital expenditure in 2009.

JSC Polymetal, 2009 CAPEX

	USD mln
Development projects	
Dukat (incl. Goltsovoye)	18.7
Vorontsovskoye (Voro)	4.7
Albazino	122.6
Mayskoye	18.9
Omolon	19.0
Total Development projects	183.9
Maintenance	
Dukat and Lunnoye	10.5
Vorontsovskoye (Voro)	4.9
Omolon	1.1
Khakanjinskoye (Khakanja)	3.4
Total Maintenance	19.9
Exploration	
Omsukchan Exploration programme	2.4
Mayskoye	2.1
Omolon Exploration programme	4.6
Albazino	8.4
Other	1.0
Total Exploration	18.5
Total CAPEX	222.2

Some USD 122.6mln was invested in 2009 in the Albazino-Amursk project, compared to USD 45.6mln in the previous year. Most of that money was spent on buying equipment for the flotation plant and the autoclave leaching (POX) plant. All footing and infrastructure at the Albazino site has been completed. The project is on schedule; the launch of the mine and of the flotation concentrator is scheduled for Q4 2010. The POX plant is on track for a Q2 2011 launch.

Another USD 29.2mln was spent on completing the capacity-upgrade programme at the Dukat processing plant and on the purchase of additional underground mining equipment for the Dukat, Lunnoye, and Goltsovoye deposits. Investment in the Omolon operations reached USD 19mln. Most of it was spent on building a pilot heap leach plant in Birkachan, the purchase of mining equipment for the Birkachan and Sopka Kvartsevaya deposits, and preparations for the launch of the Kubaka plant, which is scheduled for Q3 2010.

In January 2009, Polymetal completed the refurbishment of the Voro processing plant. Its capacity has doubled to 950,000 Ktpa. The total capital expenditure on the project reached USD 4.7mln.

Spending on the retooling programme fell to USD 20mln in 2009, down 20% on the previous year's figure of USD 25.4mln, as a result of stringent cost controls amid the global economic crisis.

Polymetal continued its extensive exploration effort as per the respective regional programmes in 2009. However, as part of the ongoing cost control measures amid the world economic crisis, spending on geological exploration fell from USD 32.7 mln in 2008 to USD 26 mln. Out of that sum, USD 18.5mln was capitalised, and USD 7.5mln written off as operational costs after failing to yield any results in the form of JORC-compliant estimated or measured resources. Albazino and Omolon are the two priority projects in the Company's exploration programme. They are aimed at securing a long-term resource base for the Albazino, Amursk and Kubaka operations. In 2010 Polymetal intends to return to the pre-crisis levels of investment in geological exploration in the regions where it has already established a presence, with the aim of discovering the next generation of commercially viable assets.

ENGINEERING

Key figures:

155 – highly qualified specialists

24 – patents

8 – ore-processing facilities designed from scratch

One of Polymetal's key competitive advantages is its own engineering centre (JSC Polymetal Engineering). The entire range of works required to develop a new ore deposit can therefore be done in-house. The division has all the necessary resources for testing the suitability of ores for various types of processing, selecting the best processing technology and designing the processing facilities. Polymetal Engineering is considered to be the Russian industry leader in developing processing technology and designing industrial facilities for precious metals, ferrous and nonferrous metals, and precious stones operations.

The key task for Polymetal Engineering is to provide Polymetal operations with designs and blueprints for every stage of investment projects (assessment of the potential sites, development of the new deposits, construction and operation of processing plant).

The in-house engineering centre supplied Polymetal's operations with all the required up-to-date designs and blueprints in 2009, expediting the development and operation of ore deposits. Given the acquisition of new assets, which the Company plans to move into the production stage in the near future, the engineering centre did not take on any new contracts in 2009.

In 2009 Polymetal Engineering worked on 273 separate projects at various stages of design. Some 126 of those projects had been completed. Apart from those 126 projects, it also produced 5 design specifications and 3 operating procedures and published 5 research papers. Polymetal is additionally working to secure intellectual property rights for its projects and research. As of 2009, the Company held 24 valid patents for its inventions.

In 2009 Polymetal Engineering developed and implemented a quality assurance system. Following an audit by experts of the Swiss SGS company's Russian division, the system was certified under the international ISO 9001-2008 standard.

In compliance with Russian legislation, Polymetal Engineering has become a member of a not-for-profit partnership Design Organisations of the Northwest (a self-regulating agency) and obtained a certificate confirming that the Company is qualified to work on safety-related designs for major construction projects. Following the abolition of the permit licencing system, this step has enabled Polymetal Engineering to carry on with its normal operations.

Projects completed in 2009 for Polymetal operations

Khakanja

In 2009, Polymetal Engineering specialists produced a number of technical and economic calculations on the commercial viability of extracting deposits below the Khakanja open pit via further mining, using the underground mining method. They came up with the key design solutions and identified the most suitable technological solutions for extracting ore from various parts of the underground deposit.

All that work has enabled the Company to make an informed decision about developing the sub-pit reserves at Khakanja using underground mining technology. Based on these calculations, in the second half of 2009 Polymetal Engineering experts began work on the final mining parametres for Khakanja. The decision to develop the sub-pit ore reserves will enable the Khakanja operation to extend production by an additional 3-4 years.

Dukat

In 2009 Polymetal Engineering provided technical support as part of the submission of design documentation for the new Dukat mine to the central commission for mineral resources. Based on that design documentation, a large portion of blueprints for the future mining activities has already been produced. That work will continue in 2010.

The engineering centre also oversaw the launch of the ore control station at the Omsukchan GCP, which allows ore testing to be done in on-line mode.

Lunnoye

The engineering centre produced design documentation in 2009 for extracting ore at the Lunnoye deposit using underground mining. The project has been successfully tested in accordance with industrial safety rules and regulations.

In addition, the centre produced working drawings for the second and third units of the tailings dam. It also oversaw the introduction of ElvaX-Geo portable equipment for geophysical testing at Magadan Silver division's Lunnoye processing plant.

Goltsovoye

The engineering center conducted technological tests on samples of ore and concentrate from the Goltsovoye deposit. It also developed the procedure and specifications for processing Goltsovoye ore at the second unit of the Omsukchan plant using the new gravity processing unit to produce saleable lead concentrate.

The centre also produced a number of technical and economic calculations for ore mining at Goltsovoye, including feasibility calculations for open-pit mining, infrastructure optimisation, and the choice of technology and equipment for underground mining at the site.

Mayskoye

Mayskoye is one of Polymetal's new assets. Designs produced in 2009 for the Mayskoye processing facility were only preliminary. But the centre has completed all the basic technical and economic calculations and produced the general design documents for the new deposit. It has also developed the main landscaping solutions for the water reservoir that will supply the processing plant.

Polymetal Engineering specialists have also done laboratory tests to work out the technology and specifications for Mayskoye ore and concentrate processing. They developed a set of technological specifications for the feasibility study and formulated the initial requirements for the equipment and its contracting.

Kubaka

In 2009 Polymetal Engineering produced a set of designs for the refurbishment of the tailings dump at the Kubaka processing plant for storing ore tailings from the gold concentration plant. Once implemented, the project will ensure the efficient and sustainable operation of this plant, which will process ore from a number of promising new deposits. The project has been sucessfully tested by the Khabarovsk branch of the Russian State Expert Evaluation Department.

The centre also conducted tests to determine the best processing technology for the Sopka Kvartsevaya ore and developed a set of technological specifications for designing a new Merrill-Crowe floor at the Kubaka processing plant.

Birkachan

In 2009 the centre worked on a project to identify the best strategy to ensure efficient and sustainable operation of Omolon Goldmining Company. It conducted technical studies on processing the deposit's low-grade ore using heap leach technology and produced a set of design specifications.

Polymetal Engineering experts also produced the designs and specifications for a pilot operation that will process gold-containing waste rock from the Birkachan deposit using heap leach technology. The project will enable the Company to process the ore produced as part of geological exploration. The project has passed the testing of the Khabarovsk branch of the Russian State Expert Evaluation Department.

The centre also produced designs and blueprints for construction and installation works at the Birkachan deposit.

Voro

In 2009 the centre produced designs and specifications for extending open-pit operations to the Yuzhniy site of the Voro deposit. The project will extend the operation life and increase the capacity of the existing oxide ore-processing plant. The project has passed the testing of the industrial safety department; it has also been registered with the federal environmental, technology, and nuclear safety agencies.

In late 2009, Polymetal Engineering successfully presented a number of projects related to the construction of a processing plant at Voro before the central commission for commercial mineral resources.

Albazino processing plant

In 2009, Polymetal Engineering worked on a set of designs that defined the strategy of building industrial facilities of the Albazino processing plant. It also delivered sets of designs and blueprints for 21 individual Albazino plant facilities.

The centre also provided technical support to subcontractors working on individual designs for Polymetal.

Amursk hydrometallurgical plant

In 2009, Polymetal Engineering delivered the designs and specifications for the future Amursk POX plant. Work has begun to produce the plans and blueprints for the hydrometallurgical floor. The blueprints for the foundations of the administrative building have already been delivered.

The centre also provided technical support to the subcontractors working on individual designs for Polymetal.

ENGINEERING

Key tasks for 2010

- Conduct studies and develop the procedure and specifications for processing ore from the Mayskoye facility into concentrate at the local processing plant, with subsequent processing of the concentrate at the Amursk plant;
- Produce operational procedures manual for processing the Goltsovoye ore at the second unit of the Omsukchan GCP;
- Conduct relevant studies and optimise technological solutions for Polymetal's new Varvarinskoye divison;
- Develop operational procedures for processing the Birkachan and Sopka Kvartsevaya ores at the facilities of the Omolon Goldmining Company;
- Conduct technological studies and develop the procedure for processing ore from the new deposits (Oroch, Dalneye)
- Develop designs and specifications for extending the mining operations at Khakanja to benefit from all available reserves;
- Develop designs and specifications for increasing the capacity of the Omsukchan GCP to enable it to process ore produced at Goltsovoye;
- Develop designs and specifications for underground mining at Goltsovoye;
- Develop designs and specifications for increasing the capacity of the Kubaka plant;
- Develop designs and specifications for the ore-processing plant at the Birkachan deposit;
- Provide technical support during the development of designs and specifications for the Sopka Kvartsevaya processing plant;
- Develop designs and specifications for the Mayskoye processing plant;
- Provide all the necessary designs, specifications, and blueprints for the current construction projects.

Oleg Konnov

My Mom is a specialist engineer. She knows everything about factory operations, down to every last detail.

CORPORATE GOVERNANCE

JSC Polymetal is a holding company that directly or indirectly owns the shares of other companies, both in Russia and abroad. The constituent entities comprising the Polymetal group of companies may be put into one of three operating categories:

JSC Polymetal

Production & facilities currently under construction

- **CJSC Magadan Silver** – Dukat, Lunnoye, Arylakh deposit, Dukat prospective area, Dukat ore field, Rogovik, Bulur area
- **OJSC Okhotskaya Mining and Exploration Company** – Khakandzhinskoye, Yuryevskoye, Amkinskaya area, Arkinsko-Selemdjinskaya area, Yuzhno-Urakskaya area, Khakarinskaya, Arkinskaya area
- **LLC Zolotorudnaya kompaniya Mayskoye** – Mayskoye
- **JSC Varvarinskoye (Kazakhstan)** – Varvarinskoye
- **CJSC Gold of Northern Urals** – Vorontsovskoye, Katasminskiy, Rudnichniy, Tamunersky, Volchansky
- **LLC Uralskoye geologoravedochnoye predpriytiye** – Degtyarskoye
- **Albazino Resources Ltd.** – Albazinskoye, Agniye-Afanasyevskiy
- **OJSC Omolon Gold Mining Company** – Kubaka, Birkachan, Oroch, Prognoznoye, Pyatinakh area, Burgali area
- **CJSC Prospectors Artel Ayax** – Goltsovoye
- **LLC Rudnik Kvartseviy** – Sopka Kvartsevaya, Dalniy*
- **LLC Amur Hydrometallurgical Plant**

Service companies

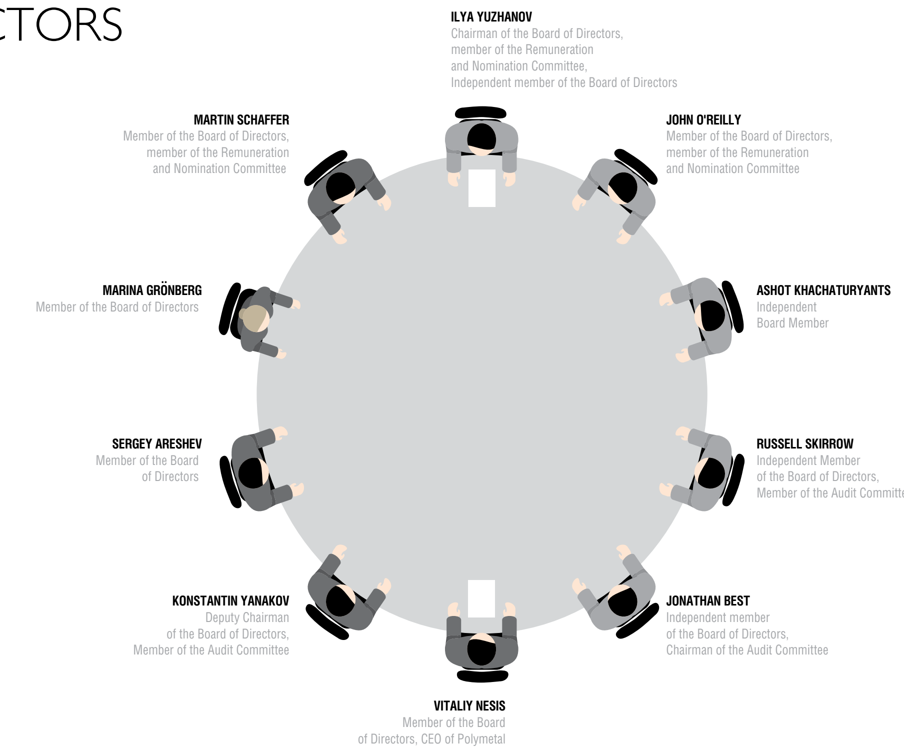
- JSC Polymetal Management
- JSC Polymetal Engineering
- Polymetal Trading Ltd.

Exploration

- **LLC Severno-Uralskoye geologorazvedochnoye predpriyatiye**
- **LLC Northern Urals Polymetals** – Galkinskoye
- **LLC Dukatskoye geologorazvedochnoye predpriyatiye**
- **CJSC Khabarovskoye geologorazvedochnoye predpriyatiye**
- **OJSC Aurum** – Reftinskaya Zone (Fevralskoye and Ikryanskoye)

* the licence for the Dalniy deposit was owned by JSC VneshStroi Group until January 20 2010

BOARD OF DIRECTORS



The Board of Directors is a Company executive body with overall responsibility for the management of the Company's activities with the exception of those matters that the federal law On Joint-Stock Companies places under the purview of the General Shareholders' Meeting (GSM).

Meetings of the Board of Directors (both in presentia and in absentia) occur as needed and are called by the Chairman of the Board of his own accord or upon the request of Board members, directors, an audit commission, an auditor, the Management Board or the CEO. The procedure for calling and conducting meetings is set forth in an internal Company document – the Regulation regarding the Board of Directors.

Board members are elected by the GSM or the Extraordinary General Meeting (EGM) in the manner set forth in the federal law On Joint-Stock Companies for a term ending at the next annual meetings. The Board of Directors is made up of ten members. A meeting is considered valid (there is a quorum) if no fewer than half of Board members take part in it. Decisions are reached by a majority vote cast by the members present.

In accordance with global corporate governance practices and recommendations of the Corporate Governance Code of the Federal Commission for the Securities Market (FCSM)/Federal Financial Markets Service (FFMS) the Polymetal Board has independent directors. For the reporting period, prior to the election of a new Board at the June 29 2009 GSM, the Board had four independent members: Ilya Yuzhanov, Jonathan Best, Russell Skirrow, and John O'Reilly. At a general shareholders' meeting on March 27, 2009, A. Khachaturyants was elected as the fifth independent Board member..

Makeup of the Board of Directors

As of January 1 2009, Polymetal's Board of Directors consisted of nine members: Marina Grönberg, Sergey Areshev, Jonathan Best, Vitaly Nesis, John O'Reilly, Russell Skirrow, Martin Schaffer, Ilya Yuzhanov (Chairman of the Board) and Konstantin Yanakov.

On March 27 2009, an extraordinary general shareholders' meeting (EGSM) took place, where it was decided that the Board would be augmented to include 10 members, with an election to be held to determine its makeup. The folowing members comprised the new Board: Sergey Areshev, Jonathan Best, Marina Grönberg, Vitaly Nesis, John O'Reilly, Russell Skirrow, Martin Schaffer, Ashot Khachaturyants, Ilya Yuzhanov and Konstantin Yanakov. At the first post-shareholder's-meeting gathering of the Board, Ilya Yuzhanov was elected Chairman of the Board.

At a June 29 2009 GSM of Polymetal shreholders, the makeup of the board elected at the March 27 2009 EGSM was subjected to another vote. At the first post-shareholder's-meeting gathering of the Board, Ilya Yuzhanov was re-elected Chairman of the Board.

ILYA YUZHANOV

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

Mr. Yuzhanov is currently on the Boards of NOMOS-BANK, Uralkali and ALROSA. Mr. Yuzhanov has also served on the Boards of several of Russia's largest companies such as RAO UES, Russian Railways, Gazprom, Kirovsky Zavod, NOVATEK, and IDGC Holding. Prior to that, he held various positions with Leningrad and St. Petersburg City Administrations. He served as 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 with a degree in Economics in 1982, and received a PhD in Economics in 1989.

Mr. Yuzhanov has held the position of Chairman of the Company's Board of Directors since October 2008. He was nominated by the Board of Directors.

KONSTANTIN YANAKOV

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

Mr. Yanakov is currently the Deputy CFO at CJSC ICT. Prior to joining ICT, he held various posts at MDM Bank, later becoming the CFO and Chief Economist of Polymetal. He graduated from the Government of the Russian Federation's Finance Academy with a degree in Global Economics and received a PhD in Economics from the State University of Management (Russia). In 2007 Mr. Yanakov received an MBA from London Business School (UK).

Mr. Yanakov has been a member of the Company's Board of Directors since September 2008. He was nominated by Powerboom Investments Limited.

BOARD OF DIRECTORS

VITALIY NESIS

Member of the Board of Directors, CEO of Polymetal

Mr. Nesis has served as the Company's CEO since 2003. In 2002-2003 he was the CEO of Vostsibugol, a major coal-mining company based in eastern Russia. In 2000 Mr. Nesis was the Strategic Development Director at the Ulyanovsk Automobile Plant and, from 2001 to 2002, he headed 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 at Merrill Lynch in New York. He graduated from St. Petersburg University of Economics and Finance with a degree in Economics. In 1997 he graduated from Yale University (USA) with a degree in Economics.

Mr. Nesis has been a member of the Company's Board of Directors since June 2004. He was nominated at a general shareholder's meeting by Powerboom Investments Limited.

JONATHAN BEST

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

Mr. Best is currently an independent member of the boards of AngloGold Ashanti Holdings Plc and Sentula Mining Limited, as well as board member of Metair Investments Limited. Mr. Best has more than 30 years' experience in the mining industry, both at the Corporate and Operational level. In 2006 he served as the interim CEO of Trans-Siberian Gold Plc (UK). Prior to that, he was CFO and Executive Director at AngloGold Ashanti Limited and was involved in both the formation of this company and its listing on the New York Stock Exchange. Mr. Best is an associate member of the Chartered Institute of Management Accountants and the Chartered Institute of Secretaries and Administrators, and has an MBA degree.

Nominated by the Company's Board, Mr. Best has served as an independent member of Polymetal's Board of Directors since December 2006.

JOHN O'REILLY

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

At this time, Mr. O'Reilly is a board member at Nautilus Minerals NL. Previously, he was a board member at Lion Selection Group Ltd., Cambrian Mining Plc, and Ausenco Ltd. Mr. O'Reilly has over 40 years in the mining industry, including experience as manager of large-scale projects. For 18 years he held executive positions in Rio Tinto Plc, including that of CEO of Lihir Gold Limited in (Papua New Guinea) in 1993-1998. Mr. O'Reilly has a Bachelors degree in Metallurgy and a Masters in the Mining Processes Design from Imperial College, London University.

Nominated by the Company's Board, Mr. O'Reilly has been an independent member of the Board of Directors since 2007.

RUSSELL SKIRROW

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

Dr. Skirrow has 17 years' experience in the investment banking industry, in both Australia and UK, including the last 10 years at Merrill Lynch (UK), first as Head of Global Metals, Mining & Steel Research, and then Global Chairman of the Metals/Mining team in Investment Banking. At the moment, Dr. Skirrow is also a Director at at Pendlerow Pty Ltd. Dr. Skirrow also has 12 years' experience in the international mining industry, having worked with companies such as Gold Fields (South Africa), and then with Western Mining Corporation in Australia and the US. Dr. Skirrow is a Member of the Institute of Materials, Minerals & Mining (M.I.M.M.M.) with Chartered Engineer (C.Eng) status and a Fellow of FINSIA (Financial Services Institute of Australia).

Nominated by Polymetal's Board of Directors, Dr. Skirrow has been an independent member of the Board since September 2008.

SERGEY ARESHEV

Member of the Board of Directors

Currently Mr. Areshev holds the position of Head of the international legal department at CJSC ICT. Prior to ICT, he worked as an associate with multinational law firms, including the St. Petersburg office of Coudert Brothers LLP. Mr. Areshev graduated from St. Petersburg State University with a degree in Law, and the Management School of Vlerick Leuven Gent University with an MBA degree in International General Management.

Mr. Areshev has been a member of the Company's Board of Directors since September 2008. He was nominated by Powerboom Investments Limited.

BOARD OF DIRECTORS

MARINA GRÖNBERG

Member of the Board of Directors

Ms. Grönberg is currently the CEO of INFINS, a position she has held for the last 6 years. She is also head of the Moscow office of A&NN Advisor Limited, and a board member at OJSC Zhelezobeton, Mozaik Holdings Ltd, MLP, and GLP. Ms. Grönberg graduated from the Moscow State University with a degree in Applied Mathematics, the All-Russian State Distance-Learning Institute of Finance and Economics with a Degree in Economics, Finance and Credit, and the Moscow State Law Academy with a Degree in Law.

Ms. Grönberg has been a member of the Company's Board of Directors since September 2008. She was nominated by Vitalbond Limited.

ASHOT KHACHATURYANTS

Independent Board Member

Mr. Khachaturyants is the CEO of Sberbank Capital and Senior Deputy Chairman of the Central Council for The Dinamo Association. Earlier in his career, he was Head of the Investment Policy Department at the Ministry of Economic Development and Trade and Head of Administration of FSB's RF State Border Federal target programme (2003-2010). Mr. Khachaturyants graduated from the Gubkin Russian State Oil & Gas Academy with a degree in Economics and Engineering as well as the Government of the Russian Federation's Finance Academy with a degree in Economics.

Nominated by the Company's Board, Mr. Khachaturyants has been a member of Polymetal's Board of Directors since March 2009.

MARTIN SCHAFFER

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

Mr. Schaffer is currently Chairman of the Board at Home Credit and Finance Bank LLC, as well as a member of the supervisory board at PPF Gate A.S., and a board member at Fosborn Home LLC. Previously, Mr. Schaffer was Secretary General at PPF Investments Ltd and board advisor at Home Credit and Finance Bank LLC. Mr. Schaffer graduated from Charles University (Prague) with degrees in Law and Medicine. For 4 years he was head of the Legal Department at TV Nova, CET 21 Ltd.

Mr. Schaffer has been a member of the Company's Board of Directors since September 2008. He was nominated by Pearlmoon Limited.

Board activities in 2009

2009 saw sixteen meetings of the Company's Board of Directors:

- 3 meetings in presentia;
- 13 meetings in absentia.

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

- The Company's production and financial targets for 2010;
- The acquisition and sale of assets;
- Matters relating to issues of new shares and bonds by the Company;
- Approving internal documents aimed at improving the state of the Company's corporate governance (a new edition of the regulation regarding the Remuneration and Nomination Committee, Regulation regarding Management, Regulation regarding the divulging of insider information, Regulation regarding using confidential information);
- Formation of the Company's Management;
- Approving the Company's financial reporting;
- Announcing General Shareholders' Meetings, and other matters.

Board members' participation in board meetings

Director	Meetings in presentia	Meetings in absentia
Sergey Areshev	2	12
Jonathan Best	3	13
Marina Grönberg	3	13
Vitaly Nesis	3	13
John O'Reilly	3	12
Russell Skirrow	3	12
Martin Schaffer	2	13
Ashot Khachaturyants (elected to the Board March 27 2009)	1	9
Ilya Yuzhanov	3	13
Konstantin Yanakov	3	12

Committees of the Board of Directors

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

Audit Committee

No fewer than 3 members of the Board of Directors are elected to the Audit Committee. A member of the Board of Directors with 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.

For the reporting period the committee members were:

- Jonathan Best – Committee chairman;
- Konstantin Yanakov – Committee member;
- Russell Skirrow – Committee member.

The Audit Committee is responsible for assisting in the selection of candidates for 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 five times in 2009.

The Remuneration and Nomination Committee

No fewer than 3 members of the Board of Directors are elected to the Remuneration and Nomination Committee Committee. A member of the Board of Directors with 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.

For the reporting period the committee members were:

- John O'Reilly – Committee chairman;
- Martin Schaffer – Committee member;
- Ilya Yuzhanov – Committee member.

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 levels for employees and management. The Remuneration and Nomination Committee met four times in 2009.

MANAGEMENT BOARD AND TOP MANAGEMENT

Management Board

In 2009, the Company created a collegial executive body, the Management Board, with the aim of raising the quality of corporate governance. At a September 22 2009 Board meeting, I. Venatovsky, V. Tsyplakov and S. Cherkashin were elected to the new body. The Company's CEO, V. Nesis, is also a member. The Management Board oversees the Company's activities together with the CEO.

Members of the Management Board are appointed to three-year terms on the recommendation of the CEO, who is, by dint of his office, a member of the Management Board and its head. The number of people on the Management Board is set by the Board of Directors and may not be fewer than four.

The Management Board reaches decisions at in presentia meetings. Meetings are called by the head of the Management Board of his own accord or at the request of a Management Board member. The procedure for calling and conducting meetings is governed by an internal company document – the Regulation regarding the Management Board. The quorum for a meeting may be made up of no less than half of the elected members. Decisions are reached by a simple majority. In cases of an equal number of votes cast for and against, the chairman casts the deciding vote.

The Management Board did not convene in 2009.

VITALIY NESIS

Polymetal CEO, Member of Polymetal's Management Board, CEO of Polymetal Managing Company

Mr. Nesis has served as the Company's CEO since 2003 and has been a board member since 2004. In 2002-2003 he was the CEO of Vostsibugol, a major coal-mining company based in eastern Russia. In 2000 Mr. Nesis was the Strategic Development Director at the Ulyanovsk Automobile Plant and, from 2001 to 2002, he headed 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 at Merrill Lynch in New York. He graduated from St. Petersburg University of Economics and Finance with a degree in Economics. In 1997 he graduated from Yale University (USA) with a degree in Economics.

SERGEY CHERKASHIN

Chief Financial Officer, Member of the Management Board

Mr. Cherkashin is the Company's CFO and Deputy Development Director, a position he has held since 2005. Before joining Polymetal, he worked in a number of management positions in the food-processing and machine-building industries. He served as the CFO of the Timashevsk Dairy Plant, Sales Director of the Ulyanovsk Automotive Plant (UAZ) and the Deputy CEO of Development at the Volgograd Dairy Plant No. 3. He also served as a board member at JSC Meat-Packaging Plant and Volgograd Dairy Plant No. 3. In 1996-1997, he worked as a consultant for AT Kearney in Moscow. Mr. Cherkashin graduated from the Moscow Institute of Physics and Technology with a degree in Applied Mathematics in 1985, working in aerospace research for NPO Energiya in the city of Korolev. Mr. Cherkashin also attended the University of Hartford (USA), majoring in Accounting.

VALERY TSYPLAKOV

Managing Director of JSC "Polymetal Engineering". Member of the Management Board

Mr. Tsyplakov is the Managing Director of Polymetal Engineering, a position he has held since 2004. In 1999-2000 he was the Deputy Head of Construction, later heading the Technological Research Department, and then going on to become the Deputy General Director for Mineral Resources, Design and Technology. From 1993 to 1999, he held several management positions at a number of companies. From 1988 to 1993, he served as Department Head at the Soviet Union Research Institute of Aeronautical Automation. Mr. Tsyplakov worked at the Physics Institute at Denmark's Orhus University from 1986 to 1987. From 1978 to 1988, Mr. Tsyplakov worked as Engineer, Chief Engineer, and then Research Fellow for the Plasma Physics Department of Moscow Physics and Engineering Institute. Mr. Tsyplakov graduated from Moscow Physics and Engineering Institute with a degree in Experimental Nuclear Physics, and has a PhD in Physics and Mathematics.

IGOR VENATOVSKY

Advisor to the CEO, Member of the Management Board

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

VITALIY SAVCHENKO
Chief Operating Officer

Mr. Savchenko has been the Deputy CEO for Production since April 2009. Prior to this role, starting in February 2008, he was Head of the production department of Polymetal Managing Company and, from July 2005 – head of its technical and production division. From 2004, Mr. Savchenko was head of its mining division. From 1994 to 2003, he worked at Priargunskoe mining and chemical company (Chita region) where he started as a shift boss and finished as a chief engineer of a uranium mine. In 1994 Mr. Savchenko graduated from the Frunzenskiy Polytechnic Institute (Republic of Kirghizia) with a degree in Underground Mineral Mining. Mr. Savchenko has been awarded a 3rd-category Miner's Glory medal.

VLADIMIR RYABUKHIN
Advisor to the CEO, Mineral Resources

Mr. Ryabukhin has been the Deputy CEO for Mineral Resources since 2004. In 1998 he joined the Company as the General Manager for Mineral Resources. From 1992 to 1998, he worked as the Chief Geologist at Nevskgeologia in St. Petersburg, and from 1989 to 1992, Mr. Ryabukhin worked for Krasnokholmsk Geological Facility in Tashkent, Uzbekistan. Mr. Ryabukhin graduated from Tomsk Polytechnic Institute with a degree in Prospecting and Exploration of Radioactive Ore Deposits, and was awarded a PhD in Geology from the All-Union Geological Institute in 1978.

DMITRY IGUMNOV
Managing Director of Polymetal Trading Ltd.

Dmitry Igumnov has been the Managing Director of Polymetal Trading Company since August 2008. In 2005, he was made head of that company's Khabarovsk branch. Starting in January 2004, he was the Deputy CEO for Logistics at CJSC "Magadan Silver", CJSC Serebro Terretorii". In 2002-2003 mitry Igumnov worked for Uni-Tankers Co. (Denmark); in 2001-2002 – for Maersk Gas Department, A.P. Moller (Denmark-Panama); in 2000 – for Red Sea Marine Co. (Saudi Arabia); arom 1999 to 2000 Dmitry – for Nordic Maritime Co. (Norway). In 1993-1999, he studied at the Baltic State Marine Academy, Navigation Studies Department. In 1993 he graduated from the Kaliningrad Maritime College.

ANDREY JELTOVSKY
Deputy CEO for Human Resources and Public Relations

Mr. Jeltovsky has held the position of the Deputy CEO for Human Resources and Public Relations since 2006. He joined Polymetal in 2005, serving as the Director for Public and Regional Government Relations. From 2002 to 2005, he headed the Department of 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 the 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 the Irkutsk State University with a degree in History in 1993.

PAVEL DANILIN
Deputy CEO, Strategic Development

Mr. Danilin has held the position of the Deputy CEO for Strategic Development from April 2009, having been the Director of Corporate Finance and Investor Relations at Polymetal Managing Company since 2007. In 2005-2007, he attended the University of California Berkeley School of Business, with a focus on Finance. In the summer of 2006, Mr. Danilin interned at the mining and metallurgy group at the Moscow office of Deutsche Bank. In 2003, he worked at Polymetal as the Head of Corporate Finance. In 2001-2003, he worked at the ICT Group, where he was responsible for interacting with banks as well as leasing and insurance companies. From 1996 to 2001, he worked in the Kaliningrad office of Imperial Bank (renamed Petrocommerce Bank in 1998) as the Deputy Head of Export Operations, and as Treasurer. Mr. Danilin graduated from Kaliningrad State Technical University in 1998 with a degree in Enterprise Economics and Management.

ALEXANDER ZARYA
Deputy CEO

Mr. Zarya is the Deputy CEO for General Matters, a position he has held since 2004. He joined the Company in 1999 as the Head of the Planning and Economics Department and the Deputy CEO for Finance and Economics. From 1998 to 1999, Mr. Zarya was the Director of the St. Petersburg branch of Zun Khada. From 1995 to 1997, he was the Deputy CEO of Ulyanovka, a procurement company that specialized in services to the goldmining industry. From 1991 to 1995, he served as the CEO of CJSC Kvarts R&D 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 Electromechanical Engineering.

ROMAN SHESTAKOV

Deputy CEO, Project Development and Construction

Mr. Shestakov has been the Deputy CEO for Development and Construction since April 2009. From 2007 to 2009 he was Chief Engineer at CJSC Gold of Northern Urals. From January 2004 to July 2005 he worked at Okhotsk in OJSC Okotskaya Mining and Exploration Company as a mine chief. From 2002 to 2004 Mr. Shestakov was a mining engineer in the production and technical department of JSC Polymetal Management. He graduated from the Mining Department of the St. Petersburg State Mining Institute, majoring in Open-pit Mining of Deposits.

ZUMRUD RUSTAMOVA

Deputy CEO

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

IGOR KAPSHUK

Director for Legal Affairs

Mr. Kapshuk has been the General Counsel since April 2009. Starting in December 2003, he was the Deputy Head of the legal department, becoming its head in July 2005. In 2001-2003, Igor Kapshuk held various posts, including the Deputy General Counsel and the Head of the Work Claims department at divisions of Siberia Energy Coal Company and Vostsibugol (Irkutsk). In 1999-2001 he worked as a legal advisor for the Pharmasintez facility of Irkutsk Pharmaceuticals Company. In 1997-1999 Mr. Kapshuk worked at Irkutsk Tea-Packing Factory as a legal advisor and acting head of the legal department. In 1994-1997 he was a legal advisor at an insurance company (Irkutsk). He graduated from the Law School of Irkutsk State University in 1995.

MANAGEMENT

SERGEY ANTIPIN

Managing Director of Albazino Resources Ltd. and Amur Hydrometallurgy Plant LLC

Mr. Antipin has served as the Managing Director of Albazino Resources and Amur Hydrometallurgy Plant since 2007. From 2003 to 2004, he worked as the First Deputy CEO of JSC Okhotskaya Mining and Exploration Company. From 2001 to 2003 he was the Managing Director of CJSC Serebro Territorii and, from 1999 to 2001, the Head of Refining at the Kolyma Precious metals Refinery. From 1987 to 1999, Mr. Antipin held a number of positions, including the Head of the Research Laboratory, the Head of the Enrichment Department, and Enrichment Chief at the Deputatsk Mining and Processing Plant, in Yakutiya. In 1987 Mr. Antipin graduated from the Irkutsk Polytechnical Institute with a degree in Enrichment Engineering. In 2000 he received a degree in Finance from the Novosibirsk State Academy of Economics and Law.

VIKTOR DEMESCHIK

Managing Director of CJSC Magadan Silver

Viktor Demeshik has been the Managing Director of CJSC Magadan Silver since 2006. From 2000 to 2006 he was the Director of the Mugunskiy coal mine, where he had been Chief Engineer from 1990 to 2000. From 1987 to 1990, Mr. Demeschik headed coal operations at the Azeyskiy mine, where he was shift boss between 1982 and 1987. He graduated from the Irkutsk Polytechnic Institute in 1982 with a degree in Underground Mining Mechanization. He also studied Management at the New York International Institute in 1995 and at the Institute for Executive Management Personnel, part of the Russian Federation's Academy of National Economy.

DENIS GOSPODARIKOV

Managing Director of OJSC Omolon Gold Mining Company and CEO of LLC Rudnik Kvartseviy

Mr. Gospodarikov has been the Managing Director of OJSC Omolon Gold Mining Company and the CEO of LLC Rudnik Kvartseviy since September 2009. Prior to that, starting in 2005, he was Chief Economist at CJSC Gold of Northern Urals. He joined JSC MNPO Polymetal (the R&D Division) as an economist in 2002. Mr. Gospodarikov graduated from the G. Plekhanov St. Petersburg State Mining Institute. Upon receiving a degree in Management, he proceeded with postgraduate studies.

VALENTIN KUZAKOV
Director of the Magadan branches of Polymetal Trading Ltd. and JSC Polymetal Managment

Mr. Kuzakov has headed Polymetal Trading Company's Magadan branch since February 2004. In 1998, in Irkutsk, he founded and became the CEO of Robin-Bobin, a company offering meat products via its own wholesale and retail network. Mr. Kuzakov graduated from the Baikal State University of Economics and Law, majoring in Economics and Management in the Service Industries.

GENNADY KUZMENKO
Managing Director of OJSC Okhotskaya Mining and Exploration Company

Mr. Kuzmenko has been the Managing Director of JSC Okhotskaya Mining and Exploration Company since 2007. In 2004-2007, he was the Deputy Managing Director for Human Resources at CJSC Magadan Silver and CJSC Serebro Territorii. From 1997 to 2003, Mr. Kuzmenko held a number of management positions at JSC Karelsky Okatysh mining company. In 1993 he graduated from the G. Plekhanov St. Petersburg Institute with a degree in Enrichment Engineering. In 2003 he graduated from the St. Petersburg Engineering and Economics University with a degree in Economics. In 2008 Mr. Kuzmenko also received an advanced teaching degree.

ALEXANDER MITROPOLSKY
Construction Director, Albazino Resources Ltd. and Amur Hydrometallurgy Plant LLC

Mr. Mitropolsky, who joined Polymetal in 1999, has served as the Head of Albazino Resources and Amur Hydrometallurgy Plant, currently under construction, since 2009. From 2006 on, he has managed a number of JSC Polymetal Management projects. In 2005, he became the Technical Director of Polymetal Management in 2005. He was a foreman at Zun Khada in 1999-2001 and at Magadan Silver from 2001 to 2003. In 2003-2005, he was the Head of Construction at Northern Urals Gold. In 1997 Mr. Mitropolsky graduated from the St. Petersburg State Architecture and Construction University with a degree in Industrial and Civilian Construction.

ANDREY NOVIKOV
Managing Director of CJSC Gold of Northern Urals

Mr. Novikov has served as the Managing Director of CJSC Gold of Northern Urals since 2004. In 1997 he was appointed the Deputy CEO for Production at the Tulun mine (part of the SUEK holding) 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 the Head of Mine Planning. Mr. Novikov graduated from the Irkutsk Polytechnic Institute in 1992. In 2002 he received a degree in Accounting from the Baikal University of Economics and Law.

VLADISLAV REKHIN
Director of Khabarovsk branch of Polymetal Trading Company Ltd.

Mr. Rekhin has been the Head of Polymetal Trading Company's Khabarovsk branch since November 2008. Before this, starting in 2005, he was the Deputy Director at the company. In 2004-2005 Mr. Rekhin worked for the Khabarovsk branch of Geotekhservice R&D as an engineer, and then as Purchasing Director. In 2001-2004 he worked as an engineer in the procurement division of the Khabarovsk branch of JSC Okhotskaya Mining and Exploration Company. During the preceding five years, he was the CEO of OJSC Kart. Mr. Rekhin graduated with a History degree from the Khabarovsk Teacher's College in 1995.

REMUNERATION OF BOARD MEMBERS AND MANAGEMENT

Remuneration System

The Company has a remuneration programme for independent members of the Board of Directors as well as a system of compensating them for the expenses incurred in connection with their duties as Board members. As per a regulation entitled On the remuneration and compensation paid out to members of the Board of Directors, the remuneration is made up of a fixed part (for carrying out the responsibilities of the chairman, for committee membership, and for carrying out the responsibilities of their chairmen) and a variable one (for being present at in presentia meetings of the Board and its comittees). The Company also compensates independent Board mebers for all reasonable expenses incurred by them.

The total amount of remuneration paid to independent Board members in 2009 was RUB 30.7mln; RUB 3mln were paid out in the form of compensation. Other Board members were paid neither remuneration nor compensation in 2009.

The CEO and members of the Management Board are remunerated in accordance with the details set forth in employment contracts they signed with the Company.

Transactions by Board Members Involving Company Shares

Data on the participation of members of the Board of Directors and the Management Board in the Company's equity capital are presented below:

Name	Number of shares	
	as of start of reporting period	as of end of reporting period
Transactions by Board Members		
Sergey Areshev	10,800 (0.0034%)	10,800 (0,0027%)
Jonathan Best	0	0
Marina Grönberg	0	0
Vitaly Nesis	3,000,000 (0.95%)	3,000,000 (0.7512%)
John O'Reilly	0	0
Russell Skirrow	0	0
Martin Schaffer	0	0
Ashot Khachaturyants	0	0
Ilya Yuzhanov	0	0
Konstantin Yanakov	0	0
Transactions by Management Board Members		
Igor Venatovsky	250,000 (0.0793%)	250,000 (0.0626%)
Valery Tsyplakov	218,000 (0.0692%)	218,000 (0.0546%)
Sergey Cherkashin	165,000 (0.0523%)	165,000 (0.0413%)

In 2009 the Company did not receive notice from the members of its Board of Directors about any of their transactions involving Company shares, and therefore does not have any information about such transactions. The decrease in the participation of Messrs. Nesis, Areshev, Venatovsky, Tsyplakov, and Cherkashin in the equity capital of JSC Polymetal has to do with a November 2009 additional issue of JSC Polymetal shares in which the above-named individuals did not participate.

BOARD REPORT

The main business of Polymetal and its subsidiaries is precious metals production and related exploration, planning, and surveying.

In 2009, Polymetal continued to follow its core strategy, which includes the following items:

- Investing in existing assets to extend mine life and improve efficiency;
- Creating large processing hubs in order to create synergies and capitalise on increased production;
- Pursuing regional exploration programmes to develop the next generation of assets.

As part of that strategy, Polymetal spent some USD 122.6mln on the Albazino-Amursk project. It has also invested in boosting the capacity of the Dukat processing plant (USD 29.2mln), the Omolon company projects (USD 19mln), the refurbishment of the Voro processing plant (USD 4.7mln) and other projects.

Polymetal also remains active on the M&A market, acquiring companies which own licences to develop promising new gold and silver deposits.

- In October 2009, Polymetal closed the deal to acquire 100% of the voting shares in CJSC "Prospectors Artel "Ayax", which holds the licence for geological exploration and production of silver from the Goltsovoye deposit in the Magadan region, some 81 km away from Polymetal's Omsukchan processing plant. According to an estimate by Wardell Armstrong International made in February 2007, the Goltsovoye deposit's measured and estimated resources stand at 42.7 Moz of silver contained in 1.5 mln tonnes of ore with an average grade of 993 g/t. The estimated resources, according to that same estimate, are 21.8 Moz of silver contained in 0.9 mln tonnes of ore with an average grade of 738 g/t. The Company paid for that asset USD 3,043,3342 in cash and 7.5 mln of ordinary Polymetal shares from an additional share issue. JSC Polymetal also signed an agreement of assignment and novation under which the Company acquired the rights to Ayax's 8,653,682.1 dollar debt to the seller in return for a payment of USD 8,653,682 to the seller.
- In October 2009, Polymetal closed a deal to acquire 100% of the shares of LLC Rudnik Kvartseviy in return for 10 mln of its own shares from an additional share issue. The Company holds the licence to produce gold from the Sopka Kvartsevaya deposit, situated in the North Evensk District of Russia's Magadan region. It also holds the licence for gold and silver production from the Dalniy deposit. According to an estimate produced by AMC Consultants in 2007 in compliance with the JORC code, measured and estimated gold resources were 30,928 kg of gold and 842 tonnes of silver. In addition to the mining licence, LLC Rudnik Kvartseviy also owns a large fleet of mining equipment, as well as infrastructure at the Sopka mine.

- In November 2009, the Company consolidated 100% of the shares in Mayskoye Goldmining Company after acquiring a 91% stake. It paid 15,925,000 ordinary Polymetal shares and USD 1.5mln in cash to recapitalise Mayskoye. Previously, in April 2009, Polymetal acquired a 9% stake in Mayskoye for USD 13,300. CJSC ZK Mayskoye owns the licence to mine gold at Mayskoye, which is one of Russia's five largest deposits. The licence is valid until 2024. The latest JORC-compliant estimate produced by Aker Kvaerner confirmed the presence of 232,768 kg of gold (measured and estimated).
- In November 2009 Polymetal closed the deal to acquire 100% of the shares in Three K Exploration and Mining Limited, which owns 100% of the shares in Kazakhstan's Varvarinskoye company (directly and through third parties). Polymetal paid USD 8mln in cash upfront and undertook up to USD 12mln worth of deferred payment obligations (plus interest), with the exact sum to be calculated based on the future gold and copper prices. Polymetal also undertook a number of commitments on restructuring the Varvarinskoye's debt to a syndicate of foreign banks. The Varvarinskoye deposit is situated 130 km from the district centre of Kostanay and 10 km from the Russian border.

Throughout the reporting period Polymetal continued to increase its resource base by acquiring licences to develop new deposits of gold, silver, and coal.

- In January 2009, Polymetal won the licence to explore, develop and produce lode gold and silver in Burgali area of the Magadan region's North Evenk District. The Company paid RUB 7.7mln for the licence at an auction. According to the Russian mineral resources agency Rosnedra, the forecast for Burgali area resources is 40 tonnes (1.3 Moz) of gold with an average ore grade of 15.7 g/t. The licence is valid for 25 years.
- In October 2009, the Company was awarded a licence to explore for lode gold and silver in Pyatinakhsk area, which holds a projected 12 tonnes of gold and 200 tonnes of silver (data supplied by Magadannedra mineral resources agency). The licence was issued without an auction and is valid until October 1, 2014.

In October 2009, Polymetal won a licence to explore, develop, and produce coal at the Bulursk coalfield in the Srednekanskiy and Omsukchan Districts of the Magadan region. The Company paid RUB 7.2mln for the licence at an auction. According to projections approved by the Natural Resources Ministry, the area under licence holds 19.7mln tonnes of P1 category coal, 8mln tonnes of P2 category and 70.7mln tonnes of P3 category coal. The licence is valid until December 2034.

Klim Galiakbarov

Buildings start breaking
down when
no one's around
to take care of them.
My Dad makes sure
that the buildings
where other people
work always have heat
and light, and that
nothing breaks.

FOLLOWING UN GLOBAL COMPACT PRINCIPLES

In 2009 Polymetal acceded to the UN's Global Compact, thus starting a new chapter in the Company's history. Joining UN's international voluntary initiative marks a new level of corporate social responsibility.

In August 2009 the first progress report was ready, describing the Company's activities for 2008 and reflecting Polymetal's commitment to the principles of the agreement. The report reflects not just the Company's declared stance but also specific measures it is taking in order to be in line with the principles of the agreement and the idea of fostering greater corporate social responsibility.

A 2009 report on the progress made in putting ten principles of the agreement into effect has been integrated into an existing system of communicating with those involved in the Company – namely into the Social Responsibility section of the annual report. This report is yet more proof of the Company's commitment to the principles of the UN agreement and a testament to our readiness to take on voluntary responsibility when it comes to greater transparency and the balancing of the interests of the Company with those of the society at large.

In preparing the report, Polymetal sought both to spell out its view on the general principles of corporate social responsibility as well as to define concrete measures aimed at solving existing social problems and ensuring stable growth in an environment of multilateral cooperation with involved parties.

No.	Principles of the UN Global Compact	Page in the chapter
	Human Rights	
1	The business community must support and ensure respect for internationally recognized human rights	94–99, 101–105
2	Business must ensure that it is absolutely clear of any complicity in human rights violations	94–99, 101–105
	Labour Relations	
3	The business community must support freedom of association, and prove by deed its commitment to the right to strike collective agreements	95–99
4	Business must speak out for the elimination of any form of forced labour	95–99
5	Business must speak out for the full eradication of child labour	95–99
6	Business must speak out for the elimination of workplace discrimination	95–99
	Environmental Protection	
7	The business community must act to preempt harm to the environment	100
8	Business must take action aimed at increasing responsibility for the state of the environment	100
9	Business must take part in the development and spread of eco-friendly technology	100
	Counteracting Corruption	
10	Business must fight corruption in all of its forms, including extortion and bribery	94–99

A COMMITMENT TO STABLE GROWTH

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

The ten principles of the UN Compact related to ensuring human rights, occupational safety and environmental protection, as well as fighting corruption, are incarnated in the work being done at every Polymetal subsidiary. As an evolved, responsible company, Polymetal is confident in the belief that only a balance between the Company's commercial intersts and the interests of the society can lead to stable long-term growth.

It is crucial that the Company understand the interests and needs of its employees and the society as a whole, and for this reason, the socially-relevant component of its activities is an important avenue of the Company's growth and evolution. Polymetal strives to make a meaningful contribution to society – a contribution commensurate with the Company's strategic ambitions.

Ecological considerations are another crucial part of Polymetal's philosophy. Caring about the larger society presupposes doing the same for the environment. Since any industrial activity impacts the environment, the Company aims to minimise the negative effect and is ever modernising its technology with that goal in mind.

Its practice of corporate social responsibility has made it possible for Polymetal to inform people about all the important processes, results, events, and changes happening at the Company. We work in an environment of transparency – a sine qua non in any meaningful comunication with stakeholders.

Housing Solutions

In Amursk, construction of a ten-store residential building for Polymetal employees was completed in September 2009. The building is up to modern construction standards, and all 30 apartments are fully furnished and equipped with household appliances. In addition to that, a playground was built in the yard.

PERSONNEL DEVELOPMENT

As of the end of 2009, Polymetal employed 6,400 people. Its employees are one of the pillars upon which the Company's business success is based. Polymetal appreciates the professionalism and dedication of the people who work at the Company, and for this reason it considers the care of its employees and the fostering of an atmosphere of loyalty within the Company its responsibility.

Polymetal's strategic goals for its internal social policy are in line with the principles of the UN Global Compact and may be summarised thus:

- Forming a fair system of managing labour relations;
- Perfecting the system for motivating our employees (a competitive salary, an attractive benefits package);
- Constantly supporting the personal development and eDukation of our employees;
- Improving occupational safety and instituting safe operating procedures;
- Improving everyday conditions at the production facilities;
- Fostering an evolved corporate culture.

Employee benefits are the basis of the Company's long-term relationship with employees. Our benefits package includes support from the Company along the following lines:

- Benefits, guarantees, and compensation for those employed by companies located in the Far North or other remote regions, in accordance with the law and local regulations;
- Financial aid for employees, available in various situations;
- Supplemental severance pay for employees of retirement age (when dismissed);
- Compensation of expenses for day-care and after-school programmes for prents of primary-schoolers;
- Compensation of the cost of stay at health and recreational facilities for employees' children;
- Compensation of travel costs for employees being asked to move to work for the Company; includes compensation of costs for return travel once the employment contract is up or the employee is dismissed;
- Compensation of holiday travel costs for employees and their families (once every two years);

- Housing provided to Polymetal specialist employees working in remote locations;
- Transportation provided (the employer pays for the daily transportation of employees to the work site and back; on-duty personnel is provided with transportation, including air transportation, from a gathering point to the place of work).

People development is a key component of Polymetal's human resources policy. The Company has instituted a number of internal programmes and systems aimed at fostering potential in people. Specifically, our Youth, Professionalism and Career Programme seeks to attract and inspire young people to envision a career with the Company. Polymetal actively works with the leading universities in the country, recruiting students and graduates.

One way for Polymetal to attract people is to offer internships to motivated students who want to experience their profession via concrete experience at the Company's facilities. We sign a contract for the length of the internship period with the students, with each intern overseen by a mentor, selected from among the more experienced technical and engineering specialists.

The Company pays for the interns' housing and local transportation, and offers a salary for the hours worked. Outstanding student interns have the opportunity to work for Polymetal full-time once they complete their studies. Interns who do well have the opportunity to receive a supplemental stipend from the Company, as well as preparation geared to their future employment at Polymetal. In 2009, 66 students interned at the Company's facilities as part of the Youth. Professionalism. Career. programme, with 52 wishing to repeat the internship in the following year, or to work for Polymetal.

2009 saw the creation of a number of normative documents on procedures for working with young professionals (recent graduates), with individual assimilative plans worked out for their first year with the Company. The core part of such a plan is the completion of an industrial assignment with a specific goal centering on a certain area of Polymetal's activities.

The Company also runs the HR Reserve project, which seeks to evaluate professionals with an eye to having them take on key positions if necessary. In 2009, out of 72 HR Reserve employees, 26 were promoted within the Company's management hierarchy.

In 2009, Polymetal instituted a Company-wide system of evaluating the level of its engineering and technical personnel's professional knowledge. Plans for instruction and rotation of personnel on the basis of the Company's needs were developed. In 2009, 1,366 Polymetal employees received professional instruction, including:

- Mandatory training for 712 engineering and technical personnel;
- Advanced training for 286 Company employees;
- Training and retraining for 368 Company employees.

The Company spent RUB 9,883,600 on employee training in 2009. In 2010 it plans to provide mandatory instruction to 745, advanced training to 390, and re-training to 449 employees.

2009 also saw active internal efforts in the area of people development. There were computer software training sessions, consultations on the possibility of switching to self-regulation in construction, as well as field training for specialists from the fire assay labs in St. Petersburg.

A number of executives and specialists from Polymetal Engineering and Polymetal Managing Company took part in industry conferences, forums, and industry exhibitions. Participation in these events supplies Company employees with up-to-date information on innovative achievements, engineering solutions, new technologies, and the practical experience of leading Russian and foreign companies.

Corporate culture and internal communications

Free and effective intra-company communications comprise the foundation of Polymetal's corporate culture and support all that Company employees strive for as part of the overall growth strategy.

A corporate newspaper, Northern Latitude, is not just a way to inform employees, but also a way to interact with them. Throughout 2009, all regional editions of Northern Latitude featured photo contests, trivia games, and surveys. The newspaper's motto, As One, reflects the main aim of the Company's corporate policy: to form an effective business team united by a common goal.

A monthly Polymetal newsletter reports on HR news, current production results, management's decisions, and other events. The Company's Web site, another instrument of internal communications, was upgraded in 2009, and made more user-friendly for both external audiences as well as Company employees.

In compliance with the UN Compact, the internal communications system also relies on free dialogue at all levels of the corporate hierarchy. Particularly important is the feedback link, which allows employees to approach management with any questions.

There were 402 communications from employees in 2009, dealing with the Company's prospects and development plans, salary and benefits, eDukation and advanced training, possibilities for professional growth, social and living conditions, and recreational activities. The enquiries were answered either personally or on the pages of the Company newspaper. Executives of regional companies also held office hours for answering questions and were available via direct telephone contact.

In order to develop the corporate culture, Polymetal facilities organise recreational, cultural, and entertainment events for its employees. The Company traditionally honors calendar holidays as well as professional ones, such as Metallurgist's Day and Geologist's Day. Polymetal is also creating its own traditions, with events such as the smelting of its 25th tonne of gold at Northern Urals Gold in May 2009, and the inauguration of the second production line at the Omsukchan Gold Processing Plant in April 2010.

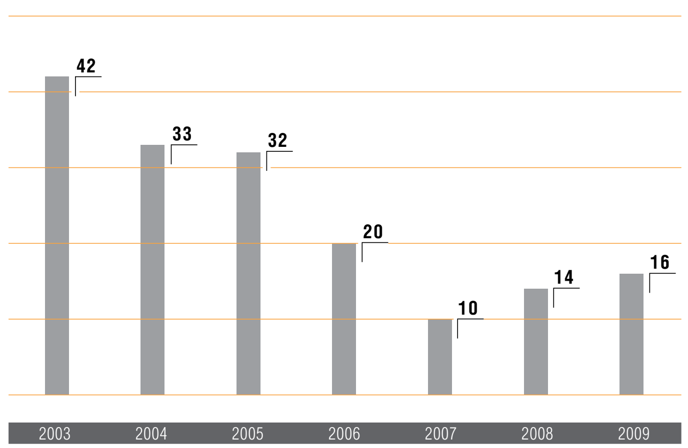
INDUSTRIAL AND OCCUPATIONAL SAFETY

Occupational safety at its industrial facilities is an absolute priority for Polymetal. The number of injuries in the industry is relatively high, and the Company is doing everything it can to prevent situations that could threaten the health and lives of its employees.

Some of the most common causes of injury are falls from heights, falling objects, and automotive accidents. The major causes of accidents are violations of safety regulations and industrial discipline, and the non-use of measures of individual or collective protection.

In 2009, there were 16 accidents recorded at Polymetal facilities, with 1 leading to death and 2 to serious injuries. The Company deeply regrets the tragic incidents.

INDUSTRIAL INJURIES 2003–2009, NUMBER OF CASES:



Out of these numbers, there were 4 fatalities in 2005, and 1 each in 2006, 2007, and 2009.

In 2009, there were 72 hazardous facilities used at Polymetal sites (12 more than in 2008). There were no accidents in 2009. There were, however, 7 incidents causing material loss. The number of emergency situations and incidents decreased by 3 (from 55 to 52) compared to 2008.

Standards and documents – occupational safety

In the realm of occupational safety Polymetal references the following relevant documents and standards of the Russian Federation:

- The RF Constitution;
- The Labour Code;
- Federal laws;
- Rules and regulations.

The main internal document on safety matters is the Occupational Safety System (effective as of 2006). Polymetal has received positive remarks from an external auditor on the system's compliance with the requirements of The World Bank. The Company is also introducing the OHSAS 18001 healthcare and safety management system.

Additionally, the following standards are in place:

- Regulation regarding monitoring of industrial safety requirements;
- Regulation regarding a work-ordering system;
- An integrated plan for improving work conditions and introducing sanitary and recreational activities;
- Regulation regarding day-to-day reporting.

Reducing injuries

The Company is in the midst of an initiative to reduce injuries among its employees and prevent safety violations. 2009 saw the following organisational measures aimed at preventing and reducing injuries:

- Instructional and eDukational dates;
- Target audits and inspections;
- Changes made to occupational safety instructions;
- Easy-to-understand information on occupational safety and precautionary measures distributed;
- Individual reference books on occupational safety distributed to employees;
- Investigations conducted into instances of injury, with guilty parties made accountable.

In 2009, classes on labour safety were held at every Polymetal facility, aiming to endow employees with every bit of information on occupational safety and precautionary measures so that they be motivated to adhere to it. The instruction was part of Labour Safety Days and was held in rooms with multimedia and training equipment. Specially made films and training aids were used.

Managers, specialists, and other employees working at dangerous industrial sites were instructed and certified via accredited technical schools.

Preventing accidents and emergencies

The Company regularly engages in the following measures aimed at preventing accidents at dangerous industrial sites:

- Registration of all new dangerous industrial sites in a federal register;
- Insuring all new dangerous industrial sites against harm done to third parties;
- Licensing facilities engaged in the manufactire, storage and use of explosives, hazardous chemicals or substances posing a fire/explosive hazard;
- Receiving approvals from the Russian Federal Service for Ecological, Technical, and Atomic Supervision (Rostekhnadzor) for the occupational safety of projects in progress;
- Preparing and implementing measures to prevent, localise, and eliminate the possible consequences of an accident (done by special mining-rescue teams);
- Developing and obtaining approval for accident- and emergency-mitigation measures; holding instructional sessions.

In 2009, all of Polymetal's industrial facilities, sites, and workplaces were subject to a schedule of planned, targeted, and comprehensive controls in addition to those part of the internal audit system.

Rostekhnadzor conducted 93 inspections, uncovering 783 violations of requirements and regulations. Within the year, 98% of these violations were mitigated.

Over 2009, the industrial control service uncovered 1 611 violations of requirements and regulations as part of 268 inspections. All the violations were mitigated within the year.

ENVIRONMENTAL PROTECTION

As a company that extracts minerals from the earth and a company whose activities impact the environment, Polymetal fully understands its responsibility to society and nature, and thus aims to minimise any negative effects on the environment.

Polymetal's ecological policy and principles are based on the requirements of Russian legislation covering environmental protection, as well as the rational use of natural resources, industrial sanitary practices, World Bank regulations, and internal regulations.

Here are the main ways in which Polymetal seeks to minimise negative imapct on the environment:

- The introduction of new and safer technologies;
- The gradual elimination from use of dangerous substances and technological processes;
- Increasingly efficient management of industrial and technological processes;
- Rational use of natural resources; lowering volumes processed per unit of end product;
- Reusing and recycling waste matter and energy;
- The involvement of Company employees in its environmental protection activities;
- Perfecting the system of managing ecological risk; preempting environmentally harmful accidents;
- Inicreasing the efficacy of a system for monitoring the ecological repercussions of the Company's activities.

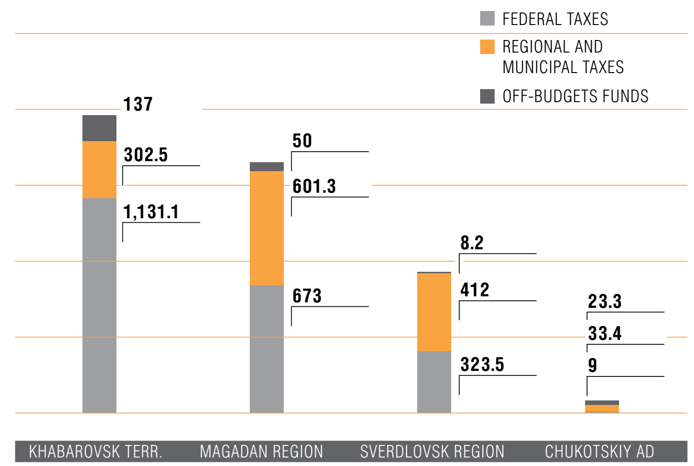
Polymetal has a system of environmental regulation, which seeks to manage activities aimed at protecting the environment. This system corresponds to World Bank requirements and ISO 14001 international standards.

SOCIAL PROGRAMMES AND CHARITY

Social responsibility and charity in the local communities where Polymetal operates represent one of the pillars of long-term success and demonstrate the Company's Commitment to the principles of the UN Global Compact.

Taxes paid by Polymetal subsidiaries are a key source of budget revenue in some of the regions where the Company operates. In 2009, the Company paid a total of RUB 3,704,267,871 in various taxes, including RUB 1,349,203,322 paid into regional and local treasuries.

TAXES PAID BY POLYMETAL SUBSIDIARIES, RUB MLN



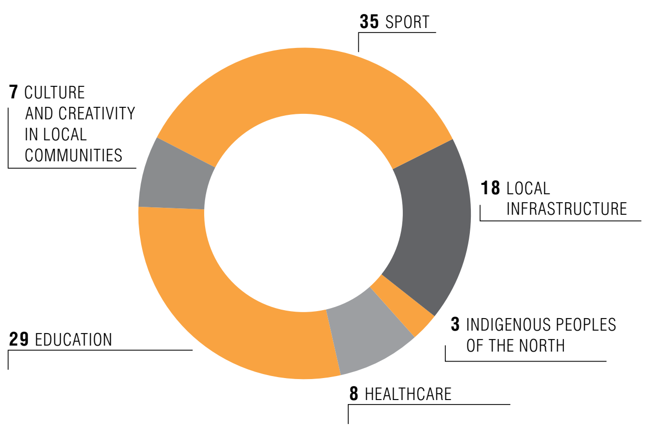
* Exclusive of taxes for the Kostanay region of the Republic of Kazakhstan, since the deal to acquire the Varvarinskoye deposit closed on October 30, 2009.

As part of its effort to support the economy and local communities in the areas where it operates, Polymetal signed 10 regional social and economic cooperation agreements in 2009 with the regional and local authorities. It channelled RUB 92,432,189 into funding the priority social and economic programs in these territories. It also spent an additional RUB 5,865,189 on charity, bringing the total social investment spending in 2009 to RUB 98,300,378.

Traditionally, Polymetal's social investment has focused on eDukation and healthcare, regional infrastructure, sports, and promotion of a healthy lifestyle.

The Company's charity efforts are aimed at fostering culture and creativity in the local communities, and supporting the small indigenous peoples of the North by helping them maintain their cultural traditions and celebrate their ethnic holidays.

SOCIAL INVESTMENT SPENDING IN 2009 (%)



Supporting healthcare and eDukation

In the Sverdlovsk region, Polymetal spent RUB 2.5mln in 2009 on healthcare and eDukation programmes. Some of that money was used to pay for major refurbishment of the newborns department and the cafeteria of the Krasnoustinsk Hospital for children. The Company has also contributed funds for the upcoming refurbishment of School No 30 in Degtyarsk – the money will be spent on preparing designs and plans, and on regulatory approval of the project.

In the Khabarovsk territory, about RUB 6mln went to similar projects. In the Polina Osipenko district, the Company paid for the refurbishment of a nursery in the village of Briakan and a school in Kherpuchi village; new equipment for medical rooms, gyms, and playgrounds in the Kherpuchi and Oglongi nurseries; and a new sports ground for the Kherpuchi village school. It also funded the purchase of new arts equipment for the Polina Osipenko Children's Arts School, sports equipment for an afterschool centre, as well as medical equipment and back-up power generators for several village hospitals in the district. In the Okhotsk district, Polymetal bought new computers for the Okhotsk central hospital. And in the Amursk district, the Company paid for new sports equipment for the Children's Sports School and helped equip playgrounds in the town of Amursk.

In the Magadan region, RUB 26mln was spent on healthcare and eDukation projects.

In the Omsukchan district, the Company focused on nurseries. It contributed to the refurbishment of a nursery in Omsukchan settlement, to the construction of a new nursery, and to the extension of an existing one in Dukat settlement. It also paid for playgrounds near apartment blocks, and funded refurbishment at the central Omsukchan District Hospital.

In the North Evenk District, Polymetal co-financed the local government's project of major refurbishment of the central heating system in the local Children's Creativity Centre. It paid for repairs in the canteen of the local boarding school of the Evensk settlement and bought gym and playground equipment for the local nursery. It bought medical equipment for the Evensk Central Hospital and contributed funds for a new ambulance. In the Srednekansk District, the money was spent on refurbishment of the school and nurseries in Seymchan and Verkhniy Seymchan villages, and repairs at the district's central hospital.

Supporting sports and healthy lifestyle

In the Sverdlovsk region, RUB 1.4mln went to sports and healthy lifestyle projects. Polymetal continued its tradition of financially supporting the Sputnik youth ice hockey club from the town of Karpinsk. The money was spent on new uniforms, gear, and travel. In the town of Degtyarsk, the Company sponsored the construction of a skateboarding ground.

In the Magadan region, RUB 5.2mln was spent on similar projects. In the Omsukchan district, Polymetal completed the refurbishment and commissioned a new covered ice skating rink. It also sponsored the regional football tournament, Kozhaniy Myach 2009.

In the Khabarovsk region, some RUB 26.2mln was spent on support for local sports.

The Company continued providing financial support to the Neftyanik-Khabarovsk field hockey team, which is an autonomous not-for-profit organisation. In the town of Amursk, Polymetal contributed to the refurbishment of the Yunost stadium and sponsored the local football club Amurovets. In Polina Osipenko District, Polymetal was one of the organisers of a local tourism event for children.

The Company continues to support various sports events such as the Far Eastern Federal District championships in wrestling and power lifting in Amursk, and the Khabarovsk territory karate championships.

In the settlement of Okhotsk, in the Khabarovsk territory, Polymetal continued the construction of a sports complex, which will be the first large sports centre in the district, with modern facilities available to all local residents. Total spending on the project in 2009 reached RUB 6.2mln.

Local infrastructure projects

Polymetal spent RUB 17mln on local infrastructure projects in 2009.

In the Sverdlovsk region, Polymetal financed the construction of a gas pipeline to residential areas in Vorontsovka settlement (the money was spent on design and construction works) and ongoing repairs of a public bath in Belka settlement.

In the Khabarovsk territory, Polymetal paid for a new central heating boiler house at Kherpuchi settlement in the Polina Osipenko district, and a new vehicle to be used as public transport for Kherpuchi and Oglongi residents. It also bought a new bus to be used as a mobile library in the remote settlements of the Amursk district, and another bus for the Disabled Society in the town of Amursk. In Omsukchan settlement, the Magadan region, the Company repaired the surface of the main street.

Culture and creativity projects

Total spending on the Magadan region projects in the realm of culture and creativity topped RUB 3.4mln in 2009. The Company refurbished the Leisure and Creativity Centre in Omsukchan settlement and bought new furniture for it. It paid for new sound and lighting equipment and musical instruments for a children's orchestra based at the local community centre in Evensk. It also bought some office equipment for other community centres in the town. The Company continued its sponsorship of the Zvezdopad (Star Shower) competition of young pop singers and dancers in Magadan. In the Khabarovsk territory, Polymetal spent RUB 1.9mln to support the local culture and leisure facilities. It bought sound and lighting equipment for the Polina Osipenko village community centre. It also bought new equipment for the Molodost cinema in Amursk. That project began in 2008 and continued in 2009, when Polymetal paid for digital projectors and other equipment. The renovated cinema is now open to the public. In 2009 the Company also co-sponsored several creative events, festivals and competitions, as well as traditional public celebrations and holidays. Every year Polymetal organises New Year events for children from orphanages, and gives Christmas presents to families with many children. It also sends greetings to war veterans on Victory Day and to first-year schoolchildren on September 1.

Support for indigenous peoples

Polymetal traditionally supports local communities, tribes and NGOs that represent the interests of the indigenous peoples living in the regions where the Company has presence. The Company also helps traditional craftsmen by paying for materials and tools, and supports ethnic traditions, culture, and sports. In 2009 Polymetal spent about RUB 2.5mln on projects to support the small indigenous peoples of the North.

In the Magadan region, the Company sponsored two traditional Evenk holidays, Khebnedek and Bakaldydyak. It bought a Buran snowmobile and fuel for the Balygychan tribe of the Srednekansk district. In the North Evenk district, the Company provides assistance to the Vestnik Severa, a local paper published by the Association of the Small Peoples of the North. The Company also buys New Year presents for children from the ethnic families.

In the Chaunsk district of the Chukotka, the Company often helps out the Chaunskoye deer herders by purchasing and delivering food, firewood and petrol to the cattle camps. The Company also continued the tradition of providing the local communities with special equipment adapted to the extreme local environment. In previous years it bought several snowmobiles for the deer herders. In 2009, it also gave them an off-road buggy.

In the Khabarovsk territory, Polymetal continued co-sponsorship of Evenk traditional festivities in the Okhotskiy District, and of the Last Trail festival in Vladimirovka village in the Polina Osipenko District. In 2009 the Company also supported the Tambourine of Friendship traditional rites festival. It also paid the costs of the local Siun song and dance troop's participation in an Indigenous Small Peoples of the North event in Moscow. In the Okhotskiy District, it paid for the stay of 20 Evenk children, including 10 orphans, at the Dyuasak summer recreation camp.

Informing the local communities

Polymetal makes use of all the available information tools in an effort to foster dialogue with the local communities and to keep them supplied with accurate, complete and up-to-date information about the Company's operations.

In addition to media publications and corporate brochures, the Company decided in 2009 to expand the existing Feedback project, which previously included only staff members, to include people in the local communities. The goal is to raise awareness of the Company's operations in the regions, and of its social accountability efforts in areas such as employment, the environment and various social programmes. Direct contacts with the local communities and indigenous peoples will enable the Company to improve its corporate social policy. Feedback from the communities will help Polymetal to make more informed decisions on social issues. Such an approach to relations with the local communities will also enable the Company better to understand their expectations of the take their opinion into account when making important decisions.

The Company has scheduled a number of steps in this area for 2010. It will set up and regularly update information stands about the Company's operations in public places such as government buildings and libraries. It will also install direct feedback collection boxes so that members of the public could send their questions or comments about the Company's operations.

Fariza Magarayeva

My Dad is an engineer. He works with complicated gadgets and makes adjustments to instruments. It's difficult work.

OPEN JOINT STOCK COMPANY POLYMETAL

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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 consolidated financial statements that present fairly the financial position of the Group as at December 31, 2009 and 2008, 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 the consolidated financial statements are in compliance with U.S. GAAP, subject to any material departures disclosed or 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, 2009 and 2008 were approved by management on April 15, 2010:

On behalf of the Management Board:

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, 2009 and 2008, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2009 and 2008, 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 15, 2010

Deloitte & Touche

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2009 AND 2008
(In thousands of U.S. Dollars, except share and per share data)

	Note	December 31, 2009	December 31, 2008
Assets			
Cash and cash equivalents		28,317	4,077
Prepayments to suppliers		15,601	11,827
Inventories and spare parts	6	284,486	196,088
Short-term VAT receivable	7	77,323	62,718
Current deferred tax asset	8	12,833	5,627
Other current assets	9	22,051	23,862
Total current assets		**440,611**	**304,199**
Property, plant and equipment, net	10	1,087,503	477,889
Goodwill	11	112,316	23,741
Investments in joint ventures	12	17,047	18,124
Long-term loans to related parties	13, 32	9,715	8,214
Long-term VAT receivable	7	7,799	13,953
Non-current deferred tax asset	8	30,118	17,779
Other non-current assets		18,291	12,576
Total non-current assets		**1,282,789**	**572,276**
Total assets		**1,723,400**	**876,475**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	14	67,930	28,738
Short-term debt and current portion of long-term debt	15	108,873	316,369
Taxes payable		14,873	10,060
Current deferred tax liability	8	2,666	6,338
Current portion of capital lease liabilities	16	2,928	-
Total current liabilities		**197,270**	**361,505**
Contingent consideration liability	5, 29	16,389	4,523
Long-term portion of capital lease liabilities	16	4,857	-
Long-term debt	17	331,293	-
Non-current deferred tax liability	8	60,519	29,458
Reclamation and mine closure obligation	18	43,004	26,128
Other non-current liabilities		3,810	5,193
Derivative financial instruments, net	29	149,514	-
Total non-current liabilities		**609,386**	**65,302**
Total liabilities		**806,656**	**426,807**
Commitments and contingencies	33	-	-
Shareholders' equity			
Share capital (2,444,000,000 shares authorized with par value of Ruble 0.2 per share; 399,375,000 and 315,000,000 shares issued at December 31, 2009 and 2008 respectively; 357,924,643 and 315,000,000 shares outstanding at December 31, 2009 and 2008, respectively)	19	7,223	6,698
Additional paid-in capital		797,418	400,122
Treasury stock	19	(481)	-
Accumulated other comprehensive loss		(63,528)	(37,276)
Retained earnings		176,112	80,124
Total shareholders' equity		**916,744**	**449,668**
Total liabilities and shareholders' equity		**1,723,400**	**876,475**

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, 2009 AND 2008
(In thousands of U.S. Dollars, except share and per share data)

	Note	December 31, 2009	December 31, 2008
Revenues	21	560,737	502,731
Cost of sales	22	284,416	300,729
Gross profit		**276,321**	**202,002**
General, administrative and selling expenses	26	52,042	90,142
Other operating expenses	27	41,706	36,231
Operating income		**182,573**	**75,629**
Interest expense, net of amounts capitalised		32,515	20,675
Loss from investments in joint ventures	12	342	8,393
Loss on extinguishment of debt		5,873	-
Change in fair value of derivative financial instruments	29	41,938	-
Change in fair value of contingent consideration liability	29	11,431	-
Exchange (gain)/loss, net		(7,869)	44,520
Income before income tax and extraordinary gain		**98,343**	**2,041**
Income tax expense	28	38,386	18,611
Income/(loss) before extraordinary gain		**59,957**	**(16,570)**
Extraordinary gain – Excess of fair value of acquired net assets over cost	5	36,031	840
Net income/(loss)		**95,988**	**(15,730)**
Earnings/(loss) per share (expressed in U.S. Dollars)	19		
From continuing operations			
Basic earnings/(loss) per share		0.186	(0.053)
Diluted earnings/(loss) per share		0.181	(0.053)
From Extraordinary gain			
Basic earnings per share		0.112	0.003
Diluted earnings per share		0.109	0.003
Net income/(loss)			
Basic earnings/(loss) per share		0.298	(0.050)
Diluted earnings/(loss) per share		0.290	(0.050)
Weighted average number of shares outstanding			
Basic		322,343,391	312,450,725
Diluted		331,025,789	312,450,725

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, 2009 AND 2008
(In thousands of U.S. Dollars)

	Note	December 31, 2009	December 31, 2008
Cash flows from operating activities			
Net income/(loss)		95,988	(15,730)
Adjustments to reconcile net income/(loss) to cash provided from operations:			
Extraordinary gain – Excess of fair value of acquired net assets over cost	5	(36,031)	(840)
Exchange (gain)/loss, net		(7,869)	44,520
Depreciation and depletion		53,744	48,522
Change in fair value of derivative financial instruments	29	41,938	-
Change in fair value of contingent consideration liability	29	11,431	-
Loss on extinguishment of debt	27	5,873	-
Change in accrued payroll expense		5,287	474
Loss on disposal of property, plant and equipment	27	3,401	4,624
Accretion of reclamation and mine closure obligation	18	2,895	1,357
Change in bad debt allowance	27	2,993	1,135
Write-off of irrecoverable VAT receivable		2,909	-
Write-down of inventory to lower of cost or market	22	2,622	10,583
Change in fair value of long-term loans to related parties		928	-
Deferred income tax benefit/(expense)	28	872	(11,254)
Capital lease finance cost		489	40
Other non-cash expenses		857	2,654
Loss from investments in joint ventures	12	342	8,393
Share-based compensation	20, 26	-	31,902
Changes in working capital, excluding cash:			
Prepayments to suppliers		(3,729)	(2,811)
Inventories and spare parts		(35,430)	(29,058)
VAT receivable		7,087	(22,907)
Other current assets		3,167	(8,799)
Accounts payable and accrued liabilities		15,458	17,328
Taxes payable		(943)	636
Net cash provided by operating activities		**174,279**	**80,769**
Cash flows from investing activities			
Additions to property, plant and equipment		(222,242)	(112,490)
Proceeds from sale of property, plant and equipment		436	1,808
Acquisition of subsidiaries, net of cash acquired	5	(10,708)	(22,014)
Proceeds from sale of subsidiaries		-	55
Investments in joint ventures		-	(27,422)
Loans provided to third parties		(10,321)	(526)
Repayment of loans provided to third parties		9,238	-
Loans provided to related parties		(55,022)	(4,566)
Repayment of loans provided to related parties		21,007	1,131
Net cash used in investing activities		**(267,612)**	**(164,024)**

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 (CONTINUED)
(In thousands of U.S. Dollars)

	Note	December 31, 2009	December 31, 2008
Cash flows from financing activities			
Proceeds from short-term debt		480,306	367,256
Proceeds from long-term debt		335,522	-
Repayment of short-term debt and current portion of long term debt		(671,806)	(424,606)
Proceeds from short-term debt from related parties		473,737	-
Proceeds from long-term debt from related parties		168,184	200,142
Repayments of short-term debt and current portion of long-term debt from related parties		(750,345)	(57,681)
Proceeds from issuance of shares, net of costs incurred		87,432	-
Acquisition of treasury shares		(223)	-
Proceeds from issuance of shares under employee share option plan		-	212
Capital lease payments		(5,118)	(2,182)
Net cash provided by financing activities		**117,689**	**83,141**
Effect of foreign currency translation on cash and cash equivalents		(116)	(828)
Net increase/(decrease) in cash and cash equivalents		**24,240**	**(942)**
Cash and cash equivalents at the beginning of the year		4,077	5,019
Cash and cash equivalents at the end of the year		**28,317**	**4,077**
Supplementary information			
Interest paid		49,144	23,050
Income tax paid		30,952	37,983
Non-cash investing and financing activities			
Non-cash additions to property, plant and equipment (capital lease)		10,137	-
Issue of shares for acquisitions	5	156,000	-
Exercise of a call option	5	152,721	
Investments in joint ventures		-	3,482
Contingent consideration on acquisition	5	6	5,459

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(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 OJSC Polymetal equity
Balance at January 1, 2008		**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		-	-	929	-	-	-	929
Share based compensation	20, 26	-	-	31,902	-	-	-	31,902
Issuance of treasury shares	19	5,540,323	-	162	50	-	-	212
Balance at December 31, 2008		**315,000,000**	**6,698**	**400,122**	**-**	**(37,276)**	**80,124**	**449,668**
Comprehensive income:								
Net income		-	-	-	-	-	95,988	95,988
Other comprehensive loss: currency translation adjustment		-	-	-	-	(26,252)	-	(26,252)
Total comprehensive income								69,736
Amortization of the bonus received from depositary		-	-	978	-	-	-	978
Issuance of shares for cash	19	9,524,643	59	87,805	-	-	-	87,864
Issuance of shares for acquisitions	5	17,500,000	109	155,891	-	-	-	156,000
Exercise of a call option	5	15,925,000	99	152,622	-	-	-	152,721
Treasury shares issued to subsidiary	19	-	258	-	(258)	-	-	-
Acquisition of treasury shares	19	(25,000)	-	-	(223)	-	-	(223)
Balance at December 31, 2009		**357,924,643**	**7,223**	**797,418**	**(481)**	**(63,528)**	**176,112**	**916,744**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands of U.S. Dollars, unless otherwise stated)

1. BACKGROUND

Business activities

Open Joint Stock Company Polymetal (hereinafter JSC "Polymetal" or "the Company") and its subsidiaries ("the Group") is engaged in gold, silver and copper mining and related activities, including exploration, extraction, processing and reclamation. Since incorporation, the Group has acquired a number of gold and silver mining properties, which require significant investment to bring to commercial production. The Group owns producing assets at Vorontsovskoye and Lunnoe fields, Dukat and Khakandjinskoye fields, Mayskoye field and Varvarinskoye field.

The Group has six reportable segments which are based on their regional locations. All of the Group's operations and assets are located in Russia and Kazakhstan.

The Group holds the following significant mining licenses: Vorontsovskoye field (Sverdlovsk region), Lunnoe, Arylakh, Dukat, Kubaka, Birkachan, Goltsovoye and Sopka Kvartsevaya fields (Magadan region), Khakandjinskoye, Urjevskoe and Albazino fields (Khabarovsk region), Mayskoye field (Chukotka region), Varvarinskoye field (Kazakhstan).

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 its 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 Rubles 0.2 per share in the form of Global Depositary Receipts ("GDRs"), one GDR represents one common share, on the London Stock Exchange, as well as shares on "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: Powerboom Investments Limited, ultimate beneficiary owner of which is Alexander Nesis (23.97%), Pearlmoon Limited, ultimate beneficiary owner of which is Petr Kellner (24.82%), and Vitalbond Limited, ultimate beneficiary owner of which is Alexander Mamut (19.02%). Also, as at December 31, 2009, Deutsche Bank Trust Company Americas controls 13.48% of voting shares in the Company. No other parties contol more than 5% of Company shares.

In October 2009, the Company placed 42,949,643 ordinary shares with par value of Rubles 0.2 per share by way of a closed subscription (See Note 19).

Operating environment

Beginning late 2008, a number of major economies around the world experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or required support through government funding. The Group has been most directly impacted by the credit crisis through an increase in its cost of capital. While there have been improvements in the global markets in recent months, the Group's interest rates are still higher in 2009 than they were prior to the crisis. Notwithstanding any potential economic stabilisation measures that may be put into place by the Russian government, there exists economic uncertainties surrounding the continual cost of credit both for the Group and its counterparties.

Composition of the Group

As at December 31, 2009, the Company had the following significant subsidiaries:

		Voting interest, %	
Name of subsidiary	**Field**	**December 31, 2009**	**December 31, 2008**
CJSC Zoloto Severnogo Urala	Vorontsovskoye	100	100
JSC Okhotskaya GGC	Khakandjinskoye, Urjevskoe	100	100
CJSC Serebro Magadana	Dukat, Lunnoe, Arylakh	100	100
ZK Mayskoye LLC	Mayskoye	100	-
JSC Omolon Gold Mining Company	Kubaka, Birkachan	100	100
Albazino Resources LLC	Albazino	100	100
Amursky Hydrometallurgy Plant LLC	N/A	100	100
Rudnik Kvartseviy LLC	Sopka Kartsevaya, Dalniy	100	-
JSC Varvarinskoye	Varvarinskoye	100	-

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

Recently issued accounting pronouncements

Accounting pronouncements effective during the reporting period

Effective June 30, 2009 the Group adopted the FASB Accounting Standards Codification ("Codification" or "ASC"), which is now the single source of authoritative generally accepted accounting principles in the United States of America. The Codification changed the referencing of financial standards but was not intended to change or alter existing U.S. GAAP.

OPEN JOINT STOCK COMPANY POLYMETAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
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Effective January 1, 2008, the Group adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, Fair *Value Measurements and Disclosures* ("ASC 820"), formerly Statement of Financial Accounting Standards ("SFAS") 157, *Fair Value Measurements*), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Group elected one-year deferral of the effective date of ASC 820 permitted for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis (at least annually). Following the one-year deferral permitted, effective January 1, 2009, the Group adopted ASC 820 for non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis, such as assets and liabilities measured at fair value in a business combination; impaired properties, plants and equipment, intangible assets and goodwill; initial recognition of asset retirement obligations. The adoption of the provisions of ASC 820 did not have a material impact on the Group's results of operations, financial position or cash flows.

In April 2009, the FASB issued additional guidance on fair value measurements and disclosures (formerly FSP FAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*). The new guidance reaffirms what ASC 820 states is the objective of fair value measurement – to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The new guidance is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Group adopted the amended ASC 820 starting from the consolidated financial statements for the year ended December 31, 2009. Adoption of the amended ASC 820 did not have a material impact on the Group's financial position and results of operations.

In December 2007, the FASB issued revised ASC 805, Business combinations ("ASC 805", formerly SFAS No. 141 (Revised), *Business combinations*). This guidance significantly changes the accounting for business combinations and is effective on January 1, 2009 for all new business combinations. The Group's acquisitions subsequent to the effective date have been accounted for under the provisions of ASC 805, refer to Note 5 ("Acquisition and disposal of subsidiaries") for further disclosures, including the impact the adoption has on the Group's financial statements.

In December 2007, the FASB issued a new guidance to ASC 810, Consolidation ("ASC 810", formerly SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*). This guidance requires all entities to report noncontrolling interests in subsidiaries as a separate component of equity in the consolidated statement of financial position, to clearly identify consolidated net income attributable to the parent company and to the noncontrolling interest on the face of the consolidated statement of income, and to provide sufficient disclosure that clearly identifies and distinguishes between the interest of the parent and the interests of noncontrolling owners. ASC 810 also establishes accounting and reporting standards for changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The guidance was effective as at January 1, 2009. The adoption of ASC 810 did not have a significant impact on the Group's financial position, consolidated results of operations or cash flows.

In May 2009, the FASB issued ASC 855, Subsequent events ("ASC 855", formerly SFAS No. 165, *Subsequent events*). The new guidance establishes the accounting for, and disclosure of, material events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. In general, these events are recognized if the condition existed at the balance sheet date, and are not recognized if the condition did not exist at the balance sheet date. Disclosure is required for unrecognized material events to keep the financial statements from being misleading. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date – that is, whether that date represents the date the financial statements were issued or were available to be issued. ASC 855 is effective for interim and annual periods ending after June 15, 2009.

In November 2008, the FASB ratified the additional guidance to ASC 323, *Investments – Equity Method and Joint Ventures* ("ASC 323", formerly Emerging Issues Task Force ("EITF") 08-6, *Equity Method Investment Accounting Considerations*). The Group adopted the amended ASC 323 starting from consolidated financial statements for the year ended December 31, 2009. The adoption of amended ASC 323 did not have a material impact on the Group's consolidated financial position and results of operations.

In January 2010, the FASB issued ASU 2010-1, *Accounting for Distributions to Shareholders with Components of Stock and Cash* ("ASU 2010-1") that amends ASC 505, *Equity* ("ASC 505") and ASC 260, *Earning per share* ("ASC 260"). ASU 2010-1 clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash is considered a share issuance that is reflected in earnings-per-share prospectively and is not a stock dividend for the purpose of applying ASC 505 and ASC 260. ASU 2010-1 is effective for interim and annual reporting periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The Group adopted ASU 2010-1 starting from annual consolidated financial statements as at and for the year ended December 31, 2009 on a retrospective basis. Adoption of ASU 2010-1 did not have a material impact on the Group's consolidated financial position and results of operations.

In January 2010, the FASB issued ASU 2010-2, *Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification* ("ASU 2010-2") that amends ASC 810, *Consolidation* ("ASC 810"). ASU 2010-2 clarifies the list of operations that are within the scope of ASC 810 and related guidance. ASU 2010-2 also clarifies that if a decrease in ownership occurs in a subsidiary that is not a business or nonprofit activity, an entity first needs to consider whether the substance of transaction is addressed in other topics such as transfers of financial assets, revenue recognition, exchange of nonmonetary assets, sales of real estate, conveyances of oil and gas mineral rights. If no other guidance exists, an entity should apply guidance in ASC 810. ASU 2010-2 expands the disclosure requirements about the deconsolidation of a subsidiary or derecognition of a group of assets within the scope of ASC 810. ASU 2010-2 is effective for interim and annual reporting periods ending on or after December 15, 2009, and should be applied retrospectively to the first period that an entity adopted SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*. The Group adopted ASU 2010-2 starting from annual consolidated financial statements as at and for the year ended December 31, 2009 retrospectively to January 1, 2009. Adoption of ASU 2010-2 did not have a material impact on the Group's consolidated financial position and results of operations.

Accounting pronouncements effective in the future

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

In January 2010, the FASB issued ASU 2010-6, *Improving Disclosures about Fair Value Measurements* ("ASU 2010-6") that amends ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"). ASU 2010-6 requires separate disclosure of significant transfers between Level 1 and Level 2 fair value measurement inputs and a description of the reasons for the transfers. Entity is also required to present separately information about purchases, issuance, and settlements in the reconciliation for fair value measurements using Level 3 inputs. ASU 2010-6 amends existing disclosure requirements in regards of level of disaggregation and inputs and valuation techniques. ASU 2010-6 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about activity in Level 3 fair value measurements that are effective for interim and annual periods beginning after December 15, 2010. The Group will adopt ASU 2010-6 from January 1, 2010, except for the disclosures about activity in Level 3 fair value measurements that will be adopted from January 1, 2011. The Group does not expect ASU 2010-6 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 obligations, 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.

Reporting and functional currency

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

As a result, the transactions and balances in the accompanying consolidated financial statements have been translated into U.S. Dollars in accordance with the relevant provisions of ASC 830, Foreign Currency Matters. Consequently, assets and liabilities are translated at period closing exchange rates. 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.

(In thousands of U.S. Dollars, unless otherwise stated)

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

The following exchange rates were used at the reporting dates:

	December 31, 2009	December 31, 2008
Russian Ruble for 1 U.S. Dollar	30.24	29.38
Average exchange rate for the year, Russian Ruble for 1 U.S. Dollar	31.72	24.85
Kazakh Tenge for 1 U.S. Dollar	148.36	-
Average exchange rate for the period from October 30, 2009 to December 31, 2009, Kazakh Tenge for 1 U.S. Dollar	149.21	-

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 the Group companies have been eliminated.

Business acquisitions

Business acquisitions from third parties are accounted for using the purchase method of accounting. Under this method, the purchase price is allocated to the assets acquired and liabilities assumed based on the fair value at the time of the acquisition. The excess purchase price over the fair value of identifiable assets and liabilities acquired is treated as goodwill. Subsequent to the adoption of ASC 805, any excess of Group's interest in net fair value of identifiable assets, liabilities and contingent liabilities over the cost of the business combination is recognized in earnings on the acquisition date. Prior to 1 January 2009, any excess of the Group's interest in net fair value of identifiable assets, liabilities and contingent liabilities over the cost of the business combination were offset against the net fair value of identifiable assets, with any remaining amount were recognized in earnings on the acquisition date. The results of operations of entities acquired from third parties are included in the Group's results of operations from the date of acquisition.

Acquisitions of entities under common control are accounted for on a carryover basis, which results in the historical book value of assets and liabilities of the acquired entity being combined with the assets and liabilities of the Group. The consolidated 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 statement of operations 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 or 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.

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, 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 eventual goodwill impairment due to the wasting nature of the mine reporting unit. In accordance with the provisions of ASC 350, Intangibles – Goodwill and Other ("ASC 350"), the Group performs a review of goodwill for impairment, at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

In accordance with ASC 350 goodwill is reviewed for impairment by comparing the carrying value of each reporting unit's net assets (including allocated goodwill) to the fair value of those net assets. In assessing the fair value management estimates the future cash flows on a discounted basis to be generated by each reporting unit, being the individual mines, smelting and refining operations. If the reporting unit's carrying amount is greater than its fair value, then a second step is performed whereby the portion of the fair value that relates to the reporting unit's goodwill is compared to the carrying value of that goodwill. The Group recognizes a goodwill impairment charge for the amount by which the carrying value of goodwill exceeds the fair value. The Group has determined that there are no impairment losses in respect of goodwill for any of the reporting periods covered by these financial statements.

Cash and cash equivalents

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

Inventories and spare parts

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

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

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 Group's non-derivative financial instruments carried on the balance sheet include cash and bank balances, investments and loans, accounts receivable and payable, debt and contingent consideration liability.

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

Long-term financial instruments consist primarily of long-term investments and loans receivable and long-term debt and are measured at amortized cost. Management of the Group periodically assesses the recoverability of the carrying values of the investments and, if necessary, a provision is made for investments and loans receivable that are considered uncollectible.

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

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

Derivative financial instruments

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

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

ASC 815 provides that normal purchase and normal sale contracts, when appropriately designated, are not subject to the statement. Normal purchase and normal sale contracts are contracts which provide for the purchase or sale of something other than a financial instrument or derivative instrument that will be delivered in quantities expected to be used or sold by the reporting entity over a reasonable period in the normal course of business. To qualify for the normal purchase and normal sale exception, it must be probable at inception and throughout the term of the individual contract that the contract will not settle net and will result in physical delivery. Except for the Varvarinskoye sale and purchase forward contracts (see Note 30), the Group's forward sales contracts qualify for this exception.

Property, plant and equipment

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

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

In accordance with ASC 330, Inventory, subtopic 330-930, *Extractive activities – Mining*, post-production stripping costs are considered 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 o f 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 years ended December 31, 2009 and 2008, the Group contributed U.S. Dollar 15,329 and 14,923, respectively.

Reclamation and mine closure

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

Income taxes

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

In the normal course of business the Group is subject to examination by taxing authorities throughout the Russian Federation and Kazakhstan. Interregional Inspectorates of the Russian Federal Tax Service ("the IIRFTSs") and Tax Inspectorates of Ministry of Finance of Kazakhstan ("the TIMFKs") have commenced examinations of the Group's tax returns for 2006 through 2007. No significant adjustments have been proposed by the IIRFTSs and TIMFKs as at December 31, 2009.

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

Sale of gold and silver bullions

Revenue is derived principally from the sale of gold and silver bullions and copper and gold concentrate 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 gold and silver bullions to banks through long-term agreements. The sales price, as determined in the agreement, may be variable based upon the London Bullion Market Association ("LBMA") spot price or fixed.

Sale of copper and gold concentrate

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

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

Share based compensation

In 2007 the Group's board of directors awarded share options to certain employees (see Note 20). The Group applies ASC 718, *Compensation – Stock Compensation* ("ASC 718") to its accounting for share based compensation. ASC 718 requires companies to recognize compensation costs for share-based payments to employees based on the grant-date fair value of the award.

The fair value of share-based payments is calculated at the grant date using the Black-Scholes-Merton option pricing model. For equity-settled share-based payments, the fair value is determined using the Black-Scholes-Merton 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.

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

Comprehensive income/(loss)

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

(In thousands of U.S. Dollars, unless otherwise stated)

4. RECLASSIFICATIONS

Certain comparative information presented in the consolidated balance sheet as at December 31, 2008 and in the consolidated statement of operations for the year ended December 31, 2008 has been reclassified in order to achieve comparability with the presentation used as at and for the year ended December 31, 2009. 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, 2008:

	Before reclassifications		After reclassifications	Difference
Property, plant and equipment, net	484,134	(a)	477,889	(6,245)
Inventories	202,419	(a)	196,088	(6,331)
Other non-current assets	-	(a)	12,576	12,576
Current deferred tax asset	11,758	(b)	5,627	(6,131)
Non-current deferred tax asset	11,648	(b)	17,779	6,131
				-

(a) In the consolidated financial statements for the year ended December 31, 2008 certain consumables and spare parts not intended for use within one year (held as strategic reserve on remote locations) were classified as construction in-progress and inventory. In the consolidated financial statements for the year ended December 31, 2009 these amounts (U.S. Dollar 12,576) were reclassified to other non-current assets.

(b) In the consolidated financial statements for the year ended December 31, 2008 deferred tax assets accrued in respect of reclamation and mine closure obligation and contingent consideration payable were classified as short-term deferred tax assets. In the consolidated financial statements for the year ended December 31, 2009 these amounts (U.S. Dollar 6,131) were reclassified to long-term deferred tax assets.

These reclassifications had no impact on profit for the year ended December 31, 2008 or shareholders' equity as at December 31, 2008.

5. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

JSC Omolon Gold Mining Company

In January 2008, the Group acquired 98.1% of shares in JSC Omolon Gold Mining Company ("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 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 of 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 liability of U.S. Dollar 5,459.

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.

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

Assets acquired and liabilities assumed at the date of acquisition

Non-current deferred tax asset	17,461
Other current assets	16,146
Reclamation and mine closure obligation (Note 18)	(9,582)
Current deferred tax liability	(1,875)
Other liabilities	(15,040)
Net assets acquired	**7,110**
Cash consideration paid	15,811
Contingent consideration payable	5,459
Intercompany debt	(15,000)
Extraordinary gain	**840**

The excess of the fair value of acquired net assets over cost 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. The excess of the fair value of acquired net assets over consideration paid was allocated to reduce the carrying value of property, plant and equipment and mineral rights purchased. After reducing the value of these assets to nil, the remaining excess of U.S. Dollar 840 was recognized as an extraordinary gain in the statement of operations.

ZK Mayskoye LLC

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

On April 27, 2009, the Company and the Equity Buyers entered into a legally binding agreement ("Agreement") under which:

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

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

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

The Group determined that at April 28, 2009, the initial acquisition of the 9% equity stake in ZK Mayskoye met the definition of a variable interest entity. Conditions discussed in paragraph (b) above represent a call option embedded into the agreement (see Note 29). The Company is the primary beneficiary of ZK Mayskoye as a consequence of the written call option over the 91% interest held by the Equity Buyers and accordingly has consolidated ZK Mayskoye since April 28, 2009.

(In thousands of U.S. Dollars, unless otherwise stated)

The call option has been accounted for at fair value and included at its initial fair value in the purchase consideration. Subsequent changes in fair value have been recorded in "change in fair value of derivative financial instruments" in the statement of operations.

On October 27, 2009, following necessary regulatory approvals, the Group completed the acquisition of 100% equity stake in ZK Mayskoye. The Group and the Equity Buyers signed a legally binding supplement to the Agreement under which the Equity Buyers have chosen option to receive 15,925,000 Polymetal's common shares for the 91% equity stake in ZK Mayskoye (see Note 19).

This acquisition was accounted for using the purchase method.

Assets acquired and liabilities assumed at the date of acquisition

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

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

The acquisition of ZK Mayskoye contributed net loss of approximately U.S. Dollar 7,921 during the period April 28, 2009 through December 31, 2009. Currently ZK Mayskoye is at development stage and does not generate any revenue.

JSC Varvarinskoye

In October 2009, the Group acquired 100% of shares in Three K Exploration and Mining Limited ("Three K") which owns JSC Varvarinskoye in Kazakhstan ("Varvarinskoye") from Orsu Metals Corporation, an unrelated party. The Group acquired Varvarinskoye as it holds the mining license for Varvarinskoye gold-copper deposit located in Kazakhstan. Under the terms of the sale and purchase agreement, the Group acquired shares for the cash consideration of U.S. Dollar 8,000 and contingent consideration of up to a maximum of U.S. Dollar 12,000 (with estimated fair value of U.S. Dollar 6 as at the date of acquisition), calculated using a formula where published future prices of gold and copper are compared to gold strike price applied pursuant to the terms of the gold forward purchase contracts entered into (see Note 30) and copper fixing price as published by the LME as at the date when the gold forward purchase contracts mentioned above are entered into are incorporated. The acquisition-related costs comprised U.S. Dollar 1,496 and have been included in the "other operating expenses" of the consolidated statement of operations.

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

(a) Debt obligations in the amount of U.S. Dollar 85,660 (see Note 17); and

(b) Flat forward gold sales contract (see Note 30) based on the expected production of gold at Varvarinskoye field. The flat forward sales contract has a total notional amount of 320,160 ounces of gold at the fixed forward price of U.S. Dollar 574.25 per ounce and has monthly settlement dates between November 2009 and April 2014.

The existing hedging program has been amended to allow Three K to enter into offsetting transactions in relation to the flat forward gold sales contract. As a result, in October 2009 the Group entered into flat forward gold purchase contract at the fixed forward price of U.S. Dollar 1,129.65 per ounce, with the same notional amount and monthly settlement dates as the aforementioned flat forward gold sales contract (see Note 30). The gold forward purchase contract economically locks in the losses on the existing flat forward gold sales contract.

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

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

The acquisition was accounted for using the purchase price method. The allocation of the purchase price has not been finalized as at the date of these statements. It will be finalized in 2010 upon completion of mineral rights valuation and deferred taxes assessment. The preliminary purchase price allocation for the acquisition was as follows:

Assets acquired and liabilities assumed at the date of acquisition

Property, plant and equipment	137,213
Mineral rights	8,990
Non-current deferred tax asset	2,993
Inventories and spare parts	27,833
VAT receivable	8,236
Current deferred tax asset	5,149
Cash and cash equivalents	4,339
Other assets, net	882
Derivative financial instruments, net	(157,199)
Long-term debt	(76,314)
Accounts payable and accrued liabilities	(10,342)
Reclamation and mine closure obligation (Note 18)	(9,197)
Net liabilities acquired	**(57,417)**
Cash consideration paid	8,000
Contingent consideration payable	6
Goodwill	**65,423**

(In thousands of U.S. Dollars, unless otherwise stated)

Goodwill arose in the business combination because the cost of the acquisition includes amounts in relation to the benefits of expected revenue and business growth by receiving more competitive position for the acquisition of the new licenses in the region. The goodwill related to the acquisition was assigned to the Kazakhstan segment. It is not deductible for tax purposes.

The acquisition of Varvarinskoye contributed revenues of U.S. Dollar 21,981 and net income of approximately U.S. Dollar 1,109 during the period October 30, 2009 through December 31, 2009.

Rudnik Kvartseviy LLC

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

In October 2009, the Group acquired a 100% interest in RK from four Russian private companies for the cash consideration of U.S. Dollar 3,391 and 10,000,000 of Polymetal's common shares (see Note 19) valued at transaction date at U.S. Dollar 90,600.

The acquisition was accounted for using the purchase price method. The allocation of the purchase price has not been finalized as at the date of these financial statements. It will be finalized in 2010 upon completion of mineral rights valuation and deferred taxes assessment. The preliminary purchase price allocation for the acquisition was as follows:

Assets acquired and liabilities assumed at the date of acquisition

Mineral rights	110,000
Property, plant and equipment	34,675
Inventories and spare parts	10,425
Investments	7,429
Other assets, net	5,566
Long-term debt	(19,651)
Non-current deferred tax liabilities	(17,059)
Reclamation and mine closure obligation (Note 18)	(1,363)
Net assets acquired	**130,022**
Cash consideration paid	3,391
Shares consideration paid	90,600
Extraordinary gain	**36,031**

Excess of fair value of acquired net assets over cost of U.S. Dollar 36,031 arose primarily due to the Company's competitive position in negotiations due to the fact that the Group is the only owner of processing facilities in that region.

The acquisition of RK contributed net loss of approximately U.S. Dollar 1,838 during the period October 12, 2009 through December 31, 2009. Currently RK only started the ore extraction process and does not generate any revenue.

CJSC Artel of prospectors Ayax

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

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

In October 2009, the Group acquired the remaining 35,934 shares (89.61%) in Ayax from Verda Financial Ltd., an unrelated party, for 7,500,000 of the Company's common shares (see Note 19). The loan of U.S. Dollar 10,000 was repaid by Verda upon the purchase of these shares.

Ayax does not meet the definition of the business of ASC 805 thus it was accounted for as acquisition of the group of assets. Allocating of cost of group of assets acquired among of the individual assets acquired or liabilities assumed was as follows:

Assets acquired and liabilities assumed at the date of acquisition

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

Proforma (unaudited)

The following unaudited proforma of the consolidated results of operations assume that the acquisition of the subsidiaries was completed as at January 1, 2009 for the year shown below:

	Year ended December 31, 2009	Year ended December 31, 2008
Revenue	659,249	531,392
Net income/(loss)	43,997	(48,453)
Basic earnings/(loss) per share	0.14	(0.16)
Weighted average number of shares used in the computation of basic earnings per share	322,343,391	312,450,725
Diluted earnings/(loss) per share	0.13	(0.16)
Weighted average number of shares used in the computation of diluted earnings per share	331,025,789	312,450,725

These amounts have been calculated after applying the Group's accounting policies and adjusting the results of Varvarinskoye to reflect the additional depreciation and amortization arising from the purchase price allocation.

Other acquisitions

In August 2008, the Group acquired 100% of shares in Ural Exploration Enterprise LLC (a development stage enterprise), which holds the 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.

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 12).

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, net	(2,017)
Net assets disposed of	**16,930**

6. INVENTORIES AND SPARE PARTS

	December 31, 2009	December 31, 2008
Consumables and spare parts	137,061	95,472
Ore stock piles	51,113	47,225
Work in-process	73,331	48,912
Dore	15,891	81
Refined metals	7,090	3,840
Other	-	558
Total	**284,486**	**196,088**

During the year ended December 31, 2008, management of the Group identified a balance of ore stock piles which had a lower content of precious metals. Management determined that the net realizable value of such ore was lower than its cost. Accordingly, the Group wrote off this inventory, in the amount of U.S. Dollar 10,583 at December 31, 2008 (see Note 22). The write-down adjustment related to the Khabarovsk segment.

OPEN JOINT STOCK COMPANY POLYMETAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands of U.S. Dollars, unless otherwise stated)

7. VAT RECEIVABLE

	December 31, 2009	December 31, 2008
Short-term VAT receivable	77,323	62,718
Long-term VAT receivable	7,799	13,953
Total	**85,122**	**76,671**

Long-term value-added tax ("VAT") receivable primarily represents VAT balances resulting from operating activities which are not expected to be recovered within the next calendar year due to specific requirements of the tax regulations. The Group's management believes that these balances are fully recoverable from the tax authorities when the respective operating activities qualify as being deductible for VAT purposes.

8. DEFERRED TAX

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

	December 31, 2009	December 31, 2008
Deferred tax assets:		
Tax losses carried forward	39,835	7,308
Reclamation and mine closure obligation	8,607	5,226
Accounts payable and accrued liabilities	6,388	1,237
Property, plant and equipment	6,004	3,216
Other current assets	5,928	2,583
Inventories and spare parts	2,713	2,712
Other non-current liabilities	781	1,124
Total deferred tax assets	**70,256**	**23,406**
Deferred tax liabilities:		
Property, plant and equipment	(86,025)	(29,458)
Inventories and spare parts	(4,465)	(6,338)
Total deferred tax liabilities	**(90,490)**	**(35,796)**
Net deferred tax liabilities	**(20,234)**	**(12,390)**

Net deferred income tax liabilities consist of:

	December 31, 2009	December 31, 2008
Non-current deferred tax assets	30,118	17,779
Current deferred tax assets	12,833	5,627
Non-current deferred tax liabilities	(60,519)	(29,458)
Current deferred tax liabilities	(2,666)	(6,338)
Net deferred tax liabilities	**(20,234)**	**(12,390)**

(In thousands of U.S. Dollars, unless otherwise stated)

Tax losses carried forward represent the amounts available for offset against future taxable income generated by CJSC Serebro Magadana, JSC Okhotskaya GGC, JSC Varvarinskoye and the Company during the period up to 2019. 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, 2009 and 2008 the aggregate tax losses carried forward were U.S. Dollar 199,175 (Rubles 6,023,052 thousand) and U.S. Dollar 36,542 (Rubles 1,073,629 thousand), respectively. The Group's tax losses carried forward expire as follows:

		December 31, 2009
Year ended December 31,	2010	540
	2011	705
	2012	730
	2013	502
	2014	2,783
	2015	9,093
	2016	92,401
	2017	22,963
	2018	38,060
	2019	31,398
Total		**199,175**

The deferred tax assets for the respective periods were assessed for recoverability. No valuation allowance has been recorded as at December 31, 2009 and 2008. Although realization is not assured, management concluded that it is more-likely-than-not that the deferred tax assets will be realized based on the available evidence, including the timing of projected income from operating activities. The amount of the net deferred tax assets considered realizable, however, could change in the near term if actual future income or income tax rates differ from that estimated, or if there are differences in the timing or amount of future reversals of existing taxable or deductible temporary differences.

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

9. OTHER CURRENT ASSETS

	December 31, 2009	December 31, 2008
Taxes receivable	7,100	11,941
Other receivables	6,734	4,472
Other current assets	6,616	7,449
Trade receivables	1,601	-
Total	**22,051**	**23,862**

10. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2009	December 31, 2008
Mineral rights	355,486	135,795
Buildings and underground workings	324,306	221,742
Construction in-progress	297,792	119,408
Machinery and equipment	262,976	141,354
Transport and other	71,568	42,263
Total cost	**1,312,128**	**660,562**
Accumulated depreciation and depletion	(224,625)	(182,673)
Net book value	**1,087,503**	**477,889**

Construction in-progress is not being depreciated as it was not yet put into use as at December 31, 2009 and 2008, respectively. Construction-in-progress consists of long-term deferred exploration expenditures which amounted to U.S. Dollar 74,413 and U.S. Dollar 52,627 at December 31, 2009 and 2008, respectively. The rest of construction in-progress includes expenses related to the construction of production facilities at Albazino Resources LLC of U.S. Dollar 76,105 and U.S. Dollar 5,748 and at ZK Mayskoye LLC of U.S. Dollar 39,940 and nil as at December 31, 2009 and 2008, respectively.

Mineral rights of the Group are comprised of mineral rights acquired by the Group upon purchase of subsidiaries. Accumulated depletion of mineral rights was U.S. Dollar 40,579 and U.S. Dollar 32,978 at December 31, 2009 and 2008, respectively.

At December 31, 2009, property, plant and equipment included leased assets with net book value of U.S. Dollar 10,633 (all of which was machinery). At December 31, 2008, no property, plant and equipment was under the capital lease agreements.

During the years ended December 31, 2009 and 2008, cumulative capitalized interest included in property, plant and equipment amounted to U.S. Dollar 17,086 and 3,816, respectively.

Property, plant and equipment with a total net book value of U.S. Dollar 161,654 (including mineral rights with net book value of U.S. Dollar 8,990) was pledged as collateral to secure the Group's borrowings at December 31, 2009 (see Note 17). No property, plant and equipment were pledged as collateral at December 31, 2008.

11. GOODWILL

	December 31, 2009	December 31, 2008
Beginning balance	**23,741**	**30,141**
Additions (Note 5)	87,000	-
Disposals (Note 5)	-	(1,792)
Translation effect	1,575	(4,608)
Total	**112,316**	**23,741**

(In thousands of U.S. Dollars, unless otherwise stated)

12. INVESTMENTS IN JOINT VENTURES

Investments in joint ventures as at December 31, 2009 and 2008 consisted of the following:

	December 31, 2009		December 31, 2008	
	Voting power %	Carrying value	Voting power %	Carrying value
Asgat Polymetal LLC	-	-	50	225
Joint Venture with AngloGold Ashanti Limited	50	17,047	50	17,899
Total		**17,047**		**18,124**

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 (see Note 5), respectively, and made 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 payments are being made to the geological and engineering companies, however proven and probable reserves have not yet been identified. The Group does not expect to start production and generate cash flows from precious metal sales in near future. Until proven and probable reserves have been identified and measured, uncertainty exists regarding the recoverability of the investment in the JV.

The aggregate financial position and results of operations of the JV are as follows:

	December 31, 2009	December 31, 2008
Non-current assets	85,496	74,078
Current assets	53	7,705
Non-current liabilities	(28,598)	(50,763)
Current liabilities	(1,618)	(3,074)

	Year ended December 31, 2009	From February 14, 2008 (inception date) to December 31, 2008
Net loss	684	16,786
Group's share in joint venture's net loss	342	8,393

13. LONG-TERM LOANS TO RELATED PARTIES

	Interest rate	December 31, 2009	December 31, 2008
Prime LLC (notes)	nil	4,591	-
Accord-Invest LLC	10.50%	-	5,260
Employees	6%	1,855	839
Other		3,269	2,115
Total (Note 32)		**9,715**	**8,214**

In November 2009, following the restructuring of the ICT group, the Group transferred the legal rights to claim all amounts receivable from Akkord-Invest LLC to Prime LLC. Accord-Invest LLC and Prime LLC together with the Company were under common control of the ICT group, the parent company (see Note 1). As a consideration for the legal rights assumed, Prime LLC has issued a non-interest-bearing note with a stated maturity beyond November 2010 and a par value of U.S. Dollar 5,832 (Rubles 168,281 thousand as at December 31, 2009) which equalled the face value of the loan to Akkord-Invest LLC plus accrued interest. The fair value of the note issued by Prime LLC was estimated as U.S. Dollar 4,591 as at December 31, 2009.

Carrying values of the other long-term loans provided to related parties as at December 31, 2009 and 2008 approximated their fair value as interest rates as at December 31, 2009 and 2008 reflected the market conditions.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2009	December 31, 2008
Trade payables	52,397	18,571
Accrued liabilities	11,984	6,769
Other	3,549	3,398
Total	**67,930**	**28,738**

Trade accounts payable as at December 31, 2009 include accounts payable balances of ZK Mayskoye LLC and Rudnik Kvartseviy LLC, subsidiaries acquired during 2009 (see Note 5) in the amount of U.S. Dollar 8,130 and U.S. Dollar 2,051, respectively. Trade accounts payable of U.S. Dollar 19,281 relate to the construction of production facilities at the Albazino region segment.

(In thousands of U.S. Dollars, unless otherwise stated)

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

	Interest rate (actual rate as at December 31, 2009)	December 31, 2009	December 31, 2008
Debt from third parties			
U.S. Dollar denominated			
VTB	LIBOR + 5% (6.68%)	-	100,297
UniCredit Bank	LIBOR + 3.25% (4%)	-	45,066
Raiffeisen Bank	1m LIBOR + 5.75% (5.99%)	23,235	-
Current portion of long-term debt (Note 17)		81,667	-
Total U.S. Dollar denominated		**104,902**	**145,363**
Russian Ruble denominated			
Bank of Khanty-Mansiysk	15%	-	34,491
Other		604	-
Total Russian Ruble denominated		**604**	**34,491**
Total debt from third parties		**105,506**	**179,854**
Debt from related parties Russian Ruble denominated			
Nomos-Bank	13%	3,306	-
Nomos-Bank	18%	61	49,523
Other		-	199
Current portion of long-term debt (Note 17)		-	86,793
Total from related parties		**3,367**	**136,515**
Total		**108,873**	**316,369**

Funds obtained through long-term borrowings (see Note 17) were used to repay short-term borrowings outstanding as at December 31, 2008.

As at December 31, 2009, the Group pledged 512,033 of its treasury shares, with carrying value of U.S. Dollar 3, as a collateral for the loan from Nomos-Bank (see Note 19).

16. CAPITAL LEASE LIABILITIES

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

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

	December 31, 2009	December 31, 2008
Current Portion	2,928	-
Long-term portion	4,857	-
Present value of minimum lease payments	**7,785**	-
Interest payable over the term of lease	2,272	-
Total future minimum lease payments	**10,057**	**-**

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

	December 31, 2009
Year ended December 31, 2010	4,296
2011	3,674
2012	2,087
Total	**10,057**

17. LONG-TERM DEBT

	Interest rate (actual rate as at December 31, 2009)	December 31, 2009	December 31, 2008
Debt from third parties			
U.S. Dollar denominated			
VTB	3m LIBOR + 6.3% (6.55%)	150,000	-
UniCredit bank	1m LIBOR + 6% (6.25%)	70,000	-
Raiffeisen Bank	1m LIBOR + 5% (5.23%)	100,000	-
Syndicate of Banks (Note 5)	3m LIBOR+3% (3.25%)	85,572	-
Less current portion of long-term debt (Note 15)		(81,667)	-
Total debt from third parties		**323,905**	**-**
Debt from related parties			
Russian Ruble denominated			
Nomos-Bank	18%	-	86,793
Less current portion of long-term debt (Note 15)		-	(86,793)
Total Russian Ruble denominated		-	-
Euro denominated			
Nomos-Bank	EURIBOR + 4.6%- EURIBOR + 5.4% (5.688% - 6.488%)	7,388	-
Total Euro denominated		**7,388**	-
Total debt from related parties		**7,388**	-
Total		**331,293**	-

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

	December 31, 2009
Year ended, December 31, 2010	81,667
2011	13,333
2012	225,000
2013	29,893
2014	55,679
2015	3,116
2016	4,272
Total	**412,960**

VTB

In December 2009, the Group received a long-term facility from VTB which allows the Group to borrow funds, denominated in U.S Dollars, up to U.S. Dollar 150,000 to repay short-term debt provided by VTB (see Note 15) and to finance its current operations. The credit facility is valid until June 2012. Interest is payable monthly and based on 3 months LIBOR plus 6.3% annually, which resulted in an interest rate of 6.55% as at December 31, 2009.

The repayment of this long-term facility is guaranteed with a pledge of revenues under the sales agreement with VTB (see Note 33). Covenants to this long-term facility require the Group to maintain certain financial ratios, prohibit any change to the general nature of the business. At December 31, 2009, under the most restrictive covenant, the Group assets cannot be pledged without written consent of VTB.

UniCredit Bank

In August 2009, the Group received a long-term facility from UniCredit Bank which allows the Group to borrow funds, denominated in U.S. Dollars, up to U.S. Dollar 40,000 to finance its current operations. The credit facility is valid until February 2011. Interest is payable monthly and based on 1 month LIBOR plus 6%, which resulted in a rate of 6.26% as at December 31, 2009.

In September 2009, the Group received a long-term facility from UniCredit Bank which allows it to borrow funds, denominated in U.S. Dollars, up to U.S. Dollar 30,000 to finance its current operations. The credit facility is valid until December 2010. Interest is payable monthly based on 1 month LIBOR plus 6% annually, which resulted in a rate of 6.24% as at December 31, 2009.

Covenants related to the long-term 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, 2009, under the most restrictive covenant, the Group is not allowed to give guarantees to third parties to an amount exceeding U.S. Dollar 50,000 without the written consent of UniCredit Bank.

Raiffeisen Bank

In December 2009, the Group received a long-term credit line from Raiffeisen Bank which allows the Group to borrow funds, denominated in U.S. Dollars, up to U.S. Dollar 100,000 to finance its current operations and to refinance other long-term facilities. The credit facility is valid until March 2012. Interest on amounts drawn is payable monthly, based on LIBOR plus 5%, which resulted in a rate of 5.23% as at December 31, 2009. Since November 1, 2010 the interest rate applicable to each interest period will be based on 1 month LIBOR plus 7%.

Covenants related to the long-term facility require the Group to maintain certain financial ratios, limit the disposal of assets. At December 31, 2009, under the most restrictive covenant, 10% of the Group's total assets cannot be pledged or alienated.

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Nomos-Bank

In September 2009, the Group received two long-term credit facilities from Nomos-Bank, a related party, which allow the Group to borrow funds, denominated in Euro, up to U.S. Dollar 6,839 and U.S. Dollar 2,322 (Euro 4,767 thousand and Euro 1,626 thousand as at December 31, 2009) to finance the purchase of equipment for Amursky Hydrometallurgy Plant LLC. The credit facilities are valid until April and March 2016, respectively. Interest is payable monthly and based on EURIBOR plus 5.4% and EURIBOR plus 4.6% annually, which resulted in rates of 6.488% and 5.688% as at December 31, 2009, respectively. As at December 31, 2009, the outstanding balance under these credit facilities was U.S. Dollar 4,272 (the available undrawn balance was U.S. Dollar 4,889).

In July 2009, the Group received a long-term facility from Nomos-Bank which allows the Group to borrow funds, denominated in Euro, up to U.S. Dollar 13,356 (Euro 9,310 thousand as at December 31, 2009) to finance the purchase of equipment for Amursky Hydrometallurgy Plant LLC. The credit facility is valid until December 2015. Interest is payable quarterly based on EURIBOR plus 4.85%, which resulted in a rate of 5.857% as at December 31, 2009. As at December 31, 2009, the outstanding balance under this credit facility was U.S. Dollar 3,116 (the available undrawn balance was U.S. Dollar 10,240).

In November 2008, the Group received a long-term facility from Nomos-Bank which allows the Group to borrow funds, denominated in Russian Rubles, up to U.S. Dollar 99,193 (Rubles 3,000,000 thousand as at December 31, 2009) to finance current operations. The loan facility is valid until November 2011. Interest is payable monthly, based on a fixed rate determined by Nomos-Bank for each tranche but not exceeding 20%. As at December 31, 2009, the outstanding balance under this long-term loan facility was nil.

The repayment of these long-term facilities is guaranteed with a pledge of revenues under the sales contracts with Nomos-Bank (see Note 33). Covenants to these facilities 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, 2009, under the most restrictive covenant, the subsidiary of the Group, Trade House Polymetal LLC, is not allowed to pledge property at the amount greater than U.S. Dollar 10,000 without the written consent of the Nomos-Bank. Subsidiaries of the Group OJSC Okhotskaya GGC, CJSC Zoloto Severnogo Urala and CJSC Serebro Magadana are not permitted to pledge or alienate property with a carrying value greater than 20% of their net assets.

Syndicate of Banks

Upon the acquisition of JSC Varvarinskoye (see Note 5) the Group assumed a long-term loan of U.S. Dollar 85,660, payable to the Syndicate of Banks including Investec Bank Ltd, Investec Bank Plc, Nedbank Limited and Natixis Bank ("Syndicate of Banks"). Nominal interest rate is 3 months LIBOR plus 3% per annum during the term. A cash sweep will apply to all free cash flows generated from JSC Varvarinskoye. In accordance with the cash sweep agreement, on each day following the quarter-end JSC Varvarinskoye shall pay 100% of the amount by which cash inflow for the quarter exceeds U.S. Dollar 5,000. The rest of the obligation (U.S. Dollar 85,660 plus capitalized interest less repayment under the cash sweep mechanism) becomes due in 2013 (35% of the total) and 2014 (65% of the total). Fair value of the long-term obligation at the date of acquisition was estimated as U.S. Dollar 74,735. Effective interest rate is 9.63%.

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In addition to the loan described above, the Group assumed obligations under the flat forward gold sales and purchase contracts (see Note 5 and 30). As at December 31, 2009 the Group has not settled its liability under these contracts. The amount outstanding as at December 31, 2009 is U.S. Dollar 10,007. The interest rate is 3 months LIBOR plus 3% per annum during the term. A cash sweep will apply to all free cash flows generated from JSC Varvarinskoye. In accordance with the cash sweep agreement, on each date following the end of each quarter JSC Varvarinskoye shall pay 100% of the amount by which cash inflow for the quarter exceeds U.S. Dollar 5,000. The rest of the obligation becomes due in 2013 (35% of the total) and 2014 (65% of the total).

As at December 31, 2009, property, plant and equipment with total net book value of U.S. Dollar 161,654 was pledged as collateral for the loan from the Syndicate of Banks (see Note 10).

As at December 31, 2009, the total balance available for drawing down under existing loan facilities is U.S. Dollar 28,485.

The Group is in compliance with all restrictive provisions of the loan agreements as at December 31, 2009.

18. RECLAMATION AND MINE CLOSURE OBLIGATION

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

	December 31, 2009	December 31, 2008
Beginning balance	**26,128**	**8,035**
Additional obligation recognized from the business combinations occurred during the year (Note 5)	10,560	9,582
Obligation arose during the year	7,160	-
Revision of estimated future cash flows	(3,230)	10,230
Accretion of reclamation and mine closure obligation (Note 22)	2,895	1,357
Translation effect	(509)	(3,076)
Total	**43,004**	**26,128**

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

19. SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

As at December 31, 2009 and 2008, 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 per share.

As at December 31, 2009 and 2008, the issued share capital of the Company comprised 399,375,000 and 315,000,000 ordinary shares, respectively, with a par value of Ruble 0.2 per share. As at December 31, 2009 and 2008, the outstanding share capital of the Company comprised 357,924,643 and 315,000,000 ordinary shares with a par value of Ruble 0.2 per share, respectively. No preference shares were issued or outstanding.

In October 2009, the Company issued 42,949,643 ordinary shares with par value of Rubles 0.2 per share:

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

(b) 10,000,000 and 7,500,000 ordinary shares in exchange for 100% of Rudnik Kvartseviy LLC and 89.61% in CJSC Artel of prospectors Ayax, respectively (see Note 5);

(c) 15,925,000 ordinary shares as execution of the call option written by the Company at acquisition of Zolotorudnaya Kompaniya Mayskoye LLC (see Note 5, 29).

In October 2009, the Company also transferred 41,425,357 newly issued ordinary shares to JSC Polymetal Management, the Company's 100% subsidiary. The transfer of these newly issued shares has been accounted for as an increase in share capital and an increase in treasury shares of U.S. Dollar 258. As at December 31, 2009, the Group pledged 512,033 of its treasury shares, with carrying value of U.S. Dollar 3, as a collateral for the loan from Nomos-Bank (see Note 15).

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

During 2009 the Group had potentially dilutive securities, namely a call option issued by the Group in respect of business acquisitions (see Note 5, 29) and subsequently settled during the year. During 2008 the Group had potentially dilutive securities, namely the Group's share option plan, which was established in 2007 (see Note 20).

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

	Year ended December 31, 2009	Year ended December 31, 2008
Weighted average number of outstanding common shares	322,343,391	312,450,725
Call option	8,682,398	-
Weighted average number of outstanding common shares after dilution	**331,025,789**	**312,450,725**

As the Group generated a net loss for the year ended December 31, 2008, the share options were anti-dilutive and therefore excluded from the calculation of dilutive loss per share. Accordingly basic and dilutive loss per share was equal for the year ended December 31, 2008.

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20. 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 had the right to early redemption and acquisition of all shares in an event of a change in the Group's controlling shareholders' structure. As a result of such change (see Note 1) all share options fully vested in June 2008 (see Note 26).

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 January 1, 2008	**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	**-**	**-**	**-**	**-**

21. REVENUES

	Year ended December 31, 2009	Year ended December 31 2008
Sales to third parties		
VTB	151,825	115,399
Gazprombank	56,422	26,603
Trafigura	11,730	-
Metalor S. A.	10,251	-
Sberbank	-	235,906
ABN Amro Bank	-	108,970
Uralsib	-	12,167
Total sales to third parties	**230,228**	**499,045**
Sales to related parties		
Nomos-Bank	325,855	-
Total sales to related parties	**325,855**	**-**
Total metal sales	**556,083**	**499,045**
Other sales	4,654	3,686
Total	**560,737**	**502,731**

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

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

	Year ended December 31, 2008			
	Magadan	Khabarovsk	North Ural	Total
Sberbank	83,746	84,550	67,610	235,906
VTB	55,171	27,514	32,714	115,399
ABN Amro Bank	108,970	-	-	108,970
Total	**247,887**	**112,064**	**100,324**	**460,275**

Revenue analysed by geographical regions is presented below:

	Year ended December 31, 2009	Year ended December 31, 2008
Sales within the Russian Federation	538,756	393,761
Sales to China	11,730	-
Sales to Europe	10,251	108,970
Total	**560,737**	**502,731**

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

	Year ended December 31, 2009			Year ended December 31, 2008		
	Thousand ounces/tons	Average price (U.S. Dollar per troy ounce/ton)	U.S. Dollars	Thousand ounces	Average price (U.S. Dollar per troy ounce)	U.S. Dollars
Gold (thousand ounces)	312	982.62	306,576	280	870.73	243,805
Silver (thousand ounces)	16,491	14.67	241,915	17,386	14.68	255,240
Copper (tons)	1,053	7,209.88	7,592	-	-	-
Total			**556,083**			**499,045**

22. COST OF SALES

	Year ended December 31, 2009	Year ended December 31, 2008
Cash operating costs		
On-mine costs (Note 23)	103,382	102,364
Smelting costs (Note 24)	116,258	112,892
Mining tax	33,669	30,024
Purchase of ore from a third party	4,615	-
Other costs	-	2,639
Total cash operating costs	**257,924**	**247,919**
Depreciation and depletion of operating assets (Note 25)	43,860	46,621
Accretion of reclamation and mine closure obligation (Note 18)	2,895	1,357
Total costs of production	**304,679**	**295,897**
Increase in metal inventory	(24,720)	(10,648)
Effect of change in accounting estimates	-	2,616
Write-down of inventory to lower of cost or market	2,622	10,583
Total change in metal inventory	**(22,098)**	**2,551**
Cost of other sales	1,835	2,281
Total	**284,416**	**300,729**

23. ON-MINE COSTS

	Year ended December 31, 2009	Year ended December 31, 2008
Consumables and spare parts	41,392	47,962
Services	28,670	21,850
Labour	27,130	23,411
Taxes, other than income tax	4,630	5,544
Other expenses	1,560	3,597
Total (Note 22)	**103,382**	**102,364**

24. SMELTING COSTS

	Year ended December 31, 2009	Year ended December 31, 2008
Consumables and spare parts	51,110	49,902
Services	38,787	33,653
Labour	20,959	23,450
Taxes, other than income tax	3,996	5,550
Other expenses	1,406	337
Total (Note 22)	**116,258**	**112,892**

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25. DEPRECIATION AND DEPLETION OF OPERATING ASSETS

	Year ended December 31, 2009	Year ended December 31, 2008
Mining	26,188	26,705
Smelting	17,672	19,916
Total (Note 22)	**43,860**	**46,621**

26. GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

	Year ended December 31, 2009	Year ended December 31, 2008
Labour	31,808	31,991
Services	9,354	17,270
Share-based payments (Note 20)	-	31,902
Other	10,880	8,979
Total	**52,042**	**90,142**

27. OTHER OPERATING EXPENSES

	Year ended December 31, 2009	Year ended December 31, 2008
Taxes, other than income tax	8,596	6,151
Exploration expenses	7,478	11,123
Social payments	6,236	7,723
Loss on disposal of property, plant and equipment	3,401	4,624
Bad debt allowance	2,993	1,135
Consulting services	2,440	1,984
Other expenses, individually less than U.S. Dollar 2,000	10,562	3,491
Total	**41,706**	**36,231**

28. INCOME TAX

	Year ended December 31, 2009	Year ended December 31, 2008
Current income taxes	37,514	29,865
Deferred income taxes	872	(11,254)
Total income tax expense	**38,386**	**18,611**

(In thousands of U.S. Dollars, unless otherwise stated)

The actual tax expense differs from the amount which would have been determined by applying the statutory rate of 20% (2008: 24%) to the income before income tax and extraordinary gain as a result of the application of relevant jurisdictional tax regulations, which disallow certain deductions which are included in the determination of accounting profit. These deductions include share-based compensation, social related expenditures and other non-production costs, certain general, administrative, financing, foreign exchange related and other costs.

A reconciliation between the reported amount of income tax expense attributable to income before income tax and extraordinary gain that would result from applying the statutory income tax rate for the years ended December 31, 2009 and 2008 is as follows:

	Year ended December 31, 2009	Year ended December 31, 2008
Income before income tax and extraordinary gain	**98,343**	**2,041**
Statutory income tax expense at the tax rate of 20% (2008: 24%)	19,669	490
Loss incurred in tax-free jurisdictions	8,385	-
Contingent consideration liability	2,402	-
Share based compensation	-	7,656
Effect of change in enacted tax rate	-	(2,478)
Other permanent tax differences (non-deductible expenses)	7,930	12,943
Total income tax expense	**38,386**	**18,611**

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 2,478 as at December 31, 2008.

As at December 31, 2009, the Group has a liability associated with unrecognized income tax benefits of U.S. Dollar 5,588 (2008: U.S. Dollar 2,301). The reconciliation of the beginning and ending amount of this liability is as follows:

	December 31, 2009	December 31, 2008
Beginning balance	**2,301**	**1,839**
Additions based on tax position related to the current year	2,092	765
Expiring statute of limitations	(411)	-
Translation effect	(66)	(303)
Total	**3,916**	**2,301**

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, 2009 and 2008, U.S. Dollar 276 and 362, 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 1,428 (2008: U.S. Dollar 411).

29. FAIR VALUE ACCOUNTING

Effective January 1, 2009, the Group adopted the applicable portions of ASC 820 as referenced in Note 2. ASC 820 establishes a new framework for measuring fair value and expands related disclosures. The ASC 820 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

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

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

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

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

The following fair value hierarchy table presents information regarding the Group's liabilities measured at fair value on a recurring basis as at December 31, 2009, by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Derivative financial instruments, net	-	149,514	-	**149,514**
Contingent consideration liability	-	-	16,389	**16,389**
	-	**149,514**	**16,389**	**165,903**

Receivables from provisional copper and gold concentrate sales

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

Derivative financial instruments

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

(In thousands of U.S. Dollars, unless otherwise stated)

Commodity forward contracts

The fair value of commodity forward contracts is determined by discounting contractual cash flows using a discount rate derived from observed U.S. Treasury yield curve rates. Contractual cash flows are calculated using a forward pricing curve derived from market forward prices for each commodity. The commodity forward contracts are classified within Level 2 of the fair value hierarchy.

Call option

In addition to the above instruments outstanding as at December 31, 2009, the call option for the Company's common shares (see Note 5) was in existence during the year, although it was settled prior to the year end (see Note 19). The call option for the Company's common shares was valued using the Monte-Carlo model considering various assumptions, including quoted prices and volatility for the Company's common shares, time value, risk free rate, as well as other relevant non-market measures. This fair value measurement is based on significant inputs not observable in the market and thus represents Level 3 measurement as defined by ASC 820.

Contingent consideration liability

In 2008, the Group recorded a contingent consideration liability related to the acquisition of 98.1% of shares in OGMC (see Note 5). The fair value of the contingent consideration liability was determined using a valuation model which simulates expected production of gold and silver at the Kubaka mine and future gold and silver prices to estimate future revenues of OGMC.

In 2009, the Group recorded a contingent consideration liability related to the acquisition of 100% of shares in Three K (see Note 5). The fair value of the contingent consideration liability was determined using a valuation model which simulates expected future prices of gold and copper, gold strike price applied pursuant to the terms of the gold forward purchase contracts entered into (see Note 30) and copper fixing price as published by the LME as at the date when the gold forward purchase contracts mentioned above is entered into are incorporated.

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

The table below sets forth a summary of changes in the fair value of the Group's Level 3 financial liabilities for the year ended December 31, 2009:

	Contingent consideration liability	Call option	Total
Beginning balance	4,523	-	4,523
At establishment (Note 5)	6	11,460	11,466
Change in fair value	11,431	39,606	51,037
Translation effect	429	6,105	6,534
Settlement	-	(57,171)	(57,171)
Total	**16,389**	**-**	**16,389**

Financial instruments also include cash, evidence of ownership in an entity, or contracts that impose an obligation on one party and conveys the right to a second entity to deliver/receive cash or another financial instrument. The information on certain types of financial instruments and their fair values is included elsewhere in these financial statements as follows: investments in joint ventures – Note 12, long-term loans to related parties – Note 13, and long-term debt – Note 17. As at December 31, 2009 and 2008 the carrying values of cash, accounts receivable, 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.

30. DERIVATIVE FINANCIAL INSTRUMENTS

Risk management activities

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

Concentration of credit risk

The Group's financial instruments do not represent a concentration of credit risk as the Group deals with a number of major banks. Accounts receivable are regularly monitored and assessed and where necessary an adequate level of provision is maintained.

Foreign currency and commodity price risk

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

As at December 31, 2009, the Group held the following derivative financial instruments to protect its exposure to adverse movements in commodity prices:

(a) Flat forward gold sales and purchase contracts assumed in acquisition of JSC Varvarinskoye (see Note 5). The contracts have total notional amounts of 320,160 ounces of gold; fixed forward sales price of U.S. Dollar 574.25 per ounce and fixed forward purchase price of U.S. Dollar 1,129.65 per ounce; and monthly settlement dates between November 2009 and April 2014.

The Group is liable to pay a net settlement amount on each delivery date. If any settlement is not paid on its applicable delivery date, such settlement amount will accrue interest at 3 months LIBOR plus 3% and shall be payable on December 31, 2013 (35% of the total and all interest accrued thereon to date) and on December 31, 2014 (the full balance of the settlement amount and all interest accrued thereon to date). In addition, a cash sweep mechanism will apply to all free cash flows generated by Varvarinskoye until all the obligations are fully repaid. As at December 31, 2009 net settlement amount of U.S. Dollar 10,007 has not been paid and was recorded in the "long-term debt" line of the balance sheet (see Note 17).

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

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

The change in fair value of the Group's derivative financial instruments gave rise to an unrealized derivative loss for the year of U.S. Dollar 1,377.

The Group had the following forward pricing commitments outstanding against future production as at December 31, 2009:

Years	2010	2011	2012	2013	2014
Flat forward gold sales contracts					
Amount (ounces)	162,000	152,284	124,000	106,000	40,000
Price (U.S. Dollar per ounce)	574.25	574.25	574.25	574.25	574.25
Flat forward gold purchase contracts					
Amount (ounces)	162,000	152,284	124,000	106,000	40,000
Price (U.S. Dollar per ounce)	1,129.65	1,129.65	1,129.65	1,129.65	1,129.65

(b) Under the long-established structure of sales agreements prevalent in the industry, copper and gold concentrate sales are provisionally priced at the time of shipment. The provisional prices are finalized in a contractually specified future period (generally one to three months) primarily based on quoted LMB prices. Sales subject to final pricing are generally settled in a subsequent month. Because a significant portion of the Group's copper and gold concentrate sales in a period usually remain subject to final pricing, the forward price is a major determinant of recorded revenues.

London Metal Bulletin ("LMB") copper prices averaged U.S. Dollar 6,827 per ton since November 2009 when the Group started to produce copper and gold concentrate as a result of acquisition of Varvarinskoye, compared with the Group's recorded average provisional price of U.S. Dollar 7,210 per ton. The applicable forward copper price at the end of fiscal 2009 was U.S. Dollar 7,226 per ton. During 2009, increasing copper prices resulted in a provisional pricing mark-to-market gain of U.S. Dollar 240 (included in revenue). At December 31, 2009, the Group had copper sales of 336 tons priced at an average of U.S. Dollar 7,226 per ton, subject to final pricing in the first quarter of 2010.

LMB gold prices averaged U.S. Dollar 1,131 per ounce since November 2009, compared with the Group's recorded average provisional price of U.S. Dollar 1,141 per ounce. The applicable forward gold price at the end of fiscal 2009 was U.S. Dollar 1,194 per ounce. During 2009, increasing gold prices resulted in a provisional pricing mark-to-market gain of U.S. Dollar 677 (included in revenue). At December 31, 2009, the Group had gold sales of 1,117 ounces priced at an average of U.S. Dollar 1,194 per ounce, subject to final pricing in the first quarter of 2010.

OPEN JOINT STOCK COMPANY POLYMETAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands of U.S. Dollars, unless otherwise stated)

Interest rate and liquidity risk

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

31. SEGMENTS

The Group has six reportable segments:

- North Ural region (CJSC Zoloto Severnogo Urala);
- Khabarovsk region (JSC Okhotskaya GGC);
- Magadan region (CJSC Serebro Magadana, CJSC Ayax (see Note 5);
- Omolon region (JSC Omolon Gold Mining Company, Rudnik Kvartseviy LLC (see Note 5);
- Albazino region (Albazino Resources LLC);
- Kazakhstan (JSC Varvarinskoye (see Note 5).

The reportable segments are determined based on the Group's geographic regional profile. Minor companies (management, exploration, purchasing and other companies) which do not meet the reportable segments criteria are disclosed within Corporate and other.

Kazakhstan is a new reportable segment and entirely related to JSC Varvarinskoye acquired during the year ended December 31, 2009 (see Note 5). Omolon segment is a new reportable segment and entirely related to JSC Omolon Gold Mining Company and Rudnik Kvartseviy LLC, acquired during year ended December 31, 2008 and 2009, respectively. Albazino region is a new reportable segment that exceeded ASC 280's threshold criteria during the year ended December 31, 2009, due to the development of the mine in 2009. Prior periods have been retroactively restated to reflect Albazino as a new segment.

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, silver and copper at each operating mine, and exclude the following costs that are not allocated to operating segments: amortization and depreciation of corporate assets, administration costs, cost of financing and other non-operating costs.

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.

(In thousands of U.S. Dollars, unless otherwise stated)

As at and for the year ended December 31, 2009	**North Ural**	**Khabarovsk**	**Magadan**	**Omolon**	**Albazino**	**Kazakhstan**	**Total reportable segments**	**Corporate and other**	**Eliminations**	**Total**
Revenues	154,615	123,151	257,565	1,107	-	21,981	**558,419**	156,231	(153,913)	**560,737**
Cost of sales	(62,267)	(66,945)	(145,990)	(846)	-	(11,947)	**(287,995)**	(124,154)	127,733	**(284,416)**
Gross profit	**92,348**	**56,206**	**111,575**	**261**	-	**10,034**	**270,424**	**32,077**	**(26,180)**	**276,321**
General, administrative and selling expenses										**(52,042)**
Other operating expenses										**(41,706)**
Interest expense										**(32,515)**
Loss from investments in joint ventures										**(342)**
Loss on extinguishment of debt										**(5,873)**
Change in fair value of derivative financial instruments										**(41,938)**
Change in fair value of contingent consideration liability										**(11,431)**
Exchange gain, net										**7,869**
Income before income tax and extraordinary gain										**98,343**
Segment assets:										
Property, plant and equipment, net	84,285	98,592	299,838	158,999	166,889	145,219	**953,822**	133,681	-	**1,087,503**
Accounts receivable, inventories and spare parts, prepayments to suppliers and VAT receivable	123,180	112,026	137,071	32,649	35,060	40,005	**477,991**	91,910	(169,431)	**403,500**
Goodwill	-	13,467	8,265	-	-	65,423	**87,155**	25,161	-	**112,316**
Total segment assets	**207,465**	**224,085**	**445,174**	**191,648**	**199,949**	**250,647**	**1,518,968**	**253,782**	**(169,431)**	**1,603,319**
Unallocated assets:										
Cash and cash equivalents										**28,317**
Other assets										**91,764**
Total assets										**1,723,400**
Expenditure for additions to long-lived assets	9,690	3,478	31,600	16,574	122,609	389	**184,340**	53,357	(4,997)	**232,700**
Depreciation and depletion of operating assets	11,241	16,173	14,766	516	-	1,164	**43,860**	-	-	**43,860**

As at and for the year ended December 31, 2008	**North Ural**	**Khabarovsk**	**Magadan**	**Omolon**	**Albazino**	**Total reportable segments**	**Corporate and other**	**Eliminations**	**Total**
Revenues	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, net									**(44,520)**
Income before income tax and extraordinary gain									**2,041**
Segment assets:									
Property, plant and equipment, net	87,223	119,225	189,038	4,589	35,541	**435,616**	42,273	-	**477,889**
Accounts receivable, inventories and spare parts, prepayments to suppliers and VAT receivable	64,655	79,850	106,403	9,296	16,886	**277,090**	27,379	(19,883)	**284,586**
Goodwill	-	13,863	8,508	-	-	**22,371**	1,370	-	**23,741**
Total segment assets	**151,878**	**212,938**	**303,949**	**13,885**	**52,427**	**735,077**	**71,022**	**(19,883)**	**786,216**
Unallocated assets:									
Cash and cash equivalents									**4,077**
Other assets									**86,182**
Total assets									**876,475**
Expenditure for additions to long-lived assets	14,697	8,029	51,375	4,003	24,731	**102,835**	38,264	(728)	**140,371**
Depreciation and depletion of operating assets	13,304	13,665	19,652	-	-	**46,621**	-	-	**46,621**

32. 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.

As at December 31, 2009 and 2008, the amount of outstanding short-term loans provided to related parties comprised U.S. Dollar 837 and U.S. Dollar 334, respectively.

As at December 31, 2009 and 2008, the amount of outstanding long-term loans provided to related parties comprised U.S. Dollar 9,715 and U.S. Dollar 8,214, respectively (see Note 13). The amount of interest income in 2009 and 2008 amounted to U.S. Dollar 501 and U.S. Dollar 844, respectively.

As at December 31, 2009 and 2008, the amount of short-term loans provided by related parties comprised U.S. Dollar 3,306 and U.S. Dollar 136,316, respectively (see Note 15).

As at December 31, 2009 and 2008, the amount of long-term loans provided by related parties comprised U.S. Dollar 7,388 (2008: nil) (see Note 17).

The amount of interest expense on loans from related parties in 2009 was U.S. Dollar 23,394 (2008: U.S. Dollar 1,398).

Revenue from sales to related parties for the year ended December 31, 2009 was U.S. Dollar 325,885 (2008: nil) (see Note 21).

As at December 31, 2009, the Group has certain forward sales commitments to related parties (see Note 33).

33. COMMITMENTS AND CONTINGENCIES

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the companies of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in its interpretation of the legislation and assessments.
As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Out of the large operating companies of the Group, tax authorities audited JSC Okhotskaya GGC for the period up to 2007, CJSC Zoloto Severnogo Urala for the period up to 2005, CJSC Serebro Magadana for the period up to 2007 and JSC Varvarinskoye for the period up to 2007. Nevertheless, according to the Russian and Kazakhstan 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, 2009, the Group's management estimates such contingencies related to taxes other than income tax to be up to approximately U.S. Dollar 31 (December 31, 2008: 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, 2009 and 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's subsidiaries 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.

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 and sales agreements 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 113,000 ounces of gold and 1,929,000 ounces of silver during 2010; and 113,000 ounces of gold and 1,929,000 ounces of silver during 2011 at the price determined by the LBMA.

Under the sale agreements with VTB, the Company's subsidiaries, CJSC Zoloto Severnogo Urala, CJSC Serebro Magadana and JSC Okhotskaya GGC are required to sell 64,000 ounces of gold and 12,217,000 ounces of silver during 2010 at the price determined by the 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 August 2009, Wagner Service LLC ("Wagner") filed a lawsuit against the Group. Wagner claims that the Group is liable for works performed with regard to the construction of production facilities performed for Zolotorudnaya Kompaniya Mayskoye LLC (see Note 5) in amount of U.S. Dollar 30,081. As at December 31, 2009, the Group held a provision of U.S. Dollar 4,683 (Rubles 141,600 thousand) representing its best estimate of the probable liability to this lawsuit. See Note 34 for further discussion.

In the opinion of management of the Group, there are no other 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.

34. SUBSEQUENT EVENTS

In March 2010, the Group signed an out-of-court settlement with Wagner (see Note 33) for U.S. Dollar 4,683, the amount accrued by management as at December 31, 2009.

In accordance with the requirements of ASC 855 the Group evaluated subsequent events through the date the financial statements were available to be issued. Therefore subsequent events were evaluated by the Group up to April 15, 2010.

Sasha Kulak and Klim Kulak

Our Mum works
in the Accounting
department,
and she always knows
where every piece
of paper is.
Our Mum is a very
responsible person.

OVERVIEW
OF GOLD AND SILVER MARKETS

Overview of Gold and Silver Markets

Despite the improvements in the global financial markets in the latter half of the year, in 2009 the prices of virtually all mineral assets experienced a high level of volatility. Gold was not an exception; however, it was slightly less volatile.

In 2009, the price of gold on the world market reached a high of USD 1227/oz., even though the average cash cost globally was approximately USD 590/oz. The average price of gold grew by 11.5% over 2008 prices, to USD 972/oz. According to GFMS forecasts, the price of gold could reach USD 1200/oz. in 2010. High investment demand for the metal will be the main factor behind the price increases.

Gold: Supply and Demand

Worldwide demand for gold increased in 2009 to 4,287 tonnes from 3,957 tonnes in 2008, according to GFMS. In spite of the global economics' recovery, in 2009 the jewelry industry demand continued to fall and was almost 20% less than in 2008 (1,759 tonnes)., The demand for other industrial uses of the metal was influenced by slowing growth in the world's economies, decreasing by 6% to 658 tones The volume of de-hedging also shrunk in 2009, from 352 tonnes in 2008 to 254 tonnes.

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 2009 implied net investment had 433% year-on-year growth. In spite of the gold bar hording slump by 52% to 187 tonnes, compared to 386 tonnes the year before, investors compensated for the drop in jewelry industry and a moderate reduction in industrial demand.

According to GFMS estimate, in 2009 the world investments in gold amounted to USD 58bn, compared to USD 26bn in 2008.

Worldwide gold supply is constant and limited by mining volumes. In 2009, the production of gold grew to 2,572 tonnes from 2,409 tonnes the year before, primarily for the production increases in several West African countries, Chine, Russia and Indonesia.

A number of trends are currently influencing gold mining worldwide: 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.

According to GFMS, there was a rise in the gold supply in 2009 by 8.3% to 4,287 tonnes (2008: 3,957 tonnes).

The sources of gold supplied to the market were: mining (60%), central bank sales (1%) and gold scrap sales (39%). The main gold buyers of gold were the jewelry industry (41%), other industries, including hi-tech (15%), bullion and coin producers (7%), retail investment (5%), bar hoarding (4%) and investment funds (28%).

Currently Russia is the fifth largest gold producer country globally. In 2009, according to the Russian Gold Union, 205.2 tonnes of gold were produced in Russia. This represents approximately 8% of total production worldwide and is an 11.2% increase over 2008, when 188.7 tonnes were produced. Gold production through mining increased by 8.8% to 178.3 tonnes, while byproduct and scrap production grew by 16.8% to 14.5 tonnes and 52.4% to 12.4 tonnes, respectively.

96.5% 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, and the Amur region. Currently, there is a trend in Russian mining to switch from alluvial mining, which represents approximately 29.8% of all mining (down from 32.6% in 2008), to mining hard rock deposits.

Silver: Supply and Demand

In 2009, the prices of silver grew slower than that of gold, reaching USD 16.87/oz at the end of the year. The average price of silver in 2009 declined by 1.3% year-on-year to USD 14.70/oz. Notwithstanding the significantly low industrial demand, the price was supported at a high level primarily by strong interest from investors who were buying silver and other metals as a safe haven and hedge of their investments.

The sources of silver supply to the market were: mining (79%), scrap sales (20%) and central bank sales (1%). The main sources of demand were: industrial (39%), the jewelry industry (25%), photography (10%), investment fund purchases (15%), official coins and medals (9%) and de-hedging (2%).

The global mine production was up nearly 2% to 695 Moz in 2009, according to GFMS. Growth in 2010 silver mine production expected to be maintained. In 2009 scrap sales slightly decreased and central bank sales were down half as much as in 2008.

Industrial demand for silver decreased from 447 Moz to 398 Moz, however, there was a small recovery of demand and sales for jewelry and ornaments comparing with 2008 year. Photography demand was down 17% in 2009. Coin minting has risen strongly and the whole silver investment demand in 2009 achieved the level of 207 Moz.

In Russia, silver production for export grew by 10% and is estimated at 1,242 tonnes in 2009. Growth was primarily due to increased mining in the Chukotka Region by 46% (264 tonnes). Russia was the world's sixth largest silver producer in 2009.

FINANCIAL OVERVIEW

The Company's revenues are derived primarily from the sale of silver and gold produced at its four operating mines (Dukat, Lunnoye, Khakanja, and Voro). Production levels, in turn, reflect the amount of ore milled, average head grades, and the recovery of silver and gold from processing. Revenues directly depend on production levels. In 2009 revenues from other sources were USD 12.2mln, representing less than 1% of the Company's total revenues, and were mainly attributable to services Polymetal Engineering provided to third parties.

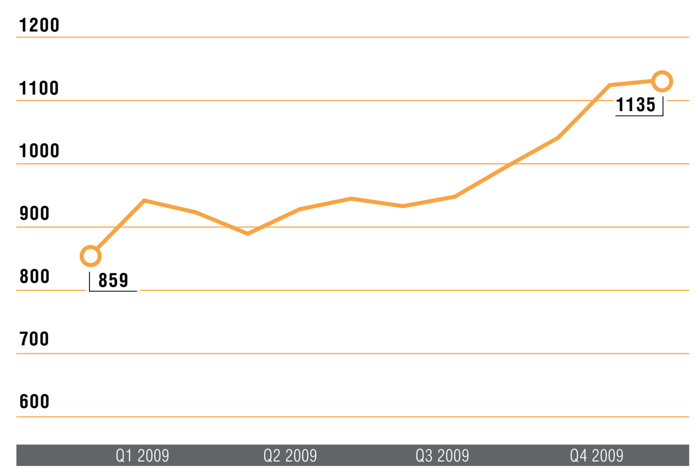
Revenues

In 2009, revenues grew by 12%, from USD 502.7mln to USD 560.7mln with gold sales volume growth and gold price increase more than compensating slight decline in silver sales volume. The average realised gold price rose by 13% to USD 983/oz. Average realised silver price remained flat at USD 14.7/oz.

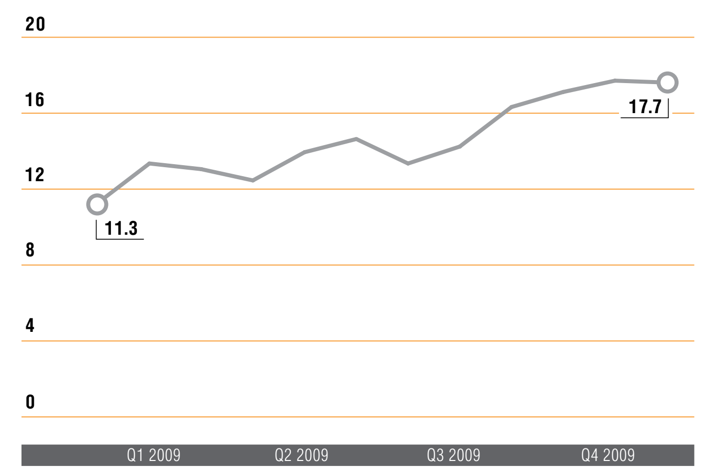
Silver accounted for USD 241.9mln or 43% of revenues whilst gold accounted for USD 306.6mln or 55% of revenues. Average gold-to-silver price ratio in 2009 was 67 compared with 59 in 2008. Two months of copper-in-concentrate sales from newly acquired Varvarinskoye mine amounted to USD 7.6mln whilst other revenues stood at USD 4.6mln or approximately 1% each of total sales. Silver sales decreased by 5% from 17.4Moz to 16.5Moz in 2009. Gold sales increased by 11% from 280Koz to 312Koz.

	2009			2008		
	Sales	Average price ($/oz)	Revenue ($ thousand)	Sales	Average price ($ per oz)	Revenue ($ thousand)
Silver	16,491 Koz	14.7	241,915	17,386 Koz	14.7	255,240
Gold	312 Koz	983	306,576	280 Koz	871	243,805
Copper	1,053 tonnes	7.210	7,592	–	–	–

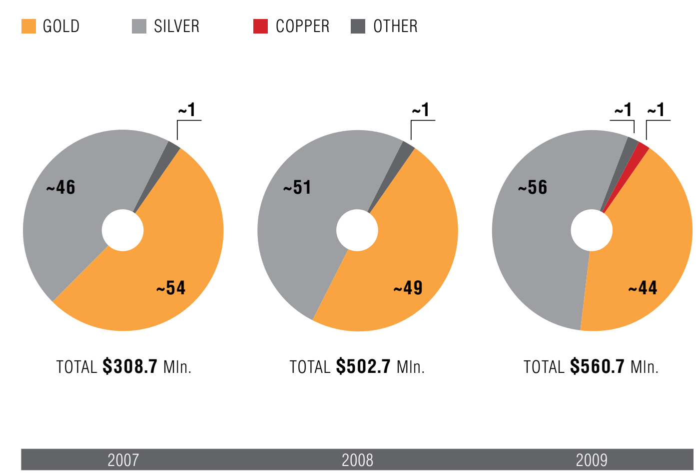
GOLD MARKET FIXINGS ($/Oz)



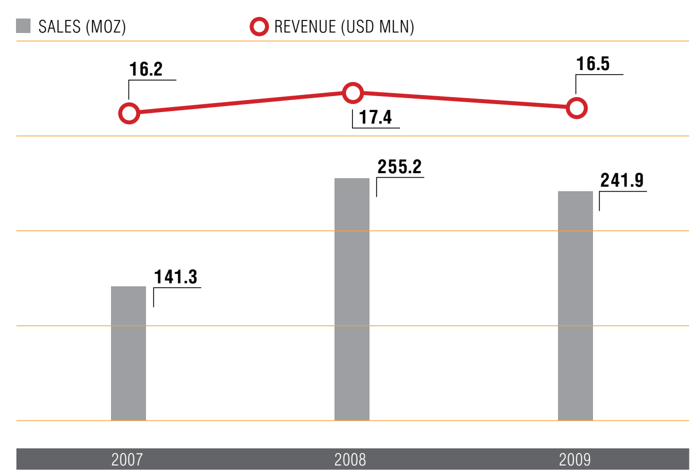
SILVER MARKET FIXINGS ($/Oz)



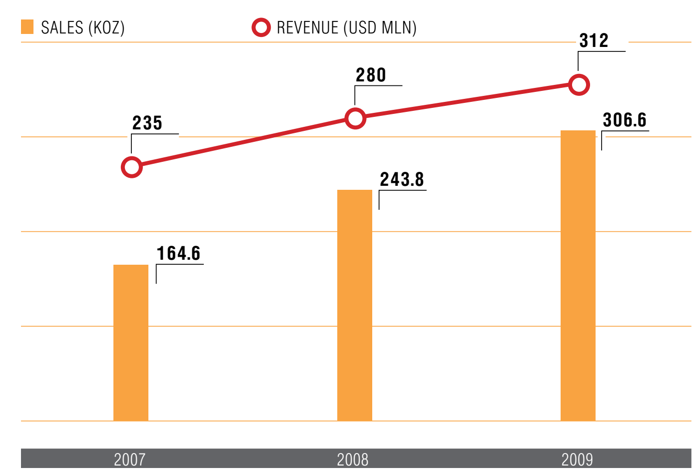
GOLD AND SILVER REVENUE (%)



SILVER SALES AND REVENUE



GOLD – SALES AND REVENUE



Cost of Sales

In 2009, total cost of sales decreased by 5%, to USD 284.4mln, from USD 300.7mln in 2008.

Total cash operating costs grew from USD 247.9mln to USD 257.9mln or by 4%, despite significant increases in waste moved (39%), underground development metres (24%), and ore processed (by 40%).

Costs of sales (USD mln)	2009	2008	% change
Consumables and spare parts	92.5	97.9	-6%
Labour and other taxes (social security payments)	56.7	58.0	-2%
Services and other costs	70.4	62.1	13%
Purchase of ore from a third party	4.6	–	–
Mining tax	33.7	30.0	12%
Total cash costs	257.9	247.9	4%
Depreciation and depletion	43.9	46.6	-6%
Accretion of reclamation and mine closure obligations	2.9	1.4	107%
Increase in metal inventory	(24.7)	(10.6)	133%
Effect of change in accounting estimates	–	2.6	-100%
Write-down of inventory to lower of cost or market	2.6	10.6	-75%
Cost of other sales	1.8	2.3	-22%
TOTAL[1]	284.4	300.7	-5%

[1] Taking into account the effects of rounding

Costs of consumables and spare parts decreased by 6% as a result of price reductions for materials bought in Russia, with the largest benefit coming from reduction in the price of diesel fuel. Labor costs (including social security tax) decreased by 2%. Headcount increased by roughly 15% and rouble-denominated wages rose modestly, but these trends were more than compensated by 28% depreciation of the rouble versus the dollar. Costs of services (together with other costs) increased by 13%, mostly driven by rapid growth in grid power tariffs as well as by significant increases in tonnages of ore hauled by contractors.

Mining tax increased by 12% on the back of gold production growth and rise in gold price. Depreciation decreased by 6% as the impact of rouble depreciation was partially balanced by a significant expansion in the Company's fixed assets base.

Work-in-process inventory grew by USD 24.7mln as ore continued to be stockpiled ahead of future processing at Omolon and Dukat whilst Yuryevskoye ore awaited a winter road for transportation to the processing plant. In 2008 the Company wrote down USD10.6mln of carrying value for low-grade ore at Khakanja. In 2009, USD 2.6mln was written off due to the market value of some inventory items declining below book value.

Cash Costs

The rouble-dollar exchange rate and domestic inflation were the key external factors driving cash cost trends at the Company's mines in 2009.

Dukat cash cost per tonne milled declined by 11%, with the impact of rouble depreciation partially offset by increase in higher-cost underground mining at Lunnoye and higher stripping ratios at Arylakh. Despite this decrease, the cash cost per ounce of silver produced at Dukat remained essentially flat at USD 8.1/oz due to recovery drop at Dukat.

Voro cash costs per tonne milled declined by 3% as larger share of throughput came from higher-cost (on per tonne basis) CIP plant compared with lower-cost heap leach operation. Cash cost per ounce declined 8% to USD 381/oz, with average recovery improving due to more tonnage from the CIP plant.

Khakanja recorded the best cost performance, with cash costs per ounce declining 13% to USD 463/oz on the back of 16% drop in costs per tonne milled. This decrease is mostly attributable to a significant fall in diesel fuel prices.

Overall, the second half of 2009 was marked by rising costs, as the rouble depreciation trend was reversed and domestic diesel fuel price started climbing. The outlook for 2010 is dominated by these two variables, as operating fundamentals (grades, recoveries, stripping ratios) are expected to remain largely stable.

The breakdown of cash costs calculated on a co-product method is given in the following table:

	2009	2008	% change
Co-product total cash costs (USD per ounce)			
Polymetal (gold equivalent)	479	480	-
Dukat and Lunnoye (silver)	8.1	8.2	-1%
Khakanja (gold)	463	531	-13%
Voro (gold)	381	415	-8%
Co-product total cash costs (USD per tonne of ore milled)			
Polymetal	72	81	-11%
Dukat and Lunnoye	112	121	-7%
Khakanja	95	113	-16%
Voro	34	35	-3%

USD/RUB DYNAMICS IN 2009

Income from Mining Operations

In 2009, the Company's income from mining operations increased to USD 276.3mln from USD 202.0mln in 2008.

The gross profit margin from mining operations increased to 49% from 40%.

USD mln	2009	2008	% change
Revenues	560.7	502.7	12%
Cost of sales	(284.4)	(300.7)	- 6%
Income from mining operations	276.3	202.0	+36
Gross profit margin	49%	40%	

General, Administrative, and Selling Expenses

General, administrative, and selling (GA&S) expenses were almost halved, from USD 90.1mln to USD 52.0 mln, mostly as a result of the non-recurring non-cash employee stock option compensation expense of USD 31.9mln recorded in 2008.

Without taking into account the stock option plan, GA&S expenses declined by 11%. Employee overhead headcount and utility usage increased by roughly 20% as a result of added expenditures at newly acquired assets and progress at key development projects. However, rouble depreciation and strict rationing of non-essential outsourcing led to personnel costs staying roughly flat and services' costs declining by 45%. Other GA&S expenses increased by 21%, mostly due to the addition of GA&S at new development projects (Mayskoye and Omolon).

Other Operating Expenses

Other operating expenses grew by 15% from USD 36.2mln to USD 41.7 mln. Other taxes (mostly the property tax) increased by 41% as the Company's asset base expanded and more assets were transferred from construction-in-progress to the assets-in-use category. Exploration costs declined by 32%, with investment reduced in the aftermath of the financial crisis to preserve cash. Voluntary social payments declined 19%, mostly as a result of rouble depreciation.

The Company realised a non-cash loss on the disposal of certain fixed assets at USD 3.4mln, compared to USD 4.6mln in 2008. The bad debt allowance almost tripled as some supplier prepayments were deemed unrecoverable due to the financial distress of some counterparties. Other expenses increased by 130% and included, inter alia, fines to suppliers and customs to Mayskoye (after certain contracts were severed due to the change of project scope), directors' remunerations, write-offs of unrecoverable VAT, etc.

USD mln	2009	2008	% change
General, administrative, and selling expenses	52.0	90.1	- 42%
Other expenses	41.7	36.2	15%
Total operating expenses	93.7	126.3	- 26%

Operating Income

In 2009, the Company reported robust operating income of USD 182.6mln as compared to a USD 75.6mln operating income in 2008.

Adjusted EBITDA

Adjusted EBITDA increased from USD 162.9mln to USD 242.0mln with increases in the average realised gold price and sales volume strengthened by declines in cost of sales and GA&S. Adjusted EBITDA reconciliation is detailed in the following table. Please note that reconciliation for 2008 was restated. The current calculation includes only adjustments related to non-recurring non-cash items.

	2009	2008[3]
Net income (loss)	96.0	(15.7)
Interest expense[1]	32.5	20.7
Income tax expense	38.4	18.6
Depreciation and depletion[2]	53.7	48.5
EBITDA	**220.6**	**72.1**
Loss on extinguishment of debt	5.9	-
Change in FV of derivative	41.9	-
Change in FV of contingent liability	11.4	-
Exchange loss (gain)	(7.9)	44.5
Extraordinary gain	(36.0)	(0.8)
Share based compensation	–	31.9
Work in progress impairment	2.6	10.6
Loss on fixed assets disposal	3.4	4.6
Adjusted EBITDA[4]	**242.0**	**162.9**

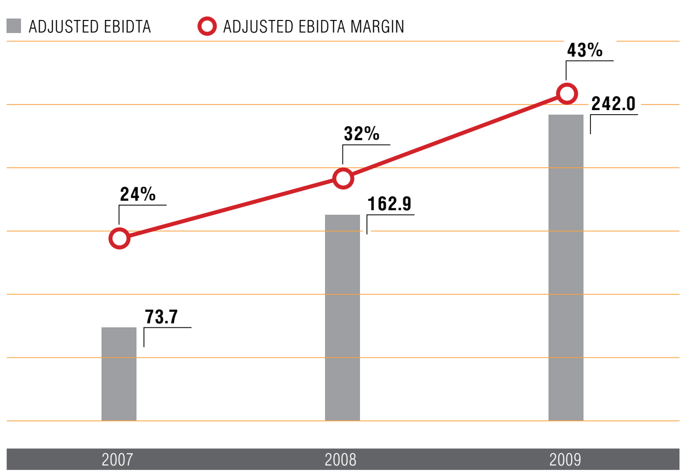
(1) Includes capital lease finance costs

(2) Includes depreciation and depletion attributable to increase in metal inventory and depreciation attributable to GA&S

(3) Restated

(4) Taking into account the effects of rounding

ADJUSTED EBITDA (USD MLN)



Income before Income Tax and Extraordinary Gain

As compared to the result of USD 2.0mln in 2008, this year the Company received USD 98.3mln in income before income tax and extraordinary gain.

USD mln	2009	2008
Operating income (loss)	182.6	75.6
Interest expense (including capital lease)	32.5	20.7
Exchange gain (loss), net	(7.9)	44.5
Income (loss) before income tax and minority interest	98.3	2.0
Income tax expense	38.4	18.6
Income (loss) before extraordinary gain	60.6	(16.6)
Extraordinary gain	36.0	0.8
Net income (loss)	96.0	(15.7)

Interest expense increased by 57%, from USD 20.7mln to USD 32.5mln despite slow but steady declines in interest rates in Q3 and particularly Q4 as net debt increased significantly. A loss from an investment in a JV with AngloGold Ashanti dropped to USD 0.3mln from USD 8.4mln as the JV was largely non-operational in 2009.

The Company recorded a loss on the extinguishment of a debt of USD 5.9mln stemming from the Mayskoye acquisition. At the time of the transaction, Mayskoye had a USD 25mln loan from an unrelated party maturing in 2015. At the time of the purchase price allocation it was valued at less-than-par, as the interest rate was less than the market rate. The Company settled this debt in full over 2009. The difference between below-par valuation at the time of purchase and full face value paid appears as an expense on the income statement and is a non-cash item.

The Company recorded USD 41.9mln in expenses to account for the change in the fair value of a derivative. The derivative stems from the option the Company granted to co-investors in Mayskoye to select either cash or a fixed number of Polymetal's shares as a payment for 91% stake in the legal entity holding the licence for the Mayskoye deposit. The option became exercisable after certain conditions precedent (most importantly, government approvals) were satisfied. Option holders elected to exercise their call option on Polymetal shares. For the purpose of these financial statements, the Mayskoye option granted by Polymetal was valued as of the grant date (April 28, 2009) and was included in the purchase price of the acquisition. As Polymetal's share price increased over the period, the value of the option increased correspondingly. This change in fair value of the derivative appears as an expense on income statement and is a non-cash item.

The Company recorded USD 11.4mln in expenses to account for the change in the fair value of the contingent consideration liability. The contingent liability stems from perpetual deferred payments the Company is liable for, equal to 2% of revenue from deposits acquired as part of Omolon acquisition in 2008. In 2009 certain assumptions concerning the amount and timing of such revenues have been modified based on changes in gold prices and expected production schedule. These modifications impacted the estimated value of contingent liability. The resulting change in fair value of contingent liability appears as an expense on the income statement and is a non-cash item.

An exchange gain of USD 7.9mln was in sharp contrast to an exchange loss of USD 44.5mln in 2008, mostly due to Mayskoye dollar denominated loans which were consolidated to the Company's balance sheet in April 2009 and rouble appreciation against US dollar in the second half of 2009.

Income tax expense roughly doubled to USD 38.4mln from USD 18.6mln as pre-tax income went from USD 2.0mln to USD 98.3 mln. The effective income tax rate was substantially above the statutory rate of 20% as a significant portion of costs in the period was not tax deductible, most importantly changes in the fair values of financial instruments.

As a result of the above, the Company reported income before extraordinary items of USD 60.0mln compared with a net loss of USD 16.6mln for 2008. Extraordinary gain of USD 36.0mln was recorded in the period as a result of Sopka Kvartsevaya acquisition. The extraordinary gain is due to the fair value of the assets acquired exceeding the purchase price. This compares with the extraordinary gain of USD 0.8mln in 2008. Net income for 2009 was USD 96.0 mln, largely driven by improvements in operating income.

Cash Flows

Operating cash flows grew from USD 80.8mln to USD 174.3 mln, a 116% increase outpacing growth in all other profitability measures.

Capital expenditures roughly doubled from USD 112.5mln to USD 222.2 mln. USD 122.6mln was spent on the Albazino-Amursk project, mostly on the concentrator and POX facility equipment as well as on related infrastructure. USD 31.6mln was spent on Dukat to complete the expansion of the Dukat processing plant and increase underground fleet at Dukat, Lunnoye, and Goltsovoye. USD 16.6mln was invested in the Omolon project to build a trial heap leach facility at Birkachan, purchase mining fleet for Birkachan and Sopka, and to start refurbishment of the Kubaka mill. Spending at Voro, Khakanja, and Varvarinskoye was mostly for maintenance capital. Corporate and other segment includes investments at Mayskoye and capitalised exploration spending.

In 2009 the Company spent USD 10.7mln on the acquisition of Goltsovoye. Some loans were also extended to related parties (Sopka and Goltsovoye) before the respective acquisitions closed. As a result of the above, cash used by investing activities increased from USD 164.0mln to USD 267.6mln.

The excess of cash used by investing activities over cash provided by operating activities amounted to USD 93.3mln compared with USD 83.2mln in 2008. This gap was funded by cash inflows from financing activities of USD 117.7mln compared with USD 83.1mln in 2008. Cash at the end of 2009 was USD 28.3mln compared with USD 4.1mln at the end of 2008.

(USD mln)	2009	2008	Change, %
Net cash provided by (used in) operations	174.3	80.8	115%
Net cash provided by (used in) investments	(267.6)	(164.0)	63%
Net cash provided by (used in) investment activities	117.7	83.1	41%

Net debt

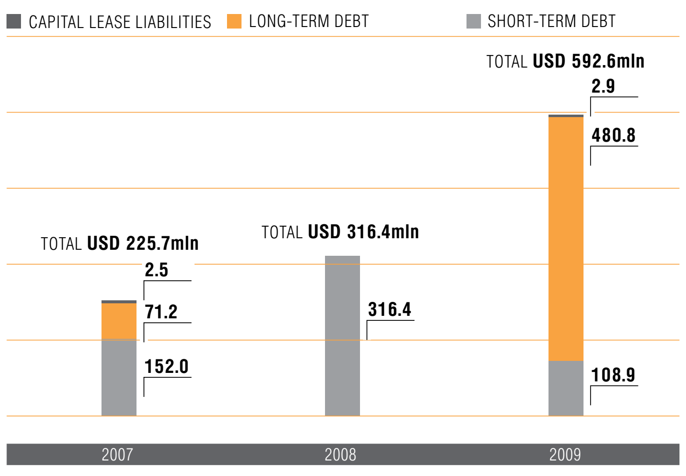
Net debt during the period increased by 82%. In Q4, the Company refinanced the bulk of its short-term debt, extending maturities and bringing down interest rates. Net debt also includes derivatives stemming from the retirement of pre-existing gold hedge obligations at Varvarinskoye. These derivatives do not have any influence on the Company's exposure to commodity price upside (see Note 29 to the Financial Statements for detailed discussion).

The net debt calculation is detailed in the following table:

	Dec 31, 2009	Dec 31, 2008	% change
Net debt calculation (USD mln)			
Short-term debt and current portion of long-term debt	108.9	316.4	-66%
Current portion of capital lease liabilities	2.9	–	NM
Long-term portion of capital lease liabilities	4.9	–	NM
Long-term debt	331.3	–	NM
Derivatives	149.5	–	NM
Cash	(28.3)	(4.1)	590%
TOTAL[1]	569.1	312.3	82%

(1) Takes into account the effect of rounding

DEBT STRUCTURE (USD MLN)



AN OVERVIEW OF THE INTERNAL CONTROLS SYSTEM

The internal controls system unifies a number of measures aimed at regulation of the Company's financial and business operations by its management bodies and structural divisions.

The primary goals of Polymetal's internal controls system are:

- The timely identification and analysis of risks in the activities of the Group's companies;
- Ensuring that financial, management and reporting information is valid and reliable;
- Ensuring the preservation of assets and effective use of the Group's companies' resources;
- Taking part in the building of an optimal organisational structure for the Group's companies;
- The realisation of economic and financial plans;
- Adhering to the requirements of the laws of the Russian Federation and the Company's internal regulations;
- Ensuring that the Board of Directors is adequately confident in the effectiveness of extant procedures of control.

Polymetal implements the following internal controls procedures:

- Identification of and coordination of interdependent and non-mutually exclusive goals at various levels of management;
- Distributing the power and responsibilities of management, structural divisions and employees, including the distribution of responsibilites to approve financial and economic operations, keep business records, disburse, store and use resources, and analyse and verify operations;
- Approval and carrying out of operations exclusively by those with the corresponding authority;
- Documentation of all business operations;
- Ensuring the proper record-keeping of business operations and control of reporting in progress;
- Identification and analysis of potential risks tied to the Company's operations; rating business process whilst taking materiality into consideration;
- Regular quality checks of the internal controls system.

Polymetal has an internal audit service, which exists to evaluate the effectiveness of the internal controls system for the Company and its subsidiaries, evaluate the effectiveness of the risk-management system, devise and implement measures aimed at improving the internal controls system, and analyse the validity of the financial, management and tax reporting.

In order to ensure its independence, the internal audit service is under the purview of and reports to the CEO and the Audit Committee of the Board of Directors.

Polymetal also has a control-audit department that oversees compliance with existing rgulations, decrees and instructions, as well as the safety, soundness and effective use of assets.

RISK OVERVIEW

Country-specific risks in Russia

Whilst there have been improvements in the Russian Federation's economic situation in recent years, the country continues to display some characteristics of an emerging market. The tax, currency, and customs legislation within the Russian Federation is subject to varying interpretations and changes, which can occur frequently. The operations and earnings of the Company are affected by the political, legislative, fiscal, and regulatory developments, including those related to environmental protection.

Political risk

Political and government instability could have an adverse effect on the value of the GDRs and/or ordinary shares. The current government has mostly presided over an increase in political and economic stability in recent years. However, there are always the potential risks of political destabilisation that include, but are not limited to: changes in government, major policy shifts, and unrest by some social and ethnic groups.

Legislative risk

Russia is still developing the legal framework required for a market economy to function efficiently. It is important for the Company to comply with all the relevant regulations, however, as the laws are subject to change, there is a risk of unpredictable new legislation, for example in foreign investment, asset ownership or environmental regulation, that can hinder the Company's activities. At present, the Company does business within the framework of all the current legislation and regulations.

Inflation risk

Most of the Company's production activities are located in Russia, and the majority of its costs are incurred in roubles. Thus, the high inflation in Russia can result in an increase in operational costs in local currency without a concurrent devaluation of the rouble against the dollar or an increase in the dollar price of silver and/or gold. Notwithstanding the fact that inflation in 2009 was at the lowest level since 1991 and amounted 8.8%, high inflation in the future can have a material adverse effect on the Company's business, operational, and financial results.

Global risks

Currency Risk

The Company's revenues are denominated in USD, whilst most of its costs are denominated in roubles. In addition, more than the half of the Company's debt as of December 31, 2009 was denominated in USD and accordingly the depreciation of the rouble against the USD, would increase the Company's debt obligations. As a result of the above, the Company's operational results are subject to exchange rate fluctuations, which can negatively affect the Company's business, prospects, and its operational and financial results.

To reduce currency risks, the Company keeps a flexible debt policy. Thus, at the beginning of 2008, the rouble was expected to depreciate and the Company held half of its debt in roubles. Then, expectations changed and the Company transferred most of its debt into USD.

Commodity Risk

The profitability of the Company's operations and the cash flows generated are directly related to the market price for gold and silver. Though the prices were quite high in 2009, the significant volatility or a future price decrease could materially affect the Company's operational and financial results. A 10% increase or decrease in the price of gold would result in approximately a USD 75mln increase or decrease in our revenue based on the forecasts employed in our 2010 outlook.

Due to a steady increase in the price of gold over the last several years, the Company has made a decision not to hedge gold sales in order to have full exposure to a rising gold price.

In addition, operating costs at the Company's mining locations are sensitive to changes in the price of energy, including the diesel fuel used to operate equipment and generate electricity. Prices for fuel can fluctuate widely due to availability and demand.

Precious mining industry risks

Exploration risks

Exploration programmes may not result in the discovery of mineralisation, and any mineralisation discovered may not be of sufficient quantity or quality to be profitably mined. Uncertainties as to the metallurgical recovery of any silver or gold discovered may not warrant mining on the basis of available technology. In addition, once mineralisation is discovered, it can take several years to determine whether ore exists. During this time, the economic feasibility of production can change negatively.

As a result of these uncertainties, the Company's exploration programmes may not result in the expansion or replacement of current production with new ore reserves or operations.

Development and construction risks

There are a number of uncertainties inherent in the development and construction of an extension to an existing mine or in the development and construction of any new mine. Technical and technological decisions made at each stage of the development on the basis of the limited information available to the Company can prove to be wrong and lead to throughput and/or recovery and operating costs being worse that estimated. The costs, timing and complexity of mine development and construction can increase due to the remote location of many Company's mine properties. In addition, delays in the commencement of mineral production can occur. Operating costs and capital expenditure can fluctuate considerably. As a result of all these factors, the Company's future development projects may not be completed, or may not prove to be as profitable as expected.

Environmental risks

The Company's production facilities generate or release hazardous and toxic substances, chemicals, and other waste capable of causing damage to the environment. The discharge, storage, and disposal of such waste are subject to environmental regulations. Any change in the current regulations can lead to actual costs and liabilities that the Company has not provided for or planned. However, at present the Company complies with the all environmental regulations.

Technological risks

The exploration, development, and production of natural resources is an activity that involves a great level of uncertainty and therefore risk associated with operating parametres and costs. The efficiency and safety of equipment used at the operations are essential for the Company. Thus, all the Company's operations, whether new or recently reconstructed, are equipped with modern western equipment.

Labour risks

The Company's growth and success depends on its ability to attract, retain, and motivate a number of key senior management and highly qualified and suitably skilled personnel at the Company's headquarters and at each mining facility. The remote locations and severe climatic conditions associated with the Company's mining operations limit the supply of suitably qualified workers. In particular, the Company may be unable to retain qualified personnel consistent with its internal compensation policy or may be unable to control the costs associated with retaining and motivating highly qualified employees.
To avoid this risk, the Company has improved labour conditions, modernised the employee incentive system by offering competitive salaries and benefits packages, and has developed a strong corporate culture, ensuring employees' social stability and facilitating a healthy psychological environment within every working team.

Estimate risks

Polymetal growth strategy is based on estimates of its future production and costs. However, there is no guarantee that these estimates will be proven correct. Production levels depend on various factors, such as the mineralogical properties of ore, successful supply chain management, weather conditions, etc., all of which can vary very widely in the future. Costs are sensitive to such factors as costs of labour and various services, the mineralogical properties of ore and internal economic conditions. Failure to achieve estimated targets of production and costs can negatively affect the Company's operational and financial performance.

Liquidity risks

Net debt increased significantly to USD 569.1mln or 2.4x adjusted EBITDA, mostly as a result of the Varvarinskoye acquisition. At the same time, the liquidity position remains comfortable, with less than 20% of gross debt being short-term. To manage its liquidity risk, the Company has some potential sources of liquidity such as existing credit facilities and future operational cash flows.

Alina Zyryanova

Both my Mum and Dad work at Polymetal. My Dad drives a truck-loading machine and Mum works at the lab, analysing minerals.

SHAREHOLDER CAPITAL

Polymetal's equity capital as of January 1, 2009 was RUB 63,000,000 and was distributed among 315,000,000 ordinary registered uncertified shares with a nominal value of RUB 0.2 each.

In November 2009, the Company issued 84,375,000 additional shares by closed subscription for the benefit of its subsidiary JSC Polymetal Management as well as the holders of shares in CJSC Prospectors Artel Ayax and LLC Rudnik Kvartseviy. 9.5 mln shares were placed by closed subscription among the shareholders of JSC Polymetal.

As a result of the additional share placement, the Company's equity capital grew to RUB 79,875,000, distributed among 399,375,000 ordinary registered uncertified shares with a nominal value of 0.2 RUB each.

The Company's ordinary shares, received by JSC Polymetal Management as a result of the additional placement, were subsequently used to purchase 91% in the equity capital of CJSC ZK Mayskoye (3.99%), as well as transferred to other subsidiaries of JSC Polymetal (10.28%).

The Company issued no preferred shares.

In February 2007, the Company had an IPO of 24.8% of its shares and Global Depositary Receipts (GDRs). As a result, its shares began trading on the Russian exchanges RTS and MICEX, whilst GDRs traded at the London Stock exchange (LSE) – ticker PMTL. The relationship of GDRs to ordinary shares is 1:1 as per Rule 144A and Rule S.

As of December 31, 2009, JSC Polymetal's principal shareholders were:

- POWERBOOM INVESTMENTS LIMITED — share of equity capital: 23.9662%, as of year end 2009: 18.90%. The principal shareholder of POWERBOOM INVESTMENTS LIMITED is Quotan International Limited. The ultimate beneficiary is Alexander Nesis.
- PEARLMOON LIMITED — share of charter capital: 24.8237%, as of year-end 2009: 19.58%. The principal shareholder of PEARLMOON LIMITED is PPF Group NV. The ultimate beneficiary is Peter Kellner.
- VITALBOND LIMITED — share of charter capital: 19.0181%, as of year-end 2009: 15.00%. The principal shareholder of VITALBOND LIMITED is Inure Enterprises Limited. The principal beneficiary is Alexander Mamut.

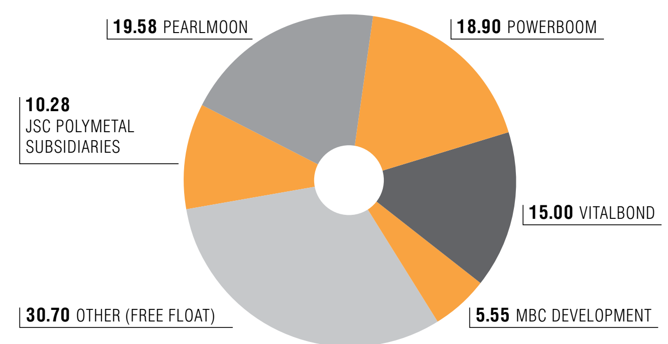
The decreased participation of PEARLMOON LIMITED, POWERBOOM INVESTMENTS LIMITED and VITALBOND LIMITED in JSC Polymetal's equity capital in 2009 has to do with these companies' non-participation in the additional share placement.

As of December 31, 2009, the following shareholders controlled more than 5% of voting shares in the Company:

- Deutsche Bank Trust Company Americas, the depositary company handling Polymetal's GDRs (roughly 13.5%);
- Subsidiaries of JSC Polymetal;
- among which the additionally issued shares were placed (10.28%);
- MBC DEVELOPMENT LIMITED (5.55%).

After additional placement, the share of the Company's management in the Company's ownership fell to a total 0.91% of voting shares of JSC Polymetal.

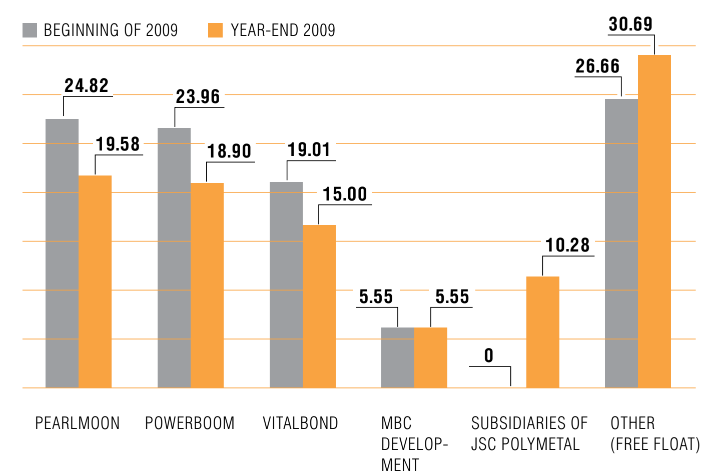
SHAREHOLDER CAPITAL AS OF DEC. 31, 2009 (%)



Thus, 2009 saw two significant changes in the shareholder capital structure:

- due to a commensurate decrease in the majority shareholders' share, the free float increased conspicuously, which is evidence of the increasingly important role it plays in the Company's corporate governance;
- the Company placed some of its own shares for the benefit of its subsidiaries, which is seen by management as one possible source of financing growth-minded M&A activity.

CHANGES IN SHARE OF EQUITY CAPITAL FOR 2009 (%)



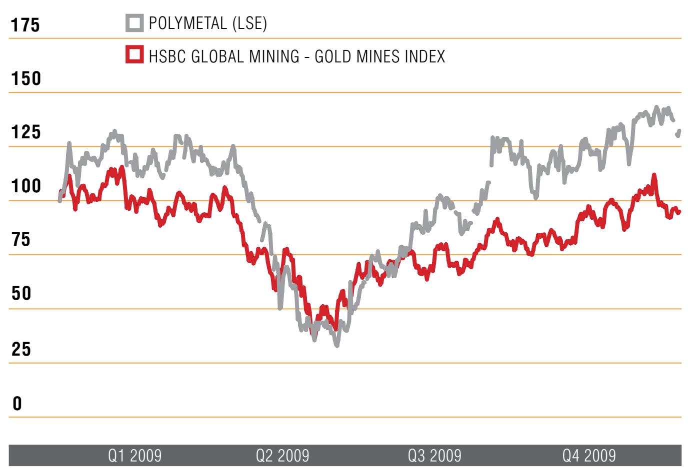
STOCK MARKET

International trading codes for the shares of JSC Polymetal

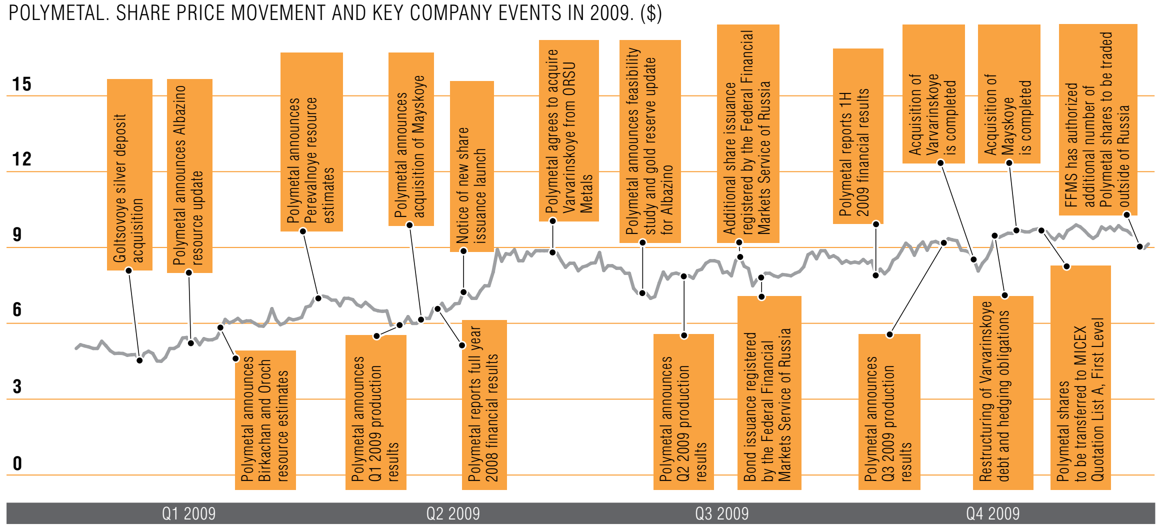
	ISIN	SEDOL	CUSIP
Ordinary	RU000A0JP195	B1NXP96	
GDR 144a	US7317891031		731789103
Regulation S GDR	US7317892021	B1N73K5	731789202

PRICE MOVEMENT OF POLYMETAL SHARES ON THE MICEX VS. THE MICEX METALS & MINING INDEX (%)

PRICE MOVEMENT OF POLYMETAL SHARES ON THE LONDON STOCK EXCHANGE VS THE HSBC GLOBAL MINING – GOLD MINES INDEX (%)



POLYMETAL. SHARE PRICE MOVEMENT AND KEY COMPANY EVENTS IN 2009. ($)



DIVIDEND POLICY

Polymetals' dividend policy is based on the principle of balance between the desire of shareholders to receive an annual return in the form of dividends and the goal of reinvesting net profit in the service of growth. The decision to pay dividends is made by the GSM on the basis of recommendations by the Board of Directors. Such recommendations are made based on an analysis of the Company's current financial state, as well as its stability, its need for investment, and the availability of funds.

News of these decisions are typically disseminated via Russian and foreign (including UK) mass media as well as on the corporate Web site, which is in full compliance with the requirements of Russian legislation.

As of year end 2009, the Board of Directors recommended to the GSM that no dividends be paid for the year. The Company's Board believes that, given the needs of the Company's growing business, reinvesting profits is the best way of increasing shareholder value.

2010 SHAREHOLDERS' CALENDAR

21 January
Production results announced for Q4 and all of 2009
St. Petersburg, Russia

3–5 February
The Russia 2010 Forum. Troika Dialog
Moscow, Russia

17–19 February
The Adam Smith Institute's The CIS' Precious Metals Industry international summit
Moscow, Russia

16–18 March
The first Minex Central Asia international mining-industry forum
Astana, Kazakhstan

15 April
Production results announced for Q1 2010
St. Petersburg, Russia

29 April
Audited 2009 financial results (US GAAP) announced
St. Petersburg, Russia

29 June
Annual general shareholders' meeting
St. Petersburg, Russia

19 July
Production numbers to be announced for Q2
St. Petersburg, Russia

19–22 September
The Denver Gold Forum
Denver, USA

29 September – 1 October
Minex 2010
Moscow, Russia

September
Financial results to be announced for H1 (US GAAP)
St. Petersburg, Russia

October
Production results to be announced for Q3
St. Petersburg, Russia

Arina Maximova

My parents work together at the lab. My Mum makes sure that what the Company does doesn't harm the environment. My Dad is responsible for all the types of analysis that they do.

LIST OF SUBSOIL LICENCES

In accordance with Federal Law of the Russian Federation №2395-1 On Mineral Resources, dated 21.20.1992, mineral rsources are provided to companies for their use on the basis of special government approval in the form of a licence.

Given that JSC Polymetal's primary activities are not licenceable, the Company holds no active licences for Exploration, surveying or extraction of minerals, or other types of activities performed on the territory of the Russian Federation that are licenceable under the Mineral Resources Federal Law. The Company does not independently utilise mineral resources, including federal-status ones.

At the same time, JSC Polymetal owns shares and equity in Exploration and extraction companies whose activities are in compliance with licences for Exploration, surveying, and extraction of minerals, as well as other types of activities, granted by the appropriate authorities. As of December 31 2009, the Company's subsidiaries and dependant entities held 37 licences, out of which:

- Six licences granted earlier were amended and supplemented in 2009 as per the Mineral Resources Federal Law;
- Three licences were granted to the Company's subsidiaries and dependant entities at auctions held by the Federal Agency on Subsoil Usage (Rosnedra) and its territorial divisions. The closed JSC Magadan Silver acquired a licence for Exploration, surveying and extraction of mineral coal at the Bulur coal-bearing area, whilst Omolon Goldmining Company acquired a licence for mining a lode gold deposit in the Burgali area and an ore silver and gold deposit in the Pyatinakh area.

The Company has also gained access to new deposits located in Russia via new participation in the equity capital of a number of companies, such as LLC Rudnik Kvartseviy (Sopka Kvartsevaya deposit), CJSC Prospectors Artel Ayax (Goltsovoye deposit), and CJSC ZK Mayskoye (Mayskoye goldmining deposit).

2009 marked Polymetal's arrival in the Republic of Kazakhstan – a quite integral part of the Company's plans to grow its assets and move into new regions beyond the Russian Federation. Polymetal can now survey and develop the Varvarinskoye gold deposit in the Taranovsk region of the Kostanay territory. The mining licence for the deposit is owned by Varvarinskoye.

The Russian Federal Agency on Subsoil Usage inspected Rudnik Kvartseviy (Sopka Kvartsevaya deposit) and Prospectors Artel Ayax (Goltsovoye deposit) for compliance with licencing requirements. As a result, trivial violations were uncovered and demands made that the violations be mitigated. All demands were met within the time allotted.

A number of regional branches of Rosnedra inspected facilities belonging to the JSC Polymetal group of companies. JSC Omolon Gold Mining Company was issued demands for the mitigation of licensing violations in the development of a gold and silver deposit within the confines of the Birkachan and Avlandin prospective areas, namely in exceeding the deadline for suppying the project feasability study. The violations in question are now being mitigated. The Sverdlovsk branch of the RF Federal Service for Supervision of Natural Resource Usage (Rosprirodnadzor) cited LLC Uralskoye Geologorazvedochnoye Predpriyatiye for issues related to a licence for the Degtyarskoye deposit. At the moment, the issues have been mitigated via amendmends made to the licence. Rosprirodnadzor did not find any violations in the activities of Magadan Silver.

List of subsoil licences (as at January 20, 2010)

No	Licence	Licence Object	Status and Area	Licence Holder	Licence's Period of Validity	
					Registration Date	Expiration Date
		1. Exploration and mining. Mines in operation				
1	MAG 03211 BE	Mining of gold and silver as well as associated metals from the Dukat gold and silver deposit	Mining allotment 11.4 km^2. Adjusted mining allotment 5.76 km^2	CJSC Magadan Silver	05.12.2000	31.12.2017
2	MAG 14476 BR	Exploration and mining of gold and silver at the Lunnoye gold and silver deposit and its flanks and its flanks	Mining allotment 48 km^2 Adjusted mining allotment 18.7ha.	CJSC Magadan Silver	22.05.2008	31.12.2016
3	MAG 04150 BR	Exploration and mining of gold and silver at the Arylakh gold and silver deposit and its flanks	Mining allotment 1.45 km^2	CJSC Magadan Silver	21.04.2008	31.12.2016
4	MAG 13850 BR	Exploration, surveying and mining of gold and silver Dukat ore field area	Mining allotment 40.6 km^2	CJSC Magadan Silver	29.11.2006	30.11.2031
5	MAG 03516 BE	Mining of silver from the Goltsovoye ore deposit	Mining allotment 5,76 km^2	CJSC Prospectors Artel Ayax	27.09.2002	31.12.2024
6	MAG 13104 BE	Mining of gold and silver at the Sopka Kvartsevaya deposit	Mining allotment 8,9 km^2	LLC Rudnik Kvartseviy	07.04.2005	20.03.2025
7	KHAB 01160 BE	Exploration and industrial mining of the Khakanjinskoye gold and silver deposit	Mining & geological allotment 50.2 km^2 Adjusted mining allotment 1.28 km^2	OJSC Okhotskaya Mining and Exploration Company	06.10.1998	31.12.2014
8	KHAB 01161 BE	Exploration and industrial mining of the Yuryevskoye gold and silver deposit	Mining & geological allotment 50.2 km^2	OJSC Okhotskaya Mining and Exploration Company	06.10.1998	31.12.2014
9	SVE 00696 BR	Surveying and open-pit mining of the Vorontsovskoye gold-ore deposit	Mining allotment 3.2 km^2 Adjusted mining allotment 2.55 km^2	CJSC Gold of Northern Urals	17.09.1998	31.12.2018
10	MG 666	Surveying and mining of the Varvarinskoye gold-ore deposit in Taranovskiy District of the Kostanay territory	Mining allotment 3.26 km^2	CJSC SP Varvarinskoye	28.08.1995	28.08.2020
		Including pilot development stage				
11	MAG 03075 BR	Surveying, prospecting and subsequent mining of gold and silver deposts within the confines of the Birkachan and Avlandin prospective areas	Mining allotment 21.2 km^2	OJSC Omolon Gold Mining Company	27.06.2000	31.12.2012

12	KHAB 01966 BR	Exploration of and mining of lode gold in the Albazinskaya area	Mining allotment 82 km^2	Albazino Resources Ltd.	02.03.2006	01.01.2015
13	SVE 01865 BR	Exploration, surveying and mining of gold and silver from brown iron ore formations of the Degtyarskoye deposit	Mining allotment 2,35 km^2	LLC Uralskoye Geologorazvedochnoye Predpriyatiye	15.12.2004	30.11.2029
		2. Exploration and Mining. Projects under Construction				
14	AND 12929 BE	Mining for gold and accompanying matter at the Mayskoye gold ore deposit. Geological study of its flanks and deep horizons.	Mining allotment 16 km^2	LLC Zolotorudnaya Kompaniya Mayskoye	28.12.2004	02.03.2024
15	MAG 10141 BE	Mining of gold and silver at the Kubaka deposit. Exploration and mining of gold and silver at the Evenskoye deposit.	Mining allotment 8,9 km^2 Adjusted mining allotment 54.2ha	OJSC Omolon Gold Mining Company	02.08.1993	31.12.2011
16	MAG 04201 BE	Prospecting and mining of lode gold and silver at the Dalniy deposit	Mining allotment 22,2 km^2	LLC Rudnik Kvartseviy	20.01.2010	06.11.2027
17	SVE 02417 BR	Exploration and mining of gold within the confines of a part of Reftinskaya zone, incl. Fevral'skoye and Ikryanskoye deposits	Mining allotment 0,59 km^2	OJSC Aurum	19.10.2007	16.09.2018
		3. Geological Surveying, Exploration and Mining				
18	MAG 04116 BR	Exploration, surveying and mining of lode gold and silver at the Rogovikskaya prospective area	Geological allotment 397 km^2	CJSC Magadan Silver	11.03.2008	17.02.2033
19	MAG 03819 BR	Exploration, surveying and mining of vein gold and silver in the Orochskaya prospective area	Mining allotment 150 km^2	OJSC Omolon Gold Mining Company	22.08.2005	31.12.2030
20	MAG 04174 BR	Exploration, surveying and mining of lode gold in the Burgaliyskaya area	Mining allotment 91 km^2	OJSC Omolon Gold Mining Company	29.04.2009	28.04.2034
21	KHAB 02093 BR	Exploration and mining of gold and silver within the confines of the Khakarinskaya area	Mining allotment 64 км^2	OJSC Okhotskaya Mining and Exploration Company	23.07.2008	31.12.2025
22	KHAB 14040 BR	Exploration, surveying and mining of lode gold and silver in the Arkinsko-Selemdjinskaya area	Mining allotment 1580 km^2	OJSC Okhotskaya Mining and Exploration Company	27.04.2007	20.04.2032
23	KHAB 14054 BR	Exploration, surveying and mining of lode gold and silver in the Yuzhno-Urakskaya area	Mining allotment 834 km^2	OJSC Okhotskaya Mining and Exploration Company	07.05.2007	20.04.2032
24	KHAB 14041 BR	Exploration, surveying and mining of lode gold and silver in the Amkinskaya area	Mining allotment 86 km^2	OJSC Okhotskaya Mining and Exploration Company	27.04.2007	20.04.2032
25	KHAB 02098 BR	Exploration and mining of lode gold within the confines of the Agniye-Afanasyevskiy ore cluster	Geological allotment 441 km^2	Albazino Resources Ltd.	20.11.2008	31.12.2033

26	SVE 02394 BR	Exploration, surveying and mining of lode gold in the Tamun area	Mining allotment 21 km^2	CJSC Gold of Northern Urals	11.09.2007	01.10.2032
27	SVE 13533 BR	Exploration, surveying and mining of lode gold in the Katas'minskaya area	Mining allotment 28,2 km^2	CJSC Gold of Northern Urals	17.03.2006	01.03.2031
28	MG 866	Territory surveying in Taranovskiy, Fedorovskiy and Komsomol'skiy districts of Kostanayskaya territory for precious and non-ferrous metals, with subsequent development of the commercially viable sites	Mining allotment 533 km^2 (premises to be left in the 6th year)	CJSC SP Varvarinskoye	30.05.1996	30.05.2021
		including solid minerals				
29	MAG 04151 TR	Exploration, surveying and mining of mineral coal in the Arylakhskiy section of the Bulurskaya coal-bearing area	Mining allotment 15.8 km^2	CJSC Magadan Silver	21.04.2008	31.03.2032
30	MAG 04200 TR	Exploration, surveying and mining of mineral coal at Bulurskaya coal-bearing area	Geological allotment 286 км^2	CJSC Magadan Silver	22.12.2009	07.12.2034
		4. Geological Surveying				
31	MAG 03894 BP	Exploration – prospecting and evaluating deposits of lode silver and gold in the Dukat prospective area	Geological allotment 2 420 km^2	CJSC Magadan Silver	25.08.2006	18.07.2011
32	МАГ 03893 BP	Exploration of gold mineralisation in Prognoznoye	Geological allotment 49,7 km^2	OJSC Omolon Gold Mining Company	17.07.2006	11.07.2011
33	MAG 04194 BP	Exploration – prospecting and evaluating deposits of lode silver and gold in the Pyatinakh area	Geological allotment 454 km^2	OJSC Omolon Gold Mining Company	01.10.2009	01.10.2014
34	KHAB 02094 BP	Exploration of lode silver and gold within the confines of Arkinskaya ore area	Geological allotment 135 km^2	OJSC Okhotskaya Mining and Exploration Company	23.07.2008	31.03.2011
35	SVE 02227 BP	Exploration of (prospecting and evaluation) lode gold in the Rudnichniy area	Geological allotment 7,9 km^2	CJSC Gold of Northern Urals	10.08.2006	31.08.2011
36	SVE 02442 BP	Exploration of lode gold in the Volchanskiy area of the Sverdlovsk region	Geological allotment 31,5 km^2	CJSC Gold of Northern Urals	04.12.2007	31.12.2012
37	SVE 14517 BP	Exploration – prospecting and evaluating deposits of lode gold in the Galkinskiy area of the Sverdlovsk region	Geological allotment 3,5 km^2	LLC Norhtern Urals Polymetals	03.07.2008	01.12.2010

MINERAL RESOURCES AND ORE RESERVE STATEMENTS

Mineral resource statement: gold and silver deposits [(1)]

Deposit	Tonnage, kt	Grade		Content	
		Au, g/t	Ag, g/t	Au, Koz	Ag, Koz
Measured					
Dukat[(2)]	13,918	1.0	491.5	440	219,911
Vorontsovskoye[(3)]	17,733	2.9	4.3	1,681	2,411
Lunnoye	2,948	1.8	284.4	174	26,942
Arylakh	622	1.1	478.5	22	9,549
Khakanjinskoye	2,570	4.6	280.0	380	23,149
Yurievskoye	369	7.9	10.8	93	129
Albazino	9,364	5.2		1,556	
Degtyarskoye	876	5.3	32.5	149	900
Tsokolnaya zona	454	9.6	15.5	140	225
Subtotal	**48,854**			**4,636**	**283,216**
Indicated					
Dukat[(2)]	8,366	1.0	461.5	278	124,134
Vorontsovskoye[(3)]	1,810	2.5	4.0	148	225
Lunnoye	1,786	1.1	394.1	65	22,634
Arylakh	1,056	0.6	414.3	19	14,050
Khakanjinskoye	1,022	4.6	258.1	150	8,488
Yurievskoye	26	4.8	5.8	4	3
Maiskoye	7,914	11.8		3,001	
Albazino	10,220	3.7		1,203	
Sopka Kvartsevaya	1,600	10.8	247.0	561	12,828
Birkachan	15,542	2.1	10.9	1,052	5,433
Oroch	1,365	3.3	143.2	143	6,269
Tsokolnaya zona	592	6.4	10.9	122	193
Subtotal	**51,299**			**6,745**	**194,258**
Measured + Indicated					
Dukat[(2)]	22,284	1.0	480.2	718	344,045
Vorontsovskoye[(3)]	19,543	2.9	4.2	1,829	2,636
Lunnoye	4,734	1.6	325.7	239	49,576
Arylakh	1,678	0.8	437.4	42	23,599
Khakanjinskoye	3,592	4.6	273.9	530	31,636
Yurievskoye	395	7.7	10.4	97	132
Maiskoye	7,914	11.8		3,001	
Albazino	19,584	4.4		2,759	
Sopka Kvartsevaya	1,600	10.9	249.4	561	12,828
Birkachan	15,542	2.1	10.9	1,052	5,433
Degtyarskoye	876	5.3	32.0	149	900
Oroch	1,365	3.2	142.9	143	6,269
Tsokolnaya zona	1,046	7.8	12.4	262	418
Subtotal	**100,153**			**11,381**	**477,474**
Inferred					
Dukat[(2)]	31	0.5	323.7	1	322
Vorontsovskoye[(3)]	74	2.3	3.3	6	6
Lunnoye	1,484	1.3	579.5	62	27,650
Arylakh	109	1.1	442.6	4	1,543
Khakanjinskoye	139	2.8	163.9	13	739
Maiskoye	11,882	11.7		4,482	
Albazino	1,722	3.3		185	
Sopka Kvartsevaya	1,600	5.1	153.0	259	7,748
Birkachan	1,966	5.2	19.1	327	1,222
Oroch	561	3.3	224.9	59	4,051
Tsokolnaya zona	249	9.3	14.8	75	129
Subtotal	**19,817**			**5,471**	**43,410**

Total Mineral Resources of gold and silver deposits

Deposit	Tonnage, kt	Grade		Content	
		Au, g/t	Ag, g/t	Au, Koz	Ag, Koz
Dukat[(2)]	22,315	1.0	480.0	718	344,366
Vorontsovskoye[(3)]	19,617	2.9	4.2	1,835	2,643
Lunnoye	6,218	1.5	386.3	300	77,226
Arylakh	1,787	0.8	437.6	46	25,142
Khakanjinskoye	3,731	4.5	269.9	542	32,376
Yurievskoye	395	7.7	10.4	97	132
Maiskoye	19,796	11.8		7,483	
Albazino	21,306	4.3		2,944	
Sopka Kvartsevaya	3,200	8.0	200.0	820	20,576
Birkachan	17,508	2.4	11.8	1,378	6,655
Degtyarskoye	876	5.3	32.0	149	900
Oroch	1,926	3.2	166.7	201	10,320
Tsokolnaya zona	1,295	8.1	13.1	337	547
Subtotal	**119,970**			**16,851**	**520,884**

(1) Mineral Resources are estimated in accordance with the JORC Code (2004). Mineral Resourses are inclusive of Ore Reserves

(2) including Nachalnoye-2

(3) including Vorontsovskoye South

(4) Mineral Resources are estimated as at date which is pointed in this column

(5) Cut-off grade was calculated separately for open pit (OP) and underground (UG) mining.
When COG has ranges it means there are several areas for open pit or/and underground mining and therefore individual COG for every area was calculated

Information source for current estimation				Information source for previous estimation			
Author	Date[(4)]	Price	COG (cutoff grade)[(5)]	Author	Date[(4)]	Price	COG (cutoff grade)[(5)]
Polymetal	01/01/2010	Au=1150$/oz Ag=18.5$/oz	AgEq(OP)=57.3 g/t AgEq(UG)=134 g/t	SRK Consulting (UK) Limited	01/01/2009	Au=700$/oz Ag=13.5$/oz	AgEq(OP)=87.6-95.8 g/t AgEq(UG)=126.3-194.4 g/t
Polymetal	01/01/2010	Au=1150$/oz Ag=18.5$/oz	AuEq(OP)=0.5 g/t	SRK Consulting (UK) Limited	01/01/2009	Au=700$/oz Ag=13.5$/oz	AuEq(OP)=0.5-0.9 g/t
Polymetal	01/01/2010	Au=1150$/oz Ag=18.5$/oz	AgEq(UG)=151.8-210.5 g/t	SRK Consulting (UK) Limited	01/01/2009	Au=700$/oz Ag=13.5$/oz	AgEq(UG)=123.4-181 g/t
Polymetal	01/01/2010	Au=1150$/oz Ag=18.5$/oz	AgEq(OP)=103.4 g/t AgEq(UG)=196 g/t	SRK Consulting (UK) Limited	01/01/2009	Au=700$/oz Ag=13.5$/oz	AgEq(OP)=111.7 g/t AgEq(UG)=111.1 g/t
Polymetal	01/01/2010	Au=1150$/oz Ag=18.5$/oz	AuEq(OP)=0.73-0.77 g/ AuEq(UG)=2.2-2.3 g/t	SRK Consulting (UK) Limited	01/01/2009	Au=700$/oz Ag=13.5$/oz	AuEq(OP)=1.1-1.2 g/t AuEq(UG)=2.5-2.6 g/t
Polymetal	01/01/2010	Au=1150$/oz Ag=18.5$/oz	AuEq(OP)=1.79 g/t AuEq(UG)=4.2 g/t	SRK Consulting (UK) Limited	01/01/2009	Au=700$/oz Ag=13.5$/oz	AuEq(OP)=2.1 g/t AuEq(UG)=5.5 g/t
Aker Kvarner	2008		Au(UG)=5 g/t				
Snowden Mining Industry Consultants	may 2009	Au=800$/oz	Au(OP)=1.4 g/t				
AMC	07/01/2007	Au=600$/oz Ag=12$/oz	AuEq=2 g/t				
SRK Consulting (UK) Limited	01/01/2009	Au=900$/oz Ag=13$/oz	AuEq(OP)=0.6-2.1 g/t AuEq(UG)=2.1 g/t				
Polymetal	01/01/2010	Au=1150$/oz Ag=18.5$/oz	AuEq(OP)=1.34 g/t				
SRK Consulting (UK) Limited	01/01/2009	Au=900$/oz Ag=13$/oz	AuEq(OP)=0.6-2.5 g/t AuEq(UG)=2.5 g/t				
SRK Consulting (UK) Limited	12/24/2009	Au=1000$/oz Ag=16$/oz	AuEq(OP)=0.76 g/t AuEq(UG)=6.35 g/t				

Mineral resource statement: polymetallic ore deposits [1]

Deposit	Tonnage, kt	Grade Au, g/t	Ag, g/t	Cu, %	Pb, %	Zn, %	Content Au, Koz	Ag, Koz	Cu, 1000 tonnes	Pb, 1000 tonnes	Zn, 1000 tonnes
Measured											
Goltsovoye	334		1,293.4		2.55			13.889		9	
Subtotal	**334**		**1,293.4**		**2.55**			**13,889**		**9**	
Indicated											
Goltsovoye	1,143		906.0		2.81			33,308		32	
Varvarinskoye	81,900	1.0		0.56 (2)			2,714		128		
Galkinskoye	4,255	1.4	33.7			1.24	196	5,980			58
Perevalnoye	1,100		375.3	0.34	2.26	2.28		13,229	4	25	25
Subtotal	**88,398**						**2,910**	**52,517**	**132**	**57**	**83**
Measured + Indicated											
Goltsovoye	1,477		993.9		2.7			1,468		41	
Varvarinskoye	81,900	1.0		0.56 (2)			84,415		128		
Galkinskoye	4,255	1.4	33.7			1.2	6,085	186			58
Perevalnoye	1,100		375.3	0.34	2.26	2.28		411	4	25	25
Subtotal	**88,732**						**90,500**	**2,065**	**132**	**66**	**83**
Inferred											
Goltsovoye	920		738.0		2.75			679		24	
Goltsovoye (stockpile)	65		238.0					15			
Varvarinskoye	10,300	1.2		0.3 (2)			12,099		13		
Galkinskoye	9,982	1.2	29.4			1.18	12,278	294			118
Perevalnoye	80		205.9	0.46	3.65	3.65		16	0,4	3,0	3,0
Subtotal	**21,347**						**24,377**	**1,004**	**14**	**27**	**121**

Mineral resource statement: all deposits

Deposit	Tonnage, kt	Grade Au, g/t	Ag, g/t	Cu, %	Pb, %	Zn, %	Au, Koz	Ag, Koz	Content Cu, 1000 tonnes	Pb, 1000 tonnes	Zn,1000 tonnes
Goltsovoye	2,462		878.3		2.61			69,510		64	
Varvarinskoye	92,200	1.0		0.54 (2)			3,103		141		
Galkinskoye	14,237	1.3	33.7			1.24	590	15,432			176
Perevalnoye	1,180		362.2	0.37	2.37	2.37		13,742	4	28	28
итого	**110,079**						**3,693**	**98,684**	**146**	**92**	**204**

Information source for current estimation

Author	Date (3)	Price	COG (Cut Off Grade) (4)
Wardell Armstrong International	Feb 2007	Ag=10$/oz Pb=0.65$/lb	Ag=150 g/t
Orsu Metals Corporation	Jan 2009		Au=0.29 g/t Cu=0.2%
Snowden Mining Industry Consultants	May 2007	Au=600$/oz Ag=10$/oz Zn=2500$/t	AuEq(OP)=2 g/t
SRK Consulting (UK) Limited	01.01.09	Ag=13$/oz Cu=220$/lb Pb=70$/lb Zn=90$/lb	AgEq(UG)=177.2 g/t

(1) Mineral Resources are estimated in accordance with the JORC Code (2004). Mineral Resourses are inclusive of Ore Reserves

(2) Cu grade only represents average grade of Float feed. Mineral Resources of Float feed: 23.1 Mln t Indicated and 3.3 Mln t Inferred.

(3) Mineral Resources are estimated as at date which is pointed in this column

(4) Cutoff grade was calculated separately for open pit (OP) and underground (UG) mining

Ore resource statement: polymetallic ore deposits [1]

Deposit	Tonnage, kt	Grade Au, g/t	Cu, %	Content Au, Koz	Cu, 1000 tonnes
Probable					
Varvarinskoye	36,420	1.1	0.66 (2)	1,335	69
Total	**36,420**	**1.1**	**0.66 (2)**	**1,335**	**69**

Proved + Probable

Deposit	Tonnage, kt	Grade Au, g/t	Cu, %	Content Au, Koz	Cu, 1000 tonnes	Information source for current estimation: Author	Date [3]	Price	COG (Cut Off Grade)
Varvarinskoye	36,420	1.1	0.66 (2)	1,335	69	Orsu Metals Corporation	Jan 2009	Au=700$/oz Cu=1.5$/oz	Au(OГP)=0.41 g/t
Total	**36,420**	**1.1**	**0.66 (2)**	**1,335**	**69**				

(1) Ore Reserves are estimated in accordance with the JORC Code (2004)

(2) Cu grade only represents average grade of Float feed. Ore Reserves of Float feed: 10.43 Mln t Probable.

(3) Ore Reserves are estimated as at date which is pointed in this column

Ore reserve statement: gold and silver deposits

Deposit	Tonnage, kt	Grade		Content	
		Au, g/t	Ag, g/t	Au, Koz	Ag, Koz
Proved					
Dukat[2]	11,053	1.0	505.5	359	179,658
Vorontsovskoye[3]	17,388	2.8	3.9	1,547	2,186
Lunnoye	1,783	1.8	317.5	101	18,197
Arylakh	560	0.9	426.6	16	7,684
Khakanjinskoye	2,505	4.4	263.2	351	21,219
Yurievskoye	164	10.4	13.0	55	64
Albazino[4]	9,680	4.6		1,419	
Degtyarskoye	549	5.0	25.5	88	450
Subtotal	**43,682**			**3,936**	**229,460**
Probable					
Dukat[2]	6,372	1.1	478.8	224	98,092
Vorontsovskoye[3]	1,921	2.3	3.4	139	193
Lunnoye	811	1.2	511.5	32	13,343
Arylakh	582	0.4	388.9	8	7,266
Khakanjinskoye	569	5.7	297.6	104	5,433
Yurievskoye	2	8.3	9.4	0,5	0.6
Albazino[4]	7,694	3.5		856	
Sopka Kvartsevaya	1,400	12.0	260.0	547	11,574
Total	**19,351**			**1,909**	**135,902**

Proved + Probable

Deposit	Tonnage, kt	Grade		Content		Information source for current estimation: Author	Date[4]	Price	COG (cutoff grade)[5]	Information source for previous estimation: Author	Date[4]	Price	COG (Cut Off Grade)[5]
		Au, g/t	Ag, g/t	Au, Koz	Ag, Koz								
Dukat[2]	17,425	1.0	495.7	582	277,750	Polymetal	01.01.10	Au=900$/oz Ag=14.5$/oz	AgEq(OP)=74.1 g/t AgEq(UG)=252.9 g/t	SRK	01.01.09	Au=600$/oz Ag=11$/oz	AgEq(OP)=101.3-114.2 g/t AgEq(UG)=164.3-198.5 g/t
Vorontsovskoye[3]	19,309	2.7	3.8	1,686	2,379	Polymetal	01.01.10	Au=900$/oz Ag=14.5$/oz	AuEq(OP)=0.33-0.51 g/t	SRK	01.01.09	Au=600$/oz Ag=11$/oz	AuEq(OP)=0.5-1.0 g/t
Lunnoye	2,594	1.6	378.2	133	31,540	Polymetal	01.01.10	Au=900$/oz Ag=14.5$/oz	AgEq(UG)=355.5-443.4 g/t	SRK	01.01.09	Au=600$/oz Ag=11$/oz	AgEq(UG)=162.7-212.1 g/t
Arylakh	1,142	0.7	407.4	24	14,950	Polymetal	01.01.10	Au=900$/oz Ag=14.5$/oz	AgEq(OP)=136.1g/t	SRK	01.01.09	Au=600$/oz Ag=11$/oz	AgEq(OP)=130.2g/t
Khakanjinskoye	3,074	4.6	269.6	455	26,653	Polymetal	01.01.10	Au=900$/oz Ag=14.5$/oz	AuEq(OP)=0.95-1.0g/t AuEq(UG)=4.2-4.7 g/t	SRK	01.01.09	Au=600$/oz Ag=11$/oz	AuEq(OP)=1.3 g/t AuEq(UG)=2.7 g/t
Yurievskoye	166	10.4	13.0	56	65	Polymetal	01.01.10	Au=900$/oz Ag=14.5$/oz	AuEq(OP)=2.33 g/t	SRK	01.01.09	Au=600$/oz Ag=11$/oz	AuEq(OP)=2.3 g/t
Albazino[4]	17,374	4.1		2,275		Snowden Mining Industry Consultants	may 2009	Au=700$/oz	AuEq(OP)=1.67 g/t				
Sopka Kvartsevaya	1,400	12.0	260.0	547	11,574	AMC	01.07.07	Au=600$/oz Ag=12$/oz	AuEq(OP)=2.2 g/t				
Degtyarskoye	549	5.0	25.5	88	450	Polymetal	01.01.10	Au=900$/oz Ag=14.5$/oz	AuEq(OP)=1.73 g/t				
Subtotal	**63,033**			**5,845**	**365,361**								

(1) Ore Reserves are estimated in accordance with the JORC Code (2004)

(2) including Nachalnoye-2

(3) including Vorontsovskoye South

(4) Ore Reserves are estimated as at date which is pointed in this column

(5) Cutoff grade was calculated separately for open pit (OP) and underground (UG) mining . When COG has ranges it means there are several areas for open pit or/and underground mining and therefore individual COG for every area was calculated

Ore reserve statement: all deposits (Estimation as at 01.01.2010) [1]

Category	Tonnage (kt)	Content		
		Au, Koz	Ag, Koz	Cu, 1000 tonnes
Proved	43,682	3,936	229,460	
Probable	55,771	3,244	135,902	69
Total	**99,453**	**7,180**	**365,361**	**69**

(1) Ore Reserves are estimated in accordance with the JORC Code (2004)

MINERAL RESOURCES AND ORE RESERVE STATEMENTS

Julia Khvostenko

My Mum and Dad
are not just a family;
they also work
together.
My Dad is a mechanic;
he can make anything.
My Mum works
with documents
in an office.

GLOSSARY

Standards of Weight

Measure	Equivalent
Troy ounce (oz):	1 ounce = 31.10 g = 0.03110 kg
	1 kg = 32.15 oz
Traditionally used as a measure of weight for precious metals	

Frequently used terminology

Term	Meaning
Waste	Mining waste covering a mineral deposit. Waste is extracted together with the mineral when using the open-pit method.
Heap leach	The extraction of certain components of a substance from an ore with the aid of a solvent. Heap leach is performed in open spaces; it combines high productivity with low cost.
Mine roadway	A manmade, subterranean or surface opening.
Primary ore	Unprocessed ore
Underground mining	The extraction of minerals from the ground using mines.
Merrill-Crowe process	A method of extracting a precious metal from a solution when leaching ore.
Ore treatment	A process of separating metals and minerals present in an ore.
Oxidised ore	The ore in the subsurface part of the deposit; created via oxidation of primary ore.
Open-pit mining	A method of extracting minerals from the surface of the Earth with the aid of open [uncovered] mine works.
Flotation	A process of separating minerals based on different wettability [water-absorption] levels.
Cyanide leaching	A process of deriving gold and silver from ores and concentrates by selectively dissolving them in solutions of cyanides and alkaline metals.

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