POLYMETAL

In our hands

Annual report 2010

Contents

Annual report 2010

In our hands

Vasiliy Kuznetsov

Quality control manager

Gold is probably the earliest metal known to man, and ever since its discovery it has held a special place in the development of civilization. Its extraordinary qualities, characteristics and properties have made it one of the most valuable of the earth's natural resources, and the range of its applications — from jewellery to medicine, electronics to food and drink, investment to chemistry, industry to currency — underline both its importance to society and the fascination in which it is held.

Exploring for gold, the process of extracting it and delivering it in forms that make it easy to use in all its wide range of applications have changed enormously over the years.

Today, the application of leading–edge technology has transformed our ability to discover, extract and process gold. In addition, a great number of people are involved — geologists, engineers, miners, drillers, truckers, environmentalists — and at Polymetal we have expert, dedicated people throughout our business who are responsible for delivering this most precious of metals.

Our ability to deliver is in our own hands, and we are confident that we will continue to create value by developing expertise and driving efficiencies.

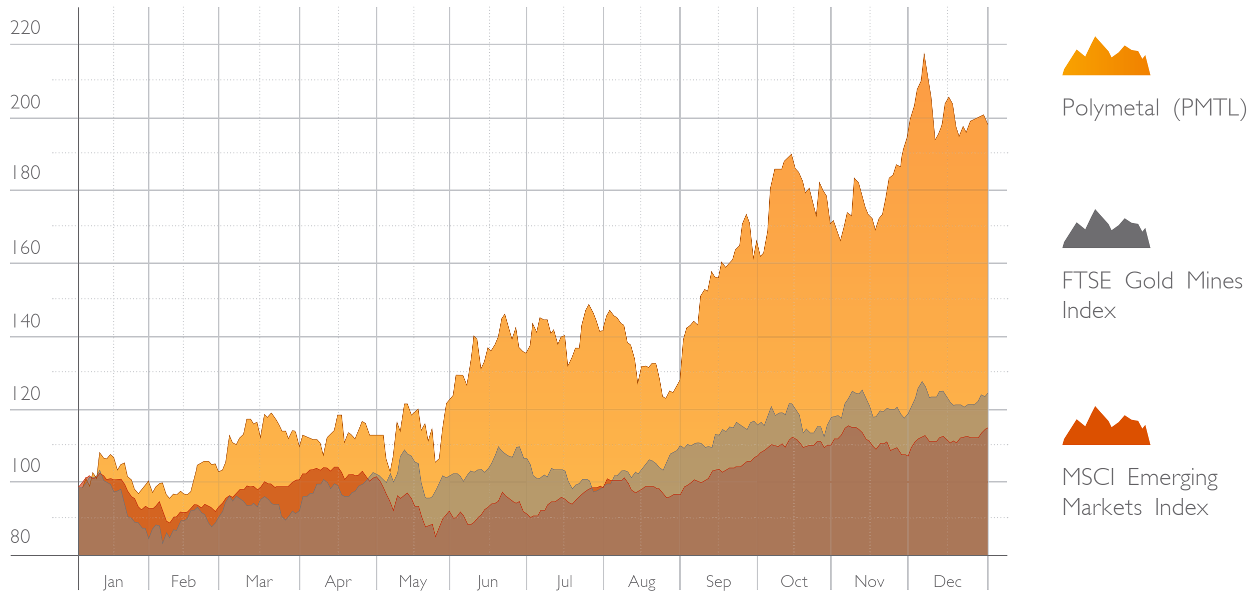
About us

Polymetal is one of the leading Russian and CIS gold and silver mining companies with a long term portfolio of high quality assets in Russia and Kazakhstan. We are one of the top five gold producers in Russia. We are also the leading Russian, and top–five global, primary silver producer.

We are committed to our three–pronged strategy, focusing on investment in existing assets, driving further expansion and optimisation of our centralised processing facilities, and exploration to identify a new generation of assets.

In addition to the listings of our ordinary share on the RTS and MICEX Stock Exchanges, our global depositary receipts have been admitted to trading on the London Stock Exchange since 2007, and our share price, driven by the success of our strategy and increasing investor interest in gold and other precious metals, significantly outperformed our peers in the 12 months to 31 March 2011 — growing by 94% over this period. Our market capitalisation on 31 December 2010 was US$6.6 billion.

Polymetal share price performance vs MSCI Emerging Markets Index and FTSE Gold Mines Index



Our focus has shifted from silver to gold during the last two years, with gold now accounting for around 60% of our revenues. We are growing steadily, increasing our mining presence and production capabilities. During 2009 and 2010, we completed six significant acquisitions in Russia and Kazakhstan. Furthermore, during 2010 and 2011, we commissioned two new processing facilities at Kubaka and Albazino.

Quality assets with growing cash flows, a proven development and operational track record, a substantial exploration pipeline, a unique strategy focused on processing hubs, combined with highly skilled professionals throughout the business, clear adherence to international best practice and the highest standards of corporate governance and a focus on driving shareholder value, mean that Polymetal is well–positioned as a precious metals stock of choice.

At a glance

Presence:
Russia (Magadan and Sverdlovsk Regions, Khabarovsk Territory, Chukotka Region), Kazakhstan (Kostanay Region).

Project portfolio*: 42 precious metals licences total licence area — 8,534 km².

Sales markets: Russia (86%), Switzerland (9%), China (5%).

Reserves (JORC)**:

Gold
10 Moz

Silver
334 Moz

Copper
58 Kt

In 2010 the Company produced 753 thousand ounces of gold equivalent; the share of the Company's revenues derived from gold was 60%.

* As at 31 December, 2010.
** Throughout the annual report the gold equivalent ounces are calculated using 60:1 gold/silver ratio.

Key performance indicators (KPIs)

	2010	2009	Change
Revenues	US$925M	US$561M	+65%
Adjusted EBITDA	US$429M	US$242M	+77%
Net income	US$250M	US$94M*	+166%
Diluted EPS from continuing operations	US$0.69	US$0.28	+146%
TCC/oz gold equivalent	US$571	US$479	+19%
Cash flow from operations	US$230M	US$165M*	+39%
Capital expenditures	US$420M	US$213M*	+97%

Gold production
+43%
444 Koz in 2010
311 Koz in 2009

Silver production
—
17.3 Moz in 2010
17.3 Moz in 2009

Gold reserves
+39%
10 Moz in 2010
7.2 Moz in 2009

Silver reserves
–8%
334 Moz in 2010
365 Moz in 2009

* Restated from the Audited Consolidated Financial Statements 2009.

Map of assets*

* Not inclusive of standalone exploration projects; associated map can be found on page 42.

Key achievements in 2010

Share price movement (LSE) and key company events in 2010

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

The results of geophysical and geochemical studies confirm that the eastern section of the Albazino ore field has the potential to become an attractive addition to the already substantial existing Albazino resources.

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

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

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

This licence covers an area of 18 km² near our Dukat plant, with its recently expanded production capacity. Its proximity to our existing operations, and year-round accessibility, make it a potential prospect for resource growth. We are planning to accelerate the detailed exploration phase, with the intention of supplying ore to the Dukat plant from the Krasin ore cluster deposits by 2013.

June
Admission to the FTSE Gold Mines Index

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

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

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

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

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

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

August
First pouring of gold at the Kubaka plant

The first doré bar was poured at the Kubaka processing facility, a year ahead of schedule. The refurbished Kubaka processing facility was originally commissioned in 1997 by Kinross Gold Corporation and is part of our Omolon Hub, which also includes the Birkachan, Sopka, Oroch, Tsokol, and Dalneye deposits.

September
Launch of the second employee incentive programme

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

September
Fitch upgrades Polymetal's credit rating outlook to stable

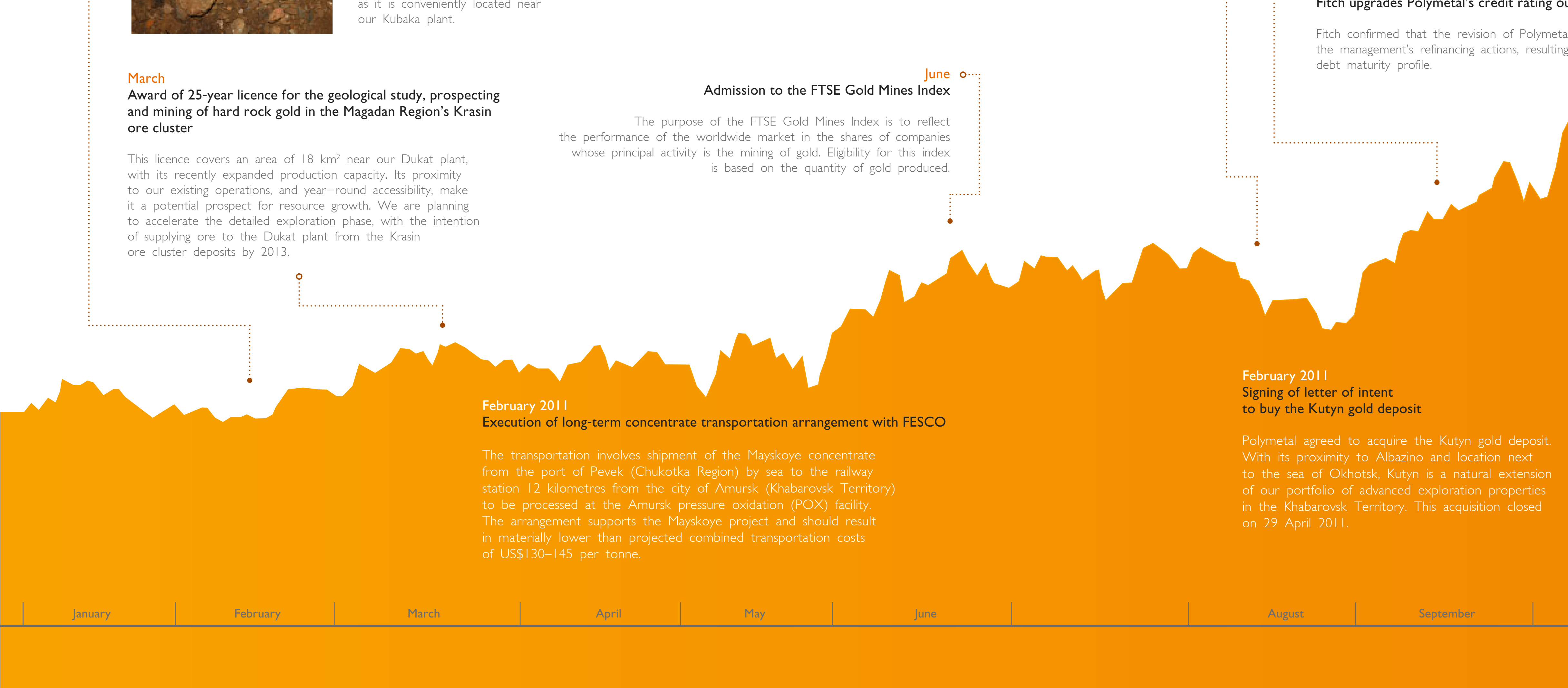
Fitch confirmed that the revision of Polymetal's rating reflected the management's refinancing actions, resulting in a more balanced debt maturity profile.

October
Acquisition of the Avlayakan and Kirankan gold and silver deposits

The acquisition also includes exploration licences for the Avlayakan–Kirankan and Maymakan–Kundumi watershed properties, all located in the Khabarovsk Territory in the Far East of Russia. The four licences cover a total area of 323 km², and could provide additional feed to our existing Khakanja plant.

December
Acquisition of the Svetloye gold deposit

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



February 2011
Execution of long-term concentrate transportation arrangement with FESCO

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

February 2011
Signing of letter of intent to buy the Kutyn gold deposit

Polymetal agreed to acquire the Kutyn gold deposit. With its proximity to Albazino and location next to the sea of Okhotsk, Kutyn is a natural extension of our portfolio of advanced exploration properties in the Khabarovsk Territory. This acquisition closed on 29 April 2011.

Key achievements in 2011

April 2011
Launch of the Albazino on-site flotation concentrator

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

Business review

Natalia Kosheleva

Plant process unit operator

Chairman's statement

Overview and results

I am delighted to report a very strong performance in 2010.

We are a successful business that is expanding steadily, and the challenges associated with this growth have been managed effectively. Consequently, with the exception of some issues at Dukat — which have been addressed — all of our operations performed to a high level.

The success of our hub-based strategy underpinned our success over the last few years, and our commitment to its continuing implementation has again produced an excellent set of results.

Annual gold output grew 43% to a record 444 Koz, while production of gold equivalent increased by 25%. Revenue increased by 65% to US$925 million with adjusted EBITDA up 77% to US$429 million.

However, our strategy is about more than year-on-year performance. It is based on long-term growth and value creation, and our development in terms of existing assets, exploration and new opportunities is based firmly upon this premise.

Our strategy is designed to ensure sustainable growth and returns, and our objective is to be the leading precious metals business in Russia and CIS and a significant player globally. We are looking forward to continuing our journey with enthusiasm and confidence.

People

On behalf of the whole Board, I would like to express our gratitude to all our colleagues at Polymetal. As ever, the excellent performance during the year is the result of the efforts of everyone throughout the business, and would not be possible without their talent, hard work and dedication.

Governance

We are committed to implementing processes and systems which reflect our belief in following the highest standards of governance. We recognise the value of running our business in a responsible and transparent manner, and that this impacts stakeholders throughout our operations — employees, investors, partners and communities.

Dividends

Polymetal's dividend policy is geared to achieving a balance between providing an annual return on shareholders' investment in the Company, and investing in the Company's development.

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

Summary and prospects

2010 was an excellent year for Polymetal; nevertheless, we are aware of the changes that are taking place in our industry, in particular relating to technological advances and innovation, as well as the need to continue attracting and motivating the best people. We are committed to investing in both of these areas as priorities, and recognise that we need to stay ahead in these critical areas if we are to build on our leading positions and success to date.

We have a substantial portfolio of high-quality assets providing positive cash flows from operations, coupled with a proven development and operational track record. In addition, our unique hub-based operating model is generating solid production growth. Our focus on maintaining the highest standards of governance and best practice, combined with a highly professional and motivated workforce, means that we have solid foundations on which to build our future growth.

In short, we are strong in all the areas that are needed to compete effectively, and are very confident that we are on the right course to achieve more success as we continue our journey.

Ilya Yuzhanov
Chairman of the Board of Directors

Q&A with the Chief Executive

Q How would you summarise Polymetal's performance in 2010?

A 2010 was marked by a record production and financial performance for Polymetal. We have achieved record gold and silver production on the back of the strength of our existing operations and the success of the acquisitions that we've made. We have also benefitted significantly from increased market prices for the metals we produce. Strong market share and volume increases combined to help grow our operational performance.

The quality of our people is integral to our success.

Q What is your outlook for 2011 and for the longer term?

A We are targeting around 800–850 thousand ounces of gold equivalent production for 2011. This will present significant growth from 2010.

Q Could you please comment on your M&A activity?

A We successfully completed several acquisitions in 2009 during the financial downturn, but in 2010 there has been significantly less activity due to rising valuations. Because of this, and the high level of ongoing activity in terms of projects already in the pipeline, acquisition activity is less of a priority. Nevertheless, in 2010 and 2011 we announced several smaller acquisitions of exploration stage assets.

Q What are the key issues that you are facing in terms of growth and delivering value for stakeholders?

A I would highlight three major challenges that Polymetal is facing in terms of sustaining growth:

1. In common with many businesses around the world, finding, motivating, and retaining the most highly qualified people is an ongoing challenge. I personally, as well as the rest of the Polymetal team, spend a significant amount of time addressing this issue particularly at management level.
2. The second issue relates to completing the construction of our new projects — including the two new mines at Albazino and Mayskoye and two major brownfield projects at Omolon and Dukat. 2011 will be a key year as we aim to achieve commercial production at Albazino and the Dukat and Omolon extensions. Successfully completing these projects is a key objective — and challenge — for the year.
3. The third main challenge is the ongoing development of our strategy for identifying opportunities for growth through self-funded exploration. We firmly believe that Russia is a tremendous place to look for new deposits, and we are committing a significant amount of resource to exploration with the key objective of delivering results in the shorter, rather than the longer-term.

Q What is your strategy for the development of your hub-based processing concept?

A The concept of processing hubs is based on the premise of achieving a superior return on investment capital. This investment is not only a financial one, but also reflects our investment in terms of human resources, which, as already discussed, requires us to ensure that we have highly skilled and motivated people throughout our operations. So the processing hubs create value in several ways — they significantly speed up the process of turning deposits into operating mines with positive cash flows, and help to concentrate talent and enhance operational efficiencies in complex facilities and remote locations. Furthermore, they create additional value by significantly reducing capital expenditure requirements, since, instead of building a series of standalone facilities, we are able to benefit from centralised locations which can handle materials from several sources. There is also a positive

Vitaly Nesis

Chief Executive

We are committed to implementing responsible investment policies and to investing in assets which have the potential to deliver superior returns.

environmental impact due to the reduction in the number of standalone facilities.

Q How is Polymetal responding to global economic conditions?

A The global economic uncertainty has helped Polymetal due to the increase in gold and silver prices, so we ultimately benefitted from the current conditions. Nevertheless, we are making every effort to ensure that increased volatility in both financial and operating conditions does not present us with additional risks. We are committed to implementing responsible investment policies and to investing in only the best assets which have the potential to deliver superior returns. Our strategy is also to focus our efforts on a limited number of high quality projects, so that if financial conditions in commodity markets worsen we will continue to generate free cash flows.

We have also implemented a strategy of diversification in terms of our funding sources, in order to ensure that in the event of any single source becoming unreliable we have secure alternative options.

Q Has Polymetal met all its Dukat objectives following initial teething problems?

A Clearly for us the ramp up of the expanded Dukat plant was an intense experience, particularly having encountered certain issues that had not been anticipated during the design and construction phases. Historically we have been used to a very stable and consistent supply of ore, but the scale of expansion that we've been undertaking has meant that we are now also processing underground ore from Goltsovoye (this has a high base metal content) as well as significantly oxidised ore stockpiles, and as a result we needed to manage a diverse stock feed with a consequent need for a more flexible operating environment.

In terms of the teething problems, we have now addressed most of them and most importantly have successfully commissioned the gravity circuit to treat the Goltsovoye ore and stockpiled material. I am confident that we will achieve all our objectives once we have completed the renovation programme in mid–2011 by replacing the remaining outdated equipment from the 1980s.

Q Your website states that Albazino-Amursk remains the key risk for 2011. Is this still the case and if so, how are you planning on mitigating this risk?

A Since this is technologically a relatively complex facility — the first pressure oxidation plant for gold production in Russia and CIS — there are necessarily risks involved. The technology that we are introducing here is so much more advanced than the more familiar technologies that we use across our other assets, so there are necessarily potential risks. This relates not so much to design and construction, but more to the timing of the ramp up and operational parameters in terms of throughput and recovery. In order to mitigate these risks we have in place a number of internal and external measures, using the best expertise available in our industry. We have hired a specialist Australian consulting firm to oversee commissioning start–up and employee training, and we have

The processing hubs create value in several ways and there is also a positive environmental impact.

retained the best metallurgical consultants with operational experience of similar facilities. Generally, we have learned a lot from operational excellence abroad, visiting similar operations in Canada, the US, and New Zealand — so we believe we have enough knowledge and expertise to address any potential issues connected with ramping up the capacity of the POX plant.

Q What are your priorities in terms of corporate responsibility?

A Our first priority is to make sure that all our stakeholders are sustainably satisfied with the way we conduct our business, in particular our employees, the communities in which we operate and Russian and Kazakh society in general. For employees, our priority is ensuring a safe and healthy working environment. Unfortunately in 2010 we did not achieve our goals in terms of safety performance, suffering six fatalities, and this deplorable situation prompted the wholesale overhaul of our industrial safety policy. Our goal is to have zero fatalities in our work environment and we are determined to make significant steps to achieve this in 2011.

Community relations remain central to our operations. We committed about US$4 million in 2010 to social programmes and will continue to treat community relations as a priority. This is to ensure that the people who live around the mines see the positive impact of our operations, and also to make our locations more attractive for potential employees to ensure that we maintain a stable workforce.

The environment around our mines is an integral part of the quality of life both for our employees and for our communities. Therefore, we have a zero tolerance approach to potential environmental risks, and are committed to implementing the technologies and procedures that will enable us to minimise any negative impact of our operations.

Q How do you ensure you attract the best people?

A As discussed above, we are very aware that the quality of our people is integral to our success so we are continually working to employ the best people. We have programmes with several universities in order to hire the best young talent when they graduate, as well as offering undergraduate internships. We have very competitive remuneration packages, strongly supported by a bonus system to recognise individual achievement. I believe this is important — probably more than simply maintaining average salary levels — since we want to make sure that the best people understand their contribution and are duly noted and rewarded. We also have one of the most extensive employee stock option programmes in Russia and I believe that our approach has created a strong and stable long–term alignment between the interests of shareholders and employees.

Our priority is ensuring a safe and healthy working environment.

Last but not least, it is very important that Polymetal always maintains a policy of promotion from within — we always nominate people to managerial positions from within the Company. We demonstrate to young people that they have the potential to grow within the business and are proud of our young employees who prove that they are capable of highly successful achievement.

Vitaly Nesis
CEO

Strategic review

Strategy

The Company's aim is to become the leading precious metals mining group in Russia and the CIS by providing superior returns and achieving sustainable long–term growth. To achieve this aim, we are pursuing a three–pronged strategy:

- investment in existing assets to extend their productive lives
- further expansion and optimisation of centralised processing hubs in order to ensure the most efficient use of capital and labour, and to provide greater return on investment; and
- exploration aimed at identifying a new generation of assets.

Investment in existing assets

Polymetal has invested in, and intends to continue investing in, its existing mining assets, to maintain or enhance the life of its existing mines as current resources deplete. In line with this strategy, we are pursuing extensive brownfield exploration opportunities to identify new supplies of high quality ore.

Our brownfield exploration projects are focused on the areas around our operational and developing processing centres at Dukat, Omolon, Amursk, Varvara, Voro and Khakanja. These projects aim to extend the productive lives and increase the production capacities of our existing mines and find high–quality mineral resources to supply our processing facilities.

Further expansion and optimisation of centralised processing hubs

We are pursuing a strategy of creating centralised processing hubs, each serving several mining operations. By treating ores and concentrates from various sources at centralised locations, we have been able to reduce risks and focus its resources on a limited number of processing plants to achieve synergies. We believe that by focusing on the development of processing hubs it can achieve reductions in capital expenditure and improve operational efficiency, thereby producing greater return on investment. The acquisition of smaller bolt–on projects and late–stage exploration assets is also a part of this strategy. Over the last three years, the Company has undertaken a number of key acquisition and development projects aimed at supporting the hub–based strategy of acquiring major growth sites. In addition to the 2006 acquisition of Albazino, these include the Mayskoye, Sopka, Kubaka and Goltsovoye projects.

The Amursk POX plant is the first plant of its kind in Russia using the autoclave oxidation method for processing gold refractory ores.

To date, as a result of strategic acquisitions and successful exploration projects, the Company has created processing hubs at Dukat and Omolon and is currently creating one at Amursk. The Amursk POX processing plant will process gold refractory concentrate from the Albazino mine — the first greenfield exploration project in our portfolio since 2004 — and from the high–grade Mayskoye mine, once this is commissioned. Ore will be processed at the Albazino and Mayskoye sites to create gold concentrate and then shipped to Amursk for further autoclave leaching and cyanidation to doré. The Amursk POX plant is the first plant of its kind in Russia using the autoclave oxidation method for processing gold refractory ores, and we believe the successful implementation of this pioneering technology will give us another competitive advantage in our market.

In line with our hub–based strategy we are also processing ore from smaller mining companies in our regions of operation. The Company's intention is to create additional centralised processing hubs in the future.

Exploration

The Company plans principally to achieve long term growth organically, by identifying new assets through its standalone exploration projects. As at the end of 2010, the Company had 34 exploration licences covering 8,908 km^2 in four Russian regions and in Kazakhstan. Our target new mine development parameters are world class ore bodies with resource potential of over 7 million ounces, capable of producing in excess of 300,000 ounces of gold equivalent per annum. Our intention is that assets identified as a result of our greenfield exploration activities will serve as the foundation for the Company's long–term growth.

The acquisition of early–stage exploration assets is also a component of this strategy, and as part of this Kutyn, Avlayakan–Kirankan and a few other exploration licences were acquired during 2010–2011.

The Company's intention is to continue its policy of not hedging its exposure to gold, silver or copper prices.

Operating review

Ivan Kiryakov
Mill operator

Operational performance

2010 Highlights

Ore production growth
+92%

Gold production growth
+43%

Ore processing growth
+65%

Gold equivalent growth
+25%

Polymetal has an enviable record of setting and achieving ambitious goals, and this year we have again performed strongly. With the exception of some operational delays at Dukat, which have now been addressed, we are on course to continue delivering against ongoing targets.

We successfully met all our major objectives, including start–up of the Kubaka mill, integration and turnaround at Varvara, and steady progress at established assets.

Our production development strategy to 2012 is focused on greater efficiency, streamlining of plant operations, creation of a new generation of assets by building new plants and development of existing assets and facilities by replenishing the mineral ore stocks.

The growth that we have achieved in every key figure is due to our commitment to implementing this clear development strategy, and to the dedication, expertise and hard work of our people at all levels throughout the Company.

We are very pleased with a set of results which reflected a 25% increase in gold equivalent production, with record gold production of 444 Koz (14.3 tonnes) and production of silver at 17.3 Moz (539 tonnes). This resulted in a 65% increase in revenues to US$925 million, with the contribution from gold sales up from 55% to 59%.

For 2011 we estimate that gold production will increase to 470–500 Koz, silver to 18–19 Moz and copper to 6–7 thousand tonnes.

Key production achievements

The performance of all our operations has been strong, and we have recorded some particularly outstanding highlights.

At the Dukat Hub we completed the upgrading of the Dukat flotation plant, increasing its capacity to 1.5 million tonnes per year, with a consequent increase in ore processed to 1.3 million tonnes. In addition, we commissioned a gravity circuit to treat the Goltsovoye ore which has high grade silver content. Mining operations at Goltsovoye were ongoing with 23 Kt of ore mined during the year.

At Khakanja, 2010 became a record year in terms of production. Avlayakan, a very high–grade gold deposit, was acquired and open–pit mining started, while open–pit mining was completed and underground development started at the Yurievskoye deposit.

Voro achieved its target production rate of 900,000 tonnes of ore at the expanded carbon–in–pulp plant, and at the Omolon Hub we successfully completed the launch of the Kubaka mill and started mining operations at Birkachan and Sopka.

The Amursk POX Hub was particularly active, with the open–pit mining works achieving its design parameters at Albazino and underground development starting at Mayskoye.

The Varvara deposit, acquired in 2009, has contributed its full year production results for the first time this year. Significant improvements were achieved as a result of the turnaround programme implemented at both mining and processing operations during 2010, resulting in a strong increase in both gold and copper production.

Key operational objectives for 2011

Operating objectives for 2011 are focused especially on commencing production at new assets.

A key priority is at the Amursk Hub, where we are working to make the processing plant operational and to achieve expected output levels at the Albazino plant commissioned in April 2011. We are similarly expecting the Amursk POX plant commissioning to start in the Q4 2011.

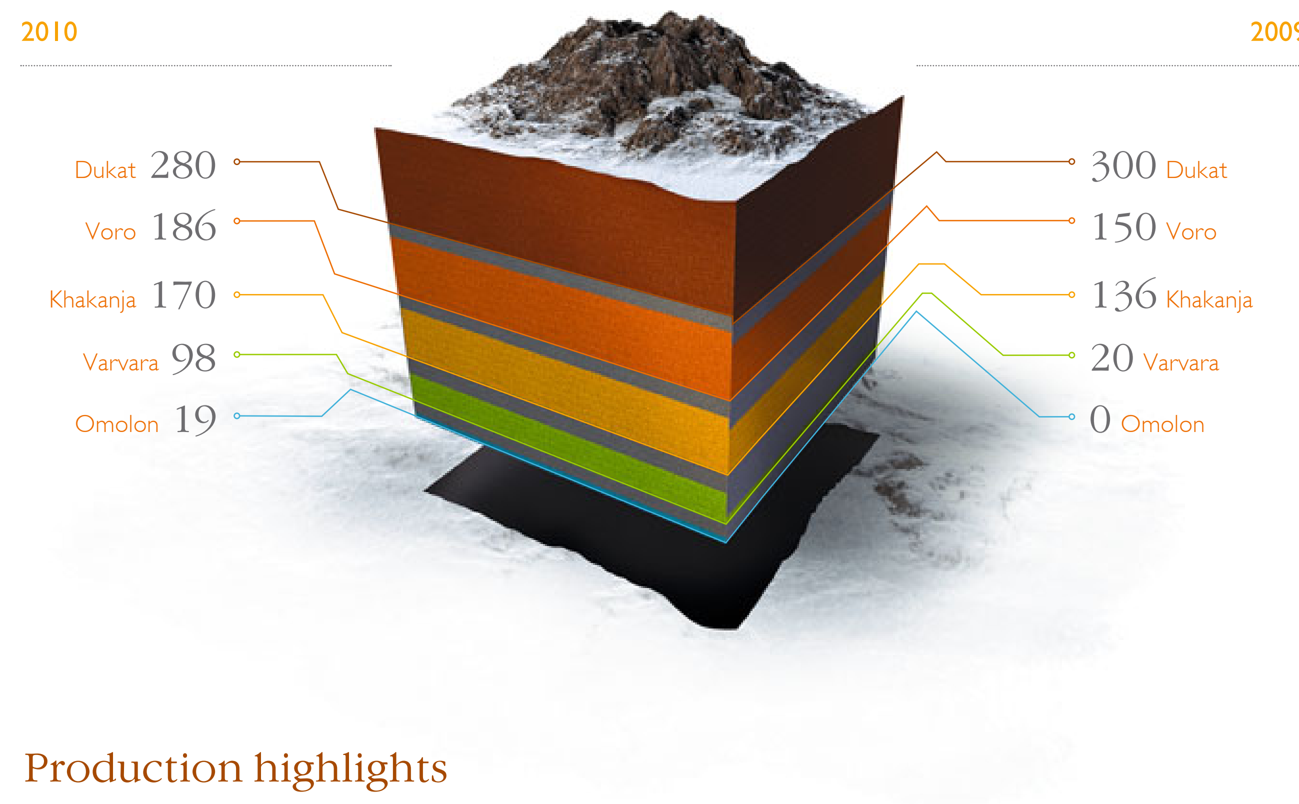
At the Dukat Hub we plan to process ore from the Goltsovoye deposit, using the gravity circuit that became operational in February 2011, and at Omolon we are intending to make the Merrill–Crowe facility operational at the Kubaka mill to commence ore production from the Sopka deposit.

At Mayskoye we are focusing on the construction of the flotation concentrator to meet the Q2 2012 commissioning deadline.

Across all our operations we are committed on a continuing basis to developing and implementing ways in which we can control costs and make our processes more efficient, and in particular ways in which we can improve our recovery ratios.

We are also strongly focused on improving workforce and skill–based efficiencies in order to achieve the best possible productivity through commitment and application of the right expertise.

Gold equivalent production (Koz)



Production highlights

	12 months ended 31 December		% change
	2010	2009	
Ore mined, Kt	7,474	3,886	92%
Open–pit	6,509	3,026	115%
Underground	965	861	12%
Ore processed, Kt	7,845	4,764	65%
Production[1]			
Gold, Koz	444	311	43%
Silver, Moz	17.3	17.3	—
Copper, tonnes	4,003	1,053	NM
Sales			
Gold, Koz	440	311	41%
Silver, Moz	18.0	16.5	9%
Copper, tonnes	4,003	1,053	NM
Revenue, US$M	925	561	65%

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

Dukat

Russia
Magadan Region

Flagship operation and our largest primary silver mine

Companies: CJSC Magadan Silver
Employees: 1,846
Managing director: Gennady Kuzmenko

Profile

Dukat is our flagship operation and the largest primary silver mine in Russia, located in the Magadan Region in the Russian Far East, 650 km from the city of Magadan.

The hub is based around the Dukat flotation concentrator and the Lunnoye Merrill–Crowe plant with full remote site infrastructure and comprises three operating underground mines — Dukat, Lunnoye and Goltsovoye, and two open–pit mines — Dukat and the smaller satellite mine Arylakh. Another smaller mine, Nachalny–2, which is part of the Dukat flanks, is currently in the development stage. Two underground operations at Perevalny and Arylakh deposits are currently undergoing scoping studies.

The Dukat plant has the following sources of feedstock: Dukat, Goltsovoye, Nachalny–2, Perevalny.

The Lunnoye plant processes ore from Lunnoye and Arylakh, as well as gold and silver concentrate after flotation from the Dukat plant.

This hub also encompasses advanced brownfield exploration projects — Krasin, Zvezdny and Kamenisty — within a larger 2,438 km^2 brownfield exploration area.

Key features

Dukat production was 14.5 Moz of silver and 37.9 Koz of gold in 2010, accounting for 37% of the Company's gold equivalent production.

The total cash cost per ounce of silver equivalent was US$10 with capital expenditure of US$44 million.

2010 highlights

Our achievements in 2010 included an increase in the Dukat plant processing capacity from 0.95 million tonnes to 1.5 million tonnes, allowing us to increase throughput by 29% to 1.3 million tonnes in 2010. This was helped by underground production increases at Dukat and processing ore from the stockpiles. However we experienced a decrease in gold and silver recovery at the Dukat plant as a result of the ramping–up process and lower recovery rates from the oxidised ore from old stockpiles which constituted a significant proportion of the feed.

Total processing volumes of both the Dukat and Lunnoye plants increased by 20% to 1.5 million tonnes.

Priorities for 2011

We have a number of priorities for Dukat, which broadly encompass continuing our programme of equipment and technology upgrading in order to increase the efficiency, capacity and volumes. In particular, we are aiming to complete open–pit mining at Dukat by the Q4, to start processing ore from the Goltsovoye deposit at the Dukat plant and continue exploration activities in the region.

280 Koz of gold eq.

5 operating mines

3 development projects

2 processing plants (flotation and Merrill-Crowe)

	Dukat processing plant (flotation concentrator)				Lunnoye processing plant (Merrill-Crowe, ore processing and concentrate precipitation)	
	Dukat	Nachalny-2	Goltsovoye	Perevalny	Lunnoye	Arylakh
Status	Operating	Developing	Operating	Scoping	Operating Zone 7 under scoping	Operating
Precious metals	Silver/Gold	Silver/Gold	Silver	Silver/Zinc/Lead	Silver/Gold	Silver/Gold
Production start date	2002	Not known yet	2011	Not known yet	2000	2007
Type of mineralisation	Vein–veinlet	Vein disseminated	Vein–veinlet, narrow vein	Vein–veinlet	Vein–veinlet	Vein–veinlet
Type of mining	Open–pit (nearing depletion), Underground	Open–pit	Underground	Underground	Underground	Open–pit Underground under scoping
Type of processing	Flotation followed by precipitation at Lunnoye plant				Merrill–Crowe	
JORC RESERVES & RESOURCES (gold equivalent)						
Reserves, Moz		4.4*	—	—	0.8	0.3
Resources, Moz		1.1*	1.2	0.3	0.6	0.1
Average reserve grade, g/t		10.3*	—	—	8.0	7.8
Average resource grade, g/t		5.5*	14.6	6.7	7.7	8.3

Production statistics — p. 120

* Including Nachalny–2

Omolon

Russia

Magadan Region

Newly started long-term operation with immediate cash flow

Companies: LLC Rudnik Kvartsevy

LLC Omolon Gold Mining Company

Employees: 667

Managing Director: Sergey Antipin

Profile

Omolon is a relatively new part of the Company's operations, comprising two operating open–pit mines — Birkachan and Sopka Kvartsevaya (Sopka) — and three development projects — Oroch, Dalneye and Tsokol — with high–grade ore and significant long–term potential in the northeast Magadan Region. It is based around the Kubaka plant which has a processing capacity of 850 Ktpa and full remote infrastructure. At Birkachan, low–grade ore is processed at the operating heap leach facility and high–grade ore is transported to the CIP plant. Sopka is an operating high–grade open–pit mine with full remote infrastructure.

The hub has several brownfield exploration projects — Pyatinakh, Solnechny and Burgali — within a 570 km² exploration area.

Key features

2010 was a start–up year for the Omolon project — the Kubaka plant was launched in August this year and processed only low–grade Birkachan ore from the stock–piles. Production was 18.3 Koz of gold and 0.034 Moz of silver, which accounted for 2.5% of our gold equivalent production.

Capital expenditure was US$76 million.

2010 highlights

We have successfully completed our objectives for 2010, which included opening mining operations at Birkachan and Sopka and launching the Kubaka CIP plant.

Priorities for 2011

We have a full programme of activity for 2011. The main focus is on the completion of upgrades at the Kubaka mill, which should allow for processing of silver–rich ore from Sopka. The targets also include upgrades of heap leaching facilities at Birkachan and production growth at Sopka.

19 Koz of gold eq.

2 operating open-pit mines

3 development projects

1 CIP/ Merrill-Crowe processing plant

	Birkachan	Sopka	Oroch	Tsokol	Dalneye
Status	Operating	Operating	Pre–feasibility	Feasibility	Scoping
Precious metals	Gold	Gold/Silver	Gold/Silver	Gold/Silver	Gold
Production start date	2010	2011			
Type of mineralisation	Vein–veinlet, stockwork, veinlet disseminated	Vein, vein–veinlet	Vein–veinlet	Vein–veinlet	Vein, vein–veinlet
Type of mining	Open–pit with underground potential	Open–pit with underground potential	Open–pit	Open–pit	Open–pit
Type of processing	Carbon–in–pulp, heap leach	Merrill–Crowe, heap leach	Merrill–Crowe	Merrill–Crowe	Carbon–in–pulp

JORC RESERVES & RESOURCES (gold equivalent)					
Reserves, Moz	1.2	0.8	—	0.2	—
Resources, Moz	0.4	0.04	0.4	0.1	—
Average reserve grade, g/t	2.7	7.1	—	6.2	—
Average resource grade, g/t	3.1	5.1	6.0	7.5	—

Production statistics — p. 121

Amursk POX Hub

Russia

Khabarovsk Territory, Chukotka Region

First pressure oxidation (POX) plant in Russia, currently in the construction stage

Companies: LLC Albazino Resources
LLC Amursk Hydrometallurgical Plant
LLC Mayskoye Gold Mining Company
Employees: 1,295
Managing Directors: Aleksander Simon
Vladimir Shamin
Aleksander Zarubin

Profile

The Amursk Hub is the Company's largest project, with outstanding potential. It is located in the Khabarovsk Territory in the Russian Far East, 235 km from the city of Khabarovsk.

The project consists of three processing facilities — Amursk hydrometallurgical plant, the Albazino concentrator and Mayskoye concentrator — and two high-grade refractory gold deposits — Albazino and Mayskoye. The adjacent exploration area of 279 km² is highly prospective and includes the east flank of the Albazino ore field and Albazino licence.

Amursk is a hydrometallurgical plant which combines pressure oxidation and cyanidation technologies to process refractory ores. Processing capacity is approximately 250 Ktpa of concentrate.

Albazino is a remote deposit with full infrastructure and comprises a high-grade gold open-pit mine and 1.5 Mtpa on-site flotation concentrator located 680 km from the Amursk plant. The plant was successfully started up in April 2011, and it is the first greenfield project in our portfolio since 2004.

Mayskoye is one of the top five deposits in Russia in terms of gold resources. It is also a remote site located in the Chukotka Region which comprises an underground mine and 850 Ktpa on-site flotation concentrator in advanced development stage.

US$200 million was invested in 2010 to Albazino–Amursk, including continuing exploration, the acquisition of a new mining fleet, capital pre-stripping at the pit, construction of the concentrator at Albazino, the POX facility in Amursk as well as for the building of remote site infrastructure at Albazino, including a 114 km access road. Mining works achieved expectations with first ore mined confirming tonnage and gold grade estimates.

US$62 million was spent in 2010 on investment in Mayskoye. In 2009 the bulk of investment was for underground capital development and purchase of underground mining equipment. In 2010, in addition to these capital programmes, we invested in equipment and construction materials for the flotation concentrator.

Key features

The Amursk plant will be the first of its kind in Russia to use the pressure oxidisation method for recovering gold from refractory ore concentrates. This will allow us to develop the Far Eastern deposits which have previously remained elusive due to the lack of a workable processing method.

Autoclave, the key element of the system, was installed on site in November 2010 and the first results from the processing of Albazino concentrate are expected in 2012.

Albazino operating open-pit and Mayskoye late-stage development project — high-grade refractory gold mines with excellent exploration upside

	Albazino	Mayskoye
Status	Mining. On-site concentrator commissioned, first concentrate produced	Construction stage, mining started
Precious metals	Gold (refractory)	Gold (refractory)
Production start date	2011	2012
Type of mineralisation	Veinlet disseminated	Veinlet disseminated
Type of mining	Open-pit	Underground
Type of processing	Flotation followed by pressure oxidation and cyanidation	
Mine & on-site concentrator capacity	1,500 Ktpa	850 Ktpa
JORC RESERVES & RESOURCES (gold equivalent)		
Reserves, Moz	2.3	2.4
Resources, Moz	0.6	4.9
Average reserve grade, g/t	4.1	9.6
Average resource grade, g/t	2.8	8.3

Production statistics — p. 122

Part of the resource base for the Albazino–Amursk project is the Mayskoye deposit. The development of this deposit will allow us to recieve the gold concentrate on–site and we then will transport it to the Amursk hy–drometallurgical plant by sea. Commissioning of Mayskoye is expected in 2012.

We have made tremendous progress in terms of planning, developing and constructing both the facilities and the infrastructure. This encompasses all three facilities, and while overall development has been very positive we are particularly focused on the progress we are making with the development of the pressure oxidisation (POX) facility at Amursk. We have completed the design and preparation phases for what will be the first such facility in Russia.

Processing technology

Both the Albazino and Mayskoye deposits belong to the refractory ore category, where the gold is ingrained into sulphide minerals such as pyrites and arsenopyrites.

Technological studies have shown that processing methods result in substantial resistance to cyanidation, so the nature of gold in the ore precludes it from being extracted in rich concentrates suitable for ingot melting or direct cyanidation. Direct cyanidation of such materials is very inefficient as no more than 5–10% can be extracted into the solution. Float concentrates require pretreatment before cyanidation.

Our industry employs several methods for oxidising (breaking down) sulphide and sulpho–arsenide minerals,

We opted for pressure oxidation (POX) as the most efficient method for processing the Albazino concentrates.

two of which we immediately considered not to be appropriate. Ultrafine grinding does make it possible, in certain cases, to increase the gold recovery rate during cyanidation. However, this method leads to a dramatic increase in the cost of grinding, filtering and concentrating and is inefficient if particles of gold are finely ingrained

into sulphide minerals. The second immediately discounted method, roasting and oxidation, has been losing currency around the world as environmental regulations become ever stricter.

Having thoroughly assessed two other methods — bio–oxidation and pressure oxidation, we opted for pressure oxidation as the most efficient method for processing the Albazino concentrates.

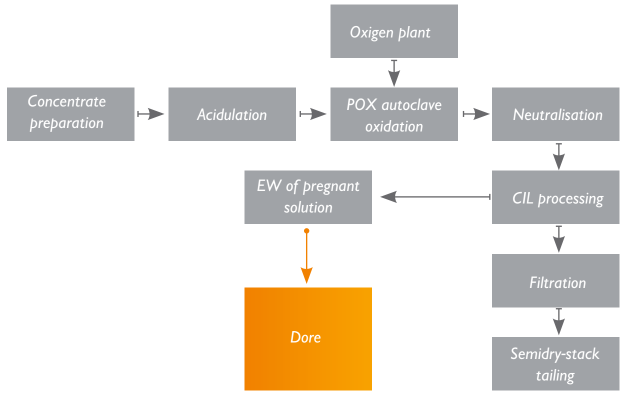
Bio-oxidation and pressure oxidation comparison

Pressure oxidation, or POX, oxidises iron sulphides such as pyrite, arsenopyrite and marcasite at temperatures ranging between 160–230ºC and partial oxygen pressures of 12 to 30 atmospheres. As the lattice of mineral particles is destroyed in the oxidation process, gold particles contained in sulphides are released and the gold recovery rate during the subsequent cyanidation stage is increased dramatically.

Compared to roasting and bio–oxidation the pressure oxidation method delivers many advantages, including:

- Higher gold recovery
- Absence of gaseous emissions of arsenic and sulphuric compounds
- Removal of arsenic in the form of low–toxic iron arsenate, which can be disposed of into a standard tails dump
- Low sensitivity to the presence of materials such as antimony and lead which reduce the gold recovery rate if roasting is used
- Float concentrates and ores from various stock sources may be processed at the same facility.

The pressure oxidation process



Priorities for 2011

We are very excited about the potential for the Amursk Hub, and there is a great deal of activity currently under way designed to achieve a range of specific priorities. All these actions and initiatives are concentrated on achieving expected production param–eters, infrastructural and transportation efficiencies and high–level grade quality. In particular, we are focused on the completion and operational development of the Amursk POX facility as well as intensive construction of the processing plant at Mayskoye, which we believe will deliver significant contributions to gold production and consequently to the Company's growth.

The Albazino concentrator is currently ramping up with one of the two 750 Ktpa parallel lines having achieved commercial production. The second line is expected to become commercially operational in June 2011.

Voro

Russia

Sverdlovsk Region

One of our principal stable cash flow assets

Company:

CJSC Gold of Northern Ural

Employees: 843

Managing Director: Andrey Novikov

2 operating open-pit mines

1 developing mine due to become operational this year

2 processing plants (HL and CIP)

186 Koz of gold eq.

Profile

Voro is one of the Company's principal assets, contributing stable cashflow returns. It is situated in the Sverdlovsk Region and has two operating mines — the Voro open–pit mine and the smaller Degtyarskoye open–pit mine nearing depletion — as well as a further mine, Fevralskoye, in the development stage which is expected to become operational this year. Two types of ore, primary and oxidised, are processed at the Voro 900 Ktpa CIP and 1 Mtpa HL plants. The asset has also a vast brownfield exploration area of 142 km^2 combining the South Voro and Volchansky exploration projects.

Key features

Voro production in 2010 was 183 Koz of gold, contributing 25% to the Company's gold equivalent pro–duction.

The total cash costs per ounce of gold equivalent were US$458, with capital expenditure of US$12 million.

2010 highlights

Voro performed very strongly during the year, with all key parameters — throughput, grades, recovery — stable or improving at the plant. This resulted in record production of 183 Koz of gold, an increase of 22% over last year.

Priorities for 2011

Our main priority for Voro is to continue with our geological exploration investment programme, in order to develop additional sources of ore.

According to the mine plan, grades at Voro are expected to start declining starting from 2012, so we are currently considering other potential high–grade ore sources. The introduction of additional feed from Fevralskoye is expected to start this year.

	Voro	Degtyarskoye	Fevralskoye
Status	Operating	Mining completed. Processing reserves from stockpiles	Trial mining to start in Q3 2011
Precious metals	Gold	Gold	Gold
Production start date	2004	2009	2011
Type of mineralisation	Veinlet disseminated	Oxide cap, massive pyrite ores	Oxide cap, veinlet disseminated
Type of mining	Open–pit	Open–pit	Open–pit
Type of processing	Carbon–in–pulp, heap leach	Carbon–in–pulp	Carbon–in–pulp
JORC RESERVES & RESOURCES (gold equivalent)			
Reserves, Moz	1.5	0.03	—
Resources, Moz	0.1	0.01	—
Average reserve grade, g/t	2.8	4.7	—
Average resource grade, g/t	1.7	4.2	—

Production statistics — p. 122–123

Varvara

Kazakhstan
Kostanay Region

Fast-growing mine
and first project
in Kazakhstan

Company: JSC Varvarinskoye
Employees: 643
Managing Director: Nikolay Goncharov

Profile

Varvara is a fast–growing mine, and our first project in Kazakhstan. It is situated in the north west of the country, 130 km from the regional centre Kostanay and 10 km from the Russian border. Varvara has excellent infrastructure, inexpensive energy and the potential for further development.

Varvara is a promising mine in our portfolio. Its acquisition allowed us to achieve two of our strategic objectives — to substantially increase our gold production and reserves, and to establish a presence in Kazakhstan. We believe that Kazakhstan is ideal for our first expansion outside Russia, particularly since it is considered to be one of the most attractive gold mining regions in the former Soviet Union.

Currently, Varvara consists of the open–pit mine and a modern processing plant with a capacity of 4.2 Mtpa. We also have an active development programme covering 533 km^2 of brownfield exploration in the region.

Varvara has two distinct ore types based on their copper content. Ore containing more than 0.2% copper goes to a 1.04 Mtpa flotation circuit with the final product of this process being a gold copper concentrate which is sold to the Chinese arm of Trafigura. Ore containing less than 0.2% copper is treated by carbon–in–leach (CIL) with the final product of this process being gold dore which is sold to the Swiss–based group, Metalor. The CIL circuit capacity is 3.16 Mtpa.

Key features

Gold production at Varvara in 2010 reached a record high of 78.3 Koz, with copper production at 4,000 tonnes, contributing 13% of the Company's gold equivalent production.

The total cash cost per ounce of gold equivalent was US$629, with capital expenditure of US$22 million during the year.

2010 highlights

The post–acquisition turnaround plan was successfully completed in 2010, with all operating KPIs at or above expected levels. During the year we have made tremendous progress in terms of optimising our systems and tech–nology throughout the extraction production process for both gold and copper, resulting in a substantial increase in productivity. We have also implemented a comprehensive system of grade control, which has significantly improved the quality of our output.

Priorities for 2011

Having achieved such strong progress in terms of grade quality and productivity in 2010, a key priority is to ensure that improvements are maintained and built upon. In addition, we are actively seeking new opportunities through our exploration programme at the mine flanks and are confident about building on our success to date in Kazakhstan.

We are aiming to complete a new pit design and to confirm new reserves with the Kazakh State Agency for Reserves, and in accordance with the JORC code. We are also planning several technological upgrades, including the introduction of a scavenger flotation facility, the addition of a new leaching tank and the purchase of a dragline excavator.

1 operating open-pit mine

1 modern processing plant with two technological circuits: flotation and CIL

98 Koz of gold eq.

	Float ore	Leach ore
Status	Operating	Operating
Metals	Copper/Gold	Gold
Copper grade	>= 0.2%	<0.2%
Type of mineralisation	Vein	
Type of mining	Open–pit	
Type of processing	Flotation to gold and copper concentrate	Carbon–in–leach
Processing capacity	3,160 Ktpa	1,040 Ktpa

JORC RESERVES & RESOURCES (gold equivalent)		
Reserves, Moz	0.6	0.6
Resources, Moz	0.5	0.8
Average reserve grade, g/t	1.5	1.0
Average resource grade, g/t	1.3	1.0

Production statistics — p. 123–124

Khakanja

Russia

Khabarovsk Territory

One of the principal assets with underground potential

Companies: OJSC Okhotsk Mining and Exploration Company
LLC Rudnik Avlayakan
LLC Kirankan
LLC PD Rus
Employees: 996
Managing Director: Alexander Akamov

170 Koz of gold eq.

2 operating open-pit mines

2 developing underground projects

1 Merrill-Crowe processing plant

Profile

Khakanja is one of our core assets, with an open–pit mine and a 600 Ktpa processing Merrill–Crowe plant. Khakanja is located in the Russian Far East, 1,100 km north of the city of Khabarovsk and 480 km west of Magadan. Its contributing sources are Khakanja — the main pit — and a strong pipeline of projects in the near–launch phase including underground mines at Khakanja and Yurievskoye and an open–pit mine at Avlayakan, as well as an advanced brownfield exploration project at Ozerny within the larger 1,580 km^2 Arkinsko–Selemdjinskaya brownfield exploration area.

Key features

Khakanja production in 2010 amounted to 127 Koz of gold and 2.6 Moz of silver, accounting for 23% of the Company's gold equivalent production.

The total cash cost per ounce of gold equivalent was US$512, with capital expenditure of US$11 million.

2010 highlights

2010 was a record year for Khakanja, with gold and silver production increasing by 18% and 54% respectively. We were proud to achieve record gold and silver production figures from processing of high–grade ore from Yurievskoye.

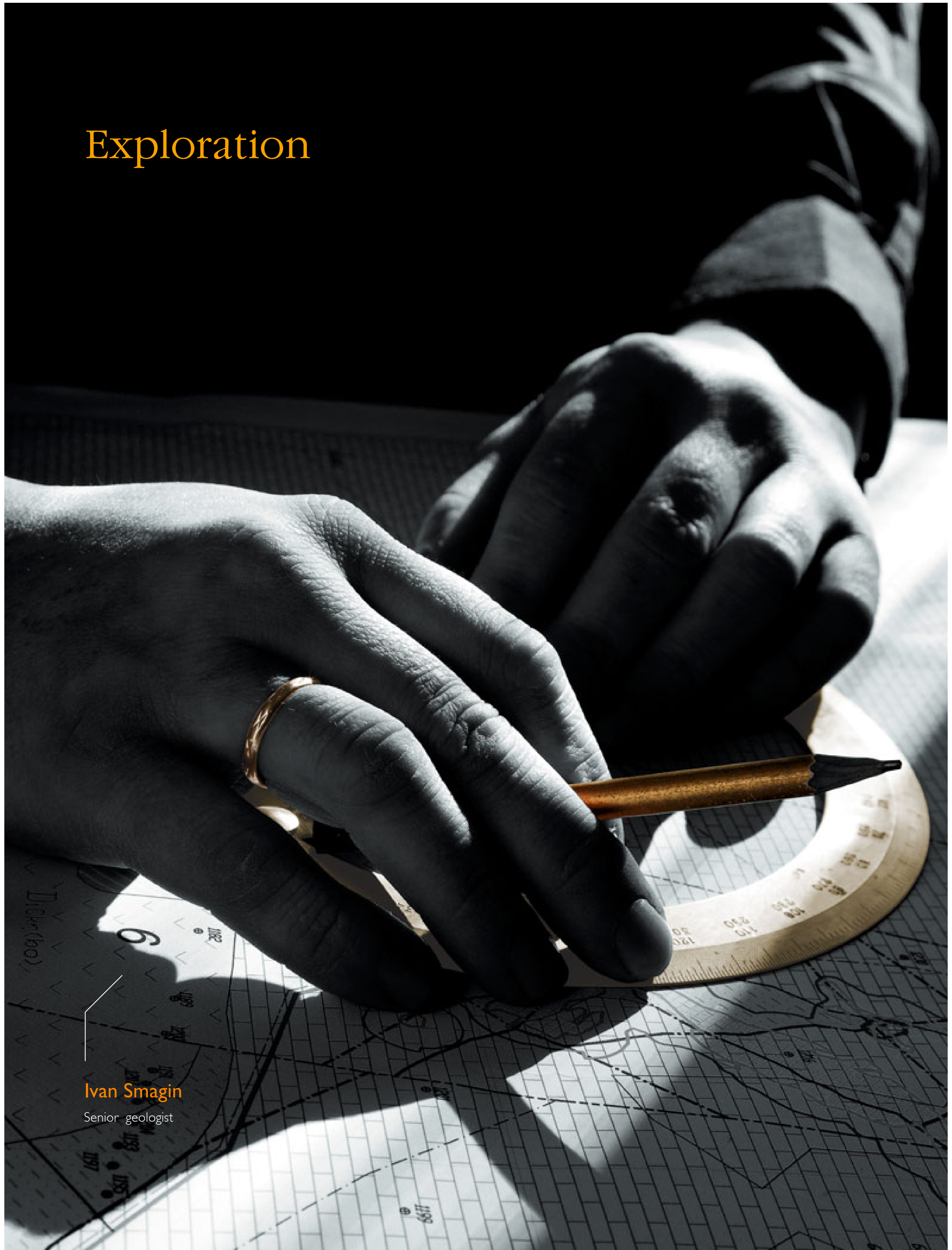
Priorities for 2011

Clearly the start of processing of ore from Avlyakan open–pit mine and Yurievskoye underground mine to provide high–grade feed to the Khakanja plant in Q4 2011 are the major priorities, and we are continuing to actively explore in the region for further oppor–tunities.

	Khakanja	Yurievskoye	Avlayakan
Status	Operating. Underground mine in the feasibility stage	Open–pit mining completed in 2010, Underground mine under development	Mining started in Q1 2011 Start processing in Q4 2011
Precious metals	Gold/Silver	Gold/Silver	Gold/Silver
Production start date	2003	2008	2011
Type of mineralisation	Vein–veinlet	Vein	Vein, vein–veinlet
Type of mining	Open–pit with underground potential	Open–pit with underground potential	Open–pit
Type of processing	Merrill–Crowe	Merrill–Crowe	Merrill–Crowe
JORC RESERVES & RESOURCES (gold equivalent)			
Reserves, Moz	0.6	0.04	0.11
Resources, Moz	0.2	0.01	0.04
Average reserve grade, g/t	7.2	8.0	20.6
Average resource grade, g/t	6.4	8.0	20.7

Production statistics — p. 124

Exploration



Ivan Smagin
Senior geologist

2010 statistics

34
exploration licences covering
8.9
thousand km^2

84
km of drilling

48
thousand
geochemical samples

315
km^3 of trenching

60
thousand
core samples

51
km^2 of surface
geophysics

19
thousand
trench samples

Polymetal carries out various exploration projects, which are divided into two main types.

1. Brownfield exploration projects

Our brownfield exploration projects are focused on the areas around existing operational units, and are aimed at extending the economic lives and increasing the production capacities of these operations, and at finding high–quality mineral resources to supply our existing processing facilities in these areas.

Brownfield exploration projects include:

Existing processing centre	Area (km²)	Key exploration projects	Key objectives 2011
Dukat	2,438	Krasin, Zvezdny, Kamenisty	Fast–track detailed exploration with the objective of feeding ore from these deposits to the Dukat processing plant by 2013.
Omolon	545	Pyatinakh, Burgali	Exploration at Pyatinakh, Burgali. State approval of reserves at Dalneye and Oroch deposits.
Albazino	279	Albazino East Flank and Albazino	42 kilometers of drilling in 2011, including underground exploration activities in the Olga area.
Voro	143	South Voro, Volchansky	Core drilling at Volchansky. Start of exploration works in the South Voro area to identify prospective sites for drilling in 2012.
Varvara	533	Exploration at both the remote and closer flanks	Active exploration of additional resources at the remote flanks. Discover new ore bodies at the closer pit flanks. New pit design and new reserves to be certified by the Kazakh State Agency for Reserves and in accordance with the JORC code.
Khakanja	1,580	Ozerny, within Arkinsko–Selemdjinskaya exploration area	Assessing exploration opportunities at Ozerny.

2010 highlights

We achieved good results from our brownfield exploration programme in 2010, especially at Albazino where gold reserves have increased to 4 Moz according to our internal estimate.

Exploration activities also resulted in the discovery of Ozerny, a new gold and silver deposit close to the Khakanja plant. We are continuing to evaluate this opportunity.

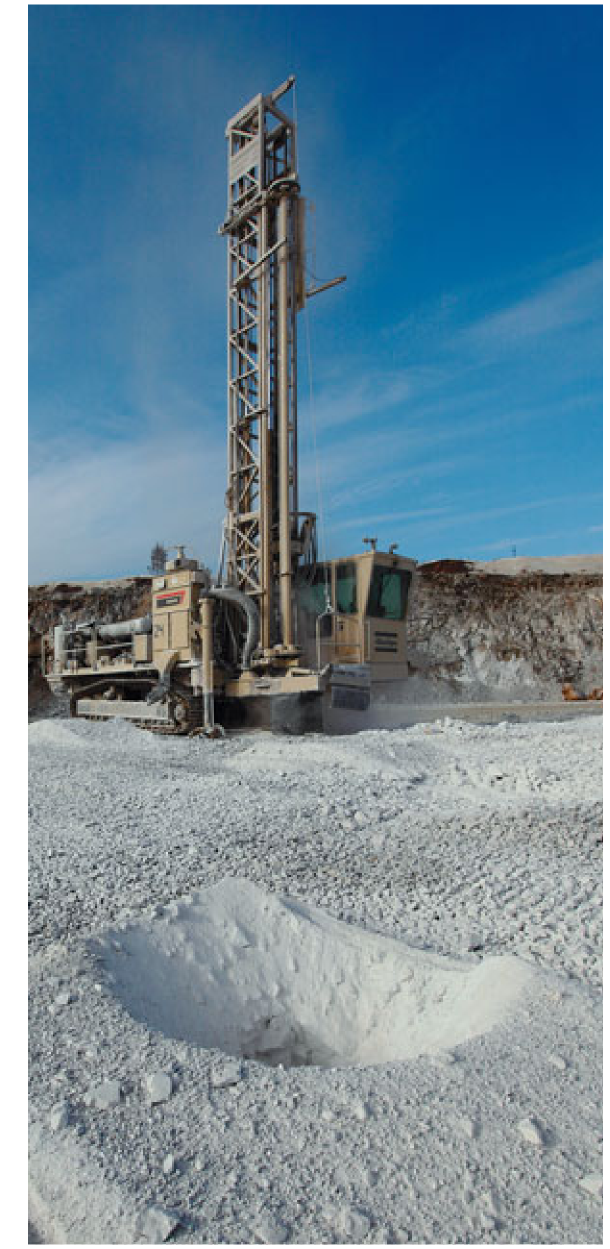
In August 2010, Polymetal completed a Feasibility Study confirming 1 Moz of gold reserves in accordance with JORC for the Birkachan deposit, part of the Omolon Hub. Mineral resources were initially discovered in 2009 as a result of our 2008 exploration programme.

We continue to expand our brownfield projects portfolio by acquiring new exploration licences.

In March 2010 Polymetal won the auction for exploration and mining licences in the Albazino East prospective area located in the Khabarovsk Territory, and for the Krasin deposit located in the Magadan Region — both brownfield exploration projects located close to existing processing facilities.

The Albazino East licence covers an area of 197 km² and is located immediately adjacent to the 82 km² licence area covering the Albazino Hub.

The Krasin licence covers an area of 18 km² and is located 31 km from our Dukat processing plant. According to the Federal Subsoil Agency (Rosnedra), Krasin resources amount to approximately 17 Moz of silver according to the Russian categories (C2+P1+P2).



2. Greenfield exploration projects

Our greenfield exploration projects are standalone exploration projects aimed at discovering mineable precious metal ore deposits with individually viable economic value, in order to provide new producing assets to support our long–term growth plans. Our key greenfield exploration projects currently include:

- Tamuner
- Rogovik
- Prognozny
- Svetloye — acquired in 2010
- Avlayakan and Kirankan gold and silver deposits with other two licences for Avlayakan–Kirankan watershed and Maymakan–Kundumi watershed (AK project) — acquired in 2010
- Kutyn — acquired in 2011
- Agnie–Afanasievsky
- Urals regional projects: Serbishnaya, Podolsky
- Okhotsk regional projects: Amkinskaya, South Urak, Lanzhinskaya, Khakarinskaya
- Elmus — acquired in 2011

Map of standalone exploration projects

Hub
Potential hub
Mine & processing

Capital

City

Standalone exploration projects

Our target is to identify a new asset with at least 5 Moz of the gold equivalent reserves and 7 Moz of gold equivalent resources, sufficient to support a 15-year mine life. The new mine production capacity should be at least 0.3 Moz of gold equivalent per year. We anticipate that, depending on infrastructure availability and processing technology, the target mill grade should be no less than 1.5 g/t for heap leaching, 2.0 g/t if there is access to grid power and 3.0 g/t if there is no access to grid power.

2010 highlights

In 2010 Polymetal added a few prospective assets to its portfolio of standalone exploration projects by acquiring new deposits in the Khabarovsk Territory:

- The Svetloye gold deposit where mineral resources were estimated at 1.1 Moz of gold equivalent.
- The Avlayakan and Kirankan gold and silver deposits as well as exploration licences for the Avlayakan–Kirankan watershed and Maymakan–Kundumi watershed properties; mineral resources are estimated at 0.2 Moz of gold equivalent.

During 2011 Polymetal acquired two other standalone exploration properties:

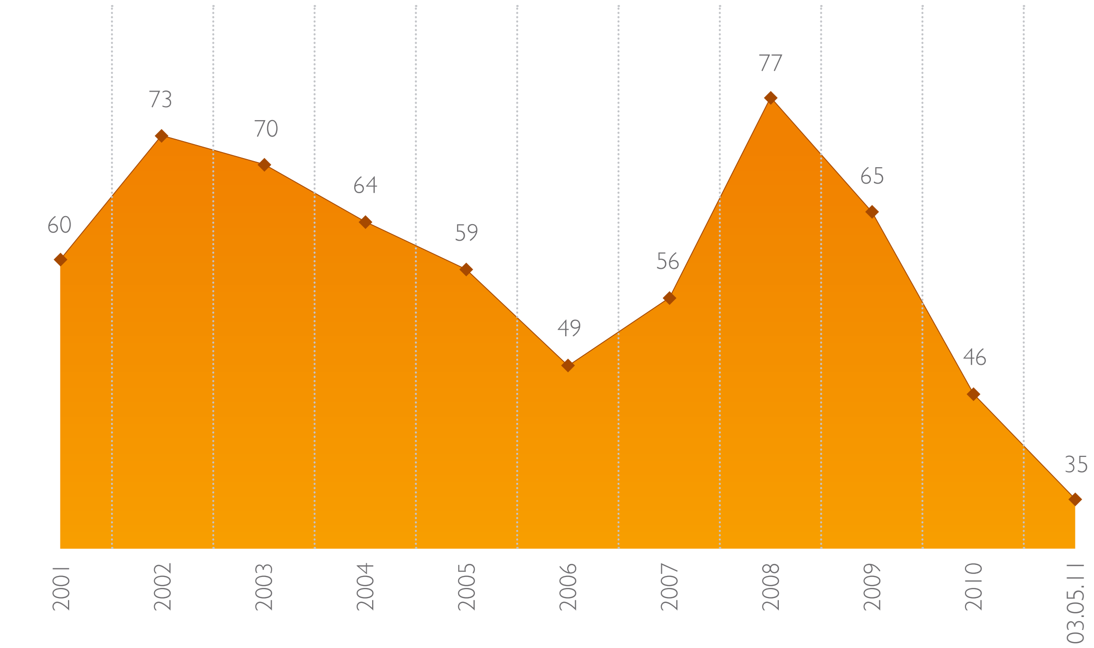
- The Kutyn gold deposit in the Khabarovsk Territory; its mineral resources were estimated at 1.2 Moz of gold.
- The Elmus hard-rock gold deposit in the Republic of Karelia, north-west of Russia.

Overview of financial results

Georgiy Vetoshkin

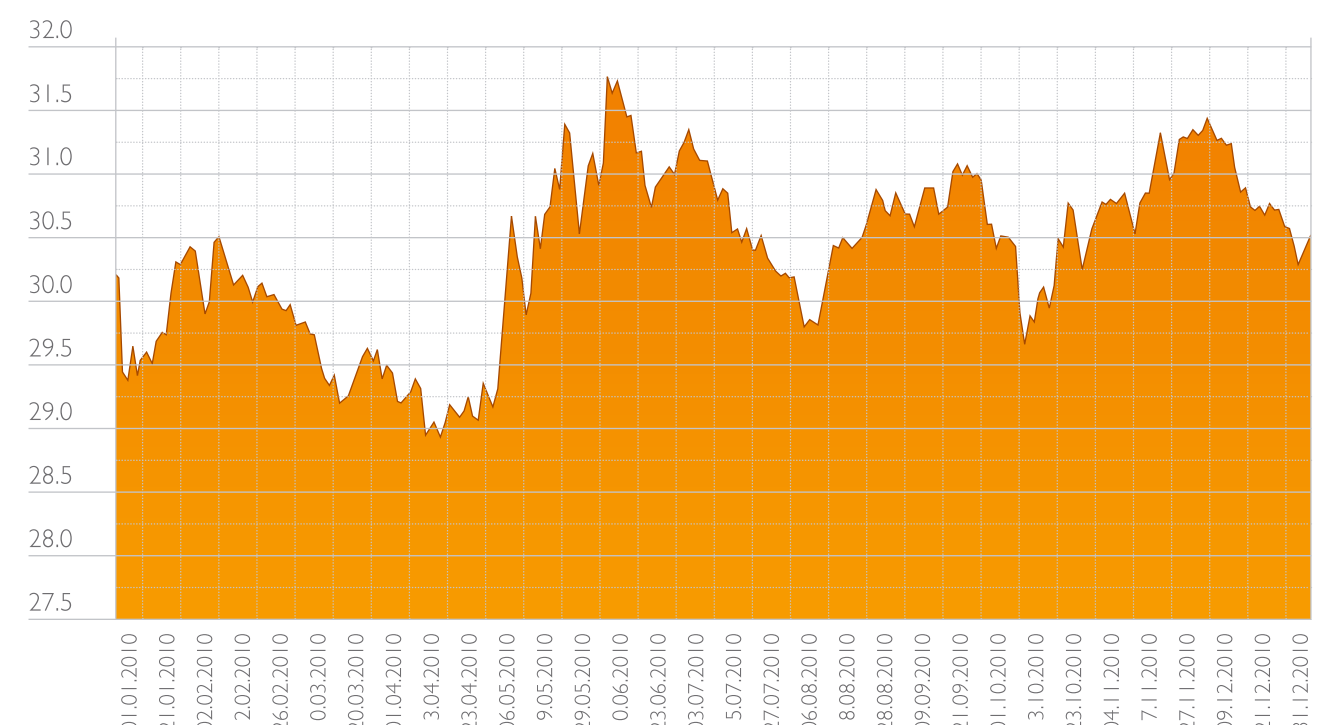
Truck driver

Gold/Silver Ratio



Source: LBMA fixings, as of 03.05.2011

US$/RUB dynamics



Highlights[1]

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

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

- 2010 saw a significant improvement in the Company's bottom line with net income more than doubling to US$250 million from US$94 million in 2009
- The Company's financial results were driven by the expansion of the Company's activities which resulted in a 43% increase in gold production volumes (compared to 2009) and by rising gold and silver prices. Adjusted EBITDA in 2010 grew by 77% to US$429 million from US$242 million in 2009 driven by 65% increase in revenue while Adjusted EBITDA margin expanded from 43% to 46%
- Company–wide total cash costs per ounce of gold equivalent calculated on co–product basis increased 19% to US$571 per ounce
- Capital expenditure nearly doubled to US$420 million in 2010 from US$213 million in 2009 as the Company proceeded to implement several large–scale investment projects and expanded its exploration efforts
- Net debt increased 38% to US$785 million at year–end 2010 compared to US$569 million at year–end 2009.

The Company's leverage improved from 2.4x to 1.7x. Adjusted EBITDA and its debt maturity profile improved significantly with only 12% of gross debt being short–term (i.e. less than 12 months) at year end 2010.

Revenues

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

Polymetal's average realised gold price in 2010 increased approximately 25% (compared to 2009) to US$1,232 per ounce. Polymetal's average realised silver price in 2010 increased approximately 33% (compared to 2009) to US$19.6 per ounce.

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

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

Cost of sales

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

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

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

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

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

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

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

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

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

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

General, administrative and selling expenses

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

GA&S personnel costs increased by only 20% despite a significant expansion in our scope of operations, reflecting our commitment to keeping personnel overheads under tight control.

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

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

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

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

Other operating expenses

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

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

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

	12 months ended 31 December		% change
	2010	2009	
Other operating expenses (US$ million)			
Taxes other than income tax	14.5	7.5	93%
Exploration expenses	8.1	8.6	–6%
Omolon start–up costs	7.2	—	NM
Social payments	6.5	4.4	48%
Loss on fixed assets disposals	3.4	3.4	—

continued	12 months ended 31 December		% change
	2010	2009	
Housing and communal services	4.3	1.9	129%
Bad debt allowance	2.3	3.0	–22%
Consulting services (acquisitions related)	—	2.4	NM
Other expenses	6.3	10.6	–41%
TOTAL[1]	52.5	41.7	26%

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

Other income statement items

Our interest expense halved from US$33 million in 2009 to US$16 million in 2010 despite a 38% increase in the Company's net debt at 31 December 2010 compared to the position at 31 December 2009. This is due to a significant reduction in the interest rates paid by the Company, as well as to the capitalisation of interest relating to development projects under construction (mostly Albazino and Amursk).

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

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

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

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

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

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

Adjusted EBITDA

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

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

Notes: [1] Restated. [2] Includes capital lease finance costs. [3] Taking into account the effect of rounding.

Cash costs

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

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

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

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

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

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

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

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

A breakdown of the Company's cash costs calculated on a co–product basis is given in the following table:

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

Capital expenditure

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

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

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

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

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

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

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

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

US$76 million was spent on Omolon (the Birkachan and Sopka Kvartsevaya deposits and the Kubaka mill start–up) compared to US$17 million in 2009.

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

Cash flows

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

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

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

Net debt

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

Net debt calculation is detailed in the following table:

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

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

Corporate social responsibility

Boris Koltsov and Marcel Kuchukov

Year 2 pupils, Vorontsovka village school

Corporate social responsibility

Commitment to the UN Global Compact principles

In 2009 Polymetal joined the UN Global Compact, which marked a new stage in our development and has taken the Company to a new level of corporate social responsibility.

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

This Corporate Social Responsibility summary reflects our commitment to greater transparency, the interests of the communities in which we operate, and society in general. We also publish a separate Corporate Social Responsibility Report which explains our approach and achievements in greater depth.

Commitment to sustainability

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

Our operations are often located in remote areas with harsh climates and underdeveloped social infrastructures. We have a significant impact on the growth of local communities in these areas, and are very serious about our responsibilities for people's living conditions and for local economic development.

Occupational health and safety

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

Two main objectives to ensure occupational health and safety in 2010 were the following:

1. To achieve accident–free operations within our subsidiaries

2. To implement best practice and world standards in occupational safety

The cost of these actions and other steps taken to improve the Company's occupational safety was US$1,422,456 in 2010, an increase of more than 100% over the previous year.

Personnel management

We recognise that people are our key asset, and are therefore committed to a continuous programme of human resource development.
As part of our ongoing social policy development, we have established the following HR management objectives:

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

Ethical standards

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

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

Training and development

We recognise that the ability of any organisation to compete effectively is dependent on the quality of its workforce and we seek, therefore, to encourage continuous staff development.

We offer professional growth and training opportunities to every employee. In 2010, we provided training for 2,016 employees at a cost of US$0.51 million.

Employee motivation and incentives

Remuneration and incentivisation

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

Non–material incentivisation is also an important factor in motivating employees to achieve the best results, and to demonstrate their abilities in a creative way, and we therefore carry out a range of results–driven incentivisation initiatives.

Employee benefits

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

Polymetal doubled expenditures in 2010 (US$1,200 per employee) relating to social benefits compared with 2008.

Environmental protection and nature conservation policy

We recognise that the production of precious metal ores carries a potential risk to the environment in the locations that are exposed to the impact of our activities.

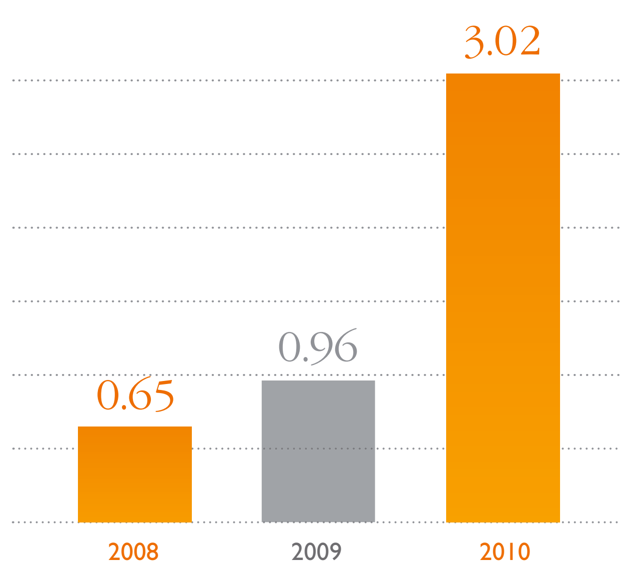
Polymetal is an environmentally conscious company that has a defined and responsible attitude to the environment, and that has in place a strategy and processes designed to reduce any negative impact that its operations may have on the environment.

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

We constantly improve our systems for the production, storage and disposal of waste, and are implementing advanced methods and technologies designed to ensure that our environmental pollution prevention equipment and systems operate reliably.

In 2010, our total expenditure on environmental protection measures and the construction of environmental facilities was US$3.0 million, 3.1 times higher than in 2009.

Environmental expenditure (US$ million)



Social projects and charity

Social responsibility

Implementing long–term social programmes and pursuing a responsible social strategy are key factors for the longer–term efficiency of our operations.

Under Russian and Kazakh legislation Polymetal pays social taxes which are used to develop the regions in which it operates. In addition, Polymetal voluntarily invests in social programmes which focus on social and economic development in the regions where we operate. Polymetal improves education and healthcare, develops local infra–structure, promotes sports and a healthy lifestyle, nurtures cultural and artistic potential of the local population, and supports the Indigenous Minorities of the North (IMN).

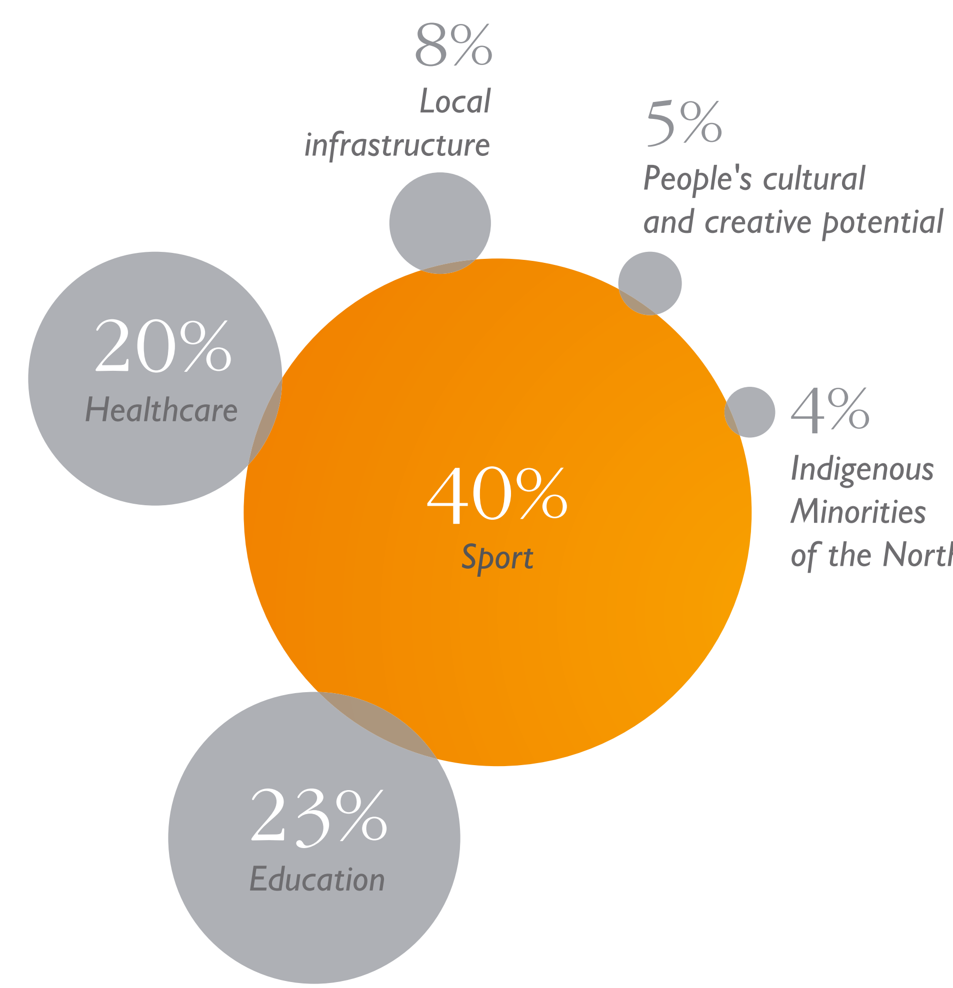
In 2010 our expenditure on social investments was US$3.9 million, distributed as detailed in the chart below:

Community outreach

We use all available types of communication in order to keep up an effective and productive dialogue with the communities in which we operate, and to keep communities informed about our activities. In 2009, we established a feedback system for people living in the areas in which we operate. It includes mass media and in–house publications, billboards with regularly updated information on our operations, meetings of Polymetal representatives and the communities, as well as large–scale surveys and opinion polls.

All the measures we take help us to make informed decisions on designing social programmes, including those carried out under agreements with IMN, to introduce better social policy techniques, and to meet the expectations of local communities promptly and efficiently.

Distribution of Social Investments



Corporate governance

Sergey Shokh
Excavator operator

Corporate governance

We base our corporate governance procedures on international best practice and corporate governance guidelines, as well as the recommendations of the Corporate Governance Code of the Federal Commission for the Securities Market and of the Federal Financial Markets Service.

The Company's highest management body is the General Meeting of Shareholders, which sets its broad strategic aims. The Board of Directors is responsible for the implementation of strategy and the management of our activities on an ongoing basis. The Board reviews the performance of management and ensures that the appropriate corporate governance procedures are carried out throughout the Company.

Board of Directors

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

Ilya Yuzhanov — Chairman of the Board of Directors

Sergey Areshev — member of the Board of Directors

Jonathan Best — member of the Board of Directors

Marina Grönberg — member of the Board of Directors

Vitaly Nesis — member of the Board of Directors and Chief Executive

John O'Reilly — member of the Board of Directors

Russel Skirrow — member of the Board of Directors

Martin Schaffer — member of the Board of Directors

Ashot Khachaturyants — member of the Board of Directors

Konstantin Yanakov — member of the Board of Directors

At the Annual General Meeting of Shareholders which took place on 29 June 2010 the following members were elected to the Board of Directors:

Ilya Yuzhanov — Chairman of the Board of Directors

Sergey Areshev — member of the Board of Directors

Jonathan Best — member of the Board of Directors

Marina Grönberg — member of the Board of Directors

Vitaly Nesis — member of the Board of Directors and Chief Executive

Leonard Homeniuk — member of the Board of Directors

Russel Skirrow — member of the Board of Directors

Martin Schaffer — member of the Board of Directors

Ashot Khachaturyants — member of the Board of Directors

Konstantin Yanakov — member of the Board of Directors

Board Committees

The Board has two committees:

The Audit Committee

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

The Remuneration and Nomination Committee

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

Independent Directors

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

Ilya Yuzhanov

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

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

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

Jonathan Best

Chairman of the Audit Committee

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

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

Leonard Homeniuk

Chairman of the Remuneration and Nomination Committee

Mr Homeniuk has been an independent member of the Board of Directors since 2010, and is currently also a non–executive Chairman of the Board of Directors of Trade Ideas LLC. Between 2004 and 2008 he served as President, CEO and member of the Board of Directors of Centerra Gold Inc, a Canadian gold mining company listed on the Toronto Stock Exchange. He has over 35 years' experience in the mineral sector covering gold and uranium exploration, development and production.

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

Russell Skirrow

Member of the Audit Committee

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

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

Ashot Khachaturyants

A member of the Board of Directors since 2009, Mr Khachaturyants is also Chief Executive of Sberbank Capital and was Senior Deputy Chairman of the Central Council of the Dinamo All Russian Sports Association until November 2010. During his career he has worked as Director of the Investment Policy Department at the Ministry for Economic Development and Trade of the Russian Federation, and as Head of Administration for the RF State Border programme.

Mr Khachaturyants graduated from Gubkin Russian State University of Oil and Gas with a degree in Economy and Engineering, and from the Finance Academy of the Government of the Russian Federation with a degree in Economics.

Executive Board Members

Konstantin Yanakov

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

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

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

Sergey Areshev

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

Mr Areshev graduated from St. Petersburg State University with a degree in Law and received an MBA from the Vlerick Leuven Gent Management School.

Marina Grönberg

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

Mrs Grönberg graduated from Moscow State University's faculty of Applied Mathematics, All–Russian State Distance Learning Institute of Finance and Economics with a degree in Economics and Finance, and from Moscow State Law Academy with a degree in Law.

Martin Schaffer

Member of the Remuneration and Nomination Committee

Mr Schaffer has been a member of the Board of Directors since 2008. He is Deputy Chairman of the Management Board of Home Credit and Finance Bank LLC, a member of the supervisory board of PPF GATE AS, and a Board member of Fosborn Home LLC. Mr Schaffer has also been Chairman of the Board of Directors of Vector Leasing since November 2010, and Chairman of the Board of Directors of Benotech Capital Group since March 2010. He previously headed the legal department at TV Nova, CET 21 Limited, and was secretary general of PPF Investments Limited and adviser to the Board of Directors of Home Credit and Finance Bank LLC.

Mr Schaffer graduated from Charles University, Prague with a degree in Law and Medicine.

Vitaly Nesis

Chief Executive

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

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

He has a degree in Economics from Yale University (USA).

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

Senior Management

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

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

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

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

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

Vitaly Nesis

Chief Executive

Mr Nesis was appointed Chief Executive in 2003, and has been a member of Polymetal's Board of Directors since June 2004.
From 2002 to 2003 Mr Nesis was Chief Executive of Vostsibugol, a major coal mining company based in eastern Russia. From 2001 to 2002 he headed the investment planning department at SUAL-Holding, having been Strategic Development Director at the Ulyanovsk Automobile Plant in 2000. From 1999 to 2000 he worked for McKinsey & Co in Moscow and from 1997 to 1999 Mr Nesis worked as an analyst at Merrill Lynch in New York.
He has a degree in Economics from Yale University (USA).
Mr Nesis is also Chief Executive of Polymetal Management Company, a subsidiary of Polymetal.

Igor Venatovsky

Adviser to the Chief Executive

A member of the Management Board since 2009, Mr Venatovsky is adviser to the Chief Executive, a position he has held since April 2009. Having previously been Polymetal's COO since 2000, Mr Venatovsky has worked for Polymetal since its formation. From 1997 until 1999 he was Chief Executive of Olginskaya Mining and Geological Company and from 1995 to 1997 he was Chief Executive of Bashkirskaya Gold Mining Company. From 1971 to 1995, Mr Venatovsky worked at the Krasnokholmsk Geological Association as an engineer and later as its Chief Executive.
Mr Venatovsky graduated from the Tashkent Polytechnic Institute with a degree in Mining Engineering and Hydrogeology.

Valery Tsyplakov

Managing Director of Polymetal Engineering

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

Sergey Cherkashin

Chief Financial Officer

A member of the Management Board since 2009, Mr Cherkashin is the Company's Chief Financial Officer, a position he has held since 2005. Prior to joining Polymetal, he was CFO of the Timashevsk Dairy Plant, sales director of the Ulyanovsk Car Plant and deputy chief executive of development at the Volgograd Dairy Plant No.3. He also served as a Board member at Meat Packaging Plant and Volgograd Dairy Plant No.3. In 1996–1997, he worked as a consultant for AT Kearney in Moscow.
Mr Cherkashin graduated from the Moscow Institute of Physics and Technology with a degree in Applied Mathematics, working in aerospace research for research and production association Energiya in Korolev. He also attended the University of Hartford (USA), majoring in Accounting.
Mr Cherkashin is also Chief Financial Officer of Polymetal Management Company, a subsidiary of Polymetal.

Vitaly Savchenko

Chief Operating Officer

Mr Savchenko has been Chief Operating Officer since April 2009. Prior to this, he ran the production and technical departments of Polymetal Management Company having previously been Head of the Mining Division. From 1994 to 2003, Mr Savchenko worked at the Priargunskoe Mining and Chemical Company, progressing from Shift Manager to Chief Engineer of a uranium mine. In 1994 he graduated from the Frunze Polytechnic Institute (Kyrgyz Republic) with a degree in Underground Mineral Mining. Mr Savchenko has been awarded a 3rd-category Miner's Glory Medal.

Roman Shestakov

Deputy Chief Executive, Project Development and Construction

Mr Shestakov has been Deputy Chief Executive for Development and Construction since April 2009. From 2007 to 2009 he was Chief Engineer at Gold of Northern Ural, having previously been a mine chief at the Okhotsk Mining and Exploration Company and a mining engineer in Polymetal's production and technical department. He graduated from the Mining Department of the St. Petersburg State Mining Institute, majoring in Open-Pit Mining.

Sergey Trushin

Deputy Chief Executive, Mineral Resources

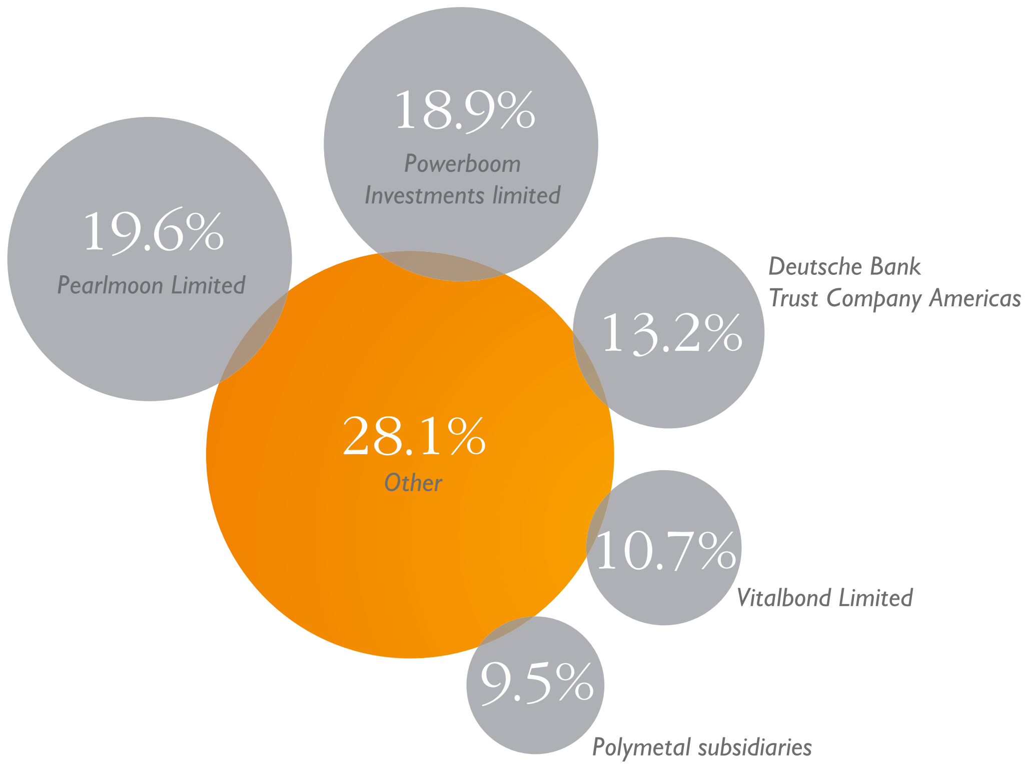
Mr Trushin has been Deputy Chief Executive for Mineral Resources in Polymetal Management Company since 2010. Prior to this, Mr Trushin was Chief Geologist at the Khabarovsk Exploration Company and from 2006 to 2008 he was Chief Geologist at Albazino Resources where he had previously held positions ranging from geologist to Head of Mining. Between 1991 and 1997 he was a geologist at Dalnevostochnye Resources and at the Production Geological Association 'Dalgeology', and a geologist-operator for the Nizhne-Amursk field exploration expedition. In 1991 Mr Trushin graduated from Novocherkassk Polytechnic Institute with a degree in Geological Survey and Mineral Resources Prospecting.

Shareholder information

Vasiliy Krivulin
Plant worker

Aleksander Aliev
Mechanic

Share capital



As at 31 December, 2010 the principal shareholders of Polymetal included:

- *Powerboom Investments Limited*
  Powerboom's holding in the Company's share capital was 18.90 percent. The Company is aware that the principal shareholder of Powerboom Investments Limited is Quotan International Limited, which ultimate beneficiary is Alexander Nesis
- *Pearlmoon Limited*
  Pearlmoon's holding in the Company's share capital was 19.58 percent. The Company is aware that the principal shareholder of Pearlmoon Limited is PPF Group NV, which ultimate beneficiary is Petr Kellner
- *Vitalbond Limited and its affiliated companies*
  Vitalbond's and its affiliated companies' holding in the Company's share capital was 10.73 percent. The Company is aware that the ultimate beneficiary owner is Alexander Mamut
- *Deutsche Bank Trust Company Americas*
  Deutsche Bank Trust Company Americas, the Company's depositary bank, held 13.2% in the Company's share capital
- *Polymetal Subsidiaries*
  Polymetal subsidiaries held 9.5% of the Company's shares.

No other parties held more than 5% of Company shares.

Dividend policy

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

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

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

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

Consolidated financial statements

Vladimir Bessonov
Maintenance technician

Consolidated financial statements

For the Years Ended 31 December 2010 and 2009

Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the years ended December 31, 2010 and 2009

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

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

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

Management is also responsible for:

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

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

On behalf of the Management Board:

Nesis V. N.
Chief Executive Officer

Cherkashin S. A.
Chief Financial Officer

Independent auditors' report

To the Shareholders of Open Joint Stock Company «Polymetal»:

Deloitte.

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

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

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

April 25, 2011

Deloitte & Touche

Consolidated balance sheets at December 31, 2010 and 2009

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

	Note	December 31, 2010	December 31, 2009
Assets			
Cash and cash equivalents		11,056	28,317
Accounts receivable	5	19,765	1,601
Prepayments to suppliers		29,025	15,601
Inventories and spare parts	6	362,874	284,486
Short–term VAT receivable		94,148	77,323
Current deferred tax asset	7	17,062	12,833
Other current assets	8	36,120	20,450
Total current assets		570,050	440,611
Property, plant and equipment, net	9	1,519,243	1,087,503
Goodwill	10	114,712	115,729
Equity method investments	11	22,302	17,047
Long–term loans to related parties	12, 30	5,187	9,715
Long–term VAT receivable		—	7,799
Non–current deferred tax asset	7	42,189	30,118
Other non–current assets		21,017	18,291
Total non-current assets		1,724,650	1,286,202
Total assets		2,294,700	1,726,813
Liabilities and equity			
Accounts payable and accrued liabilities	13	90,468	67,930
Short–term debt and current portion of long–term debt	14	90,610	108,873
Taxes payable		14,981	10,957
Current deferred tax liability	7	8,015	2,666
Current portion of capital lease liabilities	15	4,819	2,928
Total current liabilities		208,893	193,354
Contingent consideration liability	4, 27	23,754	21,775
Long–term portion of capital lease liabilities	15	—	4,857
Long–term debt	16	595,359	331,293
Non–current deferred tax liability	7	83,735	60,519
Reclamation and mine closure obligation	17	51,317	43,004
Liability for uncertain tax benefits	7	2,265	3,916
Other non–current liabilities		2,578	3,810
Derivatives, net	28	105,437	149,514
Total non-current liabilities		864,445	618,688
Total liabilities		1,073,338	812,042

continued	Note	December 31, 2010	December 31, 2009
Commitments and contingencies	31	—	—
Equity			
Share capital (2,275,625,000 shares authorized with par value of Ruble 0.2 per share; 399,375,000 shares issued at December 31, 2010 and 2009; 361,424,643 and 357,924,643 shares outstanding at December 31, 2010 and December 31, 2009, respectively)	18	7,223	7,223
Additional paid–in capital		866,468	797,418
Treasury stock	18	(457)	(481)
Accumulated other comprehensive loss		(75,818)	(63,528)
Retained earnings		423,946	174,139
Total equity		1,221,362	914,771
Total liabilities and equity		2,294,700	1,726,813

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

Consolidated statements of operations for the years ended December 31, 2010 and 2009

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

	Note	December 31, 2010	December 31, 2009
Revenue	20	925,376	560,737
Cost of sales	21	(449,669)	(284,416)
Gross profit		475,707	276,321
General, administrative and selling expenses	25	(80,760)	(52,042)
Other operating expenses	26	(52,518)	(41,706)
Operating income		342,429	182,573
Interest expense, net of amounts capitalised		(16,391)	(32,515)
Loss from equity method investments	11	(1,170)	(342)
Change in fair value of contingent consideration liability	27	(3,616)	(13,404)
Change in fair value of derivative financial instruments	28	(909)	(41,938)
Loss on extinguishment of debt		—	(5,873)
Excess of fair value of acquired net assets over cost		—	36,031
Foreign exchange (loss)/gain, net		(151)	7,869
Income before income tax		320,192	132,401
Income tax expense	7	(70,385)	(38,386)

continued	Note	December 31, 2010	December 31, 2009
Net income		249,807	94,015
Earnings per share (expressed in U.S. Dollars)	18		
From continuing operations			
Basic earnings per share		0.696	0.292
Diluted earnings per share		0.690	0.284
Weighted average number of shares outstanding			
Basic	18	358,732,335	322,343,391
Diluted	18	361,929,830	331,025,789

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

Consolidated statements of cash flows for the years ended December 31, 2010 and 2009

(In thousands of U.S. Dollars)

	Note	December 31, 2010	December 31, 2009
Cash flows from operating activities			
Net income		249,807	94,015
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and depletion		61,261	53,744
Write–down of inventory to lower of cost or market	21	15,319	2,622
Share–based compensation	19	7,896	—
Accretion of reclamation and mine closure obligation	17	4,490	2,895
Loss on disposal of property, plant and equipment	26	3,449	3,401
Change in contingent consideration liability	27	3,616	13,404
Write–off of irrecoverable VAT receivable		2,583	2,909
Change in bad debt allowance	26	2,333	2,993
Unwinding of borrowing discount		2,138	928
Loss from equity method investments	11	1,170	342
Change in fair value of derivatives	28	909	41,938
Exchange loss/(gain), net		151	(7,869)
Excess of fair value of acquired net assets over cost	4	—	(36,031)
Loss on extinguishment of debt		—	5,873
Deferred income tax (benefit)/expense	7	(3,529)	872
Other non–cash (income)/expenses, net		(2,404)	1,346

continued	Note	December 31, 2010	December 31, 2009
Changes in operating assets and liabilities			
Prepayments to suppliers		(13,296)	(3,729)
Inventories and spare parts		(86,424)	(35,430)
VAT receivable		(13,074)	7,087
Other current assets		(13,847)	3,167
Accounts receivable		(18,176)	(1,601)
Accounts payable and accrued liabilities		21,628	11,751
Taxes payable		3,592	658
Net cash provided by operating activities		**229,592**	**165,285**
Cash flows from investing activities			
Acquisitions of property, plant and equipment, net		(419,646)	(212,812)
Acquisition of subsidiaries, net of cash acquired		(8,479)	(10,708)
Loans provided to third parties		(421)	(10,321)
Receipt of repayment for loans provided to third parties		14	9,238
Loans provided to related parties		(3,871)	(55,022)
Receipt of repayment for loans provided to related parties		7,845	21,007
Net cash used in investing activities		**(424,558)**	**(258,618)**
Cash flows from financing activities			
Proceeds from:			
Short and long–term debt		741,573	815,828
Short and long–term debt obtained from related parties		401,354	641,921
Repayments of:			
Short and long–term debt		(589,451)	(671,806)
Short and long–term debt obtained from related parties		(371,330)	(750,345)
Proceeds from issuance of shares, net of costs incurred		—	87,432
Payments on capital lease obligations		(4,225)	(5,118)
Purchase of treasury shares		—	(223)
Net cash provided by financing activities		**177,921**	**117,689**
Effect of exchange rate changes on cash and cash equivalents		(216)	(116)
Cash and cash equivalents at the beginning of the year		**28,317**	**4,077**
Net (decrease)/increase in cash and cash equivalents		(17,261)	24,240
Cash and cash equivalents at the end of the year		**11,056**	**28,317**
Supplementary info			
Interest paid		28,616	49,144
Income tax paid		80,256	30,952
Non-cash investing and financing activities			
Non–cash additions to property, plant and equipment, net		3,302	8,994

continued	Note	December 31, 2010	December 31, 2009
Additions to property, plant and equipment under capital lease agreements		—	10,137
Issue of shares for acquisitions	4	—	156,000
Issue of treasury shares for acquisitions of group of assets	4	60,200	—
Exercise of a call option	19	—	152,721
Non–cash equity method investments	4	6,577	—
Contingent consideration on acquisition	4	—	3,419

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

Consolidated statements of changes in equity for the years ended December 31, 2010 and 2009

(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	Retained earnings	Total equity
Balance at December 31, 2008		**315,000,000**	**6,698**	**400,122**	**—**	**(37,276)**	**80,124**	**449,668**
Comprehensive income:								
Net income		—	—	—	—	—	94,015	94,015
Other comprehensive loss: currency translation adjustment		—	—	—	—	(26,252)	—	(26,252)
Total comprehensive income		—	—	—	—	—	—	**67,763**
Amortization of bonus received from depositary		—	—	978	—	—	—	978
Issuance of shares for cash	18	9,524,643	59	87,805	—	—	—	87,864
Issue of shares for acquisitions	4	17,500,000	109	155,891	—	—	—	156,000
Exercise of a call option	4	15,925,000	99	152,622	—	—	—	152,721
Treasury shares issued to subsidiary	18	—	258	—	(258)	—	—	—
Acquisition of treasury shares	18	(25,000)	—	—	(223)	—	—	(223)
Balance at December 31, 2009		**357,924,643**	**7,223**	**797,418**	**(481)**	**(63,528)**	**174,139**	**914,771**
Comprehensive income:		—	—	—	—	—	—	—
Net income		—	—	—	—	—	249,807	249,807
Other comprehensive loss: currency translation adjustment		—	—	—	—	(12,290)	—	(12,290)
Total comprehensive income		—	—	—	—	—	—	**237,517**
Amortization of bonus received from depositary		—	—	978	—	—	—	978

continued	Note	Number of shares outstanding	Share capital	Additional paid-in capital	Treasury shares	Accumulated other comprehensive loss	Retained earnings	Total equity
Share based compensation	19	—	—	7,896	—	—	—	7,896
Issue of treasury shares in exchange for assets	4	3,500,000	—	60,176	24	—	—	60,200
Balance at December 31, 2010		**361,424,643**	**7,223**	**866,468**	**(457)**	**(75,818)**	**423,946**	**1,221,362**

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

Notes to consolidated financial statements for the years ended December 31, 2010 and 2009

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

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.

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

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

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

Ownership structure

The Company (formerly Open Joint Stock Company «Interregional Research and Production Association Polymetal») was incorporated on March 12, 1998 in the Russian Federation.

In February 2007, the Company placed 40,000,000 ordinary shares with par value of Rubles 0.2 per share in the form of Global Depositary Receipts («GDRs»), one GDR represents one common share, on the London Stock Exchange, as well as shares on the «Stock Exchange Russian Trading System» («RTS») and the «Moscow Interbank Currency Exchange» («MICEX»).

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

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

Operating environment

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

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

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

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

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

In July 2010, the FASB issued ASU 2010–20, Receivables: Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses («ASU 2010–20») related to new disclosures about the credit quality of certain financing receivables and their related allowance for credit losses. ASU 2010–20 amends existing disclosures and requires entities to provide additional disclosures to facilitate financial statement users' evaluation of the following: 1) the nature of the credit risk inherent in the entity's portfolio of financial receivables; 2) how this risk is analyzed and assessed in arriving at the allowance for credit losses; 3) the changes and reasons for those changes in the allowance for the credit losses. Among other things, the expanded disclosures require information to be disclosed at disaggregated levels («segments» or «classes»), along with roll–forward schedules of the allowance for credit losses and information regarding the credit quality of receivables (including their aging) as of the end of a reporting period. For public entities, the disclosures are effective as of the end of the reporting period ending on or after December 15, 2010.

The Group adopted ASU 2010–20 for the 2010 annual financial statements. This adoption did not have an impact on the Group's results of operations, financial position or cash flow.

Accounting pronouncements effective in future

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

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

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

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

Use of estimates

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

Reporting and functional currency

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

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

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

The following exchange rates were used at the reporting dates:

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

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

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. Any excess of Group's interest in net fair value of identifiable assets, liabilities and contingent liabilities over the cost of the business combination is recognized in earnings on the acquisition date. The results of operations of entities acquired from third parties are included in the Group's results of operations from the date of acquisition.

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

Investments

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

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

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

Asset impairment — Long-lived assets and goodwill

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

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

Cash and cash equivalents

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

Inventories and spare parts

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

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

Financial instruments

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

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

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

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

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

Derivative financial instruments

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

Pension obligations

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

Reclamation and mine closure

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

Income taxes

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

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

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

Revenue recognition

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

Sale of gold and silver bullion

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

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

Sale of copper, gold and silver concentrate

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

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

Share-based compensation

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

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

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

Comprehensive income

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

Basic and diluted earnings per share

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

Reclassifications

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

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

4. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

ZK Mayskoye LLC

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

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

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

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

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

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

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

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

This acquisition was accounted for using the purchase method.

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

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

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

JSC Varvarinskoye

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

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

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

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

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

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

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

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

The acquisition was accounted for using the purchase price method.

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

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

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

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

Rudnik Kvartseviy LLC

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

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

The acquisition was accounted for using the purchase price method.

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

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

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

CJSC Artel of prospectors Ayax

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

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

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

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

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

Rudnik Avlayakan LLC and Kirankan LLC

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

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

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

PD RUS LLC

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

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

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

Disposal of subsidiaries

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

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

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

5. ACCOUNTS RECEIVABLE

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

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

6. INVENTORIES AND SPARE PARTS

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

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

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

7. INCOME TAXES

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

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

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

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

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

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

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

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

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

In the normal course of business, the Group is subject to examination by taxing authorities throughout the Russian Federation and Kazakhstan. Out of the large operating companies of the Group, tax authorities audited JSC Okhotskaya GGC, CJSC Serebro Magadana and JSC Varvarinskoye for the period up to 2007, CJSC Zoloto Severnogo Urala for the period up to 2006. According to the Russian and Kazakhstan tax legislation, previously conducted audits do not fully exclude subsequent claims relating to the audited period. No significant adjustments have been proposed by the Federal Tax Service of the Russian Federation and Tax Service of the Republic of Kazakhstan as at December 31, 2010.

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

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

Net deferred income tax liabilities are classified as follows:

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

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

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

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

		December 31, 2010
Year ended	December 31, 2011	—
	December 31, 2012	—

continued

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

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

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

8. OTHER CURRENT ASSETS

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

9. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

10. GOODWILL

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

11. EQUITY METHOD INVESTMENTS

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

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

Joint venture with AngloGold Ashanti Limited

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

Equity investment in JSC Ural-Polymetal

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

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

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

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

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

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

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

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

12. LONG-TERM LOANS TO RELATED PARTIES

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

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

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

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

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

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

	Interest rate (actual rate as at December 31, 2010)	December 31, 2010	December 31, 2009
Debt from third parties U.S. Dollar denominated			
Raiffeisenbank	1m LIBOR+3.75% (4.06%)	3,000	23,235

continued

Current portion of long-term debt (Note 16)		62,403	81,667
Total U.S. Dollar denominated		**65,403**	**104,902**
Russian Ruble denominated			
Other		—	604
Current portion of long-term debt (Note 16)		10,828	—
Total Russian Ruble denominated		**10,828**	**604**
Total debt from third parties		**76,231**	**105,506**
Debt from related parties U.S. Dollar denominated			
Nomos-Bank	13%–18%	—	3,367
Total U.S. Dollar denominated		**—**	**3,367**
Current portion of long-term debt (Note 16)		14,379	—
Total debt from related parties (Note 30)		**14,379**	**3,367**
Total		**90,610**	**108,873**

15. CAPITAL LEASE LIABILITIES

The Group entered into certain Russian Ruble denominated financial leases for machinery, equipment and transport vehicles. Future minimum lease payments for the assets under capital leases as at December 31, 2010 are as follows:

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

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

16. LONG-TERM DEBT

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

continued	Interest rate (actual rate as at December 31, 2010)	December 31, 2010	December 31, 2009
Total Russian Ruble denominated		1,739	—
Canadian Dollar denominated			
Nomos–Bank	CAD–BA–CDOR + 4.3% (5.41%)	1,208	—
Less current portion of long–term debt (Note 14)		(233)	—
Total Canadian Dollar denominated		975	—
Total debt from related parties (Note 30)		**26,559**	**7,388**
Total		**595,359**	**331,293**

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

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

Raiffeisenbank

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

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

Syndicate of Banks

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

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

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

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

UniCredit bank AG (incorporated in the Great Britain)

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

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

UniCredit bank (incorporated in the Russian Federation)

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

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

ING bank (Eurasia)

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

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

Sberbank

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

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

Nomos-Bank

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

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

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

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

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

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

Gazprombank

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

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

HSBC

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

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

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

17. RECLAMATION AND MINE CLOSURE OBLIGATION

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

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

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

18. EQUITY AND EARNINGS PER SHARE

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

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

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

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

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

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

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

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

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

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

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

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

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

19. SHARE-BASED PAYMENTS

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

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

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

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

- Expected forfeitures. This assumption is estimated using historical trends of executive director and employee turnover. As the Group typically only grants awards to senior employees and the turnover rate for such employees is minimal, the Group has estimated expected forfeitures to be 5%.
- Expected volatility. Expected volatility has been estimated based on an analysis of the historical stock price volatility of the Company's global depositary receipts («GDRs») from February 2007, when the Group's GDRs became publicly traded.
- Expected life. The average expected life was based on the contractual term of the option of 3.6 years. As the Plan has a 2.6 year vesting condition and the participant may exercise his right to redeem shares within one year after such right is obtained, the Group used the 2.6 years expected term for the first stage of the Monte-Carlo simulation (the «First date») and 3.6 – for the second stage (the «Second date»).
- Fair value of common stock is equal to the market price of underlying GDR's at the grant date.
- Risk-free interest rate. The risk-free rate is based on US Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant.

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

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

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

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

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

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

20. REVENUE

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

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

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

	Year ended December 31, 2010			
	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**

Revenue analyzed by geographical regions is presented below:

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

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

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

21. COST OF SALES

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

22. ON-MINE COSTS

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

23. SMELTING COSTS

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

24. DEPRECIATION AND DEPLETION OF OPERATING ASSETS

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

25. GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

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

26. OTHER OPERATING EXPENSES

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

27. FAIR VALUE ACCOUNTING

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

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

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

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

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

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

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

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

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

Receivables from provisional copper, gold and silver concentrate sales

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

Derivative financial instruments

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

Commodity forward contracts

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

Call option

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

Contingent consideration liability

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

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

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

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

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

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

28. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Risk management activities

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

Concentration of credit risk

The Group's financial instruments that are potentially exposed to concentration of credit risk consist primarily of prepayments to suppliers and accounts receivable. Accounts receivable are regularly monitored and assessed and where necessary an adequate level of provision is maintained.

The Group has a concentrated number of suppliers to which the Group has made prepayments.

As at December 31, 2010 and 2009 bad debt allowance related to the prepayment to suppliers and non–trade receivables and amounted to U.S. Dollar 8,300 and 3,621, respectively. Generally, the Group does not require any collateral to be pledged in connection with its investments in the above financial instruments.

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

Foreign currency and commodity price risk

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

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

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

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

As at December 31, 2010 and 2009 net settlement amount of U.S. Dollar 50,977 and U.S. Dollar 10,007, respectively, has not been paid and was recorded in the «long–term debt» line of the balance sheet (see Note 16).

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

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

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

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

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

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

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

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

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

Interest rate and liquidity risk

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

29. SEGMENTS

The Group has six reportable segments:

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

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

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

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

As of and for the year ended December 31, 2010	North Ural	Khabarovsk	Magadan	Omolon	Albazino	Kazakhstan	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	213,906	215,300	345,457	24,649	—	125,456	**924,768**	608	—	**925,376**
Intersegment revenue	310	57	116	—	—	—	**483**	287,462	(287,945)	**—**
Cost of sales	(90,305)	(92,965)	(179,790)	(17,945)	—	(82,379)	**(463,384)**	(231,223)	244,938	**(449,669)**
Gross profit	**123,911**	**122,392**	**165,783**	**6,704**	**—**	**43,077**	**461,867**	**56,847**	**(43,007)**	**475,707**
General, administrative and selling expenses										**(80,760)**
Other operating expenses										**(52,518)**
Interest expense, net of amounts capitalised										**(16,391)**
Loss from equity method investments										**(1,170)**
Change in fair value of derivative financial instruments										**(909)**
Change in fair value of contingent consideration liability										**(3,616)**
Foreign exchange loss, net										**(151)**
Total income before income tax										320,192

continued

Segment assets:										
Property, plant and equipment, net	75,690	170,893	315,077	203,222	352,126	162,284	**1,279,292**	239,951	—	**1,519,243**
Goodwill	—	13,364	8,201	—	—	68,177	**89,742**	24,970	—	**114,712**
Other current and non–current assets	134,022	97,236	138,954	70,087	57,652	69,816	**567,767**	108,411	(170,366)	**505,812**
Total segment assets	**209,712**	**281,493**	**462,232**	**273,309**	**409,778**	**300,277**	**1,936,801**	**373,332**	**(170,366)**	**2,139,767**
Unallocated assets:										
Cash and cash equivalents										**11,056**
Other assets										**143,877**
Total assets										**2,294,700**
Expenditure for additions to long–lived assets	11,932	10,771	43,831	75,523	200,210	21,876	**364,143**	66,876	—	**431,019**
Depreciation and depletion of operating assets	21,230	11,687	16,317	8,293	3,435	9,420	**70,382**	—	—	**70,382**

As of and for the year ended December 31, 2009	North Ural	Khaba-rovsk	Magadan	Omolon	Albazino	Kazakh-stan	Total repor-table segments	Corpo-rate and other	Interseg-ment opera-tions and balances	Total
Revenue from external customers	154,446	122,691	257,450	1,107	—	21,981	**557,675**	3,062	—	**560,737**
Intersegment revenue	169	460	115	—	—	—	**744**	153,169	(153,913)	**—**
Cost of sales	(62,267)	(66,945)	(145,990)	(846)	—	(11,947)	**(287,995)**	(124,154)	127,733	**(284,416)**
Gross profit	**92,348**	**56,206**	**111,575**	**261**	**—**	**10,034**	**270,424**	**32,077**	**(26,180)**	**276,321**
General, administrative and selling expenses										**(52,042)**
Other operating expenses										**(41,706)**
Interest expense, net of amounts capitalised										**(32,515)**
Loss from equity method investments										**(342)**
Loss on extinguishment of debt										**(5,873)**
Change in fair value of derivative financial instruments										**(41,938)**
Change in fair value of contingent consideration liability										**(13,404)**
Excess of fair value of acquired net assets over cost										**36,031**
Foreign exchange gain, net										**7,869**
Total income before income tax										**132,401**
Segment assets:										
Property, plant and equipment, net	84,285	98,592	299,838	158,999	166,889	145,219	**953,822**	133,681	—	**1,087,503**

continued

Goodwill	—	13,467	8,265	—	—	68,836	**90,568**	25,161	—	**115,729**
Other current and non–current assets	123,180	112,026	137,071	32,649	33,060	40,005	**477,991**	94,940	(169,431)	**403,500**
Total segment assets	**207,465**	**224,085**	**445,174**	**191,648**	**199,949**	**254,060**	**1,522,381**	**253,782**	**(169,431)**	**1,606,732**
Unallocated assets:										
Cash and cash equivalents										**28,317**
Other assets										**91,764**
Total assets										**1,726,813**
Expenditure for additions to long–lived assets	9,690	3,478	31,600	16,574	122,609	388	**184,339**	53,357	(4,997)	**232,699**
Depreciation and depletion of operating assets	11,241	16,173	14,766	516	—	1,164	**43,860**	—	—	**43,860**

30. RELATED PARTY TRANSACTIONS

Related parties are considered to include shareholders, affiliates and entities under common ownership and control with the Group and members of key management personnel. In the course of its business the Group entered into various transactions with Nomos–Bank, an entity under common control, equity method investments and its employees and officers as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Interest expense on loans provided by related parties	1,886	23,394
Interest income on loans provided to related parties	217	501
Revenue from sales to related parties	315,405	325,855

Outstanding balances as at December 31, 2010 and 2009 are presented below:

	December 31, 2010	December 31, 2009
Short–term loans provided to employees	2,507	837
Long–term loans provided to employees	1,732	1,855
Long–term loans provided to equity method investments	3,455	3,269
Long–term loan provided to entity under common control	—	4,591
Short–term loans provided by Nomos–Bank	14,379	3,367
Long–term loans provided by Nomos–Bank	24,820	7,388
Long–term loans provided by equity method investments	1,739	—

Details of the significant terms of the loans provided to and by related parties are disclosed in the Notes 12, 14 and 16. As at December 31, 2010 and 2009, the Group has certain forward sales commitments to related parties (see Note 31).

31. COMMITMENTS AND CONTINGENCIES

Taxation

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

The Group has identified contingencies related to taxes other than income tax. Such possible tax contingencies could materialize and require the Group to pay additional amounts of tax. As at December 31, 2010, Group management estimates contingencies related to taxes other than income tax to be approximately U.S. Dollar 13,691 (December 31, 2009: U.S. Dollar 2,121). The Group believes the estimated losses related to these contingencies are not probable and, as such, have not been accrued for as at December 31, 2010 and 2009.

Transfer pricing legislation, which was introduced from January 1, 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. Arbitration court practice in this respect is contradictory and inconsistent.

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

Political environment

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

Forward sales commitments

Under the sale agreements with HSBC Bank and The Bank of Nova Scotia, CJSC Zoloto Severnogo Urala, the Company's subsidiary, is required to sell 57,871 ounces during 2011 at a price determined by London Bullion Market Association («LBMA»).

Under the sale agreements with Nomos-Bank, a related party, CJSC Zoloto Severnogo Urala and JSC Okhotskaya GGC, the Company's subsidiaries, are required to sell 129,000 ounces of gold and 2,025,000 ounces of silver during 2011 at a price determined by LBMA.

Under the sale agreements with VTB, CJSC Serebro Magadana, the Company's subsidiary, is required to sell 32,000 ounces of gold and 4,823,000 ounces of silver during 2011 at a price determined by LBMA.

Under the sale agreements with Rosbank, CJSC Zoloto Severnogo Urala, the Company's subsidiary, is required to sell 58,000 ounces of gold during 2011 at a price determined by LBMA.

Under the sale agreement with Sberbank, CJSC Zoloto Severnogo Urala, the Company's subsidiary, is required to sell 64,000 ounces of gold during each of the years 2011 and 2012 at a price determined by LBMA.

Under the sale agreement with Trafigura Beheer B.V., JSC Varvarinskoe, the Company's subsidiary, is required to sell 26,400,000 dry metric tons of copper concentrate during 2011 and 2012 at a price determined by LME and adjusted for further processing costs.

Under the sale agreement with Metalor, JSC Varvarinskoye, the Company's subsidiary, is required to sell 2.1 tons of dore alloy with approximate gold content of 1.9 tons during 2011 at a price determined by LBMA and adjusted for further processing costs.

Litigation

During 2010, the Group was involved in a number of court proceedings (both as a plaintiff and as a defendant) arising in the ordinary course of business.

In the opinion of management of the Group, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations, financial position or cash flows of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Insurance policies

The Russian insurance market is in the development stage and some forms of insurance protection common in other parts of the world are not yet generally available in the Russian Federation.

The Group has entered into insurance contracts to insure property, plant and equipment, and land transport and purchased accident, health and medical insurance for employees. Furthermore, the Group has purchased civil liability coverage for operating entities with unsafe working conditions.

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes there are no significant liabilities for environmental damage.

32. SUBSEQUENT EVENTS

In February 2011, the Group signed a binding letter of intent with Olsen Business Limited, an unrelated party, under which it has agreed to acquire a 100% interest in Kutynskaya Mining and Geological Company LLC holding the mining and exploration license for Kutyn gold deposit («Kutyn») in the Tuguro-Chumikan district of the Khabarovsk Region for a consideration of 3,500,000 of the Company's ordinary treasury shares with a market value of U.S. Dollar 18.7 per share on the date of the letter of intent. The transaction is subject to satisfaction of various conditions, including successful completion of certain corporate actions and procedures as well as approval of the transaction by the Federal Antimonopoly Service of the Russian Federation. As at the date of issuance of these financial statements, most of the conditions have been met and the transaction is expected to be executed in the second quarter 2011.

In April 2011, the Group began the operation of an on-site flotation concentrator at the Albazino mine, producing first gold concentrate. The concentrate will be stockpiled with first shipments on river barges to the Amursk hydrometallurgy plant planned for June 2011. The hydrometallurgy plant facility is expected to start commissioning in the fourth quarter 2011.

In April 2011, the Group signed an agreement to restructure its debt obligations and related flat forward sale and purchase contracts assumed as a result of the acquisition of JSC Varvarinskoye (see Note 4, 16). As a result of this restructuring, the Group's forward pricing commitments (see Note 28) outstanding as at the date of the restructuring were converted to debt obligations based on the present value of future net settlement payments on these derivative contracts. Following a partial immediate repayment of U.S. Dollar 14,819, the remaining debt obligations in the amount of U.S. Dollar 230,000 were transferred to the Company. Certain security arrangements held with, the counterparty under the debt obligations and forward sale and purchase agreements, such as pledges of shares and movable and immovable property, plant and equipment, have been foregone as part of this restructuring. The following repayment schedule was agreed as replacement of the cash sweep mechanism under the original Syndicate of Banks facility: U.S. Dollar 30,000 in each of 2011 and 2012, U.S. Dollar 50,000 in 2013, and U.S. Dollar 60,000 in each of 2014 and 2015. The Group will pay interest quarterly at a rate of three months LIBOR plus 3% per annum to the Syndicate of Banks.

In accordance with the requirements of ASC 855 the Group evaluated subsequent events through the date the financial statements were available to be issued. Therefore subsequent events were evaluated by the Group up to April 25, 2011.

Appendices

Nikolay Petrinich
Drill rig operator

Production statistics

JSC Polymetal

Operational indicators	Unit	2006	2007	2008	2009	2010	Change, % 2010 / 2009
Waste mined	Kt	17,680	20,782	22,609	31,400	63,282	102%
Ore mined, including:	Kt	2,600	3,029	2,477	3,886	7,474	92%
open–pit	Kt	2,113	2,430	1,812	3,026	6,509	115%
underground	Kt	487	598	665	861	965	12%
Underground development	line meter	10,694	11,452	14,217	17,565	23,577	34%
Ore processed	Kt	2,890	3,135	3,396	4,764	7,845	65%
Gold production	kg	7,964	7,538	8,859	9,660	13,812	43%
Silver production	tonnes	539	494	534	539	539	0%
Copper production	tonnes	0	0	0	1,053	4,003	NM
Gold production	Koz	256	242	285	311	444	43%
Silver production	Moz	17.3	15.9	17.2	17.3	17.3	0%

Dukat

Dukat

Operational indicators	Unit	2006	2007	2008	2009	2010
Waste mined	Kt	2,127	2,707	2,720	1,838	2,002
Underground development	line meter	10,396	10,570	12,305	13,254	12,244
Ore mined, including:	Kt	901	971	1,017	1,176	1,069
open–pit	Kt	415	381	403	435	271
underground	Kt	487	590	614	740	798
Ore processed	Kt	863	881	983	978	1,259
Head grade, Au	g/t	1.2	1.1	1.2	1.1	0.9
Head grade, Ag	g/t	558	494	462	491	366
Recovery, Au[1]	%	79.8%	79.3%	83.0%	78.3%	70.4%
Recovery, Ag[1]	%	81.2%	79.4%	81.7%	77.4%	71.8%
Gold production	kg	806	790	961	821	851
Silver production	tonnes	393	335	387	369	344

continued

Operational indicators	Unit	2006	2007	2008	2009	2010
Gold production	Koz	25.9	25.4	30.9	26.4	27.3
Silver production	Moz	12.6	10.8	12.5	11.8	11.1

[1] Technological recovery includes gold and silver in work–in–progress inventory (precipitate)

Lunnoye

Operational indicators	Unit	2006	2007	2008	2009	2010
Waste mined, including:	Kt	2,352	2,867	2,583	2,787	2,724
Arylakh deposit	Kt	0	1,742	2,522	2,787	2,724
Underground development	line meter	298	882	1,912	2,268	3,139
Ore mined, including:	Kt	327	476	277	298	286
open–pit	Kt	327	467	226	183	160
underground	Kt	0	8	52	116	126
Ore processed	Kt	283	286	283	295	275
Head grade, Au	g/t	2.5	1.9	1.6	1.4	1.3
Head grade, Ag	g/t	335	401	404	426	426
Recovery, Au[1]	%	93.4%	93.0%	93.8%	94.1%	94.2%
Recovery, Ag[1]	%	88.8%	87.8%	90.2%	90.3%	90.3%
Gold production	kg	650	535	427	395	328
Silver production	tonnes	81	104	105	116	107
Gold production	Koz	20.9	17.2	13.7	12.7	10.5
Silver production	Moz	2.6	3.3	3.4	3.7	3.4

[1] Technological recovery includes gold and silver in work–in–progress inventory (precipitate)

Goltsovoye

Operational indicators	Unit	2008	2009	2010
Mining meterage	line meter	—	1,095	3,518
Ore mined, including:	Kt	—	5	23
underground	Kt	—	5	23

Omolon

Operational indicators	Unit	2008	2009	2010
Waste mined	Kt	—	579	5,064
Ore mined, including:	Kt	—	92	680
Sopka Kvartsevaya	Kt	—	92	159
Birkachan	Kt	—	—	521
Ore processed at the CIP plant	Kt	—	—	223
Head grade, Au	g/t	—	—	2.2
Head grade, Ag	g/t	—	—	7.0
Ore stacked	Kt	—	639	459

continued

Operational indicators	Unit	2008	2009	2010
Head grade, Au	g/t	—	1.9	1.6
Head grade, Ag	g/t	—	6.7	6.7
Recovery at the CIP plant, Au[1]	%	—	—	90.7%
Heap leach recovery, Au[2]	%	—	2%	25%
Gold production	kg	—	29	570
Silver production	kg	—	79	1,067
Gold production	Koz	—	0.9	18.3
Silver production	Moz	—	0.003	0.034

[1] Technological recovery includes silver in work-in-progress inventory. [2] Heap leach recovery rate is calculated for the whole year to account for the seasonal factor.

Amursk POX Hub

Albazino

Operational indicators	Unit	2008	2009	2010
Waste mined	Kt	—	2,816	10,367
Ore mined (open-pit)	Kt	—	—	278
Ore processed	Kt	—	—	—
Head grade, Au	g/t	—	—	3.7
Head grade, Ag	g/t	—	—	—
Recovery, Au	%	—	—	—
Recovery, Ag	%	—	—	—
Gold production	kg	—	—	—
Silver production	kg	—	—	—
Gold production	Koz	—	0.0	0.0
Silver production	Moz	—	0	0

Mayskoye

Operational indicators	Unit	2008	2009	2010
Underground development	line meter	—	948	4,318
Ore mined (underground)	Kt	—	—	16
Head grade, Au	g/t	—	—	8.7

Voro

Operational indicators	Unit	2006	2007	2008	2009	2010
Waste mined	Kt	9,191	9,552	9,087	10,446	9,465
Ore mined (open-pit), including:	Kt	809	855	582	666	956
Primary	Kt	658	635	389	623	668
Oxidised	Kt	152	220	193	43	288

continued

Operational indicators	Unit	2006	2007	2008	2009	2010
CIP						
Primary ore processed	Kt	413	478	604	796	907
Head grade, Au	g/t	5.9	6.3	6.5	6.0	6.1
Head grade, Ag	g/t	5.2	3.1	2.7	3.5	7.5
Heap leach						
Oxidised ore stacked	Kt	832	882	925	938	1,024
Head grade, Au	g/t	2.2	2.0	1.5	1.7	1.6
Head grade, Ag	g/t	12.1	5.9	3.8	3.5	3.7
Recovery from primary ore, Au[1]	%	78.1%	80.1%	79.2%	79.2%	79.8%
Recovery from oxidised ore, Au[2]	%	70.0%	68.6%	73.3%	65.3%	72.5%
Gold production	kg	3,148	3,633	4,094	4,673	5,679
Silver production	tonnes	2.6	2.2	2.0	2.5	5.3
Gold production	Koz	101.2	116.8	131.6	150.2	182.6
Silver production	Moz	0.082	0.071	0.065	0.081	0.171

[1] Technological recovery includes gold and silver in work-in-progress inventory (precipitate). [2] Heap leach recovery rate is calculated for the whole year to take account of the seasonal factor.

Degtyarskoye

Operational indicators	Unit	2006	2007	2008	2009	2010
Waste mined	Kt	—	—	—	789	1,566
Ore mined (open-pit)	Kt	—	—	—	152	274
Head grade, Au	g/t	—	—	—	4.4	5.7

Varvara

Operational indicators	Unit	2009	2010
Waste mined	Kt	3,396	21,955
Ore mined, including:	Kt	844	3,411
Ore with high grade copper feed (HGCF)	Kt	413	752
Ore with low grade copper feed (LGCF)	Kt	431	2,659
HGCF (Flotation)			
Ore processed	Kt	113	793
Head grade, Au	g/t	1.3	1.1
Head grade, Cu	%	0.92	0.71
LGCF (CIL)			
Ore processed	Kt	397	2,283
Head grade, Au	g/t	1.0	1.1
Total recovery, Au[1]	%	78.0%	74.5%
Total recovery, Cu[2]	%	83.3%	81.8%
Gold production	kg	390	2,437
Copper production	tonnes	1,053	4,003

continued

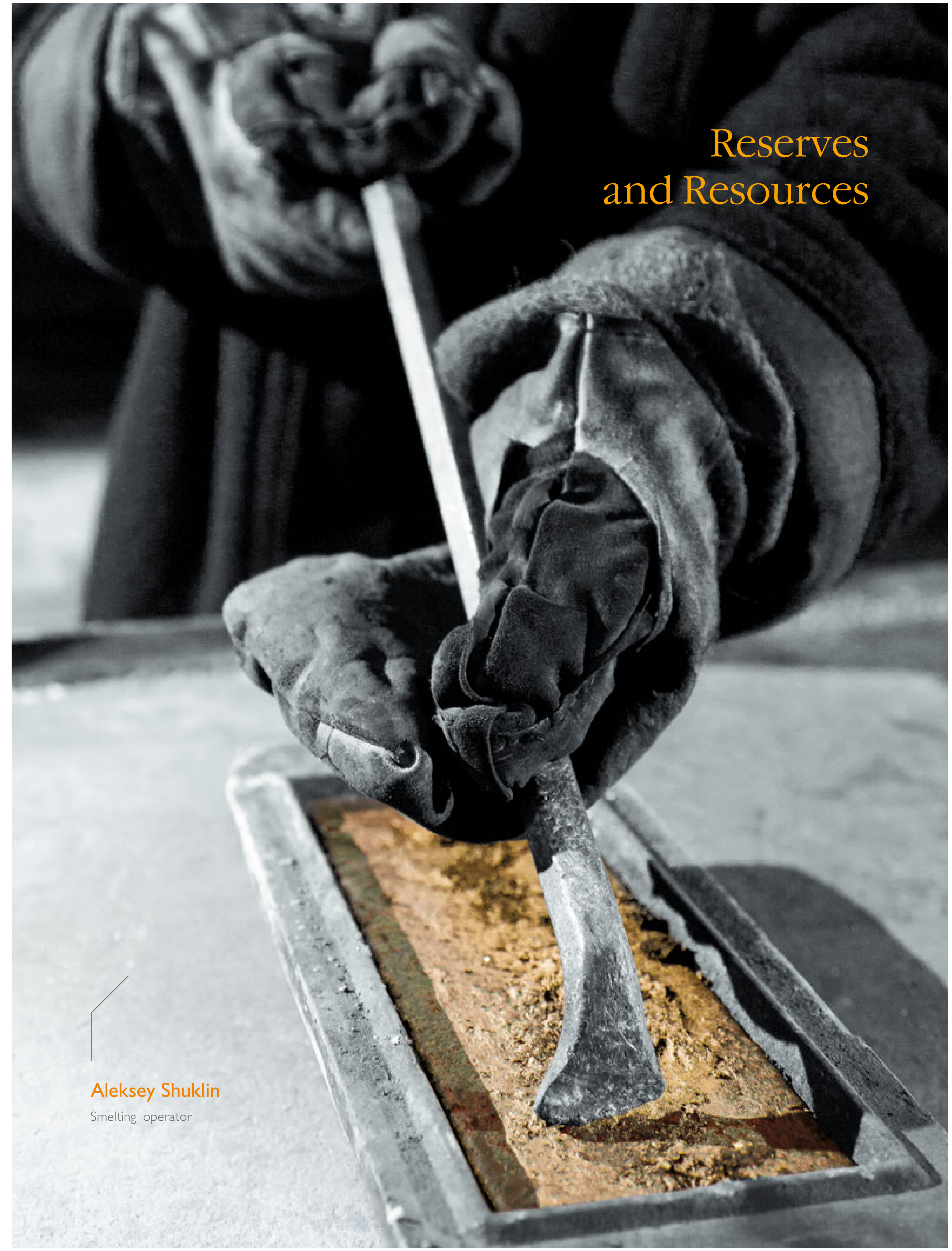
Operational indicators	Unit	2009	2010
Gold production	Koz	12.6	78.3
Copper production	tonnes	1,053	4,003

[1] Recovery accounts for gold recovered in both circuits. [2] Recovery accounts for copper recovered in the processing circuit.

Khakanja

Operational indicators	Unit	2006	2007	2008	2009	2010
Waste mined	Kt	4,010	5,657	8,219	8,749	10,106
Underground development	line meter	—	—	—	—	358
Ore mined, including:	Kt	563	727	601	654	478
open–pit	Kt	563	727	601	654	476
underground	Kt	—	—	—	—	2
Ore processed	Kt	500	609	602	610	622
Head grade, Au	g/t	7.0	4.5	5.8	5.8	6.6
Head grade, Ag	g/t	259	177	117	139	205
Recovery, Au[1]	%	92.2%	94.3%	94.4%	94.1%	94.9%
Recovery, Ag[1]	%	46.8%	49.4%	52.5%	61.1%	63.1%
Gold production	kg	3,360	2,580	3,376	3,351	3,948
Silver production	tonnes	62	53	39	52	81
Gold production	Koz	108.0	82.9	108.5	107.7	126.9
Silver production	Moz	2.0	1.7	1.3	1.7	2.6

[1] Technological recovery includes gold and silver in work–in–progress inventory (precipitate).



Reserves and Resources

Aleksey Shuklin

Smelting operator

Mineral Resources and Ore Reserves

(in compliance with the JORC Code 2004)

Ore Reserves: Precious Metals Deposits[1]

Deposit	Tonnage, Kt	Grade		Content	
		Au, g/t	Ag, g/t	Au, Koz	Ag, Koz
Proved					
Dukat[2]	9,340	1.0	542	310	162,600
Voro[3]	14,410	2.8	4	1,310	1,850
Lunnoye	910	1.9	288	60	8,430
Arylakh	524	0.7	395	10	6,650
Khakanja	2,290	3.0	212	220	15,630
Yurievskoye	45	8.6	13	10	20
Mayskoye	190	9.6	—	58	
Albazino	9,680	4.6	—	1,420	
Sopka Kvartsevaya	2,192	4.7	165	330	11,650
Birkachan	7,160	1.9	7	430	1,600
Degtyarskoye	220	4.2	26	30	180
Tsokol zone	350	6.4	12	70	140
Avlayakan	20	20.2	199	13	130
Subtotal	47,332			4,271	208,880
Probable					
Dukat[2]	4,125	1.5	551	200	73,100
Voro[3]	1,670	2.4	3	130	150
Lunnoye	2,065	1.7	407	115	27,020
Arylakh	510	0.5	475	10	7,780
Khakanja	490	5.7	287	90	4,500
Yurievskoye	115	7.9	14	30	50
Mayskoye	7,687	9.6	—	2,368	
Albazino	7,694	3.5	—	860	
Sopka Kvartsevaya	1,341	4.1	138	180	5,930
Birkachan	6,440	3.2	15	670	3,160
Degtyarskoye	—	—	—		
Tsokol zone	790	6.0	11	150	270
Avlayakan	150	19.5	92	90	440
Subtotal	33,077			4,893	122,400

Proved + Probable						Information source for current estimate				Information source for previous estimate			
Deposit	Tonnage, Kt	Grade		Content		Author	Date[4]	Price[5]	COG (cut-off grade)[6]	Author	Date[4]	Price[5]	COG (cut-off grade)[6]
		Au, g/t	Ag, g/t	Au, Koz	Ag, Koz								
Dukat[2]	13,465	1.2	545	510	235,700	Polymetal	01.01.2011	Au=1020 $/oz Ag=16.6 $/oz	AgEq(OP)=70 g/t AgEq(UG)=234 g/t	Polymetal	01.01.2010	Au=900$/oz Ag=14.5$/oz	AgEq(OP)=74.1 g/t AgEq(UG)=252.9 g/t
Voro[3]	16,080	2.8	4	1,440	2,000	Polymetal	01.01.2011	Au=1020 $/oz Ag=16.6 $/oz	AuEq(OP)=0.5 g/t	Polymetal	01.01.2010	Au=900$/oz Ag=14.5$/oz	AuEq(OP)=0.33–0.51 g/t
Lunnoye	2,975	1.8	371	175	35,450	Polymetal	01.01.2011	Au=1020 $/oz Ag=16.6 $/oz	AgEq(UG)=285–341 g/t	Polymetal	01.01.2010	Au=900$/oz Ag=14.5$/oz	AgEq(UG)=355.5–443.4 g/t
Arylakh	1,034	0.6	434	20	14,430	Polymetal	01.01.2011	Au=1020 $/oz Ag=16.6 $/oz	AgEq(OP)=133.7 g/t AgEq(UG)=345.2 g/t	Polymetal	01.01.2010	Au=900$/oz Ag=14.5$/oz	AgEq(OP)=136.1 g/t
Khakanja	2,780	3.5	225	310	20,130	Polymetal	01.01.2011	Au=1020 $/oz Ag=16.6 $/oz	AuEq(OP)=0.9 g/t AuEq(UG)=3.9–4.16 g/t	Polymetal	01.01.2010	Au=900$/oz Ag=14.5$/oz	AuEq(OP)=0.95–1.0 g/t AuEq(UG)=4.2–4.7 g/t
Yurievskoye	160	8.1	14	40	70	Polymetal	01.01.2011	Au=1020 $/oz Ag=16.6 $/oz	AuEq(UG)=5.9 г/т	Polymetal	01.01.2010	Au=900$/oz Ag=14.5$/oz	AuEq(OP)=2.33 g/t
Mayskoye	7,877	9.6	—	2,426		Snowden Mining Industry Consultants	June 2010	Au=900$/oz	Au(OP)=3.22 g/t — Oxide ore Au(OP)=4.08 g/t — Sulphide ore Au(UG)=7.0 g/t — Oxide and Sulphide ore				
Albazino	17,375	4.1	—	2,280		Snowden Mining Industry Consultants	May 2009	Au=700$/oz	Au(OP)=1.65 g/t				
Sopka Kvartsevaya	3,534	4.5	155	510	17,580	Polymetal	01.01.2011	Au=1020 $/oz Ag=16.6 $/oz	AuEq(OP)=1.27–4.62 g/t	AMC	01.07.2007	Au=600$/oz Ag=12$/oz	AuEq(OP)=2.2 g/t
Birkachan	13,600	2.5	11	1,100	4,760	Polymetal — OP SRK Consulting (UK) Limited — UG	01.01.2011 — OP 30.06.2010 — UG	OP: Au=1020 $/oz Ag=16.6 $/oz UG: Au=900$/oz Ag=14.5$/oz	AuEq(OP)=0.8–2 g/t AuEq(UG)=5.21 g/t	SRK Consulting (UK) Limited	30.06.2010	Au=900$/oz Ag=14.5$/oz	AuEq(OP)=0.85–2.19 g/t AuEq(UG)=5.21 g/t
Degtyarskoye	220	4.2	26	30	180	Polymetal	01.01.2011	Au=1020 $/oz Ag=16.6 $/oz	AuEq(OP)=1.6 g/t	Polymetal	01.01.2010	Au=900$/oz Ag=14.5$/oz	AuEq(OP)=1.73 g/t
Tsokol zone	1,140	6.1	11	220	410	Polymetal	01.01.2011	Au=1020 $/oz Ag=16.6 $/oz	AuEq(OP)=0.54 g/t AuEq(OP)=5.13 g/t				
Avlayakan	170	19.6	105	103	570	Polymetal	01.01.2011	Au=1020 $/oz Ag=16.6 $/oz	AuEq(OP)=9.1 g/t				
Total	80,409			9,164	331,280								

[1] Ore Reserves are estimated in accordance with the JORC Code. Discrepancies in calculations are due to rounding. [2] Including Nachalnoye–2. Estimate prepared by SRK Consulting (UK) Limited as at 01.01.2009. Price: Au=600 US$/oz and Ag=11.0 US$/oz. [3] Including Voro South. [4] Ore Reserves are estimated as at date indicated in this column. [5] Prices are indicated in US$.
[6] 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.

Ore Reserves: Polymetallic Ore Deposits[1]

Deposit	Tonnage, Kt	Grade		Content	
		Au, g/t	Cu, %	Au, Koz	Cu, Kt
Proved					
Varvara[2]	8,400	0.8	0.63	209	22
Total	8,400	0.8	0.63	209	22
Probable					
Varvara[2]	22,200	0.9	0.44	669	36
Total	22,200	0.9	0.44	669	36

Proved + Probable						Information source for current estimate				Information source for previous estimate			
Deposit	Tonnage, Kt	Grade		Content		Author	Date[3]	Price[4]	COG (cut-off grade)	Author	Date[3]	Price[4]	COG (cut-off grade)
		Au, g/t	Cu, %	Au, Koz	Cu, Kt								
Varvara[2]	30,600	0.9	0.50	878	58	Snowden Mining Industry Consultants	01.01.2011	Au= 900$/oz Cu= 6500 $/t	Au= 0.4–0.6 g/t Cu=0.2–0.3%	Orsu Metals Corporation	Jan 2009	Au= 700$/oz Cu= 1.5$/oz	Au(OP)= 0.41 g/t
Total	30,600	0.9	0.50	878	58								

[1] Ore Reserves are estimated in accordance with the JORC Code. Discrepancies in calculations are due to rounding. [2] Cu grade only represents average grade of Float feed. Ore Reserves of Float feed: 3.4 Mt Proved and 8.2 Mt Probable. [3] Ore Reserves are estimated as at date indicated in this column. [4] Prices are indicated in US$.

Estimated Ore Reserves as at 01.01.2011[1]: All Deposits

Category	Tonnage, Kt	Content		
		Au, Koz	Ag, Koz	Cu, Kt
Proved	55,732	4,480	208,880	22
Probable	55,277	5,561	122,400	36
Total	111,009	10,042	331,280	58

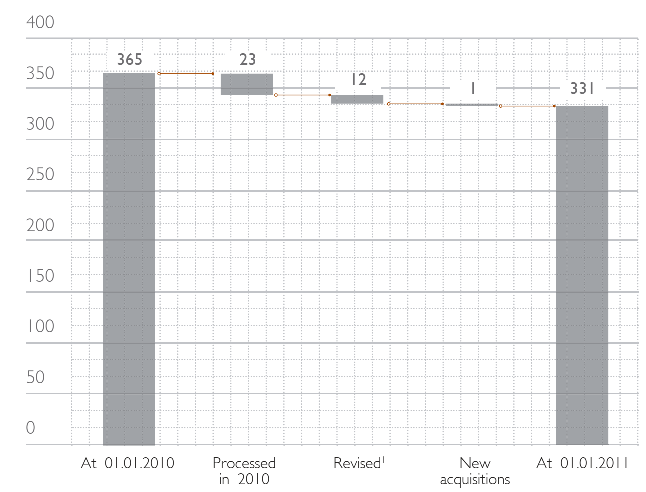
[1] Ore Reserves are estimated in accordance with the JORC Code. Discrepancies in calculations are due to rounding.

Ore Reserves

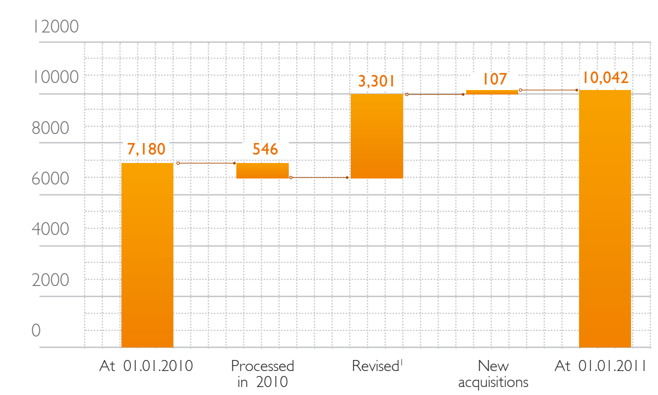
Ore Reserves as at 01.01.2011 are shown in the table entitled Estimated Ore Reserves as at 01.01.2011 on p. 134.

Changes in Ore Reserves are shown below:

Structure of change of Ag in Ore Reserves (Moz)



Structure of change of Au in Ore Reserves (Koz)



[1] Including conversion from Mineral Resources to Ore Reserves.

Mineral Resources

Last year Polymetal reported its Mineral Resources inclusive of Ore Reserves. This year we are reporting Mineral Resources as additional to Ore Reserves. A comparison of 2011 and 2010 Mineral Resources was carried out by internal Competent Persons, who highlighted additional Mineral Resources as of 01.01.2010 (excluding Varvara, which was audited by external Competent Persons).

Mineral Resources: Precious Metals Deposits[1]

Deposit	Tonnage, Kt	Grade		Content	
		Au, g/t	Ag, g/t	Au, Koz	Ag, Koz
Measured					
Dukat[2]	3,630	0.6	293	70	34,240
Voro[3]	1,470	1.6	3	80	140
Lunnoye	370	1.8	256	20	3,040
Arylakh	100	0.8	302	3	970
Khakanja	520	3.3	252	55	4,210
Yurievskoye					
Mayskoye[9]	464	6.3	—	94	
Albazino[10]	1,061	2.5	—	86	
Sopka Kvartsevaya	121	3.5	138	13.6	538
Birkachan	1,590	1.3	7	70	330
Degtyarskoye	90	4.1	44	10	130
Oroch					
Tsokol zone	10	5.0	10	2	5
Avlayakan	10	17.0	190	5	60
Kirankan					
Maymakan–Kundumi					
Svetloye					
Subtotal	9,436			508	43,663

Deposit	Tonnage, Kt	Grade		Content	
		Au, g/t	Ag, g/t	Au, Koz	Ag, Koz
Indicated					
Dukat[2]	2,400	0.6	288	50	22,240
Voro[3]	250	1.7	3	10	20
Lunnoye	900	1.3	291	40	8,430
Arylakh	135	0.6	421	3	1,830
Khakanja	350	2.8	159	30	1,790
Yurievskoye	40	6.3	13	10	20
Mayskoye[9]	1,642	6.1	—	321	
Albazino[10]	3,636	2.7	—	316	
Sopka Kvartsevaya	96	2.8	102	8.5	310
Birkachan	1,670	1.5	8	80	450
Degtyarskoye					
Oroch	1,365	3.3	143	143	6,284
Tsokol zone	60	7.3	13	10	26
Avlayakan	40	18.8	140	25	180
Kirankan					
Maymakan–Kundumi					
Svetloye					
Subtotal	12,583			1,046	41,580

Deposit	Tonnage, Kt	Grade		Content	
		Au, g/t	Ag, g/t	Au, Koz	Ag, Koz
Measured + Indicated					
Dukat[2]	6,030	0.6	291	120	56,480
Voro[3]	1,720	1.6	3	90	160
Lunnoye	1,270	1.4	281	60	11,470
Arylakh	235	0.7	371	6	2,800
Khakanja	870	3.1	214	85	6,000
Yurievskoye	40	6.3	13	10	20
Mayskoye[9]	2,105	6.2	—	415	—
Albazino[10]	4,697	2.7	—	402	—
Sopka Kvartsevaya	217	3.2	122	22.1	848
Birkachan	3,260	1.4	7	150	780
Degtyarskoye	90	4.1	44	10	130
Oroch	1,365	3.2	143	143	6,284
Tsokol zone	70	7.0	13	12	31
Avlayakan	50	18.4	150	30	240
Kirankan					
Maymakan–Kundumi					
Svetloye					
Subtotal	22,019			1,554	85,243

Deposit	Tonnage, Kt	Grade		Content	
		Au, g/t	Ag, g/t	Au, Koz	Ag, Koz
Inferred					
Dukat[2]	30	0.7	376.7	1	363
Voro[3]	—	—	—		
Lunnoye	1,110	1.7	465.1	60	16,600
Arylakh	250	0.8	532	6	4,280
Khakanja	140	2.7	164.3	10	740
Yurievskoye					
Mayskoye[9]	16,016	8.6		4,437	
Albazino[10]	1,722	3.3		185	
Sopka Kvartsevaya	45	3.0	99.6	4	144
Birkachan	420	14.3	65.7	190	890
Degtyarskoye					
Oroch	561	3.3	224.9	59	4,056
Tsokol zone	240	7.9	14.2	61	109
Avlayakan	10	16.0	50.0	5	16
Kirankan	201	5.3	9.5	34	61
Maymakan–Kundumi	322	8.3	78.7	86	804
Svetloye	16,233	2.1		1,103	
Subtotal	37,300			6,241	28,064

[1] Mineral Resources are estimated in accordance with the JORC Code unless otherwise specified. Mineral Resourses are additional to Ore Reserves. Discrepancies in calculations are due to rounding. [2] Including Nachalnoye–2. Estimate prepared by SRK Consulting (UK) Limited as at 01.01.2009. Price: Au=700 US$/oz and Ag=13.5 US$/oz. [3] Including Voro South. [4] Mineral Resources are estimated as at date indicated in this column. [5] Prices are indicated in US$. [6] 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 and/or underground mining and therefore individual COG for every area was calculated. [7] Estimate has been prepared in accordance with the CIM standards and definitions for resource estimates. [8] Estimate has been prepared in accordance with the NI 43–101 standards and definitions. [9] Snowden report (Polymetal: Mayskoye and Amursk Project: Project No.V655, Audit of Mayskoye Feasibility Study, July 2010) defines Mineral Resources Measured and Indicated as including Ore Reserves. In that report Snowden fully confirmed the volume of Mineral Resources as quantified by the Feasibility Study, in which Competent Persons from Polymetal participated. In this Annual Report, the amount of Mineral Resources additional to Ore Reserves was highlighted by Competent Persons of Polymetal. [10] Snowden report (Polymetal: Albazino and Amursk Project: Project No.V623, Audit of Feasibility Study, June 2009) defines Mineral Resources Measured and Indicated as including Ore Reserves. In that report Snowden fully confirmed the volume of Mineral Resources as quantified by Feasibility Study, in which Competent Persons from Polymetal participated. In this Annual Report the amount of Mineral Resources additional to Ore Reserves was highlighed by Competent Persons of Polymetal.

Mineral Resources: Precious Metals Deposits[1]

Total Mineral Resources: precious metals deposits						Information source for current estimate				Information source for previous estimate			
Deposit	Tonnage, Kt	Grade		Content		Author	Date[4]	Price[5]	COG (cut-off grade)[6]	Author	Date[4]	Price[5]	COG (cut-off grade)[6]
		Au, g/t	Ag, g/t	Au, Koz	Ag, Koz								
Dukat[2]	6,060	0.6	291.8	121	56,843	Polymetal	01.01.2011	Au=1100$/oz Ag=18.0$/oz	AgEq(OP)=60 g/t AgEq(UG)=175 g/t	Polymetal	01.01.2010	Au=1150$/oz Ag=18.5$/oz	AgEq(OP)=57.3 g/t AgEq(UG)=134 g/t
Voro[3]	1,720	1.6	3.0	90	160	Polymetal	01.01.2011	Au=1150$/oz Ag=18.5$/oz	AuEq(OP)=0.5 g/t	Polymetal	01.01.2010	Au=1150$/oz Ag=18.5$/oz	AuEq(OP)=0.5 g/t
Lunnoye	2,380	1.6	366.8	120	28,070	Polymetal	01.01.2011	Au=1150$/oz Ag=18.5$/oz	AgEq(UG)=217–300 g/t	Polymetal	01.01.2010	Au=1150$/oz Ag=18.5$/oz	AgEq(UG)=151.8–210.5 g/t
Arylakh	485	0.7	453.8	12	7,080	Polymetal	01.01.2011	Au=1150$/oz Ag=18.5$/oz	AgEq(OP)=118.3 g/t AgEq(UG)=285 g/t	Polymetal	01.01.2010	Au=1150$/oz Ag=18.5$/oz	AgEq(OP)=103.4 g/t AgEq(UG)=196 g/t
Khakanja	1,010	3.0	207.5	95	6,740	Polymetal	01.01.2011	Au=1150$/oz Ag=18.5$/oz	AuEq(OP)=0.77–0.78 g/t AuEq(UG)=2.19–2.53 g/t	Polymetal	01.01.2010	Au=1150$/oz Ag=18.5$/oz	AuEq(OP)=0.73–0.77 g/t AuEq(UG)=2.2–2.3 g/t
Yurievskoye	40	6.3	12.5	10	20	Polymetal	01.01.2011	Au=1150$/oz Ag=18.5$/oz	AuEq(UG)=4.7 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
Mayskoye[9]	18,121	8.3		4,851		Polymetal	June 2010	Au=1150$/oz	Au(OP)=2.49 g/t — Oxide resources Au(OP)=3.17 g/t — Sulphide resources Au(UG)=4.42 g/t — Oxide resources Au(UG)=5.17 g/t — Sulphide resources	Snowden Mining Industry Consultants	June 2010	Au=1150$/oz	Au(OP)=2.49 g/t — Oxide resources Au(OP)=3.17 g/t — Sulphide resources Au(UG)=4.42 g/t — Oxide resources Au(UG)=5.17 g/t — Sulphide resources
Albazino[10]	6,419	2.8		587		Polymetal	May 2009	Au=800$/oz	Au(OP)=1.4 g/t	Snowden Mining Industry Consultants	May 2009	Au=800$/oz	Au(OP)=1.4 g/t
Sopka Kvartsevaya	262	3.1	118.3	26	992	Polymetal	01.01.2011	Au=1100 $/oz Ag=18 $/oz	AuEq=1.17–4.48 g/t	AMC	01.07.2007	Au=600$/oz Ag=12$/oz	AuEq=2 g/t
Birkachan	3,680	2.9	14.1	340	1,670	Polymetal — OP SRK Consulting (UK) Limited — UG	01.01.2011 — OP 30.06.2010 — UG	Au=1150$/oz Ag=18.5$/oz	AuEq(OP)=0.7–1.8 g/t AuEq(UG)=3.79 g/t	SRK Consulting (UK) Limited	30.06.2010	Au=1150$/oz Ag=18.5$/oz	AuEq(OP)=0.64–1.71 g/t AuEq(UG)=3.79 g/t
Degtyarskoye	90	4.1	44.4	10	130	Polymetal	01.01.2011	Au=1150$/oz Ag=18.5$/oz	AuEq(OP)=1.5 g/t	Polymetal	01.01.2010	Au=1150$/oz Ag=18.5$/oz	AuEq(OP)=1.34 g/t
Oroch	1,926	3.2	166.7	201	10,341	SRK Consulting (UK) Limited	01.01.2009	Au=900$/oz Ag=13$/oz	AuEq(OP)=0.6–2.5 g/t AuEq(UG)=2.5 g/t	SRK Consulting (UK) Limited	01.01.2009	Au=900$/oz Ag=13$/oz	AuEq(OP)=0.6–2.5 g/t AuEq(UG)=2.5 g/t
Tsokol zone	310	7.7	13.9	73	140	Polymetal	01.01.2011	Au=1150$/oz Ag=18.5$/oz	AuEq(OP)=0.5 g/t AuEq(UG)=4.12 g/t	SRK Consulting (UK) Limited	24.12.2009	Au=1000$/oz Ag=16$/oz	AuEq(OP)=0.76 g/t AuEq(UG)=6.35 g/t
Avlayakan	60	18.0	133.3	36	256	Polymetal	01.01.2011	Au=1150$/oz Ag=18.5$/oz	AuEq(OP)=8.0 g/t	Micon International Limited[7]	May 2006		Au=1 g/t
Kirankan	201	5.3	9.5	34	61	Micon International Limited (7)	May 2006		Au=1 g/t				
Maymakan–Kundumi	322	8.3	77.6	86	804	Micon International Limited (7)	May 2006		Au=1 g/t				
Svetloye	16,233	2.1	—	1,103		Fortress Minerals Corp.(8)	28.06.2008		Au=0.5 g/t				
Total	59,319			7,794	113,308								

[1] Mineral Resources are estimated in accordance with the JORC Code unless otherwise specified. Mineral Resourses are additional to Ore Reserves. Discrepancies in calculations are due to rounding. [2] Including Nachalnoye–2. Estimate prepared by SRK Consulting (UK) Limited as at 01.01.2009. Price: Au=700 US$/oz and Ag=13.5 US$/oz. [3] Including Voro South. [4] Mineral Resources are estimated as at date indicated in this column. [5] Prices are indicated in US$. [6] 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 and/or underground mining and therefore individual COG for every area was calculated. [7] Estimate has been prepared in accordance with the CIM standards and definitions for resource estimates. [8] Estimate has been prepared in accordance with the NI 43–101 standards and definitions. [9] Snowden report (Polymetal: Mayskoye and Amursk Project: Project No.V655, Audit of Mayskoye Feasibility Study, July 2010) defines Mineral Resources Measured and Indicated as including Ore Reserves. In that report Snowden fully confirmed the volume of Mineral Resources as quantified by the Feasibility Study, in which Competent Persons from Polymetal participated. In this Annual Report, the amount of Mineral Resources additional to Ore Reserves was highlighted by Competent Persons of Polymetal. [10] Snowden report (Polymetal: Albazino and Amursk Project: Project No.V623, Audit of Feasibility Study, June 2009) defines Mineral Resources Measured and Indicated as including Ore Reserves. In that report Snowden fully confirmed the volume of Mineral Resources as quantified by Feasibility Study, in which Competent Persons from Polymetal participated. In this Annual Report the amount of Mineral Resources additional to Ore Reserves was highlighed by Competent Persons of Polymetal.

Mineral Resources: Polymetallic Ore Deposits[1]

Deposit	Tonnage, Kt	Grade					Content				
		Au, g/t	Ag, g/t	Cu, %	Pb, %	Zn, %	Au, Koz	Ag, Koz	Cu, Kt	Pb, Kt	Zn, Kt
Measured											
Goltsovoye	334	—	1,293	—	2.55	—		13,891	—	8.5	—
Varvara[2]	5,000	0.7	—	0.40	—	—	119		15	—	—
Subtotal	5,334						119	13,891	15	8.5	
Indicated											
Goltsovoye	1,143	—	906	—	2.81	—		33,280	—	32.1	—
Varvara[2]	23,900	0.8	—	0.41	—	—	582		34	—	—
Galkinskoye	4,255	1.4	44	—	—	1.37	196	5,975	—	—	58.0
Perevalny	1,095	—	375	0.34	2.26	2.28		13,229	4	25.0	25.0
Subtotal	30,393						778	52,484	38	57.1	83.0

Deposit	Tonnage, Kt	Grade					Content				
		Au, g/t	Ag, g/t	Cu, %	Pb, %	Zn, %	Au, Koz	Ag, Koz	Cu, Kt	Pb, Kt	Zn, Kt
Measured + Indicated											
Goltsovoye	1,477	—	993	—	2.6	—		47,170	—	40.6	—
Varvara[2]	28,900	0.8	—	0.41	—	—	701		48	—	—
Galkinskoye	4,255	1.4	44	—	—	1.37	196	5,975	—	—	58.0
Perevalny	1,095	—	—	—	—	—		13,229	4	25.0	25.0
Subtotal	35,727						897	66,374	52	65.6	83.0
Inferred											
Goltsovoye	920	—	738	—	2.75	—		21,833	—	23.7	—
Goltsovoye (stockpile)	65	—	238	—	—	—		494	—	—	—
Varvara[2]	13,500	1.0	—	0.52	—	—	437		28	—	—
Galkinskoye	9,982	1.2	29	—	—	1.18	394	9,447	—	—	118.0
Perevalny	75	—	206	0.46	3.65	3.65		513	0	3.0	3.0
Subtotal	24,542						831	32,287	28	26.7	121.0

Total Mineral Resources: polymetallic ore deposits												Information source for current estimate				Information source for previous estimate			
Deposit	Tonnage, Kt	Grade					Content					Author	Date[3]	Price[4]	COG (cut-off grade)[5]	Author	Date[3]	Price[4]	COG (cut-off grade)[5]
		Au, g/t	Ag, g/t	Cu, %	Pb, %	Zn, %	Au, Koz	Ag, Koz	Cu, Kt	Pb, Kt	Zn, Kt								
Goltsovoye	2,462		878		2.61			69,497		64.3		Wardell Armstrong International	Feb 2007	Ag=10$/oz Pb=0.65$/lb	Ag=150 g/t				
Varvara[2]	42,400	0.8		0.44			1,138		76			Snowden Mining Industry Consultants	01.01.2011	Au=1150$/oz Cu=8400 $/t	Au=0.33 g/t Cu=0.2%	Orsu Metals Corporation	Jan 2009		Au=0.29 g/t Cu=0.2%
Galkinskoye	14,237	1.3	34			1.24	590	15,422			176.0	Snowden Mining Industry Consultants	May 2007	Au=600$/oz Ag=10$/oz Zn=2500$/t	AuEq(OP)=2 g/t				
Perevalny	1,170		364	0.35	2.35	2.35		13,742	4	28.0	28.0	SRK Consulting (UK) Limited	01.01.2009	Ag=13$/oz Cu=220$/lb Pb=70$/lb Zn=90$/lb	AgEq(UG)=177.2 g/t				
Total	60,269						1,728	98,661	80	92.3	204.0								

[1] Mineral Resources are estimated in accordance with the JORC Code unless otherwise specified. Mineral Resourses are additional to Ore Reserves. Discrepancies in calculations are due to rounding. [2] Cu grade only represents average grade of Float feed. [3] Mineral Resources are estimated as at date indicated in this column. [4] Prices are indicated in US$. [5] Cut–off grade was calculated separately for open–pit (OP) and underground (UG) mining.

Estimated Mineral Resources as at 01.01.2011[1]: All Deposits

Category	Tonnage, Kt	Content				
		Au, Koz	Ag, Koz	Cu, Kt	Pb, Kt	Zn, Kt
Measured	14,770	627	57,554	15	9	—
Indicated	42,976	1,824	94,064	38	57	83
Measured&Indicated	57,746	2,451	151,618	52	66	83
Inferred	61,842	7,072	60,351	28	27	121
Total	119,587	9,523	211,969	80	92	204

[1] Mineral Resources are estimated in accordance with the JORC Code unless otherwise specified. Mineral Resourses are additional to Ore Reserves. Discrepancies in calculations are due to rounding.

Glossary

Mining and Metallurgy Terms

Bio-oxidation (BIOX) — pretreatment for refractory ores which uses sulphur–consuming bacteria in a water solution to remove sulphur and to expose gold for further cyanidation.

Brownfield — an exploration or development project located within an existing mineral province which can share infrastructure and management with an existing operation.

Carbon-in-pulp (CIP) — a method of recovering gold and silver from pregnant cyanide solutions by adsorbing the precious metals to granules of activated carbon, which are typically ground up coconut shells.

Carbon-in-leach (CIL) — a method of recovering gold and silver from fine ground ore by simultaneous dissolution and adsorption of the precious metals onto fine carbon in an agitated tank of ore solids/solution slurry. The carbon flows counter currently to the head of the leaching circuit.

Concentrate — a fine, powdery product of the milling process containing a high percentage of valuable metal.

Concentrator — a milling plant that produces a concentrate of the valuable minerals or metals. Further treatment is required to recover the pure metal by hydrometallurgical or pyrometallurgical processing.

Cyanidation — a metallurgical technique for extracting gold from ore by converting the gold to a water soluble cyanide complex. It is the most commonly used process for gold extraction.

Cut-off grade — the lowest grade of mineralised material considered economic to mine and process depending on the given metal prices. It is used in the calculation of the quantity of ore present in a given deposit.

Doré bar — a precious metal alloy which is produced by smelting. Doré is an intermediate product which is subsequently refined to produce pure gold and silver. Doré bars weigh as much as 25 kg.

Flotation — a method of selectively recovering minerals from finely ground ore using froth created in water by aeration and specific reagents. In the flotation process, certain mineral particles are induced to float by becoming attached to bubbles of froth and the other mineral particles sink.

Grade — the relative quantity, or the percentage, of metal or mineral content in ore.

Greenfield — development or exploration located outside the area of existing mine operations/infrastructure.

Gold equivalent — gold plus silver or another metal expressed in equivalent ounces of gold using a conversion ratio dependent on prevailing gold and silver prices.

Head grade — the average grade of ore fed into a mill.

Heap leaching — a process whereby valuable metals, usually gold and silver, are leached from a heap, or pad, of crushed ore by leaching solutions percolating down through the heap and collected from the basement, impermeable liner below the pad.

High grade — rich ore.

Leaching — the process by which a soluble metal can be economically recovered from minerals in ore by dissolution.

Merrill-Crowe process — a method of extracting a precious metal from pregnant solution to zinc powder after cyanide leaching ore.

Mill — a plant in which ore is treated and metals are recovered or prepared for smelting.

Open-pit (OP) — a mine that is entirely on surface. Also referred to as open–cut or open–cast mine.

Ore Reserves — the metal volume calculated tonnage and grade of mineralisation which can be extracted profitably; classified as possible, probable and proven according to the level of confidence that can be placed in the data.

Oxidation — a chemical reaction caused by exposing minerals to oxygen resulting in the change of their chemical composition.

Pressure oxidation (POX) — a method of treating sulphide ores. In the case of refractory gold ores, the objective is to oxidise the sulphides to sulphates and hence liberate the gold for subsequent cyanide leaching. The technique involves reaction of the ore with sulphuric acid under pressure in the presence of oxygen gas.

Primary ore — unprocessed ore.

Probable Ore Reserves — reserves for which quantity and grade and/or quality are computed from information similar to that used for proved (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proved (measured) reserves, is high enough to assure continuity between points of observation.

Proved Ore Reserves — reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches and workings on drill holes and grade and/or quality are computed from the results of detailed samplings; and (b) the sited for inspection, sampling and measurement are spaced so closely and the geological character is so well defined that size, shape, depth and mineral content of reserves are well established.

Refractory ore — ore that resists the action of chemical reagents in the normal treatment processes and which may require pressure leaching or other means to recover of the valuable minerals.

Stockpile (SP) — blasted and mined ore heaped on surface, pending treatment or shipment.

Stockwork — one of the types of mineralisation, a complex system of structurally controlled or randomly oriented veins. Stockworks are common in many ore deposit types.

Stripping — removing the overburden or waste rock overlying an ore body in preparation for mining by open–pit methods.

Total Ore Reserves — represent Proved Ore Reserves plus Probable Ore Reserves.

Underground (UG) — natural or man–made excavation under the surface of the Earth.

Vein — a fissure, fault or crack in a rock filled by mineralised materials that have travelled upwards from some deep source. One of the types of mineralisation.

Waste — unmineralised, or sometimes poorly mineralised, rock that is not minable at a profit.

Abbreviations

CIS — Commonwealth of Independent States
COG — cut–off grage
FV — fair value
HL — heap leaching
NM — not meaningful
OP — open–pit
POX — pressure oxidation
SP — stockpile
TCC — total cash cost
UG — underground

Units of measure

bbl	Oil barrel
Koz	Thousand ounces
Kt	Thousand tonnes
Ktpa	Thousand tonnes per annum
Moz	Million ounces
Mtpa	Million tonnes per annum
t	Metric tonne (1,000 kg)

Conversion of weights and measures

1 troy ounce = 31.1 grams
1 kilogram = 32.15 troy ounces
1 kilogram = 2.2046 pounds
1 metric tonne = 1,000 kilograms
1 metric tonne = 2,204.6 pounds

POLYMETAL

JSC Polymetal

2 prospekt Narodnogo Opolcheniya
St. Petersburg
Russia, 198216
Phone: +7 (812) 334 3666
E–mail: info@polymetal.ru
www.polymetal.ru