

Sustainable Development Report 2007



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Statement from the CEO

Dear shareholders, colleagues and partners,

Polymetal is publishing its first Sustainable Development Report in order to summarize last year's work and present our plans for the future development of the Company's social policy. Our policy is important not just for the Company itself, but for a broad range of people who interact with Polymetal. As we see it, building trust is a key factor in maintaining the long-term effectiveness of our business.

For large business in Russia, social responsibility has traditionally meant helping to create a decent quality of life for the people. Social partnership in our country now is evolving into an effective mechanism for solving pressing sustainable development issues.

This report presents the Company's sustainable development efforts in 2007 and was approved by the Board of Directors on March 19, 2008.

Polymetal went public in 2007. Our sustainable development is implemented through a clear strategy designed to contribute to society and introduce widespread international principles of transparency to our corporate social policy. The Company's social investments include both internal and external social programs and are an important part of Polymetal's corporate strategy. These investments have become an integral part of our management practices.

In this report, we have systematized all of our programs and activities that

serve to promote social stability in the regions where the Company operates. The Company has passed several milestones since its foundation in 1998, including acquisition of assets, changes in ownership, the creation of a professional team and the establishment of public cooperation in regions where we operate. By 2006-2007, we moved from the initial formative stage to the growth stage, and today our task is to evaluate our sustainable development programs and present them to the public as an integral part of our strategic development.

Several long-term projects have entered their final stages during the reporting period. We have increased our capacity and are preparing the foundation for the next step of our strategy — launching several new operations.

Polymetal has grand plans that require a systematic approach to sustainable development. We are in the process of introducing complex programs to develop our employees' professional skills, shape a responsible public policy and help create stable, constructive cooperation with all interested parties.

The Company makes significant contributions to the development of the territories where we operate. This is particularly important given the remoteness of these territories and their particularly difficult climate and living conditions. Our operations provide employment for a significant part of the regions' economically active population,

making them town anchors. Therefore, the Company has a unique responsibility both to provide decent living conditions for the population and to develop the regions.

We maintain many efforts aimed at improving the environmental situation in the regions in which we operate. At the same time, we have created safe labor conditions that correspond to international standards and are expanding the spectrum of social programs we offer our employees.

HR training and development are a high priority. The Company implements the latest methods and approaches to encourage employees to continually improve their skills and qualifications. We are expanding and updating our employee motivation program's material and intangible benefits. We firmly believe that people are a key asset that drives the Company's growth and increases its competitiveness.

We have set ambitious goals for our future. Polymetal plans to become the leading gold mining company in the country, and to do this we are implementing international standards in every aspect of our business. I am confident that this Sustainable Development Report will help all interested parties gain a better understanding of our activities. In turn, we look forward to taking a fresh look at Company policies in the public sector.

Sincerely,
Vitaly N. Nesis
CEO of Polymetal



Principles of Sustainable Development

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

As formulated in its production development strategy for 2008-2012 (which was approved in 2007), Polymetal is determined to become a leader in the precious metals industry. The Company's mid- and long-term plans call for further development of its existing assets and the creation of new ones.

Implementing this strategy requires:

- Increasing reserves that are confirmed by independent JORC Code audits;
- Increasing production volumes at active operations;
- Optimizing activities at existing sites and increasing the effectiveness of technological processes;
- Minimizing production expenses while preserving the average proportion of production expenses relative to the industry;
- Increasing the effectiveness of business processes;
- Bringing new production sites online and developing exploration assets;
- Reducing environmental impact and adding new procedures to further improve the occupational safety system;
- Preserving and developing the Company's human resources.

The Company recognizes sustainable development as one of the vital economic

principles of its operations. This entails a deep respect for the interests, traditions and the way of life of the society in which it operates. Finding a rational balance of interests is the key principle that enables cooperation with all parties involved.

Polymetal's social policy is divided into two main sectors — internal and external. The Company's internal policy relies on programs that create safe working conditions and provide employees with opportunities for career development, motivation and a social safety network. The main goal of Polymetal's internal social programs is to increase the effectiveness of its business.

External social policy includes transparent information policies and reliance on open, constructive dialog with all parties involved in or affected by the business, including investors, shareholders and local communities. A positive social environment allows the Company to maintain stable business activity.

This report presents an analysis of Polymetal's cooperation with the principal groups with whom it interacts: employees, shareholders, investors and local communities. The last group includes regional authorities, local governments, the local population and community organizations.

Local Communities

Polymetal emphasizes the same set of social policies in every territory in which it operates, focusing on the following:

- Providing jobs;
- Paying taxes and social security contributions that help form local and regional budgets;
- Implementing projects that develop the economy and the public sector;
- Participating in projects that preserve cultural and ethnic traditions and protect the environment;
- Providing aid to the most vulnerable and disadvantaged members of society.

Polymetal's community development projects are implemented within the framework of long-term agreements. They function in conjunction with charitable programs and are targeted at realizing the full potential of local communities, supporting ethnic minorities and protecting the environment.

Polymetal representatives participate in working groups and committees created by local administrations to solve public policy issues.

The Company implements targeted programs that foster the development of infrastructure and vital social services such as education, healthcare and utilities, as well as athletic and physical education programs. These programs are developed in close collaboration with the communities they benefit.

Polymetal works closely with NGOs that support indigenous peoples and their traditions. It also works with organizations that represent the interests of vulnerable members of society in regions where the Company operates.

As part of the continuous effort to establish a more effective social policy in its operational areas, the Company regularly monitors public opinion and analyzes social surveys conducted by organizations that specialize in community work.

Employees

Polymetal adheres to the following HR management principles:

- Creating safe and comfortable working conditions that correspond with international standards of management and occupational and environmental safety;
- Offering jobs with competitive wages and benefits;
- Observing all legal and collective bargaining norms in its labor relations;
- Regularly updating incentive and motivation programs;
- Providing training and facilitating professional and career growth for all employees;
- Developing social partnerships and a strong corporate culture.

The Company's employees — their skills, abilities, qualifications and talents — are one of Polymetal's key competitive advantages.

The Company understands that creating a team of professionals who are truly invested in a common goal is a fundamental condition for increasing operational efficiency. To satisfy this condition, Polymetal relies on a series of internal programs aimed at creating safe working conditions, implementing HR development, installing a social safety network and motivating employees.

The Company relies on a social partnership system of collective agreements that maintains effective cooperation between management and employees. Together, they develop and implement solutions concerning key issues affecting Polymetal's growth. Furthermore, the Company is actively

shaping its corporate culture by developing an internal communications system to assess employees' attitudes and interests, as well as communicate and clarify the Company's goals, tasks, short- and long-term plans and the results of its industrial activities.

As in previous years, a corporate newspaper was regularly published throughout 2007. In order to address any potential problems in a timely fashion and reduce the chances of social conflict, the Company makes every effort to review all reports and claims submitted by the employees and to keep employees well-informed. This has allowed Polymetal to create an open and constructive dialog between management and workers.

In order to develop social programs further and help shape management decisions, Polymetal analyzed the results of a sociological survey given to employees at Company operations in 2006. The survey helped clarify social expectations and issues that required immediate attention.

Shareholders and Investors

Polymetal's relationship with its shareholders and investors is based on principles of direct, constructive dialog and international standards. The Company maintains an appropriate level of openness and transparency that gives shareholders and investors access to information. Polymetal also promotes continuous dialog with the investment community.

Polymetal's information policy is aimed at providing timely and complete information to all interested parties. The key principles are openness, timeliness, reliability, accessibility and full disclosure.

In order to effectively implement this policy, the Company has formed public relations and investor relations departments.

Polymetal discloses information about its activities in correspondence with the

requirements of Russian legislation and British regulations.

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

- Complete and reliable information;
- Prompt disclosure;
- A high level of security for information that constitutes government, administrative or commercial secrets;
- Fair and non-discriminatory disclosing practices.

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

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

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

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

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

The Company also publishes press releases, announcements, articles, interviews and other information in periodicals, brochures

and booklets when such publications are deemed necessary.

In order to increase informational transparency and encourage the investment community's interest in Polymetal, the Company regularly holds meetings with shareholders, investors and stock market analysts in Russia and abroad.

In 2007, Company representatives held more than 100 meetings with shareholders, investors and investment bank analysts in Russia, Canada, the United States and Great Britain. Polymetal participated in Russian and international investment conferences in Russia, Great Britain, the United States, Sweden, Canada, Switzerland and Germany. Polymetal welcomed foreign investors and analysts

at its production facilities, where they could gain a more detailed, firsthand understanding of the business.

The Company plans to play an active role in key industry events in the future, including at Russian and international investment conferences and forums. It will also actively encourage direct communication with investors.

The Company's regularly updated corporate website contains detailed information about the activities, goals, practical results and prospects of Polymetal's operations. It also addresses projects that are important for the Company's corporate policy, including social and environmental projects.

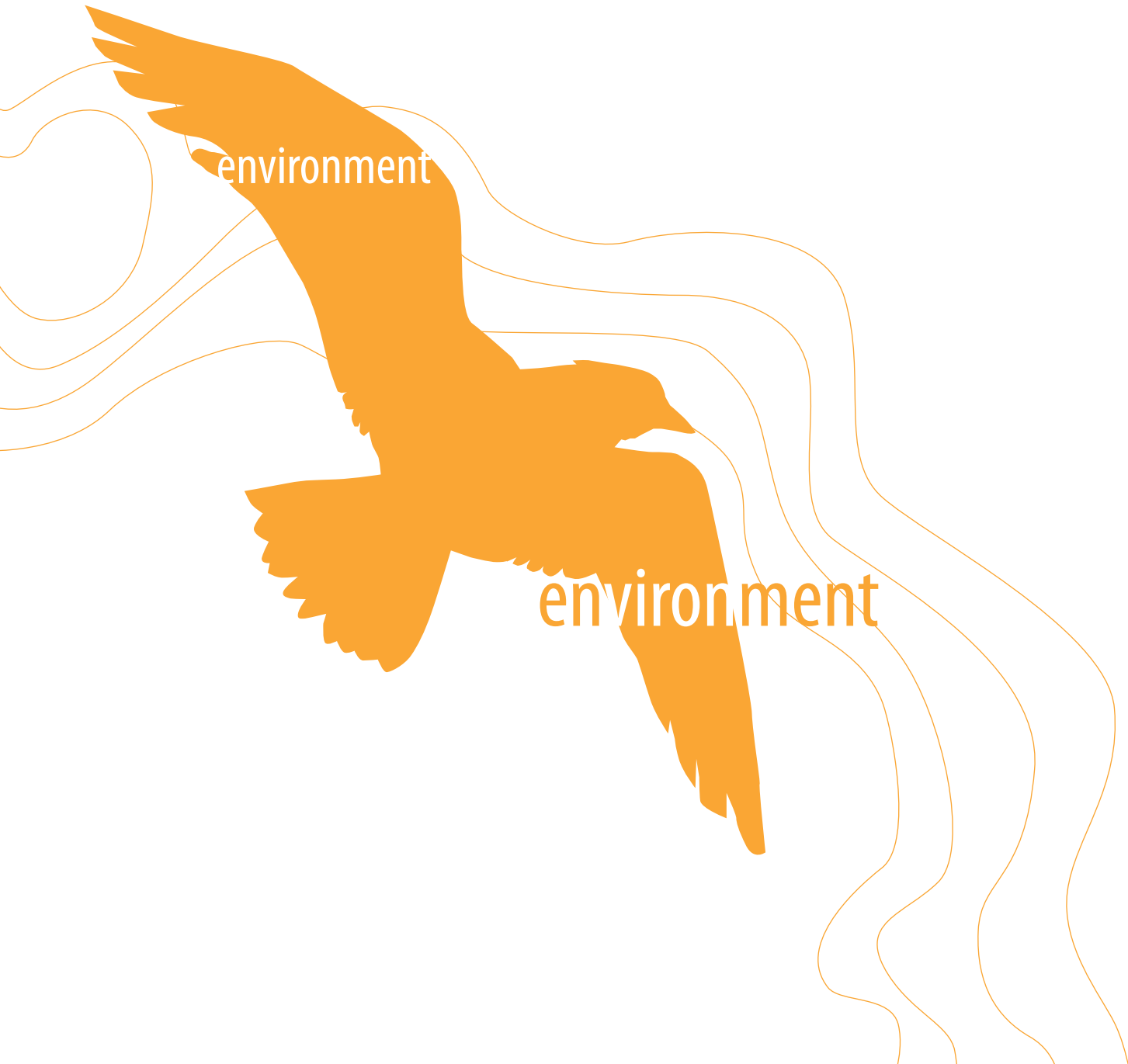
The following documents are posted on the Company website:

- Polymetal's Charter and all changes and updates to it;
- Annual Reports;
- Prospectuses;
- Quarterly issuer's reports on equity securities;
- Lists of people affiliated with Polymetal;
- Releases about important facts;
- Data that could have significant influence on the issuer's stock price.

Detailed information about the Company's industrial and financial activities is regularly published in the Annual Reports. Reports summarizing production activities are published quarterly.

Polymetal is open to partnership and provides maximum assistance to interested parties to satisfy their informational requirements. The Company regularly responds to media, investor and shareholder inquiries.

Reducing environmental impact is a key priority for the Company. Polymetal strives to improve production safety and is implementing an environmental protection system that will protect the environment of regions the Company operates in.



Environmental Responsibility

Environmental Policy

Polymetal is guided by Russian laws regulating environmental protection, conservation and industrial sanitation, as well as by World Bank initiatives and its own corporate policy.

The Company recognizes that mining and beneficiation of ore, like any other type of production, affects the environment. Polymetal strives to lower the environmental impact of its activities throughout the entire production cycle.

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

- Reducing the volume of resources used for each unit of production and placing a stronger emphasis on rational use of natural resources;
- Utilizing secondary resources;
- Gradually phasing out environmentally dangerous materials and processes from production;
- Increasing the efficiency of production management, technology and operating activities;
- Involving all employees in their units' environmental initiatives;

- Improving the effectiveness of all environmental and post-production impact monitoring systems;
- Utilizing early-warning systems to prevent accidents with potential environmental fallout and creating an environmental risk management system.

Environmental Impact

Impact on Air Quality

Much of the atmospheric pollution in Polymetal's production processes is linked with mine exploitation and industrial zones for processing ore. Air pollution is primarily related to exhaust emissions from internal combustion engines and diesel electric stations. Air-quality targets are achieved by using technology such as efficient dust- and gas-purifying plants to filter the air before it is released into the atmosphere. Polymetal also uses dust suppression in open pits, dumps and onsite service roads when the temperature is above freezing.

Impact on Surface and Ground Water

At Polymetal production facilities, there are multiple types of run-off, including service water, industrial run-off, storm run-off from industrial sites, quarry water, underspoil water and drainage waste water. Industrial

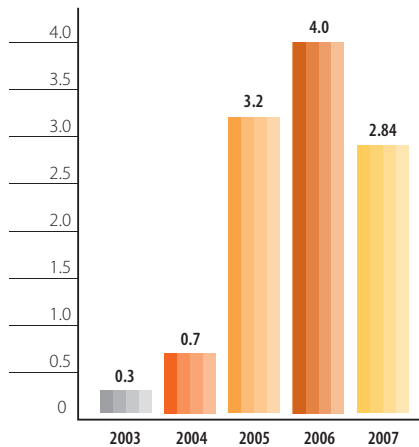
wastewater is used in a water recirculation system. Service water and storm run-off from industrial production areas are released backed into nature only after careful filtration and if they are not needed for use in any technical processes. The quality of service water after filtration meets standards applied to bodies of water designated for fish farming. Quarry water and underspoil water go through mechanical cleaning and are sometimes used for dust suppression during warm months.

Industrial Waste Disposal

Storage and utilization of industrial waste is one of the most important environmental protection issues for mineral resources extraction sites.

The main volume of waste consists of rock produced while mining and extracting ore. A large volume of waste rock is produced at all mining units, particularly those with open pit mines. During the extraction of gold and silver, the volume of waste produced is nearly equal to the volume of mined ore.

Biological toxicity testing is regularly conducted at all sites to measure the impact that waste rock and tailings from mining and ore extraction have on the environment. Waste rock and tailings



Expenditures on Environmental Protection

\$ mln

from ore extraction are buried within the limits of the land allocated for each production site.

In order to reduce volumes of stored waste rock and minimize the area filled with waste, the Company's production units attempt to maximize the use of waste rock in reclamation of land used for mining and the construction of service roads and industrial areas.

In 2007 exhausted stockpiles from heap leaching at the Voro deposit were used to build foundations for the placement of new stockpiles, while waste rock was used to fill in exhausted open pits.

Liquidation and Reclamation

Designs of all production sites include measures for land reclamation when the deposits are exhausted. The reclamation of waste areas takes place during work at deposits once these areas are brought to their end position. The reclamation

of tailings impoundments takes place once the impoundments are filled. All aboveground sections of a deposit are filled in after mining to prepare the land for subsequent uses.

The open pit mines at Dukat were reclaimed in 2007. Exhausted sections of open pits at the Voro deposit are currently being filled in with waste rock.

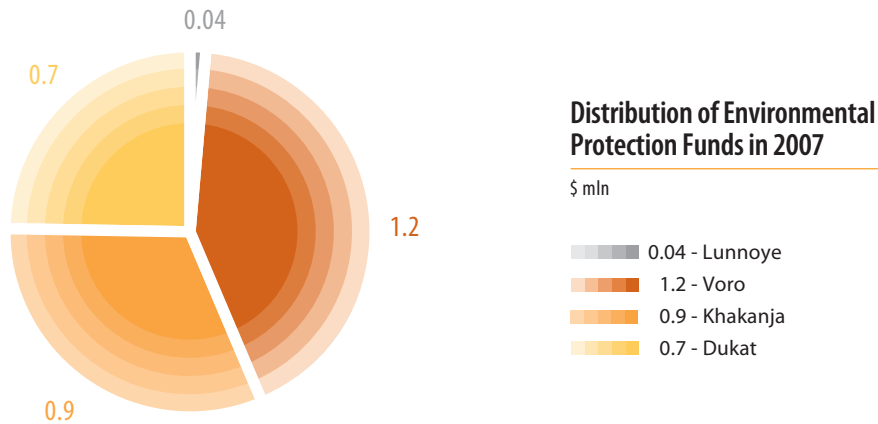
In compliance with World Bank requirements for environmental protection, all Polymetal production units have established liquidation plans in the event that further work at these sites becomes impossible or unprofitable due to economic, environmental, technological or any other reason. The liquidation plans include conversion of all buildings and structures to alternative functions and take into account industrial safety, resource conservation and environmental concerns.

Environmental Support for Subsidiaries

In 2007 the Company's environmental protection department launched new environmental conservation initiatives and evaluated new operations' potential impact on the environment. This was an important part of the overall effort to expand existing units' production capacity, develop new assets and build new generation facilities.

In order to increase the environmental safety of production units and reduce their impact on the environment, the Company's environmental services developed and instituted the following norms to limit production facilities' environmental fallout in 2007:

- Waste build-up guidelines, waste storage limits and maximum permissible emissions (MPE) quotas at the Okhotskaya Mining and Geological Company.
- Measures to reduce atmospheric emissions during poor meteorological



conditions at Gold of Northern Urals. Starting in 2007, advance weather warnings are received directly from the Russian Committee on Hydrometeorology.

- A new project for monitoring the environment in the area of the Voro deposit. This project was implemented to reflect increased productivity and the recent reconstruction of key structures at the site. It provides regularly updated information about the condition of the surrounding environment to the Federal Hydrometeorology and Environmental Monitoring Service.

Polymetal reevaluates its environmental protection and management program on an annual basis.

A total of \$2.84 million was directed towards environmental protection measures in 2007.

The 2007 drop in expenditures on environmental protection at operations

was due to the completion of several major improvements in 2005-2006, including the acquisition and installation of most of the Company's gas-purifying equipment and the construction and expansion of tailings facilities. In 2007 the majority of funds were devoted to acquiring and installing additional equipment, equipment maintenance and completing the construction and renovation of tailings facilities.

Ion exchange filters were installed on the new semi-autogenous grinding mill at the Voro deposit's CIP production plant to reduce atmospheric discharge of hydrogen cyanide. A balanced ventilation system was also installed to normalize air quality in the plant. Tailings impoundment No. 3 was completed at Dukat in 2007 and the reconstruction of the tailings impoundment facilities at the Lunnoye deposit continued.

The Company makes payments for its pollution, as required by the Federal Law "On protecting the environment." In 2007 Polymetal paid a total of \$0.4 million to compensate for its negative impact on the environment.

Employee Environmental Education

Employee environmental education is a priority. Polymetal strives to keep its employees informed about relevant environmental issues and looks to involve them in Company environmental initiatives.

Company specialists regularly participate in seminars, conferences and symposiums about environmental safety and issues concerning current environmental legislation.

A series of programs and lectures that deals with the impact of specific production facilities on the environment and risks



related to their use has been developed to train specialists at Polymetal subsidiaries whose activities could impact the environment the most.

Polymetal specialists regularly undergo training at local offices of Rostekhnadzor, a government agency. They improve their hazardous waste handling qualifications and receive licenses to handle hazardous materials.

Specialists at Gold of Northern Urals received training at the Academy of Standardization, Metrology and Certification (Ekaterinburg), earning certificates in Quality Management: Handling Hazardous Materials.

Polymetal's environmental service specialists regularly conduct internal audits

at all production facilities to ensure that environmental and industrial standards are upheld. The environmental impact of production operations is observed through environmental monitoring, control and audits. Throughout these processes, samples are taken and analyzed. These samples can identify any noncompliance, and red flags can result in warnings and corrective actions.

Monitoring Compliance

The Company's environmental services continuously monitor air quality, surface and ground waters and deforestation in areas of operation. Changes in production technology, environmental control systems and/or procedures for liquidation and reclamation work may be introduced depending on the results of monitoring.

The monitoring program itself is reviewed annually, based on the results of the previous period. Improvements are regularly made to the program in order to receive a more complete picture about the impact of production facilities on the environment. Factors including areas of monitoring, observation points, controlled ingredients and the period during which water, air, soil, subsurface material and snow samples are taken are all considered.

All of Polymetal's environmental and industrial sanitation laboratories use accredited or certified tools to analyze the collected samples.

The high quality of Gold of Northern Urals' monitoring activities earned it a Roshydromet license to provide hydrometeorology services.



Environmental Management System

Polymetal has a successful Environmental and Industrial Sanitation Management System in place that the Company updates as needed. It defines the design and practical implementation of environmental protection strategies that are used to assign responsibility for a range of services concerning environmental policy. These services include an employee environmental education program, operational communications between various levels of the environmental management system and a system for handling documents that either regulates or registers all aspects of the Company's environmental protection. It also establishes procedures for defining and controlling operations that impact the environment.

The current system was launched at Polymetal and its subsidiaries in 2006 and corresponds with all World Bank requirements and ISO 14001 international standards.

Information Policy

Guided by its principles of information openness and transparency, Polymetal maintains an active public relations effort to keep local communities, the government and NGOs informed about its environmental impact.

In 2007 public hearings were held in the town of Polina Osipenko concerning the construction of a processing complex at the Albazino deposit. Public hearings were also held in the city of Amursk, Khabarovsk Territory about the planned

construction of a POX processing plant. In Polina Osipenko and Amursk, the Company presented detailed information regarding the technology as well as the economic and environmental aspects of the processing plants.

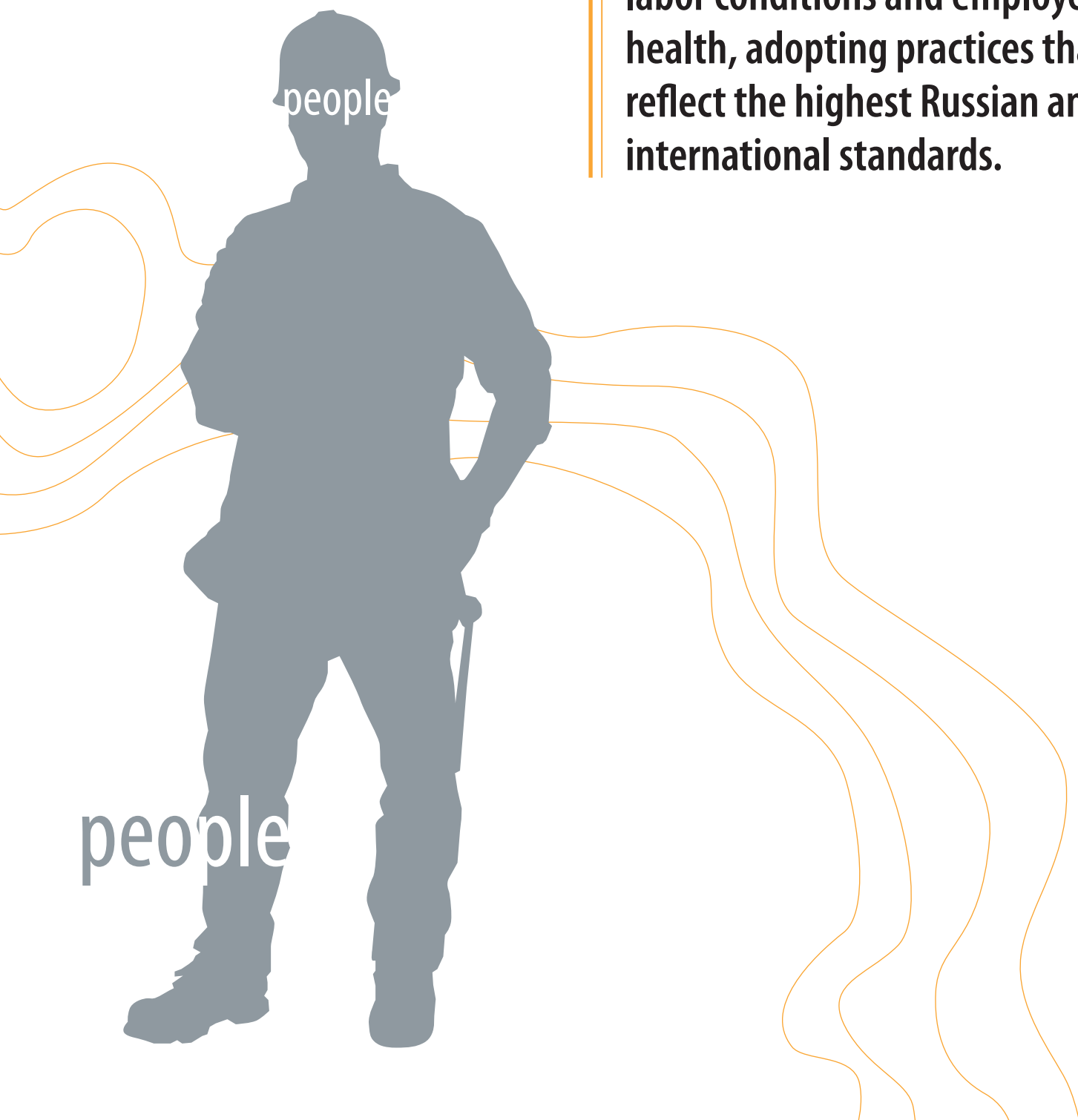
Participants at the public hearings unanimously approved the proposed construction projects, on the condition that the projects fully adhere to environmental protection laws.

In 2007 Silver Territory held public hearings in the Omsukchan and Srednekansk Districts of the Magadan Region as part of an application process for a license to handle hazardous materials. The community was provided with detailed information about company operations.

Polymetal's corporate culture values professionalism and emphasizes each worker's contribution to the Company's goals. Polymetal takes a proactive approach to the issues of industrial safety, labor conditions and employee health, adopting practices that reflect the highest Russian and international standards.

people

people



Employee Responsibility

Polymetal strongly believes that its employees are a key asset and strives to continually develop its human resources.

Polymetal's HR policy is based on the following strategic goals:

- Creating a system to regulate labor relations and develop social partnership that balances the needs of employees and the Company;
- Modernizing the employee incentive system by offering competitive salaries and benefits packages that lead to increased productivity and improved individual and collective results;
- Training personnel in order to ensure that all Polymetal units have the necessary amount of qualified specialists;

- Improving labor conditions and safety equipment;
- Improving living conditions at production sites;
- Developing a strong corporate culture, ensuring employees' social stability and facilitating a healthy psychological environment within every working team.

Approximately 91% of all employees work in mining and exploration. Of those, approximately 40% work according to a rotating schedule due to the geographic isolation of some sites, such as the deposits at Lunnoye, Khakanja, Yurievskoye and Albazino.

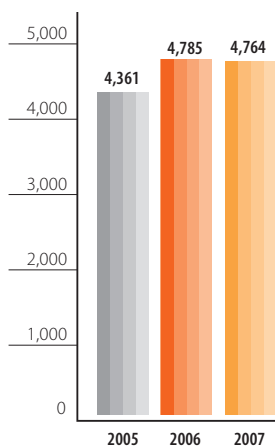
The age distribution and education levels have not significantly changed in 2007.

Employee Profile

As of December 31, 2007, the Company employed 4,764 people.

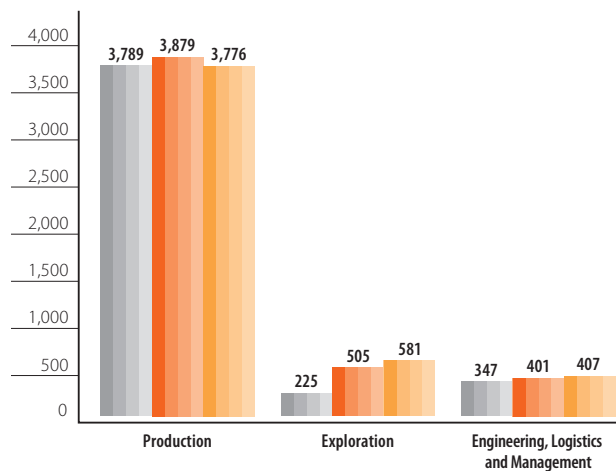
Men make up 77% of Polymetal employees, which reflects industry averages for the mining industry on the whole.

The growth in the number of employees involved in exploration units and their corresponding increase as a percentage of the Company total is related to new exploration projects, including the work that commenced at the Albazino deposit in the Khabarovsk Territory.



Number of Employees

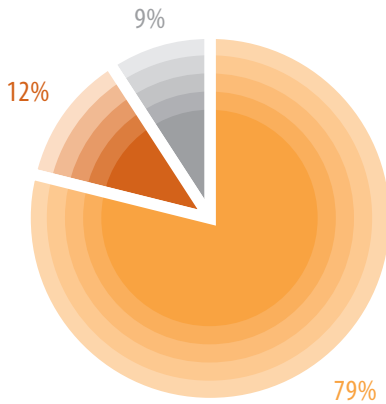
people



Employee Distribution by Type of Activity

people

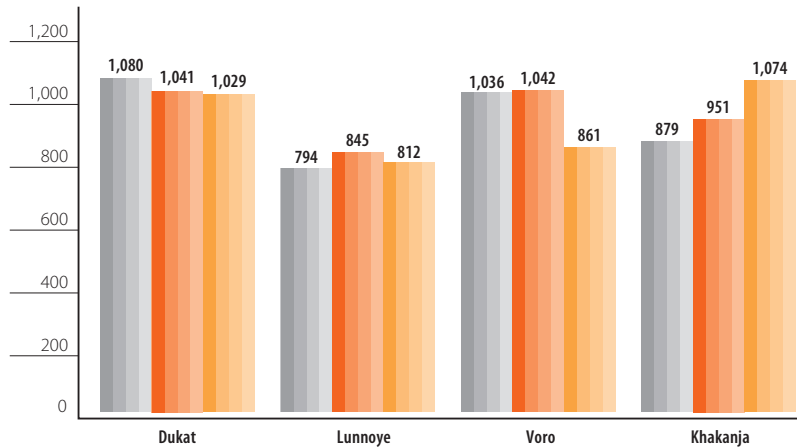
2005 2006 2007



Employee Profile

%

- 79% - Production
- 12% - Exploration
- 9% - Engineering, Logistics and Management



Number of Employees at Production Sites

people

- 2005
- 2006
- 2007

The Khakanja operations site has experienced growth in the number of employees because of the start of development work at the Yurievskoye satellite deposit. The reduction of employees at the other operations is due to outsourcing of certain processes (including maintenance facilities and secondary auto transport).

Compensation and Benefits

One of the most important elements of Polymetal's incentives system is material remuneration. It is based on the following considerations:

- Production results;
- Each individual's labor contribution and quality of work;
- Labor laws of the Russian Federation;
- The Collective Agreement;
- Providing an adequate standard of living.

Polymetal's steady growth allows the Company to offer pay raises on a regular basis. The criteria for pay increases are as follows:

- Effectiveness of the Company's operations;
- Minimum wage requirements in Russia;
- Inflation rates.

Structure of Compensation Packages

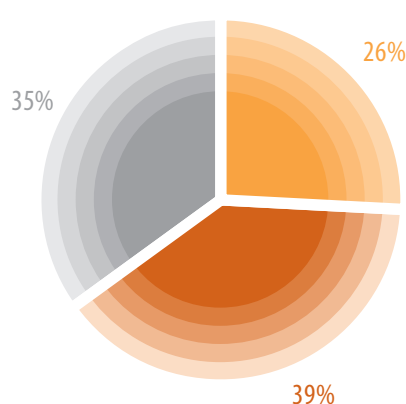
Employee compensation is based on a pay scale that reflects each position's complexity, employee qualifications and working conditions.

In addition to the base salary, Polymetal offers other forms of compensation in correspondence with Russian laws, the Collective Agreement and each employee's labor contract:

- Compensation for night shifts, work during weekends and holidays, hazardous work (indexed according to the rate established for regular work conditions), etc.;
- Incentives for receiving additional qualifications, expanding a service area, managing duties, professional skills, high qualifications, etc.;
- Additional compensation for difficult work conditions: regional coefficient-based salary increases and percentage-based bonuses for workers in the Far North and the adjacent regions, bonuses for working on a rotation or work in difficult field conditions, etc.

Men and women receive equal pay for equal work, as established in the Company's Comprehensive Salary Scale.

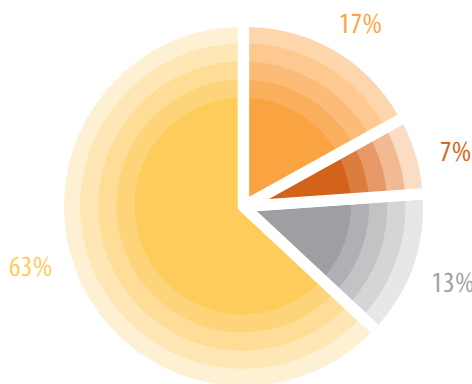
The average wage at Polymetal is more than double the average wage in Russia.



Employee Education Level Distribution

%

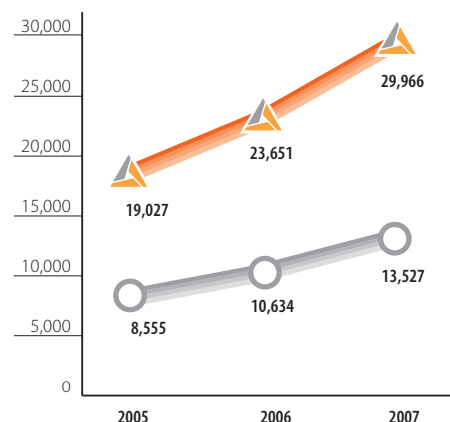
- 26% - Basic Professional Education
- 39% - Specialized Professional / Technical Education
- 35% - University Degree



Social Package Structure

%

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



Average Monthly Income

RUR

- Polymetal
- Russian Federation

Stock Options Program

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

Incentives and Motivation

The effectiveness of Company personnel is rated according to the quality and quantity of labor and the ability to achieve results.

Polymetal offers the following types of material incentives for its employees:

- Monthly bonuses based on production results;
- Annual bonuses based on production results;
- One-time bonus payments for carrying out particularly important production tasks;
- One-time motivational payments for holidays and important anniversaries;
- The "on-target management" bonus program provides material incentives for individual workers by creating targets or goals, with the size of payment tied to performance over a given period;

- A special awards program called The Project rewards employees who contribute to the development and introduction of innovations.

Polymetal's corporate compensation policy strictly adheres to Russian law and meets all government standards regulating employment in the Far North. The share of social expenses in terms of total personnel costs is 5%. The Company paid an average of about \$820 per employee in social expenses in 2007.

Structure of the Social Package:

- Disability benefits and assistance in other extraordinary circumstances (Paid parental leave of up to three years after the birth of a child, assistance with marriage, death of a loved one, severe illness in the family, losses resulting from fire, theft, accidents and other unforeseeable events);



- Additional severance pay for employees who reach retirement age;
- Reimbursements for preschool or after-school programs attended by employees' children;
- Biennial compensation for employees and their families living in the Far North equal to the cost of return tickets to a vacation destination;
- Compensation for employees from other regions who are stationed in the Far North, including reimbursement of any moving expenses and accommodations for them and their families for the duration of their stay;
- Compensation for employees who work on a rotational scheme that is equal to the price of a return ticket to their place of residence;
- Reimbursement of expenses associated with relocating to a new permanent place of residence for employees and their families who worked in the Far North for two or more years;
- Compensation for the price of travel packages for summer camps for employees' children.

The Company allocates funds to organize New Year's celebrations and purchase New Year's gifts for the employees'

children. It also finances celebrations for professional, corporate and other holidays.

Social Partnership and Corporate Culture

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

In 2007 Collective Labor Organizations were founded to represent employees at several of the Company's units.

The goal of these Collective Labor Organizations is to represent the interests of all Polymetal employees and to handle questions of social and labor relations, including issues concerning collective bargaining and the creation of collective bargaining agreements.

In 2007 collective bargaining agreements went into force at three Polymetal subsidiaries: Magadan Silver, Okhotskaya Mining and Geological Company and Gold of Northern Urals.

Collective bargaining agreements regulate social and labor relations and contribute to social stability at each organization. They establish benefits for employees and their families that greatly exceed the minimum level of benefits required by Russian law; they are tied to growth in labor productivity and other production achievements and take the Company's financial standing into account. The agreement is meant to stimulate employees in order to improve their efficiency and quality of work.

The signing parties accepted the following responsibilities within the framework of social partnership:

- Creating an effective system based on constructive dialog to develop comprehensive solutions to social and labor issues. This process is guided by a committee that consists of representatives of all of the parties represented in the collective bargaining agreement;
- Resolving all disagreements through mediation and in strict adherence to Russian law, making every effort to avoid confrontations when handling social problems;
- Contributing to the positive image of the Company as a socially responsible employer;

- Striving for employee cohesiveness in understanding and implementing Company goals, and encouraging a unified corporate culture that takes pride in the Company's work;
- Adopting a proactive approach to team-building within each unit in order to increase production efficiency, the quality of work, etc.

Corporate Culture

Corporate culture is an important factor that has direct impact on sustaining the Company's growth and competitive advantage. It is aimed at creating a positive work environment and forming a single shared vision of the Company's strategy and goals.

Polymetal's corporate culture brings together all of its divisions and departments and facilitates their interaction within the Company. It is what makes the entire team close-knit and effective. It helps concentrate employees' energy on the Company's main strategic goals as determined by the Company's mission.

In order to develop its corporate culture and continuously grow its social partnership, Polymetal has installed internal communication channels to ensure that employees have up-to-date knowledge of the Company's strategies, tactics and current projects.

Polymetal's corporate newspaper *Northern Latitude* is published to transmit internal communications to the Company's operations, with four original editions published monthly (one for each region Polymetal operates in). The publication serves to connect the employees of various operation sites, while also presenting unique information relevant to the region where each production site is located. The newspaper's slogan is "We are together!"

to reflect the Company's corporate goal of maintaining a cohesive team.

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

In 2007 the Company introduced a system designed to address employee concerns about social and labor issues within the framework of the collective bargaining agreements. The system collects and reviews concerns and then the Company responds either directly or in corporate publications. It then monitors the resolution process. Employee communications are collected in several ways: special "feedback" mailboxes, email, telephone hotlines to management at Polymetal operations and face-to-face meetings between management and employees.

The system received 268 employee messages in 2007. They addressed Polymetal's future prospects and development plans, wages and social benefits, training and HR development, opportunities for professional growth, living conditions and the organization of leisure activities.

The results have highlighted the effectiveness and relevance of this type of work. In 2008 this system will be further developed, making it more efficient and transparent. In its new form, it will also encourage employees to introduce innovative ideas that could improve the Company's social and working conditions.

In 2007 Polymetal developed and tested a system of internal corporate events aimed



Metalworkers' Day

The professional holiday Metalworkers' Day is a central event in Polymetal's corporate culture and it helps bring all employees together. The holiday is traditionally celebrated in all regions where the Company operates and is marked with festivities, awards ceremonies and bonuses for the best workers, concerts, athletic events and children's competitions. In 2007 Polymetal involved employees from all Company operations in the celebratory events, including employees from Dukat and Khakanja for the first time.

at creating an atmosphere of unity, forming a sense of involvement in Company activities, goals and targets and introducing other intangible means of motivating employees.

There were 263 engineers and technicians specializing in geological work at the Company's exploration and mining units in 2007. For National Geologist Day, in order to emphasize the importance of this profession to the Company,



Golden Talents, a Children's Drawing Competition

Some of Polymetal's most important social activities include supporting children and their talents. This drawing competition gave the children of Polymetal employees a chance to display their creative abilities. At the same time, it gave parents the opportunity to learn more about their children. The competition attracted a lot of attention, with over 400 children from all of the Company's regions participating. The works were judged by a jury of professional artists, teachers, psychologists and Polymetal representatives. The competition was celebrated at children's festivals, where the winners were awarded prizes and all participants received presents.

Polymetal organized events congratulating geologists, handed out presents and held sporting events. A series of publications about the Company's geology specialists and Polymetal's exploration prospects was published in the corporate newspaper *Northern Latitude*.

In 2007 many other motivational and corporate culture-building events and activities were held.

- A competition that tested employees' knowledge of Company history was held at Okhotskaya Mining and Geological Company in the Khabarovsk Territory. The competition was conducted in the corporate newspaper and helped team-building at the unit and generated interest in the Company's internal publications.
- An Employee Honor Roll was introduced at Gold of Northern Urals in the Sverdlovsk Region. Outstanding employees' portraits and their achievements were posted on special bulletin boards.
- Female Polymetal employees raising three or more children were congratulated on Mothers' Day in the Khabarovsk Territory and the Magadan Region. They were presented with one-time bonuses and other gifts.
- Victory Day celebrations were held at all Company units, and veterans with children and grandchildren working at Polymetal were congratulated.

Awards and Commendations

In 2007 Polymetal's employee reward program was systematized in the official Principles of Employee Rewards. This document specifies awards and financial incentives for employees and significantly increases bonus payments for individuals who have made important contributions to the Company's success. The modified system equally applies to all employees across the entire Company and describes all types of Company awards, from simple commendations for completion of particularly important tasks to the highest honor issued by Polymetal.

One innovation introduced into this system is that the amount of the award is now indexed to the national minimum wage. This makes the award system more democratic: any employee who receives

a monetary award will get a fixed amount that is not in any way linked to his or her salary, position or any other factor.

Another innovation is the honorary title of Distinguished Employee. This title has three levels of commendation: first, second and third. The size of the monetary award depends on the level.

In addition to material incentives, Polymetal rewards its employees and production units with official recognition of their achievements, especially when they display impressive production results, reach important anniversaries of service or introduce creative innovations.

The Company has the following types of commendations:

- Placing employee photos on Honor Roll bulletin boards;
- Issuing certificates of merit from Polymetal's CEO;
- Issuing official Statements of Appreciation on behalf of Polymetal's CEO;
- Presenting valuable gifts as tokens of the Company's gratitude.

Timely and appropriate recognition of important contributions allows employees to feel appreciated and accept the corporate goals as their own. It also strengthens employees' desire to continually improve the performance of their departments and the Company as a whole.

307 individuals — 7% of all employees — received awards in 2007. Official commendations and statements of appreciation are supported by bonuses or other material awards. Approximately \$135,000 of monetary prizes was distributed in 2007.

When appropriate, the Company also nominates its employees for federal,



regional, industry and other types of awards given in Russia.

In addition to the Company's most prestigious awards, the regulations also mandate other types of honors, including being entered into the Book of Honor, being placed on an employee Honor Roll, receiving a certificate of merit from the CEO and being singled out and thanked in the name of the CEO.

Living Conditions

Creating decent living conditions for employees is a priority for Polymetal. The Company attracts professionals from around the country to its mining operations, including young specialists, and strives to create comfortable conditions for work and leisure.

Comfortable accommodation camps are provided to accommodate those employees who work on a rotation scheme. They include amenities such as medical units, cafeterias, laundry services, book and video libraries and gyms.

In 2007 a dormitory was renovated in the town of Dukat. Now the town can house 120 employees in comfortable furnished apartments. This dorm is allocated for rotational Magadan Silver specialists.

In the fourth quarter of 2007 a new dormitory was opened at the mining camp Lunnoye with space for 48. It is used by rotational employees.

In 2007 seven new houses were added to the accommodation camp at the Yurievskoye deposit. The expansion also added a bathhouse and laundry complex, an administrative building and an annex with a cafeteria that seats 30.

During the reporting period, Polymetal acquired an incomplete residential building in the city of Amursk in anticipation of the opening of the Albazino-Amursk project. The Company is planning to begin a complete renovation in 2008 and finish the following year. The apartments will be given to rotational specialists.

In 2007 Polymetal completed a program to provide its remote sites with mobile phone service. Mobile communications were installed in mining camps at the Khakanja and Lunnoye deposits and at the towns of Omsukchan and Dukat. High-quality mobile access not only optimizes the production process, but also has a positive effect on employee morale, given the fact that they have to spend long periods of time far from home.

Meals and Catering

Employees' health and stamina depends on well-organized food services at Polymetal units. Therefore, the Company constantly monitors the quality of catering in its cafeterias. The administration ensures a variety of choices and that the remote production sites are regularly supplied all necessary products. The Company also ensures that employees facing hazardous working conditions receive special nutrition.

In 2007, catering services at the Lunnoye deposit were transferred to a contracted organization that was selected by tender. The contractor provides all domestic services at the camp. This brought notable improvements in the quality of food and other aspects of daily life. In 2008, contracted organizations will be selected for nine other production units where Company employees live and dine.

Transportation

The Company provides daily transportation for its employees to their workplace and back. This service is available to all employees.

Healthcare

Caring for the health of its employees and their families is one of the top priorities for Polymetal. Special emphasis is made on



A hockey team composed of Magadan Silver and Silver Territory employees was created in 2007. The team practices with a professional coach and plays in regional competitions. A hockey team was also formed at Gold of Northern Urals that regularly participates in city competitions.

reducing the annual number of employee sick days. The Company is committed to a variety of health initiatives, such as taking prophylactic measures against the flu and infectious diseases, preventing orthopedic injuries and discouraging unhealthy habits like smoking and excessive drinking.

The Company is particularly focused on developing prophylactic medicine. Its units provide free medical exams and offer free vaccinations. Doctors regularly examine employees at the production sites in an effort to prevent work-related health problems.

Employees are given access to medical treatment at healthcare facilities contracted by Polymetal. There are also first aid stations at all Company units.

The impressive reduction in sick lists in 2007 is a testament to the success of the Company's healthcare initiatives. There has also been a downward trend in the number of lost working days due to illness.

Promoting a Healthy Lifestyle

The Company promotes athletic activities in order to involve as many employees as possible in sports and physical fitness, regardless of their age, position and physical condition.

Regular sporting events and competitions for employees and members of their families have become a tradition:

- Family relay races
- Basketball
- Football
- Volleyball
- Hockey
- Swimming
- Winter sports

The staff of Gold of Northern Urals and Magadan Silver production sites includes sports instructors to work on Company employees' physical fitness. Employees can practice with professional coaches specializing in volleyball, football and other sports. The Company rents space from the Energiya Sports Complex for employees at the Dukat and Lunnoye deposits. In 2007 games and competitions in various sports (including volleyball, football, table tennis, races and others) were held regularly for employees and their families. Magadan Silver employees stationed at the town of Dukat have access to a gym in their dormitory.

There is a well-equipped gym, table tennis and other facilities at the Khakanja mining camp. The camp also holds regular competitions in various types of sports, including table tennis.

Education and Skills Development

Polymetal's success strategy strongly emphasizes the development of its human resources. Attracting and retaining highly qualified specialists is a Company priority. It also provides regular professional training for employees and creates the necessary conditions to develop employees' abilities and support young specialists.

In 2007 more than 1,700 employees were hired to satisfy increased staffing demands. This number includes more than 200 people at Albazino Resources, which recently began its activities and had to rapidly fill positions.

Hiring takes place throughout Russia and in Kazakhstan, Uzbekistan and Ukraine.

The Company uses staffing agencies, employment services and mass media to reach its target audience. Polymetal also actively recruits in the regions where the Company operates.

In collaboration with consulting firms, Polymetal has created a database of mining industry specialists. The Company now uses it when searching for potential job candidates.

An adaptation and mentoring program has been implemented at all Company's units in order to efficiently introduce employees to new positions and to transfer and preserve expert knowledge.

Polymetal not only works hard to attract qualified personnel, but also makes every effort to retain them. Employee turnover was 23% in 2007, which is consistent with the average retention rate of a dynamically growing organization. Employee turnover is dependent on the condition of the Russian labor market in general and is influenced by the demographic situation in the country, migration out of the Far East and Far North and a lack of qualified specialists in the industry. Together these tendencies create intense competition in the labor market.

Preparation and Skill Development

Polymetal takes training and development of its human resources very seriously.

The main goals in this area are:

- An adequate supply of highly qualified specialists for all production units;
- Continuous improvement of production quality and the ability to achieve targets;
- Motivating employees to develop their skills by providing them with on-the-job training and promotion opportunities.

In keeping with the Company's strategic goals, the HR department forms flexible employee training and retraining programs to accommodate changing production realities and technology, as well as changes in legislation.

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

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

Employees attend fixed-length training programs and receive certification from accredited institutions. Training workers and retraining engineers involves classes and one-on-one instruction. Polymetal has developed strong ties with Magadan Industry Training Center, Krasnoturinsk Industrial College, the DV-Tech Center for Continuing Education, the Khabarovsk Territory Training Complex, the Materials-Handling Machines Research and Development Center, Moscow State Technical University and other educational institutions.

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

certifications and skill development training.

Professional Skills Competitions

The Company regularly holds professional skills competitions. These events help develop employees' potential, increase their workplace creativity and improve production quality. Competitions for the best electrical and gas welder and the best driver were held in 2007.

Young Specialists

Attracting and molding young specialists is a priority at Polymetal, and to this end the Company uses a corporate internship program called "Youth. Professionalism. Career." The search for and selection of promising young workers covers the labor market and Russia's leading universities, as well as vocational schools in the regions where the Company is present. 108 people have participated in the "Youth. Professionalism. Career." program to date. Students receive on-the-job training at the Company and also take part in cultural and social projects.

During the training period, each student signs a labor agreement and is assigned to a mentor from among the most experienced engineers available. The mentor then helps the student to adjust to work at his or her unit and transfers skills and knowledge to the student.

The Company provides the students with room and board for the entire training period, as well as travel to and from the production site. It also pays them a stipend for their labor.

Throughout 2007 students from many schools and universities were invited to visit Company operations as part of Polymetal's professional orientation initiative. The initiative helps the students to become acquainted with the Company's technological processes, production, history and development strategy.



72 interns were trained at Polymetal in 2007. 16 of them stayed at the Company and were hired as young specialists. 21 others signed an employment agreement to start work after graduation.

Furthermore, within the framework of the "Youth. Professionalism. Career." program, Polymetal sponsored special training at vocational schools and universities to allow students to gain those qualifications and skills that the Company needs.

In 2007 the Company launched partnership programs with Irkutsk State Technical University, Tomsk Polytechnic University, Ekaterinburg State Technical University and Magnitogorsk State Technical University. The Company also continued to work with the Polymetal R&D Center at Irkutsk State Technical University. The Center works to prepare specialists for the Company's operations.

By cooperating with the country's leading universities to prepare specialists, Polymetal can help satisfy its demand for qualified engineers and technical workers.

Industrial and Occupational Safety

Polymetal's 2007 industrial health and safety efforts were based on Russia's laws and regulations: the Russian Constitution, the Labor Code, various federal laws and standards of industrial safety and healthcare. The Company has introduced international best practice of industrial and occupational safety with the goal of reducing workplace injuries and health risks.

In the reporting period, Polymetal has implemented an array of comprehensive measures aimed at improving workplace safety and protecting employees' health and well being. The Company also fulfilled requirements and recommendations (based on the results of audits) presented by Rostekhnadzor, the government agency that regulates industrial safety.

The main sets of standards that have shaped Polymetal's production processes are: the Industrial and Occupational Safety Management System (employed by the Company since 2006), Production Control Regulations, Work-order Management

Regulations, Rules of Administrative Reporting and the Comprehensive Plan of Improvements to Working Conditions and Preventative Health Measures.

Goals

Polymetal's primary occupational health and safety goals for 2007 were:

- Creating an accident-free production environment and good working conditions;
- Reducing the levels of workplace injuries and health risks.

Polymetal takes full responsibility for the design, implementation and continuous monitoring of its occupational health and safety programs and systems. Polymetal has adopted a proactive approach, in which risk factors are regularly identified and rated. Appropriate measures are then taken to control these factors and to limit their impact.

The Company stresses keeping its workplaces, machinery, equipment and instruments in working order to

eliminate or reduce risk factors during production. Polymetal trains all employees in occupational safety and provides them with personal protection gear. The Company is responsible for registering and notifying the authorities about all incidents of production-related injuries and work-related illnesses.

Industrial Health and Safety Management

In 2007 Polymetal's industrial health and safety services' work was guided by the Industrial and Occupational Safety Management System. Their primary goals were to reduce the risk of work-related accidents and injuries and maintain safe operation of potentially hazardous production facilities.

The Occupational Safety Management System combines the standards of Russian and international best practices in industrial and occupational safety. Its primary function is to control all steps of production activities.

The Company institutes safe working conditions by:

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

Compliance with World Bank Guidelines

The Company has received a positive review from an external audit conducted by the British company SRK Exploration Services. This audit confirmed that Polymetal has implemented its Occupational Safety Management System in compliance with World Bank guidelines.

Additional System upgrades will include the implementation of OHSAS 18001 (Occupational Health and Safety Assessment Series). Work on this project began in March 2007.

Employee Training and Certification

In compliance with Russian laws and internal corporate standards, Polymetal provides employee training that addresses the rules and methods of occupational safety.

Workers undergo training when hired and regularly thereafter. Training is a part of the Company's proactive measures aimed at reducing workplace injuries and helps motivate employees to follow the safety rules.

Safer Production and Management Procedures

The Company works hard to integrate the latest methodology and generally accepted principles of occupational safety. Polymetal's specialists utilize the latest technology to implement safer practices at the workplace. These specialists visit leading mining operations in Russia and abroad to learn about new standards and practices.

This experience has led to the introduction of Rules of Administrative Reporting and a revised edition of Standards for Using Occupational Safety Visual Aids and Promotion Materials in 2007. Furthermore, employees learn to plan for and apply safer production and management procedures at the leading Russian training facilities.

Personal Protective Gear

Polymetal provides employees with all necessary personal and group protective gear, including protective clothing and footwear, as required by Russian law and industry standards. Employees who work in the areas with potentially higher contamination levels are supplied with

additional personal hygiene products such as disinfectants and cleaners, skin care products, etc.

In 2007 all employees were provided with work clothing featuring a new corporate style and improved design that was better suited for work in the Far North. The work clothing is made with high-quality materials and meets the strictest standards for protecting Company employees in severe climate conditions from production pollution and possible physical injuries.

Maintenance and Equipment Upgrades

In order to create safer working conditions, Polymetal is upgrading its existing equipment and is integrating new technology and safety equipment. Large-scale replacements of production equipment are aimed at increasing workers' productivity and labor efficiency while improving workplace safety.

New imported machinery (CAT D9R bulldozers, ROC L8 drill rigs, CAT-R1000 LHD machines and MT-2000 underground haulers) has simultaneously increased the volume of mined ore and improved miners' working conditions.

Rubber-metal linings have been introduced to Weir Warman-DV semi-autogenous grinding mills at Polymetal's processing plants in 2007, leading to increases



in productivity and a reduction of labor hours required to service the equipment.

In 2007 funds were allocated to rebuild and repair systems of positive pressure ventilation at gold processing plants and laboratories. This improved the air quality in work zones and created more comfortable working conditions. The positive pressure ventilation was completely rebuilt in the bunker section of the Omsukchan gold processing plant.

Industrial and Occupational Safety Conditions

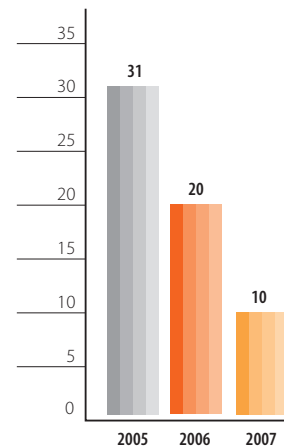
As a result of measures introduced by the Company in 2007 to control production risk factors, Polymetal has achieved a systematic decrease in the number of work-related injuries and implemented international standards for industrial and occupational health and safety

conditions at all of the Company's production sites.

The number of 2007 workplace injuries was half of number of the previous year, dropping to only ten injuries.

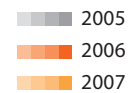
As a result of the reduction in workplace injuries, the number of lost labor hours also fell. In 2007 the number of lost workdays was only 35% of 2006 levels, down to 217 days.

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



Workplace Injuries

incidents





human error resulting from violations of safety rules and production procedures by experienced and trained employees.

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

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

The occupational safety service analyzed all incidents of employee injuries during the year and evaluated the details of each case. It then developed special

programs and preventative measures to eliminate the recurrence of similar incidents in the future.

Reporting

In 2007 Polymetal's industrial health and safety accountability procedures relied on timely and systematic reporting of the Company's activity in this area. The results were reported to the appropriate authorities, including Polymetal's management and federal industry monitoring agencies that oversee occupational safety.

Reports were filed immediately upon receiving results and regularly updated over ten-day, monthly, quarterly and annual periods, as required by Polymetal's corporate accountability standards.

The Company actively participates in the public life of the regions where it operates. Polymetal is always open to partnership and strives to provide broad support to local communities in order to resolve pressing social issues.



Community Responsibility

Polymetal's policy of cooperation with local communities is aimed at maintaining constructive relationships with the local authorities and developing a social environment in which the Company's employees feel safe and confident about their futures.

Many Polymetal operations are located in regions with difficult climatic conditions and poorly developed labor markets. The Company's contribution to sustainable development in the communities where it operates consists of the following components:

- Substantial contributions to the tax base;
- Support for infrastructure and related industries;
- Population growth associated with new production facilities;
- Emphasis on employing the local population at production sites and service areas;
- Training the local population in order to involve it in the development of new production sites;
- Support and development of social infrastructure;
- Development of cultural and creative life;
- Charitable initiatives to assist disadvantaged members of society;
- Support for ethnic traditions and the indigenous population;

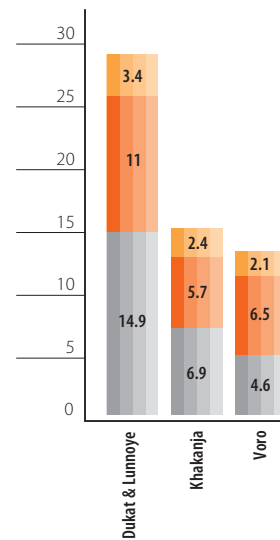
- Participation in environmental programs and projects.

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

Tax payments by Polymetal subsidiaries constitute a significant part of the tax base in the regions in which the Company operates. In a number of administrative districts in the Far East and the Magadan Region, these tax payments account for the majority of tax income.

In 2007 the Company paid approximately \$57.5 million to various levels of government, with more than \$23.2 million going to regional and local budgets.

The Company's ability to implement large investment projects and bring new capacity online helps animate the socioeconomic situation in new areas



Polymetal Tax Payments

\$ mln

- Federal
- Regional
- Non-budgetary funds



The Center for Extracurricular Learning was founded in 2007 in the town of Omsukchan in the Magadan Region. The Center brings together 14 groups that specialize in decorative arts, fine arts and technical training. It is also the home of the Omsukchan branch of Podvig, the army-sponsored sports and technology club. The opening ceremony took place in March 2007. Children can now practice music, work on art projects and enjoy the center's puppet theater, all at no charge. In 2007 the White Rook chess club also opened in the same building.

of development, increasing the local employment rate and the flow of people into the region.

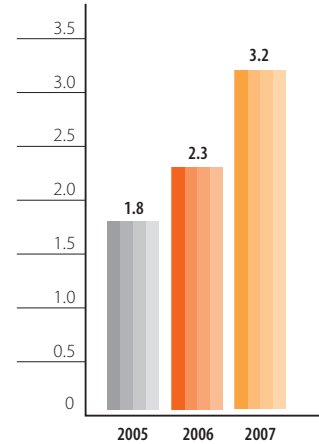
By working with a large number of contractors in the regions, the Company provides employment for hundreds of people and brings in additional tax payments from the activities of these enterprises.

Polymetal gives priority to hiring from the local labor pool and trains local workers for specific positions at its production units. In 2008, the Company plans to support a specialized training program at the Amursk Technical College. The graduates will be employed at Polymetal's operations.

In the Okhotsk District of the Khabarovsk Territory, the Company participates in the local government's Coordinating Council that deals with issues of workforce development. Polymetal works closely with the Okhotsk District's Employment Center to train specialists and provide opportunities for internships and employment at Company operations. The Company also supports mining-related degree programs at vocational schools and other educational institutions in the regions where it operates.

In 2007 Polymetal started to actively develop the Albazino-Amursk project in the Khabarovsk Territory. Construction of mining operations at the Albazino deposit is scheduled to start in 2009. The Albazino-Amursk project will eventually employ approximately 1,300 specialists, and most of the employees hired in 2007 came from the local labor pool.

Polymetal plays an active role in community and social development in the regions where it operates. The Company invested \$3.2 million in community aid projects in 2007.



Polymetal's Social Investments

\$ mln

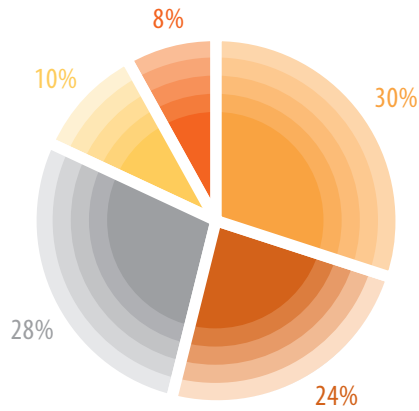
The growth in social investments is directly related to the expansion of Polymetal's activities. In 2007 the Company launched the major Albazino-Amursk project in the Khabarovsk Territory, began to develop the Arylakh gold deposit (a satellite of the Lunnoye deposit) in the Srednekansk District of the Magadan Region and has conducted exploration projects at new sites in the Sverdlovsk Region.

The Company carefully monitors and controls all spending on social programs and maintains a detailed database and a specialized management system for these projects. Within the framework of social investment management, information is regularly collected and the social and economic effects of the investments are measured and evaluated.

Polymetal allocates its social investment funds based on the results of its own community needs assessment conducted in close collaboration with the local authorities.

During the reporting period, the Company invested in the following areas¹:

¹ A list of Polymetal's 2007 social projects is available in the Appendix.



Structure of Social Investments

- 30% - Development and maintenance of infrastructure in populated areas
- 24% - Support for education and healthcare
- 28% - Support for athletic programs and healthy lifestyles
- 10% - Support for local cultural and creative initiatives
- 8% - Support for religious institutions, ethnic traditions and the indigenous population

- Development and maintenance of infrastructure in populated areas;
- Support for education and healthcare;
- Support for athletic programs and healthy lifestyles;
- Support for the local cultural and creative initiatives;
- Support for religious institutions, ethnic traditions and the indigenous population.

The Company's long-term social investment programs generally have a life span of four to five years and are reviewed annually. At the same time, Polymetal strives to engage local communities in a dialog about socioeconomic development in their regions.

The Company cooperates closely with local authorities on issues concerning the support and development of social infrastructure. Company employees and their families depend on the local social infrastructure as much as the territory's population does.

In the Sverdlovsk Region, Polymetal representatives are members on the Community Board in the city

of Krasnoturinsk. The Board, which is sponsored by the mayor's office and composed of the local business executives, coordinates the development of social infrastructure by the private section. The Board discusses and determines priorities for businesses' social investments, taking into account community expectations. The Board addresses many day-to-day social and economic issues.

In the Magadan Region and the Khabarovsk Territory, Company representatives take part in meetings with regional administrations to discuss socially important initiatives and the development of infrastructure, education and healthcare projects.

During the reporting period, Polymetal continued its practice of entering into social development partnerships with regional and local authorities. In 2007 eight such agreements were signed in the Khabarovsk Territory and the Magadan and Sverdlovsk Regions.

The goal of these agreements is, on one hand, to resolve the most pressing



Polymetal provides support for the development of hockey in all of the regions where it operates. The Company has been a long-term sponsor for several hockey teams, including the Bars (Panther) children's club in the town of Vorontsovka, the Omsukchan's children's team and the SKA Energiya team in Khabarovsk. During the reporting period, the Company also built a covered hockey rink in Vorontsovka and renovated a covered skating rink in Omsukchan.



For the third year in a row, the Company has been the general sponsor and partner of the Konzhak International Mountain Marathon that is held near the city of Krasnoturinsk in the Sverdlovsk Region. The annual marathon brings together athletes, amateur runners and tourists, including children and seniors, from across the country and all over the world. The marathon trail goes through the Konzhak Range, which has the highest peak in the Urals. In 2007 approximately 1,500 people from Russia, Germany, Sweden, Estonia, Ukraine and Kazakhstan came to participate in the Konzhak marathon and to cheer the runners.

social problems in the territories and, on the other, to create conditions in which the Company's production potential can expand. Within the framework of these agreements, Polymetal is expected to make investments into the regions' social projects, while representatives of the regional and local authorities create economic conditions aimed at stimulating the continued development of the Company and its subsidiaries.

Based on these agreements, in 2007 Polymetal provided municipal authorities with material and technical assistance to improve living conditions in the territories in which it operates (road maintenance, purchasing of fuel, etc.). It also contributed to the construction and renovation of social infrastructure, including educational, healthcare and cultural facilities.

Polymetal also has a number of effective charitable programs that provide assistance to disadvantaged members of society. This support focuses on the disabled, pensioners, war veterans, families with many children, orphans, etc. Aid is provided on a case-by-case basis or through community organizations that represent the interests of the corresponding groups. This type of work strengthens the Company's social bonds and makes a valuable contribution to society.

Development and Support for Infrastructure Projects

During the reporting period, the Company allocated over \$400,000 for a municipal bathhouse construction project in Krasnoturinsk, Sverdlovsk Region. The project, which has a total price tag of \$2.4 million, is scheduled for completion in 2008.

Two large projects were financed in the Khabarovsk Territory to fulfill an agreement with the regional administration. The Company spent over \$118,000 to acquire machinery and equip a gas-powered generator for the town of Kherpuchi in the Polina Osipenko District. \$102,000 was spent to support local electrical infrastructure in the Okhotsk District, bringing power to several towns and settlements.

In the Magadan Region, Polymetal financed repair and construction work for important local roads and areas surrounding several apartment buildings in residential communities.

The Company focuses its social policy on supporting projects that will directly improve the quality of life in communities where it maintains a presence.

Support for Education and Healthcare

Polymetal strongly believes that investments in education and healthcare are strategically important.

Approximately \$114,000 was spent by the Company to modernize the Omsukchan central district hospital. The funds were spent on the acquisition of new medical devices, training and development of medical personnel and building renovations. More than \$60,000 was spent on renovations and improvements to the central hospital in the Srednekansk District of the Magadan Region. Within the terms of an agreement with the town's administration, more than \$32,000 was spent improving the infrastructure of the central district hospital in the town of Polina Osipenko.

During the reporting period, more than \$204,000 was spent on design

and the first stage of construction of a preschool in the Magadan Region. An art school will also be housed in the same building. Polymetal donated \$57,000 to a kindergarten and more than \$82,000 to a grade school in the town of Dukat, Magadan Region. These funds were used to finance necessary renovations and improve the facilities.

In the Sverdlovsk Region, the Company sponsored a kindergarten and a school in the town of Vorontsovka, located not far from the Voro deposit. In the Khabarovsk Territory, the Company supported Orphanage No. 8, a boarding school for orphans in the town of Okhotsk.

Polymetal improves its workforce capacity in part by implementing programs to support educational facilities. These programs help employees' children and locals receive a quality education and develop their skills.

The Company gives priority to investment projects that provide education and nurture for the new generation. Polymetal's production sites play host to educational and professional youth orientation events, where the professions that are in demand in each region are promoted. At these events, children and youth have a chance to learn about Polymetal's history and its local operations. In the Sverdlovsk and Magadan Regions, students from local schools, colleges and universities regularly tour Company sites and participate in entertainment events.

Polymetal traditionally plays an active role in promoting and sponsoring children's healthcare campaigns. In 2007 the Company organized a number of trips for groups of children to a Black Sea health resort. It also sponsored kids' stay at local summer camps and health resorts.

Support for Athletic Programs and Healthy Lifestyles

Polymetal believes that investing into the development of children's athletic facilities and encouraging healthy lifestyles means investing into a better future. Therefore, the Company supports a variety of athletic programs and physical education initiatives in the regions where it operates.

In 2007 Polymetal allocated \$285,000 to build a sports complex in the town of Okhotsk. Construction is set to begin in 2008. The complex, equipped with the full range of modern athletic and fitness facilities, will open new opportunities for physical education and sports in the Okhotsk District.

\$77,400 was allocated for athletic initiatives in the Omsukchan District. The funds were used to renovate a children's athletic school in the town of Omsukchan and to acquire athletic uniforms, equipment and gear. The money was also used to allow the young athletes to travel to various championships and competitions.

In 2007 Polymetal became the general sponsor of the regional volleyball federation in Magadan (which currently includes 17 teams). For many years, the development of volleyball in the region was limited by the fact that only urban populations had access to playing courts and could hold championships. Now, thanks to the regional federation in Magadan, smaller towns have started to take part in the Federation Cup. The federation is the organizer of the Cup and also finances local competitions and Magadan teams' participation in national events.

In the Sverdlovsk and Magadan Regions, Polymetal participates in organizing

mini-football, boxing, chess and hockey tournaments. The Company traditionally sponsors the Konzhak marathon in the Northern Urals and organizes the region-wide Leather Ball school football tournament in Magadan.



In 2007 the Company restarted the Northern Festival in the Okhotsk District. The Northern Festival, or Reindeer Herders' Day, has been celebrated by Evenks since the 19th century, but was abandoned in recent times due to economic difficulties. Polymetal decided to sponsor this exciting ethnic holiday. The Northern Festival includes demonstrations by indigenous performance groups, reindeer sleigh races, wrestling competitions and much more. The Company awarded winners with prizes including watches and home appliances. The most sought-after prize for the reindeer herders was a gas-powered chainsaw.



Developing Local Culture and Creative Potential

In order to create a positive social environment and encourage communities' sense of security, stability and confidence in the future, the Company strives to support local initiatives. It encourages locals' creative and cultural development and indigenous peoples' activities aimed at preserving their ethnic traditions.

Various community talent shows, festivals and athletic competitions are held with Polymetal's active support. In 2007, the Company sponsored The Falling Star talent show and a fireside bard music festival in the Magadan Region. The Company supported singing and dance competitions for school and university students in the Northern Urals. It also

sponsored a series environmental education programs and events in the Khabarovsk Territory.

The Company participates in the organization of cultural festivals in all regions where it operates. In 2007 the Company provided financial support for events such as District Day, A Farewell to Winter in the Omsukchan District, Town Day, Youth Day and the Tatar-Bashkir Sabantui festival in the town of Vorontsovka. More than \$60,000 was spent on events celebrating the 360th anniversary of the Okhotsk District during the reporting period. The funds were spent on the renovation of the Morokov Regional Museum and updating its exhibitions, as well as on a local festival with fireworks and the publication of Northern Lights, a book of verse by local poets.

Metalworkers' Day, Polymetal's professional holiday, is an important event for residents in regions where the Company has a presence. Polymetal strives to make Metalworkers' Day festival an important event not only for Company employees, but also for the entire local population. This day is traditionally celebrated with a large festival, including concerts and performances, fireworks, athletic competitions, raffles and programs for children.

In 2007 the Company became the general sponsor of the Golden Voices of the Far East charity project that brings the best Russian opera singers to Khabarovsk, where they teach and mentor gifted children with disabilities and orphans. The project was conceived by the Association of Parents with Disabled Children together with the Khabarovsk branch of the National Association of People with Disabilities.



Support for Religious Institutions, Ethnic Traditions and the Indigenous Population

Polymetal traditionally supports projects aimed at sustaining local religious institutions, ethnic traditions and the culture of the indigenous population in the regions where it operates.

In 2007 the Company supported the construction of an Orthodox cathedral in Magadan, committing approximately \$270,000 to the project. Polymetal financed the reconstruction of an Omsukchan church of the Holy Life-Giving Trinity in the Magadan Region and contributed to the construction of a church in the Ekaterinburg Episcopate in the Sverdlovsk Region. The Company also supported the St. Nicolas Monastery.

The Company supports ethnic culture and strives to contribute to indigenous groups of the North in the Magadan Region and the Khabarovsk Territory. In 2007 Polymetal provided support to the Buksunda indigenous organization in the Omsukchan District and to the Balygychan clan.

A ceremony honoring war veterans on Senior Citizens' Day was organized in the town of Vorontsovka. The ceremony included a concert program, presents and free subscriptions to local periodicals.

In 2008 the Company is planning to continue engaging local communities in dialogue and cooperation on local social issues. Their input will be used to determine and address the most vital needs of the residents.

Appendix

Polymetal's Social Projects in 2007

Type of Social Investment	Project	Location
Development and maintenance of infrastructure in populated areas	Improvements to the town of Omsukchan	Magadan Region
	Improvements to the town of Vorontsovka	Sverdlovsk Region
	Improvements to the town of Okhotsk	Khabarovsk Territory
	Renovation of the municipal road between the towns of Omsukchan and Dukat	Magadan Region
	Preparation and assembly of an illuminated coat of arms	Krasnoturinsk, Sverdlovsk Region
	Construction of a bathhouse complex	Krasnoturinsk, Sverdlovsk Region
	Equipment for a mini-bakery for the Amgun municipal enterprise	Kherpuchi, Polina Osipenko District, Khabarovsk Territory
	Equipment (headrigs and a bulldozer) for the Kherpuchi Fuel and Energy Complex	Kherpuchi, Polina Osipenko District, Khabarovsk Territory
Support for athletic programs and healthy lifestyles	Children's summer camps	Omsukchan and Dukat, Magadan Region; Krasnoturinsk, Sverdlovsk Region, Okhotsk; Khabarovsk Territory
	Physical fitness and sporting events	Omsukchan and Dukat, Magadan Region; Vorontsovka, Krasnoturinsk and Karpinsk, Sverdlovsk Region; Okhotsk, Khabarovsk Territory
	Sponsorship of the Magadan Region Volleyball Federation	Magadan Region
	Renovation of a youth sports school and supplying it with equipment	Omsukchan, Magadan Region
	Equipment for the Energiya athletic society	Omsukchan, Magadan Region
	Equipment for the Association of Sports Facilities	Omsukchan, Magadan Region
	Sponsorship of children's and youth hockey teams in the towns of Omsukchan and Dukat; sponsorship of the Bars hockey team in the town of Vorontsovka and of SKA Energiya in the city of Khabarovsk	Magadan and Sverdlovsk regions; Khabarovsk Territory
	Contribution to the construction of a hockey rink	Vorontsovka, Sverdlovsk Region
	Reconstruction of a covered skating rink	Omsukchan, Magadan Region
	Renovation of the "White Rook" chess club	Omsukchan, Magadan Region
	Participation in the organization of The Leather Ball football tournament	Magadan, Magadan Region
	Participation in the organization of the Konzhak international marathon	Krasnoturinsk, Sverdlovsk Region
	Participation in the organization of mini-football and boxing tournaments; sponsorship of relay races in collaboration with the newspapers Zarya Urala and Karpinskiy Rabochiy	Krasnoturinsk, Sverdlovsk Region
	Construction of a sports complex	Okhotsk, Khabarovsk Territory

Type of Social Investment	Project	Location
Support for education and healthcare	Renovation of the Omsukchan central district hospital; acquisition of equipment, training doctors and other medical professionals	Omsukchan, Magadan Region
	Renovation of a primary school and supplying it with equipment	Dukat, Magadan Region
	Equipment for a kindergarten	Dukat, Magadan Region
	Equipment for of a children's music school	Dukat, Magadan Region
	Renovation of a kindergarten and supplying it with equipment	Omsukchan, Magadan Region
	Renovation of the primary school	Omsukchan, Magadan Region
	Equipment for an art school	Omsukchan, Magadan Region
	Equipment for Vocational School No. 11	Omsukchan, Magadan Region
	Equipment for the central library system	Omsukchan, Magadan Region; Okhotsk and Polina Osipenko, Khabarovsk Territory
	Construction of a children's cultural center	Omsukchan, Magadan Region
	Equipment for High School No. 30	Magadan, Magadan Region
	Technical and medical equipment for the Srednekansk central district hospital	Srednekansk Region, Magadan Region
	Renovation of School No. 5 and supplying it with equipment	Vorontsovka, Sverdlovsk Region
	Renovation of Kindergarten No. 41	Vorontsovka, Sverdlovsk Region
	Equipment for a boarding school	Okhotsk, Khabarovsk Territory
	Donations to Orphanage No. 8	Okhotsk, Khabarovsk Territory
	Renovation of the central district hospital	Polina Osipenko, Khabarovsk Territory
	Renovation of the kindergarten	Polina Osipenko, Khabarovsk Territory
	Donations to Orphanage No. 1	Polina Osipenko, Khabarovsk Territory
	Equipment for multimedia center in the middle school	Polina Osipenko, Khabarovsk Territory
Support for local cultural and creative initiatives	Renovation of the Center for Indigenous Arts	Omsukchan, Magadan Region
	Equipment for cultural centers	Omsukchan and Dukat, Magadan Region
	Participation in the organization of the city-wide Falling Star talent show competition	Magadan, Magadan Region
	Support for the Golden Voices of the Far East charity project to encourage talented disabled children and orphans	Khabarovsk, Khabarovsk Territory
	Participation in mass cultural events (including "Farewell to Winter", District Day, and Metalworkers' Day)	Omsukchan and Dukat, Magadan Region
	Participation in the organization of a fireside bard music concert and a patriotic song competition	Magadan, Magadan Region
	Aid to the Society to Protect the Environment in the city of Khabarovsk; sponsorship of an educational event concerning environmental protection in the Khabarovsk Territory	Khabarovsk Territory
	Organization of festivities related to the Okhotsk District's 360th anniversary and the publication of Northern Lights collection of poems	Okhotsk, Khabarovsk Territory
	Equipment for the natural history museum	Okhotsk, Khabarovsk Territory
Organization and support for the Artists of the Far East project	Khabarovsk Territory	
Support for religious institutions, ethnic traditions and the indigenous population	Renovation of the Ethnic Center for Indigenous People of the North and supplying it with equipment	Omsukchan, Magadan Region
	Aid to the Buksunda Community Organization of Indigenous People of the North and organizing an indigenous arts competition	Omsukchan, Magadan Region
	Construction of an Orthodox cathedral	Magadan, Magadan Region
	Support for the Balygychan clan, a society of indigenous people of the North	Srednekansk Region, Magadan Region
	Participation in the construction of the Church of the New Russian Martyrs in the Ekaterinburg Episcopate	Sverdlovsk Region
	Support for the St. Nicolas Monastery	Sverdlovsk Region
	Organization of the Northern Festival in the Okhotsk District	Okhotsk, Khabarovsk Territory
	Renovation of the Omsukchan Church of The Holy Life-Giving Trinity	Omsukchan, Magadan Region

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