JOINT STOCK COMPANY “POLYMETAL”

Consolidated Interim Financial Statements
For The Six Months Ended June 30, 2007

JOINT STOCK COMPANY "POLYMETAL"

CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2007

The following statement, which should be read in conjunction with the independent accountants' responsibilities stated in the independent accountants' report, is made with a view to distinguishing the respective responsibilities of management and those of the independent accountants in relation to the consolidated interim financial statements of Joint Stock Company "Polymetal" ("JSC Polymetal") and its subsidiaries (the "Group"). Management is responsible for the preparation of the consolidated interim financial statements that present fairly the financial position of the Group as of 30 June 2007, and the results of its operations, cash flows and changes in shareholders' equity for the six months then ended, in compliance with United States of America Generally Accepted Accounting Principles ("U.S. GAAP").

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

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

Management is also responsible for:

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

The consolidated interim financial statements for the year ended 30 June 2007 were approved by management on 28 September 2007:

On behalf of the Board of Directors:

Nesis V.N.
Chief Executive Officer

Cherkashin S.A.
Chief Financial Officer

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders of Joint Stock Company "Polymetal":

We have reviewed the accompanying consolidated balance sheet of JSC "Polymetal" and its subsidiaries (the "Group") as of June 30, 2007 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the six months ended June 30, 2007 and 2006. These consolidated interim financial statements are the responsibility of the Group's management.

We conducted our review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A review of consolidated interim financial statements consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with United States of America Generally Accepted Auditing Standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such opinion.

Based on our review, we are not aware of any material modifications that should be made to accompanying consolidated interim financial statements for them to be in conformity with United States of America Generally Accepted Accounting Principles.

The accompanying consolidated financial information as of December 31, 2006 was not audited or reviewed by us and, accordingly, we do not express an opinion or any other form of assurance on it.

Deloitte & Touche

Moscow, Russia
September 28, 2007

JSC "POLYMETAL"

CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands of U.S. Dollars, except share data)

	Note	At June 30, 2007	At December 31, 2006
Assets			
Cash and cash equivalents		45,760	6,532
Accounts receivable	6	3,247	3,218
Prepayments to suppliers	7	15,430	13,872
Short-term loans and other accounts receivables from related parties	8	70,816	126
Inventories	9	181,165	155,629
Sort-term VAT receivable	10	43,390	45,335
Short-term deferred tax asset	11	971	816
Other current assets	12	13,244	12,162
Total current assets		**374,023**	**237,690**
Property, plant and equipment	13	435,062	408,034
Goodwill	14	39,591	31,896
Investments		1,465	250
Long-term loans to related parties	15	4,296	6,138
Long-term loans to third parties		-	365
Long-term VAT receivable	10	8,632	9,019
Long-term deferred tax asset	11	6,370	3,962
Total non-current assets		**495,416**	**459,664**
Total assets		**869,439**	**697,354**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	16	27,212	29,216
Accounts payable to related parties		-	302
Short-term debt and current portion of long-term debt	17	181,463	229,770
Taxes payable		5,884	7,292
Short-term deferred tax liability	11	14,493	14,902
Current portion of capital lease liabilities	18	5,245	4,210
Total current liabilities		**234,297**	**285,692**
Long-term portion of capital lease liabilities	18	23	2,445
Long-term debt	19	85,263	169,895
Long-term debt from related parties		38	4,574
Deferred tax liability	11	35,847	35,284
Reclamation and mine closure obligation	20	7,501	7,230
Deferred payments	21	8,050	-
Total non-current liabilities		**136,722**	**219,428**
Total liabilities		**371,019**	**505,120**
Commitments and contingent liabilities	31	-	-
Shareholders' equity			
Share capital (275,000,000 shares authorized at December 31, 2006, par value Rubles 0.2 per share; 315,000,000 shares issued and outstanding at June 30, 2007, 40,000,000 of which are in the form of GDR (Note1))	22	6,698	6,397
Additional paid-in capital		359,808	56,710
Accumulated other comprehensive income		20,966	10,447
Retained earnings		110,948	118,680
Total shareholders' equity		**498,420**	**192,234**
Total liabilities and shareholders' equity		**869,439**	**697,354**

JSC “POLYMETAL”

CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED (UNAUDITED)
(In thousands of U.S. Dollars, except share and per share data)

	Note	June 30, 2007	June 30, 2006
Revenues	24	139,033	145,797
Cost of sales	25	104,395	73,483
Income from mining operations		**34,638**	**72,314**
General, administrative and selling expenses		16,603	16,341
Other operating expenses	26	14,719	7,494
Operating income		**3,316**	**48,479**
Interest expense		7,343	9,977
Capital lease finance costs		988	1,434
Exchange gain, net		(1,345)	(11,953)
(Loss)/income before income tax and minority interest		**(3,670)**	**49,021**
Income tax expense	27	4,062	17,582
(Loss)/income before minority interest		**(7,732)**	**31,439**
Minority interest		**-**	**4,469**
Net (loss)/income		**(7,732)**	**26,970**
Basic and diluted (loss)/earnings per share (expressed in U.S. Dollars)	22	(0.025)	0.098
Weighted average number of shares outstanding		315,000,000	275,000,000

JSC "POLYMETAL"

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR SIX MONTHS ENDED (UNAUDITED)
(In thousands of U.S. Dollars)

	June 30, 2007	June 30, 2006
Cash flows from operating activities		
Net (loss)/income	(7,732)	26,970
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and depletion	22,969	11,069
Accretion of reclamation and mine closure obligation	127	680
Capital lease finance costs	988	1,434
Deferred income tax (income)/expense	(2,409)	2,678
Loss on disposal of property, plant and equipment	543	1,371
Minority interest	-	4,469
Share options granted	4,116	-
(Decrease)/increase in inventory reserve	(1,411)	1,176
Exchange loss, net	5,666	72
Other (income)/expense	(983)	346
Changes in working capital, excluding cash:		
Prepayments to suppliers	(1,092)	(6,707)
Inventories	(24,767)	(7,435)
VAT receivable	3,416	16,581
Other current assets	430	(1,509)
Accounts payable and accrued liabilities	(406)	(3,808)
Taxes payable	(1,557)	(15,967)
Net cash (used in)/provided by operating activities	**(2,102)**	**31,420**
Cash flows from investing activities		
Additions to property, plant and equipment	(40,322)	(15,826)
Proceeds from the sale of property, plant and equipment	2,316	2,741
Payment of contingent consideration for acquisition of minority interest	(10,250)	(2,328)
Repayment of loans issued	7,083	459
Loans provided to related parties	(75,745)	(693)
Net cash used in by investing activities	**(116,918)**	**(15,647)**
Cash flows from financing activities		
Proceeds from short-term loans and borrowings	109,096	180,520
Repayment of short-term loans and borrowings	(207,361)	(159,539)
Proceeds from long-term loans and borrowings	201,695	39,684
Repayment of long-term loans and borrowings	(244,390)	(85,128)
Proceeds from issuance of shares, net of costs incurred of U.S. Dollar 10,716	299,283	-
Bonus received from depositary	8,560	-
(Repayment of)/proceeds from short-term loans and borrowings from related parties	(4,576)	357
Capital lease payments	(4,189)	(7,055)
Net cash provided by/(used in) financing activities	**158,118**	**(31,161)**
Exchange effects on cash balances	130	1,191
Net increase/(decrease) in cash and cash equivalents	**39,228**	**(14,197)**
Cash and cash equivalents at the beginning of the year	6,532	18,925
Cash and cash equivalents at the end of the period	**45,760**	**4,728**
Supplementary cash flow information		
Interest paid	26,183	17,344
Income taxes paid	9,645	8,810
Non-cash additions to property, plant and equipment – capital lease	1,681	-

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR SIX MONTHS ENDED JUNE 30, 2007, DECEMBER 31 AND JUNE 30, 2006 (UNAUDITED)

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

	Number of shares	Share capital	Additional paid-in capital	Accumulated other comprehensive (loss)/ income	Retained earnings	Total shareholders' equity
Balance at December 31, 2005	**275,000,000**	**6,397**	**56,710**	**(4,299)**	**56,993**	**115,801**
Comprehensive income:						
Net income					26,970	26,970
Currency translation adjustment				10,105		10,105
Total comprehensive income						37,075
Balance at June 30, 2006	**275,000,000**	**6,397**	**56,710**	**5,806**	**83,963**	**152,876**
Comprehensive income:						
Net income					34,717	34,717
Currency translation adjustment				4,641		4,641
Total comprehensive income						39,358
Balance at December 31, 2006	**275,000,000**	**6,397**	**56,710**	**10,447**	**118,680**	**192,234**
Share issue	40,000,000	301	298,982			299,283
Share based compensation			4,116			4,116
Comprehensive income:						
Net loss					(7,732)	(7,732)
Currency translation adjustment				10,519		10,519
Total comprehensive income						2,787
Balance at June 30, 2007	**315,000,000**	**6,698**	**359,808**	**20,966**	**110,948**	**498,420**

(In thousands of U.S. Dollars, except as indicated)

1. BACKGROUND

Description of business

Open Joint Stock Company “Interregional Research and Production Association “Polymetal” was incorporated on March 12, 1998 in the Russian Federation. In accordance with the resolution of the meeting of shareholders held on December 19, 2006, the Open Joint Stock Company “Interregional Research and Production Association “Polymetal” was renamed as Open Joint Stock Company “Polymetal” (hereinafter, JSC “Polymetal” or “the Company”).

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

The Company’s majority shareholder prior to November 2005 was Closed Joint Stock Company ICT (“CJSC ICT”), which, together with its subsidiaries formed the ICT group. In November 2005, the ultimate beneficial owners of the Company sold their interests in CJSC ICT to Open Joint Stock Company Nafta Moskva (“JSC Nafta Moskva”). The consolidated interim financial statements of JSC “Polymetal” reflect its historical cost basis and, accordingly, do not reflect any purchase accounting adjustments related to acquisition of its 99.99% interest by JSC Nafta Moskva.

In 2006, after restructuring Nafta Moskva (Cyprus) Limited became the sole shareholder of the Company until the Company’s public offering. In February 2007 the Company placed 40,000,000 ordinary shares with a par value of U.S. Dollar 7.75 per share in the form of Global Depositary Receipts (“GDR’s”) on the London Stock Exchange, as well as shares on the Non-for-profit Partnership “Stock Exchange “Russian Trading System” and Closed Joint Stock Company “Moscow Interbank Currency Exchange”.

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

Composition of the Group

JSC “Polymetal” and its subsidiaries are collectively referred to as “the Group”.

The structure of the Group as at June 30, 2007 includes the following significant mining subsidiaries:

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

Changes in the Group structure and voting and ownership interests in major production subsidiaries in 2007 and 2006 are described in Notes 29.

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

2. BASIS OF PRESENTATION

The consolidated interim financial statements included herein are unaudited and have been prepared using accounting policies consistent with United States of America Generally Accepted Accounting Principles ("U.S. GAAP") and in accordance with Accounting Principles Board ("APB") Opinion No. 28, Interim Financial Reporting ("APB No. 28"). In the opinion of management, the financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the Group's financial position, results of operations, changes in shareholders' equity and cash flows for the interim periods.

These financial statements should be read in conjunction with the Group's 2006 audited consolidated financial statements and the notes related thereto. The results of operations for the six months ended June 30, 2007 may not be indicative of the operating results for the full year.

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

Recent accounting standards

Accounting for uncertainty for income tax. Effective beginning of 2007, the Group adopted the provisions of FASB Interpretation No. 48 ("FIN No. 48"), Accounting for Uncertainty in Income Taxes. The adoption of FIN 48 has not resulted in an adjustment to beginning retained earnings.

In the normal course of business the Group is subject to examination by taxing authorities throughout the Russian Federation. Interregional Inspectorate of the Federal Tax Service ("IIFTS") commenced an examination of the Group's tax returns for 2003 through 2005. No significant adjustments have been proposed by IIFTS as at June 30, 2007.

At the beginning of 2007, the Group's liability for uncertain tax positions was U.S. Dollar 10,252. There were no unrecognized tax benefits that would affect the Group's effective tax rate if recognized.

As at June 30, 2007, the Group's liability for uncertain tax positions was U.S. Dollar 20,572. Unrecognized tax benefits of U.S. Dollar 545 would affect the Group's effective tax rate if recognized.

The Group records penalties and accrued interest related to uncertain tax positions in income tax expense. As at June 30, 2007, U.S. Dollar 91 were included in the liability for uncertain tax positions for the probable payment of interest and penalties.

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

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

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

Fair Value Option. In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financials Liabilities – Including an Amendment of FASB Statement No. 115. This standard permits measurement of certain financial assets and financial liabilities at fair value. If the fair value option is elected, the unrealized gains and losses are reported in earnings at each reporting date. Generally, the fair value option may be elected on an instrument-by-instrument basis, as long as it is applied to the instrument in its entirety. The fair value option election is irrevocable, unless a new election date occurs. SFAS No. 159 requires prospective application and also establishes certain additional presentation and disclosure requirements. The standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Group is currently evaluating the provisions of SFAS No. 159 to determine the potential impact, if any, the adoption will have on the Group's consolidated financial statements.

Reporting and functional currency

The Russian Ruble ("Ruble") is considered to be the functional currency of the Company and all its subsidiaries domiciled in the Russian Federation. Most of the Group's sales revenues and purchases and certain financing agreements are settled in Russian Rubles. The U.S. Dollar is the reporting currency selected by the Group for purposes of financial reporting in accordance with U.S. GAAP.

The transactions and balances in the accompanying consolidated interim financial statements have been translated into U.S. Dollars in accordance with the relevant provisions of SFAS No. 52, Foreign Currency Translation. Consequently, assets and liabilities are translated at period closing exchange rates. Revenues, expenses, gains and losses have been translated using period average exchange rates. Translation differences resulting from the use of these exchange rates have been included as a separate component of shareholders' equity.

(In thousands of U.S. Dollars, except as indicated)

The following exchange rates were used at the reporting dates:

	June 30, 2007	**December 31, 2006**	**June 30, 2006**
U.S. Dollar	25.82	26.33	27.08
Average exchange rate for the six months period, U.S. Dollars	26.07	27.14	27.63

Segments

The Group management runs its business by operating segment. The Group has three operating segments. Segment income for operating segments comprises segment revenues less segment operating costs (including depreciation).

Segment expenses represent internal presentation of costs incurred to produce gold and silver at each operating mine, and exclude the following costs that are not allocated to operating segments: amortization of corporate assets; administration costs, costs of financing and other non-operating costs.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

Joint ventures and investment in which the Group holds ownership interests between 20 and 50 percent or otherwise has the ability to exercise significant influence over an investee are accounted for under the equity method and adjusted for estimated impairment.

Long-term investments over which the Group does not exercise significant influence are accounted for at cost and adjusted for estimated impairment.

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

Purchase price allocation (including goodwill)

Business acquisitions are accounted for using the purchase method of accounting. Under this method, the purchase price is allocated to the assets acquired and liabilities assumed based on the fair value at the time of the acquisition. The excess purchase price over the fair value of identifiable assets and liabilities acquired is treated as goodwill. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of property, plant and equipment acquired generally require a high degree of judgment and include estimates of mineral reserves acquired, future commodity prices and applicable discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation. Future net earnings can be affected as a result of changes in future depreciation and depletion, asset impairment or goodwill impairment.

In accordance with provisions of SFAS 142, goodwill is not amortized but is reviewed for impairment annually at December 31, or whenever circumstances indicating impairment are present.

Cash and cash equivalents

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

Inventories

Spare parts and consumable supplies are valued at the lower of cost and net realizable value, using the weighted average cost method.

Ore stockpiles are valued at the moving average costs of mining the ore.

Gold and silver in process and dore are valued at the average unit cost of production at the percentage of completion method at the relevant stage of production.

Refined metals are valued at the lower of the average unit cost of production or net realisable value.

Financial instruments

A financial instrument is defined as cash, evidence of an ownership interest in an entity, or a contract that imposes an obligation to deliver or right to receive cash or another financial instrument. The fair values of financial instruments are determined with reference to various market information and other valuation methods, as considered appropriate. However, considerable judgment is required to interpret market data and to develop the estimates of fair value. Accordingly, the estimates presented herein may differ from the amounts the company could receive in current market exchanges.

The carrying values of cash and cash equivalents, other short-term investments, accounts and notes receivable, accounts and notes payable, other accrued liabilities, taxes payable and short-term debt, approximate their fair values because of the short maturities of these instruments.

Long-term investments in unquoted companies are valued at their historical cost adjusted for impairment, as appropriate. Management believes that the carrying values of long-term investments and long-term debt approximate their fair values.

Property, plant and equipment

Property, plant and equipment consist of assets of the Group directly related to mining and processing of ore and include costs of development of the mining properties, the costs of acquisition or construction of property, plant and equipment and capitalized interest. Expenditures for major improvements and renewals are capitalized. The cost of maintenance, repairs and replacement of minor items of plant and equipment is charged to cost as incurred. Gains and losses on the disposal of assets are included in the statement of income in the period of disposal.

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

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

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

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

- machinery and equipment 1–20 years;
- transport and other 1–10 years.

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

Property, plant and equipment are assessed for possible impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires long-lived assets with recorded values that are not expected to be recovered through future cash flows to be written down to current fair value. Fair value is generally determined from estimated discounted future net cash flows.

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

Pension obligations

The Group pays mandatory contributions to the state social funds, which are expensed as incurred. For the six month period ended June 30, 2007 and 2006, the Group contributed U.S. Dollar 7,377 and 5,967 respectively.

Reclamation and mine closure

The Group accounts for reclamation, site restoration and closure obligations based on the provisions of SFAS No. 143, Accounting for Asset Retirement Obligations. When the liability is initially recorded, the Group capitalizes the cost by increasing the carrying amount of the related long lived asset. Over time, the liability is accreted to its present value at the end of each period, and capitalized cost is amortized over the live of mine or the useful life of the related asset.

Income taxes

The Group accounts for income taxes using the liability method required by SFAS No. 109, “Accounting for Income Taxes.” For interim reporting purposes, the Group also follows the provisions of Accounting Principles Board No. 28, “Interim Financial Reporting,” which requires the Group to account for income taxes based on the Group's best estimate of the effective tax rate expected to be applicable for the full fiscal year on a current year-to-date basis. The rate so determined is based on the tax rates currently applicable to the Group in Russia and includes the Group’s best estimate of the annual tax effect of non-deductible expenses, primarily related to amortization of intangible assets, foreign exchange and other permanent differences as well as estimates as to the realization of certain deferred tax assets.

Deferred income taxes result from temporary differences between the tax basis of assets and liabilities and the basis as reported in the consolidated interim financial statements. Valuation allowances are provided for deferred income tax assets when management believes that it is more likely than not that the assets will not be realized.

Revenue recognition

The Group recognizes revenue when all of the following criteria are met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The seller's price to the buyer is fixed or determinable; and
- Collectibility is reasonably assured.

Share based compensation

The Group’s management awards share options to certain employees on a discretionary basis. The fair value of the share-based payments is calculated at the grant date using the Black-Scholes model. For equity settled share-based payments, the fair value is determined using the Black-Scholes method and expensed on a straight-line basis over the vesting period based on the Group’s estimate of the shares that will eventually vest.

For schemes with non-market related vesting conditions, the likelihood of vesting has been taken into account when determining the income statement charge. Vesting assumptions are reviewed during each reporting period to ensure they reflect current expectations.

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

Contributions to local authorities

Infrastructure expenditure, which the Group is required to contribute to the local authorities as a condition of their mineral license agreements, is charged as incurred to other expenses in the income statements.

Comprehensive income

SFAS No. 130, Reporting Comprehensive Income, requires disclosure of all changes in equity during a period except those resulting from investments by, and distributions to the Company’s shareholders.

(In thousands of U.S. Dollars, except as indicated)

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of consolidated interim financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, including discussion and disclosure of contingent liabilities. Significant areas requiring the use of management estimates relate to the determination of mineral reserves, mine closure liabilities, reclamation and environmental obligations, impairment of assets and valuation allowances for deferred tax assets. Actual results could differ from these estimates.

5. RECLASSIFICATIONS

Certain comparative information, presented in the consolidated balance sheet for the year ended December 31, 2006, has been reclassified:

	Before reclassifications	After reclassifications	Difference
Accounts receivable	17,090	3,218	(13,872)
Prepayments to suppliers	-	13,872	13,872
Short-term loans to third parties	442	-	(442)
Other current assets	13,336	12,162	(1,174)
Property, plant and equipment	406,418	408,034	1,616
Total	**437,286**	**437,286**	**-**

6. ACCOUNTS RECEIVABLE

	June 30, 2007	December 31, 2006
ABN Amro-Bank	2,818	-
CJSC Standard Bank	-	3,218
Other	429	-
Total	**3,247**	**3,218**

7. PREPAYMENTS TO SUPPLIERS

	June 30, 2007	December 31, 2006
Expert LLC	2,021	-
Weir Minerals RVF LLC	851	638
Krat LLC	763	76
Stroitelno-Dorozhnye Mashiny LLC	683	467
Mantrak Vostok LLC	634	483
StroyBaz LLC	523	48
Expromstroy LLC	-	1,413
Vostochnaya Tekhnika LLC	-	1,218
Other	9,955	9,529
Total	**15,430**	**13,872**

(In thousands of U.S. Dollars, except as indicated)

Major portion of prepayments relate to prepayments for materials and transport services.

8. SHORT-TERM LOANS AND OTHER ACCOUNTS RECEIVABLES FROM RELATED PARTIES

	Interest rate	June 30, 2007	December 31, 2006
Avanta LLC (see Note 33)	11%	70,816	-
Other	-	-	126
Total		**70,816**	**126**

Avanta LLC together with JSC "Polymetal" was under common control of ICT Group (see Note 1). The loan to Avanta LLC is unsecured and was repaid in full in July 2007.

9. INVENTORIES

	June 30, 2007	December 31, 2006
Consumable stores	70,027	66,336
Ore stock piles	52,445	48,634
Work-in-process	34,177	28,340
Dore	5,044	1,890
Refined metals	19,472	10,429
Total	**181,165**	**155,629**

10. VAT RECEIVABLE

	June 30, 2007	December 31, 2006
Short-term VAT receivable	43,390	45,335
Long-term VAT receivable	8,632	9,019
Total	**52,022**	**54,354**

Long-term VAT receivable primarily represents VAT balances resulting from capital expenditures and operating activities which are not expected to be recovered within the next twelve months of the respective balance sheet dates due to specifics requirements of the tax regulations. Management believes that these balances are fully recoverable from the tax authorities when the respective capital assets qualify as having been put into operation for VAT purposes.

(In thousands of U.S. Dollars, except as indicated)

11. DEFERRED TAX

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

	June 30, 2007	December 31, 2006
Deferred tax assets:		
Tax losses carried forward	4,438	3,962
Deferred payments	1,932	-
Other current assets	971	517
Accounts payable	-	299
Total deferred tax assets	**7,341**	**4,778**
Deferred tax liabilities:		
Property, plant and equipment	(35,847)	(35,284)
Inventories	(14,493)	(14,902)
Total deferred tax liabilities	**(50,340)**	**(50,186)**
Net deferred tax liabilities	**(42,999)**	**(45,408)**
Deferred tax asset, short-term	971	816
Deferred tax asset, long-term	6,370	3,962
Deferred tax liability, short-term	(14,493)	(14,902)
Deferred tax liability, long-term	(35,847)	(35,284)

The tax losses carried forward represent the amounts, which will be off-set against future taxable income to be generated by CJSC Serebro Territorii, CJSC Serebro Magadana, JSC Okhotskaya GGC and the Company during the period up to 2010. Each legal entity within the Group represents a separate tax-paying component for income tax purposes. The tax losses of one entity cannot be used to reduce taxable income of other entities in the Group.

As at June 30, 2007 and December 31, 2006 the aggregated tax losses carried forward were U.S. Dollar 18,494 (Rubles 477,446 thousand) and U.S. Dollar 16,509 (Rubles 434,711 thousand) respectively.

Deferred income tax has not been provided on the undistributed earnings of subsidiaries and other investment in equity affiliates. These earnings have been permanently reinvested and management does not plan to initiate any action that would precipitate the payment of income taxes thereon.
It is not practicable to estimate the amount of additional tax that might be payable on such amounts.

12. OTHER CURRENT ASSETS

	June 30, 2007	December 31, 2006
Taxes receivable	8,686	7,977
Other debtors	2,340	2,000
Other current assets	2,218	2,185
Total	**13,244**	**12,162**

(In thousands of U.S. Dollars, except as indicated)

13. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2007	December 31, 2006
Buildings and underground workings	167,951	147,358
Machinery and equipment	196,217	161,571
Transport and other	29,574	23,746
Mineral rights	132,772	130,175
Construction-in-progress	48,570	58,770
Total cost	**575,084**	**521,620**
Less: Accumulated depreciation and depletion	**(140,022)**	**(113,586)**
Net book value	**435,062**	**408,034**

At June 30, 2007, capital leases included within property, plant and equipment total U.S. Dollar 79,449 (of which machinery and equipment was U.S. Dollar 62,272 and transport and other was U.S. Dollar 17,176) (as at December 31, 2006: U.S. Dollar 79,335 (of which machinery and equipment was U.S. Dollar 62,183 and transport and other was U.S. Dollar 17,152).

At June 30, 2007, total accumulated depreciation and depletion of capitalized leases was U.S. Dollar 22,378 (of which machinery and equipment was U.S. Dollar 17,540 and transport and other was U.S. Dollar 4,838). At December 31, 2006, total accumulated depreciation and depletion of capitalized leases was U.S. Dollar 20,328 (of which machinery and equipment was U.S. Dollar 15,972 and transport and other was U.S. Dollar 4,356).

Included within construction-in-progress were long-term deferred exploration expenditures of U.S. Dollar 17,014 and U.S. Dollar 11,766 at June 30, 2007 and December 31, 2006, respectively.

Mineral rights of the Group comprised of mineral rights acquired by the Group upon purchase of subsidiaries. Accumulated depletion of mineral rights was U.S. Dollar 17,408 and U.S. Dollar 10,969 at June 30, 2007 and December 31, 2006, respectively.

Construction-in-progress in the amount of U.S. Dollar 48,570 and U.S. Dollar 58,770 is not being amortised as it was not yet put into use as at June 30, 2007 and December 31, 2006 respectively.

As at June 30, 2007, property, plant and equipment with carrying value of U.S. Dollar 13,860 was pledged as collateral for the loan from ABN Amro (see Note 19).

(In thousands of U.S. Dollars, except as indicated)

14. GOODWILL

The carrying amount of goodwill by reporting unit recognized when allocating the purchase price on date of acquisition.

	June 30, 2007	December 31, 2006
CJSC Okhotskaya GGK	24,744	24,260
CJSC Serebro Magadana (see Note 29)	7,933	-
JSC Albazino Resources	2,857	2,801
CJSC Enisey Mining and Geological Company	2,482	2,381
Other	1,575	2,454
Total	**39,591**	**31,896**

15. LONG-TERM LOANS TO RELATED PARTIES

	Interest rate	June 30, 2007	December 31, 2006
Accord-Invest LLC	10.5%	4,296	5,343
Employees	1%	-	795
Total		**4,296**	**6,138**

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

16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2007	December 31, 2006
P.A.S. Silver (Cyprus) Limited	8,000	10,317
Modern Machinery Co	3,303	1,878
Regionalny Optovy Sklad Tekhnicheskoy Komplektatsii LLC	1,077	-
Hagforce Limited	-	2,444
CJSC Shemur	-	1,315
Accrued interest payable to third parties	230	1,003
Other	14,602	12,259
Total	**27,212**	**29,216**

(In thousands of U.S. Dollars, except as indicated)

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

	Interest rate	June 30, 2007	December 31, 2006
Russian Ruble denominated			
Dialog-Seti Invest	11%	70,817	-
Investros	0%	120	3,154
Total Russian Ruble denominated		**70,937**	**3,154**
U.S. Dollar denominated			
Uralsib	8-9%	60,000	20,000
Sberbank	7.6-8%	-	69,590
Alfa Bank	8%	-	14,920
Current portion of long-term debt (see Note 19)		50,526	122,105
Total U.S. Dollar denominated		**110,526**	**226,615**
Total		**181,463**	**229,770**

Short-term debt facilities are not collateralized.

18. CAPITAL LEASE LIABILITIES

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

Future minimum lease payments for the assets under capital leases at June 30, 2007 are as follows:

	June 30, 2007	December 31, 2006
Current portion	5,245	4,210
Long-term portion	23	2,445
Present value of minimum payments	**5,268**	**6,655**
Interest payable over the term of lease	549	1,329
Total future minimum lease payments	**5,817**	**7,984**

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

	June 30, 2007
For the remainder of the year ending December 31, 2007	2,680
For the year ending December 31, 2008	3,102
2009	25
2010	10
Total	**5,817**

(In thousands of U.S. Dollars, except as indicated)

19. LONG-TERM DEBT

	Interest rate	June 30, 2007	December 31, 2006
U.S. Dollar denominated			
ABN Amro Bank (U.S. Dollar)	Libor + 2%	75,789	60,000
Sberbank (U.S. Dollar)	Libor + 2%	60,000	132,000
Gazprombank (U.S. Dollar)	8%	-	100,000
Total		**135,789**	**292,000**
Less current portion of long-term debt (see Note 17)		(50,526)	(122,105)
Total		**85,263**	**169,895**

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

	June 30, 2007
Year ending June 30,	
2008	50,526
2009	64,663
2010	20,600
Total	**135,789**

ABN Amro Bank. In December 2006, the Group received a long-term loan from ABN Amro Bank ("ABN Amro") in the amount of U.S. Dollar 60,000 to refinance its debt to Standard Bank London. The loan is repayable in monthly instalments commencing in June 2007 up to the last instalment in December 2009. Under the loan agreement with ABN Amro, the Group has to comply with certain financial and non-financial covenants. The loan agreement restricts the Group from:

(i) disposing of its assets (including transfers, leases or sales);
(ii) undertaking any type of corporate reorganization (including mergers and demerges);
(iii) creating or incurring other forms of financial indebtedness (such as making loans or granting guarantees); and
(iv) taking any actions in respect of its shares, capital or participatory interest (including issuing new shares or otherwise altering its existing share capital) without the prior written consent of ABN Amro except for the offer and listing of up to 40% of the Company's share capital.

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

As at June 30, 2007, property, plant and equipment with a carrying value of U.S. Dollar 13,860 was pledged as collateral for the loan from ABN Amro (see Note 13).

Sberbank. In December 2006, the Group received a long-term loan facility from Sberbank of Russia which allows the Group to borrow up to U.S. Dollar 153,000 to finance its current operations, contract financing, including replenishment of working capital. The credit facility is valid until 2009. As of June 30, 2007, the outstanding balance under the credit facility was U.S. Dollar 60,000. The Group has to comply with certain financial and non-financial covenants to prevent the closure of the credit facility.

(In thousands of U.S. Dollars, except as indicated)

Gazprombank. In July 2006, the Group received a long-term loan from Gazprombank amounting to U.S. Dollar 100,000 for equipment purchase and replenishment of working capital. The loan was repayable in monthly instalments due to commence July 31, 2007 up to the last instalment in 2009. As a condition of Sberbank waive the early repayment of the Sberbank loan, the Group committed to repay the Gazprombank loan in 2007. Accordingly, the total debt to Gazprombank as at December 31, 2006 was classified as short-term and included in the current portion of long-term debt (see Note 17). In March 2007, the loan to Gazprombank was fully repaid.

The Group is in compliance with all restrictive provisions of the loan agreements as of June 30, 2007.

20. RECLAMATION AND MINE CLOSURE OBLIGATION

Mine closure obligations are recognized on the basis of existing project business plans as follows**:**

Deposit	Vorontsov-skoye mine	Khakandjin-skoye mine	Dukat mine	Lunnoe mine	Total
Balance as of December 31, 2006	**1,495**	**2,272**	**2,253**	**1,210**	**7,230**
Accretion of reclamation and mine closure obligation	26	72	17	13	**128**
Translation effects	29	45	45	24	**143**
Balance as of June 30, 2007	**1,550**	**2,389**	**2,315**	**1,247**	**7,501**

21. DEFERRED PAYMENTS

Deferred payments as of June 30, 2007 comprised of an upfront payment received from Deutsche Bank Trust Company Americas. This payment was made to the Company in exchange for the Company selecting Deutsche Bank Trust Company Americas (the “Bank”) as its executive depositary bank for GDR programme at the London Stock Exchange. According to the terms of depositary agreements, the Bank should execute the function of the depositary for a seven year period. In case of early termination of the depositary agreement, the Company will have to pay back certain part of the granted bonus as compensation.

22. SHAREHOLDERS’ EQUITY AND EARNINGS PER SHARE

As at December 31, 2006, the authorized share capital of the Company comprised of 2,444,000,000 ordinary shares with a par value of Ruble 0.2 per share, of which 275,000,000 shares were issued, and a 100,000 series A preference shares with a par value of Ruble 100, of which none were issued.

40,000,000 ordinary shares were issued in the course of an initial public offering in February 2007.

As at June 30, 2007, the authorized and issued share capital of the Company comprised of 315,000,000 ordinary shares with a par value of Ruble 0.2 per share.

Reserves available for distribution to shareholders are based on the statutory financial statements of the Company as a stand-alone entity, which are prepared in accordance with Regulations on Accounting and Reporting of the Russian Federation and which differ significantly from U.S. GAAP. Russian legislation identifies the basis of distribution as accumulated profit.

(In thousands of U.S. Dollars, except as indicated)

As of June 30, 2007, the Company reported accumulated loss under Russian statutory accounting rules in the amount of Ruble 15,098 thousand (unaudited). As of December 31, 2006, JSC "Polymetal" reported an accumulated profit under Russian statutory accounting rules in the amount of Ruble 2,018 thousand (unaudited). However, current legislation and other statutory regulations dealing with distribution rights are open to legal interpretation; consequently, actual distributable reserves may differ from the amount disclosed.

The Company has potentially dilutive securities including the Group's share option plan (see Note 23). As the Company was in the net loss position for the period ended June 30, 2007, the stock options were anti-dilutive and therefore excluded from the calculation of dilutive (loss)/earnings per share. Accordingly, only basic loss per share are presented in these consolidated interim financial statements.

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

23. SHARE-BASED PAYMENTS

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

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

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

	Number of shares	Weighted average exercise price (per share), U.S. Dollar	Weighted average fair value of options (per share), U.S. Dollar	Aggregate intrinsic value, U.S. Dollar
Outstanding at December 31, 2006	**-**	**-**	**-**	**-**
Granted	5,540,332	0.04	7.11	38,848
Exercised	-	-	-	-
Forfeited	(30,780)	0.04	7.11	(3,801)
Outstanding at June 30, 2007	**5,509,552**	**0.04**	**7.11**	**35,047**

(In thousands of U.S. Dollars, except as indicated)

As of June 30, 2007 the Group had the following share options outstanding:

Exercise prices, U.S. Dollar	Number of shares	Remaining weighted average life in years
0.04	5,509,552	1.67

All share options outstanding as of June 30, 2007 have not vested and will only vest in 2008.

The fair value of share options granted during the six months ended June 30, 2007, was estimated using the Black-Scholes option pricing model using the following assumptions:

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

For the six month period ended June 30, 2007, share based compensation in the amount of U.S. Dollar 4,116 (2006 – nil) was recognized in other operating expenses.

24. REVENUES

	Six months ended June 30, 2007	Six months ended June 30, 2006
Sales to third parties		
Sberbank	67,854	199
ABN Amro-Bank	50,754	-
Uralsib	18,597	-
Standard Bank London	-	72,905
IBG NIKoil	-	3,329
Total sales to third paries	**137,205**	**76,433**
Sales to related party		
Nomos Bank	-	67,169
Subtotal revenue from gold and silver sales	**137,205**	**143,602**
Other	1,828	2,195
Total	**139,033**	**145,797**

(In thousands of U.S. Dollars, except as indicated)

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

	Six months ended June 30, 2007			Six months ended June 30, 2006		
	Thousand ounces	**Average price (U.S. Dollar per troy ounce)**	**U.S. Dollars**	**Thousand ounces**	**Average price (U.S. Dollar per troy ounce)**	**U.S. Dollars**
Gold	94	660.23	61,992	115	587.26	67,649
Silver	8,366	8,99	75,213	8,621	8.81	75,953
Total			**137,205**			**143,602**

Discounts from the London Metals Exchange ("LME") quotation on sales to banks for the six months ended June 30, 2007, amounted to U.S. Dollar 416 (2006: U.S. Dollar 712) for gold and U.S. Dollar 35,747 (2006: U.S. Dollar 20,133) for silver sales. Sales are recorded in the financial statements net of discounts.

In 2007, the Group delivered silver to ABN Amro Bank at fixed prices. Prices were fixed in the range from U.S. Dollar 7.7891 to U.S. Dollar 7.82 per troy ounce for sales of 6,511,490 troy ounces. The aggregate discounts from the LME quotation totalled U.S. Dollar 33,989 for silver sold.

In 2006, the Group delivered silver to the Standard Bank London ("SBL") at fixed prices. Prices were fixed in the range from U.S. Dollar 7.1220 to U.S. Dollar 7.1850 per troy ounce for sales of 4,642,985 troy ounces. The aggregate discounts from the LME quotation totalled U.S. Dollar 208 for gold sold and U.S. Dollar 18,934 for silver sold.

25. COST OF SALES

	Six months ended June 30, 2007	**Six months ended June 30, 2006**
Operating costs (excluding staff costs)	42,260	38,248
Staff costs	17,388	12,057
Depreciation and depletion (excluding depletion of mineral rights)	16,749	8,644
Purchase of metal from third parties	7,847	-
Mining tax	7,122	6,900
Depletion of mineral rights	6,220	2,425
Other taxes, except for income taxes	4,225	2,853
Other	2,584	2,356
Total	**104,395**	**73,483**

(In thousands of U.S. Dollars, except as indicated)

26. OTHER OPERATING EXPENSES

	Six months ended June 30, 2007	Six months ended June 30, 2006
Share based compensation	4,116	-
Consulting services	2,730	273
Social payments	2,472	566
Miscellaneous taxes and other payments	1,879	373
Loss on fixed asset disposals	543	1,371
Obsolete inventory expense	459	1,176
Bank services	333	936
Other expenses	2,187	2,799
Total	**14,719**	**7,494**

27. INCOME TAX

	Six months ended June 30, 2007	Six months ended June 30, 2006
Current income taxes	6,471	14,904
Deferred income taxes (benefit released)/charge to the income statements	(2,409)	2,678
Total	**4,062**	**17,582**

Reconciliation between corporate income tax expense and statutory income tax is as follows:

	Six months ended June 30, 2007	Six months ended June 30, 2006
(Loss)/income before income tax and minority interest	**(3,670)**	**49,021**
Statutory income tax (benefit)/expense at tax rate of 24 percent	(881)	11,765
Permanent tax differences (non-deductible expenses)	4,943	5,817
Total income tax expense	**4,062**	**17,582**

The actual tax expense differs from the amount which would have been determined by applying the statutory rate of 24% (2006: 24%) to the (loss)/income from operations before taxes as a result of the application of Russian tax regulations, which disallow certain deductions which are included in determination of income before taxes under U.S. GAAP. These deductions include social related expenditures and other non-production costs, certain general, administrative, financing, foreign exchange related and other costs.

(In thousands of U.S. Dollars, except as indicated)

28. SEGMENTS

The Group's management distinguishes three operating/reportable segments:

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

The operating segments determination is based on management units structure of the Group, which is linked to its regional profile. CJSC Serebro Terrotorii and CJSC Serebro Magadana represent a single reportable segment as their technological processes of production are closely linked with each other, they have a single chief operating decision maker and no discrete management information is available for them on individual basis. Minor companies (management, exploration, purchasing and other companies) which were not included into operating segments, were included into Corporate and other.

Sales on a geographical basis are not presented as all sales are conducted within the Russian Federation.

For the six months ended June 30, 2007	**North Ural**	**Khabarovsk**	**Magadan**	**Corporate and other**	**Total – mining operations**
Revenue from external customers	28,039	35,593	74,945	456	**139,033**
Revenue of intra-segments operations	1,310	1,747	2,738	48,219	**54,014**
Interest expenses	993	2,975	2,913	462	**7,343**
Depreciation and depletion	9,664	6,044	5,809	1,452	**22,969**
Net (loss)/income of segment	3,516	4,152	(10,372)	(9,295)	**(11,999)**
Total assets of segment	414,834	262,251	332,063	74,556	**1,083,704**
Acquisition of non-current assets	4,454	4,181	8,944	13,742	**31,322**

(In thousands of U.S. Dollars, except as indicated)

For the six months ended June 30, 2006	**North Ural**	**Khabarovsk**	**Magadan**	**Corporate and Other**	**Total - mining operations**
Revenue from external customers	22,261	48,478	72,963	2,095	**145,797**
Revenue of intra-segments operations	4,672	2,952	4,877	30,396	**42,897**
Interest expenses	1,710	5,729	50	2,488	**9,977**
Depreciation and depletion	505	5,659	2,019	2,886	**11,069**
Net (loss)/income of segment	5,732	11,473	13,562	(4,346)	**26,421**
Total assets of segment	190,573	314,837	297,803	97,587	**900,800**
Acquisition of non-current assets	8,097	8,456	14,709	22,541	**53,803**

Profit or loss	**Six months ended June 30, 2007**	**Six months ended June 30, 2006**
Profit or loss	(11,999)	26,421
Elimination of intersegment profits	4,266	549
Total	**(7,732)**	**26,970**

Total assets	**Six months ended June 30, 2007**	**Six months ended June 30, 2006**
Total assets of segments	1,083,704	900,800
Elimination of intersegment liabilities	(214,265)	(203,446)
Total	**869,439**	**697,354**

(In thousands of U.S. Dollars, except as indicated)

29. ACQUISITION OF SUBSIDIARIES

CJSC Serebro Magadana

In November 2004, the Group acquired the remaining 20% in its subsidiary CJSC Serebro Magadana, the license owner for the Dukat mine, from company P.A.S. Silver (Cyprus) Ltd. The Group paid U.S. Dollar 21,226 in cash and will pay up to U.S. Dollar 22,500 in contingent future payments. The future payments will be determined annually based on the average yearly silver price per troy ounce ("FPS") in the range U.S. Dollar 5.5 per ounce to U.S. Dollar 10.0 per ounce:

Range of silver price per troy ounce	Annual installments
5.5 < FPS < 6.0	500
6.0 < FPS < 7.0	1,000
7.0 < FPS < 8.0	2,000
8.0 < FPS < 9.0	5,000
9.0 < FPS < 10.0	6,000
10.0 < FPS	8,000

The agreement also contains provisions for early repayment on the occurrence of certain events, such as a public share offering. In the event of public offering the Group would pay 50% of the outstanding consideration, which is equal to U.S. Dollar 10,250, within 30 days after listing.

The acquisition was accounted for using the purchase method of accounting. The intitial purchase price allocation indicated a purchase price in excess of net assets acquired of U.S. Dollar 12,317. In accordance with U.S. GAAP, the Group recognized a corresponding amount of the contingent consideration at the time.

Of the U.S, Dollar 12,317 recognized at the acquisition date, U.S. Dollar 2,000 was paid in December 2006 and the amount of U.S. Dollar 8,000 must be paid not later than December 2007. In addition, as a result of the Initial Pulic Offering ("IPO") that took place in February 2007, the Group paid U.S. Dollar 10,250 in March 2007.

The remaining contingent consideration amounting to U.S. Dollar 2,250 has not been recorded in the accompanying consolidated interim financial statements as the outcome of the contingency and the amounts of consideration that will become payable were not determinable beyond reasonable doubt at June 30, 2007. Such amounts will be recorded when, and if, they become due.

JSC Okhotskaya GGC

In July 2006, the Group acquired an additional 30.76% interest in JSC Okhotskaya GGC, an existing consolidated subsidiary of the Group, from a related party for U.S. Dollar 73,857.
In August 2006, the Group purchased the remaining 1.89% of this company for U.S. Dollar 7,500. These acquisitions were recorded using the purchase method of accounting.

(In thousands of U.S. Dollars, except as indicated)

The final acquisition price allocation is presented below:

Assets acquired and liabilities assumed in 2006

Property, plant and equipment	17,339
Mineral rights	27,557
Goodwill (see Note 14)	24,260
Deferred tax liabilities	(10,775)
Decrease in minority interest	22,976
Cash paid on acquisition	81,357

Albazino Resources LLC

In July 2006, the Group acquired a 100% interest in Albazino Resources LLC (a development stage enterprise), which holds a mining license for gold exploration and mining in the Albazinskiy section for U.S. Dollar 7,000.

This acquisition was recorded using the purchase method of accounting.

The final acquisition price allocation is presented below:

Assets acquired and liabilities assumed in 2006

Mineral rights	5,400
Property, plant and equipment	95
Goodwill (see Note 14)	2,801
Deferred tax liabilities	(1,296)
Cash paid on acquisition	7,000

Other acquisitions

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

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

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

Amursky Hydrometallurgy Plant LLC

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

30. RELATED PARTY TRANSACTIONS

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

In July 2006, the Group acquired an additional 30.76% interest in JSC Okhotskaya GGC, an existing consolidated subsidiary of the Company, from a related party for U.S. Dollar 73,857 (see Note 29).

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

As at June 30, 2007 and December 31, 2006 the amount of outstanding short-term loans provided to related parties comprised U.S. Dollar 70,816 and U.S. Dollar 126 respectively (see Note 8).

As at June 30, 2007 and December 31, 2006 the amount of outstanding long-term loans provided to related parties comprised U.S. Dollar 4,296 and U.S. Dollar 6,138 respectively (see Note 15).

31. COMMITMENTS AND CONTINGENT LIABILITIES

Operating environment. Whilst there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

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

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

The Group has identified contingencies related to taxes other than income tax. Such possible tax contingencies could materialize and require the Group to pay additional amounts of tax. As of June 30, 2007 management estimates such contingencies related to taxes other than income tax to be up to approximately U.S. Dollar 4,025. The Group believes the estimated loss related to these contingencies is not probable and, as such, it is not accrued at June 30, 2007.

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

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

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

Forward sales commitments.The Group has to deliver silver to ABN Amro at the following terms:

- from January 1, 2007 to December 31, 2007 London silver fix price is applied, but the minimum and maximum prices are specified at the last day of every month and these are in the range of U.S. Dollar per troy ounce 6.0-7.0 (minimum price) and U.S. Dollar per troy ounce 7.25-8.6 (maximum price); the minimum quantity to be delivered is 13,920,018 troy ounces. As at June 30, 2007 sales volume was 6,511,490 troy ounces;
- from January 1, 2008 to December 31, 2008 London silver fix price is applied, the minimum quantity to be delivered is 9,002,208 troy ounces.

In connection with the General Framework Credit Line Agreement dated April 28, 2006 entered into between Sberbank and CJSC Zoloto Severnogo Urala and JSC Okhotskaya GGC respectively, JSC Okhotskaya GGC, CJSC Zoloto Severnogo Urala, CJSC Serebro Territorii and CJSC Serebro Magadana undertook to sell gold and silver to Sberbank at the following terms:

- for 2007 to sell 53,145 troy ounces of gold at the price calculated by reference to London gold fix price pursuant to the formula set out in the sales contract;
- for 2007 to sell 3,994,891 troy ounces of silver at the price calculated by reference to London gold fix price pursuant to the formula set out in the sales contract;
- for 2008 sales volume is to be determined on the basis of loan outstanding.

Issued guarantees. As at June 30, 2007, the Group issued the following guarantees:

- on behalf of Press-Invest LLC in favor of Instroytekhcom LLC for an amount of U.S. Dollar 804 for the period up to October 20, 2007;
- on behalf of SZLK LLC in favor of Barlworld Sibir LLC for an amount of U.S. Dollar 543 for the period up to November 1, 2007.

The Group’s management estimates that the likelihood that a loss would be incurred on these guarantees is remote and the fair values of the resultant liabilities are negligible.

Litigation. During the year, the Group was involved in a number of court proceedings (both as a plaintiff and as a defendant) arising in the ordinary course of business. In the opinion of management of the Group, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated interim financial statements.

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

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

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

Joint venture with AngloGold Ashanti Limited. In September 2006, the Group signed a framework agreement to set up a strategic alliance and joint venture with AngloGold Ashanti Limited in 2007. Within the framework of this agreement each party will own 50% in the new joint venture, to which the Group will contribute its shares in CJSC Enisey Mining-and Geological Company and Imitzoloto LLC. As at June 30, 2007, the joint venture has not been yet set up and no contribution was transferred.

Joint venture with MongolRostsvetmet JV. On December 8, 2006, the Group signed an agreement with Mongolian-Russian MongolRostsvetmet JV to set up a joint venture AsgatPolymetal LLC. As at the date of this agreement, the parties anticipate that the funding requirements of this joint venture will be as follows:

- In 2007 in the amount of U.S. Dollar 4,000
- In 2008 in the amount of U.S. Dollar 10,000
- In 2009 in the amount of U.S. Dollar 17,500

As at June 30, 2007, the Group invested U.S. Dollar 250 in the share capital of the joint venture AsgatPolymetal LLC. This investment was accounted under the equity method, but represented on pro rata gross basis.

32. RISK MANAGEMENT

Credit risks. A significant portion of the Group's accounts receivable is VAT receivable from local tax bodies (see Note 10). Management believes there is no significant risk of loss to the Group associated with recoverability of these balances.

Concentration risks. Management believes that no significant concentration risk was associated with any cash and cash equivalents, accounts receivable and prepayments balances as at June 30, 2007.

33. SUBSEQUENT EVENTS

In September 2007, the Group acquired a 100% of Polymetal Esop Limited, which holds 5,540,323 of the Company's shares, from its parent company Nafta Moskva (Cyprus) Limited. The purchase consideration comprised of U.S. Dollar 50. These shares will be used for distribution among the Share Option Plan participants (see Note 23).

From July to August 2007, the Group fully repaid its short-term debt to Dialog-Seti Invest in the amount of U.S. Dollar 70,817 (see Note 17).

From July to August 2007, Avanta LLC fully repaid its short-term loan to the Group in the amount of U.S. Dollar 70,816 (see Note 8).