Open Joint Stock Company Polymetal

Consolidated Financial Statements
For the Years Ended 31 December 2010 and 2009

OPEN JOINT STOCK COMPANY POLYMETAL

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

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

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

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

Management is also responsible for:

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

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

On behalf of the Management Board:

Nesis V.N.	**Cherkashin S.A.**
Chief Executive Officer	Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Open Joint Stock Company "Polymetal":

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

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

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

Deloitte & Touche

April 25, 2011

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2010 AND 2009
(In thousands of U.S. Dollars, except share and per share data)

	Note	December 31, 2010	December 31, 2009
Assets			
Cash and cash equivalents		11,056	28,317
Accounts receivable	5	19,765	1,601
Prepayments to suppliers		29,025	15,601
Inventories and spare parts	6	362,874	284,486
Short-term VAT receivable		94,148	77,323
Current deferred tax asset	7	17,062	12,833
Other current assets	8	36,120	20,450
Total current assets		**570,050**	**440,611**
Property, plant and equipment, net	9	1,519,243	1,087,503
Goodwill	10	114,712	115,729
Equity method investments	11	22,302	17,047
Long-term loans to related parties	12, 30	5,187	9,715
Long-term VAT receivable		-	7,799
Non-current deferred tax asset	7	42,189	30,118
Other non-current assets		21,017	18,291
Total non-current assets		**1,724,650**	**1,286,202**
Total assets		**2,294,700**	**1,726,813**
Liabilities and equity			
Accounts payable and accrued liabilities	13	90,468	67,930
Short-term debt and current portion of long-term debt	14	90,610	108,873
Taxes payable		14,981	10,957
Current deferred tax liability	7	8,015	2,666
Current portion of capital lease liabilities	15	4,819	2,928
Total current liabilities		**208,893**	**193,354**
Contingent consideration liability	4, 27	23,754	21,775
Long-term portion of capital lease liabilities	15	-	4,857
Long-term debt	16	595,359	331,293
Non-current deferred tax liability	7	83,735	60,519
Reclamation and mine closure obligation	17	51,317	43,004
Liability for uncertain tax benefits	7	2,265	3,916
Other non-current liabilities		2,578	3,810
Derivatives, net	28	105,437	149,514
Total non-current liabilities		**864,445**	**618,688**
Total liabilities		**1,073,338**	**812,042**
Commitments and contingencies	31	-	-
Equity			
Share capital (2,275,625,000 shares authorized with par value of Ruble 0.2 per share; 399,375,000 shares issued at December 31, 2010 and 2009; 361,424,643 and 357,924,643 shares outstanding at December 31, 2010 and December 31, 2009, respectively)	18	7,223	7,223
Additional paid-in capital		866,468	797,418
Treasury stock	18	(457)	(481)
Accumulated other comprehensive loss		(75,818)	(63,528)
Retained earnings		423,946	174,139
Total equity		**1,221,362**	**914,771**
Total liabilities and equity		**2,294,700**	**1,726,813**

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

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of U.S. Dollars, except share and per share data)

	Note	December 31, 2010	December 31, 2009
Revenue	20	925,376	560,737
Cost of sales	21	(449,669)	(284,416)
Gross profit		**475,707**	**276,321**
General, administrative and selling expenses	25	(80,760)	(52,042)
Other operating expenses	26	(52,518)	(41,706)
Operating income		**342,429**	**182,573**
Interest expense, net of amounts capitalised		(16,391)	(32,515)
Loss from equity method investments	11	(1,170)	(342)
Change in fair value of contingent consideration liability	27	(3,616)	(13,404)
Change in fair value of derivative financial instruments	28	(909)	(41,938)
Loss on extinguishment of debt		-	(5,873)
Excess of fair value of acquired net assets over cost		-	36,031
Foreign exchange (loss)/gain, net		(151)	7,869
Income before income tax		**320,192**	**132,401**
Income tax expense	7	(70,385)	(38,386)
Net income		**249,807**	**94,015**
Earnings per share (expressed in U.S. Dollars)	18		
From continuing operations			
Basic earnings per share		0.696	0.292
Diluted earnings per share		0.690	0.284
Weighted average number of shares outstanding			
Basic	18	358,732,335	322,343,391
Diluted	18	361,929,830	331,025,789

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

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of U.S. Dollars)

	Note	December 31, 2010	December 31, 2009
Cash flows from operating activities			
Net income		249,807	94,015
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and depletion		61,261	53,744
Write-down of inventory to lower of cost or market	21	15,319	2,622
Share-based compensation	19	7,896	-
Accretion of reclamation and mine closure obligation	17	4,490	2,895
Loss on disposal of property, plant and equipment	26	3,449	3,401
Change in contingent consideration liability	27	3,616	13,404
Write-off of irrecoverable VAT receivable		2,583	2,909
Change in bad debt allowance	26	2,333	2,993
Unwinding of borrowing discount		2,138	928
Loss from equity method investments	11	1,170	342
Change in fair value of derivatives	28	909	41,938
Exchange loss/(gain), net		151	(7,869)
Excess of fair value of acquired net assets over cost	4	-	(36,031)
Loss on extinguishment of debt		-	5,873
Deferred income tax (benefit)/expense	7	(3,529)	872
Other non-cash (income)/expenses, net		(2,404)	1,346
Changes in operating assets and liabilities			
Prepayments to suppliers		(13,296)	(3,729)
Inventories and spare parts		(86,424)	(35,430)
VAT receivable		(13,074)	7,087
Other current assets		(13,847)	3,167
Accounts receivable		(18,176)	(1,601)
Accounts payable and accrued liabilities		21,628	11,751
Taxes payable		3,592	658
Net cash provided by operating activities		**229,592**	**165,285**
Cash flows from investing activities			
Acquisitions of property, plant and equipment, net		(419,646)	(212,812)
Acquisition of subsidiaries, net of cash acquired		(8,479)	(10,708)
Loans provided to third parties		(421)	(10,321)
Receipt of repayment for loans provided to third parties		14	9,238
Loans provided to related parties		(3,871)	(55,022)
Receipt of repayment for loans provided to related parties		7,845	21,007
Net cash used in investing activities		**(424,558)**	**(258,618)**

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (CONTINUED)
(In thousands of U.S. Dollars)

	Note	December 31, 2010	December 31, 2009
Cash flows from financing activities			
Proceeds from:			
Short and long-term debt		741,573	815,828
Short and long-term debt obtained from related parties		401,354	641,921
Repayments of:			
Short and long-term debt		(589,451)	(671,806)
Short and long-term debt obtained from related parties		(371,330)	(750,345)
Proceeds from issuance of shares, net of costs incurred		-	87,432
Payments on capital lease obligations		(4,225)	(5,118)
Purchase of treasury shares		-	(223)
Net cash provided by financing activities		**177,921**	**117,689**
Effect of exchange rate changes on cash and cash equivalents		(216)	(116)
Cash and cash equivalents at the beginning of the year		**28,317**	**4,077**
Net (decrease)/increase in cash and cash equivalents		(17,261)	24,240
Cash and cash equivalents at the end of the year		**11,056**	**28,317**
Supplementary info			
Interest paid		28,616	49,144
Income tax paid		80,256	30,952
Non-cash investing and financing activities			
Non-cash additions to property, plant and equipment, net		3,302	8,994
Additions to property, plant and equipment under capital lease agreements		-	10,137
Issue of shares for acquisitions	4	-	156,000
Issue of treasury shares for acquisitions of group of assets	4	60,200	-
Exercise of a call option	19	-	152,721
Non-cash equity method investments	4	6,577	-
Contingent consideration on acquisition	4	-	3,419

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

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands of U.S. Dollars, except share data)

	Note	Number of shares outstanding	Share capital	Additional paid-in capital	Treasury shares	Accumulated other comprehen-sive loss	Retained earnings	Total equity
Balance at December 31, 2008		**315,000,000**	**6,698**	**400,122**	**-**	**(37,276)**	**80,124**	**449,668**
Comprehensive income:								
Net income		-	-	-	-	-	94,015	94,015
Other comprehensive loss: currency translation adjustment		-	-	-	-	(26,252)	-	(26,252)
Total comprehensive income		-	-	-	-	-	-	**67,763**
Amortization of bonus received from depositary		-	-	978	-	-	-	978
Issuance of shares for cash	18	9,524,643	59	87,805	-	-	-	87,864
Issue of shares for acquisitions	4	17,500,000	109	155,891	-	-	-	156,000
Exercise of a call option	4	15,925,000	99	152,622	-	-	-	152,721
Treasury shares issued to subsidiary	18	-	258	-	(258)	-	-	-
Acquisition of treasury shares	18	(25,000)	-	-	(223)	-	-	(223)
Balance at December 31, 2009		**357,924,643**	**7,223**	**797,418**	**(481)**	**(63,528)**	**174,139**	**914,771**
Comprehensive income:		-	-	-	-	-	-	-
Net income		-	-	-	-	-	249,807	249,807
Other comprehensive loss: currency translation adjustment		-	-	-	-	(12,290)	-	(12,290)
Total comprehensive income		-	-	-	-	-	-	**237,517**
Amortization of bonus received from depositary		-	-	978	-	-	-	978
Share based compensation	19	-	-	7,896	-	-	-	7,896
Issue of treasury shares in exchange for assets	4	3,500,000	-	60,176	24	-	-	60,200
Balance at December 31, 2010		**361,424,643**	**7,223**	**866,468**	**(457)**	**(75,818)**	**423,946**	**1,221,362**

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

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

1. BACKGROUND

Business activities

Open Joint Stock Company Polymetal (hereinafter JSC “Polymetal” or “the Company”) and its subsidiaries (“the Group”) is engaged in gold, silver and copper mining and related activities, including exploration, extraction, processing and reclamation. Since incorporation, the Group has acquired a number of gold and silver mining properties, which require significant investment to bring to commercial production.

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

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

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

Ownership structure

The Company (formerly Open Joint Stock Company “Interregional Research and Production Association Polymetal”) was incorporated on March 12, 1998 in the Russian Federation.
In February 2007, the Company placed 40,000,000 ordinary shares with par value of Rubles 0.2 per share in the form of Global Depositary Receipts (“GDRs”), one GDR represents one common share, on the London Stock Exchange, as well as shares on the “Stock Exchange Russian Trading System” (“RTS”) and the “Moscow Interbank Currency Exchange” (“MICEX”).

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

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

Operating environment

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

2. BASIS OF PRESENTATION

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

Recently issued accounting pronouncements

Accounting pronouncements effective during the reporting period

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

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

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

In July 2010, the FASB issued ASU 2010-20, *Receivables: Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ("ASU 2010-20") related to new disclosures about the credit quality of certain financing receivables and their related allowance for credit losses. ASU 2010-20 amends existing disclosures and requires entities to provide additional disclosures to facilitate financial statement users' evaluation of the following: 1) the nature of the credit risk inherent in the entity's portfolio of financial receivables; 2) how this risk is analyzed and assessed in arriving at the allowance for credit losses; 3) the changes and reasons for those changes in the allowance for the credit losses. Among other things, the expanded disclosures require information to be disclosed at disaggregated levels ("segments" or "classes"), along with roll-forward schedules of the allowance for credit losses and information regarding the credit quality of receivables (including their aging) as of the end of a reporting period. For public entities, the disclosures are effective as of the end of the reporting period ending on or after December 15, 2010. The Group adopted ASU 2010-20 for the 2010 annual financial statements. This adoption did not have an impact on the Group's results of operations, financial position or cash flow.

Accounting pronouncements effective in future

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

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

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary ProForma Information for Business Combinations* ("ASU 2010-29"). This ASU requires that the pro forma information be presented as if the business combination occurred at the beginning of the prior annual reporting period for purposes of calculating both the current reporting period and the prior reporting period proforma financial information. The ASU also requires that this disclosure be accompanied by a narrative description of the amount and nature of material nonrecurring proforma adjustments. The ASU is effective prospectively for business combinations that occur on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Group will adopt ASU 2010-29 for business combinations occurring on or after January 1, 2011. ASU 2010-29 will not have a material impact on the Group's results of operations, financial position or cash flows.

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

Use of estimates

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

Reporting and functional currency

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

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

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

The following exchange rates were used at the reporting dates:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

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

Business acquisitions

Business acquisitions from third parties are accounted for using the purchase method of accounting. Under this method, the purchase price is allocated to the assets acquired and liabilities assumed based on the fair value at the time of the acquisition. The excess purchase price over the fair value of identifiable assets and liabilities acquired is treated as goodwill. Any excess of Group's interest in net fair value of identifiable assets, liabilities and contingent liabilities over the cost of the business combination is recognized in earnings on the acquisition date. The results of operations of entities acquired from third parties are included in the Group's results of operations from the date of acquisition.

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

Investments

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

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

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

Asset impairment – Long-lived assets and goodwill

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

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

Cash and cash equivalents

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

Inventories and spare parts

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

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

Financial instruments

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

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

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

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

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

Derivative financial instruments

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

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

Pension obligations

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

Reclamation and mine closure

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

Income taxes

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

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

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

Revenue recognition

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

Sale of gold and silver bullion

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

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

Sale of copper, gold and silver concentrate

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

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

Share-based compensation

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

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

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

Comprehensive income

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

Basic and diluted earnings per share

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

Reclassifications

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

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

4. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

ZK Mayskoye LLC

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

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

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

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

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

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

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

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

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

This acquisition was accounted for using the purchase method.

Assets acquired and liabilities assumed at the acquisition date

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

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

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

JSC Varvarinskoye

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

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

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

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

(a) Debt obligations in the amount of U.S. Dollar 85,660 (see Note 16); and
(b) A flat forward gold sales contract (see Note 28) based on the expected production of gold at the Varvarinskoye deposit. The flat forward sales contract has a total notional amount of 320,160 ounces of gold at the fixed forward price of U.S. Dollar 574.25 per ounce and has monthly settlement dates between November 2009 and April 2014.

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

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

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

The acquisition was accounted for using the purchase price method.

Assets acquired and liabilities assumed at the acquisition date

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

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

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

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

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

Rudnik Kvartseviy LLC

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

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

The acquisition was accounted for using the purchase price method.

Assets acquired and liabilities assumed at the acquisition date

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

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

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

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

CJSC Artel of prospectors Ayax

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

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

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

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

Assets acquired and liabilities assumed at the acquisition date

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

Rudnik Avlayakan LLC and Kirankan LLC

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

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

Assets acquired and liabilities assumed at the acquisition date

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

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

PD RUS LLC

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

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

Assets acquired and liabilities assumed at the acquisition date

Mineral rights	8,651
Other assets, net	599
Long-term debt	(9,250)
Net assets acquired	**-**
Cash consideration paid	9,250
Intercompany debt	(9,250)

Disposal of subsidiaries

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

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

Assets disposed of as at the date of disposal

Mineral rights	3,936
Other assets, net	2,641
Net assets disposed of	**6,577**

5. ACCOUNTS RECEIVABLE

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

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

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

6. INVENTORIES AND SPARE PARTS

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

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

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

7. INCOME TAXES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net deferred income tax liabilities are classified as follows:

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

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

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

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

		December 31, 2010
Year ended	December 31, 2011	-
	December 31, 2012	-
	December 31, 2013	13
	December 31, 2014	2,462
	December 31, 2015	7,990
	December 31, 2016	12,947
	December 31, 2017	22,778
	December 31, 2018	61,055
	December 31, 2019	54,995
	December 31, 2020	18,840
Total loss carryforwards for tax purposes		**181,080**

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

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

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

8. OTHER CURRENT ASSETS

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

9. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

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

10. GOODWILL

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

11. EQUITY METHOD INVESTMENTS

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

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

Joint venture with AngloGold Ashanti Limited

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

Equity investment in JSC Ural-Polymetal

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

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

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

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

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

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

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

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

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

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

12. LONG-TERM LOANS TO RELATED PARTIES

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

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

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

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

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

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

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

	Interest rate (actual rate as at December 31, 2010)	December 31, 2010	December 31, 2009
Debt from third parties			
U.S. Dollar denominated			
Raiffeisenbank	1m LIBOR + 3.75% (4.06%)	3,000	23,235
Current portion of long-term debt (Note 16)		62,403	81,667
Total U.S. Dollar denominated		**65,403**	**104,902**
Russian Ruble denominated			
Other		-	604
Current portion of long-term debt (Note 16)		10,828	-
Total Russian Ruble denominated		**10,828**	**604**
Total debt from third parties		**76,231**	**105,506**
Debt from related parties U.S. Dollar denominated			
Nomos-Bank	13% - 18%	-	3,367
Total U.S. Dollar denominated		**-**	**3,367**
Current portion of long-term debt (Note 16)		14,379	-
Total debt from related parties (Note 30)		**14,379**	**3,367**
Total		**90,610**	**108,873**

15. CAPITAL LEASE LIABILITIES

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

Future minimum lease payments for the assets under capital leases as at December 31, 2010 are as follows:

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

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

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

16. LONG-TERM DEBT

	Interest rate (actual rate as at December 31, 2010)	December 31, 2010	December 31, 2009
Debt from third parties			
U.S. Dollar denominated			
Raiffeisenbank	3m LIBOR + 3.5% (3.79%)	150,000	100,000
Syndicate of Banks (Note 4)	3m LIBOR + 3% (3.29%)	127,133	85,572
UniCredit bank AG	3m LIBOR + 3.35% (3.64%)	100,000	-
UniCredit bank	3m LIBOR + 3.35% (3.64%)	100,000	70,000
ING bank (Eurasia)	1m LIBOR + 2.5% (2.76%)	75,000	-
Sberbank	3m LIBOR + 6.5% (6.81%)	50,000	-
Gazprombank	3.5% - 4.5%	21,000	-
HSBC	1m LIBOR + 3.5% (3.85%)	8,070	-
VTB	3m LIBOR + 6.3% (6.55%)	-	150,000
Less current portion of long-term debt (Note 14)		(62,403)	(81,667)
Total U.S. Dollar denominated		**568,800**	**323,905**
Russian Ruble denominated			
HSBC	MOSPRIME + 3% (6.42%)	10,828	-
Less current portion of long-term debt (Note 14)		(10,828)	-
Total Russian Ruble denominated		**-**	**-**
Total debt from third parties		**568,800**	**323,905**
Debt from related parties			
Euro denominated			
Nomos-Bank	EURIBOR + 4.15%- EURIBOR + 5.4% (5.25% - 6.48%)	30,291	7,388
Less current portion of long-term debt (Note 14)		(6,446)	-
Total Euro denominated		**23,845**	**7,388**
U.S. Dollar denominated			
Nomos-Bank	4.5 - 6%	7,700	-
Less current portion of long-term debt (Note 14)		(7,700)	-
Total U.S. Dollar denominated		**-**	**-**
Russian Ruble denominated			
Polymetals of North Ural LLC	8%	1,739	-
Total Russian Ruble denominated		**1,739**	**-**
Canadian Dollar denominated			
Nomos-Bank	CAD-BA-CDOR + 4.3% (5.41%)	1,208	-
Less current portion of long-term debt (Note 14)		(233)	-
Total Canadian Dollar denominated		**975**	**-**
Total debt from related parties (Note 30)		**26,559**	**7,388**
Total		**595,359**	**331,293**

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

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

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

Raiffeisenbank

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

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

Syndicate of Banks

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

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

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

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

UniCredit bank AG (incorporated in the Great Britain)

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

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

UniCredit bank (incorporated in the Russian Federation)

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

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

ING bank (Eurasia)

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

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

Sberbank

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

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

Nomos-Bank

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

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

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

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

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

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

Gazprombank

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

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

HSBC

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

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

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

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

17. RECLAMATION AND MINE CLOSURE OBLIGATION

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

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

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

18. EQUITY AND EARNINGS PER SHARE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

19. SHARE-BASED PAYMENTS

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

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

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

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

- *Expected forfeitures.* This assumption is estimated using historical trends of executive director and employee turnover. As the Group typically only grants awards to senior employees and the turnover rate for such employees is minimal, the Group has estimated expected forfeitures to be 5%.
- *Expected volatility.* Expected volatility has been estimated based on an analysis of the historical stock price volatility of the Company's global depositary receipts ("GDRs") from February 2007, when the Group's GDRs became publicly traded.

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

- *Expected life.* The average expected life was based on the contractual term of the option of 3.6 years. As the Plan has a 2.6 year vesting condition and the participant may exercise his right to redeem shares within one year after such right is obtained, the Group used the 2.6 years expected term for the first stage of the Monte-Carlo simulation (the "First date") and 3.6 – for the second stage (the "Second date").
- *Fair value of common stock* is equal to the market price of underlying GDR's at the grant date.
- *Risk-free interest rate.* The risk-free rate is based on US Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant.

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

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

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

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

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

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

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

20. REVENUE

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

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

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

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

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

Revenue analyzed by geographical regions is presented below:

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

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

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

21. COST OF SALES

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

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

22. ON-MINE COSTS

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

23. SMELTING COSTS

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

24. DEPRECIATION AND DEPLETION OF OPERATING ASSETS

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

25. GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

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

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

26. OTHER OPERATING EXPENSES

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

27. FAIR VALUE ACCOUNTING

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

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

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

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

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

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

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

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

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

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

Receivables from provisional copper, gold and silver concentrate sales

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

Derivative financial instruments

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

Commodity forward contracts

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

Call option

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

Contingent consideration liability

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

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

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

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

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

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

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

28. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Risk management activities

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

Concentration of credit risk

The Group's financial instruments that are potentially exposed to concentration of credit risk consist primarily of prepayments to suppliers and accounts receivable. Accounts receivable are regularly monitored and assessed and where necessary an adequate level of provision is maintained. The Group has a concentrated number of suppliers to which the Group has made prepayments. As at December 31, 2010 and 2009 bad debt allowance related to the prepayment to suppliers and non-trade receivables and amounted to U.S. Dollar 8,300 and 3,621, respectively. Generally, the Group does not require any collateral to be pledged in connection with its investments in the above financial instruments.

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

Foreign currency and commodity price risk

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

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

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

    The Group is liable to pay a net settlement amount on each delivery date. If any settlement is not paid on its applicable delivery date, such settlement amount will accrue interest at 3 months LIBOR plus 3% and shall be payable on December 31, 2013 (35% of the total and all interest accrued thereon to date) and on December 31, 2014 (the full balance of the settlement amount and all interest accrued thereon to date). In addition, a cash sweep mechanism applies to all free cash flows generated by Varvarinskoye until all the obligations are fully repaid. As at December 31, 2010 and 2009 net settlement amount of U.S. Dollar 50,977 and U.S. Dollar 10,007, respectively, has not been paid and was recorded in the "long-term debt" line of the balance sheet (see Note 16).

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

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

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

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

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

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

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

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

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

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

Interest rate and liquidity risk

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

29. SEGMENTS

The Group has six reportable segments:

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

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

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

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

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

As of and for the year ended December 31, 2010	**North Ural**	**Khabarovsk**	**Magadan**	**Omolon**	**Albazino**	**Kazakhstan**	**Total reportable segments**	**Corporate and other**	**Intersegment operations and balances**	**Total**
Revenue from external customers	213,906	215,300	345,457	24,649	-	125,456	**924,768**	608	-	**925,376**
Intersegment revenue	310	57	116	-	-	-	**483**	287,462	(287,945)	**-**
Cost of sales	(90,305)	(92,965)	(179,790)	(17,945)	-	(82,379)	**(463,384)**	(231,223)	244,938	**(449,669)**
Gross profit	**123,911**	**122,392**	**165,783**	**6,704**	**-**	**43,077**	**461,867**	**56,847**	**(43,007)**	**475,707**
General, administrative and selling expenses										**(80,760)**
Other operating expenses										**(52,518)**
Interest expense, net of amounts capitalised										**(16,391)**
Loss from equity method investments										**(1,170)**
Change in fair value of derivative financial instruments										**(909)**
Change in fair value of contingent consideration liability										**(3,616)**
Foreign exchange loss, net										**(151)**
Total income before income tax										**320,192**
Segment assets:										
Property, plant and equipment, net	75,690	170,893	315,077	203,222	352,126	162,284	**1,279,292**	239,951	-	**1,519,243**
Goodwill	-	13,364	8,201	-	-	68,177	**89,742**	24,970	-	**114,712**
Other current and non-current assets	134,022	97,236	138,954	70,087	57,652	69,816	**567,767**	108,411	(170,366)	**505,812**
Total segment assets	**209,712**	**281,493**	**462,232**	**273,309**	**409,778**	**300,277**	**1,936,801**	**373,332**	**(170,366)**	**2,139,767**
Unallocated assets:										
Cash and cash equivalents										**11,056**
Other assets										**143,877**
Total assets										**2,294,700**
Expenditure for additions to long-lived assets	11,932	10,771	43,831	75,523	200,210	21,876	**364,143**	66,876	-	**431,019**
Depreciation and depletion of operating assets	21,230	11,687	16,317	8,293	3,435	9,420	**70,382**	-	-	**70,382**

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

As of and for the year ended December 31, 2009	North Ural	Khabarovsk	Magadan	Omolon	Albazino	Kazakhstan	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	154,446	122,691	257,450	1,107	-	21,981	**557,675**	3,062	-	**560,737**
Intersegment revenue	169	460	115	-	-	-	**744**	153,169	(153,913)	**-**
Cost of sales	(62,267)	(66,945)	(145,990)	(846)	-	(11,947)	**(287,995)**	(124,154)	127,733	**(284,416)**
Gross profit	**92,348**	**56,206**	**111,575**	**261**	**-**	**10,034**	**270,424**	**32,077**	**(26,180)**	**276,321**
General, administrative and selling expenses										**(52,042)**
Other operating expenses										**(41,706)**
Interest expense, net of amounts capitalised										**(32,515)**
Loss from equity method investments										**(342)**
Loss on extinguishment of debt										**(5,873)**
Change in fair value of derivative financial instruments										**(41,938)**
Change in fair value of contingent consideration liability										**(13,404)**
Excess of fair value of acquired net assets over cost										**36,031**
Foreign exchange gain, net										**7,869**
Total income before income tax										**132,401**
Segment assets:										
Property, plant and equipment, net	84,285	98,592	299,838	158,999	166,889	145,219	**953,822**	133,681	-	**1,087,503**
Goodwill	-	13,467	8,265	-	-	68,836	**90,568**	25,161	-	**115,729**
Other current and non-current assets	123,180	112,026	137,071	32,649	33,060	40,005	**477,991**	94,940	(169,431)	**403,500**
Total segment assets	**207,465**	**224,085**	**445,174**	**191,648**	**199,949**	**254,060**	**1,522,381**	**253,782**	**(169,431)**	**1,606,732**
Unallocated assets:										
Cash and cash equivalents										**28,317**
Other assets										**91,764**
Total assets										**1,726,813**
Expenditure for additions to long-lived assets	9,690	3,478	31,600	16,574	122,609	388	**184,339**	53,357	(4,997)	**232,699**
Depreciation and depletion of operating assets	11,241	16,173	14,766	516	-	1,164	**43,860**	-	-	**43,860**

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

30. RELATED PARTY TRANSACTIONS

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

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

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

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

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

31. COMMITMENTS AND CONTINGENCIES

Taxation

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

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

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

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

Political environment

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

Forward sales commitments

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

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

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

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

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

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

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

Litigation

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

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

Insurance policies

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

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

Environmental matters

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

32. SUBSEQUENT EVENTS

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

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

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

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