Open Joint Stock Company Polymetal

Consolidated Financial Statements
For The Years Ended 31 December 2009 and 2008

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, 2009 AND 2008

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company "Polymetal" ("JSC Polymetal") and its subsidiaries (the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of the Group as at December 31, 2009 and 2008, and the results of its operations, cash flows and changes in shareholders' equity for the years then ended, in compliance with Accounting Principles Generally Accepted in the United States of America ("U.S. GAAP").

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

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

Management is also responsible for:

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

The consolidated financial statements for the years ended December 31, 2009 and 2008 were approved by management on April 15, 2010:

On behalf of the Management Board:

Nesis V.N.	**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, 2009 and 2008, and the related consolidated statements of operations, changes in shareholders’ equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche

April 15, 2010

OPEN JOINT STOCK COMPANY POLYMETAL

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

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

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

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands of U.S. Dollars, except share and per share data)

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

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

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

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

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

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands of U.S. Dollars, except share data)

	Note	Number of shares outstanding	Share capital	Additional paid-in capital	Treasury shares	Accumulated other compre-hensive (loss)/ income	Retained earnings	Total OJSC Polymetal equity
Balance at January 1, 2008		**309,459,677**	**6,698**	**367,129**	**(50)**	**56,208**	**95,854**	**525,839**
Comprehensive loss:								
Net loss		-	-	-	-	-	(15,730)	(15,730)
Other comprehensive loss: currency translation adjustment		-	-	-	-	(93,484)	-	(93,484)
Total comprehensive loss								(109,214)
Amortization of the bonus received from depositary		-	-	929	-	-	-	929
Share based compensation	20, 26	-	-	31,902	-	-	-	31,902
Issuance of treasury shares	19	5,540,323	-	162	50	-	-	212
Balance at December 31, 2008		**315,000,000**	**6,698**	**400,122**	**-**	**(37,276)**	**80,124**	**449,668**
Comprehensive income:								
Net income		-	-	-	-	-	95,988	95,988
Other comprehensive loss: currency translation adjustment		-	-	-	-	(26,252)	-	(26,252)
Total comprehensive income								69,736
Amortization of the bonus received from depositary		-	-	978	-	-	-	978
Issuance of shares for cash	19	9,524,643	59	87,805	-	-	-	87,864
Issuance of shares for acquisitions	5	17,500,000	109	155,891	-	-	-	156,000
Exercise of a call option	5	15,925,000	99	152,622	-	-	-	152,721
Treasury shares issued to subsidiary	19	-	258	-	(258)	-	-	-
Acquisition of treasury shares	19	(25,000)	-	-	(223)	-	-	(223)
Balance at December 31, 2009		**357,924,643**	**7,223**	**797,418**	**(481)**	**(63,528)**	**176,112**	**916,744**

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

1. BACKGROUND

Business activities

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

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

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

Ownership structure

Open Joint Stock Company "Interregional Research and Production Association Polymetal" was incorporated on March 12, 1998 in the Russian Federation. On December 19, 2006, the Open Joint Stock Company "Interregional Research and Production Association Polymetal" was renamed as Open Joint Stock Company "Polymetal".

The Company's majority shareholder prior to November 2005 was Closed Joint Stock Company ICT ("CJSC ICT"), which together with its subsidiaries formed the ICT group. In November 2005, CJSC ICT sold its interests in the Company to Open Joint Stock Company Nafta Moskva ("JSC Nafta Moskva").

In 2006, after restructuring of JSC Nafta Moskva, Nafta Moskva (Cyprus) Limited, a subsidiary of JSC Nafta Moskva, became the sole shareholder of the Company until the Company's public offering. In February 2007, the Company placed 40,000,000 ordinary shares with par value of Rubles 0.2 per share in the form of Global Depositary Receipts ("GDRs"), one GDR represents one common share, on the London Stock Exchange, as well as shares on "Stock Exchange Russian Trading System" ("RTS") and "Moscow Interbank Currency Exchange" ("MICEX").

In June 2008 Nafta Moskva (Cyprus) Limited sold all of its interest in the Company (68.0%) to three parties: Powerboom Investments Limited, ultimate beneficiary owner of which is Alexander Nesis (23.97%), Pearlmoon Limited, ultimate beneficiary owner of which is Petr Kellner (24.82%), and Vitalbond Limited, ultimate beneficiary owner of which is Alexander Mamut (19.02%). Also, as at December 31, 2009, Deutsche Bank Trust Company Americas controls 13.48% of voting shares in the Company. No other parties contol more than 5% of Company shares.

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

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

Operating environment

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

Composition of the Group

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

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

2. BASIS OF PRESENTATION

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

Recently issued accounting pronouncements

Accounting pronouncements effective during the reporting period

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

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

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

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

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

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

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

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

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

Accounting pronouncements effective in the future

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

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

Use of estimates

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

Reporting and functional currency

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

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

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

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

The following exchange rates were used at the reporting dates:

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

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

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

Business acquisitions

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

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

Investments in incorporated joint ventures

A joint venture is an entity in which the Group holds a long-term interest and which is jointly controlled by the Group and one or more external joint venture partners under a contractual agreement that provides for strategic, financial and operating policy decisions relating to the activities requiring unanimous consent of the parties sharing control.

Investments in incorporated joint ventures are accounted for using the equity method. The initial investments in these entities are recorded at cost. After the acquisition, the Group's share of profits or losses of incorporated joint ventures is recognized in the statement of operations as earnings from equity method investees. The carrying amount of investments in incorporated joint ventures is adjusted to recognize all cumulative post-acquisition movements in the equity of the investee.

The carrying value of equity method investments in incorporated joint ventures is evaluated for impairment when conditions indicate that a decline in fair value below the carrying amount is other than temporary or at least annually. When an indicated impairment exists, the carrying value of the Group's investment in those entities is written down to its fair value.

Asset impairment

The Group assesses its held-for-use long lived assets for impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable. If the sum of estimated future cash flows on an undiscounted basis is less than the carrying amount of the related assets, impairment is considered to exist. The related impairment loss is measured by comparing the estimated future cash flows on a discounted basis to the carrying amount of the asset.

An individual operating mine is not a typical "going-concern" business because of the finite life of its reserves. The allocation of goodwill to an individual operating mine will result in eventual goodwill impairment due to the wasting nature of the mine reporting unit. In accordance with the provisions of ASC 350, Intangibles – Goodwill and Other ("ASC 350"), the Group performs a review of goodwill for impairment, at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

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

Cash and cash equivalents

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

Inventories and spare parts

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

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

Write-downs for unrealizable inventory are made in full.

Financial instruments

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

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

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

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

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

Derivative financial instruments

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

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

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

Property, plant and equipment

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

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

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

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

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

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

Machinery and equipment	1-20 years;
Transport and other	1-10 years.

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

Pension obligations

The Group pays mandatory contributions to the state social funds, including the Pension Fund of the Russian Federation, which are expensed as incurred. For the years ended December 31, 2009 and 2008, the Group contributed U.S. Dollar 15,329 and 14,923, respectively.

Reclamation and mine closure

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

Income taxes

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

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

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

Revenue recognition

Sale of gold and silver bullions

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

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

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

Sale of copper and gold concentrate

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

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

Share based compensation

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

The fair value of share-based payments is calculated at the grant date using the Black-Scholes-Merton option pricing model. For equity-settled share-based payments, the fair value is determined using the Black-Scholes-Merton model and expensed on a straight-line basis over the vesting period based on the Group's estimate of the shares that will eventually vest.

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

Comprehensive income/(loss)

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

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

4. RECLASSIFICATIONS

Certain comparative information presented in the consolidated balance sheet as at December 31, 2008 and in the consolidated statement of operations for the year ended December 31, 2008 has been reclassified in order to achieve comparability with the presentation used as at and for the year ended December 31, 2009. After considering all relevant quantitative and qualitative information, the Group concluded that these reclassifications are not material to the consolidated financial statements as at and for the year ended December 31, 2008:

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

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

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

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

5. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

JSC Omolon Gold Mining Company

In January 2008, the Group acquired 98.1% of shares in JSC Omolon Gold Mining Company ("OGMC") from Kinam Magadan Gold Corporation, an unrelated party. OGMC holds four subsoil licenses related to the Kubaka gold mine deposit located in the Magadan region. The Group paid cash consideration of U.S. Dollar 15,000, including payment for shares of U.S. Dollar 0.001 in cash and settlement of OGMC's liabilities of U.S. Dollar 15,000. In addition, the Group is liable for perpetual deferred payments in the amount of 2% of the revenue derived from production and sales of minerals extracted from the deposit. The perpetual deferred payments are uncapped in respect of the size and the timing of such future gold production, sale or other disposal. At the time of the acquisition, the Group recognized an estimated contingent consideration liability of U.S. Dollar 5,459.

In March 2008, the Group acquired the remaining 1.9% of shares in JSC Omolon Gold Mining Company from the Russian Federal Property Fund for U.S. Dollar 811.

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

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

Assets acquired and liabilities assumed at the date of acquisition

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

The excess of the fair value of acquired net assets over cost arose primarily due to the Company's competitive position in negotiations due to the time restriction in the sales process and lack of the ability of the Kinam Magadan Gold Corporation to serve its debts. The excess of the fair value of acquired net assets over consideration paid was allocated to reduce the carrying value of property, plant and equipment and mineral rights purchased. After reducing the value of these assets to nil, the remaining excess of U.S. Dollar 840 was recognized as an extraordinary gain in the statement of operations.

ZK Mayskoye LLC

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

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

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

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

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

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

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

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

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

This acquisition was accounted for using the purchase method.

Assets acquired and liabilities assumed at the date of acquisition

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

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

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

JSC Varvarinskoye

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

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

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

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

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

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

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

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

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

Assets acquired and liabilities assumed at the date of acquisition

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

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

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

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

Rudnik Kvartseviy LLC

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

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

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

Assets acquired and liabilities assumed at the date of acquisition

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

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

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

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

CJSC Artel of prospectors Ayax

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

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

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

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

Assets acquired and liabilities assumed at the date of acquisition

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

Proforma (unaudited)

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

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

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

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

Other acquisitions

In August 2008, the Group acquired 100% of shares in Ural Exploration Enterprise LLC (a development stage enterprise), which holds the license for gold exploration and mining in Degtyarnoe field, from Russian Copper Company, an unrelated party, for U.S. Dollar 6,203. Amounts of mineral rights and attributable deferred tax liabilities acquired amounted to U.S. Dollar 7,989 and U.S. Dollar 1,834, respectively. The residual amount of U.S. Dollar 48 represents other current assets and liabilities.

Disposal of subsidiaries

In February 2008, the Group contributed 100% of the shares in CJSC Enisey Mining and Geological Company and Imitzoloto LLC, holding Anenskoye and Aprelovskoye gold mining licenses, respectively, to form the joint venture with AngloGold Ashanti Limited (see Note 12).

The book value of the net assets disposed was as follows:

Assets and liabilities disposed of as at the date of disposal

Goodwill	1,792
Property, plant and equipment	4,820
Cash and cash equivalents	13,448
Deferred tax liability	(1,113)
Other liabilities, net	(2,017)
Net assets disposed of	**16,930**

6. INVENTORIES AND SPARE PARTS

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

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

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

7. VAT RECEIVABLE

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

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

8. DEFERRED TAX

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

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

Net deferred income tax liabilities consist of:

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

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

Tax losses carried forward represent the amounts available for offset against future taxable income generated by CJSC Serebro Magadana, JSC Okhotskaya GGC, JSC Varvarinskoye and the Company during the period up to 2019. Each legal entity within the Group represents a separate tax-paying component for income tax purposes. The tax losses of one entity cannot be used to reduce taxable income of other entities in the Group.

As at December 31, 2009 and 2008 the aggregate tax losses carried forward were U.S. Dollar 199,175 (Rubles 6,023,052 thousand) and U.S. Dollar 36,542 (Rubles 1,073,629 thousand), respectively. The Group's tax losses carried forward expire as follows:

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

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

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

9. OTHER CURRENT ASSETS

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

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

10. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

11. GOODWILL

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

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

12. INVESTMENTS IN JOINT VENTURES

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

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

In February 2008, the Company signed an agreement to set up a strategic alliance and a joint venture with AngloGold Ashanti Limited (the "JV"). Within the framework of this agreement each party owns 50% in the JV, to which the Company contributed its shares in CJSC Enisey Mining and Geological Company and Imitzoloto LLC, holding Anenskoye and Aprelovskoye gold mining licenses (see Note 5), respectively, and made cash contribution of U.S. Dollar 14,298. The JV was set up in order to execute development projects in several territories of the Russian Federation.

Currently, the JV's development projects are at an early stage: the research activities have begun and payments are being made to the geological and engineering companies, however proven and probable reserves have not yet been identified. The Group does not expect to start production and generate cash flows from precious metal sales in near future. Until proven and probable reserves have been identified and measured, uncertainty exists regarding the recoverability of the investment in the JV.

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

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

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

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

13. LONG-TERM LOANS TO RELATED PARTIES

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

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

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

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

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

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

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

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

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

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

16. CAPITAL LEASE LIABILITIES

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

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

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

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

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

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

17. LONG-TERM DEBT

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

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

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

VTB

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

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

UniCredit Bank

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

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

Covenants related to the long-term facility require the Group to maintain certain financial ratios, prohibit any change to the general nature of the business and limit the disposal of assets. At December 31, 2009, under the most restrictive covenant, the Group is not allowed to give guarantees to third parties to an amount exceeding U.S. Dollar 50,000 without the written consent of UniCredit Bank.

Raiffeisen Bank

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

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

Nomos-Bank

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

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

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

The repayment of these long-term facilities is guaranteed with a pledge of revenues under the sales contracts with Nomos-Bank (see Note 33). Covenants to these facilities require the Group to maintain certain financial ratios, prohibit any change to the general nature of the business and limit the disposal of assets. At December 31, 2009, under the most restrictive covenant, the subsidiary of the Group, Trade House Polymetal LLC, is not allowed to pledge property at the amount greater than U.S. Dollar 10,000 without the written consent of the Nomos-Bank. Subsidiaries of the Group OJSC Okhotskaya GGC, CJSC Zoloto Severnogo Urala and CJSC Serebro Magadana are not permitted to pledge or alienate property with a carrying value greater than 20% of their net assets.

Syndicate of Banks

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

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

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

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

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

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

18. RECLAMATION AND MINE CLOSURE OBLIGATION

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

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

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

19. SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

As at December 31, 2009 and 2008, the authorized share capital of the Company comprised of 2,444,000,000 ordinary shares with a par value of Ruble 0.2 per share and 100,000 series A preference shares with a par value of Ruble 100 per share.

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

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

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

(a) 9,524,643 ordinary shares by way of a closed subscription. The proceeds from issuance comprised U.S. Dollar 87,864 in cash;
(b) 10,000,000 and 7,500,000 ordinary shares in exchange for 100% of Rudnik Kvartseviy LLC and 89.61% in CJSC Artel of prospectors Ayax, respectively (see Note 5);
(c) 15,925,000 ordinary shares as execution of the call option written by the Company at acquisition of Zolotorudnaya Kompaniya Mayskoye LLC (see Note 5, 29).

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

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

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

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

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

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

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

20. SHARE-BASED PAYMENTS

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

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

In accordance with the Option Plan among other conditions the qualifying participant had the right to early redemption and acquisition of all shares in an event of a change in the Group's controlling shareholders' structure. As a result of such change (see Note 1) all share options fully vested in June 2008 (see Note 26).

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

	Number of shares	Weighted average exercise price (per share), U.S. Dollar	Weighted average fair value of options (per share), U.S. Dollar	Aggregate intrinsic value, U.S. Dollar
Outstanding at January 1, 2008	**5,540,323**	**0.04**	**6.97**	**38,848**
Exercised	(5,540,323)	0.04	6.97	(38,848)
Forfeited	-	-	-	-
Outstanding at December 31, 2008	**-**	**-**	**-**	**-**

21. REVENUES

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

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

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

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

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

Revenue analysed by geographical regions is presented below:

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

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

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

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

22. COST OF SALES

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

23. ON-MINE COSTS

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

24. SMELTING COSTS

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

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

25. DEPRECIATION AND DEPLETION OF OPERATING ASSETS

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

26. GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

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

27. OTHER OPERATING EXPENSES

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

28. INCOME TAX

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

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

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

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

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

In November 2008, the government of the Russian Federation enacted a law decreasing the statutory tax rate from 24% to 20% effective from January 1, 2009. These changes in tax rates resulted in a reduction in the net deferred income tax liability in the amount of U.S. Dollar 2,478 as at December 31, 2008.

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

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

The whole amount would affect the Group's effective tax rate if recognized.

The Group records penalties and accrued interest related to uncertain tax positions in income tax expense. As at December 31, 2009 and 2008, U.S. Dollar 276 and 362, respectively, were included in the liability for uncertain tax positions for the probable payment of interest and penalties.

The items that are affected by expiring statute of limitations within the next 12 months amount to U.S. Dollar 1,428 (2008: U.S. Dollar 411).

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

29. FAIR VALUE ACCOUNTING

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

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

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

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

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

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

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

Receivables from provisional copper and gold concentrate sales

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

Derivative financial instruments

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

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

Commodity forward contracts

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

Call option

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

Contingent consideration liability

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

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

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

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

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

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

30. DERIVATIVE FINANCIAL INSTRUMENTS

Risk management activities

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

Concentration of credit risk

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

Foreign currency and commodity price risk

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest rate and liquidity risk

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

31. SEGMENTS

The Group has six reportable segments:

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

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

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

Segment results comprise segment gross profit, calculated as segment revenues less cost of sales for each segment. Segment expenses represent cost of sales, which are costs incurred to produce gold, silver and copper at each operating mine, and exclude the following costs that are not allocated to operating segments: amortization and depreciation of corporate assets, administration costs, cost of financing and other non-operating costs.

Revenues of the corporate and other segment comprise revenues from services provided to third parties by the Group's non-mining subsidiaries. These include exploration works for mining companies and design services related to ore field development and precious metal extraction technologies.

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

As at and for the year ended December 31, 2009	**North Ural**	**Khabarovsk**	**Magadan**	**Omolon**	**Albazino**	**Kazakhstan**	**Total reportable segments**	**Corporate and other**	**Eliminations**	**Total**
Revenues	154,615	123,151	257,565	1,107	-	21,981	**558,419**	156,231	(153,913)	**560,737**
Cost of sales	(62,267)	(66,945)	(145,990)	(846)	-	(11,947)	**(287,995)**	(124,154)	127,733	**(284,416)**
Gross profit	**92,348**	**56,206**	**111,575**	**261**	**-**	**10,034**	**270,424**	**32,077**	**(26,180)**	**276,321**
General, administrative and selling expenses										**(52,042)**
Other operating expenses										**(41,706)**
Interest expense										**(32,515)**
Loss from investments in joint ventures										**(342)**
Loss on extinguishment of debt										**(5,873)**
Change in fair value of derivative financial instruments										**(41,938)**
Change in fair value of contingent consideration liability										**(11,431)**
Exchange gain, net										**7,869**
Income before income tax and extraordinary gain										**98,343**
Segment assets:										
Property, plant and equipment, net	84,285	98,592	299,838	158,999	166,889	145,219	**953,822**	133,681	-	**1,087,503**
Accounts receivable, inventories and spare parts, prepayments to suppliers and VAT receivable	123,180	112,026	137,071	32,649	33,060	40,005	**477,991**	94,940	(169,431)	**403,500**
Goodwill	-	13,467	8,265	-	-	65,423	**87,155**	25,161	-	**112,316**
Total segment assets	**207,465**	**224,085**	**445,174**	**191,648**	**199,949**	**250,647**	**1,518,968**	**253,782**	**(169,431)**	**1,603,319**
Unallocated assets:										
Cash and cash equivalents										**28,317**
Other assets										**91,764**
Total assets										**1,723,400**
Expenditure for additions to long-lived assets	9,690	3,478	31,600	16,574	122,609	389	**184,340**	53,357	(4,997)	**232,700**
Depreciation and depletion of operating assets	11,241	16,173	14,766	516	-	1,164	**43,860**	-	-	**43,860**

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

As at and for the year ended December 31, 2008	**North Ural**	**Khabarovsk**	**Magadan**	**Omolon**	**Albazino**	**Total reportable segments**	**Corporate and other**	**Eliminations**	**Total**
Revenues	113,466	118,372	274,035	-	-	**505,873**	135,224	(138,366)	**502,731**
Cost of sales	(61,760)	(86,681)	(161,432)	-	-	**(309,873)**	(141,791)	150,935	**(300,729)**
Gross profit	**51,706**	**31,691**	**112,603**	**-**	**-**	**196,000**	**(6,567)**	**12,569**	**202,002**
General, administrative and selling expenses									**(90,142)**
Other operating expenses									**(36,231)**
Interest expense									**(20,675)**
Loss from investments in joint ventures									**(8,393)**
Exchange loss, net									**(44,520)**
Income before income tax and extraordinary gain									**2,041**
Segment assets:									
Property, plant and equipment, net	87,223	119,225	189,038	4,589	35,541	**435,616**	42,273	-	**477,889**
Accounts receivable, inventories and spare parts, prepayments to suppliers and VAT receivable	64,655	79,850	106,403	9,296	16,886	**277,090**	27,379	(19,883)	**284,586**
Goodwill	-	13,863	8,508	-	-	**22,371**	1,370	-	**23,741**
Total segment assets	**151,878**	**212,938**	**303,949**	**13,885**	**52,427**	**735,077**	**71,022**	**(19,883)**	**786,216**
Unallocated assets:									
Cash and cash equivalents									**4,077**
Other assets									**86,182**
Total assets									**876,475**
Expenditure for additions to long-lived assets	14,697	8,029	51,375	4,003	24,731	**102,835**	38,264	(728)	**140,371**
Depreciation and depletion of operating						**46,621**			
assets	13,304	13,665	19,652	-	**-**		-	-	**46,621**

32. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

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

33. COMMITMENTS AND CONTINGENCIES

Taxation

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

Out of the large operating companies of the Group, tax authorities audited JSC Okhotskaya GGC for the period up to 2007, CJSC Zoloto Severnogo Urala for the period up to 2005, CJSC Serebro Magadana for the period up to 2007 and JSC Varvarinskoye for the period up to 2007. Nevertheless, according to the Russian and Kazakhstan tax legislation previously conducted audits do not fully exclude subsequent claims relating to the audited period.

The Group has identified contingencies related to taxes other than income tax. Such possible tax contingencies could materialize and require the Group to pay additional amounts of tax. As at December 31, 2009, the Group's management estimates such contingencies related to taxes other than income tax to be up to approximately U.S. Dollar 31 (December 31, 2008: U.S. Dollar 7,395). The Group believes the estimated losses related to these contingencies are not probable and, as such, have not been accrued for as at December 31, 2009 and 2008.

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

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

Political environment

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

Forward sales commitments

In connection with the General Framework Credit Line Agreement dated November 2008 and sales agreements entered into between Nomos-Bank and the Company's subsidiaries, CJSC Zoloto Severnogo Urala, CJSC Serebro Magadana and JSC Okhotskaya GGC are required to sell 113,000 ounces of gold and 1,929,000 ounces of silver during 2010; and 113,000 ounces of gold and 1,929,000 ounces of silver during 2011 at the price determined by the LBMA.

Under the sale agreements with VTB, the Company's subsidiaries, CJSC Zoloto Severnogo Urala, CJSC Serebro Magadana and JSC Okhotskaya GGC are required to sell 64,000 ounces of gold and 12,217,000 ounces of silver during 2010 at the price determined by the LBMA.

Litigation

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

In August 2009, Wagner Service LLC ("Wagner") filed a lawsuit against the Group. Wagner claims that the Group is liable for works performed with regard to the construction of production facilities performed for Zolotorudnaya Kompaniya Mayskoye LLC (see Note 5) in amount of U.S. Dollar 30,081. As at December 31, 2009, the Group held a provision of U.S. Dollar 4,683 (Rubles 141,600 thousand) representing its best estimate of the probable liability to this lawsuit. See Note 34 for further discussion.

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

Insurance policies

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

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

Environmental matters

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

34. SUBSEQUENT EVENTS

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

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