Open Joint Stock Company Polymetal

Unaudited Condensed Consolidated
Interim Financial Statements
For The Six Months Ended 30 June 2011 and 2010

OPEN JOINT STOCK COMPANY POLYMETAL

TABLE OF CONTENTS

OPEN JOINT STOCK COMPANY POLYMETAL

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011 AND 2010

Management is responsible for the preparation of the unaudited condensed consolidated interim financial statements that present fairly the financial position of Open Joint Stock Company "Polymetal" and its subsidiaries (the "Group") as at 30 June 2011 and the results of its operations, cash flows and changes in equity for the six months ended 30 June 2011, in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

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

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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the unaudited condensed consolidated interim financial statements of the Group comply with IFRS;
- 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 unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2011 was approved by management on 28 September 2011.

On behalf of the Management:

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

St. Petersburg, Russia
28 September 2011

Deloitte.

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INDEPENDENT AUDITOR'S REPORT ON THE REVIEW OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying unaudited condensed consolidated interim balance sheet of Open Joint Stock Company "Polymetal" and its subsidiaries (the "Group") as at 30 June 2011 and the related unaudited condensed consolidated interim income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2011, and a summary of significant accounting policies and other explanatory information. Management is responsible for the preparation and presentation of these unaudited condensed consolidated interim financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") Interim Financial Reporting. Our responsibility is to express a conclusion on these unaudited condensed consolidated interim financial statements based on our review.

The condensed consolidated interim financial statements of the Group for the six months ended 30 June 2010 were not reviewed or audited by us or other auditors.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying unaudited condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Deloitte & Touche

St. Petersburg, Russia
28 September 2011

OPEN JOINT STOCK COMPANY POLYMETAL

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2011 AND 2010
(in thousands of U.S. Dollars, except for earnings per share data)

	Notes	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Revenue	6	544,511	421,733
Cost of Sales	7	(258,828)	(220,330)
Gross profit		**285,683**	**201,403**
General, administrative and selling expenses	11	(85,426)	(35,699)
Other expenses	12	(19,105)	(26,752)
Share of loss of associates and joint ventures	17	(410)	(675)
Operating profit		**180,742**	**138,277**
Income from disposal of subsidiaries	4	4,931	-
Foreign exchange gain/(loss)		43,897	(8,659)
Change in fair value of derivatives	26	(1,855)	(1,529)
Change in fair value of contingent consideration	26	(3,957)	(1,266)
Finance income		638	308
Finance costs	13	(13,668)	(9,412)
Profit before income tax		**210,728**	**117,719**
Income tax expense	14	(59,613)	(32,257)
Profit for the period and profit for the period attributable to the equity holders of the parent		**151,115**	**85,462**

Earnings per share (US$)			
Basic	28	0.42	0.24
Diluted	28	0.39	0.24

OPEN JOINT STOCK COMPANY POLYMETAL

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2011 AND 2010
(in thousands of U.S. Dollars)

	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Profit for the period	**151,115**	**85,462**
Other comprehensive loss:		
Effect of translation to presentation currency	117,263	(36,324)
Total comprehensive income for the period attributable to the equity holders of the parent	**268,378**	**49,138**

OPEN JOINT STOCK COMPANY POLYMETAL

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2011
(in thousands of U.S. Dollars)

	Notes	30 June 2011	31 December 2010
Property, plant and equipment	15	1,981,129	1,643,481
Goodwill	16	124,523	114,712
Investments in associates and joint ventures	17	28,582	26,821
Deferred tax assets	14	66,401	57,676
Non-current loans to related parties	30	8,695	5,187
Inventories	18	42,141	21,017
Total non-current assets		**2,251,471**	**1,868,894**
Inventories	18	558,292	368,515
Short-term VAT receivable		107,503	94,148
Trade and other receivables	19	48,787	43,683
Prepayments to suppliers		45,418	29,025
Income tax prepaid		4,385	4,378
Cash and cash equivalents	20	33,243	11,056
Total current assets		**797,628**	**550,805**
Total assets		**3,049,099**	**2,419,699**
Trade and other payables	24	(113,041)	(67,028)
Short-term borrowings	21	(216,759)	(90,610)
Accrued liabilities		(32,301)	(23,303)
Income tax payable		(20,569)	(3,993)
Other taxes payable		(21,227)	(13,365)
Current portion of finance lease liabilities	22	-	(4,819)
Total current liabilities		**(403,897)**	**(203,118)**
Non-current borrowings	21	(736,896)	(595,359)
Derivatives	25, 26	-	(105,437)
Contingent consideration liability	26	(28,886)	(23,754)
Deferred tax liabilities	14	(92,509)	(83,345)
Environmental obligations	23	(58,428)	(45,156)
Other non-current liabilities		(2,677)	(2,578)
Total non-current liabilities		**(919,396)**	**(855,629)**
Total liabilities		**(1,323,293)**	**(1,058,747)**
NET ASSETS		**1,725,806**	**1,360,952**
Share capital	28	6,023	6,023
Share premium	28	926,915	859,460
Treasury shares	28	(433)	(457)
Share-based compensation reserve		36,893	7,896
Translation reserve		67,820	(49,443)
Retained earnings		688,588	537,473
Total equity attributable to the parent		**1,725,806**	**1,360,952**

OPEN JOINT STOCK COMPANY POLYMETAL

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2011 AND 2010
(in thousands of U.S. Dollars)

	Notes	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Net cash generated by operating activities	31	**79,710**	**114,896**
Cash flows from investing activities			
Purchases of property, plant and equipment	15	(202,502)	(155,182)
Acquisition of group of assets	4	(4,761)	(436)
Loans provided to third parties		(177)	-
Receipt of repayment for loans provided to third parties		70	14
Loans provided to related parties	21, 30	(3,000)	(1,743)
Receipt of repayment for loans provided to related parties	21, 30	896	458
Contingent consideration payment		(434)	-
Net cash used in investing activities		**(209,908)**	**(156,889)**
Cash flows from financing activities			
Borrowings obtained	21	967,344	219,895
Repayments of borrowings	21	(810,687)	(177,759)
Payments on finance lease obligations	22	(5,217)	(2,219)
Net cash generated by financing activities		**151,440**	**39,917**
Net increase/(decrease) in cash and cash equivalents		21,242	(2,076)
Cash and cash equivalents at the beginning of the period		11,056	28,317
Effect of foreign exchange rate changes on cash and cash equivalents		945	88
Cash and cash equivalents at the end of the period	20	**33,243**	**26,329**

OPEN JOINT STOCK COMPANY POLYMETAL

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2011 AND 2010
(in thousands of U.S. Dollars)

	Notes	Number of shares outstanding	Share capital	Share premium	Share-based compensation reserve	Treasury shares	Translation reserve	Retained earnings	Total equity attributable to the parent
Balance at 1 January 2010		**357,924,643**	**6,023**	**798,306**	**-**	**(481)**	**(36,506)**	**298,457**	**1,065,799**
Total comprehensive income (unaudited)		-	-	-	-	-	(36,324)	85,462	49,138
Amortisation of bonus received from depositary (unaudited)		-	-	489	-	-	-	-	489
Balance at 30 June 2010 (unaudited)		**357,924,643**	**6,023**	**798,795**	**-**	**(481)**	**(72,830)**	**383,919**	**1,115,426**
Balance at 1 January 2011		**361,424,643**	**6,023**	**859,460**	**7,896**	**(457)**	**(49,443)**	**537,473**	**1,360,952**
Total comprehensive income		-	-	-	-	-	117,263	151,115	268,378
Amortisation of bonus received from depositary		-	-	489	-	-	-	-	489
Share-based compensation	29	-	-	-	28,997	-	-	-	28,997
Issue of treasury shares in exchange for assets	4, 28	3,500,000	-	66,966	-	24	-	-	66,990
Balance at 30 June 2011		**364,924,643**	**6,023**	**926,915**	**36,893**	**(433)**	**67,820**	**688,588**	**1,725,806**

(in thousands of U.S. Dollars)

1. GENERAL

Organisation

Open Joint Stock Company Polymetal (hereinafter JSC "Polymetal" or "the Company") is incorporated in the Russian Federation. The principal activity of the Company and its subsidiaries ("the Group") is gold, silver and copper mining and related activities, including exploration, extraction, processing and reclamation. Since incorporation, the Company has acquired a number of gold and silver mining properties, which require significant investment to bring them into commercial production. All of the Group's operations and assets are located in the Russian Federation and Kazakhstan.

As at 30 June 2011 and 31 December 2010, the Company had the following significant mining and production subsidiaries:

		Effective interest held, %	
Name of subsidiary	**Deposits**	**30 June 2011**	**31 December 2010**
CJSC Zoloto Severnogo Urala	Vorontsovskoye	100	100
JSC Okhotskaya GGC	Khakandjinskoye	100	100
CJSC Serebro Magadana	Dukat, Lunnoe, Arylakh, Goltsovoye	100	100
ZK Mayskoye LLC	Mayskoye	100	100
JSC Omolon Gold Mining Company	Kubaka, Birkachan	100	100
Albazino Resources LLC	Albazino	100	100
Amursky Hydrometallurgy Plant LLC	N/A	100	100
Rudnik Kvartseviy LLC	Sopka Kartsevaya, Dalniy	100	100
JSC Varvarinskoye	Varvarinskoye	100	100

At 30 June 2011, the Company's shares are owned by Pearlmoon Limited, the ultimate beneficial owner of which is Petr Kellner (19.92%), Powerboom Investments Limited, the ultimate beneficial owner of which is Alexander Nesis (18.90%), and Vitalbond Limited and its affiliated companies, the ultimate beneficial owner of which is Alexander Mamut (10.73%). As at 30 June 2011, Deutsche Bank Trust Company Americas controlled 13.20% of the voting shares in the Company as a global depository receipts ("GDR") holder. Company subsidiaries own 8.6% of the Company's shares. This is presented as treasury shares in the consolidated statement of changes in equity. No other parties control more than 5% of the Company shares.

Going concern

In assessing its going concern status, the Group has taken account of its financial position, anticipated future trading performance, its borrowings and other facilities, the net proceeds receivable by the Group in the underwritten offer of new shares and its capital expenditure commitments and plans, together with other risks facing the Group.

After making appropriate enquiries, the Group considers that it has adequate resources to continue in operational existence for at least the next 12 months from the date of this document and that it is appropriate to adopt the going concern basis in preparing these financial statements.

(in thousands of U.S. Dollars)

Basis of presentation

The Group's annual consolidated financial statements for the year ended 31 December 2010 are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS includes the standards and interpretations approved by the IASB including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). These condensed consolidated interim financial statements for the six months ended 30 June 2011 have been prepared in accordance with International Accounting Standard 34 "Interim financial reporting" ("IAS 34"). The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2010.

The accounting policies set out in Note 2 have been applied in preparing the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2011. The Group used IFRS, effective as at 30 June 2011 and used them consistently in preparation of these unaudited condensed consolidated interim financial statements.

Standards and Interpretations in issue not yet adopted

At the date of approval of the Group's unaudited condensed consolidated interim financial statements, the following new and revised standards and interpretations have been issued, but are not effective for the current period:

	Effective for annual periods beginning on or after
IAS 1 *Presentation of Financial Statements* – amendment	1 July 2012
IAS 12 *Income taxes* – amendment	1 January 2012
IAS 19 *Employee Benefits* – amendment	1 January 2013
IAS 27 *Consolidated and Separate Financial Statements* – amendment	1 January 2013
IAS 28 *Investments in Associates* – amendment	1 January 2013
IAS 34 *Interim Financial Reporting* – amendment	1 July 2011
IFRS 7 *Financial Instruments: Disclosures* – amendment	1 July 2011
IFRS 9 *Financial instruments* – as amended	1 January 2013
IFRS 10 *Consolidated Financial Statements* – issued	1 January 2013
IFRS 11 *Joint Arrangements* – issued	1 January 2013
IFRS 12 *Disclosure of Interests in Other Entities* – issued	1 January 2013
IFRS 13 *Fair Value Measurement* – issued	1 January 2013

The impact of the adoption of these standards and interpretations in the preparation of the condensed consolidated interim financial statements in future periods is currently being assessed by the Group management.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

Subsidiaries

The unaudited condensed consolidated interim financial statements of the Group include the financial statements of the Company, its subsidiaries and, if applicable, special purpose entities, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group balances, transactions and any unrealised profits or losses arising from intra-group transactions are eliminated on consolidation.

Changes to the Group's ownership interests that do not result in a loss of control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Group's interests and non-controlling interests are adjusted to reflect the change in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Parent.

When the Group loses control of a subsidiary, profit or loss on the disposal is calculated as the difference between 1) the aggregated fair value of the consideration received and the fair value of any retained interest and 2) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and non controlling interests.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis.

Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total profit for the period is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Business combinations

A business combination is defined as an acquisition of assets and liabilities that constitute a business. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return to the Group and its shareholders in the form of dividends, lower costs or other economic benefits. A business consists of inputs, including non-current assets, and processes, including operational processes, that when applied to those inputs, have the ability to create outputs that provide a return to the Company and its shareholders. A business also includes those assets and liabilities that do not necessarily have all the inputs and processes required to produce outputs, but can be integrated with the inputs and processes of the Group to create outputs. When acquiring a set of activities or assets in the exploration and development stage, which may not have outputs, the Group considers other factors to determine whether the set of activities or assets is a business. Those factors include, but are not limited to, whether the set of activities or assets:

(i) Has begun planned principal activities;
(ii) Has employees, intellectual property and other inputs and processes that could be applied to those inputs;
(iii) Is pursuing a plan to produce outputs; and
(iv) Will be able to obtain access to customers that will purchase the outputs.

Not all of the above factors need to be present for a particular integrated set of activities or assets in the exploration and development stage to qualify as a business.

Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the consolidated income statement as incurred.

Where applicable, the consideration for the acquisition may include an asset or liability resulting from a contingent consideration arrangement. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Subsequent changes in such fair values are adjusted against the cost of acquisition retrospectively with the corresponding adjustment against goodwill where they qualify as measurement period adjustments. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed at the acquisition date. The measurement period may not exceed one year from the effective date of the acquisition. The subsequent accounting for contingent consideration that does not qualify for as a measurement period adjustment is based on how the contingent consideration is classified. Contingent consideration that is classified as equity is not subsequently remeasured. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IAS 39 Financial Instruments Recognition and Measurement with the corresponding amount being recognised in profit or loss.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS *12 Income Taxes* and IAS 19 *Employee Benefits* respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in the consolidated statement of comprehensive income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in equity are reclassified to profit or loss, where such treatment would be appropriate if that interest was disposed of.

Goodwill and goodwill impairment

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the consolidated income statement as a bargain purchase gain.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable goodwill is included in the determination of the profit or loss on disposal.

Acquisition of assets

The acquisition of mining licences is often effected through a non-operating corporate entity. As these entities do not represent a business, it is considered that the transactions do not meet the definition of a business combination and accordingly the transaction is accounted for as the acquisition of an asset. The net assets acquired are accounted for at cost.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The results and assets and liabilities of associates are incorporated in the unaudited condensed consolidated interim financial statements using the equity method of accounting.

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control). Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method of accounting.

Equity method of accounting

Under the equity method, an investment in an associate or jointly controlled entity ("investee") is initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the investee. When the Group's share of losses of an associate exceeds the Group's interest in that investee (which includes any long-term interests that, in substance, form part of the Group's net investment in the investee), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an investee recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investments. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* ("IAS 36") as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a Group entity transacts with its investees, profits and losses resulting from the transactions with the investee are recognised in the Group's unaudited condensed consolidated interim financial statements only to the extent of interests in the associate that are not related to the Group.

Functional and presentation currency

The functional currency is determined separately for each of the Group's entities. For all Russian entities the functional currency is the Russian Rouble ("RUB"). The functional currency of the Group's entity located in Kazakhstan and operating with significant degree of autonomy is the Kazakh Tenge ("KZT").

The Group has chosen to present its unaudited condensed consolidated interim financial statements in the U.S. Dollar ("USD"), as management believes it is a more convenient presentation currency for international users of the unaudited condensed consolidated interim financial statements of the Group as it is a common presentation currency in the mining industry. The translation of the interim financial statements of the Group entities from their functional currencies to the presentation currency is performed as follows:

- All assets, liabilities, both monetary and non-monetary are translated at closing exchange rates at each reporting period end date;
- All income and expenses in each consolidated income statement are translated at the average exchange rates for the periods presented, except for significant transactions that are translated at rates on the date of such transactions;
- Resulting exchange differences are included in equity and presented as Effect of translation to presentation currency within the Translation reserve; and
- In the consolidated statement of cash flows, cash balances at beginning and end of each reporting period presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the periods presented, except for significant transactions that are translated at rates on the date of transaction.

(in thousands of U.S. Dollars)

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated income statement. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated income statement.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

Exchange rates used in the preparation of the unaudited condensed consolidated interim financial statements were as follows:

	30 June 2011	**30 June 2010**
Russian Rouble/U.S. Dollar		
Average for the priod	28.62	30.07
Kazakh Tenge/U.S. Dollar		
Average for the period	146.00	147.24

	30 June 2011	**31 December 2010**
Russian Rouble/U.S. Dollar		
Period end	28.08	30.48
Kazakh Tenge/U.S. Dollar		
Period end	146.25	147.40

The RUB and Kazakh Tenge are not a freely convertible currencies outside the Russian Federation and Kazakhstan and, accordingly, any translation of RUB and Kazakh Tenge denominated assets and liabilities into U.S. Dollar for the purpose of the unaudited condensed consolidated interim financial statements does not imply that the Group could or will in the future realise or settle in U.S. Dollars the translated values of these assets and liabilities.

Foreign currency transactions

Transactions in currencies other than the entity's functional currencies (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the consolidated income statement.

Property, plant and equipment

Mining assets

Mining assets and leases include the cost of acquiring and developing mining assets and mineral rights. Mining assets are depreciated to their residual values using the unit-of-production method based on proven and probable ore reserves under the Russian Resource Reporting Code, which is the basis on which the Group's mine plans are prepared. Depreciation is charged on new mining ventures from the date that the mining asset is capable of commercial production. In respect of those mining assets whose useful lives are expected to be less than the life of the mine, depreciation over the period of the items useful life is applied. When there is little likelihood of a mineral right being exploited, or the value of the exploitable mineral right has diminished below cost, an impairment loss is recognised in the consolidated income statement.

Capital construction-in-progress assets are measured at cost less any recognised impairment. Depreciation commences when the assets are ready for their intended use.

Mineral exploration and evaluation costs, including geophysical, topographical, geological and similar types of 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 are capitalised.

Non-mining assets are depreciated to their residual values at varying rates on a straight-line basis over their estimated useful lives. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components). Depreciation methods, residual values and estimated useful lives are reviewed at least annually.

Estimated useful lives are as set out below:

Machinery and equipment	Greater than 1 year to 20 years
Transport and other	Greater than 1 year to 15 years

Assets held under finance leases are depreciated over the shorter of the lease term and the estimated useful lives of the assets.

Gains or losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount. The gain or loss is recognised in the consolidated income statement.

Stripping costs

When it has been determined that a mining asset can be economically developed as a result of established proven and probable reserves, the costs to remove any overburden and other waste materials to initially expose the ore body, referred to as stripping costs, are capitalized in mining assets.

Post-production stripping costs are considered as costs of the extracted minerals and are recognised as a component of inventory to be recognized in cost of sales in the same period as the revenue from the sales of inventory.

Estimated ore reserves

Estimated proven and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits. The Group's reserves are estimated in accordance with the Russian Resource Reporting Code ("GKZ") and the Australasian Joint Ore Reserves Committee Code (the "JORC" Code).

Leases

Finance leases

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the lease finance cost, which is included in interest paid, and the capital repayment, which reduces the related lease obligation to the lessor.

Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Impairment of property, plant and equipment

An impairment review of property, plant and equipment is carried out when there is an indication that those assets have suffered an impairment loss. If any such indication exists, the carrying amount of the asset is compared to the estimated recoverable amount of the asset in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. A cash generating unit is the smallest, identifiable group of assets that generate independent cash flows largely independent of one another. In certain circumstances, where the recoverable amount of an individual asset can be determined, the impairment assessment is performed at the individual asset level. In addition, where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognised in the consolidated income statement immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods.

A reversal of an impairment loss is recognised in the consolidated income statement immediately.

Inventories

Metal inventories

Inventories including refined metals, metals in concentrate and in process, doré, ore stockpiles are stated at the lower of production cost or net realisable value. Production cost is determined as the sum of the applicable expenditures and expenses incurred directly or indirectly in bringing inventories to their existing condition and location. Refined metals are valued at the average total cost of production per saleable unit of metal. Work in-process, metal concentrate and doré are valued at the average total production costs at the relevant stage of production. Ore stockpiles are valued at the average cost of mining ore.

Net realisable value represents the estimated selling price for product based on prevailing spot metal prices, less estimated costs to complete production and costs necessary to make the sale.

Consumables and spare parts

Consumables and spare parts are stated at the lower of cost or net realisable value. Cost is determined on the weighted average moving cost. The portion of consumables and spare parts not reasonably expected to be realised in cash within one year, but realisable in future periods, is classified as a long-term asset in the Group's consolidated balance sheet. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

Financial Instruments Designated as Fair Value Through Profit and Loss ("FVTPL")

A financial instrument other than a financial instrument held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial instrument forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measuremen*t permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial instruments at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in Note 26.

Financial assets

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Effective interest method

Non-derivative financial assets are classified into the following specified categories: FVTPL, ‘held-to-maturity' investments available for sale (“AFS”) financial assets and ‘loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. No financial instruments have been classified as held-to-maturity or available for sale.

Income is recognised on an effective interest basis for financial instruments other than those financial assets classified as at FVTPL.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Held-to-maturity investments

Financial instruments with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

AFS financial assets

Investments other than those classified as held for trading, held-to-maturity or loans and receivables are classified as available for sale financial assets. These assets are subsequently measured at fair value and unrealised gains and losses are recognised in equity until the investment is disposed or impaired, at which time the cumulative gain or loss previously recognised in equity is included in the consolidated income statement.

When an available for sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated income statement.

Derivative financial instruments

The Group may enter into a variety of derivative financial instruments to manage its exposure to certain risks. Further details of derivative financial instruments are disclosed in Note 26.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the consolidated income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated income statement depends on the nature of the hedge relationship.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the hybrid contracts are not measured at FVTPL.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or less, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Environmental obligations

An obligation to incur environmental restoration, rehabilitation and decommissioning costs arises when disturbance is caused by the development or ongoing production of mining assets. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value using a risk-free rate applicable to the future cash flows, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are recognised in the consolidated income statement over the life of the operation, through the depreciation of the asset in the cost of sales line and the unwinding of the discount on the provision in the finance costs line. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and recognised in the consolidated income statement as extraction progresses.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work (that result from changes in the estimated timing or amount of the cash flow or a change in the discount rate), are added to or deducted from the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the consolidated income statement.

The provision for closure cost obligations is remeasured at the end of each reporting period for changes in estimates and circumstances. Changes in estimates and circumstances include changes in legal or regulatory requirements, increased obligations arising from additional mining and exploration activities, changes to cost estimates and changes to the risk free interest rate.

Employee benefit obligations

Remuneration to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period. The Group pays mandatory contributions to the state social funds, including the Pension Fund of the Russian Federation and Kazakhstan, which are expensed as incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the laws of countries where the Group operates.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the unaudited condensed consolidated interim financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax

Current and deferred tax is recognised in the consolidated income statement, except when they relate to items that are recognised in the consolidated statement of comprehensive income or directly in equity, in which case, the current and deferred tax also recognised in consolidated statement of comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Revenue recognition

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

Revenue from the sale of gold and silver bullion and sale of copper gold and silver concentrate is recognised when the risks and rewards of ownership are transferred to the buyer, the Group retains neither a continuing degree of involvement or control over the goods sold, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue from the sale of gold and silver bullion represents the invoiced value of metal shipped to the buyer, net of value added tax (“VAT”).

Sale of gold and silver bullions

The Group processes all of its final mine-site products (doré and precipitate) produced in the Russian Federation (at Dukat, Khakanja, Voro, and Omolon) into London Good Delivery Bars prior to sale. This final stage of processing is carried out on a toll-treatment basis at four state-owned refineries. The Group sells gold and silver bullion to banks through long-term agreements. The sales price, as determined in the agreement, may be variable based upon the London Bullion Market Association (“LBMA”) spot price or fixed but the Group’s policy is not to enter fixed price contracts. For domestic sales, title passes from the Group to the purchaser at the refinery gate with revenue recognised at that point. For export sales, once the gold and/or silver bars have been approved for export by Russian customs, they are then transported to the vault of the purchaser, which is typically located in London. Title passes and revenue is recognised at this point when the gold and/or silver bars are received by the purchaser.

Sales of copper, gold and silver concentrate

The Group sells copper, gold and silver concentrate under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. Concentrate sales are initially recorded based on forward prices for the expected date of final settlement. Title passes on delivery to the rail warehouse close to the operations and revenue is recognised at that point. Revenue is calculated based on the payable copper, gold and silver content in the concentrate and using the forward London Metal Bulletin (“LMB”) or London Metal Exchange (“LME”) price to the estimated final pricing date, adjusted for the specific terms of the relevant agreement. Until final settlement occurs, adjustments to revenue are made to take into account the changes in metal quantities upon receipt of new information and assay. Revenue is presented net of refining and treatment charges which are subtracted in calculating the amount to be invoiced.

The Group's sales of copper, gold and silver concentrate are based on a provisional price and as such, contain an embedded derivative that is required to be separated from the host contract for accounting purposes. The host contract is the receivable from the sale of the concentrate at the forward exchange price at the time of sale. The embedded derivative, which does not qualify for hedge accounting, is measured at fair value with a change of fair value recognised as revenue in the consolidated income statement for each period prior to final settlement.

Share-based compensation

In 2010, the Group's board of directors awarded equity-settled stock appreciation rights to certain employees (see Note 29). The Group applies IFRS 2 Share-based Payments to its accounting for share-based compensation. IFRS 2 requires companies to recognise compensation costs for share-based payments to employees based on the grant-date fair value of the award.

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

The fair value of the awards granted is recognised as a general and administration expense with a corresponding increase in the share-based compensation reserve over the vesting period. Where relevant, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the awards are exercised.

Earnings per share

Earnings per share calculations are based on the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated using the treasury stock method, whereby the proceeds from the potential exercise of dilutive stock options with exercise prices that are below the average market price of the underlying shares are assumed to be used in purchasing the Company's common shares at their average market price for the period.

3. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The following are the critical judgments, apart from those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in unaudited condensed consolidated interim financial statements.

Production start date

The Group assesses the stage of each mine construction project to determine when a mine moves into the production stage. The criteria used to assess the start date are determined by the unique nature of each mine construction project and include factors such as the complexity of a plant and its location.

The Group considers various relevant criteria to assess when the mine is substantially complete and ready for its intended use and moves into the production stage. Some of the criteria would include but are not limited to the following:

- The level of capital expenditure compared to the construction cost estimates;
- Completion of a reasonable period of testing of the mine plant and equipment; ability to produce gold and silver in saleable form (within specifications); and
- Ability to sustain ongoing production of gold.

When a mine construction project moves into the production stage, the capitalisation of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for capitalisable costs related to mining asset additions or improvements, underground mine development or ore reserve development.

Acquisitions

Management performs a detailed evaluation of legal entities acquired to determine whether the entity meets the definition of a business. In making this determination, management evaluates the entity's inputs, processes and outputs. An entity is determined to meet the definition of a business if: (a) the entity has an economic resource that creates, or has the ability to create outputs when one or more processes are applied to it such as mining infrastructures; (b) the entity has a system, convention or rule in place that if applied to inputs creates, or has the ability to create, outputs such as employees that extract ore from the mine using the mining infrastructure; or (c) the entity has outputs such as piles of ore, or an ability to extract ore, using the inputs and processes in place on the date of acquisition.

As a result of this evaluation process, management has determined that Rudnik Avlayakan LLC and Kirankan LLC (2010 acquisitions), PD RUS LLC (2010 acquisition), Kutynskaya GGK LLC (2011 acquisition), Industriya LLC (2011 acquisition) and Office LLC (2011 acquisition) do not meet the definition of a business and as such the Group has accounted for these as asset acquisitions (Note 4).

Key sources of estimation uncertainty

Preparation of the unaudited condensed consolidated interim financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated interim financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

The most significant areas requiring the use of management estimates and assumptions relate to:

- Fair value of net assets acquired and liabilities assumed in business combinations;
- Ore reserve estimates;
- Depreciation;
- Impairment of goodwill, mining assets and other property, plant and equipment;
- Inventory obsolescence and write-downs;
- Share-based compensation;
- Environmental obligations;
- Contingencies; and
- Income taxes.

Fair value of net assets acquired and liabilities assumed in business combinations

In accordance with the Group's policy, the Group allocates the cost of the acquired entity to the assets acquired and liabilities assumed based on their fair value estimated on the date of acquisition. Any difference between the cost of the acquired entity and the fair value of the assets acquired and liabilities assumed is recorded as goodwill. The Group exercises significant judgment in the process of identifying tangible and intangible assets and liabilities, valuing these assets and liabilities, and estimating their remaining useful life. The valuation of these assets and liabilities is based on assumptions and criteria that, in some cases, include management's estimates of discounted future cash flows. The use of valuation assumptions includes cash flow estimates from mining activities and application of the discount rates.

If actual results are not consistent with estimates and assumptions considered, the Group may have to adjust the fair value of assets and/or the goodwill balance during the measurement period which could have an impact on the amounts reported in the consolidated income statement in current and future periods.

Ore reserve estimates

An ore reserve estimate is an estimate of the amount of product that can be economically and legally extracted from the Group's properties. Ore reserve estimates are used in the calculation of depletion of mining assets using the units-of-production method, impairment charges and for forecasting the timing of the payment of decommissioning and land restoration costs. Also, for the purpose of impairment review and the assessment of the timing of the payment of decommissioning and land restoration costs, management may take into account mineral resources in addition to ore reserves where there is a high degree of confidence that such resources will be extracted.

In order to calculate ore reserves, estimates and assumptions are required about geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices, discount rates and exchange rates. Estimating the quantity and/or grade of ore reserves requires the size, shape and depth of ore bodies to be determined by analysing geological data such as the logging and assaying of drill samples. This process may require complex and difficult geological judgments and calculations to interpret the data.

Ore reserve estimates may change from period to period as additional geological data becomes available during the course of operations or if there are changes in any of the aforementioned assumptions. Such changes in estimated reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values due to changes in estimated future cash flows;
- Depletion charged in the consolidated income statement where such charges are determined by using the units-of-production method;
- Provisions for decommissioning and land restoration costs where changes in estimated reserves affect expectations about the timing of the payment of such costs; and
- Carrying value of deferred tax assets and liabilities where changes in estimated reserves affect the carrying value of the relevant assets and liabilities.

Depreciation

Mining assets are depreciated using the units-of-production method other than where the useful lives are shorter than the life of mine. The units-of-production depreciation calculations are based on proved and probable reserves under the Russian Resource Reporting Code (GKZ), which is the basis on which managements mine plans are prepared. For other property, plant and equipment, the straight-line method is applied over the estimated useful life of the asset which does not exceed the estimated mine life based on proved and probable ore reserves as the useful lives of these assets are considered to be limited to the life of the relevant mine.

The calculation of the units-of-production rate of amortisation could be impacted to the extent that actual production in the future is different from current forecast production based on proved and probable ore reserves. This would generally arise when there are significant changes in any of the factors or assumptions used in estimating ore reserves. The Group's units-of-production depreciation rates are based on the GKZ reserves figures which are different to the reserves calculated under the JORC reporting code and included into the Group's external reporting.

Impairment of goodwill, mining assets and other property, plant and equipment

The Group considers both external and internal sources of information in assessing whether there are any indications that goodwill, mining assets or other property, plant and equipment owned by the Group are impaired. External sources of information the Group considers include changes in the market, economic and legal environment in which the Group operates that are not within its control and affect the recoverable amount of goodwill, mining assets or other property, plant and equipment.

Internal sources of information the Group considers include the manner in which mining properties and plant and equipment are being used or expected to be used and indications of economic performance of the assets. In determining the recoverable amounts of the Group's mining assets and other property, plant and equipment, the Group's management makes estimates of the discounted future after-tax cash flows expected to be derived from the Group's mining properties, costs to sell the mining properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable reserves and resources and/or adverse current economics can result in a write-down of the carrying amounts of the Group's goodwill, mining assets or other property, plant and equipment.

In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value-in-use calculation. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Inventory obsolescence and write-downs

In determining mine operating costs recognised in the consolidated income statement, the Group's management makes estimates of quantities of ore stacked on leach pads and in process and the recoverable gold, silver and copper in this material to determine the average costs of finished goods sold during the period. Changes in these estimates can result in a change in mine operating costs of future periods and carrying amounts of inventories.

Share-based compensation

The Group issued equity-settled share appreciation rights to certain employees. Equity–settled share appreciation rights are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the awards is expensed as services are rendered over the vesting period, based on the Group's estimate of the rights that will eventually vest.

Fair value is measured using the Monte-Carlo model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

The most significant assumptions used in estimation of the cost of equity-settled stock appreciation rights are expected prices of the Company's global depository receipts ("GDRs"), risk-free interest rate, expected forfeitures and the expectation at the grant date of the dividends to be paid over the life of the option.

Expected volatility is based on the historical volatility of return on the Company's GDRs.

The risk-free rates used in the valuation model are based on US Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant.

Expected forfeitures are estimated using historical trends of executive director and employee turnover.

At the grant date, the Group had not historically declared dividends and management believed the Company would not declare a dividend over the life of the option. As such, the expected annual dividend per share was therefore nil. Any subsequent change in dividend policy will be taken into account when valuing options granted in the future.

Environmental obligations

The Group's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The Group's provision for future decommissioning and land restoration cost represents management's best estimate of the present value of the future cash outflows required to settle the liability which reflects estimates of future costs, inflation, movements in foreign exchange rates and assumptions of risks associated with the future cash outflows; and the applicable interest rate for discounting the future cash outflows. Actual costs incurred in future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Changes to future decommissioning and land restoration cost are recorded with a corresponding change to the carrying amounts of related mining properties (for operating mines and development projects). Adjustments to the carrying amounts of related mining assets can result in a change to future depletion expense.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgments and estimates of the outcome of future events.

Income taxes

The Group is subject to income taxes in the Russian Federation and Kazakhstan. Significant judgment is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered in order to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

(in thousands of U.S. Dollars)

4. ACQUISITIONS AND DISPOSALS

(a) Asset acquisitions

Rudnik Avlayakan LLC and Kirankan LLC

On 8 October 2010, the Group acquired a 100% interest in Rudnik Avlayakan LLC ("Avlayakan") and Kirankan LLC ("Kirankan") from Doland Business Limited, an unrelated party, in exchange of 3,500,000 of Company's GDRs, with a market price of $17.20 per GDR on the acquisition date. The Group acquired Avlayakan and Kirankan as they hold the mining licences for Avlayakan and Kirankan gold and silver deposits located in the Khabarovsk region.

Avlayakan and Kirankan do not meet the definition of a business pursuant to IFRS 3 (2008) thus these acquisitions were accounted for as an acquisition of a group of assets. The allocation of the cost of acquisition to the group of assets acquired was as follows:

	US$'000
Net assets acquired	
Mineral rights	64,297
Property, plant and equipment	916
Construction in-progress	492
Other assets	(440)
Non-current borrowings	(5,065)
Net assets acquired	**60,200**
Consideration:	
Fair value of GDRs transferred	60,200

PD RUS LLC

On 9 December 2010, the Group acquired a 100% interest in PD RUS LLC ("PD RUS") from Castalian Trading Limited, an unrelated party. The Group acquired PD RUS as it holds the mining and exploration licence for Svetloye gold deposit located in the Khabarovsk region. The Group paid cash consideration of $9.25 million in the form of settlement of PD RUS's liabilities.

PD RUS does not meet the definition of a business pursuant to IFRS 3 (2008) thus it was accounted for as an acquisition of a group of assets. The allocation of the cost of acquisition to the group of assets acquired was as follows:

	US$'000
Net assets acquired	
Mineral rights	7,345
Property, plant and equipment	744
Other assets	1,161
Net assets acquired	**9,250**
Consideration:	
Cash	9,250

Kutyn LLC

On 29 April 2011, the Group acquired a 100% interest in Kutynskaya GGK LLC ("Kutyn") from Olsen Business Limited, an unrelated party, in exchange of 3,500,000 of the Company's GDRs, with a market price of $19.14 per GDR on the acquisition date. The Group acquired Kutyn as it holds the mining licence for Kutyn gold deposit located in the Khabarovsk region.

(in thousands of U.S. Dollars)

Kutyn does not meet the definition of a business pursuant to IFRS 3 (2008) thus this acquisition was accounted for as an acquisition of a group of assets. The allocation of the cost of acquisition to the group of assets acquired was as follows:

	US$'000
Net assets acquired	
Mineral rights	67,719
Property, plant and equipment	618
Other liabilities	(1,347)
Net assets acquired	**66,990**
Consideration:	
Fair value of GDRs transferred	66,990

Industriya LLC

On 27 May 2011, the Group acquired a 100% interest in Industriya LLC ("Industriya") from Kuzmichev V.V., an unrelated party. The Group acquired Industriya as it holds the hard-rock gold exploration and mining licence for Elmus property. The Group paid cash consideration of $1.777 million. Industriya does not meet the definition of a business pursuant to IFRS 3 (2008) thus it was accounted for as an acquisition of a group of assets. Mineral rights are amounted to $1.819 million. The residual amount of $0.042 million represents other current liabilities.

Office LLC

On 13 May 2011, the Group acquired 100% interest in Office LLC ("Office") from ICT-Kolyma LLC, an unrelated party, for $10.32 million. The Group acquired Office as it holds three stories of the office premises in Magadan. Cost of the office premises is amounted at $9.757 million. The residual amount of $0.563 million represents other current assets and liabilities.

(b) Disposal of subsidiary in exchange for an interest in an associate

In November 2010, a Group subsidiary signed an agreement to establish JSC Ural-Polymetal ("Ural-Polymetal"), with Valentorskiy Rudnik LLC and Kuzmichev V.V. The Group contributed 100% of its interest in Polymetals of North Ural LLC, a subsidiary of the Group, holding the Galka gold, zinc and silver mining licence to Ural-Polymetal (see Note 17). The other investors also contributed assets in the entity with the Group receiving a 33% equity interest in Ural-Polymetal.

The carrying value of the net assets transferred to the equity investment on the date of disposal approximated fair value. The amount disposed was as follows:

	US$'000
Carrying value of assets disposed	
Mineral rights	3,936
Other assets	2,641
Net assets disposed of	**6,577**
Gain on disposal	3,580
Fair value of interest in associate undertaking acquired	**10,157**

(in thousands of U.S. Dollars)

(c) Disposal of subsidiary

CJSC Northeastern Coal Company

On 29 June 2011 the Group sold 100% in CJSC Northeastern Coal Company for $5.3 million to an unrelated party. CJSC Northeastern Coal Company did not perform any operations during 2010 and 2011. The amount of net assets at the date of disposal was as follows:

	US$'000
Consideration received	5,300
Carrying value property, plant and equipment disposed	(5,725)
Carrying value of other liabilities disposed	5,356
Gain on disposal	**4,931**

5. SEGMENT INFORMATION

The Group has seven reportable segments:

- Voro (CJSC Zoloto Severnogo Urala);
- Khakanja (JSC Okhotskaya GGC, Rudnik Avlayakan LLC and Kirankan LLC, see Note 4);
- Dukat (CJSC Serebro Magadana, CJSC Ayax);
- Omolon (JSC Omolon Gold Mining Company, Rudnik Kvartseviy LLC);
- Amursk-Albazino (Albazino Resources LLC, Amursky Hydrometallurgy Plant LLC);
- Varvara (JSC Varvarinskoye); and
- Mayskoye (ZK Mayskoye LLC).

Reportable segments are determined based on the Group's internal management reports, which are separated based on the Group's geographical profile. Minor companies and activities (management, exploration, purchasing and other companies) which do not meet the reportable segment criteria are disclosed within Corporate and other. Each segment is engaged in gold, silver and copper mining and related activities, including exploration, extraction, processing and reclamation. The Group's segments are all based in the Russian Federation other than Varvara which is based in Kazakhstan.

The measure which management and the Chief Operating Decision Maker (the "CODM") use to evaluate the performance of the Group is segment adjusted EBITDA, which is defined as profit for the period attributable to the equity holders of the parent adjusted for depreciation and amortization, write-down of inventory to net realisable value, share-based compensation, rehabilitation expenses, income from disposal of subsidiaries, foreign exchange gain/(loss), change in fair value of derivatives, change in fair value of contingent consideration, finance income, finance costs and income tax expense. The accounting policies of the reportable segments are consistent with those of the Group's accounting policies under IFRS as described in Note 2.

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

Business segment assets and liabilities, other than current inventory, are not reviewed by the CODM and therefore are not disclosed in these unaudited condensed consolidated interim financial statements.

(in thousands of U.S. Dollars)

The segment adjusted EBITDA reconciles to the profit before income tax as follows:

As at and for six months ended 30 June 2011	**Voro**	**Khakanja**	**Dukat**	**Omolon**	**Varvara**	**Amursk Albazino**	**Mayskoye**	**Total reportable segments**	**Corporate and other**	**Interseg-ment operations and balances**	**Total**
Revenue from external customers	106,316	99,497	231,381	22,006	85,259	-	-	**544,459**	52	-	**544,511**
Intersegment revenue	290	131	1,115	-	-	-	-	**1,536**	204,499	(206,035)	-
Share of loss of associates and joint ventures	-	-	-	-	-	-	-	-	(410)	-	**(410)**
Adjusted EBITDA	**64,877**	**53,848**	**125,030**	**(8,414)**	**42,728**	**(6,869)**	**(7,092)**	**264,108**	**(5,700)**	**(9,441)**	**248,967**
Depreciation and amortization	(10,022)	(5,724)	(10,827)	(2,070)	(5,745)	(89)	(133)	**(34,610)**	(295)	-	**(34,905)**
Rehabilitation expenses	(771)	(527)	(270)	(39)	(501)	-	-	**(2,108)**	-	-	**(2,108)**
Write–down of inventory to net realisable value	53	2,663	(1,868)	85	(1,979)	(281)	(336)	**(1,663)**	(552)	-	**(2,215)**
Share-based compensation	-	-	-	-	-	-	-	-	(28,997)	-	**(28,997)**
Operating profit / (loss)	**54,137**	**50,260**	**112,065**	**(10,438)**	**34,503**	**(7,239)**	**(7,561)**	**225,727**	**(35,544)**	**(9,441)**	**180,742**
Income from disposal of subsidiaries											**4,931**
Foreign exchange gain											**43,897**
Change in fair value of derivatives											**(1,855)**
Change in fair value of contingent consideration											**(3,957)**
Finance income											**638**
Finance costs											**(13,668)**
Profit before tax											**210,728**
Metal inventories	56,567	36,549	91,331	82,411	28,982	36,247	9,251	**341,338**	-	(3,871)	**337,467**
Other current inventories	6,489	21,247	40,926	55,748	19,284	24,680	6,559	**174,933**	62,608	(16,716)	**220,825**
											558,292
Non-current segment assets:											
Property, plant and equipment	122,490	163,453	467,872	232,673	151,736	485,002	143,613	**1,766,839**	214,290	-	**1,981,129**
Goodwill	-	15,402	9,452	-	74,008	-	25,661	**124,523**	-	-	**124,523**
Non–current inventories	2,965	6,200	7,669	9,703	1,129	7,132	5,439	**40,237**	1,904	-	**42,141**
Investments in associate and joint ventures	-	-	-	-	-	-	-	-	28,582	-	**28,582**
											2,176,375
Additions to non–current assets:											
Additions property, plant and equipment	4,178	12,236	28,613	24,962	4,781	97,097	17,787	**189,654**	24,871	-	**214,525**
Acquired on acquisition of group of assets	-	-	-	-	-	-	-	**-**	79,912	-	**79,912**

(in thousands of U.S. Dollars)

As at 31 December 2010 and for six months ended 30 June 2010 (unaudited)	**Voro**	**Khakanja**	**Dukat**	**Omolon**	**Varvara**	**Amursk Albazino**	**Mayskoye**	**Total reportable segments**	**Corporate and other**	**Interseg-ment operations and balances**	**Total**
Revenue from external customers	101,482	92,981	172,380	-	54,663	-	-	**421,506**	227	-	**421,733**
Intersegment revenue	195	335	71	-	-	-	-	**601**	110,348	(110,949)	**-**
Share of loss of associates and joint ventures	-	-	-	-	-	-	-	-	(675)	-	**(675)**
Adjusted EBITDA	**66,860**	**45,931**	**73,397**	**(11,379)**	**26,107**	**(3,322)**	**(5,173)**	**192,421**	**(11,615)**	**7,618**	**188,424**
Depreciation and amortization	(11,192)	(7,898)	(11,429)	(72)	(5,860)	-	(132)	**(36,583)**	(202)	-	**(36,785)**
Rehabilitation expenses	(535)	(264)	(86)	(117)	(440)	-	-	**(1,442)**	-	-	**(1,442)**
Write–down of inventory to net realisable value	-	-	-	-	(13,536)	-	-	**(13,536)**	1,616	-	**(11,920)**
Share-based compensation	-	-	-	-	-	-	-	-	-	-	**-**
Operating profit / (loss)	**55,133**	**37,769**	**61,882**	**(11,568)**	**6,271**	**(3,322)**	**(5,305)**	**140,860**	**(10,201)**	**7,618**	**138,277**
Foreign exchange loss											**(8,659)**
Change in fair value of derivatives											**(1,529)**
Change in fair value of contingent consideration											**(1,266)**
Finance income											**308**
Finance costs											**(9,412)**
Profit before tax											**117,719**
Metal inventories	45,086	18,578	56,497	34,746	24,315	12,664	1,541	**193,427**	-	-	**193,427**
Other current inventories	7,450	34,227	35,106	23,674	16,901	17,983	6,242	**141,583**	45,969	(12,464)	**175,088**
											368,515
Non-current segment assets:											
Property, plant and equipment	118,808	155,799	424,529	206,352	152,888	348,589	123,691	**1,530,656**	112,825	-	**1,643,481**
Goodwill	-	14,189	8,707	-	68,177	-	23,639	**114,712**	-	-	**114,712**
Non–current inventory	2,593	3,042	6,514	4,146	-	-	-	**16,295**	4,722	-	**21,017**
Investments in associate and joint ventures	-	-	-	-	-	-	-	**-**	26,821	-	**26,821**
											1,806,031
Additions to non–current assets:											
Additions property, plant and equipment	6,258	197	18,934	28,075	4,936	85,889	17,280	**161,569**	15,015	-	**176,584**

(in thousands of U.S. Dollars)

6. REVENUE

	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Sales to third parties		
VTB	150,622	119,513
Metalor S. A.	52,818	35,093
Sberbank	45,579	54,252
Gazprombank	6,532	32,557
Trafigura	32,441	19,571
Rosbank	2,942	7,922
HSBC	67,338	-
Russian Federation State Fund of Precious Metals (GOHRAN)	38,157	-
Kazzink	29,471	-
Total sales to third parties	**425,900**	**268,908**
Sales to related parties		
Nomos-Bank	117,985	152,292
Total sales to related parties	**117,985**	**152,292**
Total metal sales	**543,885**	**421,200**
Other	626	533
Total	**544,511**	**421,733**

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

	Six months ended 30 June 2011				
	Dukat	**Khakanja**	**Voro**	**Omolon**	**Total**
VTB	128,581	-	22,041	-	150,622
Nomos–Bank	-	94,684	3,168	20,133	117,985
HSBC	34,804	-	32,534	-	67,338
Total	**163,385**	**94,684**	**57,743**	**20,133**	**335,945**

	Six months ended 30 June 2010 (unaudited)			
	Dukat	**Khakanja**	**Voro**	**Total**
Nomos–Bank	69,590	64,709	17,993	152,292
VTB	91,644	16,431	11,438	119,513
Sberbank	-	-	54,252	54,252
Total	**161,234**	**81,140**	**83,683**	**326,057**

Revenue analysed by geographical regions of customers is presented below:

	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Sales within the Russian Federation	362,443	367,069
Sales to Europe	120,156	35,093
Sales to China	32,441	19,571
Sales to Kazakhstan	29,471	-
Total	**544,511**	**421,733**

(in thousands of U.S. Dollars)

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

	Six months ended 30 June 2011			Six months ended 30 June 2010 (unaudited)		
	Thousand ounces/tons	Average price (U.S. Dollar per troy ounce/ton)	U.S. Dollars	Thousand ounces/tons	Average price (U.S. Dollar per troy ounce/ton)	US. Dollars
Gold (thousand ounces)	188	1,433.68	269,532	210	1,151.50	241,816
Silver (thousand ounces)	7,268	34.76	252,633	9,534	17.54	167,185
Copper (tons)	2,728	7,961.88	21,720	1,943	6,278.44	12,199
Total			**543,885**			**421,200**

7. COST OF SALES

	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Cash operating costs		
On-mine costs (Note 8)	150,557	75,259
Smelting costs (Note 9)	113,837	80,847
Purchase of ore from third parties	9,266	2,660
Mining tax	40,507	25,763
Total cash operating costs	**314,167**	**184,529**
Depreciation and depletion of operating assets (Note 10)	69,434	33,539
Rehabilitation expenses	2,108	1,442
Total cost of production	**385,709**	**219,510**
Increase in metal inventories	(129,737)	(11,471)
Write-down to net realisable value	2,215	11,920
Total change in metal inventories	**(127,522)**	**449**
Cost of other sales	641	371
Total	**258,828**	**220,330**

The Group pays mandatory contributions to the state social funds, including the pension funds of the Russian Federation and Kazakhstan, which are expensed as incurred. The group contributed $18.8 million and $9.8 million during six months ended 30 June 2011 and 30 June 2010, respectively.

8. ON-MINE COSTS

	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Consumables and spare parts	49,576	25,752
Services	42,199	19,202
Labour	56,883	28,533
Taxes, other than income tax	1,306	860
Other expenses	593	912
Total (Note 7)	**150,557**	**75,259**

(in thousands of U.S. Dollars)

9. SMELTING COSTS

	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Consumables and spare parts	51,976	36,312
Services	23,963	15,569
Labour	36,735	28,118
Taxes, other than income tax	671	239
Other expenses	492	609
Total (Note 7)	**113,837**	**80,847**

10. DEPLETION AND DEPRECIATION OF OPERATING ASSETS

	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Mining	55,139	19,245
Smelting	14,295	14,294
Total (Note 7)	**69,434**	**33,539**

These charges are total operating depreciation less amounts related to assets employed in development projects where the charge is capitalised and amounts absorbed into unsold metal inventory balances.

11. GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Labour	38,135	26,056
Share-based compensation	28,997	-
Services	10,705	4,647
Depreciation	1,998	1,464
Other	5,591	3,532
Total	**85,426**	**35,699**

(in thousands of U.S. Dollars)

12. OTHER EXPENSES

	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Taxes, other than income tax	6,779	4,806
Exploration expenses	3,946	3,101
Social payments	3,693	2,677
Housing and communal services	2,933	2,204
Loss on disposal of property, plant and equipment	1,804	2,438
Omolon plant pre-commissioning expenses	-	7,228
Bad debt allowance	(422)	319
Other expenses	372	3,979
Total	**19,105**	**26,752**

13. FINANCE COSTS

	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Interest expense on borrowings	9,576	7,499
Unwinding of borrowing discount	2,576	707
Unwinding of discount on decommissioning obligations	1,516	1,206
Total	**13,668**	**9,412**

Interest expense on borrowings excludes borrowing costs included in the cost of qualifying assets of $5.71 million and $6.15 million during the six months ended 30 June 2011 and 30 June 2010, respectively arose on the general borrowing pool and are calculated by applying a capitalisation rate of 3.27 (annualised) and 6.32 (annualised), respectively, to expenditure on such assets.

14. INCOME TAX

The income tax expense for the six months ended 30 June 2011 and 2010 is as follows:

	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Current income taxes	60,929	32,909
Deferred income taxes	(1,316)	(652)
Total	**59,613**	**32,257**

(in thousands of U.S. Dollars)

A reconciliation between the reported amount of income tax expense attributable to profit before income for the six months ended 30 June 2011 and 2010 is as follows:

	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Profit before income tax	**210,728**	**117,719**
Statutory income tax expense at the tax rate of 20%	42,146	23,544
Loss incurred in tax-free jurisdictions	82	135
Tax on transfer of liabilities between Group entities	3,907	-
Share-based compensation	5,799	-
Tax effect of non-deductible expenses and other permanent differences	2,181	8,578
Prior period adjustment	5,498	-
Total	**59,613**	**32,257**

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

In the normal course of business, the Group is subject to examination by taxing authorities throughout the Russian Federation and Kazakhstan. Out of the large operating companies of the Group, tax authorities audited OJSC Okhotskaya Mining and Exploration Company, CJSC Magadan Silver for the period up to 2007, CJSC Gold of Northern Urals for the period up to 2009 and JSC Varvarinskoye for the period up to 2010. According to the Russian and Kazakhstan tax legislation, previously conducted audits do not fully exclude subsequent claims relating to the audited period. No significant adjustments have been proposed by the Federal Tax Service of the Russian Federation and Tax Service of the Republic of Kazakhstan as at 30 June 2011.

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the reporting period.

	Environ-mental obliga-tion	Inven-tories	Property, plant, and equip-ment	Trade and other payables	Tax losses	Loan	Other	Total
At 1 January 2011	**8,881**	**2,775**	**(84,261)**	**822**	**36,212**	**-**	**9,902**	**(25,669)**
Charge/(credit) to profit or loss	2,006	(13,291)	2,604	4,947	14,540	(3,907)	(5,583)	1,316
Exchange differences	799	(23)	(7,155)	505	3,381	-	738	(1,755)
At 30 June 2011	**11,686**	**(10,539)**	**(88,812)**	**6,274**	**54,133**	**(3,907)**	**5,057**	**(26,108)**

(in thousands of U.S. Dollars)

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	30 June 2011	31 December 2010
Deferred tax liabilities	(92,509)	(83,345)
Deferred tax assets	66,401	57,676
	(26,108)	**(25,669)**

Tax losses carried forward represent amounts available for offset against future taxable income generated by JSC Omolon Gold Mining Company, ZK Mayskoye LLC, Albazino Resources LLC, Rudnik Kvartseviy LLC and the Company during the period up to 2020. Each legal entity within the Group represents a separate tax-paying component for income tax purposes. The tax losses of one entity cannot be used to reduce taxable income of other entities of the Group. As at 30 June 2011 and
31 December 2010 the aggregate tax losses carried forward were $270.7 million (RUR 7.6 billion) and $181.06 million (RUR 5.52 billion), respectively.

The Group believes that recoverability of the recognized net deferred tax asset (“DTA”) of $66.4 million at 30 June 2011 is more likely than not based upon expectations of future taxable income in the Russian Federation and Kazakhstan and available tax planning strategies.

Losses incurred in certain taxable entities in recent years have created a history of losses as of 30 June 2011. The Group considers its unused tax losses to be strong evidence that future taxable profit may not be available. The Group has concluded that there is sufficient evidence to overcome the recent history of losses based on forecasts of sufficient taxable income in the carry-forward period.

The Group’s estimate of future taxable income is based on established proven and probable reserves, which forecast steady and strong earnings for the Group based mineral property which can be economically developed. The income from the Group’s proven and probable mineral reserves is a predictable source of future comprehensive income and produces sufficient taxable income for realization the Group’s net DTA. The Group is projecting to generate sufficient taxable earnings to be able to fully realise its net DTA even under various stressed scenarios. The amount of the DTA considered realisable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced due to delays in production start dates, decreases in ore reserve estimates, increases in environmental obligations, or reductions in precious metal prices.

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

		30 June 2011
Year ended	31 December 2011	-
	31 December 2012	15
	31 December 2013	3,197
	31 December 2014	8,673
	31 December 2015	14,074
	31 December 2016	25,014
	31 December 2017	39,388
	31 December 2018	50,326
	31 December 2019	57,268
	31 December 2020	72,710
Total loss carryforwards for tax purposes		**270,665**

(in thousands of U.S. Dollars)

The Group does not recognise 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. There are no available distributable earnings in the Kazakhstan subsidiary and hence no deferred tax is provided.

15. PROPERTY, PLANT AND EQUIPMENT

	Exploration and evaluation assets	Mining assets	Non-mining assets	Capital construction in-progress	Total
Cost					
Balance at 1 January 2011	**64,542**	**1,280,522**	**64,069**	**453,430**	**1,862,563**
Additions	32,896	43,985	4,180	133,464	214,525
Transfers	(6,122)	89,739	3,416	(87,033)	-
Change in decommissioning liabilities	-	5,948	-	-	5,948
Acquired on acquisition of group of assets	-	70,156	9,756	-	79,912
Eliminated on disposal of subsidiary	(5,383)	-	(342)	-	(5,725)
Disposals	(1)	(8,184)	(473)	-	(8,658)
Translation to presentation currency	6,012	98,326	5,570	39,116	149,024
Balance at 30 June 2011	**91,944**	**1,580,492**	**86,176**	**538,977**	**2,297,589**

Accumulated depreciation, amortisation	Exploration and evaluation assets	Mining assets	Non-mining assets	Capital construction in-progress	Total
Balance at 1 January 2011	**-**	**(208,017)**	**(11,065)**	**-**	**(219,082)**
Charge for the period	-	(77,850)	(3,571)	-	(81,421)
Disposals	-	3,136	182	-	3,318
Translation to presentation currency	-	(18,248)	(1,027)	-	(19,275)
Balance at 30 June 2011	**-**	**(300,979)**	**(15,481)**	**-**	**(316,460)**
Net book value					
1 January 2011	**64,542**	**1,072,505**	**53,004**	**453,340**	**1,643,481**
30 June 2011	**91,944**	**1,279,513**	**70,695**	**538,977**	**1,981,129**

Mining assets at 30 June 2011 included mineral rights with net book value which amounted to $456.1 million (31 December 2010: $384.3 million). Mineral rights of the Group comprise assets acquired upon acquisition of subsidiaries.

At 31 December 2010 property, plant and equipment included leased assets with net book value of $10.6 million (all of which was machinery). At 30 June 2011 there were no leased assets.

Property, plant and equipment with a total net book value of $137.8 million (including mineral rights with net book value of $9.2 million) were pledged as collateral to secure the Group's borrowings at 31 December 2010 (see Note 21). No property, plant and equipment were pledged as collateral at 30 June 2011.

(in thousands of U.S. Dollars)

16. GOODWILL

	30 June 2011
Opening balance	**114,712**
Translation effect	9,811
Total	**124,523**

Goodwill has been allocated for impairment testing purposes to the following cash-generating units comprising operating segments:

	30 June 2011	31 December 2010
Varvara	74,008	68,177
Mayskoye	25,661	23,639
Khakanja	15,402	14,189
Dukat	9,452	8,707
Total	**124,523**	**114,712**

The carrying amount of goodwill is reviewed annually to determine whether it is in excess of its recoverable amount. The recoverable amount of cash-generating unit is determined based on a fair value less costs to sell calculation. Fair value is based on the application of the discounted cash flow method (DCF) as well as the tail margin method (where it is appropriate). The DCF method is attributable to the development of proved and probable reserves. The tail margin method, an extension of the DCF method, is attributable to the development of resources beyond proved and probable reserves, assuming they could be developed after the end of the DCF forecast period. Resources used in calculations are based on the amounts of measured and indicated and inferred resources, while some discounts reflecting the reserves quality may be applicable. A steady state cash flow per unit of subject metal is usually applied to the annual resource recovery amount to determine the total annual cash flow.

The discount rate used in calculations was fixed and equalled to Polymetal WACC (9% all periods).

The DCF method is used within the period of full depletion of proved and probable reserves and uses the following key assumptions:

- production volumes;
- proved and probable reserves; and
- production costs

Recoverable reserves and resources are based on the proven and probable reserves and resources in existence at the end of the period. Production costs are based on management's best estimate over the life of the mine. Estimated production volumes are based on detailed life of mine plans and take into account development plans for the mines approved by management as part of the long-term planning process.

(in thousands of U.S. Dollars)

The tail margin method is used to value resources not currently included within an asset's mine plan. The methodology involves calculating an estimated unit cost per ounce in order to precast forecast net operating cash flows which are discounted to present value. While applying the tail margin method the Company used the following key assumptions:

- resources used in calculations based on the weighted average amount of measured and indicated and inferred resources with weights equal to 0.7 for measured and indicated resources and 0.5 for inferred resources; and
- steady state cash flow per unit of subject metal (gold or silver) was determined as the average of cash flows per unit of subject metal for the period during which their values in real terms were relatively stable.

No goodwill impairment loss has been identified or recognised during six months ended 30 June 2011.

In management's view, no reasonable change in the key assumptions would trigger an impairment charge of goodwill.

17. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group's investments in joint ventures and associates as at 30 June 2011 and 31 December 2010 consisted of the following:

	30 June 2011		31 December 2010	
	Voting power, %	**Carrying Value**	**Voting power, %**	**Carrying Value**
ASSOCIATES				
JSC Ural-Polymetal	33.3	11,512	33.3	10,901
JOINT VENTURES				
JV with AngloGold Ashanti Limited	50	17,070	50	15,920
Total		**28,582**		**26,821**

Joint venture with AngloGold Ashanti Limited

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

Equity investment in JSC Ural-Polymetal

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

The Group's ownership interests in the subsidiaries of the Joint Venture and Ural-Polymetal as at 30 June 2011 and 31 December 2010 are as follows:

(in thousands of U.S. Dollars)

Joint venture with AngloGold Ashanti Limited	Ownership interest, % 30 June 2011	31 December 2010
CJSC Enisey Mining and Geological Company	50	50
Imitzoloto LLC	50	50
Amikan LLC	50	50
Zoloto Taigi LLC	50	50
JSC Ural-Polymetal		
Polymetals of North Ural LLC	33	33
Valentorskiy Medniy Karier LLC	33	33
Uraldragmet LLC	33	33

The following tables summarise the aggregate financial position and the Group's share in the net losses of the Joint Venture with AngloGold Ashanti Limited and the investment in Ural-Polymetal:

	AngloGold Ashanti Limited		JSC Ural-Polymetal	
	30 June 2011	31 December 2010	30 June 2011	31 December 2010
Non-current assets	92,098	89,159	55,846	46,952
Current assets	2,999	477	9,352	6,722
Non-current liabilities	(26,478)	(25,013)	(13,308)	(9,215)
Current liabilities	(4,518)	(2,592)	(16,891)	(11,824)
Equity	(64,101)	(62,031)	(34,999)	(32,634)

	AngloGold Ashanti Limited		JSC Ural-Polymetal	
	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Net loss	190	1,350	944	-
Group's share in joint venture's net loss	95	675	315	-

18. INVENTORIES

	30 June 2011	31 December 2010
Inventories expected to be recovered after twelve months		
Consumables and spare parts	42,141	21,017
Total	**42,141**	**21,017**
Inventories expected to be recovered in the next twelve months		
Ore stock piles	200,812	103,914
Work in-process	78,006	70,023
Doré	36,262	16,762
Copper, gold and silver concentrate	22,360	2,407
Refined metals	27	321
Total metal inventories	**337,467**	**193,427**
Consumables and spare parts	220,279	175,088
Other	546	-
Total	**558,292**	**368,515**

(in thousands of U.S. Dollars)

During the six months ended 30 June 2011, the Group recognised a $1.6 million (six months ended 30 June 2010: $13.5 million) write-down to net realisable value of its ore stock piles due to poor gold and copper recovery on ore with lower content of precious metals (see Note 7), respectively. This write-down relates to inventory in the Kazakhstan segment. Additionally the Group wrote-down consumables and spare parts obsolete inventory during the six months ended 30 June 2011 in the amount of $0.6 million (six months ended 30 June 2010: write-up of $1.6 million).

19. TRADE AND OTHER RECEIVABLES

	30 June 2011	31 December 2010
Trade receivables	17,219	19,765
Non-trade receivables	33,391	26,081
Total trade and other receivables	**50,610**	**45,846**
Less: Allowance for doubtful debts	(1,823)	(2,163)
Total	**48,787**	**43,683**

Trade receivables are mainly due to JSC Varvarinskoye and CJSC Serebro Magadana for their sales of provisionally priced copper, gold and silver concentrate, respectively.

	30 June 2011	31 December 2010
Metalor S. A.	6,928	3,014
Trafigura	6,646	11,096
Kazzink	3,639	4,901
VTB	6	754
Total	**17,219**	**19,765**

The average credit period on sales of copper, gold and silver concentrate at 30 June 2011 was 26 days (31 December 2010: 22 days). No interest is charged on trade receivables. The Group's allowance for doubtful debt relates to its non-trade receivables. The Group's trade receivables are neither past due nor impaired as at 30 June 2011 and 31 December 2010.

Non-trade receivables include amounts receivable from sale of fuel or operating lease of machinery to contractors, the average credit period for non-trade receivables at 30 June 2011 was 153 days (31 December 2010: 101 days). No interest is charged on non-trade receivables.

Non-trade receivables disclosed above include those that are past due at the end of the reporting period for which the Group has not recognised a bad debt allowance because there has not been a significant change in credit quality and the amounts are still considered to be recoverable. Such past due but not impaired receivables amounted to $1.23 million as at 30 June 2011 (31 December 2010: $1.08 million), the majority of which mature within 90 days. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

(in thousands of U.S. Dollars)

20. CASH AND CASH EQUIVALENTS

		30 June 2011	31 December 2010
Current bank accounts	- RUB	15,715	2,120
	- foreign currencies	17,201	8,884
Other cash and cash equivalents		327	52
Total		**33,243**	**11,056**

21. BORROWINGS

Borrowings at amortised cost	Interest rate	Actual rate as at 30 June 2011	30 June 2011	31 December 2010
Bank loans				
USD denominated				
Syndicate of Banks	3m LIBOR +3%	3.30%	213,561	127,133
Raiffeisenbank	3m LIBOR +3.5%,	3.79%	150,000	153,000
UniCredit bank AG	3m LIBOR +3.35%	3.64%	100,000	100,000
UniCredit bank	3m LIBOR +3.35%	3.64%	100,000	100,000
BSGV	3m LIBOR + 2.5%	2.75%	100,000	-
BNP Paribas	3m LIBOR + 3%	3.29%	50,000	-
ING bank (Eurasia)	3m LIBOR +2.5%	2.80%	75,000	75,000
Sberbank	3m LIBOR +6.5%	6.81%	-	50,000
Gazprombank	3.5%-4.5%		-	21,000
HSBC	3m LIBOR +3.5%	3.85%	-	8,070
RUB denominated				
VTB	4.6% – 4.8%		124,146	-
HSBC	MOSPRIME +3%	6.42%	-	10,828
Other	-		1,564	-
Loans from related parties (Note 30)		-	39,384	40,938
Total borrowings			**953,655**	**685,969**
Less: current borrowings			(216,759)	(90,610)
Non-current borrowings			**736,896**	**595,359**

The table below summarises undiscounted maturities of borrowings:

		30 June 2011
Year ended	30 June 2012	216,759
	30 June 2013	212,407
	30 June 2014	257,291
	30 June 2015	175,698
	30 June 2016	90,473
	30 June 2017	1,027
Total		**953,655**

Bank loans

As at 30 June 2011, the Group has $393 million undrawn funds available under its credit facilities. The most significant financial covenants are net debt to EBITDA ratio at the level not exceeding 3.25.

Raiffeisenbank

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

Syndicate of Banks (including restructuring on 6 April 2011)

Upon the acquisition of JSC Varvarinskoye (see Note 4), the Group assumed a long-term loan of $85.7 million, payable to a Syndicate of Banks including Investec Bank Ltd, Investec Bank plc, Nedbank Limited and Natixis Bank ("Syndicate of Banks"). This had a carrying amount of $74.7 million on 6 April 2011.

In addition to the loan described above, the Group assumed obligations for amounts payable for previously realised flat forward gold sales and purchase contracts (see Notes 4 and 25). As at 6 April 2011, the Group has not settled its liability under these contracts. This had a carrying amount of $50.8 million on 6 April 2011.

For repayment of these two liabilities a cash sweep arrangement was applied to all free cash flows generated from JSC Varvarinskoye. In accordance with the cash sweep agreement, on each day following the quarter-end, JSC Varvarinskoye shall pay 100% of the amount by which the cash inflow for the quarter exceeds $5.0 million. In 2013 and 2014, 35% and 65%, respectively, of the obligation would become due if not previously repaid through the cash sweep arrangement.

In addition the Group had unrealised net derivative liabilities for the forward sale and purchase commitments which are presented separately (see Note 27). This had a carrying amount of $100.7 million on 6 April 2011.

On 6 April 2011, the Group signed an agreement to restructure its debt obligations and related derivative gold forward sale and purchase contracts (the "Restructuring"). As a result of this Restructuring, the Group's derivative forward sale and purchase commitments outstanding as at the date of the Restructuring were converted to debt obligations based on the present value of the future net settlement payments of these derivative contracts. Following a partial immediate repayment of $14.8 million, the remaining par value debt obligation in the amount of $230.0 million held by Three K Exploration and Mining Limited, a wholly owned subsidiary of the Group, were transferred to the Company. All security arrangements held with the counterparty under the debt obligations and forward sale and purchase agreements, such as pledges of shares and movable and immovable property, plant and equipment, have been foregone as part of this Restructuring.

The following repayment schedule was agreed as replacement of the cash sweep mechanism under the original Syndicate of Banks facility: $30.0 million in each of 2011 and 2012, $50.0 million in 2013, and $60.0 million in each of 2014 and 2015. The Group will pay interest quarterly at a rate of three months LIBOR plus 3% per annum to the Syndicate of Banks.

The derivatives were previously recognised at fair value and no gain or loss arose on their conversion to debt. The amendment to the previous debt obligations did not constitute a significant modification and it continues to be held at their previous carrying value. These totalled $226.2 million before and $211.4 million after the repayment of $14.8 million. The carrying value of the new debt arrangement at 6 April 2011was therefore $211.4 million, for which the fair value was $221 million. The difference will be accreted using the effective interest rate method as an additional interest charge over the term of the loan.

Property, plant and equipment with a total net book value of $137.8 million (including mineral rights with net book value of $9.2 million) were pledged as collateral to secure the Group's borrowings at 31 December 2010 (see Note 15). No property, plant and equipment were pledged as collateral at 30 June 2011.

UniCredit bank AG (incorporated in Great Britain)

In November 2010, the Group received a long-term loan from UniCredit bank of $100.0 million to finance its current operations and to refinance other credit facilities. The loan is repayable in equal instalments on a quarterly basis through November 2015. Interest is payable quarterly.

The repayment of this long-term loan is partially guaranteed by the pledge of revenue under a sale agreement completed with HSBC Bank (see Note 25).

UniCredit bank (incorporated in the Russian Federation)

In November 2010, the Group received a long-term loan from UniCredit bank of $100.0 million to finance its current operations and to refinance long-term facilities obtained from UniCredit bank in August and September 2009. The loan is repayable in equal instalments on a quarterly basis through November 2015. Interest is payable quarterly.

The repayment of this long-term loan is guaranteed by the pledge of revenue under a sale agreement completed with HSBC Bank (see Note 25).

ING bank (Eurasia)

In December 2010, the Group received a long-term loan from ING Bank (Eurasia) of $75.0 million to finance its current operations. The loan is repayable in nine equal instalments on a quarterly basis through December 2013. Interest is payable quarterly.

Sberbank

In February 2010, the Group received a long-term loan from Sberbank for $50.0 million to finance its current operations and to refinance other long-term facilities. The loan is repayable in equal instalments on a quarterly basis through February 2013. Interest is payable quarterly. Sberbank has the power to change the interest rate unilaterally.

Nomos-Bank

In January 2010, the Group received two long-term credit facilities from Nomos-Bank, a related party, which allows the Group to borrow funds, denominated in Euros, up to Euro 6.5 million ($8.7 million as at 30 June 2011) to finance the purchase of equipment for Amursky Hydrometallurgy Plant LLC. The credit facilities are repayable in ten equal semi-annual instalments over five years starting from April 2011. Interest is payable quarterly.

In July 2010, the Group received two long-term credit facilities from Nomos-Bank, a related party which allow the Group to borrow funds, denominated in Euro, up to Euro 1.76 million and 1.3 million ($2.6 million and $1.9 million as at 30 June 2011) to finance the purchase of equipment for Amursky Hydrometallurgy Plant LLC. Borrowings under these credit facilities are available through October and November 2016. The credit facilities are repayable in ten equal semi-annual instalments over five years starting from October and November 2010, respectively. Interest is payable quarterly.

In September 2010, the Group received an additional long-term credit facility from Nomos-Bank, a related party which allows the Group to borrow funds, denominated in Canadian Dollars, up to Canadian Dollar 1.5 million ($1.6 million as at 30 June 2011) to finance the purchase of equipment for Amursky Hydrometallurgy Plant LLC. Borrowings under this credit facility are available through December 2015. The credit facility is repayable in ten equal semi-annual instalments over five years starting from December 2010. Interest is payable quarterly.

In August 2010, the Group received a long-term credit facility from Nomos-Bank, a related party which allows the Group to borrow funds, denominated in U.S. Dollars, Russian Roubles or Euros, up to $100.0 million to finance its current operations. Borrowings under this credit facility are available through November 2012. The repayment term and interest rate are established separately for each tranche received from the credit facility at the time of draw-down date. The borrowings under the credit facility will be repaid in January and February 2011.

In October 2010, the Group received a long-term credit facility from Nomos-Bank, a related party which allows the Group to borrow funds, denominated in Canadian Dollars up to Canadian Dollar 0.85 million ($0.88 million as at 30 June 2011) to finance the purchase of equipment for Amursky Hydrometallurgy Plant LLC. Borrowings under this credit facility are available until December 2015. The credit facility is repayable in ten equal semi-annual installments starting from December 2010. Interest is payable quarterly.

Gazprombank

In February 2010, the Group entered into a long-term credit facility with Gazprombank which allows the Group to borrow funds, denominated in Russian Roubles or U.S. Dollars, up to $74.8 million (Russian Rouble 2.1 billion as at 30 June 2011) to finance its current operations. Borrowings under this credit facility are available until December 2011. The repayment term is established separately for each loan received from the credit facility at the time of draw-down date. Each loan received from the credit facility must be repaid within twelve months of the draw-down. Interest is payable monthly, based on a fixed rate determined by Gazprombank for each tranche but not to exceed 14% annually for funds borrowed in Russian Roubles and 9% for funds borrowed in U.S. Dollars.

HSBC

In June 2010, the Group entered into a long-term credit facility with HSBC Bank which allows the Group to borrow funds, denominated in U.S. Dollars or Russian Roubles, up to $25.0 million (Russian Rouble 701.9 million as at 30 June 2011) to finance its current operations. Borrowings under this credit facility are available until April 2012. The repayment term is established separately for each tranche. Each loan received from the credit facility must be repaid within twelve months of the draw-down date.

The repayment of this long-term facility is guaranteed by a pledge of revenue under a sales agreement with Nomos-Bank (see Note 25).

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 $150.0 million to repay short-term debt provided by VTB and to finance its current operations. The credit facility is valid until June 2012. Interest is payable monthly.

The repayment of this long-term facility was guaranteed with a pledge of revenues under the sales agreement with VTB (see Note 25). Covenants to this long-term facility require the Group to maintain certain financial ratios, prohibiting any change to the general nature of the business.

In February 2011, the Group received a long-term credit line from VTB which allows it to borrow funds, denominated in Russian Roubles, or in U.S. Dollars up to $213.7 million (Russian Rouble 6.0 billion as at 30 June 2011) to finance its current operations and for refinancing of short-term indebtedness of the Group. Borrowings under this credit facility are available until February 2014. The repayment term and interest rate are established separately for each tranche received from the credit facility at the time of draw-down date. Interest is payable monthly.

(in thousands of U.S. Dollars)

BSGV

In June 2011, the Group entered into a long-term credit facility with BSGV which allows the Group to borrow funds, denominated in U.S. Dollars, up to $100.0 million to finance its current operations. Borrowings under this credit facility are available until May 2014. The credit facility is repayable quarterly in nine instalments. Interest is payable quarterly. The repayment of this long-term credit facility is guaranteed with a pledge of revenue under a sales agreement with Rosbank (see Note 25).

BNP Paribas

In January 2011, the Group entered into a long-term credit facility with BNP Paribas which allows the Group to borrow funds, denominated in U.S. Dollars, up to $50.0 million to finance the Group's general corporate purposes and for refinancing of short-term and long-term indebtedness of the Group. Borrowings under this credit facility are available until February 2015. The credit facility is repayable in eleven equal quarter instalments starting from July 2012. Interest is payable quarterly.

The repayment of this long-term loan is guaranteed with a pledge of revenue under a sales agreement with Nomos-Bank (see Note 25).

22. FINANCE LEASE LIABILITIES

In April 2009 the Group entered into finance sale and leaseback agreement, denominated in Russian Roubles, with Nomos-Leasing, a related party. The Group leased certain of its machinery, equipment and transport vehicles. The lease term of finance lease was until July 2012. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

The implicit interest rate of underlying obligation under finance lease is fixed at 24.25% per annum.

Future minimum lease payments for the assets under finance leases are as follows:

	31 December 2010
Current portion	4,819
Non-current portion	-
Present value of minimum payments	**4,819**
Interest payable over the term of lease	81
Total future minimum lease payments	**4,900**

The Group proposed to the lessor to purchase the leased property and settle its leasing liabilities prior to the maturity dates. Accordingly, the total amount of leasing obligations is classified as current as of 31 December 2010. The purchase was completed in January 2011 for the amount of $4.9 million (including leasing liability of $4.8 million and interest of $0.1 million).

(in thousands of U.S. Dollars)

23. ENVIRONMENTAL OBLIGATIONS

Environmental obligations include decommissioning and land restoration costs and are recognised on the basis of existing project business plans as follows:

	30 June 2011
Opening balance	**45,156**
Obligations arising in the period	1,944
Change in estimate	6,127
Unwinding of discount on decommissioning obligations	1,516
Repayment of decommissioning obligations	(108)
Translation effect	3,793
Total	**58,428**

The principal assumptions used for the estimation of environmental obligations were as follows:

	2011	2010
Discount rates	2.6–8.6%	3.7%-9.4%
Inflation rates	3.9–7.53%	3.9% – 7.9%
Expected mine closure dates	0.5–23.5 years	1–24 years

Present value of costs to be incurred for settlement of environmental obligations is as follows:

	30 June 2011	31 December 2010
Within one year	454	256
Due from second to fifth year	11,804	9,141
Due from sixth to tenth year	32,002	25,362
Due from eleventh to fifteenth year	7,867	5,834
Due from sixteenth to twentieth year	-	-
Due thereafter	6,301	4,563
Total	**58,428**	**45,156**

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

24. TRADE AND OTHER PAYABLES

	30 June 2011	31 December 2010
Trade payables	93,587	54,217
Labour liabilities	9,241	7,273
Other	10,213	5,538
Total	**113,041**	**67,028**

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

(in thousands of U.S. Dollars)

In 2011, the average credit period for payables was 51 days (2010: 57 days). There was no interest charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments' schedules to ensure that all amounts payable are settled within the credit period.

25. COMMITMENTS AND CONTINGENCIES

Commitments

Capital commitments

The Group's budgeted capital expenditures' commitments as at 30 June 2011 amounted to $50.1 million (31 December 2010: $55.2 million).

Operating leases: Group as a lessee

The land in the Russian Federation and Kazakhstan on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through 2058.

Future minimum lease payments due under non-cancellable operating lease agreements at the end of the period were as follows:

	30 June 2011	31 December 2010
Due within one year	1,795	2,148
From one to five years	3,308	2,791
Thereafter	1,762	1,469
Total	**6,865**	**6,408**

Forward sales commitments

Under the sale agreements with Nomos-Bank, the Company's subsidiaries, CJSC Zoloto Severnogo Urala, JSC Omolon Gold Mining Company and JSC Okhotskaya GGC are required to sell 129,000 ounces of gold and 2,344,000 ounces of silver during 2011 at a price determined by LBMA. The Group partially met its obligations during the six months ended 30 June 2011. The remaining quantity of gold and silver to be sold by the end of 2011 comprises 77,000 ounces of gold and 1,077,000 ounces of silver.

Under the sale agreements with Rosbank, the Company's subsidiaries, CJSC Zoloto Severnogo Urala is required to sell 72,000 ounces of gold during 2011; 39,000 ounces of gold during 2012; 48,000 ounces of gold during 2013; and 19,000 ounces of gold during 2014 at a price determined by LBMA. The Group partially met its obligations during the six months ended 30 June 2011. The remaining quantity of gold to be sold by the end of 2011 comprises 48,000 ounces.

Under the sale agreements with VTB, the Company's subsidiaries, CJSC Zoloto Severnogo Urala and CJSC Serebro Magadana are required to sell 64,000 ounces of gold and 4,823,000 ounces of silver during 2011 at a price determined by LBMA. The Group partially met its obligations during the six months ended 30 June 2011. The remaining quantity of gold and silver to be sold by the end of 2011 comprises 35,000 ounces of gold and 1,660,000 ounces of silver.

Under the sale agreement with Sberbank, the Company's subsidiary, CJSC Zoloto Severnogo Urala is required to sell 64,000 ounces of gold during each of the years 2011 and 2012 at a price determined by LBMA. The Group partially met its obligations during the six months ended 30 June 2011. The remaining quantity of gold to be sold by the end of 2011 comprises 33,000 ounces.

Under the sale agreements with Gazprombank, the Company's subsidiaries, JSC Omolon Gold Mining Company and JSC Okhotskaya GGC are required to sell 64,000 ounces of gold till 28 February 2012 at a price determined by LBMA. The Group partially met its obligations during the six months ended 30 June 2011. The remaining quantity of gold to be sold until 28 February 2012 comprises 60,000 ounces.

Under the sale agreement with HSBC, the Company's subsidiary, CJSC Serebro Magadana is required to sell 3,009,000 ounces of silver during 2011 at a price determined by LBMA. The Group partially met its obligations during the six months ended June 30, 2011. The remaining quantity of silver to be sold by the end of 2011 comprises 2,050,000 ounces.

Under the sale agreement with the Russian Federation State Fund of Precious Metals (GOHRAN), the Company's subsidiary, CJSC Serebro Magadana is required to sell 3,376,000 ounces of silver during 2011 at a price determined by LBMA. The Group partially met its obligations during the six months ended 30 June 2011. The remaining quantity of silver to be sold by the end of 2011 comprises 2,306,000 ounces.

Under the sale agreements with Zhaoyuan Hwatang Trading Co., the Company's subsidiary, Albazino Resources LLC, is required to sell 20,000 (± 10%, in the Seller's option) dry metric tons of gold concentrate comprising of more than 40 grams per ton gold and 15 grams per ton silver during the period from August 2011 till December 2011 at a price determined by LBMA.

Under the sale agreements with Trafigura Beheer B.V., the Company's subsidiary, JSC Varvarinskoe is required to sell 17,000 ounces of gold during each of the years 2011 and 2012 at a price determined by LBMA and 4,488 dry metric tons of copper concentrate during each of the years 2011 and 2012 at a price determined by LME and adjusted for further processing costs. The Group partially met its obligations during the six months ended 30 June 2011. The remaining quantity of gold and copper concentrate to be sold by the end of 2011 comprises 9,000 ounces of gold and 1,966 dry metric tons of copper concentrate.

Under the sale agreement with Metalor, the Company’s subsidiary, JSC Varvarinskoe is required to sell 2.1 tons of dore alloy with approximate gold content of 1.9 tons during 2011 at a price determined by LBMA and adjusted for further processing costs. The Group partially met its obligations during the six months ended 30 June 2011. The remaining quantity to be sold by the end of 2011 comprises 0.881 tons of dore with approximate gold content of 0.780 tons.

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.

With regards to matters where practice concerning payment of taxes is unclear, management estimated the tax exposure at 30 June 2011 to be approximately $32.192 million (31 December 2010: $38.814 million). This amount had not been accrued at 31 December 2010 as management does not believe the payment to be probable.

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

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

Litigation

During the respective periods, 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.

During 2009 a field tax audit was performed in relation to CJSC Serebro Magadana with respect to all taxes, duties and contributions to social funds for the period from 1 January 2007 to 31 December 2007 (including CJSC Serebro Territorii as a legal predecessor).

As a result of this audit, the tax authorities issued Decision #12-13/23 dated 31 March 2009. The most significant issues were the alleged understatement of profits tax by $18.4 million (including interest and penalties) and the understatement of mineral extraction tax by $4.4 million (including interest and penalties) owing to the potential application of transfer pricing rules in respect of export transactions with ABN AMRO Bank N.V. The tax authorities challenged the prices applied by CJSC Serebro Magadana (previously CJSC Serebro Territorii) owing to their deviation by more than 20% from London stock exchange fixings and accounting prices set by the Central Bank of the Russian Federation. This deviation was caused by signing a flat forward sales contract with Standard Bank of London that provided for fixed prices that were agreed by CJSC Serebro Territorii in 2004. CJSC Serebro Territorii supplied silver to ABN AMRO Bank N.V. in 2007 in accordance with its obligations under the contract and at the fixed priced stipulated in the contract. In 2004 the negotiated fixed prices were consistent with market prices. However, due to a significant increase in the price of silver in the intervening period, by 2007 the contract price was much lower than the London Metal Exchange price.

CJSC Serebro Magadana appealed against this Decision in the arbitration court and has been successful in the latest appeal. The Directors believe that CJSC Serebro Magadana should win any new challenge based on its argument that it was bound by the contractual obligations and had sound business reasons to apply such prices.

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

(in thousands of U.S. Dollars)

26. FAIR VALUE ACCOUNTING

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as follows:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 30 June 2011 and 31 December 2010 the Group held the following financial instruments:

	30 June 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Receivables from provisional copper, gold and silver concentrate sales	-	17,213	-	**17,213**
Contingent consideration liability	-	-	(28,886)	**(28,886)**
	-	**17,213**	**(28,886)**	**(11,673)**

	31 December 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Receivables from provisional copper, gold and silver concentrate sales	-	19,011	-	**19,011**
Derivatives	-	(105,437)	-	**(105,437)**
Contingent consideration liability	-	-	(23,754)	**(23,754)**
	-	**(86,426)**	**(23,754)**	**(110,180)**

During the reporting periods, there were no transfers between Level 1 and Level 2.

Receivables from provisional copper, gold and silver concentrate sales

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

Derivatives

The fair value of derivative financial instruments is determined using either present value techniques or option pricing models that utilise a variety of inputs that are a combination of quoted prices and market-corroborated inputs. The fair value of the Group's derivative contracts is adjusted for the Group's credit risk based upon the observed credit default swap spread as appropriate. The Group closed the open derivative positions at 6 April 2011 as part of the Restructuring as described in Note 21.

(in thousands of U.S. Dollars)

The table below sets forth a summary of changes in the fair value of the Group's Level 2 financial liabilities for the periods ended 30 June 2011:

	30 June 2011
Opening balance	**105,437**
Change in fair value, included in profit or loss	1,855
Settlement	(107,292)
Total	**-**

Commodity forward contracts

Except for the forward sales contracts entered by JSC Varvarinskoye (see Note 4), other Group's forward sales contracts (see Note 25) qualify for the normal purchase/sales or "own use" exemption. The fair value of Varvarinskoye commodity forward contracts is determined by discounting contractual cash flows using a discount rate derived from observed U.S. Treasury yield curve rates. Contractual cash flows are calculated using a forward pricing curve derived from market forward prices for each commodity. The commodity forward contracts are classified within Level 2 of the fair value hierarchy.

Contingent consideration liabilities

In 2008, the Group recorded a contingent consideration liability related to the acquisition of 98.1% of the shares in JSC Omolon Gold Mining Company (Omolon). 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 Omolon. This liability is revalued at each reporting date based on 1% of the life of mine revenues with the resulting gain or loss recognised in the consolidated income statement. The liability recognised at 30 June 2011 was $23.4 million.

In 2009, the Group recorded a contingent consideration liability related to the acquisition of 100% of shares in JSC Varvarinskoye in Kazakhstan (see Note 4). The fair value of the contingent consideration liability was determined using a valuation model which simulates expected future prices of gold, silver and copper, gold strike price applied pursuant to the terms of the gold forward purchase contracts entered into (see Note 25) and the copper price as published by the LME as at the date when the gold forward purchase contracts mentioned above is entered into. The liability recognised at 30 June 2011 was $5.5 million and was fully settled after the balance sheet date.

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 period ended 30 June 2011:

	30 June 2011
Opening balance	**23,754**
Change in fair value, included in profit or loss	3,957
Translation effect	1,609
Settlement	(434)
Total	**28,886**

The directors consider that a change in a reasonably possible valuation assumption used would not have a material effect on the Group.

(in thousands of U.S. Dollars)

27. RISK MANAGEMENT ACTIVITIES

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains from prior years.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 21 offset by cash and bank balances as detailed in Note 21) and equity of the Group (comprising issued capital, reserves and retained earnings as detailed in Note 28).

The Group is not subject to any externally imposed capital requirements. The Group's Board reviews the capital structure of the Group on a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

The Group's leverage ratio hasn't changed during the period and was 1.9 of the adjusted EBITDA as at 31 December 2010 and 30 June 2011.

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, derivatives, finance lease liabilities, trade and other payables. The Group has various financial assets such as accounts receivable, loans advanced and cash and cash equivalents.

	30 June 2011	31 December 2010
Financial assets		
Financial assets at FVTPL		
Receivables from provisional copper, gold and silver concentrate sales	17,213	19,011
Loans and receivables, including cash and cash equivalents		
Cash and cash equivalents	33,243	11,056
Trade and other receivable	31,574	24,672
Non-current loans to related parties	8,695	5,187
Total financial assets	**90,725**	**59,926**
Financial liabilities		
Financial liabilities at FVTPL		
Contingent consideration liability	28,886	23,754
Derivatives	-	105,437
Financial liabilities at amortised cost		
Non-current and short-term debt	953,655	685,969
Trade and other payables	100,435	55,118
Finance lease liabilities	-	4,819
Total financial liabilities	**1,082,976**	**875,097**

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables and short-term debt recorded at amortised cost approximate their fair values because of the short maturities of these instruments. The estimated fair value of the Group's long-term debt, calculated using market interest rate available to the Group as at 30 June 2011, is $993.5 million, and the carrying value as at 30 June 2011 is $953.7 million (see Note 21). Carrying values of the other long-term loans provided to related parties as at 30 June 2011 and 31 December 2010 approximated their fair values.

The main risks arising from the Group's financial instruments are foreign currency and commodity price risk, interest rate, credit and liquidity risks.

(in thousands of U.S. Dollars)

At the end of the reporting period, there are no significant concentrations of credit risk for receivables designated at FVTPL. The carrying amount reflected above represents the Group's maximum exposure to credit risk for such receivables.

Derivative financial instruments

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

	Consolidated balance sheet location	Six months ended 30 June 2011	31 December 2010
Receivable from provisional copper, gold and silver concentrate sales	Accounts receivable	17,213	19,011
Flat forward gold sales and purchase contracts	Derivatives	-	(105,437)

	Location of gain (loss) recorded in profit or loss	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Receivable from provisional copper, gold and silver concentrate sales	Revenue	245	646
Flat forward gold sales and purchase contracts	Change in fair value of derivatives	(1,855)	(1,529)

The Group closed out the open derivative positions on 6 April 2011 as part of the Restructuring as described in Note 21.

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 Rouble 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 use derivative instruments to currently hedge its exposure to foreign currency risk.

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than functional currencies of the individual Group entities at 30 June 2011and 31 December 2010 were as follows:

	Assets		Liabilities	
	30 June 2011	31 December 2010	30 June 2011	31 December 2010
U.S. Dollar	41,848	28,206	839,117	791,779
Euro	163	27	54,413	44,585
Total	**42,011**	**28,233**	**893,530**	**836,364**

Currency risk is monitored on a monthly basis by performing a sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level.

(in thousands of U.S. Dollars)

The table below details the Group's sensitivity to changes of exchange rates by 10% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items at the reporting dates denominated in respective currencies.

	30 June 2011	**31 December 2010**
Profit or loss (RUB to U.S. Dollar)	82,417	55,438
Profit or loss (RUB to Euro)	5,304	4,471
Profit or loss (KZT to U.S. Dollar)	2,690	21,114

Forward sales and purchase contracts

As at 31 December 2010, the Group held the following derivative financial instruments which were subsequently closed out on 6 April 2011 as part of the Restructuring as described in Note 21.

A flat forward gold sales contract was assumed on the acquisition of JSC Varvarinskoye in October 2009. On the same date the Group entered into an offsetting flat forward gold purchase contract with the same notional amount and monthly settlement dates as the aforementioned flat forward gold sales contract. The gold forward purchase contract economically locks in the losses on the existing flat forward gold sales contract. The contracts have total notional amounts of 320,160 ounces of gold; fixed forward sales price of $574.25 per ounce and fixed forward purchase price of $1,129.65 per ounce; and monthly settlement dates between November 2009 and April 2014.

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

As at 6 April 2011 and 31 December 2010 net settlement amounts of $50.8 million and $50.9 million, respectively, have not been paid and were recorded in the "Non-current borrowings" line of the balance sheet (see Note 21).

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

During the period ended 6 April 2011, the Group settled derivative contracts resulting in realised derivative losses of $1.9 million (six months ended 30 June 2010: loss of $1,5 million).

Provisionally priced sales

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

LME copper price averaged $9,401 per ton since January 2011 compared with the Group's recorded average provisional price of $9,629 per ton. The applicable forward copper price at 30 June 2011 was $9,056. During the first half of 2011 decreasing copper prices resulted in a provisional pricing mark-to-market loss of $194 (included in revenue). At 30 June 2011 the Group had copper sales of 1,487 tons priced at an average of $9,054 per ton, subject to final pricing in the third quarter of 2011.

LMB gold price averaged $1,444 per ounce since January 2011 compared with the Group's recorded average provisional price of $1,481 per ounce. The applicable forward silver price at 30 June 2011 was $1,506 per ounce. During the first half of 2011 increasing gold prices resulted in a provisional pricing mark-to-market gain of $2,346 (included in revenue). At 30 June 2011 the Group had gold sales of 15,281 ounces priced at an average of
$1,489 per ounce, subject to final pricing in the third quarter of 2011.

LMB silver price averaged $34.9 per ounce since January 2011 compared with the Group's recorded average provisional price of $38.5 per ounce. The applicable forward silver price at 30 June 2011 was $35.0 per ounce. During the first half of 2011 decreasing silver prices resulted in a provisional pricing mark-to-market loss of $1,907 (included in revenue). At 30 June 2011 the Group had silver sales of 192,587 ounces priced at an average of $37.8 per ounce, subject to final pricing in the third quarter of 2011.

Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group does not currently hedge its exposure to interest rate risk.

The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk section of this note.

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole period. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the six months ended 30 June 2011 would decrease/increase by $8.295 million. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has increased during the current period mainly due to the increase in variable rate debt instruments.

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. The Group’s financial instruments that are potentially exposed to concentration of credit risk consist primarily of cash and cash equivalents and loans and receivables.

Accounts receivable are regularly monitored and assessed and where necessary an adequate level of provision is maintained. Trade accounts receivable at 30 June 2011 and 31 December 2010 are represented by provisional copper, gold and silver concentrate sales transactions. A significant portion of the Group’s trade accounts receivable is due from reputable export trading companies. With regard to other loans and receivables the procedures of accepting a new customer include checks by a security department and responsible on-site management for business reputation, licences and certification, creditworthiness and liquidity. Generally, the Group does not require any collateral to be pledged in connection with its investments in the above financial instruments. Credit limits for the Group as a whole are not set up.

(in thousands of U.S. Dollars)

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The major financial assets at the balance sheet date other than trade accounts receivable presented in Note 27 are cash and cash equivalents held with the counterparties at 30 June 2011 of the amount of $33.2 million (31 December 2010: $11 million).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due.

The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting, cash forecasting processes and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

The following tables detail the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.
The contractual maturity is based on the earliest date on which the Group may be required to pay.

Presented below is the maturity profile of the Group's financial liabilities as at 30 June 2011 and 31 December 2010.

					30 June 2011	**31 December 2010**
	Less than 3 months	**3-12 months**	**1-5 years**	**More than 5 years**	**Total**	**Total**
Borrowings	143,331	111,440	825,340	1,052	**1,081,163**	781,247
Derivatives	-	-	-	-	**-**	117,269
Accounts payable and accrued expenses	69,215	20,480	10,740	-	**100,435**	55,119
Contingent consideration	-	441	13,622	27,198	**41,261**	31,541
Finance lease liability	-	-	-	-	**-**	4,900
Total	**212,546**	**132,361**	**849,702**	**28,250**	**1,222,859**	**990,076**

Financing facilities

	30 June 2011	**31 December 2010**
Bank loan facilities		
- amount used	363,659	232,096
- amount unused	393,046	237,294
	756,706	**469,390**

(in thousands of U.S. Dollars)

28. SHARE CAPITAL AND EARNING PER SHARE

As at 30 June 2011 and 31 December 2010, the authorised share capital of the Company comprised of 2,275,625,000 ordinary shares with a par value of Rouble 0.2 per share. As at 30 June 2011, the Company had paid and issued shares.

Issued share capital, outstanding share capital, share premium and treasury shares were as follows:

	Share capital no. of shares	Treasury shares no. of shares	Total shares
Balance at 1 January 2010	**399,375,000**	**(41,450,357)**	**357,924,643**
Issuance of ordinary shares	-	-	-
Balance at 30 June 2010 (unaudited)	**399,375,000**	**(41,450,357)**	**357,924,643**
Balance at 31 December 2010	**399,375,000**	**(37,950,357)**	**361,424,643**
Issuance of ordinary shares	-	3,500,000	3,500,000
Balance at 30 June 2011	**399,375,000**	**(34,450,357)**	**364,924,643**

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

The Group had potentially dilutive securities, namely the Group's equity-settled share appreciation plan, which was established during 2010 (see Note 29).

Weighted average number of shares: Diluted earnings per share

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

	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Weighted average number of outstanding common shares	362,630,199	357,924,643
Dilutive effect of equity-settled share appreciation plan	21,959,334	-
Weighted average number of outstanding common shares after dilution	**384,589,533**	**357,924,643**

Dilutive effect of equity-settled share appreciation rights has been calculated using treasury stock method.

29. SHARE-BASED PAYMENTS

In 2010, the Group established an equity incentive plan (the "Plan") for executive directors and senior employees of the Group in which the grant of equity-settled stock appreciation rights up to 30 million shares (the "Bonus Fund") was approved. The number of awards to which a qualifying participant is entitled to was determined by the board of JSC Polymetal on 8 November 2010. The management of the Group believes that such awards better align the interests of its employees with those of its shareholders.

(in thousands of U.S. Dollars)

The aggregate number of shares comprising the Bonus Fund will be determined on 11 September 2013 and will depend on the excess of the weighted average price of the Company's shares during the period between 11 March 2013 and 11 September 2013 over an established price of $18.75.

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

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

- *Expected forfeitures.* This assumption is estimated using historical trends of executive director and employee turnover. As the Group typically only grants awards to senior employees and the turnover rate for such employees is minimal, the Group has estimated expected forfeitures to be 5%. Estimated forfeitures are adjusted over the requisite service period to the extent actual forfeitures differ or are expected to differ from such estimates. Changes in estimated forfeitures are recognised in the period of change and impact the amount of expense to be recognised in future periods.
- *Expected volatility.* Expected volatility has been estimated based on an analysis of the historical stock price volatility of the Company's GDRs from February 2007, when the Group's GDRs became publicly traded.
- *Expected life.* The average expected life was based on the contractual term of the option of 3.6 years. As the Plan has a 2.6 year vesting condition and the participant may exercise their right to redeem shares within one year after vesting occurs and such right is obtained, the Group used the 2.6 years expected term for the first stage of the Monte-Carlo simulation (the "First date") and 3.6 – for the second stage (the "Second date").
- *Fair value of common stock* is equal to the market price of underlying GDR's at the grant date.
- *Risk-free interest rate.* The risk-free rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant.

At the grant date, the Group had not historically declared dividends and management believed the Company would not declare a dividend over the life of the option. As such, the expected annual dividend per share was therefore nil. Any subsequent change in dividend policy will be taken into account when valuing options granted in the future.

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

A summary of option activity under the Plan for the period ended 30 June 2011 is presented below:

	Awards	**Weighted average exercise price (per share), U.S. Dollar**	**Weighted average fair value of awards (per share), U.S. Dollar**	**Weighted average remaining contractual term**
Awards at 1 January 2011	**29,917,460**	**0.03**	**4.96**	**3.45**
Forfeited	(287,302)	0.03	4.96	-
Non vested awards at 30 June 2011	**29,630,158**	**0.03**	**4.96**	**2.95**

(in thousands of U.S. Dollars)

None of the share awards outstanding as at 30 June 2011 were exercisable as they are not fully vested. For the period ended 30 June 2011, share-based compensation in the amount of $29.0 million, (2010: $7.9 million) was recognised in general, administrative and selling expenses in the consolidated income statement (see Note 11). As at 30 June 2011 and 31 December 2010, the Group had $116 million and $136 million, respectively of unrecognised share-based compensation expense related to non-vested equity-settled stock appreciated rights with a weighted average expected amortisation period of 1.95 years and 2.45 years, respectively.

30. RELATED PARTIES

Related parties are considered to include shareholders, affiliates, associates, joint ventures and entities under common ownership and control with the Group and members of key management personnel. In the course of its business the Group entered into various transactions with Nomos-Bank (an entity in which Alexander Nesis, a significant shareholder of the Company (Note 1), also holds a substantial interest), equity method investments and its employees and officers as follows:

	Six months ended 30 June 2011	**Six months ended 30 June 2010 (unaudited)**
Interest expense on loans provided by Nomos-Bank	1,299	585
Interest income on loans provided to employees	309	74
Revenue from sales to Nomos-Bank	117,985	152,292
Other income from entities under common control	1,065	-
Lease payments to Nomos Leasing	-	2,219

Outstanding balances are presented below:

	30 June 2011	**31 December 2010**
Short-term loans provided to employees	1,486	2,507
Non-current loans provided to employees	2,619	1,732
Short-term loans provided to equity method investments	362	-
Non-current loans provided to equity method investments	5,881	3,455
Short-term loans provided to entity under common control	1,745	-
Non-current loans provided to entity under common control	195	-
Short-term loans provided by Nomos Bank	10,330	14,379
Non-current loans provided by Nomos Bank	26,921	24,820
Non-current loans provided by equity method investments	2,133	1,739
Capital lease liabilities to Nomos Leasing	-	4,819

	Interest rate	**30 June 2011**	**31 December 2010**
AngloGold Ashanti Limited	8.5% – 13%	5,881	3,455
Employees	6%	2,619	1,732
Rus Olimp	8.50%	195	-
Total		**8,695**	**5,187**

Carrying values of the other long-term loans provided to related parties as at 30 June 2011 and 31 December 2010 approximate their fair values.

Details of the significant terms of the loans provided by related parties are disclosed in Note 21. As at 30 June 2011 and 31 December 2010, the Group has certain forward sales commitments to related parties (see Note 25).

(in thousands of U.S. Dollars)

The Group had no transactions with its shareholders in 2010 and 2011.

The amounts outstanding at the balance sheet dates are unsecured and expected to be settled in cash. No expense has been recognised in the reporting period for bad or doubtful debts in respect of the amounts owed by related parties. All trade payable and receivable balances are expected to be settled on a gross basis.

The remuneration of directors and other members of key management personnel during the periods was as follows:

	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Share-based payments	15,658	-
Short-term benefits of board members	514	480
Short-term employee benefits	437	365
Post-employment benefits	24	16

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Six months ended 30 June 2011	Six months ended 30 June 2010 (unaudited)
Profit before tax		210,728	117,719
Adjustments for:			
Depreciation and depletion, recognised in consolidated income statement		34,905	36,785
Write-down of inventory to net realisable value	7	2,215	11,920
Share-based compensation	11, 29	28,997	-
Finance costs	13	13,668	9,412
Finance income		(638)	(308)
Loss on disposal of property, plant and equipment	12	1,804	2,438
Change in contingent consideration liability	26	3,957	1,266
Recovery of VAT write-off in a prior periods		(2,902)	-
Change in allowance for doubtful debts	12	(422)	319
Loss from equity method investments	17	410	675
Change in fair value of derivatives	26	1,855	1,529
Foreign exchange (gain)/ loss		(43,897)	8,659
Income from disposal of subsidiary		(4,931)	-
Other non-cash income		(3,517)	(244)
Movements in working capital			
Increase in inventories		(139,472)	(20,145)
Increase in VAT receivable		(3,721)	(6,036)
Increase in trade and other receivables		(1,419)	(3,763)
Increase in prepayments to suppliers		(14,138)	(18,208)
Increase in trade and other payables		48,877	9,513
Increase in other taxes payable		7,001	6,606
Cash generated from operations		**139,360**	**158,137**
Interest paid		(14,406)	(12,260)
Income tax paid		(45,244)	(30,981)
Net cash generated by operating activities		**79,710**	**114,896**

Addition to property, plant and equipment of $6.9 million and $4.8 million during the six months ended 30 June 2011 and 30 June 2010, respectively were acquired on deferred payment terms. Other non-cash transactions during the six months ended 30 June 2011 included the issuance of $67 million of treasury shares for the acquisition of assets in 2011.

32. SUBSEQUENT EVENTS

On 6 September 2011, Polymetal ESOP Limited, a wholly owned subsidiary of the Group, and Otkritie Securities Limited entered into a general master repurchase agreement (the “GMRA”). The following transactions have been entered into, and the confirmations summarised below have been executed, under the GMRA, as a result of which 34,450,357 Polymetal shares (representing approximately 6.62%. of the issued share capital of JSC Polymetal) were transferred to Otkritie Securities Limited in exchange for an aggregate purchase price of $250 million:

1. A confirmation dated 6 September 2011 with respect to the transfer of 9,100,000 Polymetal shares to Otkritie Securities Limited in exchange for the purchase price of $66 million on 7 September 2011;

2. A confirmation dated 13 September 2011 with respect to the transfer of 11,900,000 Polymetal shares to Otkritie Securities Limited in exchange for the purchase price of $89 million on 14 September 2011; and

3. A confirmation dated 23 September 2011 with respect to the transfer of 13,450,357 Polymetal shares to Otkritie Securities Limited in exchange for the purchase price of $95 million on 26 September 2011.

On 31 August 2012 (the “Repurchase Date”) Polymetal ESOP Limited has the obligation to repurchase all of the Polymetal Shares transferred under the GMRA for the repurchase price which is calculated as the sum of (i) the price received for the relevant Polymetal shares; and (ii) the aggregate amount obtained by daily application of LIBOR + 2.75% to the relevant price for the number of days during the period commencing on the relevant transfer date and ending on the Repurchase Date.