JOINT-STOCK COMPANY “ISPA “POLYMETAL”
CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT AUDITORS
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004

JSC "ISPA "POLYMETAL"
CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. Dollars, except as indicated)

	Notes	At December 31, 2005	At December 31, 2004 (Restated)
Assets			
Cash and cash equivalents	5	18,925	1,353
Prepayments to suppliers		10,312	5,268
Receivables and prepayments from related parties	6	5,323	26,465
Loans due from related parties	7	13,867	5,867
Loans due from third parties	8	431	71,141
Inventories	9	92,137	83,711
Short-term VAT receivable	13	20,288	48,676
Other current assets	12	6,420	22,958
Total current assets		**167,703**	**265,439**
Long-term investments	10	-	7,222
Property, plant and equipment, net	11	314,827	273,225
Long-term VAT receivable	13	23,222	3,770
Deferred tax asset	25	5,398	5,803
Total assets		**511,150**	**555,459**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities to third parties	14	26,538	32,734
Accounts payable to related parties	15	2,263	4,028
Short-term debt and current portion of long-term debt due to third parties	16	184,786	51,318
Short-term debt due to related parties	17	-	42,156
Tax payable		7,824	5,134
Current portion of capital lease liabilities	20	11,020	19,467
Deferred tax liability	25	8,910	12,977
Total current liabilities		**241,341**	**167,814**
Long-term capital lease liabilities	20	8,932	15,195
Long-term debt due to third parties	18	-	116,567
Long-term debt due to related parties	19	100,000	108,918
Deferred tax liability	25	23,224	13,813
Reclamation and mine closure obligation	21	4,915	4,430
Total liabilities		**378,412**	**426,737**
Minority interest		**16,937**	**29,015**
Commitments and contingent liabilities	30	-	-
Shareholders' equity			
Share capital (4,850,000 shares authorized at December 31, 2005 and 2004, par value Rubles 100 per share; 550,000 shares issued and outstanding at December 31, 2005 and 2004)	22	6,397	6,397
Additional paid-in capital		56,710	52,124
Accumulated other comprehensive (loss) income		(4,299)	1,792
Retained earnings		56,993	39,394
Total shareholders' equity		**115,801**	**99,707**
Total liabilities and shareholders' equity		**511,150**	**555,459**

Approved on behalf of the Board of Directors on October 20, 2006.

Nesis V.N., General Director

Cherkashin S. A., Finance Director

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

JSC "ISPA "POLYMETAL"
CONSOLIDATED STATEMENTS OF INCOME
(In thousands of U.S. Dollars, except as indicated)

	Notes	Year ended December 31, 2005	Year ended December 31, 2004 (Restated)
Revenues	23	238,973	204,487
Cost of sales	24	(137,924)	(92,850)
Income from mining operations		**101,049**	**111,637**
Exploration expenses		-	(46)
General, administrative and selling expenses		(22,397)	(15,523)
Other expenses, net		(11,387)	(7,099)
Operating income		**67,265**	**88,969**
Interest expense		(24,869)	(29,223)
Capital lease finance costs		(3,963)	(5,541)
Exchange (loss) gain, net		(6,826)	8,725
Income from continuing operations before income tax and minority interest		**31,607**	**62,930**
Income tax expense	25	(9,019)	(17,832)
Income from continuing operations before minority interest		**22,588**	**45,098**
Minority interest		**(7,883)**	**(17,366)**
Income from continuing operations		**14,705**	**27,732**
Discontinued operations after tax			
Loss from operations of disposed subsidiaries	26	(691)	(2,839)
Gain on disposal of subsidiary	26	3,585	47,551
Income on discontinued operations		**2,894**	**44,712**
Net income		**17,599**	**72,444**

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

JSC "ISPA "POLYMETAL"
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. Dollars, except as indicated)

	Year ended December 31, 2005	Year ended December 31, 2004 (Restated)
Cash flows from operating activities		
Net income	17,599	72,444
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and depletion	24,847	12,341
Amortization of intangible assets	287	168
Accretion of reclamation and mine closure obligation	644	665
Gain on disposal of subsidiaries	(3,585)	(47,551)
Capital lease finance costs	3,963	5,541
Deferred income tax expense	(3,951)	14,418
Loss on disposal of property, plant and equipment	3,291	1,338
Exchange gains, net	6,875	(8,873)
Minority interest	7,883	17,366
Changes in operating working capital, excluding cash**:**		
Prepayments to suppliers	(5,340)	(2,551)
Related party receivables and prepayments	20,157	10,971
Inventories	(10,835)	(16,812)
VAT receivable	6,702	(9,687)
Other current assets	15,714	(21,297)
Accounts payable and accrued liabilities	(4,368)	7,401
Tax payable	2,860	1,625
Net cash provided by operating activities	**82,743**	**37,507**
Cash flows from investing activities		
Additions to property, plant and equipment	(25,124)	(29,595)
Purchase of additional shares in subsidiary	(49,643)	(21,226)
Proceeds from disposal of interest in consolidated subsidiaries	989	10,890
Proceeds from sale of investments	7,211	-
Loans made to third parties	(131)	(31,117)
Repayment of loans made to third parties	61,966	9,670
Loans made to related parties	(13,867)	(12,783)
Repayment of loans made to related parties	5,656	10,766
Net cash used in investing activities	**(12,943)**	**(63,395)**
Cash flows from financing activities		
Proceeds from short-term loans and borrowings	70,841	138,713
Repayment of short-term loans and borrowings	(22,929)	(202,913)
Proceeds from long-term debt	-	105,000
Repayment of long-term debt	(21,976)	(21,893)
Proceeds from short-term loans and borrowings – related parties	32,774	141,454
Repayment of short-term loans and borrowings – related parties	(72,751)	(141,999)
Proceeds from long-term debt – related parties	124,002	203,040
Repayment of long-term debt – related parties	(132,753)	(176,807)
Sale of treasury bonds	-	6,520
Lease payments	(29,387)	(25,947)
Net cash (used in) provided by financing activities	**(52,179)**	**25,168**
Exchange effects on cash balances	(49)	148
Net increase (decrease) in cash and equivalents	**17,572**	**(572)**
Cash and cash equivalents, beginning of the year	1,353	1,925
Cash and cash equivalents, end of the year	**18,925**	**1,353**
Supplementary cash flow information		
Interest paid	39,691	33,230
Income taxes paid	10,175	3,300
Non-cash additions to property, plant and equipment – capital lease	9,664	17,715

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

JSC "ISPA "POLYMETAL"
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands of U.S. Dollars, except as indicated)

	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings (accumulated deficit)	Total shareholders' equity
Balance at January 1, 2004	**6,397**	**52,124**	**(3,841)**	**(33,050)**	**21,630**
Comprehensive income:					
Net income (Restated)	-	-	-	72,444	72,444
Currency translation adjustment	-	-	5,633	-	5,633
Total comprehensive income (Restated)					78,077
Balance at December 31, 2004 (Restated)	**6,397**	**52,124**	**1,792**	**39,394**	**99,707**
Comprehensive income:					
Net income	-	-	-	17,599	17,599
Currency translation adjustment	-	-	(6,091)	-	(6,091)
Total comprehensive income					11,508
Effect of restructuring (Note 27)	-	4,586	-	-	4,586
Balance at December 31, 2005	**6,397**	**56,710**	**(4,299)**	**56,993**	**115,801**

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

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

Note 1: Background

Description of Business

Open joint stock company “Interregional Research and Production Association “Polymetal” (JSC “ISPA “Polymetal” or “the Company”) was incorporated on March 12, 1998 in the Russian Federation. The Company is engaged in gold and silver mining and related activities, including exploration, extraction, processing and reclamation. Since incorporation, the Company has acquired a number of gold and silver mining properties in the Russian Federation, which require significant investment to bring to commercial production. The Company has producing assets at Vorontsovkoye and Lunnoye fields, Dukat and Khakandjinskoye mines. The latter was brought into commercial production at the beginning of 2004.

Until November 2005, the Company’s ultimate parent was ZAO ICT, which, together with its subsidiaries formed the ICT group. In November 2005 the ultimate beneficial owners of the Company sold their interests in ZAO ICT to OAO NAFTA MOSKVA. The consolidated financial statements of Polymetal reflect its historical cost basis and, accordingly, do not reflect any purchase accounting adjustments related to acquisition of its 99.99% interest by OAO NAFTA MOSKVA.

The Company’s ability to meet its obligations and maintain operations is contingent upon the further financial support of its parent company, the successful development and future profitable production of its mining assets, the mining licenses being maintained in good standing and the political, economic and legislative stability in the Russian Federation.

Composition of the Group

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

The structure of the Group as at December 31, 2005 included the following significant mining subsidiaries:

Name of subsidiary	Mine	Voting interest, %	Effective ownership interest, %
ZAO Zoloto Severnogo Urala	Vorontsovskoye	99.96	99.96
OAO Okhotskaya GGC	Khakandjinskoye, Urjevskoe	67.35	67.35
ZAO Serebro “Territorii”	Lunnoye	97.11	97.11
ZAO Serebro Magadana	Dukat	100.00	100.00

Changes in the Group structure and voting and ownership interest in major production subsidiaries in 2004 and 2005 are discussed in Notes 26 through 29.

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

In March 2005, ISPA Polymetal established a subsidiary OAO Torgovy Dom Polymetal whose core activity is to centralise materials supply to the mining companies.

Note 2: Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

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

Note 2: Basis of Presentation and Summary of Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications have been made to previously reported balances to conform to the current year's presentation; such reclassifications have no effect on net result of shareholders' equity.

Use of estimates

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

Reporting and functional currency

The Company’s functional currency is the Russian Ruble, as the most of the Company’s sales revenues and purchases and certain financing agreements are settled in Russian Rubles. The U.S. Dollar is the reporting currency selected by the Group for purposes of financial reporting in accordance with U.S. GAAP.

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

The exchange rates for one U.S. Dollar were Ruble 28.78 at December 31, 2005, and Ruble 27.75 at December 31, 2004. The average exchange rates for 2005 and 2004 were Ruble 28.32 and Ruble 28.81 per U.S. Dollar 1 respectively.

Prior to July 1, 2006, the Russian Ruble was not a convertible currency outside of the Russian Federation and material exchange restrictions and controls existed relating to converting Russian Rubles into other currencies. Future movements in the exchange rate between the Russian Ruble and the U.S Dollar will affect the carrying value of the Group’s Russian Ruble denominated monetary assets and liabilities. Such movements may also affect the Group’s ability to realize non-monetary assets represented in U.S. Dollar in these consolidated financial statements. Accordingly, any translation of Russian Ruble amounts to U.S. Dollar should not be construed as a representation that such Russian Ruble amounts have been, could be, or will in the future be converted into U.S. Dollar at the exchange rate shown or at any other exchange rate.

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

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

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

Variable Interest Entities are consolidated if the Group is the primary beneficiary in accordance with FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (“FIN 46 (R)”).

Cash and cash equivalents

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

Note 2: Basis of Presentation and Summary of Significant Accounting Policies (continued)

Inventories

Raw materials, spare parts, supplies, ore and doré are valued at lower of cost and net realizable value, using the weighted average cost method.

Property, plant and equipment

Property, plant and equipment consists of assets directly related to mining and processing of ore and include costs of development of the mining properties, the costs of acquisition or construction of plant and equipment and capitalized interest. Expenditures for major improvements and renewals are capitalized. The cost of maintenance, repairs and replacement of minor items of property is charged to income as incurred. Interest directly attributable to the acquisition or construction of property, plant and equipment is capitalized as a cost of the asset up to the time the asset is put into use. All other interest is expensed as incurred. Gains and losses on the disposal of assets are included in the statement of income in the period of disposal.

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

Depreciation and depletion are computed using the units-of-production method based on the actual production for the year compared with total estimated proven and probable reserves (in thousands of tons of gold bearing ore).

Leased property, plant and equipment meeting the criteria of capital lease is capitalized; valued at the lower of asset purchase price and net present value of lease payments. The corresponding part of lease payments is recorded as a liability. Amortization of capitalized leased assets is computed using the units-of-production method.

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

Deferred development expenditures

In general, mining costs are charged to operations as incurred. However, some of the Company's deposits require significant capital expenditures, such as tunneling in preparation of a new mining area. These expenditures are charged to cost of production in the proportion that the amount of ore extracted bears to the amount estimated to be accessed by the preparation work.

Unamortized balances of capitalized development expenditure are expensed when the area that they cover is depleted, or deemed to be depleted by management.

Reclamation and mine closure

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

Revenue recognition

The Company recognizes revenue upon the delivery of refined gold and silver to customers.

Note 2: Basis of Presentation and Summary of Significant Accounting Policies (continued)

Income taxes

Deferred income tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, in accordance with SFAS No. 109 *Accounting for Income Taxes*. Deferred income tax assets and liabilities are measured using enacted tax rates in the years in which these temporary differences are expected to reverse. Valuation allowances are provided for deferred income tax assets when management believes that it is more likely than not that the assets will not be realized.

Contributions to local authorities

Infrastructure expenditure, which is required to be contributed to the local authorities as a condition of mineral license agreements, is charged to statement of income as incurred.

Comprehensive income

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

Pension obligations

The Company pays mandatory contributions to the state social funds, which are expensed as incurred.

Recently issued accounting standards

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs* - an amendment of ARB No. 43, Chapter 4, which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material as current period costs. It also requires that allocations of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Statement applies to inventory costs incurred in the first fiscal year beginning after June 15, 2005. Management believes that the adoption of SFAS No. 151 will not have a material impact on the Company's reported financial position, net earnings or cash flows.

In March 2005, the Financial Accounting Standards Board ratified the Emerging Issues Task Force consensus 04-06 ("EITF 04-06"), *Accounting for Stripping Costs Incurred during the Production Stage in the Mining Industry*. EITF 04-06 concludes that stripping costs incurred during the production phase of the mine are variable production costs that should be included in the costs of the inventory produced during the period that stripping costs are incurred. The consensus does not change the accounting for stripping costs incurred during the pre-production phase of a mine. The consensus becomes effective for the first reporting period in fiscal years beginning after December 15, 2005. Management is evaluating the impact that this new pronouncement will have on the Company's financial statements.

In April 2006, the FASB issued FSP FIN 46(R)-6, *Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)* ("FSP FIN 46(R)-6"). FSP FIN 46(R)-6 addresses whether certain arrangements associated with variable interest entities should be treated as variable interests or considered as creators of variability, and indicates that the variability to be considered shall be based on an analysis of the design of the entity. FSP FIN 46(R)-6 is required to be applied prospectively to all entities with which the Group first becomes involved and to all entities previously required to be analyzed under FIN 46(R) upon the occurrence of certain events, beginning the first day of the first reporting period after June 15, 2006. Early application is permitted for periods for which financial statements have not yet been issued. Retroactive application to the date of the initial application of FIN 46(R) is permitted but not required, however, if elected, it must be completed no later than the end of the first annual reporting period after July 15, 2006. Management is currently evaluating the potential impact, if any, that the adoption of FSP FIN 46(R)-6 will have on the Company's consolidated financial statements.

Note 2: Basis of Presentation and Summary of Significant Accounting Policies (continued)

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of uncertain tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in periods, disclosure, and transition. FIN 48 is effective in fiscal years beginning after December 15, 2006. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption, with the cumulative effect adjustment reported as an adjustment to the opening balance of retained earnings. Management is currently evaluating the potential impact that the adoption of FIN 48 will have on the Company’s consolidated financial statements.

Certain accounting and reporting issues in the mining industry:

In March 2004, the Financial Accounting Standards Board ratified Emerging Issues Task Force Consensus 04-02 (“EITF 04-02”), *Whether Mineral Rights Are Tangible or Intangible Assets*, and Emerging Issues Task Force Consensus 04-03 (“EITF 04-03”), *Mining Assets: Impairment and Business Combinations*. EITF 04-02 concludes that mining entities should account for mineral rights acquired as tangible assets. EITF 04-02 allows inclusion of reserves beyond the mining entity’s proved and probable reserves (“value beyond proved and probable”) in determination of fair values of acquired mining properties for purposes of purchase price allocation in accordance with SFAS No. 141, *Business Combinations*, and testing for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Both EITF 04-02 and 04-3 are effective for the first reporting period beginning after the Board ratification. In addition, in April 2004 the Financial Accounting Standards Board issued a staff position which amended SFAS No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets,* in order to eliminate the inconsistencies in how mineral rights are characterized by those pronouncements and EITF 04-02.

The Group has adopted these pronouncements and reclassified its recorded mineral rights from Intangible assets to Property, Plant and Equipment. As at December 31, 2005, intangible assets in the amount of U.S. Dollar 2,354 were reclassified from Long-term Investments and Goodwill to Property, Plant and Equipment.

Financial Instruments

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

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

Long-term investments in un-quoted companies are valued at their historical cost adjusted for impairment, as appropriate.

The fair value of the Company’s long-term debt was U.S. Dollar 79,719 and U.S. Dollar 214,486, while the carrying value of such liabilities was U.S. Dollar 100,000 and U.S. Dollar 225,485 as of December 31, 2005 and 2004, respectively.

Credit risks. A significant portion of the Company’s accounts receivable is balance of VAT receivable from local tax bodies. Management believes there is no significant risk of loss to the Company associated with recoverability of these balances.

Concentration risks. Management believes that no significant concentration risk was associated with any cash and cash equivalents, accounts receivable and prepayments balances at December 31, 2005.

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

Note 3: Restatement

The Company’s financial statements as of December 31, 2004 and for the year then ended have been restated to adjust for the following items:

a) the Company recorded additional income tax expense (Adjustment 3a) of U.S. Dollar 3,272 related to the sale of silver and gold between its subsidiaries that was also sold to third parties in 2004. Previously, the Company had recorded income tax expense on the sale from the subsidiary to the third parties, but did not record the income tax expense for the sale between the subsidiaries;

b) the Company corrected its purchase price allocation for the acquisition of 20% interest in Serebro Magadana (see Note 27) to reflect the portion of contingent consideration which may become due subsequent to acquisition. At the date of acquisition of 20% interest in Serebro Magadana, the fair value of the assets acquired exceeded the purchase price paid resulting in the Company having to recognize as a liability the amount equal to the lesser of the maximum amount of contingent consideration or the excess of the fair value acquired over the cost of the acquired assets. The company recognized an additional liability of U.S. Dollar 12,317 equal to the excess of the fair value of 20% interest in the entity over the price of U.S. Dollar 21,226 paid at the acquisition date (Adjustment 3b).

Following is a summary of the effect of the restatement on the consolidated balance sheet at December 31, 2004.

	As previously reported	Adjustment 3a	Adjustment 3b	Restated
Property, plant and equipment, net	256,662	-	14,209	270,871*
Accounts payable and accrued liabilities	(20,417)	-	(12,317)	(32,734)
Deferred tax liability (current portion)	(9,705)	(3,272)	-	(12,977)
Deferred tax liability (long-term portion)	(11,921)	-	(1,892)	(13,813)
Retained earnings	(42,666)	3,272	-	39,394

*In addition, mineral rights were reclassified from Intangible assets to Property, Plant and equipment in amount of U.S. Dollar 2,354.

Following is a summary of the effect of the restatement on the consolidated income statements for the year ended December 31, 2004.

	As previously reported	Adjustment 3a	Adjustment 3b	Restated
Income tax expense	(14,560)	(3,272)	-	(17,832)
Income from continuing operations before minority interest	48,370	(3,272)	-	45,098
Income from continuing operations	31,004	(3,272)	-	27,732
Net income	75,716	(3,272)	-	72,444

Following is a summary of the effect of the restatements on the consolidated statement of cash flows for the year ended December 31, 2004.

Selected items comprising cash flows provided by operating activities	As previously reported	Adjustment 3a	Adjustment 3b	Restated
Net income	75,716	(3,272)	-	72,444
Deferred income tax expense	11,146	3,272	-	14,418

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

Note 4: Variable Interest Entity

In 2004, the Group controlled an entity which was consolidated within the Group as a variable interest entity (“VIE”) as the Group was determined to be primary beneficiary. The core operations of this entity were distribution of metals produced by mining and manufacturing subsidiaries of the Group. Included within revenues in the consolidated statement of income for the year ended December 31, 2004 was U.S. Dollar 36,612 representing third-party sales of gold and silver by the entity. As at December 31, 2004 loans to third parties issued by the VIE were U.S. Dollar 21,450. The net assets of the VIE as of December 31, 2004 in the amount of U.S. Dollar 4,584 are reported as minority interest in the consolidated balance sheet. In 2005 this entity did not perform any significant operations.

In November 2005, following the change in ultimate ownership of the Company, the Company discontinued its relationship with this entity and accordingly the entity was deconsolidated. Deconsolidation of the VIE resulted in a decrease of the deferred tax liabilities by U.S. Dollar 1,738, decrease of the loans issued to the third parties by U.S. Dollar 6,322 and decrease of minority interest by U.S. Dollar 4,584.

Note 5: Cash and Cash Equivalents

The Company maintains both Russian Ruble and U.S. Dollar bank accounts.

	December 31, 2005	December 31, 2004
Denominated in U.S. Dollars	2,887	68
Denominated in Russian Rubles	16,038	1,285
Total cash and cash equivalents	**18,925**	**1,353**

Note 6: Receivables and Prepayments from Related Parties

	December 31, 2005	December 31, 2004
Prepayments to Geotekhservice	5,018	-
Trade receivables from Nomos-Bank	-	25,785
Other related party receivables and prepayments	305	680
Total receivables and prepayments from related parties	**5,323**	**26,465**

At December 31, 2005 and 2004 Nomos-Bank was an equity investee of ZAO ICT. At December 31, 2005 and 2004 Geotekhservice was a subsidiary of ZAO ICT.

Note 7: Loans Due from Related Parties

	Interest rate %	December 31, 2005	Interest rate %	December 31, 2004
ZAO ICT	11.5%	13,687	-	-
Geotekhservice	-	-	1%	5,002
Other loans to related parties	0%-1%	180	0%-1%	865
Total loans due from related parties		**13,867**		**5,867**

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

Note 8: Loans Due from Third Parties

	Interest rate %	December 31, 2005	Interest rate %	December 31, 2004
Other loans to third parties	1%	431	1%	294
Zun Hada	-	-	1%	49,397
Teina	-	-	4%	21,450
Total loans due from third parties		**431**		**71,141**

As at December 31, 2004 the loans issued to third parties in the total amount of U.S. Dollar 71,141 included U.S. Dollar 49,397 loaned to Zun Hada, which was a subsidiary of the Group until December 2004 (Note 26). This loan was repaid in 2005.

Note 9: Inventories

	December 31, 2005	December 31, 2004
Raw materials, spare parts and supplies	42,198	41,770
Ore	21,361	16,660
Work in progress	16,005	9,643
Doré	2,544	8,187
Finished goods	10,029	7,451
Total inventories	**92,137**	**83,711**

Note 10: Long-Term Investments

	December 31, 2005	December 31, 2004
Long-term investments	-	7,222
Total long-term investments	**-**	**7,222**

As at December 31, 2004 investments mainly represent ordinary shares in Nomos-Bank, an equity investee of ZAO ICT, (4.96% of total shares issued), acquired in October 2001 and accounted for at cost. In May 2005, the Company sold its stake in Nomos-Bank to ZAO ICT (Note 1) for an amount approximating the carrying value.

Note 11: Property, Plant and Equipment, net

	December 31, 2005	December 31, 2004
Buildings & underground workings	140,205	62,930
Machinery & equipment	111,005	84,447
Transport & other	27,380	26,412
Construction in progress	8,718	102,964
Mineral rights	87,495	35,958
Cost	**374,803**	**312,711**
Accumulated depreciation and depletion	**(59,976)**	**(39,486)**
Total property, plant and equipment, net	**314,827**	**273,225**

At December 31, 2005 U.S. Dollar 71,597 (of which Machinery & Equipment was U.S. Dollar 56,118 and Transport & other was U.S. Dollar 15,479) relate to capitalized leases (December 31, 2004: U.S. Dollar 66,929, of which Machinery & Equipment was U.S. Dollar 47,430 and Transport & other was U.S. Dollar 19,499).

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

Note 11: Property, Plant and Equipment, net (continued)

At December 31, 2005, accumulated depreciation and depletion of leased assets totaled U.S. Dollar 20,012 (of which U.S. Dollar 14,695 was attributed to Machinery & Equipment, and U.S. Dollar 5,317 to Transport & other). At December 31, 2004 accumulated depreciation and depletion of leased assets totaled U.S. Dollar 15,116 (of which U.S. Dollar 10,857 was attributed to Machinery & Equipment, and U.S. Dollar 4,259 to Transport & other).

Included within construction in progress were deferred exploration expenditures of U.S. Dollar 2,617 and U.S. Dollar 5,283 at December 31, 2005 and December 31, 2004, respectively.

Mineral rights of the Group comprised of mineral rights acquired by the Group upon acquisition of subsidiaries. Accumulated depreciation of mineral rights was U.S. Dollar 1,782 and U.S. Dollar 939 at December 31, 2005 and December 31, 2004 respectively.

Note 12: Other Current Assets

	December 31, 2005	December 31, 2004
Other current assets	1,734	3,224
Other debtors	3,441	1,935
Deferred development expenditures	1,245	3,772
Promissory notes from Severo-Zapad Invest Prom	-	12,397
Promissory notes from Khanti-Mansiiski Bank	-	1,630
Total other current assets	**6,420**	**22,958**

Note 13: VAT Receivable

	December 31, 2005	December 31, 2004
Short-term VAT receivable	20,288	48, 676
Long-term VAT receivable	23,222	3,770

Long-term VAT receivable at December 31, 2005 and 2004 primarily represents VAT balances resulting from capital expenditures which are not expected to be recovered within twelve months following respective balance sheet dates. Management believes that such balances are fully recoverable from tax authorities at the time respective capital assets qualify as put into operation for VAT purposes.

Note 14: Accounts Payable and Accrued Liabilities to Third Parties

	December 31, 2005	December 31, 2004
P.A.S. Silver (Cyprus) Ltd.	12,317	12,317
Trade accounts payable	6,873	15,563
Accrued interest payable to third parties	2,294	1,689
Other accounts payable	5,054	3,165
Total accounts payable and accrued liabilities to third parties	**26,538**	**32,734**

Note 15: Accounts Payable to Related Parties

	December 31, 2005	December 31, 2004
Geotekhservice	2,029	598
Press-Invest	231	1,653
Trade accounts payable	3	1,777
Total accounts payable to related parties	**2,263**	**4,028**

At December 31, 2005 and 2004 Press-Invest was a subsidiary of ZAO ICT.

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

Note 16: Short-Term Debt and Current Portion of Long-Term Debt Due to Third Parties

	Interest rate %	December 31, 2005	Interest rate %	December 31, 2004
NIKoil Bank (U.S. Dollar)	9-9.5%	20,410	9%	30,000
MDM-Bank (U.S. Dollar)	10%	25,000	-	-
Khanti-Mansiiski Bank (RR)	10%	24,841	-	-
Current portion of long-term loans (U.S. Dollar)	-	114,535	-	21,318
Total short-term debt and current portion of long-term debt due to third parties		**184,786**		**51,318**

Contractual repayment terms of Standard Bank London loan (see Note 18):

	December 31, 2005
1 to 2 years	19,833
2 to 3 years	19,467
3 to 4 years	21,780
4 to 5 years	-
	61,080

Note 17: Short-Term Debt Due to Related Parties

	Interest rate %	December 31, 2005	Interest rate %	December 31, 2004
Nomos-Bank (U.S. Dollar)	-	-	9%	38,910
Linex (RR)	-	-	17.6%	3,246
Total short-term debt due to related parties	-	-		**42,156**

As at December 31, 2005 the Group repaid its loans in full. As at December 31, 2004, Linex was a subsidiary of ZAO ICT.

Note 18: Long-Term Debt due to Third Parties

	Interest rate %	December 31, 2005	Interest rate %	December 31, 2004
Standard Bank London (U.S. Dollar)	LIBOR + 3.5-4.0%	85,071	LIBOR + 3.5-4.0%	105,000
Magadan Region Administration (U.S. Dollar)	6%	3,406	6%	5,856
Bonds (RR)	17-19%	26,058	17-19%	27,029
Less current portion of long-term loans (Note 16)	-	(114,535)	-	(21,318)
Total long-term debt due to third parties		-		**116,567**

In March 2003 ISPA “Polymetal” issued 750,000 non-convertible bonds. Interest on bonds of 17-19% is paid semiannually. As at December 31, 2005 and 2004 all bonds were issued and registered. The bonds were redeemed in full in March 2006.

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

Note 18: Long-Term Debt due to Third Parties (continued)

In 2004, the Company received a long-term loan totaling U.S. Dollar 105,000 from Standard Bank London (SBL) for the purpose of refinancing its debts and development of current operations. Loan should be repaid in monthly installments starting April 1, 2005 with the last payment being made in 2009. According to the loan agreement the Group should meet certain financial and non-financial covenants. As at December 31, 2005 certain financial covenants were breached and no waiver has been obtained. Accordingly, total amount due to Standard Bank London (including U.S. Dollar 61,080 which should have been repaid later than 12 months period after the reporting date, see Note 16) was classified as current at this date. At the date of issue of these consolidated financial statements no default note pursuant to the loan agreement was received by the Company. At October 20, 2006 the Company was in the process of negotiating with the SBL to obtain the waiver for these covenants breaches.

As at December 31, 2005, ISPA "Polymetal" pledged 23,443 shares (97.11% of the issued and outstanding share capital) of ZAO Serebro "Territorii", 85 shares (85% of the issued and outstanding share capital) of ZAO GC Dukat and 5,400 shares (80% of the issued and outstanding share capital) of ZAO Serebro Magadana as collateral under the Standard Bank London facility. The aggregate carrying value of property, plant and equipment associated with the subsidiaries whose shares were pledged was U.S. Dollar 122,842 and U.S. Dollar 137,309 at December 31, 2005 and 2004.

Borrowing from Magadan region Administration was guaranteed by Nomos-Bank in amount of U.S. Dollar 5,856.

Note 19: Long-Term Debt due to Related Parties

	Interest rate %	**December 31, 2005**	**Interest rate %**	**December 31, 2004**
Nomos-Bank (U.S. Dollar)	9%	100,000	-	-
Linex (RR)	-	-	14%	14,8
Accord-Invest (RR)	-	-	1-14.3%	83,0
Recital (RR)	-	-	1.2%	10,8
Other (RR)	-	-	0%	91
Total long-term debt due to related parties		**100,000**		**108,918**

As at December 31, 2004 companies Linex, Accord-Invest, Recital were subsidiaries of ZAO ICT.

Note 20: Long-Term Capital Lease Liabilities

The Group entered into certain Russian Ruble denominated leases for machinery and equipment and transport vehicles. The third party lessors generally provide payment of taxes, maintenance and certain other operating costs related to the leased property. At December 31, 2005 and 2004, such leases have been treated as capital leases, the total present value of lease obligations were U.S. Dollar 19,952 and 34,662 (current portion of capital lease liability is U.S. Dollar 11,020 and long-term capital lease liability is U.S. Dollar 8,932) respectively.

Future minimum lease payments for the assets under capital leases at December 31, 2005, are as follows:

	Future payments under capital leases
Year ending December 31	
2006	13,788
2007	7,930
2008	2,334
2009	14
Later years	8
Total	**24,074**
Less amount representing interest (@ 17%)	(4,122)
Total present value of minimum payments	**19,952**
Total less current portion of capital lease liabilities	(11,020)
Total long-term capital lease liabilities	8,932

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

Note 20: Long-Term Capital Lease Liabilities (continued)

Equipment with a carrying value of U.S. Dollar 2,064 was pledged as collateral on the operation lease liability to OOO Baltisky Leasing.

Note 21: Reclamation and Mine Closure Obligation

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

Deposit:	Vorontsovskoye mine	Khakandjinskoye mine	Dukat	Lunnoye mine	Total
Reclamation and mine closure obligation at December 31, 2004	**903**	**968**	**1,696**	**863**	**4,430**
Accretion of reclamation and mine closure obligation	152	189	200	103	**644**
Translation effects	(32)	(35)	(61)	(31)	**(159)**
Reclamation and mine closure obligation at December 31, 2005	**1,023**	**1,122**	**1,835**	**935**	**4,915**

Note 22: Shareholders' Equity

The authorized share capital of the Company is comprised of 4,850,000 common shares of which 550,000 were issued and outstanding as at December 31, 2005 and 2004 with par value Ruble 100 and 100,000 series A preference shares of which none have been issued with par value Ruble 100.

The structure of share capital of the Company is as follows:

Year of issuance	Number of shares	Exchange rate, RR/ U.S. Dollar	Share capital, U.S. Dollar
2001	350,000	6.08	5,752
2002 and subsequent	200,000	29.45 to 31.58	645
Total	**550,000**		**6,397**

Reserves available for distribution to shareholders are based on the statutory accounting reports of the Company as a stand-alone entity, which are prepared in accordance with Regulations on Accounting and Reporting of the Russian Federations and which differ significantly from U.S. GAAP. Russian legislation identifies the basis of distribution as net income. For 2005, the current year statutory accumulated deficit of ISPA "Polymetal" as reported in its annual statutory accounting report were RR 37,406 thousand (unaudited). However, current legislation and other statutory regulations dealing with distribution rights are open to legal interpretation, consequently, actual distributable reserves may differ from the amount disclosed.

Note 23: Revenues

	Year ended December 31, 2005	Year ended December 31, 2004
Sales to third parties: Alfa-Bank	-	38,402
Sales to third parties: MDM-Bank	8,195	95,389
Sales to third parties: Standard Bank London	134,691	36,458
Sales to third parties: Khanti-Mansiiskii Bank	1,266	-
Sales to third parties: IBG NIKoil Bank	36,460	-
Sales to related parties: Nomos-Bank	56,380	33,405
Total Revenue from gold and silver sales	**236,992**	**203,654**
Other sales	1,981	833
Total Revenue	**238,973**	**204,487**

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

Note 23: Revenues (continued)

Sales broken down by gold and silver were as follows:

	Year ended December 31, 2005			Year ended December 31, 2004		
	Thousand ounces	Average price (U.S. Dollar per troy ounce)	U.S. Dollar	Thousand ounces	Average price (U.S. Dollar per troy ounce)	U.S. Dollar
Gold	234	429.37	100,472	213	403.56	85,959
Silver	18,918	7.22	136,520	17,301	6.80	117,695

Discounts from the London Metals Exchange quotation on sales to banks for the year ended December 31, 2005, totaling U.S. Dollar 2,424 (2004: U.S. Dollar 4,417) for gold and U.S. Dollar 3,089 (2004: U.S. Dollar 3,053) for silver sales were netted against the amount of sales.

Throughout 2005 the Group sold silver to Standard London Bank at fixed prices (see Note 30). The prices were fixed within the range of U.S. Dollar per troy ounce 6.6575 – 7.95 for the sale of 251,144 kg (in 2005, sales of silver to Standard London Bank totaled to 483,228 kg).

Note 24: Cost of Sales

	Year ended December 31, 2005	Year ended December 31, 2004
Operating costs (excluding staff costs)	59,944	46,593
Staff costs	27,965	17,919
Total operating costs	87,909	64,512
Mining tax	13,617	9,000
Other taxes, except for income taxes	6,740	4,418
Depreciation and depletion	24,847	12,341
Amortization of intangible assets	287	168
Accretion of reclamation and mine closure obligation	644	665
Development costs written off	2,460	232
Other costs	1,420	1,514
Total cost of sales	**137,924**	**92,850**

Note 25: Income Tax

Components of the deferred tax assets and liabilities are as follows:

	Year ended December 31, 2005	Year ended December 31, 2004
Current tax expense	(12,970)	(3,414)
Change in deferred tax assets	(2,732)	(2,367)
Net change in valuation allowance	2,327	2,703
Change in deferred tax liability	4,356	(14,754)
Total income tax expense	**(9,019)**	**(17,832)**

The actual tax expense (or tax credit) differs from the amount which would have been determined by applying the statutory rate of 24 % (2004: 24 %) to the income from continuing operations before taxes and minority interest as a result of the application of Russian tax regulations, which disallow certain deductions which are included in determination of income before taxes under U.S. GAAP (social related expenditures and other non-production costs, certain general, administrative, financing, foreign exchange related and other costs). At the same time certain gains and revenues recognized under U.S. GAAP may represent nontaxable income (gain on disposal of subsidiary).

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

Note 25: Income Tax (continued)

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

	December 31, 2005	December 31, 2004
Deferred tax asset:		
Accounts payable and accrued liabilities	535	543
Tax losses carried forward	4,443	7,572
Other current assets	420	15
Total deferred tax asset	**5,398**	**8,130**
Valuation allowance	**-**	**(2,327)**
Total net deferred tax asset	**5,398**	**5,803**
Deferred tax liability:		
Property, plant and equipment	(23,224)	(10,793)
Accounts receivable and prepayments from related parties	-	(8,014)
Inventory	(8,910)	(7,983)
Total deferred tax liability	**(32,134)**	**(26,790)**

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

Deferred tax liability on property, plant and equipment amounting to U.S. Dollar 6,186 (in 2004: U.S. Dollar 6,322) arose as the result of acquisition of shares of ZAO Serebro Magadana (Note 27); amounting to U.S. Dollar 9,835 (in 2004: nil) arose as the result of acquisition of shares of ZAO Zoloto Severnogo Urala (Note 28).

Deferred tax liability amounted approximately to U.S. Dollar 3,271 was not accrued on undistributed accumulated net earnings of subsidiaries, as management regards these earnings as permanently invested.

Deferred tax liabilities have been classified as follows:

	December 31, 2005	December 31, 2004
Deferred tax liability:		
Current deferred tax liability	(8,910)	(12,977)
Long- term deferred tax liability	(23,224)	(13,813)
Total deferred tax liability	**(32,134)**	**(26,790)**

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

Note 26: Sale of Subsidiaries

In September 2005, the Company sold to a related party all of its interests in the following subsidiaries:

- 100% of shares of Kurilskaya GGK, a subsidiary holding the license for development of the Prasolovskoye field for U.S. Dollar 300.
- 100% of shares of Olginskaya GGK, a subsidiary holding the license for development of the Olginskaya gold prospective area for U.S. Dollar 13.
- 100% of shares of Imitzoloto, a subsidiary holding the license for development of the Aprelkovsko-Peshkovsky mining unit for U.S. Dollar 18. In June 2006, the Company reacquired from an unrelated party 100% of shares in Imitzoloto for the consideration of U.S. Dollar 49.

Concurrently with the sale of the subsidiaries as described above, the Company sold its 50% stake in Yeniseyskaya Investment Company for U.S. Dollar 984.

In December 2004, the Company sold its 70.5% equity interest in ZAO Zun Hada, a subsidiary holding licenses to develop the Barun-Kholba properties, for U.S. Dollar 1,453 without recourse. ZAO Zun Hada had suspended extraction of ore in July 2003 and had not conducted any significant operations thereafter and through the disposal. As ZAO Zun Hada had significant accumulated losses at the time of disposal, the Group recognized a pre-tax gain on disposal of U.S. Dollar 47,551. As at December 31, 2004 the Group had loans receivable from Zun Hada totaling U.S. Dollar 49,397 (see Note 8). These loans receivable were fully recovered in June 2005.

As the operations and cash flows of disposed subsidiaries have been eliminated from the ongoing operations of the Group and the Group will not have any significant continuing involvement in their operations, the results of operations of the disposed components for 2005 (loss in the amount U.S. Dollar 691) and for 2004 (loss in the amount U.S. Dollar 2,839) together with the gain on disposal for 2005 (in the amount of U.S. Dollar 3,585) and for 2004 (in the amount U.S. Dollar 47,551) are reported net of the applicable income tax as discontinued activities in the consolidated statements of operations for the years ended December 31, 2005 and 2004.

Note 27: Acquisitions

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

	Annual installments
5.5 < FPS < 6.0	500
6.0 < FPS < 7.0	1,000
7.0 < FPS < 8.0	2,000
8.0 < FPS < 9.0	5,000
9.0 < FPS <10.0	6,000
10.0 < FPS	8,000

The first annual fixing period under this arrangement expired in December 2005. The average FPS for that period amounted to U.S. Dollar per troy ounce 7.32; and the corresponding installment must be paid not later than December 2006.

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

Note 27: Acquisitions (continued)

The agreement also contains provisions for early repayment of the future payments on the occurrence of certain events, such as a public share offering.

The acquisition has been accounted for using the purchase method of accounting. Since this purchase involved a contingent consideration agreement that might result in recognition of an additional element of cost of the acquired interest when the contingency is resolved, and the initial purchase price allocation revealed an excess of U.S. Dollar 12,317 of the fair value of the acquired share of net assets over the cash portion of the acquisition cost, the Company recognized a portion of the maximum amount of the contingent consideration as acquisition cost and a deferred credit, respectively, to the extent of such excess in accordance with paragraph 46 of SFAS 141, *Business Combinations*. The final purchase price allocation included the following:

Assets acquired and liabilities assumed	
Properties, plant and equipment	32,665
Deferred tax liabilities	(6,322)
Liabilities for contingent consideration	(12,317)
Reduction of minority interest	7,200
Cash paid at acquisition	21,226

The remaining contingent consideration amounting to U.S. Dollar 10,183 has not been recorded in the accompanying consolidated financial statements as the outcome of the contingency and the amounts of consideration that will become issuable is not determinable beyond reasonable doubt at the moment. Such amounts will be recorded when, and if, they become issuable.

In June 2005, the Group restructured its holding in ZAO Serebro Magadana (Note 1) by transferring an 80% stake in this subsidiary from ZAO GC Dukat (consolidated subsidiary of ISPA "Polymetal") to ISPA "Polymetal". As a result, the Group's effective ownership interest in ZAO Serebro Magadana increased from 88% to 100%. The resultant reduction in minority interest of U.S. Dollar 4,586 has served to increase additional paid-in capital.

Note 28: Acquisition of Preferred Shares of ZAO Zoloto Severnogo Urala

In October 2005, the Group acquired 30,000 A series preferred shares of ZAO Zoloto Severnogo Urala, the Company's subsidiary, from investee of shareholders of ZAO ICT for U.S. Dollar 49,643. As a result of this transaction, the Group's effective ownership interest in ZAO Zoloto Severnogo Urala increased from 83.33% to 99.96%. This transaction has been recorded using the purchase method of accounting and the difference between purchase price and the fair value of the acquired share of net assets has been recorded as mineral rights and totaled U.S. Dollar 41,297 (in addition, this amount was grossed up by respective deferred tax of U.S. Dollar 9,835). Minority interest was also reduced by U.S. Dollar 7,846.

Note 29: OAO Okhotskaya GGC Share Issue

In February 2004, ISPA "Polymetal" sold 538 ordinary shares (25.08% equity interest) of OAO Okhotskaya GGC to third parties. Consideration received amounted to U.S. Dollar 5. As a result, Polymetal's share in OAO Okhotskaya GGC reduced to 54.9%. In April 2004, OAO Okhotskaya GGC issued 20,592 common shares at par value Russian rubles 100 per share, of which 14,136 shares were purchased by ISPA "Polymetal" for U.S. Dollar 22,942, and 6,456 shares – by other shareholders for U.S. Dollar 10,478. As a result of the second transaction, Polymetal's share in OAO Okhotskaya GGC has increased to 67.35%.

Note 30: Commitments and Contingent Liabilities

Operating environment. Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Taxation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the 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 their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. 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 proceeding the year of review. Under certain circumstances reviews may cover longer periods.

As at December 31, 2005 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

Of the Group’s major operating companies, OAO Okhotskaya GGC, ZAO Serebro Magadana and ZAO Serebro “Territorii” were inspected by the tax authorities up to and including 2004, and ZAO Zoloto Severnogo Urala up to and including 2005.

Transfer pricing. Russian transfer pricing legislation, which was introduced from January 1, 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect to of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent related parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where with unrelated parties if the price applied by a taxpayer differs on similar transactions with two different counterparties by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice with this respect is contradictory.

The Group occasionally conducts intercompany transactions and transactions with related parties at terms, which can be considered as off-market by Russian tax authorities. The form of the transactions and their accompanying documentation would generally meet the literal requirements of the applicable tax legislation Tax liabilities arising from these transactions are determined using actual transaction prices, and as such have not been challenged in the past. However, it is possible with the evolution of the interpretation of tax law the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transactions 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; however, it may be significant.

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

Sales commitments. In accordance with the loan agreement of ZAO Zoloto Severnogo Urala with Nomos-Bank, Nomos-Bank has a priority right to buy gold produced in 2005 from Zoloto Severnogo Urala. The price is not specified in the agreement.

Note 30: Commitments and Contingent Liabilities (continued)

In December 2004, the Group entered into a tripartite sales agreement with Standard Bank London (“SBL”) and commission agent ZAO Standard Bank (“ZAO SB”). According to the terms of the agreement the Group committed to sell all the precious metals produced by ZAO Serebro Magadana (Note 1) and ZAO Serebro “Territorii” (Note 1) to SBL. The commitment is effective during the period from January 1, 2005 to December 31, 2009. The Group was committed to sell silver at the following conditions:

- from January 1, 2006 to December 31, 2006 prices are fixed in the range of U.S. Dollar per troy ounce 6.6575-7.95 and the minimum quantity to be sold is 280,399 kg;
- from January 1, 2007 to December 31, 2007 London fixing is applied, but the minimum and maximum prices are specified for every day and these are in the range of U.S. Dollar per troy ounce 6.0-7.0 (minimum price) and U.S. Dollar per troy ounce 7.25-8.6 (maximum price); the minimum quantity to be sold is 432,961 kg;
- from January 1, 2008 to December 31, 2009 London fixing is applied; the minimum quantity to be sold is 934,560 kg.

All quantities of silver in excess of the specified minimum volumes are to be sold at London fixing, determined on next working day after delivery; a discount of up to U.S. Dollar per troy ounce 0.015 for standard quality silver (up to U.S. Dollar per troy ounce 0.045 for substandard quality silver) may be applied.

For gold, prices and quantities are stipulated for the entire period of the agreement as follows: London fixing is to be applied; minimum quantity to be sold is 7,080 kg.

Issued guarantees. As at December 31, 2005, the Group issued the following third party guarantees: for OOO Baltysky Leasing to OAO Industry and Construction Bank amounting to U.S. Dollar 1,912 for the period up to June 25, 2006; for OOO Press-Invest to OOO Instroytekhcom in the amount of U.S. Dollar 804 for the period up to October 20, 2007. The Company’s management estimates that the likelihood that a loss would be incurred on these guarantees is remote and the fair values of the resultant liabilities are negligible.

Capital commitments imposed by license agreements The “Khakanjinskoye” mine mineral license agreement (with amendments) imposes an obligation on the OAO Okhotskaya GGC to contribute U.S. Dollar 500 to the project of Okhotsk region infrastructure development. As at December 31, 2005, U.S. Dollar 222 was contributed. As at present date, obligations of OAO Okhotskaya GGC under the license agreement were fulfilled in full.

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

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

Insurance policies The Group holds insurance policies covering property and assets under finance lease for a total of U.S. Dollar 189,728 (2004: U.S. Dollar 22,474), civil liability for a total of U.S. Dollar 4,172, disruption of production for a total of U.S. Dollar 115,776.

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

Note 31: Subsequent events

Acquisitions

In June 2006, the Company acquired from an unrelated party a 74.17% interest in ZAO Yeniseiskaya Gorno-Geologicheskaya Company, holding the license for development of the Annenskaya territory, for the consideration of U.S. Dollar 2,379. In August 2006, the Company acquired from an unrelated party the residual 25.83% interest of this company for the consideration of U.S. Dollar 990.

In June 2006, the Company acquired from an unrelated party 85% interest of ZAO Aurum, holding the license for development of the Reftinskaya mining zone, for the consideration of U.S. Dollar 19.

In July 2006, the Company acquired from a related party 30.76% interest in OAO Okhotskaya GGC for the consideration of U.S. Dollar 74,380. In August 2006, the Company acquired from an unrelated party the residual 1.89% of this company for the consideration of U.S. Dollar 7,500.

In July 2006, the Company acquired from an unrelated party 100% interest in OOO Resursy Albazino, holding the license for exploration and production of gold at Albazinskiy area for the consideration of U.S. Dollar 7,000.

In August 2006, the Company acquired from an unrelated party 0.01% interest in ZAO Zoloto Severnogo Urala, for the consideration of U.S. Dollar 19.

In August - October 2006, the Company acquired from an unrelated party 0.48% interest in ZAO Serebro Territorii, for the consideration of U.S. Dollar 33.4.

In October 2006, the Company acquired from a related party 2.41% interest in ZAO Serebro Territorii, for the consideration of U.S. Dollar 10.7.

In October 2006, the Company acquired from a related party 0.03% interest in ZAO Zoloto Severnogo Urala, for the consideration of U.S. Dollar 19.2.

Establishment of a joint venture

In September, the Company signed an agreement on formation in 2007 of a strategic alliance with an unrelated party. In the framework of this agreement, each party will own 50% in the joint venture to be established. The Company will contribute to the charter capital of the joint venture 50% of its interest in the charter capital of ZAO Yeniseiskaya Gorno-Geologicheskaya Company and OOO Imitzoloto.

Bank loans

For the period from January 2006 through September 2006, the Company paid U.S. Dollar 30,217 as repayment of the principle amount of debt totaling U.S. Dollar 85,071 under a long-term loan obtained from Standard Bank London and U.S. Dollar 4,910 as interest accrued on this loan.

In February - March 2006, the Company received U.S. Dollar 40,000 under the credit facility agreement with bank UralSib. The maturity date is July 31, 2007, the interest rate is 9.0% p.a.

In May 2006, the Company repaid the loan of MDM-bank in the amount of U.S. Dollar 25,000, as well as the RR denominated loan of the said bank in the amount of U.S. Dollar 26,403.

In April-July 2006, the Company received funds from Sberbank RF in the aggregated amount of U.S. Dollar 220,000. The interest rate is 7% p.a. The repayment schedule is the following:

August 21, 2006	5,000
September 18, 2006	5,000
September 26, 2006	30,000
September 29, 2006	70,000
December 26, 2006	40,410
July 23, 2007	69,590

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

Note 31: Subsequent events (continued)

In July-September 2006 the Company received funds from Gazprombank for the total amount of U.S. Dollar 100,000. The interest rate is 8% p.a. The repayment schedule is the following:

July 31 – December 31, 2007	27,600
January 31 – December 31, 2008	54,000
January 30 – April 27, 2009	18,400

In September 2006, the Company received US Dollar 10,000 from Alfa bank. The maturity date is December 15, 2006, the interest rate is 8.3% p.a.