JOINT STOCK COMPANY “POLYMETAL”
CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT ACCOUNTANTS
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

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

	Note	At December 31, 2006	At December 31, 2005
Assets			
Cash and cash equivalents	3	6,532	18,925
Accounts receivable and prepayments to suppliers	4	17,090	10,312
Related party receivables and prepayments	5	126	5,323
Short-term loans to related parties	6	-	13,867
Short-term loans to third parties		442	431
Inventories	7	155,629	92,137
Short-term VAT receivable	10	45,335	20,288
Short-term deferred tax asset	22	816	955
Other current assets	9	13,336	6,420
Total current assets		**239,306**	**168,658**
Goodwill		31,896	-
Investments	26	250	-
Property, plant and equipment, net	8	406,418	314,827
Long-term loans to related parties		6,138	-
Long-term loans to third parties		365	-
Long-term VAT receivable	10	9,019	23,222
Long-term deferred tax asset	22	3,962	4,443
Total assets		**697,354**	**511,150**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	11	29,216	26,538
Accounts payable - related parties	12	302	2,263
Short-term debt and current portion of long-term debt	13	229,770	184,786
Taxes payable		7,292	7,824
Short-term deferred tax liability	22	14,902	8,910
Current portion of capital lease liabilities	16	4,210	11,020
Total current liabilities		**285,692**	**241,341**
Long-term capital lease liabilities	16	2,445	8,932
Long-term debt	14	169,895	-
Long-term debt - related parties	15	4,574	100,000
Long-term deferred tax liability	22	35,284	23,224
Reclamation and mine closure obligation	17	7,230	4,915
Total liabilities		**505,120**	**378,412**
Minority interest		**-**	**16,937**
Commitments and contingent liabilities	26	-	-
Shareholders' equity			
Share capital (2,444,000,000 ordinary shares authorized at December 31, 2006 and 2,400,000,000 ordinary shares authorized at December 31, 2005, par value Rubles 0.2 per share; 275,000,000 ordinary shares issued and outstanding at December 31, 2006 and 2005)*	18	6,397	6,397
Additional paid-in capital		56,710	56,710
Accumulated other comprehensive income (loss)		10,447	(4,299)
Retained earnings		118,680	56,993
Total shareholders' equity		**192,234**	**115,801**
Total liabilities and shareholders' equity		**697,354**	**511,150**

* Given the effect of stock split effective December 7, 2006 (see Note 18).

Approved on behalf of the Board of Directors on June 21, 2007

Nesis V.N., General Director

Cherkashin S. A., Finance Director

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

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

	Note	Year ended December 31, 2006	Year ended December 31, 2005
Revenues	19	315,596	238,973
Cost of sales	20	(171,283)	(136,173)
Income from mining operations		**144,313**	**102,800**
Exploration expenses		(5,347)	(1,751)
General, administrative and selling expenses		(28,351)	(22,397)
Other expenses, net	21	(15,860)	(11,387)
Operating income		**94,755**	**67,265**
Interest expenses, net		(25,267)	(24,869)
Capital lease finance costs		(2,569)	(3,963)
Exchange gain (loss), net		26,784	(6,826)
Income from continuing operations before income tax and minority interest		**93,703**	**31,607**
Income tax expense	22	(25,755)	(9,019)
Income from continuing operations before minority interest		**67,948**	**22,588**
Minority interest		**(6,261)**	**(7,883)**
Income from continuing operations		**61,687**	**14,705**
Discontinued operations, net of income tax			
Loss from operations of disposed consolidated subsidiaries		-	(691)
Gain on disposal of interest in consolidated subsidiaries		-	3,585
Income from discontinued operations		**-**	**2,894**
Net income		**61,687**	**17,599**
Basic and diluted earnings per share (expressed in U.S. Dollars)	18		
Income from continuing operations *		0.224	0.053
Income from discontinued operations *		-	0.011
Net income *		0.224	0.064
Average number of shares outstanding *		275,000,000	275,000,000

* Given the effect of stock split effective December 7, 2006 (see Note 18).

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

	Year ended December 31, 2006	Year ended December 31, 2005
Cash flows from operating activities		
Net income	61,687	17,599
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and depletion	39,366	25,134
Accretion of reclamation and mine closure obligation	228	644
Gain on disposal of subsidiaries	-	(3,585)
Capital lease finance costs	2,569	3,963
Deferred income tax expense (benefit)	3,801	(3,951)
Loss on disposal of property, plant and equipment	1,339	3,291
Minority interest	6,261	7,883
Exchange loss (gain), net	(26,784)	6,875
Changes in operating working capital, excluding cash and debt:		
Accounts receivable and prepayments to suppliers	(5,819)	(5,340)
Related party receivables and prepayments	5,692	20,157
Inventories	(46,427)	(10,835)
VAT receivable	(6,615)	6,702
Other current assets	(5,166)	15,714
Accounts payable and accrued liabilities	231	(4,368)
Taxes payable	(1,261)	2,860
Net cash provided by operating activities	**29,102**	**82,743**
Cash flows from investing activities		
Additions to property, plant and equipment	(60,311)	(26,523)
Proceeds from sale of property, plant and equipment	2,845	1,399
Acquisitions of subsidiaries and minority interests	(93,705)	(49,643)
Equity investment	(250)	-
Proceeds from disposal of interest in consolidated subsidiaries	-	989
Proceeds from sale of investments	-	7,211
Loans to third parties	(764)	(131)
Repayment of loans to third parties	501	61,966
Loans to related parties	(6,138)	(13,867)
Repayment of loans to related parties	15,088	5,656
Net cash (used in) provided by investing activities	**(142,734)**	**(12,943)**
Cash flows from financing activities		
Proceeds from short - term debt	433,303	70,841
Repayment of short - term debt	(396,396)	(22,929)
Proceeds from long - term debt	292,000	-
Repayment of long - term debt	(88,599)	(21,976)
Proceeds from short - term debt - related parties	171,520	32,774
Repayment of short - term debt - related parties	(171,520)	(72,751)
Proceeds from long - term debt - related parties	4,574	124,002
Repayment of long - term debt - related parties	(100,000)	(132,753)
Redemption of bonds	(27,680)	-
Lease payments	(17,725)	(29,387)
Net cash (used in) provided by financing activities	**99,477**	**(52,179)**
Exchange effects on cash balances	1,762	(49)
Net increase (decrease) in cash and cash equivalents	**(12,393)**	**17,572**
Cash and cash equivalents at the beginning of the year	18,925	1,353
Cash and cash equivalents at the end of the year	**6,532**	**18,925**
Supplementary cash flow information		
Interest paid	27,024	39,691
Income taxes paid	22,328	10,175
Non-cash additions to property, plant and equipment - capital lease	-	9,664

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

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

	Ordinary shares issued and outstanding*	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
Balance at January 1, 2005	**275,000,000**	**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 from restructuring			4,586			4,586
Balance at December 31, 2005	**275,000,000**	**6,397**	**56,710**	**(4,299)**	**56,993**	**115,801**
Comprehensive income						
Net income		-	-	-	61,687	61,687
Currency translation adjustment		-	-	14,746	-	14,746
Total comprehensive income						76,433
Balance at December 31, 2006	**275,000,000**	**6,397**	**56,710**	**10,447**	**118,680**	**192,234**

* Given the effect of stock split effective December 7, 2006 (see Note 18).

(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" was incorporated on March 12, 1998 in the Russian Federation. In accordance with the resolution of the meeting of shareholders held on December 19, 2006, the open joint stock company "Interregional Research and Production Association "Polymetal" was renamed as open joint stock company "Polymetal" (hereinafter, JSC "Polymetal" or "the Company"). The Company is engaged in gold and silver mining and related activities, including exploration, extraction, processing and reclamation. Since incorporation, the Company has acquired a number of gold and silver mining properties, which require significant investment to bring to commercial production. The Company owns producing assets at Vorontsovkoye and Lunnoye fields, Dukat and Khakandjinskoye mines.

The Company majority shareholder prior to November 2005 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 JSC "Polymetal" reflect its historical cost basis and, accordingly, do not reflect any purchase accounting adjustments related to acquisition of its 99.99% interest by OAO NAFTA MOSKVA.

In 2006, after restructuring NAFTA MOSKVA (CYPRUS) LIMITED became a sole shareholder of the Company until Company's public offering in February 2007 (see Note 27).

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

The Company's ability to meet its obligations and maintain operations is contingent upon continuing support from OAO NAFTA MOSKVA, the successful development and future profitable production of its mining assets, its mining licenses being maintained in good standing, fair use of such licenses and the political, economic and legislative stability in the Russian Federation.

Composition of the Group

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

The structure of the Group as at December 31, 2006 includes the following significant mining subsidiaries:

Name of subsidiary	Field	Voting interest, %	Effective ownership interest, %
ZAO Zoloto Severnogo Urala	Vorontsovkoye	100.00	100.00
OAO Okhotskaya GGC	Khakandjinskoye, Urjevskoe	100.00	100.00
ZAO Serebro Territorii	Lunnoe, Arylakh	100.00	100.00
ZAO Serebro Magadana	Dukat	100.00	100.00

Changes in the Group structure and voting and ownership interests in major production subsidiaries in 2006 and 2005 are discussed in Notes 24 and 25.

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

In March 2005, JSC "Polymetal" incorporated a subsidiary OJSC "Trade House Polymetal" whose core activity is to provide production entities with fixed assets through leasing, materials and inventories.

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

Basis of presentation

These 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.

Use of estimates

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

Reporting and functional currency

The Russian Ruble (“Ruble”) is considered to be the functional currency of the Company and its subsidiaries domiciled in the Russian Federation. 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 historical or period average exchange rates as appropriate. Translation differences resulting from the use of these exchange rates have been included as a separate component of stockholders’ equity.

The exchange rates as at December 31, 2006 and December 31, 2005 were Ruble 26.33 and Ruble 28.78 for U.S. Dollar 1.00, respectively. Average exchange rates for 2006 and 2005 were Ruble 27.19 and Ruble 28.32 for U.S. Dollar 1.00, respectively.

Principles of consolidation

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

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

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)”).

Segments

The Group management manages its business by operating segment. The Group has three operating segments.

Segment income for operating segments comprises segment revenues less segment operating costs (including depreciation). Segment expenses represent internal presentation of costs incurred to produce gold and silver at each operating mine, and exclude the following costs that are not allocated to operating segments: amortization of corporate assets; administration costs, costs of financing and other non-operating costs.

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

Purchase price allocation (including goodwill)

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

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

Cash and cash equivalents

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

Inventories

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

Property, plant and equipment

Property, plant and equipment consist of assets of the Company directly related to mining and processing of ore and include costs of development of the mining properties, the costs of acquisition or construction of property, plant and equipment and capitalized interest. Expenditures for major improvements and renewals are capitalized. The cost of maintenance, repairs and replacement of minor items of plant and equipment is charged to 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 in exploration and development of such property, including costs to further delineate the ore body and remove any overburden to initially expose the ore body are capitalized.

Depreciation and depletion of PPE related to mining 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- and silver-bearing ore). In respect of those items of property, plant and equipment whose useful lives are expected to be less than the period of the mine operation, depreciation over the period of the item useful life is applied.

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

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.

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

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 tunnelling 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.

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 for periods in which these temporary differences are expected to reverse. Valuation allowances are provided for deferred income tax assets when management believes that it is more likely than not that the assets will not be realized.

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 as incurred to Other expenses, net line of statement of income.

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.

Accounting changes

As of January 1, 2006, the Group adopted Statement of Financial Accounting Standard No. 151, Inventory Costs-an amendment of ARB No. 43, Chapter 4, ("SFAS No. 151") 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 adoption of SFAS No. 151 did not have any material impact on the Group's financial statements.

As of January 1, 2006, the Group adopted 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 adoption of SFAS No. 151 did not have any material impact on the Group's financial statements.

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

Recently issued accounting standards

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 ("SFAS No. 159"). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 will become effective for the Group on January 1, 2008. Management is currently evaluating the potential impact that the adoption of SFAS No. 159 will have on its consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS No. 157"). This Statement defines fair value, establishes a framework for measuring fair value under other accounting pronouncements that permit or require fair value measurements, changes the methods used to measure fair value and expands disclosures about fair value measurements. SFAS No. 157 will become effective for the Group on January 1, 2008. Management is currently evaluating the potential impact that the adoption of SFAS No. 157 will have on its consolidated financial statements.

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 will become effective for the Group on January 1, 2007. 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 Group's consolidated financial statements.

Financial instruments

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

The carrying values of cash and cash equivalents, other short-term investments, accounts and notes receivable, accounts and notes payable 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 unquoted companies are valued at their historical cost adjusted for impairment, as appropriate. Management believes that the carrying values of long-term investments and long-term debt approximate their fair values.

Credit risks. A significant portion of the Company's accounts receivable is VAT receivable from local tax bodies (see Note 10). 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, 2006.

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

Note 3: Cash and Cash Equivalents

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

	December 31, 2006	December 31, 2005
Denominated in U.S. Dollars	345	2,887
Denominated in Rubles	6,187	16,038
Total cash and cash equivalents	**6,532**	**18,925**

Note 4: Accounts Receivable and Prepayments to Suppliers

	December 31, 2006	December 31, 2005
OOO Intertrade Logistic Group	2,323	60
OOO Expromstroy	1,413	-
OOO Vostochnaya Teknika	1,218	-
ZAO Standard Bank	3,218	1,342
Other receivables	8,918	8,910
Total accounts receivable and prepayments to suppliers	**17,090**	**10,312**

Major portion of prepayments related to prepayments for materials and transport.

Note 5: Related Party Receivables and Prepayments

	December 31, 2006	December 31, 2005
Prepayments to OOO Geotekhservice	-	5,018
Other	126	305
Total related party receivables and prepayments	**126**	**5,323**

OOO Geotekhservice is a subsidiary of ZAO ICT (see Note 1). In late 2005, the Group changed its procurement arrangements ceasing to use the services of OOO Geotekhservice.

Note 6: Short-Term Loans to Related Parties

	Interest rate, %	December 31, 2006	Interest rate, %	December 31, 2005
ZAO ICT (RR), Note 1	-	-	11.5%	13,687
Other short-term loans to related parties (RR)	-	-	0-1%	180
Total short-term loans to related parties	**-**	**-**	**-**	**13,867**

Note 7: Inventories

	December 31, 2006	December 31, 2005
Raw materials, spare parts and supplies	66,335	44,361
Ore	48,634	21,361
Work in progress	28,341	17,196
Dore	1,890	2,544
Gold and silver in bullion	10,429	6,675
Total inventories	**155,629**	**92,137**

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

Note 8: Property, Plant and Equipment, net

	December 31, 2006	December 31, 2005
Buildings & underground workings	147,358	140,205
Machinery & equipment	161,571	111,005
Transport & other	33,896	27,380
Mineral rights	130,175	87,495
Construction in progress	47,004	8,718
Cost	**520,004**	**374,803**
Accumulated depreciation and depletion	**(113,586)**	**(59,976)**
Total property, plant and equipment, net	**406,418**	**314,827**

At December 31, 2006, capital leases included within property, plant and equipment total U.S. Dollar 79,335 (of which Machinery & Equipment was U.S. Dollar 62,183 and Transport & Other was U.S. Dollar 17,152) (as 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).

At December 31, 2006, total accumulated depreciation and depletion of capitalized leases was U.S. Dollar 20,328 (of which Machinery & Equipment was U.S. Dollar 15,972 and Transport & Other was U.S. Dollar 4,356). At December 31, 2005, total accumulated depreciation and depletion of capitalized leases was U.S. Dollar 14,548 (of which Machinery & Equipment was U.S. Dollar 11,403 and Transport & Other was U.S. Dollar 3,145).

Included within Other property, plant and equipment were long-term deferred exploration expenditures of U.S. Dollar 11,766 and U.S. Dollar 2,617 at December 31, 2006 and December 31, 2005, respectively.

Mineral rights of the Group comprised of mineral rights acquired by the Group upon purchase of subsidiaries. Accumulated depletion of mineral rights was U.S. Dollar 10,969 and U.S. Dollar 1,782 at December 31, 2006 and December 31, 2005, respectively.

Note 9: Other Current Assets

	December 31, 2006	December 31, 2005
Deferred development expenditure	1,616	1,245
Taxes receivable	7,977	2,890
Other debtors	2,000	551
Other current assets	1,743	1,734
Total other current assets	**13,336**	**6,420**

Note 10: VAT Receivable

	December 31, 2006	December 31, 2005
Short-term VAT receivable	45,335	20,288
Long-term VAT receivable	9,019	23,222

Long-term VAT receivable at December 31, 2006 and December 31, 2005 primarily represents VAT balances resulting from capital expenditures which are not expected to be recovered within twelve months of the respective balance sheet dates due to specifics of tax regulations. Management believes that these balances are fully recoverable from the tax authorities when the respective capital assets qualify as put into operation for VAT purposes.

Note 11: Accounts Payable and Accrued Liabilities

	December 31, 2006	December 31, 2005

P.A.S. Silver (Cyprus) Limited (see Note 24)	10,317	12,317
OOO Modern Machinery Co	1,878	-
Hagforce Limited	2,444	-
ZAO Shemur	1,315	-
Trade accounts payable	7,534	6,873
Accrued interest payable to third parties	1,003	2,294
Other accounts payable	4,725	5,054
Total accounts payable and accrued liabilities	**29,216**	**26,538**

Note 12: Accounts Payable – Related Parties

	December 31, 2006	December 31, 2005
Accounts payable to OOO Geotekhservice	-	2,029
Accounts payable to OOO Press-Invest	-	231
Accounts payable to Barylite Services Limited (U.S. Dollars)	302	-
Trade accounts payable	-	3
Total accounts payable - related parties	**302**	**2,263**

As at December 31, 2005 OOO Press-Invest was a subsidiary of ZAO ICT (see Note 1).

As at December 31, 2006 Barylite Services Limited was under common control with JSC "Polymetal" through the parent company Nafta Moskva (Cyprus) Limited .

Note 13: Short-Term Debt and Current Portion of Long-Term Debt

	Interest rate	December 31, 2006	Interest rate	December 31, 2005
Sberbank (U.S. Dollar)	7.6-8%	69,591	-	-
Nikoil Bank (U.S. Dollar)	-	-	9-9.5%	20,410
MDM Bank (U.S. Dollar)	-	-	10%	25,000
Uralsib (U.S. Dollar)	9%	20,000	-	-
Alfa Bank (U.S. Dollar)	8%	14,920	-	-
Khanti-Mansiiski Bank (RR)	-	-	10%	24,841
Investros (RR)	0%	3,154	-	-
Current portion of long-term debt	-	122,105	-	114,535
Total short-term debt and current portion of long-term debt	**-**	**229,770**	**-**	**184,786**

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

Note 13: Short-Term Debt and Current Portion of Long-Term Debt (continued)

Short-term debts are repayable as follows:

	December 31, 2006
January 2007	4,920
March 2007	72,400
June 2007	3,158
July 2007	100,502
August 2007	7,758
September 2007	7,758
October 2007	7,758
November 2007	7,758
December 2007	17,758
Total	**229,770**

As at December 31, 2006, inventory (ore) with carrying value of U.S. Dollar 15,097 and equipment with carrying value of U.S. Dollar 7,132 were pledged as collateral for the loan from Alfa Bank.

Other short-term debt facilities are not collateralized.

Note 14: Long-Term Debt

	Interest rate	**December 31, 2006**	**Interest rate**	**December 31, 2005**
ABN Amro Bank (U.S. Dollar)	LIBOR + 2.0%	60,000	-	-
Standard Bank London (U.S. Dollar)	-	-	LIBOR + 3.5-4.0%	85,071
Gazprombank (U.S. Dollar)	8%	100,000	-	-
Sberbank (U.S. Dollar)	LIBOR + 2.0%	132,000	-	-
Magadan Region Administration (U.S. Dollar)	-	-	6%	3,406
Bonds (RR)	-	-	17-19%	26,058
Less current portion of long-term debt	-	(122,105)	-	(114,535)
Total long-term debt		**169,895**		**-**

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

	December 31, 2006
2008	42,895
2009	127,000
Total	**169,895**

In March 2003, JSC "Polymetal" issued 750,000 non-convertible bonds. Interest on bonds of 17-19% is paid semi-annually. The bonds were redeemed in full in March 2006.

In 2004, the Company received a long-term loan totalling U.S. Dollar 105,000 from Standard Bank London for the purpose of refinancing its debts and development of current operations.

As at December 31, 2005 certain financial covenants were breached, and no waiver has been received, accordingly, the total debt to Standard Bank London was included into current portion of long-term debt (see Note 13). The loan was repaid in full amount in December 2006.

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

Note 14: Long-Term Debt (continued)

As at December 31, 2006 23,443 shares (97.11% of issued and outstanding share capital) of ZAO Serebro Territorii and 5,400 shares (80% of issued and outstanding share capital) of ZAO Serebro Magadana were pledged as collateral for the loan from Standard Bank London. This encumbrance was released in February 2007.

In July 2006, the Company received a long-term loan from Gazprombank amounting to U.S. Dollar 100,000 for equipment purchase and replenishment of working capital. The loan was repayable in monthly instalments due to commence July 31, 2007 up to the last instalment in 2009. In connection with the loan the Company undertook to sell to Gazprombank future production of gold and silver (see Note 26), by which breached certain covenants under long-term loan from Sberbank. As a condition of Sberbank waiver the Company committed to repay Gazprombank loan in 2007, accordingly, the total debt to Gazprombank as at December 31, 2006 was classified as short-term and included into current portion of long-term debt (see Note 13). In March 2007, the loan to Gazprombank was fully repaid (see Note 27).

In December 2006, the Company received a long-term loan from Sberbank of Russia under credit facility agreements dated April 28, 2006 in the amount of U.S. Dollar 132,000 to finance its current operations, contract financing, including replenishment of working capital. The credit facility is valid up to 2009. The Company has to comply with certain financial and non-financial covenants to prevent the closure of the credit facility. One of such covenants is a requirement to obtain consent for the granting of collateral interests under the Company's subsequent financing arrangements. During 2006 the Company breached theses covenants by pledging collateral to secure its U.S. Dollar 100 million loan from Gazprombank without obtaining prior written approval from Sberbank. In January 2007 Sberbank confirmed in writing that, taking into account the planned early redemption during 2007 of the Gazprombank loan, it would not demand early repayment of the Sberbank loans. In March 2007, the loan to Sberbank of Russia was partially repaid (see Note 27).

In December 2006, the Company received a long-term loan from ABN Amro Bank (ABN Amro) in the amount of U.S. Dollar 60,000 to refinance its debt to Standard Bank London. The loan is repayable in monthly instalments commencing June 2007 up to the last instalment in December 2009. Under the loan agreement with ABN Amro, the Group has to comply with certain financial and non-financial covenants. The loan agreement restricts the Company from (i) disposing of its assets (including transfers, leases or sales); (ii) undertaking any type of corporate reorganization (including mergers and demerges); (iii) creating or incurring other forms of financial indebtedness (such as making loans or granting guarantees); and (iv) taking any actions in respect of its shares, capital or participatory interest (including issuing new shares or otherwise altering its existing share capital) without prior written consent of ABN Amro except for the offer and listing of up to 40% of the Company's share capital.

Furthermore, the loan agreement restricts the Company's ability to pay dividends for any of its financial years or to make acquisitions in excess of U.S. Dollar 5,0 million without the prior written consent of ABN Amro. As at December 31, 2006, property, plant and equipment with carrying values of U.S. Dollar 13,860 were pledged as collateral for the loan from ABN Amro.

Note 15: Long-Term Debt – Related Parties

	Interest rate	December 31, 2006	Interest rate	December 31, 2005
Nomos Bank (U.S. Dollar)	-	-	9%	10
Accord-Invest (RR)	0-1%	4,574	-	
Total long-term debt - related parties	**-**	**4,574**	**-**	**10**

Nomos-Bank is a subsidiary of ZAO ICT (see Note 1).

Initial maturity date of Nomos Bank loan was December 20, 2007, however loan was early repaid.

At December 31, 2006 Accord-Invest was under common control with JSC "Polymetal" through the parent company Nafta Moskva (Cyprus) Limited (see Note 1).

Debt to Accord-Invest is due in September 2008.

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

Note 16: Capital Lease Liabilities

The Group entered into certain Russian Ruble denominated leases for machinery, 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, 2006 and December 31, 2005, such leases have been treated as capital leases, the total present value of lease obligations were U.S. Dollar 6,655 and U.S. Dollar 19,952 (current portion of capital lease liability is U.S. Dollar 4,210 and U.S. Dollar 11,020) respectively.

Future minimum lease payments for the assets under capital leases at December 31, 2006, are as follows:

	Future payments under capital leases
Year ended December 31,	
2007	5,319
2008	2,631
2009	24
Later years 2009	10
Total	**7,984**
Less amount representing interest (17%)	(1,329)
Total present value of minimum payments	6,655
Less current maturities of capital lease liabilities	(4,210)
Long-term capital lease liabilities	**2,445**

Note 17: Reclamation and Mine Closure Obligation

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

Deposit:	**Vorontsovkoye mine**	**Khakandjinskoye mine**	**Dukat mine**	**Lunnoe mine**	**Total**
Reclamation and mine closure obligation at December 31, 2005	1,023	1,122	1,835	935	**4,915**
Revision of estimated cash flows	329	917	217	165	**1,628**
Accretion of reclamation and mine closure obligation	46	129	30	23	**228**
Translation effects	97	104	171	87	**459**
Reclamation and mine closure obligation at December 31, 2006	1,495	2,272	2,253	1,210	**7,230**

In 2006, the provision for mine closure obligation was revised on the basis of a new valuation of the Groups' asset retirement obligations (in terms of both cost and timing).

Note 18: Shareholders' Equity and Earnings Per Share

Basic earnings per share were calculated by dividing income from continuing operations, income from discontinued operations and net income, as appropriate, by weighted average number of ordinary shares outstanding during the respective reporting period.

On 7 December 2006 the Company completed a 500 for 1 stock split for ordinary shares. The authorized share capital of the Company was increased to 2,400,000,000 ordinary shares with par value of Ruble 0.2 per share of which 275,000,000 shares were issued, and 100,000 series A preference shares with par value of Ruble 100 of which none were issued. This split was recorded retrospectively.

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

Note 18: Shareholders' Equity and Earnings Per Share (continued)

On December 28, 2006, the Company adopted a decision on additional authorization of ordinary shares with par value of Ruble 0.2 per share totally amounting to 44,000,000 shares, from which 40,000,000 shares were issued in the course of an initial public offering in February 2007 (see Note 27).

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

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 Federation and which differ significantly from U.S. GAAP. Russian legislation identifies the basis of distribution as accumulated profit.

As of December 31, 2006, JSC "Polymetal" reported accumulated profit under Russian statutory accounting rules in total sum of Ruble 17,116 thousand (unaudited). However, current legislation and other statutory regulations dealing with distribution rights are open to legal interpretation; consequently, actual distributable reserves may differ from the amount disclosed.

The Company does not have any potentially dilutive ordinary stock. Accordingly, only basic earnings per share are presented in these consolidated financial statements.

Note 19: Revenues

	Year ended December 31, 2006	Year ended December 31, 2005
Sales to third parties: Sberbank	59,915	-
Sales to third parties: Uralsib	6,606	-
Sales to third parties: MDM-Bank	-	8,195
Sales to third parties: Standard Bank London	165,885	134,691
Sales to third parties: Khanty-Mansiysky Bank	-	1,266
Sales to third parties: NIKoil	3,329	36,460
Sales to third parties: ZAO Gazprom	12,001	-
Sales to related parties: Nomos-Bank	67,169	56,380
Subtotal revenue from gold and silver sales	**314,905**	**236,992**
Other sales	691	1,981
Total revenue	**315,596**	**238,973**

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

	Year ended December 31, 2006			Year ended December 31, 2005		
	Thousand ounces	Average price (U.S. Dollar per troy ounce)	U.S. Dollars	Thousand ounces	Average price (U.S. Dollar per troy ounce)	U.S. Dollars
Gold	255	603.33	153,849	234	429.37	100,472
Silver	17,267	9.33	161,056	18,918	7.22	136,520

Discounts from the London Metals Exchange (LME) quotation on sales to banks for the year ended December 31, 2006, amounted to U.S. Dollar 948 (2005: U.S. Dollar 2,424) for gold and U.S. Dollar 40,040 (2005: U.S. Dollar 3,089) for silver sales. Sales are recorded in the financial statements net of discount.

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

Note 19: Revenues (continued)

In 2006, the Group delivered silver to the Standard Bank London (SBL) at fixed prices (see Note 26). Prices were fixed in the range from U.S. Dollar 6.6575 to U.S. Dollar 7.95 per troy ounce for sales of 280,399 kg (total sales of silver to SBL for year ended December 31, 2006 were 469,838 kg). The aggregate discounts from the LME quotation totalled U.S. Dollar 347 for sold gold (for the year ended December 31, 2005: U.S. Dollar 65) and U.S. Dollar 38,701 for sold silver (for year ended December 31, 2005: U.S. Dollar 1,182) from sales of metals to SBL.

Note 20: Cost of Sales

	December 31, 2006	December 31, 2005
Operating costs (excluding staff costs)	78,471	58,193
Staff costs	28,473	27,965
Subtotal operating costs	106,944	86,158
Mining tax	15,307	13,617
Other taxes, except for income taxes	6,166	6,740
Depreciation and depletion	33,607	24,847
Depletion of mineral rights	5,759	287
Accretion of reclamation and mine closure obligation	228	644
Development costs written off	442	2,460
Other costs	2,830	1,420
Total cost of sales	**171,283**	**136,173**

Note 21. Other Expenses, net

	December 31, 2006	December 31, 2005
Bank services	6,788	1,004
Social payments	2,976	2,225
Loss on fixed asset disposals	1,339	3,291
Miscellaneous taxes and other payments	1,021	2,004
Other	3,736	2,863
Total other expenses, net	**15,860**	**11,387**

Note 22: Income Tax

The actual tax expense (or tax credit) differs from the amount which would have been determined by applying the statutory rate of 24 % (2005: 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.

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

Note 22: Income Tax (continued)

	Year ended December 31, 2006	Year ended December 31, 2005
Income from continuing operations before income tax and minority interest	93,703	31,607
Theoretical income tax expense at tax rate of 24 percent	22,489	7,586
Permanent tax differences (non-deductible expenses)	2,816	1,433
Other	450	-
Income tax expense	**25,755**	**9,019**
Attributable to Current Tax	21,954	12,970
Attributable to Deferred Tax	3,801	(3,951)

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

	December 31, 2006	December 31, 2005
Deferred tax assets:		
Accounts payable and accrued liabilities	299	535
Tax losses carried forward	3,962	4,443
Other current assets	517	420
Total deferred tax asset	**4,778**	**5,398**
Deferred tax liability:		
Property, plant and equipment	(35,284)	(23,224)
Inventory	(14,902)	(8,910)
Total deferred tax liability	**(50,186)**	**(32,134)**
Net deferred tax liability	**(45,408)**	**(26,736)**

Tax losses carried forward represent the amounts, which will be off-set against future taxable profits by Serebro "Territorii", Serebro Magadana, Okhotskaya GGC and JSC "Polymetal" 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.

As at December 31, 2006 and December 31, 2005 aggregated tax losses carried forward were U.S. Dollar 16,509 (Rubles 434,711 thousand) and U.S. Dollar 18,511 (Rubles 532,795 thousand) respectively.

In 2005 the deferred tax liability was not accrued on undistributed accumulated net earnings of subsidiaries, as management regarded these earnings as permanently invested.

Deferred tax liability has not been accrued on the excess of the amounts for financial reporting purposes over tax bases of investments in subsidiaries as the Group expects that it will ultimately recover such investments tax-free due to implementation of new regulation. On May 16, 2007, an amendment to the Tax Code of the Russian Federation was adopted establishing a 0% rate for dividend distributions from majority owned subsidiaries meeting certain continuity criteria. The amendment becomes effective starting January 1, 2008.

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

Note 23: Segments

The Company’s management distinguishes three operating/reportable segments: North Ural region (ZAO Zoloto Severnogo Urala), Khabarovsk region (OAO Ohotskaya GGK), Magadan region (ZAO Serebro Territorii and ZAO Serebro Magadana). The operating segments determination is based on management units structure of the Company, which is linked to its regional profile. ZAO Serebro Terrotorii and ZAO Serebro Magadana represent a single reportable segment as their technological processes of production are closely linked with each other, they have a single chief operating decision maker and no discrete management information is available for them on individual basis. Minor companies (management, exploration, purchasing and other companies) which were not included to operating segments, were included to Corporate and Other.

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

	North Ural	Khabarovsk	Magadan	Corporate and Other	Total
Revenues:					
Year ended December 31,2006	62,189	86,975	166,052	380	**315,596**
Year ended December 31,2005	32,281	63,611	142,742	339	**238,973**
Cost of sales:					
Year ended December 31,2006	(41,647)	(39,001)	(92,829)	2,194	**(171,283)**
Year ended December 31,2005	(25,827)	(29,062)	(87,021)	5,737	**(136,173)**
Income from mining operations:					
Year ended December 31,2006	20,542	47,974	73,223	2,574	**144,313**
Year ended December 31,2005	6,454	34,549	55,721	6,076	**102,800**
Unallocated interest expenses, net:					
Year ended December 31,2006					(25,267)
Year ended December 31,2005					(24,869)
Unallocated other expenses, net:					
Year ended December 31,2006					(25,343)
Year ended December 31,2005					(46,324)
Total income from continuing operations before income tax and minority interest:					
Year ended December 31,2006					**93,703**
Year ended December 31,2005					**31,607**

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

Note 23: Segments (continued)

Included in Operating expenses is depreciation, depletion allocated by segments as follows:

	Year ended December 31, 2006	Year ended December 31, 2005
Depreciation, depletion (including mineral rights)		
North Ural	11 995	10,923
Khabarovsk	12 062	8,818
Magadan	14 932	5,299
Corporate and Other	377	94
Total	**39 366**	**25,134**

	Property Plant and Equipment		Accumulated depreciation		Accounts Receivable, Inventory and others		Goodwill	
	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005
Mining assets:								
North Ural	129,377	108,530	(42,025)	(24,074)	52,334	32,476	-	-
Khabarovsk	182,411	104,580	(42,779)	(22,104)	76,043	56,440	24,261	-
Magadan	189,095	159,766	(28,541)	(13,593)	77,441	57,136	855	-
Total	**500,883**	**372,876**	**(113,345)**	**(59,771)**	**205,818**	**146,052**	**25,116**	**-**
Corporate and Other	19,121	1,927	(241)	(205)	31,359	8,671	6,780	-
Total	**520,004**	**374,803**	**(113,586)**	**(59,976)**	**237,177**	**154,723**	**31,896**	**-**
Cash and cash equivalents	6,532	18,925						
Other assets	15,331	22,675						
Total Assets	**697,354**	**511,150**						

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

Note 24: Acquisitions

ZAO Enisey Mining-and-Geological Company

In June 2006, the Company acquired a 74.17% interest in ZAO Enisey Mining-and-Geological Company, an undeveloped mine, which holds a mining license to prospect and evaluate lode gold in the Anenskiy field, from the unrelated party for U.S. Dollar 2,379. In August 2006, the Company acquired from this unrelated party the remaining 25.83% of this company for U.S. Dollar 990. These acquisitions were recorded using the purchase method of accounting.

The final acquisition price allocation is presented below:

Assets acquired and liabilities assumed in 2006:

Mineral rights	1,300
Goodwill	2,381
Deferred tax liabilities	(312)
Cash paid on acquisition	3,369

OAO Okhotskaya GGC

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

The final acquisition price allocation is presented below:

Assets acquired and liabilities assumed in 2006:

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

OOO Albazino Resources

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

This acquisition was recorded using the purchase method of accounting.

The final acquisition price allocation is presented below:

Assets acquired and liabilities assumed in 2006:

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

In June 2006, the Company acquired a 85% interest of ZAO Aurum, which holds a mining license for gold exploration and mining within the Reftinskaya ore zone, from an unrelated party for U.S. Dollar 19.

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

Note 24: Acquisitions (continued)

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

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 Terrotorii, for the consideration of U.S. Dollar 10.7.

ZAO Serebro Magadana

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 would pay up to U.S. Dollar 22,500 in contingent future payments. The future payments will be determined annually based on the average yearly silver price per troy ounce (FPS) in the range U.S. Dollar 5.5 per ounce to U.S. Dollar 10.0 per ounce:

	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 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*.

Of the above liability recognized, the amount of U.S. Dollar 2,000 was paid in December 2006 (the average FPS for first annual period, which expired in December 2005, amounted to U.S. Dollar per troy ounce 7.32) and amount of U.S. Dollar 8,000 must be paid not later than December 2007 (the average FPS for second annual period, which expired in December 2006, amounted to U.S. Dollar per troy ounce 11.7).

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 were not determinable beyond reasonable doubt at December 31, 2006. Such amounts will be recorded when, and if, they become due.

The agreement also contains provisions for early repayment on the occurrence of certain events, such as a public share offering. In the event of public offering the Company will pay 50% of the outstanding consideration, which is equal to U.S. Dollar 10,250, 30 days after listing. Due to IPO took place in February 2007, the Company became liable to pay the amount of U.S. Dollar 10,250. This payment was made in March 2007 (see Note 27).

Note 25: Disposal of Subsidiaries

There were no major disposals during 2006.

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. As the Group assumed net liabilities as a result of this transaction; on that basis, goodwill was recognized in the amount of U.S. Dollar 1,537.

Note 26: Commitments and Contingent Liabilities

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

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

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

As at December 31, 2006, management believes that its interpretation of the relevant legislation is appropriate and 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.

Out of large operating companies of the Group, tax authorities audited OAO Okhotskaya GGC, ZAO Serebro Magadana and ZAO Serebro Territorii for the period through 2004, and ZAO Northern Urals Gold for the period through 2005. Nevertheless, according to the Russian tax legislation previously conducted audits do not fully exclude subsequent claims relating to the audited period.

Note 26: Commitments and Contingent Liabilities (continued)

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

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

Political environment. The operations and earnings of the 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 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 precious metals produced by ZAO Serebro Magadana (see Note 1) and ZAO Serebro Territorii (see Note 1) to SBL. The commitment was effective during the period from January 1, 2005 to December 31, 2009. The Group had to deliver silver to SBL at the following terms:

- from January 1, 2007 to December 31, 2007 London silver fix price is applied, but the minimum and maximum prices are specified 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 silver fix price is applied, the minimum quantity to be sold is 934,560 kg.

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

On December 28, 2006, the agreement on sales of metal with SBL was novated resulting in changes of one of the parties to the agreement and of the amounts of metal sales commitments. ABN Amro became a new party to the agreement instead of SBL. The Group has to deliver silver to ABN Amro for the period from January 1, 2007 to December 31, 2008 under the same terms as applied to deliveries to SBL. The amount of metal sales commitments for the period from January 1, 2007 to December 31, 2007 was kept unchanged, the amount of deliveries for the period from January 1, 2008 to December 31, 2008 was fixed at 280,000 kg. There is no commitment on sales of silver to ABN Amro for the period from January 1, 2009 to December 31, 2009.

Note 26: Commitments and Contingent Liabilities (continued)

Prices and amounts of gold sales were not determined in the agreement.

In connection with a bank loan facility provided to the Company by Gazprombank in July 2006, the Company undertook to sell to Gazprombank future production of gold and silver of the Company's two subsidiary: OAO Okhotskaya GGC (see Note 1) and ZAO Serebro Territorii (see Note 1) at the following terms:

- for each 2007 and 2008 to sell 3,001 kg of gold, and for 2009 to sell 1,002 kg of gold, respectively at the price calculated by reference to London gold fix price pursuant to the formula set out in the sales contract;
- for each 2007 and 2008 to sell 25,001 kg of silver, and for 2009 to sell 8,000 kg of silver, respectively at the price calculated by reference to London silver fix price pursuant to the formula set out in the sales contract;

In March 2007, loan to Gazprombank was repaid in full (see Note 27). These sales commitments were not released and remained valid at the moment of current Financial Statements preparation.

In connection with General Framework Credit Line Agreement No 3608 and 3610 dated April 28, 2006 entered into between Sberbank and ZAO Zoloto Severnogo Urala (see Note 1) and OAO Okhotskaya GGC (see Note 1) respectively, OAO Okhotskaya GGC, ZAO Zoloto Severnogo Urala, ZAO Serebro Territorii and ZAO Serebro Magadana undertook to sell gold and silver to Sberbank at the following terms:

- for each 2007 and 2008 to sell 4,152 kg of gold, respectively at the price calculated by reference to London gold fix price pursuant to the formula set out in the sales contract;
- for each 2007 and 2008 to sell 199,062 kg of silver, respectively at the price calculated by reference to London silver fix price pursuant to the formula set out in the sales contract.

In March 2007, loan to Sberbank was repaid in major part (see Note 27). These sales commitments were not released and remained valid at the moment of current Financial Statements preparation.

Issued guarantees. As at December 31, 2006, the Group issued the following guarantees: for OOO Press-Invest to third party in the amount of U.S. Dollar 804 for the period up to October 20, 2007; for OOO SZLK to third party in the amount of U.S. Dollar 543 for the period up to November 1, 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.

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

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

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

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

Note 26: Commitments and Contingent Liabilities (continued)

Joint venture with AngloGold Ashanti Limited

In September 2006, the Company signed an agreement to set up a strategic alliance and joint venture with AngloGold Ashanti Limited in 2007. Within the framework of this agreement each party will own 50% in the new joint venture, to which the Company will contribute its shares in ZAO Enisey Mining-and Geological Company and OOO Imitzoloto.

Joint venture with MongolRostsvetmet JV

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

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

As at December 31, 2006 the Company invested U.S. Dollar 250 in shared capital of the joint venture AsgatPolymetal LLC. This investment was accounted under equity method.

Note 27: Subsequent Events

Initial public offering

In February 2007, the Company completed its public offering of 40,000,000 shares at U.S. Dollar 7.75 each and placed global depository receipts on the London Stock Exchange and shares in Russian Trading System and Moscow Interbank Currency Exchange. Cash in the amount of U.S. Dollar 310,000 generated from the public offering was used for partial repayment of debt to P.A.S. Silver (Cyprus) Ltd in the amount of U.S. Dollar 10,250 (see Note 24) and partial repayment of bank loans totally amounting to U.S. Dollar 285,085:

- in March 2007, the Company repaid a loan to OAO Uralsib Bank in the amount U.S. Dollar 28,495
- in March 2007, the Company repaid a loan to Gazprombank in the amount U.S. Dollar 100,000
- in March 2007, the Company repaid a loan to Sberbank of Russia in the amount U.S. Dollar 156,590

Share-option plan

In March 2007 the Company has introduced the long-term incentive plan regarding provision of options for 5,540,322 its shares to the employees of the Company. Shares are provided by the controlling shareholder. During the period of March-June 2007 the terms of the plan were communicated to employees. Shares are to be provided in three tranches (1,846,774 shares each). Respective agreements with employees for the first tranche of shares are planned to be signed in July 2007. The options for shares of the first, second and third tranches will vest in February 2008, February 2009 and February 2010 respectively. The exercise price of respective options is 1 Ruble per share.