OPEN JOINT STOCK COMPANY POLYMETAL

Unaudited Condensed Consolidated Interim Financial Statements
For The Six Months Ended June 30, 2008 and 2007

OPEN JOINT STOCK COMPANY POLYMETAL

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

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

Management is responsible for the preparation of the unaudited condensed consolidated interim financial statements that present fairly the financial position of the Group as at June 30, 2008 and December 31, 2007 and the results of its operations, cash flows and changes in shareholders' equity for the six months ended June 30, 2008, and 2007 in compliance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

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

- Selecting suitable accounting policies and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether U.S. GAAP has been followed, subject to any material departures disclosed and explained in the unaudited condensed consolidated interim financial statements;
- Using the same accounting policies in the preparation of the condensed consolidated and combined interim financial statements as those used in the preparation of the annual financial statements; and
- Preparing the unaudited condensed consolidated interim financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

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

The unaudited condensed consolidated interim financial statements for the six months ended June 30, 2008 and 2007 were approved by management on December 15, 2008:

On behalf of the Board of Directors:

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

ZAO Deloitte & Touche CIS
Business Center "Mokhovaya"
4/7 Vozdvizhenka St., Bldg. 2
Moscow, 125009
Russia

Tel: +7 (495) 787 0600
Fax: +7 (495) 787 0601
www.deloitte.ru

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders of Joint Stock Company "Polymetal":

We have reviewed the accompanying unaudited condensed consolidated balance sheet of JSC "Polymetal" and its subsidiaries (the "Group") as of June 30, 2008 and the related unaudited condensed consolidated statements of operations, cash flows, and changes in shareholders' equity for the six months ended June 30, 2008 and 2007. These financial statements are the responsibility of the Group's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants for reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche

December 15, 2008

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED BALANCE SHEETS
AT JUNE 30, 2008 AND DECEMBER 31, 2007
(In thousands of U.S. Dollars, except share and per share data)

	Note	June 30, 2008 (unaudited)	December 31, 2007 (audited)
Assets			
Cash and cash equivalents		9,328	5,019
Prepayments to suppliers		26,280	12,540
Inventories		262,143	213,141
Short-term VAT receivable		26,560	52,078
Short-term deferred tax asset		12,160	3,806
Other current assets		9,243	18,057
Total current assets		**345,714**	**304,641**
Goodwill		29,748	30,141
Property, plant and equipment, net		549,902	502,470
Investments in associates and joint ventures	5	29,103	269
Long-term loans to related parties		7,167	6,119
Long-term VAT receivable		45,662	10,288
Long-term deferred tax asset		15,206	3,926
Total non-current assets		**676,788**	**553,213**
Total assets		**1,022,502**	**857,854**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities		36,750	32,252
Short-term loans and current portion of long-term loans	6	229,188	152,006
Taxes payable		13,080	9,453
Short-term deferred tax liability		569	11,437
Current portion of capital lease liabilities		321	2,417
Total current liabilities		**279,908**	**207,565**
Long-term accounts payable and accrued liabilities	13	5,733	-
Long-term portion of capital lease liabilities		-	147
Long-term loans	7	39,400	71,202
Deferred tax liability		56,107	37,628
Reclamation and mine closure obligation		8,567	8,035
Deferred payments		7,173	7,438
Total non-current liabilities		**116,980**	**124,450**
Total liabilities		**396,888**	**332,015**
Commitments and contingencies	16		
Shareholders' equity			
Share capital (2,444,000,000 shares authorized with par value of Rubles 0.2 per share; 315,000,000 shares issued at June 30, 2008 and December 31, 2007; 311,286,530 and 309,459,677 shares outstanding at June 30, 2008 and December 31, 2007, respectively)	8	6,698	6,698
Additional paid-in capital		399,479	367,129
Treasury shares, at cost (3,713,470 and 5,540,323 ordinary shares at June 30, 2008 and December 31, 2007, respectively)	8	(34)	(50)
Accumulated other comprehensive income		80,507	56,208
Retained earnings		138,964	95,854
Total shareholders' equity		**625,614**	**525,839**
Total liabilities and shareholders' equity		**1,022,502**	**857,854**

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

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (UNAUDITED)
(In thousands of U.S. Dollars, except share and per share data)

	Note	June 30, 2008	June 30, 2007
Revenues	10	258,821	139,033
Cost of sales		119,806	104,395
Gross profit		**139,015**	**34,638**
General, administrative and selling expenses		58,774	20,719
Other operating expenses		18,581	10,603
Operating income		**61,660**	**3,316**
Interest expense		6,864	8,331
Loss from equity method investees	5	2,490	-
Exchange gain, net		(11,034)	(1,345)
Income/(loss) before income tax and extraordinary gain		**63,340**	**(3,670)**
Income tax expense	11	28,639	4,062
Income/(loss) before extraordinary gain		**34,701**	**(7,732)**
Extraordinary gain - Excess of FV of acquired net assets over cost	13	(8,409)	-
Net income/(loss)		**43,110**	**(7,732)**
Basic and diluted earnings/(loss) per share (expressed in U.S. Dollars):			
from continued operations		0.11	(0.03)
from extraordinary gain		0.03	-
Net earnings / (loss) per share		0.14	(0.03)
Weighted average number of shares outstanding	8	310,829,817	301,666,667

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

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (UNAUDITED)
(In thousands of U.S. Dollars)

	June 30, 2008	June 30, 2007
Cash flows from operating activities		
Net income /(loss)	43,110	(7,732)
Adjustments to reconcile net income/(loss) to cash provided by operations:		
Depreciation and depletion	26,930	22,969
Accretion of mine closure obligation	158	127
Capital lease finance costs	31	988
Deferred income tax	1,015	(2,409)
Loss on disposal of property, plant and equipment	1,059	543
Extraordinary gain	(8,409)	-
Share based compensation	31,902	4,116
Decrease in inventory reserve	(41)	(1,411)
Loss from equity method investee	2,490	-
Exchange (gain)/loss, net	(11,033)	5,666
Other non-cash expense	-	(983)
Changes in working capital, excluding cash:		
Prepayments to suppliers	(12,800)	(1,092)
Inventories	(29,142)	(24,767)
VAT receivable	(4,876)	3,416
Other current assets	8,434	430
Accounts payable and accrued liabilities	16,775	(406)
Taxes payable	3,188	(1,557)
Net cash provided by operating activities	**68,791**	**(2,102)**
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(63,261)	(40,322)
Proceeds from the sale of property, plant and equipment	-	2,316
Acquisition of subsidiaries and minority interest, net of cash acquired	(30,902)	(10,250)
Cash and cash equivalents of subsidiaries disposed of	(13,447)	-
Repayment of loans provided to third parties	-	7,083
Loans provided to related parties	(764)	(75,745)
Net cash used in by investing activities	**(108,374)**	**(116,918)**
Cash flows from financing activities		
Proceeds from short-term loans and borrowings	268,223	109,096
Repayment of short-term loans and borrowings	(192,983)	(207,361)
Proceeds from long-term loans and borrowings	194,295	201,695
Repayment of long-term loans and borrowings	(223,480)	(244,390)
Proceeds from issuance of shares, net of transaction costs of U.S. Dollar 10,716	-	299,283
Bonus received from the depositary	-	8,560
Repayments of loans and borrowings from related parties	(2)	(4,576)
Principal payments on capital lease obligations	(2,394)	(4,189)
Net cash provided by financing activities	**43,659**	**158,118**
Exchange effects on cash balances	233	130
Cash and cash equivalents at the beginning of the year	**5,019**	**6,532**
Net increase in cash and cash equivalents	4,309	39,228
Cash and cash equivalents at the end of the period	**9,328**	**45,760**
Supplementary cash flow information		
Interest paid	8,744	26,183
Income taxes paid	10,947	9,645
Non-cash additions to property, plant and equipment – capital lease	-	1,681

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

OPEN JOINT STOCK COMPANY POLYMETAL

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (UNAUDITED)

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

	Note	Number of shares outstanding	Share capital	Additional paid-in capital	Treasury shares	Accumulated other comprehend-sive income	Retained earnings	Total shareholders' equity
Balance at December 31, 2006		**275,000,000**	**6,397**	**56,710**	**-**	**10,447**	**118,680**	**192,234**
Comprehensive income:								
Net loss			-	-	-	-	(7,732)	(7,732)
Currency translation adjustment			-	-	-	10,519	-	10,519
Total comprehensive income								2,787
Share issuance, net of transaction costs of 10,716	8	40,000,000	301	298,982	-	-	-	299,283
Share based compensation				4,116	-	-	-	4,116
Balance at June 30, 2007		**315,000,000**	**6,698**	**359,808**	**-**	**20,966**	**110,948**	**498,420**
Comprehensive income:								
Net loss			-	-	-	-	(15,094)	(15,094)
Currency translation adjustment			-	-	-	35,242	-	35,242
Total comprehensive income								20,148
Amortization of the bonus received from depositary			-	853	-	-	-	853
Share based compensation			-	6,468	-	-	-	6,468
Acquisition of treasury shares	8	(5,540,323)	-	-	(50)	-	-	(50)
Balance at December 31, 2007		**309,459,677**	**6,698**	**367,129**	**(50)**	**56,208**	**95,854**	**525,839**
Comprehensive income:								
Net loss			-	-	-	-	43,110	43,110
Currency translation adjustment			-	-	-	24,299	-	24,299
Total comprehensive income								67,409
Amortization of the bonus received from depositary			-	464	-	-	-	464
Share based compensation			-	31,902	-	-	-	31,902
Reissuance of shares under employee share plan	9	1,826,853	-	(16)	16	-	-	-
Balance at June 30, 2008		**311,286,530**	**6,698**	**399,479**	**(34)**	**80,507**	**138,964**	**625,614**

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

(In thousands of U.S. Dollars)

1. BACKGROUND

Ownership structure

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

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

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

In June 2008 Nafta Moskva (Cyprus) Limited sold all of its interest in the Company (68.0%) to three parties: Quotan International Limited (24.05%), ultimate beneficiary owner of which is Alexander Nesis, PPF Group NV, ultimate beneficiary owner of which is Petr Kellner (24.9%), and Inure Enterprises Limited, ultimate beneficiary owner of which is Alexander Mamut (19.05%). Another 17.1% of the Company's shares are held by Deutsche Bank Trust Company Americas and as at June 30, 2008 there are no such other shareholders who hold more than 10% of the total share capital of the Company.

Mr. V. N. Nesis, the General Director of JSC "Polymetal", has a close family relationship with the owner of CJSC ICT. Accordingly, transactions with companies of the ICT group are disclosed in these unaudited condensed consolidated interim financial statements as related party transactions for all periods presented.

Composition of the Group

The Company and its subsidiaries are collectively referred to as "the Group". As at June 30, 2008, the Company had the following significant mining subsidiaries:

Name of subsidiary	Field	Voting interest, %	Effective ownership interest, %
CJSC Zoloto Severnogo Urala	Vorontsovkoye	100	100
JSC Okhotskaya GGC	Khakandjinskoye, Urjevskoe	100	100
CJSC Serebro Magadana	Lunnoe, Arylakh, Dukat	100	100

On April 1, 2008 the Group mergered two of its subsidiaries – CJSC Serebro Territorii and CJSC Serebro Magadana. Starting from the second quarter of 2008 all production activities of these subsidiaries are performed by CJSC Serebro Magadana. Other changes in the Group structure and voting and ownership interests in major production subsidiaries in the six months ended June 30, 2008 and 2007 are described in Notes 13 and 14.

Business activities

The Group is engaged in gold and silver mining and related activities, including exploration, extraction, processing and reclamation. Since incorporation, the Group has acquired a number of gold and silver mining properties, which require significant investment to bring to commercial production. The Group owns producing assets at Vorontsovkoye and Lunnoe fields, Dukat and Khakandjinskoye mines.

The Group has three reportable segments which are based on regional locations in Russia. All of the Group's customers, operations and assets are located in Russia.

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

2. BASIS OF PRESENTATION

The unaudited condensed consolidated interim financial statements included herein are unaudited and have been prepared using accounting policies consistent with the accounting principles generally accepted in the United States of America ("U.S. GAAP") and in accordance with Accounting Principles Board ("APB") Opinion No. 28, *Interim Financial Reporting* ("APB No. 28") and do not include all disclosures required by U.S. GAAP. The Group omitted disclosures which would substantially duplicate the information contained in its 2007 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Group has provided disclosures where significant events have occurred subsequent to the issuance of its 2007 audited consolidated financial statements. Management believes that the disclosures are adequate to make the information presented not misleading if these unaudited condensed consolidated interim financial statements are read in conjunction with the Group's 2007 audited consolidated financial statements and the notes thereto. In the opinion of management, the financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the Group's financial position, results of operations, changes in shareholders' equity and cash flows for the interim periods.

The results of operations for the six months ended June 30, 2008 may not be indicative of the operating results for the full year.

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

Recent issued accounting pronouncements

Accounting pronouncements effective during the period

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 creates a fair value hierarchy, which prioritizes the inputs that should be used in determining fair value.

Under this pronouncement, companies must provide disclosures containing relevant information in the financial statements, allowing users to assess inputs used to measure fair value, as well as the effect of those measurements on earnings for the periods presented, including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities. In February 2008, the FASB issued Staff Position No. 157-2, *Effective Date of FASB Statement No. 157* ("FSP No. 157-2"), which defers the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities that are not currently recognized or disclosed at fair value in the financial statements to the first quarter of 2009. The Group does not expect any material impact on its results of operations, financial position or cash flows on adoption of SFAS No. 157 for these nonfinancial assets and liabilities. The effectiveness date of January 1, 2008 applies to all other assets and liabilities within the scope of this statement. The adoption of SFAS No. 157 in 2008 did not have a material impact on the Group's unaudited condensed consolidated interim financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financials Liabilities – Including an Amendment of FASB Statement No. 115* ("SFAS No. 159"). This standard permits, but does not require, measurement of certain financial assets and financial liabilities at fair value. If the fair value option is elected, the unrealized gains and losses are reported in earnings at each reporting date. Generally, the fair value option may be elected on an instrument-by-instrument basis, as long as it is applied to the instrument in its entirety. The fair value option election is irrevocable, unless a new election date occurs. SFAS No. 159 requires prospective application and also establishes certain additional presentation and disclosure requirements. The standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Group adopted the provisions of SFAS No. 159 effective January 1, 2008. Management has decided not to designate any additional financial instruments to be accounted for at the fair value effective January 1, 2008 and therefore the adoption did not have an impact on the Group's unaudited condensed consolidated interim financial statements.

In May 2007, the FASB issued FASB Staff Position FIN 39-1, *Amendment of FASB Interpretation No. 39* ("FSP FIN 39-1"). FSP FIN 39-1 modifies FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts* ("FIN No. 39") and permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. The adoption of FSP FIN 39-1 in 2008 did not have a material impact on the Group's unaudited condensed consolidated interim financial statements.

Accounting pronouncements effective in the future

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ("SFAS No. 141R"). SFAS No. 141R significantly changes the accounting for business combinations. Under SFAS No. 141R, an acquirer entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions.

SFAS No. 141R will change the accounting treatment for certain specific acquisition related items including expensing acquisition related costs as incurred, valuing noncontrolling interest at fair value at the acquisition date and expensing restructuring costs associated with the acquired business. SFAS No. 141R is to be applied prospectively to the business combinations for which the acquisition date is on or after January 1, 2009. The Group is currently assessing the impact of adopting the statement.

In March 2008, the FASB issued SFAS No. 161, *Disclosure about Derivative Instruments and Hedging Activities* ("SFAS No. 161"). This statement improves financial reporting about derivative instruments and hedging activities by enhanced disclosures of their effects on entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. The Group is currently assessing the impact of adopting the statement.

In April 2008, the FASB issued SFAS No. 142-3, *Determination of the Useful Life of Intangible Assets* ("SFAS No. 142-3"). SFAS No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008 and interim periods within those fiscal years, with early adoption prohibited. The Group is currently assessing the impact of adopting the statement.

In February 2008, the FASB issued Staff Position No. FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* ("FSP No. FAS 140-3"). This FSP applies to a repurchase financing, which is a repurchase agreement that relates to a previously transferred financial asset between the same counterparties (or consolidated affiliates of either counterparty), that is entered into contemporaneously with, or in contemplation of, the initial transfer. The objective of this FSP is to provide guidance on accounting for a transfer of a financial asset and a repurchase financing. This FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same agreement (linked transaction) under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("SFAS No. 140"). However if certain criteria are met, the initial transfer and repurchase financing shall not be evaluated as a linked transaction and shall be evaluated separately under SFAS No. 140. This FSP is effective for statements issued for fiscal years and interim periods beginning after November 15, 2008. Earlier application is not permitted. The Group is currently evaluating the potential impact, if any, that the adoption of the FSP No. FAS 140-3 will have on its financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, *the Hierarchy of Generally Accepted Accounting Principles* ("SFAS No. 162"), which identifies a consistent framework for selecting the accounting principles to be used in preparing financial statements for nongovernmental entities that are presented in conformity with US GAAP. The current GAAP hierarchy was criticized due to its complexity, ranking position of FASB Statements of Financial Accounting Concepts and the fact that it is directed at auditors rather than entities. SFAS No. 162 will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*.

The FASB does not expect that SFAS No. 162 will change the current practice, and the Group does not believe that SFAS No. 162 will have an impact on its financial position, results of operations or cash flows.

(In thousands of U.S. Dollars)

Use of estimates

The preparation of unaudited condensed consolidated interim financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, including discussion and disclosure of contingent liabilities. Significant areas requiring the use of management estimates relate to the determination of mineral reserves, mine closure liabilities, reclamation and environmental obligations, impairment of assets, amount of contingent consideration in business combinations 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 all its subsidiaries domiciled in the Russian Federation. Most of the Group'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.

As a result, the transactions and balances in the accompanying unaudited condensed consolidated interim financial statements have been translated into U.S. Dollars in accordance with the relevant provisions of SFAS No. 52, *Foreign Currency Translation*. 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.

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. Assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in the effect at the balance sheet date.

The following exchange rates were used at the reporting dates:

Rubles to	**June 30, 2008**	**December 31, 2007**	**June 30, 2007**
U.S. Dollar	23.46	24.55	25.82
Average exchange rate for the six months period, U.S. Dollars	24.01	25.19	26.07

3. RECENTLY ADOPTED ACCOUNTING PRINCIPLES

Principles of consolidation

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

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

(In thousands of U.S. Dollars)

Investments in incorporated joint ventures

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

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

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

4. RECLASSIFICATIONS

Certain comparative information presented in the consolidated balance sheet as at December 31, 2007 has been reclassified in order to achieve comparability with the presentation used in the consolidated balance sheet as at June 30, 2008. After considering all relevant quantitative and qualitative information, the Group concluded that these reclassifications are not material to the condensed consolidated interim financial statements for the six months ended June 30, 2007:

	Before reclassifications	After reclassifications	Difference
General, administrative and selling expenses	16,603	20,719	4,116
Other operating expenses	14,719	10,603	(4,116)
Total	**31,322**	**31,322**	**-**

In the consolidated statement of operations for the six months ended June 30, 2007, share based compensation was presented in other operating expenses. In the consolidated statement of operations for the six months ended June 30, 2008, it was decided to present such expense in general, administrative and selling expenses.

5. INVESTMENTS IN AFFILIATES

Investments in affiliates as of June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008		December 31, 2007	
	Voting power, %	Carrying value	Voting power, %	Carrying value
Asgat Polymetal LLC	50	281	50	269
Joint Venture with Anglogold Ashanti Limited	50	28,822	-	-
Total		**29,103**		**269**

(In thousands of U.S. Dollars)

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

The investment in the JV represents investments in several companies. As of February 14, 2008 and June 30, 2008 these investments included:

	Ownership interest, %
CJSC Enisey Mining and Geological Company	50
Imitzoloto LLC	50
Amikan LLC	50
AS APK LLC	50
Zoloto Taigi LLC	50

The aggregate financial position and results of operations of these companies as of June 30, 2008 and for the period from February 14, 2008 to June 30, 2008 (unaudited) are as follows:

As of June 30, 2008

Non-current assets	87,016
Current assets	16,284
Non-current liabilities	(2,109)
Current liabilities	(28,271)

For the period from February 14, 2008 to June 30, 2008

Net loss	4,981

6. SHORT-TERM LOANS AND CURRENT PORTION OF LONG-TERM LOANS

	Interest rate	**June 30, 2008**	**December 31, 2007**
U.S. Dollar denominated			
VTB	3m LIBOR +4.95%	34,150	-
Total U.S. Dollar denominated		**34,150**	**-**
Russian Ruble denominated			
ABN Amro Bank	MosPrime overnight rate*1.2+2%	7,053	-
Total Russian Ruble denominated		**7,053**	**-**
Current portion of long-term debt (see Note 7)		187,985	152,006
Total		**229,188**	**152,006**

(In thousands of U.S. Dollars)

Short-term debt facilities are not collateralized.

7. LONG-TERM LOANS

	Interest rate	June 30, 2008	December 31, 2007
U.S. Dollar denominated			
Sberbank	LIBOR + 3.75%	117,480	98,000
VTB	LIBOR + 4.95%	68,600	-
Gazprombank	7.5% – 9.8%	20,900	15,200
ABN Amro Bank	LIBOR + 2%	20,405	50,525
Bank Uralsib	8%	-	44,000
Total U.S. Dollar denominated		**227,385**	**207,725**
Russian Ruble denominated			
Gazprombank	8%	-	15,481
Loans from related parties		-	2
Total Russian Ruble denominated		-	**15,483**
Total long-term debt		**227,385**	**223,208**
Less current portion of long-term debt (see Note 6)		(187,985)	(152,006)
Total		**39,400**	**71,202**

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

	June 30, 2008
Year ending June 30, 2009	187,985
2010	39,400
Total	**227,385**

Sberbank

In December 2006, the Group received a long-term loan facility from Sberbank of Russia which allows Group to borrow up to U.S. Dollar 153,000 to finance its current operations, contract financing, including replenishment of working capital. The credit facility expires in December 2009. Interest is payable monthly, and is based on LIBOR plus 3.75% from March 01, 2008 (December 31, 2007: LIBOR plus 2%), which resulted in rates of 6.55% and 6.84% as at June 30, 2008 and December 31, 2007, respectively. As at June 30, 2008, the outstanding balance under the credit facility was U.S. Dollar 117,480.

The Group has to comply with certain financial and non-financial covenants. The loan agreement restricts the Group 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);
(iv) Not fulfilling the Group's obligations to deliver to Sberbank an agreed quantity of gold and silver (see Note 16);
(v) Transferring less than 50% of revenue from precious metals sales to Group's accounts at Sberbank;
(vi) Presence of outstanding liabilities to Sberbank in respect of other contracts;
(vii) Significant worsening of financial position of the Group which can affect the ability to repay the loan.

VTB

In March 2008, The Group received a long-term facility from VTB which allows the Group to borrow up to U.S. Dollar 100,000 to finance its current operations. The credit facility expires in March 2009. Interest is payable on a monthly basis, and is based on LIBOR plus 4.95% which resulted in rate of 7.75% as at June 30, 2008.

Covenants to the loan agreements require the Group to maintain certain financial ratios, prohibit any change to the general nature of the business and limit the disposal of assets.

Under the loan facility agreement with VTB, the Group has to comply with certain financial and non-financial covenants. The loan facility agreement restricts the Group from:

(i) Disposing of property that exceeds 10% of Group's assets;
(ii) Undertaking any type of corporate reorganization (including mergers and demergers);
(iii) Creating or incurring other forms of financial indebtedness (such as obtaining loans or granting guarantees).

ABN Amro Bank

In December 2006, the Group 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 installments commencing in June 2007 up to the last installment in December 2008. Interest is payable monthly and is based on LIBOR plus 2%, which resulted in rates of 4.46% and 6.49% as at June 30, 2008 and December 31, 2007, respectively. Under the loan agreement with ABN Amro, the Group has to comply with certain financial and non-financial covenants. The loan agreement restricts the Group 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 the prior written consent of ABN Amro except for the offer and listing of up to 40% of the Company's share capital.

The loan agreement restricts the Company's ability to pay dividends for any of its financial years during the term of the loan or to make acquisitions in excess of U.S. Dollar 5 million without the prior written consent of ABN Amro.

As at June 30, 2008 and December 31, 2007, property, plant and equipment with a carrying value of U.S. Dollar 10,949 was pledged as collateral for the loan from ABN Amro.

Gazprombank

In September 2007, the Group received a long-term facility from Gazprombank which allows the Group to borrow funds, denominated in either U.S. Dollar or rubles, up to U.S. Dollar 65,892 to finance its current operations. The credit facility is valid until December 2008. Interest is payable on a monthly basis.

Covenants to the loan agreements require the Group to maintain certain financial ratios, prohibit change to the general nature of the business and limit the disposal of assets.

The Group is in compliance with all restrictive provisions of the loan agreements as at June 30, 2008.

8. SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

As at June 30, 2008 and December 31, 2007, authorized share capital of the Company comprised of 2,444,000,000 ordinary shares with a par value of Ruble 0.2 per share and 100,000 series A preference shares with a par value of Ruble 100.

As at June 30, 2008 and December 31, 2007, issued share capital of the Company comprised of 315,000,000 ordinary shares, respectively, with a par value of Ruble 0.2 per share. As at June 30, 2008 and December 31, 2007, outstanding share capital of the Company comprised of 311,286,530 and 309,459,677 ordinary shares, respectively, with a par value of Ruble 0.2 per share. No preference shares were issued or outstanding.

As discussed in Note 1, in February 2007, the Company placed 40,000,000 ordinary shares with a par value of Ruble 0.2 per share in the form of GDR's on the London Stock Exchange.
The Company received U.S. Dollar 307,844 in cash, which was reduced by transaction costs of U.S. Dollar 10,716.

In September 2007, as part of the Group's acquisition of Polymetal ESOP, the Group acquired 5,540,323 treasury shares. In February 2008, options to purchase 1,826,853 ordinary shares were exercised by the employees in accordance with share option plan (see Note 9).

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

The Company has potentially dilutive securities including the Group's share option plan, which was established during 2007 (see Note 9).

(In thousands of U.S. Dollars)

Basic/dilutive earnings/(loss) per share were calculated by dividing net income/(loss), as appropriate, by the weighted average number of outstanding common shares before/after dilution. The calculation of the weighted average number of outstanding common shares after dilution for the six months ended June 30, 2008 and 2007 is as follows:

	Six months ended June 30, 2008	**Six months ended June 30, 2007**
Weighted average number of outstanding common shares, thousands of shares	310,829,817	301,666,667
Add back treasury shares held in respect of share option plan	4,147,256	3,672,417
Weighted average number of outstanding common shares after dilution, thousands of shares	314,977,073	305,339,084

9. SHARE-BASED PAYMENTS

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

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

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

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

	Number of shares	**Weighted average exercise price (per share), U.S. Dollar**	**Weighted average fair value of options (per share), U.S. Dollar**	**Aggregate intrinsic value, U.S. Dollar**
Outstanding at December 31,2007	**5,309,485**	**0.04**	**6.97**	**37,693**
Granted	-	-	-	-
Exercised	(1,826,853)	0.04	6.97	(10,041)
Forfeited	230,847	0.04	6.97	1,833
Outstanding at June 30, 2008	**3,713,479**	**0.04**	**6.97**	**29,485**

(In thousands of U.S. Dollars)

As at June 30, 2008 the Group had the following share options outstanding:

Exercise prices, U.S. Dollar	Number of shares	Remaining weighted average life in years	Average intrinsic value
0.04	3,713,479	0.16	7.94

The fair value of share options granted during the year ended December 31, 2007, was estimated using the Black-Scholes option pricing model. The following assumptions were used to value share based awards:

- *Expected forfeitures*. This assumption is estimated using historical trends of employees turnover. As the Group typically only grants options to senior employees and the turnover rate for such employees is minimal, the Group has estimated expected forfeitures to be 5% a year.
- *Expected volatility*. Since the Group's ordinary shares are publicly traded only since February 2007, expected volatility has been estimated based on an analysis of the historical stock price volatility of comparable public companies for a preceding period equal to the expected term of the option grant being valued.
- *Expected term*. As the option plan has a three year vesting condition and the participant may exercise his right to redeem shares within three month of the date of obtaining the right to do so, the Group has estimated expected term as three years.
- *Fair value of common stock* is equal to the market price of underlying shares at the grant date.
- *Risk-free interest rate*. To estimate the risk-free rate, the Group used the implied yield currently available on Russian Sovereign Eurobonds with a remaining term equal to the expected term of the option grant being valued.

Risk free rate	5.5%
Expected dividend yield	nil
Expected volatility	35.0%
Expected life, years	3
Fair value of shares, U.S. Dollars	7.05

For the six months ended June 30, 2008, share based compensation in the amount of U.S. Dollar 31,902 (for the six months ended June 30, 2007 – U.S. Dollar 4,116) was recognized in general, administrative and selling expenses. As at June 30, 2008, the Group had no unrecognized share based compensation.

(In thousands of U.S. Dollars)

10. REVENUES

	Six months ended June 30, 2008	Six months ended June 30, 2007
Sales of precious metals		
Sberbank	132,450	67,854
ABN Amro Bank	77,227	50,754
VTB	45,392	-
Gazprombank	2,782	-
Uralsib	-	18,597
Total sales of precious metals	**257,851**	**137,205**
Other sales	970	1,828
Total	**258,821**	**139,033**

Revenues from Sberbank, ABN Amro Bank, VTB and Gazprombank individually exceed 10% of total revenue of the Group for the six months ended June 30, 2008. Revenue from Sberbank was included in revenue of the North Ural segment – U.S. Dollar 39,574; the Khabarovsk segment – U.S. Dollar 47,885; and the Magadan segment – U.S. Dollar 44,991. Revenue from VTB was included in revenue of the North Ural segment – U.S. Dollar 11,348; the Khabarovsk segment – U.S. Dollar 10,111; and the Magadan segment – U.S. Dollar 23,933. Revenue from ABN Amro Bank and Gazprombank were entirely included in revenue of the Magadan Segment.

Revenues analyzed by geographical regions are presented below:

	Six months ended June 30, 2008	Six months ended June 30, 2007
Sales within the Russian Federation	181,594	88,249
Sales to Europe	77,227	50,754
Total	**258,821**	**139,033**

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

	Six months ended June 30, 2008			**Six months ended June 30, 2007**		
	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	124	917.09	113,719	94	660.23	61,992
Silver	8,437	17.08	144,132	8,366	8.99	75,213
Total			**257,851**			**137,205**

(In thousands of U.S. Dollars)

During the six months of 2007, the Group delivered silver to ABN Amro Bank at fixed prices as determined by the terms of the sales contract ranging from U.S. Dollar 7.79 to U.S. Dollar 7.82 per troy ounce for total sales of 6,511,490 troy ounces. The variance between the sales at fixed prices under the contract as compared to market prices quoted on the London Bullion Market Association ("LBMA") resulted in a reduction to revenues of U.S. Dollar 33,989.

Discounts from the LBMA market prices on sales to banks for the six months ended June 30, 2008, amounted to U.S. Dollar 730 (2007: U.S. Dollar 416) for gold and U.S. Dollar 4,111 (2007: U.S. Dollar 1,758) for silver sales. Sales are recorded in the unaudited condensed consolidated interim financial statements net of discounts.

11. INCOME TAX

	Six months ended June 30, 2008	Six months ended June 30, 2007
Current income taxes	27,624	6,471
Deferred income taxes	1,015	(2,409)
Total	**28,639**	**4,062**

A reconciliation between the reported amount of income tax expense attributable to income/(loss) before minority interest and the amount of income tax expense that would result from applying the statutory income tax rate for the six months ended June 30, 2008 and 2007 is as follows:

	Six months ended June 30, 2008	Six months ended June 30, 2007
Income/(loss) before income tax and minority interest	**63,340**	**(3,670)**
Statutory income tax expense/(benefit) at tax rate of 24 percent	15,202	(881)
Share based compensation	7,656	988
Permanent tax differences (non-deductible expenses)	5,781	3,955
Total income tax expense	**28,639**	**4,062**

The actual tax expense differs from the amount which would have been determined by applying the statutory rate of 24% (2006: 24%) to the income/(loss) from operations before tax 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. These deductions include social related expenditures and other non-production costs, certain general, administrative, financing, foreign exchange related and other costs.

(In thousands of U.S. Dollars)

12. SEGMENTS

The Group has three reportable segments:

- North Ural region (CJSC Zoloto Severnogo Urala);
- Khabarovsk region (JSC Ohotskaya GGC); and
- Magadan region (CJSC Serebro Magadana).

The reportable segments are determined based on the Group's geographic regional profile. Minor companies (management, exploration, purchasing and other companies) which were not included into operating segments, were included into Corporate and other.

Segment results comprises of segment gross profit, calculated as segment revenues less cost of sales for each segment. Segment expenses represent cost of sales, which are costs incurred to produce gold 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.

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

For the six months ended June 30, 2008	**North Ural**	**Khabarovsk**	**Magadan**	**Corporate and other**	**Total**
Revenue from external customers	50,937	58,017	149,068	799	258,821
Revenue from intersegment operations	211	16	85	76,126	76,438
Cost of sales	24,531	27,594	71,201	59,455	182,781
Gross profit of segments	**26,617**	**30,439**	**77,952**	**17,470**	**152,478**
Elimination of intersegment profits					13,463
Gross profit					**139,015**
Other expenses, net					95,905
Net income					**43,110**

(In thousands of U.S. Dollars)

As of June 30, 2008	North Ural	Khabarovsk	Magadan	Corporate and other	Total
Segment assets:					
Property, plant and equipment, net	94,279	147,017	220,604	88,002	549,902
Inventories, prepayments to suppliers and VAT receivable	130,219	144,959	148,075	154,297	577,550
Goodwill	-	17,363	10,656	1,729	29,748
Total segment assets	**224,498**	**309,339**	**379,335**	**244,028**	**1,157,200**
Unallocated assets:					
Cash and cash equivalents					9,328
Other assets					72,879
Elimination of intersegment debts					(216,905)
Total assets					**1,022,502**
Acquisition of non-current assets	3,003	9,831	15,192	19,418	**47,444**

For the six months ended June 30, 2007	North Ural	Khabarovsk	Magadan	Corporate and other	Total
Revenue from external customers	28,039	35,593	74,945	456	139,033
Revenue from intrasegment operations	1,310	1,747	2,738	48,219	54,014
Cost of sales	24,278	22,887	68,340	38,852	154,357
Gross profit of segments	**5,071**	**14,453**	**9,343**	**9,823**	**38,690**
Elimination of intersegment profits					4,052
Gross profit					**34,638**
Other expenses, net					42,370
Net loss					**(7,732)**

(In thousands of U.S. Dollars)

As of December 31, 2007	North Ural	Khabarovsk	Magadan	Corporate and other	Total
Segment assets:					
Property, plant and equipment, net	96,269	145,229	190,265	70,707	502,470
Inventories, prepayments to suppliers and VAT receivable	64,259	74,233	139,426	183,480	461,398
Goodwill	-	16,592	10,183	3,366	30,141
Total segment assets	**160,528**	**236,054**	**339,874**	**257,553**	**994,009**
Unallocated assets:					
Cash and cash equivalents					5,019
Other assets					32,177
Elimination of intersegment debts					(173,351)
Total assets					**857,854**
Acquisition of non-current assets	4,454	4,181	8,944	13,742	**31,321**

13. ACQUISITION OF SUBSIDIARIES

JSC Omolon Gold Mining Company

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

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

(In thousands of U.S. Dollars)

This acquisition was accounted for using the purchase method. The allocation of the purchase price has not been finalized as of the date of these statements. The preliminary purchase price allocation for the acquisition was as follows:

Assets acquired and liabilities assumed at the date of acquisition

Deferred tax asset	16,179
Other current assets	16,075
Deferred tax liability	(2,550)
Other liabilities	(15,025)
Cash paid on acquisition	15,811
Contingent consideration	5,459
Intercompany debt	(15,000)
Extraordinary gain	8,409

14. DISPOSAL OF SUBSIDIARIES

In February 2008, the Group contributed 100% of the shares in CJSC Enisey Mining and Geological Company and Imitzoloto LLC, holding Anenskoye and Aprelovskoye gold mining licensees, respectively, to form the joint venture with AngloGold Ashanti Limited (see Note 5).

Book value of the net assets disposed was as follows:

Assets and liabilities disposed of as at the date of disposal

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

15. RELATED PARTY TRANSACTIONS

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

In June 2007 the Group sold remaining 85% in CJSC GRK Dukat for U.S. Dollar 0.3 to a related party. CJSC GRK Dukat did not perform any operations during 2006 and 2007. The amount of net assets at the date of disposal comprised U.S. Dollar 0.01.

As at June 30, 2008 and December 31, 2007 the amount of outstanding short-term loans provided to related parties comprised U.S. Dollar 7,167 and U.S. Dollar 6,119 respectively. Interest income for periods ended June 30, 2008 and June 30, 2007 was U.S. Dollar 294 and U.S. Dollar 39, respectively.

16. COMMITMENTS AND CONTINGENCIES

Operating environment

In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Russia, notwithstanding any potential economic stabilisation measures that may be put into place by the Russian Government, there exists as at the date that these financial statements were authorised for issue, economic uncertainties surrounding the continual availability, and cost, of credit both for the Group and its counterparties, and the potential for economic uncertainties to continue in the foreseeable future. As a consequence, there exists the potential that assets may be not be recovered at their carrying amount in the ordinary course of business, with a corresponding impact on the Group's profitability.

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 activities of the companies of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in its interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Out of the large operating companies of the Group, tax authorities audited JSC Okhotskaya GGC and CJSC Serebro Magadana for the period up to 2004, and CJSC Zoloto Severnogo Urala for the period up to 2006. Nevertheless, according to the Russian tax legislation previously conducted audits do not fully exclude subsequent claims relating to the audited period.

The Group has identified contingencies related to taxes other than income tax. Such possible tax contingencies could materialize and require the Group to pay additional amounts of tax. As at June 30, 2008 management estimates such contingencies related to taxes other than income tax to be up to approximately U.S. Dollar 1,469 including penalties and interest U.S. dollar 109. The Group believes the estimated losses related to these contingencies is not probable and, as such, has not been accrued for at June 30, 2008.

Forward sales commitments

The Group was required to deliver a minimum quantity of 4,501,101 troy ounces of silver to ABN Amro over the period from January 1, 2008 to December 31, 2008 at the London silver fix price. As at June 30, 2008 Group completed its performance and was discharged of this obligation.

In connection with the General Framework Credit Line Agreement dated December 6, 2006 entered into between Sberbank and the Company's subsidiaries, CJSC Zoloto Severnogo Urala and JSC Okhotskaya GGC, the Group is required to sell certain quantity of gold and silver calculated based on the amount of loan facility outstanding to Sberbank during 2008 at the price determined by LBMA.

17. SUBSEQUENT EVENTS

In August 2008 the Group acquired 100% of shares in LLC Ural Exploration Enterprise from Russian Copper Company, an unrelated party, for U.S. Dollar 6,203.

In August 2008, 3,713,479 ordinary shares were transferred to the employees in accordance with the share option plan (see Note 9).