Open Joint Stock Company Polymetal

Unaudited Condensed Consolidated Interim Financial Statements
For The Six Months Ended June 30, 2009 and 2008

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, 2009 AND 2008

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, 2009 and December 31, 2008, and the results of its operations, cash flows and changes in shareholders' equity for the six months ended June 30, 2009 and 2008, 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 judgements 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 unaudited condensed consolidated 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, 2009 and 2008 were approved by management on September 25, 2009:

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 Open Joint Stock Company "Polymetal":

We have reviewed the accompanying unaudited condensed consolidated balance sheet of JSC "Polymetal" and its subsidiaries (the "Group") as at June 30, 2009 and the related unaudited condensed consolidated statements of operations, cash flows, and changes in shareholders' equity for the six months ended June 30, 2009 and 2008. 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.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Group as at December 31, 2008, and the related consolidated statements of operations, cash flows and changes in shareholders' equity (not presented herein) for the year then ended; and in our report dated April 28, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as at December 31, 2008 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Deloitte & Touche

September 25, 2009

OPEN JOINT STOCK COMPANY POLYMETAL

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
AT JUNE 30, 2009 AND DECEMBER 31, 2008
(In thousands of U.S. Dollars, except share and per share data)

	Note	June 30, 2009	December 31, 2008
Assets			
Cash and cash equivalents		6,589	4,077
Prepayments to suppliers		12,399	11,827
Inventories	3	218,450	202,419
Short-term VAT receivable		55,111	62,718
Short-term deferred tax asset		5,911	11,758
Other current assets		28,024	23,862
Total current assets		**326,484**	**316,661**
Property, plant and equipment, net	11	582,491	484,134
Goodwill	11	43,250	23,741
Investments in joint ventures		14,975	18,124
Long-term investments in related parties		32,337	8,214
Long-term VAT receivable		10,135	13,953
Long-term deferred tax asset		33,013	11,648
Total non-current assets		**716,201**	**559,814**
Total assets		**1,042,685**	**876,475**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities		42,521	28,738
Short-term debt and current portion of long-term debt	4	422,868	316,369
Taxes payable		10,612	10,060
Short-term deferred tax liability		5,256	6,338
Derivative liability	11,14	26,939	-
Total current liabilities		**508,196**	**361,505**
Long-term accounts payable and accrued liabilities		4,857	4,523
Long-term debt	5	25,151	-
Long-term deferred tax liability		28,119	29,458
Reclamation and mine closure obligation		29,803	26,128
Deferred payments		4,288	5,193
Total non-current liabilities		**92,218**	**65,302**
Total liabilities		**600,414**	**426,807**
Commitments and contingencies	15	-	-
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, 2009 and December 31, 2008; 314,975,000 shares and 315,000,000 shares outstanding at June 30, 2009 and December 31, 2008, respectively)	6	6,698	6,698
Additional paid-in capital		400,614	400,122
Treasury shares at cost (25,000 ordinary shares as at June 30, 2009)		(223)	-
Accumulated other comprehensive loss		(63,886)	(37,276)
Retained earnings		99,068	80,124
Total shareholders' equity		**442,271**	**449,668**
Total liabilities and shareholders' equity		**1,042,685**	**876,475**

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

OPEN JOINT STOCK COMPANY POLYMETAL

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(In thousands of U.S. Dollars, except share and per share data)

	Note	June 30, 2009	June 30, 2008
Revenues	7	219,617	258,821
Cost of sales		112,418	119,806
Gross profit		**107,199**	**139,015**
General, administrative and selling expenses		26,736	58,774
Other operating expenses		11,898	18,581
Operating income		**68,565**	**61,660**
Interest expense		14,442	6,864
Change in fair value of derivatives	11,14	13,919	-
Loss from investments in joint ventures		1,734	2,490
Exchange loss/(gain), net		5,468	(11,034)
Income before income tax and extraordinary gain		**33,002**	**63,340**
Income tax expense	8	14,058	28,639
Income before extraordinary gain		**18,944**	**34,701**
Extraordinary gain – Excess of fair value of acquired net assets over cost	10	-	(8,409)
Net income		**18,944**	**43,110**
Basic and diluted earnings per share (expressed in U.S. Dollars):	6		
Earnings per share from continued operations		0.06	0.11
Earnings per share from extraordinary gain		-	0.03
		0.06	0.14
Weighted average number of shares outstanding		314,998,889	310,829,817

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

OPEN JOINT STOCK COMPANY POLYMETAL

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(In thousands of U.S. Dollars)

	June 30, 2009	June 30, 2008
Cash flows from operating activities		
Net income	18,944	43,110
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and depletion	21,503	26,930
Deferred income tax (benefit)/expense	(43)	1,015
Loss on disposal of property, plant and equipment	2,091	1,059
Extraordinary gain	-	(8,409)
Share based compensation	-	31,902
Change in fair value of derivatives	13,918	-
Loss from investments in joint ventures	1,734	2,490
Exchange loss/(gain), net	5,468	(11,033)
Other non-cash expenses	2,408	148
Changes in assets and liabilities, net of effects from acquisitions (Note 11):		
Prepayments to suppliers	(7,505)	(12,800)
Inventories	724	(29,142)
VAT receivable	13,777	(4,876)
Other current assets	4,605	8,434
Accounts payable and accrued liabilities	9,229	16,775
Taxes payable	1,092	3,188
Net cash provided by operating activities	**87,945**	**68,791**
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(86,072)	(63,261)
Acquisition of subsidiaries and noncontrolling interest, net of cash acquired	(11,946)	(30,902)
Cash and cash equivalents of subsidiaries disposed of	-	(13,447)
Loans provided to third parties	(10,030)	-
Repayment of loans provided to third parties	201	-
Loans provided to related parties	(21,129)	(764)
Repayment of loans provided to related parties	370	-
Net cash used in by investing activities	**(128,606)**	**(108,374)**
Cash flows from financing activities		
Proceeds from short-term loans and borrowings	232,642	268,223
Repayment of short-term loans and borrowings	(240,034)	(192,983)
Proceeds from long-term loans and borrowings	30,241	194,295
Repayment of long-term loans and borrowings	-	(223,480)
Proceeds from short-term loans from related parties	77,265	-
Repayments of short-term loans from related parties	(62,334)	(2)
Proceeds from long-term loans from related parties	93,589	-
Repayments of long-term loans from related parties	(27,295)	-
Repayments of current portion of long-term loans from related parties	(59,931)	-
Principal payments on capital lease obligations	(498)	(2,394)
Purchase of treasury shares	(223)	-
Net cash provided by financing activities	**43,422**	**43,659**
Exchange effects on cash balances	(249)	233
Cash and cash equivalents at the beginning of the period	**4,077**	**5,019**
Net increase in cash and cash equivalents	2,512	4,309
Cash and cash equivalents at the end of the period	**6,589**	**9,328**
Supplementary cash flow information		
Interest paid	21,203	8,744
Income taxes paid	8,438	10,947

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

OPEN JOINT STOCK COMPANY POLYMETAL

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(In thousands of U.S. Dollars, except share data)

	Note	Number of shares outstanding	Share capital	Additional paid-in capital	Treasury shares	Accumulated other comprehensive income/(loss)	Retained earnings	Total shareholders' equity
Balance at January 1, 2008		**309,459,677**	**6,698**	**367,129**	**(50)**	**56,208**	**95,854**	**525,839**
Comprehensive income:								
Net income			-	-	-	-	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
Issuance of treasury shares	6	1,826,853	-	(16)	16	-	-	-
Balance at June 30, 2008		**311,286,530**	**6,698**	**399,479**	**(34)**	**80,507**	**138,964**	**625,614**
Balance at January 1, 2009		**315,000,000**	**6,698**	**400,122**	**-**	**(37,276)**	**80,124**	**449,668**
Comprehensive income:								
Net income			-	-	-	-	18,944	18,944
Currency translation adjustment			-	-	-	(26,610)	-	(26,610)
Total comprehensive loss								(7,666)
Amortization of the bonus received from depositary			-	492	-	-	-	492
Purchase of treasure shares	6	**(25,000)**	-		(223)	-	-	(223)
Balance at June 30, 2009		**314,975,000**	**6,698**	**400,614**	**(223)**	**(63,886)**	**99,068**	**442,271**

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

1. BACKGROUND

Business activities

Open Joint Stock Company Polymetal (hereinafter JSC "Polymetal" or "the Company") and its subsidiaries ("the Group") is engaged in gold 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 fields.

The Group has four reportable segments which are based on regional locations in Russia. All of the Group's operations and assets are located in Russia. The Group conducts sales to the customers in Russia and Western Europe.

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

Ownership structure

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

The Company's majority shareholder prior to November 2005 was Closed Joint Stock Company ICT ("CJSC ICT"), which together with its subsidiaries formed the ICT group. In November 2005, CJSC ICT sold 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 Rubles 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: Powerboom Investments Limited, ultimate beneficiary owner of which is Alexander Nesis (23.97%), Pearlmoon Limited, ultimate beneficiary owner of which is Petr Kellner (24.82%), and Vitalbond Limited, ultimate beneficiary owner of which is Alexander Mamut (19.02%). As at June 30, 2009, the following parties control more than 5% of voting shares in the Company: Deutsche Bank Trust Company Americas (15.94%) and MBC Development limited (5.55%).

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

Operating environment and working capital deficit

During late 2008, a number of major economies around the world experienced volatile capital and credit markets and a number of major global financial institutions were either placed into bankruptcy, taken over by other financial institutions and/or required support through government funding. The Company has been most directly impacted by the credit crisis through an increase in its cost of capital. While there have been improvements in the global markets in recent months, there continues to be uncertainty in the marketplace. As a consequence, notwithstanding any potential economic stabilisation measures that may be put into place by the Russian Government, there exists 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, the potential that assets may be not be recovered at their carrying amount in the ordinary course of business, and a corresponding impact on the Group's profitability.

As at June 30, 2009 the Group's current liabilities exceeded its current assets by U.S. Dollar 181,712 (as at December 31, 2008 – U.S. Dollar 44,844). During 2009, management has continued to focus it efforts on improving the Group's liquidity position primarily through attempting to renegotiate its existing borrowings and obtaining new financing. In connection with these efforts, the Group entered in new debt agreements with existing lenders, including Nomos-Bank, Gazprombank and VTB (see Notes 4 and 5). In addition, the Group was granted the permission to issue up to an additional 84,375,000 common shares. While access to the financing continues to become more difficult than in periods prior to the economic downturn, manegement believes it will be able to obtain any necessary financing through new borrowings or through this issuance of common shares or that it will be able to renegotiate the terms of its current borrowings.

Management believes that current operating cash flows of the Group and measures, described above will ensure the Group continues as a going concern for the foreseeable future.

Composition of the Group

The Company and its subsidiaries are collectively referred to as "the Group". As at June 30, 2009, 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	Dukat, Lunnoe, Arylakh	100	100

2. BASIS OF PRESENTATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with 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 for annual financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its 2008 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 2008 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 2008 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, 2009 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.

Recently issued accounting pronouncements

Accounting pronouncements effective during the reporting period

Effective January 1, 2008, the Group adopted SFAS 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Group elected one-year deferral of the effective date of SFAS 157 permitted by FSP FAS 157-2 for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis (at least annually). Following the one-year deferral permitted FSP FAS 157-2, effective January 1, 2009, the Group adopted SFAS 157 for nonfinancial assets and nonfinancial liabilities measured at fair value on a nonrecurring basis, such as assets and liabilities measured at fair value in a business combination; impaired properties, plants and equipment, intangible assets and goodwill; initial recognition of asset retirement obligations. The adoption of the provisions of SFAS No. 157 did not have a material impact on the Group's results of operations, financial position or cash flows.

In April 2009, the FASB issued FSP FAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ("FSP FAS No. 157-4"). FAS No. 157-4 reaffirms what SFAS No. 157 states is the objective of fair value measurement-to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. FSP FAS No. 157-4 shall be effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Group adopted FSP FAS No. 157-4 starting from unaudited condensed consolidated interim financial statements for the six months ended June 30, 2009. Adoption of FSP FAS No.157-4 did not have a material impact on the Group's financial position and results of operations.

In December 2007, the FASB issued SFAS No. 141 (Revised), *Business combinations* ("SFAS No.141 (R)"). This statement significantly changes the accounting for business combinations. SFAS No. 141(R) and FSP FAS 141(R)-1 are effective on January 1, 2009, for all new business combinations. The Group's acquisitions subsequent to the effective date have been accounted for under the provisions of SFAS No. 141(R) and FSP FAS 141(R)-1, refer to Note 11 ("Subsidiaries, acquisitions, divestitures") for further disclosures, including the impact the adoption has on the Group's financial statements.

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

In December 2008, the FASB issued FSP FAS No.140-4 and FIN No. 46(R)-8, *Disclosures about Transfers of Financial Assets and Interest in Variable Interest Entities* ("FSP FAS No. 140-4 and FIN No. 46 (R)-8"). This FSP amends FASB Statement No. 140, *Accounting for transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and requires additional disclosures about transfers of financial assets. It also amends FASB Interpretation No. 46 (R), *Consolidation of Variable Interest Entities*, and requires public entities, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. The Group adopted FSP FAS No. 140-4 and FIN No. 46(R)-8 effective January 1, 2009, which had no material impact on the Group's consolidated results of operations, financial position or cash flows.

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

In April 2009, the FASB issued FSP FAS No. 107-1 and APB No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ("FSP FAS No. 107-1 and APB No. 28-1"). FSP FAS 107-1 amends SFAS No. 107 and APB Opinion No. 28 to require disclosures about fair value of financial instruments in interim reporting periods for publicly traded companies. This FSP is effective for the second quarter of 2009 and does not require disclosures for earlier periods presented for comparative purposes. The Group has adopted the new disclosure provisions on June 30, 2009. The adoption of this standard did not have a significant impact on the Group's financial statements.

In November 2008, the FASB ratified Emerging Issues Task Force ("EITF") 08-6, *Equity Method Investment Accounting Considerations* ("EITF No. 08-6"). The Group adopted EITF No. 08-6 starting from unaudited condensed consolidated interim financial statements for the six months ended June 30, 2009. The adoption of EITF No. 08-6 did not have a material impact on the Group's consolidated financial position and results of operations.

Accounting pronouncements effective in the future

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140* (SFAS No. 166). SFAS No. 166 amends various provisions of SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities – a replacement of FASB No. 125*, by removing the concept of a qualifying special-purpose entity and removes the exception from applying FIN 46(R) to variable interest entities that are qualifying special-purpose entities; limits the circumstances in which a transferor derecognizes a portion or component of a financial asset; defines a participating interest; requires a transferor to recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer accounted for as a sale; and requires enhanced disclosure; among others. This Statement must be applied as at the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Group is currently assessing the effect of adoption of SFAS No. 166.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, which amends FIN 46(R), *Consolidation of Variable Interest Entities*, to address the effects of the elimination of the qualifying special purpose entity concept in SFAS No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140*, and other concerns about the application of key provisions of FIN 46(R). More specifically, SFAS No. 167 requires a qualitative rather than a quantitative approach to determine the primary beneficiary of a variable interest entity, it amends certain guidance pertaining to the determination of the primary beneficiary when related parties are involved, and it amends certain guidance for determining whether an entity is a variable interest entity. Additionally, this Statement requires continuous assessment of whether an enterprise is the primary beneficiary of a variable interest entity. This Statement shall be effective as at the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The Group is currently assessing the effect of adoption of SFAS No. 167.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles* ("SFAS No. 168"). SFAS No. 168 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. This Statement will be effective for interim and annual reporting ending after September 15, 2009. We do not expect SFAS No. 168 to have a material impact on our consolidated financial statements.

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

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, estimates of recovery rates for the heap leach process, the valuation of inventory, impairment of assets and valuation allowances for deferred tax assets. Actual results could differ from these estimates.

Reporting and functional currency

The Russian Ruble ("Ruble") is 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*. Consequently, assets and liabilities are translated at period closing exchange rates. Revenues, expenses, gains and losses have been translated using period average exchange rates. Translation differences resulting from the use of these exchange rates have been included as a separate component of shareholders' equity.

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 effect at the balance sheet date.

The following exchange rates were used at the reporting dates:

	June 30, 2009	**December 31, 2008**	**June 30, 2008**
U.S. Dollar	31.29	29.38	23.46
Average exchange rate for the the six months period, U.S. Dollars	33.07	25.74	24.01

3. INVENTORIES

	June 30, 2009	**December 31, 2008**
Consumables and spare parts	109,663	101,803
Ore stock piles	42,671	47,225
Work-in-process	51,169	48,912
Dore	11,095	81
Refined metals	3,852	3,840
Other than metal work-in-progress	-	558
Total	**218,450**	**202,419**

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

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

	Interest rate (actual rate as at June 30, 2009)	June 30, 2009	December 31, 2008
Debt from third parties			
U.S. Dollar denominated			
VTB	10.5% – 11.3%	45,061	100,297
UniCredit Bank	Libor + 3.25% (4.09%)	100,438	45,066
Other	13%	6,000	-
Total U.S. Dollar denominated		**151,499**	**145,363**
Russian Rubles denominated			
Khanty-Mansiysk Bank	15%	-	34,491
Other	14% -18.5%	8,216	-
Total Russian Rubles denominated		**8,216**	**34,491**
Total debt from third parties		**159,715**	**179,854**
Debt from related parties			
U.S. Dollar denominated			
Nomos-Bank	12%	80,000	**-**
Total U.S. Dollar denominated		**80,000**	-
Russian Rubles denominated			
Nomos-Bank	18.5%	54,330	49,523
Other		8,131	199
Total Russian Rubles denominated		**62,461**	**49,722**
Total debt from related parties		**142,461**	**49,722**
Current portion of long-term debt (Note 5)		120,692	86,793
Total short term debt		**422,868**	**316,369**

The terms of short-term loan received from VTB in 2008 have expired during the six months ended June 30, 2009 and in March 2009, the Group entered inro the new short-term line of credit agreement, which allows it to borrow funds, denominated in U.S Dollar, up to U.S. Dollar 100,000 to finance its current operations.

In August 2008, the Group received a short-term loan facility from Unicredit bank in the amount of U.S. Dollars 45,000 to finance its current operations. The credit facility is valid until August 2009. Interest is payable monthly and is based on LIBOR plus 3.25%.

The terms of short-term loan received from Nomos Bank in 2008 have expired during the six months ended June 30, 2009 and in March 2009, the Group entered inro the new short-term loan agreement, which allows it to borrow funds, denominated in Rubles, up to U.S. Dollar 54,330 (Rubles 1,700,000 thousand as at 30 June, 2009) to finance its current operations.

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

Interest for funds drawn under these agreements is payable on a monthly basis.These agreements contain restrictive conenants, conditions and default provisions. At June 30, 2009, under the most restrictive covenant, the Group cannot pledge or alienate more than 10% of its property without prior consent of the bank. The Group is in compliance with all restrictive provisions of the loan agreements as at June 30, 2009.

Short-term debt facilities are not collateralized.

As at June 30, 2009 the remaining available borrowing under the existing short-term facilities comprised U.D. Dollar 118,939.

5. LONG-TERM DEBT

	Interest rate	June 30, 2009	December 31, 2008
Debt from third parties			
Russian Rubles denominated			
Khanty-Mansiysk bank	17.35%	32,390	-
Total Russian Rubles denominated		**32,390**	**-**
U.S. Dollar denominated			
Bakersfield Marketing Limited (Note 11)	3%	25,151	-
Total U.S. Dollar denominated		**25,151**	**-**
Total debt from third parties		**57,541**	**-**
Debt from related parties			
Russian Rubles denominated			
Nomos-Bank	18%	88,302	86,793
Total debt from related parties Russian Rubles denominated		**88,302**	**86,793**
Total long-term debt		**145,843**	**86,793**
Less current portion of long-term debt (Note 4)		(120,692)	(86,793)
Total		**25,151**	**-**

The table below summarizes the maturities of long-term debt as at June 30, 2009:

Maturity date	
June 30, 2010	120,692
June 30, 2015	25,151
Total	**145,843**

Bakersfield Marketing Limited

On April 28, 2009, the Company aquired 9% in Zolotorudnaya Kompaniya Mayskoe LLC, a variable interest entity in which the Company is regarded to be the primary beneficiary (see Note 11). As a part of the sale purchase agreement the Company assumed a long-term loan from Bakersfield Marketing Limited ("Bakersfield"). The long-term loan matures in December 2015. Nominal value of the loan is U.S. Dollar 30,806, fair value at the date of acquisition – U.S. Dollar 24,832. Nominal interest rate is 3%, payable at the end of credit agreement. Effective interest rate is 7.21 %.

Nomos bank

In November 2008, the Group received a long-term loan facility from Nomos-Bank, a related party, which allows the Group to borrow funds, denominated in Rubles, up to Rubles 3,000,000 thousand (U.S. Dollar 95,876 as at June 30, 2009) to finance its current operations. The credit facility matures in November 2011. All tranches received under this facility are payable within one year. Interest is payable monthly, based on fixed rate determined by bank for each tranche but not exceeding 20% (18% as at June 30, 2009).

The facility is guaranteed with a pledge of revenues under sales agreements with Nomos-Bank (see Note 15). Covenants to the long-term loan facility require the Group to maintain certain financial ratios, prohibit any change to the general nature of the business and limit the disposal of assets. At June 30, 2009, under the most restrictive covenant, the Group cannot pledge or alienate more than 10% of its property without prior consent of the bank.

Khanty-Mansiysk bank

In April 2009, the Group received a long-term loan facility from Bank of Khanty-Mansiysk , which allows the Group to borrow funds, denominated in Rubles, up to Rubles 1,000,000 thousand (U.S. Dollar 31,959 as at June 30, 2009). The credit facility matures in June, 2010. Interest is payable monthly at a fixed rate of 17.35%.

Covenants to the long-term loan facility require the Group to maintain certain financial ratios, prohibit any change to the general nature of the business and limit the disposal of assets.
At June 30, 2009, under the most restrictive covenant, the Group cannot pledge or alienate more than 10% of its property without prior consent of the bank.

The Group is in compliance with all restrictive provisions of the loan agreements as at June 30, 2009.

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

6. SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

The Group has potentially dilutive securities, namely a call option issued by the Group in respect of business acquisitions (see Note 11).

Basic/dilutive earnings per share were calculated by dividing net income, 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, 2009 and 2008 is as follows:

	Six months ended June 30, 2009	**Six months ended June 30, 2008**
Weighted average number of outstanding common shares	314,998,889	310,829,817
Call option	231,069	-
Add back treasure shares held in respect of share option plan	-	4,147,256
Weighted average number of outstanding common shares after dilution	**315,229,958**	**314,977,073**

7. REVENUES

	Six months ended June 30, 2009	**Six months ended June 30, 2008**
Sales to third parties		
Sberbank	-	132,450
VTB	58,220	45,392
ABN Amro Bank	-	77,227
Gazprombank	20,950	2,782
Total sales to third parties	**79,170**	**257,851**
Sales to related parties		
Nomos-Bank	139,266	-
Total sales to related parties	**139,266**	**-**
Other	1,181	970
Total	**219,617**	**258,821**

Revenue from Gazprombank was included in revenue of the North Ural segment – U.S. Dollar 11,756 and the Khabarovsk segment – U.S. Dollar 9,194.

Revenue from VTB was included in revenue of the North Ural segment – U.S. Dollar 8,315; the Khabarovsk segment – U.S. Dollar 10,807 and the Magadan segment – U.S .Dollar 39,160.

Revenue from Nomos-Bank, a related party, was included in revenue of the North Ural segment – U.S. Dollar 37,269; the Khabarovsk segment – U.S. Dollar 30,203 and the Magadan segment – U.S. Dollar 71,611.

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

Revenues analyzed by geographical regions are presented below:

	Six months ended June 30, 2009	**Six months ended June 30, 2008**
Sales within Russian Federation	219,617	181,594
Sales to Europe	-	77,227
Total	**219,617**	**258,821**

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

	Six months ended June 30, 2009			**Six months ended June 30, 2008**		
	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	128	918.44	117,560	124	917.09	113,719
Silver	7,732	13.05	100,876	8,437	17.08	144,132
Total			**218,436**			**257,851**

Discounts from the LBMA market prices on sales to banks for the six months ended June 30, 2009 amounted to U.S. Dollar 156 (Six months ended June 30, 2008: U.S. Dollar 180) for gold and U.S. Dollar 1,065 (Six months ended June 30, 2008: U.S. Dollar 984) for silver sales. Sales are recorded in the financial statements net of discounts.

8. INCOME TAX

	Six months ended June 30, 2009	**Six months ended June 30, 2008**
Current income taxes	14,101	27,624
Deferred income taxes	(43)	1,015
Total	**14,058**	**28,639**

In November 2008, the government of the Russian Federation enacted a law decreasing the statutory tax rate from 24% to 20% effective from January 1, 2009.

The Group's effective income tax rate for the periods presented differs from the statutory income tax rate primarily due to the incurrence of costs that are either not tax deductible or only deductible to a certain limit.

9. SEGMENTS

The Group has four reportable segments:

- North Ural region (CJSC Zoloto Severnogo Urala);
- Khabarovsk region (JSC Ohotskaya GGK);
- Magadan region (CJSC Serebro Magadana, CJSC Ayax (see Note 11); and
- Chukotka region (Zolotorudnaya Kompaniya Mayskoye LLC (see Note 11).

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

Chukotka segement is a new reportable segment and intirely related to Zolotorudnaya Kompaniya Mayskoye LLC (see Note 11), acquired during the six months ended June 30, 2009.

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

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

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

As at and for the six months ended June 30, 2009	**North Ural**	**Khabarovsk**	**Magadan**	**Chukotka**	**Corporate and other**	**Eliminations**	**Total**
Revenue from external customers	57,368	50,256	110,837	-	1,156	-	**219,617**
Intersegment revenues	3	59	360	-	37,288	(37,710)	**-**
Cost of sales	(25,285)	(26,202)	(68,466)	-	(28,496)	36,031	**(112,418)**
Gross profit	32,086	24,113	42,731	-	9,948	(1,679)	**107,199**
General, administrative and selling expenses	(3,536)	(3,292)	(5,201)	(1,621)	(14,825)	1,739	(26,736)
Other operating expenses							(33,019)
Interest expense							(14,442)
Total income before income tax and extraordinary gain							**33,002**
Segment assets:							
Property, plant and equipment, net	84,887	108,388	178,767	52,801	157,648	-	582,491
Accounts receivable, inventories, prepayment to suppliers and VAT receivables	58,964	74,558	100,281	37,314	56,511	(31,533)	296,095
Goodwill	-	13,016	7,988	20,949	1,297	-	43,250
Total segment assets	143,851	195,962	287,036	111,064	215,456	(31,533)	**921,836**
Unallocated assets:							
Cash and cash equivalents							6,589
Other assets							114,260
Total assets							**1,042,685**

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

As at and for the six months ended June 30, 2008	**North Ural**	**Khabarovsk**	**Magadan**	**Corporate and Other**	**Eliminations**	**Total**
Revenue from external customers	50,937	58,017	149,068	799	-	**258,821**
Intersegment revenues	211	16	85	76,126	(76,438)	**-**
Cost of sales	(24,531)	(27,594)	(71,201)	(59,455)	62,975	**(119,806)**
Gross profit	26,617	30,439	77,952	17,470	(13,463)	**139,015**
General, administrative and selling expenses	(5,836)	(5,231)	(10,421)	(42,393)	5,107	(58,774)
Other operating expenses						(10,037)
Interest expense						(6,864)
Total income before income tax and extraordinary gain						**63,340**
Segment assets:						
Property, plant and equipment, net	87,223	119,225	189,038	88,648	-	484,134
Accounts receivable, inventories, prepayment to suppliers and VAT receivables	64,655	79,850	106,403	59,893	(19,884)	290,917
Goodwill	-	13,863	8,508	1,370	-	23,741
Total segment assets	151,878	212,938	303,949	149,911	(19,884)	**798,792**
Unallocated assets:						
Cash and cash equivalents						4,077
Other assets						73,606
Total assets						**876,475**

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

10. 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 contingent consideration of U.S. Dollar 5,459 (U.S. Dollar 4,092 at the exchange rate as at June 30, 2009).

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.

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

Assets acquired and liabilities assumed at the date of acquisition	**Preliminary purchase price allocation**	**Final purchase price allocation**
Deferred tax asset	16,179	17,461
Other current assets	16,075	16,146
Reclamation and mine closure obligation	-	(9,582)
Deferred tax liability	(2,550)	(1,875)
Other liabilities	(15,025)	(15,040)
Net assets acquired	**14,679**	**7,110**
Cash paid on acquisition	15,811	15,811
Contingent consideration	5,459	5,459
Intercompany debt	(15,000)	(15,000)
Extraordinary gain – excess of fair value of acquired net assets over cost	**8,409**	**840**

As at June 2008, the purchase price allocation was based on preliminary information, which resulted in an extraordinary gain of U.S. Dollar 8,409. In the second half of 2008, the Group finalized the purchase price allocation resulting in the recognition of additional assets and liabilities and therefore a change in the extraordinary gain. The difference was reflected in the statement of operations for the second half of 2008.

Excess of fair value of acquired net assets over cost arose primarily due to the Company's competitive position in negotiations due to the time restriction in the sales process and lack of the ability of the Kinam Magadan Gold Corporation to serve its debts.

Consolidated information of the Group would not have changed siginificantly if the business combination had occurred on January 1, 2008 due to the fact that OGMC is a development stage company and did not have material operations in the periods prior to acquisition.

Other acquisitions

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

11. VARIABLE INTEREST ENTITIES

Zolotorudnaya Kompaniya Mayskoye LLC

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

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

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

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

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

Conditions discussed in paragraph (b) above represent a call option embedded into the agreement. Such instrument has been accounted for at fair value and included at its initial fair value in the purchase consideration (see Note 14). Subsequent changes in fair value have been recorded in “change in fair value of derivatives” in the statement of operations.

The Group determined that ZK Mayskoye meets the definition of a variable interest entity (“VIE”) and the Company is the primary beneficiary of ZK Mayskoye as a consequence of the written call option over the 91% interest held by the equity buyers.

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

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

Mineral rights	9,540
Construction-in-progress	16,099
Machinery and equipment	18,860
Inventory	29,210
Deferred tax asset	17,366
Taxes receivable	7,032
Short-term debt	(80,000)
Long-term debt	(24,852)
Other liabilities, net	(1,276)
Net liabilities	**(8,021)**
Cash consideration paid	14
Call option issued (Note 14)	11,460
Liability to the Equity Buyers	137
Goodwill	**19,632**

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

The acquisition of ZK Mayskoye contributed net income of approximately U.S. Dollar 2,368 during the period April 28, 2009 through June 30, 2009. Currently ZK Mayskoye is at development stage and does not generate any revenue. If the business combination had occurred on January 1, 2009, ZK Mayskoye would have been contributed net loss of approximately U.S. Dollar 6,384.

These amounts have been calculated after applying the Group's accounting policies and adjusting the results of ZK Mayskoye to reflect the additional depreciation and amortization arising from the purchase accounting that would have been charged assuming the fair values adjustments.

12. DISPOSAL OF SUBSIDIARIES

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

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

Assets and liabilities disposed of as at the date of disposal

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

In December 2008, the Group sold 100% in CJSC North-Ural Mining Company for U.S. Dollar 55 to an unrelated party. CJSC North-Ural Mining Company did not perform any operations during 2008 and 2007. The amount of net liabilities at the date of disposal comprised U.S. Dollar 264.

13. RELATED PARTY TRANSACTIONS

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

Sales to related parties for the six months ended June 30, 2009 comprised U.S. Dollar 139,083. There were no sales to related parties during the six months ended June 30, 2008.

As at June 30, 2009 and December 31, 2008 the amount of outstanding short-term loans provided to related parties comprised U.S. Dollar 370 and U.S. Dollar 334, respectively.

As at June 30, 2009 and December 31, 2008 the amount of outstanding long-term loans provided to related parties comprised U.S. Dollar 28,929 and 8,214 respectively. The amount of interest income for the six months ended June 30, 2009 and 2008 was U.S. Dollar 346 and 294, respectively.

As at June 30, 2009 and December 31, 2008 the amount of outstanding short-term loan provided by related parties comprised U.S. Dollar 263,153 and 136,515, respectively (see Note 4).

The amount of interest expense on loans from related parties for the six months ended June 30, 2009 and 2008 was U.S. Dollar 14,448 and U.S. Dollar 1,398, respectively.

Investment in CJSC "Artel of prospectors "Ayax"

On January 23, 2009, the Group acquired 10.39% of CJSC "Artel of prospectors "Ayax" ("Ayax") from Ovoca Gold Plc, an unrelated party for a total consideration of US Dollar 11, 935. Ayax holds subsoil license related to Goltsovoye silver mine deposit located in the Magadan region. Verda Financial Ltd. ("Verda"), an unrelated party, acquired the remaining 89.61% of Ayax. This investment has been recorded in "long-term investments to related parties" in the consolidated balance sheet.

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

Since the date of acquisition till June 30, 2009, the Group provided to Ayax a long-term loan facility which allows it to borrow funds, denominated in Rubles, up to U.S. Dollar 6,392 (Rubles 200,000 thousand as at June 30, 2009). The facility matures in January 2012. Interest is accrued at the rate 14.3% and is payable quarterly. The outstanding amount of debt as at June 30, 2009 was U.S. Dollar 3,292 (Rubles 103,000 thousand as at June 30, 2009). The Group has recorded a receivable in "long-term investments to related parties" in the consolidated balance sheet at June 30, 2009. In addition, subsequent to June 2009, the Group has entered into an agreement with Ayax to provide additional financing, denominated in Rubles, up to U.S. Dollar 19,175 (Rubles 600,000 thousand).

Investment in Rudnik Kvartseviy LLC

On April 7, 2009, the Company signed non-binding memorandum of understanding with four Russian private companies, unrelated parties, under which the Company would acquire 100% of Rodnik Kvartseviy LLC ("RK") in exchange for 10,000,000 of its shares. RK owns the mining license for the Sopka Kvartsevaya gold and silver deposit and a 100% stake in Vneshstroygroup LLC, owning the mining license for the Dalniy gold and silver deposit, which are located in the Severo-Evensky district of Magadan region of Russia.

The Group has provided to RK a long-term loan facility. The loan facility provides for borrowings, denominated in Rubles, of up to U.S. Dollar 15,979 (Rubles 500,000 thousand as at June 30, 2009). The facility matures in January 2012. Interest is accrued at the rate 14.3% and is payable quarterly. The outstanding amount of debt as at June 30, 2009 was U.S. Dollar 8,629 (Rubles 270,000 thousand as at June 30, 2009). In addition, the Group has provided to ZK Mayskoye long-term loan, denominated in Rubles, in the amount of U.S. Dollar 4,538 (Rubles 142,000 thousand as at June 30, 2009). The loan matures in January 2014. Interest is accrued at the rate 12% and is payable quarterly. The Group has recorded the associated receivables in "long-term investments to related parties" in the consolidated balance sheet at June 30, 2009.

14. FINANCIAL INSTRUMENTS

A financial instrument is defined as cash, evidence of an ownership interest in an entity, or a contract that imposes an obligation to deliver or right to receive cash or another financial instrument. Effective January 1, 2009, the Group adopted the applicable portions of SFAS No. 157 as referenced in Note 2.

SFAS No. 157 establishes a new framework for measuring fair value and expands related disclosures. The SFAS No. 157 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

The valuation techniques required by SFAS No. 157 are based upon observable and unobservable inputs. Observable or market inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's assumptions about market participant assumptions based on best information available. Observable inputs are the preferred source of values. In accordance with SFAS No. 157, these two types of inputs create the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) for identical instruments in active markets;
- Level 2 - Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities;
- Level 3 - Prices or valuations that require management inputs that are both significant to the fair value measurement and unobservable.

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

The following fair value hierarchy table presents information regarding the Group's liabilities measured at fair value on a recurring basis as at June 30, 2009, using Level 3 inputs. The Group had no liabilities measured using Level 1 or Level 2 inputs.

Derivative liability:	**Level 3**
At establishment (Note 11)	11,460
Change in fair value	13,919
Effect of changes in foreign exchange rates	1,560
Balance at June 30, 2009	26,939
Total liabilities measured at fair value	**26,939**

The type of the derivative instruments used is call option for its common shares. The Group maintains system of controls over these activities that includes policies covering the authorization, reporting and monitoring of derivative activity.

Call option for the Company's common shares is valued using Monte-Carlo method that consider various assumptions, including quoted prices and volatility for the Company's common shares, time value, risk free rate, as well as other relevant non-market measures. This fair value measurement is based on significant inputs not observable in the market and thus represents Level 3 measurement as defined by SFAS No.157. The Group recognized U.S. Dollar 13,919 of loss during six months ended 30 June, 2009, as a result of use of change in fair value.

As at June 30, 2009 and December 31, 2008, the carrying values of cash, accounts payable and accrued liabilities, short-term debt and loans to related parties approximate their fair values because of the short maturities of these instruments.

For long-term borrowings, the difference between the fair value and carrying value, as at June 30, 2009, was not material as interest rates as at June 30, 2009, approximated market rates and there was no change in the credit rating of the Group in 2009. During the six months ended June 30, 2009, the Group did not have significant transactions or events that would result in nonfinancial assets and liabilities measured at fair value on a nonrecurring basis.

15. COMMITMENTS AND CONTINGENCIES

Russian business 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.

Out of the large operating companies of the Group, tax authorities audited JSC Okhotskaya GGC for the period up to 2007, CJSC Zoloto Severnogo Urala for the period up to 2005 and CJSC Serebro Magadana for the period up to 2007. 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, 2009, the management estimates such contingencies related to taxes other than income tax to be up to approximately U.S. Dollar 1,921. The Group believes the estimated losses related to these contingencies are not probable and, as such, have not been accrued for as at June 30, 2009.

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

Political environment

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

Acquisition of Varvarinskoye Gold-Copper Mine

In June 2009, the Group entered into a sale and purchase agreement ("SPA") to acquire a 100% interest in the Varvarinskoye Gold-Copper Mine in Kazakhstan ("Varvarinskoye") from Orsu Metals Corporation. Under the terms of the SPA, the Group will acquire 100% of the shares for the cash consideration payable of U.S. Dollar 8,000 and deferred consideration of up to a maximum of U.S. Dollar 12,000 (plus any deferral interest), contingent on future prices of gold and copper.

The transaction is conditional upon obtaining necessary regulatory approvals including receipt of an anti-monopoly approval from the Agency of the Republic of Kazakhstan for the Protection of Competition and receipt of an unconditional waiver by the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan in relation to the rights of the Republic of Kazakhstan to acquire shares in Varvarinskoye arising out of the Subsoil Use Law of the Republic of Kazakhstan.

The transaction is also conditional on the syndicate of certain banks and lenders (collectively, the "Lenders"), Varvarinskoye and the Company entering into definitive refinancing documents, which will be subject to the Lenders' final approval. It is currently agreed with the Lenders that, following the completion of the transaction, the Company will advance a U.S. Dollar 20,000 loan to Varvarinskoye to fund its working capital requirements and certain capital expenditure items. This loan will be unsecured and subordinated to the debt and hedging obligations.

Forward sales commitments

In connection with the General Framework Credit Line Agreement dated November 2008 and Sales agreements entered into between Nomos-Bank and the Company's subsidiaries, CJSC Zoloto Severnogo Urala, CJSC Serebro Magadana and JSC Okhotskaya GGC are required to sell 3,750,000 gram of gold and 242,100,000 gram of silver during 2009. The Group partially met its obligations during the six months ended June 30, 2009. The remaining quantity of gold and silver to be sold as at June 30, 2009, comprises 1,506,000 gram of gold and 65,880,000 gram of silver by the end of 2009; 3,500,000 gram of gold and 60,000,000 gram of silver during 2010; and 3,500,000 gram of gold and 60,000,000 gram of silver during 2011 at the price determined by LBMA.

Under the Sale Agreements with Vneshtorgbank (VTB) the Company's subsidiaries, CJSC Zoloto Severnogo Urala, CJSC Serebro Magadana and JSC Okhotskaya GGC are required to sell 2,000,000 gram of gold during 2009. The Group partially met its obligations during the six months ended June 30, 2009. The remaining quantity of gold and silver to be sold by the end of 2009 comprises 1,212,000 gram of gold.

In connection with the Sale Agreements between Gazprombank and the Company's subsidiaries, CJSC Zoloto Severnogo Urala, CJSC Serebro Magadana and JSC Okhotskaya GGC are required to sell 2,000,000 gram of gold during 2009. The Group partially met its obligations during the six months ended June 30, 2009. The remaining quantity of gold and silver to be sold by the end of 2009, comprises, 1,307,000 gram of gold.

Litigations

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

Environmental matters

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

16. SUBSEQUENT EVENTS

In August 2009, it was approved, and registered by the Federal Financial Markets Service that the Company is able to issue up to 84,375,000 ordinary shares and Rubles 5,000,000 of bonds.

In August 2009, LLC Wagner Services filed ("Wagner") a lawsuit against the Group. Wagner claims that the Group is liable for works performed with regard to construction of production facilities performed for ZK Mayskoye LLC (see Note 11) in amount of U.S. Dollar 30,081. The management believes that the risk that the Group can't sustain its position in full at court is remote.

In accordance with the requirements of SFAS No. 165, *"Subsequent events,"* the Group evaluated subsequent events through the date the financial statements were available to be issued. Therefore subsequent events were evaluated by the Group up to September 25, 2009.