Open Joint Stock Company Polymetal

Unaudited Condensed Consolidated Interim Financial Statements
For The Six Months Ended June 30, 2010 and 2009

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, 2010 AND 2009

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 ("OJSC 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, 2010 and December 31, 2009, and the results of its operations, cash flows and changes in shareholders' equity for the six months ended June 30, 2010 and 2009, 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 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, 2010 and 2009 were approved by management on September 28, 2010:

On behalf of the Board of Directors:

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

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying unaudited condensed consolidated balance sheet of OJSC "Polymetal" and its subsidiaries (the "Group") as at June 30, 2010 and the related unaudited condensed consolidated statements of operations, cash flows, and changes in shareholders' equity for the six months ended June 30, 2010 and 2009. These unaudited condensed consolidated interim 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 an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated interim 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, 2009, and the related consolidated statements of operations, cash flows and changes in shareholders' equity for the year then ended (not presented herein); and in our report dated April 15, 2010, 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, 2009 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Deloitte & Touche

September 28, 2010

OPEN JOINT STOCK COMPANY POLYMETAL

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
AT JUNE 30, 2010 AND DECEMBER 31, 2009
(In thousands of U.S. Dollars, except share and per share data)

	Note	June 30, 2010	December 31, 2009
Assets			
Cash and cash equivalents		26,329	28,317
Accounts receivable		4,959	1,601
Prepayments to suppliers		29,865	15,601
Inventories and spare parts	4	281,882	284,486
Short-term VAT receivable		88,985	77,323
Current deferred tax asset		10,289	12,833
Other current assets		26,182	20,450
Total current assets		**468,491**	**440,611**
Property, plant and equipment, net		1,195,834	1,087,503
Goodwill		108,892	112,316
Investments in joint ventures		15,831	17,047
Long-term loans to related parties		10,451	9,715
Long-term VAT receivable		-	7,799
Non-current deferred tax asset		35,732	30,118
Other non-current assets		18,709	18,291
Total non-current assets		**1,385,449**	**1,282,789**
Total assets		**1,853,940**	**1,723,400**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities		81,342	67,842
Short-term debt and current portion of long-term debt	5	154,650	108,873
Taxes payable		21,145	14,873
Current deferred tax liability		2,726	2,666
Current portion of capital lease liabilities		3,075	2,928
Total current liabilities		**262,938**	**197,182**
Contingent consideration	16	17,100	16,389
Long-term portion of capital lease liabilities		3,053	4,857
Long-term debt	6	355,903	331,381
Non-current deferred tax liability		57,448	60,519
Reclamation and mine closure obligation		47,466	43,004
Other liabilities		3,120	3,810
Derivatives, net	17	126,139	149,514
Total non-current liabilities		**610,229**	**609,474**
Total liabilities		**873,167**	**806,656**
Commitments and contingencies	20	-	-
Shareholders' equity			
Share capital (2,444,000,000 shares authorized with par value of Rubles 0.2 per share; 399,375,000 shares issued at June 30, 2010 and December 31, 2009; 357,924,643 shares outstanding at June 30, 2010 and December 31, 2009)	7	7,223	7,223
Additional paid-in capital		797,907	797,418
Treasury stock		(481)	(481)
Accumulated other comprehensive loss		(94,518)	(63,528)
Retained earnings		270,642	176,112
Total shareholders' equity		**980,773**	**916,744**
Total liabilities and shareholders’ equity		**1,853,940**	**1,723,400**

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, 2010 AND 2009
(In thousands of U.S. Dollars, except share and per share data)

	Note	June 30, 2010	June 30, 2009
Revenues	8	421,733	219,617
Cost of sales	9	217,336	112,418
Gross profit		**204,397**	**107,199**
General, administrative and selling expenses	13	35,263	26,736
Other operating expenses	14	25,607	11,898
Operating income		**143,527**	**68,565**
Interest expense, net of amounts capitalized		7,859	14,442
Change in fair value of derivatives	16	1,529	13,919
Loss from investments in joint ventures		675	1,734
Change in fair value of contingent consideration liability		1,266	-
Foreign exchange loss, net		8,659	5,468
Income before income tax		**123,539**	**33,002**
Income tax expense	15	29,009	14,058
Net income		**94,530**	**18,944**
Earnings per share (expressed in U.S. Dollars)			
From continuing operations			
Basic earnings per share		0.26	0.06
Diluted earnings per share		0.26	0.06
Weighted average number of shares outstanding			
Basic	7	357,924,643	314,998,889
Diluted	7	357,924,643	315,229,958

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, 2010 AND 2009
(In thousands of U.S. Dollars)

	Note	June 30, 2010	June 30, 2009
Cash flows from operating activities			
Net income		94,530	18,944
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and depletion, applicable to sales		30,477	21,503
Write-down of inventory to lower of cost or market	4	13,536	-
Deferred income tax	15	(1,994)	(43)
Loss on disposal of property, plant and equipment		2,313	2,091
Change in fair value of derivatives		1,529	13,919
Non-cash interest expense		1,790	-
Result of change in contingent consideration liability		1,266	-
Loss from investments in joint ventures		675	1,734
Foreign exchange loss, net		8,659	5,468
Accretion of reclamation and mine closure obligation		2,217	1,416
Other non-cash expenses, net		1,899	991
Changes in operating assets and liabilities			
Prepayments to suppliers		(18,208)	(7,505)
Inventories and spare parts		(17,483)	724
VAT receivable		(6,036)	13,777
Other current assets		(6,483)	4,605
Accounts receivable		(3,763)	-
Accounts payable and accrued liabilities		9,513	9,229
Taxes payable		6,606	1,092
Net cash provided by operating activities		**121,043**	**87,945**
Cash flows from investing activities			
Acquisitions of property, plant and equipment, net		(161,329)	(86,072)
Acquisition of subsidiaries, net of cash acquired		-	(11,946)
Acquisition of interest in equity investees		(436)	-
Loans provided to third parties		-	(10,030)
Receipt of repayment for loans provided to third parties		14	201
Loans provided to related parties		(1,743)	(21,129)
Receipt of repayment for loans provided to related parties		458	370
Net cash used in by investing activities		**(163,036)**	**(128,606)**
Cash flows from financing activities			
Proceeds from:			
Short and long-term debt		167,093	262,883
Short and long-term debt obtained from related parties		52,802	170,854
Repayments of:			
Short and long-term debt		(144,052)	(240,034)
Short and long-term debt obtained from related parties		(33,707)	(149,560)
Principal payments on capital lease obligations		(2,219)	(498)
Purchase of treasury shares		-	(223)
Net cash provided by financing activities		**39,917**	**43,422**
Effect of exchange rate changes on cash and cash equivalents		88	(249)
Cash and cash equivalents at the beginning of the period		**28,317**	**4,077**
Net (deficit)/increase in cash and cash equivalents		(1,988)	2,512
Cash and cash equivalents at the end of the period		**26,329**	**6,589**
Supplementary info			
Interest paid		12,260	21,203
Income tax paid		30,981	8,438
Non-cash investing activities			
Non-cash additions to property, plant and equipment		4,768	3,067

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(In thousands of U.S. Dollars, except share data)

	Number of shares outstanding	Share capital	Additional paid-in capital	Treasury shares	Accumulated other comprehen-sive loss	Retained earnings	Total shareholders' equity
Balance at January 1, 2009	**315,000,000**	**6,698**	**400,122**	**-**	**(37,276)**	**80,124**	**449,668**
Comprehensive loss:							
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 treasury shares	(25,000)	-	-	(223)	-	-	(223)
Balance at June 30, 2009	**314,975,000**	**6,698**	**400,614**	**(223)**	**(63,886)**	**99,068**	**442,271**
Balance at January 1, 2010	**357,924,643**	**7,223**	**797,418**	**(481)**	**(63,528)**	**176,112**	**916,744**
Comprehensive income:							
Net income	-	-	-	-	-	94,530	94,530
Currency translation adjustment	-	-	-	-	(30,990)	-	(30,990)
Total comprehensive income							63,540
Amortization of the bonus received from depositary	-	-	489	-	-	-	489
Balance at June 30, 2010	**357,924,643**	**7,223**	**797,907**	**(481)**	**(94,518)**	**270,642**	**980,773**

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 OJSC "Polymetal" or "the Company") and its subsidiaries ("the Group") is engaged in gold, silver and copper 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 Vorontsovskoye and Lunnoe deposits, Dukat and Khakandjinskoye deposits, Mayskoye deposit, Albazino and Varvarinskoye deposits.

The Group has six reportable segments which are based on their regional locations. All of the Group's operations and assets are located in Russia and Kazakhstan. During 2009, the Group acquired ZK Mayskoye LLC, which is located in the Chukotka region, Rudnik Kvartseviy LLC and CJS Artel of prospectors Ayax, which are located in the Magadan region and JSC Varvarinskoye, which is located in Kazakhstan region. The results of the operations of these entities have been included since their respective acquisition dates. There have not been significant changes to the composition of the Group since December 31, 2009.

The Group holds the following significant mining licenses: Vorontsovskoye deposit (Sverdlovsk region), Lunnoe, Arylakh, Dukat, Kubaka, Birkachan, Goltsovoye and Sopka Kvartsevaya deposits (Magadan region), Khakandjinskoye, Urjevskoe and Albazino deposits (Khabarovsk region), Mayskoye deposit (Chukotka region), Varvarinskoye deposit (Kazakhstan).

Operating environment

Beginning late 2008, a number of major economies around the world 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 required support through government funding. The Group 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, the Group's interest rates are still higher in 2010 than they were prior to the crisis. Notwithstanding any potential economic stabilisation measures that may be put into place by the Russian government, there exist economic uncertainties surrounding the continual cost of credit both for the Group and its counterparties.

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"), specifically in accordance with FASB Accounting Standards Codification ("Codification" or "ASC") 270, *Interim Reporting*, and do not include all disclosures required by U.S. GAAP for full financial statements. The Group omitted certain disclosures which would substantially duplicate the information contained in its 2009 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition.

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 2009 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, 2010 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 Kazakhstan 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") and Kazakhstan. 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

In August 2009, the FASB issued ASU 2009-05, *Measuring Liabilities at Fair Value* ("ASU 2009-05") that amends ASC 820, *Fair value measurements and disclosures* ("ASC 820"). ASU 2009-05 provides clarification that in circumstances in which a quoted price in active market is not available, a reporting entity is required to use one or more of the following valuation techniques: valuation based on quoted price of identical liability when traded as an asset; quoted prices of similar liabilities or similar liabilities when traded as an assets, or any other technique consistent with the principles of ASC 820, such as present value technique. ASU 2009-05 also clarifies that a reporting entity is not required to include a separate input to existence of restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance. The Group adopted ASU 2009-05 effective January 1, 2010. ASU 2009-05 did not have a material impact on the Group's consolidated financial position and results of operations.

In January 2010, the FASB issued ASU 2010-6, *Improving Disclosures about Fair Value Measurements* ("ASU 2010-6") that amends ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"). ASU 2010-6 requires separate disclosure of significant transfers between Level 1 and Level 2 fair value measurement inputs and a description of the reasons for the transfers. Entity is also required to present separately information about purchases, issuance, and settlements in the reconciliation for fair value measurements using Level 3 inputs. ASU 2010-6 amends existing disclosure requirements in regards of level of disaggregation and inputs and valuation techniques. ASU 2010-6 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about activity in Level 3 fair value measurements that are effective for interim and annual periods beginning after December 15, 2010. The Group adopted ASU 2010-6 beginning with the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2010, resulting in enhanced disclosure of fair value measurements.

Accounting pronouncements effective in the future

In July 2010, the FASB issued ASU 2010-20, *Receivables: Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ("ASU 2010-20") that amends ASC 310, Receivables. ASU 2010-20 amends existing disclosures and requires the entity to provide additional disclosures to facilitate financial statement users' evaluation of the following: 1) the nature of the credit risk inherent in the entity's portfolio of financial receivables; 2) how this risk is analyzed and assessed in arriving at the allowance for credit losses; 3) the changes and reasons for those changes in the allowance for the credit losses. ASU 2010-20 also introduces a new terminology, in particular, the term financial receivables. For public entities, the disclosures as of the end of the reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Group will initially adopt ASU 2010-20 as of the end of annual reporting period ending December 31, 2010. The Group does not expect ASU 2010-20 to have a material impact on the Group's consolidated financial position and results of operations.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, including discussion and disclosure of contingent liabilities. Significant areas requiring the use of management estimates relate to the determination of mineral reserves, mine closure obligations, 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 functional currency is determined separately for each of the Group's entities. For all Russian entities the functional currency is the Russian Ruble. The functional currency of the Group's entity located in Kazakhstan is the Kazakh Tenge. 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 consolidated interim financial statements have been translated into U.S. Dollars in accordance with the relevant provisions of ASC 830, *Foreign Currency Matters*. 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 (currencies other than the entities' functional 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 of the Group at the exchange rates in effect at the balance sheet date.

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

The following exchange rates were used at the reporting dates:

	June 30, 2010	December 31, 2009	June 30, 2009
Russian Ruble for 1 U.S. Dollar	31.20	30.24	31.29
Average exchange rate for the six months period, Russian Ruble for 1 U.S. Dollar	30.07	-	33.07
Kazakh Tenge for 1 U.S. Dollar	147.46	148.36	150.41
Average exchange rate for the six months period, Kazakh Tenge for 1 U.S. Dollar	147.24	-	144.69

3. ACQUISITION OF SUBSIDIARIES

ZK Mayskoye LLC

On April 28, 2009, the Group acquired a 9% interest in Zolotorudnaya Kompaniya Mayskoye LLC (“ZK Mayskoye”) from Highland Gold Mining Limited, an unrelated party. ZK Mayskoye holds the mining license for Mayskoye gold deposit located in the 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 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 (i.e. the Company agreed to contribute U.S. Dollar 9,437 and the Equity Buyers agreed to contribute U.S. Dollar 95,415 to the recapitalization).

(b) The Company 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 had 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 to 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.

The Group determined that at April 28, 2009, the initial acquisition of the 9% equity stake in ZK Mayskoye met the definition of a variable interest entity. Conditions discussed in paragraph (b) above represent a call option embedded into the agreement. 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 and accordingly has consolidated ZK Mayskoye since April 28, 2009.

The call option has been accounted for at fair value and included at its initial fair value in the purchase consideration. Subsequent changes in fair value have been recorded in “change in fair value of derivative financial instruments” in the statement of operations.

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

On October 27, 2009, following necessary regulatory approvals, the Group completed the acquisition of 100% equity stake in ZK Mayskoye. The Group and the Equity Buyers signed a legally binding supplement to the Agreement under which the Equity Buyers chose the option to receive 15,925,000 Polymetal's common shares for the 91% equity stake in ZK Mayskoye.

This acquisition was accounted for using the purchase method.

Assets acquired and liabilities assumed at the date of acquisition

Machinery and equipment	18,860
Construction-in-progress	16,099
Non-current deferred tax asset	15,266
Mineral rights	9,540
Inventories and spare parts	29,210
Taxes receivable	8,157
Current deferred tax asset	1,243
Short-term debt	(80,000)
Long-term debt	(24,852)
Other liabilities, net	(3,489)
Net liabilities acquired	**(9,966)**
Cash consideration paid	14
Call option issued	11,460
Liability to the Equity Buyers	137
Goodwill	**21,577**

Goodwill is mainly attributable to the synergy expected as a result of the acquisition and was not assigned to a reportable 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 in the development stage and does not generate any revenue. If the business combination had occurred on January 1, 2009, ZK Mayskoye would have contributed a net loss of approximately U.S. Dollar 6,384.

JSC Varvarinskoye

In October 2009, the Group acquired 100% of the shares in Three K Exploration and Mining Limited ("Three K"), which owns JSC Varvarinskoye in Kazakhstan ("Varvarinskoye") from Orsu Metals Corporation, an unrelated party. The Group acquired Varvarinskoye as it holds the mining license for Varvarinskoye gold-copper deposit located in Kazakhstan. Under the terms of the sale and purchase agreement, the Group acquired the shares for the cash consideration of U.S. Dollar 8,000 and contingent consideration of up to a maximum of U.S. Dollar 12,000 (with estimated fair value of U.S. Dollar 6 as at the date of acquisition), calculated using a formula where published future prices of gold and copper are compared to the gold strike price applied pursuant to the terms of the gold forward purchase contracts entered into (see Note 17) and the copper fixing price as published by the LME as at the date when the gold forward purchase contracts mentioned above are entered into. The acquisition-related costs totaled U.S. Dollar 1,496 and have been included in the "other operating expenses" of the consolidated statement of operations.

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

Prior to the acquisition, Three K and Varvarinskoye held certain debt and hedging obligations with a syndicate of banks including Investec Bank Ltd, Investec Bank Plc, Nedbank Limited and Natixis Bank (collectively, the “Syndicate of Banks”), specifically including:

(a) Debt obligations in the amount of U.S. Dollar 85,660 (see Note 6); and

(b) Flat forward gold sales contract (see Note 17) based on the expected production of gold at Varvarinskoye deposit. The flat forward sales contract has a total notional amount of 310,160 ounces of gold at the fixed forward price of U.S. Dollar 574.25 per ounce and has monthly settlement dates between November 2009 and April 2014.

The existing hedging program has been amended to allow Three K to enter into offsetting transactions in relation to the flat forward gold sales contract. As a result, in October 2009 the Group entered into flat forward gold purchase contract at the fixed forward price of U.S. Dollar 1,129.65 per ounce, with the same notional amount and monthly settlement dates as the aforementioned flat forward gold sales contract (see Note 17). The gold forward purchase contract economically locks in the losses on the existing flat forward gold sales contract.

As a result of the execution of the offsetting transaction, the Group is liable to pay a net settlement amount on each delivery date (at the end of each month for the period starting from September 30, 2009 to April 30, 2014). If any settlement is not paid on its applicable delivery date, such settlement amount will accrue interest at 3 months LIBOR plus 3% and shall be payable on December 31, 2013 (35% of the total and all interest accrued thereon to date) and on December 31, 2014 (the full balance of the settlement amount and all interest accrued thereon to date). In addition, a cash sweep mechanism will apply to all free cash flows generated by Varvarinskoye until all the obligations are fully repaid.

The Group has provided the Syndicate of Banks with a corporate guarantee of U.S. Dollar 90,000, which may be called upon in certain limited circumstances.

The acquisition was accounted for using the purchase price method. The allocation of the purchase price has not been finalized as at the date of these statements. It will be finalized in 2010 upon completion of the mineral rights valuation and deferred taxes assessment. The preliminary purchase price allocation for the acquisition was as follows:

Assets acquired and liabilities assumed at the date of acquisition

Property, plant and equipment	137,213
Mineral rights	8,990
Non-current deferred tax asset	2,993
Inventories and spare parts	27,833
VAT receivable	8,236
Current deferred tax asset	5,149
Cash and cash equivalents	4,339
Other assets, net	882
Derivative financial instruments, net	(157,199)
Long-term debt	(76,314)
Accounts payable and accrued liabilities	(10,342)
Reclamation and mine closure obligation	(9,197)
Net liabilities acquired	**(57,417)**
Cash consideration paid	8,000
Contingent consideration payable	6
Goodwill	**65,423**

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

Goodwill arose in the business combination because the cost of the acquisition includes amounts in relation to the benefits of expected revenue and business growth by receiving more competitive position for the acquisition of the new licenses in the region. The goodwill related to the acquisition was assigned to the Kazakhstan segment. It is not deductible for tax purposes.

Rudnik Kvartseviy LLC

On April 2009, the Company signed a non-binding memorandum of understanding with four Russian private companies, unrelated parties, under which the Company could acquire 100% of Rudnik Kvartseviy LLC (“RK”) in exchange for 10,000,000 of its shares. RK owns the mining license for Sopka Kvartsevaya gold and silver deposit and a 100% stake in Vneshstroygroup LLC, owning the mining license for Dalniy gold and silver deposit, which are located in the Severo-Evensky district of the Magadan region of Russia. In addition to the license areas, RK owns mining fleet and infrastructure at the Sopka mine site. The Group expects to supply ore mined at RK to one of its processing facilities in the Magadan region.

In October 2009, the Group acquired a 100% interest in RK from four Russian private companies for the cash consideration of U.S. Dollar 3,391 and 10,000,000 of Polymetal’s common shares valued at transaction date at U.S. Dollar 90,600.

The acquisition was accounted for using the purchase price method. The allocation of the purchase price has not been finalized as at the date of these financial statements. It will be finalized in 2010 upon completion of mineral rights valuation and deferred taxes assessment. The preliminary purchase price allocation for the acquisition was as follows:

Assets acquired and liabilities assumed at the date of acquisition

Mineral rights	110,000
Property, plant and equipment	34,675
Inventories and spare parts	10,425
Investments	7,429
Other assets, net	5,566
Long-term debt	(19,651)
Non-current deferred tax liabilities	(17,059)
Reclamation and mine closure obligation	(1,363)
Net assets acquired	**130,022**
Cash consideration paid	3,391
Shares consideration paid	90,600
Extraordinary gain	**36,031**

Excess of fair value of acquired net assets over cost of U.S. Dollar 36,031 arose primarily due to the Company’s competitive position in negotiations due to the fact that the Group is the only owner of processing facilities in that region.

CJSC Artel of prospectors Ayax

In January 2009, the Group purchased 4,166 shares (10.39%) in CJSC Artel of prospectors Ayax (“Ayax”) from Silver Ster Ltd., a subsidiary of unrelated party Ovoca Gold Plc. for U.S. Dollar 3,926 in cash. Ayax owns the mining license for Goltsovoye silver deposit, which is located in the Magadan region of Russia. In addition to the license Ayax owns mining fleet and infrastructure at the Goltsovoye mine site. Verda Financial Ltd. (“Verda”), an unrelated party, acquired the remaining 89.61% of Ayax.

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

Simultaneously with these transactions, the Group signed a non-binding letter of intent with Verda which provided the Group 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 Group 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 was repayable to the Group upon the completion of the acquisition of the shares from Verda or upon the decision by the Group to cancel the letter of intent.

In October 2009, the Group acquired the remaining 35,934 shares (89.61%) in Ayax from Verda, for 7,500,000 of the Company's common shares. The loan of U.S. Dollar 10,000 was repaid by Verda upon the purchase of these shares.

Ayax does not meet the definition of a business under ASC 805, and thus it was accounted for as an acquisition of a group of assets. The acquisition cost for the group of assets acquired was allocated among the individual assets acquired and liabilities assumed as follows:

Assets acquired and liabilities assumed at the date of acquisition

Mineral rights	97,019
Property, plant and equipment	5,569
Other assets	1,450
Non-current deferred tax liability	(17,276)
Long-term debt	(14,848)
Accounts payable	(2,588)
Net assets acquired	**69,326**
Cash consideration paid	3,926
Shares consideration paid	65,400

4. INVENTORIES AND SPARE PARTS

	June 30, 2010	December 31, 2009
Consumables and spare parts	137,593	137,061
Ore stock piles	68,091	51,113
Work in-process	57,192	73,331
Dore	15,513	15,891
Refined metals	2,588	7,090
Copper concentrate	905	-
Total	**281,882**	**284,486**

During the six months ended June 30, 2010, management of the Group identified a balance of ore stock piles which had a lower content of precious metals. Management determined that the net realizable value of such ore was lower than its cost. Accordingly, the Group has written off this inventory, in the amount of U.S. Dollar 13,536 at June 30, 2010 (see Note 9). The write-down adjustment relates to the Kazakhstan segment.

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

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

	Interest rate (actual rate as at June 30, 2010)	June 30, 2010	December 31, 2009
Debt from third parties			
U.S. Dollar denominated			
Raiffeisen Bank	1m LIBOR + 3.75% (4.10%)	3,000	23,235
Current portion of long-term debt (Note 6)		135,000	81,667
Total U.S. Dollar denominated		**138,000**	**104,902**
Russian Ruble denominated			
Raiffeisen Bank	1m MOSPRIME + 4.9% (8.80%)	3,752	-
Other		743	604
Current portion of long-term debt (Note 6)		8,496	-
Total Russian Ruble denominated		**12,991**	**604**
Total debt from third parties		**150,991**	**105,506**
Debt from related parties			
U.S. Dollar denominated			
Nomos-Bank	13%	-	3,367
Total U.S. Dollar denominated		**-**	**3,367**
Russian Ruble denominated			
Nomos-Bank	9%	3,334	-
Other		59	-
Total Russian Ruble denominated		**3,393**	**-**
Current portion of long-term debt (Note 6)		266	-
Total debt from related parties		**3,659**	**3,367**
Total		**154,650**	**108,873**

As at June 30, 2010, the Group pledged 400,000 of its treasury shares with a carrying value of U.S. Dollar 3, as collateral for the loan from Nomos-Bank.

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

6. LONG-TERM DEBT

	Interest rate (actual rate as at June 30, 2010)	June 30, 2010	December 31, 2009
Debt from third parties			
U.S. Dollar denominated			
VTB	3m LIBOR+6.3% (6.66%)	150,000	150,000
Syndicate of Banks	3m LIBOR+3% (3.32%)	108,173	85,660
UniCredit bank	1m LIBOR + 6% (6.26%)	70,000	70,000
Sberbank	LIBOR + 6.5% (6.86%)	50,000	-
Raiffeisen Bank	LIBOR+5% (5.26%)	90,000	100,000
Less current portion of long-term debt (Note 5)		(135,000)	(81,667)
Total U.S. Dollar denominated		**333,173**	**323,993**
Russian Ruble denominated			
HSBC bank	MOSPRIME+3% (5.94%)	8,496	-
Less current portion of long-term debt (Note 5)		(8,496)	-
Total Russian Ruble denominated		**-**	**-**
Total debt from third parties		**333,173**	**323,993**
Debt from related parties - Euro denominated			
Nomos-Bank	EURIBOR+4.6% - EURIBOR+5.4% (5.59% - 6.39%)	22,996	7,388
Less current portion of long-term debt (Note 5)		(266)	-
Total debt from related parties - Euro denominated		**22,730**	**7,388**
Total		**355,903**	**331,381**

The table below summarizes the maturities of long-term debt as at June 30, 2010:

Maturity date		**June 30, 2010**
Year ended, June 30,	2011	143,762
	2012	187,500
	2013	37,500
	2014	37,861
	2015	70,312
	2016	22,730
Total		**499,665**

Nomos-Bank

In January 2010, the Group received two additional long-term loans from Nomos-Bank of U.S. Dollar 8,003 (Euro 6,537 thousand as at June 30, 2010) to finance the purchase of equipment for Amursky Hydrometallurgy Plant LLC. The loans will be repaid by ten equal semi-annual installements over five years starting from October 2010. Interest is payable quarterly based on EURIBOR plus 5.15%, which resulted in a rate of 6.14% as at June 30, 2010. As at June 30, 2010, the outstanding balance under these credit facilities was U.S. Dollar 8,003 (the available undrawn balance was U.S. Dollar 1,038). The group capitalized interest incurred of U.S. Dollar 566 as the cost of the acquired assets during the six months ended June 30, 2010.

The repayment of these long-term loans is guaranteed with a pledge of revenues under the sales contracts with Nomos-Bank (see Note 20). The associated covenants 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, 2010, under the most restrictive covenant, the subsidiary of the Group, Trade House Polymetal LLC, is not allowed to pledge property at an amount greater than U.S. Dollar 10,000 without the written consent of Nomos-Bank.

Gazprombank

In February 2010, the Group entered into a long-term credit facility with Gazprombank which allows the Group to borrow funds, denominated in Russian Rubles or U.S. Dollars, up to U.S. Dollar 67,318 (Rubles 2,100,000 thousand as at June 30, 2010) to finance its current operations. Borrowings under this credit facility are available through December 2011. The repayment term is established separately for each loan received from the credit facility at the moment of draw down. Interest is payable monthly, based on a fixed rate determined by Gazprombank for each tranche but not to exceed 14% annually for funds borrowed in Russian Rubles and 9% for funds borrowed in U.S. Dollars. As at June 30, 2010, the outstanding balance under this credit facility was nil.

Covenants related to the long-term facility require the Group to maintain certain financial ratios and prohibit any change to the general nature of the business. At June 30, 2010, under the most restrictive covenant, the Group is not permitted to pledge or alienate property with a carrying value greater than 10% of the Group’s assets.

Sberbank

In February 2010, the Group received a long-term loan from Sberbank of U.S. Dollar 50,000 to finance its current operations and to refinance other long-term facilities. The loan will be repaid in equal installments on a quarterly basis through February 2013. Interest is payable quarterly and is based on three months LIBOR plus 6.5% annually, which resulted in an interest rate of 6.86% as at June 30, 2010. Sberbank has the power to change the interest rate unilaterally. As at June 30, 2010, the outstanding balance under this credit facility was U.S. Dollar 50,000.

Covenants related to the long-term loan prohibit any change to the general nature of the business.

HSBC

In June 2010, the Group entered into a long-term credit facility with HSBC Bank which allows the Group to borrow funds, denominated in U.S. Dollars or Russian Rubles, up to U.S. Dollar 25,000 to finance its current operations. The credit facility is available through April 2012. Each loan received from the credit facility must be repaid within twelve months of the draw down. Interest is payable monthly and based on LIBOR plus 3.5% for funds borrowed in U.S. Dollars and MOSPRIME rate plus 3% for funds borrowed in Russian Rubles, which resulted in an interest rate of 5.94% as at June 30, 2010. As at June 30, 2010, the outstanding balance under this credit facility was U.S. Dollar 8,496.

The repayment of this long-term facility is guaranteed with a pledge of revenues under the sales agreement with Nomos-Bank (see Note 20). Covenants to this long-term facility require the Group to maintain certain financial ratios and prohibit any change to the general nature of the business. At June 30, 2010, under the most restrictive covenant, 15% of the Group's total assets cannot be pledged or alienated.

Syndicate of Banks

Upon the acquisition of JSC Varvarinskoye (see Note 3), the Group assumed a long-term loan of U.S. Dollar 85,660, payable to the Syndicate of Banks including Investec Bank Ltd, Investec Bank Plc, Nedbank Limited and Natixis Bank (“Syndicate of Banks”). The nominal interest rate is three months LIBOR plus 3% per annum during the term. The fair value of the long-term obligation at the date of acquisition was estimated as U.S. Dollar 74,735. The amortized cost as at June 30, 2010 is U.S. Dollar 75,385, and the effective interest rate is 7.61%.

In addition to the loan described above, the Group assumed obligations under flat forward gold sales and purchase contracts (see Note 3 and 17). As at June 30, 2010, the Group has not settled its liability under these contracts. The amount outstanding as at June 30, 2010 and December 31, 2009 is U.S. Dollar 32,788 and U.S. Dollar 10,070, respectively. The interest rate is three months LIBOR plus 3% per annum during the term.

For repayment of these two liabilities a cash sweep arrangement will apply to all free cash flows generated from JSC Varvarinskoye. In accordance with the cash sweep agreement, on each day following the quarter-end, JSC Varvarinskoye shall pay 100% of the amount by which the cash inflow for the quarter exceeds U.S. Dollar 5,000. In 2013 and 2014, 35% and 65%, respectively, of the obligation becomes due if not previously repaid through the cash sweep arrangement.

As at June 30, 2010, property, plant and equipment with a total net book value of U.S. Dollar 141,184 was pledged as collateral for the loan from the Syndicate of Banks.

The Group is in compliance with all restrictive provisions of the loan agreements as at June 30, 2010. As at June 30, 2010, the total balance available for draw down under existing loan facilities is U.S. Dollar 114,453.

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

7. EARNINGS PER SHARE

During 2010, the Group does not have any potentially dilutive securities outstanding. The call option outstanding during 2009 was exercised by year-end at December 31, 2009.

Basic/dilutive earnings per share were calculated by dividing net income by the weighted average number of outstanding common shares before and after dilution. Treasury shares are excluded from the calculation of the weighted average shares outstanding from the date of purchase of the shares. There were not any changes in income that would result from the assumed conversion of the potentially dilutive securities. The calculation of the weighted average number of outstanding common shares after dilution for the six months ended June 30, 2010 and 2009 is as follows:

	Six months ended June 30, 2010	Six months ended June 30, 2009
Weighted average number of outstanding common shares	357,924,643	314,998,889
Call option	-	231,069
Weighted average number of outstanding common shares after dilution	**357,924,643**	**315,229,958**

8. REVENUES

	Six months ended June 30, 2010	Six months ended June 30, 2009
Sales to third parties		
VTB	119,513	58,220
Sberbank	54,252	-
Metalor Technologies SA	35,093	-
Gazprombank	32,557	20,950
Trafigura Beheer B.V.	19,571	-
Rosbank	7,922	-
Total sales to third parties	**268,908**	**79,170**
Sales to related parties		
Nomos-Bank	152,292	139,266
Total sales to related parties	**152,292**	**139,266**
Total metal sales	**421,200**	**218,436**
Other	533	1,181
Total	**421,733**	**219,617**

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

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

	Six months ended June 30, 2010			
	Magadan	**Khabarovsk**	**North Ural**	**Total**
Nomos-Bank	69,590	64,709	17,993	152,292
VTB	91,644	16,431	11,438	119,513
Sberbank	-	-	54,252	54,252
Total	**161,234**	**81,140**	**83,683**	**326,057**

	Six months ended June 30, 2009			
	Magadan	**Khabarovsk**	**North Ural**	**Total**
Nomos-Bank	71,671	30,226	37,369	139,266
VTB	39,110	10,805	8,305	58,220
Gazprombank	-	9,194	11,756	20,950
Total	**110,781**	**50,225**	**57,430**	**218,436**

Revenues analyzed by geographical regions of the customers are presented below:

	Six months ended June 30, 2010	**Six months ended June 30, 2009**
Sales within the Russian Federation	367,069	219,617
Sales to China	19,571	-
Sales to other European countries	35,093	-
Total	**421,733**	**219,617**

Presented below is an analysis of revenues from metal sales:

	Six months ended June 30, 2010			**Six months ended June 30, 2009**		
	Thousand ounces/ tons	**Average price (U.S.Dollar per troy ounce/ton)**	**U.S. Dollars**	**Thousand ounces/ tons**	**Average price (U.S.Dollar per troy ounce)**	**U.S. Dollars**
Gold (thousand ounces)	210	1,151.50	241,816	128	918.44	117,560
Silver (thousand ounces)	9,534	17.54	167,185	7,732	13.05	100,876
Copper (tons)	1,943	6,278.44	12,199	-	-	-
Total			**421,200**			**218,436**

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

9. COST OF SALES

	Six months ended June 30, 2010	Six months ended June 30, 2009
Cash operating costs		
On-mine costs (Note 10)	75,259	44,362
Smelting costs (Note 11)	80,847	46,440
Mining tax	25,765	14,150
Purchase of ore from a third party	2,660	2,127
Total cash operating costs	**184,531**	**107,079**
Depreciation and depletion of operating assets (Note 12)	31,204	18,479
Accretion of reclamation and mine closure obligation	2,181	915
Total costs of production	**217,916**	**126,473**
Increase in metal inventory	(14,487)	(14,055)
Write-down of inventory to lower of cost or market	13,536	-
Total change in metal inventory	**(951)**	**(14,055)**
Cost of other sales	371	-
Total	**217,336**	**112,418**

10. ON-MINE COSTS

	Six months ended June 30, 2010	Six months ended June 30, 2009
Services	28,533	11,315
Consumables and spare parts	25,752	16,951
Labour	16,574	13,328
Taxes, other than income tax	3,488	2,602
Other expenses	912	166
Total (Note 9)	**75,259**	**44,362**

11. SMELTING COSTS

	Six months ended June 30, 2010	Six months ended June 30, 2009
Consumables and spare parts	36,312	19,848
Services	28,118	14,879
Labour	13,028	9,540
Taxes, other than income tax	2,780	2,080
Other expenses	609	93
Total (Note 9)	**80,847**	**46,440**

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

12. DEPRECIATION AND DEPLETION OF OPERATING ASSETS

	Six months ended June 30, 2010	Six months ended June 30, 2009
Mining	18,756	11,162
Smelting	12,448	7,317
Total (Note 9)	**31,204**	**18,479**

13. GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

	Six months ended June 30, 2010	Six months ended June 30, 2009
Labour	25,024	16,943
Services	4,518	6,349
Other expenses	5,721	3,444
Total	**35,263**	**26,736**

14. OTHER OPERATING EXPENSES

	Six months ended June 30, 2010	Six months ended June 30, 2009
Start-up costs	7,228	-
Social payments	4,830	2,182
Taxes, other than income tax	4,806	2,428
Exploration expenses	3,101	1,165
Increase in provision for doubtful debts	319	1,435
Other expenses, individually less than U.S. Dollar 2,000	5,323	4,688
Total	**25,607**	**11,898**

15. INCOME TAX

	Six months ended June 30, 2010	Six months ended June 30, 2009
Current income taxes	31,003	14,101
Deferred income taxes	(1,994)	(43)
Total income tax expense	**29,009**	**14,058**

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

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. The Company's effective tax rate decreased from 42.5% in the six months ended June 30, 2009 to 23.5% in the six months ended June 30, 2010 primarily due to the increase of pre-tax profits relative to the level of non-deductible expenses.

16. FAIR VALUE ACCOUNTING

The following fair value hierarchy table presents information regarding the Group's assets and liabilities measured at fair value on a recurring basis as at June 30, 2010 and December 31, 2009 using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

	June 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Receivables from provisional copper and gold concentrate sales	-	4,264	-	**4,264**
Derivative financial instruments, net	-	126,139	-	**126,139**
Contingent consideration liability	-	-	17,100	**17,100**
	-	**130,403**	**17,100**	**147,503**

	December 31, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Derivative financial instruments, net	-	149,514	-	**149,514**
Contingent consideration liability	-	-	16,389	**16,389**
	-	**149,514**	**16,389**	**165,903**

Receivables from provisional copper and gold concentrate sales

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

Derivative financial instruments

Derivative financial instruments of the Group are represented by commodity forward contracts. The fair value of commodity forward contracts is determined by discounting contractual cash flows using a discount rate derived from observed U.S. Treasury yield curve rates. Contractual cash flows are calculated using a forward pricing curve derived from market forward prices for each commodity. The commodity forward contracts are classified within Level 2 of the fair value hierarchy.

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

Contingent consideration liability

In 2008, the Group recorded a contingent consideration liability related to the acquisition of 98.1% of shares in JSC Omolon Gold Mining Company ("OGMC"). The fair value of the contingent consideration liability was determined using a valuation model which simulates expected production of gold and silver at the Kubaka mine and future gold and silver prices to estimate future revenues of OGMC.

In 2009, the Group recorded a contingent consideration liability related to the acquisition of JSC Varvarinskoye (see Note 3). The fair value of the contingent consideration liability was determined using a valuation model which simulates expected future prices of gold and copper, gold strike price applied pursuant to the terms of the gold forward purchase contracts entered into (see Note 17) and copper fixing price as published by the London Metal Exchange ("LME") as at the date when the gold forward purchase contracts mentioned above is entered into are incorporated.

The contingent consideration liability is classified within Level 3 of the fair value hierarchy.
The table below sets forth a summary of changes in the fair value of the Group's Level 3 financial liabilities for the six months ended June 30, 2010:

	Contingent consideration liability
Beginning balance	16,389
Change in fair value, included in earnings	1,266
Translation effect	(555)
Total	**17,100**

Financial instruments also include cash, evidence of ownership in an entity, or contracts that impose an obligation on one party and conveys the right to a second entity to deliver/receive cash or another financial instrument. As at June 30, 2010 and December 31, 2009, the carrying values of cash, accounts receivable, 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. The estimated fair value of the Group's long-term debt, calculated using market interest rate available to the Group as at June 30, 2010, is U.S. Dollar 515,221, and the carrying value as at June 30, 2010 is U.S. Dollar 499,665 (see Note 6).

17. DERIVATIVE FINANCIAL INSTRUMENTS

Risk management activities

In the normal course of its operations, the Group is exposed to commodity price, currency, interest rate, liquidity and credit risk. In order to manage these risks, the Group has developed a comprehensive risk management process to facilitate control and monitoring of these risks.

Concentration of credit risk

The Group's financial instruments do not represent a concentration of credit risk as the Group's level of accounts receivable as at June 30, 2010 and December 31, 2009 is immaterial.

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

Foreign currency and commodity price risk

In the normal course of business the Group enters into transactions for the sale of its commodities, denominated in U.S. Dollars. In addition, the Group has assets and liabilities in a number of different currencies (primarily Russian Ruble and Kazakh Tenge). As a result, the Group is subject to transaction and translation exposure from fluctuations in foreign currency exchange rates. The Group does not currently hedge its exposure to the foreign currency risk.

As at June 30, 2010, the Group held the following derivative financial instruments to protect its exposure to adverse movements in commodity prices:

Flat forward gold sales and purchase contracts related to JSC Varvarinskoye (see Note 3). The contracts have total notional amounts of 310,160 ounces of gold; fixed forward sales price of U.S. Dollar 574.25 per ounce and fixed forward purchase price of U.S. Dollar 1,129.65 per ounce; and monthly settlement until April 2014.

(a) The Group is liable to pay a net settlement amount on each delivery date. If any settlement is not paid on its applicable delivery date, such settlement amount will accrue interest at three months LIBOR plus 3% and shall be payable on December 31, 2013 (35% of the total and all interest accrued thereon to date) and on December 31, 2014 (the full balance of the settlement amount and all interest accrued thereon to date). In addition, a cash sweep mechanism will apply to all free cash flows generated by Varvarinskoye until all the obligations are fully repaid. As at June 30, 2010 net settlement amount of U.S. Dollar 32,788 has not been paid and was recorded in the "long-term debt" line of the balance sheet (see Note 6).

These contracts have not been designated as hedging instruments. Changes in the fair value are recorded as part of change in fair value of derivatives in the statement of operations. As the Group has legally enforceable master netting agreement with counterparties, the flat forward gold sales and purchase contracts are presented net in the balance sheet as derivative financial instruments.

The change in fair value of the Group's derivative financial instruments gave rise to a derivative loss for the period of U.S. Dollar 1,529.

The Group had the following forward pricing commitments outstanding against future production as at June 30, 2010:

Years ended December 31	**2010**	**2011**	**2012**	**2013**	**2014**
Flat forward gold sales contracts					
Amount (ounces)	40,000	76,142	62,000	53,000	20,000
Price (U.S. Dollar per ounce)	574.25	574.25	574.25	574.25	574.25
Flat forward gold purchase contracts					
Amount (ounces)	40,000	76,142	62,000	53,000	20,000
Price (U.S. Dollar per ounce)	1,129.65	1,129.65	1,129.65	1,129.65	1,129.65

(b) Under the long-established structure of sales agreements prevalent in the industry, copper and gold concentrate sales are provisionally priced at the time of shipment. The provisional prices are finalized in a contractually specified future period (generally one to three months) primarily based on quoted London Metal Bulletin (“LMB”) prices. Sales subject to final pricing are generally settled in a subsequent month. Because a significant portion of the Group’s copper and gold concentrate sales in a period usually remain subject to final pricing, the forward price is a major determinant of recorded revenues.

LMB copper prices averaged U.S. Dollar 7,133 per ton since January 2010 compared with the Group’s recorded average provisional price of U.S. Dollar 7,127 per ton. The applicable forward copper price at June 30, 2010 was U.S. Dollar 6,541 per ton. During six months 2010, increasing copper prices resulted in a provisional pricing mark-to-market gain of U.S. Dollar 248 (included in revenue). At June 30, 2010, the Group had copper sales of 343 tons priced at an average of U.S. Dollar 6,605 per ton, subject to final pricing in the third quarter of 2010.

LMB gold prices averaged U.S. Dollar 1,152 per ounce since January 2010, compared with the Group’s recorded average provisional price of U.S. Dollar 1,157 per ounce. The applicable forward gold price at 30 June, 2010 was U.S. Dollar 1,242 per ounce. During six months 2010, increasing gold prices resulted in a provisional pricing mark-to-market gain of U.S. Dollar 398 (included in revenue). At June 30, 2010, the Group had gold sales of 1,601 ounces priced at an average of U.S. Dollar 1,248 per ounce, subject to final pricing in the third quarter of 2010.

Interest rate and liquidity risk

Fluctuations in interest rates impact the value of investments and financing activities, giving rise to interest rate risk. The Group does not currently hedge its exposure to interest rate risk and instead enters into variable rate debt arrangements. In the ordinary course of business, the Group receives cash proceeds from its operations and is used to fund working capital and capital expenditure requirements. Substantial contractual arrangements for uncommitted borrowing facilities are maintained with several banking counterparties to meet the Group’s normal contingency funding requirements.

18. SEGMENTS

The Group has six reportable segments:

- North Ural region (CJSC Zoloto Severnogo Urala);
- Khabarovsk region (JSC Okhotskaya GGC);
- Magadan region (CJSC Serebro Magadana, CJSC Ayax, see Note 3);
- Omolon region (JSC Omolon Gold Mining Company, Rudnik Kvartseviy LLC, see Note 3);
- Albazino region (Albazino Resources LLC, Amursky Hydrometallurgy Plant LLC);
- Kazakhstan (JSC Varvarinskoye, see Note 3).

The reportable segments are determined based on the information reviewed by the Group’s Chief Operating Decision Maker, which is according to the Group’s geographic regional profile. Minor companies (management, exploration, purchasing and other companies) which do not meet the reportable segments criteria are disclosed within Corporate and other.

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

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 deposit development and precious metal extraction technologies.

								Reconciling items		
As at and for the six months ended June 30, 2010	**North Ural**	**Khabarovsk**	**Magadan**	**Omolon**	**Albazino**	**Kazakhstan**	**Total reportable segments**	**Corporate and other**	**Eliminations**	**Total**
Revenues from external customers	101,482	92,981	172,380	-	-	54,663	**421,506**	227	-	**421,733**
Intersegment revenues	195	335	71	-	-	-	**601**	110,348	(110,949)	-
Cost of sales	(38,766)	(45,159)	(90,764)	-	-	(44,447)	**(219,136)**	-	1,800	**(217,336)**
Gross profit	**62,911**	**48,157**	**81,687**	**-**	**-**	**10,216**	**202,971**	**110,575**	**(109,149)**	**204,397**
General, administrative and selling expenses	(5,098)	(4,524)	(6,724)	(2,887)	(2,601)	(2,361)	**(24,195)**	(27,131)	16,063	**(35,263)**
Other operating expenses										**(25,607)**
Interest expense, net of amounts capitalized										**(7,859)**
Loss from investments in joint ventures										**(675)**
Change in fair value of derivatives										**(1,529)**
Change in fair value of contingent consideration liability										**(1,266)**
Foreign exchange loss, net										**(8,659)**
Total income before income tax										**123,539**
Segment assets:										
Property, plant and equipment, net	80,894	87,694	301,118	183,266	239,559	149,572	**1,042,103**	153,731	-	**1,195,834**
Accounts receivable, inventories and spare parts, prepayments to suppliers and VAT receivable	126,470	95,377	127,261	49,685	30,255	37,511	**466,559**	82,845	(143,713)	**405,691**
Goodwill	-	13,056	8,013	-	-	63,428	**84,497**	24,395	-	**108,892**
Total segment assets	**207,364**	**196,127**	**436,392**	**232,951**	**269,814**	**250,511**	**1,593,159**	**260,971**	**(143,713)**	**1,710,417**
Unallocated assets:										
Cash and cash equivalents										**26,329**
Other assets										**117,194**
Total assets										**1,853,940**

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

As at December 31, 2009 and for the six months ended June 30, 2009	North Ural	Khabarovsk	Magadan	Omolon	Albazino	Kazakhstan	Total reportable segments	Reconciling items: Corporate and other	Reconciling items: Eliminations	Total
Revenues from external customers	57,368	50,256	110,837	-	-	-	**218,461**	1,156	-	**219,617**
Intersegment revenues	3	59	360	-	-	-	**422**	37,288	(37,710)	-
Cost of sales	(25,285)	(26,202)	(68,466)	-	-	-	**(119,953)**	(28,496)	36,031	**(112,418)**
Gross profit	**32,086**	**24,113**	**42,731**	**-**	**-**	**-**	**98,930**	**9,948**	**(1,679)**	**107,199**
General, administrative and selling expenses	(3,536)	(3,292)	(5,201)	(1,621)	-	-	**(13,650)**	(14,825)	1,739	**(26,736)**
Other operating expenses										**(11,898)**
Interest expense, net of amounts capitalized										**(14,442)**
Loss from investments in joint ventures										**(1,734)**
Change in fair value of derivatives										**(13,919)**
Change in fair value of contingent consideration liability										-
Foreign exchange loss, net										**(5,468)**
Total income before income tax										**33,002**
Segment assets:										
Property, plant and equipment, net	84,285	98,592	299,838	158,999	166,889	145,219	**953,822**	133,681	-	**1,087,503**
Accounts receivable, inventories and spare parts, prepayments to suppliers and VAT receivable	123,180	112,026	137,071	32,649	33,060	40,005	**477,991**	94,940	(169,431)	**403,500**
Goodwill	-	13,467	8,265	-	-	65,423	**87,155**	25,161	-	**112,316**
Total segment assets	**207,465**	**224,085**	**445,174**	**191,648**	**199,949**	**250,647**	**1,518,968**	**253,782**	**(169,431)**	**1,603,319**
Unallocated assets:										
Cash and cash equivalents										**28,317**
Other assets										**91,764**
Total assets										**1,723,400**

19. 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.

As at June 30, 2010 and December 31, 2009 the amount of outstanding short-term loans provided to related parties comprised U.S. Dollar 1,518 and U.S. Dollar 837, respectively.

As at June 30, 2010 and December 31, 2009 the amount of outstanding long-term loans provided to related parties comprised U.S. Dollar 10,451 and 9,715, respectively. The amount of interest income for the six months ended June 30, 2010 and 2009 was U.S. Dollar 171 and 346, respectively.

As at June 30, 2010 and December 31, 2009 the amount of outstanding short-term loans provided by related parties comprised U.S. Dollar 3,659 and 3,367, respectively (see Note 5).

As at June 30, 2010 and December 31, 2009 the amount of outstanding long-term loans provided by related parties comprised U.S. Dollar 22,730 and 7,388, respectively (see Note 6).

The amount of interest expense on loans from related parties for the six months ended June 30, 2010 and 2009 was U.S. Dollar 585 and U.S. Dollar 14,448, respectively.

Revenue from sales to related parties for the six months ended June 30, 2010 comprised U.S. Dollar 152,292 (Six months ended June 30, 2009: U.S. Dollar 139,266) (see Note 8).

As at June 30, 2010, the Group has certain forward sales commitments to related parties (see Note 20).

20. COMMITMENTS AND CONTINGENCIES

Taxation

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

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, CJSC Serebro Magadana for the period up to 2007 and JSC Varvarinskoye for the period up to 2007. Nevertheless, according to the Russian and Kazakhstan 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, 2010, the Group's management estimates such contingencies related to taxes other than income tax to be up to approximately U.S. Dollar 4,541 (December 31, 2009: U.S. Dollar 31). The Group believes the estimated losses related to these contingencies are not probable and, as such, have not been recorded as a liability as at June 30, 2010 and December 31, 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's subsidiaries 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.

Forward sales commitments

Under the sale agreements with Nomos-Bank, the Company's subsidiaries, CJSC Zoloto Severnogo Urala, CJSC Serebro Magadana and JSC Okhotskaya GGC are required to sell 80,000 ounces of gold and 6,806,000 ounces of silver during 2010; and 64,000 ounces of gold during 2011 at a price determined by London Bullion Market Association ("LBMA"). The Group partially met its obligations during the six months ended June 30, 2010. The remaining quantity of gold and silver to be sold by the end of 2010 comprises 28,000 ounces of gold and 1,457,000 ounces of silver.

Under the sale agreements with VTB, the Company's subsidiaries, CJSC Zoloto Severnogo Urala, CJSC Serebro Magadana and JSC Okhotskaya GGC are required to sell 64,000 ounces of gold and 12,217,000 ounces of silver during 2010 at a price determined by LBMA. The Group partially met its obligations during the six months ended June 30, 2010. The remaining quantity of gold and silver to be sold by the end of 2010 comprises 25,000 ounces of gold and 8,036,000 ounces of silver.

Under the sale agreements with Gazprombank, the Company's subsidiaries, CJSC Zoloto Severnogo Urala, CJSC Serebro Magadana and JSC Okhotskaya GGC are required to sell 45,000 ounces of gold during 2010 at a price determined by LBMA. The Group partially met its obligations during the six months ended June 30, 2010. The remaining quantity of gold to be sold by the end of 2010 comprises 17,000 ounces.

Under the sale agreement with Sberbank, the Company's subsidiary, CJSC Zoloto Severnogo Urala is required to sell 64,000 ounces of gold during each of the years 2010, 2011 and 2012 at a price determined by LBMA. The Group partially met its obligations during the six months ended June 30, 2010. The remaining quantity of gold to be sold by the end of 2010 comprises 18,000 ounces.

Under the sale agreement with Rosbank, the Company's subsidiary, CJSC Zoloto Severnogo Urala is required to sell 16,000 ounces of gold during 2010 at a price determined by LMB. The Group partially met its obligations during the six months ended June 30, 2010. The remaining quantity of gold to be sold by the end of 2010 comprises 9,000 ounces.

Under the sale agreement with Trafigura Beheer B.V., the Company's subsidiary, JSC Varvarinskoe is required to sell 20,000,000 dry metric tons of copper concentrate during 2010 and 26,400,000 dry metric tons of copper concentrate during 2011 and 2012 at a price determined by LME and adjusted for further processing costs. The Group partially met its obligations during the six months ended June 30, 2010. The remaining quantity of copper concentrate to be sold by the end of 2010 comprises 13,557,000 dry metric tons.

Under the sale agreement with Metalor the Company's subsidiary, JSC Varvarinskoye, is required to sell 2.302 tons of dore alloy with approximate gold content of 2.041 tons during 2010 at a price determined by LBMA and adjusted for further processing costs. The Group partially met its obligations during the six months ended June 30, 2010. The remaining quantity to be sold as at June 30, 2010, comprises 1.252 tons of dore alloy with approximate gold content of 1.102 tons by the end of 2010.

Litigation

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 consolidated financial statements.

Insurance policies

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

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

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.

21. SUBSEQUENT EVENTS

In August 2010, the Group signed a letter of intent with Castalian Trading Limited, an unrelated party, which provides the Group with the right to purchase the 100% interest in PD Rus LLC (“PD Rus”). PD Rus is holding the exploration and mining license for Svetloye gold deposit, located in the Khabarovsk region of Russia. The Group is to pay cash consideration of U.S. Dollar 9,250, primarily for the settlement of PD Rus’s liabilities. The Group will also compensate to Castalian Trading Limited the fees and expenses paid in connection with the transaction. The transaction is subject to satisfaction of various conditions, including successful completion of certain corporate actions and procedures as well as approval of the transaction by the Federal Antimonopoly Service of the Russian Federation.

In September 2010, the Group signed a memorandum of understanding with Doland Business Limited, an unrelated party, under which the Group has agreed to acquire Rudnik Avlayakan LLC (“Rudnik Avlayakan”) and Kirankan LLC (“Kirankan”) for a consideration of 3,500,000 of the Company’s ordinary shares. The companies to be acquired hold mining licenses for Avlayakan and Kirankan gold and silver deposits as well as exploration licenses for Avlayakan-Kirankan watershed and Maymakan-Kundumi watershed properties all located in the Khabarovsk region in the Far East of Russia. The transaction is subject to satisfaction of various conditions, including successful completion of certain corporate actions and procedures and approval of the transaction by the Federal Antimonopoly Service of the Russian Federation.

In September 2010, Polymetal’s Board of Directors approved a share price based employee incentive program (“the Program”) for executive directors and senior employees of the Group. The Program establishes a bonus fund (“the Bonus Fund”) which will consist of up to 30 million of the Group’s ordinary shares. The shares from the Bonus Fund are to be sold to the Program participants for a nominal price of 1 Russian Ruble per share. Each participant of the Program will be allocated a certain percentage of the Bonus Fund based on their position, job performance, career growth potential, and other relevant criteria. The list of participants is expected to be approved by the Polymetal’s Board of Directors, together with percentages of the Bonus Fund to be allocated to each participant, by the end of 2010. In the base case scenario the aggregate number of shares comprising the Bonus Fund is to be determined on September 11, 2013 according to the certain formula, tied to the Company's share price performance.

The Group has evaluated subsequent events through the date the condensed interim financial statements were available to be issued September 28, 2010.