



POLYMETAL
INTERNATIONAL PLC

**Sustaining
growth and
creating value**

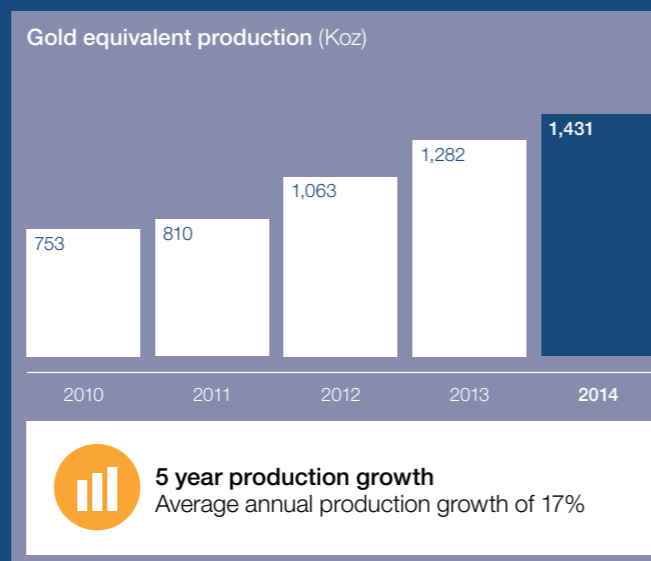
Annual Report 2014
www.polymetalinternational.com

Maintaining our growth strategy

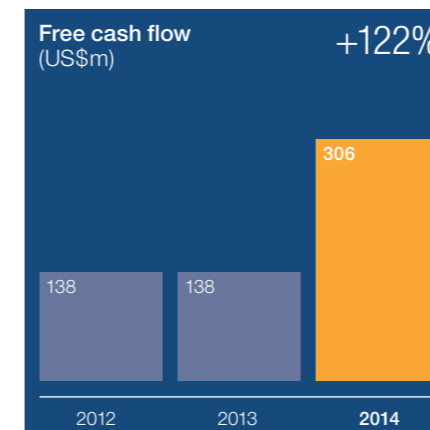
Polymetal is a leading precious metals mining group, with a robust track record of strong operational performance and consistent strategic delivery.

In line with our strategy and operational objectives we have made further significant progress this year, in particular with record production results and the Kyzyl acquisition. We are confident that this new asset will contribute strongly towards our aims of becoming the leading precious metals producer in Russia and the CIS, and delivering sustainable value to all our stakeholders.

Kyzyl project
Our latest acquisition, the Kyzyl gold project in Kazakhstan
pages 10, 36



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At a glance

We continue to deliver consistently robust operating performance

2014 highlights

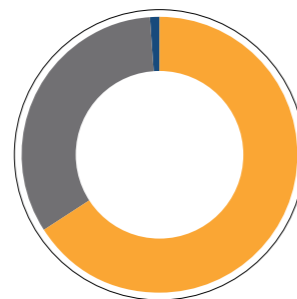
Our gold equivalent (GE) production¹ was 1.43 Moz, up by 12%. This exceeded both our original production guidance of 1.3 Moz of GE by 10% and the updated guidance of 1.365 Moz by 5%. This was largely due to the full ramp-up of Mayskoye and strong operational delivery at Dukat and Omolon.

We acquired the Kyzyl gold project in Kazakhstan. With gold reserves of 6.7 Moz at 7.5 g/t (JORC), this has increased Polymetal's gold equivalent reserves by 50%. The project has a mine life of at least 20 years with substantial exploration potential.

Increased free cash flow generation enabled us to go beyond the regular dividend and pay a special dividend of US\$0.20 per ordinary share (approximately US\$84 million in total).

¹ Gold equivalent is calculated based on 1:60 Ag/Au and 5:1 Cu/Au conversion ratios.

Production structure, GE (%)



● Gold	66
● Silver	33
● Copper	1

Production in 2014

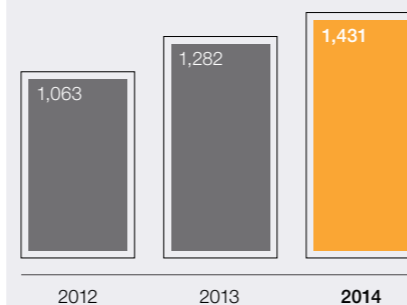
1,431 Koz

Gold equivalent
2013: 1,282 Koz

+12%

Increase of gold equivalent production over 2013

Production growth (Koz)



What sets us apart

Our commitment to shareholder value creation is underpinned by a preference for high-grade assets, a strong operating and project delivery record, and capital discipline.



High-grade assets

Our focus on grade and a preference for open-pit mines are key factors in maintaining lower operating costs and reducing per-ounce capital expenditure.

Key financial figures

1,690 US\$m

Revenue
2013: US\$1,707 million

634 US\$/GE oz

Total cash cost¹
2013: US\$745/GE oz

893 US\$/GE oz

All-in sustaining cash cost
2013: US\$1,086 GE oz

685 US\$m

Adjusted EBITDA² – total
2013: US\$598 million

306 US\$m

Free cash flow³
2013: US\$138 million

Asset portfolio

8,624 km²

Total licence area
2013: 10,650 km²

8

Mining operations

Russia
Dukat
Omolon
Albazino
Mayskoye
Voro
Khakanja

Kazakhstan
Varvara
Kyzyl

Workforce

8,853

Employees⁵
2013: 9,232

Reserves

21.6 Moz

Ore reserves (GE oz)
2013: 13.3 Moz

4.3 g/t

Average reserve grade (GE g/t)
2013: 3.7 GE g/t

Resources⁴

14.6 Moz

Mineral resources (GE oz)
2013: 16.7 GE Moz

4.2 g/t

Average resource grade (GE g/t)
2013: 3.7 GE g/t

¹ Total cash costs comprise cost of sales of the operating assets (adjusted for depreciation expense, rehabilitation expenses and write-down of inventory to net realisable value and certain other adjustments, including addition of treatment and refinery charges related to concentrate offtake) and general, administrative and selling expenses of the operating assets. Gold equivalent sales volume is calculated based on average realised metal prices in the relevant period. Total cash cost per gold equivalent ounce sold is calculated as total cash costs divided by total gold equivalent unit ounces sold.

² The Company defines adjusted EBITDA (a non-IFRS measure) as profit for the period adjusted for depreciation expenses, rehabilitation expenses, write-downs of inventory to net realisable value, share-based compensation, additional mining tax, VAT, penalties and accrued interest, income on disposal of subsidiaries, bargain purchase gains, foreign exchange gains/(losses), changes in fair value of derivatives, changes in fair value of contingent consideration, finance income, finance costs, and income tax expenses. Adjusted EBITDA margin is adjusted EBITDA divided by revenue. See Note 6 to the financial statements.

³ Free cash flow is defined as total operating cash flows less investing cash flow (2014: excluding cash payment for the Kyzyl acquisition).

⁴ Mineral resources and ore reserves are estimated in accordance with the JORC Code (2012). Mineral resources are additional to ore reserves.

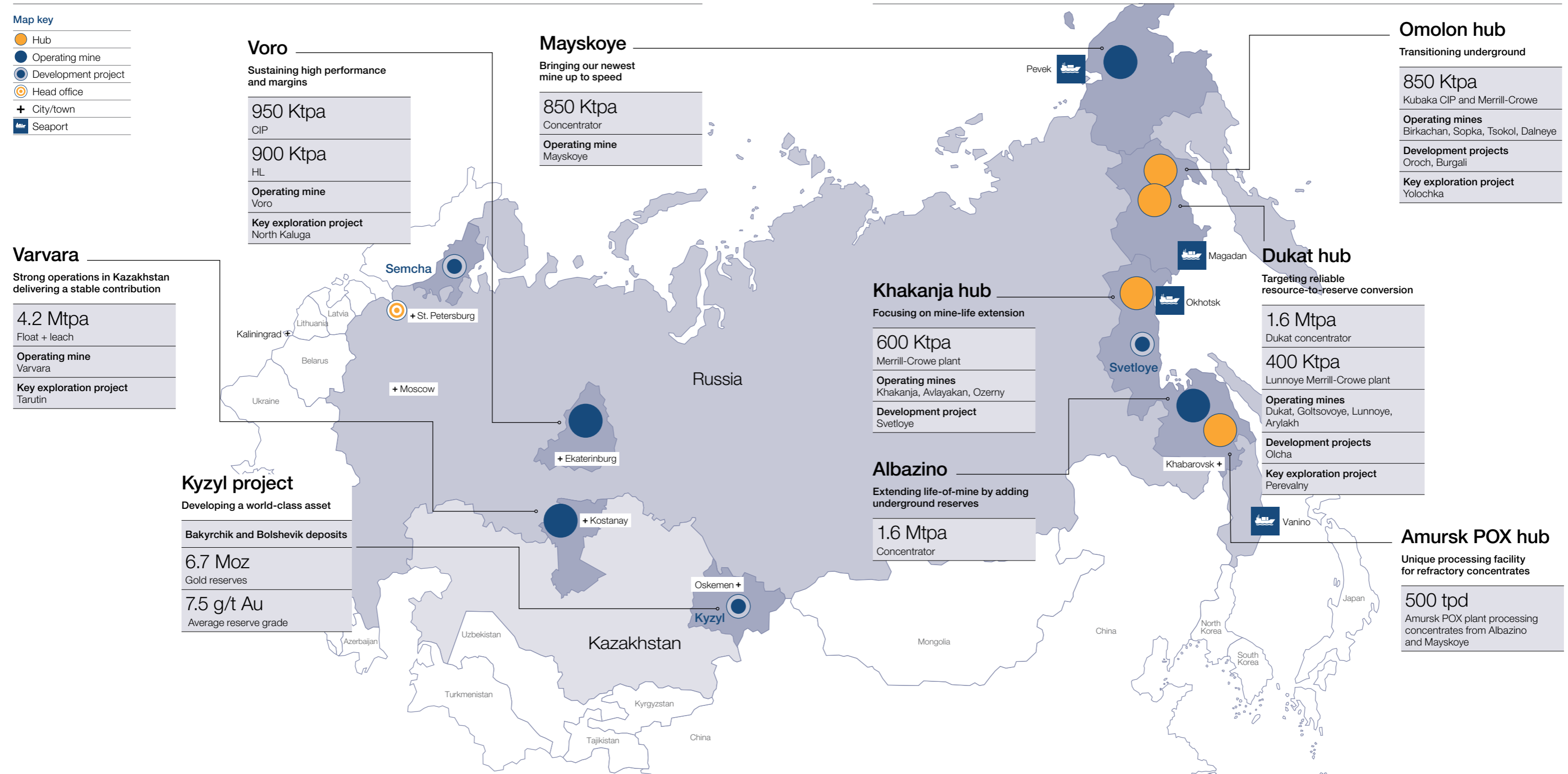
⁵ Average headcount for the period.

Where we operate

We have a growing portfolio of high-quality assets, supported by a strong exploration programme

Map key

- Hub
- Operating mine
- Development project
- Head office
- + City/town
- ⚓ Seaport



Voro
Sustaining high performance and margins

950 Ktpa
CIP
900 Ktpa
HL
Operating mine
Voro
Key exploration project
North Kaluga

Mayskoye
Bringing our newest mine up to speed

850 Ktpa
Concentrator
Operating mine
Mayskoye

Varvara
Strong operations in Kazakhstan delivering a stable contribution

4.2 Mtpa
Float + leach
Operating mine
Varvara
Key exploration project
Tarutin

Kyzyl project
Developing a world-class asset

Bakyrchik and Bolshevik deposits
6.7 Moz
Gold reserves
7.5 g/t Au
Average reserve grade

Khakanja hub
Focusing on mine-life extension

600 Ktpa
Merrill-Crowe plant
Operating mines
Khakanja, Avlayakan, Ozerny
Development project
Svetloye

Albazino
Extending life-of-mine by adding underground reserves

1.6 Mtpa
Concentrator

Omolon hub
Transitioning underground

850 Ktpa
Kubaka CIP and Merrill-Crowe
Operating mines
Birkachan, Sopka, Tsokol, Dalneye
Development projects
Oroch, Burgali
Key exploration project
Yolochka

Dukat hub
Targeting reliable resource-to-reserve conversion

1.6 Mtpa
Dukat concentrator
400 Ktpa
Lunnoye Merrill-Crowe plant
Operating mines
Dukat, Goltsovoye, Lunnoye, Arylakh
Development projects
Olcha
Key exploration project
Perevalny

Amursk POX hub
Unique processing facility for refractory concentrates

500 tpd
Amursk POX plant processing concentrates from Albazino and Mayskoye

Chairman's Q&A

Bobby Godsell talks about Polymetal's performance, economic environment and prospects

I am delighted to be able to report a very robust set of financial results for our shareholders.



What were the key challenges for the Company in 2014?

2014 has been a tough year for mining companies worldwide. Slowing growth in key developing economies, especially China, saw mineral prices decline. The two minerals that are key to value creation in Polymetal, gold and silver, declined by 10% and 20% respectively. Mining companies battled to control costs, bring new projects in on time and on budget and maintain, let alone grow production. All of this has depressed capital growth as measured by share prices, and put pressure on dividends.

In addition to these general challenges, Polymetal has faced the investor headwinds of the geopolitical tensions in both Ukraine and the European Union.

In this tough context I am therefore delighted to report a robust set of results for this Company.

In 2014, Polymetal increased its gold equivalent production by 12% to 1.4 million ounces, 10% above our guidance. Adjusted EBITDA grew by 15% to US\$685 million. In the meantime, the Company paid its shareholders significant dividends. The Company's dividend yield over the last 3 years has averaged 4%.



How did Polymetal achieve this, given such difficult circumstances?

The Company's focus has continued to be building high-grade assets, shaped around hub-based processing facilities. This has enabled us to better manage costs in this low and declining price environment.

This has also helped us to grow production combined with strong cash generation. The impact of declining gold and silver prices has been more than offset by currency devaluations in the two countries in which we operate, Russia and Kazakhstan.

We have also been able this year to acquire a major new source of future production in the Kyzyl gold project in Kazakhstan. This has boosted our total reserves by 50% and added a single high-grade property with a life of 20 years to our asset base.



Most of our assets have delivered above the original plan for the year.



58%

Dividend payout ratio in 2014
(based on underlying net earnings)



How do you ensure the effective operation of the Board and good governance?

Our Board combines effective representation of strategic investors with a strong (and majority) representation of fully independent non-executive Board members. Diverse, both in terms of professional experience and nationality, the Board both aspires to and believes that it achieves global best practice in terms of corporate governance.

This is an active Board with a total of ten Board meetings during the year under review. Ten meetings of the three Board committees (Audit and Risk, Remuneration and Nomination) have also taken place.

Besides its Terms of Reference and Corporate Governance Code defined regular duties, the Board has been particularly focused on ensuring the Company anticipates and adjusts to market circumstances; responds appropriately to the geopolitical challenges that have arisen in the areas in which it operates; and continues to offer its shareholders meaningful rewards.

The Board visited the Kyzyl Project at a relatively early stage of the transaction. This project continues to be a focus of Board oversight at every meeting.



What, in your view, makes Polymetal different from its competitors?

Gold mining companies have in general produced disappointing results for their owners in recent years. Costs have risen faster than prices, and development projects have disappointed. Companies have failed to grow either the value or volume side of their wealth creation equation. Regional conflicts and a growing tide of resource nationalism have dramatically heightened the risk character of many jurisdictions.

In this context, Polymetal has grown production, controlled costs and been able to pay dividends to its shareholders which totalled US\$173 million for the year under review. It has again demonstrated its ability to create wealth for its owners even in a depressed commodity cycle and in tough geopolitical circumstances.



What are the objectives and challenges for Polymetal in the coming year?

Polymetal can neither determine the pricing of the metals it produces, nor the geopolitical circumstances of the jurisdictions in which it operates. Our challenge is however to produce strong operational results, generate strong cash flow and continue to pay our shareholders significant dividends.

A particular focus in the coming year will be the development of a detailed plan for the development of Kyzyl, the Company's new long life asset in Kazakhstan.



Our ability to deliver cash flow to shareholders whilst maintaining production growth is surely the best evidence that we can give to the market that our strategy works.

Group Chief Executive Officer's review

A proven strategy and business model that continue to deliver growth and value

Weak commodity prices persisted with debilitating outcomes for many. Polymetal, however, bucked the market trends and delivered a strong set of results.

If 2013 was a testing time for gold miners, then 2014 will be remembered as the year when commodity-price weakness persisted with material consequences within the global mining industry. Many companies were forced to make cuts in exploration and development spending as well as operating and capital expenditure.

For Polymetal, however, it was a different story. We continued to deliver on our promises and demonstrated resilience to both current market trends and geopolitical challenges.

Outstanding operating performance

For the third consecutive year, we beat our production guidance despite challenging market conditions. Our gold equivalent (GE) production was 1.43 Moz (2013: 1.28 Moz), up by 12%. This exceeded both our original production

guidance of 1.3 Moz of GE by 10% and the updated guidance of 1.365 Moz (by 5%).

Annual gold production for the year increased by 17% to 945 Koz (2013: 805 Koz). Annual silver production rose by 5% to 28.7 Moz (2013: 27.2 Moz). Gold production now accounts for over two-thirds of our total revenue – 69%, up from 63% in 2013.

The full ramp-up of our Mayskoye underground mine and strong operational delivery at the Dukat and Omolon hubs were the key drivers in helping us achieve these record figures for the business. At Mayskoye, the total gold produced during 2014 increased almost three-fold to 142.6 Koz (2013: 48.4 Koz), due to a full year of design throughput and recovery. We also commenced concentrate processing at the Amursk pressure oxidation (POX) plant while sales of concentrate to China more than doubled. Our state-of-the-art Amursk POX plant performed in line with expectations and we exceeded design recoveries for both Albazino and Mayskoye concentrates.

Growth by strategic acquisition

Our high-grade assets and the completion of a major construction cycle in advance of the drop in the price of gold put us in a unique position in the sector. We entered the year with a strong cost and operating profile and comfortable leverage. The turn of the commodities cycle created a window of opportunity for Polymetal and allowed us to invest in an exciting growth project, Kyzyl.

Located in a traditional mining region with good infrastructure in northeastern Kazakhstan, Kyzyl is ready for fast-track development. The project exactly matches our strategic target characteristics: a large, high-grade asset with a clear path to production and cash flow generation, which leverages Polymetal's core strengths in selective mining and refractory ore processing.

As a result of the acquisition, our gold equivalent reserves increased by about 50%. The project has a mine life of at least 20 years with substantial exploration potential, allowing us to deliver significant, long-term shareholder value. This acquisition also leverages our business presence in Kazakhstan, where we have been operating successfully since 2009.

With all our production assets operating stably, our main focus has shifted to delivering growth post-2017. We are concentrating on Kyzyl and other development projects: Svetloye, where construction will begin later this year with a view to production starting in Q3 2017, and our greenfield PGM (platinum group metals) exploration projects.

Capital discipline delivers returns

On the back of a very successful production year, Polymetal was also able to deliver a solid financial performance, due in part to the current macroeconomic environment in Russia. The devaluation of the Rouble against the US Dollar and the two-fold drop in the price of oil were significant factors in bringing down operating costs across the business and the corresponding increase in free cash flow generation.

Our adjusted EBITDA increased by 15% to US\$685 million, while pre-acquisition free cash flow more than doubled to US\$306 million. The underlying return on equity (excluding non-cash foreign exchange losses and impairments) increased from 9% in 2013 to 21% in 2014. This has allowed us to offer a substantial 58% dividend payout in the reporting year, while maintaining a comfortable leverage ratio of 1.82x Net debt/EBITDA.

Our commitment to capital discipline has been – and will remain – central to our ability to deliver such a dynamic financial performance. Even after a major investment like the Kyzyl acquisition, the Company is able to continue paying regular dividends and declare a special dividend, while still maintaining comfortable leverage levels.

306 US\$m

Free cash flow for 2014
(+122%)

893 US\$/GE oz

All-in sustaining cash costs in 2014
(-18%)

Employee safety and well-being are paramount

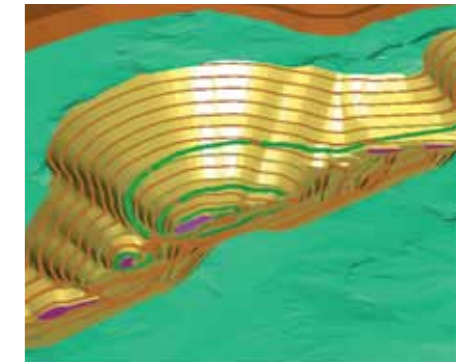
We are saddened to report the loss of three colleagues during 2014 and also one workplace fatality at a contractor's operation. The increased fatality rate is of great concern at both Board and executive management level. Our investigations show that the lapse in safety performance was in part due to the increased scope of underground mining in complex geotechnical conditions at these operations.

It is vital that we significantly reduce risks and improve health and safety performance during the year ahead, aiming for zero fatalities in 2015. We have already launched new risk assessment systems and the implementation of additional measures to ensure proper enforcement of existing safety standards and management procedures is under way. We are also actively reinforcing the need for individual responsibility for personal safety and risk awareness across our operating mines.

We continue to support the well-being of our employees and communities in the current complex macroeconomic environment in Russia. We are mindful of the need to take account of the increase in consumer prices and the inevitable impact this has on our workforce. We will be monitoring the situation and providing salary increases to match the rising inflation levels.

Looking to the future

At Kyzyl, initial exploration and testing is already providing more clarity and comfort regarding the chosen project development route. The pilot metallurgical testing confirmed the viability of ore flotation to concentrate and signals the potential to improve on the parameters achieved in previous testing. The decommissioning of old infrastructure, site clearing and various licencing applications – including environmental and social impact assessments – are all ongoing. We have successfully



Open-pit outline of the Kyzyl project

completed preliminary public consultations with the Bakyrchik community. The full feasibility study for Kyzyl is due to be published by the end of 2015 with the start of full-scale construction in 2016.

Our operating mines are set to deliver on our annual production guidance of 1.35 Moz of gold equivalent for 2015; with current guidance for 2016 set at the same level. Our financial performance will inevitably be influenced by the Rouble devaluation and the drop in oil prices. This will support our cost performance and cash flow generation, despite being partially offset by rising inflation during 2015.

With that, I am confident in our outlook for Polymetal in 2015. We are committed to delivering value to our shareholders through meaningful dividend payments in the current market environment while preparing the Company for the next growth stage.

Vitaly Nesis
Group Chief Executive Officer
30 March 2015



We delivered on our promises and demonstrated resilience to current market trends.



Strategic expansion and growth through...

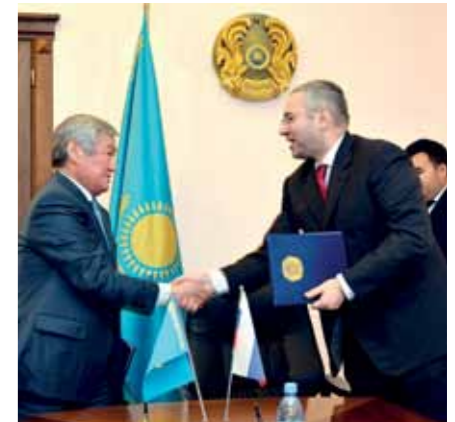
...a selective acquisition strategy designed to increase our resource base for the long term

+16%

Reserve grade increase
Driven by the Kyzyl acquisition, and supporting our preference for high-grade assets



The successful Varvara deposit was Polymetal's first investment in Kazakhstan



Our commitment to establishing an extensive pipeline of growth projects has continued with the acquisition of the Kyzyl gold project. Based in one of Polymetal's core jurisdictions, Kazakhstan, Kyzyl is set to become a priority development project for our Company.

Strategic rationale for the deal

Large high-grade reserves

- Mineral reserves: 6.7 Moz of gold at 7.5 g/t (JORC)
- Expected production start in 2018
- Expected annual gold production of 325-375 Koz

Refractory competency

- Leverages Polymetal's core competencies in pressure oxidation (POX) processing and refractory gold concentrate trading
- Concentrate will initially be sold to offtakers

Significant exploration upside

- Substantial exploration potential through resource-to-reserve conversion
- Resources (additional to the reserves) of 3.8 Moz of gold at 6.9 g/t (JORC)

Favourable location within familiar jurisdiction

- Well-understood and straightforward operating environment – a country in which we have successfully operated since 2009
- Excellent infrastructure

Conventional mining

- Initial development via open-pit mining (up to 10 years of production)
- Cut-and-fill with consolidated backfill followed by underground mining



Matching our strategy

Strategic focus

The acquisition is consistent with the Company's longstanding strategy to target high-quality, low-risk assets with large reserves and high grades.

Our Company will have the opportunity to leverage its competitive strengths in pressure oxidation and refractory gold concentrate trading once Kyzyl reaches production.

Kyzyl is located within a traditional mining region in northeastern Kazakhstan, 750 km east of the capital city Astana and 75 km west of Oskemen, a key mining and metallurgical industry centre. This location provides Polymetal with good access to established infrastructure, including power and rail.

Significant new reserves

The acquisition provided an excellent opportunity for Polymetal to significantly grow its reserve base with a high-grade gold deposit in a well-known jurisdiction for the Company.

Kyzyl is ready for fast-track development and increases Polymetal's gold equivalent reserves by about 50%. The project features the large, high-grade Bakyrchik property, which contains 6.7 Moz of gold at 7.5 g/t (JORC) and, based on existing reserves, a mine life of at least 20 years. There is also a significant exploration upside.

Processing competence

A key element behind the Kyzyl acquisition strategy was the opportunity it presented for Polymetal to take advantage of its process technology expertise. Polymetal expects

to capitalise on its strengths in pressure oxidation, which will enable the Company to access the double refractory ores at the site, and a strong track record of refractory gold trading with third-party offtakers.

Timeline

We expect to have the permits and revised feasibility study for Kyzyl completed by the Q4 2015. We will be looking to start active construction some time in the spring of 2016. The goal is to then produce the first concentrate in the third quarter of 2018 before we ramp up to full capacity in 2019.

To fund construction, we will look at securing a project financing deal or use existing bank arrangements with the equity component to be sourced from existing operational cash flows.

Growing Kazakh portfolio

Polymetal's footprint in Kazakhstan, where it is one of the only foreign-based companies mining for gold, takes a major leap forward with the acquisition of the Kyzyl project. We first entered the country in 2009 through the acquisition of the Varvara project, which has since been developed into an open-pit operation that features a modern, 4.2 Mtpa capacity processing plant and produced 106 Koz of gold equivalent in 2014.

Strategic expansion and growth through...

...focusing on high-grade assets, a distinctive value driver for Polymetal

4.3 g/t

Average reserve grade
One of the highest in the sector, and central to our sustainable growth

Our average grade in ore processed in 2014 is in line with reserve grade and was 4.7 g/t GE



We are consistently building a portfolio of high-grade assets, despite grade erosion for the global gold mining sector as a whole. This allows us to achieve superior investment returns and provides resilience to adverse market movements.



Average reserve grade¹ (g/t GE)

Hochschild	6.3
Acacia	5.1
Polymetal	4.3
Randgold	3.6
Gold Fields	3.0
Centerra	2.8
Agnico Eagle	2.4
Pan American Silver	2.3
Polyus Gold	2.2
Eldorado Gold	1.5
Barrick Gold	1.5
Goldcorp	1.4
Anglogold	1.3
Iamgold	1.3
Newmont	1.2
Yamana	1.1
Newcrest	1.1
NordGold	1.0
Coeur d'Alene	1.0
Kinross	0.8
New Gold	0.7



Reserves: 3.5 GE Moz

Dukat

7.7 g/t

Average reserve grade

8.7 US\$/SE oz²
Total cash cost

10.9 US\$/SE oz
All-in sustaining cash cost



Reserves: 1.3 GE Moz

Omolon

4.4 g/t

Average reserve grade

570 US\$/GE oz
Total cash cost

722 US\$/GE oz
All-in sustaining cash cost



Reserves: 2.7 GE Moz

Albazino

5.1 g/t

Average reserve grade

625 US\$/GE oz
Total cash cost

901 US\$/GE oz
All-in sustaining cash cost



Reserves: 1.8 GE Moz

Mayskoye

8.5 g/t

Average reserve grade

966 US\$/GE oz
Total cash cost

1,134 US\$/GE oz
All-in sustaining cash cost



Reserves: 1.0 GE Moz

Khakanja

3.5 g/t

Average reserve grade

704 US\$/GE oz
Total cash cost

909 US\$/GE oz
All-in sustaining cash cost



Reserves: 1.2 GE Moz

Voro

2.9 g/t

Average reserve grade

376 US\$/GE oz
Total cash cost

515 US\$/GE oz
All-in sustaining cash cost



Reserves: 1.7 GE Moz

Varvara

1.3 g/t

Average reserve grade

705 US\$/GE oz
Total cash cost

1,049 US\$/GE oz
All-in sustaining cash cost



Reserves: 6.7 GE Moz

Kyzyl

7.5 g/t

Average reserve grade

6.9 g/t
Average resource grade

¹ Source: Company data. Gold, silver, copper proved and probable reserves as of 01.01.2015 with further updates for Svetloye and Kyzyl. Peers GE at 60:1 Ag oz/Au oz and 5:1 Cu mt/Au oz conversion ratios. Polymetal GE at 64.8:1 Ag oz/Au oz in accordance with the JORC Code (2012).

² Dukat's total cash cost per gold equivalent was US\$621/GE oz.

Strategic expansion and growth through...

...a strong record of consistently resilient operating performance

1.43 Moz

Gold equivalent production
A 12% increase, exceeding production guidance

Underpinned by high-grade, solid operating performance and a weaker Rouble and Tenge, total cash costs in 2014 declined by 15% to US\$634 per GE oz

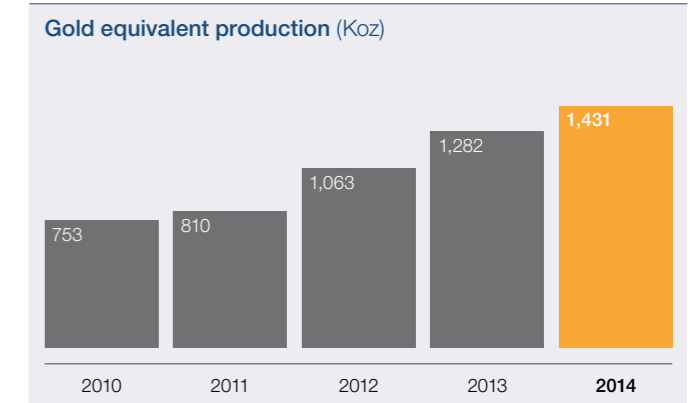
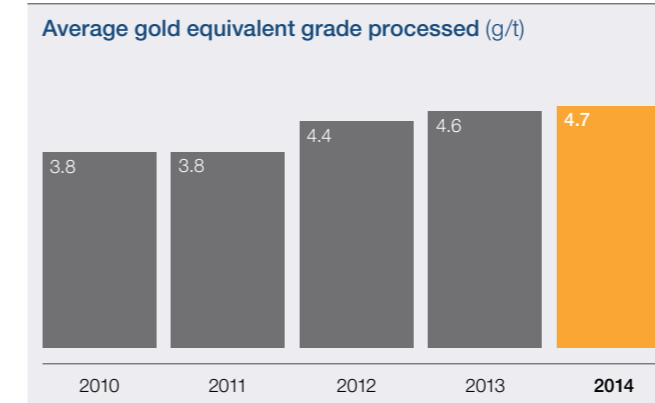
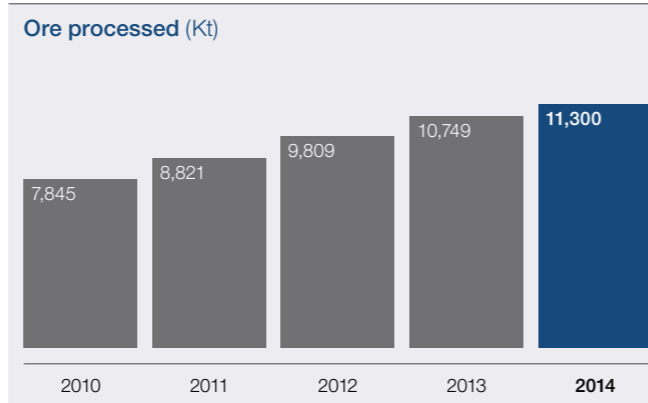


For a third consecutive year we are beating our original production guidance and delivering double-digit output growth. This has built into our track record of robust and resilient operating performance under challenging market conditions.



All operating assets at full capacity

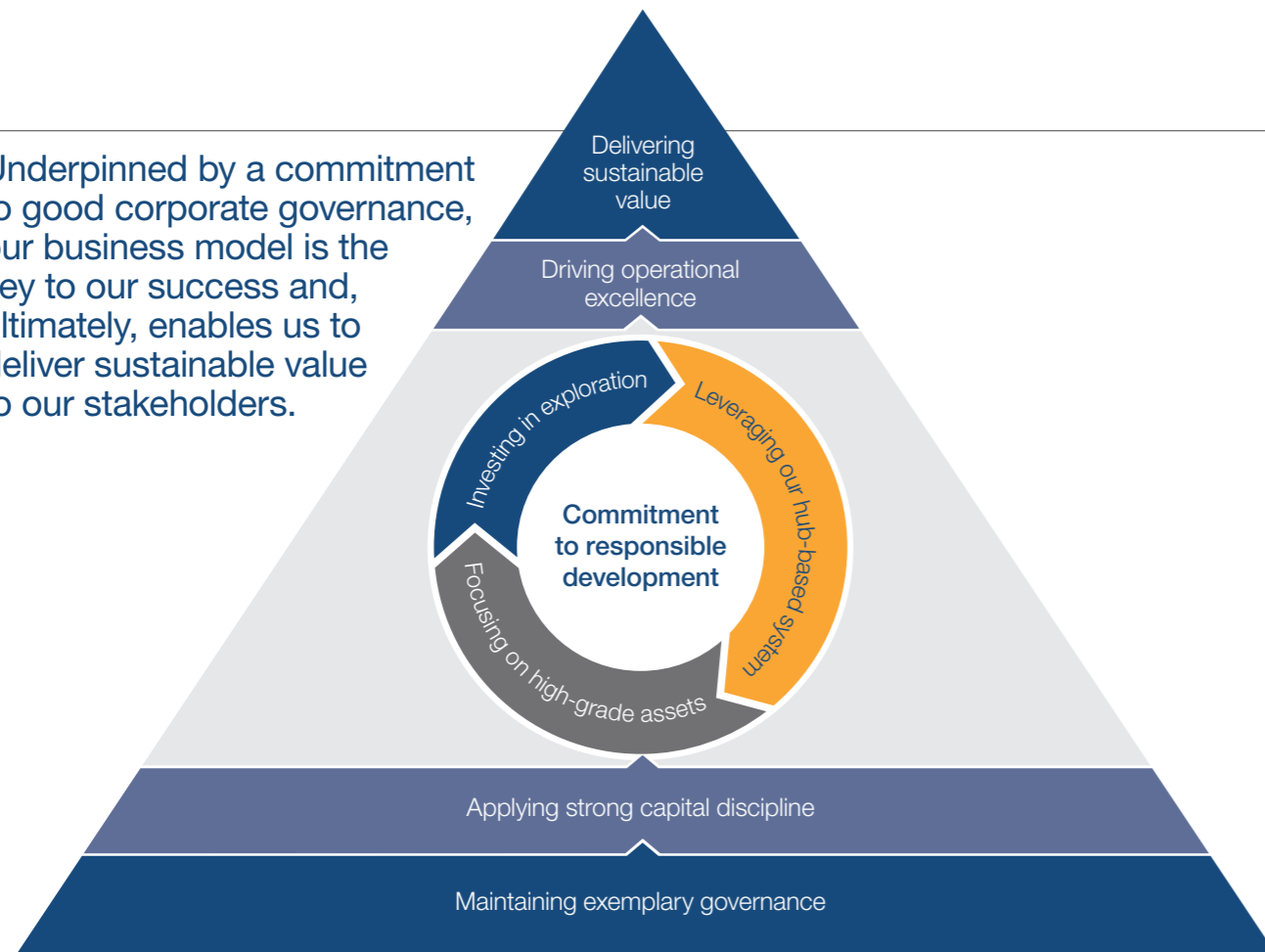
In 2014, all of our operating assets, including the newest Albazino, Mayskoye and flagship Amursk POX plant, operated at design capacity and recovery levels, ensuring robust production growth and exceeding plans for the year.



Business model

A proven model delivering sustainable value

Underpinned by a commitment to good corporate governance, our business model is the key to our success and, ultimately, enables us to deliver sustainable value to our stakeholders.



Maintaining exemplary governance

We are committed to upholding good governance throughout our operations and in our interactions towards and on behalf of all our stakeholders, including communities, employees and government bodies.

Applying strong capital discipline

Capital discipline is the key characteristic of our investment and funding policy, informing the decision-making process across every aspect of the business in order to deliver healthy dividend streams for our shareholders.

Driving operational excellence

We continue to focus on achieving improved operational excellence in mining and processing technologies, which in turn has enabled us to commence the development of the third generation of high-quality assets.

Investing in exploration

Investment in both greenfield and near-mine exploration provides us with a cost-effective increase in our reserve base and, along with successful acquisitions, is the key source of our long-term growth.

Leveraging our hub-based system

Our centralised hub-based system handles ores from different sources, achieving economies of scale by minimising processing and logistics

costs, as well as capital spending per ounce. This facilitates production at otherwise uneconomical medium- and small-sized near-plant deposits.

Focusing on high-grade assets

Return on investment in the precious metals industry is reliant on grades and mining conditions. We achieve better returns and lower risks from our project portfolio by setting appropriate thresholds on head grades and largely focusing on open-pit mines.

Delivering sustainable value

Our business model brings together our multi-faceted capabilities for increasing our resource base and improving both production efficiency and grades in order to increase profitability and free cash flow to deliver value to our shareholders.

Strategy

A clear and consistent basis for long-term growth



The consistent implementation of our strategy is at the heart of our successful track record.

01 Ensure robust operating and financial performance at our operating mines

Focus on full capacity utilisation and robust cost performance of our operating mines by driving continued operating improvement. Extend our life-of-mine by investing in near-mine exploration.

04 Remain opportunistic in the M&A arena combined with own exploration efforts

Pursue further 'bolt-on' or other synergistic acquisition opportunities with a view to leveraging processing capacity, infrastructure and operational expertise at our existing processing facilities.

02 Develop third generation growth projects

With the second generation growth assets (Omolon, Albazino, Amursk POX, and Mayskoye) completed and fully operational, we have now commenced the development of the third generation of high-quality assets. The highlight of the portfolio is the recently acquired Kyzyl project, which, along with the Svetloye project, will be the key source of production growth from 2018.

05 Maintain high standards of corporate governance and sustainable development

Maintain high standards of corporate governance, strictly adhering to the principles of sustainable development in our interaction with all stakeholders in our operations, including communities, employees and government bodies. Our goal is also to safeguard the health and safety of our staff in line with industry best practice.

We are compliant with the provisions of the UK Corporate Governance Code. The Group is also a participant in the UN Global Compact, a recognised international standard for sustainable development.

03 Maintain capital discipline to deliver superior free cash flow and substantial dividends

Deliver superior, strong free cash flow by focusing on return on capital in investment decisions and maintaining safe leverage levels. Deliver the value created to shareholders through stable and substantial dividend payments.

See how we have implemented this strategy in 2014 on the next pages

Strategy

Delivering reliable growth in stakeholder value

We have a disciplined and measurable approach to ensuring that each element of our strategy is properly implemented. This is reflected in the clear KPIs that we use to measure progress against our strategy, and to which the remuneration of the top management is linked.

01 Ensure robust operating and financial performance at our operating mines



Risks

Production risk
Market risk
Logistic and supply chain risk

Our KPIs and performance in 2014

Gold equivalent production
1.4 Moz (+12%)

Average GE grade in ore processed
4.7 g/t (+3%)

Total cash cost
634 US\$/GE oz (-15%)

All-in sustaining cash cost
893 US\$/GE oz (-18%)

Adjusted EBITDA
685 US\$m (+15%)

Priorities in 2015

- Produce 1.35 Moz of gold equivalent
- Realise full benefits of the Russian Rouble devaluation and maintain a lower cost profile

02 Develop third generation growth projects



Risks

Construction and development risk
Logistic and supply chain risk
Legal risk

Our KPIs and performance in 2014

Capex
210 US\$m (-34%)

Acquisitions
Kyzyl – 6.7 Moz reserves at 7.5 g/t

Project development decisions
Svetloye – capex of US\$80 million, 1,000 Ktpa heap leach with an 8-year mine life

Priorities in 2015

- Complete new feasibility study for Kyzyl in Q4 2015
- Commence construction and mining at Svetloye in Q4 2015

03 Maintain capital discipline to deliver superior free cash flow and substantial dividends



Risks

Market risk – commodity prices
Financial risks – foreign exchange, interest rate, liquidity
Tax risk

Our KPIs and performance in 2014

Underlying return on equity
21% (+12 p.p.)

Free cash flow
306 US\$m (+122%)

Dividend payout ratio
58% (+39 p.p.)

Capex
210 US\$m (-34%)

Priorities in 2015

- Maintain superior financial performance
- Maintain comfortable leverage ratios
- Continue substantial dividend payments

04 Remain opportunistic on the M&A arena combined with own exploration efforts



Risks

Exploration risk
Mergers and acquisitions
Political risk
Legal risk

Our KPIs and performance in 2014

Transactions made during 2014
Kyzyl acquisition

Reserve growth
21.6 Moz (+63%)

Drilling volumes
268.8 km (+22%)

Initial reserve estimates
Albazino underground, Svetloye, Kutyn, Olcha, Veduga

Initial resource estimates
North Kaluga, Tarutin

Priorities in 2015

- Look for other value-accretive M&A opportunities in the FSU
- Estimate resources for PGM assets
- Further advance resource and reserve estimates at our brownfield operations

05 Maintain high standards of corporate governance and sustainable development



Risks

Environmental risk
Health and safety risk

Our KPIs and performance in 2014

Compliance with UK Corporate Governance Code ✓

LTIFR
0.65 (+10%)

Social investments
4.9 US\$m (-8%)

GHG emissions/GE Koz production
642 CO₂ eq. t/10 Kt of ore processed (-5%)

Priorities in 2015

- Substantially improve risk management and health and safety performance at our operations. Aim for zero fatalities at our mines
- Roll out our environmental and social responsibility systems in the new region of operation (Kyzyl)

Performance highlights

Sustaining strong performance

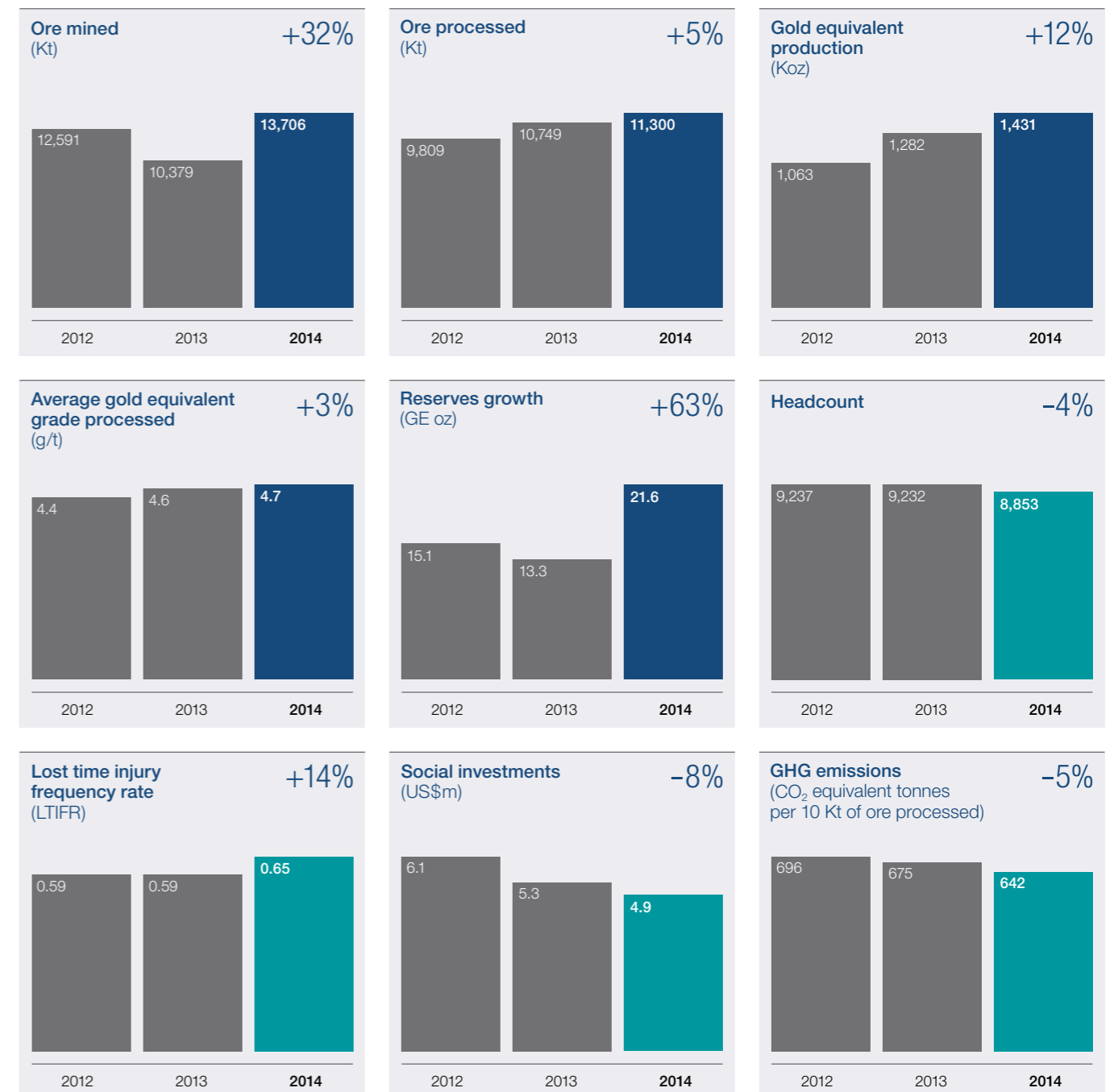
↑ +15%
Growth in adjusted EBITDA

↑ 306 US\$m
Free cash flow in 2014
Up 122% year-on-year

Financial highlights



Operating highlights



Market review

Stable and resilient operations in a volatile market

After last year's dramatic reversal of a decade-long upcycle, the performance of the gold and silver price in 2014 was far less remarkable.

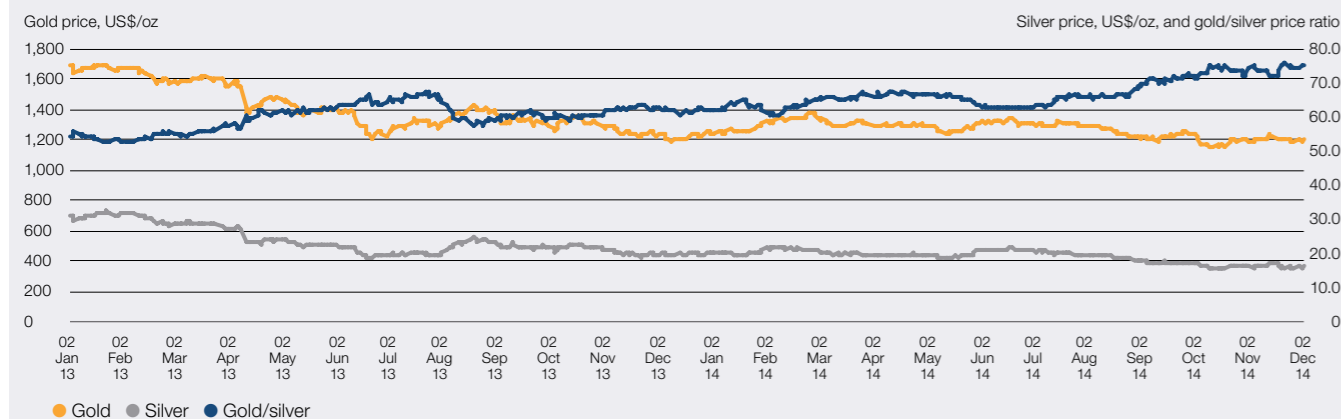
Price dynamics

Both gold and silver prices demonstrated significantly more stability throughout 2014. Volatility was relatively low; the year closed with the price at US\$1,199/oz, little changed from the starting price for the year. The moderate weakening of the gold price was driven by the continued strength of the US Dollar and equity markets, as well as an expected interest rate increase by the US Federal Reserve in 2015. Throughout the majority of the year, gold traded in the range of US\$1,200 – 1,300/oz, with the lowest fixing at US\$1,145/oz in November and highest at US\$1,379/oz in March 2014. On an annual average basis, the gold price decreased by 10.3% from US\$1,410/oz in 2013 to US\$1,266/oz in 2014.

In 2015, the gold price is expected to continue to be negatively correlated with the strength of the US Dollar and the speed of recovery of the US and global economy, which may lead to an increase in interest rates by the Federal Reserve in the middle of 2015.

Silver closely followed the price dynamics of gold, although given the weaker investment demand, the gold/silver price ratio continued to increase: from 61/1 at the beginning of the year to 75/1 at the end of 2014. The average silver price decreased by 19.8% from US\$23.8/oz in 2013 to US\$19.1/oz in 2014. The closing price was down 19.9%, from US\$19.9/oz at the beginning of the year to US\$16.6/oz at the year-end.

Precious metal market summary



4,278 t

Total global gold supply in 2014

1,266 US\$/oz

Average gold price in 2014
2013: US\$1,410/oz

Demand

The annual total demand, according to the World Gold Council, was 3,924 tonnes, down 4% year-on-year after 2013's record boost caused by lower prices.

Of that, jewellery demand of 2,153 tonnes, although down 10% year-on-year, was above the five-year average by a comfortable 5% margin. In the second half of the year, the Indian government relaxed measures designed to restrict gold imports, helping the physical demand. Jewellery is deemed to be the largest component of above-ground stocks of gold, accounting for almost half of the 177.2 Kt of gold estimated to be held by private owners and central banks.

Central banks bought 477 tonnes of gold in 2014. Seeking continued diversification away from the US Dollar, these institutions continued to bolster their holdings of gold. Russia's central bank was the largest purchaser, adding 173 tonnes to its already sizable stocks. Russian holdings are now estimated at over 1,200 tonnes, which accounts for 12% of Russia's overall reserves. Kazakhstan bought another 48 tonnes during 2014. Sales of gold by central banks were limited.

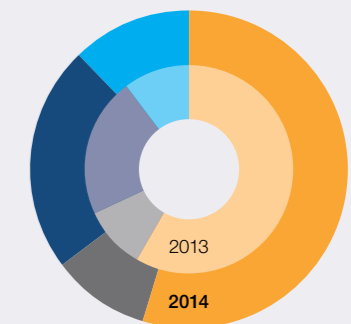
Net investment demand was 905 tonnes in 2014, up 2% compared to 2013. The increase was driven by a slowdown in outflows: ETF redemptions slowed considerably compared with 2013. Demand for bar and coins among smaller investors dropped by 40% after an abnormally strong demand in 2013.

Supply

2014 was another challenging year for gold producers. Many gold companies continued to cut costs and postpone their development projects to adjust to the lower gold price. This should help to re-establish market confidence in the sector in the longer term as the supply pipeline thins. In the short term, however, the global gold supply remained flat year-on-year. Mine supply rose for the sixth consecutive year to a new record of 3,114 tonnes, as mines that have been developed and become operational in recent years added to the supply stream and existing producers used high-grading to offset price declines. Meanwhile, scrap supply slipped by 11% to 1,122 tonnes. As a result, total supply at 4,278 tonnes was mostly unchanged. So, although production is expected to stay at this record level in 2015, the potential for existing operations to generate greater volumes of output is limited. The sector continues to lack interest in hedging, beyond project financing or the restructuring or rolling-over of existing positions.

Russia became the second largest gold producer in 2014 after China, having produced more than 270 tonnes. A further 2-3% increase in production is predicted by the Russian union of gold miners. Australia's production remained largely flat, while annual mine production has decreased in the US, Peru and South Africa.

Gold demand by category in 2014 and 2013 (tonnes)



2014	
Jewellery	2,152
Technology	399
Investment	904
Central bank net purchases	477
2013	
Jewellery	2,384
Technology	408
Investment	885
Central bank net purchases	409

Source: GFMS, Thomson Reuters, World Gold Council.

2014 global gold supply (tonnes)

	2014	2013	Year-on-year
Total supply	4,278	4,273	0%
Total mine supply	3,157	3,011	+5%
Recycled gold	1,122	1,262	-11%

Source: GFMS, Thomson Reuters.

Operating review

Another year of solid performance

Production highlights

	2014	2013	% change
Operating highlights			
Stripping, Kt	77,458	84,956	-9%
Underground development, m	61,417	56,258	+9%
Ore mined, Kt	13,706	10,379	+32%
– open-pit	11,046	7,975	+39%
– underground	2,660	2,404	+11%
Ore processed, Kt	11,300	10,749	+5%
Average grade in ore processed (gold equivalent, g/t)	4.7	4.6	+3%
Production			
– Gold, Koz	945	805	+17%
– Silver, Moz	28.7	27.2	+5%
– Copper, tonnes	1,631	4,841	-66%
– Gold equivalent, Koz¹	1,431	1,282	+12%
Sales			
– Gold, Koz	943	808	+17%
– Silver, Moz	29.3	27.4	+7%
– Copper, Kt	1,029	6,141	-83%
– Gold equivalent, Koz²	1,372	1,285	+7%
Average headcount³	8,853	9,232	-4%
Safety			
– LTIFR	0.65	0.57	+14%
– FIFR	0.18	0.06	+200%

¹ Based on 1:60 Ag/Au and 5:1 Cu/Au conversion ratios.

² Based on actual realised prices.

³ Average for the period.

Polymetal continued to consistently beat expectations in 2014, despite the persisting weakness of commodity prices.

Our gold equivalent production in 2014 increased by 12% to 1.43 Moz, exceeding its original production guidance of 1.3 Moz of gold equivalent by 10% and also the updated production guidance of 1.365 Moz by 5%. This achievement was mostly driven by the full ramp-up of Mayskoye and strong operational delivery at Dukat and Omolon.

Annual gold production for the year increased by 17% to 945 Koz. Annual silver production increased by 5% to 28.7 Moz, led mostly by Dukat's strong performance. The share of gold in revenue composition increased to 69%, compared with 63% in 2013. Production of copper concentrate at Varvara was temporarily shut down due to the persisting weakness of the concentrate market, resulting in a significant decline in copper production year-on-year.

The underlying production trend was emulated very closely by sales for the year. Increased sales of Mayskoye concentrate and further diversification of the offtaker base for concentrate from Dukat contributed to the reduction in working capital and improved financial performance.

Analysis of production results

Mining

Stripping volumes in 2014 decreased year-on-year to 77.5 Mt of rock moved (2013: 85 Mt). This encompassed the completion of the stripping campaigns at Varvara; the move to underground mining at Arylakh (Dukat hub) and Avlayakan (Khakanja hub); and the completion of open-pit mining at Sopka, with Dalneye nearing completion. Underground development increased by a further 9% to more than 56 km (2013: 55 km), with increased capacity to match processing volumes at Dukat and Mayskoye underground mines, while underground development continued at Avlayakan (Khakanja hub) and commenced at both Birkachan (Omolon hub) and Arylakh (Dukat hub).

Ore mined increased by 32% to 13.7 Mt (2013: 10.4 Mt), mainly as a result of the completion of a major stripping campaign at Varvara in 2013, increased volumes at Albazino to match processing capacity and accelerated completion of open-pit mining at Sopka (Omolon hub). Underground mining increased at Dukat and Mayskoye in line with the respective plant throughputs.

Processing

Ore processed increased by 5% year-on-year to 11.3 Mt (2013: 10.7 Mt). The main contributors were the Dukat hub and Albazino with increased plant capacity, while Mayskoye achieved a full year of production at the design throughput.

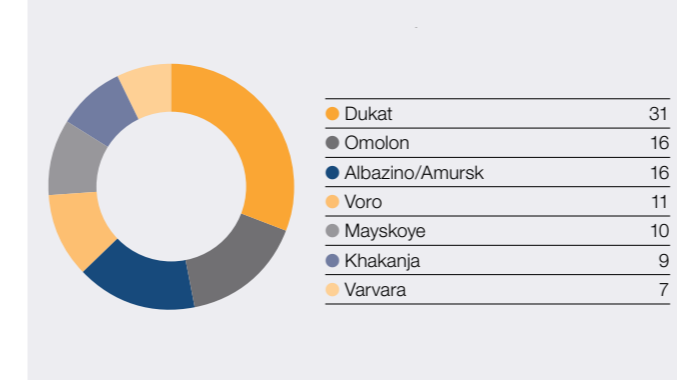
In line with increased grades in ore mined, average gold equivalent grade in ore processed grew by a further 3% to 4.7 g/t. This was driven by increased contributions from Mayskoye and Albazino, combined with a stronger grade profile at Omolon and stable grades at other mature mines (with the exception of Khakanja and Varvara).

Production and sales

We exceeded our original guidance with a record production level of 1.43 Moz of gold equivalent. Key drivers behind this performance were Dukat, Omolon and Mayskoye. At Khakanja, where the mine is approaching the end of its mine life, production declined due to the decrease in average grade. At Varvara there was a 19% decrease in production, due mainly to the temporary shutdown of the flotation circuit on the back of the continued weakness in the copper concentrate market.

Production dynamics on a quarterly basis are shown in the graph below. With the full ramp-up of Mayskoye, the third and fourth quarters were the strongest during the year as concentrate was shipped out of the mine for sale or processing at the POX plant in the July – November navigation period.

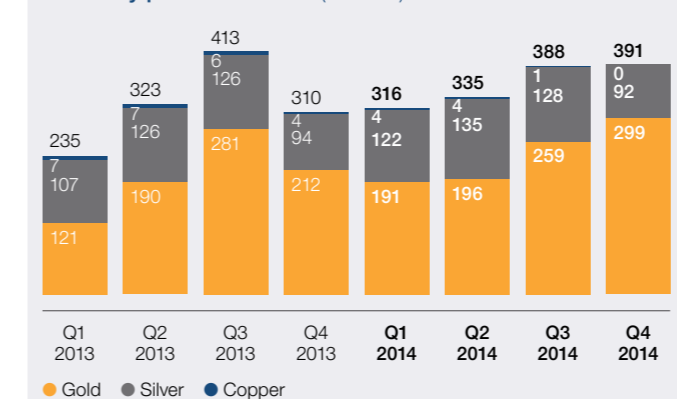
Gold equivalent production by mine in 2014 (%)



Gold equivalent production by mine (Koz)

	2014	2013	% change
Dukat	443	409	+9%
Khakanja	127	144	-12%
Voro	159	154	+3%
Varvara	106	131	-19%
Omolon	226	158	+43%
Albazino/Amursk	227	238	-4%
Mayskoye	143	48	+195%
Total production	1,431	1,282	+12%

Quarterly production data (GE Koz)



While most of the sales are comprised of refined metals, we continue to sell concentrates from Dukat (gold-silver), Varvara (gold-copper) and Mayskoye (refractory gold) to offtakers in Kazakhstan, Japan, South Korea and China. The offtake allows us to maximise the margins compared with in-house processing of these materials. In 2014, we continued to diversify our offtaker base in order to achieve an optimal combination of transportation costs and treatment charges/recoveries. Offtake concentrate trading was pioneered by Polymetal in the Russian gold sector and has now clearly become one of our core competencies. This will be leveraged further in the Kyzyl project.

Exploration

Our sustained investment in both greenfield and brownfield exploration, despite the current weak commodity price levels, is one of the key components of our business strategy. We believe strongly that our long-term growth is reliant on our continued efforts in this area.

Our exploration activities are focused on five regions of Russia – Khabarovsk, Magadan, Chukotka, Karelia and Ekaterinburg – as well as on Kazakhstan. Polymetal currently has 62 licences for geological studies and gold, silver, copper and platinum group metals (PGM) mining, covering a total area of 8,624 km², and one coal mining licence. Of these, our current exploration portfolio includes 42 licences covering 8,130 km². In 2014, exploration capital expenditure amounted to US\$72 million: 269 km were drilled; 3 km of exploration underground development completed; and an additional 229 km³ of trenching was carried out.

The breakdown of the activities by the stage of the asset is presented in the charts on the next page.

Our key exploration objectives in 2014 included:

- ongoing brownfield exploration activities aimed at extending mine lives at our existing operations: Khakanja (currently the shortest mine life), Dukat, Omolon, Varvara and Voro;
- completion of exploration at our greenfield gold assets, including Svetloye, Kutyn, Maminskoye and – most recently – Bakyrchik (Kyzyl project), and getting them ready for development;
- continuation of exploration for PGM deposits in the Karelia and Ekaterinburg regions in order to establish new hard-rock PGM resources sufficient for a standalone mining operation;

Operating review

Continuing to focus on operating capacity and investment in exploration

- continued exploration activities at Albazino (including underground drift, geotechnical studies and in-fill drilling) that were aimed at converting the newly discovered resources to reserves that would extend the mine life of Albazino; and
- further greenfield exploration for new precious metals deposits with a potential resource base which would be sufficient in grade and size to justify the construction of a standalone mine.

Key 2014 exploration statistics

Exploration works

	2014	2013 ¹	% change
Core drilling, km	268.8	220.4	+22%
Trenching, th. m ³	229.1	138.5	+65%
Underground development for exploration purposes, m	3,312	1,137	191%

¹ Restated data.

In 2014, our drilling volumes increased by a further 22% year-on-year to 268.8 km. The total capital expenditure on exploration increased to US\$72 million in line with the increased volumes, including capital-intensive underground exploration at Albazino and drilling at the newly acquired Kyzyl project.

As a result, significant resource to reserve conversions were achieved during the year, along with maiden reserve and resource estimates completed for several greenfield projects. These included:

- initial reserve estimate at Svetloye (Khakanja hub) of 677 Koz with an additional 80 Koz of resources, which was followed by Board approval of the project development decision;

- initial reserve estimate at Kutyn (completed in 2015) – 386 Koz with an additional 649 Koz in resources;
- initial resource estimate at Tarutin (685 Koz of gold equivalent, of which Polymetal now owns 50%), which is now well positioned to complement the Varvara resource pool;
- initial resource estimate at North Kaluga (171 Koz of gold equivalent), previously part of Ural-Polymetal joint venture and now a 100% subsidiary of the Group;
- conversion of underground resources into reserves at Albazino (+1.4 Moz) and Olcha (Dukat hub) (+120 Koz).

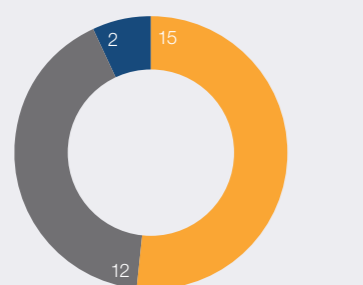
In 2015, Polymetal will continue to expand its exploration portfolio into new potential areas. The Company filed 19 applications for licences in 2015 including six gold areas in the Urals, nine gold and silver areas – four in the Magadan Region and five in the Khabarovsk Region, and four PGM areas – one in the Urals and three in Karelia.

Our efforts during the year to come will be focused on:

- step-out drilling at Kyzyl, including the drilling to establish resources for the Bolshevik deposit and Bakyrchik exploration area;
- continuing brownfield exploration near the Omolon and Khakanja operations;
- step-out drilling at the flanks of known ore bodies at Albazino;
- in-fill drilling at Svetloye ahead of the expected commencement of mining in Q4 2015;
- completing the PGM resource assessment at the Semcha area and prospecting for new objects with PGM mineralisation in the region.

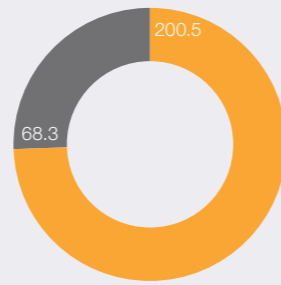
Breakdown of exploration assets by stages

Exploration works focused on 29 licenced areas



● Geological studies ● Greenfield exploration ● Development

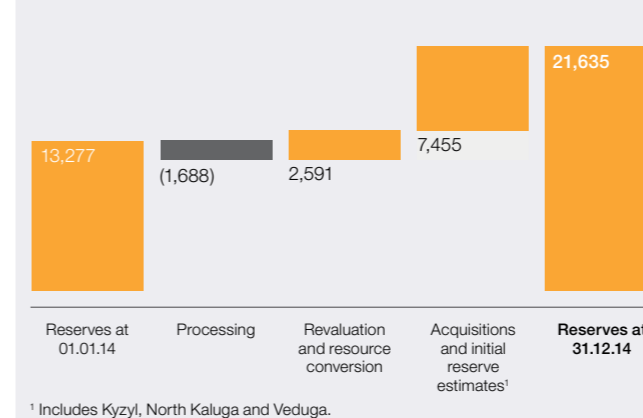
Drilling volume – 268.8 km



● Brownfield ● Greenfield

Reserves and resources

Movement in gold equivalent ore reserves (Moz)



¹ Includes Kyzyl, North Kaluga and Veduga.

In 2014, we considerably expanded our reserves to 21.6 Moz of gold equivalent. This was a result of the Kyzyl acquisition (+6.7 Moz), coupled with a significant resource-to-reserve conversion and initial reserve estimate completed at several of our operating mines and advanced exploration projects (including Albazino underground, Svetloye, Kutyn and Veduga). Mineral resources (additional to ore reserves) declined by 12%, mainly as a result of the resource-to-reserve conversion, particularly at Albazino, Svetloye and Olcha (Dukat hub). Additionally, with the acquisition of Kyzyl, we increased resources by 3.8 Moz.

The moderate gold and silver prices, of US\$1,200/oz and US\$17/oz respectively, used in both reserve and resource estimates in 2014 (2013: US\$1,300/oz and US\$22.5/oz) did not have a material impact on the final size of either but we felt that our more conservative approach was warranted.

Mainly as a result of the Kyzyl acquisition, our average ore reserve grade increased by 16% to 4.3 g/t GE and is one of the highest in the sector (see chart on page 13). The average mineral resource grade also increased by 11% to 4.2 g/t, also mainly due to the addition of Kyzyl mineral resources at 6.9 g/t.

Outlook for 2015

We are confident about the outcomes for 2015. With all of our operating mines now running at full capacity, the Company is on track to produce 1.35 Moz in 2015 and in 2016. There will be a slight decrease in production, mainly due to a reduction at Omolon after record levels in 2014 and the ongoing grade decline at Khakanja as it approaches the end of its mine life.

Operational plans

Our current year's operational objectives for existing mines include:

- commencing mining at Oroch (Omolon hub);
- further increasing volumes of underground mining with the start of underground mining at Birkachan and further expansion at Arylakh (Dukat hub), Avlayakan (Khakanja) and Mayskoye; and
- materially improving health and safety performance, including at underground mines, and enhancing risk management activities with particular attention given to underground mining and blasting works.

Project development

The key focus of management will increasingly shift towards our new projects – Kyzyl being the largest. Our efforts in 2015 will centre around completion of the full feasibility study for the project in Q4 2015 and the start of full-scale construction in Q2 2016. We will proceed with the construction of the Svetloye mine, approved in 2014, with mining expected to start in Q4 2015. We will also continue geological and metallurgical studies at Viksha (Semcha) – our PGM project in Karelia.

Operating review

Dukat

Targeting reliable resource-to-reserve conversion

Location: Magadan Region, Russia
Managing director: Mikhail Egorov
Employees: 1,807
Mining: mostly underground
Production start date: 2000
Life of mine: 2023 (Lunnoye), 2024 (Dukat)

Key figures

3rd
Largest silver deposit in the world

23.9 Moz
Silver production (+8%)

8.7 US\$/SE oz
Total cash cost (-25%)

2.1 Mt
Ore processed (+10%)



Mining

At Dukat, ore mined grew by 17% compared to 2013 to 1.47 Mt, of which 0.9 Mt was hauled by the newly commissioned railroad haulage system. Underground development grew by 2% to 31.2 km. Small-scale equipment was integrated in the current production process. We are now prepared to mine narrow ore bodies in Smelyi and Vostochniy. At Goltsovoye, a total of 191 Kt at a stable grade of 624 g/t silver was mined in 2014.

At Arylakh, underground development continued following the completion of open-pit mining in Q2. The ore is still predominantly sourced from the Lunnoye underground mine with a variable grade profile driven by stope sequencing, with average silver grade increasing by 22% to 421 g/t in 2014. At the Lunnoye mine, stoping in ore zone 7 started. To ensure better grade control and to reduce dilution, we launched pilot cut-and-fill mining in horizontal layers in ore zone 7.

Processing and production

In 2014, the Omsukchan concentrator shifted from three-stage to two-stage milling. As a result of this and due to a reduction in time for re-lining and scheduled maintenance, ore processed grew by 9% up to 1.7 Mt. There was a modest reduction in average grades (by 9% for gold to 0.66 g/t and by 5% to 405.6 g/t for silver). Silver recoveries were sustainably high at 86.5% due to an ore quality control system based on geological and process mapping. As a result, gold and silver production grew by 4% and 7%, respectively, to 31.5 Koz of gold and 19.5 Moz of silver.

At Lunnoye, ore processed grew by 18% year-on-year to 400 Kt after the new SAG mill was commissioned, with average grades increasing by 21% for gold and 5% for silver, and with continued improvement in silver recoveries to 91.8%. Gold production was 13.9 Koz, up 36% year-on-year, and silver production was 4.4 Moz, up 16%.

The hub's total silver production was a record 23.9 Moz, up 8% year-on-year. Gold production grew to 45.3 Koz, up 12% year-on-year.

Resources and exploration

In 2014, we completed the conversion of resources into reserves at Olcha, adding 119 Koz of gold and 222 Koz of silver into the hub's base. Further resource-to-reserve conversion continued at the deeper levels of Dukat, Lunnoye and Goltsovoye. We have carried on our exploration efforts at the flanks of Dukat. As a result of drilling 28 km at the flanks, known ore bodies were traced in more detail and new 'blind' veins were discovered.

Priorities for 2015

Matching increased processing capacity, we plan to increase underground mining throughput up to 1,400 Ktpa at Dukat underground mine. At Goltsovoye, we will commence underground development of ore body 2 to prepare for stoping. Active stoping will commence at Arylakh underground mine. To improve safety performance and monitoring, we will use centralised transportation to underground mines and install position control systems for workers and mining equipment. Strong gold and silver recoveries are expected to be maintained at the Omsukchan concentrator due to automated control over cleaner flotation machines. Exploration drilling at both Dukat flanks and Olcha is due to continue in 2015 to replenish the hub's resource base.

Omolon

Transitioning underground

Location: Magadan Region, Russia
Managing director: Vladimir Bloshkin
Employees: 783
Mining: open-pit/underground
Processing: 850 Ktpa CIP/Merrill-Crowe (Kubaka)
Production start date: 2010
Life of mine: 2021

Key figures

226 Koz
GE production (+43%)

570
(US\$/GE oz)
Total cash costs (-35%)

51%
Adjusted EBITDA margin (+23%)



Omolon delivered strong operating and financial performance in 2014, with gold equivalent production increasing by 43% to 226 Koz and cash costs decreasing by 35% to US\$570/GE oz. This was driven by a higher grade profile, as well as an 8% increase in Kubaka mill throughput.

Mining

Total ore mined increased by 20% in 2014 and amounted to 2,065 Kt.

At Sopka, ore mined grew by 37% to 922 Kt and open-pit mining was completed in Q4 2014 with ore processing due to be completed in Q3 2015. In Q1 2015, we plan to relocate the released mining fleet to Oroch by winter road. At Dalneye, ore mining will be completed in 2015. At Birkachan, open-pit mining was completed in June, and the underground development started in Q3. At Tsokol, which was the major source for CIP circuit in 2014, ore mined grew by 42% to 317 Kt.

Processing

The Kubaka plant achieved a further increase in throughput in 2014, with ore processed increasing by 8% to 825 Kt. Supported by a high share of ore processed from Sopka and Dalneye during the year, average grades processed increased by 31% for gold to 6.7 g/t and by 13% for silver to 133 g/t. As a result, gold production at Kubaka increased by 48% to 170 Koz and silver production was up 14% to 2.9 Moz; the peak level achieved by Omolon hub.

At Birkachan heap leach, irrigation of the existing leach pads continued and 6 Koz of gold were recovered from the solution during 2014. There will be no additional ore stacking in 2015 as multi-year recoveries will continue to be monitored.

Reserves, resources and exploration

At Omolon, we continue to work on a number of brownfield targets close to the Kubaka plant in order to extend the life of mine. In 2014, we have completed an initial reserve estimate for Burgali, adding 72 Koz to reserves, and continued drilling at the Adygaya and Pyatinakh areas. In 2015, we will continue drilling at other areas, such as Yolochka.

Priorities for 2015

In 2015, Omolon operations will increasingly switch to underground mining. Open-pit mining at Tsokol will near completion in Q2 2015, with underground development planned to commence in Q3 2015. The potential for underground mining will be evaluated after the completion of a detailed in-fill drilling campaign. Ore stoping at Birkachan is scheduled to start in Q4 2015. Open-pit mining at Oroch will start in Q2 2015, with ore to be trucked by winter road starting from Q4 2015 for processing in 2016.

Processing volumes in 2015 will be split between Sopka, Birkachan, Dalneye and Tsokol with major volumes to be processed from Sopka and Birkachan.

Operating review

Amursk POX

Unique processing facility for refractory concentrates

Location: Khabarovsk Territory, Russia
Managing director: Viktor Nikitanov
Employees: 340
Processing: 500 tpd POX + cyanidation
Production start date: 2011

Key figures

163 Kt
 Concentrate processed at the Amursk POX (+28%)

94%
 POX recovery (+9%)

240 Koz
 Total gold production (+51%)



The flagship Amursk POX plant delivered a full year of performance at design throughput and recoveries. This now includes concentrate from Mayskoye, along with that from Albazino, in the combined processing. Our unique experience of using POX technology in the Former Soviet Union was one of the key factors in determining our competitive advantage and enabling us to acquire the Kyzyl project with its refractory ore.

2014 highlights

In 2014, the Amursk POX plant worked steadily at the design parameters. Throughput increased by 27.6% year-on-year to 163 Kt of concentrate processed, including the initial 10 Kt of concentrate from Mayskoye. Recoveries from the Albazino concentrate were 94%, up 9% year-on-year, and fully in line with design levels. Design levels were exceeded in the last quarter of the year, with 94.5% recovery achieved. Average recoveries from Mayskoye concentrate were 92% (including pilot processing in Q1), increasing to 94% in Q4.

As a result, total gold production was 240 Koz (including 12 Koz from Mayskoye concentrate), up 51% year-on-year.

Priorities for 2015

In 2015, continuous flowsheet improvement is set to continue. Several targeted improvements will further develop the water circulation system of the POX plant. The reverse osmosis section capacity will be increased to process recycled liquor. The concentrate discharge section will be upgraded; liquid oxygen storage and a gasification section will be constructed.

In 2015, as previously, all concentrate from Albazino will be processed at the POX. The volume of Mayskoye concentrate processed through the POX will increase, as sufficient stockpiles have now been built. We are targeting stable gold recoveries at 94% for both concentrates.



Albazino

Extending life of mine by adding underground reserves

Location: Khabarovsk Territory, Russia
Managing director: Alexei Sharabarin
Employees: 924
Mining: open-pit/underground
Production start date: 2009
Life of mine: 2030

Key figures

2.7 Moz
 GE reserves (+78%)

94%
 POX recovery (+9%)

227 Koz
 Total gold production (-4%)



Albazino had a full year performing at design parameters. It also demonstrated substantial cost improvement in 2014, with cash cost reducing by 21% to US\$625/oz, below the Group's average, despite a moderate scheduled decrease in grade.

Mining

Albazino open-pit mine expanded in 2014 to match the upgraded capacity of the processing plant. Ore mined increased by 17% to 1.57 Mt of ore, which partially compensated for a reduction in average grade mined down 12% to 4.9 g/t, closer to average reserve grade. Open-pit mining commenced in the new Olga ore zone.

Underground development continued, mainly to facilitate additional exploration in-fill drilling and geotechnical studies. One block was prepared for pilot mining in order to choose the optimal development system.

During the year, a mining fleet dispatch management system was implemented at Albazino. This increased capacity by five extra vehicles per day, with data created for further optimisation analysis. Additional benefits will be realised in the longer term.

Processing

Ore processed grew by 6% year-on-year to 1,609 Kt, successfully achieving the new nameplate capacity of 1.6 Mtpa. Average grades processed declined to 4.8 g/t in line with the mine grade profile. Gold recoveries remained stable at 88%, while concentrate yield reduced from 9% to 8.4%. 136 Kt of concentrate with 218.5 Koz of gold contained were produced, with an 8% decrease mainly driven by this planned grade decline. As the POX plant continued to reduce excess stockpiles at the beginning of the year, 153 Kt of Albazino concentrate were processed, with total gold produced at 227 Koz.

The reliability of Albazino power supply was enhanced by adding 10 diesel gensets.

Exploration and development

Active in-fill drilling at the new ore zones continued in 2014, with more than 65 km of core drilling performed. However, following the acquisition of the Kyzyl project in the middle of the year, it was decided to postpone putting the new resources into production by expanding the plant. Instead, the new resources were converted into reserves after the in-fill drilling campaign. This resulted in the addition of 1.4 Moz and more than doubled the mine life.

Priorities for 2015

We will continue exploration of the known ore zones and prospecting drilling in the flanks of ore bodies. We will also continue our search for new ore zones within a range of 50 km from the Albazino mine.

Following the conversion of underground reserves into reserves, in 2015 we are planning to complete pilot mining, aimed at choosing an optimal development system, and to start stoping. In the Olga zone, we will continue stripping and further development of the new pit.

Operating review

Mayskoye

Bringing our newest mine up to speed

Location: Chukotka, Russia
Managing director: Evgeniy Tsybin
Employees: 840
Mining: underground
Processing: 850 Ktpa
Production start date: 2011
Life of mine: 2020

Key figures

8.5 g/t

Average reserve grade

188 Koz

Gold in concentrate produced (+117%)

92%

POX recovery in 2H 2014

143 Koz

Total gold production (+195%)



In 2014, Mayskoye operated the first full year at design capacity and delivered a significant 143 Koz contribution to the Group's total production. We have also achieved better offtake terms and were able to effectively split the concentrate produced at Mayskoye between POX processing and offtake to achieve optimal economic performance.

Mining

Mining at Mayskoye achieved the target level in 2014. With 10.5 km of underground development during the year, 653 Kt of ore were mined at an average grade of 8.4 g/t. This was a 14% improvement compared with 2013, achieved due to better dilution and grade control.

Processing

In 2014, ore processed grew by 66% year-on-year to 807 Kt with an average gold grade of 8.7 g/t (+22%), reflecting the increased volumes and quality of the ore mined. Average recoveries were 84% and increased by 8% compared with 2013. In the second half of the year, following a number of operational improvements and increase in grades, recoveries exceeded 86%. 92.7 Kt of flotation concentrate containing 188 Koz of gold were produced. Of this, 72 Kt of concentrate were sold to China and another 10 Kt processed at the Amursk POX plant, with the remaining material stockpiled on-site after the close of the navigation period.

Sales and downstream processing

In 2014, we were able to expand the number of our offtake partners in China and achieve an improvement in the offtake terms as our partners gained experience with the material supplied. 130 Koz of payable gold was sold to offtakers in 2014 while another 13 Koz came from the processing at the Amursk POX.

At the POX plant, following the initial pilot processing in Q1 2014, full scale blending of Mayskoye concentrate commenced in the second half of the year, once sufficient amounts of concentrate were shipped to Amursk from the mine. 10 Kt of concentrate were processed with recoveries reaching 94% by the year-end and thus exceeding the design level.

Priorities for 2015

We will continue to work on further improvement of grade control and dilution through the optimisation of underground mining methods. We are also aiming to develop geomechanical modelling in order to improve engineering solutions for preparation and cutting works. An underground communication system will be installed in order to improve dispatch control at the mine.

A further increase in the concentrator throughput to reach nameplate capacity of 850 Ktpa is planned, while maintaining the design recovery levels in excess of 86%.

In 2015, the share of Amursk POX in total production should increase with sufficient stockpiles available before the start of the navigation period in July. Nevertheless, we will continue to split the concentrate between own processing and offtake in China, based on the metallurgical properties and resulting economics of each route.

Khakanja

Focusing on mine-life extension

Location: Khabarovsk Territory, Russia
Managing director: Alexander Akamov
Employees: 1,183
Mining: open-pit/underground
Processing: cyanide leaching and Merrill-Crowe
Production start date: 2003
Life of mine: 2018

Key figures

1,077 kt

Ore mined (+154%)

127 Koz

GE production (-12%)

704

(US\$/GE oz)
Total cash costs (-7%)

Gold production at Khakanja in 2014 decreased slightly by 5% year-on-year to 97.9 Koz, while silver production was 1.7 Moz, down 29% year-on-year. These decreases were driven by planned average grade declines as the Khakanja mine is nearing depletion and the mill feed is complemented by material from lower-grade stockpiles.

In 2014 we completed all preparatory works at Svetloye ahead of construction in 2015. A sea-side access point and all-season road from the shore to the site have been fully established.

Mining

At Khakanja open-pit mine, works concentrated on pit 1, with increased stripping and 271 Kt of ore mined in 2014. Average gold grades in ore mined increased more than two-fold to 3.0 g/t while silver grade remained stable at 142 g/t. At Ozerny, which became the major source of ore for processing in 2014, 764 Kt of ore were mined with gold grade increasing by 12% to 4.0 g/t. At both Khakanja and Ozerny, open-pit mining will be completed in 2015 in Q1 and Q2 respectively with the mining fleet to be re-directed to Svetloye.

At Avlayakan, where mining works completely switched to underground in 2014, we achieved design capacity, with 3.8 km of underground development completed during the year and 42 Kt of ore mined. The shift to underground resulted in a 55% increase in the average gold grade to 13.8 g/t and a roughly stable silver grade of 105 g/t.

Processing

In 2014, ore processed was 622 Kt, unchanged from 2013. Average gold and silver grades were 5.3 g/t and 117 g/t, respectively. The silver grade decline is attributable to the increased processing of ore from Ozerny that largely substituted that from Khakanja.

Exploration and development

A highlight of 2014 was the completion of the feasibility study for the Svetloye 1.0 Mtpa open-pit heap leach operation, followed by the Board's approval for the start of construction. Ore reserves are estimated at 7.3 Mt at an average gold grade of 2.8 g/t, containing 0.7 Moz of gold. This capital-light project (with a capex of approximately US\$80 million and an initial mine life of eight years) generates an impressive 44% IRR at a gold price of US\$1,250/oz and will significantly extend the overall mine life of the Khakanja hub. Svetloye is expected to add 70 Koz of gold in annual production at an average all-in sustaining cost of US\$750-800/oz starting from Q3 2017.

In our exploration efforts, we are focusing on extending Khakanja's mine life through brownfield exploration. At Ozerny, prospecting drilling in the flanks (8 km) was performed, with new ore body discovered in the northern flank. We are also continuing prospecting works, including trenches and drilling, in the Golubichny and Dikiy areas where several ore bodies were identified. Three additional new licences were obtained in 2014 covering 257 km².

Priorities for 2015

In 2015, some further decline in production is expected due to reduced grades in ore from Khakanja and Ozerny and the current reserve base nearing depletion by 2018. In the meantime, mining at Svetloye is expected to start in Q4 2015. Our brownfield exploration programme will continue in 2015, with the focus on the Mankanja, Vodorazdelny, and Serebryany areas, where initial high-grade intercepts were obtained in 2014.

Operating review

Voro

Sustaining high performance and margins

Location: Sverdlovsk Region, Russia
Managing director: Andrey Novikov
Employees: 919
Mining: open-pit
Processing: 950 Ktpa CIP cyanide leaching, heap leaching and Merrill-Crowe
Production start date: 2000 (Voro heap leach), 2005 (Voro CIP)
Life of mine: 2027 (Voro)

Key figures

376

(US\$/GE oz)
Total cash cost (-25%)

69%

Adjusted EBITDA margin (+9%)

159 Koz

GE production (+3%)



Voro, despite being one of the oldest assets in the portfolio, continues to be a key cash flow contributor. This is due to its prime location with access to infrastructure, continuous process improvements and resulting attractive cash cost profile (TCC of US\$376/oz and AISC of US\$515/oz in 2014, a decline of more than 25% compared with 2013).

Mining

Ore mined at Voro grew by 6% year-on-year to 1.9 Mt, with an increased shift towards primary ore. Mining was performed in two areas of the Gorevoy deposit on the South Voro pit. Average grades in primary ore declined modestly to 5.2 g/t while average grade in oxidised ore increased by 17% to 1.8 g/t.

Processing

At Voro heap leach, the amount of ore stacked decreased to 747 Kt. However, production at the heap leach grew by 18% and amounted to 27.7 Koz. This was due to the implementation of the carbon-in-column (CIC) process instead of zinc precipitation in the Merrill-Crowe circuit, which was previously used for recovery from the heap leach solution.

Total gold production at Voro in 2014 increased slightly by 3% year-on-year to 157.5 Koz as higher recoveries at the CIP plant (up 3 p.p. to 82.5%) offset slightly lower grades.

Exploration

Our near-mine exploration efforts are mostly focused on oxidised ore which is nearing depletion at the main Voro deposit. In 2014, we carried out exploration works in the Shilovskaya licence area and the Bortevsky area by core drilling. We have also completed drilling with an initial resource estimate of 171 Koz of gold equivalent at the North Kaluga deposit, which was acquired in the restructuring of our interest in the Ural-Polymetal joint venture.

Priorities for 2015

Our near-mine exploration will continue to focus on the potential sources of heap leachable mineralisation. This will include, in addition to existing projects, exploration drilling at Nyavlinisky and Krasnoturinsky licence areas.

Ore stacking at the heap leach plant will near completion in 2015, with 400-450 Kt of ore to be stacked during the year. Processing at the CIP plant will continue at a steady pace, with a moderate reduction in grade. Nevertheless, Voro is expected to remain one of the key cash-generating units of Polymetal with low capital expenditure and operating cost levels.

Varvara

Strong operations in Kazakhstan delivering a stable contribution

Location: Kostanay Region, Kazakhstan
Managing director: Alexander Simon
Employees: 720
Mining: open-pit
Processing: 3,150 Ktpa CIP and 1,050 Ktpa flotation
Production start date: 2007
Life of mine: 2030 (Varvara)

Key figures

1.7 Moz

GE reserves

106 Koz

GE production (-19%)

2030

Life of mine

705

(US\$/GE oz)
Total cash costs (-11%)

In 2014, Varvara faced additional market challenges due to the decline in the copper price and resulting weakness of the copper concentrate market. Unlike our Russian assets, which benefited significantly from the massive Rouble devaluation, the effects of Tenge devaluation were lower and did not fully offset this price decline. Nevertheless, Varvara demonstrated stable cost performance (TCC decreasing by 11% to US\$705/GE oz) and margins in 2014 despite the production decline.

Mining

Waste mined decreased by 2% year-on-year while ore mined grew by 98% to 3,985 Kt after the major stripping campaign was completed. Stripping started in the potential North-East pit and mining started in the South pit. During the year, mining works were re-directed in order to increase the volume of gold ore, after the temporary suspension of the flotation circuit. Stricter grade control procedures were implemented, with gold grades remaining stable throughout the year.

Processing

Ore processed at the leaching circuit amounted to 3,117 Kt (+17% year-on-year) with average gold grades of 1.14 g/t (-10% year-on-year), with lower grades attributable to the lower amount of third-party ore available for purchase during the year. The flotation circuit throughput was limited to 547 Kt as the section was temporarily shut down in July. This was to prevent the accumulation of excess concentrate stockpiles in a weaker copper concentrate market. The sales of concentrate stockpiled resumed at the end of 2014/early 2015. The reduction in grades at both circuits resulted in lower gold recoveries (-5% at the leaching circuit and -9% at the flotation circuit). As several metallurgical initiatives were implemented, gold recoveries at the leaching circuit increased to 81% in Q4 with further improvements expected in 2015.

Total gold and copper production in 2014 declined by 8% and 66% to 98 Koz and 1,631 t, respectively, mainly as a result of the copper circuit suspension.

Exploration

As with other mature mines, we are actively engaged in brownfield exploration and the search for potential third-party ores for Varvara, in order to complement the existing resource base and leverage existing capacity. In 2014, these objectives were largely met by drilling and the subsequent initial resource estimate at Tarutin, a gold-copper deposit located in close proximity to Varvara across the Russia-Kazakhstan border. The newly established 645 Koz of GE mineral resources, of which Polymetal currently owns 50%, have the potential to extend Varvara's life of mine.

Priorities for 2015

In 2015, both mining and processing will focus on the gold ore, with full throughput expected at the leaching circuit and a moderate reduction in grade. As a result of further deterioration in the copper price in the beginning of 2015, re-start of the copper circuit is likely to be delayed till 2016. The existing copper concentrate stockpile is expected to be completely sold in 2015. In-fill and step-out drilling will continue at Tarutin.

Development project

Kyzyl

Developing a world-class asset

Location: Northeastern Kazakhstan

Bakyrchik and Bolshevik

6.7 Moz
Gold reserves7.5 g/t Au
Average reserve grade (JORC)20 years
Estimated life of mine (Bakyrchik)

In September 2014, Polymetal completed the acquisition of the Kyzyl project in Kazakhstan. The addition of this world-class asset to our high-quality portfolio will provide us with a considerable expansion of our existing reserves and mine life, as well as a significant exploration upside.

The Kyzyl gold project consists of the Bakyrchik and Bolshevik gold deposits. Bakyrchik is one of the largest untapped gold deposits in the Former Soviet Union and globally. With gold reserves of 6.7 Moz at 7.5 g/t (JORC), this will double Polymetal's gold equivalent reserves. Inferred resources of 2.9 Moz gold at 6.6 g/t at Bakyrchik are expected to provide a life of mine of 20 years and there is the potential for further exploration on adjacent properties, which is covered by Bakyrchik and Bolshevik licences.

Kyzyl is located in northeastern Kazakhstan, 75 km from the industrial centre of Oskemen (Ust-Kamenogorsk). This is a traditional mining region with an established infrastructure which gives us good access to power and rail.

Open-plan mining planned

The previous owners had only considered underground mining of primary ores, with full processing flowsheet to Doré production (including roasting and BIOX technologies). Polymetal believes that the challenging underground mining conditions make open-pit mining a more attractive option from the point of view of risk mitigation and capital expenditure reduction, despite the expected high stripping ratio. Open-pit mining is judged to be the better option for the first ten years (to mine 18 Mt of ore with 120 t of gold), followed by a switch to underground mining at a later stage.

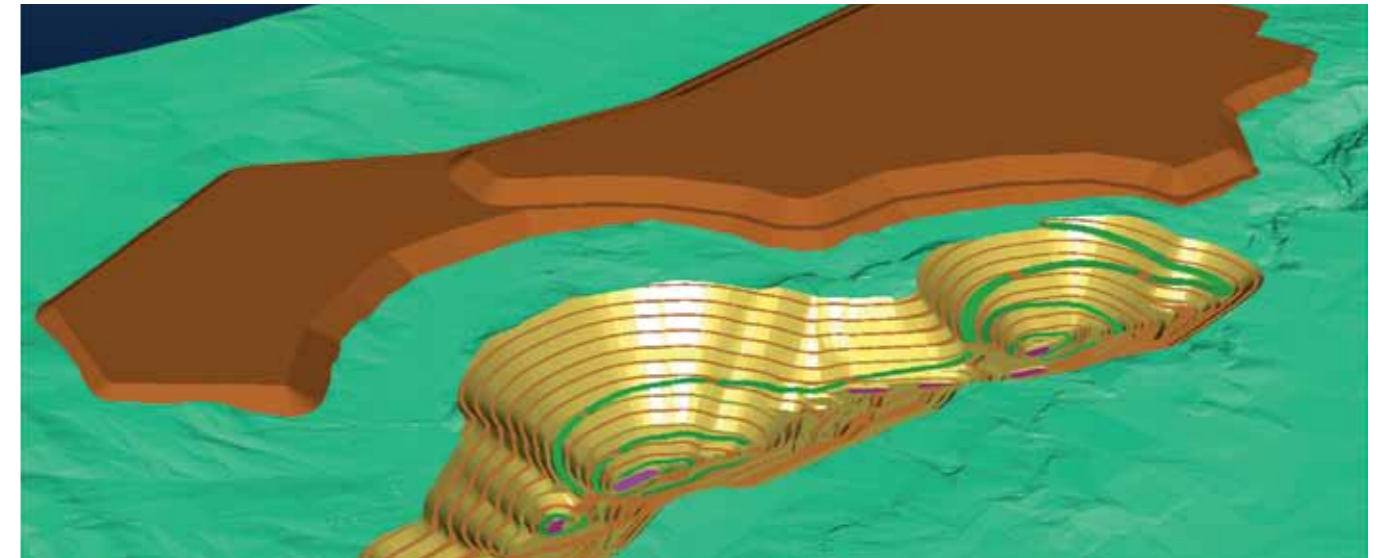
Initially, we plan to build a flotation plant for ore processing, selling the concentrate to third-party offtakers. We will then review the options of either processing the concentrate in our POX hub in Amursk or, alternatively, building a new POX plant on-site. This sequencing will reduce risks, split capital expenditures and, ultimately, increase the return on invested capital. The initial capital expenditure for the flotation plant and open-pit mine is estimated at US\$440-530 million. This will be revisited once the feasibility study has been completed in Q4 2015.

In 2014, Polymetal submitted documents for open-pit development to the regulatory authorities of the Republic of Kazakhstan for examination. The Company also carried out a preliminary assessment of the environmental impact and held a series of public consultations with the local Bakyrchik community with positive outcomes. The application for the statutory permits for open-pit mining should be completed with the regulatory authorities in Q2 2015.

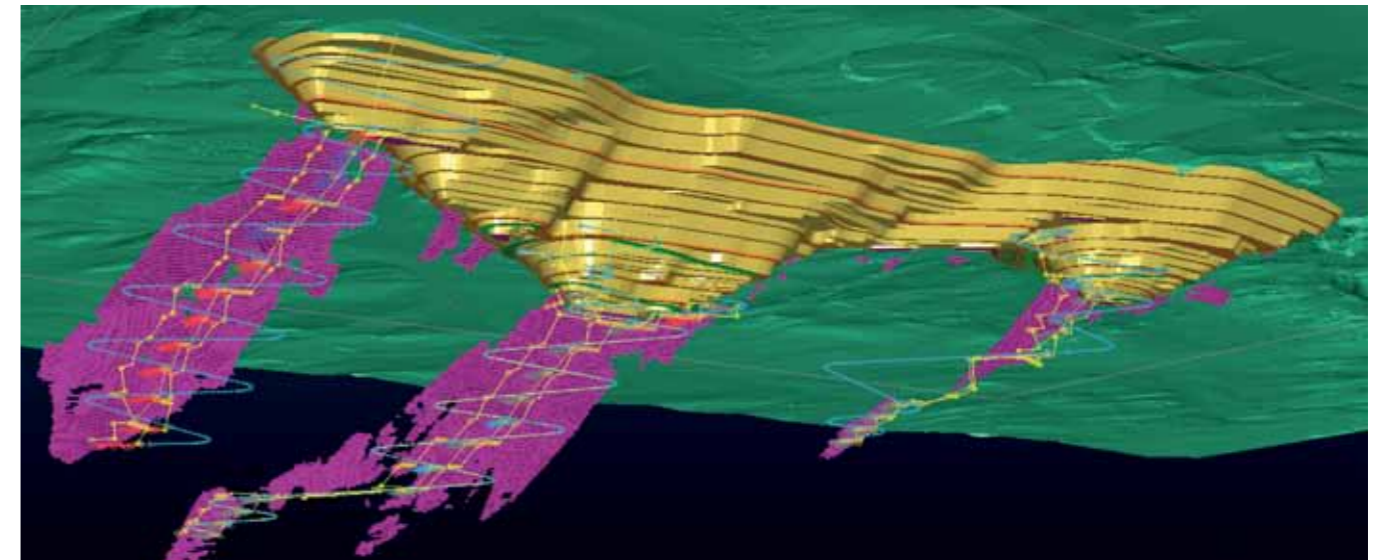
Preparatory work underway

We have now started exploration and in-fill drilling in the main licence area and along the edges/borders of the deposit. Planned exploration is set to continue in 2015 (see table on the next page). In Q3-4 2014, we commenced the engineering surveys required to design mining and processing facilities, and also performed a technical and economic assessment of the mining equipment needed for open-pit mining.

From the bulk samples collected, pilot metallurgical testing of the Kyzyl ore has confirmed the viability of ore flotation to concentrate. This signals the potential to improve on the parameters achieved in the previous test work.



Current outline of the project



Open-pit and underground mine

New infrastructure

The decommissioning of the old infrastructure, site clearing and various permitting activities, including environmental and social impact assessment (ESIA) preparation, have all continued as planned. In the next phase, we will progress to more detailed studies and the selection of processing flow charts. This should all be finalised by Q2 2015.

We have developed a preliminary layout for the mining and processing facilities, and the supporting infrastructure, including power, heat and water supplies. We have already commissioned the design of the power grid, step-down transformer substation, water conduits and boiler house. Some existing facilities will need to be dismantled during 2015 and into Q1 2016 before we start stripping in the pit; others will be used as temporary storage and maintenance facilities during the construction period.

In Q4 2015, we will finalise the audit of the updated feasibility study with the inclusion of the estimate of the resources required for the open-pit mining option. We will also carry out a full ESIA, in line with international best practice.

Exploration plans

Year	Site	Drilling, m	Core sample	Assay analysis
2014 (actual)	Bakyrchik mining and exploration licence	16,809	4,681	5,500
2015 (plan)	Bakyrchik mining and exploration licence	36,190	14,727	18,555
	Bolshevik	9,000	1,035	1,490

Exploration

Sustained investment in standalone exploration

Despite the current weak commodity price levels, our sustained investment in both greenfield and brownfield exploration is one of the core pillars of our strategy. We strongly believe that our long-term growth is underpinned by these efforts. In selecting licence areas for exploration, we focus on areas adjacent to our processing hubs or potential hubs (brownfield), and on assets with the potential to become sizeable standalone operations. The advancement of the exploration project is subject to rigorous review through pre-established project stages that are linked to our estimate of the resource potential and its economic prospects. At any stage, a project may be terminated, suspended or moved to the next exploration stage.

In 2014, we completed internal restructuring of the exploration function at Polymetal that allowed us to decentralise, reduce red tape and to increase the responsibility of local geology project managers for the outcome of the project. This will also speed up the project evaluation process and consequent turnover of projects and licences that we hold.

Our key greenfield exploration targets for 2014 were:

- continued exploration at key greenfield gold assets (Svetloye, Kutyn, Maminskoye and Kyzyl), preparing them for development stage;
- exploration for platinum group metals (PGM) deposits in the Karelia and Ekaterinburg regions in order to establish new hard-rock PGM resources sufficient for a standalone mining operation.

Key greenfield projects

As a result of exploration activities during the year, significant resource-to-reserve conversions were achieved. Maiden ore reserves and mineral resources estimates were completed for several greenfield and brownfield projects.

Karelia PGM project

One of our newest greenfield exploration projects, Viksha (Semcha), is now very well positioned to establish a large PGM resource in Karelia, an accessible region with developed infrastructure. We have been exploring the precious metals mineralisation (gold, platinum and palladium) of the Koykar ore field.

Our activities in 2014 were focused on drilling to a depth of 100 m at the large PGM ore body identified along the known surface outcrop. Core drilling (18.7 km) was carried out at the Viksha, Kenti and Shagri areas. In these areas, PGM mineralisation within the ferrous titanium horizon was revealed with a steady width at shallow depths. Platinum, gold and palladium mineralisation was identified with an average palladium equivalent grade of 1.8-2.6 g/t. Mineralised potential in the most explored part of the field (Viksha) is estimated at 57 tonnes of palladium equivalent. The total mineralised potential of the Koykar sill is estimated at 350-400 tonnes of palladium equivalent, including 190 tonnes at an open-pit depth of 150 m. Viksha's statutory feasibility study and the statutory GKZ reserves were approved by the Russian state authorities in 2014; in 2015 we will be converting the exploration licence to exploration and mining.

Svetloye

In 2014, we completed an initial ore reserves estimate at Svetloye of 677 GE Koz with an additional 80 GE Koz of mineral resources. Project development has been approved by the Polymetal Board and Svetloye will now become part of the Khakanja hub. In 2014, our drilling campaign focused on the Elena and Emi zones, as well as prospect drilling in the Ludmila zone and Emi flanks. In 2015, along with the start of construction, we will prepare for mining at Svetloye with the in-fill detailed drilling. To further increase the resource potential, we will start prospecting at the new licence area, Pravosekchenskaya.

Kutyn

At Kutyn, we targeted the assessment of oxidized open-pit resources and the increase of the resource potential of the deposit by discovering new ore bodies. The works were focused on mineralisation located near the surface and suitable for heap leaching, including extensions of known ore bodies. Detailed drilling and mapping of ore bodies in Sedlovinnaya, Rodnikovaya and Geofizicheskaya enabled us to perform geotechnical mapping of ores amenable to cyanidation. Trenching was performed in the Itylskaya, Delinskaya, Dzhuaty-1 and Dzhuaty-2 ore zones. Known and new ore bodies have been traced along the strike.

The initial ore reserves estimate and the pre-feasibility study at Kutyn (completed in 2015) confirmed 386 Koz, with additional mineral resources of 649 Koz. The pre-feasibility study entails an all-year-round 700 Ktpa open-pit heap-leach operation with an initial mine life of five years. Annual average production is estimated to be 50 Koz of gold with average all-in sustaining costs of US\$750/oz. Primary (non-oxide) mineralisation is not included in the current study and therefore not included in the ore reserve. Pre-production capital expenditure is estimated at US\$52 million. However, with the current focus on the development of the Kyzyl project, we will consider sale or partnership to advance the development of the asset.

Maminskoye

In-fill drilling continued at Maminskoye in the first half of 2014. Following the acquisition of the Kyzyl project, we decided to re-prioritise the project pipeline and, accordingly, slow down the development of Maminskoye, suspending further exploration activities.



Exploration activities in 2013-2014

	Drilling, km		Trenching, 1,000 m ³	
	2014	2013 ¹	2014	2013 ¹
Greenfield				
Urals	24.3	59.1	12.4	19.0
Maminskoye	5.4	27.4	-	3.8
Tamunier	7.6	5.2	-	-
Svetlobor (PGM)	3.6	10.9	8.8	8.2
Urals regional	7.7	15.6	3.6	7.0
Far East	19.4	25.0	181.3	32.1
Kutyn	5.4	15.2	103.0	32.1
Svetloye	6.1	8.7	12.7	-
Olyndja	4.6	-	42.5	-
Uchama	-	0.8	-	-
Golubichny	3.3	-	23.1	-
Landjinskaya	-	0.3	-	-
North-West	24.6	18.3	-	-
Semcha (PGM)	18.7	5.0	-	-
Elmus	5.9	13.3	-	-
Subtotal	68.3	102.4	193.6	51.1

	Drilling, km		Trenching, 1,000 m ³	
	2014	2013 ¹	2014	2013 ¹
Brownfield				
Albazino	75.5	46.2	21.8	10.2
Dukat hub	41.4	25.6	-	-
Varvara	36.1	13.4	-	-
Omolon hub	17.1	23.0	13.6	52.2
Kyzyl project (Kazakhstan)	16.8	-	-	-
Khakanja hub	8.3	9.8	0.1	25.0
Voro	5.2	-	-	-
Subtotal	200.5	118.0	35.5	87.4
Greenfield + brownfield total	268.8	220.4	229.1	138.5

¹ Restated data.

Sustainability

Focused on building a sustainable future

Our core objective is to create sustainable returns for shareholders while fulfilling our corporate responsibilities to society and the environment.

In this way, we balance our business interests with the interests of our people, suppliers, investors, local communities and other stakeholders. And it is this balance which ensures the long-term success and sustainability of our operations.

Our approach

2014 represents a milestone on our sustainability journey. This year, we are adopting the most recent version of the Global Reporting Initiative (GRI) sustainability reporting guidelines. Within this G4 framework, the main focus is 'materiality' – in other words, those issues that matter most to our business and our stakeholders. Compliance with G4 does not become mandatory until the end of 2015, so we are making this transition ahead of schedule. This is a sign of our commitment to continuous improvement and best practice, and demonstrates our willingness to engage with clear and accountable reporting practices. In support of this, in 2015, we have recruited a Chief Sustainability Officer, whose role will involve coordinating our diverse sustainability initiatives and activities.

Polymetal's overall approach to sustainability is guided by the UN Global Compact, to which the Company has been a signatory since 2009. Our strategy is designed to meet the requirements of this voluntary international standard and ensure compliance with its ten principles in the areas of human rights, labour, environment and anti-corruption. We are also an active member of the UK Global Compact Network Russia.

The UN Global Compact and our corporate values – dialogue, compliance, ethical conduct, fairness, stewardship and effectiveness – shape the focus of our more detailed sustainability policies and associated management systems. These policies are defined at Group level and implemented through our Head Office in St. Petersburg and subsidiary companies. Through ongoing monitoring and auditing, we ensure that our performance is measured against all relevant regulatory and internal requirements.

Sustainability Report 2013/14

This section of our Annual Report presents an overview of Polymetal's sustainability approach and performance in 2014. We have also published a full Sustainability Report 2013/2014, which provides more detailed coverage.

The scope of the Sustainability Report covers all of our wholly-owned operating mines and processing sites in Russia and Kazakhstan (Dukat, Omolon, Amursk, Albazino, Mayskoye, Khakanja, Voro and Varvara), our headquarters in St. Petersburg and our subsidiary companies. We own and operate all of these entities and have direct control over their policies, procedures and performance.

This report and copies of our previous reports are available on our website, along with regular updates about our sustainability activities during the year: www.polymetalinternational.com/sustainable-development.



Our sustainability focus areas

- Maintaining positive working relationships with local government, NGOs and communities by enhancing our partnership agreements and increasing the effectiveness of our investments.
- Improving our health and safety system through more sophisticated visualisation, risk management systems and more rigorous monitoring within the Company and with our supplier network.
- Attracting and retaining more high-quality people and improving the quality and terms of their employment.
- Further developing our certified environmental management system and embedding the system into production operations.
- Enhancing the rigour and transparency of our communications with suppliers, customers and partners.
- Cost and energy efficiency programmes.

Stakeholder engagement and material issues

In our approach to sustainability, we want to address the issues that matter most to our business and to our stakeholders. To this end, we follow the principles of materiality and stakeholder inclusiveness that are set out within the GRI G4 prioritisation guidelines. We carry out regular stakeholder mapping exercises to determine the various stakeholder groups on which Polymetal has the biggest impact. Once identified, we then engage with these stakeholders and collate all ensuing dialogue; this enables us to understand the issues most material to each group, and to incorporate their opinions and priorities into our decision making and policy development.

Through our stakeholder engagement and materiality mapping activities, we have identified our core sustainability focus areas which are shown above.

See our materiality matrix in the Sustainability Report 2013/2014 for more information.

Sustainability risk management

Our approach to sustainability is also underpinned by rigorous risk management policies and procedures. Informed by our interaction with stakeholders, we work to identify, manage and mitigate the sustainability risks we face. This process is overseen by the Audit and Risk Committee of the Board, reflecting the importance we place on sustainability within the Company.

Environmental performance

Polymetal, as a typical mining business, operates complex processes on a large scale in remote locations. These processes produce a range of waste materials and use toxic substances, such as cyanide. Like any other mining company, we also produce significant quantities of emissions and carry out processes that can have potentially negative environmental impacts.

To control these impacts we have developed a robust environmental management system (EMS) that complies with increasingly sophisticated national and international standards and regulations. This system is overseen by dedicated environmental teams, and focuses on resource and energy efficiency, pollution prevention, use of modern equipment and technologies, and employee engagement.

At the heart of the management system is our environmental policy, which can be viewed at www.polymetalinternational.com. It emphasises the use of best practice, continuous improvement, risk reduction, compliance and management of specific environmental issues. It also focuses strongly on incident and emergency control, the use of environmentally friendly materials and resource efficiency.

Each of our subsidiary companies has its own environmental team. These teams contribute to the running and monitoring of the EMS and provide quarterly performance reports to the Group. Meanwhile our in-house engineering operation, Polymetal Engineering, employs more than 100 specialists to ensure that up-to-date practices and modern technologies are used in the design and construction of mines and processing facilities.

Across the Group, we incorporate regular auditing and monitoring activities into the environmental management system. We also comply with the requirements of relevant Russian and Kazakh legislation and ISO 14001. External audits are regularly undertaken by state supervisory authorities such as the Russian Federal Service for Supervision of Natural Resource Usage, while audits conducted by service providers (such as Bureau Veritas) help us to improve our internal environmental management and performance. During the reporting period, we received no significant fines or non-monetary sanctions for non-compliance with environmental laws and regulations.

Environmental compliance

We comply with stringent environmental impact assessment procedures which include public hearings and adequate mechanisms to enable stakeholders to share their grievances. Our ongoing stakeholder engagement activities also provide forums for stakeholders to voice concerns. In 2014, there were no new major grievances filed about our environmental impacts.

All of our suppliers comply with applicable laws and regulations. In our formal contractual agreements, we insist that our suppliers meet their compliance requirements.

Investment in environmental protection

Our overall investment in environmental protection during the reporting period was US\$13.5 million, a slight increase from US\$13.4 million in 2011/12. Of this total 51% went into the protection of water resources, 32% into land reclamation, and 17% into the reduction of atmospheric emissions.

However, investment in 2014 decreased to US\$5 million in comparison with US\$7.1 million in 2013, partially due to the completion of construction and ramp-up of the environmental protection facilities at Polymetal's new operations and partially due to currency devaluation.

The balance comprises quarterly payments we make to governments in the regions we operate for the negative impact on the environment caused by our business. The amounts of these payments are governed by environmental law and are defined by specialised government agencies through the audits they conduct regularly at our operation sites.

Sustainability

Striving for greater efficiency and minimising negative impact

Performance

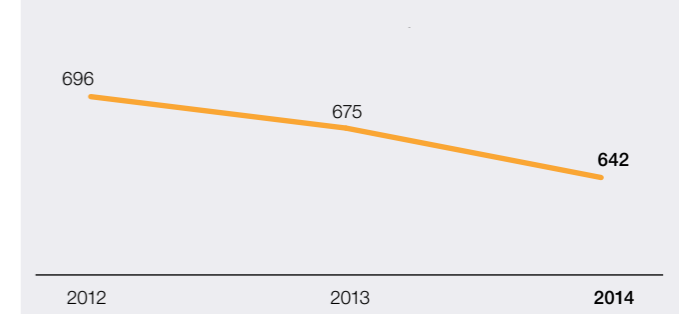
During 2013/14, we made good progress in our environmental management programmes.

The major projects carried out in this period included land rehabilitation, environmental monitoring, industrial waste recycling, the construction of waste storage areas, the repair and replacement of gas purification and exhaust systems, and the control of dust emissions.

GHG emissions (CO ₂ equivalent tonnes per 10 Kt of ore processed)	Due to the remote locations of our operations, we rely heavily on diesel fuel for power generation. These diesel generators, plus the use of natural gas and coal for heating and fuel for vehicles, account for the bulk of GHG emissions. The significant drop in emissions per unit for 2014 is evidence of our increasing carbon efficiency.	
Total air emissions (tonnes per 10 Kt of ore mined)	Stripping, mined waste storage, ore processing and energy use generate air emissions. These emissions include non-organic dust, carbon dioxide and nitrogen and sulphur oxides.	
Major waste components (tonnes per tonne of ore mined)	Overburden and tailings are the primary waste materials arising from our operational activities. We operate against a set of procedures that are designed to maximise volumes of recycled materials and minimise our potential impacts on people and the environment.	
Discharges to surface water (thousand cubic metres per 10 Kt of ore processed)	Across our operations we aim to reduce discharge intensity, improve the quality of water discharged, enhance the efficiency of water use and increase recycling. Any increases are due to growth of incoming waters in our open pits.	
Energy intensity (gigajoule per 10 Kt of ore processed)	Polymetal's remote subsidiaries must generate their own sources of electricity and heat, which currently necessitates significant use of diesel. However, we are constantly reviewing costs, environmental impacts and alternatives, and the increase in 2014 is the result of the change from diesel to electricity-powered equipment.	

Read more about our performance in each of these areas on the following pages.

GHG emissions intensity (CO₂ eq. t/10 Kt of ore processed)



Kyzyl environmental assessment

International environment and social consultants are undertaking a detailed review of the environmental and social issues related to the Kyzyl gold project in northeastern Kazakhstan. A formal ESIA report along with the project feasibility study will be issued in Q4 2015 which will outline priority action areas and benchmark the project and the embedded environmental programme. This will ensure that any environmental and social impacts are addressed in line with the International Finance Corporation Performance Standards and World Bank Environmental Health and Safety Guidelines.

Key environmental projects in 2014

The five main projects undertaken during the year:

- the construction of advanced wastewater and storm wastewater purification units at Amursk, Birkachan and Mayskoye was completed;
- mine site rehabilitation at Yurievskoye was completed;
- improvements were made in water treatment efficiency and reduction of water consumption at Voro;
- we started waste oil combustion at Albazino, Mayskoye and the Omolon hub in order to heat on-site buildings and spaces; and
- we instigated tailing dump reconstruction with artificial damp bed freezing at Lunnoye.

Waste management

Across our operations we are committed to responsible waste management. We operate systems and procedures that are designed to maximise the amounts we recycle and minimise potential impacts on people and the environment.

We deal with the production and consumption wastes we generate by reutilising them in our own production processes, outsourcing them to specialist companies, and disposing of them within our own waste facilities.

Overburden and tailings

The most significant waste streams linked to our operations are overburden and tailings, which account for more than 99% of total arisings by volume. The former is material extracted to uncover ore deposits; the latter a by-product of ore processing. In 2014, we produced a total of 68 million tonnes of overburden, and 11 million tonnes of tailings.

Recycled materials

Wherever possible we try to recycle the waste we produce. In 2014, this accounted for 20% of total waste produced.

Cyanide and hazardous waste management

We pay particular attention to the way we monitor and manage cyanide, since it generates hazardous waste components during the recovery of gold from the ore we process. In 2014 we used 8,002 tonnes of cyanide, compared with 7,369 tonnes in 2013.

Our approach involves:

- identifying all associated hazards;
- strictly controlling all cyanide levels in our tailings;
- monitoring air, soil, surface and ground waters;
- providing environmental monitoring results to public authorities; and
- delivering environmental protection measures, including the design, construction and monitoring of tailings dams, and the monitoring of water sources and quality, riverbed changes and associated drainage.

Additionally, when we use cyanide, we use 100% of the volumes purchased to ensure there is no waste element. Cyanide also exists in our processes as a chemical compound found in gas, water and in solids, which we later purify.

In line with our commitments in this area, we take a rigorous approach to the transportation of hazardous materials. In 2013 and 2014, we did not transport, import or export any waste deemed hazardous under the terms of the Basel Convention 2, Annex I, II, III and VIII.

Water

We withdraw significant volumes of water for use across our business. All water is re-used, treated and discharged as effluent to surface water, or is treated and stored in tailings dams. We capture all water consumption and discharge data using water meters, flow meters and indirect measuring.

We have consent from local and state authorities to withdraw water from a wide range of sources adjacent to our operating sites. Due to the wide geographical spread of our operations, we are able to ensure that our usage does not place undue demands on any one water source, and always remains within acceptable withdrawal limits. We also withdraw very little from surface water bodies such as rivers or springs. Indeed, around 90% of our water sources are underground, and our annual average volume of water withdrawn from surface bodies does not exceed 10%. Those surface sources we do use are located away from environmentally sensitive areas, or those areas where water sources are of high value to local communities and indigenous peoples.

Sustainability

Dedicated to improving our performance and systems

Regardless of location, our overarching aim is to reduce the amount of water we use per unit of output. In addition, we aim to reduce to the absolute minimum the volume and impact of liquids discharged into watercourses, while maximising the safety of our tailings dams.

During 2013/14, the total amount of ore mined by Polymetal increased year-on-year by 32%, meaning the total amount of water used across our operations also increased.

Over the past three years, the volume of water re-used by all Group companies has averaged 87% of the total withdrawn. The remaining proportion is treated and discharged to surface water, in accordance with the requirements of Russian and Kazakh environmental legislation. We have discharge permits and agreements in place, and the quality of our discharge water complies with target indicators.

Energy

Polymetal's mining operations are energy intensive. In addition, operating in remote locations with no access to grid power and extreme weather conditions, we are reliant on diesel fuel for heating and powering equipment and vehicles. Diesel and gas purchased from third-party suppliers account for the majority of our total direct energy consumption. We also use coal which we mine at our production sites.

Energy efficiency and savings

We obviously need to develop and maintain our own power infrastructure, whilst at the same time promoting energy efficiency and savings across our operations. In 2014 we saved 1,495 tonnes of diesel. We are also investigating long-term options for renewable energy use.

Greenhouse gas emissions

Our operations produce direct greenhouse gas (GHG) emissions through the generation of heat and electricity from diesel generators, the burning of natural gas and coal, and the use of industrial and household landfills.

We use established international methodology to calculate our CO₂ emissions. In 2014, direct CO₂ emissions resulting from our operations amounted to 304 Kt, compared with 327 Kt in 2013.

Indirect emissions and other pollutants released during production processes are shown in the following table.

Greenhouse gas emissions¹

	2014	2013
Total GHG emissions, t	725,226	725,366
– direct GHG emissions ² , t	304,248	327,222
– indirect GHG emissions ³ , t	420,978	398,144
GHG emissions intensity (CO ₂ eq. t/10 Kt of ore processed)	642	675

Other pollutants (t)

	2014	2013
Sulphur dioxide (SO _x)	304	276
NO _x , (Nitrogen oxide + dioxide)	1,493	1,358
Inorganic dust (solid particles)	4,125	3,750
Carbon monoxide (CO)	1,852	1,684

¹ From 1 January 2013, the Group began calculating CO₂ emissions according to the reference book 'International Greenhouse Gases Emissions Inventory Methodology' developed by A. Zinchenko from the scientific and production corporation Atmosphere in St. Petersburg in 2003.

² Direct emissions include: CO₂-equivalent emissions produced by combustion of fuel (diesel fuel, petrol, gas, coal) and use of electric power when operating own power-generating facilities, automobile transport, main and auxiliary mining equipment.

³ Indirect emissions include: CO₂-equivalent emissions that relate to the generation of power purchased (imported) by the Company's operations.

Biodiversity management

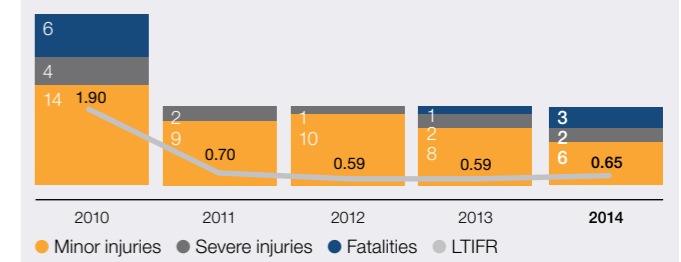
We make concerted efforts to minimise our impact on flora and fauna, and we do not operate in or adjacent to protected or vulnerable areas of land or bodies of water. Neither do we operate on or adjacent to land identified as having natural, historical or cultural value for Indigenous Minorities of the North (IMN).

Key plans for 2015-2017

We have identified a number of projects on which we will be focusing our attention in 2015:

- rehabilitation of the pits in the Ozerny area;
- reconstruction of the dump facility for solid domestic and industrial waste in Lunnoye;
- increased throughput of the storm wastewater purification station at Voro;
- construction of a sewage collector from the Amursk POX plant to a mechanical sewage purification station; and
- recycling of industrial waste in Mayskoye.

Health and safety performance



Health and safety

Polymetal operates 120 production sites and processes, including open and underground mines, geological exploration sites, ore processing and explosives depots. Each of these sites has its own inherent risks, and in Russia and Kazakhstan 92 of our production facilities are deemed 'hazardous'.

Our people work in challenging conditions and remote locations where it can be difficult to enforce stringent safety procedures. However, each year, as our operations expand, we are learning more about how best to engage our people with health and safety issues, and to promote a 'zero harm' culture in which everyone takes responsibility for personal safety and wellbeing.

Our overall approach is set by the Company's Health and Safety Policy and underpinned by our Occupational Health and Safety Management System (OHSMS). We also follow best practice in our management of industrial risks to protect our employees and safeguard the interests of local populations.

We comply with the health and safety legislation of the states and regions where we operate, and we meet all relevant international requirements. Indeed, our Occupational Health and Safety Management System is based on the most up-to-date health and safety standards, including ILO-OSH 2001, OHSAS 18001 and GOST R 12.0.007-2009.

It is with the deepest regret, therefore, that we report that during 2014 there were three fatalities across the Group. There was also one workplace fatality at a contractor's site. We extend our deepest condolences to the families and friends of those who lost their lives and pay tribute to the hard work and commitment of the men who died. We are of course covering all related costs and providing extended financial support to the families of the deceased.

There were also eight non-fatal accidents across the Polymetal Group in 2014. Any fatality, accident or injury within our operations is wholly unacceptable. We have to do more to reduce workplace risks and improve the health and safety performance of our employees and contractors. We aim to return to our previous record of zero fatalities across all sites and operations.

Our analysis shows that the rise in the number of workplace accidents was partially attributable to the increased scope of underground mining at our operations in complex geotechnical environments. In response, we have been quick to increase the level of training, hazard visualisation and use of safety videos across our operations – particularly for those workers in high-risk roles, such as blasters, shaft miners and shaft timber-men. We are also taking further actions to extend personal safety and risk awareness across our operating mines, and devising corrective and preventative measures in relation to each specific accident.

We are implementing a range of new safety measures and actions designed to enhance our existing Occupational Health and Safety Management System:

- updating our OHSMS policy and objectives;
- changing underground mining technology;
- carrying out a comprehensive analysis of all work-related injuries and their causes;
- conducting a rigorous assessment of our OHSMS to identify inefficiencies and weak points;
- an external OHSMS audit by Bureau Veritas;
- appointing new personnel to oversee health and safety at certain mine sites; and
- launching an upgraded shift-by-shift risk assessment system.

Health and safety performance Company statistics

	2014	2013
Total accidents	11	11
– fatal	3	1
Incidents	1	0
Occurrences	25	24
LTIFR	0.65	0.59
FIFR	0.18	0.06

Suppliers and contractors

All contractors working on-site at Polymetal operations must comply with our health and safety regulations, as stipulated in our Occupational Health and Safety Management System. These obligations – and the penalties for non-compliance – are clearly defined in all our contracts.

Contractor statistics

	2014	2013
Total accidents	7	7
– fatal	1	0
Occurrences	13	22
LTIFR	1.4	1.2
FIFR	0.2	0

Definition of health and safety terms:

Accident: an unfortunate event that occurs in the course of work, on the way to or from work, or in a Company vehicle, which leads to mental or physical harm.

Incident: an event that gives rise to an accident, or has the potential to lead to an accident (for example, an unexpected explosion and/or the release of dangerous substances).

Occurrence: a failure, near miss or dangerous event.

LTIFR: Lost Time Injury Frequency Rate per one million hours worked.

FIFR: Fatal Injury Frequency Rate per one million hours worked.

Sustainability

Training, motivation and reward at the core of our activities

Employees

As we expand our operations, we are looking to develop our stable, loyal and motivated employee base. Each year we strengthen our internal Talent Pool, increasing the scope of our employees' expertise and building our leadership capabilities for the future. We also pay competitive salaries and provide equal terms of recruitment, employment and promotion, making Polymetal a highly attractive place to work.

Indeed, we believe that by providing an environment in which our employees feel well looked after, rewarded and listened to, we can continue to develop the workforce we need to meet our long-term business goals. As a key stakeholder group, our employees expect a certain standard of behaviour from us. In return, our employees are expected to adhere to our Company Code of Conduct, which covers all aspects of HR and development as well as our commitment to the UN Global Compact and International Labour Organisation Principles.

Salaries and benefits

We strongly believe in acknowledging and rewarding our employees' achievements. We offer competitive and fair rates of pay and benefits to ensure we can attract and retain the best people. Our levels of salary and remuneration exceed regional averages in all our areas of operation, while our long-term incentives are linked to employees' performance and potential.

Within the Company, our remuneration structure is built around a base salary, which comprises a fixed salary and allowance based on an employee's qualifications and personal attributes. For operational staff, we provide a time-paid salary which is calculated according to the number of hours worked, the amount of work done, and monthly and annual allowances based on performance and available funds. With these measures, we comply with and exceed all legal requirements in Russia and Kazakhstan.

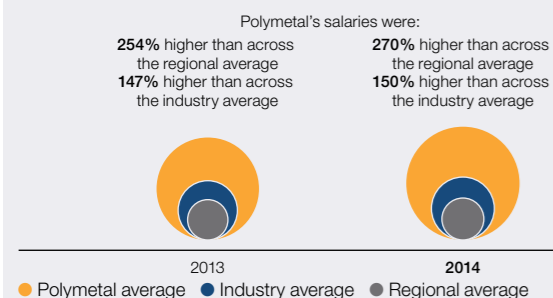
During 2014, despite macroeconomic headwinds, we sustained stable wage growth across the Group in line with inflation, maintaining our position as an attractive employer in the labour market in the regions where we operate. We also continued to deliver improvements to employees' working conditions, especially for those undertaking shift-work in remote areas with severe climates. Key achievements included the construction of a modern workers' dormitory in Mayskoye, comprehensive repair of dormitories at Dukat, and the commissioning of state-of-the-art sports facilities in some of our more remote locations.

Training and development

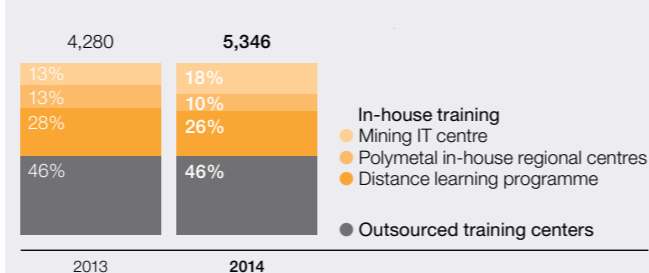
We invest in training and development to enhance the capabilities of our people. Our training programmes are designed to create the workforce we need to meet our operational and strategic goals, and to offer our employees opportunities for career progression. Using both our own specialist instructors and external suppliers, we offer general management and technical training at our Corporate Training Centre in St. Petersburg and at the teaching facilities available at most of our sites. This is supplemented by the training modules provided by our distance-learning system. We also nurture future generations of skilled managers through our Talent Pool.

We invested US\$0.7 million in 2014 (2013: US\$0.5 million) in professional training across all disciplines. This means that 9,626 employees received some form of professional development training during the year. In 2014, the average number of hours of training for managers and qualified employees was 49 and 72 hours per person respectively. The average hours of training for all other employees increased from 111 to 139, reflecting the good work done in this area.

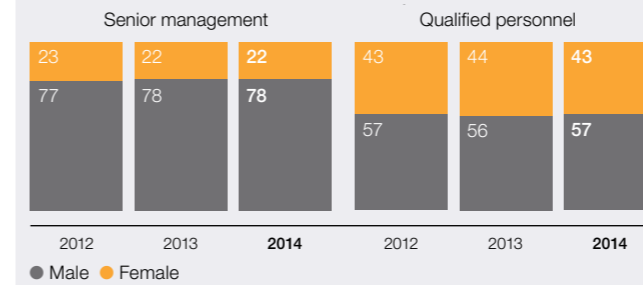
Polymetal salaries compared to regional and industry wages



Training (number of employees trained)



Gender composition (%)



Gender diversity

We do not believe that the skills and talent required for the business are gender-related. We proactively work to recruit and encourage women within the business.

In 2014, the proportion of women working in the Group was 22%. Women represent 22% of Board members, 22% of senior management positions, and 43% of qualified employees.

Employee turnover

In recent years, we have managed to significantly reduce our average employee turnover rate (including fly-in/fly-out operations). This was down to 11.4% in 2014, compared with 18.5% in 2013.

Anti-corruption

Through the Polymetal Code of Conduct, we take a rigorous stance on anti-corruption. We educate our employees on preventing corruption and its potential impact on our business. In 2014, 3,000 Polymetal employees, including all regional managing directors, attended a total of 66 anti-corruption seminars. We also have measures in place to help minimise corrupt practices and fraudulent transactions among our workforce, our contractors and our suppliers.

Human rights

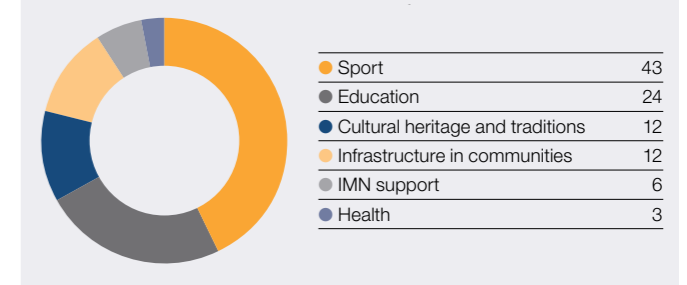
As supporters of the UN Global Compact and through our own corporate values, defined in the Polymetal Code of Conduct, we apply human rights principles rigorously for all our employees. We respect the human rights and preserve the cultural heritage of the indigenous communities in areas where we operate, in keeping with the UN Declaration on the Rights of Indigenous Peoples. We also seek to influence our partners, contractors and suppliers to apply the same standards.

Communities

Geographically, the scope of our operational activities is vast. It encompasses the Magadan Region, Khabarovsk Territory, the Chukotka Autonomous Territory, Northern Urals and Kazakhstan, and is expanding every year in these areas. This means that our interactions with local populations are widespread and diverse.

As an employer, we provide local employment opportunities across all our sites and facilities. We commission and use local services, helping to stimulate local economies and supply chains.

Social investments in 2014 (%)



Of course, our operations also generate waste materials and emissions. However, we have robust measures in place to manage and mitigate these impacts and go beyond our regulatory obligations to ensure our operations do not adversely affect local communities or environments.

We believe that long-term sustainable development is underpinned by the effective management of social investment. Our social investment initiatives are guided by industry benchmarks and standards and extend to all territories where we conduct exploration and production activities. In the last five years, the scope of our social investments has increased, with a total of US\$24 million invested in local projects from 2010-2014. In 2015, we plan to spend US\$5.5 million on social support and territorial development programmes.

Our investment priorities are determined through open dialogue with local communities. As part of this process, we carry out in-depth analysis of local people's needs and work with them to understand how social investment could best bring positive change to their lives. Together, we identify the most pressing local issues and define the scope of the support required.

Investments and related targets are approved annually by the Polymetal management and Board of Directors. Decisions are made based on a project's potential to improve the quality of life for local people, with a focus on the following areas:

- healthcare and education;
- infrastructure;
- sport and lifestyle;
- culture and creative potential;
- Indigenous Minorities of the North (IMN); and
- environmental protection.

Financial review

Highlights

- Revenue for the year ending 2014 was US\$1,690 million, largely unchanged from 2013 (year-on-year) despite average realised gold and silver prices decreasing 7% and 18% respectively year-on-year. The price decline was largely offset by a 7% increase in the volume of gold equivalent sold during the period.
- Group Total cash cost¹ (TCC) was US\$634/gold equivalent ounce (GE oz), down 15% from 2013 due to a robust operational performance, resulting in higher average grades processed and increased throughputs across the portfolio, coupled with significant Russian Rouble and Kazakh Tenge depreciation against the US Dollar. Total cash costs in the second half of the year increased slightly by 2% to US\$641/GE oz versus the first half of 2014 driven by production from Mayskoye with cost levels higher than the Group average.
- All-in sustaining cash costs¹ decreased by 18% year-on-year, to US\$893/GE oz as a result of reduction in total cash costs during the period, combined with increased production levels and an associated reduction in per ounce sustaining capital expenditure at operating mines.
- Adjusted EBITDA¹ was US\$685 million, an increase of 15% year-on-year, driven predominantly by strong cost performance and production growth offsetting the decline in commodity prices. Adjusted EBITDA margin was 41% compared with 35% in 2013.
- Underlying net earnings for the year (adjusted for the after-tax amount of impairment charges/reversals and foreign exchange loss) were US\$282 million (2013: US\$179 million). As a result of non-cash foreign exchange losses, the Group recorded a net loss for the year of US\$210 million in 2014 (2013: US\$198 million).
- Net debt was US\$1,249 million (including the liability for the special dividend payable), an increase of 20% versus the 2013 levels as the Company raised an additional US\$318.5 million of debt for the acquisition of the Kyzyl gold project in Kazakhstan (completed on 4 September 2014), while continuing to generate free cash flow and pay dividends. Net debt/Adjusted EBITDA was 1.82 (31 December 2013: 1.75). Free cash flow for the year¹ was US\$306 million, an increase of more than two-fold compared with 2013.
- A final dividend of US\$0.13 per share representing 30% of the Group's underlying net earnings for 2H 2014 is proposed by the Board, which, in accordance with the current dividend policy, has the discretion to declare a regular dividend when the Net debt/Adjusted EBITDA ratio is above 1.75. This will bring the total dividend declared for the period to US\$0.41 per share, or US\$173 million.

¹ The definition and calculation of non-IFRS measures used in this report, including Adjusted EBITDA, Total cash costs, All-in sustaining cash costs, Underlying net earnings, Net debt, Free cash flow and the related ratios, are explained on the following pages.

Market summary

Please see the market overview on pages 22-23.

Foreign exchange

The Group's revenues and the majority of its borrowings are denominated in US Dollars, while the majority of the Group's costs are denominated in Russian Roubles. Changes in exchange rates therefore affect its financial results and performance. Both average monthly and period-end RUB/US\$ exchange rates fluctuated heavily during 2014, a result of significant depreciation of the Russian Rouble against the US Dollar by the year-end. From 1 January to 31 December 2014 the Russian Rouble depreciated against the US Dollar by 72.2% from 32.7 RUB/US\$ to 56.3 RUB/US\$, and the average rate was up 23% year-on-year from 31.8 RUB/US\$ in 2013 to 38.4 RUB/US\$ in 2014. The devaluation of the Rouble had a significant negative non-cash effect on the Group's net earnings in 2014 due to the effect of retranslating its US Dollar debt, which was partially offset by a more long-lasting positive effect on the Dollar value of the Group's Rouble-denominated operating costs and Adjusted EBITDA.

Financial highlights

	2014	2013	% change ¹
Revenue, US\$m	1,690	1,707	-1%
Total cash cost, US\$/GE oz	634	745	-15%
All-in cash cost, US\$/GE oz	893	1,086	-18%
Adjusted EBITDA, US\$m	685	598	+15%
Adjusted EBITDA margin, %	41%	35%	+6%
Average realised gold price, US\$/oz	1,231	1,326	-7%
Average LBMA gold price, US\$/oz	1,266	1,410	-10%
Average realised silver price, US\$/oz	17.7	21.6	-18%
Average LBMA silver price, US\$/oz	19.1	23.8	-20%
Loss for the year, US\$m	(210)	(198)	+6%
Underlying net earnings, US\$m	282	179	+57%
Return on equity, %	21%	9%	+12%
Dividend payout ratio, % ²	58%	19%	+39%
Basic EPS, US\$/share	(0.53)	(0.51)	+3%
Underlying EPS, US\$/share	0.71	0.46	+53%
Dividend declared during the period, US\$/share ³	0.36	0.32	+13%
Dividend declared for the period, US\$/share	0.41	0.09	NM ⁵
Net debt, US\$m	1,249	1,045	+20%
Net debt/Adjusted EBITDA	1.82	1.75	+4%
Net operating cash flow, US\$m	515	462	+11%
Capital expenditure, US\$m	210	319	-34%
Free cash flow, US\$m ⁴	306	138	+122%

¹ % changes can be different from zero even when absolute amounts are unchanged because of rounding. Likewise, % changes can be equal to zero when absolute amounts differ for the same reason. This note applies to all tables in this section.

² Dividend payout ratio is calculated as percentage of dividend declared for the period to underlying EPS.

³ FY 2014: final dividend for FY 2013 declared in March 2014, interim dividend proposed for 1H 2014 declared in August 2014, and special dividend declared in December 2014.
FY 2013: final dividend for FY 2012 declared in April 2013 and interim dividend proposed for 1H 2013 declared in August 2013.

⁴ Free cash flow excludes cash payment for the Kyzyl acquisition.

⁵ NM = not meaningful.

Operating results

See page 24.

Financial review

continued

Revenue

Sales volumes

		2014	2013	% change
Gold	Koz	943	808	+17%
Silver	Moz	29.3	27.4	+7%
Copper	tonnes	1,029	6,141	-83%
Gold equivalent sold ¹	Koz	1,372	1,285	+7%

¹ Based on actual realised prices.

Sales by metal

(US\$m unless otherwise stated)	2014	2013	% change	Volume variance US\$m	Price variance US\$m
Gold	1,161	1,071	+8%	180	(90)
Average realised price	US\$/oz	1,231	1,326	-7%	
Average LBMA closing price	US\$/oz	1,266	1,410	-10%	
Share of revenues	%	69%	63%		
Silver	520	593	-12%	43	(115)
Average realised price	US\$/oz	17.7	21.6	-18%	
Average LBMA closing price	US\$/oz	19.1	23.8	-20%	
Share of revenues	%	31%	35%		
Copper	7	41	-82%		
Share of revenues	%	0%	2%		
Total metal sales	1,689	1,704	-1%	115	(131)
Other revenue	2	2	-30%		
Total revenue	1,690	1,707	-1%		

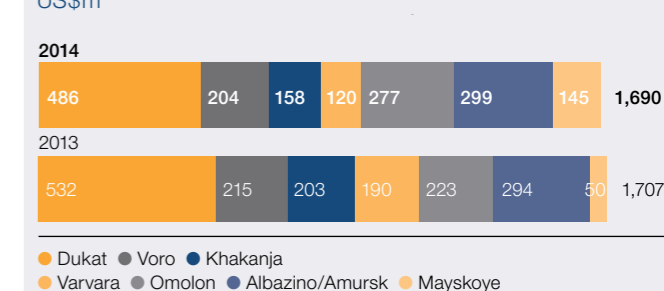
In 2014, revenue decreased slightly by 1% year-on-year to US\$1.69 billion driven by a 7% decline in the average realised gold price, while gold equivalent volume sold was up 7%. Gold and silver sales volumes increased by 17% and 7% year-on-year, while production grew 17% and 5%, respectively.

The average realised price of gold was US\$1,231/oz in 2014, down 7% from US\$1,326/oz in 2013, and slightly below the average market price of US\$1,266/oz. The average realised silver price was US\$17.7/oz, down 18% year-on-year, and 7% below the average market price of US\$19.1/oz due to a larger volume of Polymetal's sales recorded in the second half of the year when market prices had significantly deteriorated.

The share of gold sales as a percentage of total revenue increased from 63% in 2013 to 69% in 2014, driven by production and sales volume movements and the relative decline in the silver price.

Copper sales were limited by the current weakness in the copper concentrate market, resulting in a temporary shutdown of the flotation circuit at Varvara.

Revenue by segment



Analysis by segment

	Revenue, US\$m			Gold equivalent sold, Koz (silver for Dukat)		
	2014	2013	% change	2014	2013	% change
Dukat	486	532	-9%	27,783	24,865	+12%
Voro	204	215	-5%	160	154	+4%
Khakanja	158	203	-22%	125	148	-15%
Varvara	120	190	-36%	95	140	-32%
Omolon	277	223	+24%	219	162	+35%
Albazino/Amursk	299	294	+2%	236	230	+3%
Mayskoye	145	50	+193%	141	48	+194%
Other	1	2	NA	NA	NA	NA
Total revenue	1,690	1,707	-1%	1,372	1,285	+7%

The decline in gold and, notably, silver prices during the period affected revenues at Voro and Dukat, respectively, despite the increase in production volumes. Sales at Omolon and Albazino followed production growth, while Khakanja experienced some reduction in revenues due to lower production driven by the planned grade decline. At Varvara, the decline in sales was driven by the weakness in the copper concentrate market and resulting production decline.

Cost of sales

Cost of sales (excluding write-downs of metal inventories) (US\$m)	2014	2013	% change
On-mine costs	391	393	0%
Smelting costs	363	384	-5%
Purchase of ore from third parties	2	33	-95%
Mining tax	110	109	+1%
Total cash operating costs	866	919	-6%
Depreciation and depletion of operating assets	292	245	+19%
Rehabilitation expenses	3	2	+78%
Total costs of production	1,161	1,167	0%
Increase in metal inventories	(142)	(54)	+163%
Write-down of non-metal inventories to net realisable value	4	11	-62%
Total change in metal inventories	(138)	(43)	+219%
Cost of other sales	0	1	-36%
Total cost of sales	1,023	1,124	-9%

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Cash operating cost structure

	2014		2013	
	US\$m	% of total	US\$m	% of total
Consumables and spare parts	258	30%	286	31%
Services	323	37%	305	33%
Labour	169	19%	180	20%
Other expenses	5	1%	6	1%
Purchase of ore from third parties	2	0%	33	4%
Mining tax	110	13%	109	12%
Total cash operating costs	866	100%	919	100%

Total cost of sales decreased by 9% in 2014 to US\$1,023 million, mainly on the back of decreased amounts of ore purchased from third parties at Voro and Varvara combined with Russian Rouble and Kazakh Tenge depreciation during 2014. This was partially offset by volume-based growth in production and sales (12% and 7% year-on-year respectively in gold equivalent terms) and a significant increase in depreciation charges at Mayskoye and Omolon driven by larger mining and production volumes.

The cost of consumables and spare parts decreased by 10% and the cost of services remained almost flat despite meaningful production growth.

The total cost of labour within cash operating costs in 2014 was US\$169 million, a 6% decrease, mainly stemming from a decline in the average number of employees at Khakanja, Omolon and Mayskoye.

Mining tax remained flat year-on-year at US\$110 million as production volume growth of 12% offset the decrease in average realised prices.

Depreciation and depletion was US\$292 million, up 19% year-on-year, mainly as a result of the full ramp-up of Mayskoye as well as the revision of the mine plan at Omolon triggering faster depreciation of capitalised stripping costs and depletion of mineral rights. US\$36 million of depreciation and depletion expenses in 2014, related to ore and concentrate stockpiles, was included in metal inventories as at 31 December 2014.

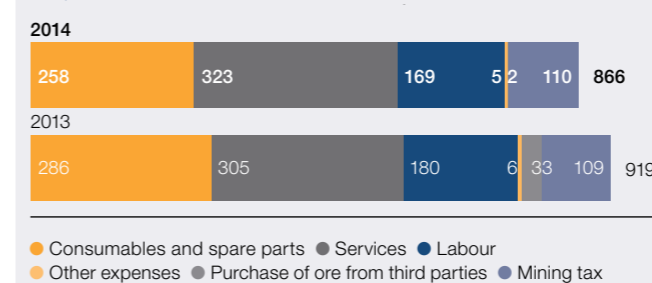
In 2014 a net metal inventory increase of US\$142 million was recorded (excluding write-downs to net realisable value). The increase was mainly represented by the temporary increase in ore stockpiles at the Omolon hub, represented by low-grade heap leach ore at Birkachan, ores at Sopka (where mining was completed ahead of schedule) and at Dalneye, and accumulation of excess concentrate stockpiles at Varvara.

General, administrative and selling expenses

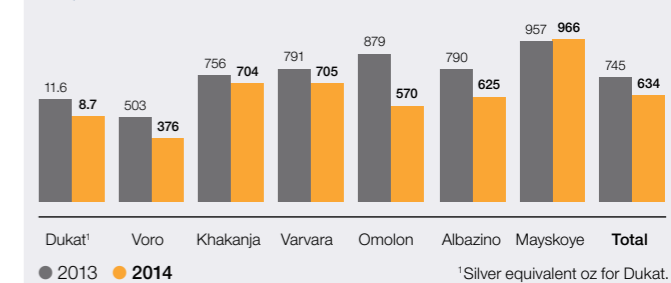
(US\$m)	2014	2013	% change
Labour	93	107	-13%
Share-based compensation	2	24	-92%
Services	17	19	-11%
Depreciation	5	4	+25%
Other	14	14	-1%
Total	131	168	-22%

General, administrative and selling expenses decreased by 22% year-on-year from US\$168 million to US\$131 million, mainly because of the fall in (Rouble-denominated) labour and share-based compensation costs.

Cash operating cost structure



Total cash costs



The US\$24 million of share-based compensation recognised during 2013 represented the final accrual made in respect of the old Long-term Employee Incentive Programme (Old EIP) which was adopted in 2010 and had a vesting date of 11 June 2013 (or, at the discretion of the participants, 11 June 2014). None of the options vested in June 2013, as the performance conditions (the share price exceeding the strike price of US\$16.74 per share) were not met. Further, in March 2014 the majority of employees waived their rights under the Old EIP in order to be able to participate in the new Long-Term Incentive Plan (LTIP). However, the expense previously recognised does not reverse as a credit to the income statement in accordance with IFRS rules as the non-vesting is related to a market-based condition. The first grant of options under the new LTIP took place on 22 April 2014 and US\$2 million was recognised in share-based compensation expense for 2014.

Other expenses

(US\$m)	2014	2013	% change
Mining taxes, VAT, penalties and accrued interest	20	1	NM
Exploration expenses	51	24	+109%
Taxes, other than income tax	22	21	+5%
Social payments	9	11	-14%
Housing and communal services	7	7	+10%
Loss on disposal of property, plant and equipment	4	10	-53%
Business acquisition related costs	4	-	NM
Allowance of doubtful debt	(0)	1	NM
Change in estimate of environmental obligations	(1)	(1)	-32%
Other expenses	16	16	0%
Total	132	88	+49%

Other expenses increased from US\$88 million in 2013 to US\$132 million in 2014. Additional charges recognised in 2014 were recorded by the Company in relation to various tax exposures and tax penalties and are related to the mining tax exposure of US\$11 million, VAT exposure of US\$2 million, tax exposure at Varvara in respect of the commercial discovery bonus of US\$3 million and penalties and interest related to income tax of US\$4 million. For more information refer to Note 12 of the consolidated financial statements.

The increase in exploration expenses from US\$24 million in 2013 to US\$51 million in 2014 is mainly due to a higher amount of previously capitalised exploration costs being written off (on a cash basis the exploration expenses were US\$16 million and US\$23 million respectively).

Total cash costs by mine

	Cash cost per GE ounce, US\$/oz			Gold equivalent sold, Koz (silver for Dukat)		
	2014	2013	% change	2014	2013	% change
Dukat (SE oz) ²	8.7	11.6	-25%	27,783	24,865	+12%
Voro	376	503	-25%	160	154	+4%
Khakanja	704	756	-7%	125	148	-15%
Varvara	705	791	-11%	95	140	-32%
Omolon	570	879	-35%	219	162	+35%
Albazino	625	790	-21%	236	230	+3%
Mayskoye	966	957	+1%	141	48	+194%
Total	634	745	-15%	1,372	1,285	+7%

¹ Total cash costs comprise cost of sales of the operating assets (adjusted for depreciation expense, rehabilitation expenses and write-down of inventory to net realisable value and certain other adjustments, including addition of treatment and refinery charges related to concentrate offtake) and general, administrative and selling expenses of the operating assets. Gold equivalent sales volume is calculated based on average realised metal prices in the relevant period. Total cash cost per gold equivalent ounce sold is calculated as total cash costs divided by total gold equivalent unit ounces sold.

² Dukat's total cash cost per gold equivalent was US\$621/GE oz (2013: US\$732/GE oz) and was included in the Group TCC calculation.

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In 2014 the total cash costs per gold equivalent ounce sold (TCC) were US\$634/GE oz, down 15% year-on-year. The recent depreciation of the Russian Rouble had a meaningful positive impact on cost levels reported in US Dollars, which were supported by robust operating performance across Polymetal's operations.

The table below summarises major factors that have affected the Group's TCC dynamics year-on-year:

Reconciliation of TCC movements

	US\$/oz	% change
Total cash cost per gold equivalent ounce – 2013	745	
Domestic inflation	72	+10%
US\$ rate change	(194)	-26%
Au/Ag ratio change	34	+5%
Change in average grade processed by mine	0	0%
Change in recovery rate	5	+1%
Change in share of sales between mines ¹	(19)	-3%
Other internal factors	(8)	-1%
Total cash cost per gold equivalent ounce – 2014	634	-15%

¹ Effect of mix change between mines with different cost levels.

Total cash cost by mine:

- Dukat's total cash cost per silver equivalent ounce sold decreased by 25% year-on-year to US\$8.7/oz. Beyond the effect of the Rouble depreciation, this decrease in cash costs has been achieved as a result of stable grades and solid improvement in throughput at both the Omsukchan and Lunnoye plants.
- At Voro, which continues to be our lowest cost operation, cash costs decreased further by 25% compared with 2013, to US\$376/GE oz. The key driver of cost dynamics was the discontinued use of purchased ore with relatively low grade and higher cost, as well as higher recoveries at the CIP plant and higher production at the heap leach facility.
- Khakanja's TCC was US\$704/GE oz, a 7% decrease year-on-year. This cost performance was supported by the significant devaluation of the Russian Rouble, which offset the scheduled decline in average grade processed (from 5.7 g/t to 5.3 GE g/t year-on-year).
- At Varvara, TCC was US\$705/GE oz, decreasing by 11% year-on-year. This performance was achieved on the back of a stable grade profile and significant devaluation of the Kazakh Tenge in early 2014.
- At Omolon, TCC amounted to US\$570/GE oz, a 35% decrease year-on-year. This strong performance was achieved on the back of 31% growth in average gold equivalent grade processed at the Kubaka mill during the period (from 5.1 g/t to 6.7 g/t), as well as an 8% increase in Kubaka mill throughput.
- At Albazino/Amursk, TCC was US\$625/GE oz, down 21% compared with 2013. This improvement was achieved on the back of steady mine performance, increased capacity at Albazino, and the POX plant operating for a full year at design throughput and exceeding design recovery levels.
- Total cash costs at Mayskoye were US\$966/GE oz as the majority of sales were generated from concentrate offtake, which is more expensive than concentrate processing at the POX plant.

All-in sustaining cash costs¹

	Total, US\$m			US\$/GE oz		
	2014	2013	% change	2014	2013	% change
Total cash costs	864	957	-10%	634	745	-15%
SG&A and other operating expenses not included in TCC	165	142	+16%	121	111	+9%
Capital expenditure excluding new projects	138	256	-46%	101	199	-49%
Exploration expenditure (capital and current)	51	41	+24%	37	32	+17%
All-in sustaining cash costs	1,218	1,396	-13%	893	1,086	-18%
Finance cost	46	49	-6%	34	38	-12%
Income tax expense	72	40	+80%	53	31	+68%
After-tax All-in cash costs	1,336	1,485	-10%	980	1,156	-15%
Development capital	34	60	-43%	25	47	-47%
SG&A and other expenses for development assets	40	7	NM	29	5	NM
All-in costs	1,410	1,552	-9%	1,034	1,208	-14%

¹ All-in sustaining cash costs comprise total cash costs, all selling, general and administrative expenses for operating mines and head office not included in TCC (mainly represented by head office SG&A), other expenses (excluding write-offs and non-cash items, in line with the methodology used for the calculation of Adjusted EBITDA), and current period capex for operating mines (i.e. excluding new project capex, but including all exploration expenditure (both expensed and capitalised in the period) and minor brownfield expansions).

All-in sustaining cash costs amounted to US\$893/GE oz in 2014 and decreased by 18% year-on-year, with a decrease in total cash costs and reduction of per ounce SG&A and capital expenditure on the back of continued production growth.

All-in sustaining cash costs by mines were represented as follows:

All-in sustaining cash cost per ounce, US\$/oz

	2014	2013	% change
Dukat	10.9	13.9	-22%
Voro	515	692	-26%
Khakanja	909	1,065	-15%
Varvara	1,049	1,088	-4%
Omolon	722	1,322	-45%
Albazino	901	1,139	-21%
Mayskoye	1,134	2,307	-51%
Total	893	1,086	-18%

Impairment charges/reversals

	2014	2013
Goodwill	-	(76)
Mining assets	-	(125)
Metal inventories	39	(153)
Investments in associates	-	(12)
Total impairment charges	39	(366)

Reversals recorded in 2014 are related to ore in heap leaching piles, work-in-progress and metal for refinery previously impaired, which was further processed or determined to be economic for further processing. The reversals are mainly driven by the decline in unit cash costs required to bring the work-in-progress stockpiles into saleable metal.

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Adjusted EBITDA and EBITDA margin¹

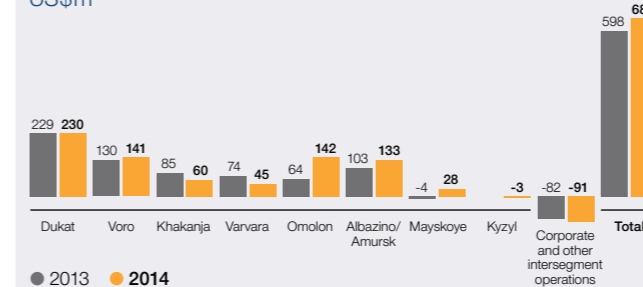
Reconciliation of Adjusted EBITDA (US\$m)	2014	2013	% change
Loss for the year	(210)	(198)	+6%
Finance cost (net)	37	40	-8%
Income tax expense	72	40	+80%
Depreciation and depletion	260	238	+9%
EBITDA	159	120	+33%
(Reversal)/write-down of metal inventory to net realisable value	(39)	153	-125%
Impairment of non-current assets	-	201	-100%
Impairment of investment in associate	-	12	-100%
Share-based compensation	2	24	-92%
Net foreign exchange losses	559	74	NM
Change in fair value of contingent liability	(23)	(8)	+180%
Rehabilitation costs	2	2	+16%
Write-down of non-metal inventory to net realisable value	4	11	-62%
Gain on disposal of subsidiary	-	9	-100%
Mining taxes, VAT, penalties and accrued interest	20	1	NM
Adjusted EBITDA	685	598	+15%

Adjusted EBITDA by segment (US\$m)	2014	2013	% change
Dukat	230	229	0%
Voro	141	130	+9%
Khakanja	60	85	-29%
Varvara	45	74	-40%
Omolon	142	64	+124%
Albazino/Amursk	133	103	+29%
Mayskoye	28	(4)	NM
Kyzyl	(3)	-	NM
Corporate and other and intersegment operations	(91)	(82)	+10%
Total	685	598	+15%

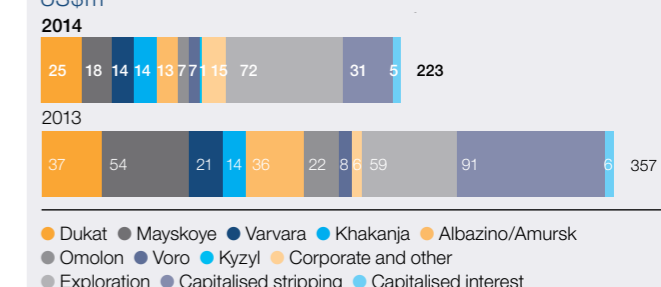
¹ The Company defines Adjusted EBITDA (a non-IFRS measure) as profit for the period adjusted for depreciation expense, rehabilitation expenses, write-down of inventory to net realisable value, share-based compensation, listing expenses, gains and losses on acquisitions and disposals, foreign exchange gain/(loss), change in fair value of derivatives, change in fair value of contingent consideration, finance income, finance costs and income tax expense. Adjusted EBITDA margin is Adjusted EBITDA divided by revenue. The figures presented above have been rounded and accordingly may not add to the total shown.

In 2014, Adjusted EBITDA was US\$685 million, 15% higher year-on-year, resulting in an Adjusted EBITDA margin of 41%. The increase was mainly driven by the 15% decrease in total cash costs, which was partially offset by a 7% and 18% reduction in the average realised gold and silver price, respectively. Adjusted EBITDA increased at Voro, Omolon and Albazino, while it decreased at Khakanja due to the scheduled grade declines, as well as at Varvara due to lower sales volumes and increased costs. The Adjusted EBITDA margin at Mayskoye was 19%, as most sales were derived from high-cost concentrate offtake.

Adjusted EBITDA margin US\$m



Capital expenditure US\$m



Other income statement items

Polymetal recorded a net foreign exchange loss in 2014 of US\$559 million compared with US\$74 million in 2013. These unrealised non-cash losses represent the appreciation of the Group's predominantly US Dollar-denominated borrowings against the Russian Rouble, the functional currency of all Group companies other than Varvara (whose functional currency is Kazakh Tenge). The Group's average gross debt during 2014 was US\$1,217 million, fully denominated in US Dollars, while the US Dollar appreciated against the Russian Rouble by 72.2% during the period, from 32.7 RUB/US\$ at 31 December 2013 to 56.3 RUB/US\$ as at 31 December 2014.

The Company does not use any hedging instruments for managing foreign exchange risk, other than a natural hedge arising from the fact that the majority of the Group's revenue is denominated or calculated in US Dollars. Though income statement volatility may arise in the financial reporting, Polymetal believes that the underlying matching of revenue cash flows against debt repayments and related interest represents an economically effective hedging strategy.

Net earnings, earnings per share and dividends

The Group recorded a net loss of US\$210 million in 2014 versus US\$198 million in 2013. The loss resulted from unrealised foreign exchange losses (pre-tax amount of US\$559 million, equal to an after-tax amount of US\$523 million).

Underlying net earnings (excluding after-tax impact of impairment charges/reversals and foreign exchange losses) were US\$282 million, compared with US\$179 million in 2013. The increase in underlying net earnings was mainly driven by the increase in Adjusted EBITDA.

Basic earnings per share were a loss of US\$0.53 per share compared with a loss of US\$0.51 per share in 2013. Underlying basic EPS was US\$0.71 per share, compared with US\$0.46 per share in 2013.

In accordance with the Company's dividend policy, the Board is proposing to pay a final dividend of US\$0.13 per share representing approximately 30% of the Group's underlying net earnings for the period. During 2014, Polymetal paid a total of US\$65 million in dividends, representing final dividends for FY 2013 and interim dividends for 1H 2014. In January 2015, Polymetal paid an additional US\$84 million of special dividends on the back of strong free cash flow generation and a comfortable leverage position.

Capital expenditure

(US\$m)	2014	2013	% change
Dukat	25	37	-33%
Mayskoye	18	54	-67%
Varvara	14	21	-34%
Khakanja	14	14	-3%
Amursk/Albazino	13	36	-64%
Omolon	7	22	-68%
Voro	7	8	-21%
Kyzyl	1	-	NA
Corporate and other	15	6	+128%
Exploration	72	59	+22%
Capitalised stripping	31	91	-66%
Capitalised interest	5	6	-15%
Total capital expenditure¹	223	357	-38%

¹ Total capital expenditure includes amounts payable at the end of the period. On a cash basis, capital expenditure was US\$210 million in 2014 (2013: US\$319 million). The difference from capex on an accrual basis is mostly due to depreciation of US\$19 million (2013: US\$33 million) capitalised into exploration and stripping assets.

In 2014, total capital expenditure was US\$223 million, down 38% year-on-year. All of the Group's major investment projects are now complete, following the launch of the Mayskoye concentrator in April 2013. From 2H 2013 the bulk of the Group's capital expenditure has been related to stay-in-business spending and exploration. Capital expenditure excluding stripping costs was US\$192 million in 2014 (2013: US\$265 million).

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Capital expenditure in 2014 was represented as follows:

- across all mines, capital expenditure declined year-on-year and was mainly represented by mining fleet upgrades/replacements and maintenance expenditure at the processing facilities;
- the Company continues to invest in standalone exploration projects. Capital expenditure on exploration in 2014 was US\$72 million compared with US\$59 million in 2013, and focused, in addition to near-mine properties, mostly on PGM assets, Maminskoye and Kutyn;
- capitalised stripping costs totalled US\$31 million in 2014 (2013: US\$91 million) and are attributable to operations with stripping ratios during the period exceeding their life of mine (LOM) averages, including, most importantly, Varvara, Voro and Khakanja. The decline is mainly related to completion of major stripping campaigns in 2013; and
- total capital expenditure in 2014 includes US\$5 million of capitalised interest (2013: US\$6 million), which has declined as the Group has commissioned all of its major growth assets.

Cash flows

(US\$m)	2014	2013	% change
Operating cash flows before changes in working capital	614	450	+37%
Changes in working capital	(99)	12	-902%
Total operating cash flows	515	462	+11%
Capital expenditure	(210)	(319)	-34%
Kyzyl acquisition	(315)	–	NM
Other	1	(5)	-124%
Investing cash flows	(524)	(324)	+61%
Financing cash flows			
Net increase in borrowings	202	213	-5%
Dividends paid	(65)	(316)	-80%
Total financing cash flows	137	(104)	-232%
Net decrease/increase in cash and cash equivalents	127	34	+276%
Cash and cash equivalents at the beginning of the year	66	19	+252%
Effect of foreign exchange rate changes on cash and cash equivalents	(36)	13	-369%
Cash and cash equivalents at the end of the year	157	66	+139%

Operating cash flows in 2014 strengthened compared with the prior period. Operating cash flows before changes in working capital grew by 37% year-on-year to US\$614 million as a result of an increase in Adjusted EBITDA. Net operating cash flows were US\$515 million, compared with US\$462 million in 2013. These were also affected by an increase in working capital in 2014 of US\$99 million. These increases are mainly due to additional ore stockpiles at Omolon (net increase of US\$72 million) and accumulation of excess concentrate stockpiles at Varvara (net increase of US\$30 million).

Total cash and cash equivalents increased by 139% compared with 2013 and comprised US\$157 million, with the following items affecting the cash position of the Group:

- Operating cash flows of US\$515 million;
- Investment cash outflows totalled US\$524 million, up 61% year-on-year, and are represented by capital expenditure (down 34% year-on-year to US\$210 million) and other investing cash flows represented by the cash portion of the Kyzyl acquisition;
- Payment of regular dividends for 2013 and 1H 2014 amounting to US\$65 million; and
- The net increase in borrowings of US\$202 million.

Liquidity and funding

US\$m	31 December 2014	31 December 2013	% change
Short-term debt and current portion of long-term debt	509	81	+528%
Long-term debt	814	1,030	-21%
Dividends payable	84	–	NM
Gross debt	1,407	1,111	+27%
Less: cash and cash equivalents	157	66	+140%
Net debt	1,249	1,045	+20%
Net debt/Adjusted EBITDA	1.82	1.75	+4%

The Group continues to maintain a comfortable liquidity and funding profile.

The Group's net debt increased to US\$1,249 million as at 31 December 2014, representing a Net debt/Adjusted EBITDA (over the last 12 months) ratio of 1.82. The increase is mainly attributable to debt financing of the Kyzyl acquisition in 2H 2014.

The proportion of long-term borrowings comprised 58% as at 31 December 2014 (93% as at 31 December 2013).

In addition, as at 31 December 2014 the Group had US\$1.0 billion (31 December 2013: US\$1.3 billion) of available undrawn facilities, of which US\$0.8 billion is committed, from a wide range of lenders. This ensures that Polymetal maintains its operational flexibility in the current environment.

The average cost of debt remained low at 3.5% in 2014 (2013: 2.99%), supported by low base interest rates and the ability to negotiate competitive premiums given the solid financial position of the Company and Polymetal's excellent credit history. Despite ongoing tightening of the credit markets in Russia, the Group is confident in its ability to refinance the existing borrowings as they fall due. In January 2015, the Group negotiated a four-year US\$100 million loan from a large European bank.

2015 outlook

While we recognise that our financial performance is heavily dependent on the RUB/US\$ exchange rate, inflation in Russia, and oil price dynamics, Polymetal expects to deliver a resilient financial performance at the current price levels which will be driven by the following factors:

- the Company is fully on track to deliver on its production guidance of 1.35 Moz of gold equivalent for 2015;
- Polymetal expects total cash costs in 2015 of US\$575-625/GE oz and All-in sustaining cash costs of US\$750-800/GE oz;
- capital expenditure in 2015 is expected to total approximately US\$240 million (including exploration, capitalised stripping and spending on the Kyzyl project);
- as a result, the Company expects to continue to generate meaningful free cash flow and dividend payments in 2015.

Risks and risk management

Effective risk identification and management

Effective risk management is critical to the long-term sustainability and success of the Company. We believe that delivery of sustainable value to our stakeholders should be based on effective risk identification and response. As the global and local markets we operate in have demonstrated increased turbulence over the last several years, the Board placed greater emphasis on principal risk management in 2014.

Risk management process

Polymetal's risk management process is designed to minimise the potential threats to achieving our strategic objectives.

Internal control and risk management systems are continuously enhanced to add value to our business.

The risk management process incorporates the following stages:

- identification and documentation of risks;
- assessment, qualification and quantification of each risk;
- development and implementation of risk mitigation/control strategies;
- monitoring, reporting and reviewing risks; and
- establishment and enhancement of effective internal control procedures.

The Audit and Risk Committee of the Board sets the agenda for the risk management policies and procedures of the Group, and is responsible for reviewing their effectiveness. Its duties include the review of:

- policies and processes to identify and assess principal business risks and to manage their impact on the Company and the Group;
- regular assurance reports from management, internal audit, external audit and others on matters related to risk and control;
- periodic 'deep dives' into significant risk areas; and
- the timeliness of, and reporting on, the effectiveness of corrective actions taken by management.

Risk identification

Risk awareness is embedded within the Group and is grounded in our strong ethical values and pro-active corporate culture. Our risk management philosophy is driven by the Company's Board of Directors and runs through all our management, employee and connected stakeholder activities – from developing strategy to day-to-day operations.

Risk management is one of the key functions of the Audit and Risk Committee. Strategic risks are identified by the Board based on a detailed understanding of the Company, its

markets and the legal, social, political, economic, technological, natural and cultural environments in which we operate. Our risk identification system considers not only single, mutually exclusive risks, but also multiple linked and correlated risks.

Risk matrices and assurance maps are used to record, prioritise and track each risk through the risk management process. These are regularly reviewed by the Audit and Risk Committee.

Risk assessment

Once identified, potential risk factors are assessed to consider the quantitative and qualitative impact these may have on the business and the likelihood of the event (see table opposite). Together these create a risk profile.

Risk response

When the appropriate ranking has been identified, a response to each risk is formulated and implemented. Management assesses the effects of a risk's likelihood and impact, as well as the costs and benefits of possible mitigating actions. A response is then determined and implemented, to bring the risk within acceptable tolerance levels.

Monitoring and reporting

Ongoing monitoring processes are embedded in Polymetal's business operations. These track the effective application of internal control and risk management policies and procedures, including internal audit and specific management reviews. Risk matrices and assurance maps are used to re-evaluate and adjust controls in response to changes in the Company's objectives, the business and the external environment.

Management is responsible for the implementation of effective follow-up procedures to ensure appropriate actions occur in response to changes in risk and control assessments.

Risk matrix

Impact

Loss type	Insignificant	Minor	Moderate	Major	Catastrophic
Harm to people	Slight injury or health effects – first aid/minor medical treatment level	Minor injury or health effects – restricted work or minor lost workday case	Major injury or health effects – major lost workday case/permanent disability	Permanent total disabilities, single fatality	Multiple fatalities
Environmental impact	Minimal environmental harm	Material environmental harm	Serious environmental harm	Major environmental harm	Extreme environmental harm
Business disruption and asset damage and other consequential loss	<1% Adjusted EBITDA	>1% Adjusted EBITDA <5% Adjusted EBITDA	>5% Adjusted EBITDA <10% Adjusted EBITDA	>10% Adjusted EBITDA <20% Adjusted EBITDA	>20% Adjusted EBITDA
Legal and regulatory	Low level legal issue	Minor legal issue; non-compliance and breaches of the law	Serious breach of law; investigation/report to authority, prosecution and/or moderate penalty possible	Major breach of the law; prosecution and penalties applied	Very considerable penalties and jail term
Impact on reputation	Slight impact – public awareness may exist but no public concern	Limited impact – local public concern	Considerable impact – regional public concern	National impact – national public concern	International impact – international public concern

Likelihood

Rare	Unlikely	Possible	Likely	Almost certain
The unwanted event has never been known to occur in the business; or is highly unlikely to occur in the next 20 years	The unwanted event has happened in the business at some time; or could happen within 20 years	The unwanted event could well have occurred in the business at some point within 10 years and may re-occur within 10 years	The unwanted event has occurred infrequently; occurs less than once a year and is likely to re-occur within 5 years	The unwanted event has occurred frequently; occurs one or more times per year and is likely to re-occur within one year

Risks and risk management

continued

Risk category	Risk description and potential effect	Risk response
1. Market risk	Gold and silver price volatility may result in material and adverse movements in the Company's operating results, revenues and cash flows.	<p>The Company has developed and implemented plans to ensure consistent cash flow generation at operating mines, including:</p> <ul style="list-style-type: none"> redistribution of ore feedstock among deposits to achieve better cost profile due to better grade profile, better logistics or less expensive mining methods; deferring the start of production while continuing ore stacking to achieve better cost profiles due to positive scaling effects; managing the volume of third-party ore purchases; staffing level review and hiring freeze; asset-level cost-cutting. <p>Reserve and resource prices, as well as cut-off grades, are adjusted at least annually to reflect the prevailing commodity price levels. Short-, medium-, and long-term life-of-mine plans are adjusted as appropriate.</p> <p>Stress testing for conservative price assumptions is performed to ensure resilience of the operating mines in a stress scenario and continued value creation. Contingency action plans were developed to address performance in a stress scenario.</p> <p>Currently the Company does not hedge its commodity price exposure as its strategy is to offer stakeholders full exposure to potential gold and silver price upside potential.</p>
2.1 Production and processing risks – mining plans	The risk of failure to meet the planned production programme objectives. Failure to meet production targets may adversely affect operating performance and financial results of the Group. The risk of lower than expected metal grade or dilution is caused by complex mining and geological conditions, mainly at underground mines. Recoveries at the Group's processing plants may not reach planned levels due to the complex technological properties of ore processed.	<p>Annual, quarterly and monthly production budgeting and subsequent monthly control against budget is designed to mitigate the risk. The effectiveness and efficiency of the production process is ensured by the Group engineering team's senior management. An approved production programme includes increased volume of operational prospecting works, such as in-fill drilling and grade control sampling.</p> <p>To mitigate the risk the Group invests considerable amounts in ore quality assessment procedures and seeks to control ore quality by formation of ore stacks with the required characteristics.</p>
2.2 Production and processing risks – production process supply by resources required: raw materials, equipment, etc.	The Group's production activity depends heavily on the effectiveness of supply chains. These might be negatively affected by complex logistics to remote locations and delays in construction and delivery of purchased mining and processing equipment or spare parts.	The Group has implemented and constantly improves the supply chain system to closely link the production demand of resources with inventory levels, optimise the number of order placements and ensure the in-time inventory and equipment delivery to production sites.
2.3 Production and processing risks – production process staffing	<p>Failure to retain key employees or to recruit new staff mainly at the Group's mining and processing facilities may lead to increased staff costs, interruptions to existing operations and delays in new projects.</p> <p>Lack of skilled and knowledgeable staff at remote locations may occur due to extreme weather conditions.</p>	<p>A working conditions improvement programme is in place.</p> <p>Remuneration policies are designed to incentivise, motivate and retain key employees.</p> <p>There is an increased focus on health and safety – refer to page 45 of this report. A positive corporate culture is actively promoted within the Group.</p>
2.4 Production and processing risks – reliance on contractors	Risk of underperformance against production plan, exceeding available resources: budget overspending, delayed results.	Contractors' performance control system is designed, implemented and applied.

Residual risk level ■ High ■ Medium ■ Low

Risk category	Risk description and potential effect	Risk response
3. Tax risks	<p>Due to frequent changes in tax legislation in Russia and Kazakhstan, lack of established practices in tax law means that additional costs such as taxes or penalties may occur.</p> <p>The taxation risk level correlates with the legal and political risks levels.</p>	<p>The Company's policy is to comply fully with the requirements of the applicable tax laws, providing adequate controls over tax accounting and tax reporting, and to actively monitor the ongoing changes to the tax legislation in its countries of operation.</p> <p>Given the prevailing practice accepted by arbitration courts when deciding on certain cases in tax disputes in 2013 and 2014, as well as particular outcomes of tax disputes involving Kazakh and Russian subsidiaries of the Group, the tax risk is assessed as 'High'.</p> <p>The consolidated financial statements reflect provisions booked in connection with the Company's evaluation of tax risks.</p> <p>To date, the Company is not aware of any significant outstanding tax claims, which could lead to additional taxes accrued in the future (except for amounts already booked or disclosed in the Group's financial statements).</p> <p>A new anti-offshore law has been enacted in Russia from 1 January 2015. The law introduces material changes into the taxation procedures for controlled foreign companies and establishes new criteria for beneficial ownership of income and tax residency in Russia. As all operating entities of the Group are domiciled in Russia and Kazakhstan, Polymetal generates all of its revenues and profits, and pays all related taxes in these countries. Therefore the Company intends to comply with the new requirements in full and does not expect any material impact on the total tax expense of the Group from the new law.</p>
4. Exploration risks	Exploration and development are time- and capital-intensive activities and may involve high degrees of risk but are necessary for the future growth of the business. Failure to discover new reserves of sufficient magnitude could adversely affect the Company's future performance.	<p>Risk and uncertainty are inherent for exploration and development activities.</p> <p>The Group invests considerable amounts in focused exploration projects to obtain sufficient information about the quantity and quality of new reserves and to estimate expected cash flows. The Group's team of geologists and engineering specialists has a strong track record of successful greenfield and brownfield exploration leading to subsequent development of exploration fields into commercial production.</p>
5. Construction and development risk	Failure to achieve target returns from the major capital expenditure projects, such as building new mines and processing facilities or production capacity increase/ refurbishment at existing mines, as a result of failure to meet project delivery timeline and budgets. This can adversely affect the Group's financial results and cash flows.	<p>The Company implements global best practices in project management. The Group's engineering team is responsible for the oversight of capital expenditure projects, including project support, coordination of service organisations, contractors, constructors and cooperation with regulatory bodies.</p> <p>Significant parts of exploration and development projects are performed by the Group in-house by Polymetal Engineering, a subsidiary company with significant expertise and track record of designing and commissioning mines and processing plants.</p> <p>The methods of construction risk management are constantly improved including by the employment of world-class consultants with recognised international experience.</p>
6. Logistics and supply chain risk	The Company operates in remote locations that require complex transportation of material volumes of ore and gold/silver concentrates, most of which is performed by third party contractors. Production targets may not be reached if any element of the logistics chain is disrupted.	To mitigate the logistics risk, the Group invests considerable amounts into construction and maintenance of permanent and temporary winter roads at exploration and production sites. The Group exercises effective control over the whole logistics chain, including selection and operation of contractors.

Residual risk level ■ High ■ Medium ■ Low

Risks and risk management

continued

Risk category	Risk description and potential effect	Risk response
7. Health and safety risk	Health, safety and environment risk includes regulatory compliance, environment pollution and damage, and personal safety.	The Company has an occupational and industrial safety control system, including risk assessment of individual workplaces, and protection of personnel with safety equipment. The Company has tightened the responsibility for safety by making workers be more careful towards risk, and developed additional security measures in relation to the recently identified insufficient compliance with safety requirements by employees.
8. Environmental risk	Major pollution arising from operations include deforestation, air and water pollution, land contamination. Potential impacts include fines and penalties, statutory liability for environmental redemption and other financial consequences that may be significant.	The Company implemented a certified environmental management system which meets international standards. The Company implements a number of initiatives to monitor and limit the impact of its operations on the environment including external expert assessment of pollution generated and adopting best practice in the industry on corporate-level policies and procedures.
9. Mergers and acquisitions	The Group invests considerable amounts in precious metals assets and operations in Russia and Kazakhstan. There is a risk of failure to achieve expected benefits from any acquisition in the case of adverse changes in assumptions or inaccuracy of estimates made, or where the information used for decision making was incomplete or inaccurate. Failure to deliver expected benefits from an acquisition can result in adverse financial performance, lower planned production volumes or problems with product quality.	Rigorous due diligence procedures are applied to the evaluation and execution of all acquisitions to assess the consequences of the acquisition, based on economic, ecological, political and social factors. Board and/or shareholder approval is required for any acquisition in excess of US\$15 million.
10. Legal risk	Operating in developing countries, such as Russia and Kazakhstan, involves the risk that changes in tax and other legislation may occur from time to time. The most sensitive areas are regulation of foreign investments, private property, environmental protection and taxation. In recent years, however, the governments of both Russia and Kazakhstan have become more consistent regarding the introduction of new regulations and taxes, demonstrating awareness of investment climate issues. However, in the application of existing legislation requiring interpretation, courts often uphold the more assertive position of the tax authorities, which does not always coincide with the Company's position.	Polymetal has a successful track record of operating in both Russian and Kazakh jurisdictions, having developed its own expertise in corporate, tax, licensing and other legal areas. The Group's financial and legal teams monitor current legislation and proposed changes and incorporate these into the practice. Corporate and operating management teams are responsible for meeting the legal requirements in their operating activities. Head office and on-site legal teams guarantee appropriate controls over compliance issues. The Group takes into account the results of tax audits and court rulings when interpreting taxation rules and determining future tax positions.

Residual risk level ■ High ■ Medium ■ Low

Risk category	Risk description and potential effect	Risk response
11. Political risk	Operating in Russia and Kazakhstan involves some risk of political instability, which may include changes in government, negative policy shifts and civil unrest. Financial and economic sanctions imposed in 2014 by the United States and the EU on certain businesses and individuals in Russia have increased political tensions and increased economic instability; there is a risk that further sanctions could impact the Group's ability to operate in Russia or Kazakhstan. These may have an adverse effect on the Group's market value and operating environment.	The Group actively monitors political developments on an ongoing basis. We aim to maintain open working relationships with local authorities in the countries where we operate. Sanctions imposed on Russian individuals and businesses in 2014 have not currently had any direct influence on the Group's operations, however at the same time they have meaningfully impacted both the macroeconomic situation in Russia and interest rates for local and foreign borrowings.
12.1 Financial risks – liquidity risk	The inability to raise sufficient funds to meet current operating or ongoing financial needs, or to develop new projects and growth. Inadequate cash management in terms of cash flow forecast, available resources and future requirements.	The Group's Treasury function is responsible for ensuring that there are sufficient funds in place, including loan facilities, cash flow from operating activities and cash on hand to meet short-term business requirements. Long-term credit lines are used to finance new projects and organic growth. The Group ensures that significant undrawn committed facilities are in place to cover any funding gaps.
12.2 Financial risk – currency risk	The risk arises from Company's receipts from metal sales and foreign currency – denominated debt, as well as the foreign currency-denominated cost of imported capital goods and consumables.	Natural hedging is used to reduce the risk exposure: revenue is matched with US Dollar-denominated debt. Flexible budgeting is used to monitor the effect of exchange rate fluctuations on the Group's financial results. Depreciation of the Russian Rouble and Kazakh Tenge in 2014 against the US Dollar and Euro resulted in recognition of unrealised negative foreign exchange losses on revaluation of US\$-denominated debt. However, lower exchange rates resulted in a decrease of operating costs and higher cash flows from operations as most costs are denominated in local currencies.
12.3 Financial risks – interest rate risk	The Group is exposed to the interest rate risk as the significant part of the Group's debt portfolio is US Dollar-denominated floating-rate borrowings.	Based on analysis of the current economic situation, the Group has decided to accept the risk of floating interest rates rather than hedge or borrow at fixed rates. However the Group does not rule out the possibility of fixing the interest rate on its borrowings in the future, should assessment of the ongoing economic situation suggest this may be profitable. Due to the financial sanctions imposed against some Russian banking institutions in 2014 the overall level of interest rates in Russia has increased. Considering this, the Company has revised the risk level by increasing it to average.
12.4 Financial risks – inflation rate risk	A higher rate of inflation may increase future operational costs and have a negative impact on financial results if there is no related depreciation of the local currency against the US Dollar, or an increase in LBMA gold and silver fixings.	As part of the budgeting process, the Group estimates possible inflation levels and incorporates them into cost planning. The recent devaluation of the Russian Rouble, which is likely to result in increased inflation levels, has been factored in when preparing budgets and projections for subsequent years.

Residual risk level ■ High ■ Medium ■ Low

Board of Directors

Maintaining strong governance



1



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1 Bobby Godsell**Chairman of the Board of Directors****Appointed** 29 September 2011.

Previous experience President of the South African Chamber of Mines, Chairman of Eskom, Chief Executive of AngloGold Ashanti, Director of African Barrick Gold and Solar Capital, Chair of the Board of Optimum Coal Holdings, acquired by Glencore plc.

Qualifications BA from the University of Natal and MA from the University of Cape Town.

Other roles Chairman of Business Leadership South Africa, Director of Platmin Limited, Member of the South African National Planning Commission and co-Chairman of the South African Millennium Labour Council. Non-executive Director of the South African Industrial Development Corporation.

Committees Chairman of the Nomination Committee.

2 Vitaly Nesis**Group Chief Executive Officer****Appointed** 29 September 2011.

Previous experience JSC Polymetal's Chief Executive Officer from 2003, Member of its Board, 2004-2012. CEO of Vostsibugol, 2002-2003. Strategic Development Director at the Ulyanovsk Automobile Plant in 2000. Head of the Investment Planning Department at SUAL-Holding, 2001-2002. McKinsey in Moscow, 1999-2000. Merrill Lynch in New York, 1997-1999.

Qualifications BA in Economics from Yale University.

3 Konstantin Yanakov**Non-executive Director****Appointed** 29 September 2011.

Previous experience Member of JSC Polymetal's Board of Directors, 2008-2012, and member of its Audit Committee. Various positions at MDM Bank. CFO of JSC Polymetal until 2004. Member of the Board at Piraeus Bank.

Qualifications MBA from the London Business School, PhD in Economics from the Russian State University of Management, degree in Global Economics from the Government of Russia's Finance Academy.

Other roles Chief Financial Officer of ICT Group, Director of LLC ICT-Capital, Director of Greek Organisation of Football Prognostics SA (OPAP S.A.), Director of O1 Properties. Member of the Supervisory Board of Rigensis Bank. Member of the Board of Inbank and the non-state pension fund 'Blagosostoyanie'.

4 Jean-Pascal Duvieusart**Non-executive Director****Appointed** 29 September 2011.

Previous experience Managing Partner for Central Europe and the CIS at McKinsey; joined McKinsey in 1992 and worked in Brussels, New York and Central Europe before becoming Managing Partner in Prague. Advisor to banks, insurers and industrial companies in Russia and Central Europe. Shareholder of PPF Group N.V. since 2010.

Qualifications MBA from the University of Chicago and Master's degree in Commercial Engineering, Catholic University of Louvain, Belgium.

5 Marina Grönberg**Non-executive Director****Appointed** 29 September 2011.

Previous experience Board member of JSC Polymetal, 2008-2012. Various positions in banks and private equity firms.

Qualifications Degrees in Economics and Finance, and in Law from Moscow State Law Academy and in Applied Mathematics from Moscow State University.

Other roles Board member of Waterstones Holding, Hachette-Atticus, MIG Credit, Marengo Swiss Helicopters, SPAR-Retail, A&NN Capital Management Fund and PIK Group; Managing Director of A&NN (Schweiz), member of management committee of A&NN Capital Management Fund; President of the Charity Fund named after Nadezhda Brezhneva.

6 Christine Coignard***Senior Independent non-executive Director****Appointed** 01 July 2014.

Previous experience 25 years' experience in the banking industry and advisory services world-wide, gained banking experience at Royal Bank of Canada, Societe Generale and Citibank; International Consultant for the Apogee Gold Fund based in Boston; project manager for Interros in Russia; Director of investments and financing for Norilsk Nickel; Managing Director at HCF International Advisers.

Qualifications Business degree from École de Management de Lyon, France, and MBA from the Schulich School of Business, Toronto, Canada.

Other roles Managing Director and Founding partner of Coignard & Haas GmbH.

Committees Member of the Audit and Risk, Remuneration and Nomination Committees.

* Ms Coignard was appointed to the Board effective 1 July 2014 as an Independent non-executive Director further to the voluntary retirement of Mr Balfour as a Director at the conclusion of the AGM held on 21 May 2014.

7 Russell Skirrow**Independent non-executive Director****Appointed** 29 September 2011.

Previous experience Board member of JSC Polymetal, 2008-2012. Total of 35 years' work experience in the global mining industry and investment banking, including ten years at Merrill Lynch in London as Head of Global Metals, Mining & Steel Research and subsequently as Global Chairman of the Metals/Mining team, and 12 years in Gold Fields Ltd (South Africa) and Western Mining Corporation in Australia, and the USA. Chairman of Dampier Gold Ltd 2010-2013.

Qualifications BSc with Honours in Geology from Durham University and a PhD from the Royal School of Mines, Imperial College, London. Member of the Institute of Materials, Minerals & Mining with Chartered Engineer status, and Fellow of the Financial Services Institute of Australasia.

Committee Member of the Audit and Risk Committee.

8 Jonathan Best**Independent non-executive Director****Appointed** 29 September 2011.

Previous experience More than 30 years' experience in the mining industry. Board member of JSC Polymetal, 2006-2012; Chairman of the Audit Committee of Gulf Industrials; Chairman of Sentula Mining and member of its nomination and remuneration committees; Chairman of GoldStone Resources; Interim CEO of Trans-Siberian Goldin 2006; CFO and Executive Director of AngloGold Ashanti.

Qualifications MBA from the University of the Witwatersrand, Johannesburg. Chartered Management Accountant (ACIMA). Associate of the Chartered Institute of Secretaries and Administrators.

Other roles Non-executive Director of AngloGold Ashanti Holdings plc and member of its Audit Committee; Chairman of Bauba Platinum and Member of its nomination and remuneration committees; Non-executive Director and Chairman of the Audit Committee of Metair Investments.

Committees Chairman of the Audit and Risk Committee; member of the Remuneration Committee.

9 Leonard Homeniuk**Independent non-executive Director****Appointed** 29 September 2011.

Previous experience Board member of JSC Polymetal, 2010-2012. President, CEO and member of the Board of Directors of Centerra Gold, 2004-2008. Chair, President and Chief Executive Officer of Polygon Gold Inc., 2011-2014. Held executive positions with Centerra Gold, Kumtor Gold and Cameco Corporation.

Qualifications MSc from the University of Manitoba. Member of the Ontario Society of Professional Engineers, the Canadian Institute of Mining and Metallurgy and the Prospectors and Developers Association of Canada. Honorary Professor at the Kyrgyz Mining Institute.

Other roles Director of Trade Ideas LLC.

Committees Chairman of the Remuneration Committee, member of the Nomination Committee.

Senior management

Vitaly Savchenko**Chief Operating Officer****Appointed** 2009.

Experience Director of the Production Department, 2007-2009, senior production, technical and mining positions since 2004. Chief underground mine engineer at Priargunskoye Mining and Chemical Company, 1994-2003. Recipient of second and third-category Miner's Glory Medal.

Qualifications Degree with Honours in underground mineral mining engineering, Kyrgyz Mining Institute; MBA from the UK's Open University Business School.

Sergey Cherkashin**Chief Financial Officer****Appointed** 2005.

Experience CFO of the Timashevsk Dairy Plant. Sales Director of the Ulyanovsk Automotive Plant. Deputy CEO of Development at the Volgograd Dairy Plant. Consultant for AT Kearney in Moscow.

Qualifications MBA from the University of Hartford. Degree in Applied Mathematics from the Moscow Institute of Physics and Technology.

Sergey Trushin**Executive vice-president, Mineral Resources****Appointed** 2010.

Experience Chief Geologist at the Khabarovsk Exploration Company, 2008-2010. Chief Geologist at Albazino Resources 2006-2008 and various positions at Albazino Resources since 1998. Geologist with Dalnevostochnie Resources, 1997. Geologist with the Production Geological Association 'Dalgeology' and the Nizhne-Amursk exploration expedition in the preceding six years.

Qualifications Degree in Geological Surveying and Mining Engineering Exploration from the Novocherkassk State Polytechnic Institute.

Roman Shestakov**Executive vice-president, Project Development and Construction****Appointed** 2009.

Experience Chief Engineer at Gold of Northern Urals, 2007-2009, and a pit superintendent from 2006. Mine superintendent at the Okhotsk Mining and Exploration Company, 2004-2005. Mining engineer in the Production and Technical Department of JSC Polymetal Management in the preceding two years.

Qualifications Honours degree in Open-pit Mining from the Mining Department of the St. Petersburg State Mining Institute. MBA from the UK's Open University Business School.

Valery Tsyplakov**Managing Director, Polymetal Engineering****Appointed** 2004.

Experience Previous roles in Polymetal: Deputy General Director for Mineral Resources, Design and Technology and senior roles in the Production and Technology and Technological Research Departments, 2000-2004. Department Head at the Soviet Union Research Institute of Aeronautical Automation and prior to this a guest scientist at Aarhus University's Physics Institute (Denmark). Research Fellow in the Plasma Physics Department of the Moscow Physics and Engineering Institute. Professional Member of the Institute of Materials, Minerals & Mining (London).

Qualifications Degree in Experimental Nuclear Physics from the Moscow Physics and Engineering Institute. PhD in Physics and Mathematics.

Pavel Danilin**Executive vice-president, Strategic Development****Appointed** 2009.

Experience Previous roles in Polymetal: Director of Corporate Finance and Investor Relations, Head of Corporate Finance. Head of Corporate Finance at CJSC ICT, 2002-2003. Deputy Head of Currency Department and Head of Financial Resources Department at the Kaliningrad branch of Bank Petrocommerce, 1998-2001.

Qualifications MBA from the University of California at Berkeley, Haas School of Business. Degree in Economics and Management from Kaliningrad State Technical University.

Igor Kapshuk**Chief Legal Officer****Appointed** 2009.

Experience Previously worked in Polymetal as Head of the Legal Department since 2005 and Deputy Head since 2003. Deputy General Counsel, Head of the Department for Legal Matters and Head of Claims Department at the branch of Siberia Energy Coal Company and at Vostsibugol (Irkutsk), 2001-2003. Legal advisor for Pharmasintez, 1999-2001. Legal advisor and acting Head of the Legal Department at the Irkutsk Tea-Packing Factory, 1997-1998. Legal adviser at an insurance company (Irkutsk), 1994-1997.

Qualifications Degree from the Law School of Irkutsk State University.

Corporate governance



Dear Shareholders

This has been another difficult year for the industry, but Polymetal fared much better than many of its peers. Our long-term, through-the-cycle commitment to capital discipline was re-emphasised during 2014, when increased free cash flow generation enabled us to pay another special dividend whilst retaining the ability to re-finance debt with a comfortable leverage level. Prioritising shareholder returns and going beyond the minimum prescribed by our dividend policy in this way gives us a distinct competitive advantage over our peers. The Board of Directors of Polymetal believes that the acquisition of the Kyzyl project in Kazakhstan represents an excellent opportunity to expand the Company's existing reserve base through the addition of high grade gold deposits with an expected long mine life and significant exploration upside. This acquisition received full support at the General Meeting and is a long-term project that will generate substantial value for our shareholders. The estimated capital expenditure for Kyzyl is at the bottom of the guidance range and is not expected to impair either our balance sheet strength or our ability to sustain dividends.

The Board attaches great importance to maintaining good relationships and an ongoing dialogue with all shareholders to keep them informed of significant Company developments. The Company continued its programme of communication with institutional investors and analysts throughout 2014 with regular presentations and webcasts, helping them to gain a better understanding of Polymetal, its operations and strategy as well as opportunities to meet the senior management team.

In July, we welcomed Christine Coignard to the Polymetal Board as Senior Independent non-executive Director. Her 25 years' experience in global banking and advisory services, with particular skills in corporate finance and investment banking, is already proving a valuable asset to the Board. Her presence increases the representation of women on the Board to 22%, reinforcing our policy to promote and encourage women across the business.

Providing effective and strategic leadership is vital to the continuing success of the business and in the best interests of its stakeholders. We are mindful of the need for a meticulous approach to succession planning in order to achieve this.

As part of our commitment to clear and accountable reporting practices, we have adopted the most recent version of the Global Reporting Initiative sustainability reporting guidelines for our recently published Sustainability Report 2013/14. Compliance with the new G4 framework, which has as its main focus 'materiality' – those issues that matter most to our business and our stakeholders – does not become mandatory until the end of 2015, so we are making this transition ahead of schedule.

As the Company evolves and grows, so too does the need for good corporate governance. As a Board, we uphold the principles of continuous improvement and the regular evaluation of our performance to ensure that we govern effectively. In so doing, we emphasise our commitment to all our stakeholders by ensuring that the highest standards of ethical and responsible behaviour underpin how Polymetal runs its business.

Bobby Godsell
Chairman

Board of Directors



Chairman
Bobby Godsell

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Group CEO
Vitaly Nesis

Non-executive Directors
Konstantin Yanakov
Jean-Pascal Duveiusart
Marina Grönberg

Independent non-executive Directors

Christine Coignard A R N
Rusell Skirrow A A
Jonathan Best A R
Leonard Homeniuk R N

Committees

A Audit and Risk Committee
R Remuneration Committee
N Nomination Committee

Statement of compliance with the UK Corporate Governance Code

The Directors are committed to maintaining high standards of corporate governance. As a premium UK listed company, during the year ended 31 December 2014 Polymetal International was required to comply with the UK Code of Corporate Governance (the UK Code) published in September 2012 and available through the UK Financial Reporting Council's website or, where the provisions of the UK Code have not been complied with, to provide appropriate explanations. During 2014, the Company was in compliance with all provisions of the code with the exception of the six week period from 21 May to 1 July 2014. Following the departure of Charles Balfour and until the appointment of Christine Coignard, there were three independent Directors out of a total of seven Board members and in addition, the Audit and Risk and Remuneration Committees comprised two independent non-executive Directors (noting that there were no meetings of either Committee during this six week period). The Code states that at least half of the Directors (excluding the Chairman) should be independent (provision B.1.2) and that the Audit and the Remuneration Committees should comprise at least three independent non-executive Directors (provisions C.3.1 and D.2.1 respectively).

As well as complying with the UK Code, the Company has complied with all applicable regulations of the Moscow Stock Exchange and Russian securities laws since admission of its shares to secondary trading on the Moscow Exchange.

Role and structure of the Board

The Company's Board comprises one executive Director, the non-executive Chairman and seven non-executive Directors. Excluding the Chairman, four members of the Board are independent non-executive Directors. Refer to the schedule below for the structure of the Board and its Committees, showing the status of each Director.

The independent non-executive Directors are those determined by the Board to be independent in character and judgement and to be free from relationships or circumstances which may affect, or could appear to affect, the Director's judgement. The role of the independent Directors on the Board is to challenge the strategy and scrutinise the performance of management in meeting agreed goals and objectives, to monitor the reporting of performance of the Company, to review the integrity of financial information, and ensure that the Company's internal financial controls and system of risk management are robust and defensible. They are responsible for determining the appropriate level of remuneration for the Group CEO and have a primary role in appointing and, when necessary, removing him.

Directors' interests are disclosed in annual declarations and the Company Secretary is notified promptly of any changes to those interests. Before each Board meeting, independent non-executive Directors reconfirm their independence and all Directors disclose whether they hold any interests in any matters to be reviewed at the Board meeting.

The significant shareholders of the Company are represented on the Board by Mr Yanakov (who is a representative of Powerboom Investments Limited); Ms Grönberg (who is a representative of Vitalbond Limited, A&NN and Capital Management Fund Limited) and Mr Duveiusart (who is a representative of PPF Group). Mr Nesis is the brother of the beneficial owner of Powerboom Investments Limited. Save for the potential conflicts inherent in these relationships, there are no potential conflicts of interest between the duties owed by the Directors or senior management to the Company and their private interests or other duties.

The Board has determined Charles Balfour (until his resignation in May 2014), Christine Coignard (from her appointment in July 2014), Jonathan Best, Rusell Skirrow and Leonard Homeniuk to be independent non-executive Directors. Bobby Godsell met the independence criteria on appointment.

Jonathan Best has been on the Board of the Company since September 2011 and on the Board of JSC Polymetal since December 2006, and his reappointment is subject to particularly rigorous review. The Board believes that Mr Best continues to display all of the qualities of independence pursuant to the criteria set out in the Code. From October 2014 Mr Homeniuk no longer holds any shares, and since December 2014 is no longer Executive Chairman and CEO of Polygon Gold Inc. (Polygon), in which Polymetal holds a 42.6% equity ownership and one of the three board seats. Polymetal's interest in Polygon, with a carrying value of US\$2 million, is not material. Accordingly, the Board continues to consider that Mr Homeniuk was independent throughout 2014 and continues to be an independent non-executive Director.

The Company considers that the Board and its Committees have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. All Directors have access to the advice and services of the Company Secretary, and are able to take independent professional advice, if necessary, at the Company's expense.

Charles Balfour did not offer himself for re-election at the AGM of the Company held on 21 May 2014 and retired as a Director at the conclusion of the AGM in order to pursue other opportunities. Further to a rigorous executive search led by Spencer Stuart, an international search firm with no other connection with the Company, Christine Coignard was appointed to the Board effective 1 July 2014 as an independent non-executive Director. Ms Coignard has also been appointed as a member of the Audit and Risk, Nomination and Remuneration Committees of the Board and as Senior Independent non-executive Director.

Board meetings

In 2014, the Board met ten times. Further business was approved by written resolution on one further occasion and by a committee of the Board on four occasions.

Role of the Board

The Board is responsible for:

- defining the commercial strategy and long-term objectives of the Group;
- approving annual operating and capital expenditure budgets and any material changes to them;
- overseeing the Group's operations, ensuring competent and prudent management, sound planning, a strong system of internal control, and compliance with all statutory and regulatory obligations;
- reviewing the performance of the Group in the light of its business strategy, objectives, business plans and budgets and ensuring that any necessary corrective action is taken;
- approving any material extension of the Group's activities into new businesses or geographic areas and any decision to cease to operate all or any material part of the Group's business; and
- ensuring a mutual understanding of objectives and maintaining constructive dialogue with shareholders.

The schedule of matters reserved to the Board is reviewed at least annually.

Corporate governance

continued

Roles of the Chairman, Group Chief Executive Officer and Senior Independent Director

The Board has approved the division of responsibilities between the Chairman and the Group Chief Executive Officer (Group CEO) and the role of the Senior Independent Director (SID). The Chairman reports to the Board and is responsible for the leadership and overall effectiveness of the Board and for setting the Board's agenda. His responsibilities include:

- effective running of the Board;
- ensuring there is appropriate delegation of authority from the Board to executive management;
- promoting a culture of openness and debate by facilitating the effective contribution of non-executive Directors in particular and ensuring constructive relations between executive and non-executive Directors;
- encouraging active engagement by all members of the Board and ensuring that the Directors receive accurate, timely and clear information; and
- ensuring that the views of the shareholders are communicated to the Board as a whole.

Mr Godsell is able to commit sufficient time to his role as non-executive Chairman of Polymetal International and the Board believes that other commitments do not adversely affect his contribution to the Company. Mr Godsell's other significant commitments are membership of the South African National Planning Commission, and a non-executive directorship in the South African Industrial Development Corporation. He is also Chairman of Business Leadership South Africa and Director of Platmin Limited.

Following certain administrative changes at the end of December 2014, the position of the Group CEO of Polymetal International plc Group of companies has been introduced and is held by Mr Nesis. The Group CEO is also serving as Executive Director of the Company and the role of Chief Executive Officer of Polymetal International plc as a separate entity no longer exists. However, these changes do not affect the Group CEO's roles and responsibilities in managing the Group, which he continues to do in his capacity as an executive and/or director of Group subholding companies. The Group CEO reports to the Chairman and the Board directly and upholds the Group's responsibilities to its shareholders, customers, employees and other stakeholders.

The Group CEO is responsible for the management of the Group and for developing the Group's business strategy, objectives, budget and forecasts and, once approved by the Board, overseeing their successful

Board composition

Board member	Appointed	Executive	Non-executive	Independent	Audit and Risk Committee member/ chairman	Remuneration Committee member/ chairman	Nomination Committee member/ chairman
Bobby Godsell	29 September 2011		✓				Chairman
Vitaly Nesis	29 September 2011	✓					
Jonathan Best	29 September 2011		✓	✓	Chairman	Member	
Russell Skirrow	29 September 2011		✓	✓	Member		
Leonard Homeniuk	29 September 2011		✓	✓		Chairman	Member
Charles Balfour ¹	29 September 2011		✓	✓	Member	Member	Member
Konstantin Yanakov	29 September 2011		✓				
Marina Grönberg	29 September 2011		✓				
Jean-Pascal Duvieusart	29 September 2011		✓				
Christine Coignard ²	1 July 2014		✓	✓	Member	Member	Member

¹ Senior Independent Director. Retired on 21 May 2014.

² Senior Independent Director from 1 July 2014.

implementation. The Board interacts with the executive management on a regular basis. Directors invite senior executives to attend relevant parts of the Board and Committee meetings for reporting on agenda items and participating in discussion. All members of executive management report directly to the Group CEO.

The Group CEO responsibilities include:

- developing and proposing Group strategy, including communicating annual plans and commercial objectives to the Board;
- upholding the Group's responsibilities to its shareholders, customers, employees and other stakeholders;
- identifying and executing strategic opportunities;
- reviewing the operational performance and strategic direction of the Group;
- making recommendations on remuneration policies, executive remuneration and terms of employment for senior employees;
- ensuring the development needs of the executive Directors and senior management are identified and met and ensuring effective succession planning; and
- ensuring effective communication with shareholders and that appropriate, timely and accurate information is disclosed to the market, with issues escalated promptly to the executive management and the Board.

Senior Independent Director (SID)

Charles Balfour (up to 21 May 2014) acted as the Board's SID. From 1 July 2014, Christine Coignard was appointed as SID. Ms Coignard is available to major shareholders in order to listen to their views and help develop a balanced understanding of their issues and concerns. She also acts as an intermediary for the other Directors if necessary. In 2014, Ms Coignard attended a series of one-on-one meetings with institutional shareholders and investors arranged as part of the Company's roadshow, and the investor events organised by the Company's brokers. The Board is regularly updated on shareholders' opinions following meetings with the Directors and management.

Separate meetings are held between the non-executive Directors without the Chairman or the Group CEO being present and between non-executive Directors without the Chairman, led by the SID, to appraise his performance annually and on such other occasions as appropriate; and between the independent non-executive Directors without the other non-executive Directors being present. This includes both formal and informal meetings between Directors.

Constructive use of the Annual General Meeting

The Board uses the Annual General Meeting (AGM) to communicate with investors and to encourage their participation. To ensure the Company's shareholders have time to consider our Annual Report and Notice of AGM and lodge their proxy votes in good time, all meeting materials are made available more than 20 working days prior to the AGM. Separate resolutions are proposed on each substantially separate subject and all resolutions are put to a poll. The Company also offers shareholders the option to abstain.

Shareholders who are not able to attend the AGM are encouraged to submit proxy votes either electronically or in paper format. At the Company's 2014 AGM we received votes representing approximately 61% of our issued share capital. The results of the proxy vote are presented at the meeting, with the final results announced via the London Stock Exchange and available on the website.

In addition, our AGM provides a valuable opportunity for shareholders to meet with and put questions to the Directors in person. The 2014 AGM was attended by all Directors, including the Chairmen of the Audit and Risk, Remuneration and Nomination Committees. Up to 2014, the Company's AGMs held in Jersey, with live webcast and conference call facilities were available for shareholders unable to be present in person and recordings of the AGM webcast made available on the Company's website. The 2015 AGM of the Company will be held in London to enable easier participation of shareholders in the meeting.

The primary means of communication with the majority of our shareholders who have not requested paper copies of our documentation is through our corporate website www.polymetalinternational.com.

Board and Committee meeting attendance

	Board meetings ¹ (ten)	Audit and Risk Committee meetings ² (five)	Remuneration Committee meetings ³ (three)	Nomination Committee meetings ⁴ (two)
Bobby Godsell	all	NA	NA	all
Vitaly Nesis	all	NA	NA	NA
Jonathan Best	all	all	all	NA
Russell Skirrow	all	all	NA	NA
Leonard Homeniuk	all	NA	all	all
Charles Balfour (up to 21 May 2014)	5/5	2/2	2/2	1/1
Konstantin Yanakov	all	NA	NA	NA
Marina Grönberg	all	NA	NA	NA
Jean-Pascal Duvieusart	8	NA	NA	NA
Christine Coignard (from 1 July 2014)	5/5	3/3	1/1	1/1

¹ Further business conducted by the Board was approved by written resolution on one further occasion and by a committee of the Board on four further occasions.

² Further business conducted by the Audit and Risk Committee was approved by written resolution on one further occasion.

³ Further business conducted by the Remuneration Committee was approved by written resolution on one further occasion.

⁴ Further business conducted by the Nomination Committee was approved by written resolution on one further occasion.

Nomination Committee

The Nomination Committee is chaired by Mr Godsell and its other members are Mr Homeniuk, Mr Balfour (up to 21 May 2014) and Ms Coignard (from 1 July 2014). The Committee has responsibility for making recommendations to the Board on the composition of the Board and its Committees, including appointments of additional and replacement Directors. The Committee:

- leads the process for Board appointments and makes recommendations to the Board;
- regularly reviews the Board structure, size and composition (including skills, knowledge, independence, experience and diversity) and makes recommendations to the Board about any changes that the Committee considers necessary;
- considers plans and makes recommendations to the Board for orderly succession to the Board and to senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board and to ensure progressive refreshing of the Board, taking into account the challenges and opportunities facing the Company;
- keeps under review the leadership needs of the Group, both executive and non-executive, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace;
- evaluates the balance of skills, knowledge, experience, independence and diversity of the Board before any appointment is made by the Board, and in the light of this evaluation prepares a description of the role and capabilities required for a particular appointment and the expected time commitment; and
- reviews the results of the Board's performance evaluation process that relates to the composition of the Board and whether non-executive Directors are spending enough time to discharge their duties.

Further to Mr Balfour not offering himself for re-election at the AGM held on 21 May 2014, the Company appointed Spencer Stuart as an international search firm to find a further independent non-executive Director to replace Mr Balfour. Subsequently, Ms Coignard was appointed to the Board on 1 July 2014.

There were two meetings of the Nomination Committee in 2014. At its meetings, the Committee continued discussing diversity and ways of helping to promote women in the Company. The Board welcomes diversity at all levels; it believes that the right way to approach diversity is not to introduce fixed quotas, but to seek the right qualities in every appointment, where competence comes first. Diversity becomes an additional advantage of such an approach and is in line with the Company's objective of promoting women at all levels of the Group. Despite challenges presented by the industry the Company operates in, it takes steps to promote women, including hiring women in positions traditionally held by men.

In 2014, the proportion of women working in the Group was 22%. Women represent 22% of Board members; 22% of senior management positions; and 43% of qualified employees. The regular monitoring of compliance in terms of diversity policy is undertaken by the HR Department. No instances of discrimination towards employees of the Company have been revealed. All candidates and employees have equal opportunities regardless of gender, age, race, nationality, language, origin, wealth, residence, religion and other beliefs, social membership or other personal circumstances.

Corporate governance

continued

As part of the ongoing discussion in relation to succession planning arrangements the Committee and the other non-executive Directors continued meeting with young leaders and discussed ways of promoting talented employees and helping them to achieve their full potential. An executive development programme was adopted by the Committee, which includes mentoring and continuing education. In addition, the Company offers internship programmes in cooperation with key mining universities.

The Nomination Committee acknowledges that a deeper and more rigorous approach to succession planning is vital for the Company's continuing success so that leadership is fully aligned to corporate strategy, both at Board and senior management levels.

Full terms of reference of the Nomination Committee are available at the Company's website: www.polymetalinternational.com.

The Board considers that the composition of the Board and the Nomination Committee complies with the requirements of the UK Code.

Board evaluation

In 2014, the Board carried out a performance evaluation of itself, its Committees, the Chairman and the Group CEO. This was conducted without the assistance of an external facilitator. The first externally-facilitated Board review had taken place in 2013 and was performed by Lintstock Ltd, an independent advisor with no other connection to the Company. In accordance with the UK Code, it is the Board's intention that the evaluation process will be externally facilitated every three years.

Self-evaluation consisted of the Board discussing its composition and operational integrity; the balance of executive and non-executive Directors, independent Directors and Directors representing major shareholders; the balance of skills, experience, and knowledge of the Company; and international diversity. The number of Board and Committee meetings held was discussed as well as the performance of each Committee of the Board; it was agreed that the Board worked effectively together as a unit. The remuneration of Directors and senior management was also considered. For 2015 it is planned that each Director gives an assessment on their work as a Board member; and each member of a Committee will provide feedback on the work of the Committee and ways of improving. Information will be sent to the Chairman and chairmen of the respective Committees which will be followed by a discussion. Due to the recent appointment of Ms Coignard as Senior Independent non-executive Director, no performance evaluation of her work was made and Directors will provide their feedback on her for the first time in 2015/2016. Ways of improving the ongoing training of Directors were discussed and an enhanced training programme will be put in place in 2015 with assistance from external advisors.

The overall conclusion was that the Board and its Committees operated successfully and that Directors receive accurate, timely and clear information ensuring ongoing Board effectiveness. Each Director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for Board and Committee meetings and any other duties).

Re-election policies

In accordance with the UK Code, all Directors are subject to annual re-election.

Full terms and conditions of the appointment of non-executive Directors are available for inspection at the Company's registered office.

The Directors' biographical details are set out on pages 66 to 67 and following their performance evaluations, the Board and Chairman consider that each of the Directors standing for re-election will continue to be an effective contributor to the Group's success and demonstrate commitment to his or her role. A performance evaluation of the Chairman was conducted by the Board in 2014, and the Board believes that the Chairman continues to be effective and to demonstrate commitment to his role.

Induction

Upon appointment, Directors receive a full induction, including information about the Company; an outline of the role of a Director and a summary of his or her responsibilities and ongoing obligations under legislation, regulation and best practice; and a copy of the Memorandum on Inside Information, Insider Lists and Code of Practice on Dealing in Securities. Directors also receive the Company's guidelines on matters reserved to the Board, terms of reference of the Board Committees and other governing documents of the Company. Directors and chairmen of the Board Committees regularly receive updates on changes to corporate governance and regulatory requirements and other changes affecting the Company. The Board is kept informed of relevant developments in the Company by way of monthly management reports, including comprehensive information on operating and financial performance and the progress of capital projects. A field trip to Varvara and Kyzyl for non-executive Directors took place in August 2014.

Audit and Risk Committee report



Dear Shareholders

During 2014, the macroeconomic situation in Russia, geopolitical factors and the sustained weakness of commodities prices all contributed to the Committee's ever greater focus on risks. And, more importantly, ensuring that the Company's risk management process minimises its exposure to these circumstances.

As new regulations emerge, we have concentrated on the principal risks and adequacy of internal controls, in particular those relating to financial, tax and market risk. The quality of both financial reporting and internal controls has increased this year. The Audit and Risk Committee and the Board as a whole are satisfied with the continuous improvement made by the finance team.

Since July 2014, the Committee has been further strengthened by Christine Coignard's membership. Her extensive international finance and banking experience add significantly to our skill base and will be invaluable for the future.

The Audit and Risk Committee is a fully independent body, consisting only of independent non-executive Directors with relevant skills and experience in financial reporting and risk management.

In 2014 five meetings of the Audit and Risk Committee were held and further business conducted by the Committee was approved by written resolution on one additional occasion.

The Audit and Risk Committee dealt with the following matters:

- reviewed and recommended for approval financial and risk information included in the Annual Report 2013;
- reviewed and recommended for approval Polymetal's results for the six months to 30 June 2014;
- discussed and approved the Committee work plan;
- supervised compliance with the Company's anti-bribery and corruption policy;
- reviewed the Group's internal audit plan and monitored the effectiveness of internal audit;

- reviewed the Group's external audit plan and recommended for approval the interim and year end audit fees;
- reviewed the actual audit fee in 2014 compared to the authorised amount;
- approved the terms of engagement, including the engagement letter issued at the start of each audit and the scope of the audit;
- reviewed the independence and effectiveness of the external auditor; reviewed non-audit work performed by the auditors;
- recommended the re-appointment of Deloitte LLP as external auditor;
- reviewed the critical risks and exposures of the Group, including significant judgements, impairments and tax risks;
- reviewed the capability of the Group's finance team;
- performed an internal assessment of the Committee's effectiveness; and
- reviewed corporate governance changes and planned for continued compliance in 2015.

In line with the Company's overall approach to governance, we have instilled a strong culture of discipline throughout our business, and are confident that we have strong systems and processes which enable the Committee to operate effectively.

The Committee remains fully focused on the quality of the reporting, internal control and risk management processes in order to ensure the transparency and objectivity of the Company's financial statements.

Jonathan Best
Chairman, Audit and Risk Committee

Audit and Risk Committee report

continued

Audit and Risk Committee

The Audit and Risk Committee is chaired by Mr Best and its other members are Mr Skirrow and Mr Balfour (up to 21 May 2014) and Ms Coignard (from 1 July 2014), all independent non-executive Directors. The Directors consider that Mr Best has recent and relevant financial experience (refer to page 67 for details of Mr Best's experience). In addition, the other members of the Committee have a wide range of financial and other relevant experience.

The responsibilities of the Audit and Risk Committee comprise:

- monitoring the integrity of the Group's consolidated financial statements and reviewing its annual and interim financial statements, including, but not limited to the consistency of, and any changes to, accounting and treasury policies across the Company and the Group; the methods used to account for significant or unusual transactions; the reasonableness of significant estimates and judgements, taking into account the views of the external auditor; and the clarity and completeness of disclosure in the consolidated financial statements;
- considering and making recommendations to the Board, to be put to shareholders to consider at the AGM, in relation to the appointment, re-appointment, resignation or removal of the Group's external auditor;
- overseeing the Group's relationship with its external auditor and reviewing the effectiveness of the external audit process, taking into account relevant UK professional and regulatory requirements; the Committee meets with the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- reviewing the independence and objectivity of the external auditor and the appropriateness of the provision of any non-audit services by the external auditor, taking into account relevant ethical guidance;
- reviewing the effectiveness of the Group's system of internal controls and risk management systems;
- monitoring and reviewing the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system;
- reviewing the Group's policies and procedures for preventing and detecting fraud, the systems and controls in place for preventing bribery, and its policies for ensuring that the Group complies with relevant regulatory and legal requirements; and
- approving significant transactions.

Full terms of reference of the Audit and Risk Committee are available at the Company's website: www.polymetalinternational.com.

Ultimate responsibility for reviewing and approving the interim and annual financial statements remains with the Board. The Committee gives due consideration to applicable laws and regulations, the provisions of the UK Code and the requirements of the Listing Rules.

The Audit and Risk Committee monitors the Company's relationship with its external auditor relating to the provision of non-audit services to ensure that auditor objectivity and independence are safeguarded. This is achieved by disclosure of the extent and nature of non-audit services (see Note 14 to the consolidated financial statements) and the prohibition against selected services being provided by the external auditor.

The policy governing the provision of non-audit services by the external auditor approved by the Committee defines permitted audit and non-audit services.

Pre-approval thresholds are in place for the provision of non-audit services by the external auditor, being: pre-approval by the CFO (if below US\$5,000); by the Chairman of the Audit and Risk Committee (if between US\$5,000 and US\$20,000); or by the Audit and Risk Committee (if above US\$20,000).

Above a certain threshold, if it is determined that the external auditor has no obvious competitive advantage in the performance of proposed non-audit services, then the provider of those services must be chosen by way of a competitive tender. Certain types of non-audit work may be undertaken by the auditor without prior referral to the Audit and Risk Committee up to a cumulative annual value of US\$100,000. Any further non-audit work is subject to approval by the Audit and Risk Committee in further tranches of US\$100,000. In the event that the cumulative value of non-audit fees exceeds US\$500,000 in any given year, separate approval of the Audit and Risk Committee is required explaining why there is no threat to independence. A copy of the policy is available on the Company's website: www.polymetalinternational.com.

The Audit and Risk Committee has considered information pertaining to the balance between fees for audit and non-audit work for the Group in 2014 and concluded that the nature and extent of non-audit services provided do not present a threat to the external auditor's objectivity or independence. The significant amount of other non-audit fees in 2014 of US\$579,000 is represented by the assurance services in respect of the Class 1 Circular for the Kyzyl acquisition. It is impracticable for these to be performed by an outside firm due to their nature and are they not considered to be a threat to the external auditor's objectivity or independence.

Review of the effectiveness of the external audit process and audit quality

The Audit and Risk Committee has adopted a formal framework in its review of the effectiveness of the external audit process and audit quality which includes the following areas:

- the audit partners, with particular focus on the lead audit engagement partner; in 2015 the existing audit partner of the Company has been rotated and the Committee performed an interview of the new partner;
- the audit team;
- planning and scope of the audit and identification of areas of audit risk;
- execution of the audit;
- the role of management in an effective audit process;
- communications by the auditor with the Audit and Risk Committee, and how the auditor supports the work of the Audit and Risk Committee;
- how the audit contributes insights and adds value;
- the independence and objectivity of the audit firm and the quality of the formal audit report to shareholders.

An auditor assessment tool is completed each year by each member of the Audit and Risk Committee and by the CFO. Feedback is also sought from the Group CEO, other members of the finance team, divisional management and the head of internal audit.

The assessment tool adopted is comprehensive and includes detailed questions which are completed by way of a formal questionnaire every three years, with the key areas being performed every year. The feedback from this process is considered by the Audit and Risk Committee and is provided both to the auditor and to management. Action plans arising are also reviewed by the Committee.

The effectiveness of management in the external audit process is assessed principally in relation to the timely identification and resolution of areas of accounting judgement, the quality and timeliness of papers analysing those judgements, management's approach to the value of independent audit, the booking of audit adjustments arising (if any) and the timely provision of draft public documents for review by the auditor and the Audit and Risk Committee.

Every three years, the Audit and Risk Committee requests that a partner independent of the audit engagement team discusses the quality of the external audit process with the Audit and Risk Committee Chairman and the CFO using this evaluation framework.

During this year, the Audit and Risk Committee's focus was on:

- evaluating the recoverability of goodwill and PPE. The Committee examined the potential indicators of impairment (or impairment reversal, where appropriate) for each of the cash-generating units and the life-of-mine financial models used for assessing the fair value less costs to sell of the individual CGUs tested for impairment. The Committee examined and challenged the commodity price, discount rate and exchange rate assumptions used by management in its impairment tests;
- evaluating the existence and recoverability of metal inventories. The Committee examined the price assumptions used by management as well as unit costs and other internal assumptions used in determining the net realisable value of unfinished goods within metal inventories (ore and concentrate stockpiles);
- evaluating the recoverability of exploration and development assets. The Committee evaluated management's approach to determine whether the existing exploration and development assets are likely to generate future economic benefits and whether any indicators of impairment had been identified;
- accounting and valuation of the Kyzyl acquisition. The Committee examined the purchase price allocation prepared by management, including the valuation of the deferred contingent consideration and seller put option, as well as key assumptions used in the valuation of these elements;
- the impact of sanctions on the Company's performance and its access to external funding;
- internal controls and the risk of misstatement: the Committee reviewed reporting from internal audit in respect of its audit plan and discussed all significant findings; and
- the Committee also evaluated the accounting policies adopted by management.

The Chairman of the Audit and Risk Committee makes himself available to major institutional shareholders annually to discuss the Company's annual reporting to shareholders as part of the Company's investor day. He is also available for one-on-one meetings with key shareholders at their request.

The re-appointment of Deloitte LLP as the Group's external auditor is reviewed annually by the Audit and Risk Committee. Deloitte LLP was appointed auditor in 2011, with Deloitte CIS having been auditor of JSC Polymetal since the last tendering process in 2007. The Group has a policy of tendering the external audit at least every ten years. The Committee's assessment of the external auditor's performance and independence underpins its recommendation to the Board to propose to shareholders the re-appointment of Deloitte LLP as auditor until the conclusion of the AGM in 2016. Resolutions to authorise the Board to re-appoint and determine the auditor's remuneration will be proposed at the AGM on 20 May 2015.

The Board considers that the Audit and Risk Committee complies with the requirements of the UK Code.

Internal control and risk management

The Company aims to ensure that all its activities are adequately controlled, to mitigate risk and support the achievement of its objectives, while avoiding the creation of excessive bureaucracy. The system of internal controls is designed to manage rather than completely eliminate risk, to achieve the Company's business objectives whilst bringing residual risk to an acceptable level, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In conducting its annual review of the effectiveness of risk management and internal control (including financial, operating and compliance controls), the Board considers the key findings from the ongoing monitoring and reporting processes, management assertions and independent assurance reports.

The Board also takes account of material changes and trends in the risk profile and considers whether the control system, including reporting, adequately supports the Board in achieving its risk management objectives.

During the course of the year, the Board considered the Group's responsiveness to changes within its business environment. The Board is satisfied that there is an ongoing process, which has been operational during the year, and up to the date of approval of the Annual Report, for identifying, evaluating and managing the significant risks faced by the Group.

Internal audit

The internal audit function supports this aim by providing the Directors, through the Audit and Risk Committee, with an objective evaluation of the Company's and the Group's governance framework. The internal audit function also aims to raise levels of understanding and awareness of risk and control throughout the Group.

The head of internal audit reports to the Group CEO and, through the Audit and Risk Committee, to the Board of Directors. Where relevant, the internal audit function will additionally report its findings to members of the Company's executive management.

The internal audit function's annual work plan is designed to focus on matters arising from the operational risk matrix and is approved by the Audit and Risk Committee in advance. The internal audit function uses an annual self-certification process, which requires managers throughout the Group to personally confirm the testing of internal controls and compliance with Group policies within their business or function and the steps taken to address actual or potential issues that are identified.

Management provides a timely response to issues raised by internal audit. Where possible, the issues are resolved within one reporting period.

Audit and Risk Committee report

continued

Internal control framework and activities

The management structure of the Group and internal policies and procedures are aimed at maintaining a robust control framework within the Group which will result in the achievement of strategic objectives within the set risk tolerance levels.

This framework includes:

- an appropriate tone set from the top (Board level), aimed at building the appropriate control environment;
- a proper risk identification and management system (for more detail please refer to pages 60-61);
- a strict division of responsibilities and adequate delegation of authority;
- specific control activities implemented at all levels of the Group; and
- a periodic review of the effectiveness of internal controls.

The governance framework reflects the specific structure and management of the Group, where authority and control are delegated by the Board to different levels, from the Group CEO to the managers of the Group's operating entities and then downward to business and project managers as appropriate.

Within this framework, authority is delegated within clearly prescribed limits and decisions are escalated where either project size or risk profile require a higher level of authority. In addition to controls operating in specific areas (production, exploration, construction, procurement), the control framework also includes a set of common procedures for financial accounting, reporting and budgeting – see details below.

The Board confirms that the actions it considers necessary have been or are being taken to remedy any failings or weaknesses in the Group's system of internal controls. This has involved considering the matters reported to it and developing plans and programmes that it considers are reasonable in the circumstances. Based on the results of the review of risk management and internal control activities undertaken by the Board and the Audit and Risk Committee, the Board considers that the risk management and internal control systems are in accordance with the Revised Guidance for Directors on the UK Code.

Financial reporting systems

The quality of financial accounting and reporting is ensured through a set of control procedures in the following areas: accounting methodology, preliminary review of new transactions, documentation, accounting techniques and financial closing procedures.

Accounting policies are developed centrally for each of the Group's subsidiaries and are adapted for the peculiarities of each entity and Group-wide policies. Employees responsible for accounting and reporting functions have powers to review upcoming transactions and propose adjustments, where necessary, to ensure proper accounting and tax treatments. The use of a centralised Enterprise resource planning (ERP) system in each of the Group companies ensures unification of the business and accounting processes. The Group implements a multi-level set of controls over financial and accounting data recorded in the system. These controls involve the accounting department of each subsidiary, senior management of the subsidiary and controls at the relevant headquarters level. In addition, the accounting and reporting data are regularly audited by internal and external auditors.

Procedures for approval of capital and current expenditures

The Company prepares annual operating and capital expenditure budgets based on its current and strategic goals and objectives. In addition to periodic control of actual versus budgeted financial

performance, a procedure of ongoing control and authorisation of expenses is in place. The current system of pre-approval of significant transactions, along with accounting procedures in the ERP system, achieves a level of control over the amount and appropriateness of expenses.

Treasury operations

The Group operates a centralised treasury function, which is responsible for payments on behalf of all subsidiaries of the Group. Use of such a centralised system achieves the best level of control over the payments function without compromising the speed and reliability of payments. All transactions with banks on accounts maintenance, deposits and borrowings and foreign currency transactions are also performed at relevant headquarters level in compliance with the treasury policy approved by the Board.

Controls over IT systems used in financial accounting and reporting

The Group uses a 1C: Enterprise 8 ERP system for the automation of everyday enterprise activities. These include various business tasks of the economic and management functions, such as management accounting, business accounting, HR management, supplier relationship management (SRM) and material requirements planning (MRP). Polymetal also uses the ERP system for budgeting, accounting, HR record-keeping and payroll, supply chain management, operational reporting and procurement. The Group operates an IT management framework based on COBIT (Control Objectives for Information and Related Technology), which provides a complete set of high-level requirements to be considered for effective control of each IT process.

UK Bribery Act 2010

The Company and its Directors are committed to ensuring adherence to the highest legal and ethical standards. This must be reflected in every aspect of the way the Group operates. Bribery is a criminal offence in the countries in which the Group operates. Corrupt acts expose the Group and its employees to the risk of prosecution, fines and imprisonment, as well as endangering the Company's reputation. The Group has a Code of Conduct in place, which refers to anti-bribery and corruption policy. The policy extends across all the Group's business dealings in all countries and territories in which the Group operates and applies to all employees of the Group, as well as relevant business partners and other relevant individuals and entities.

The Board attaches the utmost importance to this policy and applies a 'zero tolerance' approach to acts of bribery and corruption by any of the Group's employees or by business partners working on the Group's behalf. The Policy prohibits the payment, offer or authorisation of bribes, the receipt or acceptance of a bribe, or the payment, offer or promise to pay any facilitating payments. Any breach of this policy is regarded as a serious matter by the Company and is likely to result in disciplinary action.

As part of its implementation of internal procedures to comply with the UK Bribery Act, the Group has a formalised whistle-blowing policy which describes processes in place for staff to communicate, in confidence, concerns about possible improprieties, unethical or illegal activities and ensures that arrangements are in place for the independent investigation of such matters.

The Company affirms that it has not denied any personnel access to the Audit and Risk Committee and that it has provided protection to whistle-blowers from adverse personnel action.

The Code of Conduct is available on the website. Copies of the anti-bribery and corruption policy and the whistle-blowing policy are available on request from the Company's offices.

Remuneration report



Dear Shareholders

2014 continued to be a challenging year for all mining companies when highly volatile movements in commodity prices forced the sector to continue focusing on controlling costs, producing robust operating performance and maintaining capital discipline. At the beginning of 2014, the Remuneration Committee approved a salary increase to Mr Nesis and the senior management team to bring their salaries more in line with market practice. This was the first salary review since the IPO in November 2011.

A significant Russian Rouble devaluation at the end of 2014 meant that the income of those employees, whose salaries are denominated in Russian Roubles, significantly decreased (when taking inflation into account).

To remain competitive and attract and keep the most suitable employees, in January 2015 the Remuneration Committee recommended to the Board a salary increase of 16.5% for all Group employees whose salaries are denominated in Roubles, including the Group CEO Vitaly Nesis. This increase was effective from 1 February 2015.

Even allowing for the 16.5% increase, the salary of Mr Nesis (in US Dollar terms) decreased by 38% as at 1 February 2015 compared to 1 April 2014, when the annual salary increases were effective.

2014 was the first year of implementation for our new Long-Term Investment Plan (LTIP) scheme. In addition, 50% of bonuses awarded to the Group CEO and the senior management team are deferred into shares in the Company.

As a FTSE 250 company, whose shares are listed on the London Stock Exchange, we believe that our shareholders rightfully expect Polymetal to comply with the strictest of corporate governance requirements. We remain committed to full adherence to all regulatory requirements and, as such, also reflect this in our remuneration policies and decisions.

As a result, we consistently receive over 95% of votes in favour of AGM resolutions related to remuneration and to the reappointment of Directors. This unequivocal backing from shareholders in support of the Company's decisions is very heartening as we strive to develop our remuneration policies in line with best practices, and align them with business strategy and performance.

Polymetal's remuneration policy remains a key element in providing a clear framework to motivate, incentivise and retain our senior management team. As disclosed in the 2013 Annual Report, Polymetal fully complies with the new remuneration disclosure requirements and the Company's remuneration policy and remuneration report were approved, with 99.8% of votes cast in favour, at the AGM held in May 2014.

Going forward, we as a Committee will continue to ensure the alignment of Board and senior management remuneration with the Company's strategic objectives, as well as maintaining full transparency to and open dialogue with our shareholders on executive pay.

Remuneration philosophy

The focus on sustainable shareholder value creation is the cornerstone of our executive remuneration system. The Company's remuneration policy is set to ensure that Directors are fairly rewarded with regard to the responsibilities undertaken, and considers comparable pay levels in the countries of operation and the international mining industry. The executive remuneration strategy, and underlying policy, supports this by enabling the Company to attract and retain talent that will maximise shareholder value. Corporate and individual performance is taken into account in setting the pay level for the Group CEO, and this is reviewed on an annual basis to ensure that it remains in line with companies of a similar nature, size and complexity.

An external benchmarking is undertaken every three years in order to ensure comparability with other gold mining companies worldwide and London-listed peers (such benchmarking was last performed in 2012). Remuneration levels for non-executive Directors are based on comparable levels for companies of a similar nature, size and complexity, and take into account specific responsibilities undertaken.

Context to the Committee's decisions

In 2014, in addition to continued weakness in the commodities markets, we witnessed major macroeconomic and geopolitical issues in Russia and Kazakhstan. At Polymetal, we continued to concentrate on controlling costs, delivering robust operating performance and maintaining capital discipline. We have also been able to significantly expand the Company's reserves and life-of-mine by acquiring the Kyzyl project in Kazakhstan. However, despite resilient operating and cost performance, the financial results of the Company in 2014 continued to be affected by the market conditions. Our net profit decreased on the back of significant decline in commodities prices, however we were able to sustain free cash flow as a result of decreases in capital expenditure and production growth and, as a result, pay regular and special dividends.

Remuneration report

continued

Another challenge was to stay on top of the changing remuneration disclosure requirements and ensure that all procedures put in place are fully compliant with the applicable regulations and best practices. These priorities are reflected in our remuneration decisions when awarding performance bonuses to the Group CEO and senior employees and reviewing their base salaries.

Key Committee decisions

- In 2014 the Remuneration Committee concentrated on implementing the Long-Term Incentive Plan (LTIP), which was supported by 99.8% of shareholders who voted on it. The plan includes a total shareholder return (TSR) underpin stipulating that no options will vest in the event that TSR for the period is negative. Other features include the mandatory deferral of 50% of annual bonuses for three years, to be paid in shares; clawback provisions; a one-year holding period for all LTIP and a substantial minimum shareholding requirement for the Company's executives.
- Due to unfavourable market conditions, the Remuneration Committee decided that any significant changes to the existing approach to the remuneration of Directors and senior officers of the Company in 2014 would be inappropriate.
- The Committee approved the increase in the Rouble-denominated Group Chief Executive Officer's base salary for 2014 by 8% from 1 April 2014 (there was no increase in 2013 versus 2012 and 2011), which partially compensates for the more significant depreciation of the Rouble against the US Dollar (14%) and inflation. The US Dollar equivalent of the Chief Executive Officer's base salary decreased by 5%.
- Due to the rapid devaluation of the Rouble in Q4 2014, there was a further salary review for all employees who were paid in Roubles, resulting in a further 16.5% increase in Rouble terms for Group CEO pay effective from 1 February 2015.
- An annual bonus representing 90% of the maximum available amount was awarded to the Chief Executive Officer in respect of 2014.

Changes during the year

Polymetal made no changes to its existing executive remuneration structure in 2014. The Company's remuneration policy was approved by shareholders at the AGM 2014 and came into effect immediately after. It will continue to apply for the next three years, ending in May 2017.

Approach to disclosure

This Report sets out the Company's remuneration policy and implementation for its Directors and provides details of their remuneration and share interests for the year ended 31 December 2014. The Board believes that for a Company whose shares are listed on the London Stock Exchange it is expected that the Directors' remuneration policy and annual remuneration report of the Company should be approved by shareholders, and it is an element of good corporate governance for the Company to seek this.

As there were no changes to the Directors' remuneration policy this year we will not be putting it to a binding shareholder vote. The Directors' annual remuneration report will be put to an advisory shareholder vote at the Annual General Meeting of the Company on 20 May 2015.

On behalf of the Committee, I welcome feedback from shareholders and look forward to receiving your support at the AGM.



Leonard Homeniuk
Chairman, Remuneration Committee

Directors' remuneration policy

Shareholders approved the Company's remuneration policy at the AGM on 21 May 2014 and it is expected to cover a period of three years from that date. The policy applies from the date of approval.

Element and purpose/ link to strategy	Operation	Opportunity	Performance metrics used and period applicable
Executive Director – Group CEO			
Base salary To attract and retain high-calibre executives.	The Committee reviews base salary on an annual basis, taking into account general economic and market conditions, underlying Group performance, the level of increases made across the Group as a whole, the remuneration of executives in similar positions in FTSE 250 and global mining peers, and individual performance when setting base salary for the following year.	Over the policy period, base salary for the Group Chief Executive Officer will be set at an appropriate level within the peer group and will increase in line with base salary increases for the wider workforce, except where a change in the scope of the role occurs. The annual base salary for the reporting year and the current year is set out in the Annual Report on Remuneration.	Not applicable.
Benefits	The Group does not provide any benefits for its Group CEO.	Not applicable.	Not applicable.
Pension To provide funding for retirement.	The Group does not fund any pension contributions or retirement benefits, except contributions to the mandatory pension fund of the Russian Federation, as required by Russian law. The Group pays defined contributions of 10% of total pay to the mandatory pension fund. This permits retiring employees to receive a defined monthly pension for life from the statutory pension fund.	Does not exceed the mandatory contribution made to the pension fund of the Russian Federation. Currently 10% of total pay.	Not applicable.
Annual bonus To focus on achieving annual performance goals, which are based on the Group's key performance indicators (KPIs) and strategy.	The annual bonus result is determined by the Committee after the year end, based on performance against defined targets. Annual bonuses are paid three months after the end of the financial year to which they relate. 50% of the annual bonus earned is paid in cash and the remaining 50% is compulsorily deferred into shares which are released annually to the employee over the next three years in equal instalments through the Deferred Share Awards plan (DSA). Details of the DSA are set out on the next page.	Maximum bonus opportunity – 150% of base salary. Target bonus opportunity – 100% of base salary. Threshold – Nil annual bonus for threshold performance.	The annual bonus is earned on the basis of the achievement of a mix of financial and non-financial measures. For 2014, performance metrics and associated weightings for each were: <ul style="list-style-type: none"> • production (30%); • total cash costs (30%); • completion of new projects on time and within budget (30%); and • health and safety (10%). The Committee has discretion to vary the weighting of performance metrics over the life of this remuneration policy. In addition, the Committee has discretion to vary performance metrics part-way through a performance year if there is a significant event which causes the Committee to believe that the original performance conditions are no longer appropriate. Performance is measured over the financial year.

Remuneration report

continued

Element and purpose/ link to strategy	Operation	Opportunity	Performance metrics used and period applicable
Long-Term Incentive Plan (LTIP)			
Deferred Share Awards plan (DSA) Deferral to encourage retention and alignment with shareholders.	50% of the annual bonus earned is paid in cash and the remaining 50% is compulsorily deferred into shares which are released annually to the employee over the next three years in equal instalments. Malus provisions apply for the unvested portion of the DSA; the Remuneration Committee may, at any time up to and including vesting, reduce the number of shares that vest, should material misstatement, misconduct and/or a failure of risk management occur. Dividend equivalents will be received on vested shares, reflecting the value of dividends which have been paid during the period from the grant date to the vesting date.		Entitlement to this deferred component is subject to continued employment over the deferral period. In normal circumstances, Deferred Share Awards will continue until the normal time of vesting upon cessation of employment in Good Leaver Circumstances. Alternatively, the Board may determine that Deferred Share Awards will vest immediately. In both circumstances there would be no pro-rating of the Deferred Share Awards for the time from the award date until cessation of employment or for performance. No performance conditions apply to the Deferred Share Awards.
Performance Share Plan (PSP) To provide long-term alignment with shareholders' interests.	Under this plan, annual rolling awards are made with a four-year vesting period and an additional mandatory holding period of one year following vesting. Stretching performance targets reward participants for delivering positive absolute and superior relative total shareholder return (TSR) performance against global peers over a long-term period. Malus provisions apply for the unvested portion of the PSP; the Remuneration Committee may, at any time up to and including vesting, reduce the number of shares that vest, should material misstatement, misconduct, and/or a failure of risk management occur. Retesting of the performance conditions in future years is not allowed under any circumstances. First grant under the PSP was made in April 2014.	Maximum grant permitted under the plan rules is 200% of salary. Normal grant level is expected to be 150% of base salary. Threshold vesting is equivalent to 20% of the award. Dividend equivalents will be received on vested shares, reflecting the value of dividends which have been paid during the period from the grant date to the vesting date.	Vesting is based on relative TSR, measured against the constituents of the FTSE Gold Mines Index, and also on the Company's absolute TSR. Peers are ranked and the Company's position determines vesting: <ul style="list-style-type: none"> • 0% vests for below median performance; • 20% vests at median performance; • 100% vests at top decile performance and above; and • no award will vest if absolute TSR is negative, regardless of relative performance. The Committee may substitute, vary or waive the performance targets if an event occurs which causes the Committee to consider that the target is no longer appropriate. The Committee has discretion to vary the proportion of awards that vest, to ensure that the outcomes are fair and appropriate and reflect the underlying financial performance of the Group.

Element and purpose/ link to strategy	Operation	Opportunity	Performance metrics used and period applicable
Minimum shareholding requirements To strengthen alignment between interests of executive Directors and those of shareholders.	The Group CEO is required to build a minimum shareholding over a five-year period. Unvested shares under the PSP or DSA are not taken into account when calculating progress towards the minimum shareholding requirements. For the purposes of determining whether the requirements have been met, share price is measured at the end of each financial year. Post vesting and tax, all shares acquired under PSP and DSA awards must be retained until the shareholding requirement is met.	500% of base salary for the Group CEO.	Not applicable.
Non-executive Directors			
Fees for non-executive Directors To attract and retain high-calibre non-executive Directors.	The fees of independent non-executive Directors are set by reference to those paid by other FTSE 250 mining companies. Fees are set to reflect the responsibilities and time spent by the non-executive Directors on the affairs of the Company. No fees are paid to non-independent non-executive Directors. Non-executive Directors are not eligible to receive benefits and do not participate in incentive or pension plans. The Chairman receives a base fee only. The following fees are paid in addition to the non-executive Director base fee: <ul style="list-style-type: none"> • Committee chairmanship fee; • Committee membership fee; and • Board and Committee attendance fee. The Remuneration Committee determines the framework and broad policy for the remuneration of the Chairman. The remuneration of non-executive Directors is a matter for the Chairman of the Board and the executive members of the Board, i.e. the Group CEO. Directors do not participate in discussions relating to their own fees.	Fees are reviewed, but not necessarily increased, on an annual basis. Any increase in non-executive Director fees will normally be in line with base salary increases for the wider workforce, except where a change in the scope of the role occurs. Current fee levels are set out in the Annual Report on Remuneration.	Not applicable.

Remuneration report

continued

Remuneration policy for other employees

The remuneration policy for the other members of the Company's executive team and broader management team of the Group is consistent in both structure and KPIs with the policy in respect of the Group CEO. Whilst the value of remuneration will vary throughout the Group, depending upon the individual's role, criticality to the business and level of seniority, the remuneration of all senior executives consists of a base salary, an annual bonus and participation in the new LTIP (the PSP and DSA). Employees up to three levels below the Board (approximately 300 employees throughout the Group) participate in the LTIP at the discretion of the Remuneration Committee. The PSP policy grant level is 150% of base salary for the Group CEO, 100% for Executive Committee members and 50-100% for employees of the level below the Executive Committee. Shareholding requirements are also set below Board level. The DSA operations mirror the arrangement set out for executive Directors in the policy table, where 50% of the annual bonus is compulsorily deferred into shares and released annually to employees over a period of three years.

Remuneration policy for the wider group of employees is aimed at aligning pay with the achievement of targeted results for each employee. The Company's policy on fair pay provides for the payment of additional remuneration for employees living in difficult climatic locations and the delivery of appropriate levels of pay for different levels of work. The bonus component of remuneration for mid-level management and operational staff is measured based on the achievement of production targets, increasing output, the level of justified cost savings and health and safety records. In terms of pension arrangements, the Company applies a consistent approach for the Group CEO and other employees and adheres to the mandatory pension contributions required under applicable laws.

Salaries are considered for annual increases based on the Company's performance results, inflation rates and the competitive level of salaries versus the wider market.

Notes to the policy table

Performance measures and targets

The Committee selected the performance conditions indicated in the policy table because they are central to the Company's overall strategy, and are the key metrics used under the annual bonus and LTIP by the Group CEO to oversee the operation of the business.

Performance targets for all our incentive plans are reviewed annually, and where appropriate are typically set at a level that is in line with the Company's forecasts.

Changes to remuneration policy for 2015

Design element	Changes made during the year
Base salary	Rouble-denominated salaries increased for all employees by 16.5%, effective from 1 February 2015. Note that in US Dollar terms the Group CEO salary has decreased by 38% compared to 1 April 2014
Annual bonus	No changes made. 50% of bonus deferred into shares as required by the DSA
LTIP	First grants of options were made under the new PSP plan in April 2014. A new tranche of options is expected to be granted in April 2015
Non-executive Directors	No changes made

The new LTIP

Following shareholder approval at the AGM in June 2013, a new long-term incentive programme (the 'Performance Share Plan' or 'PSP') was put in place after the vesting of awards under the previous Long-Term EIP for those participants who have waived their rights under the EIP. Some minor amendments to the LTIP were approved by shareholders at the AGM in May 2014.

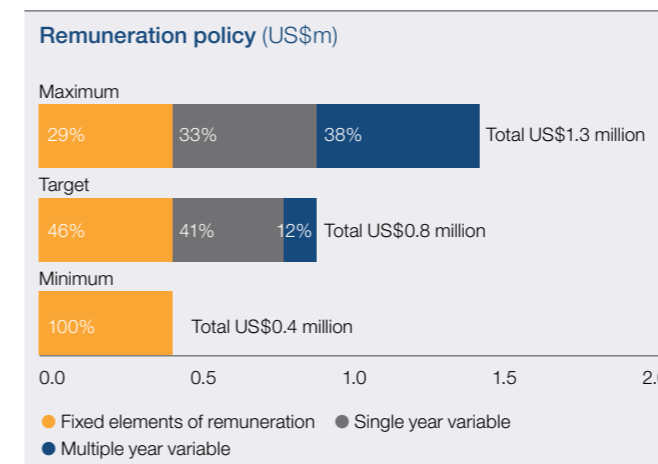
The key terms of the new LTIP are described in the policy table above.

The Board believes that the new LTIP ensures continued alignment of the executive team's performance with shareholder interests and rewards superior long-term performance and the creation of sustainable shareholder value. The Board also believes that the LTIP is in line with UK best practice and follows fully the provisions of the UK Corporate Governance Code and other relevant guidelines, while also containing features which are superior to common practice in the UK – such as a positive TSR underpin for vesting of the LTIP.

Illustration of application of remuneration policy

The composition and structure of the remuneration package for the Group CEO under three performance scenarios (Maximum performance, Target performance and Minimum performance) is set out in the charts below.

This chart shows that the proportion of remuneration delivered through short-term and long-term incentive schemes is in line with our remuneration policy and changes significantly across the three performance scenarios. As such, the package promotes the achievement of both short-term and long-term performance targets and drives the alignment of the Group CEO's interests with the interests of shareholders.



Note: Scenario values are translated at the 31 December 2014 Rouble/US Dollar closing exchange rate of 56/1.

The scenarios are defined as follows:

	Minimum	On-target	Maximum
Fixed elements	Base salary and pension		
Single year variable	Performance against financial KPIs is below budget by more than 10%. Non-achievement of non-financial KPIs. 0% payout.	Performance against financial KPIs is at budgeted levels. Full achievement of non-financial KPIs. 100% of base salary payout (77% of maximum opportunity). Includes DSA awards.	Performance against financial KPIs is above budgeted levels. Full achievement of non-financial KPIs. 150% of base salary payout (100% of maximum opportunity). Includes DSA awards.
Multiple year variable	Share price performance is below the median of FTSE Gold Mines Index constituents. No shares vest.	Scenario is based on 150% policy awards. Share price performance is at median of FTSE Gold Mines Index constituents. Shares equivalent to 30% of base salary vest under the PSP (20% of total shares available).	Share price performance is in the top decile of FTSE Gold Mines Index constituents. Shares equivalent to 150% of base salary vest under the PSP (100% of total shares available).

No allowance has been made for share price appreciation or for the payment of dividend equivalents. Non-executive Directors do not receive performance-related pay. Their fees are disclosed in the policy table on page 81.

Remuneration report

continued

Approach to recruitment remuneration

The Committee's approach to recruitment remuneration is to pay a competitive overall package as appropriate to attract and motivate the right talent for the role. If an executive is promoted to the Board from within the Company, any pre-existing awards or benefits that were made available to him or her prior to becoming a Director (and not in anticipation of an imminent promotion to the Board) will be retained and allowed to vest or be provided under the original terms.

The following table sets out the various component, which would be considered for inclusion in the remuneration package for the appointment of an executive Director. Any new Director's remuneration package would include the same elements, be set at a level consistent with the scope of the role (at a level not exceeding that of the Group CEO as set out in the remuneration policy table) and be subject to the same constraints as those of existing Directors performing similar roles, as shown below.

Area	Policy and operation
Base salary and benefits	The base salary level will be set by taking into account the experience of the individual and the salaries paid in comparable companies. Depending on the circumstances of any particular appointment, the Committee may choose to set the base salary below market median and increase the amount paid over a period of time to achieve alignment with market levels for the role (with reference to the experience and performance of the individual), subject to the Company's ability to pay. In line with the remuneration policy, as set out in the Directors' remuneration policy table, no benefits will be provided to recruited Directors.
Pension	Pension contributions will be limited to the mandatory contributions required by Russian or any other applicable law, as set out in the Directors' remuneration policy table.
Annual bonus	The executive Director will be eligible to participate in the annual bonus scheme as set out in the Directors' remuneration policy table. The maximum annual opportunity is 150% of base salary. 50% of any bonus is deferred into shares under the DSA, as set out in the Directors' remuneration policy table.
Long-term incentives	The executive Director will be eligible to participate in the LTIP at the Remuneration Committee's discretion in line with the details set out in the Directors' remuneration policy table. The maximum annual grant permitted under the scheme rules is 200% of base salary and the normal grant level is up to 150% of base salary. Performance measures would apply, as set out in the remuneration policy table.
Replacement awards	The Committee will seek to structure any replacement awards so that overall they are no more generous in terms of quantum or vesting period than the awards due to be forfeited as a consequence of the individual joining the Company. In determining the quantum and structure of any replacement awards, the Committee will seek to replicate the fair value and, as far as practicable, the timing, form and performance requirements of the forfeited remuneration. The maximum value of replacement awards is capped at 50% of the individual's base salary, and at least 50% of any replacement award should be delivered in the Company's shares.
Other	Should relocation of a newly recruited executive Director be required, reasonable costs associated with this relocation will be met by the Company. Such relocation support may include, but not be limited to payment of legal fees, removal costs, temporary accommodation/hotel costs, a contribution to stamp duty, and replacement of non-transferrable household items. In addition, and in appropriate circumstances, the Committee may grant additional support in relation to the payment of school fees and the provision of tax advice. The Company will reimburse the executive Director for all reasonable expenses which he/she may incur while carrying out executive duties.

Service contracts and policy on payment for loss of office

Loss of office policy

The Committee's approach when considering payments in the event of termination is to take into account individual circumstances, including the reason for termination, contractual obligations of both parties and applicable share plan and pension scheme rules (including any relevant performance conditions).

Vitaly Nesis is an Executive Director and Group CEO of Polymetal International plc and CEO of JSC Polymetal, a 100% subsidiary of the Group incorporated in Russia. Further details are set out in the Current Directors' service contracts section below.

The table below summarises the key elements of the executive Director service contracts and policy on payment for loss of office.

Area	Policy and operation
Notice period	Polymetal International JSC Polymetal 6 months from Company With immediate effect from Company 6 months from Director 1 month from Director
Compensation for loss of office in service contracts	No entitlement in respect of directorship of Polymetal International. Up to three times average monthly salaries in respect of directorship of JSC Polymetal.
Treatment of annual bonus awards	Where an executive Director's employment is terminated after the end of the performance year, but before the payment of the annual bonus is made, the executive may be eligible for an annual bonus award for that performance year subject to an assessment based on performance achieved over the period. No award will be made in the event of gross misconduct. Where an executive Director's employment is terminated during a performance year, a pro-rated annual bonus award for the period worked in that performance year may be payable, subject to an assessment based on performance achieved over the period.
Treatment of unvested Deferred Share Awards under plan rules	In normal circumstances, Deferred Share Awards will continue until the normal time of vesting upon cessation of employment in Good Leaver Circumstances. Alternatively, the Board may determine that Deferred Share Awards will vest immediately. In both circumstances there would be no pro-rating of the Deferred Share Awards for time from the award date until cessation of employment or for performance.
Treatment of unvested Performance Share Plan awards under plan rules	Any outstanding award will lapse at cessation of employment with the Group, unless the cessation is due to death, injury, ill-health, disability, redundancy, retirement, or any other circumstances which the Committee determines, when the award will vest as normal in accordance with the terms of the award. Alternatively, the Committee may determine that a proportion of the award will vest immediately, with the proportion determined by the Committee, taking into account (where relevant) the extent to which the performance conditions have been met or are likely to be met at the end of the performance period, and any other factors the Committee may consider relevant. The number of shares shall also normally be pro-rated down to reflect the reduced service period.
Exercise of discretion	Any discretion available in determining the treatment of incentives upon termination of employment is intended only to be relied upon to provide flexibility in unusual circumstances. The Committee's determination will take into account the particular circumstances of the Director's departure and the recent performance of the Group.
Change of control	In relation to Performance Share Plan awards in the event the Company's shares cease to trade on the London Stock Exchange or any other recognised stock exchange (Delisting) or the Directors of the Company pass a resolution to the effect that Delisting is imminent or where the Board determines that a 'significant event' has occurred, which may be a demerger, winding up or compulsory acquisition of the Company, or any other event as determined by the Board, at the discretion of the Board and, where applicable, with the consent of the acquiring company, PSP Awards will not vest but will be exchanged for new PSP awards. In the event that the PSP Awards are exchanged for new PSP awards: <ul style="list-style-type: none"> the award date of the new PSP award shall be deemed to be the same as the award date of the original PSP Award; the new PSP award will be in respect of shares in a company determined by the Board which may include any acquiring company; the new PSP award must be equivalent to the PSP Award and will vest at the same time and in the same manner as the PSP Award; and where relevant, either the vesting of the new PSP award must be subject to any performance conditions which are, so far as possible, equivalent to any conditions applying to the PSP Award, or no performance conditions will apply but the value of shares comprised in the new PSP award shall be the value of the number of shares which would have vested under the PSP Award if they had not been exchanged for new PSP awards. Deferred Share Awards shall vest immediately and shall not be pro-rated for time or performance if any of the events referred to above occur.

Remuneration report

continued

Current Directors' service contracts

Group CEO

The table below highlights key elements of the service contract of the Group CEO with JSC Polymetal, the Russian holding company of the Group where he holds the CEO position:

Date of contract	1 September 2013
Expiry of term	31 August 2018
Payment in lieu of notice	None
Pension	None, except for defined contributions to the mandatory pension fund of the Russian Federation

Mr Nesis entered into an appointment letter (as amended) with the Company in relation to his appointment as a Director. This appointment took effect from the date of admission of shares to trading on the London Stock Exchange on 28 October 2011 and is subject to annual re-election. Mr Nesis does not receive any fees in respect of his appointment as a Director of Polymetal International plc but is entitled to reimbursement of his reasonable expenses incurred in relation to the carrying out of his duties as a Director. The appointment of Mr Nesis as a Director may be terminated at any time in accordance with the Articles of Association. Mr Nesis can terminate his appointment as a Director on six months' notice. He is not entitled to receive any compensation in respect of his role as Director on termination of this appointment.

Following the expiry of the previous five-year employment contract, on 23 August 2013, JSC Polymetal, a 100% indirect subsidiary of the Company incorporated in Russia, entered into an employment contract with Mr Nesis as its Chief Executive Officer. The contract became effective on 1 September 2013. The contract was entered into for a period of five years and expires on 31 August 2018. Under the terms of the contract the Chief Executive Officer undertakes to perform general management of JSC Polymetal (a subholding company which provides management services to each of the Group's subsidiaries) and arrange for its commercial, economic, social and other activities with a view to providing for JSC Polymetal's further development. The employment contract does not contain any specific grounds for early termination. The contract can be terminated at any time on one month's notice by Mr Nesis and with immediate effect by JSC Polymetal in accordance with Russian labour and civil law. This could result in compensation of three average monthly salaries.

The full terms and conditions of appointment are available for inspection at the Company's registered office in Jersey.

Non-executive Directors

Non-executive Directors do not have service contracts. Rather, the terms of their appointment are set out in letters of appointment. The appointment of each of the non-executive Directors took effect from admission until the next AGM of the Company, subject to annual re-election. The appointment of any non-executive Director may be terminated at any time in accordance with the Articles of Association. The appointment of each non-executive Director may be terminated by either party on one month's notice. A non-executive Director is not entitled to receive any compensation on termination of his or her appointment. Each non-executive Director is subject to confidentiality restrictions without limitation in time.

The full terms and conditions of appointment of all the Directors are available for inspection at the Company's registered office in Jersey.

Dates of contract or appointment for non-executive Directors are set out in the table below:

Director	Date of contract or appointment	Notice period
Bobby Godsell	29 September 2011	1 month
Charles Balfour	29 September 2011 – 21 May 2014	1 month
Konstantin Yanakov	29 September 2011	1 month
Jean-Pascal Duvieusart	29 September 2011	1 month
Marina Grönberg	29 September 2011	1 month
Jonathan Best	29 September 2011	1 month
Russell Skirrow	29 September 2011	1 month
Leonard Homeniuk	29 September 2011	1 month
Christine Coignard	1 July 2014	1 month

Statement of consideration of shareholder views

The Committee consults with the Company's major shareholders regularly, and seeks their feedback on the Group CEO's remuneration policy. In 2014, the Company put the Directors' remuneration policy to a binding shareholder vote and received 99.8% of votes in favour. The Directors' annual remuneration report was put to an advisory shareholder vote at the 2014 AGM of the Company and received 99.8% support.

Statement of consideration of employment conditions elsewhere in the Group

In determining salary increases for the Group CEO, the Committee takes into account a range of factors, including overall base salary increases awarded to the wider employee population during the year.

The Committee does not directly consult with employees on the appropriateness of the Group CEO's pay arrangements, but any comments received by the Company will be considered.

Annual report on remuneration

Single total figure of remuneration (audited information) – US\$

The table below sets out 2014 remuneration for the Group CEO. The Group CEO's remuneration is denominated in Russian Roubles and converted to US\$ for presentation purposes. The approach to exchange rates and Russian Rouble remuneration equivalent is set out in the footnote 2 to this table.

Base salary		Taxable benefits		Annual bonus ¹		Performance Share Plan (PSP) ³		Pension		Total	
2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
392,499	434,148	–	–	475,630	599,624	–	–	39,661	47,800	907,790	1,081,572

¹ 50% of the bonus received in 2014 has been deferred into 22,178 shares on 11 March 2015 at £5.37 (RUB 412) per share (using average price for the 90-day period ending 31 December 2014). In line with policy, deferred shares will be released in equal tranches over a period of three years in March 2016, March 2017 and March 2018 and are not subject to further performance conditions.

² The amounts are translated at the average rates of the Russian Rouble to the US Dollar for 2014 and 2013, respectively.

³ No PSP awards vested or exercised in the year.

Details of total fees paid to non-executive Directors and the Chairman during 2014 and 2013 are set out in the table below:

US\$	Total fees	
	2014	2013
Bobby Godsell	472,432	450,999
Jonathan Best	286,368	270,762
Russell Skirrow	221,784	212,516
Leonard Homeniuk	256,625	242,265
Charles Balfour	119,886	264,398
Christine Coignard	136,777	–
Konstantin Yanakov	–	–
Marina Grönberg	–	–
Jean-Pascal Duvieusart	–	–
Total non-executive fees	1,493,871	1,440,940

Note: The amounts for 2014 and 2013 are translated at cross-rates of the British Pound and the US Dollar to the Russian Rouble stated by the Central Bank of the Russian Federation at the dates of each payment.

Single total figure of remuneration – additional information (audited information)

Annual bonus targets and outcomes

The targets for annual bonus measures are considered commercially sensitive because of the information that their disclosure may provide to the Company's competitors, given that these competitors are largely based outside of the UK and hence are not subject to the same reporting requirements as the Company. Performance against these targets is set out below:

Measures	Weight	Below	Target	Maximum
Achieving production budget	30%			●
Total cash cost per ounce of gold equivalent produced	30%			●
Completion of new projects on time and within budget	30%		●	
Health and safety	10%	●		

This resulted in the Group CEO receiving a bonus of 90% of maximum opportunity for the year (which constitutes 117% of his base salary or US\$475,630).

Remuneration report

continued

LTIP

Deferred Share Awards plan

In accordance with the Company's DSA, Mr Nesis received a conditional award of 22,178 shares. Shares are released annually over the next three years in equal instalments (March 2016, 2017 and 2018).

Performance Share Plan

Under the PSP, a conditional award of 74,165 ordinary shares with no par value was made to Mr Nesis. It is exercisable following a four-year vesting period, subject to performance measures determined by Polymetal. For this award, vesting is based on relative TSR, measured against the constituents of the FTSE Gold Mines Index, and also on the Company's absolute TSR. Peers are ranked and the Company's position determines vesting (0% vests for below median performance; 20% vests at median performance; 100% vests at top decile performance and above). No award will vest if absolute TSR is negative, regardless of relative performance.

Scheme interests awarded during the financial year

No other share awards were made to the Group CEO in 2014. 10,027 shares will be allotted after the publication of the Annual report in April 2015.

Total pension entitlements (audited information)

Save for the Group's defined contributions to the mandatory pension fund of the Russian Federation during the financial year ended 31 December 2014, no amounts were set aside or accrued by the Group to provide pension, retirement or other benefits to the Directors and senior management.

Loss of office payments or payments to past Directors (audited information)

No loss of office payments or payments to past Directors were made in the year under review.

Directors' shareholdings (audited information)

The Group CEO is required to retain a shareholding equal to five times his base salary, i.e. 180,463 shares.

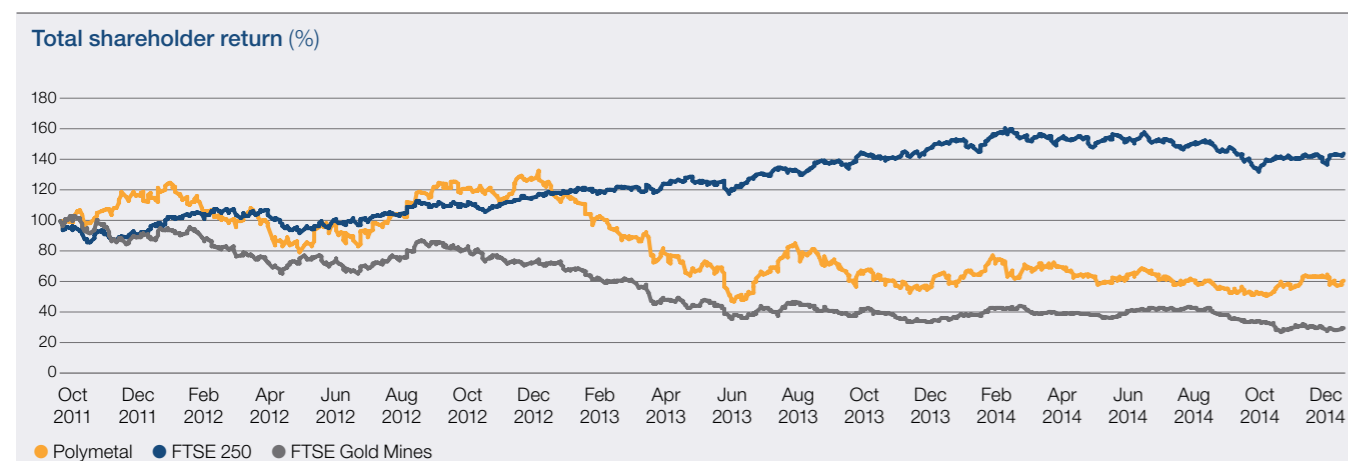
For the purposes of determining whether the requirements have been met, share price is measured at the end of each financial year. Shares are valued for these purposes at the year-end price of £5.76 (US\$8.95) per share at 31 December 2014 translated at the closing exchange rate of the British Pound to the Russian Rouble as at 31 December 2014.

Shares that count towards shareholding requirements include unfettered shares. The table below sets out the number of shares held, or potentially held, by Directors.

Director	Shareholding requirement (% of salary)	Shares held		Options held			Current shareholding (% salary)	Guideline met
		Owning outright	Subject to performance conditions	Vested but unexercised	Exercised in year			
Vitaly Nesis	500%	3,100,000	–	–	–	8,589%	Yes	
Leonard Homeniuk	–	64,000	–	–	–	–	NA	
Bobby Godsell	–	2,000	–	–	–	–	NA	
Marina Grönberg	–	11,000	–	–	–	–	NA	

Performance graph and table

The graph below illustrates the Company's TSR performance relative to the constituents of the FTSE 250 Index (excluding investment companies), of which the Company is a constituent, from the date of the Company's admission to trading on the London Stock Exchange in October 2011. To provide context to the Company's performance in its specific sector of operation, we also provide an illustration of the Company's TSR relative to the constituents of the FTSE Gold Mines Index.



Group CEO's pay in last five years

(US\$)	2014	2013	2012	2011	2010
Group CEO total remuneration	907,790	1,081,572	1,037,413	1,138,013	248,565
Annual bonus – % of maximum	90%	88%	90%	137% ¹	–
LTIP award – % of maximum	–	–	–	–	–

¹ An additional bonus was awarded by the Remuneration Committee to Mr Nesis for the successful IPO of the Company in November 2011. Mr Nesis was required to devote a significant amount of time above and beyond his normal day-to-day responsibilities as CEO to successfully bring about the IPO. Excluding the additional bonus, the annual bonus comprised 49% of maximum opportunity in 2011.

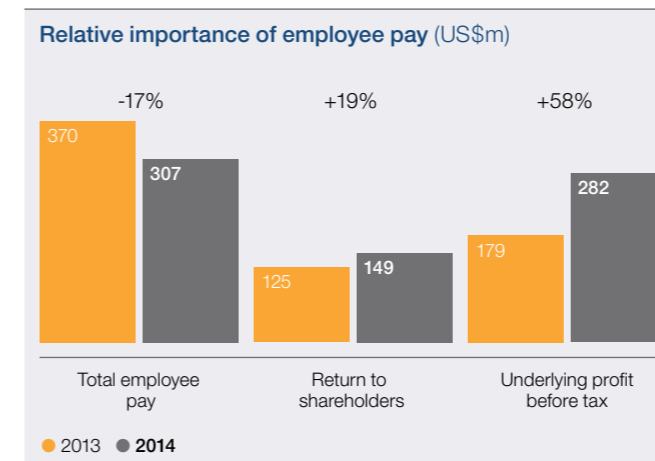
Percentage change in Group CEO's remuneration

Excluding the value of long-term incentives, the percentage change in total remuneration for the Group CEO was a 16% decrease from US\$1,081,572 in 2013 to US\$907,790 in 2014 due to the significant devaluation of the Russian Rouble against the US Dollar. In Rouble terms the Group CEO total remuneration for 2014 increased by 1% compared to 2013. The average percentage change in total remuneration for all employees in the year was a 17% decrease mainly driven by the same factor.

To ensure the comparability of this figure, and to minimise distortions, the all-employee remuneration figure is on the basis of full-time permanent employees.

Relative importance of spend on pay

The chart below shows how staff remuneration costs compared to profit before tax and distributions made to shareholders in 2014 and 2013.



Note: Underlying profit before tax excludes after-tax amounts of impairment charges/reversals and foreign exchange loss.

Implementation of remuneration policy in the following financial year

In 2015 the Committee intends to implement the executive and non-executive Director remuneration policies as follows:

Base salary

The policy for determining 2015 base salaries will remain unchanged. Base salary for the Group CEO for 2014 and 2015 is set out below:

	2015 salary ¹	2014 salary ¹	% change
	Roubles	Roubles	
	18,174,000	15,600,000	+16.5%
Group CEO	US\$263,662	US\$428,546	-38%

¹ Base salary for 2015 is translated at the closing exchange rate of Rouble to US Dollar stated by the Central Bank of the Russian Federation as at 1 February 2015. Base salary for 2014 is translated at the average exchange rate of Rouble to US Dollar stated by the Central Bank of Russian Federation during 2014.

The Remuneration Committee decided to increase the base salary of the Group CEO in 2014 in Rouble terms for the first time since 2011, having taken into account inflation in the Russian Federation, as well as significant devaluation of the Russian Rouble against the US Dollar during the period. In January 2015, the Board approved the Remuneration Committee's recommendation that a salary increase of 16.5% be paid to all Group employees, whose salaries are denominated in Roubles, including the Group CEO Vitaly Nesis. The US Dollar equivalent of his base salary has decreased by 38% compared to 2014 as a result of the significant Russian Rouble devaluation.

Pension and benefits

No pension or benefits plans are in place for 2015, except for the defined pension contributions to the mandatory pension fund of the Russian Federation.

Remuneration report

continued

Annual bonus

The targets for annual bonus measures are considered commercially sensitive, particularly in the gold mining industry, because of the sensitivity of information that their disclosure may provide to the Company's competitors, given that these are largely based outside the UK and hence are not subject to the same reporting requirements as the Company.

Long-Term Incentive Plan (Deferred Share Awards Plan and Performance Share Plan)

Deferred Share Awards Plan

The Committee intends to defer annual bonus awards earned for the 2015 performance period in line with policy.

Performance Share Plan

The Committee intends to make an award under the PSP to the Group CEO in 2015, in line with the policy disclosed on pages 80-81.

Vesting is based on relative TSR measured against the constituents of the FTSE Gold Mines Index and on the Company's absolute TSR.

Peers are ranked and the Company's position determines vesting:

	TSR vs. FTSE Gold Mines	Payout
Below threshold	Below median performance	0%
Threshold	Median performance	20%
Maximum	Upper decile performance	100%

Straight-line vesting will occur between the points set out above. No award will vest for performance below median, or if the Company's absolute TSR performance is negative, regardless of relative performance.

Non-executive Directors

The policy for determining non-executive Directors' fees will be unchanged from 2014. Fee rates for 2014 and 2015 are set out below:

Role	2015 fees (US\$)	2014 fees (US\$)
Non-executive Chairman	412,150	412,150
Senior Independent Director	No additional fee	No additional fee
Independent non-executive Director basic fee	164,860	164,860
Additional fees		
Audit and Risk Committee Chairman	49,458	49,458
Chairman of other Committees	24,729	24,729
Committee membership fee (not payable to the Committee Chair)	16,486	16,486
Board and Committee meeting attendance fee	4,946 per meeting	4,946 per meeting

Note: Non-executive Director fees are denominated in British pounds sterling and for presentation purposes the figures are translated to US\$ at cross-rates of the British Pound and the US Dollar to the Rouble stated by the Central Bank of the Russian Federation as at 31 December 2014.

Remuneration Committee

The Remuneration Committee comprises three independent non-executive Directors who have no personal financial interest, other than as a shareholder, in the matters to be decided. As a result of Mr Balfour's decision not to offer himself for re-election as a Director, a replacement member of the Remuneration Committee was appointed following the AGM. From October 2014 Mr Homeniuk no longer holds equity and since December 2014 is no longer Executive Chairman and CEO at Polygon Gold Inc. (Polygon), in which Polymetal holds a 42.6% equity ownership and one of the three board seats.

The membership of the Remuneration Committee is shown in the table below.

Name	Role
Leonard Homeniuk	Chairman
Jonathan Best	Member
Christine Coignard	Member

The principal functions of the Remuneration Committee under its terms of reference are:

- to make recommendations to the Board on the Group's policy on the remuneration of executive management;
- to determine, within agreed terms of reference, the remuneration of the Chairman and specific remuneration packages for each of the Executive Director, the Company Secretary and the members of senior management, including pension rights and any compensation payments;
- to formulate suitable performance criteria for the performance-based pay of executive management;
- to review and oversee all aspects of any executive share scheme operated by or to be established by the Company; and
- to oversee and advise the Board on any major changes in employee benefit structures throughout the Company or the Group.

The full terms of reference of the Remuneration Committee can be found in the Corporate governance section on the Company's website: www.polymetalinternational.com.

Consideration by the Directors of matters relating to Directors' remuneration

In 2014 the Remuneration Committee met three times. Further business conducted by the Committee was approved by written resolutions on one further occasion.

In 2014 the meetings of the Committee covered the following key areas:

- reviewed KPIs for 2014;
- approved the list of participants in the Performance Share Plan;
- reviewed an update on regulatory changes to the Directors' Remuneration report;
- reviewed the Remuneration policy and annual Remuneration report;
- approved annual bonuses;
- reviewed the Board expenses and reimbursement policy;
- reviewed the performance of the Remuneration Committee;
- evaluated the first year following changes to remuneration reporting; and
- reviewed the Committee's terms of reference.

The Board considers that the composition and work of the Remuneration Committee complies with the requirements of the UK Corporate Governance Code. Following external Board evaluation, the Committee reviewed its performance and noted feedback provided with the assistance of external consultants.

Statement of voting at AGM

At the 2014 AGM, held on 21 May, votes for the Remuneration report and Remuneration policy were as follows:

	Votes for	Votes against	Withheld
Remuneration report	238,310,278 (99.79%)	494,526 (0.21%)	0
Remuneration policy	238,263,983 (99.77%)	540,821 (0.23%)	0

At this meeting, minor amendments to the Company's long-term incentive plan were put to a vote, with 99.78% of shareholders in favour.

Advisors

The Committee continued to use PricewaterhouseCoopers LLP (PwC) as independent external remuneration consultants to provide support in relation to the design and operation of the new LTIP and on the changes associated with the new remuneration report regulations. PwC is a member of the Remuneration Consultants' Group (RCG) and a signatory of the RCG Voluntary Code of Practice, and incorporates the principles of the Voluntary Code of Practice into its engagement. No other services were provided by PwC during 2014. Fees paid to PwC in relation to remuneration services provided to the Committee in 2014 totalled US\$48,000 (2013: US\$54,400), with fees quoted in advance and based on the level of complexity of the work undertaken. The Committee reviews the objectivity and independence of the advice it receives from PwC at a private meeting held on an annual basis.

During its work in 2014, the Committee was also aided by the Group CEO, and senior finance and human resources executives of the Company.

PwC's appointment was made by way of a competitive tender, the results of which were presented to the Remuneration Committee for approval.

Approval

This report was approved by the Board of Directors on 30 March 2015 and signed on its behalf by



Leonard Homeniuk
Chairman, Remuneration Committee

Directors' report

The Directors submit the Annual Report of Polymetal International Plc together with the audited financial statements of Polymetal International Plc for the year ended 31 December 2014.

Corporate governance

Refer to pages 68 to 72 for a description of the Group's corporate governance structure and policies.

Going concern

In assessing its going concern status, the Group has taken account of its financial position, anticipated future trading performance, its borrowings and other available credit facilities, its forecast compliance with covenants on those borrowings and its capital expenditure commitments and plans, including the potential exercise of the put option in respect of the Kyzyl transaction. As at 31 December 2014, the Group held US\$157 million of cash and had net debt of US\$1,249 million, with US\$810 million of undrawn but committed facilities available subject to applicable covenants compliance.

The Board is satisfied that the Group's forecasts and projections, having taken account of reasonably possible changes in trading performance, show that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of this report and that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2014.

Financial and business reporting

The Board believes that the disclosures set out in the Strategic report on pages 1 to 65 of this Annual Report provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Directors

The Directors, their status and Board Committee memberships are set out on pages 66-67, 70 of the Report.

Appointment and replacement of Directors

The Board may appoint a person who is willing to act to be a Director, either to fill a vacancy or as an additional Director and in either case whether or not for a fixed term. Irrespective of the terms of his or her appointment, a Director so appointed shall hold office only until the next AGM. If not reappointed at such Annual General Meeting, he or she shall vacate office at its conclusion.

The Company may, by ordinary resolution, remove any Director from office (notwithstanding any provision of the Company's Articles or of any agreement between the Company and such Director, but without prejudice to any claim he or she may have for damages for breach of any such agreement). No special notice needs to be given of any resolution to remove a Director and no Director proposed to be removed has any special right to protest against his or her removal. The Company may, by ordinary resolution, appoint another person in place of a Director removed from office.

Directors' interests

Information on Directors' interests in shares of the Company is set out in the Remuneration report on page 88.

Directors' indemnities

To the extent permitted by the Companies (Jersey) Law 1991, the Company has indemnified every Director and other officer of the Company (other than any person (whether an officer or not) engaged by the Company as auditor) out of the assets of the Company against any liability incurred by him or her for negligence, default, breach of duty, breach of trust or otherwise in relation to the affairs of the Company. This provision does not affect any indemnity that a Director or officer is otherwise entitled to.

Political donations

The Company may not make a political donation to a political party or other political organisation, or to an independent election candidate, or incur any political expenditure, unless such donation or expenditure is authorised by an ordinary resolution of shareholders passed before the donation is made or the expenditure incurred. No such donations were made in 2014 (2013: none).

Capital structure

The structure of the Company's share capital is detailed in Note 32 to the financial statements. There are no specific restrictions on the size of a holding or on the transfer of shares, which are both regulated by the Articles of the Company and applicable legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or on voting rights.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as commercial contracts, bank loan agreements and employees' share plans. None of these is considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Substantial shareholdings in the Company are disclosed on page 158.

Details of employee option schemes are set out in the Remuneration report on pages 80 to 90.

There were no acquisitions of the Company's own shares in 2014. At 31 December 2014, the Group and its subsidiaries held no treasury shares (31 December 2013: no shares). As at 31 December 2014, the Company had shareholders' authority to purchase up to 38,947,286 of its own ordinary shares.

The Articles of the Company can be altered by a special resolution of the Company. A resolution is a special resolution when it is passed by three-quarters of the members who (being entitled to do so) vote in person, or by proxy, at a General Meeting of the Company.

Pursuant to the Company's Articles, the Directors have the power to allot Equity Securities (as defined in the Articles). At the AGM of the Company held in 2014, the power to allot Equity Securities was renewed up to an aggregate number of 129,824,288 ordinary shares, provided that the Directors' power in respect of such an amount may only be used in connection with a pre-emptive issue (as defined in the Articles).

The Directors are further empowered pursuant to Article 12.4 of the Company's Articles to allot Equity Securities for cash as if Article 13 of the Articles (Pre-emptive rights) did not apply and for the purposes of paragraph (b) of Article 12.4 of the Articles, the Non Pre-emptive Shares (as defined in the Articles) are an aggregate number of up to 19,473,643 ordinary shares.

Pursuant to shareholder approval at the General Meeting of the Company held on 14 August 2014, 31,347,078 new ordinary shares of the Company, representing approximately 7.45% of the Company's enlarged issued share capital, were issued to Sumeru Gold B.V. as part of the initial consideration for the acquisition of the Kyzyl project in Kazakhstan. Further information on the project can be found on page 36. Following the allotment, the total issued share capital of the Company comprises 420,819,943 ordinary shares of no par value, each carrying one vote.

Pursuant to Article 57 of the Companies (Jersey) Law 1991, the Company is authorised to make market purchases of ordinary shares of the Company, provided that:

- the maximum number of ordinary shares to be purchased is 38,947,286 ordinary shares;
- the minimum price (excluding expenses) which may be paid for each ordinary share is 1 penny;
- the maximum price (excluding expenses) which may be paid for each ordinary share is the higher of:
 - a. an amount equal to 105% of the average of the middle market quotations of an ordinary share in the Company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; and
 - b. an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System;
- pursuant to Article 58A of the Companies (Jersey) Law 1991, the Company may hold as treasury shares any ordinary shares purchased pursuant to the authority conferred in this resolution.

The authorities above shall, unless previously revoked or varied, expire at the conclusion of the Company's next AGM (or, if earlier, at the close of business on the date which is 15 months after the date of the resolution which granted them, being 20 August 2015).

Approval of share issues, consideration for which does not exceed US\$15 million, is delegated to the Group CEO.

Dividends

The Group's loss for the year ended 31 December 2014 attributable to equity holders of the Company was US\$210 million (2013: loss of US\$198 million). Underlying net earnings (adjusted for the after-tax amount of impairment charges/reversals and foreign exchange losses) in 2014 were US\$282 million (2013: US\$179 million). In August 2014 the Company declared an interim dividend of US\$0.08 per share which was paid in September 2014. The Directors have proposed the payment of a final dividend of US\$0.13 per share (2013: US\$0.08 per share). In addition, a special dividend of US\$0.20 per share was declared by the Company in December 2014 and paid in January 2015.

Annual General Meeting

The AGM of shareholders of the Company will take place on 20 May 2015 at 9.30 am (BST) at the offices of Freshfields Bruckhaus Deringer LLP, 65 Fleet Street, London EC4Y 1HS.

Auditor

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the Director has taken all steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint it will be proposed at the forthcoming AGM. The Audit and Risk Committee reviews both the level of the audit fee and the level and nature of non-audit fees as part of its review of the adequacy and objectivity of the audit process.

Having taken all matters considered by the Board and brought to the attention of the Board during the year into account, we are satisfied that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board



Bobby Godsell
Chairman
30 March 2015

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted for use in the European Union (IFRS). The financial statements are required by law to be properly prepared in accordance with the Companies (Jersey) Law 1991. International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'.

In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, the Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK and Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the strategic report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board



Bobby Godsell
Chairman of the Board of Directors



Vitaly Nesis
Chief Executive
30 March 2015

Independent auditor's report to the members of Polymetal International plc

Opinion on consolidated financial statements of Polymetal International PLC

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the Companies (Jersey) Law 1991.

The financial statements comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash flows and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Going concern

We have reviewed the directors' statement on page 92 that the Group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Recoverability of PP&E and Goodwill (notes 2, 3, 18 and 19)	
As a consequence of the current volatility in gold and silver prices and foreign exchange rates, and political and economic uncertainties in Russia, the assessment of recoverability of PP&E (carried at US\$2,021 million) and goodwill (carried at US\$18 million) is a key judgment.	We challenged management's assessments as to whether indicators of impairment (or impairment reversal) exist for the Group's CGUs through critical assessment of developments in the wider economic environment and the performance of each of the CGUs in the year and through meetings with local and Group operational management.
Management has assessed whether any indicators of impairment existed at its eight cash generating units ('CGUs') (as set out in Note 5). Where goodwill is allocated to that CGU (at Dukat and Mayskoye), management performs formal impairment testing as at 31 December 2014 to assess whether the recoverable amount of the CGU exceeds its net book value.	We obtained copies of the valuation models used to determine the recoverable amount of CGUs and tested the arithmetical accuracy of the models.
	We challenged the assumptions underpinning the models, including the discount rate used, expected metal prices, capital and operating expenditure forecasts, production profiles and foreign exchange rates. This was achieved by comparison to third party documentation, the review of reserves and resources reports, consultation with Deloitte specialists (to critically assess the discount rate applied) and discussions with operational management. We assessed whether assumptions had been determined and applied consistently across the Group.
Recoverability of Exploration and Development (E&D) assets (notes 2, 3, 18 and 19)	
At 31 December 2014 the Group held US\$1,076 million in respect of E&D expenditure on the Balance Sheet of which US\$854 million related to the acquisition in September 2014 of Altynalmas Gold Ltd. ('Kyzyl').	We challenged management's conclusions as to where impairment indicators existed and assessed the recoverability of assets by meeting with operational management to discuss material E&D assets, reviewing drilling and other testing results in the year and confirming future development plans. We reviewed Board-approved budgets for 2015/6 to check that specific exploration project spend was committed and we performed detailed testing to assess the validity of costs capitalised in the year.
Recoverability is dependent on the expected future success of exploration activities. E&D expenditure is capitalised once it has been determined that the mineral property can be economically developed. The valuation assessment of each asset's future prospects requires significant judgement.	
Management undertook a detailed assessment of E&D assets for impairment, which included a review of developments in the year and planned further E&D expenditure including the expected timings for that spend.	

Independent auditor's report to the members of Polymetal International plc

continued

Risk	How the scope of our audit responded to the risk
<p>Existence and valuation of metal inventories (notes 2, 3 and 23)</p> <p>At 31 December 2014 the Group held US\$381 million in respect of metal inventories on the Balance Sheet.</p> <p>Management's determination of the contained metal levels in ore stockpiles and work in progress involves the use of sampling techniques and theoretical models.</p> <p>The assessment of the recoverability of metal inventories requires judgement both in terms of calculating expected costs to process and refine ore stock piles to produce concentrate or doré for sale, and in terms of estimating future prices to be realised on sale.</p>	<p>We tested the existence of metal inventories through attending inventory counts conducted by management's experts at material operating locations and performing roll forward testing from the count dates through to year end by testing management's metal inventory models.</p> <p>We tested the recoverability of metal inventories through the recalculation of projected net realisable values based on expected commodity prices (which were consistent with prices used in the Group's PP&E and goodwill impairment calculations) and costs to complete. We also performed a detailed analytical review of management's inventory costing calculations.</p> <p>We tested inventories for obsolescence by reviewing management's strategic mine plans and assessing whether there is appropriate provisioning in place, in particular where stockpiles are no longer expected to be used.</p>
<p>Accounting for and valuation of Kyzyl consideration payable (notes 2, 3 and 4)</p> <p>The acquisition was funded through four elements with a fair value total of US\$676 million, comprising: cash consideration paid; issuance of 31 million new Polymetal International plc shares; a put option granted to allow the seller to divest its shares in Polymetal International plc back to the Group at a fixed price of US\$9.57 per share and deferred contingent consideration based on future gold and Polymetal share prices.</p> <p>The determination of fair value of the put option and the deferred contingent consideration was complex and required the use of Black-Scholes and Monte Carlo valuation models, respectively.</p> <p>Determining the key inputs to those models (gold and share prices; expected volatilities; the correlation between gold and Polymetal share prices and discount rates applied) required significant judgement.</p>	<p>We reviewed the acquisition agreement and agreed cash consideration paid to bank statements and new shares issued to the share register. We recalculated the valuation of shares granted, based on the spot price at the transaction date.</p> <p>We challenged management's key model inputs underpinning the put option valuation and contingent consideration liability valuations on completion (and, in the case of the contingent consideration, again at 31 December 2014) against third party sources and recalculated the fair value.</p> <p>We involved Deloitte modelling specialists to assist with our challenge of the appropriateness of the model used to value the contingent consideration, to test the integrity of the model and to assist our challenge and testing of the key model input assumptions, agreeing assumptions to third party data.</p> <p>We reviewed management's accounting paper to assess that the accounting treatment in respect of assets acquired, the put option liability and corresponding debit to Equity, and the contingent consideration liability was in line with IFRS.</p>

Last year our report included one other risk which is not included in our report this year: provisioning and disclosure in respect of income tax and mineral extraction tax liabilities (there have been no new material exposures identified in the current year).

The description of risks above should be read in conjunction with the significant issues considered by the Audit and Risk Committee discussed on page 75.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be US\$18 million (2013: US\$16 million), which is 4.5% (2013: 5.6%) of adjusted pre-tax profit and 2.1% of equity (2013: 0.9%). Pre-tax profit is adjusted to exclude one-off impairments and net foreign exchange losses recognised which would, if included, significantly distort materiality year on year.

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of US\$360,000 (2013: US\$320,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including groupwide controls and assessing the risks of material misstatement across the Group. Our audit scope focused primarily on the eight key operating segments (Voro, Khakanja, Dukat, Omolon, Varvara, Amursk-Albazino, Mayskoye and Kyzyl, which was acquired in the year) plus the Head Office entity such that 100% of revenues and over 99% of total assets were subject to a full scope audit.

The Group audit team was involved in the work of the component auditors at all stages of the audit process. The signing partner and senior members of the Group engagement team visited the Head Office in St. Petersburg on multiple occasions in the past year and continued to follow a programme of regular planned visits to the Group's other business units. The Group audit team directed and reviewed in detail the work performed on significant risks by the component auditors.

Our audit work was executed at levels of materiality applicable to each individual component; which were between US\$12.6 million and US\$9.0 million.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with the ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if in our opinion information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit and Risk Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Other matters

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the UK Companies Act 2006 as if that Act had applied to the Company.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Christopher Thomas

for and on behalf of Deloitte LLP
Chartered Accountants and Recognized Auditor, London, UK
30 March 2015

Consolidated income statement

	Notes	Year ended	
		31 December 2014 US\$'000	31 December 2013 US\$'000
Revenue	6	1,690,391	1,706,597
Cost of sales	7	(1,023,219)	(1,123,796)
Reversals/(write-downs) of metal inventories to net realisable value	23	39,174	(153,327)
Gross profit		706,346	429,474
General, administrative and selling expenses	11	(131,293)	(168,132)
Other operating expenses	12	(131,901)	(88,486)
Impairment of non-current assets	18	–	(201,105)
Impairment of investment in associate	21	–	(12,291)
Share of loss of associates and joint ventures	21	(7,139)	(2,340)
Operating profit/(loss)		436,013	(42,880)
Loss on disposal of subsidiaries	4	–	(8,746)
Net foreign exchange losses		(559,266)	(74,240)
Change in fair value of contingent consideration liability	30	22,788	8,131
Finance income		3,216	2,850
Finance costs	15	(40,626)	(42,735)
Loss before income tax		(137,875)	(157,620)
Income tax expense	16	(71,965)	(40,417)
Loss for the financial year attributable to equity shareholders of the Parent		(209,840)	(198,037)
Loss per share		US\$	US\$
Basic	32	(0.53)	(0.51)
Diluted	32	(0.53)	(0.51)

	Year ended			
	31 December 2014 Cents per share	31 December 2013 Cents per share	31 December 2014 US\$'000	31 December 2013 US\$'000
Final dividend proposed in relation to the year (Note 17)	13.0	8.0	54,707	31,158
Interim dividend (Note 17)	8.0	1.0	33,666	3,879
Special dividend declared (Note 17)	20.0	–	84,164	–

Consolidated statement of comprehensive income

	Year ended	
	31 December 2014 US\$'000	31 December 2013 US\$'000
Loss for the financial year	(209,840)	(198,037)
Other comprehensive loss		
Effect of translation to presentation currency	(617,758)	(153,575)
Total comprehensive loss for the financial year attributable to equity shareholders of the Parent	(827,598)	(351,612)

Consolidated balance sheet

	Notes	31 December 2014 US\$'000	31 December 2013 US\$'000
Assets			
Property, plant and equipment	19	2,020,924	2,094,742
Goodwill	20	17,970	30,889
Investments in associates	21	2,107	15,651
Non-current loans and receivables	22	12,890	22,853
Deferred tax asset	16	61,787	88,484
Non-current inventories	23	114,227	53,142
Total non-current assets		2,229,905	2,305,761
Current inventories	23	468,731	727,144
Current VAT receivable		55,367	85,135
Trade and other receivables	24	56,010	44,526
Prepayments to suppliers		20,531	18,170
Income tax prepaid		9,410	8,433
Cash and cash equivalents	25	157,224	65,567
Total current assets		767,273	948,975
Total assets		2,997,178	3,254,736
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	28	(160,735)	(117,397)
Share repurchase obligation	4	(275,838)	–
Current borrowings	26	(508,811)	(81,331)
Income tax payable		(38,306)	(37,174)
Other taxes payable		(44,139)	(56,885)
Environmental obligations	27	(2,991)	(212)
Current portion of contingent consideration liability	30	(1,783)	(577)
Total current liabilities		(1,032,603)	(293,576)
Non-current borrowings	26	(813,824)	(1,029,813)
Contingent consideration liability	30	(17,506)	(15,523)
Deferred tax liability	16	(205,506)	(63,085)
Environmental obligations	27	(51,301)	(65,152)
Other non-current liabilities		(6,954)	(97)
Total non-current liabilities		(1,095,091)	(1,173,670)
Total liabilities		(2,127,694)	(1,467,246)
NET ASSETS		869,484	1,787,490
Stated capital account	32	1,939,084	1,664,170
Share-based compensation reserve	33	2,387	143,524
Translation reserve		(824,594)	(206,836)
Repurchase obligation for shares issued for business acquisition	4	(218,722)	–
Retained earnings		(28,671)	186,632
Total equity		869,484	1,787,490

The notes on pages 102 to 141 form part of these financial statements. These financial statements are approved and authorised for issue by the Board of Directors on 30 March 2015 and signed on its behalf by:



Vitaly Nesis
Chief Executive Officer



Bobby Godsell
Chairman of the Board of Directors

Consolidated statement of cash flows

	Notes	Year ended	
		31 December 2014 US\$'000	31 December 2013 US\$'000
Net cash generated by operating activities	35	514,839	461,667
Cash flows from investing activities			
Purchases of property, plant and equipment	19	(209,751)	(319,448)
Net cash outflow on business combinations	4	(314,344)	(11,934)
Convertible loan repaid by Polygon Gold	21	–	10,000
Interest received		3,317	1,965
Contingent consideration payment	30	(1,722)	(1,329)
Other investing activities		(1,612)	(3,681)
Net cash used in investing activities		(524,112)	(324,427)
Cash flows from financing activities			
Borrowings obtained	26	453,991	3,099,855
Repayments of borrowings	26	(252,455)	(2,887,041)
Dividends paid		(64,824)	(316,429)
Net cash generated/(used in) by financing activities		136,712	(103,615)
Net decrease/increase in cash and cash equivalents		127,439	33,625
Cash and cash equivalents at the beginning of the financial year	25	65,567	18,622
Effect of foreign exchange rate changes on cash and cash equivalents		(35,782)	13,320
Cash and cash equivalents at the end of the financial year	25	157,224	65,567

Consolidated statement of changes in equity

	Notes	Number of Polymetal International shares outstanding	Stated capital account	Share-based compensation reserve	Translation reserve	Share purchase obligation	Retained earnings	Total equity
Balance at 1 January 2013		383,206,204	1,576,123	119,291	(53,261)	–	509,718	2,151,871
Total comprehensive loss		–	–	–	(153,575)	–	(198,037)	(351,612)
Share-based compensation	33	–	–	24,233	–	–	–	24,233
Issue of shares in exchange for assets	4	775,000	13,423	–	–	–	–	13,423
Issue of shares in exchange for business acquisitions	4	5,491,661	74,624	–	–	–	–	74,624
Dividends	17	–	–	–	–	–	(125,049)	(125,049)
Balance at 31 December 2013		389,472,865	1,664,170	143,524	(206,836)	–	186,632	1,787,490
Total comprehensive loss		–	–	–	(617,758)	–	(209,840)	(827,598)
Share-based compensation	33	–	–	2,387	–	–	–	2,387
Transfer to retained earnings	33	–	–	(143,524)	–	–	143,524	–
Issue of shares in exchange for business acquisitions	4	31,347,078	274,914	–	–	–	–	274,914
Put option issued for business acquisition recognised in equity	4	–	–	–	–	(218,722)	–	(218,722)
Dividends	17	–	–	–	–	–	(148,987)	(148,987)
Balance at 31 December 2014		420,819,943	1,939,084	2,387	(824,594)	(218,722)	(28,671)	869,484

Notes to the consolidated financial statements

1. General

Corporate information

Polymetal Group (the Group) is a leading gold and silver mining group, operating in Russia and Kazakhstan.

Polymetal International plc (the Company) is the ultimate parent entity of Polymetal Group. The Company was incorporated on 29 July 2010 as a public limited company under Companies (Jersey) Law 1991. Its shares are traded on the London and Moscow stock exchanges.

Significant subsidiaries

At 31 December 2014 the Company held the following significant mining and production subsidiaries:

Name of subsidiary	Deposits	Country of incorporation	Effective interest held, %	
			31 December 2014	31 December 2013
CJSC Gold of Northern Urals	Voro	Russia	100	100
LLC Okhotskaya Mining and Exploration Company	Khakanja	Russia	100	100
	Avlayakan			
	Ozerny			
CJSC Magadan Silver	Dukat	Russia	100	100
	Lunnoye			
	Arylakh			
	Goltsovoye			
Mayskoye Gold Mining Company LLC	Mayskoye	Russia	100	100
Omolon Gold Mining Company LLC	Birkachan	Russia	100	100
	Tsokol			
	Danleye			
	Sopka Kwartsevaya			
Albazino Resources Ltd	Albazino	Russia	100	100
Amur Hydrometallurgical Plant LLC	NA	Russia	100	100
JSC Varvarinskoye	Varvara	Kazakhstan	100	100
Bakyrchik Mining Venture LLP	Bakyrchik	Kazakhstan	100	–
JSC Inter Gold Capital	Bolshevik	Kazakhstan	100	–

Going concern

In assessing its going concern status, the Group has taken account of its financial position, anticipated future trading performance, its borrowings and other available credit facilities, and its forecast compliance with covenants on those borrowings and its capital expenditure commitments and plans, including the potential exercise of the put option in respect of the Kyzyl transaction. As at 31 December 2014, the Group held US\$157 million of cash and had net debt of US\$1,249 million, including liability for special dividends payable (Note 17), with US\$1,038 million of undrawn facilities available, of which US\$810 million were considered committed.

The Board is satisfied that the Group's forecasts and projections, having taken account of reasonably possible changes in trading performance, show that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of this report and that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2014.

Foreign currency considerations

The Group's revenues and the majority of its borrowings are denominated in US Dollars, while the majority of the Group's costs are denominated in Russian Roubles. Changes in foreign exchange rates affect the Group's financial results and performance. Both the average and year end RUB/US\$ exchange rates fluctuated significantly during 2014, in particular in the second half, resulting in significant depreciation of the Russian Rouble against the US Dollar by the year-end. From 1 January to 31 December 2014 the Russian Rouble depreciated against the US Dollar by 72.2% from 32.7 RUB/US\$ to 56.3 RUB/US\$, and the yearly average rate by 23.5% from 31.8 RUB/US\$ in 2013 to 38.4 RUB/US\$ in 2014.

Foreign exchange losses recognised in the Consolidated Income Statement predominantly arise on the re-translation of US Dollar-denominated external loans in Rouble functional currency entities and represent a non-cash loss.

The Group's net assets have also reduced with a US\$618 million non-cash loss arising in reserves relating to the translation of the Russian Rouble and Kazakh Tenge denominated Balance Sheets into the US Dollar presentational currency.

The devaluation of the Rouble had a limited effect on operating costs and Adjusted EBITDA in the first three quarters of the year, however this benefit became more significant in Q4 2014 when a significant devaluation took place. Should the RUB/US\$ exchange rate continue at the current levels throughout 2015, there will be further significant operating cost and Adjusted EBITDA benefits relative to 2014.

Basis of presentation

The Group's annual consolidated financial statements for the year ended 31 December 2014 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements have been prepared on the historical cost basis, except for certain financial instruments and share-based payments which are measured at fair value.

The accounting policies have been applied in preparing the consolidated financial statements for the year ended 31 December 2014.

New and amended standards adopted by the entity

The following standards became effective for annual periods beginning on or after January 1, 2014 for the companies reporting under IFRS as adopted by the EU, with earlier application permitted. The Group adopted these standards and they did not have a material impact on its consolidated financial statements:

IFRS 10 *Consolidated Financial Statements* replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses accounting for consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 provides a single basis for consolidation with a new definition of control.

IFRS 11 *Joint Arrangements* replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. Under IFRS 11 a joint arrangement is classified as either a joint operation or a joint venture, and the option to proportionately consolidate joint ventures has been removed. Interests in joint ventures must be equity accounted.

IFRS 12 *Disclosures of Interests in Other Entities* accompanies IFRS 10 and IFRS 11. This standard combines the disclosure requirements previously covered by IAS 27, related to consolidated financial statements, IAS 31 *Interest in Joint Ventures* and IAS 28 *Investments in Associates*, as well as including additional disclosure requirements.

Amendments have been made to IAS 28 *Investments in Associates* and it has been reissued as IAS 28 *Investments in Associates and Joint Ventures*. The revised standard prescribes the application of the equity method when accounting for investments in associates and joint ventures.

IAS 32 *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)*. On December 16, 2011 the IASB published amendments to IAS 32, *Financial Instruments: Presentation* to clarify the application of the offsetting requirements. The Group has assessed that whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments has had no impact on the amounts recognised in the Group's consolidated financial statements.

Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* remove the requirements to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. The amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. The application of these amendments has had no material impact in the disclosures in the Group's consolidated financial statements.

Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* and IFRIC 21 *Levies* issued in May 2013 on the accounting for levies imposed by governments has had no material impact on the Group's consolidated financial statements.

2. Significant accounting policies

Basis of consolidation

Subsidiaries

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group balances, transactions and any unrealised profits or losses arising from intra-group transactions are eliminated on consolidation.

Changes to the Group's ownership interests that do not result in a loss of control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Group's interests and non-controlling interests are adjusted to reflect the change in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on the disposal is calculated as the difference between 1) the aggregated fair value of the consideration received and the fair value of any retained interest and 2) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and non-controlling interests.

For non-wholly owned subsidiaries, non-controlling interests are initially measured at the non-controlling interest's proportion of the fair values of net assets recognised at acquisition. Thereafter, a share of the profit or loss for the financial year and other movements in the net assets or liabilities of the subsidiary is attributed to the non-controlling interests as shown in the income statement and balance sheet.

Notes to the consolidated financial statements

continued

2. Significant accounting policies continued

Business combinations

IFRS 3 *Business Combinations* applies to a transaction or other event that meets the definition of a business combination. When acquiring new entities or assets, the Group applies judgement to assess whether the assets acquired and liabilities assumed constitute an integrated set of activities, whether the integrated set is capable of being conducted and managed as a business by a market participant, and thus whether the transaction constitutes a business combination, using the guidance provided in the Standard. Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the consolidated income statement as incurred. Transaction costs incurred in connection with the business combination are expensed. Provisional fair values are finalised within 12 months of the acquisition date.

Where applicable, the consideration for the acquisition may include an asset or liability resulting from a contingent consideration arrangement. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Subsequent changes in such fair values are adjusted against the cost of acquisition retrospectively with the corresponding adjustment against goodwill where they qualify as measurement period adjustments. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed at the acquisition date. The measurement period may not exceed one year from the effective date of the acquisition. The subsequent accounting for contingent consideration that does not qualify for as a measurement period adjustment is based on how the contingent consideration is classified. Contingent consideration that is classified as equity is not subsequently remeasured. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IAS 39 *Financial Instruments Recognition and Measurement* with the corresponding amount being recognised in profit or loss.

The identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in the consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in equity are reclassified to profit or loss, where such treatment would be appropriate if that interest was disposed of.

Goodwill and goodwill impairment

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the consolidated income statement as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable goodwill is included in the determination of the profit or loss on disposal.

Acquisition of mining licences

The acquisition of mining licences is often effected through a non-operating corporate entity. As these entities do not represent a business, it is considered that the transactions do not meet the definition of a business combination and, accordingly, the transaction is accounted for as the acquisition of an asset. The net assets acquired are accounted for at cost.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint arrangement. Significant influence constitutes the power to participate in the financial and operating policy decisions of the investee but does not extend to a control or joint control over the enactment of those policies. The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting.

Equity method of accounting

Under the equity method, an investment in an associate is initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the investee. When the Group's share of the losses of an associate exceeds the Group's interest in that entity, the Group ceases to recognise its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an investee at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investments. Where an indicator of impairment exists or the carrying value of the asset contains goodwill with an indefinite useful life, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single cash generating unit through the comparison of its recoverable amount (the higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 *Impairment of Assets*.

When a Group entity transacts with its investees, profits and losses resulting from the transactions with the investee are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Functional and presentation currency

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. For all Russian entities the functional currency is the Russian Rouble (RUB), as well as for the investment holding companies, including Polymetal International plc. The functional currency of the Group's entities located and operating in Kazakhstan (JSC Varvarinskoye, Bakyrchik Mining Venture LLP, JSC Inter Gold Capital) is the Kazakh Tenge (KZT).

The Group has chosen to present its consolidated financial statements in US Dollars (US\$), as management believes it is a more convenient presentation currency for international users of the consolidated financial statements of the Group as it is a common presentation currency in the mining industry. The translation of the financial statements of the Group entities from their functional currencies to the presentation currency is performed as follows:

- all assets and liabilities are translated at closing exchange rates at each reporting period end date;
- all income and expenses are translated at the average exchange rates for the periods presented, except for significant transactions that are translated at rates on the date of such transactions;
- resulting exchange differences are included in equity and presented as movements relating to the effect of translation to the Group's presentation currency within the Translation reserve; and
- in the consolidated statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated using exchange rates prevalent at those respective dates. All cash flows in the period are translated at the average exchange rates for the periods presented, except for significant transactions that are translated at rates on the date of transaction.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated income statement. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated income statement.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

Due to significant devaluation of the Russian Rouble during second half of the year ended 31 December 2014, the Group translated income and expenses occurred in this period on monthly basis at average monthly exchange rates.

Notes to the consolidated financial statements

continued

2. Significant accounting policies continued

Functional and presentation currency continued

Exchange rates used in the preparation of the consolidated financial statements were as follows:

	31 December 2014	31 December 2013
Russian Rouble/US Dollar		
Year end	56.26	32.73
Average for the year	38.42	31.85
Average for:		
the six months ended 30 June 2014	34.98	
July	34.64	
August	36.11	
September	37.88	
October	40.77	
November	45.91	
December	55.54	
Kazakh Tenge/US Dollar		
Year end	182.35	153.61
Average for the year	179.1	152.14

The Russian Rouble and Kazakh Tenge are not freely convertible currencies outside the Russian Federation and Kazakhstan and, accordingly, any translation of Russian Rouble and Kazakh Tenge denominated assets and liabilities into US Dollar for the purpose of the presentation of consolidated financial statements does not imply that the Group could or will in the future realise or settle in US Dollars the translated values of these assets and liabilities.

Foreign currency transactions

Transactions in currencies other than an entity's functional currencies (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the consolidated income statement.

Property, plant and equipment

Mining assets

Mining assets include the cost of acquiring and developing mining assets and mineral rights. Mining assets are depreciated to their residual values using the unit-of-production method based on proven and probable ore reserves according to the JORC Code, which is the basis on which the Group's mine plans are prepared. Changes in proven and probable reserves are dealt with prospectively. Depreciation is charged on new mining ventures from the date that the mining asset is capable of commercial production (Note 5). In respect of those mining assets whose useful lives are expected to be less than the life of the mine, depreciation over the period of the asset's useful life is applied.

Mineral rights for the assets under development are included within Exploration and development. When a production phase is started, mineral rights are transferred into Mining assets and are depreciated as described below.

Capital construction-in-progress

Capital construction-in-progress assets are measured at cost less any recognised impairment. Depreciation commences when the assets are ready for their intended use.

Exploration and development assets

Mineral exploration and evaluation costs, including geophysical, topographical, geological and similar types of costs, are capitalised into Exploration and development assets if management concludes that future economic benefits are likely to be realised and determines that economically viable extraction operations can be established as a result of exploration activities and internal assessment of mineral resources.

When it has been determined that a mining asset can be economically developed as a result of established proven and probable reserves, the costs to remove any overburden and other waste materials to initially expose the ore body, referred to as stripping costs, are capitalised as a part of mining assets when these costs are incurred.

Non-mining assets

Non-mining assets are depreciated to their residual values on a straight-line basis over their estimated useful lives. When parts of an item of property, plant and equipment are considered to have different useful lives, they are accounted for and depreciated separately. Depreciation methods, residual values and estimated useful lives are reviewed at least annually.

Estimated useful lives are as set out below:

Machinery and equipment	Up to 20 years
Transportation and other assets	Up to 10 years

Assets held under finance leases are depreciated over the shorter of the lease term and the estimated useful lives of the assets.

Gains or losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the asset's carrying amount at the date. The gain or loss arising is recognised in the consolidated income statement.

Stripping costs

During the production phase of a mine when the benefit from the stripping activity is the improved access to a component of the ore body in future periods, the stripping costs in excess of the average ore to waste ratio for the life of mine of that component are recognised as a non-current asset. After initial recognition, the stripping activity asset is depreciated on a systematic basis (unit-of-production method) over the expected useful life of the identified component of the ore body made accessible as a result of the stripping activity.

Estimated ore reserves

Estimated proven and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits. The Group's reserves are estimated in accordance with JORC Code.

Leases

Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Impairment of property, plant and equipment

An impairment review of property, plant and equipment is carried out when there is an indication that those assets have suffered an impairment loss. If any such indication exists, the carrying amount of the asset is compared to the estimated recoverable amount of the asset in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. The carrying amounts of all the cash-generating units are assessed against their recoverable amounts determined based on a fair value less costs to sell calculation. Fair value is based on the application of the Discounted Cash Flow Method (DCF) using post-tax cash flows. The DCF method is attributable to the development of proved and probable reserves and certain resources where a relevant resource-to-reserve conversion ratio can be reasonably applied.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods.

A reversal of an impairment loss is recognised in the consolidated income statement immediately.

Inventories

Metal inventories

Inventories including refined metals, metals in concentrate and in process, doré and ore stockpiles are stated at the lower of production cost or net realisable value. Production cost is determined as the sum of the applicable expenditures incurred directly or indirectly in bringing inventories to their existing condition and location. Refined metals are valued at the average total cost of production per saleable unit of metal. Work in-process, metal concentrate and doré are valued at the average total production costs at each asset's relevant stage of production. Ore stockpiles are valued at the average cost of mining that ore. Where ore stockpiles are not expected to be processed within 12 months, those inventories are classified as non-current.

Net realisable value represents the estimated selling price for that product based on prevailing spot metal prices, less estimated costs to complete production and selling costs.

Consumables and spare parts

Consumables and spare parts are stated at the lower of cost or net realisable value. Cost is determined on the weighted average moving cost. The portion of consumables and spare parts not reasonably expected to be used within one year is classified as a long-term asset in the Group's consolidated balance sheet. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Notes to the consolidated financial statements

continued

2. Significant accounting policies continued

Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

Financial instruments designated as Fair Value Through Profit and Loss (FVTPL)

A financial instrument other than a financial instrument held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial instrument forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial instruments at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in Note 30.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Non-derivative financial assets are classified into the following specified categories: FVTPL, available for sale (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. No financial instruments have been classified as available for sale.

Income is recognised on an effective interest basis for financial instruments other than those financial assets classified as at FVTPL.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is determined by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest rate method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated income statement.

Derivative financial instruments

The Group may enter into a variety of derivative financial instruments to manage its exposure to certain risks. Further details of derivative financial instruments are disclosed in Note 30.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the consolidated income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated income statement depends on the nature of the hedge relationship.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the hybrid contracts are not measured at FVTPL.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or less, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Environmental obligations

An obligation to incur environmental restoration, rehabilitation and decommissioning costs arises when disturbance is caused by the development or ongoing production of mining assets. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value using a risk-free rate applicable to the future cash flows, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are recognised in the consolidated income statement over the life of the operation, through the depreciation of the asset in the cost of sales line and the unwinding of the discount on the provision in the finance costs line. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and recognised in the consolidated income statement as extraction progresses.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work (that result from changes in the estimated timing or amount of the cash flow or a change in the discount rate), are added to or deducted from the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the consolidated income statement.

The provision for closure cost obligations is remeasured at the end of each reporting period for changes in estimates and circumstances. Changes in estimates and circumstances include changes in legal or regulatory requirements, increased obligations arising from additional mining and exploration activities, changes to cost estimates and changes to the risk free interest rate.

Notes to the consolidated financial statements

continued

2. Significant accounting policies continued

Employee benefit obligations

Remuneration paid to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period. The Group pays mandatory contributions to the state social funds, including the Pension Fund of the Russian Federation and Kazakhstan, which are expensed as incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the laws of countries where the Group operates.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax

Current and deferred tax is recognised in the consolidated income statement, except when it relates to items that are recognised in the consolidated statement of comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in consolidated statement of comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Revenue recognition

Revenue is derived principally from the sale of gold and silver bullions and copper, gold and silver concentrate and is measured at the fair value of consideration received or receivable, after deducting discounts.

Revenue from the sale of gold and silver bullion and sale of copper, gold and silver concentrate is recognised when the risks and rewards of ownership are transferred to the buyer, the Group retains neither a continuing degree of involvement nor control over the goods sold, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue from the sale of gold and silver bullion represents the invoiced value of metal shipped to the buyer, net of value added tax (VAT).

Sale of gold and silver bullion

The Group processes doré produced in the Russian Federation (at Dukat, Khakanja, Voro, Omolon, and Amursk-Albazino) into London Good Delivery Bars prior to sale. This final stage of processing is carried out on a toll-treatment basis at four state-owned refineries. The Group sells gold and silver bullion to banks through long-term agreements. The sales price, as determined in the agreement, may be variable based upon the London Bullion Market Association (LBMA) spot or fixed price, however the Group does not enter into fixed price contracts. For domestic sales, title passes from the Group to the purchaser at the refinery gate with revenue recognised at that point. For export sales, once the gold and/or silver bars have been approved for export by Russian customs, they are then transported to the vault of the purchaser, which is typically located in London. Title passes and revenue is recognised at the point when the gold and/or silver bars are received by the purchaser.

Sales of copper, gold and silver concentrate

The Group sells copper, gold and silver concentrate under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. Concentrate sales are initially recorded based on forward prices for the expected date of final settlement. Revenue is recorded at the time of shipment, which is also when risks and rewards pass to the buyer. Revenue is calculated based on the copper,

gold and silver content in the concentrate and using the forward London Bullion Market Association (LBMA) or London Metal Exchange (LME) price to the estimated final pricing date, adjusted for the specific terms of the relevant agreement. Until final settlement occurs, adjustments to revenue are made to take into account the changes in metal quantities upon receipt of new information and assay. Revenue is presented net of refining and treatment charges which are subtracted in calculating the amount to be invoiced.

The Group's sales of copper, gold and silver concentrate are based on a provisional price and as such, contain an embedded derivative that is required to be separated from the host contract for accounting purposes. The host contract is the receivable from the sale of the concentrate at the forward exchange price at the time of sale. The embedded derivative, which does not qualify for hedge accounting, is measured at FVTPL with changes in its fair value recognised within revenue in the consolidated income statement for each period prior to the final settlement.

Share-based compensation

The Group applies IFRS 2 *Share-based Payments* to account for share-based compensation. IFRS 2 requires companies to recognise compensation costs for share-based payments to employees based on the grant-date fair value of the award.

At the Annual General Meeting in June 2013, shareholders approved the new Long-Term Incentive Plan (the 'LTIP'). Under the new LTIP options are awarded on the annual basis after the publication of annual results and before the AGM. The first grant of options under the LTIP took place on 22 April 2014. Total number of options granted under the LTIP amounts to 2,464,041 shares.

The fair value of the awards granted in April 2014 was estimated using a Monte Carlo model valuation (see note 33).

Under the management bonus deferral award plan, which is defined in the Remuneration report, a total amount of 103,936 shares was granted, which will be released over a period of three years. Deferred bonus was measured at share price at grant date and will be prorated across periods to the different vest dates.

The fair value of the awards granted is recognised as a general, administrative and selling expense over the vesting period with a corresponding increase in the share-based compensation reserve. Upon the exercise of the awards, the proceeds received, net of any directly attributable transaction costs, are credited to the stated capital account, and the amounts recognised within the share-based compensation reserve transferred to retained earnings.

The previous LTIP scheme, which was granted in 2010, had fully vested by 30 June 2013. These options lapsed in H1 2014 and accordingly, the related balance of US\$143.5 million in the share-based payment reserve was transferred into retained earnings.

Earnings per share

Earnings per share calculations are based on the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated using the treasury stock method, whereby the proceeds from the potential exercise of dilutive stock options with exercise prices that are below the average market price of the underlying shares are assumed to be used in purchasing the Company's common shares at their average market price for the period.

3. Critical accounting judgements and key sources of estimation uncertainty

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Production start date

The Group assesses the stage of each mine or plant construction project to determine when an asset moves into the commercial production stage. The criteria used to assess the start date are determined by the unique nature of each construction project and include factors such as the complexity of a plant and its location.

The Group considers various relevant criteria to assess when the mine is substantially complete and ready for its intended use and moves into the production stage. Criteria considered include, but are not limited to the following:

- the level of capital expenditure incurred compared to the construction cost estimates;
- the completion of a sufficient level of testing on the mine plant and equipment;
- the ability to produce gold, silver or copper in saleable form (within specifications); and
- the ability to sustain ongoing commercial levels of production.

When a construction project moves into the commercial production stage and depreciation commences, the capitalisation of certain mine construction costs and interest ceases and costs are either regarded as inventory or expensed, except for capitalisable costs related to mining asset additions or improvements, underground mine development or ore reserve development.

The Mayskoye plant and underground mine reached commercial production in April 2013.

Acquisitions

IFRS 3 *Business Combinations* applies to a transaction or other event that meets the definition of a business combination. When acquiring new entities or assets, the Group applies judgement to assess whether the assets acquired and liabilities assumed constitute an integrated set of activities and thus whether the transaction constitutes a business combination, using the guidance provided in the standard. In making this determination, management evaluates the inputs, processes and outputs of the asset or entity acquired.

Notes to the consolidated financial statements

continued

3. Critical accounting judgements and key sources of estimation uncertainty continued

Fair value of net assets acquired and liabilities assumed in business combinations

In accordance with the Group's policy, the Group allocates the cost of the acquired entity to the assets acquired and liabilities assumed based on their fair values as estimated on the date of acquisition. Any difference between the cost of the acquired entity and the fair value of the assets acquired and liabilities assumed is recorded as goodwill. The Group exercises significant judgement in the process of identifying tangible and intangible assets and liabilities, valuing these assets and liabilities, and estimating their remaining useful lives. The valuation of these assets and liabilities is based on assumptions and criteria that, in some cases, include management's estimates of discounted future cash flows.

If actual results are not consistent with estimates and assumptions considered, the Group may have to adjust its estimates of the fair values of assets and liabilities recognised and the goodwill balance during the measurement period. Such a remeasurement could have an impact on the amounts reported in the consolidated income statement in current and future periods.

Key sources of estimation uncertainty

Preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgements which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

The most significant areas requiring the use of management estimates and assumptions relate to:

- fair value of net assets acquired and liabilities assumed in business combinations;
- ore reserve estimates;
- depreciation;
- impairment of goodwill, mining assets and other property, plant and equipment;
- valuation of stockpiles and work in-process;
- share-based compensation;
- environmental obligations;
- contingencies; and
- income taxes.

Ore reserve estimates

An ore reserve estimate is an estimate of the amount of product that can be economically and legally extracted from the Group's properties. Ore reserve estimates are used by the Group in the calculation of: depletion of mining assets using the units-of-production method; impairment charges and in forecasting the timing of the payment of decommissioning and land restoration costs. Also, for the purpose of impairment review and the assessment of the timing of the payment of decommissioning and land restoration costs, management may take into account mineral resources in addition to ore reserves where there is a high degree of confidence that such resources will be extracted.

In order to calculate ore reserves, estimates and assumptions are required about geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices, discount rates and exchange rates. Estimating the quantity and/or grade of ore reserves requires the size, shape and depth of ore bodies to be determined by analysing geological data such as the logging and assaying of drill samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Ore reserve estimates may change from period to period as additional geological data becomes available during the course of operations or if there are changes in any of the aforementioned assumptions. Such changes in estimated reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- asset carrying values due to changes in estimated future cash flows;
- depletion charged in the consolidated income statement where such charges are determined by using the units-of-production method;
- provisions for decommissioning and land restoration costs where changes in estimated reserves affect expectations about the timing of the payment of such costs;
- carrying value of deferred tax assets and liabilities where changes in estimated reserves affect the carrying value of the relevant assets and liabilities; and
- contingent consideration liabilities when it depends on future sales of metal produced by certain mines.

Depreciation

Mining assets are depreciated using the units-of-production method except where the useful lives of the assets are shorter than the life of the mine. The units-of-production depreciation calculations are based on proved and probable reserves under the JORC Code, which is the basis on which the Group's mine plans are prepared as the useful lives of these assets are considered to be limited to the life of the relevant mine. For other property, plant and equipment, the straight-line method is applied over the estimated useful life of the asset which does not exceed the estimated mine life.

The calculation of the units-of-production rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on proved and probable ore reserves. This would generally arise when there are significant changes in any of the factors or assumptions used in estimating ore reserves.

Impairment of goodwill, mining assets and other property, plant and equipment

The Group considers both external and internal sources of information in assessing whether there are any indications that goodwill, mining assets or other property, plant and equipment owned by the Group are impaired. External sources of information the Group considers include: changes in the market and economic and legal environment in which the Group operates, that are not within its control and that affect the recoverable amount of goodwill, mining assets or other property, plant and equipment.

Internal sources of information the Group considers include the manner in which mining properties, plant and equipment are being used or expected to be used and indications of economic performance of the assets. In determining the recoverable amounts of the Group's mining assets and other property, plant and equipment, the Group's management determines the fair value less costs to sell by estimating the discounted future after-tax cash flows expected to be derived from the Group's mining properties, costs to sell the mining properties and the appropriate post-tax discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable reserves and resources and/or adverse current economics can result in a write-down of the carrying amounts of the Group's goodwill, mining assets or other property, plant and equipment.

In making the assessment for impairment, assets that do not generate independent cash inflows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash inflows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value-in-use calculation. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Stockpiles and work in-process

In determining mine operating costs recognised in the consolidated income statement, the Group's management uses survey and assay techniques to estimate quantities of ore stacked on leach pads and in process and the recoverable gold and silver in this material to determine the average costs of finished goods sold during the period. Changes in these estimates can result in a change in mine operating costs of future periods and carrying amounts of inventories. At 31 December 2014 the carrying value of the ore stockpiles was US\$207 million and work in-process was US\$51 million.

Environmental obligations

The Group's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The Group's provision for future decommissioning and land restoration cost represents management's best estimate of the present value of the future cash outflows required to settle the liability which reflects estimates of future costs, inflation, movements in foreign exchange rates and assumptions of risks associated with the future cash outflows; and the applicable interest rate for discounting the future cash outflows. Actual costs incurred in future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgements and estimates of the outcome of future events.

Income taxes and mining taxes

The Group is subject to income tax and mining taxes in the Russian Federation and Kazakhstan. Mining taxes do not meet the definition of a tax under IAS 12 *Income taxes*. Significant judgement is required in determining the provision for these taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes, penalties and interest will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgements based on the expected performance. Various factors are considered in order to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

Notes to the consolidated financial statements

continued

4. Acquisitions and disposals

(a) Business combinations and asset acquisitions

Kyzyl acquisition

On 4 September 2014 the Group acquired 100 per cent of the share capital of Altynalmas Gold Ltd (AAG), the holding company for the Kyzyl gold project in Kazakhstan.

The initial consideration for this acquisition comprised US\$318.5 million in cash and 31,347,078 new ordinary shares of Polymetal International plc issued to Sumeru Gold B.V., representing approximately 7.45% of the Company's enlarged issued share capital. The number of shares issued was determined by dividing US\$300 million by the unweighted mean average closing price of Polymetal shares on the Main Market of the London Stock Exchange in the 12 calendar months ending three trading days before completion which equated to US\$9.57027 per share. Using the share price in completion gave a fair value for the share consideration of US\$274.9 million. Deferred additional cash consideration up to an agreed cap, contingent on certain conditions being met and dependent on the relative dynamics of the gold price and the price of Polymetal's shares, may be payable over the next seven years, and this forms the basis for a contingent consideration liability which was valued on acquisition at US\$27.7 million.

Sumeru Gold B.V. is entitled to a put option giving it a right to require Polymetal to acquire or procure acquirers for the consideration shares by notice to Polymetal during the one month period immediately following the first anniversary of completion at a price per consideration share equal to US\$9.57027. On completion Polymetal recognised the repurchase obligation at the net present value of maximum repayment of US\$300 million, which approximates to US\$273 million, with a corresponding decrease in equity. The put option has an exercise period from 4 September to 4 October 2015. When the option lapses or is exercised, both the liability and the corresponding balance in equity will be derecognised. After any cash payments to the vendor are taken into account, the balancing figure goes through retained earnings.

AAG meets the definition of a business pursuant to IFRS 3 thus it was accounted for at fair value using the acquisition method.

Assets acquired and liabilities recognised at the date of acquisition

The initial accounting of the acquisition of AAG has only been provisionally determined at the end of the reporting period based on the directors' best estimate.

The management believes that this business acquisition does not give rise to goodwill and excess of consideration over net asset assets of the acquiree should be fully attributed the mineral rights. The amount recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below.

	US\$'000
Assets acquired and liabilities recognised at the date of acquisition	
Cash and cash equivalents	4,156
Mineral rights (Exploration and development assets)	853,600
Other property, plant and equipment	6,144
Other assets	1,583
Environmental obligations	(16,346)
Contingent liabilities	(5,627)
Deferred income taxes	(166,325)
Other liabilities	(1,507)
Net assets acquired	675,677
Consideration transferred	
Cash	318,500
Fair value of shares issued	274,914
Contingent consideration	27,699
Seller put option	54,565
Total consideration	675,677
Net cash outflow on acquisition	314,344

Contingent liabilities assumed in the business combination of US\$5.6 million represent social obligations set by the Sub-Soil Use contracts, being amounts committed to be spent on professional trainings and other social engagements over the life of project. The potential undiscounted amount of future payments that the Group could be required to make approximates to US\$10 million (refer to Note 29).

No significant financial assets were acquired in the business combination.

Valuation of consideration

The fair value of the 31,347,078 ordinary shares issued as part of the consideration paid for AAG was determined based on the spot price at the acquisition date, being US\$8.77.

The deferred additional cash consideration described above meets the definition of contingent consideration and was fair valued as of the acquisition date using a Monte Carlo valuation simulation. Potential amounts payable for each of the next seven years are linked to the average gold price in each period, with a deduction for the effect of the share value appreciation. The average annual gold price must exceed US\$1,250/oz for any consideration to be payable. The total amount payable is limited to US\$500 million. The key assumptions used in the contingent consideration calculation are set out below:

Gold price volatility	7.16%
Share price volatility	31.2%
Constant correlation between gold price and share price	93.3%
Dividend yield	2%
Gold price as of the acquisition date	US\$1,271.5
Share price as of the acquisition date	US\$8.77
Discount rate	9%

The acquisition date fair value was calculated at US\$27.7 million.

At acquisition the fair value of the seller's put option was calculated using a Black-Scholes option pricing model, using assumptions consistent with the Monte Carlo simulation. The fair value has been calculated at US\$54.6 million.

Impact of the acquisition on the result of the Group

Acquisition-related costs (included in Other operating expenses) amount to US\$4 million (Note 12).

Altynalmas Gold Ltd (AAG) contributed US\$3 million loss to the Group's loss for the period between the acquisition date and year end. AAG generated no revenues in 2014. Had the acquisition completed on the first day of the financial year, it would have increased the Group's loss by US\$10.1 million.

North Kaluga deposit

On 29 August 2014 Polymetal International plc acquired 100% ownership in the North Kaluga property following the restructuring of the JSC Ural-Polymetal, which was previously classified as an associate in the IFRS consolidated financial statements.

Under the terms of the restructuring agreement, Ural-Polymetal was dissolved and the asset and liabilities of the former associate were distributed amongst the shareholders. Polymetal received a 100% interest in the North Kaluga property and assumed US\$20 million of debt. The other assets and liabilities of the associate were transferred to the other shareholders. Polymetal owned 49.99% of Ural-Polymetal prior to the transaction and the asset had nil carrying value in the Group's financial statements due to write-off in 2013 following the commodities price decline.

North Kaluga does not meet the definition of a business pursuant to IFRS 3 (2008) thus it is accounted for as an acquisition of a group of assets. As a result the Group acquired mineral rights at cost of US\$20.9 million, debt amounting to US\$20.3 million and other current liabilities of US\$0.6 million.

Other minor acquisitions

During the year ended 31 December 2014 the Group acquired several minor companies, which hold exploration licences and capital construction in progress assets. The acquired subsidiaries do not meet the definition of a business pursuant to IFRS 3 (2008) thus they were accounted for as an acquisition of a group of assets. The Group purchased mineral rights at total cost of US\$1.7 million, capital construction in progress at a cost of US\$2.6 million and other current liabilities of US\$3.0 million for a total cash consideration of US\$1.3 million.

Olymp Ltd.

On 24 January 2013 the Group completed the acquisition of 100% of Olymp Ltd., a Russian legal entity holding the mining and exploration licence for the Olcha gold-silver deposit in exchange for 775,000 new ordinary shares in Polymetal.

Olymp Ltd. does not meet the definition of a business pursuant to IFRS 3 (2008) thus it is accounted for as an acquisition of a group of assets. The Group purchased mineral rights at cost of US\$13.4 million and other current liabilities of US\$0.01 million.

Notes to the consolidated financial statements

continued

4. Acquisitions and disposals continued

(a) Business combinations and asset acquisitions continued

ZAO 'Maminskaya Gornorudnaya kompania'

On 20 February 2013 the Group entered into a binding memorandum of understanding with Vitalex Investments Ltd and Arrowline Investments Ltd to acquire a 100% interest in ZAO 'Maminskaya Gornorudnaya kompania' ('MGK'), which holds an exploration and mining licence for the Maminskoye gold mining field ('Maminskoye').

On 9 April 2013 the Group completed the acquisition of 100% of the ordinary share capital and debt in MGK. The consideration for the equity investment was US\$3.9 million payable in cash and 5,491,661 of Polymetal's ordinary shares valued at the acquisition date at US\$74.6 million. The debt investment in MGK was acquired for consideration payable in cash and equalling its carrying value of US\$8.0 million.

MGK meets the definition of a business pursuant to IFRS 3 (2008) thus it was accounted for at fair value using the acquisition method.

The allocation of the purchase price based on the consideration paid and the fair value of the assets acquired was as follows:

	US\$'000
Net assets acquired	
Mineral rights	115,127
Property, plant and equipment	2,952
Non-current liabilities	(9,896)
Deferred tax liability	(23,025)
Other assets, net	1,400
Net assets acquired	86,558
Consideration:	
Fair value of shares issued in Polymetal International plc	74,624
Cash consideration for equity investment	3,900
Cash consideration for debt investment	8,034
Total consideration	86,558

(b) Disposal of subsidiary

Habarovsk Exploration Company LLC

On 22 October 2013 the Group sold its subsidiary Habarovsk Exploration Company LLC for US\$3.5 million in deferred cash consideration to an unrelated party. The loss on disposal was calculated as follows:

	US\$'000
Property, plant and equipment	7,124
Other non-current assets	1,395
Current assets	4,374
Current liabilities	(598)
Non-current liabilities	(10,121)
Net assets disposed of	2,174
Consideration receivable	3,475
Intercompany debt assigned to acquirer	(10,047)
Loss on disposal	(8,746)

5. Segment information

The Group has eight reportable segments (2013: seven):

- Voro (CJSC Gold of Northern Urals);
- Khakanja (LLC Okhotskaya Mining and Exploration Company; Svetloye LLC);
- Dukat (CJSC Magadan Silver; Olymp LLC);
- Omolon (Omolon Gold Mining Company LLC);
- Varvara (JSC Varvarinskoye);
- Amursk-Albazino (Albazino Resources Ltd, Amur Hydrometallurgical Plant LLC);
- Mayskoye (Mayskoye Gold Mining Company LLC); and
- Kyzyl (Bakyrchik Mining Venture LLP, JSC Inter Gold Capital).

Reportable segments are determined based on the Group's internal management reports and are separated based on the Group's geographical structure. Minor companies and activities (management, exploration, purchasing and other companies) which do not meet the reportable segment criteria are disclosed within the corporate and other segment. Each segment is engaged in gold, silver or copper mining and related activities, including exploration, extraction, processing and reclamation. The Group's segments are all based in the Russian Federation, except for Varvara and Kyzyl which are based in Kazakhstan.

The measure which management and the Chief Operating Decision Maker (the CODM) use to evaluate the performance of the Group is segment Adjusted EBITDA, which is defined as profit for the period adjusted for depreciation and amortisation, impairment of non-current assets, write-downs and reversals of inventory to net realisable value, share-based compensation expenses, rehabilitation expenses, gains or losses arising on acquisition or disposal of subsidiaries, foreign exchange gains or losses, changes in the fair value of contingent consideration, finance income, finance costs, income tax expenses and other tax exposure accrued within other operating expenses. The accounting policies of the reportable segments are consistent with those of the Group's accounting policies under IFRS.

Revenue shown as corporate and other comprises, principally, intersegment revenue relating to the supply of inventories, spare parts and fixed assets, and rendering management services to the Group's production entities. Intersegment revenue is recognised based on costs incurred plus a fixed margin basis. External revenue shown within corporate and other represents revenue from services provided to third parties by the Group's non-mining subsidiaries.

Business segment current assets and liabilities, other than current inventory, are not reviewed by the CODM and therefore are not disclosed in these consolidated financial statements.

Notes to the consolidated financial statements

continued

5. Segment information continued

The segment adjusted EBITDA reconciles to the profit before income tax as follows:

For the year ended 31 December 2014 (\$'000)	Voro	Khakanja	Dukat	Omolon	Varvara	Amursk- Albazino	Mayskoye	Kyzyl	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	204,490	157,771	485,608	276,930	120,374	298,547	145,242	-	1,688,962	1,429	-	1,690,391
Intersegment revenue	1,527	554	383	168	-	3,893	-	-	6,525	237,297	(243,822)	-
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	53,938	81,538	229,648	115,500	62,618	139,806	102,105	-	785,153	163,343	(187,113)	761,383
Cost of sales	70,104	101,808	287,022	180,442	76,051	197,038	134,524	-	1,046,989	163,343	(187,113)	1,023,219
Depreciation included in cost of sales	(16,708)	(19,518)	(57,520)	(63,121)	(12,760)	(55,837)	(30,202)	-	(255,666)	-	-	(255,666)
Write-down of non-metal inventory to net realisable value	(106)	-	109	(619)	(375)	(966)	(2,112)	-	(4,069)	-	-	(4,069)
Rehabilitation expenses	648	(752)	37	(1,202)	(298)	(429)	(105)	-	(2,101)	-	-	(2,101)
General, administrative and selling expenses, excluding depreciation, amortisation and share-based compensation	6,416	10,531	10,753	9,095	4,260	7,838	11,704	1,973	62,570	74,084	(12,563)	124,091
General, administrative and selling expenses	15,915	16,492	20,322	14,299	5,951	14,785	17,793	2,199	107,756	80,789	(57,252)	131,293
Intercompany management services	(8,766)	(5,452)	(8,685)	(5,074)	(1,458)	(6,839)	(5,552)	-	(41,826)	(2,863)	44,689	-
Depreciation included in SGA	(733)	(509)	(884)	(130)	(233)	(108)	(537)	(226)	(3,360)	(1,455)	-	(4,815)
Share-based compensation	-	-	-	-	-	-	-	-	-	(2,387)	-	(2,387)
Other operating expenses excluding additional tax charges	4,165	6,015	15,990	10,371	8,972	21,526	3,919	852	71,810	37,220	3,362	112,392
Other operating expenses	4,537	6,015	28,580	12,721	11,871	21,526	5,217	852	91,319	37,220	3,362	131,901
Mining taxes, VAT, penalties and accrued interest	(372)	-	(12,590)	(2,350)	(2,899)	-	(1,298)	-	(19,509)	-	-	(19,509)
Share of loss of associates and joint ventures	-	-	-	-	-	-	-	-	-	7,139	-	7,139
Adjusted EBITDA	141,498	60,241	229,600	142,132	44,524	133,270	27,514	(2,825)	775,954	(43,060)	(47,508)	685,386
Depreciation expense	17,441	20,027	58,404	63,251	12,993	55,945	30,739	226	259,026	1,455	-	260,481
Rehabilitation expenses	(648)	752	(37)	1,202	298	429	105	-	2,101	-	-	2,101
Write-down of non-metal inventory to net realisable value	106	-	(109)	619	375	966	2,112	-	4,069	-	-	4,069
Reversal/(write-down) of metal inventory to net realisable value	5	(4,982)	(548)	(34,287)	5,845	-	(5,207)	-	(39,174)	-	-	(39,174)
Share-based compensation	-	-	-	-	-	-	-	-	-	2,387	-	2,387
Mining taxes, penalties and accrued interest	372	-	12,590	2,350	2,899	-	1,298	-	19,509	-	-	19,509
Operating profit/(loss)	124,222	44,444	159,300	108,997	22,114	75,930	(1,533)	(3,051)	530,423	(46,902)	(47,508)	436,013
Foreign exchange loss	-	-	-	-	-	-	-	-	-	-	-	(559,266)
Loss on disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of contingent consideration	-	-	-	-	-	-	-	-	-	-	-	22,788
Finance income	-	-	-	-	-	-	-	-	-	-	-	3,216
Finance costs	-	-	-	-	-	-	-	-	-	-	-	(40,626)
Loss before tax	-	-	-	-	-	-	-	-	-	-	-	(137,875)
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	(71,195)
Loss for the financial period	-	-	-	-	-	-	-	-	-	-	-	(209,840)
Current metal inventories	35,937	26,714	54,853	79,007	24,776	39,953	43,419	-	304,659	112	(3,970)	300,801
Current non-metal inventories	4,501	33,230	26,621	30,387	16,109	22,445	28,819	975	163,087	15,055	(10,212)	167,930
Non-current segment assets:												
Property, plant and equipment, net	65,362	55,459	218,414	95,106	124,093	311,005	178,142	862,649	1,910,230	132,954	(22,260)	2,020,924
Goodwill	-	-	5,164	-	-	-	-	-	17,970	-	-	17,970
Non-current inventory	1,394	23,380	6,364	52,263	18,678	6,846	6,555	-	115,480	-	(1,253)	114,227
Investments in associates	-	-	-	-	-	-	-	-	-	2,107	-	2,107
Total segment assets	107,194	138,783	311,416	256,763	183,656	380,249	269,741	863,624	2,511,426	150,228	(37,695)	2,623,959
Additions to non-current assets:												
Property, plant and equipment	17,695	34,814	32,943	20,623	21,498	43,698	18,606	3,641	193,518	30,184	-	223,702
Acquired in business combinations and acquisition of group of assets	20,912	-	-	-	-	-	-	859,744	880,656	4,307	-	884,963

For the year ended 31 December 2013 (\$'000)	Voro	Khakanja	Dukat	Omolon	Varvara	Amursk- Albazino	Mayskoye	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	214,712	202,641	531,587	222,795	189,527	293,778	49,547	1,704,587	2,010	-	1,706,597
Intersegment revenue	-	-	-	1,298	760	605	-	2,663	411,786	(414,449)	-
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	69,174	102,168	270,576	134,967	106,748	172,194	40,612	896,789	298,092	(316,984)	877,897
Cost of sales	86,437	126,345	330,341	188,623	123,465	231,933	56,409	1,143,553	297,227	(316,984)	1,123,796
Depreciation included in cost of sales	(16,990)	(23,627)	(60,666)	(43,154)	(16,392)	(59,673)	(13,177)	(233,679)	-	-	(233,679)
Write-down of non-metal inventory to net realisable value	(166)	(435)	1,847	(10,005)	(325)	117	(2,594)	(11,561)	865	-	(10,696)
Rehabilitation expenses	(107)	(115)	(596)	(497)	-	(183)	(26)	(1,524)	-	-	(1,524)
General, administrative and selling expenses, excluding depreciation, amortisation and share-based compensation	8,086	9,459	13,469	11,495	5,074	9,536	10,255	67,374	99,476	(26,805)	140,045
General, administrative and selling expenses	19,776	16,497	24,976	17,876	5,555	12,630	12,362	109,672	127,384	(68,924)	168,132
Intercompany management services	(10,780)	(6,799)	(10,737)	(6,232)	(302)	(2,927)	(1,882)	(39,659)	(2,460)	42,119	-
Depreciation included in SGA	(910)	(239)	(770)	(149)	(179)	(167)	(225)	(2,639)	(1,215)	-	(3,854)
Share-based compensation	-	-	-	-	-	-	-	-	(24,233)	-	(24,233)
Other operating expenses excluding additional tax charges	7,325	6,056	18,221	14,334	4,368	9,342	2,971	62,617	19,630	5,577	87,824
Other operating expenses	7,325	6,056	18,622	14,334	4,629	9,342	2,971	63,279	19,630	5,577	88,486
Mining taxes, penalties and accrued interest	-	-	(401)	-	(261)	-	-	(662)	-	-	(662)
Share of loss of associates and joint ventures	-	-	-	-	-	-	-	-	2,340	-	2,340
Adjusted EBITDA	130,127	84,958	228,971	63,297	74,097	103,311	(4,291)	680,470	(5,742)	(76,237)	598,491
Depreciation expense	17,900	23,866	61,436	43,303	16,571	59,840	13,402	236,318	1,215	-	237,533
Rehabilitation expenses	107	115	596	497	-	183	26	1,524	-	-	1,524
Write-down of non-metal inventory to net realisable value	166	435	(1,847)	10,005	325	(117)	2,594	11,561	(865)	-	10,696
Impairment of non-current assets	-	104,404	-	16,587	80,114	-	-	201,105	-	-	201,105
Impairment of investment in associate	-	-	-	-	-	-	-	-	12,291	-	12,291
Write-downs of metal inventories to net realisable value	2,559	28,160	11,954	75,229	19,301	-	16,124	153,327	-	-	153,327
Share-based compensation	-	-	-	-	-	-	-	-	24,233	-	24,233
Mining taxes, penalties and accrued interest	-	-	401	-	261	-	-	662	-	-	662
Operating profit/(loss)	109,395	(72,022)	156,431	(82,324)	(42,475)	43,405	(36,437)	75,973	(42,616)	(76,237)	(42,880)
Foreign exchange loss	-	-	-	-	-	-	-	-	-	-	(74,240)
Loss on disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	(8,746)
Change in fair value of contingent consideration	-	-	-	-	-	-	-	-	-	-	8,131
Finance income	-	-	-	-	-	-	-	-	-	-	2,850
Finance costs	-	-	-	-	-	-	-	-	-	-	(42,735)
Loss before tax	-	-	-	-	-	-	-	-	-	-	(157,620)
Income tax benefit	-	-	-	-	-	-	-	-	-	-	(40,417)
Loss for the financial period	-	-	-	-	-	-	-	-	-	-	(198,037)
Current metal inventories	62,154	53,671	83,533	72,332	14,527	84,716	59,471	430,404	222	(3,474)	427,152
Current non-metal inventories	8,898	54,548	51,414	57,494	23,882	46,804	50,354	293,394	25,420	(18,822)	299,992
Non-current segment assets:											
Property, plant and equipment, net	93,866	59,741	416,822	250,847	150,564	568,599	325,580	1,866,019	264,395	(35,672)	2,094,742
Goodwill	-	-	8,876	-	-	-	22,013	30,889	-	-	30,889
Non-current inventory	2,554	5,165	11,135	16,189	9,178	4,802	5,905	54,928	759	(2,545)	53,142
Investments in associates	-	-	-	-	-	-	-	-	15,651	-	15,651
Total segment assets	167,472	173,125	571,780	396,862	198,151	704,921	463,323	2,675,634	306,447	(60,513)	2,921,568
Additions to non-current assets:											
Property, plant and equipment	19,701	39,443	40,309	57,317	42,323	70,997	58,006	328,096	40,650	(11,929)	356,817
Acquired in business combinations and acquisition of group of assets	-	-	13,400	-	-	-	-	13,400	118,079	-	131,479

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6. Revenue

Revenue analysed by geographical regions of customers is presented below:

	Year ended	
	31 December 2014 US\$'000	31 December 2013 US\$'000
Sales within the Russian Federation	1,165,729	1,060,935
Sales to Kazakhstan	169,242	170,178
Sales to Korea	158,625	90,512
Sales to China	133,497	165,368
Sales to Japan	51,864	65,183
Sales to Europe	9,716	151,970
Total metal sales	1,688,673	1,704,146
Other sales	1,718	2,451
Total	1,690,391	1,706,597

Included in revenues for the year ended 31 December 2014 are revenues which arose from sales to three of the Group's largest customers amounting to US\$573 million, US\$221 million and US\$164 million, respectively (2013: US\$391 million, US\$273 million and US\$175 million, respectively). No other customers individually account for more than 10% of the Group's revenues.

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

	Year ended 31 December 2014				Year ended 31 December 2013			
	Thousand ounces/tonnes shipped (unaudited)	Thousand ounces/tonnes payable (unaudited)	Average price (US Dollar per troy ounce/tonne payable) (unaudited)	US\$'000	Thousand ounces/tonnes shipped (unaudited)	Thousand ounces/tonnes payable (unaudited)	Average price (US Dollar per troy ounce/tonne payable) (unaudited)	US\$'000
Gold (thousand ounces)	958	943	1,231	1,160,984	818	808	1,326	1,070,847
Silver (thousand ounces)	29,661	29,342	17.7	520,469	27,414	27,376	22.0	592,576
Copper (tonnes)	1,093	1,029	7,015	7,220	6,468	6,141	6,631	40,723
Total				1,688,673				1,704,146

7. Cost of sales excluding write-downs of metal inventories to net realisable value

	Year ended	
	31 December 2014 US\$'000	31 December 2013 US\$'000
Cash operating costs		
On-mine costs (Note 8)	391,256	393,067
Smelting costs (Note 9)	363,382	384,192
Purchase of ore from third parties	1,506	18,836
Purchase of ore from related parties (Note 34)	–	13,983
Mining tax	110,064	109,421
Total cash operating costs	866,208	919,499
Depreciation and depletion of operating assets (Note 10)	291,940	245,483
Rehabilitation expenses	2,714	1,524
Total costs of production	1,160,862	1,166,506
Increase in metal inventories	(142,082)	(53,985)
Write-down of non-metal inventories to net realisable value (Note 23)	4,069	10,696
Cost of other sales	370	579
Total	1,023,219	1,123,796

Mining tax is a royalty payable in the Russian Federation and Kazakhstan which is calculated based on the value of the precious metals extracted in the period. This value is usually determined based on the realised selling price of precious metals or, in the case where there were no sales during the period, cost of sales of metals extracted (Russian Federation) or the average market price (Kazakhstan) during the period.

Mining tax in respect of the metal inventories produced during the year is recognised within cost of sales, while the additional mining tax accruals in respect of various disputes with tax authorities are recognised within other expenses (see Note 12).

8. On-mine costs

	Year ended	
	31 December 2014 US\$'000	31 December 2013 US\$'000
Consumables and spare parts	101,252	114,679
Services	184,364	165,936
Labour	103,704	109,475
Taxes, other than income tax	1,015	609
Other expenses	921	2,368
Total (Note 7)	391,256	393,067

9. Smelting costs

	Year ended	
	31 December 2014 US\$'000	31 December 2013 US\$'000
Consumables and spare parts	156,904	171,358
Services	138,609	139,489
Labour	65,177	70,650
Taxes, other than income tax	675	1,021
Other expenses	2,017	1,674
Total (Note 7)	363,382	384,192

10. Depletion and depreciation of operating assets

	Year ended	
	31 December 2014 US\$'000	31 December 2013 US\$'000
On-mine	205,856	159,218
Smelting	86,084	86,265
Total (Note 7)	291,940	245,483

Depreciation of operating assets excludes depreciation relating to non-operating assets (included in general, administrative and selling expenses) and depreciation related to assets employed in development projects where the charge is capitalised. Depreciation expense, which is excluded from the Group's calculation of Adjusted EBITDA (see Note 5), also excludes amounts absorbed into unsold metal inventory balances.

On-mine depreciation increased due to significant depreciation of the deferred stripping assets and increased mining volumes on several deposits during the year ended 31 December 2014.

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11. General, administrative and selling expenses

	Year ended	
	31 December 2014 US\$'000	31 December 2013 US\$'000
Labour	93,168	106,952
Services	16,664	18,739
Share-based compensation	2,387	24,233
Depreciation	4,815	3,854
Other	14,259	14,354
Total	131,293	168,132

12. Other operating expenses

	Year ended	
	31 December 2014 US\$'000	31 December 2013 US\$'000
Exploration expenses	50,525	24,144
Taxes, other than income tax	22,191	21,164
Mining taxes, VAT, penalties and accrued interest (Note 16)	19,509	662
Social payments	9,247	10,709
Housing and communal services	7,191	6,547
Loss on disposal of property, plant and equipment	4,473	9,503
Business acquisition related costs (Note 4)	4,039	–
Allowance for doubtful debts	(213)	1,089
Change in estimate of environmental obligations	(723)	(1,064)
Other expenses	15,662	15,732
Total	131,901	88,486

Mining taxes, VAT, penalties and accrued interest have been accrued in respect of various disputes with the Russian and Kazakh tax authorities. The background to these cases and their impact on the results of the Group has been set out in more detail within Note 16.

Exploration expenses include write downs of US\$35.6 million (2013: nil) recognised within Exploration and Development assets (Note 19). Operating cash flow spent on exploration activities amounts to US\$15.8 million (2013: US\$23.2 million).

13. Employee costs

	Year ended	
	31 December 2014 US\$'000	31 December 2013 US\$'000
Wages and salaries	245,494	281,316
Social security costs	59,321	64,557
Share-based payments expense	2,387	24,233
Total payroll costs	307,202	370,106
Reconciliation:		
Less: employee costs capitalised	(36,954)	(52,003)
Less: employee costs absorbed into unsold metal inventory balances	(18,079)	(13,815)
Employee costs included in operating costs	252,169	304,288

The weighted average number of employees during the year ended 31 December 2014 was:

	Year ended	
	31 December 2014 Number	31 December 2013 Number
Voro	936	913
Khakanja	1,049	1,144
Dukat	1,836	1,952
Omolon	805	910
Varvara	727	730
Amursk-Albazino	1,194	1,158
Mayskoye	870	941
Kyzyl	110	–
Corporate and other	1,326	1,484
Total	8,853	9,232

Compensation for key management personnel is disclosed within Note 34.

14. Auditor's remuneration

	Year ended	
	31 December 2014 US\$'000	31 December 2013 US\$'000
Fees payable to the auditor and their associates for the audit of the Company's Annual Report		
United Kingdom	342	353
Overseas	665	595
Total audit fees	1,007	948
Audit-related assurance services – half year review	400	527
Total audit and half-year review fees	1,407	1,475
Taxation compliance services (i.e. related to assistance with corporate tax returns)	–	16
Capital project consulting services	–	394
Other services	579	10
Total non-audit fees	579	420
Total fees	1,986	1,895

Other service fees relate to work on the class 1 circular for the Altynalmas acquisition services.

15. Finance costs

	Year ended	
	31 December 2014 US\$'000	31 December 2013 US\$'000
Interest expense on borrowings	33,793	29,972
Unwinding discount on borrowings	–	9,070
Unwinding discount on repurchase obligation (Note 4)	2,551	–
Unwinding of discount on decommissioning obligations	4,282	3,693
Total	40,626	42,735

Interest expense on borrowings excludes borrowing costs capitalised in the cost of qualifying assets of US\$5.1 million and US\$6.1 million during the years ended 31 December 2014 and 2013, respectively. These amounts were calculated based on the Group's general borrowing pool and by applying an effective interest rate of 3.5% and 2.99%, respectively, to cumulative expenditure on such assets.

The repurchase obligation relates to the put option issued to the seller of Altynalmas Gold Ltd (AAG), giving it a right during a specified period to require Polymetal International plc to acquire or procure acquirers for the 31,347,078 consideration shares issued by Polymetal International plc at a price of US\$9.57027 per share (Note 4).

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16. Income tax

The income tax expense for the year ended 31 December 2014 is as follows:

	Year ended	
	31 December 2014 US\$'000	31 December 2013 US\$'000
Current income taxes	79,003	105,096
Excess profit taxes payable in Kazakhstan	–	8,313
Deferred income taxes	(7,038)	(72,992)
	71,965	40,417

A reconciliation between the reported amount of income tax expense attributable to loss before income tax for the year ended 31 December 2014 is as follows:

	Year ended	
	31 December 2014 US\$'000	31 December 2013 US\$'000
Loss before income tax	(137,875)	(157,620)
Statutory income tax expense at the tax rate of 20%	(27,575)	(31,524)
Loss incurred in tax-free jurisdictions	75,444	8,309
Share-based compensation	375	4,720
Excess profit taxes payable in Kazakhstan	–	8,313
Income tax provision in respect of Magadan Silver	6,865	–
Deferred tax asset provided for	3,627	–
Adjustments recognised in the current year in relation to the current tax of prior years	(2,016)	15,210
Tax effect of non-deductible expenses and other permanent differences	15,245	35,389
Total income tax expense	71,965	40,417

The actual tax expense differs from the amount which would have been determined by applying the statutory rate of 20% for the Russian Federation and Kazakhstan to profit before income tax as a result of the application of relevant jurisdictional tax regulations, which disallow certain deductions which are included in the determination of accounting profit. These deductions include share-based payment expenses, social related expenditures and other non-production costs, certain general and administrative expenses, financing expenses, foreign exchange related and other costs.

In the normal course of business, the Group is subject to examination by tax authorities throughout the Russian Federation and Kazakhstan. Out of the large operating companies of the Group, tax authorities have audited CJSC Gold of Northern Urals and CJSC Magadan Silver up to 2012, Omolon Gold Mining Company LLC, LLC Okhotskaya Mining and Exploration Company CJSC and Mayskoye Gold Mining Company LLC up to 2010, and JSC Varvarinskoye for the period up to 2010. According to Russian and Kazakhstan tax legislation, previously conducted audits do not fully exclude subsequent claims relating to the audited period.

Tax exposures recognised in income tax and other expenses

At 31 December 2014

In respect of the year ended 31 December 2014 the Group has identified and provided for additional mining tax exposures amounting to US\$2.4 million at Omolon, US\$1.3 million at Mayskoye, US\$0.4 million at Voro and various Varvara tax exposures of US\$2.9 million. The Group has also accrued interest related to Magadan Silver tax exposures previously identified of US\$4.1 million, and mining tax exposure for 2013 amounting to US\$2.4 million. During the year ended 31 December 2014 the Group has also identified a VAT exposure of US\$2.4 million including penalties and interest and an income tax exposure of US\$10.2 million including penalties and interest of US\$3.6 million at Magadan Silver, which were provided for. VAT and mining tax exposures, including penalties and interest, as well as penalties and interest related to income tax exposure, are recognised within other operating expenses (Note 12).

Tax, penalties and interest of US\$3.9 million previously accrued were paid at Magadan Silver and Varvara during the year.

Total provision as of 31 December 2014 is US\$36.1 million.

At 31 December 2013

During the year ended 31 December 2013 the Group paid US\$8.3 million of mining taxes, interest and penalties in respect of the Magadan Silver Mineral Extraction Tax case, US\$17.1 million of Varvara Excess Profits Tax provided for in 2012 and US\$7.3 million of various Varvara exposures.

In respect of the year ended 31 December 2013, no additional significant income tax and mining tax exposures have been provided for.

Deferred taxation

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the reporting period.

	Environmental obligation US\$'000	Inventories US\$'000	Property, plant, and equipment US\$'000	Trade and other payables US\$'000	Tax losses US\$'000	Loans US\$'000	Other US\$'000	Total US\$'000
At 1 January 2014	13,072	(5,481)	(91,254)	7,992	85,372	3,445	12,253	25,399
Charge to income statement	40	(18,080)	(4,094)	239	31,647	670	(3,384)	7,038
Acquisition	3,175	–	(170,625)	1,125	–	–	–	(166,325)
Exchange differences	(5,429)	7,780	39,160	(2,751)	(42,741)	(1,648)	(4,202)	(9,831)
At 31 December 2014	10,858	(15,781)	(226,813)	6,605	74,278	2,467	4,667	(143,719)

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following analysis shows deferred tax balances presented for financial reporting purposes:

	Year ended	
	31 December 2014 US\$'000	31 December 2013 US\$'000
Deferred tax liabilities	(205,506)	(63,085)
Deferred tax assets	61,787	88,484
	(143,719)	25,399

Tax losses carried forward represent amounts available for offset against future taxable income generated by ZK Mayskoye LLC, Albazino Resources LLC, Amursky Hydrometallurgy Plant LLC, Svetloye LLC and the JSC Polymetal during the period up to 2024. Each legal entity within the Group represents a separate tax-paying component for income tax purposes. The tax losses of one entity cannot be used to reduce taxable income of other entities of the Group. As at 31 December 2014 and 31 December 2013 the aggregate tax losses carried forward were US\$371.4 million (RUB 20.6 billion) and US\$426.8 million (RUB 13.9 billion), respectively.

The Group believes that recoverability of the recognised deferred tax asset (DTA) of US\$74.2 million at 31 December 2014 is more likely than not based upon expectations of future taxable income in the Russian Federation and Kazakhstan and available tax planning strategies.

Losses incurred in certain taxable entities in recent years have created a history of losses as of 31 December 2014. The Group has concluded that there is sufficient evidence to overcome the recent history of losses based on forecasts of sufficient taxable income in the carry-forward period.

The Group's estimate of future taxable income is based on established proven and probable reserves which can be economically developed. The related detailed mine plans and forecasts provide sufficient supporting evidence that the Group will generate taxable earnings to be able to fully realise its net DTA even under various stressed scenarios. The amount of the DTA considered realisable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced due to delays in production start dates, decreases in ore reserve estimates, increases in environmental obligations, or reductions in precious metal prices. The Group's tax losses carried forward expire as follows:

	31 December 2014 US\$'000	31 December 2013 US\$'000
Year ended 31 December 2014	–	2,680
31 December 2015	4,320	7,401
31 December 2016	3,660	6,229
31 December 2017	5,199	8,971
31 December 2018	14,674	25,059
31 December 2019	10,483	19,939
31 December 2020	11,315	22,272
31 December 2021	12,886	67,575
31 December 2022	63,881	90,698
31 December 2023	90,885	176,034
31 December 2024	154,085	–
Total loss carried forward for tax purposes	371,388	426,858

The deferred tax liabilities for taxes that would be payable on the unremitted earnings of certain of the Group subsidiaries have not been recognised as the Group has determined that the undistributed profit of its subsidiaries will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognised, amount to US\$1,231 million (2013: US\$1,802 million).

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17. Dividends

A final dividend has been proposed in relation to the year of 13 cents per share giving a total expected dividend of US\$54.7 million. This is subject to approval by shareholders at the Annual General Meeting and has therefore not been included as a liability in these financial statements.

On 4 December 2014 the Board of Directors approved a special dividend of 20 cents per share. The liability of US\$84.2 million as at 31 December 2014 is included within accounts payable and accrued liabilities.

Dividends paid during the year ended 31 December 2014 are detailed in the table below:

	Year ended			
	31 December 2014		31 December 2013	
	cents per share	US\$'000	cents per share	US\$'000
Final dividend paid	8.0	31,158	31.0	121,247
Interim dividend paid	8.0	33,666	1.0	3,879
Special dividend paid	–	–	50.0	191,303
		64,824		316,429

18. Impairment losses

The Group assesses the impairment of property, plant and equipment when indicators of impairment exist and assess cash generating units (CGU) where goodwill is attributed for impairment on an annual basis when updated proved and probable reserves and mineral resources estimates and life of mine plans are available or when indicators of impairment exist.

Each cash generating unit is determined on the basis of the Group's geographical structure and equals the Group's reporting segments (refer to Note 5). The carrying amount of cash generating units excludes certain exploration assets included within the segment assets which are currently under development, and have not reached a stage where there is enough information to estimate the future cash flows that might be eventually generated by the project. These were assessed for impairment separately.

The carrying amounts of all the cash-generating units were assessed against their recoverable amounts determined based on a fair value less costs to sell calculation. Fair value is based on the application of the Discounted Cash Flow Method (DCF) using post-tax cash flows. The DCF method is attributable to the development of proved and probable reserves and certain resources where a relevant resource-to-reserve conversion ratio can be reasonably applied.

Year ended 31 December 2014

The Group analyses whether indicators of impairment exist based on internal and external information, taking into account both global and domestic operating environment factors.

Based on current proved and probable reserves and mineral resources estimates and life of mine plans no indicators of impairment were identified for individual cash generating units.

During the year ended 31 December 2014 gold, silver and copper market prices were stable, being close to commodity prices assumptions used in 2013 impairment tests performed (see below). At the same time the Russian economy experienced challenges resulting in a significant depreciation of Russian Rouble in the second half of 2014 and an increase in the key interest rate established by Central Bank of the Russian Federation.

The Group benefits from Russian Rouble depreciation against the US Dollar, as it leads to decreases in the Group's operating costs which are mainly denominated in Russian Rouble. The Group revised the discount rate used for DCF method arriving at a post-tax real discount rate of 9.0% (2013: 7.1%), which is equal to its nominal weighted average cost of capital of 11.7% (2013: 9.0%) translated into real terms.

No impairments or impairment reversals were recognised for the year ended 31 December 2014 both for Property, Plant and Equipment or Goodwill (see Note 20).

The carrying amount of the cash generating units excludes certain exploration and developments assets which are currently under development. These assets are assessed for impairment separately using the same assumptions set out below and where applicable impairment is recognised within Exploration expenses (Note 12).

Year ended 31 December 2013

During the year ended 31 December 2013, due to significant decline in gold, silver and copper market prices in first quarter 2013, the Group carried out an impairment review of its property, plant and equipment, goodwill and other non-current assets. As a result of this review, total impairment charges of US\$213.4 million were recognised during 2013.

Summary of key assumptions used for impairment assessment

Commodity prices

Commodity prices are based on latest internal forecasts, benchmarked against external sources of information. In the impairment tests performed, the flat real long-term gold, silver and copper prices of US\$1,200 per ounce (2013: US\$1,200), US\$17 per ounce (2013: US\$18) and US\$5,400 per tonne (2013: US\$7,000), respectively, have been used to estimate future revenues.

Discount rate

The Group used a post-tax real discount rate of 9.0% (2013: 7.1%).

Proved and probable reserves and mineral resources

Future annual production volumes are derived from the detailed long-term life of mine plans which are based on JORC proven and probable reserves and certain mineral resources (using a relevant resource-to-reserve conversion ratio) at the end of the period.

Production costs

Production costs are based on management's best estimates over the life of the mine, and reflect past experience.

Rouble exchange rates

Management have analysed RUB/US\$ rate movements for the year ended 31 December 2014. For the purposes of the impairment test, RUB/US\$ exchange rate is estimated at 50 RUB/US\$ (2013: 33 RUB/US\$).

19. Property, plant and equipment

Cost	Exploration and development assets US\$'000	Mining assets US\$'000	Non-mining assets US\$'000	Capital construction in-progress US\$'000	Total US\$'000
Balance at 1 January 2013	84,925	2,261,824	98,327	353,622	2,798,698
Additions	60,355	245,287	13,216	37,959	356,817
Transfers	78,138	143,437	(6,627)	(214,948)	–
Change in decommissioning liabilities	–	(549)	–	–	(549)
Business combinations and asset acquisitions (Note 4)	128,521	6	–	2,952	131,479
Eliminated on disposal of subsidiary	–	(12,535)	(218)	(42)	(12,795)
Disposals and write-offs	–	(45,325)	(6,455)	(1,828)	(53,608)
Translation to presentation currency	(14,713)	(161,806)	(6,964)	(20,154)	(203,637)
Balance at 31 December 2013	337,226	2,430,339	91,279	157,561	3,016,405
Additions	76,090	91,809	3,388	52,415	223,702
Transfers	(10,840)	83,457	3,305	(75,922)	–
Change in decommissioning liabilities	–	(7,497)	–	–	(7,497)
Business combinations and asset acquisitions (Note 4)	876,187	5,332	1,915	1,528	884,962
Disposals and write-offs	(35,595)	(31,006)	(3,358)	(2,487)	(72,446)
Translation to presentation currency	(167,192)	(1,008,109)	(38,062)	(54,303)	(1,267,666)
Balance at 31 December 2014	1,075,876	1,564,325	58,467	78,792	2,777,460

Accumulated depreciation, amortisation and impairment	Exploration and development assets US\$'000	Mining assets US\$'000	Non-mining assets US\$'000	Capital construction in-progress US\$'000	Total US\$'000
Balance at 1 January 2013	–	(568,272)	(24,694)	–	(592,966)
Charge for the year	–	(281,157)	(6,186)	–	(287,343)
Disposals and write-offs	–	27,115	3,804	–	30,919
Eliminated on disposal of subsidiary	–	5,469	160	–	5,629
Impairment recognised in profit and loss (Note 18)	(4,670)	(114,984)	(1,938)	(3,537)	(125,129)
Translation to presentation currency	1	44,894	2,339	(7)	47,227
Balance at 31 December 2013	(4,669)	(886,935)	(26,515)	(3,544)	(921,663)
Charge for the period	–	(319,439)	(8,657)	–	(328,096)
Disposals and write-offs	543	24,196	1,362	200	26,301
Transfers	(384)	(691)	(115)	1,190	–
Translation to presentation currency	3,700	447,498	13,709	2,015	466,922
Balance at 31 December 2014	(810)	(735,371)	(20,216)	(139)	(756,536)
Net book value					
1 January 2013	84,925	1,693,552	73,633	353,622	2,205,732
31 December 2013	332,557	1,543,404	64,764	154,017	2,094,742
Balance at 31 December 2014	1,075,066	828,954	38,251	78,653	2,020,924

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19. Property, plant and equipment continued

Mining assets and Exploration and development assets at 31 December 2014 included mineral rights with net book value which amounted to US\$1,033 million, including mineral rights of US\$853.6 million acquired in the Kyzyl transaction (31 December 2013: US\$376.3 million) and capitalised stripping costs with net book value of US\$54.9 million (31 December 2013: US\$114.8 million).

Mineral rights of the Group comprise assets acquired upon acquisition of subsidiaries and asset acquisitions.

No property, plant and equipment were pledged as collateral at 31 December 2014 or at 31 December 2013.

20. Goodwill

	31 December 2014 US\$'000	31 December 2013 US\$'000
Cost and accumulated impairment losses		
At 1 January	30,889	115,106
Impairment losses recognised (Note 18)	–	(75,976)
Translation effect	(12,919)	(8,241)
At 31 December	17,970	30,889

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

	31 December 2014 US\$'000	31 December 2013 US\$'000
Mayskoye	12,806	22,013
Dukat	5,164	8,876
Total	17,970	30,889

Sensitivity analysis

For Dukat and Mayskoye management has performed an analysis as to whether a reasonably possible adverse change to any of the key assumptions would lead to impairment.

The following scenarios were considered as reasonably possible and were used for this sensitivity analysis:

- 5% simultaneous decrease in gold and silver prices over the life of mine;
- 5% increase in operating expenses over the life of mine; and
- 0.5% increase in the discount rate applied.

Each of the sensitivities above has been determined by assuming that the relevant key assumption moves in isolation, and without regard to potential mine plan changes and other management decisions which would be taken to respond to adverse changes in existing management projections. An adverse change in a key assumption described above would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the Dukat and Mayskoye cash-generating units.

21. Investments in associates

	31 December 2014		31 December 2013	
	Voting power %	Carrying value US\$'000	Voting power %	Carrying value US\$'000
Associates				
JSC Ural-Polymetal	NA	–	49.9	–
Polygon Gold	42.65	2,107	42.65	15,651
Total		2,107		15,651

Equity investment in Polygon Gold Inc.

Polygon Gold Inc. is a private shell company which holds 100% interest in Veduga gold deposit in the Krasnoyarsk region of the Russian Federation. The Group owns 42.65% of Polygon Gold and holds significant influence in the entity.

The following tables summarise the aggregate financial position and the Group's share of net losses of the investments in Polygon Gold Inc.:

	31 December 2014 US\$'000	31 December 2013 US\$'000
Non-current assets	73,025	78,908
Current assets	10,652	6,807
Non-current liabilities	(77,468)	(30,352)
Current liabilities	(1,269)	(16,508)
Equity	(4,940)	(38,855)

	31 December 2014 US\$'000	31 December 2013 US\$'000
Revenue	20,284	14,617
Net (loss)/income	(16,739)	(5,492)
Group's share in associate net loss	(7,139)	(2,340)

Equity investment in JSC Ural-Polymetal

As a result of an impairment review performed at 31 December 2013 investment in JSC Ural-Polymetal was fully written off.

On 29 August 2014 under the terms of the restructuring agreement, Ural-Polymetal was dissolved and the asset and liabilities of the former associate were distributed amongst the joint venture partners. Polymetal received a 100% interest in the North Kaluga property (refer to Note 4).

22. Non-current loans and accounts receivable

	Interest rate	31 December 2014 US\$'000	31 December 2013 US\$'000
Loans extended to third parties	8.00%	6,807	7,334
Long-term accounts receivable	nil	2,865	11,255
Loans to employees and other long-term assets	6.00%	2,600	3,247
Loans extended to equity method investments	3.5%-6%	618	1,017
Total		12,890	22,853

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23. Inventories

	31 December 2014 US\$'000	31 December 2013 US\$'000
Inventories expected to be recovered after 12 months		
Consumables and spare parts	34,706	41,885
Ore stockpiles	79,521	11,257
Total non-current inventories	114,227	53,142
Inventories expected to be recovered in the next 12 months		
Ore stockpiles	127,245	182,269
Copper, gold and silver concentrate	100,699	133,037
Work in-process	50,762	77,848
Metal for refinery	10,357	9,117
Doré	11,738	24,881
Total metal inventories	300,801	427,152
Consumables and spare parts	167,930	299,992
Total	468,731	727,144

Increase in non-current ore stockpiles pertains mainly to impairment reversals described below and certain reclassification in accordance with mine plans.

Write-downs of metal inventories to net realisable value

The Group recognised the following reversals/(write-downs) to net realisable value of its metal inventories:

	Year ended 31 December 2014							Year ended 31 December 2013
	Voro US\$'000	Khakanja US\$'000	Dukat US\$'000	Omolon US\$'000	Varvara US\$'000	Mayskoye US\$'000	Total operating segments US\$'000	Total operating segments US\$'000
Ore stock piles	(265)	3,982	130	30,961	(5,845)	(106)	28,857	(137,203)
Ore in heap leach piles	–	–	–	3,326	–	–	3,326	–
Work in-process	260	–	–	–	–	–	260	–
Metal for refinery	–	1,000	418	–	–	–	1,418	–
Copper, gold and silver concentrate	–	–	–	–	–	5,313	5,313	(16,124)
Total	(5)	4,982	548	34,287	(5,845)	5,207	39,174	(153,327)

The write-downs were recognised in respect of the ore stockpiles with a low content of precious metal. Reversals of the previously recorded write-downs were driven by a costs reduction due to the Russian Rouble devaluation, changes in mine plans and favourable changes in contract terms with off-takers, which have the economic viability of the stockpiles.

The key assumptions used as at 31 December 2014 in determining net realisable value of inventories (including the commodity price assumptions) were consistent with the assumptions used in the impairment review (see Note 18), except for RUB/US\$ exchange rate for the metal inventories that are expected to be realised during first half 2015. Analysis of such metal inventories was performed using the rate assumption of 60 RUB/US\$.

During the year ended 31 December 2013 the Group provided for obsolete consumables and spare parts inventory in the amount of US\$4.1 million (year ended 31 December 2013: write-down of US\$10.7 million).

The amount of inventories held at net realisable value at 31 December 2014 is US\$32.4 million (31 December 2013: US\$100.7 million).

24. Trade and other receivables

	31 December 2014 US\$'000	31 December 2013 US\$'000
Receivables from provisional copper, gold and silver concentrate sales	36,613	14,902
Other trade receivables	–	2,268
Non-trade receivables	18,478	21,889
Prepaid expenses	1,311	3,827
Accounts receivable from related parties	465	164
Short-term loans provided to employees	802	3,941
Short-term loans provided to equity method investments	–	190
Total trade and other receivables	57,669	47,181
Less: Allowance for doubtful debts	(1,659)	(2,655)
Total	56,010	44,526

The average credit period on sales of copper, gold and silver concentrate at 31 December 2014 was 24 days (2013: 25 days). No interest is charged on trade receivables. The Group's allowance for doubtful debt relates to its non-trade receivables. There are no trade receivables either past due or impaired as at 31 December 2014 (31 December 2013: US\$nil).

25. Cash and cash equivalents

	31 December 2014 US\$'000	31 December 2013 US\$'000
Bank deposits	–	11,293
– RUB	–	–
– foreign currencies	133,767	32,821
Current bank accounts	12,137	8,919
– RUB	–	–
– foreign currencies	11,299	12,364
Other cash and cash equivalents	21	170
Total	157,224	65,567

Bank deposits as at 31 December 2014 bear an interest rate of 2.75%-3.2% per annum for US Dollar denominated deposits (2013: 0.2%-1.08% per annum for US dollar deposits and 6.75%-7.15% for RUB denominated deposits) with an average maturity at inception of 50 days (2013: 15 days).

26. Borrowings

Borrowings at amortised cost:

	Actual interest rate at 31 December		31 December 2014			31 December 2013			
	Type of rate	2014	2013	Current US\$'000	Non-current US\$'000	Total US\$'000	Current US\$'000	Non-current US\$'000	Total
Secured loans from third parties									
US Dollar denominated	floating	2.84%	3.22%	166,026	371,474	537,500	37,500	537,500	575,000
Total				166,026	371,474	537,500	37,500	537,500	575,000
Unsecured loans from third parties									
US Dollar denominated	floating	3.03%	2.74%	23,692	429,615	453,307	30,769	469,231	500,000
US Dollar denominated	fixed	6.60%	7.50%	319,093	12,735	331,828	–	11,443	11,443
Euro denominated	floating	–	2.24%	–	–	–	3,757	3,757	7,514
Total				342,785	442,350	785,135	34,526	484,431	518,957
Loans from third parties									
Euro denominated	floating	–	4.90%	–	–	–	8,903	7,624	16,527
CAD denominated	floating	–	5.69%	–	–	–	402	258	660
Total				–	–	–	9,305	7,882	17,187
Total				508,811	813,824	1,322,635	81,331	1,029,813	1,111,144

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26. Borrowings continued

Bank loans

The Group has a number of borrowing arrangements with various lenders. These borrowings consist of unsecured and secured loans and credit facilities denominated in US Dollars, Euro and Canadian Dollars. Where security is provided it is in the form of pledge of revenue from certain sales agreements.

During the year ended 31 December 2014, the Group drew down a total of US\$454 million and repaid US\$252 million, a net drawdown of US\$202 million.

The Group secured new facilities in the year for a total amount of US\$186.7 million with unrelated parties. These credit facilities are undrawn as at 31 December 2014 and have maturity dates between 2017 and 2020.

At 31 December 2014, the Group had undrawn borrowing facilities of US\$1,038 million (31 December 2013: US\$1,324 million). The Group complied with its debt covenants throughout 2014 and 2013. The table below summarises maturities of borrowings:

Year ended	31 December 2014 US\$'000	31 December 2013 US\$'000
31 December 2014	–	81,331
31 December 2015	508,811	253,904
31 December 2016	306,278	306,773
31 December 2017	94,812	57,692
31 December 2018	404,245	403,814
31 December 2019	5,660	5,086
31 December 2020	2,829	2,544
Total	1,322,635	1,111,144

27. Environmental obligations

Environmental obligations include decommissioning and land restoration costs and are recognised on the basis of existing project business plans as follows:

	31 December 2014 US\$'000	31 December 2013 US\$'000
Opening balance	65,364	66,693
Changes in estimates for the year:		
Decommissioning liabilities recognised in income statement (Note 12)	(723)	(1,064)
Decommissioning liabilities recognised as decrease in PPE (Note 19)	(7,497)	(549)
Rehabilitation liabilities	3,413	1,814
Effect of unwinding of discount	4,282	3,693
Acquired in business combinations (Note 4)	16,346	–
Amounts paid in the year	(1,202)	(901)
Translation to presentation currency	(25,691)	(4,322)
Closing balance	54,292	65,364

Rehabilitation expenses relate to the increase of the environmental obligation which arises on the production phase of mining activities. During the year ended 31 December 2014 rehabilitation expenses amounting to US\$0.7 million (2013: US\$0.3 million) were removed from cost of production and capitalised through the application of IFRIC 20.

The principal assumptions used for the estimation of environmental obligations were as follows:

	2014	2013
Discount rates	8.12%-14.56%	5.78%-8.43%
Inflation rates	4.10%-11.8%	4.12%-5.77%
Expected mine closure dates	1-16 years	2-19 years

The Group does not hold any assets that are legally restricted for purposes of settling environmental obligations.

28. Trade payables and accrued liabilities

	31 December 2014 US\$'000	31 December 2013 US\$'000
Trade payables	38,694	56,667
Dividends payable (Note 17)	84,164	–
Accrued liabilities	26,555	41,279
Labour liabilities	8,281	13,033
Other payables	3,041	6,418
Total	160,735	117,397

In 2014, the average credit period for payables was 22 days (2013: 34 days). There was no interest charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payment schedules to ensure that all amounts payable are settled within the credit period.

29. Commitments and contingencies

Commitments

Capital commitments

The Group's budgeted capital expenditure commitments as at 31 December 2014 amounted to US\$13.6 million (2013: US\$22.3 million).

Forward sale commitments

The Group has certain physical gold and silver forward sale commitments which are priced at the prevailing market price, calculated with reference to the LBMA or LME gold price, which are accounted for as executed as the Group expects to and has historically physically delivered into these contracts.

Operating leases: Group as a lessee

During the year ended 31 December 2014 the Group recognised US\$12.5 million as operating lease expenses (2013: US\$13.5 million).

The land in the Russian Federation and Kazakhstan on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through to 2058.

Future minimum lease payments due under non-cancellable operating lease agreements at the end of the period were as follows:

	31 December 2014 US\$'000	31 December 2013 US\$'000
Due within one year	1,760	2,831
From one to five years	2,395	3,904
Thereafter	1,125	2,334
Total	5,280	9,069

Contingencies

Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, and tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the Company's financial position.

Starting from March 2014, sanctions have been imposed in several packages by the US and the EU on certain Russian officials, businessmen and companies. International credit agencies downgraded Russia's long-term foreign currency sovereign rating with a negative outlook. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in higher interest rates on domestic borrowings. The exchange rate of the Russian Rouble depreciated significantly. These developments may result in the reduced access of Russian businesses to international capital and export markets, capital flight, further weakening of the Rouble and other negative economic consequences.

The impact of further political and economic developments in Russia on future operations and the financial position of the Group is at this stage difficult to determine.

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29. Commitments and contingencies continued

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the companies of the Group may be challenged by the relevant regional and federal authorities and 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.

During 2014 and 2013 the Group has been involved in a number of litigations in Russia and in Kazakhstan. See Note 16 for details of these cases and their outcomes. In addition to the cases detailed within Note 16, management has identified a total exposure (covering taxes and related interest and penalties) of US\$17.2 million in respect of contingent liabilities (2013: US\$22.3 million).

Commitments and contingencies related to Kyzyl

On 4 September 2014 the Group acquired 100% of the share capital of Altynalmas Gold Ltd (AAG), the holding company for the Kyzyl gold project in Kazakhstan (refer to Note 4). AAG subsidiaries located in Kazakhstan have certain social and other obligations which were recognised as liabilities in the purchase price allocation if they could be measured reliably.

The Subsoil Use Contracts contain minimum work obligations for both Bakyrchik and Bolshevik projects. Non-compliance with these programs may, in certain circumstances, lead to the revocation of the Subsoil Use Contracts.

30. Fair value accounting

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2014 and 31 December 2013, the Group held the following financial instruments:

	31 December 2014 US\$'000			
	Level 1	Level 2	Level 3	Total
Receivables from provisional copper, gold and silver concentrate sales	–	36,613	–	36,613
Share repurchase obligation	–	–	(275,838)	(275,838)
Contingent consideration liability	–	–	(19,289)	(19,289)
	–	36,613	(295,127)	(258,514)

	31 December 2013 US\$'000			
	Level 1	Level 2	Level 3	Total
Receivables from provisional copper, gold and silver concentrate sales	–	14,902	–	14,902
Contingent consideration liability	–	–	(16,100)	(16,100)
	–	14,902	(16,100)	(1,198)

During the reporting periods, there were no transfers between Level 1 and Level 2.

Receivables from provisional copper, gold and silver concentrate sales

The fair value of receivables arising from copper, gold and silver 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.

Contingent consideration liabilities

In 2008, the Group recorded a contingent consideration liability related to the acquisition of 98.1% of the shares in JSC Omolon Gold Mining Company (Omolon). 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 the future revenues of Omolon. This liability is revalued at each reporting date based on 2% of the life of mine revenues with the resulting gain or loss recognised in the consolidated income statement. The liability recognised at 31 December 2014 was US\$12.9 million, including a current portion of US\$1.8 million (2013: US\$16.1 million).

During the year ended 31 December 2014 the Group completed acquisition of Altynalmas Gold Ltd, the holding company for the Kyzyl gold project in Kazakhstan (Note 4). The fair value of the related contingent consideration liability was estimated using a Monte Carlo model. The liability was revalued at 31 December 2014 using the same model with updated inputs as of the reporting date.

The table below sets forth a summary of changes in the fair value of the Group's Level 3 financial liabilities for the year ended 31 December 2014:

	31 December 2014			31 December 2013
	Omolon US\$'000	Kyzyl US\$'000	Total US\$'000	US\$'000
Opening balance	16,100	–	16,100	25,276
Additions (Note 4)	–	27,699	27,699	–
Change in fair value, included in profit or loss	(1,445)	(21,343)	(22,788)	(8,131)
Translation effect	–	–	–	283
Settlement	(1,722)	–	(1,722)	(1,328)
Total	12,933	6,356	19,289	16,100
Less current portion of contingent consideration liability	(1,783)	–	(1,783)	(577)
Total	11,150	6,356	17,506	15,523

The Directors consider that a reasonably possible change in a valuation assumption would not have a material impact on the financial statements for Omolon contingent consideration payable. For Kyzyl contingent consideration, the key assumptions are set out within Note 4. The model used to assess the fair value of the consideration at 31 December 2014 is sensitive to changes in several key assumptions.

Commodity forward contracts

The Group enters into forward contracts for the physical delivery of metals which will be priced according to the prevailing London Bullion Market Association or London Metal Exchange index. The Group's policy is not to enter into fixed priced contracts. The forward sales contracts qualify for the normal purchase/sales or 'own use' exemption for accounting purposes and are outside the scope of IAS 39 *Financial Instruments: Recognition and Measurement*.

31. Risk management activities

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains from prior years.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 26 offset by cash and bank balances as detailed in Note 25) and equity of the Group comprising the Stated Capital account, reserves and retained earnings as detailed in Note 32.

The Group is not subject to any externally imposed capital requirements. The Group's Board reviews the capital structure of the Group on a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

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31. Risk management activities continued

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, derivatives, finance lease liabilities, trade and other payables. The Group has various financial assets such as accounts receivable, loans advanced and cash and cash equivalents.

	31 December 2014 US\$'000	31 December 2013 US\$'000
Financial assets		
<i>Financial assets at FVTPL</i>		
Receivables from provisional copper, gold and silver concentrate sales	36,613	14,902
<i>Loans and receivables, including cash and cash equivalents</i>		
Cash and cash equivalents	157,224	65,567
Trade and other receivables	18,085	25,797
Non-current loans and receivables	12,890	22,853
Total financial assets	224,812	129,119
Financial liabilities		
<i>Financial liabilities at FVTPL</i>		
Contingent consideration liability	19,289	16,100
<i>Financial liabilities at amortised cost</i>		
Borrowings	1,322,635	1,111,144
Share repurchase obligation	275,838	–
Dividends payable	84,164	–
Trade and other payables	41,735	63,085
Total financial liabilities	1,743,661	1,190,329

Trade and other payables exclude employee benefits and social security.

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables and short-term debt recorded at amortised cost approximate to their fair values because of the short maturities of these instruments. The estimated fair value of the Group's long-term debt, calculated using the market interest rate available to the Group as at 31 December 2014, is US\$1,232 million, and the carrying value as at 31 December 2014 is US\$1,323 million (see Note 26). Carrying values of the other long-term loans provided to related parties as at 31 December 2014 and 31 December 2013 approximated to their fair values.

The main risks arising from the Group's financial instruments are foreign currency and commodity price risk, interest rate, credit and liquidity risks.

At the end of the reporting period, there are no significant concentrations of credit risk for receivables designated at FVTPL. The carrying amount reflected above represents the Group's maximum exposure to credit risk for such receivables.

Derivative financial instruments

Presented below is a summary of the Group's derivative contracts recorded on the consolidated balance sheet at fair value.

	31 December 2014 US\$'000	31 December 2013 US\$'000	
Consolidated balance sheet location			
Receivable from provisional copper, gold and silver concentrate sales	Accounts receivable	36,613	14,902

	Year ended		
Location of gain/loss recorded in profit or loss	31 December 2014 US\$'000	31 December 2013 US\$'000	
Receivable from provisional copper, gold and silver concentrate sales	Revenue	2,088	(9,481)

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 US Dollars. In addition, the Group has assets and liabilities in a number of different currencies (primarily Russian Rouble 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 use derivative instruments to currently hedge its exposure to foreign currency risk.

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than functional currencies of the individual Group entities at 31 December 2014 and 31 December 2013 were as follows:

	Assets		Liabilities	
	31 December 2014 US\$'000	31 December 2013 US\$'000	31 December 2014 US\$'000	31 December 2013 US\$'000
US Dollar	181,012	60,524	1,714,775	1,099,804
Euro	9	119	2,286	25,883
GBP	240	99	2,456	720
Total	181,261	60,742	1,719,517	1,126,407

Currency risk is monitored on a monthly basis by performing a sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level.

The table below details the Group's sensitivity to changes in exchange rates by 10% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items denominated in respective currencies at the reporting dates.

	31 December 2014 US\$'000	31 December 2013 US\$'000
Profit or loss (RUB to US Dollar)	(224,458)	(106,524)
Profit or loss (RUB to Euro)	(404)	(3,637)
Profit or loss (RUB to GBP)	(509)	(107)
Profit or loss (KZT to US Dollar)	577	(1,786)

Provisionally priced sales

Under a long-established practice prevalent in the industry, copper, gold and silver concentrate sales are provisionally priced at the time of shipment. The provisional prices are finalised in a contractually specified future period (generally one to three months) primarily based on quoted LBMA or LME prices. Sales subject to final pricing are generally settled in a subsequent month. The forward price is a major determinant of recorded revenue.

Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group does not currently hedge its exposure to interest rate risk.

The Group's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk section of this note.

For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole period. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2014 would have decreased/increased by US\$11.6 million (2013: US\$9.8 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has increased during the current period mainly due to the increase in variable rate debt instruments.

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. The Group's financial instruments that are potentially exposed to concentration of credit risk consist primarily of cash and cash equivalents and loans and receivables.

Accounts receivable are regularly monitored and assessed and where necessary an adequate level of provision is maintained. Trade accounts receivable at 31 December 2014 and 31 December 2013 are represented by provisional copper, gold and silver concentrate sales transactions. A significant portion of the Group's trade accounts receivable is due from reputable export trading companies. With regard to other loans and receivables the procedures of accepting a new customer include checks by a security department and responsible on-site management for business reputation, licences and certification, creditworthiness and liquidity. Generally, the Group does not require any collateral to be pledged in connection with its investments in the above financial instruments. Credit limits for the Group as a whole are not set up.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The major financial assets at the balance sheet date other than trade accounts receivable presented in Note 25 are cash and cash equivalents at 31 December 2014 of US\$157.2 million (2013: US\$65.6 million).

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31. Risk management activities continued

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities as they fall due.

The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting, cash forecasting processes and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

The following tables detail the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2014:

					31 December 2014 US\$'000	31 December 2013 US\$'000
	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total	Total
Borrowings	43,935	500,170	860,027	2,910	1,407,042	1,219,381
Share repurchase obligation (Note 4)	–	300,000	–	–	300,000	–
Dividend payable (Note 17)	84,164	–	–	–	84,164	–
Accounts payable and accrued expenses	35,265	6,470	–	–	41,735	63,085
Contingent consideration (Note 30)	–	1,783	19,252	2,546	23,581	20,301
Total	163,364	808,423	879,279	5,456	1,856,522	1,302,767

32. Stated capital account and retained earnings

As at 31 December 2014, the Company's issued share capital consisted of 420,819,943 ordinary shares (2013: 389,472,865 ordinary shares) of no par value, each carrying one vote. The Company does not hold any shares in treasury (2013: none). The ordinary shares reflect 100% of the total issued share capital of the Company.

The movements in the Stated Capital account in the year were as follows:

	Stated capital account no. of shares	Stated capital account US\$'000
Balance at 1 January 2013	383,206,204	1,576,123
Issue of shares for Olcha (Note 4)	775,000	13,423
Issue of shares to acquire Maminskoye (Note 4)	5,491,661	74,624
Balance at 31 December 2013	389,472,865	1,664,170
Issue of shares to acquire Kyzyl (Note 4)	31,347,078	274,914
Balance at 31 December 2014	420,819,943	1,939,084

Retained earnings

Reserves available for distribution to shareholders are based on the available cash in the Company under Jersey law. The ability to distribute cash up to the Company from the Russian and Kazakh operating companies will be based on the statutory historical information of each stand-alone entity, which is prepared in accordance with Russian or Kazakh accounting standards and which differs slightly from IFRS. Russian legislation identifies the basis of distribution as accumulated profit. However, current legislation and other statutory regulations dealing with distribution rights are open to legal interpretation; consequently, actual distributable reserves may differ from the amount of accumulated profit under Russian statutory accounting rules.

Weighted average number of shares: Diluted loss/earnings per share

Both basic and diluted loss/earnings per share were calculated by dividing loss/profit for the year attributable to equity holders of the parent by the weighted average number of outstanding common shares before/after dilution respectively. The calculation of the weighted average number of outstanding common shares after dilution is as follows:

	Year ended	
	31 December 2014	31 December 2013
Weighted average number of outstanding common shares	399,606,989	387,932,387
Dilutive effect of share appreciation plan	83,149	–
Weighted average number of outstanding common shares after dilution	399,690,138	387,932,387

The outstanding LTIP awards at 31 December 2014 and 2013 represent anti-dilutive potential ordinary shares with respect to earnings per share for continuing operations. Therefore, basic and diluted earnings per share are the same for the current and prior year.

33. Share-based payments

For the year ended 31 December 2014, share-based compensation in the amount of US\$2.4 million including US\$0.3 million of management bonus deferral award (2013: US\$24.2 million) was recognised in general, administrative and selling expenses in the consolidated income statement (Note 11).

As at 31 December 2014 the Group has US\$7 million of unrecognised share-based compensation expense related to non-vested equity-settled stock appreciated rights with an expected amortisation period of 3.2 years.

The previous LTIP scheme, which was granted in 2010, had fully vested by 30 June 2013. These options lapsed in H1 2014 and accordingly, the related balance of US\$143.5 million in the share-based payment reserve was transferred into retained earnings.

34. Related parties

Related parties are considered to include shareholders, affiliates, associates, joint ventures and entities under common ownership and control with the Group and members of key management personnel.

Bank Otkritie (previously Nomos-Bank) ceased to meet the definition of a related party from 27 February 2013 due to changes in its shareholder structure and composition of its Board of Directors. However in line with IAS 24 *Related Party Transactions*, deposits or borrowings taken out with Nomos where terms were agreed prior to this date, continued to be recognised as related party transactions. Borrowings taken out with Nomos Bank were fully repaid during first quarter 2014.

	Year ended	
	31 December 2014 US\$'000	31 December 2013 US\$'000
Income from transactions with related parties		
Revenue from sales to Bank Otkritie (until 27 February 2013)	–	81,641
Interest income on deposits placed with Bank Otkritie	–	34
Other income from equity method investments	3,050	1,740
Expenses from transactions with related parties		
Interest expense on loans provided by Bank Otkritie	174	996
Purchases from equity method investments	–	13,983

Outstanding balances owed to or from related parties at 31 December 2014 are presented below:

	31 December 2014 US\$'000	31 December 2013 US\$'000
Short-term loans provided to equity method investments	–	190
Long-term loans provided to equity method investments	618	1,017
Total loans provided to related parties	618	1,207
Short-term loans provided by Bank Otkritie (prior to 27 February 2013)	–	9,305
Long-term loans provided by Bank Otkritie (prior to 27 February 2013)	–	7,882
Total loans provided by related parties	–	17,187
Accounts receivable from related parties	465	164
Interest receivable from related parties	–	242

Carrying values of other long-term loans provided to related parties as at 31 December 2014 and 31 December 2013 approximate their fair values. Details of the significant terms of the loans provided by related parties are disclosed in Note 26.

The amounts outstanding at the balance sheet dates are unsecured and expected to be settled in cash. No expense has been recognised in the reporting period for bad or doubtful debts in respect of the amounts owed by related parties.

Notes to the consolidated financial statements

continued

34. Related parties continued

The remuneration of directors and other members of key management personnel during the periods was as follows:

	Year ended	
	31 December 2014 US\$'000	31 December 2013 US\$'000
Share-based payments	472	12,359
Short-term benefits of board members	2,124	1,866
Short-term employee benefits	2,444	2,565
Post-employment benefits	280	399

35. Notes to the consolidated statement of cash flows

	Notes	Year ended	
		31 December 2014 US\$'000	31 December 2013 US\$'000
Profit before tax		(137,875)	(157,620)
Adjustments for:			
Depreciation and depletion, recognised in statement of comprehensive income		260,481	237,533
Mining taxes, VAT, penalties and accrued interest	12	19,509	662
Write-down of exploration assets and construction in progress		38,082	–
Write-down of non-metal inventory to net realisable value	23	4,069	10,696
(Reversal)/write-down metal inventory to net realisable value	23	(39,174)	153,327
Change in estimate of environmental obligations		(723)	(1,064)
Impairment of non-current assets		–	201,105
Impairment of investment in associate		–	12,291
Share-based compensation	11, 33	2,387	24,233
Finance costs	15	40,626	42,735
Finance income		(3,216)	(2,850)
Loss on disposal of property, plant and equipment	12	4,473	9,503
Change in contingent consideration liability	30	(22,788)	(8,131)
Change in allowance for doubtful debts	12	(213)	1,089
Rehabilitation expenses		2,101	1,524
Loss from equity method investments	21	7,139	2,340
Foreign exchange loss/(gain)		559,266	74,240
(Loss)/profit on disposal of subsidiaries		–	8,746
Other non-cash expenses		3,600	2,528
Movements in working capital			
Increase in inventories before impairment		(58,228)	(61,893)
(Increase)/decrease in VAT receivable		(5,593)	11,560
(Increase)/decrease in trade and other receivables		(19,779)	60,675
(Increase)/decrease in prepayments to suppliers		(13,122)	11,560
(Decrease)/increase in trade and other payables		(2,838)	2,246
Decrease/(increase) in other taxes payable		525	(11,406)
Cash generated from operations		638,709	625,629
Interest paid		(37,880)	(35,921)
Income tax paid		(85,990)	(128,041)
Net cash generated by operating activities		514,839	461,667

The cash flow statement is initially prepared in the Group entities' functional currencies, being the Russian Rouble and Kazakh Tenge. Movements in working capital derived in Russian Rouble and Kazakh Tenge are translated into US Dollars at average rates for the period or historical rates where applicable. Movements in working capital are also adjusted for non-cash movements such as depreciation absorbed into metal inventories and impairments (or impairment reversals).

Non-cash transactions during the year ended 31 December 2014 represent the issuance of shares amounting to US\$275 million in respect of business combination (2013: the issuance of US\$88 million of shares for the acquisition of assets).

Cash flows related to exploration amounted to US\$67.4 million for the year ended 31 December 2014 (2013: US\$58 million).

36. Subsequent events

On 3 February 2015 Polymetal International plc secured a new facility of US\$100 million with Unicredit Bank. The loan will be repaid in equal quarterly instalments starting from May 2017 to February 2019.

A final dividend has been proposed in relation to the year of 13 cents per share (2013: 8 cents per share) giving a total expected dividend of US\$54.7 million (2013: US\$31.2 million).

On 18 March 2015 the Group increased its interest in LLC 'Vostochny Basis' (holder of the licence for the Tarutinskoye copper deposit (Tarutin) from 25% to 50%. The Group has purchased an additional 25% from an unrelated party for a consideration of US\$14.2 million, payable through 1,746,692 newly issued Polymetal International plc shares (0.41% of Polymetal's increased ordinary share capital). The amount of shares was determined by dividing the consideration by the unweighted mean average of Polymetal's closing share price during the 14 calendar day period ending two calendar days before completion. As result of the issuance of consideration shares, Polymetal's share capital comprises 422,566,635 shares.

Operational statistics

Dukat

Mining: 2014/2013 statistics	Dukat			Goltsovoye			Lunnoye + Arylakh			Total		
	2014	2013	% change	2014	2013	% change	2014	2013	% change	2014	2013	% change
Stripping, Kt	-	-	NA	-	-	NA	233	1,034	-78%	233	1,034	-78%
Underground development, m	31,204	30,717	+2%	6,742	7,102	-5%	4,876	6,612	-26%	42,822	44,431	-4%
Ore mined, Kt	1,468	1,253	+17%	191	168	+14%	384	394	-3%	2,043	1,815	+13%
Metal in ore mined (grades), g/t												
- gold	0.8	0.9	-16%	-	-	NA	1.4	1.1	+24%	0.8	0.9	-8%
- silver	392	423	-7%	624	624	0%	418	367	+14%	418	429	-2%

Production: 2014/2013 statistics	Omsukchan concentrator			Lunnoye processing plant			Total		
	2014	2013	% change	2014	2013	% change	2014	2013	% change
Ore processed, Kt	1,711	1,574	+9%	400	338	18%	2,111	1,912	+10%
Metal in ore processed (grades), g/t									
- gold	0.7	0.7	-9%	1.4	1.1	+21%	0.8	0.8	-1%
- silver	406	425	-5%	411	391	+5%	407	419	-3%

Recoveries						
- gold	85.4%	83.7%	+2%	85.6%	85.6%	0%
- silver	86.5%	86.3%	0%	91.8%	89.3%	+3%

Production						
- gold, Koz	32	30	+4%	14	10	+36%
- silver, Moz	19.5	18.3	+7%	4.4	3.8	+16%
Gold equivalent, Koz	357	335	+6%	87	73	+19%
Total cash cost, US\$/SE oz						8.7 11.6 -25%
Adjusted EBITDA, US\$m						230 229 0%

Mines	Dukat	Nachalny-2	Goltsovoye	Lunnoye	Arylakh	Perevalny	Olcha	Total hub
Status	Operating	Developing	Operating	Operating	Operating	Scoping	Developing	
Mineralisation type	Vein-veinlet	Vein disseminated	Narrow vein	Mineralised zone	Vein-veinlet	Vein-veinlet	Vein-veinlet	
Mine type (open-pit/underground mining method)	Underground and open-pit	Open-pit	Underground	Underground	Open-pit	Underground	Open-pit followed by underground	
Commencement of mining (year)	2001	NA	2011	2000	2006	NA	NA	
Current life-of-mine end (year)								2024

¹ Reserves and resources included in Dukat.

Albazino

Mining: 2014/2013 statistics	2014	2013	% change
Stripping, Kt	16,321	16,135	+1%
Underground development, m	3,325	919	+262%
Ore mined, Kt	1,566	1,338	+17%
Gold grade in ore mined, g/t	4.9	5.5	-12%

Production: 2014/2013 statistics	2014	2013	% change
Ore processed, Kt	1,609	1,513	+6%
Gold grade in ore processed, g/t	4.8	5.6	-13%
Recoveries to concentrate	87.6%	88.2%	-1%
Concentrate produced, Kt	136	140	-3%
Gold grade in concentrate produced, g/t	50.0	53.1	-6%
Gold in concentrate, Koz	219	239	-8%
Concentrate sold, Kt	-	49	-100%
Saleable gold in concentrate sold to off-takers, Koz	-	79	-100%

Amursk POX			
Concentrate processed, Kt	153	127	20%
Gold grade in concentrate processed, g/t	50.1	49.8	+1%
Recoveries	93.8%	86.0%	+9%
Gold production at Amursk POX, Koz	227	159	+43%
Total gold equivalent production, Koz	227	238	-4%
Total cash cost, US\$/GE oz	625	790	-21%
Adjusted EBITDA, US\$m	133	103	+29%

Mine	Albazino
Status	Operating
Mineralisation type	Mineralised zones; refractory ore
Mine type (open-pit/underground mining method)	Open-pit and underground
Commencement of mining (year)	2009
Current life-of-mine end (year)	2030

Operational statistics

Mayskoye

Mining: 2014/2013 statistics	2014		2013		% change
	2014	2013	2013	change	
Underground development, m	10,536	9,989			+5%
Ore mined, Kt	653	667			-2%
Gold grade in ore mined, g/t	8.4	7.4			+14%
Production: 2014/2013 statistics					
	2014		2013		% change
	2014	2013	2013	change	
Ore processed, Kt	807	488			+66%
Gold grade in ore processed, g/t	8.7	7.1			+22%
Recoveries to concentrate	83.6%	77.7%			+8%
Concentrate produced, Kt	93	49			+90%
Gold grade in concentrate produced, g/t	63.1	55.3			+14%
Gold in concentrate, Koz	188	87			+117%
Concentrate sold, Kt	72	30			+139%
Saleable gold in concentrate sold to off-takers, Koz	130	48			+169%
Amursk POX					
Concentrate processed, Kt	10	0			NM
Gold grade in concentrate processed, g/t	55.3	54.3			+2%
Recoveries	92.2%	-			NA
Gold production at Amursk POX, Koz	12	-			NA
Total gold equivalent production, Koz	143	48			+195%
Total cash cost, US\$/GE oz	966	957			1%
Adjusted EBITDA, US\$m	28	-4			NA

Mine	Mayskoye
Status	Operating
Mineralisation type	Narrow vein; refractory ore
Mine type (open-pit/underground mining method)	Underground
Commencement of mining (year)	2011
Current life-of-mine end (year)	2020

Amursk POX

Production: 2014/2013 statistics	Albazino			Mayskoye			Total		
	2014	2013	% change	2014	2013	% change	2014	2013	% change
Concentrate processed, Kt	153	127	+20%	10	0	NM	163	127	+28%
Gold grade in concentrate processed, g/t	50.1	49.8	+1%	55.3	54.3	+2%	50.4	49.8	+1%
Recoveries	93.8%	86.0%	+9%	92.2%	-	NA	93.7%	86.0%	+9%
Total gold equivalent production, Koz	227	159	+43%	12	-	NA	240	159	+51%

Concentrate sourced from mines	Albazino	Mayskoye
Status	Operating	Operating
Mineralisation type	Mineralised zones; refractory ore	Narrow vein; refractory ore
Mine type (open-pit/underground mining method)	Open-pit and underground	Underground
Commencement of mining (year)	2009	2011
Current life-of-mine end (year)	2030	2020

Omolon

Mining: 2014/2013 statistics	Birkachan			Sopka			Tsokol			Dalneye			Total		
	2014	2013	% change	2014	2013	% change	2014	2013	% change	2014	2013	% change	2014	2013	% change
Stripping, Kt	535	1,932	-72%	3,670	5,912	-38%	3,774	4,998	-25%	2,385	3,695	-35%	10,364	16,537	-37%
Underground development, m	929	-	NA	-	-	NA	-	-	NA	-	-	NA	929	-	NA
Ore mined, Kt	698	586	+19%	922	672	+37%	317	223	+42%	550	584	-6%	2,487	2,065	+20%
Metal in ore mined (grades), g/t															
- gold	2.6	1.8	+43%	4.6	3.9	+18%	4.3	4.8	-11%	3.5	3.6	-3%	3.8	3.3	+13%
- silver	-	-	NA	175	142	+23%	-	-	NA	74	74	0%	81	67	+21%

Production: 2014/2013 statistics	2014	2013	% change
Ore processed, Kt	825	767	+8%
Metal in ore processed (grades), g/t			
- gold	6.7	5.1	+31%
- silver	133	118	+13%
Recoveries			
- gold	94.7%	95.3%	-1%
- silver	83.5%	88.4%	-6%
Production			
- gold, Koz	170	115	+48%
- silver, Moz	2.9	2.6	+14%
Total gold equivalent (including Birkachan heap leach), Koz	226	158	+43%
Total cash cost, US\$/GE oz	570	879	-35%
Adjusted EBITDA, US\$m	142	64	+124%

Mines	Birkachan	Sopka	Oroch	Tsokol	Dalneye	Burgali	Total hub
Status	Operating	Operating	Operating	Operating	Development	Pre-feasibility	
Mineralisation type	Vein-veinlet, stockwork	Vein-veinlet	Vein-veinlet	Vein-veinlet	Vein-veinlet	Vein-veinlet	
Mine type (open-pit/underground mining method)	Open-pit, underground from 2015	Open-pit with underground potential	Open-pit	Open-pit, underground from 2015	Open-pit	Open-pit	
Commencement of mining (year)	2010	2010	2015	2012	2013	NA	
Current life-of-mine end (year)							2021

Operational statistics

Voro

Mining: 2014/2013 statistics	2014	2013	% change
Stripping, Kt	11,030	11,099	-1%
Ore mined, Kt	1,893	1,787	+6%
– oxidised	958	981	-2%
– primary	935	807	+16%
Gold grade in ore mined, g/t	3.5	3.4	+2%
– oxidised	1.8	1.5	+17%
– primary	5.2	5.7	-8%

Production: 2014/2013 statistics	Voro CIP			Voro heap leach			Total		
	2014	2013	% change	2014	2013	% change	2014	2013	% change
Ore processed, Kt	915	924	-1%	747	850	-12%	1,662	1,774	-6%
Metal in ore processed (grades), g/t									
– gold	5.6	5.7	-1%	1.4	1.4	+6%	3.7	3.6	+4%
Recoveries									
– gold	82.5%	79.9%	+3%	74.2%	73.7%	+1%			
Production									
– gold, Koz	130	129	0%	28	23	+18%	158	153	+3%
– silver, Moz	0.1	0.1	+33%	0.03	0.02	+13%	0.1	0.1	+27%
Gold equivalent, Koz	131	130	+1%	28	24	+18%	159	154	+3%
Total cash cost, US\$/GE oz							376	503	-25%
Adjusted EBITDA, US\$m							141	130	+9%

Mine	Voro	North Kaluga	Tamunier
Status	Operating	Scoping	Scoping
Mineralisation type	Mineralised zones	Sulphide ore	Veinlet disseminated
Mine type (open-pit/underground mining method)	Open-pit	Open-pit/underground	Open-pit
Commencement of mining (year)	1999	NA	NA
Current life-of-mine end (year)	2027		

Varvara

Mining: 2014/2013 statistics	2014	2013	% change
Stripping, Kt	30,552	31,053	-2%
Ore mined, Kt	3,985	2,008	+98%
– float ore	750	499	+50%
– leach ore	3,235	1,510	+114%
Metal in ore mined (grades)			
– gold, g/t (float ore)	1.4	1.3	+6%
– gold, g/t (leach ore)	1.2	1.2	-3%
– copper, % (float ore)	0.4%	0.6%	-30%

Production: 2014/2013 statistics	Varvara – flotation			Varvara – leaching			Total		
	2014	2013	% change	2014	2013	% change	2014	2013	% change
Ore processed, Kt	547	1,005	-46%	3,117	2,671	+17%	3,664	3,676	0%
Metal in ore processed (grades)									
– gold, g/t	1.1	1.3	-10%	1.1	1.3	-10%	1.1	1.3	-10%
– copper, %	0.4%	0.6%	-31%	–	–	NA	0.06%	0.16%	-62%
Recoveries									
– gold	47.3%	56.2%	-16%	77.7%	81.7%	-5%			
– copper	80.7%	88.5%	-9%	–	–	NA			
Production									
– gold, Koz	8	21	-63%	90	86	+5%	98	107	-8%
– copper, t	1,631	4,841	-66%	–	–	NA	1,631	4,841	-66%
Gold equivalent, Koz	16	45	-65%	90	86	+5%	106	131	-19%
Total cash cost, US\$/GE oz							705	791	-11%
Adjusted EBITDA, US\$m							45	74	-40%

Mine	Varvara
Status	Operating
Mineralisation type	Mineralised zones
Mine type (open-pit/underground mining method)	Open-pit
Commencement of mining (year)	1999
Current life-of-mine end (year)	2030

Operational statistics

Khakanja

Mining: 2014/2013 statistics	Khakanja + Yurievskoye			Ozerny			Avlayakan			Total		
	2014	2013	% change	2014	2013	% change	2014	2013	% change	2014	2013	% change
Stripping, Kt	4,671	3,096	+51%	4,288	4,714	-9%	–	1,287	-100%	8,959	9,097	-2%
Underground development, m	–	–	NA	–	–	NA	3,805	919	+314%	3,805	919	+314%
Ore mined, Kt	271	294	-8%	764	319	+139%	42	84	-50%	1,077	697	+54%
Metal in ore mined (grades), g/t												
– gold	3.0	1.5	+96%	4.0	3.6	+12%	13.8	8.7	+58%	4.1	3.3	+24%
– silver	142	141	+1%	28	40	-29%	105	116	-9%	60	92	-35%

Production: 2014/2013 statistics	2014	2013	% change
Ore processed, Kt	622	619	+1%
Metal in ore processed (grades), g/t			
– gold	5.3	5.7	-7%
– silver	117	147	-20%

Recoveries			
– gold	93.9%	92.3%	+2%
– silver	74.3%	84.2%	-12%

Production			
– gold, Koz	98	103	-5%
– silver, Moz	1.7	2.4	-29%

Gold equivalent, Koz			
Total cash cost, US\$/GE oz	704	756	-7%
Adjusted EBITDA, US\$m	60	85	-29%

Mines	Khakanja	Avlayakan	Kirankan	Ozerny	Svetloye	Total hub
Status	Operating	Operating	Scoping	Operating	Construction	
Mineralisation type	Vein-veinlet	Vein	Vein	Vein zone	Mineralised zone	
Mine type (open-pit/underground mining method)	Open-pit to be followed by underground	Underground	NA	Open-pit	Open-pit	
Commencement of mining (year)	2002	2010	NA	2012	2015	
Current life-of-mine end (year)						2018

Reserves and resources

As at 1 January 2015

Mineral resources and ore reserves

Mineral resources	Tonnage		Grade		Content		
	Kt	GE grade, g/t	Gold, Koz	Silver, Koz	Copper, Kt	GE, Koz	
Measured	7,160	3.2	522	4,495	18	732	
Indicated	30,016	3.2	2,185	15,122	84	3,088	
Measured + Indicated	37,176	3.2	2,707	19,617	102	3,821	
Inferred	71,690	4.7	9,882	30,687	51	10,770	
Measured + Indicated + Inferred	108,866	4.2	12,589	50,304	153	14,591	

Ore Reserves						
Proved	53,090	4.0	5,037	119,788	5	6,904
Probable	103,650	4.4	12,741	90,873	74	14,731
Proved + Probable	156,740	4.3	17,778	210,660	80	21,635

Notes

Mineral Resources and Ore Reserves are reported in accordance with the JORC Code (2012). Mineral Resources are additional to Ore Reserves. Discrepancies in calculations are due to rounding.

Ore reserves ¹	Tonnage		Grade			Content			
	Kt	Gold, g/t	Silver, g/t	Copper, %	GE, g/t	Gold, Koz	Silver, Koz	Copper, Kt	GE, Koz
Proved									
Standalone mines									
Albazino ²	7,560	5.2	–	–	5.2	1,259	–	–	1,259
Mayskoye	3,860	8.8	–	–	8.8	1,091	–	–	1,091
Varvara ³	6,280	0.8	–	0.39	1.1	166	–	5.5	212
Dukat hub	7,020	–	–	–	8.2	284	99,011	–	1,849
Dukat	5,020	1.0	446	–	8.0	169	71,947	–	1,293
Lunnoye	1,230	1.7	380	–	8.1	68	15,058	–	322
Goltsovoye	340	–	685	–	10.5	–	7,491	–	115
Arylakh	290	0.9	472	–	8.4	8	4,430	–	79
Olcha ⁴	140	8.8	19	–	9.0	39	85	–	40
Omolon hub	7,680	–	–	–	3.3	624	15,414	–	821
Birkachan	2,470	2.0	6	–	2.1	158	448	–	163
Sopka Kwartsevaya	2,800	1.9	82	–	2.9	171	7,430	–	260
Oroch ⁵	930	4.0	172	–	6.6	119	5,154	–	197
Dalneye	1,170	3.3	61	–	4.0	125	2,280	–	149
Tsokol Kubaka	310	5.1	10	–	5.2	51	102	–	53
Voro hub	12,220	–	–	–	2.5	966	1,299	–	980
Voro ⁷	12,220	2.5	3	–	2.5	966	1,299	–	980
Khakanja hub	1,730	–	–	–	3.8	165	4,064	–	209
Avlayakan	70	16.4	117	–	18.0	38	270	–	41
Ozerny	600	4.4	26	–	4.7	86	513	–	91
Khakanja	1,060	1.2	97	–	2.3	41	3,281	–	76
Exploration projects									
Maminskoye ¹	4,810	1.9	–	–	1.9	295	–	–	295
Veduga ¹²	350	1.7	–	–	1.7	19	–	–	19
Kutyn ¹³	1,580	3.3	–	–	3.3	169	–	–	169
Total Proved	53,090	4.0	5,037	119,788	5.5	6,904	–	–	–

Notes

See page 151.

Reserves and resources

As at 1 January 2015

Ore reserves ¹	Tonnage		Grade			Content			
	Kt	Gold, g/t	Silver, g/t	Copper, %	GE, g/t	Gold, Koz	Silver, Koz	Copper, Kt	GE, Koz
Probable									
Standalone mines									
Albazino ²	8,660	5.1	–	–	5.1	1,421	–	–	1,421
Mayskoye	2,590	8.0	–	–	8.0	662	–	–	662
Varvara ³	32,800	0.9	–	0.42	1.4	971	–	55.4	1,442
Dukat hub	6,920	–	–	–	7.2	250	85,070	–	1,602
Dukat	4,430	0.8	386	–	6.9	118	54,973	–	977
Lunnoye	1,540	0.9	369	–	7.1	44	18,224	–	351
Goltsovoye	380	–	571	–	8.8	–	6,965	–	107
Arylakh	340	0.9	433	–	7.8	9	4,771	–	86
Olcha ⁴	230	10.6	18	–	10.9	79	137	–	81
Omolon hub	1,520	–	–	–	10.1	459	2,663	–	495
Birkachan	890	10.0	38	–	10.5	284	1,074	–	298
Oroch ⁵	190	4.2	197	–	7.2	26	1,206	–	44
Tsokol Kubaka	170	14.8	24	–	15.1	80	130	–	81
Burgali ⁶	270	7.8	29	–	8.1	69	254	–	72
Voro hub	320	–	–	–	16.4	70	1,056	18.9	171
North Kaluga ⁸	320	6.7	101	5.81	16.4	70	1,056	18.9	171
Khakanja hub	7,580	–	–	–	3.4	808	2,084	–	838
Svetloye ⁹	7,320	2.8	3	–	2.9	664	765	–	677
Avlayakan	230	18.7	162	–	20.9	137	1,185	–	153
Ozerny	10	5.0	3	–	5.0	1	1	–	1
Khakanja	20	8.2	210	–	10.5	5	133	–	7
Exploration projects									
Kyzyl project (Bakyrchik) ¹⁰	27,550	7.5	–	–	7.5	6,660	–	–	6,660
Maminskoye	9,890	1.9	–	–	1.9	618	–	–	618
Veduga	3,750	5.1	–	–	5.1	605	–	–	605
Kutyn	2,070	3.3	–	–	3.3	217	–	–	217
Total Probable	103,650				4.4	12,741	90,873	74.3	14,731

Notes

See page 151.

Ore reserves ¹	Tonnage		Grade			Content			
	Kt	Gold, g/t	Silver, g/t	Copper, %	GE, g/t	Gold, Koz	Silver, Koz	Copper, Kt	GE, Koz
Proved + Probable									
Standalone mines									
Albazino ²	16,220	5.1	–	–	5.1	2,679	–	–	2,679
Mayskoye	6,450	8.5	–	–	8.5	1,753	–	–	1,753
Varvara ³	39,080	0.9	–	0.42	1.3	1,137	–	60.9	1,655
Dukat hub	13,940	–	–	–	7.7	534	184,081	–	3,451
Dukat	9,450	0.9	418	–	7.5	287	126,920	–	2,270
Lunnoye	2,770	1.2	374	–	7.6	111	33,282	–	672
Goltsovoye	720	–	625	–	9.6	–	14,456	–	222
Arylakh	630	0.9	451	–	8.1	18	9,201	–	165
Olcha ⁴	370	9.9	19	–	10.2	119	222	–	122
Omolon hub	9,200	–	–	–	4.4	1,082	18,077	–	1,316
Birkachan	3,360	4.1	14	–	4.3	442	1,522	–	461
Sopka Kwartsevaya	2,800	1.9	82	–	2.9	171	7,430	–	260
Oroch ⁵	1,120	4.0	177	–	6.7	144	6,360	–	241
Dalneye	1,170	3.3	61	–	4.0	125	2,280	–	149
Tsokol Kubaka	480	8.5	15	–	8.7	131	231	–	134
Burgali ⁶	270	7.8	29	–	8.1	69	254	–	72
Voro hub	12,540	–	–	–	2.9	1,037	2,354	18.9	1,151
Voro ⁷	12,220	2.5	3	–	2.5	966	1,299	–	980
North Kaluga ⁸	320	6.7	101	5.81	16.4	70	1,056	18.9	171
Khakanja hub	9,310	–	–	–	3.5	972	6,147	–	1,047
Svetloye ⁹	7,320	2.8	3	–	2.9	664	765	–	677
Avlayakan	300	18.1	151	–	20.2	175	1,456	–	195
Ozerny	610	4.4	26	–	4.7	87	514	–	93
Khakanja	1,080	1.4	99	–	2.4	47	3,413	–	83
Exploration projects									
Kyzyl project (Bakyrchik) ¹⁰	27,550	7.5	–	–	7.5	6,660	–	–	6,660
Maminskoye ¹¹	14,700	1.9	–	–	1.9	913	–	–	913
Veduga ¹²	4,100	4.8	–	–	4.8	623	–	–	623
Kutyn	3,650	3.3	–	–	3.3	386	–	–	386
Total Proved + Probable	156,740				4.3	17,778	210,660	79.8	21,635

Notes

¹ Ore Reserves are reported in accordance with the JORC Code (2012). Discrepancies in calculations are due to rounding.² Including Olga/Nadezhda, Ekaterina-1 and Ekaterina-2. Initial Ore Reserves estimate prepared by Polymetal as at 01.01.2015.³ Cu grade only represents average grade of Float feed. Ore Reserves of Float feed: 1.4 Mt Proved and 13.2 Mt Probable.⁴ Initial estimate prepared by Polymetal as at 01.01.2015.⁵ Estimate prepared by Polymetal as at 01.01.2014. Price: Au = US\$1,300/oz, Ag = US\$23/oz. Revised estimate was not performed due to lack of material changes.⁶ Initial estimate prepared by Polymetal as at 01.01.2015.⁷ Including Voro South.⁸ Initial estimate prepared by Polymetal as at 01.07.2014. Price: Au = US\$1,300/oz, Ag = US\$20/oz, Cu = US\$7,000/t. Revised estimate was not performed due to lack of material changes.⁹ Initial estimate prepared by Snowden as at 01.01.2014. Price: Au = US\$1,300/oz, Ag = US\$22.5/oz. Revised estimate was not performed due to lack of material changes.¹⁰ Estimate prepared by RPA Inc. as at 26.06.2014 based on data as at 31.07.2013. Price: Au = US\$1,300/oz. Revised estimate was not performed due to lack of material changes.¹¹ Estimate prepared by Polymetal as at 01.01.2014. Price: Au = US\$1,300/oz. Revised estimate was not performed due to lack of material changes.¹² Initial estimate prepared by Snowden as at 01.01.2014. Price: Au = US\$1,300/oz. Revised estimate prepared by Polymetal as at 01.01.2015 (only stopping without Au price change).

Ore Reserves are presented in accordance with the Company's ownership equal to 42.65%.

¹³ Initial estimate prepared by Snowden as at 01.01.2015. Price: Au = US\$1,300/oz (only Ore Reserves estimate for Heap Leach).

Reserves and resources

As at 1 January 2015

Mineral resources	Tonnage		Grade			Content			
	Kt	Gold, g/t	Silver, g/t	Copper, %	GE, g/t	Gold, Koz	Silver, Koz	Copper, Kt	GE, Koz
Measured									
Standalone mines									
Albazino	30	3.7	–	–	3.7	4	–	–	4
Mayskoye	660	8.9	–	–	8.9	188	–	–	188
Varvara ²	4,170	0.8	–	0.45	2.0	113	–	18.2	267
Omolon hub	230	–	–	–	3.5	16	677	–	26
Oroch ⁵	230	2.1	92	–	3.5	16	677	–	26
Khakanja hub	350	–	–	–	9.5	61	3,818	–	106
Khakanja	350	5.4	341	–	9.5	61	3,818	–	106
Exploration projects									
Maminskoye	980	1.4	–	–	1.4	44	–	–	44
Kutyn ¹³	740	4.1	–	–	4.1	97	–	–	97
Total Measured	7,160	–	–	–	3.2	522	4,495	18.2	732
Indicated									
Standalone mines									
Albazino	140	5.1	–	–	5.1	22	–	–	22
Mayskoye	1,090	8.7	–	–	8.7	306	–	–	306
Varvara ²	18,770	1.0	–	0.58	1.9	625	–	62.9	1,160
Dukat hub	1,096	–	–	–	6.8	–	13,229	3.7	239
Perevalny ⁴	1,096	–	375	0.34	6.8	–	13,229	3.7	239
Omolon hub	230	–	–	–	4.6	22	792	–	34
Oroch ⁵	180	2.4	131	–	4.4	14	756	–	26
Burgali ⁶	50	5.0	23	–	5.3	8	36	–	8
Khakanja hub	730	–	–	–	2.6	51	733	–	60
Svetloye ⁸	630	1.7	2	–	1.7	35	44	–	35
Khakanja	100	4.8	199	–	7.1	17	689	–	25
Exploration projects									
Kyzyl project (Bakyrchik) ¹⁰	3,220	8.0	–	–	8.0	820	–	–	820
Maminskoye ¹¹	1,150	1.5	–	–	1.5	55	–	–	55
Kutyn ¹³	2,070	4.2	–	–	4.2	279	–	–	279
Tarutin ¹⁴	1,520	0.1	8	1.12	2.3	4	368	17.0	114
Total Indicated	30,016	–	–	–	3.2	2,185	15,122	83.6	3,088

Notes

See page 154.

Mineral resources	Tonnage		Grade			Content			
	Kt	Gold, g/t	Silver, g/t	Copper, %	GE, g/t	Gold, Koz	Silver, Koz	Copper, Kt	GE, Koz
Measured + Indicated									
Standalone mines									
Albazino	170	4.9	–	–	4.9	27	–	–	27
Mayskoye	1,750	8.8	–	–	8.8	493	–	–	493
Varvara ²	22,940	1.0	–	0.55	1.9	738	–	81.1	1,427
Dukat hub	1,096	–	–	–	6.8	–	13,229	3.7	239
Perevalny ⁴	1,096	–	375	0.34	6.8	–	13,229	3.7	239
Omolon hub	460	–	–	–	4.0	38	1,469	–	60
Oroch ⁵	410	2.2	109	–	3.9	30	1,433	–	51
Burgali ⁶	50	5.0	23	–	5.3	8	36	–	8
Khakanja hub	1,080	–	–	–	4.8	112	4,551	–	166
Svetloye ⁸	630	1.7	2	–	1.7	35	44	–	35
Khakanja	450	5.3	308	–	8.9	77	4,507	–	131
Exploration projects									
Kyzyl project (Bakyrchik) ¹⁰	3,220	8.0	–	–	8.0	820	–	–	820
Maminskoye ¹¹	2,130	1.4	–	–	1.4	99	–	–	99
Kutyn ¹³	2,810	4.2	–	–	4.2	376	–	–	376
Tarutin ¹⁴	1,520	0.1	8	1.12	2.3	4	368	17.0	114
Total Measured + Indicated	37,176	–	–	–	3.2	2,707	19,617	101.8	3,821
Inferred									
Standalone mines									
Albazino	4,770	5.5	–	–	5.5	837	–	–	837
Mayskoye	10,990	10.1	–	–	10.1	3,569	–	–	3,569
Varvara ²	11,730	1.1	–	0.56	2.1	431	–	42.1	788
Dukat hub	1,088	–	–	–	11.0	64	20,093	0.4	383
Lunoye	290	2.1	517	–	10.8	20	4,829	–	101
Goltsovoye	440	–	880	–	13.5	–	12,550	–	193
Arylakh	150	0.7	427	–	7.5	3	2,050	–	36
Olcha ³	130	9.4	35	–	9.9	40	151	–	42
Perevalny ⁴	78	–	206	0.46	4.1	–	513	0.4	10
Omolon hub	820	–	–	–	9.8	106	10,030	–	258
Oroch ⁵	790	3.9	394	–	9.9	99	10,001	–	250
Burgali ⁶	30	7.3	30	–	7.7	7	29	–	7
Voro hub	24,070	–	–	–	1.9	1,475	–	–	1,475
Tamunier ⁷	24,070	1.9	–	–	1.9	1,475	–	–	1,475
Khakanja hub	662	–	–	–	4.9	99	351	–	103
Svetloye ⁸	460	3.0	4	–	3.0	44	63	–	45
Avlayakan	50	16.4	136	–	18.3	24	200	–	27
Khakanja	10	2.8	199	–	5.2	1	49	–	1
Kirankan ⁹	142	6.5	8	–	6.7	30	39	–	30
Exploration projects									
Kyzyl project (Bakyrchik) ¹⁰	13,830	6.6	–	–	6.6	2,950	–	–	2,950
Veduga ¹²	580	4.1	–	–	4.1	77	–	–	77
Kutyn ¹³	2,110	4.0	–	–	4.0	273	–	–	273
Tarutin ¹⁴	1,040	0.1	6	0.81	1.7	3	213	8.4	58
Total Inferred	71,690	–	–	–	4.7	9,882	30,687	50.8	10,770

Notes

See page 154.

Reserves and resources

As at 1 January 2015

Mineral resources	Tonnage		Grade			Content				
	Kt	Gold, g/t	Silver, g/t	Copper, %	GE, g/t	Gold, Koz	Silver, Koz	Copper, Kt	GE, Koz	
Measured + Indicated + Inferred										
Standalone mines										
Albazino	4,940	5.4	–	–	5.4	863	–	–	863	
Mayskoye	12,740	9.9	–	–	9.9	4,062	–	–	4,062	
Varvara ²	34,670	1.0	–	0.55	2.0	1,169	–	123.2	2,215	
Dukat hub	2,184	–	–	–	8.9	64	33,322	4.1	622	
Lunnoye	290	2.1	517	–	10.8	20	4,829	–	101	
Goltsovoye	440	–	880	–	13.5	–	12,550	–	193	
Arylakh	150	0.7	427	–	7.5	3	2,050	–	36	
Olcha ³	130	9.4	35	–	9.9	40	151	–	42	
Perevalny ⁴	1,174	–	364	0.35	6.6	–	13,742	4.1	249	
Omolon hub	1,280	–	–	–	7.7	143	11,499	–	317	
Oroch ⁵	1,200	3.3	296	–	7.8	128	11,434	–	302	
Burgali ⁶	80	5.9	25	–	6.2	15	65	–	16	
Voro hub	24,070	–	–	–	1.9	1,475	–	–	1,475	
Tamunier ⁷	24,070	1.9	–	–	1.9	1,475	–	–	1,475	
Khakanja hub	1,742	–	–	–	4.8	211	4,902	–	270	
Svetloye ⁸	1,090	2.3	3	–	2.3	79	107	–	80	
Avlayakan	50	16.4	136	–	18.3	24	200	–	27	
Khakanja	460	5.2	306	–	8.9	78	4,556	–	132	
Kirankan ⁹	142	6.5	8	–	6.7	30	39	–	30	
Exploration projects										
Kyzyl project (Bakyrchik) ¹⁰	17,050	6.9	–	–	6.9	3,770	–	–	3,770	
Maminskoye ¹¹	2,130	1.4	–	–	1.4	99	–	–	99	
Veduga ¹²	580	4.1	–	–	4.1	77	–	–	77	
Kutyn ¹³	4,920	4.1	–	–	4.1	649	–	–	649	
Tarutin ¹⁴	2,560	0.1	7	0.99	2.1	7	581	25.4	171	
Total Measured + Indicated + Inferred	108,866				4.2	12,589	50,304	152.6	14,591	

Notes

¹ Mineral Resources are reported in accordance with the JORC Code (2012). Mineral Resources are additional to Ore Reserves. Discrepancies in calculations are due to rounding.

² Cu estimate is listed for fresh ore and powder ore that has high Cu grade (total Mineral Resources for fresh ore and powder ore with high Cu grade of 15.6 and 6.7 Mt of ore respectively).

³ Initial estimate prepared by Polymetal as at 01.01.2015.

⁴ Estimate prepared by SRK Consulting as at 01.07.2011. Price: Ag = US\$13/oz, Cu = 220c/lb. Revised estimate was not performed due to lack of material changes.

⁵ Estimate prepared by Polymetal as at 01.01.2014. Price: Au = US\$1,500/oz, Ag = US\$26/oz. Revised estimate was not performed due to lack of material changes.

⁶ Initial estimate prepared by Polymetal as at 01.01.2015.

⁷ Estimate prepared by Snowden as at 01.01.2012. COG (Au) = 1.0 g/t. The mineral resource estimate includes ore zone 2 where Inferred mineral resources are estimated at: 840 Kt, grading 4.0 g/t Au, 49 g/t Ag, containing 109 Koz Au and 1,327 Koz Ag. In other parts of the deposit there are no silver mineral resources. Revised estimate was not performed due to lack of material changes.

⁸ Estimate prepared by Snowden as at 01.01.2014. Price: Au = US\$1,300/oz, Ag = US\$22.5/oz. Revised estimate was not performed due to lack of material changes.

⁹ Estimate prepared by Snowden as at 01.07.2011. COG (Au) = 1.5 g/t. Revised estimate was not performed due to lack of material changes.

¹⁰ Estimate prepared by RPA as at 31.07.2013. Price: Au = US\$1,400/oz. Revised estimate was not performed due to lack of material changes.

¹¹ Estimate prepared by Polymetal as at 01.01.2014. Price: Au = US\$1,300/oz. Revised estimate was not performed due to lack of material changes.

¹² Initial estimate prepared by Snowden as at 01.01.2014. COG (Au) = 2.0 g/t. Revised estimate prepared by Polymetal as at 01.01.2015. Mineral Resources are presented in accordance with the Company's ownership equal to 42.65%.

¹³ Initial estimate for open pit prepared by Snowden, for underground by CSA Global Pty Ltd as at 01.01.2015. Price: Au = US\$1,300/oz.

¹⁴ Initial estimate prepared by Polymetal as at 01.01.2015. Price: Cu = US\$5,600/t. Mineral Resources are presented in accordance with the Company's ownership equal to 25% as at 01.01.2015.

Glossary

Abbreviations and units of measurement		Technical terms	
AGM	Annual General Meeting	Assay	a chemical test performed on a sample of any material to determine the amount of valuable metals contained in the sample
CIS	Commonwealth of Independent States	Ag	silver
FSU	Former Soviet Union	AgEq	silver equivalent
GE	gold equivalent	Au	gold
IMN	Indigenous Minorities of the North	Autoclave	a lined stainless-steel vessel in which a technological operation of pressure oxidation takes place
JORC	Australasian Joint Ore Reserves Committee	Carbon-in-leach or CIL	a technological operation in which slurry containing gold and silver is leached by cyanide in the presence of activated carbon. Gold is absorbed onto activated carbon in parallel with leaching
JSC	joint stock company	Carbon-in-pulp or CIP	means a technological operation in which slurry containing gold and silver is leached by cyanide initially without and subsequently in the presence of activated carbon. Gold absorption onto carbon starts only after preliminary leaching
LBMA	London Bullion Market Association	Concentrate	a semi-finished product of mineral processing (flotation or gravity separation) containing significantly more value per unit of weight than ore and subject to further processing for the production of metals or other substances in final useful form
LTIP	Long-Term Incentive Programme	Cu	copper
NA	not applicable	Cut-off grade	the minimum grade at which mineralised material can be economically mined and processed (used in the calculation of ore reserves)
NGO	non-governmental organisation	Cyanide leaching	leaching with cyanide as the leaching agent
NM	not meaningful	Decline	a permanent inclined underground tunnel leading from the surface to an ore body
NPV	net present value	Dilution	the share (percentage) of material below the cut-off grade that is extracted together and irretrievably mixed with ore during mining. All other things being equal, higher dilution leads to lower grade in ore mined
PGM	platinum group metal	Doré	one of the traditional end-products of a gold/silver mine; an alloy containing 90% in sum of gold and silver as well as 10% of impurities
POX	pressure oxidation	Exploration	activity ultimately aimed at discovery of ore reserves for exploitation. Consists of sample collection and analysis, including reconnaissance, geophysical and geochemical surveys, trenching, drilling, etc
SE	silver equivalent	Flotation	a technological operation in which ore-bearing minerals are separated from gangue minerals in the slurry based on variance in the interaction of different minerals with water. Particles of valuable concentrate are carried upwards with froth and collected for further processing
g/t	gram per tonne		
km	kilometres		
Koz	thousand ounces		
Kt	thousand tonnes		
Ktpa	thousand tonnes per annum		
m	metres		
Moz	million ounces		
Mt	million tonnes		
Mtpa	million tonnes per annum		
Oz or oz	troy ounce (31.1035 g)		
pp	percentage points		
t	tonne (1,000 kg)		
tpd	tonnes per day		

Glossary

continued

Grade	means the relative amount of metal in ore, expressed as grams per tonne for precious metals and as a percentage for most other metals	Merrill-Crowe process	a technological operation for extraction of gold and/or silver after cyanide leaching. In the first step slurry containing gold and/or silver is separated into liquid and solid phases by washing the solids off in countercurrent decantation thickeners. In the second step pregnant leach solution (liquid phase of slurry) is filtered to remove impurities and deaerated. Finally, gold and silver are deposited onto the solid bed of claylike material where they replace zinc particles which pass into a solution. Merrill-Crowe is preferentially used for silver-rich ores	Primary ore	unoxidised ore	Resources	a concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of resources are known, estimated or interpreted from specific geological evidence and knowledge. Resources are sub-divided in order of increasing geological confidence, into inferred, indicated and measured categories
Head grade	the grade of ore coming into a processing plant	Mill	a mineral processing plant	Probable reserves	the economically mineable part of an indicated (and in some cases measured) resource, which has a lower level of confidence than proved reserves but is of sufficient quality to serve as the basis for a decision on the development of the deposit	SAG mill	a semi-autogenous grinding mill, generally used as a primary or first stage grinding solution
Heap leach	a technological operation in which crushed material is laid on a sloping, impervious pad where it is leached by cyanide solution to dissolve gold and/or silver. Metals are subsequently recovered from pregnant leach solution by CIL or the Merrill-Crowe process	Mineralisation	a rock containing valuable components, not necessarily in the quantities sufficient for economically justifiable extraction. Consists of ore minerals and gangue	Production	the amount of pure precious metals, measured in thousands of ounces for gold, millions of ounces for silver and tonnes for copper, produced following processing	Stockwork	one of the types of mineralisation, a complex system of structurally controlled or randomly oriented veins. Stockworks are common in many ore deposit types
Indicated resource	means that part of a resource for which tonnage, grade and content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed	Open-pittable	amenable for economically feasible mining by open-pit methods	Proved reserves	the economically mineable part of a measured resource, which represents the highest confidence category of reserve estimate. The style of mineralisation or other factors could mean that proved reserves are not achievable in some deposits	Stope	a large underground excavation entirely within an ore body, a unit of ore extraction
Inferred resource	means that part of a resource for which tonnage, grade and content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability	Open-pit mine	a mine that is entirely on surface. Also referred to as open-cut or open-cast mine	Pt	platinum	Strike	a horizontal extension of an ore body or mineralisation
In-fill drilling	a conventional method of detailed exploration on already defined resource of reserve, consisting of drilling on a denser grid to allow more precise estimation of ore body parameters and location	Ore	the part of mineralisation that can be mined and processed profitably	Reclamation	the restoration of a site after mining or exploration activity is completed	Stripping	the mining of waste in an open pit mine
Leaching	the process of dissolving mineral values from solid into liquid phase of slurry	Ore body	a spatially compact and geometrically connected location of ore	Recovery or recovery rate	the percentage of valuable metal in the ore that is recovered by metallurgical treatment in the final or semi-finished product	Tailings	part of the original feed of a mineral processing plant that is considered devoid of value after processing
Measured resource	means that part of a resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity	Ore mined	ore extracted from the ground for further processing	Refractory	a characteristic of gold-bearing ore denoting impossibility of recovering gold from it by conventional cyanide leaching	Underground development	excavation which is carried out to access ore and prepare it for extraction (mining)
		Ore processed	ore subjected to treatment in a mineral processing plant	Reserves	the economically mineable part of a measured and/or indicated mineral resource. It takes into account mining dilution and losses. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Reserves are subdivided in order of increasing confidence into probable reserves and proved reserves	Vein	a relatively narrow ore body with significant dip and strike dimensions and sharply defined boundaries
		Ore stacked	the ore stacked for heap leach operations.			Waste	barren rock that must be mined and removed to access ore in a mine
		Oxidised ore	ore in which both ore minerals and gangue are fully or partially oxidised thus impacting its physical and chemical properties and influencing the choice of a processing technology				
		POX or pressure oxidation	a technological operation in which slurry is subjected to high pressure and high temperature in an autoclave with the goal to destroy sulphide particles enveloping gold particles and make slurry amenable to cyanide leaching				
		Precipitate	the semi-finished product of mineral processing by Merrill-Crowe process, normally containing very high concentrations of silver and/or gold				

Shareholder information

As at 30 March 2015, the Company's issued share capital consisted of 422,566,635 ordinary shares of no par value. The Company does not hold any ordinary shares in treasury. The ordinary shares reflect 100% of the total issued share capital of the Company.

Substantial shareholdings as at 30 March 2015

Shareholder	Beneficial owner	Number of shares	Percentage of issued share capital (%)	Nature of holding
Powerboom Investments Limited	Mr Alexander Nesis	83,590,567	19.78	Indirect
Fodina B.V.	Mr Petr Kellner	78,076,316	18.48	Indirect
Sumeru Gold B.V.	Glenville Asset Management Pte Ltd	31,347,078	7.42	Indirect
Vitalbond Limited	Mr Alexander Mamut	27,505,259	6.51	Indirect
Staroak limited	Jiri Smejck	20,330,448	4.81	Indirect
MBC Development Limited	Mr Alexander Mosionzhik	17,000,000	4.02	Indirect
A&NN Capital Management Fund Limited	Mr Nikolay Mamut, Mr Pyotr Mamut, Miss Esfir Mamut	15,130,782	3.58	Indirect

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Notes

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