POLYMETAL
INTERNATIONAL PLC

# Delivering on our promises

**Annual Report 2012**

www.polymetalinternational.com

Polymetal has a simple objective – to deliver sustainable value to all our stakeholders.

Our aim is to become the leading precious metals mining group in Russia and the CIS, benefiting from our competitive advantages – strong track record, capital discipline and high quality assets.

Our approach is underpinned by a commitment to high standards of corporate governance, corporate responsibility and sustainable development.

# Delivering on our promises

**We set ourselves demanding targets and have a consistent record of achieving them. During the year we have continued to deliver on these targets and this report illustrates our commitment to strategy, business model and the culture of excellence throughout our operations.**

**What we said**

In our last annual report, our focus for the future was specifically about operational excellence and effectiveness; a commitment to our strategic objectives; building a responsible business; upholding the highest governance standards; and a continuing dedication to the support and motivation of our workforce.

## A conversation with the Chief Executive

12

In this section we hear from our Chief Executive, Vitaly Nesis, regarding his views and our strategy relating to the issues and activities that we are asked about most often.

See more on pages 12-13

## Delivering on our promises

18

We report on the progress that we've made, and describe how this forms part of our ongoing development in the context of our longer-term growth strategy.

See more on pages 18-21

## Overview Contents

## Business model

14

Our business model remains at the heart of our ability to maintain competitive advantage and consequently to deliver sustainable value. Here we discuss in more detail how our business model continues to drive our performance.

See more on pages 14-15


## Corporate responsibility

80

As always, building a responsible business continues to be at the core of our thinking and this section details our approach and achievements.

See more on pages 80-87

# A year of robust progress

## Key achievements

- Polymetal demonstrated strong operational performance throughout the year. Total gold equivalent production of 1,063 Koz was up 31% compared to 2011, exceeding the original projection of 1 Moz. This reflects stable operations at all of our mature mines, with a notable improvement at Dukat and growth at Omolon and Albazino.
- Metal sales for the full year exceeded production for both gold and silver.
- The Amursk POX, the first operating POX plant in Russia's gold industry, has been slower than planned to come online, but the ramp-up is progressing and we expect it to reach full capacity by the end of 2013.
- There has been a dramatic increase of the resource base at Albazino and potential new growth assets have been identified through successful exploration at Kutyn and Svetloye.
- We have implemented a new dividend policy, raising the payout ratio to 30% and introducing special dividends. The first special dividend in the Company's history of US$0.50 per share was paid in January 2013; a final dividend for 2012 of US$0.31 per share is proposed.

## Key financial figures

**1,854**
Sales revenue (US$ million)
2011: US$1,326 million

**918**
Adjusted EBITDA[1] – total (US$ million)
2011: US$624 million

**703**
Total cash cost (US$/GE oz)[2]
2011: US$701/GE oz

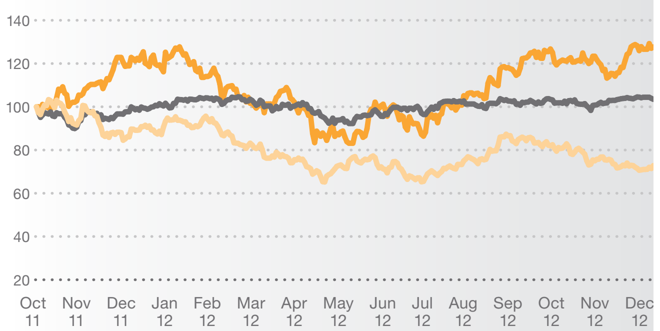
**401**
Profit for the year (US$ million)
2011: US$290 million

### How we've performed

We have demonstrated strong financial performance for the year, driven by excellent operational performance and tight cost and capital discipline. We remain committed to delivering value to shareholders by proposing a final dividend which, combined with special dividends, will result in sector-leading yield combined with solid growth profile.

## Share price

**Performance versus FTSE 100/FTSE Gold Mines** (%)





## Locations

**Russia**
Magadan Region
Sverdlovsk Region
Khabarovsk Territory
Chukotka Autonomous Territory

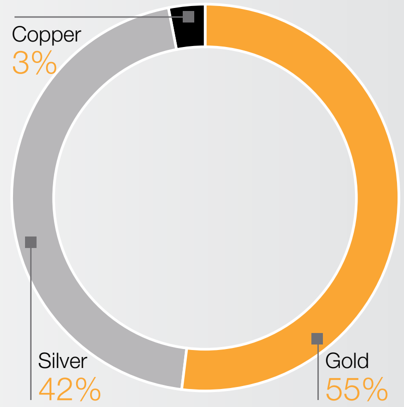
**Kazakhstan**
Kostanay Region

## Production

**1,063 Koz**
of gold equivalent
2011: 810 Koz

**+31%**
increase of gold equivalent production on 2011

Revenue structure (%)




### How we've delivered

Our original objective for 2012 was to deliver 1.0 Moz of gold equivalent, and we are naturally pleased to have exceeded this target. Since our operating activities remain on track, we are confident that we will achieve production of 1.2 Moz in 2013 and 1.4 Moz of gold equivalent in 2014.

## Reserves and Resources[3]

Gold equivalent

**15.1 Moz**
Ore Reserves (GE oz)

**18.7 Moz**
Mineral Resources (GE oz)

**3.9/3.3**
Average reserve/resource grade (GE g/t)

[1] The Company defines adjusted EBITDA (a non-IFRS measure) as profit for the period adjusted for depreciation expense, rehabilitation expenses, writedown of inventory to net realisable value, share-based compensation, listing expenses, additional mining tax, penalties and accrued interest, income on disposal of subsidiaries, bargain purchase gain, 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. See Note 6 to the financial statements.

[2] 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 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.

[3] Mineral Resources and Ore Reserves are estimated in accordance with the JORC Code (2004). Mineral Resources are additional to Ore Reserves.

## Our portfolio

(as at 31 December 2012)

**6**
Mining operations:
Dukat hub
Albazino/Amursk/Mayskoye POX hub
Omolon hub
Voro standalone mine
Varvara standalone mine
Khakanja hub

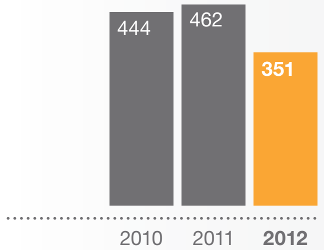
**54**
Licences

**10,722**
Total licence area (km²)

# Sustaining strong performance

## Capital projects completed in 2012

**Capital expenditure**[1]
(US$m)
**-24%**

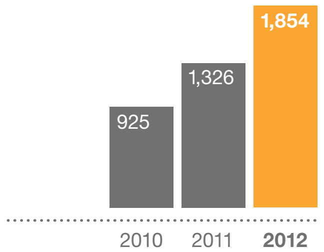



[1] Cash flow basis.

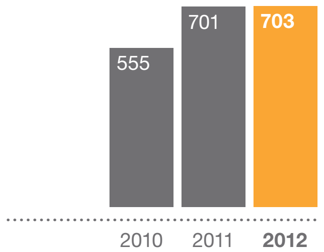
- Full ramp-up of the Albazino concentrator
- Commissioning of the Merrill-Crowe section at the Kubaka plant (Omolon hub), with hub reaching design capacity
- First gold poured at Amursk POX plant; ramp-up is continuing

## Financial highlights

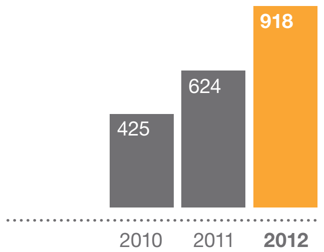
**Revenue**
(US$m)
**+40%**



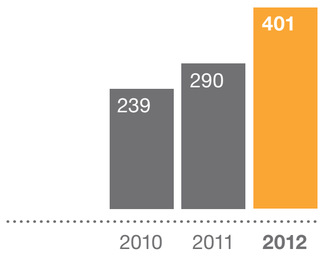

**Total cash cost**
(US$/GE oz)
**0%**



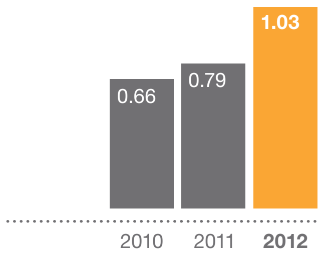

**Adjusted EBITDA**
(US$m)
**+47%**



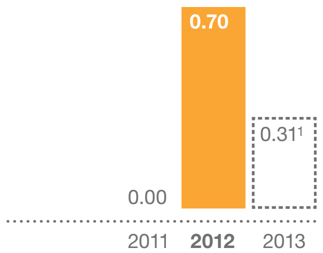

**Net income**
(US$m)
**+38%**




**Basic EPS**
(US$/share)
**+30%**

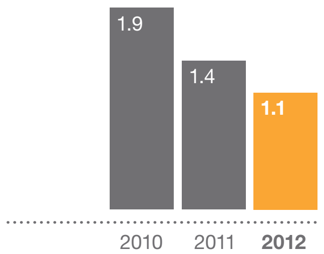



**Dividends**
(US$/share)

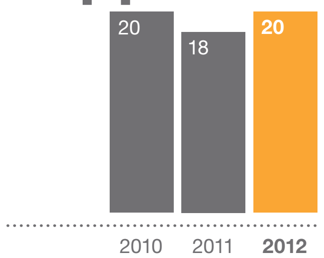



[1] Final dividend for 2012 proposed.

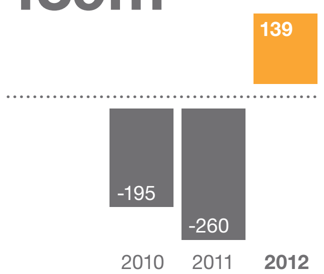
**Net debt/ adjusted EBITDA** (%)
**-20%**




**Return on equity**
(%)
**+2pp**

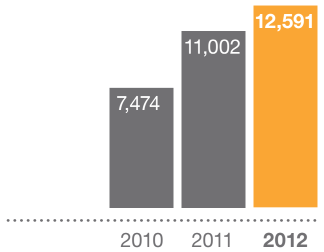



**Free cash flow**
(US$)
**139m**

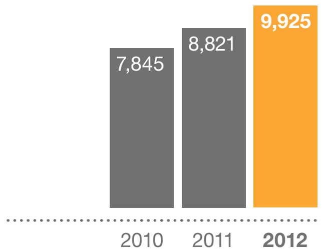



## Operational highlights

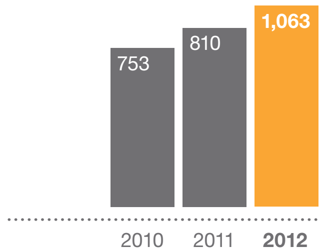
**Ore mined**
(Kt)
**+14%**



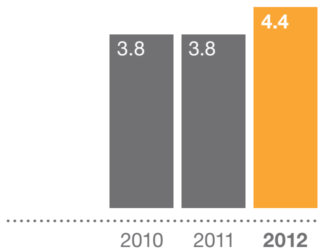

**Ore processed**
(Kt)
**+13%**



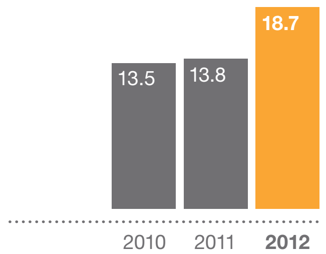

**Gold equivalent production**
(Koz)
**+31%**



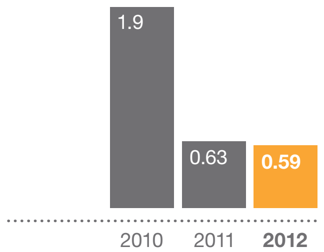

**Average gold equivalent grade processed** (g/t)
**+15%**



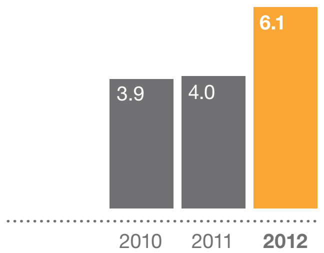

**Resources growth**
(GE oz)
**+35%**



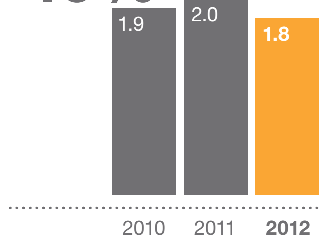

**Lost time injury frequency rate** (LTIFR)
**-6%**



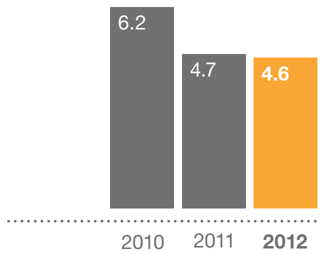

**Social investments**
(US$m)
**+53%**




**GHG emissions**
($CO_2$ equivalent tonnes per 10Kt of ore mined)
**-10%**




**Total air emissions**
(tonnes per 10Kt of ore mined)
**-2%**



## Overview
## Where we operate

# High quality assets


## Map key

- Hub
- Potential hub
- Operating mines
- Development projects
- Seaport
- Standalone mining operations
- Key exploration projects
- Head office
- City/town

## Our assets

### Voro
Our first mine, at the peak of its performance

| | |
|---|---|
| 900 Ktpa | HL |
| 900 Ktpa | CIP |
| Operating mines | Voro |
| Key exploration projects | South Voro, Volchansky |

GE production
157 Koz

### Varvara
Delivering stable operating performance in Kazakhstan

| | |
|---|---|
| 4.2 Mtpa | Float + Leach |
| Operating mines | Varvara |
| Key exploration projects | Varvara (flanks) |

GE production
134 Koz

### Dukat hub
Our flagship operation and Russia's largest primary silver mine

| | |
|---|---|
| 1.5 Mtpa | Dukat concentrator |
| 300 Ktpa | Lunnoye CIL plant |
| Operating mines | Dukat, Goltsovoye, Lunnoye, Arylakh |
| Development projects | Olcha |
| Key exploration projects | Krasin, Zvezdny, Kamenisty |

GE production
357 Koz

### Omolon hub
Delivering full potential of a processing hub concept

| | |
|---|---|
| 850 Ktpa | Kubaka CIP and Merrill-Crowe plant |
| 1.3 Mtpa | Birkachan HL plant |
| Operating mines | Birkachan, Sopka, Tsokol |
| Development projects | Oroch, Dalneye, Prognoz |
| Key exploration projects | Pyatinakh, Burgali |

GE production
173 Koz

### Khakanja hub
Transforming one of our core assets into a genuine processing hub

| | |
|---|---|
| 600 Ktpa | Merrill-Crowe plant |
| Operating mines | Khakanja, Avlayakan, Yurievskoye, Ozerny |

GE production
164 Koz

### Amursk POX hub
The first operating pressure oxidation plant in Russia and the CIS gold sector

| | |
|---|---|
| 225 Ktpa | Amursk POX plant processing concentrate from Albazino and Mayskoye |
| Development projects | Albazino, Mayskoye (Chukotka) |

GE production
77 Koz

### Albazino (Amursk POX hub)
Our newest operating mine with significant further growth potential

| | |
|---|---|
| 1.5 Mtpa | Albazino concentrator |
| Key exploration projects | Albazino, South and East flanks |

### Mayskoye (Amursk POX hub)
On track to launch in April 2013

| | |
|---|---|
| 850 Ktpa | Mayskoye concentrator |

# Maintaining focus on delivery

**On behalf of the Board, I am delighted to be reporting on a year of tremendous progress for Polymetal. In our first full year as a premium listed company on the London Stock Exchange, we have successfully delivered on our promises in terms of production, performance, governance and the generation of value for our stakeholders.**

**Performance**
We have consistently demonstrated strong operational performance throughout the year, with total gold equivalent production 31% up on 2011 and 6% ahead of original expectations. This excellent result was driven in particular by solid performance at our mature mines, robust performance at Dukat and successful ramp-ups at Omolon and Albazino.

While the completion of major projects and significant resource expansion have both contributed significantly to our success during the year and helped to develop a distinctive competitive profile for Polymetal, we have also made progress against wider strategic objectives. Throughout the year, we have announced several resource increases, the most important being the twofold resource expansion at Albazino as a result of our ongoing exploration efforts. In December we announced the completion of the acquisition of the Olcha gold-silver deposit and a greenfield PGM project, our first platinum asset.

**Dividend**
Our dividend policy in 2012 has evolved in response to increased demand for dividend flow from institutional investors across the world. It also highlighted our ability to generate free cash flow at the current stage of our development. As a result, a new dividend policy has been adopted by the Board, raising the regular dividend payout ratio to 30% of net earnings, and introducing interim dividends and an annual consideration of a special dividend. We firmly believe that the amended dividend policy will be significantly more aligned with the interests of the Company's stakeholders and global trends in the sector, reaffirming the Company's commitment to capital allocation discipline and value distribution while retaining flexibility to invest in attractive projects.

The Board was delighted to declare, in accordance with the new policy that, having considered the performance of the Group to date, available free cash flows and future investment requirements, a special dividend of US$0.50 per ordinary share, representing a total of approximately US$191 million. This was paid in January 2013. In addition, a final dividend of US$0.31 per share is proposed, representing 30% of our net profit for the year.

The declaration of the first special dividend in the Company's history and the increased regular payout reaffirm our commitment to capital discipline and is also a result of solid operating and financial results of the Group to date. The implementation of our new dividend policy reflects the importance we place on delivering meaningful cash returns to our shareholders and sustainable value creation.

**The Board and Governance**
Governance is at the heart of our culture, providing a framework within which we can maintain and develop the values and practices that support our corporate objectives, and which ensure that Polymetal reflects high levels of ethical and responsible behaviour.

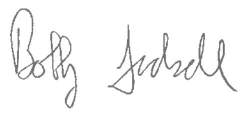
During our first full year as a premium listed company on the London Stock Exchange we have worked hard to ensure that we reflect both the letter and the spirit of the UK Corporate Governance Code. Our approach is designed to achieve a balance between encouraging positive commercial values, and applying the appropriate disciplines where required.

We have been particularly focused on the Code's emphasis on the alignment of remuneration with shareholder interests, the balance and effectiveness of the Board and its composition, and the active stewardship of risk management. For the Board to maximise its effectiveness it must ensure that the proper governance and strategy setting procedures are in place so that the Company can maintain its ability to sustain financial performance, dividend flow to shareholders, and to generate value to all its stakeholders.

We remain committed to ensuring that the Company is run in the best interests of all its stakeholders and that the Board is accountable for responsible stewardship, disciplined performance and sustainable value delivery.

**People**
Polymetal's good performance this year is entirely due to the talent, dedication and hard work of all our employees. Our strong prospects for future growth are equally dependant on their continuing commitment. We are not only highly appreciative of the efforts of our employees at all levels, but are also absolutely clear that the wellbeing of everyone associated with Polymetal is of critical importance.

**Outlook**
The Board is pleased to be able to report on such a successful year for Polymetal. We have delivered a very strong performance against the operational and strategic objectives that we set ourselves at the time of listing. We continue to make strong progress on consistent long-term strategic aims, in particular the development of a third generation of growth assets. Our focus continues to be firmly on delivering results and building sustainable value for the long term.



**Bobby Godsell**
Chairman

## How we've performed
### Governance

| What we said | What we did | Key achievements |
| --- | --- | --- |
| Both prior to and following our listing, our approach has been underpinned by a commitment to high standards of corporate governance, corporate responsibility and sustainable development. Our undertaking is to deliver progressively more effective stewardship and accountability to all our stakeholders through an ongoing process of review and assessment. | ■ The alignment of remuneration with shareholder interests | New LTIP proposed in line with UK best practice |
| | ■ The balance and effectiveness of the Board and its composition | Board evaluation performed in 2012 |
| | ■ The active stewardship of risk management | In-depth review of key risks and management response |

## Board of Directors and committees

Member of the Board of Directors

Bobby Godsell ■
Vitaly Nesis
Jonathan Best ●▲
Marina Grönberg
Leonard Homeniuk ▲■
Russell Skirrow ●
Konstantin Yanakov
Jean-Pascal Duvieusart
Charles Balfour ●▲■

■ Chairman ■ Executive Director ■ Non-executive Director
■ Independent non-executive Director

● Audit and Risk Committee ▲ Remuneration Committee
■ Nomination Committee

## Summary

> Improved governance systems and practices
> Experienced Board
> Talented people throughout the business
> New dividend policy
> Strong outlook for sustainable value

## Effective leadership >

For more information on our corporate governance

88
See more on pages 88-109

# A successful year of delivery and growth

**2012 has proved to be a strong year, with a solid set of operating results, favourable market conditions, significant progress across our key investment projects and exploration targets, and a continuing focus on safety and employee welfare.**

### Robust production results

This year we achieved total gold equivalent production of 1.06 Moz – 31% up on 2011 and 6% ahead of original forecasts, representing our biggest annual increase in absolute numbers to date. These excellent results were driven by stable performance at all mature mines, with a notable improvement achieved at Dukat, and successful ramp-up at Omolon and Albazino, our key growth projects.

Annual gold production increased to 589 Koz, up 33% compared to 2011, driven principally by robust operating results at Omolon and Albazino, both achieving or exceeding design capacity. Silver production was 26.5 Moz – also up 33% on 2011 – as a result of higher grades and recoveries at Dukat, successful processing of high-grade Sopka ore at Omolon, and increased grades at Khakanja.

We have commissioned our flagship Amursk POX plant and poured first gold in April 2012 as planned. However, while throughput reached expected levels in late November, we experienced some operational issues during the ramp-up and have not yet achieved expected sustainable performance. We are already implementing the necessary remedial measures, and are expecting a gradual improvement throughout the year with full capacity being achieved by the fourth quarter of 2013. In the meantime, we will be able to generate cash flows by continuing concentrate sales to third-party off-takers.

### Development and exploration

I am pleased to report that our development projects are well on track. The commissioning of Mayskoye, our most remote and northerly mine, is scheduled to take place in April 2013.

Furthermore, a substantial increase in the gold resource base at Albazino to nearly 6 Moz and successful exploration results at Kutyn and Svetloye indicate that we are in a strong position to make decisions on significant new asset developments in the second half of 2013 and the beginning of 2014. These projects, if undertaken, will form a third generation of growth assets after reaching the target level of 1.4 Moz of gold equivalent production on the current asset base, which is expected in 2014.

The in-house exploration programme in 2012 and in the beginning of 2013 has been complemented by acquisition activity, including acquisition of the Olcha deposit, which will be part of the Dukat hub; the Svetlobor project, our first greenfield project in platinum; and, most recently, Maminskoye, a development stage asset in a perfect location with access to infrastructure. Both organic and inorganic growth projects are complementary with our business model, with capital discipline and commitment to return on capital as the core criteria of value creation.

### Strong financial performance

We have achieved excellent financial results for the year driven by robust operating performance and tight cost and capital discipline.

Revenue increased by 40% to US$1,854 million compared to 2011, driven mostly by robust production growth resulting in a 33% increase in sales of gold equivalent ounces. Metal sales exceeded production for both gold and silver as a result of destockpiling of concentrate inventories at Dukat.

Group total cash cost was US$703/GE oz, and remained almost flat compared to the 2011 level of US$701/GE oz as a result of intense management focus on cost control and despite external and inflationary cost pressures. Strong operating performance, resulting in increased



## How we've performed
## Production

**What we said**

Our original production target for 2012 was 1.0 Moz of gold equivalent. This represented a 23% increase over 2011 compared to an 8% increase achieved in the period of 2011 over 2010.

**What we did**

- Increase in production of gold equivalent of 31% to 1,063 Koz
- Target further growth of 1.2 Moz for 2013 and 1.4 Moz for 2014

**1,063**
Koz of gold equivalent

**+31%**
increase on 2011

average grade processed and increased volumes, and coupled with moderate Russian Rouble depreciation against the US Dollar, offset the combined impact of domestic inflation and adverse movement in gold/silver price ratio.

In line with industry best practice, we started to report all-in cash costs, which comprised US$1,047/GE oz, a 15% decrease year-on-year, driven mostly by reduction in capital expenditure at our operating mines and stable total cash costs.

Net earnings were US$401 million, up 39%, and basic EPS was US$1.03, up 30% year-on-year driven by strong increase in adjusted EBITDA. The net earnings and EPS were negatively affected by additional tax provisions booked in respect of prior years and 2012 in the amount of US$116 million, which are not expected to be recurring. The earnings growth resulted in improved returns on equity and capital employed reaching 20% and 22% respectively.

Net operating cash flow more than doubled to US$496 million while capital expenditures declined 24% to US$351 million, resulting in total positive free cash flow of US$139 million.

Our balance sheet remains strong, and liquidity profile comfortable, with the net debt/adjusted EBITDA ratio further reduced from 1.4 to 1.1 during 2012, with 59% of borrowings being long-term.

Following the successful performance during 2012, a final dividend of US$0.31 per share is proposed by the Board in accordance with our new dividend policy, reiterating our commitment to capital discipline and delivering value to our shareholders. The cumulative dividend payout during the last twelve months, including the payment of the first special dividend, puts us among the leaders in the sector in terms of dividend yield.

### Employees and communities

As one of the largest employers and taxpayers in many areas of our operations, with more than 9,000 employees in Russia and Kazakhstan, we are very conscious that our achievements are totally dependent on their commitment and dedication. We have a clear focus on the wellbeing of all our staff, and our health and safety procedures are subject to constant scrutiny, assessment and development. We continue to invest significantly in all areas relating to safety systems, procedures and equipment, which naturally remain central to our culture and working practices.

I am very pleased to report that we experienced zero fatalities for a second year in a row, and the lost time injury frequency rate has also decreased in 2012 by another 6%, following major improvements in 2011. The tragic loss of the dry-cargo freighter Amurskaya, operated by a contractor of one of our subsidiaries, which capsized in the Sea of Okhotsk in October 2012, is a matter of lasting sadness and regret for everyone at Polymetal. We have already taken appropriate steps to roll-out our safety and risk management procedures to our large supplier and contractor network.

We have a long history of involvement and support for the communities in which we operate, and which are in any way affected by our activities and operations. We continue to be committed to playing a significant role in the social and economic development of communities and indigenous populations, and have an ongoing programme of investment and financial support in terms of job creation, the development of local and regional infrastructure, health, education, culture, welfare and sports.

### Looking ahead

We have a great deal to look forward to – the results for 2012, and the strength of our development and exploration activities, give a good indication as to our prospects for the future. In the year ahead, we will be fully focused on unlocking the potential of the Amursk POX plant and the launch of Mayskoye, while continuing to work on the third generation of growth assets.

We remain confident in our production guidance of 1.2 Moz for 2013 and in our commitment to both cost and capital discipline. While there are always risks associated with future prospects, we firmly believe that we have the assets, strategy and expertise to continue to build Polymetal as a world class business and continue to deliver value to all our stakeholders.

**Vitaly Nesis**
Chief Executive
24 April 2013

# A conversation with the Chief Executive

## Q. How has the Company changed since moving to London's main market?

While we continue to go from strength to strength operationally, a key area of development has been the compliance with wider international standards of corporate governance. Clearly there is a far greater amount of attention on Polymetal from a far greater range of stakeholders, commentators and press regarding the Company's performance, as well as more focus on governance and sustainability from an expanded and more demanding investor base. We are therefore continuing to focus strongly on governance, transparency and stakeholder relations. In general though, we are proud of our record of delivering on our promises as this has enabled us to outperform both the market and our peer group in terms of Total Shareholder Return and to deliver real value to our shareholders.

Left: Operations at the Voro open pit
Top right: Regular equipment checks at the Khakanja plant
Bottom right: The area adjacent to our Mayskoye site in Chukotka

## Q. What would you describe as your main achievements and main disappointments during the year?

I'm pleased that our achievements have strongly outweighed any disappointments, so that while Amursk POX – despite achieving its ramp-up and initial production targets – did not deliver fully on target, the Company as a whole achieved an impressive 31% growth in production. The delay in full ramp-up of the Amursk POX does not undermine our confidence for the future, and this confidence is further boosted by the great progress we have made in other areas, such as the success of our growth projects at Omolon and Albazino, and significant exploration success at both brownfield and greenfield projects. M&A activity was limited, although a number of relatively small acquisitions may offer additional expansion opportunities – in particular the new platinum project and the Olcha brownfield expansion at Dukat.

## Q. How are these achievements and areas for further focus impacting on your financial performance?

The fact that we achieved production growth ahead of expectations, along with our stable performance at mature mines, meant that we also delivered improved cost efficiency and profitability levels, including adjusted EBITDA growth of 47% and stable total cash costs. In addition, the completion of some major growth projects combined with a strong operating cash flow resulted in free cash flow generation, a comfortable level of debt and solid profitability. Importantly, this also enabled us to implement our industry-leading dividend policy, with a sizeable US$0.50 per share special dividend.



**"We are proud of our record of delivering on our promises as this has enabled us to outperform both the market and our peer group in terms of Total Shareholder Return and to deliver real value to our shareholders."**

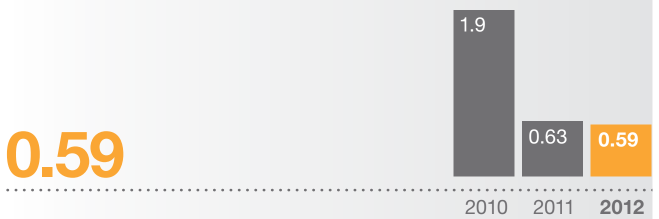
**Vitaly Nesis**
Chief Executive



## Q. What are the key challenges in respect of safety and responsible development – and how do you address them?

While our in-house safety performance was excellent – this was the second year in a row that we were able to record not only zero fatalities but also a continuing trend of reduced injury rates – we of course deeply regret the loss of one of our suppliers' ships in the Sea of Okhotsk. We are now taking measures to roll out our health and safety approach to our supplier network to address this risk in future. Our environmental and social performance remains fundamentally important to our sustainable growth, and consequently a key area of focus for us. We have made a positive impact in every region where we operate, and continue to invest heavily in our environmental, safety and social programmes.

**Lost time injury frequency rate** (LTIFR)[1]




[1] Per one million hours worked.

## Q. What are your key operational priorities for 2013?

While we're naturally focused on a complete range of operational activities, we do have two significant priorities – achieving our targets for operations at Amursk POX, and the completion and ramp-up of Mayskoye. These two objectives are pre-requisite to achieving the 1.4 Moz production target from our existing asset base in 2014, and to delivering on our estimate of 1.2 Moz in 2013. We're confident that both these priorities will be achieved during the coming year.

## Q. A production target of 1.4 Moz seems now achievable – how do you see strategic development of the Company beyond 2014?

Although we have yet to deliver the 1.4 Moz, we are already looking at the next generation of assets to ensure growth beyond 2014. There are key decisions to be made in respect of this third generation of assets, including the expansion of Albazino and development of the two most significant greenfield targets, Kutyn and Svetloye. Albazino is the nearest target, and represents an excellent example of our exploration success. All three of these projects are subject to ongoing evaluation and the relevant development decisions will be made by the end of 2013 – beginning of 2014.

# Performing in line with our business model

## Polymetal's business model


**Delivering sustainable value**
Three elements form the substance of our business model: a focus on high-grade assets, support and expansion of our hub-based operating system and investment in exploration – underpinned by a commitment to strong governance.

**Success in our market depends to a large extent on our ability to increase our resource base, continually develop systems that increase production efficiency, and improve grades. Our business model has therefore been developed to ensure that we have the best methodology and approach to address these issues, and ultimately to ensure that we continue to deliver sustainable value.**

## Business philosophy
### What we like and do

- High return on invested capital and meaningful dividends ✓
- Brownfield projects based on the concept of processing hubs: capital light, simple, predictable ✓
- High-grade medium-size projects ✓
- Synergy-driven M&A ✓

### What we don't like and don't do

- Low return on capital (even at low total cash costs) and symbolic dividends ✗
- Greenfield projects: expensive, complex, risky ✗
- Very large low-grade projects ✗
- M&A driven by desire to grow production ✗

| Area of focus | What we said | What we are doing | The future |
|---|---|---|---|
| **Focusing on high-grade assets**<br>22<br>Read more about our assets on pages 22-59 | We have a preference for open-pit mining unless higher grades justify underground development. Grades and mining conditions are the key cost factors that drive return on invested capital in the precious metals industry. By setting appropriate thresholds on head grades and focusing on open-pit mines we are achieving better returns and lower risks from our project portfolio. | The newest mines which were ramped up and/or are under construction – most importantly, Omolon hub, Albazino and Mayskoye – are all characterised by high reserve and resource grades, which reduces the project risk and ensures good cost levels despite complex logistics and weather conditions. Further, grade control remains a top priority at our existing operations thus supporting intense management focus on cost control. | Our focus on grade is also embedded in our thresholds and targets set for assessing organic and inorganic growth opportunities, in order to support Company's grade profile going forward.<br><br>At the operational level, we are continuing to implement various initiatives both at mine planning and processing level to ensure continuous grade and recovery improvements. |
| **Leveraging our hub-based system**<br>6<br>Read more about our hubs on pages 6, 28-51 | Creation of centralised facilities for the treatment of materials from different sources allows us to minimise processing and logistics costs and achieve economies of scale. | Omolon and Khakanja are both good examples of asset transformation supported by the hub concept. Both demonstrate solid performance improvement in 2012 in terms of production growth and cost reduction driven by addition of high-grade ore sources from medium and small-sized satellite deposits. | We are continuing to invest in brownfield exploration and searching for synergistic M&A targets which could extend the life of existing operations and/or improve grade profile, with acquisition of Olcha in 2013 being the latest example. |
| **Investing in exploration**<br>60<br>Read more on pages 20, 24, 60 | This will allow us to ensure a cost-effective increase in our reserve base which is, in turn, the key source of long-term organic growth. | Our exploration efforts in 2012 have resulted in meaningful growth in reserves and resources without compromising the grade. New resource additions at Albazino are the largest success of 2012. | Greenfield and brownfield exploration will continue to serve as the principal source of future growth assets, some of which (Albazino expansion, Kutyn and Svetloye) have already been identified. |
| **Maintaining exemplary governance**<br>88<br>Read more on pages 88-109 | We strive to ensure proper steering of the Company, accountability to shareholders and attention to other stakeholders' interests. | Good corporate governance and listening to our shareholders remains a top priority of Polymetal Board and executive management, with key 2012 developments including new progressive dividend policy and adopting best practices in executive remuneration. Health and safety, as well as environmental and social performance, are also embedded in the management's KPIs and remain an area of focus. | Going forward, the Board will continuously focus on compliance with UK best practice in corporate and on further improvement in health and safety record, as well as on maintaining a robust system of internal control. |

# Operating to a consistent strategy

## How we've performed
### Strategy

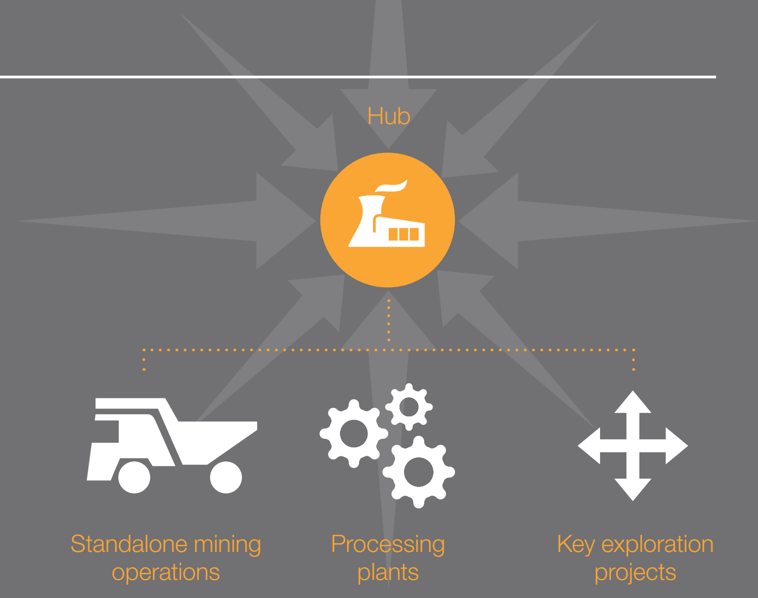
| What we said | What we did in 2012 | Key achievements |
|---|---|---|
| Our strategy to generate sustainable value for our stakeholders remains consistent, with clearly defined objectives – achieving production capacity, investing in exploration, pursuing acquisitions, increasing profitability, refining governance processes – and consequent targets, key performance indicators and measurement processes. | ■ Delivered strongly in overall terms against all our operating objectives and associated key performance indicators | Gold equivalent production up 31% |
| | ■ Progressed steadily in our exploration targets | Meaningful Reserve and Resource growth through exploration |
| | ■ Focused on cost control and efficiency | Increased profitability and cash flow |

| Strategy | Objective | KPI | 2012 Performance |
|---|---|---|---|
| **Achieving design capacity at current growth projects**<br>Achieve design capacity at projects currently in construction or ramp-up phase by the second half of 2013 and achieve production level of 1.4 Moz of gold equivalent ounces in 2014. Assets in construction or ramp-up phase expected to generate production growth are the Amursk POX and Mayskoye concentrator. | ■ Achieve design capacity at all plants and targeted production volumes (1.4 Moz) in 2014<br>■ Complete key capex projects | ■ Gold equivalent produced (Koz) | 1,063/+31% |
| | | ■ Average gold equivalent grade processed (g/t) | 4.4/+15% |
| | | ■ Revenue (US$ m) | 1,854/+40% |
| | | ■ Capital expenditure (US$ m) | 351/-24% |
| | | ■ Major project milestones completed | ■ Albazino – achieving design parameters<br>■ Omolon – achieving design parameters after commissioning the Merrill-Crowe section<br>■ Amursk – commissioned, ramp-up underway |
| **Investment in exploration**<br>Near-mine<br>Investment in near-mine exploration with the aim of expanding the Group's reserve base and creating opportunities for production growth, either through grade improvement or expansion of existing processing facilities. Assets targeted for this expansion are Albazino, Khakanja and Voro.<br>Greenfield<br>Investment in greenfield exploration with the aim of discovering high-grade quality assets for construction of new standalone mines. | ■ Expand reserve and resource base with quality assets | ■ Resource growth | +35% |
| | | ■ Average resource grade (GE) | 3.3 g/t |
| | | ■ Reserve growth | +6% |
| | | ■ Average reserve grade (GE) | 3.9 g/t |
| **Increasing profitability, cash flow generation and dividend payout**<br>Deliver superior operating profitability and strong free cash flow by maintaining tight cost control, focusing on return on capital in investment decisions and maintaining safe debt levels. | ■ Deliver superior operating profitability | ■ Total cash cost/GE sold | 703/0% |
| | | ■ Free cash flow | US$139m/positive |
| | | ■ EBITDA margin | 50%/+3pp |
| | | ■ Dividend payout ratio | 79% |
| **Pursuing synergistic value-driven acquisitions**<br>Pursuit of selected synergistic 'bolt-on' or other value-accretive acquisition opportunities with a view to leveraging processing capacity, infrastructure and operational expertise at our existing processing hubs or transforming current standalone mines into new hubs. | ■ Synergistic 'bolt-on' acquisitions | ■ Transactions made or agreed during 2012 | ■ Acquisition of Svetlobor – greenfield PGM project<br>■ Acquisition of Olcha – bolt-on to Lunnoye (completed in January 2013) |
| **Refining corporate governance and social responsibility**<br>Maintain high standards of corporate governance, strictly adhering to the principles of sustainable development in our interaction with all stakeholders in our operations, including communities, employees and government bodies. We are compliant with the majority of provisions of the UK Corporate Governance Code made by the Board to ensure full compliance from June 2013. The Group is also a participant in the UN Global Compact, a recognised international standard for sustainable development. | ■ Maintain high standards of corporate governance and sustainable development | ■ Compliance with UK Corporate Governance Code | ✓ Refer to page 91 detailing how we have complied |
| | | ■ LTIFR | 0.59/-6% |
| | | ■ Social and community investments (US$) | 6m/+50% |
| | | ■ GHG emissions (tonnes per 10Kt ore mined) | 1.8/-10% |

# Driving hub development and production growth

## The Polymetal hub structure

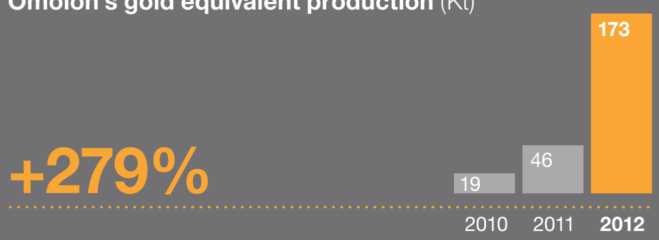
**Efficient processing model**
Our strategy of creating centralised processing facilities to treat ores and concentrates from surrounding sources enables us to run operations that are characterised by efficiency, and capital and cost effectiveness. We have further developed this system during the year, and by the end of 2014 we expect our Amursk, Omolon, Dukat and Khakanja hubs to be producing up to 80% of the Group's total output.




## Omolon
### An excellent performance reflecting the successful implementation of our hub concept

The 46% increase in volume of ore processed and 114% growth in gold is a tremendous turnaround story from a previously under-performing asset, with production of 173 Koz of gold equivalent after transportation of high-grade ore from Sopka and the commissioning of the Merrill-Crowe circuit at the refurbished Kubaka plant.

**Omolon's gold equivalent production** (Kt)




## Amursk
### Russia's first operating pressure oxidation plant

The Amursk plant is one of our key projects and one which will give us a significant competitive advantage, both nationally and in the global gold industry. The pressure oxidation technology opens up opportunities for Polymetal in terms of efficient and cost effective processing of refractory gold deposits in Russia and the CIS.

## Production
### This has been a very rewarding year in terms of production results, with total gold equivalent production of 1.06 Moz – 31% up on 2011, representing our best ever annual increase

### Achievements
This excellent result was driven by strong all-round performance, with a notable improvement at Dukat and successful ramp-up at Omolon and Albazino, our key growth projects. Annual gold production increased to 589 Koz, up 33% compared to 2011. Silver production was 26.5 Moz – also up 33% on 2011 – as a result of higher grades and recoveries at Dukat, successful processing of high-grade Sopka ore at Omolon, and increased grades at Khakanja.

**The Group's gold equivalent production** (Kt)


We commissioned our flagship Amursk plant and poured our first gold in April 2012 as planned. While throughput did reach expected levels in late November, we then experienced some operational issues which have meant that we have not yet achieved expected levels of sustainable performance. However we have already implemented the necessary remedial measures, and are expecting recovery throughout the year with full capacity being achieved by the fourth quarter of 2013. In the meantime, we will be able to generate cash flows by continuing concentrate sales to third-party off-takers.

**What we said**
Our original annual gold equivalent production estimate of 1 Moz for 2012 was increased during the year to 1.05 Moz, and although we had set ourselves some typically stretching targets we finished the year delighted with the outcome.

**What we did**
- Achieved an increase of 14% in ore mined to 12,591 Kt.
- Achieved actual gold equivalent production for the year of 1,063 Moz, a 31% increase compared to 2011.

**Production highlights included:**

**Dukat**
Increased grade profile, expansion of mining at Goltsovoye, and improved recovery levels at the main Omsukchan concentrator.

**Albazino/Amursk hub**
The Albazino mine and concentrator reaching design capacity, start of commercial production at Amursk, combined with continued concentrate sales to third-party off-takers.

**Omolon**
Dramatic increase in capacity at the Kubaka plant, higher than planned amounts of ore transported from Sopka.

**Khakanja**
Grade profile increase generating 28% production growth.

**Gold equivalent production by mine** (Koz)

# Strong results from our exploration activities

## Exploration

**The substantial increase in the gold resource base at Albazino and successful exploration results at Kutyn and Svetloye put us in a strong position to make decisions on significant new asset developments in the second half of 2013-early 2014. These assets will most likely form the core of the third generation of growth assets after reaching our 2014 target of 1.4 Moz of gold equivalent.**

Resource increase in 2012

**+4.9 Moz**
of gold equivalent (+35%)

### Greenfield exploration

Investment in greenfield exploration remains a key objective for us. Our target standalone mines need to meet the stringent criteria that drive the cost efficiencies and a strong return on capital invested. These criteria include high grade, preference for open-pit mining, potential operational synergies with existing assets and, most importantly, new projects will need to exceed our minimum hurdle rates in terms of internal rate of return, which are set based on the complexity and risk level of a particular project.

Greenfield exploration efforts for new precious metals deposits are set to form the next generation of our growth assets and contribute to our longer-term growth prospects. The exploration expertise is therefore crucial for the long-term strategic development of the Company.

### Key exploration results in 2012:

**Albazino**
The exploration results at Albazino highlight the tremendous potential of this asset, and are an excellent example ofPolymetal's ability to create value by discovering high-grade resources close to existing processing facilities.

**Khakanja, Dukat, Omolon, Varvara and Voro**
Ongoing brownfield exploration activities aimed at extension of life-of-mine of our existing operations. At Varvara, significant resource and reserve additions were achieved as a result of in-fill and step-out drilling.

**Svetloye**
Metallurgical test work to determine viability of heap leaching is continuing, with a reserve estimate for the bulk heap leach processing option targeted for the fourth quarter of 2013.

**Kutyn**
Increased mineralised potential by 0.6 Moz of gold contained.

**Tamunier**
An initial JORC resource estimate prepared for the deposit of 50 Mt at 1.2 g/t gold.

**Elmus**
Additional ore zone discoveries.

# Committed to capital discipline and a progressive dividend policy

## Dividends

**Our dividend policy in 2012 evolved in response to increased demand for dividend flow from institutional investors across the world. It also highlighted our ability to generate meaningful free cash flow at the current stage of our development.**

- Dividend policy clearly aligned with stakeholders' interests and global trends in the sector
- Reaffirmation of the Company's commitment to disciplined capital allocation and value distribution
- Retained flexibility to invest in attractive exploration projects and acquisition opportunities
- Clear reflection of our competitive positioning in relation to international peers

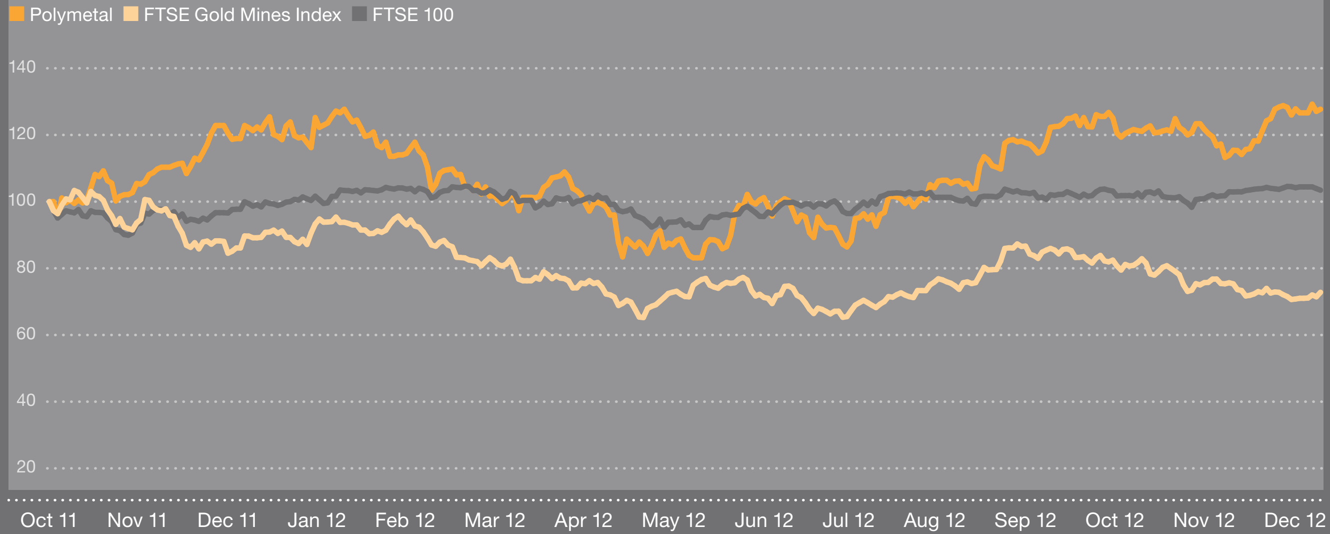
### What we said

At the time of our listing, we adopted a new dividend policy to reflect our commitment to meet shareholder expectations in an environment characterised on the one hand by high commodity prices, and tight financial markets on the other. A dividend of US$0.20 per share was proposed, along with the intention to pay annual dividends of 20% of net income, provided that net debt/adjusted EBITDA ratio is less than 1.75.

### What we did – Key achievements

- Raised payout ratio to 30% compared to the initial target of 20% and introduced interim dividends ✓
- Introduced annual Board consideration of a special dividend and paid US$0.50 per share in special dividends in January 2013 ✓
- Demonstrated the importance we place on delivering meaningful cash returns to our shareholders and sustainable value creation ✓

**Polymetal's performance versus FTSE 100/FTSE Gold Mines** (%)



# Delivering on our promises across our operations

**2012 became a year of solid operating results, with reliable delivery on increased production guidance revised upwards by 5% during the year, and successful ramp-up of new mines. This robust operating performance was further supported by a substantial increase in resource base, paving the way for development decisions on the third generation of growth assets.**

Total gold equivalent production of 1,063 Koz was up 31% compared to 2011 and exceeded the original guidance of 1 Moz by 6%. These excellent results were driven by stable performance at all our mature mines, with a notable improvement achieved at Dukat, and successful ramp-up at Omolon and Albazino.

The strong operating results were combined with considerable exploration success, a dramatic increase of resource base at Albazino to nearly 6 Moz of gold and successful exploration results at Kutyn and Svetloye. As a result, the Company is steadily approaching development decisions on new asset development in the second half of 2013 – beginning of 2014. These are set to build up the 'third generation' of growth assets, ensuring growth beyond 2014.

### Delivering on production and sales targets

Annual gold production was 589 Koz, up 33% year-on-year, driven mainly by successful ramp-up at Omolon and Albazino. Annual silver production was 26.5 Moz, up 33% year-on-year, as a result of higher grades and recoveries at Dukat, successful processing of high-grade Sopka ore at Omolon, and increased silver grades at Khakanja.

Importantly, metal sales for the full year exceeded production both for gold and silver. This was achieved by expected de-stockpiling of concentrate and refined metals inventories – most importantly at Dukat and Omolon – accumulated in the first six months of the year, and contributed to stronger operating cash flows.

### Delivering on key capital projects

We have made solid progress across our key construction projects, although some of them did not progress fully in line with our expectations, with a three-month delay in commissioning at Mayskoye and issues arising during the ramp-up of the Amursk POX plant. However, these issues did not have a material effect on our 2012 results and 2013 production targets. Both Amursk and Mayskoye are now the key focus of 2013 for our management team, with defined action plans in place.

In 2012, the key achievements across our growth projects included:

- The Albazino mine and concentrator reached design throughput and recovery from the second quarter of the year.
- The refurbished processing plant at Omolon with Merrill-Crowe section performed fully in line with expectations, processing more than 300 Kt of high gold and silver grade ore from satellite Sopka deposit.
- The majority of construction works were completed at the Mayskoye concentrator. Currently construction is on track for the revised start-up deadline in April 2013, with the only remaining works including installation of electrical, controlling, and auxiliary equipment.

### Production highlights

| | 2012 | 2011 | % change |
|---|---|---|---|
| Stripping, Kt | **85,173** | 80,683 | **+6%** |
| Underground development, metres | **46,717** | 35,150 | **+33%** |
| Ore mined, Kt | **12,591** | 11,002 | **+14%** |
| – open-pit | **10,937** | 9,636 | **+14%** |
| – underground | **1,654** | 1,366 | **+21%** |
| Metal in ore mined, GE grade g/t | **4.1** | 3.8 | **+10%** |
| Ore processed, Kt | **9,925** | 8,821 | **+13%** |
| Metal in ore processed, GE grade g/t | **4.4** | 3.8 | **+15%** |
| **Production** | | | |
| – gold, Koz | **589** | 443 | **+33%** |
| – silver, Moz | **26.5** | 19.9 | **+33%** |
| – copper, Kt | **6,567** | 6,915 | **-5%** |
| **Gold equivalent production, Koz[1]** | **1,063** | 810 | **+31%** |
| **Sales** | | | |
| – gold, Koz | **593** | 448 | **+32%** |
| – silver, Moz | **28** | 17 | **+63%** |
| – copper, Kt | **7,011** | 6,363 | **+10%** |
| **Gold equivalent sales, Koz[1]** | **1,092** | 764 | **+43%** |
| **Health and safety[2]** | | | |
| LTIFR | **0.59** | 0.63 | **-6%** |
| FIFR | **0.00** | 0.00 | **n/a** |

Notes
[1] Based on 1:60 Ag/Au and 5:1 Cu/Au conversion ratios.
[2] LTIFR = lost time injury frequency rate; FIFR = fatal injury frequency rate.

### Analysis of production results

#### Mining

Stripping volumes in 2012 grew by 6%, while underground development increased by 33% to 46.7 thousand metres, mainly due to our Dukat hub where ore is increasingly sourced from underground. Ore mined was 12,591 Kt, a 14% increase over 2011 level. The bulk of ore mined (87%), is sourced from open-pit. The key contributors of growth in ore mined were Khakanja (due to intensified mining at pit 3 and completion of underground mining at Yurievskoye) and Omolon (full capacity achieved at Sopka and commencement of mining at Tsokol), further complemented by a 45% increase in ore mined at Albazino as the mine achieved full capacity.

The average gold equivalent grade in ore mined was 4.1 g/t, increasing by 10% over the 2011 level of 3.8 g/t. The solid increase in grade profile was driven mainly by increased share of ore mined at Omolon and Albazino, our new higher grade mines, combined with increased average grades at these operations by 13% and 27% respectively. Importantly, average grades were also supported by a stable grade profile at Dukat while ore mined grew 8% year-on-year.

#### Processing

Ore processed was up 13% in 2012 and reached 9,925 Kt. This solid increase was mainly driven by full ramp-up of processing facilities at Albazino (reaching design throughput and recovery in the first half of the year, resulting in a twofold increase) and commencement of processing of ore from Sopka at the newly commissioned Merrill-Crowe section of Kubaka plant (Omolon hub). Our mature mines demonstrated stable performance at their nameplate capacity or slightly above.

As expected, average gold equivalent grade in ore processed grew by 15% to 4.4 g/t (slightly above our average reserve grade of 3.9 g/t) as the growth in processing volumes came mainly from our new high-grade mines – Omolon (with processing high-grade ore from Sopka, average grade processed grew almost threefold year-on-year) and Albazino (contributing 12% of total ore processed by the Group in 2012, up from 7% in 2011). At Khakanja, there was an increase in average silver grade due to processing of higher-grade ores from Khakanja's pit 3 and Avlayakan.

#### Production

Our original annual gold equivalent production guidance of 1 Moz for 2012 was subsequently increased to 1.05 Moz by the end of the third quarter, on the back of the strong operating results achieved. Actual gold equivalent production for the year was 1,063 Moz, a 31% increase compared to 2011, and exceeded the elevated guidance.

Major contributions to production growth were attributable to four operations:

- **Dukat** – with the increased grade profile due to implementation of new underground mining methods, expansion of mining at Goltsovoye, and sustainably improved recovery levels at the main Omsukchan concentrator.
- **Albazino/Amursk hub** – as a result of the Albazino mine and concentrator reaching design throughput and recoveries by the second quarter of the year and commencement of commercial production at the Amursk POX, combined with continued concentrate sales to third-party off-takers.

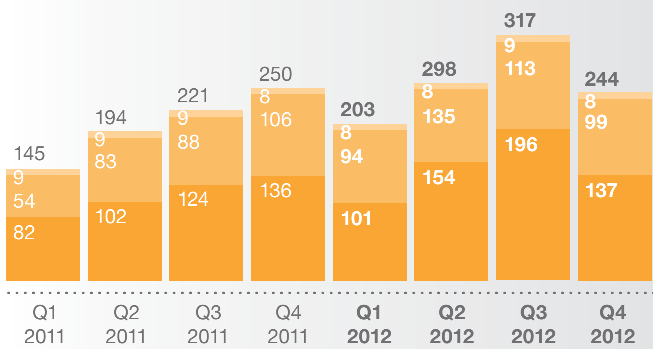
# Delivering on our promises across our operations

continued

- **Omolon** – as originally planned, the amount of ore processed at the Kubaka plant increased dramatically due to processing of high-grade ore from Sopka at the newly commissioned Merrill-Crowe section. The amount of ore transported from Sopka by winter road was higher than planned. As a result, some ore trucking and processing was shifted from 2013 to 2012.
- At **Khakanja**, growth of 28% has been achieved due to increased grade profile.
- **Voro** and **Varvara** demonstrated stable performance in terms of grades and recoveries.

Production dynamics on a quarterly basis are represented on the graph below. The seasonal ore transportation at Omolon (trucking of ore from Sopka by winter road in the first quarter, processing in the second and third quarter), as well as seasonal heap leaching operation at Voro contributed to a stronger production profile in the second and third quarters of the year. Such seasonality is expected to continue in 2013. In 2014, after full ramp-up of the Mayskoye concentrator and commissioning of an all-year-round heap leaching facility at Birkachan, the seasonal fluctuations are set to reduce.

**Quarterly production data** (Koz)




**Gold equivalent production by mine** (Koz)

| | 2012 | 2011 | % change |
|---|---|---|---|
| Dukat | **357** | 319 | **+12%** |
| Khakanja | **164** | 128 | **+28%** |
| Voro | **157** | 160 | **-2%** |
| Varvara | **134** | 127 | **+6%** |
| Omolon | **173** | 46 | **+279%** |
| Albazino/Amursk | **77** | 30 | **+160%** |
| **Total production** | **1,063** | 810 | **+31%** |

Metal sales in 2012 were 1,092 Koz of gold equivalent, representing an impressive 43% increase over 2011.

In 2012, the Company continued sales of concentrates from Dukat (gold-silver), Varvara (gold-copper) and Albazino (refractory gold) to off-takers in Kazakhstan and China. For Dukat and Varvara, the off-take allows us to maximise margins compared to in-house processing of these materials. Sales of concentrates to third party off-takers will continue in 2013, while the Company will seek to diversify off-taker base in order to achieve an optimal combination of transportation costs and treatment charges/recoveries.

For Albazino, sales to off-takers in China allow us to receive immediate cashflows and avoid building excessive stockpiles while the Amursk POX plant is undergoing the ramp-up process. In 2012, a total of 63.5 Koz of payable gold was sold to Chinese off-takers, and we are currently considering the option to continue sales of Albazino concentrate to third-party off-takers for 2013 until the POX plant reaches its full capacity.

### Exploration

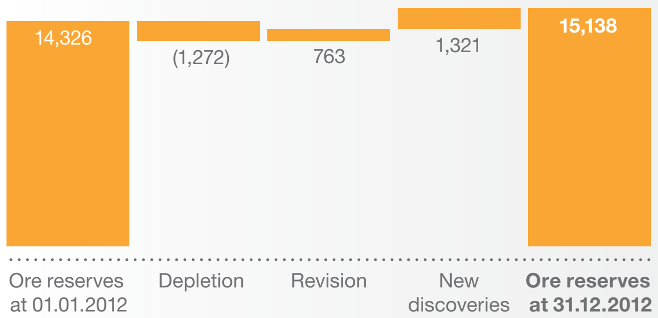
We are conducting exploration works in four regions of Russia – Khabarovsk, Magadan, Karelia, and Sverdlovsk – as well as in Kazakhstan. Polymetal currently has 54 licences for geological studies, exploration and gold, silver and copper mining, and one coal mining licence. Our current exploration portfolio includes 43 licences with a total area of approximately 10,503 km².

Exploration activities in 2012 were concentrated on 31 licensed areas, of which seven are at an advanced stage.

Key exploration objectives for 2012 were:

- ongoing brownfield exploration activities aimed at extending mine lives at our existing operations: Khakanja (with the shortest current life-of-mine), Dukat, Omolon, Varvara, and Voro;
- continued exploration activities at Albazino with a view to considerably expanding the resource base, as suggested by earlier exploration results; and
- greenfield exploration for new precious metals deposits with a potential resource base which would be sufficient in grade and size to justify construction of a standalone mine. Such targets are set to form the next generation of our growth assets and ensure the Company's long-term growth prospects.

**Movement in gold equivalent ore reserves** (Koz)




**Key 2012 exploration statistics**

| | Unit | 2012 | 2011 | % change |
|---|---|---|---|---|
| **Exploration works** | | | | |
| Core drilling | km | **129.4** | 129.7 | **-0%** |
| Trenching | th. m³ | **185.0** | 187.0 | **-1%** |
| Underground development for exploration purposes | m | **579** | – | **n/a** |
| Sampling: | | | | |
| Geochemical sampling | th. assays | **72.2** | 53.0 | **+36%** |
| Trench sampling | th. assays | **13.5** | 11.6 | **+16%** |
| Core sampling | th. assays | **102.0** | 71.9 | **+42%** |
| Geophysical research, area covered | km² | **104** | 75 | **+38%** |
| **Licences held** | | | | |
| Exploration licences | pcs | **43** | 39 | **+10%** |
| Area covered | km² | **10,503** | 9,664 | **+9%** |

The key highlight of our exploration activities in 2012 was a significant resource expansion at Albazino (see page 40). The updated resource estimate will be further converted to reserves in 2014, with an objective to produce a feasibility study for the expansion at Albazino and take construction decisions in the first half of 2014.

In addition, we have increased mineralised potential (internal non-JORC estimate, inclusive of resources) at some of our greenfield targets, notably Kutyn (+0.6 Moz of gold contained). We have also made solid progress at the other greenfield targets, locating additional ore intercepts at Svetloye and Elmus.

At the operating mines, further progress was made at:

- Ozerny (Khakanja hub) – mining started in Q4 2012, resources converted to reserves;
- Avlayakan (Khakanja hub) – while trial open-pit mining continued, additional in-fill drilling was performed in preparation for underground mining; resource to reserve conversion achieved;
- Varvara – significant resource and reserve additions achieved as a result of in-fill and step-out drilling; and
- Burgali and Prognoz (Omolon hub) – additional drilling results received and ongoing preparation for resource estimates for these potential additional ore sources for the Kubaka plant is underway.

**Reserves and Resources**

| | 2012 | 2011 | 2012/2011, % |
|---|---|---|---|
| **Ore Reserves, GE Moz** | **15.1** | 14.3 | **+6%** |
| – gold, Moz | **9.6** | 9.2 | **+5%** |
| – silver, Moz | **307.6** | 297.0 | **+4%** |
| – copper, Kt | **82.9** | 43.4 | **+91%** |
| **Average reserve grade, GE g/t** | **3.9** | 4.2 | **-6%** |
| **Mineral Resources, GE Moz** | **18.7** | 13.8 | **+35%** |
| – gold, Moz | **14.9** | 10.4 | **+43%** |
| – silver, Moz | **146.1** | 181.1 | **-19%** |
| – copper, Kt | **281.4** | 74.0 | **+280%** |
| **Average resource grade, GE g/t** | **3.3** | 3.9 | **-16%** |

In 2012, we have achieved meaningful increases both in ore reserves and mineral resources. Ore reserves grew by 6% to 15.1 Moz of gold equivalent, more than offsetting the depletion at our operating mines. The key additions were the resource-to-reserve conversions at Tsokol and Dalneye (Omolon hub) and Avlayakan and Ozerny (Khakanja hub), adding a total of 0.8 Moz of gold and 8.7 Moz of silver, as well as Goltsovoye (Dukat hub) where following an external audit we have converted a total of 20.1 Moz of silver to reserves. At Varvara, copper ore reserves nearly doubled to 83 Kt and gold reserves increased by 39% to 1.2 Moz as a result of additional in-fill and step-out drilling performed at the flanks of the deposit.

More importantly, our resource base grew 35% during the year in gold equivalent terms. The major contributor of growth in gold resources was the doubling of the resource base at Albazino (+ 3.1 Moz, reaching a total of 5.7 Moz inclusive of reserves), marking an important exploration success for the Company. In addition, an initial resource estimate was made and audited for Tamunier, our greenfield exploration property in the Urals, resulting in resource addition of 1.5 Moz of gold. The decrease in silver resources is mainly attributable to resource-to-reserve conversions at Goltsovoye, Tsokol, Ozerny and Avlayakan (see above). Re-evaluation of resources at Varvara resulted in a four-fold increase in copper resources to 281 Kt, in addition to a 1.0 Moz increase in gold mineral resources.

# Delivering on our promises across our operations

continued



**In pursuit of synergistic M&A**

Growth through synergistic, value-driven M&A is an important part of our strategy. While there were no large or medium-sized transactions during the year, we continued to closely monitor the market and made a number of smaller transactions which meet our stringent acquisition criteria.

### Acquisition of Svetlobor platinum exploration project

In December 2012, we acquired a 25% interest in the Svetlobor project, a greenfield platinum deposit, with another 75% to be acquired upon receipt of regulatory approvals. The transaction was settled in Polymetal share, valuing the project at approximately US$10 million. The acquisition of Svetlobor represents our first acquisition in PGMs (platinum group metals), driven by combination of outstanding exploration potential and the expected platinum price upside on the back of recent labour disruptions and production cuts in South Africa, currently accounting for 73% of global supply.

The Svetlobor project is a hard-rock source of the largest platinum alluvial deposit in the world, located in a developed industrial region approximately 250 km north of Ekaterinburg, Urals. Polymetal has an established presence in the region, which will allow us to leverage both its developed infrastructure and our own skill base there.

We believe this early-stage exploration project has the potential to grow into a world-class asset in terms of the size and quality of its mineral resource base, potentially resulting in a very large low grade (approximately 1.5 g/t) open-pit operation with low stripping ratio and simple metallurgy. We plan to publish a mineral resource estimate for the project under JORC guidelines in Q4 of 2014.

### Acquisition of Olcha deposit (completed in January 2013)

In December 2012, we agreed to acquire the Olcha gold-silver deposit for 775,000 of the Company's ordinary shares, valuing it at approximately US$13.5 million. The transaction was completed in January 2013.

Olcha represents a good opportunity to add another high-grade source of feed for the Lunnoye plant, with total resources currently estimated at 0.7 Moz of gold equivalent. In addition, Olcha is a natural extension of our portfolio of advanced exploration properties in the Magadan Region. The mining and exploration licence covers an area of 2.5 km$^2$ in the region and is located approximately 215 km from the Lunnoye processing plant and 230 km from the Kubaka processing plant, part of the Dukat and Omolon processing hubs respectively.

In line with Polymetal's strategy, acquisition of Olcha is expected to:

- extend life-of-mine at Lunnoye by processing high-grade ore from the new source;
- ensure effective use of open-pit mining equipment and qualified personnel after the cessation of open-pit mining at Dukat and Arylakh in 2013; and
- gain exploration upside within a substantially under-explored licence area.

We plan to start open-pit mining at Olcha in Q1 2014 and processing in Q2 2014.

### Acquisition of Maminskoye (completed in April 2013)

Subsequent to the year-end, the Company agreed to purchase the Maminskoye project for a total consideration of US$77.2 million, mostly payable in shares. Maminskoye is a sizeable gold deposit which could potentially be quickly turned into a 2-3 Mtpa heap leach operation yielding 80-120 Koz of gold production per annum. The deposit is located in the well-developed Sverdlovsk Region (Urals) which is familiar to the Company and has excellent infrastructure and availability of qualified labour. The transaction was completed in April 2013, with the first gold production scheduled for Q2 2016. The project enjoys easy open-pit mining conditions and simple metallurgy, allowing significant optionality in development routes for Polymetal and an excellent return on capital at a low level of risk.

### Restructuring of interest in Veduga project

In the first half of 2012, we completed the restructuring of our interest in the Veduga deposit in Krasnoyarsk region, previously held as a 50:50 joint venture with Anglo-Gold Ashanti. Anglo-Gold Ashanti has sold its share in the project, and a new company, Polygon Gold Inc., took over a 100% interest in the deposit. Polymetal currently holds a 43% stake in the new company. Polygon will operate as a standalone company with independent management, while Polymetal plans to provide certain technical and regulatory assistance to Polygon on an ongoing basis. The transaction has allowed us to find a competent owner for this non-core asset that is prepared to take it into production.

**The year ahead**

In 2013 our team will be fully focused on achieving our production guidance of 1.2 Moz of gold equivalent, most importantly by achieving full ramp-up of the Amursk POX plant and timely commissioning and ramp-up of the Mayskoye concentrator. By completing these two complex projects, we will ensure that the second generation of growth assets fully achieves design capacity, allowing us to reach the strategic level of 1.4 Moz annual gold equivalent production in 2014. Subsequently we will be increasingly focused on growth opportunities beyond 2014, representing a new third generation of growth assets.

### Operations

We are aiming to produce approximately 1.2 Moz of gold equivalent in 2013, including approximately 760-800 Koz of gold and approximately 23-24 Moz of silver and 5-6 Kt of copper. Growth will be mostly achieved in gold, which in 2013 will represent approximately 65% of the total gold equivalent production.

The key growth contributions will be coming from Albazino, which is to deliver full year of production at design capacity, combined with ramp-up of the Amursk POX. To secure our production profile in 2013, we will additionally consider sales of Albazino concentrate to third-party off-takers in order to avoid excessive build-up of concentrate inventories during the ramp-up process of the POX plant.

Another important milestone will be the commissioning and start of commercial production at Mayskoye, which is scheduled for April 2013. The concentrate produced in the second and third quarters will then be shipped to the Amursk POX for processing and/or to potential off-takers – an option which we would welcome in the light of potential expansion at Albazino.

By 2014, the existing portfolio of assets – including Albazino and Mayskoye – should achieve full capacity, with annual gold equivalent production reaching at 1.4 Moz.

Another area of focus in 2013 will be the progress on development decisions for the third generation of growth assets, including potential expansion at Albazino, and development of Kutyn, Svetloye and Maminskoye projects. These decisions will be based on reserve estimates and feasibility studies which are expected to be completed in the second half of 2013.

In terms of development of the existing asset portfolio and continuous improvement of our mining and processing facilities, the priorities for 2013 are:

- commencement of underground mining at Arylakh (Dukat hub) and Avlayakan (Khakanja hub);
- commencement of open-pit mining at Olcha (Dukat hub) and Dalneye (Omolon hub);
- continued development of the complex logistics chains in the remote locations of our operations, including development of the own barge fleet and construction of winter roads, thus ensuring reliability and safety of supply of ores and consumables;
- continued implementation of best practices in health and safety risk management, with rolling out the existing processes to our key suppliers; and
- development of infrastructure at Kutyn and Svetloye for the extension of exploration activities there.

### Exploration

In 2013, our exploration activities will be concentrated on:

- continued resource-to-reserve conversions and resource category updates at our advanced standalone exploration targets and brownfield targets through in-fill drilling;
- additional drilling at the flanks of Ozerny and Avlayakan with a view to extend life-of-mine at Khakanja;
- further increase of resource potential at Albazino through additional underground development and drilling at Olga zone, in-fill drilling at Ekaterina-1 and Ekaterina-2 zones, and additional step-out drilling at the flanks of the Albazino field;
- completion of resource estimate at Burgali and continued exploration at the other brownfield targets in the Omolon hub area;
- in-fill drilling and finalisation of resource estimates at Olcha and preparation for open-pit mining. Exploration for new ore bodies in the area;
- continued exploration at the two key greenfield targets – Kutyn and Svetloye, followed by resource estimates and preparation of oxidized ores for open-pit;
- continued scoping and exploration at Elmus and Semchen areas in Karelia, with a view to developing a new standalone asset in the region; and
- preparation of Maminskoye resources for open-pit mining and step-out drilling at the flanks of the deposit.

All of these activities are focused on delivering production growth beyond 2014, when we will have achieved our target level of production for the existing asset portfolio. With a diversified set of targets at various stages of development, some of them already approaching construction decisions in 2013, this growth already has a solid foundation.

# Dukat

## Our flagship operation and Russia's largest primary silver mine

Russia, Magadan Region
Managing Director: Mikhail Egorov
Employees: 1,965

**3rd**
Largest silver deposit in the world

**+13%**
Silver production in 2012: 19.2 Moz

**272**
Silver reserves, Moz

**+34%**
Adjusted EBITDA growth, 2011/2012 %

Despite being one of our mature assets, Dukat has demonstrated impressive results in 2012. Gold equivalent production grew by 12%, and total cash cost reduced by 13% year-on-year as a result of superior operating performance. Adjusted EBITDA grew by 34%, marking the increased volume and improved cost levels. The operation has potential for further improvement through additional ore sources in the region (such as recently acquired Olcha) and continuous implementation of best practices and new technologies in underground mining and processing methods.

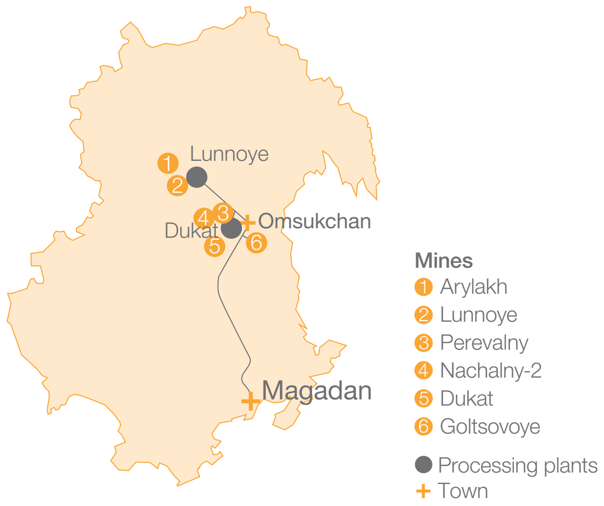
**Priorities for 2013**

In 2013, development of our mining operations at Dukat will be increasingly focused on the efficiency of our underground operations. At our main Dukat mine we will completely shift to underground mining, with an automated ore trucking system expected to be commissioned in the second half of 2013. The system will allow fully automated ore underground transportation by rail, allowing us to achieve a total 1500 Ktpa capacity at the Dukat mine in the medium term. Mining works will also develop at the Vostochny part of the deposit. At Goltsovoye, we expect significant growth in ore mined following the completion of preparatory works and a change in mining method. At Arylakh, along with the start of underground mining, exploration of ore zone 9 will be performed. At Lunnoye, mining works will continue at ore zone 7.

In 2013 we plan to construct a winter road to access the newly acquired Olcha deposit, which will start to supply ore to the Lunnoye plant from 2014 (open-pit mining to start in Q1 2014). At the Lunnoye processing plant, operations will be focused on the automation of the processing facility and debottlenecking with a target to increase capacity to 400 Ktpa in 2014.

# Dukat

continued




## 2012 highlights

### Mining

Our Dukat hub currently has five ore sources, with another three deposits in the exploration and/or development stage. In 2012, solid progress was achieved across the operating mines, resulting in an 8% increase in total ore mined to 1,782 Kt and stable average silver grade mined of nearly 400 g/t.

At the main Dukat mine, open-pit mining has been completed, with further mining works from 2013 fully focused on underground mining. Underground development grew by an impressive 55% to 24.3 thousand metres in 2012. The amount of ore mined was 1,328 Kt, an 11% growth, with almost 90% of ore sourced from underground. Stable average grades of 387 g/t silver were achieved, backed by completion of implementation of automated mine planning using Datamine software.

At Goltsovoye, underground development was focused on access to ore bodies 9 and 3 and grew by 24% to 5.2 thousand metres. The amount of ore mined was lower compared to 2011, at 84 Kt; however it is set to grow almost twofold in 2013 since the development works have now been completed. The test works performed in 2012 for sublevel blast-hole stoping method have yielded positive results compared to previously used shrinkage stoping method, and the application of this mining method in 2013 is expected to increase both efficiency and grade control.

At Arylakh, open-pit mining is approaching completion which is expected in Q2 2013, to be followed by underground development. Ore mined in 2012 grew by 6% to 167 Kt, combined with increased average silver grade of 519 g/t, a 10% growth.

Underground development at Lunnoye focused on ore zone 7 and grew 88% compared to 2011. Ore mined was 24% above 2011, with the average silver grade slightly short of 300 g/t.

### Processing

Ore processed at the main Omsukchan concentrator was stable at 1,439 Kt. Due to increased silver grades driven by stable grade profile at Dukat and growth in silver grades at Goltsovoye, average grade processed was up 5% compared to 2011. Average recoveries grew by 7% for gold and by 10% for silver to 81% and 84% respectively, following a refurbishment of the plant and installation of the gravity circuit in 2011, and full implementation of the geotechnical mapping system in 2012 which is used to determine technological parameters of the process adjusted for the mineralogical properties ore feed. As a result, annual silver production at the Omsukchan concentrator grew by 14% to 15.5 Moz while gold production was stable at 25 Koz.

At the Lunnoye processing plant, a record 333 Kt of ore has been processed, exceeding nameplate capacity of 300 Ktpa. While average silver grades and recoveries were stable, an increase in throughput allowed us to achieve an increase in silver production to 3.7 Moz, growth of 9% compared to 2011. Ongoing debottlenecking at the plant is expected to increase throughput to 400 ktpa by 2014 with additional ore to be sourced from the recently acquired Olcha deposit.

## Mining: 2011/2012 statistics

| | Dukat | | | Goltsovoye | | | Lunnoye + Arylakh | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2012** | 2011 | **% change** | **2012** | 2011 | **% change** | **2012** | 2011 | **% change** | **2012** | **2011** | **% change** |
| Stripping, Kt | **967** | 810 | +19% | **–** | – | n/a | **2,591** | 2,837 | -9% | **3,558** | **3,647** | **-2%** |
| Underground development, m | **24,311** | 15,705 | +55% | **5,248** | 4,238 | +24% | **4,601** | 2,444 | +88% | **34,160** | **22,387** | **+53%** |
| Ore mined, Kt | **1,328** | 1,197 | +11% | **84** | 126 | -33% | **370** | 321 | +15% | **1,782** | **1,644** | **+8%** |
| Metal in ore mined (grades) | | | | | | | | | | | | |
| – gold | **0.7** | 0.8 | -10% | **–** | – | n/a | **1.1** | 1.3 | -20% | **0.7** | **0.8** | **-10%** |
| – silver | **387** | 387 | +0% | **548** | 467 | +17% | **395** | 397 | -0% | **397** | **395** | **+0%** |

## Production: 2011/2012 statistics

| | Omsukchan concentrator | | | Lunnoye processing plant | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2012** | 2011 | **% change** | **2012** | 2011 | **% change** | **2012** | **2011** | **% change** |
| Ore processed, Kt | **1,439** | 1,432 | +0% | **333** | 301 | +11% | **1,772** | **1,733** | **+2%** |
| Metal in ore processed (grades) | | | | | | | | | |
| – gold | **0.7** | 0.7 | -5% | **1.2** | 1.3 | -14% | **0.8** | **0.8** | **-7%** |
| – silver | **401** | 383 | +5% | **411.2** | 414.1 | -1% | **403** | **388** | **+4%** |
| Recoveries | | | | | | | | | |
| – gold | **81%** | 76% | +7% | **90%** | 92% | -2% | | | |
| – silver | **84%** | 77% | +10% | **88%** | 87% | +0% | | | |
| Production | | | n/a | | | | | | |
| – gold, Koz | **25** | 25 | +1% | **11** | 12 | -6% | **36** | **37** | **-1%** |
| – silver, Moz | **15.5** | 13.6 | +14% | **3.7** | 3.4 | +9% | **19.2** | **17.0** | **+13%** |
| **Gold equivalent, Koz** | **284** | 251 | +13% | **72** | 68 | +6% | **357** | **319** | **+12%** |
| Total cash cost/silver equivalent (US$/oz) | | | | | | | **12.1** | **14.0** | **-13%** |
| Adjusted EBITDA, US$m | | | | | | | **378** | **282** | **+34%** |





## Processing activity at Dukat

Ore transportation at Lunnoye


Underground mining at the Dukat plant

## Processing plants

| **Omsukchan concentrator** | |
|---|---|
| Type | Flotation/gravitation |
| Capacity (Ktpa) | 1500 |
| Commencement of production (year) | 2002 |
| Ore sources | Dukat, Goltsovoye |
| **Lunnoye processing plant** | |
| Type | Cyanide leaching and Merrill-Crowe |
| Capacity (Ktpa) | 300 |
| Commencement of production (year) | 2001 |
| Ore sources | Lunnoye, Arylakh, Olcha, concentrate from Omsukchan concentrator |

## Mines

| | Dukat | Nachalny-2[1] | Goltsovoye | Perevalny | Lunnoye | Arylakh | **Total** |
|---|---|---|---|---|---|---|---|
| **Status** | Operating | Developing | Operating | Scoping | Operating | Operating | |
| Mineralisation type | Vein-veinlet | Vein disseminated | Narrow vein | Vein-veinlet | Mineralised zone | Vein-veinlet | |
| Mine type (open-pit/underground mining method) | Underground and open-pit | Open-pit | Underground | Underground | Underground | Open-pit | |
| Commencement of mining (year) | 2001 | n/a | 2011 | n/a | 2000 | 2006 | |
| Current life of mine end (year) | 2021 | n/a | 2021 | n/a | 2023 | 2013 | |
| **Reserves** | | | | | | | |
| Gold equivalent, Moz | 3.9 | | 0.3 | 0.0 | 0.7 | 0.2 | **5.1** |
| Gold equivalent reserve grade, g/t | 8.5 | | 11.7 | 0.0 | 6.4 | 10.9 | **8.3** |
| **Resources** | | | | | | | |
| Gold equivalent, Moz | 0.8 | | 0.8 | 0.2 | 0.4 | 0.1 | **2.3** |
| Gold equivalent resource grade, g/t | 5.7 | | 10.6 | 6.6 | 7.4 | 6.8 | **7.8** |

[1] R&R included in Dukat

# Omolon

## Delivering the full potential of a processing hub concept

Russia, Magadan Region
Managing Director: Sergey Antipin
Employees: 1,051

**+38%**
Ore mined in 2012: 2,662 Kt

**+46%**
Ore processed in 2012: 840 Kt

**+172%**
Average gold equivalent grade processed: 7.2

**+279%**
Gold equivalent production in 2012: 173 Koz

Omolon delivered an excellent performance in 2012, achieving full capacity and reflecting a successful implementation of the processing hub concept. This is a tremendous turnaround story after the purchase of the underperforming Kubaka plant and satellite deposits back in 2008-2009. In 2012, Omolon produced 173 Koz of gold equivalent after successful transportation of high-grade ore from Sopka and the commissioning of the Merrill-Crowe circuit at the refurbished Kubaka plant.

**Priorities for 2013**

In the coming year, mining volumes at Birkachan and Sopka will decrease as we are planning to draw down the existing ore stockpiles. We are planning to truck more than 280 Kt of high-grade ore from Sopka by winter road, and mining at Tsokol will grow since the mine will be operational for the full calendar year. Development of the Dalneye deposit is underway, with mining scheduled for the second half of 2013.

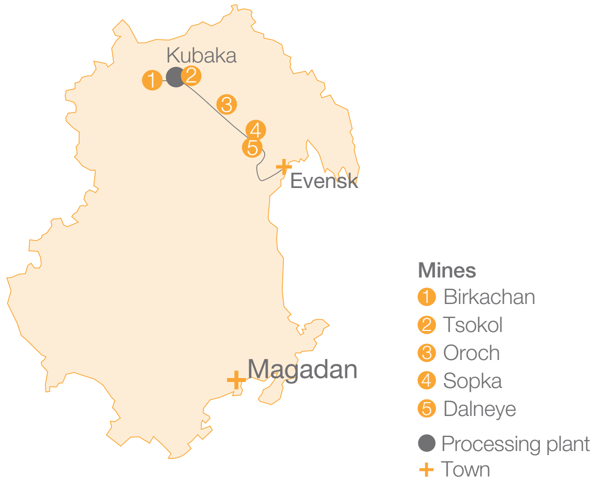
In 2013, an all-year-round heap leach facility will be commissioned at Birkachan, with production scheduled for the second half of 2013. Low-grade ore stacking at Birkachan HL continues, with a total 116 Kt of ore stacked in the second half of 2012. A stationary carbon-in-column plant at Birkachan to recover gold from heap leaching is on track to be commissioned in June 2013.

Preparatory works for the installation of heap leaching pads at Sopka will take place in 2013, with commissioning of the facility scheduled for 2015.

Average grades processed at the Kubaka plant will be slightly lower than in 2012 due to lower volumes of Sopka ore which will be processed in the year. This will be compensated for by an expected increase in total throughput to more than 770 Ktpa.

# Omolon

continued




## 2012 highlights

**Mining**

Mining works at the Omolon hub are now performed at three deposits: Birkachan (where high-grade ore is processed at the Kubaka plant and lower grade ore is prepared for year-round heap leaching on-site, which will be started in 2013); Sopka (high-grade ore trucked to Kubaka by winter road, lower grade ore stockpiled for further heap leaching which is expected to be commissioned in 2015); and Tsokol where mining started in the second half of 2012 (also processed at the Kubaka plant).

Stripping volumes grew by 67% year-on-year, mostly due to a massive stripping campaign at Sopka in the middle of the year to prepare ore bodies for active mining in Q4 and in 2013, and due to an initial stripping campaign at Tsokol. Total ore mined grew to 2,662 Kt, an increase of 38% compared to 2011, mostly as a result of major increase in mining at Sopka (by 73%), and the start of mining at Tsokol in the third quarter of the year.

At Sopka, ore mined grew to 1,271 Kt, with 324 Kt representing high-grade ore for processing at the Kubaka mill (average grades of 6.2 g/t gold and 248 g/t silver), and 947 Kt of heap leach ore (0,9 g/t gold and 45 g/t silver). The construction of the heap leaching facility at Sopka will start in the summer of 2013.

A major success of the year was the operation of a 180-km long winter road from the Sopka mine to the Kubaka mill, which allowed us to truck more than 330 Kt of ore during January-April, exceeding our initial expectations. This high-grade ore was then processed during the second and third quarters of the year. The winter road set up in December 2012 opened on time and it began successful operation in the 2013 trucking season.

In the third quarter we started mining high gold grade ore at Tsokol, a new satellite deposit for Omolon located near Kubaka plant. The first 101 Kt grading 5.2 g/t gold were mined and processed in 2012.

At Birkachan, ore mined grew by 8% year-on-year, while average gold grade in ore mined grew by 5% for heap leach ore and by 9% for milling ore (to 3.2 g/t). In 2013, we expect a decrease in mining volumes in order to de-stockpile the operation after intensive mining during 2011 and 2012.

**Processing**

The refurbished processing plant with its Merrill-Crowe section has performed fully in line with expectations. Total throughput increased by 26% compared to 2011 to 724 Kt, while average grades in ore processed grew dramatically, due to inclusion of ores from Sopka and Tsokol, to 5.9 g/t gold and 135 g/t silver, a multiple-times increase compared to 2011. Average recovery also grew to 94% for gold and 88% for silver as a result of commissioning the Merrill-Crowe section which quickly achieved the design parameters.

As a result, gold production grew to 129 Koz and silver production to 2.7 Moz, representing a nearly four-fold increase compared to 2011 in gold equivalent terms. Due to the larger than expected volume of ore trucked and processed from Sopka, some of the planned 2013 production was shifted to 2012.

## Mining: 2011/2012 statistics

| | Birkachan | | | Sopka | | | Tsokol | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2012** | 2011 | **% change** | **2012** | 2011 | **% change** | **2012** | 2011 | **% change** | **2012** | **2011** | **% change** |
| Stripping, Kt | **9,133** | 7,925 | +15% | **9,054** | 4,956 | +83% | **3,284** | – | n/a | **21,471** | **12,880** | **+67%** |
| Ore mined, Kt | **1,290** | 1,192 | +8% | **1,271** | 735 | +73% | **101** | – | n/a | **2,662** | **1,928** | **+38%** |
| Metal in ore mined (grades) | | | | | | | | | | | | |
| – gold | **1.8** | 1.6 | +7% | **2.3** | 2.6 | -14% | **5.2** | – | n/a | **2.1** | **2.0** | **+6%** |
| – silver | **–** | – | n/a | **96.7** | 85.7 | +13% | **–** | – | n/a | **46.1** | **32.7** | **+41%** |

## Production: 2011/2012 statistics

| | Kubaka plant | | | Birkachan heap leach | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2012** | 2011 | **% change** | **2012** | 2011 | **% change** | **2012** | **2011** | **% change** |
| Ore processed, Kt | **724** | 574 | +26% | **116** | – | n/a | **840** | **574** | **+46%** |
| Metal in ore processed (grades) | | | | | | | | | |
| – gold | **5.9** | 2.4 | +141% | **1.1** | – | n/a | **5.2** | **2.4** | **+114%** |
| – silver | **135.1** | 12.1 | +1016% | **–** | – | n/a | **116.5** | **12.1** | **+863%** |
| Recoveries | | | | | | | | | |
| – gold | **94%** | 92% | +3% | | | | | | |
| – silver | **88%** | 63% | +40% | | | | | | |
| Production | | | n/a | | | | | | |
| – gold, Koz | **129** | 39 | +229% | **–** | 4 | -100% | **129** | **43** | **+199%** |
| – silver, Moz | **2.7** | 0.1 | +1883% | **–** | 0 | -100% | **2.7** | **0.2** | **+1658%** |
| **Gold equivalent, Koz** | **173** | 41 | +318% | **–** | 4 | -100% | **173** | **46** | **+279%** |
| Total cash cost/GE oz (US$/oz) | | | | | | | **918** | **1,481** | **-38%** |
| Adjusted EBITDA, US$m | | | | | | | **124** | **5** | **+2480%** |

## Processing activity at Omolon

Operations at Burkachan

Merrill-Crowe section at the Kubaka plant

## Processing plants

**Kubaka**

| | |
|---|---|
| Type | CIL, Merrill-Crowe |
| Capacity (Ktpa) | 850 |
| Commencement of production (year) | 2010 |
| Ore from which mines is processed | Birkachan, Sopka, Tsokol, Dalneye |

**Birkachan**

| | |
|---|---|
| Type | Heap leach |
| Capacity (Ktpa) | 1,000 |
| Commencement of production (year) | 2010 |
| Ore from which mines is processed | Birkachan |

**Exploration**

During 2012, based on prior exploration results, we converted resources at Tsokol and Dalneye to reserves, resulting in a total addition of nearly 0.5 Moz of gold equivalent to the hub's reserve base.

Our current exploration programme is aimed at further extension of the life-of-mine at the Kubaka plant by discovering additional resources within 150-180 km range from the processing facility. Key targets include Burgali, where we are currently preparing a resource estimate, and Prognoz, where substantial in-fill drilling and geotechnical studies were carried out. The ore properties at Prognoz indicate that it is easily amenable for leaching and can be economically processed at the Kubaka plant, whereas at Burgali a resource estimate is expected in 2013.

## Mines

| | Birkachan | Sopka | Oroch | Tsokol | Dalneye | Prognoz | **Total** |
|---|---|---|---|---|---|---|---|
| **Status** | Operating | Operating | Pre-feasibility | Operating | Development | Feasibility | |
| Mineralisation type | Vein-veinlet, stockwork | Vein-veinlet | Vein-veinlet | Vein-veinlet | Vein | Vein-veinlet | |
| Mine type (open-pit/underground mining method) | Open-pit, underground from 2017 | Open-pit | Open-pit | Open-pit | Open-pit | Open-pit | |
| Commencement of mining (year) | 2010 | 2010 | n/a | 2012 | n/a | n/a | |
| Current life of mine end (year) | 2023 | 2018 | n/a | 2016 | n/a | n/a | |
| **Reserves** | | | | | | | |
| Gold equivalent, Moz | 1.0 | 0.5 | – | 0.2 | 0.3 | | **2.1** |
| Gold equivalent reserve grade, g/t | 2.6 | 4.4 | – | 6.4 | 4.9 | | **3.4** |
| **Resources** | | | | | | | |
| Gold equivalent, Moz | 0.3 | 0.02 | 0.4 | 0.1 | 0.06 | | **0.9** |
| Gold equivalent resource grade, g/t | 3.6 | 3.4 | 6.0 | 6.5 | 2.8 | | **4.6** |

# Amursk POX hub

## The first operating pressure oxidation plant in Russia and the CIS gold sector

Russia, Khabarovsk Territory
Managing Director: Vladimir Shamin
Employees: 323

**4.3 Moz**
Gold reserves

**6.2 g/t**
Average reserve grade

**16 Kt**
Concentrate processed

**14 Koz**
Gold produced in 2012

The Amursk pressure oxidation plant (POX) is unquestionably a key project and one that will give us a significant competitive advantage both nationally and in the global gold industry. This state-of-the art facility is the first operating POX plant in the former Soviet Union's gold sector, and by exploiting this technology we will open up opportunities for the economic processing of refractory gold deposits in Russia and the CIS which are currently idle due to the low recovery rate achievable by conventional processing methods. Further, Amursk POX's location, with its access to cheap power, infrastructure, and qualified labour, will ensure attractive cost levels and stability of output.

**Priorities for 2013**
Full ramp-up of the Amursk POX to capacity throughput and recovery remains a top priority of our management team.

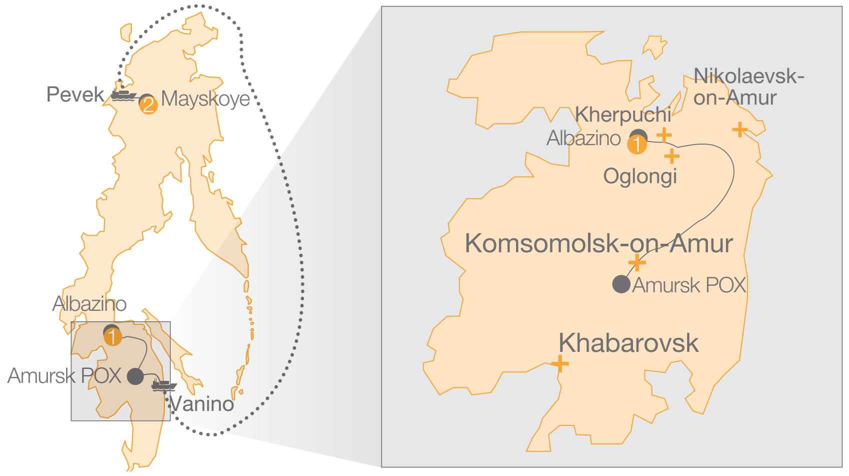
The POX was successfully restarted in mid-January. Gold recoveries are expected to normalise once all chlorine is removed from the flow sheet (with water in dry tailings) and additional water treatment equipment is installed to handle fluctuations in the chemical composition of concentrate and make-up process water. Throughput will continue to be affected until Inconel parts are replaced by the ones made from titanium and ferralium (not susceptible to corrosion in the presence of chlorine-ion).

Full replacement of inconel by titanium will require a six-week shutdown in Q2 2013. During this shutdown certain changes to lime/limestone preparation and concentrate intake sections will be undertaken as the actual properties of concentrate in the process differ from certain design assumptions. We therefore expect to achieve a steady level of operation at capacity throughput and recovery in Q4 of 2013.

To avoid build-up of excessive concentrate stockpiles, we are currently reviewing the possibility to restart sale of concentrates from Albazino in Q2 of 2013.

# Amursk POX hub

continued




Mines 1 Albazino 2 Mayskoye ● Processing plants + Town Port

## 2012 highlights

**Performance in 2012**

Construction of the Amursk POX facility was completed in 2011, and the plant started the commissioning process at the beginning of 2012. The first gold was poured in April, and the ramp-up process started with a gradual increase in throughput applied across all of the plant's sections. Lower grade third-party and own concentrates were used during the ramp-up process in order to avoid excessive losses into tailings.

The ramp-up process however did not develop fully in line with our expectations. In the third quarter, due to mechanical issues – mainly defective stainless pipe welding – the facility underwent several lengthy maintenance shutdowns which led to a material delay in the original ramp-up schedule.

During October and November the plant was steadily ramping up towards capacity daily throughput, with several scheduled shutdowns which were required to complete the necessary upgrades of high-pressure stainless-steel pipes, weighing down on the total amount of concentrate processed and average recoveries. In early December the plant successfully ramped up to full throughput and approximately 90% recovery.

However in mid-December the presence of chlorine in the process water caused a significant decrease in recoveries and accelerated the corrosion of certain parts of the circuit made from complex alloys. To prevent loss of gold to tailings, the facility was shut down in late December. Subsequently, the source of the chlorine in the process water was traced to limestone used to neutralise discharge from the autoclave. Limestone supply was changed accordingly and measures to implement chlorine control for all incoming consumables were put in place.

As a result, a total of 16 Kt of Albazino concentrate was processed at Amursk POX during 2012, below our initial expectations. With artificially lower average gold grades in concentrate of 38 g/t, and an average recovery of 79% (including periods of shutdowns and restarts, when the recoveries are lower due to lower-than-designed pressure and temperature), this has resulted in total gold production of 14 Koz in 2012.

**Potential impact from Albazino expansion**

The expected expansion of mining operations and concentrator capacity at Albazino will also require additional capacity at the POX plant, which was originally designed to process 225 Ktpa of concentrate from a mix of Albazino and Mayskoye output. This capacity can be freed up by redirecting concentrate from Mayskoye to third-party off-takers instead of internal processing at the Amursk POX – a much preferred option which will allow significant capital expenditure savings. The POX facility will then be fully focused on processing concentrates from Albazino with uniform chemical content.

Alternatively, we are considering the simultaneous expansion of the mine and concentrator at Albazino and the POX facility at Amursk, which has sufficient land and infrastructure on-site. This decision will largely depend on the potential off-take conditions for Mayskoye. We expect that even in the event of POX expansion, the experience gained during construction and ramp-up of the existing facility will be of great value, allowing us to reduce cost and time to launch.

## Processing plant

**Amursk POX**

| | |
|---|---|
| Type | POX + cyanidation |
| Capacity (Ktpa) | 225 (concentrate) |
| Commencement of production (year) | 2012 |
| Ore from which mines is processed | Concentrate from Albazino and Mayskoye |

## Production: 2011/2012 statistics

| | Amursk POX plant | | |
|---|---|---|---|
| | **2012** | 2011 | **% change** |
| Concentrate processed, Kt | **16** | – | n/a |
| Gold grade in concentrate processed, g/t | **38.0** | – | n/a |
| Recoveries | **79%** | – | n/a |
| **Total gold equivalent production, Koz** | **14** | – | n/a |

## Processing activity at Amursk POX hub

The plant's melting section

Weighing of Doré bars

The oxygen station

## Concentrate sourced from mines

| | Albazino | Mayskoye | **Total** |
|---|---|---|---|
| **Status** | Operating | Construction | |
| Mineralisation type | Mineralised zones; refractory ore | Narrow vein; refractory ore | |
| Mine type (open-pit/underground mining method) | Open-pit | Underground | |
| Commencement of mining (year) | 2009 | 2011 | |
| Current life of mine end (year) | 2020 | 2024 | |
| **Reserves** | | | |
| Gold, Moz | 1.8 | 2.4 | **4.3** |
| Gold reserve grade, g/t | 4.3 | 9.6 | **6.2** |
| **Resources** | | | |
| Gold, Moz | 3.7 | 4.8 | **8.6** |
| Gold resource grade, g/t | 4.6 | 8.3 | **6.1** |

# Albazino

## Our newest operating mine with significant further growth potential

Russia, Khabarovsk Territory
Managing Director: Alexander Simon
Employees: 878

**+24%**
Gold recovery to concentrate (87%)

**+205%**
Gold in concentrate produced: 181 Koz

**-25%**
Total cash costs, US$/GE oz: 767

**2.7 Moz**
Mineral resources growth

Albazino is our newest operating mine, and is a major greenfield exploration success. 2012 was a remarkable year for the asset, with the mine and concentrator achieving expected throughput and recoveries, and a major exploration success during the year which places Albazino in the world class assets league. As a result, Albazino produced more than 180 Koz of gold in concentrate in 2012, and the resource base has doubled compared to the beginning of the year. In 2013, further improvements in performance are expected as soon as the Amursk POX plant reaches capacity. On the back of this sizeable resource increase, we are now undertaking a feasibility study for Albazino-2 with a view to expanding the mine and concentrator.

**Priorities for 2013**
The year ahead will be an important milestone in the development of Albazino.

In 2013, the Albazino mine and concentrator will operate at capacity for a full year, which will lead to further growth in mining and processing volumes. We will reconsider the option to use the off-take agreements during the continued ramp-up of the Amursk POX plant, which is expected to achieve capacity for throughput and recoveries by Q4 2013. Therefore gold production will be split between POX and off-take.

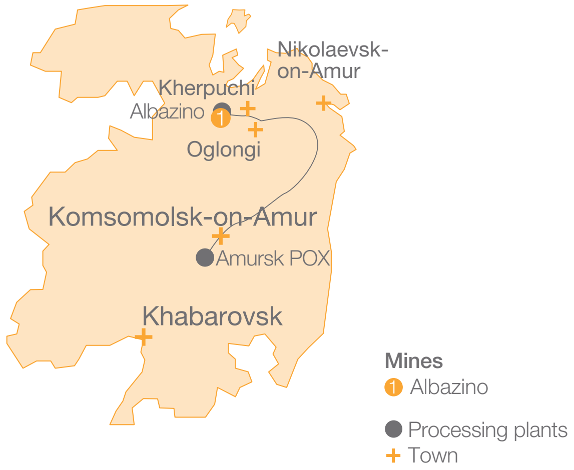
A number of cost saving and debottlenecking measures will be implemented, in addition to the expected cost savings which will emerge as soon as the concentrate processing is fully redirected to the POX plant.

We will continue the development of the underground decline and underground in-fill drilling at the Olga zone, and will also focus on detalisation of the ore bodies at zones Ekaterina-1 and Ekaterina-2. Further exploration will be performed at the flanks of the Albazino field, with a view to discovering additional resources.

A conversion of the newly discovered mineral resources to reserves and the feasibility study for the Albazino expansion project are expected to be produced in the first half of 2014, with the construction decision to be put to the Board for approval by the middle of 2014.

# Albazino

continued




## 2012 highlights

**Mining**

The open-pit mine at Albazino quickly achieved its target capacity in 2012, with 1,216 Kt of ore mined in the year, a 45% increase over 2011. Importantly, as the mine has accessed deeper levels of the pit, grades grew from 4.3 g/t in 2011 to 5.4 g/t in 2012, a 27% increase. Mining volumes are set to further increase in 2013.

**Processing**

The flotation concentrator at Albazino, commissioned in 2011, reached capacity throughput and recovery by Q2 2012. Total ore processed grew twofold to 1,226 Kt of ore, while average gold grade processed grew 23% to 5.3 g/t. Recoveries to concentrate grew to 87%, up from 70% in 2011, marking a successful ramp-up of the plant. As a result, gold in concentrate produced was 181 Koz, a threefold increase compared to 2011. Out of 115 Kt of concentrate produced (with an average gold grade of 49 g/t), 40 Kt with 63.5 Koz of payable gold content was sold during the year to third-party off-takers in China, allowing us to maximise cash flows during the ramp-up period at the Amursk POX plant. As the POX facility has started its ramp-up process from April 2012, a further 16 Kt of concentrate were processed at the POX plant in 2012, yielding production of 14 Koz of gold. Total Albazino gold production in the year was 77 Koz, up 2.6 times compared to 2011.

**Ongoing improvement process**

In 2012, several small-scale infrastructural projects were underway at Albazino. All of them are focused on debottlenecking the mine and enhancing its infrastructure. We have started construction of an all-year-round road which will connect Albazino and Komsomolsk-on-Amur, in order to optimise outbound concentrate logistics for delivery to Amursk POX and inbound supplies and personnel logistics. The road is expected to be commissioned in the middle of 2013. An emulsion explosives plant has been constructed, with operations starting in early 2013.

## Mining: 2011/2012 statistics

| | 2012 | 2011 | % change |
|---|---|---|---|
| Stripping, Kt | 15,160 | 14,584 | +4% |
| Underground development, m | – | – | n/a |
| Ore mined, Kt | 1,216 | 841 | +45% |
| Gold grade in ore mined | 5.4 | 4.3 | +27% |

## Production: 2011/2012 statistics

| | 2012 | 2011 | % change |
|---|---|---|---|
| Ore processed, Kt | 1,226 | 620 | +98% |
| Gold grade in ore processed, g/t | 5.3 | 4.3 | +23% |
| Recoveries to concentrate | 87% | 70% | +24% |
| Concentrate produced, Kt | 115 | 43 | +166% |
| Gold grade in concentrate produced, g/t | 49.0 | 42.7 | +15% |
| Gold in concentrate, Koz | 181 | 59 | +205% |
| Concentrate sold, Kt | 40 | 20 | +101% |
| Saleable gold in concentrate sold to off-takers, Koz | 63 | 30 | +113% |
| Gold production at Amursk POX | 14 | – | n/a |
| **Total gold equivalent production, Koz** | 77 | 30 | +160% |
| Total cash cost/GE oz (US$/oz) | 767 | 1,018 | -25% |
| Adjusted EBITDA, US$m (ex. Mayskoye) | 32.5 | 4.5 | +618% |





## Operational activity at Albazino


Ore transportation


Bird's-eye view of the plant

**Exploration success and our expansion plans**

As a result of our extensive exploration programme between 2009 and 2012, several new zones were identified and a new mineral resource estimate totalling 37 Mt at an average grade of 4.8 g/t, more than doubling the total resource base to a total of 5.7 Moz (inclusive of ore reserves), was prepared and audited in 2012. The cost of discovery was approximately US$12 dollars per ounce of resources.

The mineral resources and ore reserves estimates now cover five ore zones: Olga, Anfisa, Nadezhda, Ekaterina-1 and Ekaterina-2. Anfisa is currently subject to open-pit mining. The development plan for other zones will be determined after the completion of the optimisation study, currently expected in Q2 2013.

In 2012, the Nadezhda and Olga zones were combined in a single ore zone, and new mineralised intersections were discovered south of Ekaterina-2. We have also started underground exploration of deep ore bodies in the Olga zone.

Active exploration at Albazino is ongoing with further resource potential identified, most importantly at Ekaterina-2 and the new Tatyana zone. In-fill underground drilling in 1H 2013 is expected to lead to a substantial upgrade of inferred resources and allow meaningful resource-to-reserve conversion.

The exploration results at Albazino highlight the tremendous potential of this asset and pave the way for an expansion decision to be taken in the second half of 2013 – beginning of 2014. Albazino has become an excellent example of Polymetal's ability to create value by discovering high-grade ounces close to existing processing facilities.

## Processing plant

**Albazino concentrator**

| | |
|---|---|
| Type | Flotation |
| Capacity (Ktpa) | 1500 |
| Commencement of production (year) | 2011 |
| Ore from which mines is processed | Albazino |

Different options are currently being considered for the Albazino expansion, and decisions are to be made in 2013-2014 during the feasibility study. The expansion project will benefit from a common infrastructure with the current mine, but power generation capacity and concentrator expansion will still require significant additional capital expenditure. We are also evaluating different options for mining operations at the new zones, including a combination of open-pit and underground mining or a large single open-pit.

Further, the refractory nature of the ore, similar to the current ore mined at Albazino, will require additional capacity at the POX plant. This capacity can be secured by re-directing concentrate from Mayskoye to third-party off-takers instead of internal processing at the Amursk POX – a much preferred option which will allow significant capital expenditure savings. Alternatively, we are considering simultaneous expansion of the mine and concentrator at Albazino and the POX facility at Amursk, which has sufficient land and on-site infrastructure available. This decision will largely depend on the potential off-take conditions for Mayskoye.

## Mine

| | Albazino |
|---|---|
| **Status** | Operating |
| Mineralisation type | Mineralised zones; refractory ore |
| Mine type (open-pit/underground mining method) | Open-pit |
| Commencement of mining (year) | 2009 |
| Current life of mine end (year) | 2020 |
| **Reserves** | |
| Gold, Moz | 1.8 |
| Gold reserve grade, g/t | 4.3 |
| **Resources** | |
| Gold, Moz | 3.7 |
| Gold resource grade, g/t | 4.6 |

# Mayskoye

## On track to launch in April 2013

Russia, Chukotka
Managing Director: Igor Nikolishin
Employees: 811

**2.4 Moz**
Gold reserves

**9.6 g/t**
Average reserve grade

**2013**
Start of commercial production

Mayskoye is the one remaining large construction project to be completed to achieve our medium-term production target of 1.4 Moz of gold equivalent in 2014. Upon completion, Mayskoye will be our second largest underground operation and our second mine with refractory ore brought into production. The development of this underground mine in a distant region of Chukotka – with access by sea only possible during the summer navigation period – is justified by its average reserve grade of 9.6 g/t, one of the highest across our portfolio.

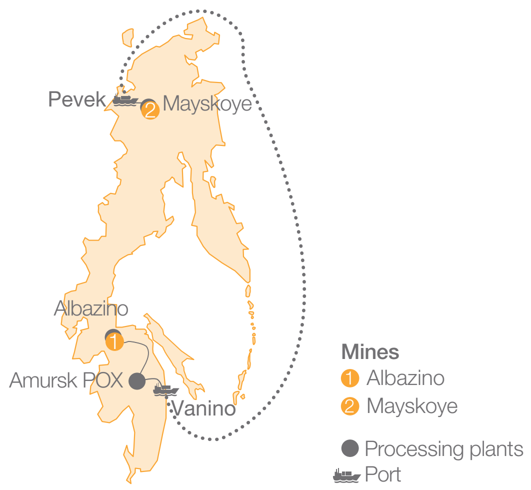
**Priorities for 2013**
We continue to deliver the remaining small batches of equipment for the construction of the Mayskoye concentrator. Construction is on track for the revised start-up deadline in April 2013, with works currently concentrated on the installation of electrical, controlling, and auxiliary equipment.

Given the more than twofold resource expansion at Albazino and targeted construction decision for the expansion of the Albazino mine and concentrator in H2 2013, we will assess and make the decision on the option of third-party concentrate off-take for Mayskoye in 2013. This will potentially allow us to significantly reduce capital expenditure on the expansion project by fully re-allocating existing POX capacity to the processing of concentrate from Albazino.

Negotiations with potential off-take partners have already started, and the decision will be taken upon start-up of the Mayskoye concentrator after larger samples of concentrate have been tested by off-takers, and the treatment charges and the transportation costs are known.

# Mayskoye

continued




## 2012 highlights

**Mining**

Underground development at Mayskoye is continuing as planned, with the first ore mined from stopes in December. A total of 11,068 m of underground development was completed during 2012. A relatively small amount of ore – 40 Kt – was mined in 2012, as our focus remained on the underground development in preparation for active mining upon start-up of the processing facility. Nevertheless, current stocks of ore mined to date are sufficient to provide the processing plant with more than three months of feedstock. As the plant commissioning date approaches, we have continued active ore mining from stopes, with the annual amount of ore mined expected to exceed 600 Kt in 2013.

**Construction**

Originally, the start-up of Mayskoye concentrator was scheduled for the end of 2012. However, during the second half of 2012 there were significant delays in delivering the remaining construction materials by rail to the ports for onward shipping to Mayskoye. As a result, some of the materials had to be airlifted after the navigation period was over. Given this fact, the start-up of Mayskoye concentrator is now scheduled for April 2013. This will allow the concentrator to produce and ship concentrate to the POX facility and/or off-takers in the summer navigation period of 2013, as originally planned, albeit in lower than expected volumes.

During 2012, all major construction works were completed at the processing plant, including installation of equipment at the crushing, grinding, flotation, thickening, filtering and drying sections. In Q1 2012, the site was connected to a local 110 KW power grid. A coal-fired heat plant was also launched in late 2012.

At the underground mine, construction and commissioning of the main ventilation unit was completed. All work on water supply and the construction of tailing facilities were completed. Initial accumulation of water in the tailings pond was performed in spring 2012.

## Processing plant

**Mayskoye concentrator**

| | |
|---|---|
| Type | Flotation |
| Capacity (Ktpa) | 850 |
| Commencement of production (year) | 2013 |
| Ore from which mines is processed | Mayskoye |

## Mining: 2011/2012 statistics

| | Mayskoye | | |
|---|---|---|---|
| | **2012** | 2011 | **% change** |
| Underground development, m | **11,068** | 10,999 | **+1%** |
| Ore mined, Kt | **40** | 79 | **-49%** |
| Gold grade in ore mined | **9.9** | 9.8 | **+1%** |



## Operating activity at Mayskoye

Ore loading vehicles in action

Underground mining

Mayskoye's flotation section

## Mine

| | Mayskoye |
|---|---|
| **Status** | Construction |
| 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) | 2024 |
| **Reserves** | |
| Gold, Moz | 2.4 |
| Gold reserve grade, g/t | 9.6 |
| **Resources** | |
| Gold, Moz | 4.8 |
| Gold resource grade, g/t | 8.3 |

# Khakanja

## Transforming one of our core assets into a genuine processing hub

Russia, Khabarovsk Territory
Managing Director: Alexander Akamov
Employees: 1,181

**+28%**
Gold equivalent produced in 2012: 164 Koz

**+26%**
Average gold equivalent grade in ore processed in 2012: 2.4 g/t

**-9%**
Total cash costs, US$/GE oz: 614

**+57%**
Adjusted EBITDA growth

Khakanja delivered a strong performance in 2012, with a 28% growth in gold equivalent production driven by the increased grade profile from different ore sources. The increased average grades supported excellent profitability of the operation in 2012, marked by 9% reduction in total cash costs to US$614/GE oz and growth of adjusted EBITDA by 57% to US$178 million. In 2013 the Khakanja plant will operate as a genuine processing hub treating ore from four deposits – Khakanja, Yurievskoye, Avlayakan, and Ozerny.

**Priorities for 2013**
After conducting geotechnical studies, the decision was made to postpone the development of an underground mine at the Khakanja main deposit in favour of another pushback at the open pit 1. This approach will reduce short-term capital costs and the risks associated with underground mining in difficult geotechnical conditions.

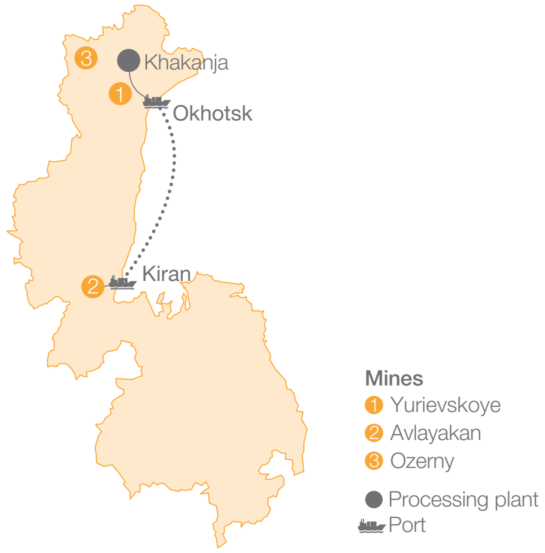
At Avlayakan, open-pit mining will continue, followed by the start of underground mining in Q4 2013/early 2014. Port facilities at Kiran will be upgraded in order to achieve the appropriate stability and safety of ore shipping conditions.

At Ozerny, mining volumes will grow in 2013 as the mine will be operating for a full calendar year, with seasonal trucking by winter road.

Accordingly, in the structure of ore feed for the Khakanja plant's the share of Avlayakan and Ozerny will increase while the total volume of ore processed will be unchanged. This will result in a reduction of silver production year-on-year and the growth of gold production driven by structural grade profile change.

# Khakanja

continued




## 2012 highlights

**Mining**

At the main Khakanja deposit, ore mined grew more than twofold to 1,211 Kt, with mining works concentrated on pit 3. This resulted in increased silver grade profile (average of 220 g/t, an increase of 7% compared to 2011).

Ore mined at Yurievskoye reached a record 148 Kt, with mining works on the deposit completed in January 2013. High average grades at Yurievskoye (6.5 g/t gold) supported the overall grade profile at the Khakanja processing facility. The remaining ore and equipment will be trucked from the deposit by winter road in early 2013, and rehabilitation of the land will take place.

At Avlayakan, open-pit mining volumes decreased to 79 Kt as open-pit mining (based on current resources) is expected to be completed in 2014, followed by underground development. 47 Kt of ore mined was shipped by sea to the port of Okhotsk and further trucked to Khakanja for processing. This complex logistic chain is justified by the high gold and silver grades (15 g/t and 124 g/t, respectively) mined at Avlayakan.

We deeply regret the loss of the ship Amurskaya and its crew in the Okhotsk Sea in October 2012. This third party vessel was contracted by Polymetal to transport the Avlayakan ore from the local port of Kiran for further processing at Khakanja. In order to secure ore supplies and ensure appropriate safety procedures in this complex logistic chain in the future, we are currently engaged in consultations with the regulatory authorities, and are investing around US$10 million in our own barge fleet in the region. In addition, we are carrying out a port infrastructure modernisation project at Kiran.

## Mining: 2011/2012 statistics

| | Khakanja + Yurievskoye | | | Ozerny | | | Avlayakan | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2012** | 2011 | **% change** | **2012** | 2011 | **% change** | **2012** | 2011 | **% change** | **2012** | **2011** | **% change** |
| Stripping, Kt | **4,435** | 9,601 | -54% | **449** | – | n/a | **1,637** | 1,191 | +37% | **6,521** | **10,792** | **-40%** |
| Underground development, m | **1,489** | 1,764 | -16% | **–** | – | n/a | **–** | – | n/a | **1,489** | **1,764** | **-16%** |
| Ore mined, Kt | **1,359** | 528 | +157% | **56** | – | n/a | **79** | 128 | -38% | **1,494** | **657** | **+128%** |
| Metal in ore mined (grades) | | | | | | | | | | | | |
| – gold | **2.6** | 2.9 | -9% | **4.8** | – | n/a | **15.0** | 17.1 | -12% | **3.4** | **5.7** | **-40%** |
| – silver | **197** | 199 | -1% | **46** | – | n/a | **124** | 38 | +229% | **188** | **167** | **+12%** |

## Production: 2011/2012 statistics

| | Khakanja plant | | |
|---|---|---|---|
| | **2012** | 2011 | **% change** |
| Ore processed, Kt | **622** | 617 | **+1%** |
| Metal in ore processed (grades) | | | |
| – gold | **4.8** | 4.6 | **+4%** |
| – silver | **277.2** | 172.7 | **+60%** |
| Recoveries | | | |
| – gold | **96%** | 92% | **+4%** |
| – silver | **80%** | 78% | **+3%** |
| Production | | | |
| – gold, Koz | **91** | 84 | **+8%** |
| – silver, Moz | **4.4** | 2.6 | **+66%** |
| **Gold equivalent, Koz** | **164** | 128 | **+28%** |
| Total cash cost/GE oz (US$/oz) | **614** | 672 | **-9%** |
| Adjusted EBITDA, US$m | **178** | 113 | **+57%** |



## Operating activity at Khakanja

One of the laboratory facilities

Checking plant control equipment

In 2012, mining started at Ozerny, a new satellite mine located 40 km from the Khakanja plant, where a winter road and mine infrastructure have been constructed during the year. Mining at Ozerny started on schedule in the fourth quarter, with the first 56 Kt grading 4.8 g/t gold and 46 g/t silver mined and 13 Kt successfully processed in 2012. In the first quarter of 2013, ore mined will be trucked by winter road, and the mine will then build up an ore stockpile for processing in 2014.

**Processing**

Total ore processed at the Khakanja plant in 2012 was stable compared to 2011 and comprised 622 Kt. However, gold production grew by 8% to 91 Koz and silver production grew by 66% to 4.4 Moz. This impressive growth has been achieved on the back of increased average grades, mostly due to high gold grade ore from Avlayakan and high silver grade from Khakanja's pit 3. Average gold grade processed increased by 4% to 4.8 g/t, and silver grade grew by 60% to 277 g/t. The growth in grades was further supported by increased recoveries of 96% for gold and 80% for silver.

## Processing plants

**Khakanja plant**

| | |
|---|---|
| Type | Cyanide leaching and Merrill-Crowe |
| Capacity (Ktpa) | 600 |
| Commencement of production (year) | 2003 |
| Ore from which mines is processed | Khakanja, Yurievskoye, Avlayakan, Ozerny |

**Exploration**

Our exploration efforts are focused on a large area surrounding the Khakanja processing plant, with the main objective remaining to extend the current life of mine by identifying medium-sized high-grade deposits in the area. Additional drilling has been performed at Kundumi, where a number of high-grade ore intercepts were identified. However, the key results of the 2012 season are resource-to-reserve conversions at Ozerny, where mining started in Q4 2012, and Avlayakan, where in-fill drilling has been performed to prepare for underground mining. Total reserve growth was 0.45 Moz of gold equivalent.

## Mines

| | Khakanja | Yurievskoye | Avlayakan | Kirankan | Ozerny | **Total** |
|---|---|---|---|---|---|---|
| **Status** | Operating | Operating | Operating | Scoping | Operating | |
| Mineralisation type | Vein-veinlet | Vein | Vein | Vein | Vein zone | |
| Mine type (open-pit/underground mining method) | Open-pit to be followed by underground | Open-pit to be followed by underground | Open-pit to be followed by underground | n/a | Open-pit | |
| Commencement of mining (year) | 2002 | 2007 | 2010 | n/a | 2012 | |
| Current life of mine end (year) | 2018 | 2013 | 2018 | TBD | 2015 | |
| **Reserves** | | | | | | |
| Gold equivalent, Moz | 0.3 | – | 0.3 | | 0.2 | **0.7** |
| Gold equivalent reserve grade, g/t | 4.8 | – | 21.9 | | 5.8 | **7.5** |
| **Resources** | | | | | | |
| Gold equivalent, Moz | 0.06 | – | 0.08 | 0.03 | 0.10 | **0.3** |
| Gold equivalent resource grade, g/t | 5.6 | – | 15.8 | 6.7 | 3.2 | **5.3** |

# Voro

## Our first mine, at the peak of its performance

Russia, Sverdlovsk Region
Managing Director: Andrey Novikov
Employees: 928

**559**
Cash cost per gold equivalent ounce in 2012, US$/oz

**65%**
Adjusted EBITDA margin in 2012

**157 Koz**
Gold equivalent produced in 2012

Voro was the first of Polymetal's assets, and it continues to deliver robust operating and financial performance. The grades and production volumes in 2012 were stable, which resulted in continued leadership among our assets in terms of cost levels and EBITDA margin – a record 65% in 2012.

**Priorities for 2013**
In 2013 primary ore will continue to be mostly sourced from the Central pit with potential additional third-party supplies, and oxidised ore from the South pit. Our team at Voro will also be involved in the evaluation of options and development of mining operations at Maminskoye, a newly acquired deposit in the region. Although Maminskoye is expected to operate as a standalone operation, we expect that expertise sharing will be a great benefit, enabling fast-track development of the deposit.

# Voro

continued


## 2012 highlights

### Mining

Stripping and ore mining volumes at the main Voro deposit were largely flat, at 11,265 Kt and 1,684 Kt respectively. The average grades both in primary and oxidised ore were stable at 5.8 g/t and 1.7 g/t. The preparations for mining at the south part of the Voro pit, which will be a main source of the oxidised ore in 2013, were completed during the year.

At Degtyarskoye, mining was fully completed in November, with 104 Kt of ore grading 3.0 g/t mined during 2012. Some of the ore from Degtyarskoye was processed at the Voro CIP plant, while the bulk of the ore was sent for processing to Varvara.

Both Degtyarskoye and Fevralskoye, satellite deposits of Voro, were sold in December 2012.

### Processing

At the heap leach circuit the amount of ore stacked was in line with previous year, and recoveries were stable – all of which resulted in stable production output at 32 Koz of gold. At the CIL plant, ore processed was at 917 Kt, 2% above 2011, and recoveries increased to 78.9%, also a 2% increase. These improvements helped to partially compensate for the decline in average grade processed (5.3 g/t in 2012 compared to 5.9 g/t in 2011, a 11% decrease), and total production at the CIL circuit comprised 118 Koz of gold, 6% below 2011.

## Mining: 2011/2012 statistics

| | Vorontsovskoye | | | Degtyarskoye | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | % change | 2012 | 2011 | % change | 2012 | 2011 | % change |
| Stripping, Kt | 11,265 | 10,954 | +3% | 1,125 | 1,591 | -29% | 12,390 | 12,788 | -3% |
| Ore mined, Kt | 1,684 | 1,665 | +1% | 104 | 194 | -46% | 1,788 | 1,871 | -4% |
| – oxidised | 926 | 914 | +1% | | | | | | |
| – primary | 758 | 751 | +1% | | | | | | |
| Gold grade in ore mined | 3.6 | 3.6 | -1% | 3.0 | 4.2 | -28% | 3.5 | 3.6 | -3% |
| – oxidised | 1.7 | 1.7 | -0% | | | | | | |
| – primary | 5.8 | 5.8 | -1% | | | | | | |

## Production: 2011/2012 statistics

| | Voro CIP | | | Voro heap leach | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | % change | 2012 | 2011 | % change | 2012 | 2011 | % change |
| Ore processed, Kt | 917 | 901 | +2% | 901 | 902 | -0% | 1,818 | 1,803 | +1% |
| Metal in ore processed (grades) | | | | | | | | | |
| – gold | 5.3 | 5.9 | -11% | 1.6 | 1.7 | -9% | 3.4 | 3.8 | -10% |
| Recoveries | | | | | | | | | |
| – gold | 79% | 78% | +2% | 74% | 74% | -0% | | | |
| Production | | | n/a | | | | | | |
| – gold, Koz | 118 | 125 | -6% | 32 | 32 | +1% | 154 | 157 | -2% |
| – silver, Moz | 0.1 | 0.1 | -2% | 0.03 | 0.04 | -16% | 0.2 | 0.2 | +2% |
| **Gold equivalent, Koz** | 120 | 127 | -6% | 33 | 32 | +1% | 157 | 160 | -2% |
| Total cash cost/GE oz (US$/oz) | | | | | | | 559 | 553 | +1% |
| Adjusted EBITDA, US$m | | | | | | | 174 | 175 | -1% |



## Production activity at Voro

Part of the ore transportation system

Transport operations at the open-pit mine

### Ongoing improvement process

Voro continues to be the lowest cost and highest margin mine, mostly due to solid grade profile, stable operating performance and favourable location allowing access to cheap power and infrastructure. Nevertheless we are committed to continuous improvement, searching for further measures to enhance efficiency and profitability of the operation. In 2012, such measures included additional automated components, and further development of computerised mine planning, including implementation of medium and long-term plans.

## Processing plants

| | |
|---|---|
| **Voro CIP** | |
| Type | Flotation/gravitation |
| Capacity (Ktpa) | 940 |
| Commencement of production (year) | 2005 |
| Ore from which mines is processed | Vorontsovskoye, Degtyarskoye |
| **Voro heap leach** | |
| Type | Cyanide leaching and Merrill-Crowe |
| Capacity (Ktpa) | n/a |
| Commencement of production (year) | 2000 |
| Ore from which mines is processed | Vorontsovskoye, Degtyarskoye |

## Mines

| | Vorontsovskoye |
|---|---|
| **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) | 2026 |
| **Reserves** | |
| Gold equivalent, Moz | 1.4 |
| Gold equivalent reserve grade, g/t | 2.9 |
| **Resources** | |
| Gold equivalent, Moz | 0.07 |
| Gold equivalent resource grade, g/t | 1.5 |

# Varvara

## Delivering stable operating performance in Kazakhstan

Kazakhstan, Kostanay Region
Managing Director: Nikolay Goncharov
Employees: 725

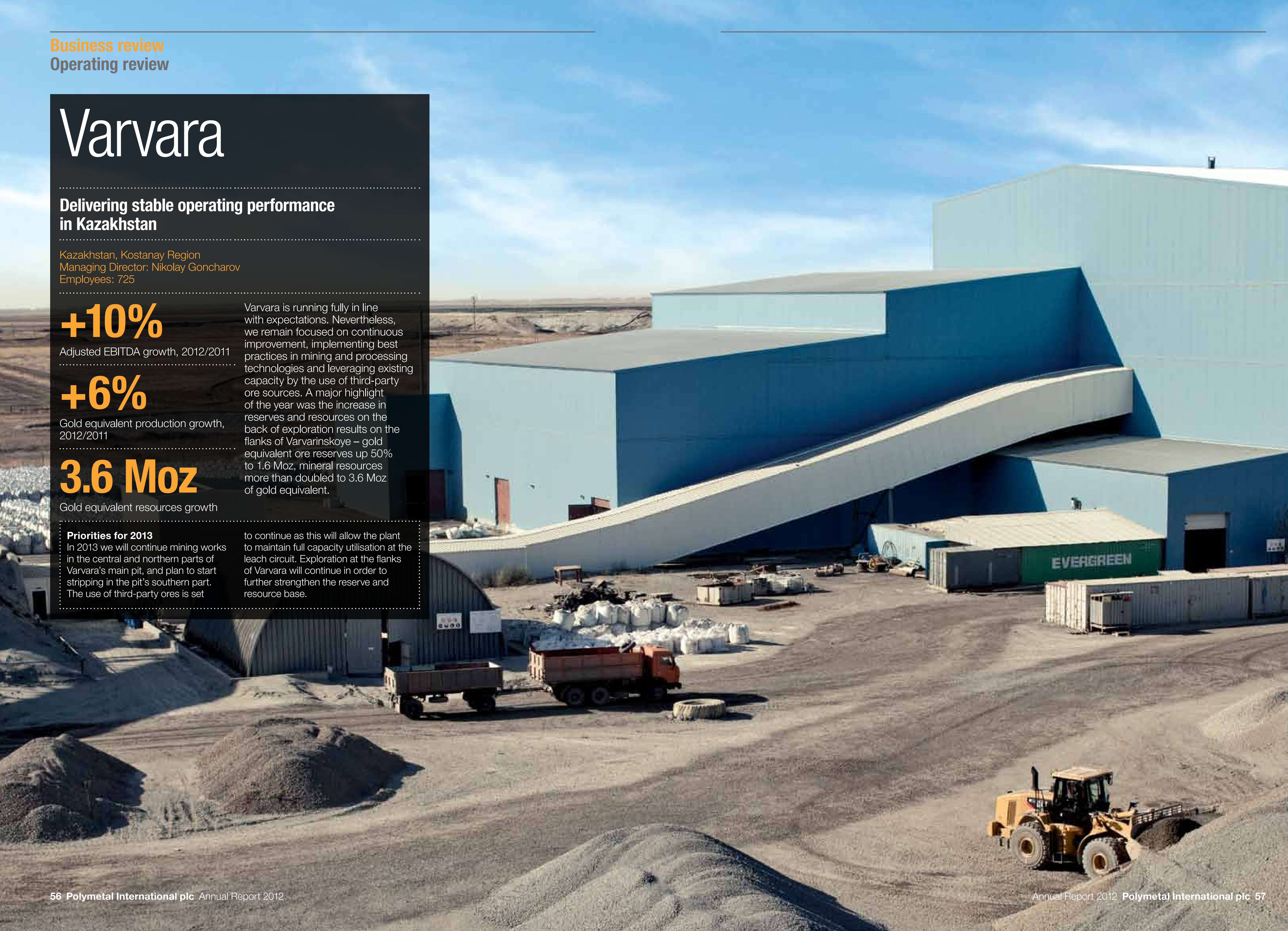
**+10%**
Adjusted EBITDA growth, 2012/2011

**+6%**
Gold equivalent production growth, 2012/2011

**3.6 Moz**
Gold equivalent resources growth

Varvara is running fully in line with expectations. Nevertheless, we remain focused on continuous improvement, implementing best practices in mining and processing technologies and leveraging existing capacity by the use of third-party ore sources. A major highlight of the year was the increase in reserves and resources on the back of exploration results on the flanks of Varvarinskoye – gold equivalent ore reserves up 50% to 1.6 Moz, mineral resources more than doubled to 3.6 Moz of gold equivalent.

**Priorities for 2013**
In 2013 we will continue mining works in the central and northern parts of Varvara's main pit, and plan to start stripping in the pit's southern part. The use of third-party ores is set to continue as this will allow the plant to maintain full capacity utilisation at the leach circuit. Exploration at the flanks of Varvara will continue in order to further strengthen the reserve and resource base.



# Varvara

continued


## 2012 highlights

### Mining

Ore mining at Varvara was 9% lower year-on-year while stripping volumes were flat, due to volatility of the stripping ratios at different parts of the deposit. However, the average gold grades for both float and leach ores demonstrated positive dynamics. Average gold grade was up 13% for the float ore (to 1.3 g/t) and up 11% for the leach ore (to 0.9 g/t), while copper content in the float ore grew 31% to 0.8%.

### Processing

Gold production grew 10% year-on-year, exceeding the 100 Koz level. This growth was mainly attributable to the leach circuit where throughput, grades and recoveries increased by 5%, 9% and 3%, respectively. The leverage in throughput was achieved by securing third-party sources of ore in the region, and the Company expects to continue this practice in 2013. Copper production in 2012 was 6.6 Kt, down 5% year-on-year as a result of lower grades in ore processed in the period, partially compensated for by increased throughput and improved recoveries (+4% and +2% year-on-year, respectively).

## Mining: 2011/2012 statistics

| | Varvara – float ore | | |
|---|---|---|---|
| | **2012** | 2011 | **% change** |
| Stripping, Kt | **26,072** | 25,993 | **+0%** |
| Ore mined, Kt | **3,609** | 3,983 | **-9%** |
| – float ore | **1,031** | 1,508 | **-32%** |
| – leach ore | **2,577** | 2,475 | **+4%** |
| Metal in ore mined (grades) | | | |
| – gold, g/t – float ore | **1.3** | 1.1 | **+13%** |
| – gold, g/t – leach ore | **0.9** | 0.8 | **+11%** |
| – copper, % (float ore) | **0.8%** | 0.6% | **+31%** |

## Production: 2011/2012 statistics

| | Varvara – flotation | | | Varvara – leaching | | | **Total** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2012** | 2011 | **% change** | **2012** | 2011 | **% change** | **2012** | **2011** | **% change** |
| Ore processed, Kt | **992** | 950 | +4% | **2,654** | 2,523 | +5% | **3,647** | **3,473** | **+5%** |
| Metal in ore processed (grades) | | | | | | | | | |
| – gold, g/t | **1.2** | 1.3 | -4% | **1.2** | 1.1 | +9% | **1.2** | **1.1** | **+5%** |
| – copper, % | **0.8%** | 0.9% | -13% | **–** | – | n/a | **0.21%** | **0.24%** | **-13%** |
| Recoveries | | | | | | | | | |
| – gold | **61%** | 61% | -0% | **85%** | 82% | +3% | | | |
| – copper | **92%** | 89% | +2% | | | | | | |
| Production | | | n/a | | | | | | |
| – gold, Koz | **22** | 22 | +1% | **79** | 70 | +13% | **101** | **92** | **+10%** |
| – copper, t | **6,567** | 6,915 | -5% | | | | **6,567** | **6,915** | **-5%** |
| **Gold equivalent, Koz** | **55** | 57 | -3% | **79** | 70 | +13% | **134** | **127** | **+6%** |
| Total cash cost/GE oz (US$/oz) | | | | | | | **804** | **747** | **+8%** |
| Adjusted EBITDA, US$m | | | | | | | **100** | **91** | **+10%** |





## Operating activity at Varvara


Mining activity at the open-pit mine


Stippler samples

### Ongoing improvement process

In 2012 we carried out a number of projects aimed at debottlenecking and efficiency improvement. These included the design of an additional cyanidation tank, a control flotation cell on the flotation circuit, and construction of a railway spur which will be used for the transportation of supplies, most importantly ore from third-party sources, and shipping of concentrates sold to off-takers from Varvara. In addition, in 2012 we installed a walking excavator which will allow us to reduce stripping costs through the use of relatively cheap electricity and improved stripping methods. The excavator was commissioned in January 2013.

## Processing plant

**Varvara plant**

| | | |
|---|---|---|
| Type | CIP | Flotation |
| Capacity (Ktpa) | 3150 | 1050 |
| Commencement of production (year) | 2002 | 2001 |
| Ore from which mines is processed | Varvarinskoye | Varvarinskoye |

## Mines

| | Varvarinskoye |
|---|---|
| **Status** | Operating |
| Mineralisation type | Stock/stockwork |
| Mine type (open-pit/underground mining method) | Open-pit |
| Commencement of mining (year) | 2006 |
| Current life of mine end (year) | 2023 |
| **Reserves** | |
| Gold equivalent, Moz | 1.6 |
| Gold equivalent reserve grade, g/t | 1.2 |
| **Resources** | |
| Gold equivalent, Moz | 3.6 |
| Gold equivalent resource grade, g/t | 1.4 |

# Pursuing standalone exploration projects

## Polymetal pursues standalone exploration projects with the aim of discovering sizeable and high quality deposits.

**Exploration**
We are conducting exploration works in four regions of Russia – Khabarovsk, Magadan, Karelia, and Sverdlovsk – as well as in Kazakhstan. Polymetal currently has 54 licences for geological studies, exploration and gold, silver and copper mining, and one coal mining licence. Our current exploration portfolio includes 43 licences with a total area of approximately 10,503 km$^2$.

Exploration activities in 2012 took place in 31 licensed areas, of which 7 areas are at an advanced stage. Greenfield exploration continues to be one of the principal sources of growth for Polymetal, as demonstrated in the past by our success at Albazino which has seen multiple resource increases since its acquisition as an exploration property in 2006. Our greenfield exploration programme is focused on prospecting for new precious metals deposits with a potential resource base sufficient in grade and size to justify construction of a standalone mine. Such targets are set to form the next generation of our growth assets and ensure Company's long-term growth prospects.

The most significant exploration targets include:

**01 Svetloye**
Svetloye is located 220 km south west of Okhotsk, in an undeveloped and sparsely populated region. Open-pittable inferred resources of 4.1 Mt at 5.9 g/t for 0.8 Moz of contained gold (to a depth of 100 m). Mineralised potential of the zone (inclusive of resources) is estimated at 30-40 Mt at 1.8-2.2 g/t for 2-2.5 Moz of gold (internal non-JORC estimate).

In 2012, we have performed technological mapping and bulk lab sampling in the Elena and Emi zones, and the ores were determined to be suitable for heap leaching. Prospecting at the south-west flank of the Emi zone continued to delineate the zone and identify potential additional resources. In the Elena zone, in-fill drilling has started in order to prepare for reserve estimation. We have also commenced construction of the winter road from Svetloye to Unchi, the nearest seaport, for delivery of fuel and inventories.

Currently the metallurgical test work to determine viability of heap leaching is continuing, with a reserve estimate for the bulk heap leach processing option targeted for the fourth quarter of 2013. The deposit could deliver potential annual gold production of 100-150 Koz at full capacity should the decision to develop the heap leaching be taken.

**02 Kutyn**
Kutyn, a licence area located 113 km north-east of Albazino, currently has open-pittable inferred resources of 5.5 Mt at 4.1 g/t for 0.7 Moz of contained gold (to a depth of 140-240 m). Only 25% of the 120 km$^2$ licence territory has been tested by drilling. The mineralised potential of the zone (inclusive of resources) is estimated at 10-15 Mt at 2.5-3.5 g/t for 1-1.2 Moz of gold (internal non-JORC estimate).

This deposit has two types of ore – oxidised and sulphide, and an intensive exploration programme is under way with 11 km drilled in 2012 and a further 23 km planned for 2013. In 2012 we continued prospecting in the Geofizicheskaya, Sedlovinnaya, Yubileynaya and Delinskaya zones, and started preparation of a temporary winter road for fuel and inventory supply. The additional mineralised potential identified as a result of the 2012 drilling campaign comprised 0.6 Moz of gold contained. In 2012, we also started in-fill drilling at the Sedlovinnaya zone in order to delineate the oxidised ore body and start preparation for trial open-pit mining.

In the coming year, we will be continuing drilling activities across the deposit to establish resources, with a focus on the Sedlovinnaya zone which is most promising for heap leaching. After completion of the 2013 exploration season, we are planning to produce an initial JORC reserve estimate, with either heap leach or CIP plant on site options to be examined for the oxidised ore. Based on current assessment of the oxidised resources, 100-150 Koz of annual gold equivalent production could be achieved from 2017.

**03 Tamunier**
Located in the Sverdlovsk Region of Russia, the Tamunier licence covers 23 km$^2$. Tamunier is located in a historical mining area with good infrastructure and the project is accessible by year-round gravel road. The nearest paved road is 5 km away, a 110-kV power line is 18 km away, and the nearest railway spur is 41 km away.

Following geophysical and geochemical studies and the drilling of 155 prospecting holes, we have drilled 129 exploration diamond holes. The new holes are up to 200 m depth from the surface with 100 m x 50 m and 50 m x 25 m drill patterns. In 2012, an initial JORC resource estimate was prepared for the deposit of 50Mt at 1.2 g/t gold. Further substantial exploration potential has been identified with ongoing exploration seeking to expand and upgrade the resource estimate. However, the Tamunier project does not fit with our strategy of concentrating on higher-grade assets and we will, therefore, consider a sale or partnership to advance the development of the asset.



## Exploration activities


One of our exploration teams at work in Tamunier


The Svetlobor exploration area (Sverdlovsk region)

**04 Maminskoye (purchased in April 2013)**
Maminskoye is located in the Sverdlovsk Region of Russia, approximately 70 km from the regional capital Ekaterinburg and 30 km from the city of Kamensk-Uralsk (population 130,000). Our Voro mine is approximately 450 km to the north. The 17.8 km$^2$ licence area is accessible by a paved highway and is adjacent to a 10 kV power line. The Maminskoye licence area covers a 1205 ha (2978 acre) site which includes the potential mine, processing facilities, and waste rock stockpile.

Probable ore reserves at Maminskoye have been estimated by Snowden in accordance with JORC guidelines at 12.2 Mt of ore at 1.9 g/t gold, representing 0.7 Moz of contained gold. Mineral resources additional to reserves were estimated at 5.1 Mt at 1.9 g/t, representing 0.3 Moz of contained gold. These estimates were prepared for the previous owner and are based on construction of a CIP mill on site. Ore bodies have been drilled out to a depth of 200-250m and remain open at depth and along strike in one direction.

We believe that heap leaching is the preferable option to treat mineralised material at Maminskoye, as it is expected to be significantly less capital intensive and likely to result in lower unit operating costs. Lower costs, in turn, may permit expansion of both resources and reserves. Extensive test work is ongoing to determine the optimum parameters (crushing size and stacking height) for heap leaching. Scoping study-level estimates indicate the potential for a 2-3 Mtpa operation yielding 80-120 Koz of gold per year.

**05 Elmus**
The Elmus licence area covers 188 km$^2$ in the Republic of Karelia in north-west Russia and was acquired in 2011. During 2012 exploration season, new areas of mineralisation were discovered and several intercepts were identified:

- Gavshlamnoya – 11.6 g/t at 1 m, 2.9 g/t at 2.9 m
- Talpus – 3.1 g/t at 11.9 m and 1.55 g/t at 6.7 m

The anomalies identified in the above zones support their further strong exploration potential.

Prospecting started at a new Semchenskaya area, where a major drilling campaign is scheduled for 2013.

# Strong financial performance

## Highlights

### Financial highlights

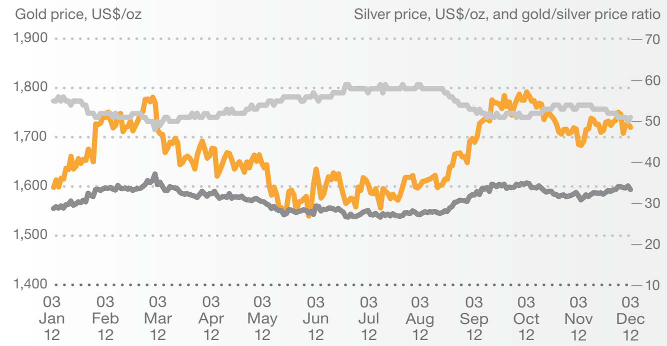
- Revenue in 2012 increased by 40% to US$1,854 million compared to 2011 ('year-on-year'), driven mostly by a 33% increase in gold equivalent sold. In addition to robust production growth, metal sales in 2012 exceeded production for both gold and silver mainly due to destockpiling of concentrate inventories at Dukat.
- Group total cash cost[1] was US$703/GE oz, and remained almost flat compared to the 2011 level of US$701/GE oz as a result of intense management focus on cost control and despite external and inflationary cost pressures. Strong operating performance, resulting in increased average grade processed and increased volumes, coupled with moderate Russian Rouble depreciation against the US Dollar, offset the combined impact of domestic inflation and adverse movement in the gold/silver price ratio.
- All-in cash costs[1] comprised US$1,047/GE oz, a 15% decrease year-on-year, driven mostly by reduction in capital expenditure at our operating mines and stable total cash costs.
- Adjusted EBITDA[1] grew by 47% to US$918 million, ahead of revenue growth. Adjusted EBITDA margin was up by 3 pp to 50%.
- Net earnings were US$401 million, up 38% year-on-year driven by the strong increase in adjusted EBITDA. Net earnings were negatively affected by additional tax provisions booked in respect of prior years and 2012 in the amount of US$116 million, which are not expected to be recurring.
- Pre-tax return on capital employed (ROCE[1]) was 22%, and after-tax return on equity (ROE[1]) was 20%, increasing from 18% and 18%, respectively, and marking the improved capital efficiency of the Group. Basic EPS was US$1.03 per share, increasing 30% year-on-year.
- A final dividend of US$0.31 per share (a total of US$119 million) in respect of FY 2012, representing 30% of net earnings is proposed by the Board in accordance with the new dividend policy.
- Net operating cash flow more than doubled to US$496 million while capital expenditures declined 24% to US$351 million, resulting in a total positive free cash flow[1] of US$139 million in 2012.
- Group's liquidity profile remains comfortable with net debt/adjusted EBITDA further reduced from 1.4 as at YE 2011 to 1.1 as at 31 December 2012, with 59% of borrowings being long-term.

Note
[1] The definitions and calculations of non-IFRS measures used in this report, including Adjusted EBITDA, Total cash costs, All-in cash costs, ROCE, ROE, Dividend payout ratio, Net debt, Free cash flow and the related ratios, are detailed on pages 68-75 of this section.



### Precious metals market summary

Gold Silver Gold/silver




### Financial highlights

| | 2012 | 2011 | % change[1] |
|---|---|---|---|
| Revenue, US$m | 1,854 | 1,326 | +40% |
| Total cash cost, US$/GE oz | 703 | 701 | 0% |
| All-in cash cost, US$/GE oz | 1,047 | 1,231 | -15% |
| Adjusted EBITDA, US$m | 918 | 624 | +47% |
| Adjusted EBITDA margin, % | 50% | 47% | +3 pp |
| Average realised gold price, US$/oz | 1 631 | 1 555 | +5% |
| Average LBMA gold price, US$/oz | 1 668 | 1 572 | +6% |
| Average realised silver price, US$/oz | 30.0 | 34.0 | -12% |
| Average LBMA silver price, US$/oz | 31.1 | 35.3 | -12% |
| Net earnings, US$m | 401 | 290 | +39% |
| ROCE, % | 22% | 18% | +4 pp |
| ROE, % | 20% | 18% | +2 pp |
| Basic EPS, US$/share | 1.03 | 0.79 | +30% |
| Dividend declared during the year, US$/share | 0.7[2] | – | n/a |
| Net debt, US$m | 1 037 | 879 | +18% |
| Net debt/Adjusted EBITDA | 1.1 | 1.4 | -20% |
| Net operating cash flow, US$m | 496 | 212 | +134% |
| Capital expenditure, US$m | 351 | 462 | -24% |
| Free cash flow, US$m | 139 | (260) | n/a |

Notes
[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 due to the same reason. This note applies to all the tables.
[2] Final dividend proposed in respect of 2011 + special dividend declared in December 2012.

### Market summary

#### Precious metals

The precious metals price dynamics in 2012 were mixed, and continued to be largely driven by investment demand. The continued monetary easing in the US and Europe, as well as uncertainty over the future of the Eurozone, were the main drivers moderately pushing the gold price up in the first nine months of the year to a high of US$1,790/oz recorded in the beginning of October, although there was significant volatility in gold prices in the middle of the year. Subsequently, the gold price went down on the back of improving macroeconomic statistics from the US which triggered doubts over the continuation of the quantitative easing policy of the Federal Reserve. As a result, the average gold price in 2012 was US$1,668/oz, up 6% compared to 2011.

Silver price dynamics generally followed gold, also displaying significant volatility during the year. However the average price level of US$31.1/oz was 12% lower year-on-year after abnormal spikes in 2011. The average gold/silver price ratio decreased from 45/1 in 2011 to 54/1 in 2012, a level close to the long-term average.

#### 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. Therefore changes in exchange rates are affecting its financial results and performance. Both year-end and average RUB/US$ exchange rates have decreased during the year, resulting in moderate strengthening of the Rouble against US Dollar. The average rate decreased by 3%, from 31.88 RUB/US$ in 2011 to 31.09 RUB/US$ in 2012. The year-end rate was 30.37 RUB/US$, representing a 6% strengthening compared to the beginning of the year. During the year the exchange rate was subject to a greater volatility, with a significant Rouble strengthening in the first quarter, followed then by depreciation in the second quarter (with lowest level of 34.04 RUB/US$ in June). In the second half of the year, the Rouble strengthening resumed, driven by tight liquidity conditions and stable oil prices.

# Strong financial performance

continued

## Key operating statistics

| | Year ended December 31 2012 | 2011 | % change |
|---|---|---|---|
| Waste mined, Kt | **85,173** | 80,683 | **+6%** |
| Underground development, m | **46,717** | 35,150 | **+33%** |
| **Ore mined, Kt** | **12,591** | 11,002 | **+14%** |
| Open-pit | **10,937** | 9,636 | **+14%** |
| Underground | **1,654** | 1,366 | **+21%** |
| **Ore processed, Kt** | **9,925** | 8,821 | **+13%** |
| **Average GE grade in ore processed, g/t** | **4.4** | 3.8 | **+15%** |
| **Production** | | | |
| Gold, Koz | **589** | 443 | **+33%** |
| Silver, Moz | **26.5** | 19.9 | **+33%** |
| Copper, Kt | **6.567** | 6.915 | **-5%** |
| **Gold equivalent, Koz**[1] | **1,063** | 810 | **+31%** |
| **Sales** | | | |
| Gold, Koz | **593** | 448 | **+32%** |
| Silver, Moz | **27.8** | 17.0 | **+63%** |
| Copper, Kt | **7.011** | 6.363 | **+10%** |
| **Gold equivalent, Koz**[2] | **1,136** | 851 | **+33%** |
| Headcount[3] | **8,993** | 8,050 | **+12%** |

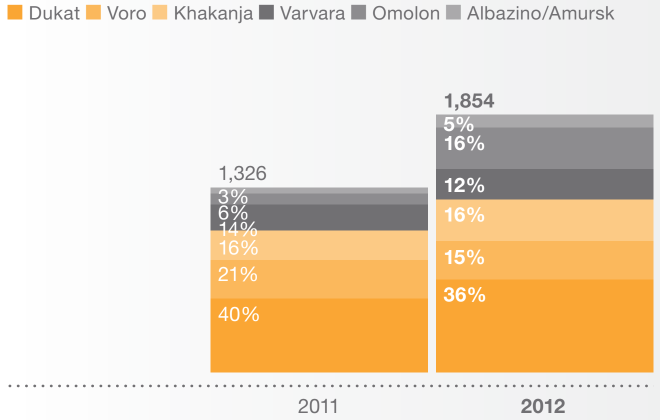
Notes
[1] Based on 1:60 Ag/Au and 5:1 Cu/Au conversion ratios.
[2] Based on actual realised prices.
[3] Average for the period.

## Revenue

| | | 2012 | 2011 | % change |
|---|---|---|---|---|
| **Sales volumes** | | | | |
| Gold | Koz | **593** | 448 | **+32%** |
| Silver | Moz | **27.8** | 17.0 | **+63%** |
| Copper | Kt | **7.011** | 6.363 | **+10%** |
| **Gold equivalent sold**[1] | Koz | **1,136** | 851 | **+33%** |

[1] Based on actual realised prices.

**Revenue by segment** (US$ million)




## Sales by metal

| (US$ million unless otherwise stated) | | 2012 | 2011 | % change | Volume variance, US$m | Price variance, US$m |
|---|---|---|---|---|---|---|
| **Gold** | | **966** | 697 | **+39%** | 224 | 45 |
| Average realised price | US$/oz | **1,631** | 1,555 | **+5%** | | |
| Average LBMA closing price | US$/oz | **1,668** | 1,572 | **+6%** | | |
| Share of revenues | % | **52%** | 53% | | | |
| **Silver** | | **833** | 580 | **+44%** | 366 | (113) |
| Average realised price | US$/oz | **30.0** | 34.0 | **-12%** | | |
| Average LBMA closing price | US$/oz | **31.1** | 35.3 | **-12%** | | |
| Share of revenues | % | **45%** | 44% | | | |
| **Copper** | | **53** | 46 | **+15%** | | |
| Share of revenues | % | **3%** | 3% | | | |
| **Total metal sales** | | **1,852** | 1,323 | **+40%** | 442 | 87 |
| Other revenue | | **2** | 3 | **-39%** | | |
| **Total revenue** | | **1,854** | 1,326 | **+40%** | | |

In 2012, revenue grew by 40% year-on-year to US$1.85 billion, driven mostly by 33% growth in gold equivalent metal sold, to 1,136 Koz. Gold sales volume was up by 32%, and silver sales were up by 63% year-on-year on the back of production growth of 33% and 33%, respectively. Sales of both gold and silver exceeded production, with a notable excess in silver by 2.9 Moz driven by de-stockpiling of saleable concentrates at Dukat. Growth in gold equivalent sales was less due to adverse movement in gold/silver ratio in 2012 compared to 2011 (refer to market summary on page 63).

The average realised price for gold was US$1,631/oz, up 5% year-on-year and in line with market price of US$1,668/oz. The average realised silver price was US$30.0/oz, 12% lower year-on-year, also closely reflecting market price movements.

The share of gold in total revenue declined from 53% in 2011 to 52% in 2012, while the share of silver grew from 44% to 45%. This was due to more significant increases in silver sales offsetting changes in gold/silver price ratio from 1/45 to 1/54 year-on-year.

Dukat continues to be the largest segment of the Group, with a 36% share in total revenue. In 2012, Dukat demonstrated robust growth of 26%, driven by a 45% increase in silver equivalent sold. Among other mature mines, only Voro experienced a slight reduction of revenue of 4% due to lower production driven by a moderate decrease in average grades processed. Other mines, Varvara and Khakanja, performed strongly in line with their production growth. Omolon, having successfully reached full capacity with processing of high-grade ore from Sopka, achieved a more than four-fold increase in revenues year-on-year and contributed 16% of the Group's total revenue. At Albazino, revenue grew to US$99 million, a more than twofold increase, driven by full ramp-up of the mine and successful sales of concentrates to third-party off-takers in Q2 and Q3. In 2013 we expect further significant growth on the back of ramp-up of the Amursk POX plant, combined with additional off-take sales.

# Strong financial performance

continued

## Cost of sales

| (US$ million) | 2012 | 2011 | % change |
|---|---|---|---|
| On-mine costs | 405 | 320 | +27% |
| Smelting costs | 336 | 264 | +27% |
| Purchase of ore from third parties | 33 | 17 | +94% |
| Mining tax | 121 | 97 | +25% |
| **Total cash operating costs** | 894 | 698 | +28% |
| Depreciation and depletion of operating assets | 202 | 140 | +44% |
| Rehabilitation expenses | 4 | 4 | +8% |
| **Total costs of production** | 1,100 | 842 | +31% |
| Increase in metal inventories | (224) | (215) | +4% |
| Write-down to net realisable value | 11 | 6 | +78% |
| **Total change in metal inventories** | (213) | (209) | +2% |
| Cost of other sales | 2 | 3 | -26% |
| **Total cost of sales** | 890 | 635 | +40% |

## Cash operating cost structure

| | 2012, US$m | 2011, US$m | % change |
|---|---|---|---|
| Consumables and spare parts | 276 | 228 | +21% |
| Services | 299 | 218 | +37% |
| Labour | 157 | 130 | +21% |
| Other expenses | 8 | 8 | +8% |
| Purchase of ore from third parties | 33 | 17 | +94% |
| Mining tax | 121 | 97 | +25% |
| **Total cash operating costs** | 894 | 698 | +28% |

Total cost of sales grew by 40% in 2012 to US$890 million, mostly driven by volume-based factors: ore mined grew by 14%, and ore processed grew by 13%. Key external cost drivers included the domestic inflation in Russia (6.6% in 2012). The increased operating asset base, which now fully includes Omolon and Albazino, contributed 25 pp of the 40% increase, while volume growth at other mines and inflationary factors made up another 15%.

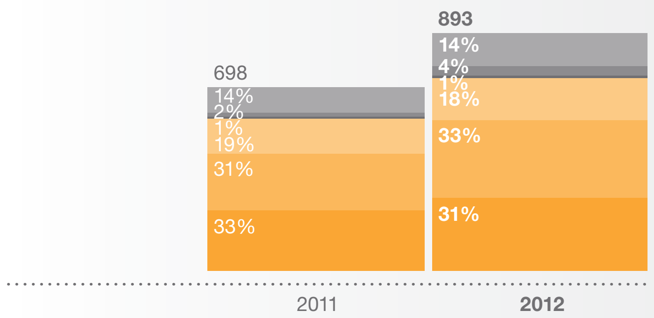
The cost of services, consumables and spare parts grew by 37% and 21% respectively, mainly affected by mining and processing volume increases (14% and 12% respectively). Specific cost increases in 2012 compared to 2011 were related to increased share of remote mines in total production as a result of full ramp-up at Omolon and Albazino, both with higher logistics and power generation costs. Specific cost increases include ore haulage costs at Omolon and concentrate transportation costs at Albazino, and increased underground development at Dukat hub (53% year-on-year).

The total cost of labour within cash operating costs in 2012 was US$157 million, a 21% increase. This mainly stemmed from growth in the average number of employees directly involved in production by 8%, as well as a review of the staff pay levels which are linked to the Russian CPI at our operating mines (6.6% in 2012).

Cost of purchase of ore from third parties increased by 94% to US$33 million in 2012, mainly as a result of increased volumes of ore purchases at Varvara, allowing us to leverage the existing processing capacity at the leach circuit and contribute additional margin.

**Cash operating cost structure** (US$ million)

Consumables and spare parts ■ Services ■ Labour
■ Other expenses ■ Purchase of ore from third party ■ Mining tax




Mining tax represents a consistent 14% share of total cost of sales in both 2012 and 2011 and increased by 25% to US$121 million driven by revenue growth.

Depreciation and depletion was US$202 million, up 44% year-on-year, as the Group continued to commission new mining and processing assets, most importantly at Albazino, Omolon and Amursk POX. Out of US$202 million, an amount of US$51 million of the depreciation charges was included in metal inventory, mainly in ore and concentrate stockpiles at Omolon and Albazino, respectively.

In 2012, our metal inventories increased by US$224 million. This increase was mainly represented by concentrate produced at Albazino (awaiting processing at Amursk POX and further sales to off-takers), and ore stockpiled at Omolon (mainly represented by low-grade heap leach ore at Birkachan and Sopka) and Khakanja (ore from Avlayakan and Ozerny awaiting transportation for further processing at Khakanja plant). The concentrate stockpile is set to reduce as soon as the Amursk POX plant is fully ramped up, expected in 2013. The drawdown of low-grade ore at Omolon is expected as soon as heap leaching is started in 2013 at Birkachan and in 2016 at Sopka. Ore stockpiles at Avlayakan and Ozerny are largely seasonal – with Avlayakan ore transported during summer navigation and Ozerny ore transported in the beginning of the calendar year by winter road.

## General, administrative and selling expenses

| (US$ million) | 2012 | 2011 | % change |
|---|---|---|---|
| Labour | 92 | 72 | +28% |
| Share-based compensation | 54 | 57 | -5% |
| Services | 18 | 15 | +26% |
| Depreciation | 4 | 4 | +8% |
| Other | 12 | 12 | +1% |
| **Total** | 182 | 160 | +14% |

General, administrative and selling expenses grew by 14% year-on-year from US$160 million to US$182 million. The key component of the increase was labour costs of US$92 million, with the growth driven mainly by scheduled increases in administrative personnel at the new mines, including Amursk POX and Mayskoye, and as a result of regular salary reviews.

## Other expenses

| (US$ million) | 2012 | 2011 | % change |
|---|---|---|---|
| Taxes, other than income tax | 14 | 11 | +26% |
| Additional mining taxes, penalties and accrued interest | 66 | – | n/a |
| Listing expenses | – | 10 | -100% |
| Exploration expenses | 33 | 30 | +9% |
| Social payments | 11 | 9 | +21% |
| Housing and communal services | 8 | 6 | +24% |
| Loss on disposal of property, plant and equipment | 9 | 6 | +50% |
| Bad debt allowance | 0 | (1) | -123% |
| Other expenses | 13 | 7 | +77% |
| **Total** | 154 | 78 | +96% |

Other expenses grew from US$78 million in 2011 to US$154 million in 2012. The increase was attributed to additional mining tax charges for prior years (including penalties and accrued interest) of US$66 million recorded by the Company in relation to several tax claims by the Russian tax authorities after relevant court decisions were made. For more information refer to page 71 and Note 13 of the consolidated unaudited financial statements. Other components of other expenses demonstrated moderate increases on the back of increased production, a larger asset base and general cost inflation.

# Strong financial performance

continued

### Total cash costs by mine

| Total cash costs per gold equivalent ounce[1] | Cash cost per GE ounce, US$/oz 2012 | 2011 | % change | Gold equivalent sold, Koz (silver for Dukat) 2012 | 2011 | % change |
|---|---|---|---|---|---|---|
| Dukat (silver equivalent) | **12.1** | 14.0 | **-13%** | **22,565** | 15,546 | **+45%** |
| Voro | **559** | 553 | **+1%** | **161** | 176 | **-8%** |
| Khakanja | **614** | 672 | **-9%** | **180** | 138 | **+31%** |
| Varvara | **804** | 747 | **+8%** | **135** | 120 | **+12%** |
| **Total – mature operations** | **655** | 642 | **+2%** | **890** | 774 | **+15%** |
| Omolon | **918** | 1,481 | **-38%** | **177** | 46 | **+285%** |
| Albazino | **767** | 1,018 | **-25%** | **69** | 31 | **+119%** |
| **Total – new operations** | **876** | 1,294 | **-32%** | **246** | 77 | **+218%** |
| **Total** | **703** | 701 | **0%** | **1,136** | 851 | **+33%** |

[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) and general, administrative and selling expenses of the operating assets. Gold equivalent sales volume calculation is 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.

In 2012 the Company demonstrated strong cost performance on the back of solid production results and successful ramp-up of the new mines, Omolon and Albazino. Total cash costs per gold equivalent ounce sold (TCC) in 2012 were US$703/GE oz, and remained almost unchanged compared to 2011, demonstrating the Company's strong focus on cost control despite the external pressures.

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

### Reconciliation of TCC movements

| | US$/oz | % change |
|---|---|---|
| **Total cash cost per gold equivalent ounce – 2011** | **701** | |
| Domestic inflation | 23 | **+3%** |
| US$ rate change | (37) | **-5%** |
| Mining tax change – Au&Ag price | 2 | **+0%** |
| Au/Ag ratio change | 59 | **+8%** |
| Change in average grade processed by mine | (19) | **-3%** |
| Change in recovery rate | (18) | **-3%** |
| Change in share of sales between mines[2] | 15 | **+2%** |
| Other | (24) | **-3%** |
| **Total cash cost per gold equivalent ounce – 2012** | **703** | **0%** |

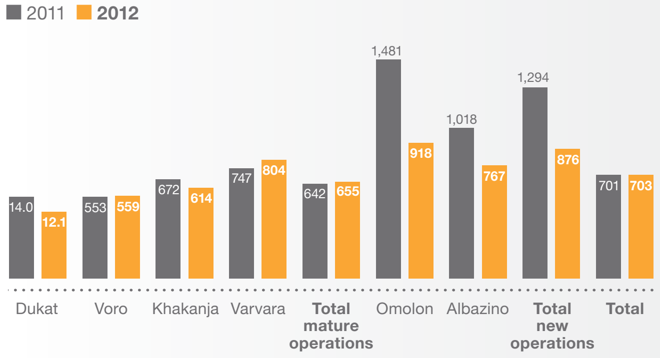
[2] Effect of mix change between mines with different cost levels.

Total cash cost by mine:

- Dukat's total cash cost per silver equivalent ounce sold decreased by 13% year-on-year to US$12.1/AgEq oz. Sustainable improvement in both grades and recoveries, resulting in 13% growth in silver production, more than offset significant increases in underground development, and increases in electricity tariff rates and other external factors.
- At Voro, TCC in 2012 was US$559/GE oz, just 1% above the 2011 level of US$553/GE oz. The robust operating performance at Voro, with stable grades, throughput and recoveries at both heap leach and CIP circuits, fully offset the external cost inflation drivers.



**Total cash costs** (US$/GE oz)
(per silver equivalent ounce sold for Dukat, gold equivalent ounce sold for all operations and totals)






- Khakanja's TCC was US$614/GE oz, a 9% decrease year-on-year. This superior cost performance was mainly driven by significant improvement in average grade processed (from 7.4 g/t to 9.4 g/t year-on-year) as the plant treated higher gold grade ore from Yurievskoye and high silver grade ore from deep levels of Khakanja's pit 3. Due to scheduled reduction in average grade processed in 2013 (completion of mining at Yurievskoye, pushback at pit 1 at the main Khakanja deposit), and higher share of remote mines in ore processed (Avlayakan and Ozerny), we expect cost levels at Khakanja in 2013 are set to increase over 2011 levels.
- At Varvara, TCC was US$804/GE oz, growing by 8% year-on-year. The growth was mainly driven by increased purchases of third-party ore combined with reduction of copper production due to scheduled grade decline.
- At Omolon, total cash costs reduced by a notable 38% to US$918/GE oz as the processing hub reached its design capacity and processed significant volumes of high-grade ore from Sopka. However, cost levels at Omolon remained above average for the Group's assets due to a) higher stripping ratios in 2012, driven by massive stripping campaigns at Birkachan and Sopka deposits and by commencement of mining at Tsokol; b) reallocation of costs from low-grade stockpiles to higher-grade current feed at Sopka and Birkachan as a result of refinements in cost allocation models undertaken by the year-end.
- At Albazino/Amursk hub, TCC was US$767/GE oz, which is 25% lower compared to 2011, as the mine and concentrator has ramped up to the design throughput, combined with improved recoveries and grades. However, due to slower than expected ramp-up of the Amursk POX, the Company had to reallocate significant volumes of concentrate produced to third-party off-takers in China, resulting in total cash cost level which is higher than the average expected over the life of mine. We expect further significant improvement in total cash costs at Albazino/Amursk in 2013 upon full ramp-up of the Amursk POX to its design throughput and recovery.

### All-in cash costs

| | 2012 US$m | 2012 US$/GE oz | 2011 US$m | 2011 US$/GE oz | % change For US$/GE oz |
|---|---|---|---|---|---|
| **Total cash costs** | **798** | **703** | 596 | 701 | **0%** |
| SG&A and other operating expenses not included in TCC | **143** | **126** | 107 | 125 | **+1%** |
| Capital expenditure excluding new projects | **179** | **157** | 278 | 327 | **-52%** |
| Exploration expenditure (capital and current) | **68** | **60** | 66 | 78 | **-23%** |
| **All-in cash costs** | **1,189** | **1,047** | 1,048 | 1,231 | **-15%** |

Polymetal, in line with the industry best practices, will from now on report an additional cost metric – 'all-in cash costs' – which is intended to include all ongoing operating and capital expenditure of the Group (excluding only capital expenditure on separate growth projects). We believe that all-in cash costs are an important metric to analyse the cash flow generation capacity in our capital-intensive sector.

All-in cash costs are comprised of:

- total cash costs (current conventional definition);
- 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 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 cash costs in 2012 and 2011 include total capital expenditure for Omolon and Albazino from the start of commercial production at those mines, despite some of the capital spending being related to plant expansion and/or completion of the major construction projects. This approach was taken to ensure transparency of the all-in cash costs calculation.

# Strong financial performance
continued

All-in cash costs in 2012 were US$1,047/GE oz, a 15% decrease year-on-year, driven mostly by reduction in capital expenditure at our operating mines and stable total cash costs.

### Adjusted EBITDA and EBITDA margin[1]

Reconciliation of adjusted EBITDA

| (US$ million) | 2012 | 2011 | % change |
|---|---|---|---|
| Net earnings | 401 | 290 | +38% |
| Finance cost (net) | 22 | 25 | -10% |
| Income tax expense | 216 | 119 | +82% |
| Depreciation and depletion | 156 | 97 | +62% |
| **EBITDA** | 796 | 530 | +50% |
| Share-based compensation | 54 | 57 | -5% |
| Exchange (gains)/losses | (7) | 14 | -149% |
| Listing expenses | – | 10 | -100% |
| Change in fair value of contingent liability | 5 | 7 | -31% |
| Rehabilitation costs | 4 | 4 | +8% |
| Write-down of inventory | 11 | 6 | +78% |
| Change in fair value of derivatives | – | 2 | -100% |
| Gain on acquisition of remaining interest in joint venture and (loss)/profit on disposal of subsidiaries | (10) | (5) | +110% |
| Additional mining taxes, penalties and accrued interest[2] | 66 | – | n/a |
| **Adjusted EBITDA** | 918 | 624 | +47% |
| **Adjusted EBITDA margin** | 50% | 47% | +3pp |

Adjusted EBITDA by segment

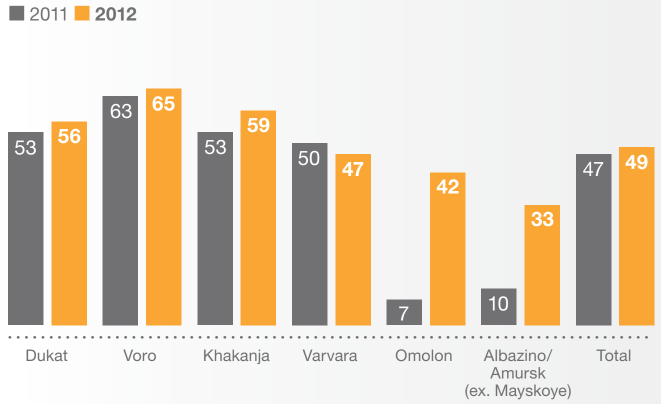
| (US$ million) | 2012 | 2011 | % change |
|---|---|---|---|
| Dukat | 378 | 282 | +34% |
| Voro | 174 | 175 | -1% |
| Khakanja | 178 | 113 | +57% |
| Varvara | 100 | 91 | +10% |
| Omolon | 124 | 5 | NM |
| Amursk hub (including Albazino and Mayskoye) | 23 | (6) | NM |
| Corporate and other and intersegment operations | (59) | (36) | +61% |
| **Total** | 918 | 624 | +47% |

[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, additional mining taxes, penalties and accrued interest, 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 sum to the total shown.

[2] These additional charges principally relate to interest and penalties on lost tax litigation and cumulative mineral extraction tax exposures which do not meet the definition of a tax for accounting purposes. See page 71.

In 2012, adjusted EBITDA grew by 47% to US$918 million, ahead of revenue growth, with adjusted EBITDA margin reaching 50%. The key growth and profitability drivers were production growth, reduction of cost levels at our growth projects, Omolon and Albazino, and excellent operating and cost performance at Dukat and Khakanja. Adjusted EBITDA at Dukat grew by 34% to US$378 million, at Khakanja by 57% to US$178 million. Omolon and Amursk POX hub (excluding Mayskoye) contributed US$124 million and US$35 million, respectively.

**Adjusted EBITDA margin** (%)




### Other income statement items

Foreign exchange differences in 2012 resulted in a net gain of US$7 million versus a US$13 million loss in 2011. These gains/losses are unrealised non-cash items and represent the appreciation/depreciation of the Group's mostly US Dollar denominated borrowings against the Russian Rouble, the functional currency of the Group. The US$60 million non-cash net foreign exchange loss recorded in 1H 2012 due to devaluation of the Russian Rouble in May-June 2012 was more than offset by subsequent appreciation in the second half of the year.

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, the Company believes that the underlying matching of revenue cash flows against debt repayments and related interest represents an economically effective hedging strategy.

A US$10 million net gain on acquisition and disposal of subsidiaries was recorded in 2012 mainly as a result of transactions with the Group's holding in Amikan Holding Limited, which owns the Veduga gold deposit in the Krasnoyarsk Region of the Russian Federation. The Group has initially consolidated 100% holding in Amikan, previously held in joint venture with AngloGold Ashanti Holdings, and then formed a new entity, Polygon Gold Inc., in which it currently owns 42.6%.

### Additional mining and profit tax charges and provisions

In 2012, the Group lost two court cases in respect of its tax litigations related to prior periods at Dukat (Magadan Silver) and Varvara, resulting in US$29.5 million and US$23.1 million of additional taxes paid during the year, respectively.

Further, there is an ongoing litigation at Dukat (CJSC Magadan Silver) where the application of technical loss limits applied in the calculation of Mineral Extraction Tax has been challenged by the tax authorities. The Group assesses the probability of additional taxes to be accrued as high and accordingly has created provisions for the tax exposure in the amount of US$9.2 million.

None of the above provisions or additional taxes is expected to be recurring and/or to significantly affect the Group's future effective tax rate.

The Group has also provided for a number of other tax exposures in the amount of US$36.6 million in respect of other taxes it considers likely to be payable, and US$17.1 million in respect of excess profit tax in Kazakhstan.

The additional taxes paid or accrued as at 31 December 2012 are summarised below:

| | Magadan Silver case | Varvara case | Technical loss limits | Excess profit taxes in Kazakhstan | Other tax exposures | Total |
|---|---|---|---|---|---|---|
| **Total additional tax exposures** | 29.5 | 23.1 | 9.2 | 17.1 | 36.6 | 115.5 |
| Settled during 2012 | (29.5) | (23.1) | – | – | – | (52.6) |
| Provisions for tax exposures made at 31 December 2012 | – | – | 9.2 | 17.1 | 36.6 | 62.9 |
| **Total additional tax exposures:** | 29.5 | 23.1 | 9.2 | 17.1 | 36.6 | 115.5 |
| included in other operating expenses | 15.0 | 10.1 | 9.2 | – | 31.6 | 65.9 |
| included in income tax expense | 14.5 | 13.0 | – | 17.1 | 5.0 | 49.6 |

# Strong financial performance

continued

### Net earnings, earnings per share and dividends

Profit before tax in 2012 was US$617 million, up 51% compared 2011, exceeding the adjusted EBITDA growth mostly due to positive impact of the foreign exchange gains/losses. The Group's effective income tax rate in 2012 was 35%, up from 29% in 2011. This is mainly due to the fact that it includes US$49.6 million of additional profit tax charges (see page 71). The effective tax rate for the reporting period which excludes additional mining and income tax charges (see page 71), was 24.3%. The difference between this rate and the statutory profit tax rate of 20% arises mainly from non-deductible expenses, most importantly share-based compensation (a non-cash item, US$54 million in 2012).

As a result, net profit for the year in 2012 was US$401 million, up 38% from the US$290 million in 2011. Basic earnings per share were US$1.03, up 30% year-on-year. Return on equity (ROE) and return on capital employed (ROCE) increased to 20% and 22% in 2012 from 18% and 18% in 2011, respectively, demonstrating the increased capital discipline and operating efficiency of the Group.

In accordance with the new dividend policy (revised in October 2012) the Board proposes a final dividend of US$119 million, or US$0.31 per share, representing 30% of the Group's net profit for the year attributable to the equity holders of the Company. In addition to that, a special dividend of US$191 million, or US$0.50 per share, was declared in December 2012 and paid in January 2013. With the two dividend payments taken together, the Group's payout ratio[1] increases dramatically from 26% in 2011 to 79% in 2012.

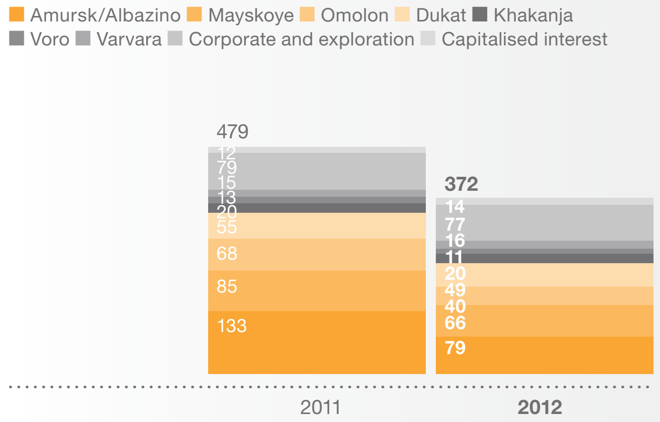
[1] Dividend payout ratio is total dividends declared in relation to the financial period divided by net profit attributable to equity holders of the Company.

### Capital expenditure

| (US$ million) | 2012 | 2011 | % change |
|---|---|---|---|
| Amursk/Albazino | 79 | 133 | -41% |
| Mayskoye | 66 | 85 | -22% |
| Omolon | 40 | 68 | -41% |
| Dukat | 49 | 55 | -10% |
| Khakanja | 20 | 20 | -1% |
| Voro | 11 | 13 | -10% |
| Varvara | 16 | 15 | +6% |
| Corporate and exploration | 77 | 79 | -3% |
| Capitalised interest | 14 | 12 | +16% |
| **Total capital expenditure[2]** | **372** | 479 | **-22%** |

[2] Total capital expenditure includes amounts payable at the end of the period. On a cash basis, capital expenditure was US$351 million in 2012 (2011: US$462 million).

**Capital expenditure** (US$ million)




In 2012, total capital expenditure was US$372 million, down 22% year-on-year which reflects the completion of several major Group investment projects in 2011, including construction of Albazino and Amursk POX and expansion at Omolon. The only continuing major project in 2012 was the construction of Mayskoye which is on track to be completed in April 2013. Capital expenditure exceeded the Group's original target, mainly due to accelerated development at the Group's new growth projects (Albazino-2, Kutyn, Svetloye), and additional expenses incurred during ramp-up of the Amursk POX plant.

The major capital expenditure items in 2012 were:

- US$79 million were invested at Albazino/Amursk, most importantly in commissioning activities at POX (60% of total), and drilling and underground exploration drift at the newly discovered ore bodies in the licence area (Albazino-2) (27% of total), and infrastructure development at Albazino (all-year round access road, explosives plant etc.).
- US$66 million was spent on construction of the processing plant and underground mine at Mayskoye, where the Group is targeting completion in April 2013. The investments in 2012 were concentrated on installation of equipment at the site (mills, ventilation, piping, power substation etc.), while the remaining activities in 2013 only include air-lifting remaining auxiliary equipment and its installation.
- US$40 million was invested in the Omolon hub operations. The expenditure in 2012 mainly represented expansion of the hub's mining fleet with growing mining and stripping volumes at Birkachan and Sopka (46% of total spending) and development of Tsokol mine (4% of total). In addition, the construction of an all-year-round heap leaching facility at Birkachan commenced in 2012 (19% of total).
- Capital expenditure at Dukat was US$49 million, a 10% decrease. The expenditure, apart from mining fleet upgrades and maintenance capex, mainly comprises expansion of underground operations (development at Dukat, Lunnoye, Goltsovoye totalling approximately 20% of capital expenditure) and maintenance at the Omsukchan concentrator (approximately 14%).
- US$20 million was invested in the Khakanja hub, representing mainly development of a new mine at Ozerny where mining started in Q4 2012.
- Voro and Varvara's capital expenditures in 2012 were less significant and mainly represented routine maintenance investment and upgrades to the mining fleet and the total amount remained slightly below 2011 level at US$27 million.
- The Company continues to actively invest in greenfield and brownfield exploration (included in Corporate segment). Capital expenditure on exploration in 2012 was US$68 million, and focused on key advanced targets such as the expansion of Albazino (US$8 million in 2012), in-fill drilling at Mayskoye prior to start of stoping, and development of Kutyn (US$4 million) and Svetloye (US$5 million), our two greenfield projects with highest potential.
- Total capital expenditure in 2012 includes US$14 million of capitalised interest (2011: US$12 million).
- In addition to capital expenditure, additions to property, plant and equipment in the financial statements also include asset purchases during the year in the total amount of US$12 million, the most significant being the acquisition of Svetlobor platinum project (see page 26).

# Strong financial performance

continued



### Cash flows

| (US$ million) | 2012 | 2011 | % change |
|---|---|---|---|
| Operating cash flows before changes in working capital | 710 | 477 | +49% |
| Changes in working capital | (215) | (265) | -19% |
| **Total operating cash flows** | 496 | 212 | +134% |
| Capital expenditure | (351) | (462) | -24% |
| Other | (6) | (11) | -44% |
| **Investing cash flows** | (357) | (472) | -24% |
| **Financing cash flows** | | | |
| Net (decrease)/increase in gross debt | (149) | 197 | -176% |
| Proceeds from the IPO | – | 763 | – |
| MTO and squeeze-out obligation repayment | (569) | – | n/a |
| Dividends paid | (77) | – | n/a |
| Other | – | (52) | -100% |
| **Total financing cash flows** | (794) | 907 | -188% |
| **Net (decrease)/increase in cash and cash equivalents** | (655) | 647 | n/a |
| Cash and cash equivalents at the beginning of the year | 659 | 11 | +5859% |
| Effect of foreign exchange rate changes on cash and cash equivalents | 15 | 1 | +2433% |
| **Cash and cash equivalents at the end of the year** | 19 | 659 | -97% |

Operating cash flows in 2012 strengthened dramatically, supported by excellent operating results and consequent EBITDA growth. Operating cash flows before changes in working capital grew 49% year-on-year to US$710 million. Net operating cash flows more than doubled and comprised US$496 million, as a result of decreasing demand for working capital in 2012 (19% lower year-on-year).

Investing cash flows' dynamics were mainly driven by decreasing capital expenditure (down 24% from US$462 million in 2011 to US$351 million in 2012) investment in the major growth projects (Omolon, Albazino and Amursk POX) is completing. As a result, free cash flow[1] was positive at US$139 million in 2012 compared to a negative of US$260 million in 2011.

Total cash and cash equivalents decreased from US$659 million as at 31 December 2011 to US$19 million as at 31 December 2012 as a result of the following:

- settlement of the MTO obligation and further buyouts of the remaining shares in JSC Polymetal, totalling US$569 million;
- inaugural dividend payment of US$77 million in June 2012; and
- net repayment of borrowings of US$149 million during 2012.

### Balance sheet

In 2012, the Company recorded the following significant movements of key balance sheet items:

- net increase in current inventories of US$261 million incurred mainly due to growth of low-grade ore inventories at Omolon and concentrate inventories at Albazino (awaiting further processing at the POX facility or sale to off-taker);
- net increase in current payables of US$205 million, mainly due to recognition of a dividend payment liability for special dividends of US$191 million declared in December 2012 and the subsequently paid in January 2013; and
- full settlement of the MTO obligation (US$534 million as at 31 December 2011) and additional repurchases of shares in JSC Polymetal of US$27 million during 2012, resulting in reduction of non-controlling interest and share purchase obligation balances within equity, and a corresponding net decrease in retained earnings balance attributable to the equity holders of the Company.

[1] Free cash flow is defined as total operating cash flows less investing cash flows.

### Liquidity and funding

| Net debt | 31 December 2012 | 31 December 2011 | % change |
|---|---|---|---|
| Short-term debt and current portion of long-term debt | 244 | 348 | -30% |
| MTO/squeeze-out obligation | – | 535 | -100% |
| Dividends payable | 191 | – | n/a |
| Long-term debt | 620 | 655 | -5% |
| **Gross debt** | 1,055 | 1,538 | -31% |
| Less: cash and cash equivalents | 19 | 659 | -97% |
| **Net debt** | 1,037 | 879 | +18% |
| **Net debt/adjusted EBITDA** | 1.1 | 1.4 | -20% |

The Group continues to maintain a safe liquidity and funding profile, underpinned by strong operating cash flows and robust short-term and long-term liquidity management policies.

The Group's net debt stood at US$1,037 million as of 31 December 2012, representing a net debt/adjusted EBITDA ratio of 1.1, down 20% from 1.4 as at 31 December 2011. The decrease was a result of strong growth in operating cash flows combined with completion of a major investment cycle and a corresponding decrease in capital expenditure.

The Group continues to focus on building a healthy debt profile, which is comfortable both from the liquidity and cost standpoints. The majority of our borrowings (59%) were long-term as of 31 December 2012, while the average cost of debt remained at a low 3.1% in 2012 (2011: 3.2%), supported by low base interest rates and our ability to negotiate competitive premiums on the back of the improved financial position of the Company and our excellent credit history.

### 2013 outlook

The financial performance in 2013 will be driven by the following key factors:

- the Company is on track to deliver on its 1.2 Moz of gold equivalent production guidance;
- our revenue base will be dependent on the gold and silver price dynamics, currently demonstrating significant volatility in response to uncertainty in the global financial markets;
- in the cost base, while the appreciation of the Russian rouble may have an adverse effect, the continued increase in operating efficiency and throughput at the new mines, most importantly Albazino/Amursk, will serve as a key internal factor supporting the current cost levels; and
- low capital requirements due to completion of all current major investment projects, and resulting significant free cash flow generation.

# Effective risk identification and management

## Managing our risks well 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 an appropriate response to each risk.

### Risk management process

Polymetal's risk management process is designed to minimise the potential threats to achieving our strategic objectives. The 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
- input 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 overall process to identify and assess business risks and 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; and
- the timeliness of, and reports on, the effectiveness of corrective action taken by management.

### Risk identification

An awareness of risk is embedded within the Group and is grounded in our strong ethical values and proactive 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, environmental 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 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 impact (consequences) the event or events may have on achieving objectives and the likelihood (probability) of the event (see table on top of page 77). 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 costs and benefits. A response is then evaluated, that brings 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 are used to re-evaluate and adjust controls in response to changes in Company's objectives, 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.






## Impact/financial consequences

| >US$50m | US$50m-US$10m | US$10m-US$5m | US$5m-US$0.1m | <US$0.1m |
|---|---|---|---|---|
| **Catastrophic**<br>■ Significant impact on strategy or operational activities<br>■ Multiple significant stakeholder concern | **Major**<br>■ Major impact on strategy or operational activities<br>■ Major stakeholder concern | **Moderate**<br>■ Serious impact on strategy or operational activities<br>■ Moderate stakeholder concern | **Insignificant**<br>■ Minimal impact on strategy or operational activities<br>■ Low stakeholder concern | **Minor**<br>■ Minor impact on strategy or operational activities<br>■ Limited stakeholder concern |

## Likelihood/probability

| Almost certain | Likely | Possible | Unlikely | Rare |
|---|---|---|---|---|
| Occurs one or more times per year and is likely to reoccur within one year | Occurs less than once a year and is likely to reoccur within five years | Could occur or may reoccur at some point within 10 years | has happened at some time or could happen within 20 years | Is highly unlikely that it could occur in the next 20 years |

**Residual risk level**
High Medium Low

| Risk category | Risk description and potential effect | Risk response |
|---|---|---|
| **1** Market risk | Gold and silver price volatility can result in material and adverse movement in the Group's operating results, revenues and cash flows.<br><br>Movement in gold equivalent price for all metals produced of 10% will cause EBITDA to increase/decrease by approximately 25% in accordance with Group budgeted figures for 2013. | The Group monitors gold and silver prices on an ongoing basis.<br><br>The Group has decided not to hedge gold prices in order to maximise the benefits from the positive price trends. In order to manage the risk of potential decline in the metal prices, the Group uses price conservative estimates for budgeting purposes (usually below spot prices by 10-20%) and actively manages cut-off grades and medium-term mine planning in response to changes in metal prices |
| **2** Production risks | The risk of failure to meet the planned production programme.<br><br>Failure to meet production targets may adversely affect operating performance and financial results of the Group. | 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's engineering team senior management. |
| **2.1** Production risk – low grade/potential dilution of ore | The risk of lower than expected metal grade or dilution is caused by complex mining and geological conditions, mainly at underground mines. | An approved production programme includes increased volume of operational prospecting works, such as in-fill drilling and grade control sampling. |
| **2.2** Production risk – ore and concentrate shipping | The Company operates in remote locations that require complex and significant transportation of ore and gold/silver concentrates, most of which is conducted by third party contractors. Production targets may not be reached if any element of the logistics chain is disrupted. In 2012, some ore losses took place, in transit from remote sites via sea routes. | 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. |
| **2.3** Production risk – supply chain risks | 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. |
| **2.4** Production risk – low recovery rate | Recoveries at the Group's processing plants may not reach planned levels due to complex technological properties of ore processed. | 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.<br><br>The use of such methods at the Group's production plants in 2012 was deemed effective. It allows the Company to reduce this type of risk to medium. |
| **2.5** Production risk – construction and renovation | Failure to meet return required from the major capital expenditure projects, such as building new mines and processing facilities or production capacity increase/renovation at existing mines, as a result of failure to meet project delivery timeline and budgets which can adversely affect the Group's financial results, cash flow position and increase capital costs.<br><br>Most significant ongoing projects include construction of Mayskoye concentrator. | 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.<br><br>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.<br><br>On complex projects, such as construction of the Amursk POX plant, the Group employs world class consultants with recognised international experience. |

# Effective risk identification and management

continued

**Residual risk level**
High ■ Medium ■ Low ■

| Risk category | Risk description and potential effect | Risk response | Residual risk level |
|---|---|---|---|
| **3** 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.<br><br>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.<br><br>The Group's financial and legal teams monitor current legislation and proposed changes and incorporate these into the practice.<br><br>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.<br><br>The Group takes into account the results of tax audits and court rulings when interpreting taxation rules and determining future tax positions. | Medium |
| **4** Taxation risk | 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.<br><br>The taxation risk level correlates with the legal and political risks levels. | 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.<br><br>Given the prevailing practice accepted by arbitration tribunals when deciding on certain cases in tax disputes in 2012, as well as particular outcomes of tax disputes involving Kazakh and Russian subsidiaries of the Group, the tax risk is assessed as 'High'.<br><br>The consolidated financial statements reflect provisions booked in connection with the Company's evaluation of tax risks.<br><br>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.) | High |
| **5** Mergers and acquisitions | The Group invests considerable amounts in gold mining assets and operations in the Russian Federation 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.<br><br>Failure to deliver expected benefits from an acquisition can results 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.<br><br>Board and/or shareholder approval is required for any acquisition. | Medium |
| **6** Environmental risks | Environmental damage may arise from operations, including air and water pollution from toxic waste. Waste storage and recycling is subject to government regulation. Potential impacts include fines and penalties, statutory liability for environmental rehabilitation and other financial consequences that may be significant. | The Group has implemented a number of initiatives to monitor and limit the impact of its operations on the environment. These include external expert assessment of pollution generated and adoption of industry best practice on the corporate level policies and procedures. Refer to pages 80-83 of this report. | Medium |



**Residual risk level**
High ■ Medium ■ Low ■

| Risk category | Risk description and potential effect | Risk response | Residual risk level |
|---|---|---|---|
| **7** 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. 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.<br><br>We aim to maintain open working relationships with local authorities in the countries where we operate. | Medium |
| **8** Currency risk | Currency risk arises as the Group's revenue is linked to London Bullion Market Association (LBMA) gold and silver fixings and denominated in US Dollars. The expenses are mostly incurred and denominated in Russian Roubles. | Natural hedging is used to reduce the risk exposure: revenue is matched with US Dollar denominated debt.<br><br>Flexible budgeting is used to monitor the effect of exchange rate fluctuations on the Group's financial results. | Medium |
| **9** Human resources | 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 delay in new projects.<br><br>Lack of skilled and knowledgeable staff at remote locations may occur due to extreme weather conditions. | A working conditions improvement programme is in place.<br><br>Remuneration policies are designed to incentivise, motivate and retain key employees.<br><br>There is an increased focus on health and safety – refer to page 84 of this report and there is active promotion of a positive corporate culture within the Group. | Medium |
| **10** Liquidity risk | Inability to raise sufficient funds to meet current operating or ongoing financial needs, to develop new projects and growth. | 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. | Medium |
| **11** Failure to meet exploration objectives | Exploration and development are capital- and time-intensive activities and may involve a high degree of risk. They are, however, necessary for the future growth. Failure to discover new reserves of sufficient magnitude could adversely affect the Group's medium and long-term growth prospects. | The Group invests considerable amounts in focused exploration projects to obtain sufficient information about the quantity and quality of expected reserves and to estimate expected cash flows. The Group's team of geologists and engineering specialists has a track record of successful greenfield and brownfield exploration leading to subsequent development of exploration fields into commercial production. | Medium |
| **12** Interest rates | The Group is exposed to interest rate risk as significant part of the Group's debt portfolio comprises 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 rate rather than hedge it 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 on going economic situation suggest this may be profitable. | Low |
| **13** Inflation risk | The Group is exposed to potentially high rates of inflation in the Russian Federation and Kazakhstan. Higher rates of inflation may increase future operating costs and have a negative impact on financial results if there is no related depreciation of the local currency against 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. | Low |

# Sustainability – ensuring progress

## Our approach to sustainability

**We regard sustainability as an essential element of our activities. It is an investment in society as well as in our own future. That's why we firmly believe that anchoring sustainability as part of our business strategy will lead to economic, environmental and social progress.**

Sustainability is the ultimate responsibility of our Group CEO, Vitaly Nesis. To help him in this, a Technical Council is convened monthly to monitor, among other issues, performance against our sustainability priorities and implementation of associated policies across all of the operating companies. Our heads of department report into the Council, covering employees, community outreach, health and safety and environmental management.

**The UN Global Compact**

The overall sustainability strategy is designed to meet the requirements of the UN Global Compact. This voluntary international standard commits affiliated companies to comply with ten principles in the areas of human rights, labour, environment and anti-corruption. Polymetal became a signatory in 2009 and is an active member of the UN Global Compact Network Russia.

The UN Global Compact and our corporate values define the focus for more detailed policies and associated management systems, all of which are defined at Group level and implemented through our head office and the subsidiary companies. Ongoing monitoring and regular audit ensures that performance is measured against the relevant regulatory and Company internal requirements.

**Our sustainability focus for 2013-2014**

Our sustainability focus is influenced by those issues that present a risk to our business performance and those that are deemed important by our stakeholders. While our focus for 2013-14 is defined, our approach is flexible and responsive to changes in the policy and financial environment, developments in best practice regarding employee relations and safety and new or heightened concerns for communities that influence our investments.

Through our risk management and stakeholder engagement programmes we have identified five key sustainability priorities, which are material for the business:

- to maintain positive working relationships with local government, NGOs and communities by enhancing our partnership agreements and increasing the effectiveness of our investments;
- to attract and retain high quality people and ensure and improve the quality and terms of their employment;
- to further improve our health and safety systems through more sophisticated visualisation, risk management and more rigorous monitoring, as well as to enrol it to our wide supplier network;
- gaining third party certification for our environmental management system and embedding the system into production operations; and
- to enhance the rigour and transparency in our communications with suppliers, customers and partners.



## Investing in sustainability

New community buildings at Ozerny, Khabarovsk Territory

Environmental focus in the Sverdlovsk Region (Urals)

**Assessing risks**

The CEO, Board of Directors and Technical Council, aided by the Internal Audit Department, identify risks to the business and associated management operations. In doing so, they are informed by interaction with government agencies, the financial community, employees, local communities, NGOs, customers and suppliers. Our risk management process is defined and monitored by the Audit and Risk Committee of the Board.

**Stakeholder engagement**

Our stakeholders help to define sustainability priorities and provide a vital check on how we are performing. We are therefore open, honest and clear in the way we communicate through many channels, including corporate reporting, Company news, briefings, hotlines and digital technology.

We have identified five main stakeholder groups:

**Shareholders and investors**

They are interested in governance, strategy and sustainable financial returns.

**Employees**

They are interested in careers, benefits, health and safety, corporate reputation and clear lines of communication.

**Partners and suppliers**

They are interested in fair dealing, openness and transparency.

**Government**

They are interested in compliance, transparency and economic development.

**Communities and NGOs**

They are interested in directing investments, openness and transparency, economic opportunity and long-term relationships.

For more details on our sustainability performance, including compliance with GRI recommendations and meeting level B of reporting, please refer to our Sustainability Report 2012.

## Environmental responsibility

**The Group operates complex processes on a large scale in remote locations, some of which are home to indigenous people. These processes create waste and emissions, including toxic substances, therefore we operate a management system to reduce the associated impacts while complying with national and international Government regulations.**

We operate a Group-wide environmental management system that is planned and co-ordinated by our Deputy Chief Operating Officer and Director for Environment, Health and Safety from our headquarters in St. Petersburg. The system is based on international best practice, applies across all Group businesses and complies with relevant Russian and Kazakh legislation. One of our priorities for 2012 was to prepare for independent certification to ISO 14001. This certification was granted in March 2013, after an external audit by Bureau Veritas, an independent environmental assurance firm. The environmental management system is also subject to regular internal review.

The core of the system is an environmental policy, which is available at www.polymetalinternational.com. This focuses on the use of best practice, continuous improvement, risk reduction, compliance and issues management. There is a strong focus on incident and emergency control, use of the most environmentally friendly materials and resource efficiency.

Each of our subsidiary companies has its own environmental team which runs and monitors the system and provides monthly performance reports to the Group. Air quality, surface water and ground water samples collected through the system are analysed at laboratories certified to international standards. Our in-house engineering operation, Polymetal Engineering, employs more than 100 specialists in the design and construction of mines and processing facilities. All ecological aspects are taken into account at the stage when new facilities are being designed.

# Sustainability – ensuring progress

continued

### Auditing and compliance

Regular audit and monitoring activities are built into the management system and comply with the requirements of relevant Russian and Kazakh legislation. External audits are undertaken by state supervisory authorities such as the Russian Federal Service for Supervision of Natural Resource Usage.

### Employee environmental training

Our Human Resources department annually reviews environmental training opportunities at national and international level. An in-house training programme also supplements ongoing professional development with site visits and attendance at conferences. Each year, our environmental managers attend the All-Russian Industrial Ecologists' Seminar for an update on environmental legislation. Specific courses attended by environmental specialists include those covering environmental management systems, hazardous waste, land reclamation, water quality assessment and environmental security.

### Investment in environmental protection

Our overall investment in environmental management and monitoring has increased from US$5.6 million in 2011 to US$7.8 million in 2012, reflecting growth in the scope and intensity of external monitoring and expenditure on equipment, people and training. In 2012, 48% of this investment went into protection of water resources, 33% into land reclamation and 19% into reductions in atmospheric emissions.

Regulatory authorities specify that we make quarterly payments in line with the intensity of monitoring and auditing required. In 2012 these payments amounted to US$2.7 million compared to US$2.3 million in 2011, reflecting continued expansion of our production capacity.

### Future plans

Our action plan for 2013-15, focuses on continuous improvement to our environmental management systems, including improving performance against the most significant environmental impacts at each site and embedding this into standard operating procedures.

### Maintaining and managing biodiversity

In accordance with the Federal Law of the Russian Federation we do not operate in or near 'Special Protected Areas', nor those that are designated of natural, historical or cultural value by IMN. Prior to operating on any site we are required to undertake comprehensive surveys and impact assessments. Of the 11 mineral fields that we are currently developing, seven are situated in areas where rare, endemic and vanishing flora and fauna are found. In all seven, as well as the remaining four sites, we operate a system designed to protect flora and fauna. This involves baseline monitoring of the pre-development state and the creation of protection and buffer zones, away from key extraction, transport and construction activity.



## Maintaining high standards

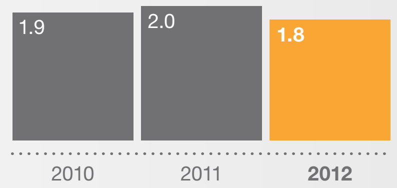
Surveying activity in the Chukotka Autonomous Territory

Tailing storage at Mayskoye

## Our performance

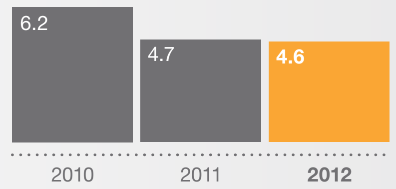
**GHG emission**
($CO_2$ equivalent tonnes per 10Kt of ore mined)

The use of diesel generators to power our plants, natural gas and coal for heating and diesel fuel for vehicles accounts for our main GHG emissions. During 2012 we increased our diesel generation capacity, however, our ability to use this energy more efficiently saw an incremental reduction in GHG emission intensity.



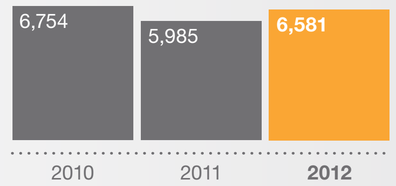

**All air emissions**
(tonnes per 10Kt of ore mined)

Stripping, mined waste storage, ore processing and energy use generate air emissions including carbon dioxide and oxides of nitrogen and sulphur.



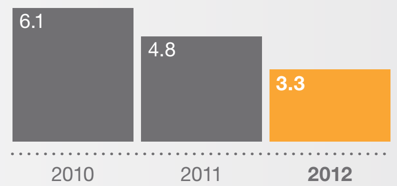

**Waste**
(tonnes per tonne of ore mined)

We operate against a set of procedures that are designed to minimise the amount of waste, maximise the volumes recycled and minimise the potential impacts on people and the environment. The rise has been driven by an increase activity at some of our new operations, combined with significant growth in underground development.



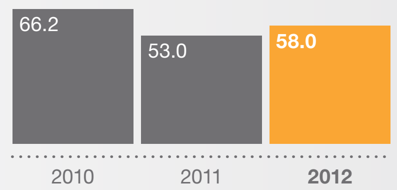

**Discharges to surface water**
(thousand cubic metres per 10Kt of ore mined)

The reduction in discharge intensity reflects the work done to enhance the efficiency of water use and increase recycling.




**Energy use**
(gigajoule per 10Kt of ore mined)

Group companies operate in remote areas, subject to extremes of weather and far from centralised power sources. They must generate their own sources of electricity and heat, which currently necessitates significant use of diesel generators. Costs, environmental impacts and alternatives are constantly reviewed.



# Sustainability – ensuring progress

continued

## Health and safety

### A safe and healthy working environment is a fundamental right for all employees and a measure of management effectiveness.

Polymetal's approach to health and safety is set by its employee protection and workplace safety management system. This is designed to detect, assess and manage production risks; ensure employee health and workplace safety and define the safe use of buildings, other structures and all equipment. The system complies with ILO-OSH 2001, OHSAS 18001 and GOST R 12.0.007-2009.

In 2012, health and safety activity focused on:

- ongoing implementation, operation and refinement of the system;
- reducing workplace injuries;
- enhancing the culture of safety within every operation;
- ensuring that the latest safety techniques and equipment are applied;
- enhancing safety training.

We operate 102 production sites and processes, each with its own inherent risks, including open and underground mines, geological exploration sites, ore processing, explosive depots, as well as transportation of people, equipment, waste and ore. Every employee receives illustrated guides, backed up by regular briefings and formal training sessions, as well as the provision of necessary equipment and work wear. This is backed up by ongoing internal audits that identify areas of poor and positive practice that maintain the integrity of the system.

**Workplace accidents**

In 2012, there were 11 workplace accidents across the Group, none of which were fatal, one of which was serious and ten of which were minor. Of this total, 62% of the accidents involved being struck by an object, 18% involved falling from height, 9% falling while walking and 11% were burns related. While the total number of non-fatal accidents in 2012 was the same as in 2011, there was only one serious accident, compared with two the previous year (the remainder being classified as minor). Our target is to get the accident rate as close to zero as possible, therefore we will continue to improve our health and safety systems to prevent incidents.

A key corporate KPI is the ongoing reduction of the Lost Time Injury Frequency Rate (LTIFR). This has reduced from 0.63 in 2011 to 0.59 in 2012, following a major improvement from 1.9 in 2010. We have also experienced our second consecutive year with zero fatalities, which is a tangible and meaningful outcome from the measures taken to improve safety systems and risk management.

In 2012 we initiated daily risk assessments (DRAs), introduced a 5S programme at all of our processing plants and transport depots, started to integrate contractors into the health and safety system and established ongoing monitoring of risk.

**Health and safety performance**

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Accidents | **11** | 11 | 24 |
| Incidents | **0** | 2 | – |
| Occurrences | **19** | 14 | 14 |
| Injury frequency coefficient | **1.2** | 1.3 | 3.5 |
| Injury gravity coefficient | **36** | 61 | 75 |
| Lost time injury frequency rate (LTIFR) | **0.6** | 0.6 | 1.9 |
| Fatal injury frequency rate (FIFR) | **0** | 0 | 0.5 |
| **Contractor organisations** | | | |
| Accidents | **2** | 5 | 0 |
| Occurrences | **13** | 9 | 10 |

**Work-related illness**

Zero cases of production-related illness were recorded in 2012. Each employee receives, as a minimum, an annual health check from one of our medical professionals. In some cases, these checks identify the need for specific treatment, perhaps involving time away from the workplace in one of our health centres.

**Focus for 2013-15**

Our health and safety focus for 2013-2015 is on enhancing our capabilities in training, visualisation and monitoring, as well as rolling out the system to our supplier and contractor network.



## Focusing on a safe working environment

Management of blasting operations at Khakanja

Personnel discussing operations at Varvara

## Employees

### Our employees are contributors to and beneficiaries of our commercial success. They expect a high quality working environment, direction and a career pathway. In return we expect a clear commitment to our corporate goals.

As a key stakeholder group our employees expect a certain standard of behaviour from the Company and in turn we provide a Code of Conduct to which they commit to adhere. The Code of Conduct is supported by specific policies on recruitment and equality, professional development, appraisal, training, resources and skills, organisational design, motivation and reward and productivity. The Code also summarises our position on harassment and bullying, drugs, conflicts of interest, bribery, entertainment/gifts, government relations, anti-trust and anti-competition laws, community relations, insider dealing, data protection, transparency/disclosure and environmental protection.

**Employment policies and profile**

In line with the UN Global Compact principles, our main employment objectives are:

- to build a team that is motivated to achieve business performance targets;
- to create working conditions and a system of incentives that improves safety;
- to supply Company operation projects with appropriately skilled personnel; and
- to operate a continuous employee skills improvement programme.

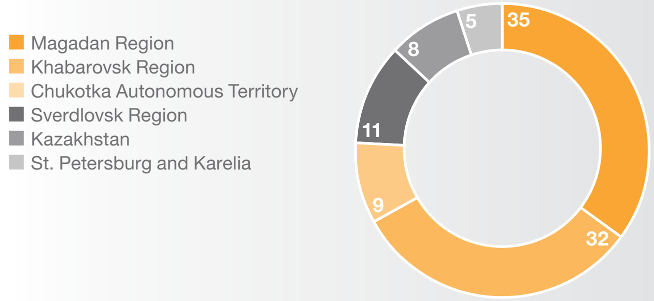
Human resources policies are co-ordinated by our Group Head of Human Resources from our headquarters in St. Petersburg. These are implemented by the Managing Directors of our operating companies, working through their human resources teams.

As at 31 December 2012, we employed 9,237 people across the Group, with 7,862 in production, 554 in exploration and 821 in research, development, design, logistics and management.

Most of those working in extraction and exploration work on a shift basis, due to the demanding nature of the work and the remote locations of many sites. On average, shift workers account for 60% of the headcount. The growth in employee numbers between 2011 and 2012 is largely accounted for by the development of the Amursk and Omolon hubs.

More than 60% of all employees work in Magadan and Khabarovsk regions in the hubs at Omolon, Dukat and Amursk, as well as Khakanja and Albazino.

**Headcount distribution by regions of operations** (%)




In 2012, women occupied 23% of our management roles, compared to 19% in 2011. We have also made significant efforts to work with local universities to provide internships and a pathway for graduates and young specialists into the business. In 2012, we employed 260 people under this scheme, up from 190 in 2011.

**Competitive salaries and benefits**

Our salary levels comply with all legal requirements in Russia and Kazakhstan and are highly competitive, exceeding the average across each of our operating regions and the Russian and Kazakh mining sectors.

# Sustainability – ensuring progress

continued

### Skills development and training

All Polymetal employees have access to a comprehensive training programme, covering general aspects of our operations and specific technical curricula. This is delivered as part of an appraisal system that measures employee development and maps out career pathways. When new employees join the Company, they undergo an initial appraisal, as part of which a detailed training plan is drawn up and agreed.

Over 2012 we invested US$1.1 million (2011: US$0.9 million) in professional training across all disciplines. In 2012, this meant that 2,096 employees had some form of additional professional development training. In 2012, the average number of hours of training was the same as for 2011: 41 hours per person for managers and 42 hours per person for specialists. Between 2011 and 2012 the average hours of training for all other employees increased from 47 to 90, reflecting the work done to enhance our occupational health and safety system.

### Employee relations

We support our employees' right to freedom of association and their desire to enter into collective agreements. In 2012, 7,526 employees (or 81% of the total workforce) were participating in collective agreements at our eight main operating sites in Russia and Kazakhstan. Some of the agreements expire and will be renegotiated in 2013, while most will run to mid/late 2015. At each of these sites, at least one employee (with a maximum of nine) sits on a Labour Relations Commission (LRC), a vehicle for discussing work-related queries and concerns. In tandem with the LRC, six of the sites hosted Workers' Councils, which act as a further voice for employees in that operation. On the two sites that do not, those contributing to the LRC act as the conduit for views from the workforce.

## Community

**Our aim is to operate with the tacit support of our neighbours in the form of local communities and indigenous people. Our relationship with these communities has many facets, as an employer, a user of services, a user of resources, producer of waste materials and emissions and as an investor in local infrastructure and the social fabric. We therefore offer multiple contact points, both formal and informal, such that needs are addressed and the benefits of the relationships are maximised.**

We recognise that our business cannot operate without formal and informal licence to operate from local authorities and their associated communities. In our areas of operation we are a significant employer and creator of infrastructure that impacts upon adjacent communities and indigenous people. Consequently we have formalised our approach to and attitude towards local and indigenous people in our Code of Corporate Governance and Policy on Social Investments that are informed by the UN Global Compact and the UN Declaration on the Rights of Indigenous Peoples. Compliance with the Code is monitored by the Technical Committee and implemented through our Group companies by their respective management teams.

Our operations – and hence the regional and local populations with which we interact – are numerous and widespread, including Russia's Far East (Omsukchan, Srednekansk and Severo-Evensk districts in Magadan Region, Okhotsk, Amursk, Ayano-Maysk and Polina Osipenko, as well as the town of Amursk in Khabarovsk Territory); Northern Urals (the towns of Krasnoturinsk, Karpinsk, Degtyarsk and Sukhoi Log and Vorontsovka village); Chaun district in Chukotka Autonomous Territory and Taranovka district in Kazakhstan.



## Committed to community involvement

A folk festival for the Indigenous Minorities of the North

The Panthers junior ice hockey team in action

The principles that we adhere to when engaging with local communities and indigenous people in these locations are:

- to be open to ideas and comments from those living and working close to our operations;
- to be transparent in our dealings with those living and working close to our operations – providing timely, relevant and accurate information on the progress of corporate and community investment projects;
- to take a long-term view of interaction and investment and put in place systems for identifying investment priorities and monitoring progress;
- to identify and act on the most significant issues for local communities and indigenous people – entailing open and regular dialogue; and
- to provide real and tangible benefits to local communities and indigenous people.

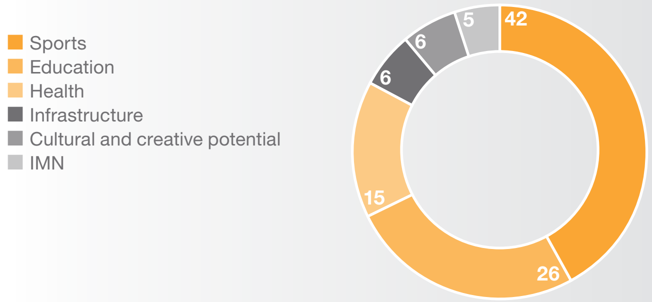
### Investing in communities

Our community investment priorities have been determined through feedback from our employees and our experience of working with communities and indigenous people over many years. At least once a year, we evaluate local community requirements through public meetings, questionnaires, surveys and one to one dialogue. This allows us to identify key investment targets and assess the impact of existing investments. In the main, these investments focus on the following activities and groups:

- Education and healthcare
- Infrastructure
- Sports facilities and healthy lifestyle initiatives
- Cultural and creative development with indigenous people
- Indigenous Minorities of the North (IMN).

These investments totalled US$6 million in 2012, more than 80% of which was directed towards sports, education and healthcare projects.

**Social investments in 2012** (%)




### Community engagement

In 2011-12, we organised 30 meetings with local communities and IMN groups, eight round table discussions and consultations with the representatives of local ecological and social welfare groups and organised six sites visits for nature conservation organisations.

Feedback obtained from these meetings, informal contact and ongoing evaluation of community investment work was overwhelmingly positive. While this is a pleasing outcome, we are conscious of our long-term commitments to the economic, social and environmental wellbeing of the people and places associated with our operations.

In line with our own codes and policies, we have six agreements in place with IMN communities in our Russian Far East operations. These agreements are drawn up in consultation with IMN and local authority representatives and focus on support for traditional reindeer breeding activity, educational and cultural programmes designed to celebrate and preserve language and traditions, provision of fuel, food, vehicles and building materials, maintaining and restoring festival and holiday traditions, learning about local ecosystems, exchanging knowledge on environmental protection and facilitating exchanges between others in the local area and IMN representatives.

### Community benefit

Over and above our tax commitments and employment commitments, we maintain and enhance local infrastructure and services, maintain and grow the working population, increase employment opportunities, provided training and education for local people and operate a long-term programme of community investment. As an average, the proportion of employees drawn from the local population, across all of our sites, is about 90% of the total workforce. In addition, at the end of 2012, we also employed more than 80 people from indigenous minorities living and working adjacent to our production sites.

# Board of Directors

Chairman
Executive Director
Non-executive Director
Independent non-executive Director


### 01 Bobby Godsell
Chairman of the Board of Directors
Chairman of the Nomination Committee

Mr Godsell has over 30 years' experience in the international mining sector and brings valuable industry and leadership insight to the Board. He is Chairman of Business Leadership South, a member of the South African National Planning Commission and co-Chairman of the South African Millennium Labour Council. He is also non-executive director of the South African Industrial Development Corporation. His previous roles have included President of the South African Chamber of Mines, Chairman of Eskom, Chief Executive of AngloGold Ashanti, a director of African Barrick Gold and Chair of the Board of Optimum Coal Holdings, acquired by Glencore plc. He has a BA from the University of Natal and an MA from the University of Cape Town.

Skills: International mining sector

### 02 Vitaly Nesis
Chief Executive Officer

Mr Nesis was JSC Polymetal's Chief Executive from 2003, becoming a member of its Board in June 2004. Between 2002 and 2003, he was CEO of Vostsibugol and in 2000 he was Strategic Development Director at the Ulyanovsk Automobile Plant. From 2001 to 2002 he headed the Investment Planning Department at SUAL-Holding. From 1999 to 2000 he worked for McKinsey in Moscow, and from 1997 to 1999 he was an analyst at Merrill Lynch in New York. He graduated from Yale University in 1997 with a BA in Economics.

Skills: Economics and mining

### 03 Konstantin Yanakov
Non-executive Director

Mr Yanakov has been a member of the Board since 2011, having served on JSC Polymetal's Board of Directors since September 2008 and as a member of the Audit Committee until 2011. He is currently Chief Financial Officer of ICT Group, and prior to joining ICT he held various positions at MDM Bank and was CFO of JSC Polymetal until 2004. Mr Yanakov is also a board member at Piraeus Bank. He graduated from the Government of Russia's Finance Academy with a degree in Global Economics and received a PhD in Economics from the Russian State University of Management. In 2007, Mr Yanakov received an MBA from the London Business School.

Skills: Finance

### 04 Jean-Pascal Duvieusart
Non-executive Director

Mr Duvieusart is a director of PPF Advisory (Russia) and has been a member of the supervisory board of PPF since 2010. He joined McKinsey in 1992 and was Managing Partner for Central Europe and the CIS from 2005 until the end of 2009. Mr Duvieusart graduated from the Catholic University of Louvain, Belgium with a Master's Degree and received an MBA from the University of Chicago in 1992.

Skills: Business strategy

### 05 Marina Grönberg
Non-executive Director

Ms Grönberg has been a member of the Board since 2011, formerly serving on JSC Polymetal's Board of Directors since September 2008. She is also a board member of Waterstones Booksellers, Hachette-Atticus publishing group, MIG Credit, Marenco Swiss Helicopters, SPAR-Retail, MLP and A&NN Capital Management Fund. She is a President of the Nadezhda charity fund and Managing Director of A&NN (Schweiz). Ms Grönberg's qualifications include degrees in Law from Moscow State Law Academy and in Applied Mathematics from Moscow State University.

Skills: Law

### 06 Charles Balfour
Senior Independent non-executive Director
Member of the Audit and Risk, Remuneration and Nomination Committees

Mr Balfour has over 40 years' experience in the investment banking industry in the US, UK, France and Hong Kong working for companies including Dillon Read, Banque Paribas, Durlacher and Fleming Family Partners. Between 1993 and 2004 he was an executive of Nasdaq International and served as its Chairman from 2000 until 2004. He has served as a director of Humber Power and is currently a director of Humber Energy and a trustee of the Bawdsey Estates. Mr Balfour was educated at Eton and the Sorbonne in Paris.

Skills: Finance

### 07 Jonathan Best
Independent non-executive Director
Chairman of the Audit and Risk Committee
Member of the Remuneration Committee

Mr Best was an independent director of JSC Polymetal's Board since December 2006. He has more than 30 years' experience in the mining industry. In 2006 he served as the interim CEO of Trans-Siberian Gold. Prior to that he was CFO and an Executive Director of AngloGold Ashanti, where he was involved in the company's formation and its listing in New York. He is currently a non-executive Director of AngloGold Ashanti Holdings plc and a member of its Audit Committee. He is Chairman of Sentula Mining and Bauba Platinum, where he serves on the nomination and remuneration committees, and of GoldStone Resources. Mr Best is Chairman of the Audit Committees of Metair Investments and Gulf Industrials. He is an associate of the Chartered Institute of Management Accountants, an associate of the Chartered Institute of Secretaries and Administrators, and holds an MBA from the University of the Witwatersrand, Johannesburg.

Skills: Mining, finance and business strategy

### 08 Russell Skirrow
Independent non-executive Director
Member of the Audit and Risk Committee

Dr Skirrow was an independent director of JSC Polymetal's Board since September 2008. Dr Skirrow previously spent ten years at Merrill Lynch as Head of Global Metals, Mining & Steel Research and subsequently as Global Chairman of the Metals/Mining team. He is Chairman of Dampier Gold, and has 12 years' experience in the international mining industry having worked with companies such as Gold Fields (South Africa) and Western Mining Corporation in Australia and the US. He is a member of the Institute of Materials, Minerals & Mining with Chartered Engineer status, and a Fellow of the Financial Services Institute of Australia. He has a BSc in Geology from Durham University and a PhD from the Royal School of Mines, Imperial College London.

Skills: Mining

### 09 Leonard Homeniuk
Independent non-executive Director
Chairman of the Remuneration Committee
Member of the Nomination Committee

Mr Homeniuk was an independent member of the Board of JSC Polymetal since June 2010. From 2004 to 2008 he served as President, CEO and member of the Board of Directors of Centerra Gold. In 2011 he founded Polygon Gold Inc. and subsequently assumed the role of Chair, President and Chief Executive Officer. He has also held executive positions with Centerra Gold, Kumtor Gold and Cameco Corporation. Mr Homeniuk received an MSc from the University of Manitoba and is a member of the Ontario Society of Professional Engineers, the Canadian Institute of Mining and Metallurgy and the Prospectors and Developers Association of Canada. He is an Honorary Professor at the Kyrgyz Mining Institute.

Skills: Mining and engineering

## Senior management

### Vitaly Savchenko
Chief Operating Officer

Mr Savchenko was appointed COO of JSC Polymetal in 2009 and elected to the management board in September 2011. From 2007 to 2009 he was Director of the Production Department, having held senior production, technical and mining positions since 2004. From 1994 to 2003 he worked at Priargunskoye Mining and Chemical Company, latterly as a chief engineer. Mr Savchenko graduated from the Kyrgyz Mining Institute in 1994 with a degree in underground mineral mining engineering and is a recipient of a third-category Miner's Glory Medal. He has completed Stage 1 of the MBA course at the UK's Open University Business School and is currently undertaking Stage 2.

### Sergey Cherkashin
Chief Financial Officer

Mr Cherkashin was appointed CFO of JSC Polymetal in 2005 having previously held senior management positions in the food processing and machine building industries. He was CFO of the Timashevsk Dairy Plant, Sales Director of the Ulyanovsk Automotive Plant and Deputy CEO of Development at the Volgograd Dairy Plant, having previously been a consultant for AT Kearney in Moscow. Mr Cherkashin graduated from the Moscow Institute of Physics and Technology in Applied Mathematics, and has completed a one-year MBA programme at the University of Hartford.

### Sergey Trushin
Deputy CEO, Mineral Resources

Mr Trushin was appointed Deputy CEO, Mineral Resources in 2010. From 2008 to 2010 he was Chief Geologist at the Khabarovsk Exploration Company and between 2006 and 2008 he was Chief Geologist at Albazino Resources, where he had held various positions since 1998. In 1997, he was a geologist with Dalnevostochnie Resources and in the preceding six years he was a geologist with the Production Geological Association 'Dalgeology' and the Nizhne-Amursk exploration expedition. Mr Trushin has a degree in Geological Surveying and Mining Engineering Exploration from the Novocherkassk State Polytechnic Institute.

### Roman Shestakov
Deputy CEO, Project Development and Construction

Mr Shestakov was appointed Deputy CEO for Development and Construction of Polymetal Management Company in 2009. From 2007 to 2009 he was a Chief Engineer at Gold of Northern Urals, where he also held a position of a pit superintendent from 2006. During 2004-2005 he was a mine superintendent at the Okhotsk Mining and Exploration Company, and in the preceding two years he was a mining engineer in the Production and Technical Department of JSC Polymetal. He graduated with honours from the Mining Department of the St. Petersburg State Mining Institute, majoring in Open-pit Mining.

### Valery Tsyplakov
Managing Director, JSC Polymetal Engineering

Mr Tsyplakov was appointed Managing Director, Polymetal Engineering in 2004. From 2000 to 2004 he held senior roles in the Production and Technology and Technological Research Departments, subsequently becoming Deputy General Director for Mineral Resources, Design and Technology. Previously he served as Department Head at the Soviet Union Research Institute of Aeronautical Automation and prior to this at Orhus University's Physics Institute (Denmark). He was also a Research Fellow in the Plasma Physics Department of the Moscow Physics and Engineering Institute, from where he graduated in Experimental Nuclear Physics. He also holds a PhD in Physics and Mathematics. Mr Tsyplakov is a Professional Member of the Institute of Materials, Minerals & Mining (London).

### Pavel Danilin
Deputy CEO, Strategic Development

Mr Danilin was appointed Deputy CEO for Strategic Development in 2009, having previously been Director of Corporate Finance and Investor Relations. From 2003 to 2005 he was Head of Corporate Finance, and between 2002 and 2003 he worked at CJSC ICT in the same capacity. From 1998 to 2001 he was Deputy Head of the currency department and Head of the financial resources department at the Kaliningrad branch of Bank Petrocommerce. Mr Danilin graduated in 1998 from Kaliningrad State Technical University in Economics and Management. He received an MBA in 2007 from the University of California at Berkeley, Haas School of Business.

### Igor Kapshuk
Chief Legal Officer

Mr Kapshuk was appointed Chief Legal Officer in 2009, having been head of the legal department since 2005 and Deputy Head since 2003. Between 2001 and 2003 he held various positions including Deputy General Counsel, Head of the department for legal matters and Head of the claims department at the Siberia Energy Coal Company and Vostsibugol (Irkutsk). From 1999 to 2001 he worked as a legal advisor for Pharmasintez, and from 1997 to 1998 he worked at the Irkutsk Tea-Packing Factory as a legal advisor and acting head of the legal department. Mr Kapshuk graduated from the Law School of Irkutsk State University in 1995.

# Corporate Governance

Dear Shareholders

Governance is at the heart of our culture, providing a framework within which we can maintain and develop the values and practices that support our corporate objectives, and which ensure that Polymetal reflects high levels of ethical and responsible behaviour.

During our first full year as a premium listed company on the London Stock Exchange we have worked hard to ensure that we follow both the letter and the spirit of the UK Corporate Governance Code. We have a disciplined approach characterised by a system of regular review and assessment, and a programme of continuous improvement. This approach is designed to achieve a balance between encouraging positive and dynamic commercial values, and applying the appropriate discipline and regulatory guidance where required. Such balance ensures that we achieve our business objectives by operating a rigorous system of internal control, supported by culture of control and accountability throughout the organisation.

In 2012, we have been particularly focused on the Code's emphasis on the analysis of alignment of remuneration with shareholder interests, the balance and effectiveness of the Board and its composition, and the active stewardship of risk management.

With the exception of certain legacy share option scheme arrangements (which will be subject to changes in June 2013 and which are already addressed by forward-looking changes to the remuneration policy), we are complying with the provisions of the Code, and will continue to assess and develop our governance framework as appropriate. Part of this process encompasses a formal internal evaluation of the performance of the Board, its Committees and individual members. While evaluation during the year has confirmed the Board's effectiveness, further feedback will form part of ongoing recommendations for its development.

Polymetal is a unique and strongly focused business. We believe that our robust corporate governance structure and effective operation of the Board are already translating into delivery of our tactical and strategic targets and shareholder value creation: delivery on projects and production targets, and consequently our ability to sustain financial performance and dividend flow to shareholders. All these solid achievements are already meaningfully differentiating Polymetal from many of our peers in the sector.

We are on track with our strategy, both operationally and financially. Going forward, we are committed to ensuring that the Company is run in the best interests of all its stakeholders and that the Board is accountable for responsible stewardship, disciplined performance and sustainable value delivery.

**Bobby Godsell**
Chairman



### Statement of compliance with UK Corporate Governance Code

The Directors are committed to maintaining high standards of corporate governance. As a premium listed company, during the year ended 31 December 2012 Polymetal International was required to comply with the UK Code of Corporate Governance ('the UK Code') published in June 2010 and available at the UK Financial Reporting Council's website or, where the provisions of the UK Code have not been complied with, to provide appropriate explanations. In 2012, the Company has complied with the provisions of the UK Code, except for the following:

- Schedule A of the UK Code recommends share options and awards should not vest in less than three years. The existing option scheme will become fully compliant with Schedule A from June 2013.

The reason for non-compliance was the existence of share option arrangements prior to admission.

The UK Code recommends that share options and awards should not vest in fewer than three years. In November 2010, prior to the UK Code becoming applicable to the Company, share-based payment awards were granted to certain employees that could, subject to the meeting of specific performance criteria, vest in June 2013 (a period of two years, 7 months). This vesting period was considered appropriate as it aligned employee incentives with the Company's objectives. In June 2013 option holders will either exercise their options or have an opportunity to extend them for a further year at a higher performance condition level (see details on page 109 below), following which the existing option scheme will become fully compliant with Schedule A as no outstanding share options and awards granted under it will vest in less than three years from the date of their grant.

The Board has already made appropriate amendments to the Company's remuneration policy so that any future share-based payment award arrangements will comply with the recommendations of the UK Code. Refer to the Directors' Remuneration report on page 105 for more detail.

### 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 independent Directors on the Board is: to challenge the strategy and scrutinise the performance of management in meeting agreed goals and objectives; to monitor performance of the Company; to review the integrity of financial information and to review the appropriateness of the Company's internal controls and risk management systems.

Directors' interests are disclosed in annual declarations and the Company Secretary is notified promptly of any changes to those interests. Before each Board meeting, 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 Duvieusart (who is a representative of PPF Group BV). 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, Jonathan Best, Russell 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 Jonathan continues to display all of the qualities of independence pursuant to the criteria set out in the Code.

In 2012 the Company sold 100% of Amikan Holdings Limited, which owns the Veduga gold deposit ('Veduga') in the Krasnoyarsk region of the Russian Federation, to Polygon Gold Inc. ('Polygon'). Mr Homeniuk serves as Polygon's Executive Chairman and CEO. Polygon operates as a standalone company with independent management and Polymetal provides certain technical and regulatory assistance to Polygon on an ongoing basis. Polymetal currently holds 42.6% equity ownership in Polygon and one of the four board seats and therefore has significant influence, but does not have control over its activities. The Board continues to consider Mr Homeniuk to be an independent non-executive Director. The Board concluded that the relationship between Polymetal and Polygon is not material, given the carrying value of Veduga which is US$19.3 million and represents approximately 0.5% of the Group's total assets as at 31 December 2012.

# Corporate Governance
continued

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.

### Board meetings
In 2012, the Board met seven times. Further business was approved by written resolutions of the Board on two 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 for the Board is reviewed at least annually.

### Roles of the Chairman, Chief Executive Officer and Senior Independent Director
The Board has approved the division of responsibilities between the Chairman and the Chief Executive Officer (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 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 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. Mr Godsell's other significant commitment is membership of the South African National Planning Commission, a government commission, and up to March 2012 was the Chair of the board of Optimum Coal Holdings, a Johannesburg listed medium size coal mining company. In January 2012 he also accepted a non-executive directorship in the South African state owned Industrial Development Corporation, however, the additional time commitment required by this additional role is more than offset by the termination of his role on the board of Optimum Coal Holdings, acquired by Glencore International plc.

| Board member | Appointed | Executive | Non-executive | Independent | Audit &Risk Committee member/ chairman | Remuneration Committee member/ chairman | Nomination Committee member/ chairman |
|---|---|---|---|---|---|---|---|
| Bobby Godsell | 29 September 2011 | | ✓ | | | | Chairman |
| Vitaly Nesis[1] | 29 September 2011 | ✓ | | | | | |
| Jonathan Best[2] | 29 September 2011 | | ✓ | ✓ | Chairman | Member | |
| Russell Skirrow[3] | 29 September 2011 | | ✓ | ✓ | Member | | |
| Leonard Homeniuk[4] | 29 September 2011 | | ✓ | ✓ | | Chairman | Member |
| Charles Balfour[5] | 29 September 2011 | | ✓ | ✓ | Member | Member | Member |
| Konstantin Yanakov[6] | 29 September 2011 | | ✓ | | | | |
| Marina Grönberg[7] | 29 September 2011 | | ✓ | | | | |
| Jean-Pascal Duvieusart | 29 September 2011 | | ✓ | | | | |

1 Mr Nesis was appointed CEO of JSC Polymetal, the previous parent and reporting entity of the Group, on 30 June 2004.
2 Mr Best was appointed non-executive Director of JSC Polymetal on 28 December 2006.
3 Dr Skirrow was appointed non-executive Director of JSC Polymetal on 25 September 2008.
4 Mr Homeniuk was appointed non-executive Director of JSC Polymetal on 29 June 2010.
5 Senior Independent Director
6 Mr Yanakov was appointed non-executive Director of JSC Polymetal on 25 September 2008.
7 Ms Grönberg was appointed non-executive Director of JSC Polymetal on 25 September 2008.



The CEO is responsible for the day-to-day management of the Group and developing the Group's business strategy, objectives, budget and forecasts and, once approved by the Board, overseeing their successful implementation. The Chief Executive Officer reports to the Chairman and to the Board directly. The Board interacts with the executive management on a regular basis. Directors welcome senior executives to attend relevant parts of the Board and committee meetings for reporting on items of the agenda and participating in discussion. All members of executive management report directly to the Chief Executive Officer. His responsibilities include:

- development and proposal of 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;
- regularly 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
Charles Balfour acts as the Board's Senior Independent Director. Mr Balfour is available to shareholders and as an intermediary for the other Directors if necessary. He attends meetings with major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders. Meetings between independent Directors, including Mr Balfour, and major institutional shareholders took place in 2012. The Board is regularly updated on the shareholders' opinions following meetings with the Company's management.

Separate meetings are held between with the non-executive Directors without the Chairman or executive Directors being present; 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 AGM
The Board uses the AGM to communicate with investors and to encourage their participation. To ensure the Company's shareholders have time to consider our Annual Report and Accounts and Notice of the AGM and lodge their proxy votes in good time, all meeting materials are mailed more than 20 working days prior to the meeting. Separate resolutions are proposed on each substantially separate subject and all resolutions are put to a poll. The Company also offers shareholders the ability 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 2012 AGM we received votes representing approximately 85% of our issued share capital. The results of the proxy vote are read 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 2012 AGM was attended by all Directors, including the Chairmen of the Audit and Risk, Remuneration and Nomination Committees. Live webcast and conference call facilities are available for the shareholders unable to be present in person and a recording of the AGM webcast is made available on the Company's website.

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 meetings' attendance

| | Board meetings[1] (seven) | Audit and Risk Committee meetings[2] (three) | Remuneration Committee meetings[3] (two) | Nomination Committee meetings (two) |
|---|---|---|---|---|
| Bobby Godsell | all | n/a | n/a | all |
| Vitaly Nesis | all | n/a | n/a | n/a |
| Jonathan Best | all | all | all | n/a |
| Russell Skirrow | all | all | n/a | n/a |
| Leonard Homeniuk | all | n/a | all | all |
| Charles Balfour | all | all | all | all |
| Konstantin Yanakov | all | n/a | n/a | n/a |
| Marina Grönberg | all | n/a | n/a | n/a |
| Jean-Pascal Duvieusart | all | n/a | n/a | n/a |

Notes
1 Further business conducted by the Board was approved by written resolutions on two further occasions.
2 Further business conducted by the Audit and Risk Committee was approved by written resolutions on two further occasions.
3 Further business conducted by the Remuneration Committee was approved by written resolutions on three further occasions.

### Evaluation and re-election policies
#### Nomination Committee
The Nomination Committee is chaired by Mr Godsell and its other members are Mr Homeniuk and Mr Balfour. 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 the 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;
- before any appointment is made by the Board, evaluate the balance of skills, knowledge, experience, independence and diversity of 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 relate to the composition of the Board and whether non-executive Directors are spending enough time to fulfil their duties.

There were no changes to the Board structure in 2012 and the Company has not employed external search consultants.

In accordance with the Articles of Association of the Company (the Articles), at every Annual General Meeting one third of the Directors on the Board must retire or, if the number of Directors is not divisible by three, the number of Directors nearest to one third shall retire from office but any Director who has held office for three years or more since he or she was last appointed (or re-appointed) at the date fixed for the annual general meeting must retire. In accordance with the UK Code, all Directors are subject to annual re-election.

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

The Directors' biographical details are set out on pages 88 to 89 and the Board considers that each of the Directors will be an effective contributor to the success of the Group. Following their performance evaluations, the Chairman believes that each Director standing for re-election continues to be effective and to demonstrate commitment to his or her role. A performance evaluation of the Chairman was conducted by the Board in 2012, and the Board believes that the Chairman continues to be effective and to demonstrate commitment to his role.

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; a Copy of the UK Listing Authority ('UKLA') Model Code, and details of the Company's policies regarding Directors' share dealings and the disclosure of price sensitive information. Directors also receive the Company's guidelines on matters reserved for the Board and 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 the 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 progress of capital projects. A field trip to the Omolon and Dukat hubs for non-executive Directors took place in October 2012.

There were two meetings of the Nomination Committee in 2012. Evaluation of performance of the Board, its Committees and individual Directors was performed in 2012.

The Nomination Committee at its meetings discussed 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 a bonus of such an approach. 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. This approach has led to an increase in the number of women holding senior positions in the Group from 19% in 2011 to 23% in 2012.

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**

The Board carried out a performance evaluation of itself, its Committees, the Chairman and CEO. This was conducted without the assistance of an external facilitator. In accordance with the UK Code, it is the Board's intention that the evaluation process will be externally facilitated every three years.

The process 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. Areas for further development identified included the enhancement of formal succession planning, and the process by which assessment of individual Board member performance was performed. 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).



## Audit and Risk Committee report

Dear Shareholders

As part of the Board's overall responsibilities – in particular as they relate to risk management and internal control – the Audit and Risk Committee has a specific role in the review and supervision of the Company's financial reporting and internal controls. In addition, it has responsibility for the review, evaluation and stewardship of the Company's risk management processes with particular emphasis on areas of possible or likely change.

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 2012 three meetings of the Audit and Risk Committee were held and further business conducted by the Committee was approved by written resolutions on two further occasions. The Audit and Risk Committee dealt with the following matters:

- reviewed and recommended for approval financial and risk information included in the Annual Report 2011;
- reviewed and recommended for approval Polymetal's results for the six months to 30 June 2012;
- 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 year end audit fee;
- reviewed the actual audit fee in 2012 compared to the authorised amount;
- approved the terms of engagement, including 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 the critical risks and exposures of the Group, including tax risks;
- recommended approval of Deloitte LLP as external auditors; and
- reviewed the capability of Group's finance team. Performed a self assessment review of the Committee's effectiveness relative to the requirements of its terms of reference.

In 2012 the Committee focused in particular on risks – including those relating to tax following recent rulings – and made significant progress in improving the quality of external and internal reporting.

Further, the Audit and Risk Committee has reviewed the approach taken both by management and the external auditors in the key judgements and risk areas of the financial reporting, ensuring the fair presentation of the Company's financial statements, supported by an independent external audit.

In common 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 a strong system of flexible processes which enable the Committee to operate effectively.

At a meeting of the Committee held on 23 April 2013 the Committee reviewed the financial statements for the 2012 financial year and the report from the external auditors was considered. After due consideration the Committee recommends the approval of the 2012 financial statements by the Board and shareholders.

The Committee also reviewed various assurance reports provided by the external auditor, internal audit and management and concluded that – in respect of the 2012 financial year – the system of internal financial controls is adequate and that there were no significant breakdowns in internal controls.

Going forward, we as a Committee are set to operate effectively as a key body scrutinising the reporting, internal control and risk management process in order to ensure transparency and objectivity of the Company's reporting.

**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, all independent non-executive Directors. The Directors consider that Mr Best has recent and relevant financial experience (refer to page 89 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 the shareholders to consider at the annual general meeting, in relation to the appointment, re-appointment, resignation or removal of the Group's external auditors;
- overseeing the Group's relationship with its external auditors and reviewing the effectiveness of the external audit process; the Committee meets with the external auditors at least once a year without management being present, to discuss their remit and any issues arising from the audit;
- reviewing the independence of external auditors and the appropriateness of the provision of any non-audit services by the external auditor;
- reviewing the effectiveness of the Group's system of internal controls and risk management systems;
- monitoring and review of 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

The 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 auditors relating to the provision of non-audit services to ensure that auditor objectivity and independence is 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. Policy on the provision of non-audit services by the external auditor was approved by the Committee in 2012 and defines permitted audit and non-audit services. Pre-approval thresholds are in place for the provision of non-audit services by the external auditor, for which the pre-approval of the CFO (if below US$5,000), Chairman of the Audit and Risk Committee (if between US$5,000 and US$20,000), and Audit and Risk Committee (if above US$20,000) is required. 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 auditors 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.

The Audit and Risk Committee has considered information pertaining to the balance between fees for audit and non-audit work for the Company in 2012 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 re-appointment of Deloitte LLP as the Group's external auditors is reviewed annually by the Audit and Risk Committee. Deloitte LLP were appointed auditors in 2011, with Deloitte CIS having been auditors of JSC Polymetal since the last tendering process in 2007.

The Committee's assessment of the external auditors' performance and independence underpins its recommendation to the Board to propose to shareholders the re-appointment of Deloitte LLP as auditors until the conclusion of the AGM in 2014. Resolutions to authorise the Board to re-appoint and determine their remuneration will be proposed at the AGM on 12 June 2013.

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 the risk to achieve the Company's business objectives in order to bring the residual risk to an acceptable level.

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 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.

**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:
- appropriate tone set from the top from the Board level, aimed at building the appropriate control environment;
- a proper risk identification and management system (for more detail please refer to page 76);
- the 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 Chief Executive 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.

## Audit and Risk Committee report
continued

**Financial reporting systems**
The quality of the financial accounting and reporting is ensured through a set of control procedures in the following areas: accounting methodology, preliminary review of the 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 the 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 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 Head Office 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 financial performance versus budgeted, 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 interactions with banks on accounts maintenance, deposits and borrowings and foreign currency transactions is also performed at the Head Office level.

**Controls over IT systems used in financial accounting and reporting**
The Group uses a 1C: Enterprise 8 ERP system for automation of everyday enterprise activities. These include various business tasks of economic and management functions, such as management accounting, business accounting, HR management, CRM, SRM, 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 by for effective control of each IT process.

UK Bribery Act 2010
The Company and the Directors are committed to ensuring adherence to the highest legal and ethical standards. This must be reflected in every aspect of the way in which the Group operates. Bribery is a criminal offence in the countries in which the Group operates, and 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 anti-bribery policies in place, which extend across all of Group's business dealings in all countries and territories in which the Group operates and apply 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 and 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 in place 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 independent investigation of such matters.

Copies of the Anti-Bribery and Corruption Policy and the whistle-blowing policy are available on request from the Company's offices.



## 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 2012.

**Principal activities and business review**
Polymetal International is a large gold and silver mining company, operating central processing hubs and a number of standalone mines in Russia and Kazakhstan. Detailed information on the Group's business, activities and financial performance can be found in Overview and Business Review sections of this report on pages from 2 to 61. These sections also include description of likely future developments and any research and development activities held by the Company and the Group.

**Principal risks and uncertainties**
Refer to pages 77 to 79 for a description of principal risks and uncertainties and the Group's response and pages 97 to 98 for a description of the main features of Group's system of internal control. For details of financial risk management, please refer to Note 30 on page 152.

**Corporate governance**
Refer to pages 90 to 98 for a description of the Group's corporate governance structure and policies.

**Going concern**
The business of the Group, its strategy and the factors that may affect future performance are described on pages 2 to 61 of this report. The risks in achieving the Group's strategic objectives, together with assessment of their potential impact and mitigating actions are set out on pages 77 to 79 of this report. The financial position of the Group, its cash flows and liquidity are further analysed on pages 62 to 75 of this report.

The Board, having considered all relevant factors related to financial position, risks and business prospects of the Group, and its projected future cash flows, has a reasonable expectation that the Group has adequate resources to continue operations in the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2012. Refer also to Note 1 of the financial statements.

**Financial and business reporting**
The Board believes that the disclosures set out on pages 2 to 75 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 88 to 92 of the report.

**Directors' interests**
Information on Directors' interests in shares of the Company is set out in the Remuneration report on page 108.

**Directors' indemnities**
To the extent permitted by the Companies (Jersey) Law 1991, the Company indemnified every Director or 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 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.

**Supplier payment policy**
The Company's and the Group's policy is to set the terms of payment with suppliers when agreeing the terms of each transaction, ensure that the suppliers are made aware of the terms of payment and abide by the agreed terms of payment. Polymetal International plc itself is a holding company and therefore did not have any material trade creditors as at 31 December 2012.

**Charitable and 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 2012 (2011: none).

Many of the regions in which the Group operates are considered socially and economically undeveloped areas of Russia and Kazakhstan. The Group pursues a responsible social strategy in those regions and views the implementation of long-term social programmes as a key factor in the sustainability of the Group's operations.

The Group's social programmes focus on the social and economic development priorities in the regions in which it operates and aims to improve education and healthcare, develop local infrastructure, promote sports and healthy lifestyles, promote the cultural and artistic potential of the local population and support local communities.

As part of this social programme, the Group has entered into social partnership agreements with municipalities and regional governments. Under these social partnership agreements, the Group organises and finances a variety of humanitarian projects and development and maintenance projects in these communities. In addition, the Group also undertakes various social projects in accordance with the agreements with the public organisations of indigenous minorities of the north of Russia ('IMN') and in accordance with the Group's own charitable programmes. More detail on these activities can be found on pages 86 to 87 of this Annual Report.

In 2012, the Group spent US$6.1 million on social and community projects (2011: US$4.0 million).

# Governance
## Directors’ report
continued

### Capital structure
The structure of the Company’s share capital is detailed in Note 31 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 168.

Details of employee option schemes are set out in the Remuneration report on pages 104 to 109.

There were no acquisitions of the Company’s own shares in 2012. At 31 December 2012, the Group and its subsidiaries held no treasury shares (31 December 2011: no shares). As at 31 December 2012, the Company had shareholders’ authority to purchase up to 38,268,578 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.

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 following annual general meeting. If not re-appointed 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.

Pursuant to the Company’s Articles, Directors have the power to allot Equity Securities (as defined in the Articles). At the Annual General Meeting of the Company held in 2012 the power to allot Equity Securities was renewed up to an aggregate number of 127,561,927 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 19,134,289 ordinary shares. In 2012, the Company used the above powers to allot 520,422 new ordinary shares relating to the Svetlobor acquisition and a further 775,000 new ordinary shares in respect of the Olcha acquisition.

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 38,268,578 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 per cent 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 Annual General Meeting (or, if earlier, at the close of business on the date which is 15 months after the date of this Resolution, being 13 September 2013).

Approval of share issues, consideration for which does not exceed US$15 million, is delegated to a committee of the CEO, the Chairman of the Audit and Risk Committee and the SID. If the Chairman of the Audit and Risk Committee and/or the SID are not available, then any independent non-executive Director(s) may act as their alternates on the Committee.

### Dividends
The Group’s net profit for the year ended 31 December 2012 attributable to equity holders of the Company was US$394 million (2011: US$290 million). In December 2012 the Company declared a special dividend of US$0.50 per share which was paid in January 2013. The Directors have proposed the payment of a final dividend of US$0.31 per share (2011: US$0.20 per share).

### Annual General Meeting
The Annual General Meeting of shareholders of the Company will take place on 12 June 2013 at 11am BST in Le Hocq Suite, Radisson Blu Waterfront Hotel, Rue De L’Etau, St Helier, Jersey JE2 3WF, Channel Islands. A webcast will be available for shareholders who will not be able to attend the meeting in person.

### Auditors
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 auditors are 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 auditors are aware of that information.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting. 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.

On behalf of the Board

**Bobby Godsell**
Chairman
24 April 2013

## Message from the Chairman of the Remuneration Committee

Dear Shareholders

Over the past year the Remuneration Committee has made good progress in ensuring that our remuneration policy continues to evolve in line with best practice, and that it is aligned with business strategy and performance while remaining firmly focused on supporting the creation of sustainable longer-term value to shareholders.

The Company had a successful year delivering on its tactical and strategic objectives, as well as delivering superior shareholder returns, which were well ahead of our peer group. Our Total Shareholder Return during 2012 was 9% (including 1.1% of dividends) compared against the FTSE Gold Mines Index decreasing by 15.4% over the same period. In addition to that, in January 2013 the Company paid a special dividend of US$0.5 per share.

The Committee's activities during 2012 included external benchmarking of pay levels and a review of our system of compensation, as well as a detailed analysis of performance against targets. The results of this review showed that the total remuneration package is competitive against our peers and that the remuneration policy taken as a whole effectively motivates the executive team in its objective of building long-term shareholder value. No change to the base salary or maximum annual bonus opportunity available to the CEO has been proposed by the Committee as a result of this review.

The Committee is aware that the legacy option scheme, which was put in place prior to the Company's IPO, is not in line with typical practice for FTSE-listed companies. However the scheme will expire in 2013/2014 and the options currently have zero intrinsic value. The Committee has already taken steps to ensure that the remuneration arrangements going forward are in line with best practice by adopting relevant changes to the Company's remuneration policy, which was approved by the Board on 24 April 2013. As a result, the Company is proposing the adoption of a new long-term share plan, the Performance Share Plan, at the AGM in June 2013. Under the Plan, awards will only be earned subject to Polymetal's TSR being positive and also outperforming that of the FTSE Gold Mines Index over a four year period. The Plan's main features are described in more detail on page 105 of this report and in the Notice of the 2013 Annual General Meeting. Other key changes adopted by the Committee, which are consistent with best practice, include the introduction of significant shareholding requirements for the executive team, deferral requirements under the annual bonus plan and clawback provisions for any bonus deferred in shares as well as any awards made under the Performance Share Plan.

Our remuneration policy remains a key element in providing a clear framework to motivate, incentivise and retain our senior management team. Our objective is to continue developing these policies in order to strengthen the link between reward and performance, thus ensuring that our management team is continuously focused on delivering value to our shareholders.

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

L.A. Homeniuk

Yours sincerely,
**Leonard Homeniuk**
Chairman, Remuneration Committee

This report sets out the Company's remuneration policy and practice for its Directors and provides details of their remuneration and share interests for the year ended 31 December 2012. Although it is not a requirement of Jersey company law to have the Directors' remuneration report approved by shareholders, the Board believes that as a Company whose shares are listed on the London Stock Exchange, it is an element of good corporate governance for it to do so. Accordingly, a resolution to approve the report will be proposed at the Annual General Meeting of the Company on 12 June 2013.

The report has been prepared in accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the "Regulations"). It also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board applied the principles relating to Directors' remuneration in the UK Corporate Governance Code.

In line with the Regulations, the report has been split into audited and unaudited sections.

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

| Name | Role |
|---|---|
| Leonard Homeniuk | Chair |
| Jonathan Best | Member |
| Charles Balfour | Member |

All Committee members are independent non-executive Directors.

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 of specific remuneration packages for each of the Executive Directors, the Company Secretary and the members of the senior management, including pension rights and any compensation payments;
- to formulate suitable performance criteria for the performance-based pay of the 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.

The Committee met twice in 2012 and undertook the following key activities:
- Approved the Remuneration report for the year ended 31 December 2011;
- Reviewed and approved a more detailed remuneration policy of the Company and increased the number of senior executives whose annual bonus would depend on achieving individual KPIs;
- Appointed PricewaterhouseCoopers LLP as independent external remuneration consultants to provide a review of the Company's senior executive pay and the market practice for long-term incentive schemes. PricewaterhouseCoopers LLP is a member of the Remuneration Consultants' Group and incorporates the principles of its Voluntary Code of Practice into its engagement. No other services were provided by PricewaterhouseCoopers LLP during 2012;
- Analysed the Company's existing remuneration policy and practices and subsequently reviewed comments from shareholder bodies. Following such discussions in the second part of 2012 and beginning of 2013 the Remuneration Committee further reviewed the Company's remuneration policy and practices to ensure that they remain aligned with the objectives of the business and in line with the UK Corporate Governance Code and best practice. As a result, the Committee has proposed the introduction of a new long-term incentive scheme, the Performance Share Plan, to replace the Long-term Employee Incentive Programme once it expires. Further information is provided on page 105.
- Reviewed proposed changes to the remuneration report regulations and agreed approach to disclosure in future years. Although these regulations are not expected to formally apply to the Company, the Committee believes that as a FTSE 100 company whose shares are listed on the London Stock Exchange, it is an element of good corporate governance to voluntarily adopt the new disclosure provisions including the binding vote on remuneration policy at the 2014 AGM.

Further business conducted by the Remuneration Committee was approved by written resolutions on three occasions.

During its work in 2012, the Committee was also aided by the Chief Executive Officer, and senior finance and human resources executives of the Company.

The Board considers that the composition and work of the Remuneration Committee complies with the requirements of the UK Corporate Governance Code.

Executive Director remuneration policy
The Company's executive remuneration policy for Directors and senior management is comparable to FTSE 100 and other international mining companies and is designed to attract and retain high quality executive talent at the top level that will help maximise shareholder value.

The table below sets out the basis for the remuneration of Mr Nesis, the Chief Executive Officer and the only executive Board Director.

| Element | Policy and objectives | Details |
|---|---|---|
| Base salary | ■ Provides the fixed element of the remuneration package<br>■ Competitive base salary to attract and retain high calibre executives based on personal profile and relevant experience<br>■ Takes into account the overall potential value of the package | ■ The Committee reviews base salary annually<br>■ Any increases are determined with reference to underlying Company performance and benchmarking against FTSE 100 and global mining peers and also within the context of salary increases provided to employees throughout the Group |
| Annual bonus | ■ Designed to focus on achieving annual performance goals, which are based on the Company's KPIs and strategy<br>■ Maximum and target annual incentives are expressed as a percentage of base salary<br>■ Currently paid 100% in cash<br>■ With effect from the 2013 bonus, 50% of annual bonus earned will be paid in cash and the remaining 50% will be compulsorily deferred into shares, released annually to the employee during the next three years in equal instalments | ■ Target bonus opportunity – 100% of base salary<br>■ Maximum bonus opportunity – 150% of base salary<br>■ Performance metrics for the CEO for 2012 and 2013 include:<br>- production<br>- total cash costs<br>- completion of new projects on time and within budget; and<br>- health and safety<br>■ Compulsory bonus deferral over three years starting from 2013, with one third released each year<br>■ Deferred bonus settled in shares to encourage retention and alignment with shareholders<br>■ Claw-back provisions will apply for the unvested portion |
| The new Long-Term Incentive Plan | ■ Provides long-term alignment with shareholders' interests<br>■ Aligns long-term incentive provision with UK market practice<br>■ Stretching performance targets reward participants for delivering positive absolute and superior relative TSR performance against global peers over a long-term horizon | ■ If approved by shareholders at the AGM in June 2013, the plan will replace the legacy long-term employee incentive programme (see page 109)<br>■ The plan provides for annual rolling awards with a four year vesting period and an additional mandatory holding period of one year following vesting<br>■ Performance condition – relative TSR measured against the constituents of the FTSE Gold Mines Index and absolute TSR of Polymetal share above zero<br>■ 20% vesting for median performance and 100% for performance in top decile of the FTSE Gold Mines Index<br>■ 150% of base salary policy grant to CEO<br>■ Claw-back provisions will apply for the unvested portion |
| Pension and other benefits | The Company does not fund any pension contributions or benefits except for contributions to mandatory pension fund of the Russian Federation as required by Russian law | |

### Remuneration policy for other senior executives

The remuneration policy described above for the Chief Executive is consistent in structure and key performance indicators with the policy of the other members of the Company's executive team and broader management team of the Group.

Whilst the value of remuneration will vary throughout the Group depending on the role, criticality to the business and level of seniority, the remuneration of all senior executives consists of base salary, an annual bonus and participation in the new LTIP. Employees up to three levels below the Board (up to 200 employees throughout the Group) are expected to participate in the LTIP at the discretion of the Remuneration Committee following its approval at the AGM in June 2013.

### Chief Executive – Remuneration elements

**Base salary**

Mr Nesis receives a salary of RUB14,400,000 per annum (equivalent to US$463,000 in 2012) under his employment contract with Polymetal.

Following a review of the total remuneration package of the CEO, the pay and employment conditions of the broader executive team and other employees of the Group, and benchmarking performed against FTSE and global peers, it has been decided that for a second year in a row there will be no increase in the base salary of the CEO for 2013.



**Annual bonus**

Variable remuneration comprises an annual bonus opportunity subject to the achievement of stretching performance criteria. The CEO's bonus is based on achievement of the following performance metrics:

| KPIs | Weight |
|---|---|
| Production | 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% |

The maximum bonus payable is 150% of base salary and the bonus at target performance is 100% of base salary. Annual bonus is payable for achieving target performance on a sliding scale. No bonus is payable unless at least 90% of the annual budget for the relevant KPIs has been achieved. The maximum bonus becomes payable for achieving 110% of the annual budget.

Currently any bonus earned is paid fully in cash. Starting from any bonus earned in respect of 2013, the Committee has introduced mandatory deferral of 50% of annual bonus into shares, with one third of the shares released each year following the year when the respective annual bonus is earned.

The table below summarises the actual KPIs achieved in 2012:

| KPIs | Actual performance |
|---|---|
| Production | 1,063 Koz, 31% growth |
| Total Cash Cost per ounce of gold equivalent produced | US$703/GE oz, 0% increase |
| Completion of new projects on time and within budget | Amursk POX and Kubaka Merrill-Crowe plants launched |
| Health and safety | 0 fatalities, second year in a row |

As a result, the annual bonus receivable by Mr Nesis for 2012 is US$542,000, or 118% of base salary.

Following a review of the KPIs of the CEO and benchmarking against FTSE and global peers, it has been decided that there will be no changes in the CEO's annual bonus opportunity and structure of KPIs for 2013.

**The new Long-Term Incentive Programme**

In April 2013, following a detailed review of market practice and the remuneration packages of the Company's executive management, at the recommendation of the Remuneration Committee, the Board of Directors proposed to put in place a new long-term incentive programme (the 'Performance Share Plan') after the vesting of awards under the current Long-term Employee Incentive Programme.

The Board believes that the Performance Share Plan will ensure alignment of the executive team's performance with shareholder interests and provide reward for superior long-term performance and the creation of sustainable shareholder value. The Board also believes that the Plan is in line with and, in some elements beyond UK best practice and fully follows the provisions of the UK Corporate Governance Code and other relevant guidelines.

The key terms of the proposed Long-Term Incentive Programme are as follows:

| Design element | Description |
|---|---|
| Plan type | Performance Share Plan ('PSP') |
| Participation | ■ CEO and three levels below Board (100 to 200 participants at the discretion of the Remuneration Committee) |
| Policy award level | The proposed award levels are:<br>■ CEO: 150% of base salary<br>■ Executive Committee: 100% of base salary<br>■ Below Executive Committee: 50-100% of base salary |
| Frequency of award | Annual award |
| Performance period and holding period | ■ Four year performance period<br>■ Participants will be required to hold any vested shares for a further year |
| Performance condition | ■ Relative Total Shareholder Return ('TSR') against the constituents of the FTSE Gold Mines Index. In addition, no part of the award will vest unless Polymetal's TSR has increased on an absolute basis<br>■ TSR measured in US Dollars<br>■ For the purposes of measuring TSR, a three month averaging period at the start and end of the performance period will be used<br>■ Retesting of the performance condition in future years will not be allowed under any circumstances<br>■ Unvested awards will be subject to a clawback provision |

| Design element | Description |
|---|---|
| Vesting schedule | Peers are ranked and Polymetal's position determines vesting:<br>■ 0% vest below median<br>■ 20% vests at median<br>■ 100% vests at top decile performance and above<br>■ Straight-line vesting between these points<br>■ 0% vests if absolute TSR is negative, regardless of relative performance |
| Dilution | Awards will normally be settled by newly issued shares, subject to the following dilution limits:<br>■ The number of shares issued under the discretionary executive schemes cannot exceed 5% of the issued share capital of the Company in any ten year rolling period<br>■ The overall number of shares issued under all share plans (including any all employee plans) cannot exceed 10% of the issued share capital of the Company in any ten year rolling period |

The Performance Share Plan will be put to a shareholder vote at the AGM in June 2013 and, following approval by shareholders, will be implemented upon vesting of the current Employee Incentive Programme (see details on page 109).

### Shareholding requirements
There is an increasing view from shareholders and other commentators that there should be a requirement for significant long-term shareholding by senior executives. Therefore, the Committee is proposing to implement substantial minimum shareholding requirements for the Chief Executive Officer and the executive management team, with the following minimum levels set:

- Chief Executive Officer – 500% of base salary.
- Chief Financial Officer – 250% of base salary.
- Other executives reporting to CEO – 100% of base salary.

These requirements have been set by the Committee at a level that is significantly above typical market practice for companies of Polymetal's size in keeping with the Company's objective to be consistent with best practice and to further strengthen the alignment between executives and shareholders. The position should be built over four years and can include vested shares received under short-term and long-term remuneration schemes.

### Pension and retirement benefits
Save for the Group's contributions to the mandatory pension fund of the Russian Federation during the financial year ended 31 December 2012, no amounts were set aside or accrued by the Group to provide pension, retirement or other benefits to the Directors and senior management.

### Executive Director – appointment and service contract
Mr Nesis has entered into an appointment letter 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 LSE 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. 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 one month's notice. He is not entitled to receive any compensation in respect of his role as Director on termination of this appointment.

On 25 July 2008, JSC Polymetal, a 100% 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 2008 and was subsequently amended on 5 September 2011. The contract was entered into for a period of five years and expires on 31 August 2013. Under the terms of the contract the Chief Executive Officer undertakes to perform general management of JSC Polymetal, arrange for its commercial, economic, social and other activities with a view to provide for JSC Polymetal's further development. The employment contract does not contain any specific grounds for early termination. The contact can be terminated at any time on one month's notice by Mr Nesis and with immediate effect by JSC Polymetal in accordance with the Russian labour law. This could result in compensation of up to a maximum of three average monthly salaries.



### Remuneration policy – non-executive Directors
The fees of the independent non-executive Directors are set by reference to those paid by other FTSE 100 mining companies. Fees are reviewed, but not necessarily increased, annually. No fees are paid to the non-independent non-executive Directors. The table below shows the remuneration policy in place for non-executive Directors.

| Role | Fee |
|---|---|
| Non-executive Chairman | £250,000 |
| Senior Independent Director | No additional fee |
| Independent non-executive Director basic fee | £100,000 |
| **Additional fees** | |
| Audit and Risk Committee Chairman | £30,000 |
| Chairmen of other Committees | £15,000 |
| Committee membership fee (not payable to the Committee Chairmen) | £10,000 |
| Board and Committee meeting attendance fee | £3,000 per meeting |

Non-executive Directors are not entitled to receive any pension benefits or options in the Company.

### Non-executive Directors' letters of appointment
Non-executive Directors do not have service contracts but their terms are set out in a letter of appointment. The appointment of each of the non-executive Directors took effect on and 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 appointment. Each non-executive Director is subject to confidentiality restrictions without limitation in time.

| Director | Date of letter of appointment | Notice period by Company or Director |
|---|---|---|
| Bobby Godsell | 29 September 2011 | 1 month |
| Charles Balfour | 29 September 2011 | 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 |

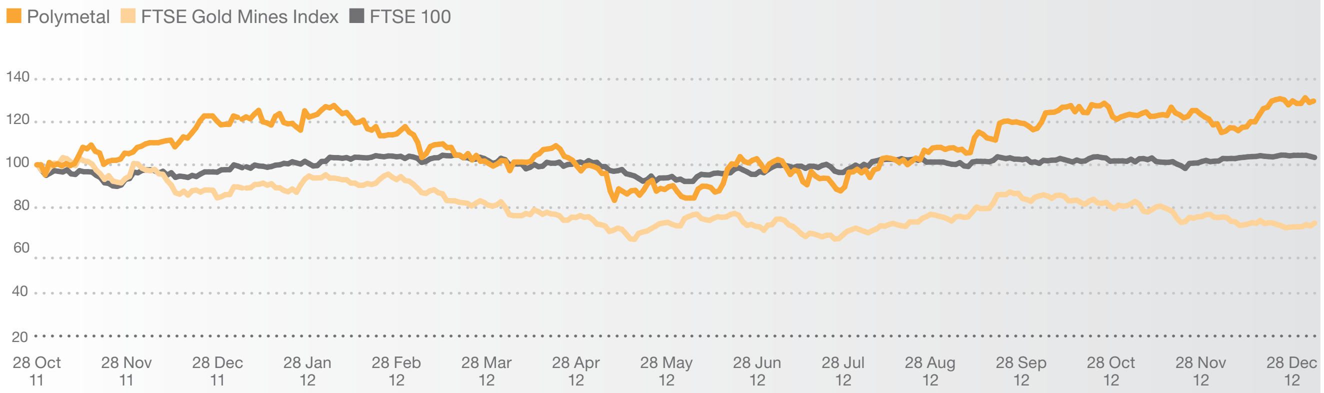
The full terms and conditions of appointment of non-executive Directors are available for inspection at the Company's registered office in Jersey.

### Amounts paid to third parties
No consideration was paid to or became receivable by third parties for making available the services of any person as a Director of the Company, or while a Director of the Company, as a Director of any of the Company's subsidiary undertakings, or otherwise in connection with the management of the Company or any undertaking during the year ended 31 December 2012.

### Total shareholder return
The total shareholder return graph below represents performance of the Company's shares against the FTSE 100 index and FTSE Gold Mines Index for the period since the admission of the Company's shares to trading on the London Stock Exchange to 31 December 2012. The Committee considers that the selected FTSE 100 index and FTSE Gold Mines Index are the most appropriate benchmarks for the Company as it is a constituent of both of these indexes and its performance is measured externally and internally against them.

# Remuneration report
continued

## Total shareholder return (%)




### Directors' share interests

As at 31 December 2012, the Directors who served during the year and subsequently, together with their and their families' beneficial interests in shares in the Company were as follows:

| Director | As at 31 December 2012 Number of shares | As at 31 December 2012 Percentage of issued share capital (%) | As at 31 December 2011 Number of shares | As at 31 December 2011 Percentage of issued share capital (%) |
|---|---|---|---|---|
| Bobby Godsell | – | 0.00 | – | 0.00 |
| Vitaly Nesis[1] | 3,000,000 | 0.78 | 3,000,000 | 0.78 |
| Jonathan Best | – | 0.00 | – | 0.00 |
| Russell Skirrow | – | 0.00 | – | 0.00 |
| Leonard Homeniuk | – | 0.00 | – | 0.00 |
| Charles Balfour | – | 0.00 | – | 0.00 |
| Konstantin Yanakov | – | 0.00 | – | 0.00 |
| Marina Grönberg | – | 0.00 | – | 0.00 |
| Jean-Pascal Duvieusart | – | 0.00 | – | 0.00 |

[1] In addition to the 3,000,000 shares held by Mr Nesis, Mr Nesis has been granted the option to acquire a number of shares in 2013 or 2014, pursuant to a prescribed formula which is linked to share price performance. The maximum number of shares that Mr Nesis can acquire is 12,000,000. See page 109 for further details. Subsequent to 31 December 2012, Vitaly Nesis acquired an additional 100,000 shares in the Company taking his holding to 3,100,000 shares.

### Audited information
**Directors' emoluments (US$)**

| Name of Director | Fees/Basic salary | Pension contributions | Annual bonus | Total 2012 | Total 2011 |
|---|---|---|---|---|---|
| **Executive** | | | | | |
| Vitaly Nesis | 458,051 | 37,261 | 542,091 | **1,037,403** | 1,138,013 |
| **Non-executive** | | | | | |
| Bobby Godsell | 449,253 | – | – | **449,253** | 79,579 |
| Jonathan Best | 264,997 | – | – | **264,997** | 160,371 |
| Russell Skirrow | 208,051 | – | – | **208,051** | 184,304 |
| Leonard Homeniuk | 236,220 | – | – | **236,220** | 164,815 |
| Charles Balfour | 258,418 | – | – | **258,418** | 46,563 |
| Konstantin Yanakov | – | – | – | **–** | – |
| Marina Grönberg | – | – | – | **–** | – |
| Jean-Pascal Duvieusart | – | – | – | **–** | – |
| **Total non-executive** | 1,416,939 | – | – | **1,416,939** | 635,634 |
| **Total** | 1,874,990 | 37,261 | 542,091 | **2,454,342** | 1,773,646 |

Note: where Directors were previously Directors of JSC Polymetal, their remuneration for the full 12 months 2012 and 2011 is shown.



### Directors' share options under the Long-term Employee Incentive Programme

| Director | At 1 January 2012 | Awarded during the year | Exercised during the year | At 31 December 2012 | Expiry date | Weighted average exercise price |
|---|---|---|---|---|---|---|
| Vitaly Nesis | **12,000,000** | – | – | **12,000,000** | 11 June 2013/11 June 2014 at the election of participant | 1 pence |

No share options vested or were exercised in 2012. There have been no variations to the terms and conditions or performance criteria for share options during the financial year. No options were granted to Mr Nesis or other Directors in 2012.

The Long-term Employee Incentive Programme ('EIP') was adopted in September 2010, prior to the Company's IPO, to reward key senior executives, including the CEO, for increasing the share price and delivering superior performance over a long-term horizon. A total of over 150 employees participate in the EIP, selected at the discretion of the Board.

The principal terms of the EIP, are summarised below:

- The **total size** of the Bonus Fund is to be determined according to a prescribed formula, which is linked to share price performance.
- **Exercise price**: Shares from the Bonus Fund may be purchased by Participants at the price of one penny per share.
- **Maximum number of shares**: 30 million shares for the EIP as a whole; maximum number of shares awarded to each participant is described in performance conditions below.
- **Performance conditions**: the number of shares awarded to each Participant from the Bonus Fund is based on certain non-financial performance criteria, such as job performance and career growth potential, all at the discretion of the Board or the executive management.
- The Employee Incentive Programme **vesting date** is 11 June 2013 and may, with respect to a particular Participant, at such Participant's discretion during an election window of 11 June 2013 to 11 July 2013, be postponed for one year until 11 June 2014.
- **Vesting period**, if 2013 is chosen, is 2.6 years which is shorter than the three years recommended by the UK Code. If 2014 is chosen, the vesting period is 3.6 years.
- **Vesting mechanism**: in the base case scenario the aggregate number of shares comprising the Bonus Fund will be determined on June 11, 2013 (the 'Programme Implementation Date') according to the following formula:
  BF = M * (X – S)/X, where M – Maximum Number of shares; X – Average Weighted Price of a share (quotation period from 11 December 2012 to 11 June 2013); and
  S – Strike Price (US$16.74 per share) adjusted by the amounts of dividends paid.

  e.g, if the share price during the quotation period is US$18.00, then the Bonus Fund will be determined as (18.00 – 16.74)/18.00 = 7% of the Maximum Number of shares.

The possible deviations from the base case scenario include:

- extension of the participants' rights to purchase shares from the Bonus Fund by one year (at the sole discretion of each participant) until 11 June 2014. In this case, X will be equal to the weighted average price of Polymetal shares in US Dollars during the quotation from 11 December 2013 to 11 June 2014, and S will be equal to US$18.75 per share; and
- the option to execute the rights to purchase all or part of the shares from the Bonus Fund before the Programme Implementation Date under certain circumstances, such as change of control of the Company. In this case, both X and S will be adjusted accordingly.

Each time the dividends upon shares are paid prior to the Exercise Date, the Strike shall be reduced by the amount calculated according to the following formula:
D*1.12^(T/365), where D – dividend paid per share;
T – number of calendar days from the date of payment of dividends to the relevant Exercise Date.

### Additional disclosures required by the Regulations

The market price of the ordinary shares at 31 December 2012 was £11.75 (US$19.08) and the range during the year was £7.65 (US$11.75) to £11.89 (US$19.26). This compares with the minimum price for any EIP vesting of US$16.74.

### Approval

This report was approved by the Board of Directors on 24 April 2013 and signed on its behalf by:

**Leonard Homeniuk**
Chairman, Remuneration Committee

## 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 IFRS. 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 IFRS 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 directors' 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

**Bobby Godsell**
Chairman of the Board of Directors

**Vitaly Nesis**
Chief Executive
24 April 2013



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

We have audited the Group financial statements (the financial statements) of Polymetal International plc for the year ended 31 December 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by European Union.

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.

**Respective responsibilities of directors and auditor**
As explained more fully in the Statement of Directors' Responsibilities, 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.

**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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**
In our opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by European Union; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following matters, where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- 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; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

**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.

We have reviewed the Directors' statement, contained within the Directors' Report, in relation to going concern as if the Company had been incorporated in the UK and have nothing to report to you in that respect.

Christopher Thomas

**Christopher Thomas**
for and on behalf of Deloitte LLP
Chartered Accountants and Recognised Auditor
London, UK
24 April 2013

## Consolidated income statement

| | Notes | Year ended 31 December 2012 US$'000 | 31 December 2011 US$'000 |
|---|---|---|---|
| Revenue | 6 | **1,854,065** | 1,326,430 |
| Cost of sales | 7 | **(889,565)** | (635,337) |
| **Gross profit** | | **964,500** | 691,093 |
| General, administrative and selling expenses | 11 | **(181,648)** | (160,026) |
| Other operating expenses | 12 | **(153,855)** | (78,344) |
| Share of loss of associates and joint ventures | 20 | **(1,804)** | (1,952) |
| Operating profit | | **627,193** | 450,771 |
| (Loss)/Profit on disposal of subsidiaries | 4 | **(10,709)** | 4,931 |
| Gain on acquisition of remaining interest in joint venture | 20 | **21,051** | – |
| Net foreign exchange gains/(losses) | | **6,677** | (13,634) |
| Change in fair value of derivative financial instruments | 29,30 | **–** | (1,855) |
| Change in fair value of contingent consideration liability | 29,30 | **(4,717)** | (6,828) |
| Finance income | | **4,657** | 4,208 |
| Finance costs | 15 | **(26,787)** | (28,746) |
| **Profit before income tax** | | **617,365** | 408,847 |
| Income tax expense | 16 | **(216,204)** | (118,985) |
| **Profit for the financial year** | | **401,161** | 289,862 |
| **Profit for the year attributable to:** | | | |
| Equity shareholders of the Parent | | **394,348** | 289,323 |
| Non-controlling interest | | **6,813** | 539 |
| | | **401,161** | 289,862 |

| | | **US$** | US$ |
|---|---|---|---|
| Earnings per share | | | |
| Basic | 31 | **1.03** | 0.79 |
| Diluted | 31 | **1.03** | 0.74 |

| | Year ended 31 December 2012 Cents per share | 31 December 2011 Cents per share | 31 December 2012 $'000 | 31 December 2011 $'000 |
|---|---|---|---|---|
| Final dividend proposed in relation to the year (Note 17) | **31** | 20 | **119,034** | 76,537 |
| Special dividend declared (Note 17) | **50** | – | **191,343** | – |

## Consolidated income statement of comprehensive income

| | Year ended 31 December 2012 US$'000 | 31 December 2011 US$'000 |
|---|---|---|
| **Profit for the financial year** | **401,161** | 289,862 |
| *Other comprehensive income/(loss)* | | |
| Effect of translation to presentation currency | **110,550** | (115,474) |
| **Total comprehensive income for the financial year** | **511,711** | 174,388 |

| | Year ended 31 December 2012 US$'000 | 31 December 2011 US$'000 |
|---|---|---|
| **Total comprehensive income for the financial year attributable to:** | | |
| Equity Shareholders of the Parent | **494,776** | 185,033 |
| Non-controlling interest | **16,935** | (10,645) |
| | **511,711** | 174,388 |



## Consolidated balance sheet

| | Notes | 31 December 2012 US$'000 | 31 December 2011 US$'000 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 18 | **2,149,400** | 1,901,974 |
| Goodwill | 19 | **115,106** | 108,587 |
| Investments in associates and joint ventures | 20 | **29,822** | 23,558 |
| Non-current loans | 21 | **14,811** | 8,962 |
| Deferred tax asset | 16 | **58,024** | 62,118 |
| Non-current inventories | 22 | **100,972** | 58,222 |
| **Total non-current assets** | | **2,468,135** | 2,163,421 |
| Current inventories | 22 | **859,856** | 599,312 |
| VAT receivable | | **103,192** | 111,887 |
| Trade and other receivables | 23 | **107,596** | 67,991 |
| Prepayments to suppliers | | **31,044** | 38,912 |
| Income tax prepaid | | **14,481** | 11,787 |
| Cash and cash equivalents | 24 | **18,622** | 658,795 |
| **Total current assets** | | **1,134,791** | 1,488,684 |
| **Total assets** | | **3,602,926** | 3,652,105 |
| **Liabilities and shareholders' equity** | | | |
| Accounts payable and accrued liabilities | 27 | **(312,218)** | (107,404) |
| Current borrowings | 25 | **(244,211)** | (348,429) |
| Share purchase obligation under MTO | | **–** | (534,597) |
| Income tax payable | | **(63,021)** | (13,366) |
| Other taxes payable | | **(72,119)** | (21,327) |
| Environmental obligations | 26 | **(1,565)** | – |
| **Total current liabilities** | | **(693,134)** | (1,025,123) |
| Non-current borrowings | 25 | **(619,612)** | (654,666) |
| Contingent consideration liability | 29 | **(25,276)** | (22,290) |
| Deferred tax liability | 16 | **(75,938)** | (79,342) |
| Environmental obligations | 26 | **(65,128)** | (54,463) |
| Other non-current liabilities | | **(134)** | (1,623) |
| **Total non-current liabilities** | | **(786,088)** | (812,384) |
| **Total liabilities** | | **(1,479,222)** | (1,837,507) |
| **NET ASSETS** | | **2,123,704** | 1,814,598 |
| Stated capital account | 31 | **1,576,123** | 1,566,386 |
| Treasury shares in JSC Polymetal | | **–** | (395) |
| Share-based compensation reserve | | **119,291** | 59,239 |
| Translation reserve | | **(54,366)** | (151,029) |
| Share purchase obligation under MTO | 1 | **–** | (561,659) |
| Retained earnings | | **482,656** | 753,572 |
| **Total equity attributable to the parent** | | **2,123,704** | 1,666,114 |
| Non-controlling interest | | **–** | 148,484 |
| **Total equity** | | **2,123,704** | 1,814,598 |

The notes on pages 116 to 159 form part of these financial statements.

These financial statements are approved and authorised for issue by the Board of Directors on 24 April 2013 and signed on its behalf by:

**Vitaly Nesis**
Chief Executive
24 April 2013

**Bobby Godsell**
Chairman of the Board of Directors

# Consolidated statement of cash flows

| | Notes | Year ended 31 December 2012 US$'000 | 31 December 2011 US$'000 |
|---|---|---|---|
| **Net cash generated by operating activities** | 34 | **495,835** | 211,956 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | 18 | **(350,807)** | (461,632) |
| Consideration for acquisitions | 4 | **(20,797)** | (4,761) |
| Proceeds from disposal of subsidiary | | **25,000** | 5,300 |
| Convertible loan advanced to Polygon Gold | 20 | **(10,000)** | – |
| Other loans advanced, net | | **(4,559)** | (4,249) |
| Interest received | | **5,686** | 143 |
| Contingent consideration payment | 29 | **(1,227)** | (6,943) |
| **Net cash used in investing activities** | | **(356,704)** | (472,142) |
| **Cash flows from financing activities** | | | |
| Borrowings obtained | 25 | **1,236,036** | 1,695,078 |
| Repayments of borrowings | 25 | **(1,384,913)** | (1,498,518) |
| Proceeds from issuance of shares of the Company | 31 | **–** | 762,641 |
| Purchase of treasury shares in the Company | 31 | **–** | (46,649) |
| Payments on finance lease obligations | | **–** | (5,217) |
| MTO and squeeze-out obligation repayment | | **(568,837)** | – |
| Dividends paid | | **(76,537)** | – |
| **Net cash (used in)/generated by financing activities** | | **(794,251)** | 907,335 |
| Net decrease/increase in cash and cash equivalents | | **(655,120)** | 647,149 |
| Cash and cash equivalents at the beginning of the financial year | 24 | **658,795** | 11,056 |
| Effect of foreign exchange rate changes on cash and cash equivalents | | **14,947** | 590 |
| **Cash and cash equivalents at the end of the financial year** | 24 | **18,622** | 658,795 |

# Consolidated statement of changes in equity

| | Notes | Number of Polymetal International shares outstanding | Stated capital account | Share-based compensation reserve | Treasury shares in JSC Polymetal | Translation reserve | Share purchase obligation | Retained earnings | Total equity attributable to the parent | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2011** | | **n/a** | **865,483** | **7,896** | **(457)** | **(49,443)** | **–** | **537,473** | **1,360,952** | **–** | **1,360,952** |
| Total comprehensive income | | – | – | – | – | (104,290) | – | 289,323 | 185,033 | (10,645) | 174,388 |
| Amortisation of bonus received from depositary | | – | 819 | – | – | – | – | – | 819 | – | 819 |
| Share-based compensation | | – | – | 56,266 | – | – | – | – | 56,266 | 850 | 57,116 |
| Issue of treasury shares in exchange for assets | 4, 31 | – | 66,966 | – | 24 | – | – | – | 66,990 | – | 66,990 |
| Issuance of ordinary shares under ISSF | 31 | 332,641,770 | – | – | – | – | – | – | – | – | – |
| Issuance of share on IPO | 31 | 53,350,000 | 762,641 | – | – | – | – | – | 762,641 | – | 762,641 |
| Purchase of treasury shares in the Company | 31 | (3,305,988) | (46,649) | – | – | – | – | – | (46,649) | – | (46,649) |
| Share purchase obligation under MTO | 31 | – | – | – | – | – | (561,659) | – | (561,659) | – | (561,659) |
| Reclassification to non-controlling interest | | – | (82,874) | (4,923) | 38 | 2,704 | – | (73,224) | (158,279) | 158,279 | – |
| **Balance at 31 December 2011** | | **382,685,782** | **1,566,386** | **59,239** | **(395)** | **(151,029)** | **(561,659)** | **753,572** | **1,666,114** | **148,484** | **1,814,598** |
| Total comprehensive income | | – | – | – | – | 100,428 | – | 394,348 | 494,776 | 16,935 | 511,711 |
| Amortisation of bonus received from depositary | | – | – | – | – | – | – | 1,259 | 1,259 | – | 1,259 |
| Share-based compensation | | – | – | 53,515 | – | – | – | – | 53,515 | 764 | 54,279 |
| Issue of shares in exchange for assets | 4 | 520,422 | 9,737 | – | – | – | – | – | 9,737 | – | 9,737 |
| Dividends | 17 | – | – | – | – | – | – | (267,880) | (267,880) | – | (267,880) |
| Acquisition of non-controlling interest under MTO and Squeeze-out | 1 | – | – | 6,537 | 395 | (3,765) | 561,659 | (398,643) | 166,183 | (166,183) | – |
| **Balance at 31 December 2012** | | **383,206,204** | **1,576,123** | **119,291** | **–** | **(54,366)** | **–** | **482,656** | **2,123,704** | **–** | **2,123,704** |

## 1. General

### Corporate information

Polymetal International plc (the Company) was incorporated on 29 July 2010 as a public limited company under Companies (Jersey) Law 1991.

On 2 November 2011, the Company was admitted to the Official List of the UK Listing Authority and commenced trading on the London Stock Exchange's premium listed market. The Company became the new ultimate parent company of Joint Stock Company Polymetal (JSC Polymetal) and its subsidiaries, joint ventures and associates (the JSC Polymetal Group) and owned 83.26% of the issued share capital of JSC Polymetal as at 31 December 2011, with 8.11% held by third parties and 8.63% effectively held as treasury shares.

On 17 February 2012, the Company executed the Mandatory Tender Offer ('the MTO') made on 23 November 2011 at a cost of US$534 million acquiring 30,317,610 shares in JSC Polymetal via its wholly-owned subsidiary PMTL Ltd.

On execution of the MTO, Otkritie Securities Ltd tendered the shares it had legally acquired in JSC Polymetal, which for accounting purposes were then effectively transferred from being shown as treasury shares in JSC Polymetal to being held by PMTL Ltd with a corresponding reduction in the level of the non-controlling interest. The Group settled the loan balance with Otkritie Securities Ltd through a payment of US$250 million.

Through these two transactions, the Company's holding in JSC Polymetal increased to 397,287,592 Ordinary Shares, representing approximately 99.48% of the total share capital of JSC Polymetal. On 20 April 2012, the Company delivered notice of its intention to proceed with a statutory squeeze out (i.e. purchase) of the remaining JSC Polymetal shares on terms and within the period as provided under applicable Russian law. In the period to 10 July 2012 2,087,408 additional shares in JSC Polymetal were acquired such that at that date the Company's holding in JSC Polymetal had further increased to 399,375,000 shares, representing 100% of the total share capital of JSC Polymetal.

Total cash outflows in respect of the MTO and Squeeze Out for the year amounted to US$569 million, offsetting the share purchase liability recognised when the offer was initially made. This comprised MTO payments of US$534 million and other payments of US$35 million.

On execution of the MTO and the Squeeze Out, the non-controlling interest balance in reserves was derecognised in proportion to the percentage acquired in the period, with the minority's share of the other reserves previously transferred to 'non-controlling interests' on the original formation of the Group transferred back. The treasury shares balance and the share purchase obligation reserve were also eliminated. The difference of US$399 million was recognised within retained earnings.

### Significant subsidiaries

As disclosed above at 31 December 2012, the Company held an effective 100% interest in JSC Polymetal. Through this subsidiary, the Company held the following significant mining and production subsidiaries:

| | | | Effective interest held by JSC Polymetal, % | |
|---|---|---|---|---|
| Name of subsidiary | Deposits | Country of incorporation | **31 December 2012** | 31 December 2011 |
| CJSC Gold of Northern Urals | Vorontsovskoye | Russia | **100** | 100 |
| LLC Okhotskaya Mining and Exploration Company | Khakandjinskoye | Russia | **100** | 100 |
| | Yurievskoye | | | |
| | Avlayakan | | | |
| | Ozernoye | | | |
| CJSC Magadan Silver | Dukat | Russia | **100** | 100 |
| | Lunnoye | | | |
| | Arylakh | | | |
| | Goltsovoye | | | |
| Mayskoye Gold Mining Company LLC | Mayskoye | Russia | **100** | 100 |
| Omolon Gold Mining Company LLC | Kubaka | Russia | **100** | 100 |
| | Birkachan | | | |
| | Sopka Kvartsevaya | | | |
| Albazino Resources Ltd | Albazino | Russia | **100** | 100 |
| Amur Hydrometallurgical Plant LLC | N/A | Russia | **100** | 100 |
| JSC Varvarinskoye | Varvarinskoye | Kazakhstan | **100** | 100 |

### Significant shareholders

At 31 December 2012, the significant shareholders in the Company were: Pearlmoon Limited, the ultimate beneficial owner of which is Petr Kellner (20.83%), Powerboom Investments Limited, the ultimate beneficial owner of which is Alexander Nesis (17.87%), Vitalbond Limited and its affiliated companies, the ultimate beneficial owner of which is Alexander Mamut (10.11%), MBC Development Limited, the ultimate beneficial owner of which is Mr Alexander Mosionzhik (4.44%), and Staroak Limited, the ultimate beneficial owner of which is Mr Oleg Shuliakovskii (4.26%).

Following the admission to trading of shares issued in respect of ZAO 'Maminskaya Gornorudnaya kompania' acquisition (see Note 35) on 9 April 2013, the significant shareholders are as follows: Pearlmoon Limited (20.50%), Powerboom Investments Limited (17.59%), Vitalbond (9.95%), MBC Development Limited (4.36%), Staroak Limited (4.19%) and Morgan Stanley & Co International Plc (4.11%).

### Going concern

In assessing its going concern status, the Directors have taken account of the Group's financial position, anticipated future trading performance, its borrowings and other available credit facilities and its capital expenditure commitments and plans.

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 document and that it is appropriate to adopt the going concern basis in preparing these consolidated financial statements.

### Basis of presentation

The Group's annual consolidated financial statements for the year ended 31 December 2012 are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. IFRS includes the standards and interpretations approved by the IASB including International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value.

The accounting policies set out in Note 2 have been applied in preparing the consolidated financial statements for the year ended 31 December 2012.

### Reclassifications

Where a change in the presentational format between the prior year and current year financial statements has been made during the period, comparative figures have been restated accordingly.

In the current period shipping expenses have been presented within cost of sales rather than within general, administrative and selling expenses. The comparative information has been revised to be on a consistent basis with costs of US$9.6 million for the year ended 31 December 2011 being reclassified.

At 31 December 2012 US$39 million of ore stock piles at Omolon were classified as non-current inventories following management's assessment that these stock piles will be processed starting from 2016. Previously these amounts were included within current metal inventories. The comparative figures of US$14 million have been restated to be presented on a consistent basis.

At 31 December 2012 US$4 million on capital spare parts were classified as property, plant and equipment rather than non-current inventories. The comparative figures of US$2.3 million have been restated to be presented on a consistent basis.

**1. General** continued

Standards and interpretations in issue not yet adopted

The following new or amended IFRS accounting standards not yet adopted may have a significant impact on the Group:

IFRIC 20 *Stripping Costs* in the Production Phase of a Surface Mine provides a model for accounting for costs associated with the removal of waste during the production phase of a surface mine, including guidance on the apportionment of the costs incurred for obtaining a current and future benefit and how capitalised costs are depreciated. This interpretation applies to annual periods beginning on or after 1 January 2013.

The following new, amended or revised IFRS accounting standards and interpretations not yet adopted are not expected to have a significant impact on the Group:

IFRS 9 *Financial Instruments* – Classification and Measurement reflects the first phase of the IASB's three stage project to replace IAS 39. The first phase deals with the classification and measurement of financial assets and financial liabilities. The standard applies to annual periods beginning on or after 1 January 2015.

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. The standard applies to annual periods beginning on or after 1 January 2014.

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. This standard applies to annual periods beginning on or after 1 January 2014.

IFRS 12 *Disclosures of Interests in Other Entities* will accompany 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. This standard applies to annual periods beginning on or after 1 January 2014.

IFRS 13 *Fair Value Measurement* provides a single framework for all fair value measurements and applies to annual periods beginning on or after 1 January 2014.

An amendment to IAS 1 *Presentation of Financial Statements* which requires items to be grouped in other comprehensive income based on whether those items are subsequently reclassified to profit or loss. The amendment is to be applied for annual periods beginning on or after 1 July 2012.

An amendment to IAS 19 *Employee Benefits* is to be applied retrospectively for annual periods beginning on or after 1 January 2013.

Amendments have been made to IAS 27 *Consolidated and Separate Financial Statements* and it has been reissued as IAS 27 *Separate Financial Statements*. The revised standard prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates in consolidated financial statements are prescribed by IFRS 10, IFRS 11 and IFRS 12. The revised standard is to be applied for annual periods beginning on or after 1 January 2013.

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. The revised standard is to be applied for annual periods beginning on or after 1 January 2013.

Amendments to IFRS 1 *Government loans* and to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* are effective for annual periods on or after 1 January 2013.

Amendments to IAS 32 *Financial Instruments* – Presentation is effective for annual periods on or after 1 January 2014.

**2. Significant accounting policies**

Basis of consolidation

**Subsidiaries**

The consolidated financial statements of the Group include the financial statements of the Company, its subsidiaries and, if applicable, special purpose entities, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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 other members of 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 Parent.

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.

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;

**2. Significant accounting policies** continued

- 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 venture. 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.

### Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control). Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method of accounting.

### Equity method of accounting

Under the equity method, an investment in an associate or jointly controlled entity (investee) 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* (IAS 36) 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.

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). The investment holding companies, including Polymetal International plc, also have a Rouble functional currency as they are in substance an extension of the Russian group and have significant Rouble-denominated intercompany loans in most cases. The functional currency of the Group's entity located in Kazakhstan and operating with significant degree of autonomy 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.

Exchange rates used in the preparation of the consolidated financial statements were as follows:

| | **31 December 2012** | 31 December 2011 |
|---|---|---|
| **Russian Rouble/US Dollar** | | |
| Year end | **30.37** | 32.20 |
| Average for the year | **30.09** | 29.39 |
| **Kazakh Tenge/US Dollar** | | |
| Year end | **150.74** | 148.40 |
| Average for the year | **149.11** | 146.60 |

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.

**2. Significant accounting policies** continued

Foreign currency transactions

Transactions in currencies other than the 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 and leases 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 under the Russian Resource Reporting Code (GKZ), 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. 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. The difference in the depreciation charge which would have been applied had the Group based the depreciation expense on JORC reserves is considered to be immaterial. When there is little likelihood of a mineral right being exploited, or the value of the exploitable mineral right has diminished below cost, an impairment loss is recognised in the consolidated income statement.

Capital construction-in-progress assets are measured at cost less any recognised impairment. Depreciation commences when the assets are ready for their intended use. Mineral exploration and evaluation costs, including geophysical, topographical, geological and similar types of costs, are expensed as incurred. When it has been determined that a mineral property can be economically developed as a result of established proven and probable reserves, the costs incurred in exploration and development of such property, including costs to further delineate the ore body, are capitalised.

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**

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.

Post-production stripping costs are recognised as a component of inventory and included in cost of sales in the same period as the revenue from the sales of inventory is recognised.

**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 the GKZ and JORC Codes.

Leases

**Finance leases**

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are calculated using the effective interest rate method, and allocated between the lease finance cost, which is included in finance cost, and the capital repayment, which reduces the related lease liability payable to the lessor.

**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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. 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 stock piles are stated at the lower of production cost or net realisable value. Production cost is determined as the sum of the applicable expenditures and expenses 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 stock piles are valued at the average cost of mining that ore. Where ore stock piles 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.

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.

**2. Significant accounting policies** continued

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 29.

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.

AFS financial assets

Investments other than those classified as held for trading, held-to-maturity or loans and receivables are classified as available for sale financial assets. These assets are subsequently measured at fair value and unrealised gains and losses are recognised in equity until the investment is disposed or impaired, at which time the cumulative gain or loss previously recognised in equity is included in the consolidated income statement.

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 29.

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 fewer, 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.

**2. Significant accounting policies** continued

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.

### 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 they relate to items that are recognised in the consolidated statement of comprehensive income or directly in equity, in which case, the current and deferred tax 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 bullion 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 price or fixed. But the Group's policy is not to 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 Metal Bulletin (LMB) 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 its accounting 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.

The fair value of share-based payments was calculated by the Group at the grant date using the two-stage Monte-Carlo simulation model. The expense is recognised on a straight-line basis over the vesting period of the awards.

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.

### 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 the 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 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 Omolon Merrill-Crowe plant achieved commercial production in April 2012 and the Albazino mine achieved commercial production in 2011.

The Amursk POX plant commenced commercial production in November 2012.

#### 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.

As a result of this evaluation process, management has determined that its 2012 acquisitions of Semchenskoye and Svetlobor did not meet the definition of a business combination and as such the Group has accounted for these transactions as asset acquisitions (see Note 4).

#### Key sources of estimation uncertainty

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's 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;
- inventory obsolescence and write-downs;
- share-based compensation;
- environmental obligations;
- contingencies; and
- income taxes.

#### 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.

#### 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; and
- carrying value of deferred tax assets and liabilities where changes in estimated reserves affect the carrying value of the relevant assets and liabilities.

#### 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 mine. The units-of-production depreciation calculations are based on proved and probable reserves under the Russian Resource Reporting Code (GKZ), 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. The Group's units-of-production depreciation rates are based on the GKZ reserves figures which are different to the reserves calculated under the JORC reporting code and included into the Group's external reporting.

#### 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.

**3. Critical accounting judgements and key sources of estimation uncertainty** continued

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.

Stock piles and work in-process

In determining mine operating costs recognised in the consolidated income statement, the Group's management makes estimates of 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 2012 the carrying value of the ore stock piles was US$336 million and work in-process was US$66 million.

Share-based compensation

In November 2010, the Group issued equity-settled share appreciation rights to certain employees. Equity-settled share appreciation rights are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the awards is expensed as services are rendered over the vesting period, based on the Group's estimate of the rights that will eventually vest.

The fair value of share-based compensation is measured using the Monte-Carlo two-stage simulation model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The awards include an option, exercisable at the discretion of the participant, to defer the measurement period by one year. For further details see Note 32.

The most significant assumptions used in estimation of the cost of equity-settled stock appreciation rights are: the expected volatility of the Company's share price over the life of the award; the risk-free interest rate used; the level of expected forfeitures and the expectation at the grant date of the dividends to be paid over the life of the awards.

Expected volatility is based on the historical volatility of return on the Company's GDRs.

The risk-free rates used in the valuation model are based on US Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the grant date.

Expected forfeitures are estimated using historical trends of executive director and employee turnover.

At the grant date, the Group had not historically declared dividends. As such, the expected annual dividend per share was therefore nil. Subsequent changes in the Group's dividend policy will be taken into account when valuing options granted in the future.

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 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.

## 4. Acquisitions and disposals

(a) Asset acquisitions

**Veduga**

On 7 February 2012 the Group completed the acquisition from AngloGold Ashanti Holdings PLC (AngloGold) of AngloGold's 50% interest in various companies held in joint venture with Polymetal comprising the AngloGold Ashanti – Polymetal Strategic Alliance for US$20 million. It subsequently entered into a series of transactions with new investors (unrelated parties), retaining a 42.65% economic interest in the principal asset – the Veduga licence. See Note 20 for further information.

**Semchenskoye Zoloto**

On 22 August 2012 the Group acquired 100% interest in 'Semchenskoye Zoloto LLC' (Semchenskoye Zoloto) from Suntsov V.A. (25% interest) and Polister Limited (75% interest), both unrelated parties. Semchenskoye Zoloto holds the exploration licence for Semchenskoye field in Karelia. The Group paid cash consideration of US$0.8 million; in addition, a contingent consideration of US$0.5 million is payable by the Group in case the exploration of the licence area proves to be successful and the mining licence for the new gold deposit is received before 25 December 2014. Another US$1.2 million is payable depending on the level of proved and probable ore reserves of the new deposit.

After evaluation of the possible outcome of the contingency, the Group estimated fair value of the contingent consideration to be US$0.1 million.

Semchenskoye Zoloto does not meet the definition of a business pursuant to IFRS 3 (2008), thus it was accounted for as an acquisition of a group of assets. The Group purchased mineral rights of US$0.8 million and other current liabilities of US$0.024 million.

**Svetlobor**

On 17 December 2012, the Group acquired 24.99% interest in JSC Nevyansk Group (NG), a Russian legal entity whose wholly-owned subsidiary holds a mining and exploration licence for the Svetlobor area. The Group issued consideration in the form of 130,053 new ordinary shares in the Company. Simultaneously, CJSC VTB Capital (VTB) purchased a 75.01% stake in NG in exchange for 390,369 new Polymetal ordinary shares, which were subscribed for by a subsidiary of VTB for a total cash consideration of US$6.9 million.

The Group also entered into legally binding agreement to acquire the 75.01% stake in NG from VTB, as soon as this transaction is approved by the Government Commission on Monitoring of Foreign Investments, for cash consideration of US$6.9 million, plus any interest accrued on this amount at a rate of 7.25% per annum.

The Group determined 17 December 2012 to be the date when it obtained control over NG, and consolidated the acquiree from that date. The cash received from VTB has been accounted for as a loan and included within borrowings (Note 25). NG does not meet the definition of a business pursuant to IFRS 3 (2008) and this transaction has been treated as an acquisition of assets. The allocation of the consideration paid to the assets acquired was as follows:

| | US$'000 |
|---|---|
| **Net assets acquired** | |
| Mineral rights | 9,449 |
| Other assets | 299 |
| Other liabilities | (11) |
| **Net assets acquired** | **9,737** |
| Consideration: | |
| Fair value of shares issued | 9,737 |

**4. Acquisitions and disposals** continued

In the prior year, the following transactions took place:

### Kutyn LLC

On 29 April 2011, the Group acquired a 100% interest in Kutynskaya GGK LLC (Kutyn) from Olsen Business Limited, an unrelated party, in exchange for 3,500,000 JSC Polymetal GDRs. The GDR share price on the acquisition date was US$19.14. The Group acquired Kutyn as it holds the mining licence for Kutyn gold deposit located in the Khabarovsk region.

Kutyn does not meet the definition of a business pursuant to IFRS 3 (2008) thus this acquisition was accounted for as an acquisition of a group of assets. The allocation of the cost of acquisition to the group of assets acquired was as follows:

| | US$'000 |
|---|---|
| Mineral rights | 67,719 |
| Property, plant and equipment | 618 |
| Other liabilities | (1,347) |
| **Net assets acquired** | **66,990** |
| Consideration: | |
| Fair value of GDRs transferred | 66,990 |

### Industriya LLC

On 27 May 2011, the Group acquired a 100% interest in Industriya LLC (Industriya) from Kuzmichev V.V., an unrelated party. The Group acquired Industriya as it holds the hard-rock gold exploration and mining licence for the Elmus property. The Group paid cash consideration of US$1.787 million. Industriya does not meet the definition of a business pursuant to IFRS 3 (2008) thus it was accounted for as an acquisition of a group of assets. The Group purchased mineral rights of US$1.82 million and other current liabilities of US$(0.042) million.

### Office LLC

On 13 May 2011, the Group acquired a 100% interest in Office LLC (Office) from ICT-Kolyma LLC, an unrelated party, for US$10.3 million, of which US$6.2 million was netted against advance provided to ICT-Kolyma LLC in 2010. The Group acquired Office as it holds three storeys of an office premises in Magadan. The cost of the office premises was US$9.76 million, with the residual amount of US$0.56 million representing other assets and liabilities acquired.

### (b) Disposal of subsidiary

In December 2012 the Group disposed of following minor subsidiaries: Ural'skoye GRP LLC, Severno-Ural'skoye GRP LLC and JSC Aurum. For further information on the partial disposal of Amikan Holding Limited, which owns the Veduga gold deposits, see Note 20.

| | Ural'skoye US$'000 | Severno-Ural'skoye US$'000 | Aurum US$'000 | Amikan US$'000 | **Total US$'000** |
|---|---|---|---|---|---|
| **Net assets disposed of:** | | | | | |
| Property, plant and equipment | 295 | 2,749 | 127 | 67,842 | **71,013** |
| Other non-current assets | 1,388 | – | 2,317 | 3,577 | **7,282** |
| Current assets | 1,848 | 1,688 | – | 230 | **3,766** |
| Current liabilities | (549) | (17) | (1,278) | – | **(1,844)** |
| Non-current liabilities | – | (3,572) | – | (17,995) | **(21,567)** |
| | **2,982** | **848** | **1,166** | **53,654** | **58,650** |
| **Consideration receivable** | **1,593** | **1,475** | **3** | **28,000** | **31,071** |
| Fair value of interest in associate undertaking acquired | **–** | **–** | **–** | **20,201** | **20,201** |
| Intercompany debt assigned to acquirer | **–** | **–** | **–** | **(3,331)** | **(3,331)** |
| **Gain/(loss) on disposal** | **(1,389)** | **627** | **(1,163)** | **(8,784)** | **(10,709)** |

In the prior year, the Group disposed of the following subsidiary:

### CJSC Northeastern Coal Company

On 29 June 2011 the Group sold 100% in CJSC Northeastern Coal Company for US$5.3 million to an unrelated party. CJSC Northeastern Coal Company did not perform any operations during 2011. The gain on disposal was calculated as follows:

| | US$'000 |
|---|---|
| Consideration received | 5,300 |
| Carrying value of property, plant and equipment disposed of | (5,725) |
| Carrying value of other liabilities disposed of | 5,356 |
| **Gain on disposal** | **4,931** |

**5. Segment information**

The Group has seven reportable segments:

- Voro (CJSC Gold of Northern Urals);
- Khakanja (LLC Okhotskaya Mining and Exploration Company);
- Dukat (CJSC Magadan Silver);
- Omolon (Omolon Gold Mining Company LLC);
- Varvara (JSC Varvarinskoye);
- Amursk-Albazino (Albazino Resources Ltd, Amur Hydrometallurgical Plant LLC); and
- Mayskoye (Mayskoye Gold Mining Company LLC).

Reportable segments are determined based on the Group's internal management reports and are separated based on the Group's geographical profile. Minor companies and activities (management, exploration, purchasing and other companies) which do not meet the reportable segment criteria are disclosed within Corporate and other. 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 other than Varvara which is 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 amortization, write-downs of inventory to net realisable value, share-based compensation expenses, rehabilitation expenses, gains or losses arising on disposal of subsidiaries, foreign exchange gains or losses, changes in the fair value of derivatives, changes in the fair value of contingent consideration, finance income, finance costs and income tax expenses. The accounting policies of the reportable segments are consistent with those of the Group's accounting policies under IFRS as described in Note 2.

Revenue shown as Corporate and other comprises, principally, intersegment revenue relating to the supply of inventories, spare parts and fixed assets 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.

### 5. Segment information continued

The segment adjusted EBITDA reconciles to the profit before income tax as follows:

| For the year ended 31 December 2012 ($'000) | Voro | Khakanja | Dukat | Omolon | Varvara | Amursk-Albazino | Mayskoye | Total reportable segments | Corporate and other | Intersegment operations and balances | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue from external customers | 268,427 | 302,482 | 672,881 | 295,748 | 215,241 | 99,182 | – | 1,853,961 | 104 | – | 1,854,065 |
| Intersegment revenue | 183 | | | | 674 | 9,730 | | 10,587 | 480,432 | (491,019) | – |
| Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value | 80,890 | 101,429 | 262,198 | 154,934 | 104,674 | 51,937 | – | 756,063 | 366,971 | (400,085) | 722,949 |
| Cost of sales | 103,276 | 131,788 | 294,120 | 205,350 | 118,438 | 73,069 | (3,363) | 922,679 | 366,971 | (400,085) | 889,565 |
| Depreciation included in Cost of sales | (21,539) | (29,477) | (31,698) | (39,422) | (14,033) | (15,496) | – | (151,665) | – | – | (151,665) |
| Write-down of inventory to net realisable value | – | (4) | 71 | (10,571) | 269 | (4,206) | 3,363 | (11,078) | – | – | (11,078) |
| Rehabilitation expenses | (847) | (878) | (295) | (423) | – | (1,430) | – | (3,873) | – | – | (3,873) |
| General, administrative and selling expenses, excluding depreciation, amortization and share-based compensation | 7,823 | 8,833 | 12,487 | 9,279 | 4,329 | 10,297 | 8,779 | 61,827 | 99,428 | (38,323) | 122,932 |
| General, administrative and selling expenses | 20,085 | 15,842 | 23,197 | 15,581 | 5,342 | 11,669 | 9,088 | 100,804 | 157,389 | (76,545) | 181,648 |
| Intercompany SGA expenses | (10,322) | (6,545) | (10,211) | (6,219) | (858) | (1,161) | (147) | (35,463) | (2,759) | 38,222 | – |
| Depreciation included in SGA | (1,940) | (464) | (499) | (83) | (155) | (211) | (162) | (3,514) | (923) | – | (4,437) |
| Share-based compensation | – | – | – | – | – | – | – | – | (54,279) | – | (54,279) |
| Other operating expenses excl. additional tax charges | 6,358 | 14,535 | 20,038 | 7,335 | 6,471 | 11,946 | 2,868 | 69,551 | 17,659 | 734 | 87,944 |
| Other operating expenses | 6,358 | 14,535 | 73,645 | 7,335 | 18,775 | 11,946 | 2,868 | 135,462 | 17,659 | 734 | 153,855 |
| Mining taxes, penalties and accrued interest | | | (53,607) | | (12,304) | | | (65,911) | | | (65,911) |
| Share of loss of associates and joint ventures | | | | | | | | – | 1,804 | | 1,804 |
| **Adjusted EBITDA** | **173,539** | **177,685** | **378,158** | **124,200** | **100,441** | **34,732** | **(11,647)** | **977,107** | **(5,326)** | **(53,345)** | **918,436** |
| Depreciation expense | 23,479 | 29,941 | 32,197 | 39,505 | 14,188 | 15,707 | 162 | 155,179 | 923 | – | 156,102 |
| Rehabilitation expenses | 847 | 878 | 295 | 423 | – | 1,430 | – | 3,873 | – | – | 3,873 |
| Write-down of inventory to net realisable value | – | 4 | (71) | 10,571 | (269) | 4,206 | (3,363) | 11,078 | – | – | 11,078 |
| Mining taxes, penalties and accrued interest | – | 53,607 | – | 12,304 | – | – | 65,911 | – | – | – | 65,911 |
| Share-based compensation | – | – | – | – | – | – | – | – | 54,279 | – | 54,279 |
| **Operating profit/(loss)** | **149,213** | **146,862** | **292,130** | **73,701** | **74,218** | **13,389** | **(8,446)** | **741,066** | **(60,528)** | **(53,345)** | **627,193** |
| Loss on disposal of subsidiaries | | | | | | | | | | | (10,709) |
| Gain on acquisition of remaining interest in joint venture | | | | | | | | | | | 21,051 |
| Foreign exchange | | | | | | | | | | | 6,677 |
| Change in fair value of contingent consideration | | | | | | | | | | | (4,717) |
| Finance income | | | | | | | | | | | 4,657 |
| Finance costs | | | | | | | | | | | (26,787) |
| **Profit before tax** | | | | | | | | | | | 617,365 |
| Income tax expense | | | | | | | | | | | (216,204) |
| **Profit for the year attributable to the equity holders of the parent** | | | | | | | | | | | 401,161 |
| Current metal inventories | 59,437 | 85,282 | 102,062 | 119,023 | 52,097 | 135,059 | 13,515 | 566,475 | 486 | (4,557) | 562,404 |
| Current non-metal inventories | 7,953 | 53,215 | 49,432 | 65,786 | 21,293 | 45,022 | 31,200 | 273,901 | 43,116 | (19,565) | 297,452 |
| Non-current segment assets: | | | | | | | | | | | |
| Property, plant and equipment, net | 90,950 | 146,146 | 449,867 | 255,597 | 153,297 | 584,363 | 320,119 | 2,000,339 | 176,823 | (27,762) | 2,149,400 |
| Goodwill | | 14,238 | 8,737 | | 68,411 | | 23,720 | 115,106 | | | 115,106 |
| Non-current inventory | 4,213 | 7,554 | 10,993 | 48,095 | 5,933 | 9,832 | 10,119 | 96,739 | 4,233 | – | 100,972 |
| Investments in associates | | | | | | | | | 29,822 | | 29,822 |
| **Total segment assets** | **162,553** | **306,435** | **621,091** | **488,501** | **301,031** | **774,276** | **398,673** | **3,052,560** | **254,480** | **(51,884)** | **3,255,157** |
| Additions to non-current assets: Property, plant and equipment | 11,419 | 28,394 | 52,452 | 49,778 | 15,520 | 93,048 | 106,262 | 356,873 | 21,142 | (5,700) | 372,315 |
| Acquired on acquisition of group of assets | – | – | – | – | – | – | – | – | 10,270 | – | 10,270 |

| For the year ended 31 December 2011 ($'000) | Voro | Khakanja | Dukat | Omolon | Varvara | Amursk – Albazino | Mayskoye | Total reportable segments | Corporate and other | Intersegment operations and balances | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue from external customers | 280,206 | 214,114 | 531,964 | 73,417 | 182,004 | 44,689 | – | 1,326,394 | 36 | – | **1,326,430** |
| Intersegment revenue | 458 | 202 | 1,141 | 9,157 | 8,964 | – | – | 19,922 | 459,043 | (478,965) | – |
| Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value | 93,635 | 88,582 | 207,526 | 66,008 | 91,613 | 27,810 | – | 575,174 | 368,128 | (410,311) | **532,991** |
| Cost of sales | 118,463 | 102,473 | 233,771 | 80,482 | 104,737 | 35,701 | 1,893 | 677,520 | 368,128 | (410,311) | **635,337** |
| Depreciation included in Cost of sales | (23,091) | (15,563) | (22,650) | (11,035) | (12,701) | (7,493) | – | (92,533) | – | – | **(92,533)** |
| Write-down of inventory to net realisable value | 16 | 2,476 | (2,657) | (3,352) | (423) | (398) | (1,893) | (6,231) | – | – | **(6,231)** |
| Rehabilitation expenses | (1,753) | (804) | (938) | (87) | – | – | – | (3,582) | – | – | **(3,582)** |
| General, administrative and selling expenses, excluding depreciation, amortization and share-based compensation | 6,778 | 6,713 | 9,679 | 8,355 | 3,972 | 9,185 | 6,093 | 50,775 | 81,919 | (33,906) | **98,788** |
| General, administrative and selling expenses | 16,726 | 11,391 | 18,208 | 8,990 | 5,153 | 10,009 | 6,458 | 76,935 | 140,609 | (57,518) | **160,026** |
| Intercompany expenses in SGA | (8,082) | (4,389) | (8,007) | (533) | (827) | (686) | (119) | (22,643) | (970) | 23,612 | – |
| Depreciation included in SGA | (1,866) | (289) | (522) | (102) | (354) | (138) | (246) | (3,517) | (604) | – | **(4,121)** |
| Share-based compensation | – | – | – | – | – | – | – | – | (57,116) | – | **(57,116)** |
| Other operating expenses excluding listing expenses | 5,071 | 6,136 | 34,031 | 3,396 | 4,194 | 3,171 | 4,165 | 60,164 | 7,066 | 1,603 | **68,833** |
| Other operating expenses | 5,071 | 6,136 | 34,031 | 3,396 | 4,194 | 3,171 | 4,165 | 60,164 | 16,577 | 1,603 | **78,344** |
| Listing expenses | | | | | | | | | (9,511) | | **(9,511)** |
| Share of loss of associates and joint ventures | – | – | – | – | – | – | – | – | 1,952 | – | **1,952** |
| **Adjusted EBITDA** | **175,180** | **112,885** | **281,869** | **4,815** | **91,189** | **4,523** | **(10,258)** | **660,203** | **14** | **(36,351)** | **623,866** |
| Depreciation expense | 24,957 | 15,852 | 23,172 | 11,137 | 13,055 | 7,631 | 246 | 96,050 | 604 | – | **96,654** |
| Rehabilitation expenses | 1,753 | 804 | 938 | 88 | – | – | – | 3,583 | – | – | **3,583** |
| Write-down of inventory to net realisable value | (16) | (2,476) | 2,657 | 3,352 | 423 | 398 | 1,893 | 6,231 | – | – | **6,231** |
| Listing expenses | – | – | – | – | – | – | – | – | 9,511 | – | **9,511** |
| Share-based compensation | – | – | – | – | – | – | – | – | 57,116 | – | **57,116** |
| **Operating profit /(loss)** | **148,486** | **98,705** | **255,102** | **(9,762)** | **77,711** | **(3,506)** | **(12,397)** | **554,339** | **(67,217)** | **(36,351)** | **450,771** |
| Income from disposal of subsidiaries | | | | | | | | | | | **4,931** |
| Foreign exchange (loss) | | | | | | | | | | | **(13,634)** |
| Change in fair value of derivatives | | | | | | | | | | | **(1,855)** |
| Change in fair value of contingent consideration | | | | | | | | | | | **(6,828)** |
| Finance income | | | | | | | | | | | **4,208** |
| Finance costs | | | | | | | | | | | **(28,746)** |
| **Profit before tax** | | | | | | | | | | | **408,847** |
| Income tax expense | | | | | | | | | | | **(118,985)** |
| **Profit for the year attributable to the equity holders of the parent** | | | | | | | | | | | **289,862** |
| Current metal inventories | 48,911 | 49,005 | 92,378 | 89,414 | 39,279 | 47,795 | 16,768 | 383,550 | 214 | (5,057) | **378,707** |
| Current non-metal inventories | 7,379 | 35,099 | 41,897 | 45,621 | 22,175 | 35,327 | 10,679 | 198,177 | 52,526 | (16,194) | **234,509** |
| Non-current segment assets: | | | | | | | | | | | |
| Property, plant and equipment, net | 98,872 | 151,311 | 415,421 | 229,851 | 153,505 | 483,370 | 171,645 | 1,703,975 | 197,999 | – | **1,901,974** |
| Goodwill | – | 13,431 | 8,242 | – | 64,537 | – | 22,377 | 108,587 | | – | **108,587** |
| Non-current inventory | 2,947 | 6,401 | 7,356 | 9,711 | 2,842 | 8,278 | 3,912 | 41,447 | 2,871 | – | **44,318** |
| Investments in associates and joint ventures | – | – | – | – | – | – | – | – | 23,558 | – | **23,558** |
| **Total segment assets** | **158,109** | **255,247** | **565,294** | **374,597** | **282,338** | **574,770** | **225,381** | **2,435,736** | **277,168** | **(21,251)** | **2,691,654** |
| Additions to non-current assets: | | | | | | | | | | | |
| Property, plant and equipment | 12,693 | 39,148 | 71,878 | 74,858 | 15,897 | 155,188 | 94,476 | 464,138 | 19,232 | (3,821) | **479,549** |
| Acquired in acquisition of group of assets | – | – | – | – | – | – | – | – | 79,912 | – | **79,912** |

### 6. Revenue

Revenue analysed by geographical regions of customers is presented below:

| | Year ended 31 December 2012 US$'000 | Year ended 31 December 2011 US$'000 |
|---|---|---|
| Sales within the Russian Federation | **1,055,569** | 859,720 |
| Sales to China | **178,059** | 119,823 |
| Sales to Europe | **219,546** | 207,184 |
| Sales to Kazakhstan | **396,543** | 136,660 |
| Sales to other countries | **2,495** | – |
| **Total metal sales** | **1,852,212** | 1,323,387 |
| Other sales | **1,853** | 3,043 |
| **Total** | **1,854,065** | 1,326,430 |

Metal sales to related parties (sales to Nomos-Bank) are disclosed in Note 33.

Included in revenues for the year ended 31 December 2012 are revenues which arose from sales to three of the Group's largest customers amounting to US$357 million, US$340 million and US$234 million, respectively (2011: US$258 million, US$242 million and US$137 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 2012 | | | 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | Thousand ounces/ tonnes (unaudited) | Average price (US Dollar per troy ounce/ tonne) (unaudited) | US Dollars | Thousand ounces/ tonnes (unaudited) | Average price (US Dollar per troy ounce/ tonne) (unaudited) | US Dollars |
| Gold (thousand ounces) | **593** | **1,631** | **966,463** | 448 | 1,556 | 697,135 |
| Silver (thousand ounces) | **27,797** | **30** | **832,886** | 17,045 | 34 | 580,182 |
| Copper (tonnes) | **7,011** | **7,540** | **52,863** | 6,363 | 7,240 | 46,070 |
| **Total** | | | **1,852,212** | | | 1,323,387 |

### 7. Cost of sales

| | Year ended 31 December 2012 US$'000 | Year ended 31 December 2011 US$'000 |
|---|---|---|
| **Cash operating costs** | | |
| On-mine costs (Note 8) | **404,726** | 319,740 |
| Smelting costs (Note 9) | **335,564** | 264,414 |
| Purchase of ore from third parties | **29,519** | 16,817 |
| Purchase of ore from related parties | **3,035** | – |
| Mining tax | **120,910** | 96,955 |
| **Total cash operating costs** | **893,754** | 697,926 |
| Depreciation and depletion of operating assets (Note 10) | **202,404** | 140,253 |
| Rehabilitation expenses | **3,873** | 3,583 |
| **Total costs of production** | **1,100,031** | 841,762 |
| Increase in metal inventories | **(223,640)** | (215,492) |
| Write-down to net realisable value (Note 22) | **11,078** | 6,232 |
| **Total change in metal inventories** | **(212,562)** | (209,260) |
| Cost of other sales | **2,096** | 2,835 |
| **Total** | **889,565** | 635,337 |

Mining tax is a royalty payable in 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 case if 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 2012 US$'000 | Year ended 31 December 2011 US$'000 |
|---|---|---|
| Consumables and spare parts | **137,788** | 110,695 |
| Services | **161,533** | 120,398 |
| Labour | **100,127** | 83,299 |
| Taxes, other than income tax | **1,168** | 1,839 |
| Other expenses | **4,110** | 3,509 |
| **Total (Note 7)** | **404,726** | 319,740 |

### 9. Smelting costs

| | Year ended 31 December 2012 US$'000 | Year ended 31 December 2011 US$'000 |
|---|---|---|
| Consumables and spare parts | **138,258** | 117,407 |
| Services | **137,339** | 97,666 |
| Labour | **57,063** | 47,088 |
| Taxes, other than income tax | **902** | 178 |
| Other expenses | **2,002** | 2,075 |
| **Total (Note 7)** | **335,564** | 264,414 |

### 10. Depletion and depreciation of operating assets

| | Year ended 31 December 2012 US$'000 | Year ended 31 December 2011 US$'000 |
|---|---|---|
| Mining | **141,491** | 106,402 |
| Smelting | **60,913** | 33,851 |
| **Total (Note 7)** | **202,404** | 140,253 |

Depreciation on 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 in the Group's calculation of Adjusted EBITDA (see Note 5), also excludes amounts absorbed into unsold metal inventory balances.

### 11. General, administrative and selling expenses

| | Year ended 31 December 2012 US$'000 | Year ended 31 December 2011 US$'000 |
|---|---|---|
| Labour | **92,429** | 72,291 |
| Services | **18,430** | 14,580 |
| Share-based compensation | **54,279** | 57,116 |
| Depreciation | **4,437** | 4,122 |
| Other | **12,073** | 11,917 |
| **Total** | **181,648** | 160,026 |

### 12. Other expenses

| | Year ended 31 December 2012 US$'000 | 31 December 2011 US$'000 |
|---|---|---|
| Taxes, other than income tax | **14,205** | 11,278 |
| Mining taxes, penalties and accrued interest (Note 16) | **65,911** | – |
| Listing expenses | **–** | 9,511 |
| Exploration expenses | **32,908** | 30,212 |
| Social payments | **10,544** | 8,692 |
| Housing and communal services | **7,860** | 6,357 |
| Loss on disposal of property, plant and equipment | **9,325** | 6,203 |
| Bad debt allowance | **267** | (1,171) |
| Other expenses | **12,835** | 7,262 |
| **Total** | **153,855** | 78,344 |

Exploration expenses include an US$5.8 million write down of evaluation and exploration assets relating to the Corporate and other segment, where management have decided to suspend development activities relating to the Fevralskoye field.

Mining taxes, 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. US$26.9 million was paid during the year ended 31 December 2012, US$39 million represents accrued expenses as of 31 December 2012 (see Note 34).

### 13. Employee costs

The weighted average number of employees during the year ended December 2012 was:

| | Year ended 31 December 2012 Number | 31 December 2011 Number |
|---|---|---|
| Voro | **901** | 848 |
| Khakanja | **1,132** | 1,021 |
| Dukat | **1,926** | 1,824 |
| Omolon | **1,027** | 913 |
| Varvara | **695** | 657 |
| Amursk-Albazino | **1,119** | 897 |
| Mayskoye | **759** | 617 |
| Corporate and other | **1,434** | 1,274 |
| **Total** | **8,993** | 8,051 |

| | Year ended 31 December 2012 US$'000 | 31 December 2011 US$'000 |
|---|---|---|
| Wages and salaries | **252,152** | 204,379 |
| Social security costs | **53,963** | 40,040 |
| Share-based payment | **54,279** | 57,116 |
| **Total payroll costs** | **360,394** | 301,535 |
| Reconciliation: | | |
| Less: employee costs capitalised | **(50,021)** | (30,250) |
| Less: employee costs absorbed into unsold metal inventory balances. | **(27,590)** | (30,935) |
| **Employee costs included in operating costs** | **282,783** | 240,350 |

Compensation for key management personnel is disclosed within Note 33.

### 14. Auditor's remuneration

| | Year ended 31 December 2012 US$'000 | 31 December 2011 US$'000 |
|---|---|---|
| Fees payable to the auditor and their associates for the audit of the Company's Annual Report | | |
| United Kingdom | **254** | 250 |
| Overseas | **588** | 555 |
| **Total audit fees** | **842** | 805 |
| Audit-related assurance services – half year review | **355** | – |
| Taxation compliance services | **99** | 28 |
| Other services | **10** | 3,482 |
| **Total non-audit fees** | **464** | 3,510 |
| **Total fees** | **1,306** | 4,315 |

Other services provided in the year ended 31 December 2011 relate to services in relation to the Company's listing and capital raising (see Note 1).

### 15. Finance costs

| | Year ended 31 December 2012 US$'000 | 31 December 2011 US$'000 |
|---|---|---|
| Interest expense on borrowings | **18,523** | 20,074 |
| Unwinding discount on borrowings | **4,643** | 5,344 |
| Unwinding of discount on environmental obligations | **3,621** | 3,328 |
| **Total** | **26,787** | 28,746 |

Interest expense on borrowings excludes borrowing costs capitalised in the cost of qualifying assets of US$14.7 million and US$12.5 million during the years ended 31 December 2012 and 2011, respectively. These amounts were calculated based on the Group's general borrowing pool and by applying an effective interest rate of 3.06% and 2.81%, respectively, to cumulative expenditure on such assets.

### 16. Income tax

The income tax expense for the year ended 31 December 2012 is as follows:

| | Year ended 31 December 2012 US$'000 | 31 December 2011 US$'000 |
|---|---|---|
| Current income taxes | **174,444** | 127,671 |
| Excess profit taxes payable in Kazakhstan | **17,111** | – |
| Income tax expense arising in respect of lost litigation | **27,475** | – |
| Deferred income taxes | **(2,826)** | (8,686) |
| | **216,204** | 118,985 |

A reconciliation between the reported amount of income tax expense attributable to profit before income tax for the year ended 31 December 2012 is as follows:

| | Year ended 31 December 2012 US$'000 | 31 December 2011 US$'000 |
|---|---|---|
| **Profit before income tax** | **617,365** | 408,847 |
| Statutory income tax expense at the tax rate of 20% | **123,473** | 81,769 |
| Loss incurred in tax-free jurisdictions | **(4,336)** | 5,998 |
| Share-based compensation | **10,856** | 11,423 |
| Excess profit taxes payable in Kazakhstan | **17,111** | – |
| Income tax arising in respect of lost litigation | **27,475** | – |
| Income tax provision in respect of other exposures | **5,055** | – |
| Tax effect of non-deductible expenses and other permanent differences | **36,570** | 19,795 |
| **Total income tax expense** | **216,204** | 118,985 |

**16. Income tax** continued

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 compensation, 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, CJSC Magadan Silver for the period up to 2009, LLC Okhotskaya Mining and Exploration Company 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.

### Income tax and other expenses arising in respect of lost litigation

The additional income tax charges incurred in respect of litigations in the year total US$27.5 million and comprise US$14.5 million in respect of a case concerning Magadan Silver sales to ABN AMRO in 2007 and US$13.0 million in respect of cases relating to the deductibility of transportation and processing expenses and of foreign exchange losses in Varvara. Including US$5 million of additional income tax exposures provided for and US$17.1 million excess profit tax in Kazakhstan recognised for the first time in 2012, there was total additional income tax expense of US$49.6 million in the year.

The Group has also provided for mining taxes, interest and penalties totalling US$65.9 million which are recognised within Other Operating Expenses (see Note 12). These expenses comprised US$15.0 million in respect of the Magadan Silver/ABN AMRO case, US$9.2 million in respect of the Magadan Silver MET case, US$10.1 million in respect of Varvara litigation and US$31.6 million in respect of other exposures. These principal cases are described below. Other exposures considered possible but not probable and therefore not provided for total to US$3 million and are described in Note 28, Contingent Liabilities.

### Magadan Silver litigation in respect of ABN AMRO sales

On 10 July 2012, the Supreme Arbitration Court of the Russian Federation (SAC) made a final ruling on the tax dispute between CJSC Magadan Silver, a subsidiary of the Group, and tax authorities in relation to the sale of silver by the Group in 2007 pursuant to certain sale contracts with ABN AMRO Bank.

As a consequence of the Supreme Arbitration Court decision, the Group recognised in full the tax liabilities, interest and penalties of US$29.5 million indicated in the judgement. This amount comprised US$14.5 million in income tax and US$15.0 million in mining taxes, penalties and accrued interest (see Note 12).

### Varvara litigation

On 5 November 2012 the Kostanay regional court (in Kazakhstan) issued a ruling on the tax dispute between JSC Varvarinskoye and the tax authorities in respect of the deductibility of non-cash foreign exchange losses and of transportation, treatment and refining charges levied by copper concentrate off-takers. As a consequence of the regional court's decision, the Group recognised liabilities of US$23.1 million as indicated in the judgement. The liability comprised US$13.0 million in income tax and US$10.1 million in penalties and accrued interest recognised within Other Operating Expenses (see Note 12).

### Magadan Silver litigation in respect of Mineral Extraction Tax ('MET')

In March 2012, a field tax audit was concluded in relation to CJSC Magadan Silver with respect to all taxes, duties and contributions to social funds for the period 1 January 2008 to 31 December 2009. As a result of this audit the tax authorities issued an assessment in relation to the alleged misapplication of technical loss limits in the calculation of mineral extraction tax. The case has been heard by the first level of the Russian courts, which ruled in favour of the tax authorities on 21 January 2013. Whilst the Group intends to appeal the decision to the next court, it has provided for liabilities arising comprising US$6.5 million in respect of mineral extraction taxes, and related interest and penalties of US$2.7 million. These amounts are recognised within Other Operating Expenses (see Note 12).

### Other Exposures

At 31 December 2012 the Group had raised an additional provision for certain additional exposures of US$5.0 million in respect of income tax and US$31.6 million in respect of other taxes it considers will likely be payable, plus related interest and penalties. These amounts are recognised within Other Operating Expenses (see Note 12).

### Excess profit taxes in Kazakhstan

Under Kazakhstan law, excess profit taxes arise where a company's profit for the year after tax exceeds 25% of allowable contractual expenses incurred, which was the case for Varvara in 2012. Excess profit tax is calculated on a sliding scale; the additional current tax charge accrued for the year was $17.1 million.

### 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$'000 | Loan US$'000 | Other US$'000 | **Total US$'000** |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2012** | **10,990** | **(7,822)** | **(78,023)** | **4,521** | **53,661** | **(2,624)** | **2,073** | **(17,224)** |
| Charge/(credit) to income statement | 1,654 | (13,484) | 4,576 | 1,343 | 2,068 | 926 | 5,743 | **2,826** |
| Disposal | – | 369 | 2,201 | 88 | 1,378 | – | (578) | **3,458** |
| Exchange differences | 699 | (1,528) | (8,064) | 126 | 514 | (136) | 1,415 | **(6,974)** |
| **At 31 December 2012** | **13,343** | **(22,465)** | **(79,310)** | **6,078** | **57,621** | **(1,834)** | **8,653** | **(17,914)** |

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 (after offset) presented for financial reporting purposes:

| | Year ended | |
|---|---|---|
| | **31 December 2012 US$'000** | 31 December 2011 US$'000 |
| Deferred tax liabilities | **(75,938)** | (79,342) |
| Deferred tax assets | **58,024** | 62,118 |
| | **(17,914)** | (17,224) |

Tax losses carried forward represent amounts available for offset against future taxable income generated by JSC Omolon Gold Mining Company, ZK Mayskoye LLC, Albazino Resources LLC, Amursky Hydrometallurgy Plant LLC and the Company during the period up to 2021. 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 2012 and 31 December 2011 the aggregate tax losses carried forward were US$288.1 million (RUB 8.8 billion) and US$268.3 million (RUB 8.6 billion), respectively.

The Group believes that recoverability of the recognised net deferred tax asset (DTA) of US$57.6 million at 31 December 2012 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 2012. 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:

| Year ended | **31 December 2012 US$'000** |
|---|---|
| 31 December 2014 | **2,888** |
| 31 December 2015 | **7,981** |
| 31 December 2016 | **6,692** |
| 31 December 2017 | **9,982** |
| 31 December 2018 | **28,792** |
| 31 December 2019 | **30,451** |
| 31 December 2020 | **42,087** |
| 31 December 2021 | **60,436** |
| 31 December 2022 | **98,794** |
| **Total loss carried forward for tax purposes** | **288,103** |

**16. Income tax** continued

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$1,712 million (2011: US$1,066.3 million).

**17. Dividends**

On 14 June 2012 a dividend of 20 cents per share was paid to shareholders by the Company resulting in cash outflows of US$76.5 million. No dividends were paid in 2011.

On 5 December 2012, the Board approved the payment of a special dividend of US$0.50 per ordinary share, which will result in a cash outflow of US$191 million. The dividend was paid on 21 January 2013.

A final dividend has been proposed in relation to the year of 31 cents per share (2011: 20 cents per share) giving a total expected dividend of US$119 million (2011: US$76.5 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.

**18. Property, plant and equipment**

| Cost | Exploration and evaluation 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 2011 | 64,542 | 1,280,522 | 64,069 | 453,430 | **1,862,563** |
| Additions | 63,386 | 103,286 | 12,999 | 299,878 | **479,549** |
| Transfers | (7,945) | 208,807 | 8,726 | (209,588) | **–** |
| Change in decommissioning liabilities | – | 5,876 | – | – | **5,876** |
| Acquired on acquisition of group of assets | – | 70,156 | 9,756 | – | **79,912** |
| Eliminated on disposal of subsidiary | (5,383) | – | (342) | – | **(5,725)** |
| Disposals | (13,263) | (12,580) | (1,167) | (120) | **(27,130)** |
| Translation to presentation currency | (6,464) | (96,541) | (6,577) | (32,173) | **(141,755)** |
| Balance at 31 December 2011 | 94,873 | 1,559,526 | 87,464 | 511,427 | **2,253,290** |
| Additions | 66,077 | 123,938 | 18,756 | 163,544 | **372,315** |
| Transfers | (74,723) | 436,721 | (7,187) | (345,964) | **8,847** |
| Change in decommissioning liabilities | – | 3,245 | – | – | **3,245** |
| Acquired on acquisition of group of assets | – | 10,264 | 6 | – | **10,270** |
| Eliminated on disposal of subsidiary | – | (10,815) | (1,114) | – | **(11,929)** |
| Disposals | (7,654) | (19,219) | (1,897) | (2,105) | **(30,875)** |
| Translation to presentation currency | 6,352 | 96,095 | 2,299 | 26,720 | **131,466** |
| **Balance at 31 December 2012** | **84,925** | **2,199,755** | **98,327** | **353,622** | **2,736,629** |

| Accumulated depreciation, amortisation | Exploration and evaluation 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 2011 | – | (208,017) | (11,065) | – | **(219,082)** |
| Charge for the year | – | (155,875) | (6,697) | – | **(162,572)** |
| Disposals | – | 5,949 | 468 | – | **6,417** |
| Translation to presentation currency | – | 22,776 | 1,145 | – | **23,921** |
| Balance at 31 December 2011 | – | (335,167) | (16,149) | – | **(351,316)** |
| Charge for the period | – | (221,114) | (9,521) | – | **(230,635)** |
| Disposals | – | 8,705 | 752 | – | **9,457** |
| Eliminated on disposal of subsidiary | | 8,369 | 389 | | **8,758** |
| Translation to presentation currency | – | (23,328) | (165) | – | **(23,493)** |
| **Balance at 31 December 2012** | **–** | **(562,535)** | **(24,694)** | **–** | **(587,229)** |
| Net book value | | | | | |
| 1 January 2011 | 64,542 | 1,072,505 | 53,004 | 453,430 | **1,643,481** |
| 31 December 2011 | 94,873 | 1,224,359 | 71,315 | 511,427 | **1,901,974** |
| **31 December 2012** | **84,925** | **1,637,220** | **73,633** | **353,622** | **2,149,400** |

Mining assets at 31 December 2012 included mineral rights with net book value which amounted to US$370 million (31 December 2011: US$363.5 million). Mineral rights of the Group comprise assets acquired upon acquisition of subsidiaries and asset acquisitions.

The additions and the disposals of property, plant and equipment in the year ended 31 December 2012 are shown net of US$67.8 million of exploration and development assets recognised on acquisition of a controlling interest in Amikan Holding Ltd in February 2012 and subsequently derecognised on loss of control in that entity following its disposal in May 2012 (see Note 20).

In the period US$9 million of pre-production stripping costs at Mayskoye were transferred from inventory to exploration and development assets (2011: US$nil).

No property, plant and equipment were pledged as collateral at 31 December 2012 and 31 December 2011.

**19. Goodwill**

| | **31 December 2012 US$'000** | 31 December 2011 US$'000 |
|---|---|---|
| **At 1 January** | **108,587** | 114,712 |
| Translation effect | **6,519** | (6,125) |
| **At 31 December** | **115,106** | 108,587 |

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

| | **31 December 2012 US$'000** | 31 December 2011 US$'000 |
|---|---|---|
| Varvara | **68,411** | 64,537 |
| Mayskoye | **23,720** | 22,377 |
| Khakanja | **14,237** | 13,431 |
| Dukat | **8,738** | 8,242 |
| **Total** | **115,106** | 108,587 |

The carrying amount of goodwill is reviewed annually to determine whether it is in excess of its recoverable amount. The recoverable amount of the cash-generating unit is 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, and the tail margin method. The DCF method is attributable to the development of proved and probable reserves. The tail margin method, an extension of the DCF method, is attributable to the development of resources beyond proved and probable reserves, assuming they could be developed after the end of the DCF forecast period. Resources used in calculations are based on the amounts of measured and indicated and inferred resources, which are adjusted for a conversion factor in order to obtain a forecast production figure. A steady state cash flow per unit of subject metal is usually applied to the annual resource recovery amount to determine the total annual cash flow, based on past experience with an appropriate risk adjustment.

The Group used a post-tax nominal discount rate in the DCF calculations equal to its weighted average cost of capital of 9% (2011: 9%). The DCF method used is based on proved and probable reserves and uses the following key assumptions:

- production volumes;
- commodity prices;
- proved and probable reserves; and
- production costs.

Recoverable reserves and resources are based on the proven and probable reserves and resources in existence at the end of the year. Production costs are based on management's best estimate over the life of the mine. Estimated production volumes are based on detailed life of mine plans and take into account development plans for the mines approved by management as part of the long-term planning process. Commodity prices are based on latest internal forecasts, benchmarked against external sources of information.

**19. Goodwill** continued

The tail margin method is used to value resources not currently included within an asset's mine plan. The methodology involves calculating an estimated unit cost per ounce in order to forecast net operating cash flows which are discounted to present value. While applying the tail margin method the Company used the following key assumptions:

- production forecasts were calculated based on the weighted average amount of measured and indicated and inferred resources with a conversion factor of 0.7 for measured and indicated resources and 0.5 for inferred resources; and
- steady state cash flow per unit of subject metal (gold, silver and copper) was determined as the average of cash flows per unit of subject metal for the period during which their values in real terms were relatively stable.

In management's view, no reasonably possible changes in a key assumption would trigger an impairment of goodwill.

**20. Investments in associates and joint ventures**

The Group's investments in joint ventures and associates as at 31 December 2012 and 2011 consisted of the following:

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Voting power % | Carrying value US$'000 | Voting power % | Carrying Value US$'000 |
| **Associates** | | | | |
| JSC Ural-Polymetal | 33.3 | 10,507 | 33.3 | 11,152 |
| Polygon Gold | 42.65 | 19,315 | – | – |
| **Joint ventures** | | | | |
| JV with AngloGold Ashanti Limited | – | – | 50 | 12,406 |
| **Total** | | **29,822** | | 23,558 |

Joint venture with AngloGold Ashanti Limited

In February 2008, the Company signed an agreement to set up a strategic alliance and entered into a series of joint ventures with AngloGold Ashanti Limited with each party owning 50% of each joint venture. The joint ventures were created in order to execute development projects in several territories of the Russian Federation.

On 7 February 2012, the Company acquired AngloGold's 50% equity interest and debt investments in the various joint venture companies held with Polymetal (Note 4). The principal company acquired was Amikan Holding Limited, which owns the Veduga gold deposit in the Krasnoyarsk region of the Russian Federation, with other entities acquired not holding any material assets or liabilities. The consideration for the acquisition was US$20 million in cash comprising US$18.4 million for the equity and US$1.6 million for debt investment in Amikan. At the acquisition date, the Group's existing 50% investment had a carrying value of US$14.2 million together with a loan asset of US$6.9 million. The transaction costs were nil. Amikan Holding Limited meets the definition of a business under IFRS 3 (2008) Business combinations and the transaction was accounted for using the acquisition method. The allocation of the purchase price based on the consideration paid and on the fair value of Amikan net assets acquired is as follows:

| | Pre-transaction book value US$'000 | Fair value adjustment US$'000 | Fair value US$'000 |
|---|---|---|---|
| Exploration and development | 20,188 | 47,654 | 67,842 |
| Deferred tax asset | 3,577 | – | 3,577 |
| Other assets (net) | 230 | – | 230 |
| Borrowings | (8,464) | – | (8,464) |
| Deferred tax liability | – | (9,531) | (9,531) |
| **Net assets acquired** | **15,531** | **38,123** | **53,654** |
| Debt investment acquired | | | 1,572 |
| | | | **55,226** |
| Satisfied by: | | | |
| Carrying value of investment in JV held previously | | | 14,175 |
| Consideration paid in cash | | | 20,000 |
| **Revaluation to fair value of previously held interest** | | | **12,651** |
| **Bargain purchase gain (negative goodwill)** | | | **8,400** |
| **Total** | | | **55,226** |

The total gain on acquisition of the remaining interest in the joint venture was US$21.1 million, comprising a US$12.7 million revaluation to fair value of previously held interest and a bargain purchase gain of US$8.4 million. The bargain purchase gain resulted from AngloGold Ashanti Limited's strategic decision to exit the Russian Federation.

Equity investment in Polygon Gold Inc.

Polygon Gold Inc. ('Polygon'), a private shell company, was initially set up between Polymetal and Tyner Enterprises Inc. ('Tyner') which initially held 250 and 100 shares respectively in the new venture. Tyner is controlled and managed by Len Homeniuk, a non-executive Director of Polymetal International plc.

On 14 May 2012, Polymetal sold 100% of Amikan Holding Limited to Polygon in exchange for consideration of US$20 million in cash and 750 ordinary shares of Polygon. In addition, Sibproekt LLC ('Sibproekt'), an unrelated local partner, provided a US$21 million loan to Polygon and received 100 newly-issued Polygon shares for no consideration. This resulted in Polymetal holding an initial 81.8% equity ownership in Polygon. Under the new shareholder agreement, Polymetal obtained one of the four board seats giving it significant influence.

On 4 June 2012, Polygon's share capital was increased to 1,571 shares by the issuance of 471 new shares to an affiliate of Gazprombank OJSC ('Gazprombank') for a total consideration of US$14.2 million paid in cash. The proceeds from the offering will be used to finance the Veduga project and repay part of Polygon's debt. In addition, Gazprombank has expressed an interest in providing project financing to Polygon to develop Veduga into a producing mine.

On 7 June 2012, Polymetal sold 230 of its shares in Polygon to Sibproekt for a total consideration of US$8.0 million payable in cash, US$5 million of which was paid with US$3.0 million payable by 28 February 2013.

The Group's equity ownership in Polygon Gold Inc. had now decreased to 42.65%. It continued to exercise significant influence over Polygon.

In addition, the Group has provided a US$10 million convertible debt facility to Polygon (see Note 33).

The effects of these transactions are shown on a combined basis below:

| | US$'000 |
|---|---|
| Net assets of subsidiary disposed of (100% basis) | 53,654 |
| Intercompany debt asset transferred to Polygon | 3,331 |
| Less fair value of interest in associate undertaking retained | (20,201) |
| Net assets disposed of | 36,784 |
| **Loss on disposal** | **(8,784)** |
| Total consideration | 28,000 |
| Less unpaid consideration | (3,000) |
| **Proceeds from disposal of subsidiary** | **25,000** |

The above loss on disposal arose partly due to the 6.4% interest in Polygon, which has a fair value of $3 million, being transferred to Tyner, a related party, for a cash consideration of US$ nil in exchange for introducing the other funding partners into the project and for assuming an ongoing management role. The remaining loss arose principally due to the dilution in Polymetal's economic interest as a result of the 100 shares being issued to Sibproekt on 14 May 2012 for no consideration. The Group considers that Sibproekt's local operating expertise will though be of significant benefit to the project.

Equity investment in JSC Ural-Polymetal

In November 2010, a Group subsidiary signed an agreement to establish JSC Ural-Polymetal (Ural-Polymetal), with Valentorskiy Rudnik LLC and Kuzmichev V.V. The Group contributed 100% of its interest in North Ural LLC, a subsidiary of the Group, holding Galka gold, zinc and silver mining licences to Ural-Polymetal. In addition to Galka, assets contributed to Ural-Polymetal by other investors consist of an operating copper and zinc open-pit mine, an operating copper and iron ore underground mine and a processing plant. Within the framework of this agreement the Group, Valentorskiy Rudnik LLC and Kuzmichev V.V. each own 33.3%, 55.7% and 11% of Ural-Polymetal, respectively. Ural-Polymetal was established in order to execute development projects in the North Ural region of the Russian Federation concerned with silver, zinc, copper and iron ore extraction and processing.

### 20. Investments in associates and joint ventures continued

The following tables summarise the aggregate financial position and the Group's share in the net losses of the joint venture with AngloGold Ashanti Limited and the investment in Ural-Polymetal:

| | Polygon Gold Inc | AngloGold Ashanti Limited | JSC Ural-Polymetal | |
|---|---|---|---|---|
| | **31 December 2012 US$'000** | 31 December 2011 US$'000 | **31 December 2012 US$'000** | 31 December 2011 US$'000 |
| Non-current assets | **68,609** | 89,159 | **48,894** | 45,925 |
| Current assets | **13,731** | 477 | **12,970** | 9,229 |
| Non-current liabilities | **(18,150)** | (25,013) | **(10,237)** | (7,582) |
| Current liabilities | **(19,844)** | (2,592) | **(14,651)** | (12,198) |
| Equity | **(44,347)** | (62,031) | **(36,975)** | (35,374) |
| Revenue | **–** | – | **40,794** | 3,266 |
| Net (loss)/income | **(1,658)** | (1,820) | **(3,660)** | 944 |
| Group's share in joint venture's net (loss)/income | **(706)** | (910) | **(1,098)** | 315 |

### 21. Non-current loans

| | Interest rate | **31 December 2012 US$'000** | 31 December 2011 US$'000 |
|---|---|---|---|
| Polygon Gold[1] | 7%-8% | **5,469** | 6,303 |
| Loans extended to third parties | 8.00% | **5,287** | – |
| Employees | 6.00% | **4,055** | 2,659 |
| **Total** | | **14,811** | 8,962 |

[1] Loan is advanced to a subsidiary of Polygon Gold, an associated undertaking, which previously formed part of the joint venture with AngloGold Ashanti Limited (see Note 20 for further details).

### 22. Inventories

| | **31 December 2012 US$'000** | 31 December 2011 US$'000 |
|---|---|---|
| **Inventories expected to be recovered after twelve months** | | |
| Consumables and spare parts | **62,401** | 44,318 |
| Ore stock piles | **38,571** | 13,904 |
| **Total non-current inventories** | **100,972** | 58,222 |
| **Inventories expected to be recovered in the next twelve months** | | |
| Ore stock piles | **297,753** | 202,339 |
| Copper, gold and silver concentrate | **146,406** | 72,973 |
| Work in-process | **65,761** | 48,859 |
| Metal for refining | **21,439** | 17,718 |
| Doré | **31,045** | 22,889 |
| Refined metals | **–** | 24 |
| **Total metal inventories** | **562,404** | 364,802 |
| Consumables and spare parts | **297,452** | 234,510 |
| **Total** | **859,856** | 599,312 |

At 31 December 2012 the gold and silver concentrate included US$50.2 million (31 December 2011: US$45.3 million) in respect of Dukat and Albazino-Amursk. In addition, the Group has presented separately the metal for refining. Previously these amounts were included within work in-process. The comparative figures have been adjusted to be presented on a consistent basis.

At 31 December 2012 US$39 million of ore stock piles at Omolon were classified as non-current inventories following management's assessment that these stock piles will be processed starting from 2016 (31 December 2011: US$14 million). Previously these amounts were included within current metal inventories. The comparative figures have been adjusted to be presented on a consistent basis.

During the year ended 31 December 2012, the Group recognised a US$4 million write-down to net realisable value of its Doré in Albazino-Amursk and US$10 million write-down to net realisable value of its ore stock piles at Omolon due to low content of precious metals. During the year ended 31 December 2011, the Group recognised a US$2.8 million write-down to net realisable value of its ore stock piles in Varvara due to poor gold and copper recovery on ore with lower content of precious metals.



In addition, during the year ended 31 December 2012 the Group wrote-down US$5 million of costs (2011: US$3.5 million) in Omolon which did not significantly enhance the value of the ore stock piles.

During the year ended 31 December 2012 the Group reversed previous obsolescence provisioning against consumables and spare parts inventory in the amount of US$3 million (year ended 31 December 2011: reversal of US$0.6 million).

The amount of inventories held at net realisable value at 31 December 2012 is US$83.7 million (31 December 2011: nil).

### 23. Trade and other receivables

| | **31 December 2012 US$'000** | 31 December 2011 US$'000 |
|---|---|---|
| Trade receivables | **59,508** | 37,609 |
| Non-trade receivables | **30,365** | 24,035 |
| Short-term loans provided to entity under common control | **–** | 1,522 |
| Accounts receivable from related parties | **4,717** | 4,064 |
| Short-term loans provided to employees | **2,765** | 1,426 |
| Short-term loans provided to equity method investments | **11,792** | 315 |
| **Total trade and other receivables** | **109,147** | 68,971 |
| Less: Allowance for doubtful debts | **(1,551)** | (980) |
| **Total** | **107,596** | 67,991 |

Trade receivables mainly relate to JSC Varvarinskoye for their sales of provisionally priced copper and gold concentrate, and to CJSC Magadan Silver and Albazino Resources Ltd for their sales of provisionally priced silver concentrate. Of the trade receivables balance as of 31 December 2012, US$47 million (2011: US$31 million) is due from one customer. There are no other customers who represent more than 10% of the total balance of trade receivables.

The average credit period on sales of copper, gold and silver concentrate at 31 December 2012 was 30 days (2011: 28 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 2012 (31 December 2011: US$ nil).

Non-trade receivables include amounts receivable from sale of fuel or operating lease of machinery to contractors, the average credit period for non-trade receivables at 31 December 2012 was 93 days (2011: 143 days). No interest is charged on non-trade receivables.

Non-trade receivables disclosed above include those that are past due at the end of the reporting period for which the Group has not recognised a bad debt allowance because there has not been a significant change in credit quality and the amounts are still considered to be recoverable. Such past due but not impaired receivables amounted to US$3.7 million as at 31 December 2012 (2011: US$2.8 million), the majority of which mature within 90 days. The Group does not hold any collateral or other security over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

### 24. Cash and cash equivalents

| | | **31 December 2012 US$'000** | 31 December 2011 US$'000 |
|---|---|---|---|
| Bank deposits | – RUB | **–** | 15,695 |
| Bank deposits | – foreign currencies | **4,095** | 629,259 |
| Current bank accounts | – RUB | **5,124** | 2,110 |
| | – foreign currencies | **9,346** | 11,684 |
| Other cash and cash equivalents | | **57** | 47 |
| **Total** | | **18,622** | 658,795 |

Bank deposits as at 31 December 2012 bear interest of 0.3% per annum (2011: 3.5% per annum) with an average maturity at inception of 15 days (2011: 90 days).

### 25. Borrowings

Borrowings at amortised cost:

| | Actual interest rate at 31 December | | | 31 December 2012 | | | 31 December 2011 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Type of rate | **2012** | 2011 | **Current US$'000** | **Non-current US$'000** | **Total US$'000** | Current US$'000 | Non-current US$'000 | Total US$'000 |
| Secured loans from third parties | | | | | | | | | |
| *US Dollar denominated* | Floating | **3.1%** | 3.26% | **222,874** | **485,862** | **708,736** | 337,346 | 615,574 | 952,920 |
| **Total** | | | | **222,874** | **485,862** | **708,736** | 337,346 | 615,574 | 952,920 |
| Unsecured Loans from third parties | | | | | | | | | |
| *US Dollar denominated* | Floating | **2.8%** | – | **–** | **100,000** | **100,000** | – | – | – |
| *US Dollar denominated* | Fixed | **7.35%** | – | **6,859** | **7,712** | **14,571** | – | – | – |
| *Euro denominated* | Floating | **2.8%** | 3.1% | **5,306** | **7,243** | **12,549** | 2,693 | 12,161 | 14,854 |
| **Total** | | | | **12,165** | **114,955** | **127,120** | 2,693 | 12,161 | 14,854 |
| Loans from related parties | | | | | | | | | |
| *Euro denominated* | Floating | **4.4%** | 5.5% | **8,583** | **15,932** | **24,515** | 8,048 | 23,956 | 32,004 |
| *CAD denominated* | Floating | **8%** | 8% | **589** | **711** | **1,300** | 342 | 1,116 | 1,458 |
| *RUB denominated* | Fixed | **5.7%** | 4.3% | **–** | **2,152** | **2,152** | – | 1,859 | 1,859 |
| **Total** | | | | **9,172** | **18,795** | **27,967** | 8,390 | 26,931 | 35,321 |
| | | | | **244,211** | **619,612** | **863,823** | 348,429 | 654,666 | 1,003,095 |

#### 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 Roubles, 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 2012, the Group drew down a total of US$1,236 million and repaid US$1,385 million, a net repayment of US$145 million.

The Group secured three new facilities in the period for a total amount of US$300 million with unrelated parties. Two credit facilities were fully drawn down in the period. The credit facilities are repayable in thirteen and six equal quarterly instalments respectively starting from first quarter 2014. Interest is payable quarterly.

Another credit facility was drawn down in amount of US$7.7 million and is payable in nine quarterly instalments starting from second quarter 2018. Interest is payable quarterly.

Included in the US$1,385 million was the repayment of the Otkritie 'REPO' facility of US$250 million in February 2012. As at 31 December 2012, the Group had US$913 million of undrawn funds available under its credit facilities (2011: US$803 million). The most significant financial covenant in place is that the ratio of net debt to EBITDA must not exceed 3.25.

During the years ended 31 December 2012 and 2011, the Group was in compliance with its debt covenants.

The table below summarises maturities of borrowings:

| **Year ended 31 December** | **US$'000** |
|---|---|
| 2013 | **244,211** |
| 2014 | **312,481** |
| 2015 | **259,805** |
| 2016 | **31,922** |
| 2017 | **7,692** |
| 2018 | **2,571** |
| 2019 | **3,427** |
| 2020 | **1,714** |
| **Total** | **863,823** |



### 26. 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 2012 US$'000** | 31 December 2011 US$'000 |
|---|---|---|
| **Opening balance** | **54,463** | 45,156 |
| Changes in estimates for the year: | | |
| *Decommissioning liabilities* | **3,245** | 5,876 |
| *Rehabilitation liabilities* | **3,873** | 3,583 |
| Effect of unwinding of discount | **3,621** | 3,328 |
| Amounts paid in the year | **(1,479)** | (213) |
| Translation effect | **2,970** | (3,267) |
| **Closing balance** | **66,693** | 54,463 |

The principal assumptions used for the estimation of environmental obligations were as follows:

| | **2012** | 2011 |
|---|---|---|
| Discount rates | **3.74-6.9%** | 3.9-7.28% |
| Inflation rates | **5.67-7.21%** | 5-7.18% |
| Expected mine closure dates | **2-22 years** | 1-23 years |

The expected timings for the settlement of environmental obligations are as follows:

| | **31 December 2012 US$'000** | 31 December 2011 US$'000 |
|---|---|---|
| Within one year | **1,565** | 424 |
| Due from second to fifth year | **18,765** | 11,436 |
| Due from sixth to tenth year | **32,284** | 30,339 |
| Due from eleventh to fifteenth year | **4,318** | 3,687 |
| Due from sixteenth to twentieth year | **3,793** | 3,309 |
| Due thereafter | **5,968** | 5,268 |
| **Total** | **66,693** | 54,463 |

The Group does not hold any assets that are legally restricted for purposes of settling environmental obligations.

### 27. Trade payables and accrued liabilities

| | **31 December 2012 US$'000** | 31 December 2011 US$'000 |
|---|---|---|
| Trade payables | **64,238** | 61,219 |
| Dividends payable (Note 17) | **191,343** | – |
| Accrued liabilities | **40,851** | 27,856 |
| Labour liabilities | **11,978** | 10,049 |
| Other payables | **3,808** | 8,280 |
| **Total** | **312,218** | 107,404 |

In 2012, the average credit period for payables was 51 days (2011: 51 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 payments' schedules to ensure that all amounts payable are settled within the credit period.

## 28. Commitments and contingencies

### Commitments

#### Capital commitments

The Group's budgeted capital expenditure commitments as at 31 December 2012 amounted to US$37 million (2011: US$42.7 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.

#### Operating leases: Group as a lessee

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 2058.

Future minimum lease payments due under non-cancellable operating lease agreements at the end of the period were as follows:

| | 31 December 2012 US$'000 | 31 December 2011 US$'000 |
|---|---|---|
| Due within one year | 1,832 | 1,758 |
| From one to five years | 4,278 | 3,065 |
| Thereafter | 2,702 | 1,594 |
| **Total** | 8,812 | 6,417 |

### Contingencies

#### Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the companies of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in its interpretation of the legislation and assessments.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

During the year, management 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$3 million in respect of contingent liabilities (2011: US$46.7 million).

## 29. 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 2012 and 31 December 2011 the Group held the following financial instruments:

| | 31 December 2012 US$'000 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Receivables from provisional copper, gold and silver concentrate sales | – | 59,508 | – | 59,508 |
| Contingent consideration liability | – | – | (25,276) | (25,276) |
| | – | 59,508 | (25,276) | 34,232 |

| | 31 December 2011 US$'000 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Receivables from provisional copper, gold and silver concentrate sales | – | 37,609 | – | 37,609 |
| Contingent consideration liabilities | – | – | (22,290) | (22,290) |
| | – | 37,609 | (22,290) | 15,319 |

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 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 2012 was US$25 million (2011: US$22.3 million).

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 2012:

| | 31 December 2012 US$'000 | 31 December 2011 US$'000 |
|---|---|---|
| Opening balance | 22,290 | 23,754 |
| Additions | 54 | – |
| Change in fair value, included in profit or loss | 4,717 | 6,828 |
| Translation effect | 53 | (1,349) |
| Settlement | (1,838) | (6,943) |
| **Total** | 25,276 | 22,290 |

Additions in the year represent the contingent consideration payable by the Group on Semchenskoye Zoloto acquisition (see Note 4 for further details).

The directors consider that a change in a reasonably possible valuation assumption used would not have a material effect on the Group.

### 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*.

### Derivatives

The Group closed the open derivative positions at 6 April 2011. The fair value of commodity forward contracts was determined by discounting contractual cash flows using a discount rate derived from observed US Treasury yield curve rates. Contractual cash flows were calculated using a forward pricing curve derived from market forward prices for each commodity (see Note 30).

## 30. 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 25 offset by cash and bank balances as detailed in Note 24) and equity of the Group (comprising the Stated Capital account, reserves and retained earnings as detailed in Note 31).

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.

### 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 2012 US$'000** | 31 December 2011 US$'000 |
|---|---|---|
| **Financial assets** | | |
| ***Financial assets at FVTPL*** | | |
| Receivables from provisional copper, gold and silver concentrate sales | **59,508** | 37,609 |
| ***Loans and receivables, including cash and cash equivalents*** | | |
| Cash and cash equivalents | **18,622** | 658,795 |
| Other receivables | **48,088** | 30,382 |
| Non-current loans | **14,811** | 8,962 |
| **Total financial assets** | **141,029** | 735,748 |
| **Financial liabilities** | | |
| ***Financial liabilities at FVTPL*** | | |
| Contingent consideration liability | **25,276** | 22,290 |
| ***Financial liabilities at amortised cost*** | | |
| Share purchase obligation under MTO | **–** | 534,597 |
| Borrowings | **863,823** | 1,003,095 |
| Dividends payable | **191,343** | – |
| Trade and other payables | **68,046** | 62,738 |
| **Total financial liabilities** | **1,148,488** | 1,622,720 |

Trade and other payables exclude employee benefits and social security.

The carrying values of cash and cash equivalents, share purchase obligation, 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 2012, is US$816 million, and the carrying value as at 31 December 2012 is US$863 million (see Note 25). Carrying values of the other long-term loans provided to related parties as at 31 December 2012 and 31 December 2011 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.

| | Consolidated balance sheet location | **31 December 2012 US$'000** | 31 December 2011 US$'000 |
|---|---|---|---|
| Receivable from provisional copper, gold and silver concentrate sales | Accounts receivable | **59,508** | 37,609 |

| | Location of gain (loss) recorded in profit or loss | Year ended **31 December 2012 US$'000** | 31 December 2011 US$'000 |
|---|---|---|---|
| Flat forward gold sales and purchase contracts | Change in fair value of derivatives | **–** | (1,855) |
| Receivable from provisional copper, gold and silver concentrate sales | Revenue | **(2,830)** | (5,979) |

The Group closed its open derivative positions on 6 April 2011.

### 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 2012 and 31 December 2011 were as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **31 December 2012 US$'000** | 31 December 2011 US$'000 | **31 December 2012 US$'000** | 31 December 2011 US$'000 |
| US Dollar | **78,544** | 681,023 | **1,022,458** | 973,395 |
| Euro | **99** | 274 | **39,938** | 49,524 |
| GBP | **79** | 5,604 | **31** | 375 |
| **Total** | **78,722** | 686,901 | **1,062,427** | 1,023,294 |

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 of 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 2012 US$'000** | 31 December 2011 US$'000 |
|---|---|---|
| Profit or loss (RUB to US Dollar) | **(93,453)** | (34,790) |
| Profit or loss (RUB to Euro) | **(4,979)** | (6,964) |
| Profit or loss (RUB to GBP) | **5** | 882 |
| Profit or loss (KZT to US Dollar) | **8,570** | 2,518 |

### 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.

**30. Risk management activities** continued

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 are 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 2012 would decrease/increase by US$7.7 million (2011: US$6.5 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 2012 and 31 December 2011 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 24 are cash and cash equivalents at 31 December 2012 of US$18.6 million (2011: US$659 million).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are 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 2012:

| | | | | | **31 December 2012 US$'000** | 31 December 2011 US$'000 |
|---|---|---|---|---|---|---|
| | Less than 3 months | 3-12 months | 1-5 years | More than 5 years | **Total** | Total |
| Share purchase obligation under MTO | – | – | – | – | **–** | 534,597 |
| Special dividend payable | 191,343 | – | – | – | **191,343** | – |
| Borrowings | 50,894 | 221,967 | 641,703 | 8,591 | **923,155** | 1,082,909 |
| Accounts payable and accrued expenses | 63,131 | 4,589 | 326 | – | **68,046** | 67,120 |
| Contingent consideration | – | 2,231 | 15,135 | 18,893 | **36,259** | 39,144 |
| **Total** | 305,368 | 228,787 | 657,164 | 27,484 | **1,218,803** | 1,723,770 |

**31. Stated capital account and retained earnings**

As at 31 December 2012, the Company's issued share capital consisted of 383,206,204 ordinary shares (2011: 382,685,782 ordinary shares) of no par value, each carrying one vote. The Company does not hold any shares in treasury (2011: 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 | Treasury shares no. of shares | Total shares no. of shares | Stated capital account, US$'000 |
|---|---|---|---|---|
| Balance at 1 January 2011 | n/a | – | – | 865,483 |
| Issue of treasury shares in exchange for assets | – | – | – | 66,966 |
| Amortisation of bonus received from depository | – | – | – | 819 |
| Issuance of ordinary shares under ISSF | 332,641,770 | – | 332,641,770 | – |
| Issuance of share on IPO | 53,350,000 | – | 53,350,000 | 762,641 |
| Repurchased shares | (3,305,988) | 3,305,988 | – | (46,649) |
| Cancellation of repurchased shares | | (3,305,988) | (3,305,988) | – |
| Non-controlling interest arising on restructuring | – | – | – | (82,874) |
| Balance at 31 December 2011 | 382,685,782 | – | 382,685,782 | 1,566,386 |
| Issue of shares in exchange for assets | 520,422 | – | 520,422 | 9,737 |
| **Balance at 31 December 2012** | **383,206,204** | **–** | **383,206,204** | **1,576,123** |

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 earnings per share**

The Group had potentially dilutive securities, namely the Group's equity-settled share appreciation plan, which was established during 2010 (see Note 32).

Basic/dilutive earnings per share were calculated by dividing 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 2012** | 31 December 2011 |
| Weighted average number of outstanding common shares | **382,705,692** | 366,969,369 |
| Dilutive effect of share appreciation plan | **–** | 25,875,610 |
| **Weighted average number of outstanding common shares after dilution** | **382,705,692** | 392,844,979 |

There were no adjustments required to earnings for the purposes of calculating dilutive earnings per share in the current year (2011: nil).

**30. Risk management activities** continued
The Group has certain share-based payment awards, issued in 2010, which currently vest in line with the Company's weighted average share price from December 2012 to June 2013 against a fixed target (for further details see Note 32). Based on the Company's share price in the equivalent six month period to 31 December 2012 then these awards are not dilutive for the purposes of calculating diluted EPS and accordingly, both basic and diluted EPS are identical for the year ended 31 December 2012.

These awards were dilutive for the year ended 31 December 2011. The dilutive effect of equity-settled share appreciation rights has been calculated using the treasury stock method.

## 32. Share-based payments
In 2010, the Group established an equity incentive plan (the Plan) for executive directors and senior employees of the Group in which the grant of equity-settled share appreciation rights up to 30 million shares in JSC Polymetal (the Bonus Fund) was approved. The number of awards to which a qualifying participant is entitled was determined by the board of JSC Polymetal on 8 November 2010. Group management believes that such awards better align the interests of its employees with those of its shareholders.

Under the terms of the plan these awards were eligible for immediate vesting on the Group restructuring and listing. However, the executive directors and senior managers waived that right and the entitlement to JSC Polymetal shares was exchanged for an entitlement to Polymetal International shares on a one to one basis with the same vesting conditions as existed previously. As the cancellation and reissuance of the awards was done solely to preserve the existing rights of the award holders, no accelerated share-based charge has been recognised.

The aggregate number of shares comprising the Bonus Fund will be determined on 11 June 2013 and will depend on the excess of the weighted average price of the Company's shares during the period between 11 December 2012 and 11 June 2013 over a target price of US$16.74. If the average share price is below the target figure there will be nil vesting. The weighted average price of the Company's shares during the period between 1 July 2012 and 31 December 2012 was US$16.45.

Equity-settled stock appreciation rights granted have an exercise price of one penny and vest at the end of a 2.6 year service period.

The fair value of the awards granted during the year ended 31 December 2010, was estimated using a two-stage Monte-Carlo model. The fair value determined is then recognised on a straight-line basis over the vesting period. Use of two-stage Monte-Carlo option pricing requires management to make certain assumptions with respect to selected model inputs. The following assumptions were used to determine the grant date fair value:

- *Expected forfeitures.* This assumption is estimated using historical trends of executive Director and employee turnover. As the Group typically only grants awards to senior employees and the turnover rate for such employees is minimal, the Group has estimated expected forfeitures to be 5%. Estimated forfeitures are adjusted over the requisite service period to the extent actual forfeitures differ or are expected to differ from such estimates. Changes in estimated forfeitures are recognised in the period of change and impact the amount of expense to be recognised in future periods.
- *Expected volatility.* Expected volatility has been estimated based on an analysis of the historical stock price volatility of the JSC Polymetal GDRs from February 2007, when the JSC Polymetal GDRs became publicly traded.
- *Expected life.* The average expected life was based on the contractual term of the option of 3.6 years. As the Plan has a 2.6 years vesting condition and the participant may exercise their right to redeem shares within one year after vesting occurs, the Group used the 2.6 years expected term for the first stage of the Monte-Carlo simulation (the First date) and 3.6 years for the second stage (the Second date).
- *Fair value of common stock* is equal to the market price of JSC Polymetal's underlying Global Depositary Receipts (GDRs) at the grant date.
- *Risk-free interest rate.* The risk-free rate is based on US Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant.

At the grant date, the Group had not historically declared dividends and management believed the Company would not declare a dividend over the life of the option. As such, the expected annual dividend per share was therefore nil. Any subsequent change in dividend policy will be taken into account when valuing options granted in the future.

| | |
|---|---|
| Risk free rate | 0.79% for the first date, 1.24% for the second date |
| Expected dividend yield | Nil |
| Expected volatility | 40% |
| Expected life, years | 2.6 for the first date, 3.6 for the second date |
| Fair value per share (US Dollars) | 16.97 |

A summary of option activity under the Plan for the year ended 31 December 2012 is presented below:

| | Awards | Weighted average exercise price (per share), US Dollar | Weighted average fair value of awards (per share), US Dollar | Weighted average remaining contractual term |
|---|---|---|---|---|
| **Awards at 1 January 2012** | **29,655,000** | **0.03** | **4.96** | **2.45** |
| Forfeited | 345,000 | | | – |
| **Non-vested awards at 31 December 2012** | **29,310, 000** | **0.03** | **4.96** | **1.45** |

None of the share awards outstanding as at 31 December 2012 were exercisable as they are not fully vested. For the year ended 31 December 2012, share-based compensation in the amount of US$54 million, (2011: US$57 million) was recognised in general, administrative and selling expenses in the consolidated income statement (see Note 11).

As at 31 December 2012 and 31 December 2011, the Group had US$24.7 million and US$75.7 million, respectively of unrecognised share-based compensation expense related to non-vested equity-settled stock appreciated rights with a weighted average expected amortisation period of 0.45 years and 1.45 years, respectively.

## 33. 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. In the course of its business the Group entered into various transactions with Nomos-Bank (an entity in which Alexander Nesis, a significant shareholder of the Company (Note 1), also holds a substantial interest), equity method investments and its employees and officers as follows:

| | Year ended | |
|---|---|---|
| | **31 December 2012 US$'000** | 31 December 2011 US$'000 |
| **Income from transactions with related parties** | | |
| Revenue from sales to Nomos-Bank | **466,250** | 258,794 |
| Interest income on deposits placed with Nomos-Bank | **1,500** | – |
| Other income from equity method investments | **3,680** | 1,559 |
| **Expenses from transactions with related parties** | | |
| Interest expense on loans provided by Nomos-Bank | **2,016** | 2,339 |
| Purchases from equity method investments | **3,035** | – |
| Lease payments to Nomos Leasing | **–** | 5,082 |

Outstanding balances owed to or from related parties at 31 December 2012 are presented below:

| | **31 December 2012 US$'000** | 31 December 2011 US$'000 |
|---|---|---|
| Short-term loans provided to equity method investments | **11,792** | 315 |
| Long-term loans provided to equity method investments | **5,469** | 6,303 |
| Short-term loans provided to entity under common control | **–** | 1,522 |
| **Total loans provided to related parties** | **17,261** | 8,140 |
| Short-term loans provided by Nomos-Bank | **9,172** | 8,318 |
| Long-term loans provided by Nomos-Bank | **16,643** | 25,223 |
| Long-term loans provided by equity method investments | **2,152** | 1,860 |
| **Total loans provided by related parties, unsecured** | **27,967** | 35,401 |
| Accounts receivable from related parties | **4,717** | 2,940 |
| Interest receivable from related parties | **836** | 1,573 |

Carrying values of other long-term loans provided to related parties as at 31 December 2012 and 31 December 2011 approximate their fair values. Details of the significant terms of the loans provided by related parties are disclosed in Note 25.

In the year, the Group entered into an agreement with Tyner Enterprises, an entity controlled by Leonard Homeniuk, a non-executive director of Polymetal. As set out in Note 20, on 14 May 2012, a 6.4% interest in a new venture, Polygon, was transferred to Tyner and a put option on those shares was granted.

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. All trade payable and receivable balances are expected to be settled on a gross basis.

### 33. Related parties continued

The remuneration of directors and other members of key management personnel during the periods was as follows:

| | Year ended 31 December 2012 US$'000 | Year ended 31 December 2011 US$'000 |
|---|---|---|
| Share-based payments | **27,682** | 28,901 |
| Short-term benefits of board members | **2,454** | 2,278 |
| Short-term employee benefits of other key management personnel[1] | **2,981** | 1,779 |
| Post-employment benefits | **264** | 70 |

[1] For the years ended 31 December 2012 and 2011 key management personnel of the Group are considered to be the Directors of the Company and the Directors of JSC Polymetal.

### 34. Notes to the consolidated statements of cash flows

| | Notes | Year ended 31 December 2012 US$'000 | Year ended 31 December 2011 US$'000 |
|---|---|---|---|
| Profit before tax | | **617,365** | 408,847 |
| **Adjustments for:** | | | |
| Depreciation and depletion, recognised in statement of comprehensive income | | **156,102** | 96,654 |
| Mining taxes, penalties and accrued interest | 12 | **39,150** | – |
| Write-down of exploration assets | 18 | **7,654** | 13,263 |
| Write-down of inventory to net realisable value | 7 | **11,078** | 6,232 |
| Share-based compensation | 11,32 | **54,279** | 57,116 |
| Finance costs | 15 | **26,787** | 28,746 |
| Finance income | | **(4,657)** | (4,208) |
| Loss on disposal of property, plant and equipment | 12 | **9,325** | 6,203 |
| Change in contingent consideration liability | 29 | **4,717** | 6,828 |
| Change in allowance for doubtful debts | 12 | **267** | (1,171) |
| Rehabilitation expenses | 26 | **3,873** | 2,862 |
| Loss from equity method investments | 20 | **1,804** | 1,952 |
| Change in fair value of derivatives | 29 | **–** | 1,855 |
| Foreign exchange (gain)/loss | | **(6,677)** | 13,634 |
| Profit/(Loss) on disposal of subsidiaries | 4 | **10,709** | (4,931) |
| Gain on acquisition of remaining interest in joint venture | 20 | **(21,051)** | – |
| Other non-cash expenses | | **5,152** | 1,388 |
| **Movements in working capital** | | | |
| Increase in inventories | | **(219,678)** | (225,751) |
| Decrease/(increase) in VAT receivable | | **14,262** | (22,766) |
| Increase in trade and other receivables | | **(34,284)** | (19,699) |
| Decrease/(increase) in prepayments to suppliers | | **9,307** | (11,437) |
| Increase in trade and other payables | | **7,305** | 6,394 |
| Increase in other taxes payable | | **8,480** | 8,676 |
| **Cash generated from operations** | | **701,269** | 370,687 |
| Interest paid | | **(34,629)** | (32,414) |
| Income tax paid | | **(170,805)** | (126,317) |
| **Net cash generated by operating activities** | | **495,835** | 211,956 |

Additions to property, plant and equipment of US$8 million and US$16.9 million during the year ended 31 December 2012 and 31 December 2011, respectively were acquired on deferred payment terms.

Other non-cash transactions during the year ended 31 December 2012 includes the issuance of US$1.5 million of shares for the acquisition of assets in 2012 (2011: the issuance of US$67.0 million of treasury shares for the acquisition of assets).

### 35. Subsequent events

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. Following the admittance of the newly-issued shares to trading, the total issued share capital of the Company comprised 383,981,204 shares.

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 of US$13.4 million and other current liabilities of $(0.01) million.

On 20 February 2013 the Group has 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 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 a consideration payable in cash and equalling to its carrying value of US$8 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 has not been finalised as at the date of these financial statements and will be finalised in 2013 upon completion of a mineral rights valuation and a deferred taxes assessment. The preliminary 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 | 74,624 |
| Cash | 3,900 |
| Debt investment | 8,034 |

A final dividend has been proposed in relation to the year of 31 cents per share (2011: 20 cents per share) giving a total expected dividend of US$119 million (2011: US$76.5 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.

# Reserves and Resources
As at 1 January 2013

## Mineral Resources and Ore Reserves as at 1 January 2013[1]

| | Tonnage | Content | | | | | |
|---|---|---|---|---|---|---|---|
| **Mineral Resources** | Kt | Au, Koz | Ag, Koz | Cu, Kt | Pb, Kt | Zn, Kt | GE, Koz |
| Measured | 13,496 | 683 | 36,911 | 17 | 10 | – | 1,385 |
| Indicated | 51,721 | 2,936 | 54,340 | 84 | 36 | 25 | 4,260 |
| **Measured + Indicated** | **65,217** | **3,619** | **91,251** | **101** | **46** | **25** | **5,645** |
| Inferred | 111,918 | 11,266 | 54,852 | 180 | 41 | 3 | 13,082 |
| **Measured + Indicated + Inferred** | **177,136** | **14,885** | **146,103** | **281** | **87** | **28** | **18,727** |
| **Ore Reserves** | | | | | | | |
| Proved | 61,653 | 5,373 | 186,921 | 12 | 12 | – | 8,548 |
| Probable | 57,760 | 4,224 | 120,706 | 71 | 11 | – | 6,590 |
| **Proved + Probable** | **119,413** | **9,597** | **307,627** | **83** | **23** | **–** | **15,138** |

[1] Mineral Resources and Ore Reserves are reported in accordance with the JORC Code (2004). Mineral Resources are in addition to Ore Reserves. Discrepancies in calculations are due to rounding.

This estimate was prepared by employees of JSC Polymetal Management Company and CJSC Polymetal Engineering, subsidiaries of the Company, led by Mr Valeri Tsyplakov, who assumes overall responsibility for the Mineral Resources and Ore Reserves Report. Mr Tsyplakov is the employed full-time as the Managing Director of CJSC Polymetal Engineering and has more than 12 years' experience in gold and silver mining. He is a Member of the Institute of Materials, Minerals & Mining (MIMMM), London, and a Competent Person under the JORC Code.

Other Competent Persons employed by the Company are responsible for relevant research on which the Mineral Resources and Ore Reserves estimate is based. They include:

- Geology and Mineral Resources – Vladimir Ryabukhin, Adviser to Director General of JSC Polymetal Management Company, MIMMM, with 39 years' relevant experience;
- Geology and Mineral Resources – Mikhail Fomkin, Head of Geologic Modelling, MIMMM, with 27 years' relevant experience;
- Mining and Ore Reserves – Igor Epstein, Head of Mining Process Department, MIMMM, with 31 years' relevant experience;
- Concentration and Metals – Igor Agapov, Deputy Director of Science and Technology, MIMMM, with 15 years' relevant experience; and
- Environmental Issues – Tatiana Kuleshova, Director for Ecology, MIMMM, with 22 years' relevant experience.

All Competent Persons have given consent for their material to be included in the Report, based on the information provided by them and in the form and the context in which the material is hereby presented.

Metals prices used in estimating Mineral Resources and Ore Reserves are listed below (unless otherwise indicated in the footnotes):

Ore Reserves:
Au = US$1300/oz;
Ag = US$23/oz;
Cu = US$6500/t;
Pb = US$1800/t.

Mineral Resources:
Au = US$1500/oz;
Ag = US$26/oz;
Cu = US$7800/t.

Gold equivalent data is based on 1:60 Ag/Au and 5:1 Cu/Au conversion ratios. Lead and zinc are not included in calculation of gold equivalent data.



## Ore Reserves: precious metals deposits as at 1 January 2013[1]

| **Ore Reserves** | Tonnage | Grade | | | Content | | |
|---|---|---|---|---|---|---|---|
| **Proved** | Kt | Au, g/t | Ag, g/t | GE, g/t | Au, Koz | Ag, Koz | GE, Koz |
| Dukat[2] | 9,200 | 0.9 | 451 | 8.4 | 254 | 133,382 | 2,477 |
| Voro[3] | 14,500 | 2.9 | 4 | 2.9 | 1,340 | 1,744 | 1,369 |
| Lunnoye | 1,640 | 1.6 | 253 | 5.8 | 83 | 13,341 | 305 |
| Arylakh | 220 | 0.6 | 307 | 5.8 | 5 | 2,206 | 41 |
| Khakanja | 1,670 | 2.0 | 154 | 4.6 | 108 | 8,274 | 246 |
| Mayskoye[4] | 2,699 | 9.7 | – | 9.7 | 839 | – | 839 |
| Albazino | 9,280 | 4.5 | – | 4.5 | 1,329 | – | 1,329 |
| Sopka Kvartsevaya | 3,510 | 2.5 | 103 | 4.3 | 285 | 11,652 | 480 |
| Birkachan[5] | 6,750 | 1.6 | 5 | 1.7 | 353 | 1,164 | 372 |
| Dalneye | 1,960 | 3.5 | 85 | 4.9 | 218 | 5,344 | 307 |
| Tsokol Kubaka | 390 | 6.4 | 11 | 6.6 | 81 | 134 | 83 |
| Ozerny | 560 | 5.4 | 34 | 6.0 | 97 | 615 | 108 |
| Avlayakan | 160 | 14.9 | 95 | 16.5 | 74 | 475 | 82 |
| **Total Proved** | **52,539** | | | **4.8** | **5,066** | **178,331** | **8,038** |
| **Probable** | | | | | | | |
| Dukat[2] | 5,200 | 1.2 | 448 | 8.7 | 202 | 74,837 | 1,449 |
| Lunnoye | 1,720 | 1.0 | 363 | 7.1 | 56 | 20,052 | 391 |
| Arylakh | 300 | 1.1 | 807 | 14.6 | 11 | 7,900 | 143 |
| Khakanja | 140 | 4.0 | 195 | 7.3 | 18 | 880 | 33 |
| Mayskoye[4] | 5,178 | 9.5 | – | 9.5 | 1,587 | – | 1,587 |
| Albazino | 4,110 | 3.8 | – | 3.8 | 502 | – | 502 |
| Sopka Kvartsevaya | 180 | 3.9 | 146 | 6.3 | 22 | 837 | 36 |
| Birkachan[5] | 5,440 | 3.4 | 15 | 3.6 | 592 | 2,548 | 635 |
| Tsokol Kubaka | 710 | 6.1 | 11 | 6.3 | 139 | 245 | 143 |
| Ozerny | 240 | 4.9 | 35 | 5.5 | 38 | 267 | 42 |
| Avlayakan | 270 | 22.1 | 181 | 25.1 | 193 | 1,579 | 219 |
| **Total Probable** | **23,488** | | | **6.9** | **3,361** | **109,145** | **5,180** |
| **Proved + Probable** | | | | | | | |
| Dukat[2] | 14,400 | 1.0 | 450 | 8.5 | 455 | 208,219 | 3,926 |
| Voro[3] | 14,500 | 2.9 | 4 | 2.9 | 1,340 | 1,744 | 1,369 |
| Lunnoye | 3,360 | 1.3 | 309 | 6.4 | 139 | 33,393 | 696 |
| Arylakh | 520 | 0.9 | 595 | 10.9 | 16 | 10,105 | 184 |
| Khakanja | 1,810 | 2.2 | 157 | 4.8 | 126 | 9,154 | 279 |
| Mayskoye[4] | 7,877 | 9.6 | – | 9.6 | 2,426 | – | 2,426 |
| Albazino | 13,390 | 4.3 | – | 4.3 | 1,831 | – | 1,831 |
| Sopka Kvartsevaya | 3,690 | 2.6 | 105 | 4.4 | 308 | 12,489 | 516 |
| Birkachan[5] | 12,190 | 2.4 | 10 | 2.6 | 945 | 3,712 | 1,007 |
| Dalneye | 1,960 | 3.5 | 85 | 4.9 | 218 | 5,344 | 307 |
| Tsokol Kubaka | 1,100 | 6.2 | 11 | 6.4 | 220 | 379 | 226 |
| Ozerny | 800 | 5.3 | 34 | 5.8 | 135 | 882 | 150 |
| Avlayakan | 430 | 19.4 | 150 | 21.9 | 267 | 2,055 | 301 |
| **Total Proved + Probable** | **76,027** | | | **5.4** | **8,427** | **287,475** | **13,218** |

[1] Ore Reserves are reported in accordance with the JORC Code (2004). Discrepancies in calculations are due to rounding.
[2] Including Nachalny-2.
[3] Including Voro South.
[4] Estimate prepared by Snowden as at 01.07.2011 Price: Au = US$900/oz.
[5] Ore Reserves for underground mining were not re-estimated. Previous estimation as at 01.07.2011 by SRK Consulting is left. Price: Au = US$900/oz and Ag = US$14.5/oz.

# Reserves and Resources
## As at 1 January 2013
continued

## Ore Reserves: polymetallic ore deposits as at 1 January 2013[1]

| Ore Reserves | Tonnage | Grade | | | | | Content | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Proved** | Kt | Au, g/t | Ag, g/t | Cu, % | Pb, % | GE, g/t | Au, Koz | Ag, Koz | Cu, Kt | Pb, Kt | GE, Koz |
| Goltsovoye[2] | 404 | – | 661 | – | 3.08 | 11.0 | – | 8,590 | – | 12.4 | 143 |
| Varvara[3] | 8,710 | 1.1 | – | 0.55 | – | 1.3 | 307 | – | 11.9 | – | 367 |
| **Total Proved** | **9,114** | | | | | **1.7** | **307** | **8,590** | **11.9** | **12.4** | **510** |
| **Probable** | | | | | | | | | | | |
| Goltsovoye[2] | 492 | – | 732 | – | 2.18 | 12.2 | – | 11,562 | – | 10.7 | 193 |
| Varvara[3] | 33,780 | 0.8 | – | 0.44 | – | 1.1 | 863 | – | 71.0 | – | 1,218 |
| **Total Probable** | **34,272** | | | | | **1.3** | **863** | **11,562** | **71.0** | **10.7** | **1,410** |
| **Proved + Probable** | | | | | | | | | | | |
| Goltsovoye[2] | 896 | – | 700 | – | 2.58 | 11.7 | – | 20,152 | – | 23.2 | 336 |
| Varvara[3] | 42,490 | 0.9 | – | 0.45 | – | 1.2 | 1,170 | – | 82.9 | – | 1,585 |
| **Total Proved + Probable** | **43,386** | | | | | **1.4** | **1,170** | **20,152** | **82.9** | **23.2** | **1,920** |

[1] Ore reserves are reported in accordance with the JORC Code (2004). Discrepancies in calculations are due to rounding.
[2] Estimate prepared by Wardell Armstrong at Ag price = US$23/oz and Pb price = US$1800/t. Lead is not included in gold equivalent calculation.
[3] Cu grade only represents average grade of float feed. Ore Reserves of float feed: 2.1 Mt Proved and 16.2 Mt Probable.

## Mineral Resources: precious metals as at 1 January 2013[1]

| Mineral Resources | Tonnage | Grade | | | Content | | |
|---|---|---|---|---|---|---|---|
| **Measured** | Kt | Au, g/t | Ag, g/t | GE, g/t | Au, Koz | Ag, Koz | GE, Koz |
| Dukat[2] | 2,450 | 0.6 | 298 | 5.6 | 48 | 23,463 | 439 |
| Voro[3] | 1,390 | 1.5 | 4 | 1.5 | 66 | 161 | 69 |
| Lunnoye | 370 | 1.5 | 241 | 5.5 | 18 | 2,869 | 66 |
| Arylakh | 140 | 0.8 | 301 | 5.8 | 3 | 1,270 | 25 |
| Khakanja | 220 | 2.6 | 166 | 5.4 | 19 | 1,175 | 38 |
| Mayskoye[4] | 463 | 6.3 | – | 6.3 | 93 | – | 93 |
| Albazino[5] | 1,730 | 4.0 | – | 4.0 | 223 | – | 223 |
| Sopka Kvartsevaya | 190 | 1.9 | 78 | 3.2 | 11 | 467 | 19 |
| Birkachan[6] | 660 | 0.9 | 6 | 1.0 | 19 | 120 | 21 |
| Dalneye | 430 | 2.0 | 41 | 2.7 | 28 | 572 | 38 |
| Tsokol Kubaka | 20 | 5.7 | 11 | 5.9 | 4 | 8 | 4 |
| Avlayakan | 20 | 11.0 | 133 | 13.2 | 7 | 89 | 9 |
| Ozerny | 220 | 2.5 | 26 | 2.9 | 18 | 187 | 21 |
| **Total Measured** | **8,303** | | | **4.0** | **558** | **30,381** | **1,064** |
| **Indicated** | | | | | | | |
| Dukat[2] | 1,790 | 0.6 | 317 | 5.9 | 35 | 18,226 | 339 |
| Lunnoye | 480 | 0.9 | 286 | 5.7 | 14 | 4,420 | 88 |
| Arylakh | 190 | 0.7 | 417 | 7.6 | 4 | 2,474 | 45 |
| Khakanja | 80 | 3.4 | 145 | 5.9 | 9 | 374 | 15 |
| Mayskoye[4] | 1,642 | 6.1 | – | 6.1 | 324 | – | 324 |
| Albazino[5] | 10,750 | 4.3 | – | 4.3 | 1,498 | – | 1,498 |
| Sopka Kvartsevaya | 30 | 2.9 | 110 | 4.7 | 3 | 118 | 5 |
| Birkachan[6] | 1,320 | 1.2 | 8 | 1.4 | 53 | 340 | 59 |
| Dalneye | 200 | 2.2 | 46 | 3.0 | 14 | 295 | 19 |
| Oroch[7] | 1,365 | 3.3 | 143 | 5.6 | 143 | 6,284 | 247 |
| Tsokol Kubaka | 140 | 4.9 | 9 | 5.1 | 22 | 41 | 22 |
| Avlayakan | 80 | 12.6 | 97 | 14.2 | 31 | 236 | 35 |
| Ozerny | 490 | 2.9 | 13 | 3.2 | 46 | 206 | 50 |
| **Total Indicated** | **18,557** | | | **4.6** | **2,197** | **33,014** | **2,747** |
| **Measured + Indicated** | | | | | | | |
| Dukat[2] | 4,240 | 0.6 | 306 | 5.7 | 83 | 41,690 | 778 |
| Voro[3] | 1,390 | 1.5 | 4 | 1.5 | 66 | 161 | 69 |
| Lunnoye | 850 | 1.2 | 267 | 5.6 | 33 | 7,289 | 154 |
| Arylakh | 330 | 0.7 | 369 | 6.9 | 7 | 3,744 | 70 |
| Khakanja | 300 | 2.8 | 161 | 5.5 | 27 | 1,549 | 53 |
| Mayskoye[4] | 2,105 | 6.2 | – | 6.2 | 417 | – | 417 |
| Albazino[5] | 12,480 | 4.3 | – | 4.3 | 1,722 | – | 1,722 |
| Sopka Kvartsevaya | 220 | 2.0 | 83 | 3.4 | 14 | 585 | 24 |
| Birkachan[6] | 1,980 | 1.1 | 7 | 1.2 | 72 | 460 | 80 |
| Dalneye | 630 | 2.1 | 43 | 2.8 | 42 | 868 | 57 |
| Oroch[7] | 1,365 | 3.3 | 143 | 5.6 | 143 | 6,284 | 247 |
| Tsokol Kubaka | 160 | 5.0 | 10 | 5.2 | 26 | 49 | 26 |
| Avlayakan | 100 | 12.3 | 105 | 14.0 | 38 | 325 | 43 |
| Ozerny | 710 | 2.8 | 17 | 3.1 | 64 | 392 | 70 |
| **Total Measured + Indicated** | **26,860** | | | **4.4** | **2,754** | **63,395** | **3,811** |

## Reserves and Resources
### As at 1 January 2013
continued

| Mineral Resources | Tonnage | Grade | | | Content | | |
|---|---|---|---|---|---|---|---|
| Inferred | Kt | Au, g/t | Ag, g/t | GE, g/t | Au, Koz | Ag, Koz | GE, Koz |
| Dukat[2] | 30 | 0.6 | 360 | 6.6 | 1 | 363 | 7 |
| Lunnoye | 1,020 | 1.6 | 435 | 8.8 | 52 | 14,272 | 290 |
| Arylakh | 90 | 0.9 | 340 | 6.5 | 3 | 1,015 | 20 |
| Khakanja | 10 | 3.1 | 274 | 7.7 | 1 | 88 | 2 |
| Mayskoye[4] | 16,016 | 8.6 | – | 8.6 | 4,428 | – | 4,428 |
| Albazino[5] | 12,730 | 4.9 | – | 4.9 | 1,999 | – | 1,999 |
| Birkachan[6] | 560 | 11.3 | 51 | 12.2 | 202 | 915 | 217 |
| Oroch[7] | 561 | 3.3 | 225 | 7.0 | 59 | 4,056 | 126 |
| Tsokol Kubaka | 350 | 6.8 | 12 | 7.0 | 77 | 134 | 79 |
| Avlayakan | 70 | 14.4 | 234 | 18.3 | 32 | 528 | 41 |
| Kirankan[8] | 142 | 6.5 | 8 | 6.7 | 30 | 39 | 30 |
| Svetloye[9] | 4,083 | 5.8 | 4 | 5.9 | 767 | 544 | 776 |
| Ozerny | 250 | 3.2 | 16 | 3.5 | 26 | 125 | 28 |
| Kutyn[10] | 5,505 | 4.1 | – | 4.1 | 717 | – | 717 |
| Tamunier[11] | 24,070 | 1.9 | – | 1.9 | 1,475 | – | 1,475 |
| **Total Inferred** | **65,487** | | | **4.9** | **9,868** | **22,079** | **10,236** |
| **Measured + Indicated + Inferred** | | | | | | | |
| Dukat[2] | 4,270 | 0.6 | 306 | 5.7 | 84 | 42,053 | 785 |
| Voro[3] | 1,390 | 1.5 | 4 | 1.5 | 66 | 161 | 69 |
| Lunnoye | 1,870 | 1.4 | 359 | 7.4 | 85 | 21,561 | 444 |
| Arylakh | 420 | 0.8 | 362 | 6.8 | 10 | 4,759 | 89 |
| Khakanja | 310 | 2.8 | 164 | 5.6 | 28 | 1,637 | 56 |
| Mayskoye[4] | 18,121 | 8.3 | – | 8.3 | 4,845 | – | 4,845 |
| Albazino[5] | 25,210 | 4.6 | – | 4.6 | 3,721 | – | 3,721 |
| Sopka Kvartsevaya | 220 | 2.0 | 83 | 3.4 | 14 | 585 | 24 |
| Birkachan[6] | 2,540 | 3.4 | 17 | 3.6 | 274 | 1,376 | 296 |
| Dalneye | 630 | 2.1 | 43 | 2.8 | 42 | 868 | 57 |
| Oroch[7] | 1,926 | 3.3 | 167 | 6.0 | 201 | 10,341 | 374 |
| Tsokol Kubaka | 510 | 6.3 | 11 | 6.5 | 102 | 183 | 105 |
| Avlayakan | 170 | 13.2 | 159 | 15.8 | 70 | 852 | 85 |
| Kirankan[8] | 142 | 6.5 | 8 | 6.7 | 30 | 39 | 30 |
| Svetloye[9] | 4,083 | 5.8 | 4 | 5.9 | 767 | 544 | 776 |
| Ozerny | 960 | 2.9 | 17 | 3.2 | 90 | 517 | 98 |
| Kutyn[10] | 5,505 | 4.1 | – | 4.1 | 717 | – | 717 |
| Tamunier[11] | 24,070 | 1.9 | – | 1.9 | 1,475 | – | 1,475 |
| **Total Measured + Indicated + Inferred** | **92,347** | | | **4.7** | **12,622** | **85,474** | **14,047** |

1 Mineral Resources are reported in accordance with the JORC Code (2004). Mineral Resources are additional to Ore Reserves. Discrepancies in calculations are due to rounding.
2 Including Nachalny-2.
3 Including Voro South.
4 Estimate prepared by Snowden as at 01.07.2011. Price: Au = US$1150/oz.
5 Revaluation performed only for Mineral Resources of Anfisa and Olga zones for open-pit mining. Initial estimate of Mineral Resources performed by Snowden as at 01.08.2012, price: Au = US$1500/oz, for zones Ekaterina 1 and 2, and Resources of Anfisa and Olga zones (including Nadezhda) for underground mining remained unchanged.
6 Mineral Resources for underground mining were not re-estimated. Previous estimate as at 01.07.2011 by SRK Consulting remained unchanged. Price: Au = US$1150/oz and Ag = US$18.5/oz.
7 Estimate prepared by SRK Consulting as at 01.07.2011. Price: Au = US$900/oz and Ag = US$13/oz.
8 Estimate prepared by Snowden as at 01.07.2011. COG (Au) = 1.5 g/t.
9 Estimate prepared by Snowden as at 01.07.2011. COG (Au) = 3.0 g/t.
10 Estimate prepared by Snowden as at 01.07.2011. COG (Au) = 2.0 g/t.
11 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.



## Mineral Resources: polymetallic ore deposits as at 1 January 2013[1]

| Mineral Resources | Tonnage | Grade | | | | | | Content | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Measured** | Kt | Au, g/t | Ag, g/t | Cu, % | Pb, % | Zn, % | GE, g/t | Au, Koz | Ag, Koz | Cu, Kt | Pb, Kt | Zn, Kt | GE, Koz |
| Goltsovoye[2] | 263 | – | 773 | – | 3.9 | – | 12.9 | – | 6,530 | – | 10.3 | – | 109 |
| Varvara[3] | 4,930 | 0.8 | – | 0.48 | – | – | 1.3 | 125 | – | 17.4 | – | – | 212 |
| **Total Measured** | **5,193** | | | | | | **1.9** | **125** | **6,530** | **17.4** | **10.3** | **–** | **321** |
| **Indicated** | | | | | | | | | | | | | |
| Goltsovoye[2] | 408 | – | 617 | – | 2.8 | – | 10.3 | – | 8,097 | – | 11.4 | – | 135 |
| Varvara[3] | 31,660 | 0.7 | – | 0.47 | – | – | 1.1 | 739 | – | 79.9 | – | – | 1,139 |
| Perevalnoye[4] | 1,096 | – | 375 | 0.34 | 2.3 | 2.3 | 6.8 | – | 13,229 | 3.7 | 24.8 | 25.0 | 239 |
| **Total Indicated** | **33,164** | | | | | | **1.4** | **739** | **21,326** | **83.6** | **36.2** | **25.0** | **1,513** |
| **Measured + Indicated** | | | | | | | | | | | | | |
| Goltsovoye[2] | 671 | – | 678 | – | 3.3 | – | 11.3 | – | 14,627 | – | 21.7 | – | 244 |
| Varvara[3] | 36,590 | 0.7 | – | 0.47 | – | – | 1.1 | 865 | – | 97.3 | – | – | 1,351 |
| Perevalnoye[4] | 1,096 | – | 375 | 0.34 | 2.3 | 2.3 | 6.8 | – | 13,229 | 3.7 | 24.8 | 25.0 | 239 |
| **Total Measured + Indicated** | **38,357** | | | | | | **1.5** | **865** | **27,856** | **101.0** | **46.5** | **25.0** | **1,834** |
| **Inferred** | | | | | | | | | | | | | |
| Goltsovoye[2] | 1,614 | – | 622 | – | 2.3 | – | 10.4 | – | 32,260 | – | 37.8 | – | 538 |
| Varvara[3] | 44,740 | 1.0 | – | 0.58 | – | – | 1.6 | 1,398 | – | 180.0 | – | – | 2,298 |
| Perevalnoye[4] | 78 | – | 206 | 0.46 | 3.7 | 3.7 | 4.1 | – | 513 | 0.4 | 2.8 | 2.8 | 10 |
| **Total Inferred** | **46,432** | | | | | | **1.9** | **1,398** | **32,773** | **180.4** | **40.6** | **2.8** | **2,846** |
| **Measured + Indicated + Inferred** | | | | | | | | | | | | | |
| Goltsovoye[2] | 2,285 | – | 638 | – | 2.6 | – | 10.6 | – | 46,887 | – | 59.4 | – | 781 |
| Varvara[3] | 81,330 | 0.9 | – | 0.54 | – | – | 1.4 | 2,263 | – | 277.3 | – | – | 3,649 |
| Perevalnoye[4] | 1,174 | – | 364 | 0.35 | 2.4 | 2.4 | 6.6 | – | 13,742 | 4.1 | 27.6 | 27.8 | 249 |
| **Total Measured + Indicated + Inferred** | **84,789** | | | | | | **1.7** | **2,263** | **60,629** | **281.4** | **87.1** | **27.8** | **4,680** |

1 Mineral Resources are reported in accordance with the JORC Code (2004). Mineral Resources are additional to Ore Reserves. Discrepancies in calculations are due to rounding.
2 Estimate prepared by Wardell Armstrong. COG (Ag) for ore zone 1 is 50 g/t, and for ore zone 2 is 150 g/t of silver equivalent. Lead is not included in gold equivalent calculation.
3 Only for Skalnaya and Poroshkovaya zones with high copper content (total Mineral Resources of Skalnaya and Poroshkovaya are 46.3 and 5.2 Mt respectively).
4 Estimate prepared by SRK Consulting as at 01.07.2011. Prices: Ag = US$13/oz, Cu = 220c/lb, Pb = 70c/lb, Zn = 90c/lb. Lead and zinc are not included in gold equivalent calculation.

# Appendices
## Glossary

### Abbreviations

| | |
|---|---|
| **AGM** | Annual General Meeting |
| **CIS** | Commonwealth of Independent States |
| **IMN** | Indigenous Minorities of the North |
| **JORC** | Australasian Joint Ore Reserves Committee |
| **JSC** | Joint Stock Company |
| **LBMA** | London Bullion Market Association |
| **NGO** | non-governmental organisation |
| **POX** | pressure oxidation |
| **LTIP** | Long-Term Incentive Programme |

### Units of measurements

| | |
|---|---|
| **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 |
| **pp** | percentage points |
| **t** | tonne (1,000 kg) |
| **Oz or oz** | troy ounce (31.1035 g) |

### Glossary of technical terms

| | |
|---|---|
| **Assay** | a chemical test performed on a sample of any material to determine the amount of valuable metals contained in the sample |
| **Ag** | silver |
| **AgEq** | silver equivalent |
| **Au** | gold |
| **Autoclave** | a lined stainless-steel vessel in which a technological operation of pressure oxidation takes place |
| **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 |
| **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 |
| **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 |
| **Cu** | copper |
| **Cut-off grade** | the minimum grade at which mineralised material can be economically mined and processed (used in the calculation of ore reserves) |
| **Cyanide leaching** | leaching with cyanide as the leaching agent |
| **Decline** | a permanent inclined underground tunnel leading from the surface to an ore body |
| **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 |
| **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 |
| **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 |
| **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 |
| **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 |
| **Head grade** | the grade of ore coming into a processing plant |
| **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 CIC or the Merrill-Crowe process |
| **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 |
| **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 |
| **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 |
| **Leaching** | the process of dissolving mineral values from solid into liquid phase of slurry |
| **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 |
| **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 |
| **Mill** | a mineral processing plant |
| **Mineralisation** | a rock containing valuable components, not necessarily in the quantities sufficient for economically justifiable extraction. Consists of ore minerals and gangue |
| **Open-pittable** | amenable for economically feasible mining by open-pit methods |
| **Open-pit mine** | a mine that is entirely on surface. Also referred to as open-cut or open-cast mine |
| **Ore** | the part of mineralisation that can be mined and processed profitably |
| **Ore body** | a spatially compact and geometrically connected location of ore |
| **Ore mined** | ore extracted from the ground for further processing |
| **Ore processed** | ore subjected to treatment in a mineral processing plant |
| **Ore stacked** | the ore stacked for heap leach operations. |
| **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 |
| **Precipitate** | the semi-finished product of mineral processing by Merrill-Crowe process, normally containing very high concentrations of silver and/or gold |
| **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 |
| **Primary ore** | unoxidised ore |
| **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 |
| **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 |
| **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 |
| **Reclamation** | the restoration of a site after mining or exploration activity is completed |
| **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 |
| **Refractory** | a characteristic of gold-bearing ore denoting impossibility of recovering gold from it by conventional cyanide leaching |
| **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 |
| **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 |
| **Stockwork** | one of the types of mineralisation, a complex system of structurally controlled or randomly oeirnted veins. Stockworks are common in many ore deposit types |
| **Stope** | a large underground excavation entirely within an ore body, a unit of ore extraction |
| **Strike** | a horizontal extension of an ore body or mineralisation |
| **Stripping** | the mining of waste in an open pit mine |
| **Tailings** | part of the original feed of a mineral processing plant that is considered devoid of value after processing |
| **Underground development** | excavation which is carried out to access ore and prepare it for extraction (mining) |
| **Vein** | a relatively narrow ore body with significant dip and strike dimensions and sharply defined boundaries |
| **Waste** | barren rock that must be mined and removed to access ore in a mine |

# Shareholder information

As at 31 December 2012, the Company's issued share capital consisted of 383,206,204 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 24 April 2013**

| Shareholder | Beneficial owner | Number of shares | Percentage of issued share capital (%) | Nature of holding |
|---|---|---|---|---|
| Pearlmoon Limited | Mr Petr Kellner | 79,840,437 | 20.50 | Indirect |
| Powerboom Investments Limited | Mr Alexander Nesis | 68,497,758 | 17.59 | Indirect |
| Vitalbond Limited, A&NN Capital Management Fund Limited | Mr Alexander Mamut | 38,740,784 | 9.95 | Indirect |
| MBC Development Limited | Mr Alexander Mosionzhik | 17,000,000 | 4.36 | Indirect |
| Staroak Limited | Mr Oleg Shuliakovskii | 16,335,275 | 4.19 | Indirect |
| Morgan Stanley (Institutional Securities Group and Global Wealth Management) | | 16,022,245 | 4.11 | Indirect |

**Registrar**
Computershare Investor Services (Jersey) Limited
Queensway House,
Hilgrove Street,
St Helier, Jersey JE1 1ES
Channel Islands

**Auditors**
Deloitte LLP
2 New Street Square
London EC4A 3BX
United Kingdom

**Brokers**
Morgan Stanley & Co. International plc
25 Cabot Square
London E14 4QA
United Kingdom

Canaccord Genuity Limited
88 Wood Street
London
EC2V 7QR
United Kingdom

**Legal counsel**
Jersey legal advisors to the Company
Carey Olsen
47 Esplanade
St Helier
Jersey JE1 0BD
Channel Islands

English, US and Russian legal advisers to the Company
Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS
United Kingdom

Freshfields Bruckhaus Deringer LLP
Kadashevskaya nab. 14/2
Moscow 119017
Russian Federation

Cypriot legal advisors to the Company
Mouaimis & Mouaimis
16-18 Zinas Kanther Street
3035 Limassol
Cyprus

Advisers as to Kazakh law to the Company
GRATA Law Firm
104, M.Ospanov Str.

**Registered Office of the Company**
Ogier House
The Esplanade
St Helier
Jersey JE4 9WG
Channel Islands
+44 1534 504000
Registered No. 106196

**Company Secretary**
Tatiana Tchedaeva

**Media Contacts**
College Hill
Leonid Fink
Tony Friend
+44 20 7457 2020

**Investor Relations**
Polymetal International
Maxim Nazimok
Evgenia Onuschenko
Elena Revenko
+7 812 313 5964 (Russia)
+44 20 7016 9503 (UK)
ir@polymetalinternational.com

By printing this publication on Cocoon 100% recycled paper the environmental impact was reduced by:

- 168 kg of landfill
- 4,049 litres of water
- 381 kWh of electricity
- 23 kg CO2 and greenhouse gases
- 273 kg of wood

Source: Carbon footprint data evaluated by FactorX in accordance with the Bilan Carbone® methodology. Calculations are based on a comparison between the recycled paper used versus a virgin fibre paper according to the latest European BREF data (virgin fibre paper) available.

Results are obtained according to technical information and are subject to modification.

RECYCLED Paper made from recycled material FSC® C008198

Printed in the UK by Empress Litho who are accredited with FSC and ISO 14001 international standards, minimising negative impacts on the environment.

This report has been printed on 100% recycled paper, produced using de-inked post consumer waste and certified in accordance with the FSC (Forest Stewardship Council). Both papers carry the NAPM recycled mark and the EU Ecolabel and have been produced at a mill awarded with the ISO 14001 certificate for environmental management. This means less energy and water are consumed and fewer $CO_2$ emissions are produced during manufacturing, compared to the production of virgin fibre paper.

Designed and produced by The College www.the-college.com

**Polymetal International plc**
Ogier House
The Esplanade
St Helier
Jersey JE4 9WG
Channel Islands
Registered No. 106196