Annual Report 2013
www.polymetalinternational.com

POLYMETAL INTERNATIONAL PLC

Robust strategy RESILIENT PERFORMANCE

FOCUSED AND RESILIENT

Our aim is to become the leading precious metals mining group in Russia and the CIS, delivering sustainable value to all our stakeholders.

Despite significant market volatility during the year we remain strongly committed to our strategy and business model, and to our principles of capital discipline and the development of high-quality assets.

Combined with our focus on high standards of corporate governance and responsibility, we believe that this approach will enable us to build on our strong track record and continue to deliver above-average returns.

> STRONG PROGRESS

We have achieved the objectives that we set ourselves at the time of our London listing in 2011, and are now strongly positioned for the next stage of our development.

> STRATEGIC REPORT

> GOVERNANCE

> FINANCIAL STATEMENTS

> APPENDICES

RESILIENT PERFORMANCE

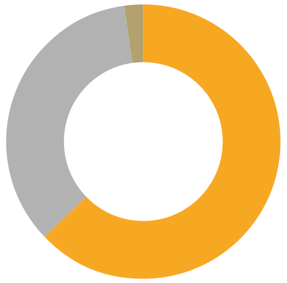
What sets us apart

Strong capital discipline
As demonstrated in 2013, we are able to react dynamically to the changing market environment. This has allowed us to maintain free cash flow generation and sustain a significant dividend stream to our shareholders.

High-quality assets
Our high reserve grade supports relatively low cost profile and lower capital spending per ounce, which taken together drive better returns on invested capital and resilience to price shocks.

> PRODUCTION

Production structure GE



Gold	63%
Silver	35%
Copper	2%

1,282 Koz
Gold equivalent
2012: 1,063 Koz

+21%
Increase of gold equivalent production over 2012

How we've delivered

We beat our original production guidance for the second consecutive year and delivered 1.28 Moz (2012: 1.06 Moz) of gold equivalent in 2013, up 21% year-on-year and 7% above original expectations. This robust achievement was driven by the successful ramp-up of our key growth projects, Amursk POX and Mayskoye, and exceptional operational delivery at the Dukat hub.

> KEY FINANCIAL FIGURES

1,707
Sales revenue (US$ million)
2012: US$1,854 million

598
Adjusted EBITDA[1] – total (US$ million)
2012: US$932 million

745
Total cash cost (US$/GE oz)[2]
2012: US$690/GE oz

138
Free cash flow (US$ million)
2012: US$138 million

[1] The Company defines adjusted EBITDA (a non-IFRS measure) as profit for the period adjusted for depreciation expenses, rehabilitation expenses, write-downs of inventory to net realisable value, share-based compensation, listing expenses, additional mining tax, penalties and accrued interest, income on disposal of subsidiaries, bargain purchase gains, foreign exchange gains/(losses), changes in fair value of derivatives, changes in fair value of contingent considerations, finance income, finance costs, and income tax expenses. Adjusted EBITDA margin is adjusted EBITDA divided by revenue. See Note 5 to the financial statements.
[2] Total cash costs comprise cost of sales of the operating assets (adjusted for depreciation expenses, rehabilitation expenses and write-downs 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 (2012). Mineral resources are additional to ore reserves.

> ASSET PORTFOLIO (as at 31 December 2013)

54
Licences

10,650
Total licence area (km²)

6
Mining operations

> RESERVES AND RESOURCES[3]

13.3 Moz
Ore reserves (GE oz)

16.7 Moz
Mineral resources (GE oz)

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

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

Our achievements

> 2011

Record production volume
Polymetal achieved an all-time record production volume with

810 Koz

of gold equivalent. This strong performance was bolstered by:

- **de-bottlenecking of the Omsukchan concentrator (Dukat hub);**
- **the expansion of the Kubaka plant; and**
- **mining and processing commencing at Albazino.**

Premium listing on the LSE
Polymetal was admitted to the London Stock Exchange in November and included in FTSE 100 listing.

Listing on the London Stock Exchange

> 2012

Amursk POX plant

First operating POX plant in the Former Soviet Union launched
The first operating pressure oxidation plant (POX) in Russia's gold industry, Polymetal's Amursk POX was started up and produced its first gold in April 2012.

Strong operational performance
Metal sales for the full year exceeded production for both gold and silver. Polymetal produced

1,063 Koz

of total gold equivalent, up 31% compared to 2011 and exceeding original guidance by 6%.

Resource base increased
There was a dramatic increase in the resource base at Albazino. Successful exploration has also identified potential new growth assets at Kutyn and Svetloye. As a result, total gold equivalent resources grew by 35%.

Increased dividend pay-out
Polymetal's inaugural dividend payment, in respect of 2011, was made in June 2012. A new dividend policy was adopted, raising the payout ratio to 30% and introducing an annual consideration of special dividends in order to ensure value is delivered to shareholders.

> 2013

A Doré bar at Voro

Production guidance exceeded
Polymetal exceeded its original annual production guidance for the second consecutive year and produced

1,282 Koz

of gold equivalent, up 21% year-on-year.

Amursk POX ramp-up successfully completed
The Amursk POX plant delivered a full quarter at design throughput and recovery (averaging 93% in Q4). This is an important strategic milestone for Polymetal, which now possesses a unique competitive advantage in the FSU.

Mayskoye mine started and ramped up
The Mayskoye plant was started up in April and achieved design capacity by Q4. This marked the completion of a major investment cycle to bring the second generation of assets into production, and the first 48 Koz of gold were sold to off-takers.

New dividend policy in action
A total of US$0.82 per share was paid in dividends in 2013, resulting in an industry-leading dividend yield. The increased dividend payments were underpinned by commitment to capital discipline and strong free cash flow generation.

De-stockpiling on track
Progress made with scheduled stockpile reductions and with total gold equivalent sales exceeding production. De-stockpiling was driven mainly by the Dukat hub and Albazino.

Net debt decreased
Positive cash flows resulted in a stable net debt at US$1,045 million, driven by continued strong operating cash flow and decreased capital spending.

> THE FUTURE

We are fully on track to meet production guidance for 2014 of 1.3 Moz total gold equivalent, increasing to 1.35 Moz in 2015.

In 2014, we expect total cash costs of US$700-750/gold equivalent ('GE') oz, all-in sustaining cash costs of US$975-1025/GE oz, and capital expenditure of US$250 million (including exploration and capitalised stripping).

1.4 Moz
total gold equivalent in 2016

HIGH-QUALITY ASSETS

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

Russia
Kazakhstan
Uzbekistan
Mongolia
China
St. Petersburg
Moscow
Ekaterinburg
Kostanay
Magadan
Khabarovsk

Map key

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

> MAYSKOYE

Bringing our newest mine up to speed

850 Ktpa	Mayskoye concentrator
Operating mines	Mayskoye

> VORO

Sustaining high performance and margins

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

> OMOLON HUB

Delivering the full potential of the processing hub concept

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

> DUKAT HUB

Further growth at Russia's largest silver mine

1.6 Mtpa	Dukat concentrator
400 Ktpa	Lunnoye CIL plant
Operating mines	Dukat, Goltsovoye, Lunnoye, Arylakh
Development projects	Olcha
Key exploration projects	Krasin, Zvezdny, Kamenisty

> KHAKANJA HUB

Developing new and cost-efficient ore sources

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

> AMURSK POX HUB

Unparalleled competitive advantage in the region

500 tpd	Amursk POX plant processing concentrate from Albazino
Operating mines	Albazino, Mayskoye

> VARVARA

Strong operations in Kazakhstan delivering a stable contribution

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

> ALBAZINO (Amursk POX hub)

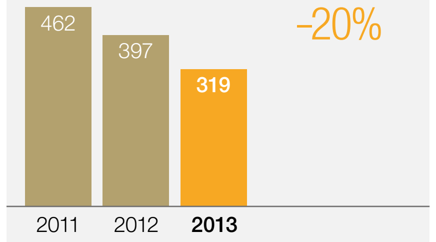
Solid operating performance throughout 2013

1.6 Mtpa	Albazino concentrator
Key exploration projects	Albazino, South and East flanks

SUSTAINING STRONG PERFORMANCE

> CAPITAL PROJECTS COMPLETED IN 2013

Capital expenditure
US$m



Mayskoye – launch and full ramp-up

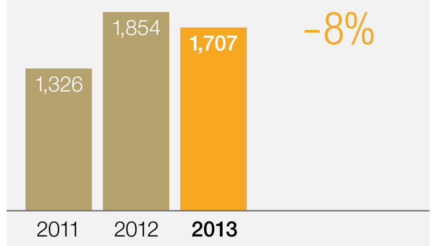
Amursk POX – completion of ramp-up

Underground mining at Mayskoye

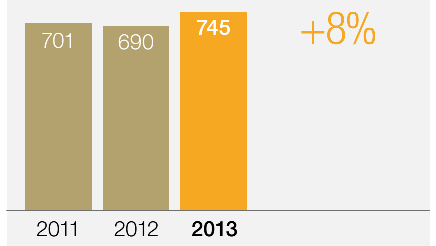
Financial highlights

Read more on pages 56-69

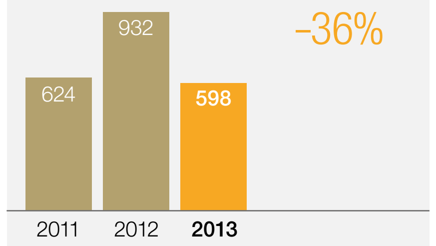
Revenue
US$m



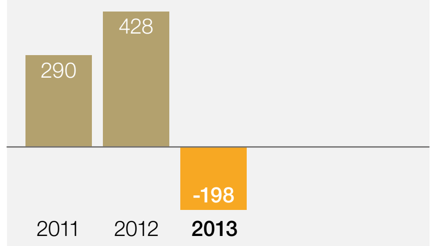
Total cash cost
US$/GE oz



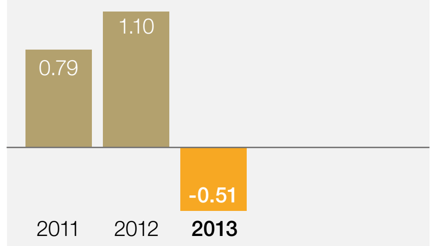
Adjusted EBITDA
US$m



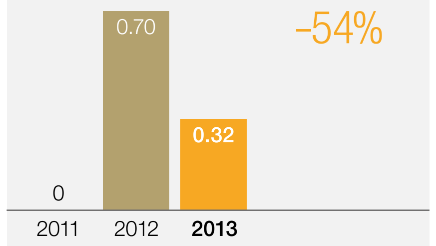
Net income
US$m



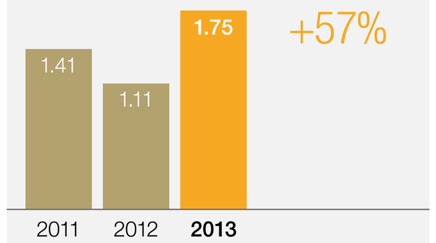
Basic EPS
US$/share



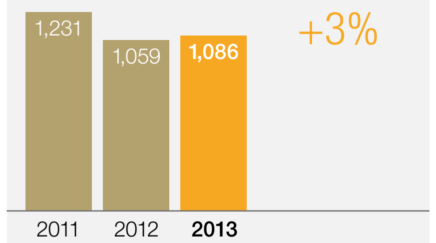
Dividends declared
US$/share



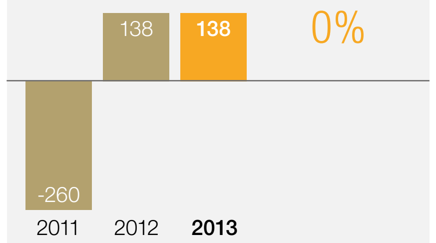
Net debt/adjusted EBITDA



All-in sustaining cash cost
US$/GE oz



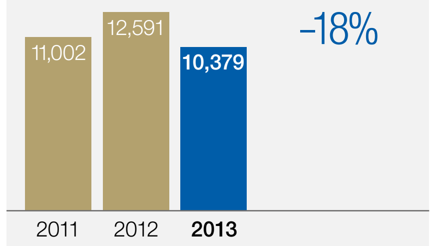
Free cash flow
US$m



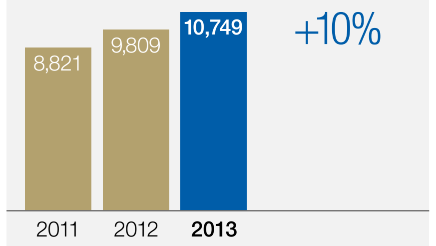
Operational highlights

Read more on pages 22-55

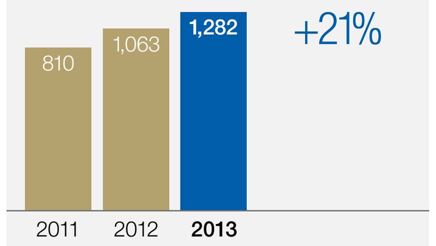
Ore mined
Kt



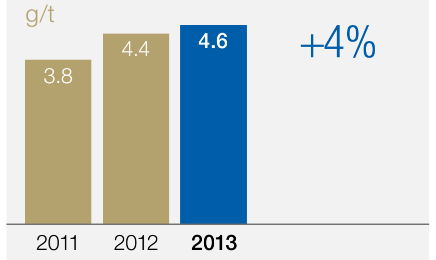
Ore processed
Kt



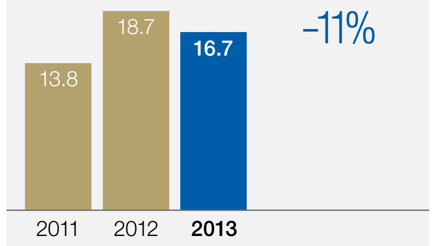
Gold equivalent production
Koz



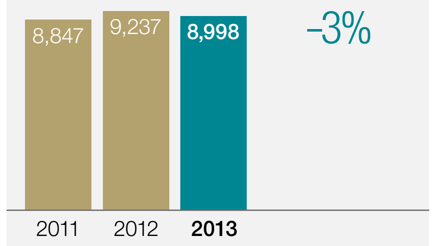
Average gold equivalent grade processed
g/t



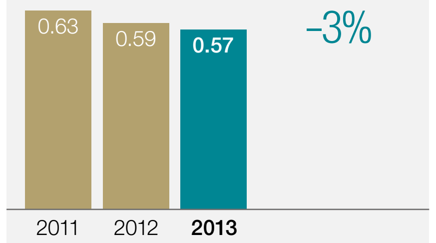
Resources growth
GE oz



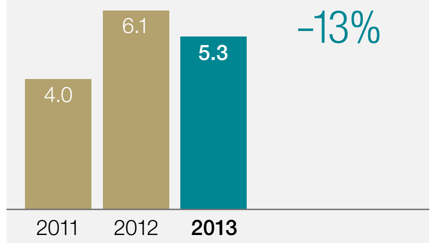
Headcount



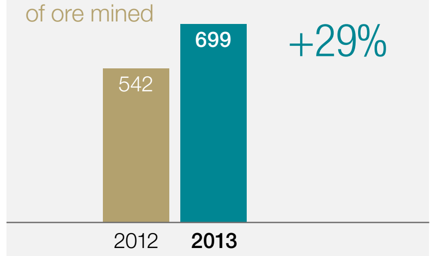
Lost time injury frequency rate
LTIFR



Social investments
US$m



GHG emissions[1]
CO_2-equivalent tonnes per 10 Kt of ore mined



[1] 2011 figure is not available as new methodology was used to calculate GHG emissions from 2012.

Exploration drilling at Maminskoye

> IN FOCUS

A core element in our strategy for driving long-term growth

Greenfield and brownfield exploration has proved to be one of the most efficient growth sources for Polymetal historically and remains an important pillar of our development strategy. Our decision to sustain our exploration programme and to keep working on the next generation of growth assets is a conscious strategic preference in the current market environment, although we have had to slow down some projects and defer development decisions for the key assets by approximately one year.

In 2013, we invested in both brownfield and greenfield exploration, with total metres drilled increasing 72% year-on-year to 194.9 km. We continued exploration activities at Albazino (including underground drift, geotechnical studies and in-fill drilling) with a view to converting the newly discovered resources to reserves and preparing the Albazino expansion project for the development decision. We have also advanced exploration activities and preparation for resource/reserve estimates and development decisions at key greenfield projects (Svetloye, Kutyn and Maminskoye) which may form the next generation of our growth assets.

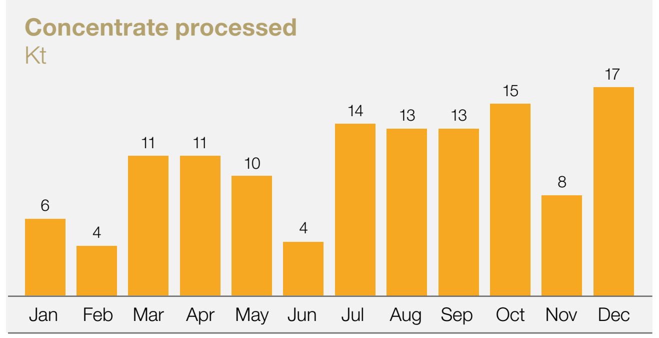
We expect that reductions in ore reserves and mineral resources in 2013 will be significantly reversed in 2014, as we step up our exploration efforts and complete feasibility studies on several key projects.

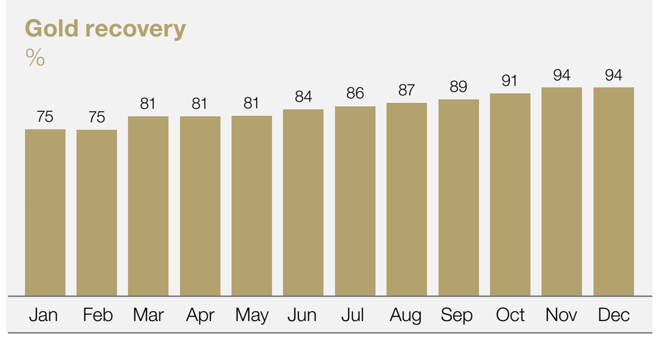
+72%

Total metres drilled, 2013/2012

Read more on pages 46-47

OVERCOMING CHALLENGES





> IN FOCUS

Experience and technical expertise built up during the year

The Amursk pressure oxidation plant (POX), our state-of-the-art and the first operating POX plant in Russia's gold industry, is now set to give Polymetal a unique competitive advantage, both nationally and in the Former Soviet Union, after successfully ramping up to design throughput and recovery by Q4 2013.

However, reaching this milestone has taken longer than expected. During the ramp-up at the end of 2012, we encountered a number of mechanical and metallurgical problems, and a programme of remedial measures was developed to deal with these issues promptly.

The POX facility was restarted in Q1 2013, with limited daily throughput of concentrate to ensure operational stability. Works carried out during a planned six-week shutdown in Q2 then allowed the plant to quickly ramp-up to the design concentrate throughput in Q3, along with improvement in recoveries.

In Q4 the Amursk POX plant delivered a full quarter of stable performance at the design parameters for both throughput and recovery. Gold production was 59 Koz in Q4 while average recovery reached 93%. The plant is now running at 500 tonnes per day, exceeding its nameplate capacity for Albazino concentrate, with the aim of fast-tracking the processing of accumulated stockpiles.

In 2013, the successful ramp-up process at the Amursk POX plant (and related concentrate de-stockpiling) contributed significantly to the increased gold production at Albazino/Amursk, which totalled 238 Koz and exceeded original production guidance.

+207%

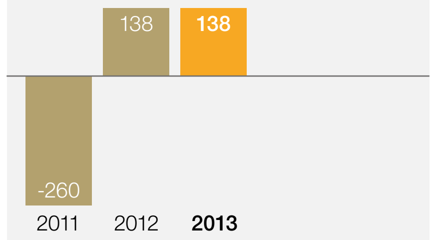
Increase in gold production in 2013 at Albazino/Amursk

94%

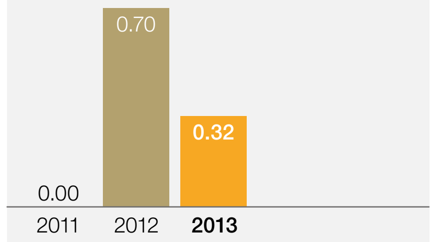
Design recovery achieved

Read more on pages 33-35

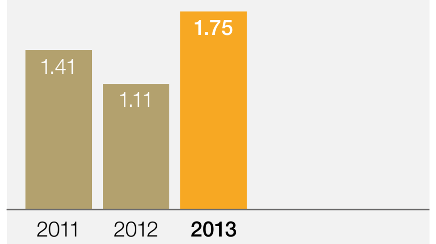
Free cash flow
US$m



Dividends declared
US$/share



Net debt/adjusted EBITDA



CAPITAL DISCIPLINE

> IN FOCUS

Commitment to generating sustainable value

Commitment to capital discipline is the key characteristic of our investment and funding policy.

Capital discipline drives the use of the return on invested capital as the key metric for project development decisions. It also underpins our commitment to generate significant dividend streams for our shareholders while maintaining comfortable leverage levels and a conservative debt structure.

Despite challenging market conditions, in 2013 we were able to stick to all of these core principles. Free cash flow for the year was US$138 million, remaining flat year-on-year despite a substantial decline in revenues. This was largely achieved due to lower operating and capital expenditure levels, increased production and major de-stockpiling.

As a result, the Group's liquidity profile remained comfortable, with net debt almost flat at US$1,045 million (2012: US$1,037 million) and 93% of debt being long-term. This has allowed us to retain dividend levels, with US$316 million being paid in during 2013 and a final dividend of US$31 million proposed in respect of this financial year.

7.2%

dividend yield in 2013

Read more on pages 14, 56-69

RESILIENT PERFORMANCE IN 2013

Polymetal has continued to build a business that has clear strategic principles and a commitment to best business and governance practices.

Bobby Godsell
Chairman

Market conditions during the year proved challenging, with gold and silver prices experiencing their sharpest drop in the last decade. However, thanks to a strong culture of delivering on our commitments, I am pleased to report on Polymetal's resilient performance against this background. The high quality of our assets and a responsive team was instrumental in helping us achieve both our production targets and the planned asset ramp-up. We were also quick to respond to market challenges, taking timely and appropriate decisions on production, capital expenditure and funding and thus ensuring sustainable cash flow generation and profitability at the new commodity price levels.

For the second year in a row, we exceeded our original annual production guidance and produced 1.28 Moz (2012: 1.06 Moz) of gold equivalent in 2013, up 21% year-on-year and 7% above original expectations. This achievement was driven by the successful ramp-up of our key growth projects, Amursk POX and Mayskoye, and exceptional operational delivery at the Dukat hub.

Dividends and value creation

Delivering meaningful dividend yield to the Company's shareholders is central to our strategy focused on capital discipline. Polymetal has consistently implemented its dividend policy, with a payout totalling US$316 million in dividends in 2013 representing a 7.2% dividend yield to shareholders. This was underpinned by strong free cash flow generation in both 2012 and 2013, and by our commitment to deliver this value to shareholders.

Although the Company itself performed in line with the Board's expectations, sustaining the same level of cash flow and profitability was clearly difficult in the significantly lower commodity price environment. Given current trends in the gold and silver market, with prices set to remain under pressure, the Board has rightly taken a conservative approach in order to preserve the Company's current balance sheet strength, and has decided not to pay a special dividend for 2013.

However, in line with our dividend policy and on the back of strong cash flow generation in 2013, the Board proposes a final dividend of US$0.08 per share for 2013 and this will be paid, subject to approval at the AGM, in May 2014.

Building on strong corporate governance

The Board is committed to open and constructive dialogue. Effective corporate stewardship and strong corporate governance are particularly important for the wellbeing of the business in the current challenging market environment, and we believe that we have the right balance of skills, experience, independence and knowledge of the Company amongst the Board's Directors to tackle these challenges.

During 2013, Polymetal achieved full compliance with the UK Corporate Governance Code during the year, building on our established governance track record. We made advances in our executive remuneration and significant progress in sustainability governance and reporting, gaining ISO certification and upgrading our sustainability disclosure to the exacting standards of the Global Reporting Initiative (GRI).

However, we regard strong governance as a dynamic process, in which continuous improvement is key. In 2013, we instigated the first formal evaluation of the Board's performance, undertaken by an independent external advisor. This enabled us to review the Board's effectiveness and identify areas for improvement. The majority of areas were rated very highly and we have pinpointed key priorities for the coming year along with strategic issues on which we need to focus.

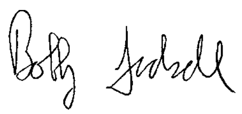
We continue to strengthen and improve our business, both operationally and financially, but never lose sight of the Board's responsibility for ensuring that the Company is run in the best interests of all its stakeholders through our commitment to the highest levels of ethical and responsible behaviour.

Our people

A strong leadership team can only achieve its goals with the collaboration and commitment of a strong and capable workforce. At Polymetal, we have talented, dedicated and hardworking employees and it is their efforts that are the bedrock of our success – now and in the future. On behalf of the Board and the leadership team, I would like to thank everyone for their support and I look forward to working together with them for the long-term prosperity of the business.

Confident outlook for 2014

The Board is pleased to be able to report a robust operating performance and resilient financial results for 2013, particularly given the vagaries of the commodity market trading throughout the year. Our outlook for 2014 remains unchanged with a 1.3 Moz annual gold equivalent production target, which is set to reach a further 1.4 Moz level by 2016 with the current asset portfolio. Meanwhile, we will continue to prepare our third generation of assets for development decisions in 2014-2015 in order to ensure growth beyond 2016. We will also look for strategic acquisition opportunities, and continue to streamline our current asset portfolio performance – all driven by the core objective of creating long-term value for our stakeholders.



Bobby Godsell
Chairman

Open-pit mining at Varvara

> STRUCTURE

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

Read more on pages 74-101

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Dividend payout in 2013, US$ million

A SUCCESSFUL YEAR OF DELIVERY AND GROWTH

2013 was a year when the world's gold miners were tested for their ability to withstand market challenges as prices experienced their lowest dip for nearly two decades. While the drop in commodity prices impacted on performance, Polymetal demonstrated resilience by delivering on its promises and responding to the challenge swiftly and effectively.


Vitaly Nesis
Chief Executive

Robust operating performance

As reported in more detail in the Chairman's statement, Polymetal exceeded its original production guidance for the second consecutive year, delivering an increase of 21% year-on-year, which was 7% above our production guidance. This robust achievement was driven by the successful ramp-up at Amursk and Mayskoye and strong operational delivery at the Dukat hub.

Annual gold production was 805 Koz (2012: 589 Koz), up 37% year-on-year with significant increases coming from Albazino and Mayskoye. Annual silver production was 27.2 Moz (2012: 26.5 Moz), up 3% year-on-year and helped by the increased throughput at the Dukat hub which more than offset the expected grade-driven decline at Khakanja.

The newly commissioned flagship Amursk POX plant, after all initial issues had been addressed, successfully achieved design throughput and recovery in the second half of the year (averaging 93% in Q4). This is an important strategic milestone for the Company which now possesses a unique competitive advantage in the FSU.

Mayskoye, our newest underground mine and processing plant, ramped up to full capacity, marking the full completion of a major investment cycle between 2009 and 2012.

Strategy

Our strong production results were underpinned by a strategic commitment to capital discipline and to sustaining value in the long-term. We were quick to respond to the changing market environment by trimming capital expenditure, suspending higher cost assets and stabilising cost performance. All of these decisions will help preserve both the long-term value and the optionality of the Company's portfolio.

Financial performance

While our financial results were unavoidably impacted by lower prices, this was partially offset by strong operating performance and decreased capital expenditure. We continued to generate a strong free cash flow despite the challenging market conditions. This allowed the Company both to sustain dividend flow to shareholders and to maintain a strong balance sheet position, which in turn will provide us with flexibility for further organic and acquisition growth opportunities in the current market environment.

Sustainability

Polymetal is one of the employers of choice in the mining sector in Russia and Kazakhstan, employing nearly 9,000 people at 31 December 2013. Alongside the responsible development of our business, the wellbeing of our dedicated staff is paramount to the success of the Company. We have made solid progress across all business operations to put in place an employee protection and workplace safety management system. Our health and safety focus for 2013-15 is to enhance our capabilities in three key areas – training, visualisation and monitoring – as well as rolling out the system to our supplier and contractor network.

Our lost time injury frequency for the year reduced by 3% over 2012. However, it is with great sadness that we report one fatality in 2013 at the Ozerny open-pit mine in the Khakanja hub. A formal investigation into the incident has revealed a serious breach of both internal and statutory safety rules by the employee. We have already implemented a number of additional safety measures and enforcements to existing safety rules across our operating mines.


Gold concentrate storage at Albazino


The helicopter landing strip at Amursk

We are conscious of our long-term commitments to the economic, social and environmental wellbeing of the people and places associated with our operations. We have an ongoing programme of initiatives that support job creation, the development of local and regional infrastructure, health, education, culture, welfare and sports. Our investment priorities are determined through regular feedback from, and our experience of working with, local communities and indigenous peoples over many years. Our day-to-day conduct is guided by and complies with the UN Global Compact and the UN Declaration on the Rights of Indigenous Peoples.

Looking to the future

Our plans for 2014 and beyond already take into account the current reduced level of commodity prices. Due to the high reserve grade and conservative price assumptions used in our life-of-mine models, the vast majority of our long-term mine plans remain intact after the recent price decline. All our operating mines continue to generate positive cash flows and can withstand further fluctuations in the gold and silver price. As a result, the Company reconfirms its production guidance of 1.3 Moz of gold equivalent for 2014 and 1.35 Moz for 2015, as well as our medium-term production guidance of 1.4 Moz in 2016.

Our strategic focus is on new growth assets – through both the internal pipeline and M&A activities. We hope to deliver significant progress on both of these in 2014, but any decisions about either route will be subject to our usual commitment to capital discipline.

Vitaly Nesis
Chief Executive

+21%
Production growth in 2013

1,086
All-in sustaining cash costs in 2013, US$/GE oz

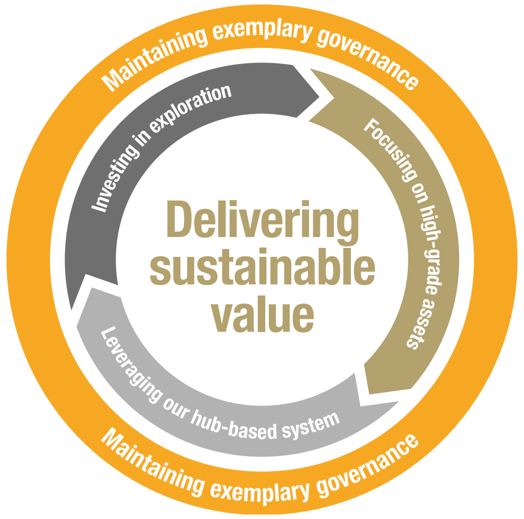
138
Free cash flow in 2013 (unchanged to 2012), US$ million

OUR BUSINESS MODEL FOR SUCCESS

The objective of our business model is to ensure that we remain successful in our market and, in doing so, deliver sustainable value to our stakeholders. The methodology that we have developed focuses on our capabilities for increasing our resource base and enhancing our processes for improving both production efficiency and grades.

Surveying activity at Khakanja

Our business model is composed of three interdependent elements: our investment in exploration, a focus on high-grade assets and the development of our hub-based operating system. These are all underpinned by our adherence to strong governance principles.



Focusing on high-grade assets

Return on investment in the precious metals industry is largely driven by two key cost factors: grades and mining conditions. We achieve better returns and lower risks from our project portfolio by setting appropriate thresholds on head grades and focusing on open-pit mines; only opting for underground development if this is justified by higher grades.

Read more on pages 22-45

Leveraging our hub-based system

We have created centralised processing facilities to handle ores from different sources. These enable us to achieve economies of scale by minimising processing and logistics costs, as well as capital spending per ounce. The hub system also allows us to bring into production medium-sized or even small-sized near-mine deposits that would be uneconomic to run as standalone operations.

Read more on pages 27-41

Investing in exploration

Successful exploration provides us with a cost-effective increase in our reserve base and, along with successful acquisitions, is the key source of our long-term organic growth.

Read more on pages 8-9, 24-26, 46-47

Maintaining exemplary governance

We are committed to upholding good governance throughout our operations and in our interactions towards and on behalf of all our stakeholders.

Read more on pages 74-101

OPERATING TO A CONSISTENT STRATEGY

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

Open-pit mining at Khakanja

01 ACHIEVE DESIGN CAPACITY AT ALL PLANTS AND TARGETED PRODUCTION VOLUMES (1.4 MOZ)

Achieve design capacity at projects currently under construction or in ramp-up phase by the second half of 2013 and achieve production level of 1.4 Moz of gold equivalent ounces in 2016. Assets under construction or ramp-up phase expected to generate production growth are the Amursk POX plant and Mayskoye concentrator.

02 COMPLETE KEY CAPEX PROJECTS

Albazino, Amursk POX and Mayskoye were the key projects we concentrated on in 2012-2013. These have now been completed and are delivering a healthy contribution to production and EBITDA.

03 CAPITAL DISCIPLINE: DELIVER SUPERIOR OPERATING PROFITABILITY, FREE CASH FLOW AND DIVIDENDS

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.

04 VALUE-DRIVEN ORGANIC AND INORGANIC GROWTH

Acquisitions
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, adding substantial new standalone mines to the portfolio or transforming current standalone mines into new hubs.

Greenfield exploration
Investment in greenfield exploration with the aim of discovering high-grade quality assets for construction of new standalone mines.

Near-mine exploration
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 such expansion are Albazino, Omolon, Khakanja and Voro.

05 MAINTAIN HIGH STANDARDS OF CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT

Maintain high standards of corporate governance, strictly adhering to the principles of sustainable development in our interaction with all stakeholders in our operations, including communities, employees and government bodies. We are compliant with the provisions of the UK Corporate Governance Code from June 2013. The Group is also a participant in the UN Global Compact, a recognised international standard for sustainable development.

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

01 ACHIEVE DESIGN CAPACITY AT ALL PLANTS AND TARGETED PRODUCTION VOLUMES (1.4 MOZ)

The autoclave section at Amursk

Risks

- Production risk
- Market risk – commodity prices
- Logistic and supply chain risk

Read more on pages 71-72

KPIs	Our performance in 2013
Gold equivalent produced	1,282 Moz/+21%
Average grade gold equivalent grade processed	4.6 g/t/+4%

Priorities for 2014

- Achieve a production level of 1.3 Moz of gold equivalent
- Deliver a full year of robust performance at the Mayskoye and Amursk POX plants
- Negotiate potential terms of off-take for Mayskoye
- Commence stoping at the Avlayakan underground mine
- Commence ore leaching at Birkachan heap leach facility (Omolon hub)

02 COMPLETE KEY CAPEX PROJECTS

The Mayskoye plant

Risks

- Construction and development risk
- Logistic and supply chain risk

Read more on pages 72

KPIs	Our performance in 2013
Capex, US$ million	319/-20%
Major project milestones completed	Mayskoye – launch and full ramp-up Amursk POX – completion of ramp-up

Priorities for 2014

- Advance the development decisions for the third generation of growth assets, including potential expansion at Albazino and development of Svetloye in the second half of the year

03 CAPITAL DISCIPLINE: DELIVER SUPERIOR OPERATING PROFITABILITY, FREE CASH FLOW AND DIVIDENDS

A Board meeting at our St. Petersburg head office

Risks

- Market risk – commodity prices
- Financial risks
- Tax risk

Read more on pages 71-73

KPIs	Our performance in 2013
Total cash cost, US$/GE oz	745/+8%
All-in sustaining cash costs, US$/GE oz	1,086/+3%
Adjusted EBITDA, US$	598/-36%
Adjusted EBITDA margin	35%/-15%
Return on equity	6%/-16%
Free cash flow, US$ million	138/0%
Dividend yield	7.2%

Priorities for 2014

- Deliver on our total cash cost guidance of US$700-750/GE oz and all-in sustaining cash costs of US$975-1,025/GE oz
- Achieve further decrease of capital expenditure to US$250 million and generate significant free cash flow
- Maintain conservative funding structure to allow for dividend payments and flexibility for further growth opportunities

04 VALUE-DRIVEN ORGANIC AND INORGANIC GROWTH

Kerns from the Maminskoye exploration project

Risks

- Exploration risk
- Mergers and acquisitions
- Political risk
- Legal risk

Read more on pages 72-73

KPIs	Our performance in 2013
M&A: Transactions made during 2013	Acquisition of Maminskoye – 0.9 Moz of gold reserves in the Urals with exploration upside
Organic growth through exploration Exploration expenditure, US$ million	59
Drilling volumes, km	195/+72%
Advanced exploration project decisions	Svetloye, Albazino-2 – expected in 2014 Kutyn, Maminskoye – expected in 2015

Priorities for 2014

- Advance the development decisions for the third generation of growth assets, including potential expansion at Albazino and development of Svetloye in the second half of the year
- Screen for potential value-accretive M&A in the current market environment
- Continued resource-to-reserve conversions and resource category updates at our advanced standalone exploration targets and brownfield targets through in-fill drilling

05 MAINTAIN HIGH STANDARDS OF CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT

A traditional 'Festival of the North' in the Khabarovsk region

Risks

- Environmental risk
- Health and safety risk

Read more on pages 72-73

KPIs	Our performance in 2013
Compliance with UK Corporate Governance Code	✓
LTIFR	0.57/-3%
CSR spending, US$ million	5.3/-13%
GHG emissions, tonnes per 10 Kt of ore mined	699/+29%

Priorities for 2014

- Increased focus on enforcement of health and safety rules and risk management, with particular attention to key risk areas and rollout of our systems to suppliers and contractors
- Keep on track with the high standards of corporate governance and corporate responsibility

RESILIENT OPERATING PERFORMANCE SUPPORTED BY HIGH-QUALITY ASSETS

Despite significant turbulence in commodity markets in 2013, Polymetal demonstrated a resilient performance and delivered on all of its operating targets.

Gold concentrate unloading at Amursk

Polymetal exceeded its original annual production guidance by 7% and produced 1.28 Moz of gold equivalent during 2013, up 21% year-on-year. This achievement was driven by the successful ramp-ups at Amursk POX and Mayskoye, and strong operational delivery at the Dukat hub, supported by a robust performance at other mature operating mines.

The full ramp-up of Amursk and Mayskoye in 2013 marked the completion of a major investment cycle and brought a whole new generation of Polymetal's assets (Albazino/Amursk, Omolon and Mayskoye) online. These new mines contributed 35% of total gold equivalent production in the year, as well as the bulk of production growth during 2011-2013.

In the light of a insignificant decline gold and silver prices in the second quarter of 2013, the management and the Board undertook a strategic review of our operations and projects, quickly identifying and implementing action plans to optimise operating performance and capital expenditures. The operational decisions taken were aimed at maintaining free cash flow generation and the capacity to pay dividends in the current market environment, whilst securing the long-term health of our assets and retaining flexibility should prices recover in future.

In light of this, high-grading (raising the cut-off grade of a mine significantly and continuing to mine whilst leaving the rest of the ore body uneconomic) was discarded as an approach for higher-cost assets. Instead, we have selectively suspended certain mines completely (Birkachan (Omolon hub)) and revised mine plans for certain processing hubs (Omolon and Khakanja hubs) in order to accelerate access to lower cost and/or higher grade material. All decisions, including the reallocation of mining volumes, optimisation of stripping and underground development, were driven by the life-of-mine NPV of an operation rather than short-term cost-cutting considerations.

Additionally, as a result of the Board's strategic review, capital expenditure was optimised with savings of approximately US$60 million in 2013. Key decisions included:

- the Sopka heap leaching project was postponed.
- the greenfield/brownfield exploration budget was reviewed and re-prioritised. We have continued to invest in key development projects such as Svetloye, Maminskoye, Kutyn and the expansion of Albazino, although the pace of development has been slowed down and key project development decisions have been pushed back by approximately 12 months. At a number of early-stage exploration assets, exploration volumes have been reduced or cancelled completely.
- certain non-core maintenance projects/mining equipment purchases at operating mines have been cancelled or delayed.

The actions outlined above made no impact on our 2013 production plans and only a minor impact on the medium-term production up to 2016, when our original 1.4 Moz of gold equivalent production target will be achieved. Furthermore, we were also able to bring cash costs down by 8% in the second half of the year compared to the first half.

Production highlights

	2013	2012	% change
Key operating highlights			
Stripping, Kt	**84,956**	85,173	**0%**
Underground development, m	**55,339**	46,717	**+18%**
Ore mined, Kt	**10,379**	12,591	**-18%**
– open-pit	**7,975**	10,937	**-27%**
– underground	**2,404**	1,654	**+45%**
Metal in ore mined, GE grade g/t	**4.7**	3.9	**+22%**
Ore processed, Kt	**10,749**	9,809	**+10%**
Metal in ore processed, GE grade g/t	**4.6**	4.4	**+4%**
Production			
– gold, Koz	**805**	589	**+37%**
– silver, Moz	**27.2**	26.5	**+3%**
– copper, Kt	**4.841**	6.567	**-26%**
Gold equivalent production, Koz	**1,282**	1,063	**+21%**
Sales			
– gold, Koz	**808**	589	**+37%**
– silver, Moz	**27.4**	27.8	**-2%**
– copper, Kt	**6.141**	7.011	**-12%**
Gold equivalent sales, Koz	**1,295**	1,088	**+19%**
Health and safety			
LTIFR	**0.57**	0.59	**-3%**
FIFR	**0.06**	–	**NA**

Exceeding expectations for production and sales

Annual gold production was 805 Koz, up 37% year-on-year with significant increases coming from Albazino and Mayskoye. Annual silver production was 27.2 Moz, up 3% year-on-year due to increased throughput at the Dukat hub, which more than offset the grade-driven decline at Khakanja. Copper production was 4.8 Kt, lower than in 2012 because of a scheduled decrease in copper grades at Varvara.

Silver sales lagged behind production in the first half of the year, mainly due to increased concentrate in transit inventories at Dukat. However, the gap was closed in the second half and metal sales for the full year slightly exceeded production for both gold and silver.

Successful completion of key capital projects

Amursk POX

Despite the unexpected setback in the ramp-up schedule at the Amursk POX plant, by the end of the third quarter of 2013 the plant was ramped up to full capacity and achieved design throughput and recovery. This required a six-week maintenance shutdown in the second quarter and an upgrade of the water treatment unit in the third quarter of the year. With these measures successfully completed on schedule, the plant quickly reached design parameters.

Launch of Mayskoye

Another highlight of the year was the successful launch and ramp-up of the Mayskoye processing plant. Between its launch in April and December, the plant produced 87 Koz of gold in concentrate and achieved design throughput and recovery levels.

Analysis of production results

Mining

Stripping volumes in 2013 were flat at approximately 85 Mt of rock moved. Volumes of stripping were significantly reduced at the Omolon hub after Q2 (due to completion of a massive stripping campaign and suspension of mining at Birkachan in response to lower commodity prices), while at Varvara stripping volumes increased in the second half of the year as a result of pushback in the North-West and North-East pits. Underground development increased by 18% to more than 55 km, mainly due to increased volumes at the Dukat hub where ore is increasingly sourced from underground, with the Dukat and Arylakh mines switching fully to underground. In 2013, we commenced open-pit mining at Dalneye (Omolon hub) and underground mining at Avlayakan (Khakanja hub).

Ore mined was 10.4 Mt and decreased by 18% compared to 2012; this is mainly attributable to the drawdown of additional ore for processing from prior years' stockpiles at Varvara, Omolon and Khakanja. The bulk of ore mined (77%) was sourced from open pit, however the share of ore mined from underground has increased since the Mayskoye mine started active stoping with the launch of the processing plant and the Dukat hub shifted almost completely to underground mining during the year.

The average gold equivalent grade in ore mined was 4.7 g/t, a 22% increase year-on-year. The high-grade profile of Polymetal's operations was further supported by the newly launched Mayskoye mine (average grade mined was 7.4 g/t gold) and the strong grade profile at Dukat, where the average silver grade in ore mined increased by 8% year-on-year to 429 g/t.

The full rollout of the short-, medium- and long-term computerised mine planning system across all the Group's operations was also an important technical achievement during 2013.

Processing

Ore processed increased by 10% in 2013 and totalled 10.7 Mt. The increase was driven by further capacity expansion at the Dukat hub (including both Lunnoye and Omsukchan plants) and the launch of the Mayskoye processing plant in April 2013, which milled 488 Kt by the end of the year. Our mature mines demonstrated stable performance in terms of throughput and Albazino mine, as a result of de-bottlenecking, increased its capacity to 1.6 Mtpa of ore by the end of the year.

In line with increased grades in ore mined, the average gold equivalent grade in ore processed grew by 4% to 4.6 g/t. This result was achieved through: the launch of the high-grade Mayskoye mine; the high grade profile at the Dukat hub and Albazino; and robust grade performance elsewhere across the Group, with the exception of Khakanja (scheduled grade decline driven by depletion of Yurievskoye and Khakanja's pit 3) and Omolon (scheduled grade decline at Sopka).

Production

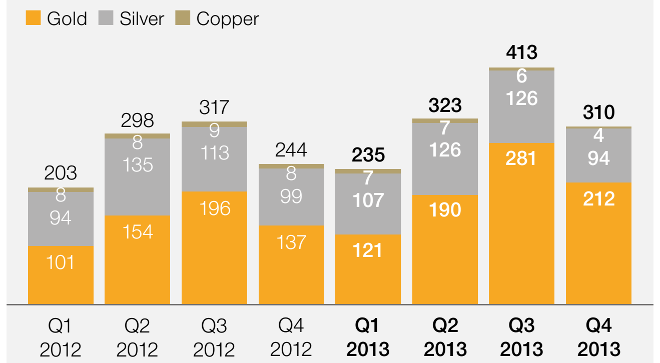
For the second consecutive year, and despite commodity price fluctuations, we have exceeded the original guidance, achieving 1.28 Moz of gold equivalent production in 2013. Dukat, Mayskoye and Albazino/Amursk were the key contributors to this growth. Voro and Varvara demonstrated resilient performance. Production decline at Khakanja was a result of scheduled grade decline and the decrease at Omolon was a result of expected average grade decline in ore from Sopka.

In 2013, Polymetal continued to reflect seasonality in its production profile. Production dynamics on a quarterly basis are shown in the graph below. The strength of the second and the third quarters of the year was driven by:

- shipment of concentrates from Mayskoye and Albazino during the navigation period;
- ore transportation at Omolon (trucking of ore from Sopka by winter road in the first quarter, processing in the second and third quarter); and
- seasonal heap leaching operation at Voro.

In 2014, with the full volume of Albazino concentrate to be processed at the Amursk POX, the level of seasonality is expected to reduce. However seasonal navigation at Mayskoye and seasonal high-grade ore processing at Omolon will continue to influence the production profile, with peak production expected in the third quarter.

Quarterly production data
GE Koz



Gold equivalent production by mine Koz

	2013	2012	% change
Dukat	**409**	357	**+15%**
Khakanja	**144**	164	**-12%**
Voro	**154**	157	**-2%**
Varvara	**132**	134	**-2%**
Omolon	**158**	173	**-9%**
Albazino/Amursk	**238**	77	**+207%**
Mayskoye	**48**	–	**NA**
Total production	**1,282**	1,063	**+21%**

Metal sales in 2013 were 1,295 Koz of gold equivalent,[1] and grew by 19% compared to 2012. Sales volumes slightly exceeded production for the full year.

While most of the sales are comprised of refined metals, we continue to sell concentrates from Dukat (gold-silver), Varvara (gold-copper) to off-takers in Kazakhstan, Japan, South Korea and China. For Dukat and Varvara, the off-take allows us to maximise margins compared to in-house processing of these materials. During 2013, we diversified the off-taker base considerably in order to achieve an optimal combination of transportation costs and treatment charges/recoveries. Off-take diversification is also an important element of Polymetal's strategy aimed at strengthening our commercial independence from key customers.

Due to the temporary setback in the ramp-up schedule for the Amursk POX plant and in order to avoid build-up of excessive concentrate stockpiles, we resumed concentrate sales from Albazino in the second and third quarters of 2013. Sales to off-takers in China during 2013 increased by 25% year-on-year and comprised 79 Koz. This has now been fully completed, with no further off-take required from 2014.

Shortly after the start-up of the Mayskoye concentrator in April 2013, Polymetal signed two export sales contracts with Chinese off-takers for refractory gold concentrate produced at Mayskoye. A total of 30 Kt of concentrate with 48 Koz of payable gold was shipped to off-takers during the navigation period in 2013.

Exploration

Polymetal's exploration activities are focused in five regions of Russia – Khabarovsk, Magadan, Chukotka, Karelia and Ekaterinburg – as well as in Kazakhstan. Polymetal currently has 54 licences for geological studies and gold, silver and copper exploration and mining, and one coal mining licence.

Our current exploration portfolio includes 40 licences with a total area of approximately 10,240 km^2. Of these, our exploration activities in 2013 covered 28 licence areas, including 20 areas in the scoping stage and eight areas in the advanced exploration stage.

Our exploration targets for 2013 included:

- ongoing brownfield exploration activities aimed at extending mine lives at our existing operations: Khakanja (with the shortest current mine life), Dukat, Omolon, Varvara, and Voro;
- continued exploration activities at Albazino (including underground drift, geotechnical studies and in-fill drilling) with a view to converting the newly discovered resources to reserves and preparing the Albazino expansion project for the development decision;
- advanced exploration activities and preparation for resource/reserve estimates and development decisions at key greenfield projects (Svetloye, Kutyn and Maminskoye) which may form the next generation of our growth assets;
- greenfield exploration for new precious metals deposits with a potential resource base which would be sufficient in grade and size to justify the construction of a standalone mine; and
- exploration for platinum group metals (PGM) in the Ekaterinburg and Karelia regions in order to establish new hard-rock PGM resources.

Key 2013 exploration statistics

	2013	2012	% change
Exploration works			
Core drilling, km	**194.9**	113.5	**+72%**
Trenching, th. m^3	**127.5**	294.2	**-57%**
Underground development for exploration purposes, m	**1,137**	579	**+96%**
Sampling, thousand samples:			
Trench sampling	**8**	13.5	**-41%**
Core sampling	**129.8**	102	**+27%**
Sludge sampling	**6.1**	–	**NA**
Geophysical research, area covered, km^2	**37.2**	103.8	**-64%**

In 2013, despite a significant decline in gold and silver prices, we continued to invest in exploration with total metres drilled increasing 72% year-on-year to 194.9 km. Total capital expenditure on exploration declined by 13% to US$59 million, mostly due to a decrease in the unit costs of drilling and a reduction in early-stage activities such as trenching.

We have made solid progress on all key advanced greenfield and brownfield exploration projects. As a result, material additions to ore reserves are expected in 2014 at Svetloye (Q2), Albazino (Q4) and Kutyn (Q4), with further likely additions at near-mine properties at Omolon and Voro.

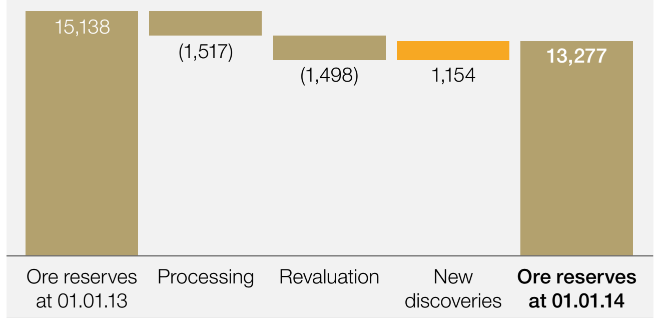
Reserves and resources

Ore reserves and mineral resources summary[1]

	1 January 2014	1 January 2013	% change
Ore reserves (proved + probable), gold equivalent Moz	**13.3**	15.1	**-12%**
Gold, Moz	**8.9**	9.6	**-7%**
Silver, Moz	**219.5**	307.6	**-29%**
Copper, Kt	**77.0**	82.9	**-7%**
Mineral resources (indicated + measured + inferred), gold equivalent Moz	**16.7**	18.7	**-11%**
Gold, Moz	**13.4**	14.9	**-10%**
Silver, Moz	**117.2**	146.1	**-20%**
Copper, Kt	**145.2**	281.4	**-48%**

[1] Mineral resources and ore reserves are reported in accordance with the JORC Code (2012). Mineral resources are in addition to ore reserves. Discrepancies in calculations are due to rounding.

Movement in gold equivalent ore reserves
Moz



In 2013, Polymetal decreased its ore reserves by 12% to 13.3 Moz of gold equivalent while mineral resources (additional to ore reserves) declined by 11%. These reductions were driven mostly by more stringent economic evaluation, using the same prices of US$1,300/oz gold and US$22.5/oz silver for both reserves and resources.

The key material additions to ore reserves were due to resource-to-reserve conversion at Oroch (241 Koz of gold equivalent) and acquisition and subsequent revaluation of Maminskoye (913 Koz of gold equivalent). Decreases in ore reserves, in addition to regular depletion (1,517 Koz), resulted mostly from the response to changes in mine plans and were mainly comprised of the following:

- re-optimisation of open pits at Birkachan and Sopka;
- exclusion of remote ore zones and ore bodies requiring significant additional investment in access at Dukat; and
- indefinite postponement of underground mining at Khakanja due to adverse assessment of geotechnical conditions.

Mineral resources decreased, mostly as a function of the lower gold price used in the year-end estimates (US$1,300/oz in 2013 vs US$1,500/oz in 2012).

Average ore reserve grade remains high at 3.7 g/t GE, a decline of 7% compared with 2012, while average mineral resource grade increased by 14% to 3.7 g/t as a result of lower-quality resources being excluded from the estimate.

Acquisitions remain an important pillar of our strategy

We believe that the current weakness in precious metal prices represents both a challenge and an opportunity. Growth through synergistic, value-driven M&A has always been an integral part of our strategy. In 2013, apart from the acquisition of Maminskoye, we undertook no major transactions. However, we are still keen to investigate potential acquisition opportunities, and have both the financial and operational flexibility to respond should such opportunities arise. In our acquisition strategy, we remain focused on high-quality development stage assets, with high-quality resources/reserves and long mine life to justify the construction of a standalone mine at current commodity price levels.

[1] At 1/60 Ag oz/Au oz ratio, 5/1 Cu Mt/Au oz ratio.

Outlook for 2014
The key operational focus in 2014 will be to deliver a full year of robust performance at two of our newest plants – Mayskoye and Amursk POX – and sustain robust operating performances at the Dukat hub and other mature mines. In doing so, we expect to achieve a production level of 1.3 Moz of gold equivalent, which will be further improved to 1.35 Moz in 2015 and 1.4 Moz in 2016, based on the current asset base.

Operations
Achieving our targets at Mayskoye will be key to delivering on this guidance. This will include trial processing of concentrate from Mayskoye at the Amursk POX plant in the first quarter and negotiation of the potential terms of long-term off-take. The split between own-processing at the POX plant and off-take sales will be driven partially by the relative economics of each of these routes and partially by the prospects of an Albazino expansion, which, if undertaken, will require additional POX capacity.

At the Amursk POX plant, the key objective is to deliver a full year of sustainable performance and further optimise it in terms of costs. Another important goal is to deliver a robust recovery and cost profile on the processing of Mayskoye concentrate. While the past year was challenging in terms of the POX plant performance, we believe that the internal expertise gained as a result of the ramp-up process will enable us to deliver both of these targets successfully.

Our operational objectives for other existing mines are:

- further de-bottlenecking at the Dukat hub underground mines and achieving total throughput of 2 Mtpa;
- commencement of stoping at the Avlayakan underground mine and achieving an increase in the amounts of ore mined and shipped to Khakanja;
- increasing volumes of ore mined at Varvara after completion of the pushback and pit optimisation;
- a further increase in the amounts of ore trucking by winter road at the Omolon hub from Sopka and Dalneye;
- commencement of ore leaching at Birkachan heap leach facility (Omolon hub); and
- an increased focus on enforcement of health and safety rules and risk management, with particular attention to key risk areas and rollout of our systems to suppliers and contractors.

Barring any further deterioration of commodity prices, we are also set to advance the development decisions for the third generation of growth assets, including potential expansion at Albazino and development of Svetloye in the second half of the year. In 2015 we will also consider development decisions for our Kutyn and Maminskoye projects.

Exploration
In 2014, our exploration activities will be focused 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 in the Olga zone, in-fill drilling in the Ekaterina-1 and Ekaterina-2 zones, and additional step-out drilling at the flanks of the Albazino field;
- completion of a 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 with preparation for open-pit mining and exploration for new ore bodies in the area;
- continued exploration at the two key greenfield targets of Kutyn and Svetloye, followed by resource estimates and preparation of oxidised ores for open-pit mining;
- continued scoping and exploration at the Elmus and Semcha areas in Karelia, with a view to developing a new standalone gold/PGM asset in the region; and
- preparation of Maminskoye resources for open-pit mining and step-out drilling at the flanks of the deposit.

Our focus on exploration is a conscious strategic preference in the current market environment. With a high-quality portfolio of operating assets, we continue to generate robust operating results and healthy cash flows at lower commodity prices. We would, therefore, like to be fully prepared for the next stage of the commodity cycle by developing a new generation of Polymetal's assets, both from reserve additions from exploration and from potential acquisition opportunities. The year ahead will be important for progressing both routes.

Kern analysis at Ozerny

DUKAT

> FURTHER GROWTH AT RUSSIA'S LARGEST SILVER MINE

Russia, Magadan Region
Managing director: Mikhail Egorov
Employees: 1,869

3rd largest silver deposit in the world	+15% Silver production in 2013: 22.1 Moz
-5% Total cash costs: US$11.6/silver equivalent oz	+8% Ore processed: 1,9 Mt

Mines
1. Arylakh
2. Lunnoye
3. Perevalny
4. Nachalny-2
5. Dukat
6. Goltsovoye
7. Olcha

● Processing plants
+ Town

For the second year in a row, Dukat takes the lead among our mature mines in terms of both production growth and robust cost performance. Silver production in 2013 was 22.1 Moz, up 15% year-on-year, and was further supported by improvements in average grades at the Dukat and Goltsovoye mines and increased recovery rates. Despite the full switch to underground mining, the Dukat hub achieved a further reduction in total cash costs of 5% to US$11.6/silver equivalent oz.

2013 highlights

Mining
In 2013, underground development at Dukat increased by 26% year-on-year to 30.7 km, with more than 1.25 Mt of ore mined from underground, and average silver grade in ore mined increasing by 9% to 423 g/t. This compensated for the 6% decrease in the total amount of ore mined after the completion of open-pit mining. Within the mine, we commenced development of the Eastern zone and further improved dilution levels by fine-tuning the parameters of blasting and drilling works.

At Goltsovoye, following a significant amount of development in 2012, ore mined nearly doubled year-on-year to 168 Kt, and the average grades increased by 14% to 624 g/t silver, contributing to the increased grades in the Omsukchan concentrator feedstock. Underground development continued to accelerate and comprised 7.1 km in 2013, a 35% increase. The successful implementation of the drift-and-fill mining method has contributed to a significant reduction in dilution and improved average grades in ore mined.

At Arylakh, volumes of stripping and ore mined from open pit continued to decline due to depletion while being substituted by higher grade ore from underground. At Lunnoye works progressed steadily across ore zones 7 and 9 in accordance with the mine plan. Total ore mined increased by 7% year-on-year to 394 Kt, although there was a slight decrease in average silver grade to 367 g/t due to the depletion of the open pit at Arylakh.

Processing
The amount of ore processed at the main Omsukchan concentrator grew by 9% year-on-year and comprised 1.57 Mt, with a further increase to 1.6 Mt expected in 2014 as a result of de-bottlenecking and increased capacity of the underground Dukat mine. Average grades processed followed the positive dynamics at Dukat and Goltsovoye mine, with the silver grade processed increasing to 425 g/t (+6% year-on-year). The average recoveries also trended up by 3% for gold and 2% for silver to 83.7% and 86.3% respectively. As a result, silver production grew by 18% year-on-year to 18.3 Moz, of which the majority was sold to third-party off-takers.

The new SAG mill was successfully commissioned at Lunnoye plant, which now has the capacity to process 400 Kt of ore per annum. Additional feed will come from existing stockpiles and potentially from the new satellite mine at Olcha in 2015. In 2013, the amount of ore processed was up 1% at 338 Kt and, despite some grade decline in the ore feed (see above), silver production was up 2% at 3.8 Moz due to increased recoveries which comprised 89.3% for silver.

DUKAT continued

Resources and exploration

We have continued our efforts in near-mine exploration in the Dukat licence area. In 2014, Dukat flanks and deep levels will see additional drilling concentrating on extensions of known veins beyond the down-dip limitations of historic exploration. We will also attempt to discover a new vein down plunge of the host rock formation, under the cover of sedimentary rocks. At Olcha, drilling will focus on the underground potential of currently known veins with an ore reserve estimate expected by the 2014 year-end.

The Lunnoye plant at our Dukat hub

Processing plants

Omsukchan concentrator

Type	Flotation/gravitation
Capacity, Ktpa	1,600
Commencement of production (year)	2002
Ore from which mines is processed	Dukat, Goltsovoye

Lunnoye processing plant

Type	Cyanide leaching and Merrill-Crowe
Capacity, Ktpa	400
Commencement of production (year)	2001
Ore from which mines is processed	Lunnoye, Arylakh, concentrate from Omsukchan concentrator

Mines

	Dukat	Nachalny-2[1]	Goltsovoye	Lunnoye	Arylakh	Perevalny	Olcha	Total
Status	Operating	Developing	Operating	Operating	Operating	Scoping	Developing	
Mineralisation type	Vein-veinlet	Vein disseminated	Narrow vein	Mineralised zone	Vein-veinlet	Vein-veinlet		
Mine type (open-pit/underground mining method)	Underground and open-pit	Open-pit	Underground	Underground	Open-pit	Underground		
Commencement of mining (year)	2001	NA	2011	2000	2006	NA	Expected 2015	
Current life-of-mine end (year)								**2023**
Reserves								
Gold equivalent, Moz	2.6	–	0.3	0.6	0.2	0.0	0.0	**3.7**
Gold equivalent reserve grade, g/t	8.2	–	9.9	6.8	9.0	0.0	0.0	**8.1**
Resources								
Gold equivalent, Moz	0.7	–	0.3	0.6	0.1	0.2	0.7	**2.6**
Gold equivalent resource grade, g/t	8.7	–	12.7	11.7	9.8	6.6	2.4	**5.2**

[1] Reserves and resources included in Dukat.

> 2014 PRIORITIES

In 2014, we plan to produce about 400 Koz of gold equivalent at Dukat since we expect the strong grade and recovery profile to continue. This will be enhanced by increased capacity at both Lunnoye and Omsukchan plants where throughput of 400 Ktpa and 1,600 Ktpa of ore, respectively, is anticipated.

At Arylakh, the transition to underground mining will be completed and the open pit is likely to close in Q2 2014. At Lunnoye, from Q3 2014 onwards, underground mining is expected to shift more towards the Zone 7 mine with lower gold and higher silver grades.

We will continue to work with our diversified off-taker base in Japan, South Korea and Kazakhstan in order to achieve optimum cost performance and recovery for the flotation and gravity concentrates produced at Dukat.

In 2014, if the market conditions are favourable, we will start development activities at the Olcha satellite deposit, where mining is expected to commence in 2015.

The Omsukchan plant at our Dukat hub

Mining: 2013/2012 statistics

	Dukat			Goltsovoye			Lunnoye + Arylakh			Total		
	2013	2012	% change	2013	2012	% change	2013	2012	% change	2013	2012	% change
Stripping, Kt	**–**	967	-100%	**–**	–	NA	**1,034**	2,591	-60%	**1,034**	**3,558**	**-71%**
Underground development, m	**30,717**	24,311	+26%	**7,102**	5,248	+35%	**6,612**	4,601	+44%	**44,431**	**34,160**	**+30%**
Ore mined, Kt	**1,253**	1,328	-6%	**168**	84	+99%	**394**	370	+7%	**1,815**	**1,782**	**+2%**
Metal in ore mined (grades)												
– gold	**0.9**	0.7	+31%	**–**	–	NA	**1.1**	1.1	+4%	**0.9**	**0.7**	**+17%**
– silver	**423**	387	+9%	**624**	548	+14%	**367**	395	-7%	**429**	**397**	**+8%**

Production: 2013/2012 statistics

	Omsukchan concentrator			Lunnoye processing plant			Total		
	2013	2012	% change	2013	2012	% change	2013	2012	% change
Ore processed, Kt	**1,574**	1,439	+9%	**338**	333	+1%	**1,912**	**1,772**	**+8%**
Metal in ore processed (grades)									
– gold	**0.7**	0.7	+8%	**1.1**	1.2	-4%	**0.8**	**0.8**	**+4%**
– silver	**425**	401	+6%	**391.4**	411.2	-5%	**419**	**403**	**+4%**
Recoveries									
– gold	**83.7%**	81.0%	+3%	**85.6%**	90.2%	-5%			
– silver	**86.3%**	84.3%	+2%	**89.3%**	87.7%	+2%			
Production									
– gold, Koz	**30**	25	+21%	**10**	11	-7%	**41**	**36**	**+12%**
– silver, Moz	**18.3**	15.5	+18%	**3.8**	3.7	+2%	**22.1**	**19.2**	**+15%**
Gold equivalent, Koz	**335**	284	+18%	**73**	72	+1%	**409**	**357**	**+15%**
Total cash cost, US$/silver equivalent oz							**11.6**	**12.1**	**-5%**
Adjusted EBITDA, US$m							**229**	**378**	**-39%**

OMOLON

> DELIVERING THE FULL POTENTIAL OF THE PROCESSING HUB CONCEPT

Russia, Magadan Region
Managing director: Vladimir Bloshkin
Employees: 825

767 Kt
Ore processed in 2013

7.1 g/t
Average GE grade processed

158 Koz
GE production

Mines
1 Birkachan
2 Tsokol
3 Oroch
4 Sopka
5 Dalneye

Processing plant
+ Town

Despite a significant revision in annual and medium-term mine plans triggered by adverse movement of commodity prices in the first half of 2013, Omolon demonstrated a robust operating performance during the year. It was underpinned by flexibility and resilience offered by the concept of a processing hub with multiple feed sources. We were therefore able to reallocate the mining volumes promptly and deliver on our original targets in terms of gold equivalent production, producing 158 Koz of gold equivalent during the year.

2013 highlights

Mining

With the launch of mining at Dalneye in the third quarter, Omolon currently has four sources of ore: higher grade ore from Birkachan and ore from Tsokol are processed at the CIP circuit of the Kubaka plant; high-grade ore from Sopka and Dalneye is trucked to Kubaka and processed at the Merrill-Crowe circuit.

2013 saw a significant reallocation of mining volumes at the Omolon hub in response to the adverse changes in the gold and silver price. Open-pit mining was suspended at the Birkachan mine, which had the highest cash cost level, with mining volumes reallocated to Tsokol, Sopka and Dalneye, where a higher grade profile ensures lower cost levels. As a result, ore mined at Birkachan decreased by 55% compared to 2012.

At Sopka, the amount of ore mined was 672 Kt, a 47% decrease compared to 2012, while average grades for both gold and silver increased by 73% and 47% respectively. The decrease was largely driven by the availability of existing stockpiles and revision of the mine plan as a result of the Group's strategic review. At Sopka, trucking of ore by winter road was successfully completed by the end of the first quarter of 2013 with 320 Kt of high-grade ore trucked.

The heap leach project for low-grade Sopka and Dalneye ore has been further postponed from 2015 to 2016. Consequently, the last pushback in the Sopka pit has also been excluded from the mine plan with some loss of reserves below the current pushback boundary. The potential for underground mining at Sopka will be assessed by Q4 2014.

Mining at Dalneye commenced in the middle of the year and is now continuing at full scale. A total of 584 Kt of ore was mined in 2013, and the first 42 Kt of high-grade ore was trucked by winter road to the Kubaka mill during Q4, ahead of schedule.

At Tsokol, volumes of waste and ore mined have increased considerably compared to 2012 as mining volumes were reallocated to the deposit following suspension of the Birkachan mine. Ore mined grew more than twofold to 223 Kt with an average gold grade of 4.8 g/t.

Processing

At the Kubaka plant, total throughput increased by 6% to 767 Kt and recoveries for both gold and silver increased by 1% to 95.3% and 88.4% respectively. This helped to partially offset the decline in average grades processed (-13% for both gold and silver) driven mainly by the expected average grade decline in ore from Sopka. As a result, gold equivalent production for 2013 was 158 Koz, down 9%.

As part of the strategic review, management decided to defer the start of heap leaching at Birkachan (originally scheduled for Q2 2013) but to continue ore stacking during 2013. We are planning to start leaching in 2014 with more ore stacked to achieve a better cost profile due to economies of scale. The heap leaching will then operate through to 2016.

Reserves, resources and exploration

Our brownfield exploration activities for Omolon in 2013 were focused on several targets within a range of 150 km of the Kubaka plant in order to extend the life-of-mine. The reserve attrition at Birkachan and Sopka was partially compensated by resource-to-reserve conversion at Oroch at 1 January 2014 (+218 Koz of gold equivalent reserves). Mining at Oroch is expected to commence in 2015. New resource additions from Burgali and Nevenrekan (both saw additional in-fill and step-out drilling in 2013) are expected in 2014.

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	NA
Commencement of production (year)	2014
Ore from which mines is processed	Birkachan

Mining: 2013/2012 statistics

	Birkachan			Sopka			Tsokol			Dalneye			Total		
	2013	2012	% change	2013	2012	% change	2013	2012	% change	2013	2012	% change	2013	2012	% change
Stripping, Kt	**1,932**	9,133	-79%	**5,912**	9,054	-35%	**4,998**	3,284	+52%	**3,695**	–	NA	**16,537**	**21,471**	**-23%**
Ore mined, Kt	**586**	1,290	-55%	**672**	1,271	-47%	**223**	101	+121%	**584**	–	NA	**2,065**	**2,662**	**-22%**
Metal in ore mined (grades)															
– gold	**1.8**	1.8	+1%	**3.9**	2.3	+73%	**4.8**	5.2	-8%	**3.6**	–	NA	**3.3**	**2.1**	**+56%**
– silver	**–**	–	NA	**142.1**	96.7	+47%	**–**	–	NA	**73.8**	–	NA	**67.1**	**46.1**	**+45%**

Production: 2013/2012 statistics

	Kubaka plant			Total		
	2013	2012	% change	2013	2012	% change
Ore processed, Kt	**767**	724	+6%	**767**	**724**	**+6%**
Metal in ore processed (grades)						
– gold	**5.1**	5.9	-13%	**5.1**	**5.9**	**-13%**
– silver	**118.2**	135.1	-13%	**118.2**	**135.1**	**-13%**
Recoveries						
– gold	**95.3%**	94.2%	+1%			
– silver	**88.4%**	87.9%	+1%			
Production						
– gold, Koz	**115**	129	-11%	**115**	**129**	**-11%**
– silver, Moz	**2.6**	2.7	-4%	**2.6**	**2.7**	**-4%**
Gold equivalent, Koz	**158**	173	-9%	**158**	**173**	**-9%**
Total cash cost, US$/GE oz				**879**	**892**	**-1%**
Adjusted EBITDA, US$m				**64**	**129**	**-51%**

OMOLON continued

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-veinlet	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	NA	NA	NA	NA	
Current life-of-mine end (year)							**2020**
Reserves							
Gold equivalent, Moz	0.5	0.4	0.2	0.2	0.2	–	**1.5**
Gold equivalent reserve grade, g/t	4.1	3.9	6.7	7.4	5.4	–	**4.8**
Resources							
Gold equivalent, Moz	0.2	0.01	0.3	0.1	0.01	–	**0.5**
Gold equivalent resource grade, g/t	13.1	3.1	7.8	8.3	4.0	–	**8.5**

> 2014 PRIORITIES

In 2014, at current market prices, we will continue to operate under the revised mine plans at Omolon. The Birkachan open pit is expected to be put on permanent care and maintenance in Q3 2014 after a brief mining campaign during the summer in the eastern part of the pit, which has already been reflected in revised reserve and resource estimates. The decision on the timing and other parameters of underground mining at Birkachan is expected to be made in Q4 2014 following the completion of in-fill drilling.

The total amount of ore trucked by winter road from Sopka and Dalneye to the Kubaka mill is expected to increase to 400 Kt in 2014 and support the overall grade level in ore processed.

Open-pit mining at Sopka

The Kubaka plant at our Omolon hub

AMURSK POX

> UNPARALLELED COMPETITIVE ADVANTAGE IN THE REGION

Russia, Khabarovsk Territory
Managing Director: Viktor Nikitanov
Employees: 330

127 Kt
Concentrate processed at the Amursk POX

94%
POX recovery achieved in Q4 2013

159 Koz
Total gold production in 2013

Despite initial mechanical and metallurgical problems in the ramp-up, the Amursk POX plant successfully achieved design throughput and recovery by October 2013. This was a definitive strategic milestone for us: Polymetal now possesses a unique competitive advantage in the Former Soviet Union, enabling us to target untapped refractory gold deposits across the region – through both exploration and acquisitions.

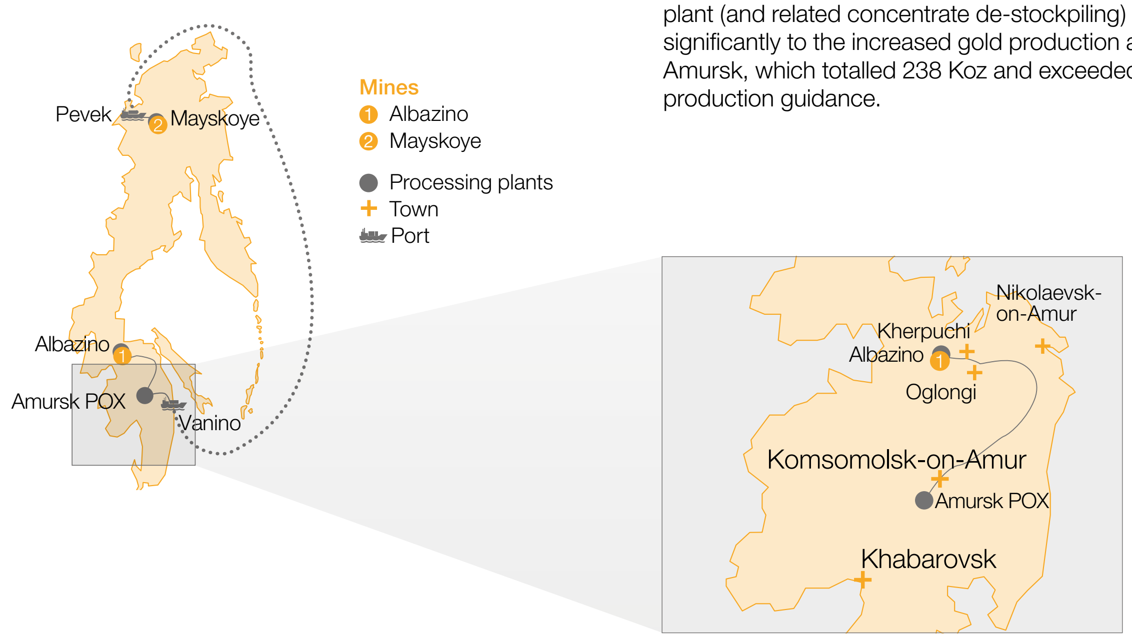
2013 highlights

During the ramp-up in the final quarter of 2012, we encountered a number of mechanical and metallurgical problems. Firstly, the presence of chlorine in the process water caused accelerated corrosion of valves and pipes made of an Inconel alloy in the circuit. It also depressed the recoveries in the autoclave due to the preg-grobbing effect. A programme of remedial measures was developed promptly to address both issues.

The POX facility was successfully restarted in Q1 2013, although daily concentrate throughput was intentionally limited before May-June 2013 in order to ensure stability of the plant's operation. Then, during a six-week shutdown the Inconel parts susceptible to corrosion were replaced with more resistant parts made from titanium. The replacement allowed the plant to quickly ramp-up to the design concentrate throughput, along with improvement in recoveries to 87% in Q3 compared to 75% in Q1. In Q3, the POX plant produced 59 Koz of gold at an average throughput of 444 tonnes per day.

After the completion of remedial work to the water treatment unit in Q3, full design recoveries were achieved in October. In Q4 the Amursk POX plant delivered a full quarter of stable performance at the design parameters in terms of both throughput and recovery. Gold production was 59 Koz in Q4 while average recovery reached 93%. A further optimisation programme is now in place to ensure continuous improvements in the recovery and cost profile of the operation. Currently, the plant is running at 500 tonnes per day, exceeding its nameplate capacity for Albazino concentrate, with the goal to fast-track processing of accumulated stockpiles.

In 2013, the successful ramp-up process at the Amursk POX plant (and related concentrate de-stockpiling) contributed significantly to the increased gold production at Albazino/Amursk, which totalled 238 Koz and exceeded original production guidance.



AMURSK POX continued

Processing plants

Amursk POX

Type	POX + cyanidation
Capacity, tpd	500 (Albazino concentrate)
Commencement of production (year)	2011
Ore from which mines is processed	Concentrate from Albazino and Mayskoye

The autoclave section at Amursk

The Amursk POX plant

Production: 2013/2012 statistics

	2013	2012	% change
Concentrate processed	**127**	16	**+702%**
Gold grade in ore processed, g/t	**49.8**	38.0	**+31%**
Recoveries	**86.0%**	78.7%	**+9%**
Total gold equivalent production, Koz	**159**	14	**+1,036%**

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)	2021	2022	
Reserves			
Gold, Moz	1.5	2.0	**3.5**
Gold reserve grade, g/t	5.1	8.8	**6.7**
Resources			
Gold, Moz	3.6	4.1	**7.7**
Gold reserve grade, g/t	4.8	9.9	**6.6**

> 2014 PRIORITIES

An optimisation programme is now in place to ensure continuous improvements in the recovery and cost profile of the POX operation in 2014. In February 2014, we started trial processing of the first batches of Mayskoye concentrate, and the cost/recovery achieved will be one of the key factors in determining the split between in-house processing and off-take for Mayskoye.

> AMURSK POX: DEVELOPMENT TIMELINE

Q1 2012
- POX plant commissioning, facilities testing, commencement of process automation
- Albazino concentrate is trucked and stockpiled at Amursk

Q2 2012
- First gold poured in April
- 6.5 Koz of quarterly gold production
- Resumed concentrate sales to a Chinese off-taker in June 2012 in order to maximise sales during the ramp-up of the POX facility

Q3 2012
- Maintenance shutdowns due to mechanical issues
- Continued sales of concentrate to the Chinese off-taker

Q4 2012
- Ramping up to full design concentrate throughput and 90% recovery
- The plant was shut down in late December due to the presence of chlorine in process water which caused a significant decrease in recoveries and accelerated corrosion

Q1 2013
- The POX facility was successfully restarted

Q2 2013
- Six-week shutdown to replace Inconel by titanium commenced at the end of May
- Operation at 60% of design throughput
- 25 Koz produced in April-May

Q3 2013
- Design throughput achieved
- Water treatment unit expanded and retrofitted

Q4 2013
- Operation at design throughput and recovery

ALBAZINO

> SOLID OPERATING PERFORMANCE THROUGHOUT 2013

Russia, Khabarovsk Territory
Managing director: Alexander Simon
Employees: 966

239 Koz
Gold in concentrate produced

1,513 Kt
Ore processed (+23%)

238 Koz
Total gold production (+207%)

Gold production at Albazino/Amursk in 2013 amounted to 238 Koz and exceeded the original production guidance, marking the successful completion of the ramp-up process at the Amursk POX plant and related concentrate de-stockpiling. This was also a result of a robust operating performance at the open-pit mine and processing plant at Albazino where a considerable increase in throughput to annual run-rate of 1.6 Mtpa was achieved.

Mining

The open-pit mine at Albazino continues to run in accordance with the mine plan and with a stable grade profile. The amounts of ore mined increased 10% year-on-year to 1,338 Kt, and a further increase in mine capacity is expected in 2014 to match the increased concentrator throughput. Average grades were 5.5 g/t gold, a 2% increase compared with 2012.

Processing

Ore processed grew by 23% year-on-year and comprised 1,513 Kt while average gold grade processed increased by 6% to 5.6 g/t. As a result, gold in concentrate produced at Albazino in 2013 increased by 32% year-on-year. This was driven mainly by the considerable increase in plant throughput, where an annual run-rate of 1.6 Mtpa has been achieved since the implementation of a number of optimisation and de-bottlenecking measures.

Sales to off-takers in China, aimed at sustaining cash flow during the period of ramp-up of the Amursk POX plant, increased by 25% year-on-year in 2013 and comprised 79 Koz. No further off-take will be required from 2014.

In 2013, the construction of an all-year-round road was completed, enabling uninterrupted trucking of concentrate produced to the Amursk POX plant. Previously, concentrate was trucked by winter road in the cold period and barged in the summer period. We have also commenced a scheduled upgrade of the tailings dam which will be completed in 2014.

Exploration and growth potential

The new resources established at Albazino in 2012 represent significant growth potential for the operation. This may require the expansion of the Albazino mine and the concentrator, with concentrate to be further processed at the Amursk POX plant. In 2013, we focused on the key areas required to prepare the feasibility study for this project. These included geotechnical studies to determine pit slope angle and underground mining method, additional in-fill drilling, and trade-off studies for coal/heavy fuel oil power station. In addition, the outcome of the Mayskoye concentrate long-term off-take negotiations in 2014 will be an important input to the expansion decision.

While the pace of the project has been slowed down and the development decision postponed to the end of 2014 in response to lower commodities prices, we made significant progress in our geological studies during the year. The underground development continued, increasing almost twofold to 1,137 m in 2013, while the drilling volumes grew 23% to 40.7 km. This included in-fill drilling from both underground and surface at Olga, Nadezhda, and Ekaterina-2 ore bodies as well as underground ore drifting at Olga.

We are planning to complete the full feasibility study on the Albazino-2 expansion project and consider the development decision in the fourth quarter of 2014.

> 2014 PRIORITIES

In 2014 we expect to deliver a full year's stable performance in terms both of mining and processing, as well as a healthy cost performance, which will be underpinned by operation of the POX plant at design parameters. No third-party off-take will be required for Albazino concentrate from 2014.

Our focus within Albazino will be increasingly on the geotechnical and feasibility study for new resources and their conversion to reserves, with the major reserve update expected by the end of 2014. By that time, we expect to evaluate all available development options for the newly discovered ore zones, and make key decisions for the needed plant and POX capacity expansion, as well as the mining method (large open-pit versus underground).

Open-pit mining at Albazino

Mining: 2013/2012 statistics

	2013	2012	% change
Stripping, Kt	**16,135**	15,160	**+6%**
Ore mined, Kt	**1,338**	1,216	**+10%**
Gold grade in ore mined	**5.5**	5.4	**+2%**

Production: 2013/2012 statistics

	2013	2012	% change
Ore processed	**1,513**	1,226	**+23%**
Gold grade in ore processed, g/t	**5.6**	5.3	**+6%**
Recoveries to concentrate	**88.2%**	86.9%	**+1%**
Concentrate produced, Kt	**140**	115	**+22%**
Gold grade in concentrate produced, g/t	**53.1**	49.0	**+8%**
Gold in concentrate, Koz	**239**	181	**+32%**
Concentrate sold, Kt	**49**	40	**+23%**
Saleable gold in concentrate sold to off-takers, Koz	**79**	63	**+25%**
Gold production at Amursk POX	**159**	14	**+1,036%**
Total gold equivalent production, Koz	**238**	77	**+207%**
Total cash cost, US$/GE oz	**790**	739	**+7%**
Adjusted EBITDA, US$m (excluding Mayskoye)	**103**	35	**+192%**

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)	2021
Reserves	
Gold, Moz	1.5
Gold reserve grade, g/t	5.1
Resources	
Gold, Moz	3.6
Gold resource grade, g/t	4.8

MAYSKOYE

> BRINGING OUR NEWEST MINE UP TO SPEED

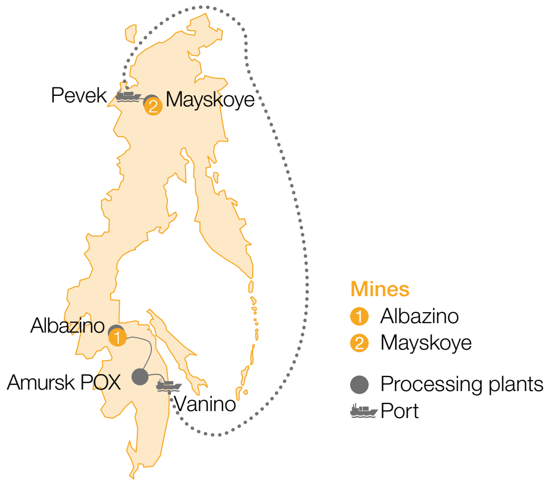
Russia, Chukotka
Managing Director: Igor Nikolishin
Employees: 980

2.0 Moz Gold reserves

8.8 g/t Average reserve grade

87 Koz Gold in concentrate produced

48 Koz Gold sold to off-takers



Processing plants

Mayskoye concentrator

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

Mayskoye, a high-grade refractory gold deposit, is one of the top five deposits in Russia in terms of gold resources. The Mayskoye project consists of an underground mine and an 850 Ktpa on-site flotation concentrator. The ore is processed by conventional flotation on site and the concentrate produced is then shipped to third-party off-takers or the Amursk POX plant.

The launch and timely ramp-up of Mayskoye, located in the distant region of Chukotka, was one of the key achievements of the year. The mine delivered the first concentrate to off-takers in China four months after the start-up of the plant in April 2013, and full ramp-up was completed in six months.

2013 highlights

Mining
The underground mine at Mayskoye has been operational since the beginning of 2010, with 29,976 m of underground development completed from 2009 through to Q1 2013, and 280 Kt of ore grading 9.2 g/t gold mined before the start-up of the processing plant. Active stoping commenced in early 2013 ahead of the launch of the plant. 667 Kt of ore were mined during the year at an average grade of 7.4 g/t. Grade is expected to improve in 2014 as ore from stopes fully replaces ore from historic development openings.

Plant ramp-up and processing
The construction was largely completed in 2012 and, in April 2013, the full flowsheet was launched in accordance with the schedule to produce the first batch of refractory gold concentrate. During 2013, a number of minor auxiliary facilities were commissioned, including fuel storage, an automated security and communication system, and a big-bag packaging unit.

The ramp-up of the plant progressed in line with our original plans and, by October, the plant achieved its design parameters in terms of recovery and throughput. The daily ore throughput amounted to 90-95% of design capacity, while recoveries in Q3 were 86%.

Towards the end of the year, the Mayskoye concentrator continued to refine the metallurgical parameters of ore processing for different ore zones. Throughput stabilised at design parameters. In the meantime, we continued to manage concentrate yield versus recovery curve in order to achieve optimal cost performance through potential reduction of shipping costs.

In 2013, a total of 488 Kt of ore with an average gold grade of 7.1 g/t were processed, while average recoveries comprised 78%. Total gold contained in the 49 Kt of concentrate produced at Mayskoye during 2013 was 87 Koz.

Sales and downstream processing
Shortly after the launch of the processing plant, we signed two annual export sales contracts with Chinese off-takers for refractory gold concentrate, produced at the Mayskoye mine. The off-take allowed us to quickly receive cash flows from the project while the Amursk POX plant was focused on achieving design parameters and the de-stockpiling of Albazino concentrate. First shipments to the off-takers began in July and continued until mid-November. 30 Kt of concentrate with 48 Koz of payable gold contained were sold to the off-takers during the year and included in total gold production.

In the meantime, the first batches of concentrate from Mayskoye were shipped to the Amursk POX in November and trial processing of these commenced at the beginning of 2014. The results of the trial processing will inform the decision on the split of concentrate between off-take and own processing in 2014.

Underground mining at Mayskoye

> 2014 PRIORITIES

Our focus in 2014 will be on continuous improvement of production parameters and cost performance across all areas of the operation: in the underground mine, we will focus on reducing dilution through continuous improvement in the drilling/blasting technologies; at the processing plant, we will continue to refine the metallurgical parameters of ore processing for different ore zones, managing concentrate yield versus recovery.

By the end of Q2 and the start of the navigation period, we will have completed the test processing of concentrate from Mayskoye at the Amursk POX plant and renewed the off-take contracts for sales of Mayskoye concentrate to China. The split between own-processing and third-party off-take will be determined based on the relative cost/recovery attractiveness of each route.

Mining: 2013/2012 statistics

	2013	2012	% change
Underground development, m	**9,989**	11,068	**-10%**
Ore mined, Kt	**667**	40	**+1,566%**
Gold grade in ore mined	**7.4**	9.9	**-26%**

Production: 2013/2012 statistics

	2013	2012	% change
Ore processed, Kt	**488**	–	**NA**
Gold grade in ore processed, g/t	**7.1**	–	**NA**
Recoveries to concentrate	**77.7%**	–	**NA**
Concentrate produced, Kt	**49**	–	**NA**
Gold grade in concentrate produced, g/t	**55.3**	–	**NA**
Gold in concentrate, Koz	**87**	–	**NA**
Concentrate sold, Kt	**30**	–	**NA**
Saleable gold in concentrate sold to off-takers, Koz	**48**	–	**NA**
Gold production at Amursk POX	**–**	–	**NA**
Total gold equivalent production, Koz	**48**	–	**NA**
Total cash cost, US$/GE oz	**957**	–	**NA**
Adjusted EBITDA, US$m	**(4)**	–	**NA**

Mine

	Mayskoye
Status	Operation
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)	2022
Reserves	
Gold, Moz	2.0
Gold reserve grade, g/t	8.8
Resources	
Gold, Moz	4.1
Gold resource grade, g/t	9.9

KHAKANJA

> DEVELOPING NEW, COST-EFFICIENT ORE SOURCES

Russia, Khabarovsk Territory
Managing director: Alexander Akamov
Employees: 1,076

144 Koz
Gold equivalent produced in 2013

8.1 g/t
Average gold equivalent grade in ore processed in 2013, g/t

756
Total cash costs in 2013, US$/GE oz

Khakanja was one of our assets where the mine plans were amended mid-year in response to the significant decline in gold and silver prices. The change was made against the backdrop of a scheduled decline in grades at the main Khakanja deposit. Nevertheless, our total production target for the hub remained intact and the cost performance was better than expected due to increased recoveries and an increased share of high-grade ore from Ozerny and Avlayakan compared to the previous year.

2013 highlights

Mining

Mining at Yurievskoye was completed in the beginning of 2013. At the Khakanja open-pit mine, the pushback at pit 1 continued, which limited the amounts of ore mined (down 78% on 2012). Average gold and silver grades in ore mined decreased by 42% and 28%, compared to 2012 when ore was mainly sourced from pit 3 and Yurievskoye. Ore mining is expected to be resumed in Q2 2014. As a result of additional studies, the commencement of underground mining at Khakanja has been postponed indefinitely due to geotechnical concerns, with the corresponding reserve being reclassified as resource. The resulting reduction in life-of-mine is expected to be compensated for by reserve additions at Ozerny, which are based on the results of ongoing step-out drilling.

At Avlayakan, open-pit mining ceased in November, one year earlier than originally planned, and underground development (919 m in 2013) commenced ahead of the original schedule as a result of decisions made following the strategic review. 78 Kt of Avlayakan ore were safely shipped by sea during the 2013 navigation season, compared to 41 Kt in 2012. The average grades in ore mined (8.7 g/t gold and 116 g/t silver in 2013) are expected to increase following the ramp-up of the Avlayakan underground mine and the beginning of stoping in 2014.

At Ozerny, mining works achieved full scale in 2013: stripping volumes increased to 4.7 Mt, more than 10 times over; ore mined increased more than five times over to 319 Kt, with average grades of 3.6 g/t gold and 40 g/t silver. 139 Kt were trucked to the Khakanja plant by winter road and were processed in 2013. A further increase in volumes of ore mined and trucked in 2014 is expected and will support the grade profile and production levels of the hub as a whole.

Processing

Gold production for the full year increased by 14% while silver production decreased by 44% as a result of a structural change in the plant's feedstock year-on-year. Processing of high silver grade ore from Khakanja's pit 3 was substituted by ore from Ozerny and Avlayakan.

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, Avlayakan, Ozerny

> 2014 PRIORITIES

Sustaining the grade profile and extending the life-of-mine remain our top priorities for Khakanja in 2014. In the year ahead, the development of the underground mine at Avlayakan and increasing the volume of ore shipping by sea, as well as further growth of mining volumes at Ozerny, will be the key contributors to support the volume and grade of ore processed at the Khakanja plant.

The Khakanja plant

Mining: 2013/2012 statistics

	Khakanja + Yurievskoye			Ozerny			Avlayakan			Total		
	2013	2012	% change	2013	2012	% change	2013	2012	% change	2013	2012	% change
Stripping, Kt	**3,096**	4,435	-30%	**4,714**	449	+950%	**1,287**	1,637	-21%	**9,097**	**6,521**	**+40%**
Underground development, m	**–**	1,489	-100%	**–**	–	NA	**919**	–	NA	**919**	**1,489**	**-38%**
Ore mined, Kt	**294**	1,359	-78%	**319**	56	+472%	**84**	79	+6%	**697**	**1,494**	**-53%**
Metal in ore mined (grades)												
– gold	**1.5**	2.6	-42%	**3.6**	4.8	-26%	**8.7**	15.0	-42%	**3.3**	**3.4**	**-2%**
– silver	**141**	197	-28%	**40**	46	-14%	**116**	124	-6%	**92**	**188**	**-51%**

Production: 2013/2012 statistics

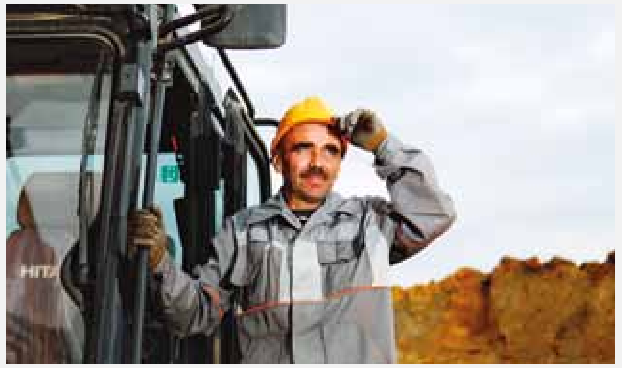
	2013	2012	% change
Ore processed, Kt	**619**	622	-1%
Metal in ore processed (grades)			
– gold	**5.7**	4.8	+19%
– silver	**146.6**	277.2	-47%
Recoveries			
– gold	**92.3%**	95.6%	-3%
– silver	**84.2%**	80.0%	+5%
Production			
– gold, Koz	**103**	91	+14%
– silver, Moz	**2.4**	4.4	-44%
Gold equivalent, Koz	**144**	164	-12%
Total cash cost, US$/GE oz	**756**	615	+23%
Adjusted EBITDA, US$m	**85**	178	-52%

Mines

	Khakanja	Avlayakan	Kirankan	Ozerny	Total
Status	Operating	Operating	Scoping	Operating	
Mineralisation type	Vein-veinlet	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	Open-pit to be followed by underground	
Commencement of mining (year)	2002	2010	NA	2012	
Current life-of-mine end (year)					**2018**
Reserves					
Gold equivalent, Moz	0.1	0.3	–	0.1	**0.5**
Gold equivalent reserve grade, g/t	2.8	17.8	–	5.4	**6.2**
Resources					
Gold equivalent, Moz	0.1	0.1	0.03	0.01	**0.2**
Gold equivalent resource grade, g/t	8.9	16.9	6.7	3.9	**9.2**

VORO

> SUSTAINING HIGH PERFORMANCE AND MARGINS



Russia, Sverdlovsk Region
Managing director: Andrey Novikov
Employees: 960

503
Total cash costs in 2013, US$/GE oz (-1%)

61%
Adjusted EBITDA margin in 2013

154 Koz
Gold equivalent produced in 2013, Koz

Voro continues to be one of the most profitable and effective mines in our portfolio. This is achieved by a combination of an attractive location in the Urals region, with full access to cheap power and infrastructure, and solid operating performance. Despite a significant decline in the gold price during the year, Voro delivered a resounding 61% adjusted EBITDA margin for 2013.

2013 highlights

Mining

The open-pit mine at Voro demonstrated a strong performance throughout the year. Mining in Q1 traditionally focused on primary ore, with a solid improvement in average grade mined allowing us to increase the average grade processed to 6.0 g/t. With the reduction of the stripping ratio in Q2, ore mined increased by 76% quarter-on-quarter, mainly represented by oxidised ore from the Southern pit to be used in heap leaching. In Q3 works continued at a stable pace across the Central and Southern pits. The amount of oxidised ore mined nearly doubled quarter-on-quarter, in order to supply material for the seasonal heap leaching. The amount of ore mined (both primary and oxidised) in Q4 was up 6% year-on-year.

Total ore mined was 1.79 Mt, 6% up on 2012, with the increase split proportionally between primary and oxidised ore. Average gold grades in primary ore were stable at 5.7 g/t while average grades in oxidised ore decreased by 11%, fully in accordance with the mine plan. Mining works were concentrated on the Central (primary ore) and Southern (oxidised ore) pits.

Processing

In the first half of the year, Voro used third-party sources of ore from nearby deposits in order to leverage its processing capacity. This caused a temporary increase in the cash costs of the operation. Following the decline in the gold price in the second quarter, purchases of third-party ore were discontinued resulting in total cash cost improvement in the second half of the year.

Gold production at Voro in 2013 decreased marginally by 1% year-on-year and comprised 154 Koz, of which 15% is produced at the heap leaching circuit and the remaining 85% at the CIP circuit. The modest grade and throughput decline at the heap leaching circuit was fully offset by a 7% increase in average grade and continued improvements in throughput (+1%) at the CIP circuit.

Ongoing improvement process

In 2013, the Carbon-in-Column (CIC) process was introduced for the extraction of gold from heap leach solutions as changing ore chemistry slowed down recoveries at the historical Merrill-Crowe circuit.

Open-pit mining at Voro

Processing plants

Voro CIP

Type	Carbon-in-pulp cyanide leaching
Capacity, Ktpa	940
Commencement of production (year)	2005
Ore from which mines is processed	Voro

Voro heap leach

Type	Heap leaching and Merrill-Crowe
Capacity, Ktpa	NA
Commencement of production (year)	2000
Ore source	Voro

> 2014 PRIORITIES

The Voro mine was one of Polymetal's original acquisitions in 1998 and although it remains one of our lowest cost and highest margin assets, we remain committed to searching for new methods of enhancing both its efficiency and profitability.

Efforts are under way to identify additional sources of primary and oxidised ore, including third-party supplies.

At the Voro mine, the start of mining at the Gorevaya zone of South Voro is expected in 2014.

Mining: 2013/2012 statistics

	Voro			Total		
	2013	2012	% change	**2013**	**2012**	**% change**
Stripping, Kt	**11,099**	11,265	-1%	**11,099**	**12,265**	**-1%**
Ore mined, Kt	**1,787**	1,684	+6%	**1,787**	**1,684**	**+6%**
– oxidised	**981**	926	+6%			
– primary	**807**	758	+6%			
Gold grade in ore mined	**3.4**	3.6	-4%	**3.4**	**3.5**	**-3%**
– oxidised	**1.5**	1.7	-11%			
– primary	**5.7**	5.8	-1%			

Production: 2013/2012 statistics

	Voro CIP			Voro heap leach			Total		
	2013	2012	% change	**2013**	2012	% change	**2013**	**2012**	**% change**
Ore processed, Kt	**924**	917	+1%	**850**	901	-6%	**1,774**	**1,818**	**-2%**
Metal in ore processed (grades)									
– gold	**5.7**	5.3	+7%	**1.4**	1.6	-13%	**3.6**	**3.4**	**+5%**
Recoveries									
– gold	**79.9%**	78.9%	+1%	**73.7%**	74.1%	0%			
Production									
– gold, Koz	**126**	118	+7%	**23**	32	-27%	**153**	**154**	**-1%**
– silver, Moz	**0.1**	0.1	-55%	**0.02**	0.03	-25%	**0.1**	**0.2**	**-48%**
Gold equivalent, Koz	**127**	120	+6%	**24**	33	-27%	**154**	**157**	**-2%**
Total cash cost, US$/GE oz							**503**	**506**	**-1%**
Adjusted EBITDA, US$m							**130**	**182**	**-29%**

Mine

	Voro
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)	2027
Reserves	
Gold equivalent, Moz	1.2
Gold equivalent reserve grade, g/t	2.8
Resources	
Gold equivalent, Moz	0.1
Gold equivalent resource grade, g/t	2.1

VARVARA

> STRONG OPERATIONS DELIVERING A STABLE CONTRIBUTION

Kazakhstan, Kostanay Region
Managing director: Nikolay Goncharov
Employees: 745

132 Koz
Gold equivalent production in 2013

2030
Life of mine

791
Total cash costs in 2013, US$/GE oz

Since it was acquired in 2009, Varvara has become one of our core assets and a stable cash contributor. In 2013, Varvara demonstrated steady operating and financial performance despite challenging market conditions. This is well illustrated by stable total production (despite lower input from third-party ore in 2013) and total cash costs remaining almost flat on the back of the increased efficiency of open-pit mining.

2013 highlights

Mining

Stripping volumes increased to more than 31 Mt in 2013 (+19% compared with 2012), while the amounts of ore mined decreased to 2.0 Mt due to the ongoing pushback in the North-West and North-East pits. This did not have any impact on production during the year due to availability of sufficient ore stockpiles. A new electrical dragline excavator commissioned at the beginning of the year increased the efficiency of mining operations. Average gold grades in ore mined during the year have increased by 6% and 28% respectively for float and leach ores, while the copper grade declined by 21%, as expected in accordance with the mine plan, to 0.64%.

Processing

Throughput at both flotation and leaching circuits in 2013 was stable and comprised 1 Mt for the flotation circuit and 2.7 Mt for the leaching circuit. In the flotation circuit, copper recoveries in 2013 decreased by 3% year-on-year, driven by significant change in the copper grade profile and related changes in ore technological properties, while gold grades remained stable. In the leaching circuit, the average grade grew by 9% compared with 2012 and comprised 1.3 g/t.

At Varvara, gold production for 2013 was 107 Koz, up 6% year-on-year. Copper production dropped to 4.8 Kt as a result of planned grade decline.

> 2014 PRIORITIES

By the third quarter of 2014, we expect to complete the pushback in the North-West and North-East pits and return to a normalised stripping ratio. Most of the ore during the year will be sourced from the South and North-East pits. Some decline in grades in the leaching circuit in 2014 is expected, as in October 2013 Varvara discontinued purchases of third-party ore due to its declining quality.

Processing plants

Varvara plant

Type	CIP	flotation
Capacity, Ktpa	3,150	1,050
Commencement of production (year)	2002	2001
Ore source	Varvara	Varvara

Open-pit mining at Varvara

Ore and concentrate stockpiles at Varvara

Mining: 2013/2012 statistics

	2013	2012	% change
Stripping, Kt	**31,053**	26,072	**+19%**
Ore mined, Kt	**2,008**	3,609	**-44%**
– float ore	**499**	1,031	**-52%**
– leach ore	**1,510**	2,577	**-41%**
Metal in ore mined (grades)			
– gold, g/t – float ore	**1.3**	1.3	**+6%**
– gold, g/t – leach ore	**1.2**	0.9	**+28%**
– copper, % (float ore)	**0.6%**	0.8%	**-21%**

Production: 2013/2012 statistics

	Varvara – flotation			Varvara – leaching			Total		
	2013	2012	% change	2013	2012	% change	2013	2012	% change
Ore processed, Kt	**1,005**	992	+1%	**2,671**	2,654	+1%	**3,676**	**3,647**	**+1%**
Metal in ore processed (grades)									
– gold, g/t	**1.3**	1.2	+2%	**1.3**	1.2	+9%	**1.3**	**1.2**	**+7%**
– copper, %	**0.6%**	0.8%	-24%	**–**	–	NA	**0.16%**	**0.20%**	**-22%**
Recoveries									
– gold	**56%**	61%	-7%	**82%**	85%	-3%			
– copper	**89%**	92%	-3%						
Production									
– gold, Koz	**21**	22	-6%	**86**	79	+9%	**107**	**101**	**+6%**
– copper, t	**4,841**	6,567	-26%				**4,841**	**6,567**	**-26%**
Gold equivalent, Koz	**45**	55	-18%	**86**	79	+9%	**132**	**134**	**-2%**
Total cash cost, US$/GE oz							**791**	**795**	**-1%**
Adjusted EBITDA, US$m							**74**	**102**	**-27%**

Mine

	Varvara
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)	2030
Reserves	
Gold equivalent, Moz	1.9
Gold equivalent reserve grade, g/t	1.4
Resources	
Gold equivalent, Moz	2.6
Gold equivalent resource grade, g/t	1.7

SUSTAINED INVESTMENT IN STANDALONE EXPLORATION

Our decision to sustain our exploration programme and continue to work on the next generation of growth assets in the current market environment is a conscious strategic preference. However, we have had to slow down some projects and defer development decisions for key assets by approximately one year.

We continued to invest in exploration in 2013 with total metres drilled increasing 72% year-on-year to 194.9 km. Total dollar expenditure on exploration declined, mostly due to the decrease in the unit cost of drilling and a reduction in early-stage activities such as trenching. While some optimisation of the portfolio of our greenfield assets took place after the decline in gold and silver prices, we have kept the exploration programme intact for key advanced exploration projects.

Our current greenfield exploration portfolio is focused on identifying assets with a potential resource base sufficient in grade and size to justify construction of a standalone mine at prevailing commodities prices. We are currently concentrating on the following key targets:

01 Svetloye

Svetloye is located 220 km south-west of Okhotsk in an undeveloped and sparsely populated region. It has 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). The 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).

On-site heap leaching is currently the preferred route for development of the project. In 2013, we started the construction of a winter road which will enhance access to the deposit from the seaport of Unchi. A temporary storage facility has been built in Unchi.

In 2013, 9.1 km were drilled in Svetloye with in-fill drilling concentrated in the Elena and Emi ore zones. The continuation of drilling programmes at Svetloye is contingent upon the extension of areas currently covered by the subsoil licence. As a result of the 2013 and prior-year drilling programmes and the metallurgical tests performed during the year, an updated audited reserve and resource statement for Svetloye, along with the feasibility study, is expected in the second quarter of 2014. This will enable the Board to make decisions about further development of the project.

Following on from that decision, we are planning to commence detailed design and equipment purchases, as well as construction works in Unchi seaport.

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 km² 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 – with our current exploration efforts fully focused on oxidised material that can be processed by heap leaching. In 2013 we continued step-out and in-fill drilling across all five ore zones, and continued scoping works on the flanks of known mineralisation. Drilling volumes totalled more than 15 km compared with 11 km in 2012. In Sedlovinnaya, Rodnikovaya and Geophyzicheskaya zones, we continued with technological mapping of ores and metallurgical testing of the assays taken.

Construction of a winter road with an extended service period is scheduled for the beginning of 2014. Our exploration efforts in Kutyn will be focused on the identification of additional near-surface heap leachable mineralisation including extensions of known ore bodies.

The new JORC reserve and resource statement for Kutyn, based on drilling results to date, is expected by the end of 2014.

03 Maminskoye

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 km² licence area is accessible by a paved highway and is adjacent to a 10 kV power line. The Maminskoye licence area covers a 1,205 ha (2,978 acre) site which includes the potential mine, processing facilities and a waste rock stockpile.

Since acquisition in April 2013, our exploration efforts have been concentrated on in-fill drilling, with 25.4 km drilled in 2013. Ore bodies have been drilled out to a depth of 200-250 m and remain open at depth and along strike in one direction. On the back of positive exploration results in 2013, probable ore reserves at Maminskoye were revalued by Polymetal (as at 1 January 2014) to 14.7 Mt of ore at 1.9 g/t gold, representing 0.9 Moz of contained gold. Mineral resources additional to reserves are estimated at 2.1 Mt at 1.4 g/t, representing 0.1 Moz of contained gold.

In 2014, we will continue intensive exploration works at Maminskoye with a significant amount of drilling devoted to down-dip extensions of known high-grade portions of the deposit. Decisions about further development of the asset are likely to be taken in 2015.

Exploration area at Okhotsk

04 PGM assets

Our PGM project now includes two exploration areas: Svetlobor (Urals region, acquired in 2012) and the Semcha licence area in Central Karelia, 350 km from St. Petersburg and 100 km north of Petrozavodsk. Both areas are in favourable locations in North-West and Central Russia with easy access to roads and infrastructure.

The mineralised potential of the Semcha licence area (inclusive of resources) was earlier estimated at 315 Mt for 10.0 Moz of contained Au-Pt-Pd (non-JORC estimate). In 2013, exploration drilling of more than 4 km was carried out in Semcha. As a result, we have identified gold/platinum/palladium occurrences within a 50 km² zone, with significant base metal credits (copper, iron, titanium, vanadium). The Viksha area was discovered in 2013. The width of 3PGE+Au specific horizon varies from 4 to 11 m, with open-pittable mineralised potential of 25 Mt for 1.6 Moz of contained 3PGE+Au (to a depth of 100 m) identified (internal non-JORC estimate).

There is also additional mineralised potential of 48 Mt for 3.2 Moz of contained 3PGE+Au from 100 to 300 m depth. Favourable open-pit mining conditions are predicted at an approximately 8 km long reef within Viksha area.

At Svetlobor, 10.9 km were drilled in 2013; however the exploration work there was slowed down by an ongoing forestry permits process. Drilling should resume in Q3 2014.

In 2014, at Semcha, there will be additional drilling on the tabular PGM-bearing reef on a regular grid along the known surface outcrop to a depth of 100 m.

Exploration activities summary

	Drilling, km		Trenching 1,000 m³		Level of activity
	2013	2012	2013	2012	2014
Greenfield					
Urals	**54.5**	13.3	**19.0**	3.7	
Maminskoye	**25.4**	–	**3.8**	–	Intensive
Urals regional	**15.6**	8.3	**7.0**	3.7	Suspended
Podolsky	**–**	5.0	**–**	–	Suspended
Tamunier	**2.6**	–	**–**	–	Completed
Svetlobor (Pt)	**10.9**	–	**8.2**	–	Intensive
Far East	**24.3**	21.3	**32.1**	127.4	
Kutyn	**15.2**	11.2	**32.1**	110.5	Intensive
Svetloye	**9.1**	1.2	**–**	–	Some
Uchama	**–**	3.8	**–**	10.4	Suspended
Prognozny	**–**	5.1	**–**	6.5	Suspended
North-West	**9.1**	8.6	**–**	0.3	
Semcha (Pt-Pd)	**4.2**	–	**–**	–	Intensive
Elmus	**4.9**	8.6	**–**	0.3	Some
Total	**87.9**	43.2	**51.1**	131.4	

SUSTAINABILITY – INTEGRAL TO OUR BUSINESS

We believe that a successful business is a sustainable business. Sustainable development forms an integral part of our business strategy, contributing to our global competitiveness and our reputation as an efficient and responsible company. We are firmly committed to the economic, environmental and social wellbeing of our stakeholders and see this as an investment for the future.

Indigenous Minorities of the North from Evensk

Our approach

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

From an economic perspective, our objective is to generate sustainable value for all our stakeholders. We achieve this by improving operations and providing infrastructure such as roads and power lines, which in turn deliver wider benefits for the local community. We provide high-quality employment and financial support for local community initiatives. This significant direct investment, as well as the payment of national and local taxes, contributes to economic development within our key areas of operation.

We take the management of our environmental performance very seriously. We recognise that there is a potential risk of negative environmental impact from such a complex, geographically diverse business which uses resources and energy, and produces significant quantities of emissions and waste. To monitor and manage these environmental risks, we have established a management system that complies with international best practice and national legislation, and which achieved certification to ISO 14001 in March 2013.

We operate 120 production sites and processes, each with its own inherent risks, so ensuring a safe working environment for our employees is a key priority for Polymetal. Our approach to health and safety is underpinned by our employee protection and workplace safety management system. This is designed to detect, assess and manage production risks and is based on national and international standards of best practice. We continue to rigorously enhance and improve all aspects of the system.

We set great store by building strong relationships with the communities in which we operate, recognising that co-operation with local authorities and their associated communities is crucial to our business. We are a significant employer and creator of infrastructure that impacts upon adjacent communities and indigenous people. As a consequence, we have formalised our approach towards local and indigenous people in our Code of Corporate Governance and Policy on Social Investments, with open and regular dialogue.

Human rights

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

Stakeholder engagement

We engage with a wide range of stakeholders, who play an important role in helping us define our sustainability priorities and in providing feedback on our performance. It is vital, therefore, that we are open, honest and transparent in our dealings, and we achieve this by communicating through a number of different channels, including corporate reporting, Company news, briefings, hotlines and digital media.

We have identified five main stakeholder groups for Polymetal, each with its own specific interest in different aspects of the business:

Shareholders and investors: governance, strategy and sustainable financial returns;

Employees: careers, benefits, health and safety, corporate reputation and clear lines of communication;

Partners and suppliers: fair dealing, openness and transparency;

Government: compliance, transparency and economic development; and

Communities and NGOs: directing investments, openness and transparency, economic opportunity and long-term relationships.

Responsibility and risk assessment

Sustainability is ultimately the responsibility of our Group CEO, Vitaly Nesis. He is supported by Polymetal's Technical Council which meets each month to monitor, among other issues, performance against our sustainability priorities and implementation across our operating companies. Our heads of department report to the Council on matters concerning employees, community outreach, health and safety and environmental management.

The CEO, Board of Directors and Technical Council, aided by the Internal Audit Department, identify risks to the business and associated management operations. Our risk management process is defined and monitored by the Audit and Risk Committee of the Board.

Our sustainability priorities

Through our risk management and stakeholder engagement programmes we have identified six 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 apply it to our supplier network;
- to gain third-party certification for our environmental management system and to embed the system into production operations;
- to develop cost and energy efficiency programmes; and
- to enhance the rigour and transparency of our communications with suppliers, customers and partners.

Polymetal's Sustainability Report

We publish our Sustainability Report every two years. If you would like to learn more about our sustainability performance, including our compliance with the Global Reporting Initiative (GRI) framework, our latest Sustainability Report is available to download from our website: **www.polymetalinternational.com/sustainable-development**. The next report, covering our activities during 2013-14, will be published in 2015.

Employees

Our employees are integral to the success of Polymetal. We employ nearly 9,000 people in our operations in Russia and Kazakhstan. We nurture their talent and commitment to our business with salary levels that are highly competitive and a social package that looks after their safety and wellbeing and enhances the lives of their families too.

Training at the Khakanja plant

Competitive salaries and benefits

Our salary levels comply with all the legal requirements in Russia and Kazakhstan. However, to attract and reward highly skilled staff, we offer salaries that are above the average in each of our operating regions, and in the Russian and Kazakhstan mining sectors. We also supplement this with a highly competitive benefits package.

In 2013 the Company spent over US$10.2 million to provide benefits, guarantees and compensations under its social package. The social package includes but is not limited to: benefits for employees working in remote regions; housing provision; financial aid; retirement benefits; travel costs; rotational transportation; kindergarten fees; and compensation for employees (or their families) in the case of workplace accidents.

In 2013 the Company introduced a new scheme to help motivate and retain qualified employees. Under this, the Company assists employees with partial funding of mortgages to allow them to buy their own house or flat. During the year, 74 employees participated in the scheme and the Company paid out US$0.1 million of subsidies.

Contributing to employees' wellbeing and professional development

The Company also focuses on creating and constantly enhancing social and living conditions, improving our operating culture, maintaining employees' health, preventing work-related diseases, boosting productivity and looking at ways to both motivate current employees and attract additional skilled workers.

In 2013 the Company spent over US$4.5 million implementing these measures and covering a range of activities.

The Training Centre at the Dukat operations (Magadan) is certified to carry out internal training and educational activities for 23 professions, and during the year trained 546 employees for 14 professions. In future, we plan to replace external training with internal training as much as possible. Last year, eight employees of Polymetal Management and Polymetal Engineering qualified as Competent Persons in IMMM (the Institute of Materials, Minerals and Mining). This expands their opportunities and enables them to communicate effectively with colleagues from other international mining companies. It also expands the Company's ability to prepare public exploration, mineral resources and ore reserves reports.

Diversity in the workplace

We believe in nurturing skills and talent regardless of gender. We have been actively recruiting and encouraging women within the business and, in 2013, the total number of women employed across Polymetal increased by 3.8% from 1,794 in 2012 to 1,862. We have also seen a rise in the number of women in managerial positions to 285 in total (2012: 250), an increase of 14%.

Health and safety

Safe working conditions are the principal right of all employees and an indicator of efficient management of an operation.

Polymetal's policy for ensuring a healthy and safe working environment is implemented through the current health and safety management system. This was developed using the fundamentals of international standards, contains advanced managerial techniques and distributes responsibility across all levels in order to ensure industrial safety and enable each employee to participate in risk management processes. The system complies with the internationally-recognised OHSAS 18001 and all the appropriate Russian occupational health and safety standards.

In 2013, we continued to improve the health and safety management system, adding new techniques to identify, manage and visualise operational risks and engender a safety culture amongst employees by giving them key roles in assessing the safety and equipment of their workplaces.

Quality control at Lunnoye

As at 31 December 2013, the Company operates 91 hazardous production facilities. This has reduced since our last report due to changes in the classification and registration of hazardous facilities under Russian industrial safety legislation. Despite the overall reduction of hazardous facilities included in the state register, our operations are no less dangerous and every operation provides its workers with safety-at-work training, protective clothing and equipment, and has controls and processes in place to ensure safety in the workplace by identifying, analysing and eliminating hazardous and harmful factors.

Unfortunately, in 2013 there were 11 incidents at operations within the Group. In eight of these cases the workers had minor injuries and in two cases were severely injured. In the eleventh, Polymetal deeply regrets the death at Ozerny open-pit mine (Khakanja hub), where a serious violation of internal and statutory safety rules by a blastman resulted in his fatal injury.

The Company has investigated the case and has already implemented an increase in training, a number of additional safety measures and enforcements to the existing safety rules across its operating mines. The following procedures will be reinforced throughout the Group:

- on-site and distance training for employees;
- risk assessment during each shift;
- hazards visualisation; and
- automated production control.

Health and safety indicators

Company's operations

Indicators	2013	2012
Accidents	**11**	11
Incidents	**0**	0
Emergencies	**24**	20
Injury frequency coefficient	**1.2**	1,2
Injury gravity coefficient	**23.5**	36
Lost time injury frequency rate (LTIFR)	**0.57**	0.59
Fatal injury frequency rate (FIFR)	**0.06**	0

Suppliers and contractors

According to the current health and safety management system, all contractors working on site at our operations must comply with Polymetal's health and safety requirements. These obligations, and penalties for non-compliance, are stipulated within all our contracts.

Indicators	2013	2012
Accidents	**7**	4
Incidents	**22**	22
Injury frequency coefficient	**2.4**	1.7
Lost time injury frequency rate (LTIFR)	**1.17**	0.8
Fatal injury frequency rate (FIFR)	**0**	0.2

2014 priorities

In 2014, our focus will be on improving the efficiency of the risk assessment performed on a shift-by-shift basis, emphasising the key role played by each employee. Before and during the shift, each worker assesses the safety of his/her workplace, entering the results into a personal risk assessment map as well as any suggestions on improving working conditions. The map is analysed by section managers and provides more accurate information about working conditions, enabling the response and risk to be managed in a timely manner. We will also be developing hazards visualisation, on-site and distance training and automated production control procedures.

Environmental performance

One of Polymetal's key priorities is to reduce the environmental impact of our production processes. In 2013 we updated our Environmental Policy to ensure improved efficiency in environmental management systems and continuous improvement across all stages of the Company's exploration, mining and processing activities; wherever possible using modern technology, equipment and working practices to minimise our impact on the environment. The Company complies with all regulatory requirements and systematically monitors safety and management issues to ensure the business meets environmental objectives and targets.

As part of this, we have been working towards international certification of our environmental management processes. We are pleased to report that, in 2013, Polymetal's environmental management system (EMS) was independently certified by Bureau Veritas Certification, in line with international standard ISO 14001-2004. The system supports our commitment and desire to ensure the effectiveness of processes, environmental protection and resource management as well as providing a foundation for continuous monitoring and improvement. We also achieved an additional certification audit for Mayskoye, which was launched later during the year.

The landscape in the Khabarovsk region

The Company initiated a number of projects during 2013:

- purchase of wastewater treatment plants for Mayskoye to provide the workers' accommodation camp with clean water;
- construction of solid waste and industrial waste landfill sites in remote areas at Goltsovoye and Mayskoye;
- construction of a first-stage sewage system at Mayskoye;
- reconstruction of ventilation systems at the Omsukchan processing plant and at Lunnoye;
- modernisation of the cyanide solutions cleaning system for the Kubaka plant;
- construction of hydraulic structures for stormwater drainage at Varvara; and
- completion of an audit carried out by the federal environmental prosecutor's office confirmed that there had been no violations, following an enquiry from local residents and state inspection bodies about possible environmental contamination at the Amursk POX plant.

We also commenced a programme that requires our contractors to comply with our EMS requirements.

In 2013 the Company's expenditure for the implementation of environmental protection measures, along with construction and reconstruction of facilities with environmental relevance, amounted to US$8.1 million. Our environmental payments to regional budgets for the year totalled US$3.6 million.

In February 2014 we began the first stage of a supervisory audit to assess the effectiveness of our Company-wide system. This is designed to assess performance against environmental indicators across the Group and also assess implementation of the EMS. It will determine the effectiveness of measures aimed at reducing environmental impacts and will put in place plans to correct any inconsistencies identified during internal audit.

Greenhouse gas emissions

As a UK listed company, Polymetal is required to report its greenhouse gas (GHG) emissions, a requirement which came into force on 1 October 2013. While we already monitor, manage and aim to minimise our environmental impacts, including GHG emissions, we are now reporting these according to the new GHG Protocol Corporate Standard guidelines, under the following headings:

- direct GHG emissions;
- indirect power CO_2-equivalent emissions related to the generation of power purchased (imported) for the Company's operations.

The Company used ISO 14064 as a framework for defining its methodology for GHG reporting.

GHG emissions

	2013	2012
Direct GHG emissions,[1, 2] t	**327,222**	345,130
Indirect emissions,[3] t	**398,144**	337,401
Total GHG emissions	**725,366**	682,531
Emissions intensity,[4] t/10Kt	**699**	542

[1] CO_2 emissions were calculated according to the reference book 'International Greenhouse Gases Emissions Inventory Methodology' developed by A. Zinchenko from the scientific and production corporation Atmosphere in St. Petersburg in 2003.

[2] Direct emissions include: direct CO_2-equivalent greenhouse gas methane (CH_4) emissions – 536.8 tonnes; direct CO_2 emissions produced by combustion of fuel (diesel fuel, petrol, gas, coal) when operating own power-generating facilities, automobile transport, main and auxiliary mining equipment – 325,560.5 tonnes; direct CO_2-equivalent emissions produced by combustion of fuel (diesel fuel, petrol, gas, coal) when operating own power-generating facilities, automobile transport, main and auxiliary mining equipment – 1,124.3 tonnes.

[3] To calculate indirect power CO_2 emissions, the Company applies principles stipulated in the UN Framework Convention on Climate Change (signed in more than 180 countries, including the Russian Federation and the Republic of Kazakhstan) and also assumes that power purchased was generated in the region where the Company's operations are present. The specific indicators of the indirect power CO_2-equivalent emissions that relate to the generation of power purchased (imported) by the Company's operations were taken from the reference data of the European Bank for Reconstruction and Development entitled 'Development of electricity carbon emission factors for Russia. Baseline study for Russia' (2010) and 'Development of electricity carbon emission factors for Kazakhstan. Baseline study for the Republic of Kazakhstan (2012). CO_2-equivalent emissions related to the generation of power purchased (imported) by the Company's operations are calculated according to formula (3): Eelectr, CO_2 = EC*EF, (3); where: Eelectr, CO_2 = the amount of indirect power CO_2-equivalent emissions related to the generation of power purchased (imported) by the Company's operations, t/year; EC = power purchased (imported) by the Company's operations, MW*h/year; EF = specific regional carbon emissions ratio for power consumers, tonnes of 2/MW*h.

[4] GHG emissions intensity indicator = GHG emissions (t)/Ore mined (10 Kt): 2013: 725,365.5 ÷ 1,037.9 = 699; 2012: 682,558,1 : 1,259.1 = 542.

Water resources

During 2013, we recorded positive trends in water use: both a 10% reduction in per unit water consumption, and a 30% increase in the use of recycled water. The Company now uses twice the amount of recycled water as it does of fresh water.

In order to reduce any negative impact on water resources, we instigated a number of projects, including: the purchase of devices to purify water used for non-industrial purposes at a number of our sites; construction of hydraulic engineering facilities to aid stormwater drainage at Varvara; modernisation of the cyanide solutions cleaning system at our Kubaka plant; and an extensive programme of works at the Amursk plant to prevent pollution of surface water.

Environmental training

We invest significant resources into the education and training of Polymetal employees to raise awareness of and increase knowledge about managing and mitigating the environmental impacts of the Company. In particular, during 2013 many of our engineers and technicians received training about how to run and audit our environmental management system as part of our ISO 14001 accreditation. Employees also attended a number of regional and national external courses, ensuring that as a Company we are well informed about industry-wide developments, and were also involved in internal training sessions which supplement ongoing personal development.

Our plans for 2014

Our 2014 action plan will focus on continuous improvement of our environmental management system, including enhancing our efficiency in respect of the most important aspects of the environmental impact at each operation and the implementation of these priorities in our standard operating procedures.

The top-priority tasks aimed at reducing our environmental impact have been identified as:

- upgrading of the water treatment station at Lunnoye plant, refining wastewater treatment technologies to reduce the negative impact on the river Levy Bulur;
- waste compaction at Albazino to reduce volume for distribution;
- tailings ponds rehabilitation at the Kubaka plant;
- replacement of the gas cleaning section in the CIP section at Voro to enhance the removal of hydrocyanides from gas;
- detoxification of technological solutions at the Voro plant, aimed at a sustainable use of natural resources and a reduced impact on water resources;
- design solutions for expansion of stormwater treatment facilities at Voro to increase the volume of sewage treatment;
- commissioning of a household sewage system in order to increase sewage efficiency and commissioning of a solid waste and industrial waste landfill at Birkachan for appropriate storage of these types of waste.

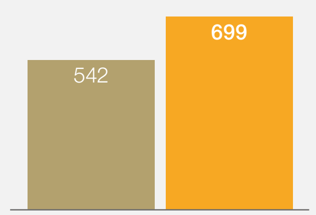
Air quality testing at Voro

Our performance

GHG emissions
(CO$_2$-equivalent tonnes per 10 Kt 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 the bulk of our GHG emissions.

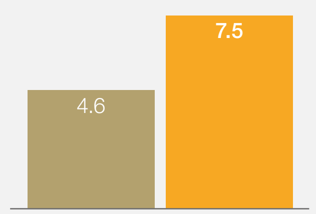
The increased figures for 2013 are largely due to increased production at the Amursk plant and the recently launched Mayskoye plant, which both rely significantly on purchased electricity with a higher GHG intensity ratio.



All air emissions[1]
(tonnes per 10 Kt of ore mined)

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

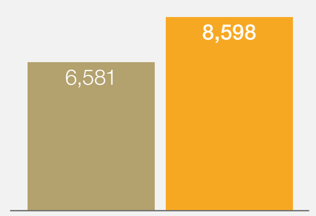
We saw an increase in all air emissions intensity in 2013 as emissions from heat power plants increased while the stripping volumes remained the same as last year but the amount of ore mined decreased compared to 2012.



Waste
(tonnes per tonne of ore mined)

We operate to a set of procedures that are designed to minimise the amount of waste produced, maximise the volumes recycled and minimise the potential impacts on people and the environment.

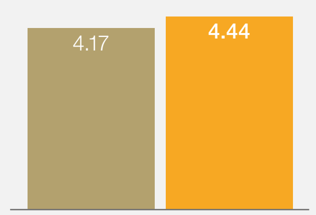
During 2013, we have performed several stripping and pushback campaigns at Omolon, Varvara and Khakanja which increased the average stripping ratio for the Group as a whole, and, correspondingly, the amounts of waste mined.



Discharges to surface water
(tonnes per 10 Kt of ore processed)

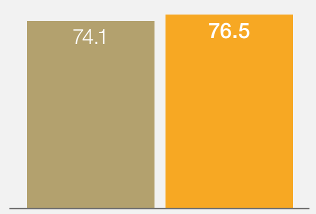
The discharge intensity reflects the work done relating to the efficiency of our water use and to increase recycling.

The indicator remained stable.



Energy use
(gigajoules per 100 Kt of ore processed)

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.



[1] All air emissions are calculated in accordance with Russian and Kazakh environmental legislation. CO_2-equivalent GHG emissions are calculated separately, as according to Russian and Kazakh legislation they are not air pollutants.

Community

At Polymetal, we aim to contribute positively to the economic and social fabric of the communities, regions and countries in which we operate. In fostering mutually sustainable development, we invest substantially in local infrastructure and in enhancing social and cultural welfare.

A traditional Festival of the North celebration at Arka village

We recognise that our operations often impact upon local communities and indigenous people in the areas where we operate. Our Code of Corporate Governance and Policy on Social Investments formally set our commitment to respect and promote fundamental human rights and the value of cultural heritage. We are committed to operating in accordance with the UN Global Compact and the UN Declaration on the Rights of Indigenous Peoples. The Code is implemented by the management teams in each of our Group companies. Our operations – and the populations with which we interact – are numerous and widespread, including Russia's Far East, Northern Urals, Chaun district in Chukotka Autonomous Territory and Taranovka district in Kazakhstan.

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 by 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.

Community engagement

Our relationship with local communities is based upon 16 agreements relating to socio-economic co-operation with local authorities. In line with our own codes and policies, we also have six agreements in place with Indigenous Minorities of the North (IMN) communities in our Russian Far East operations. These agreements are drawn up in consultation with IMN and local authority representatives. They focus on support for traditional activities, provision of fuel, food, vehicles and building materials, educational and cultural programmes designed to preserve language and traditions, 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.

In 2013 we continued to implement our major IMN assistance programmes in areas such as deer farming, and preservation of native language and culture in all operating regions in the Far East, including organisation of traditional ethnic IMN festivals in the Magadan Region and Khabarovsk Territory.

To identify relevant targeted social investments in the Khabarovsk Territory, in 2013 we introduced a competition asking public initiative groups to put forward possible social and cultural projects. The winners were the IMN representatives and their suggestions have been included in Polymetal's 2014 social investment programme.

We have also focused on projects related to increasing the environmental awareness of the public, involving young people in activities and undertaking programmes with the population of Khabarovsk Territory and Chukotka. We responded in the media and at public meetings to questions raised in 130 applications from the local population during 2013.

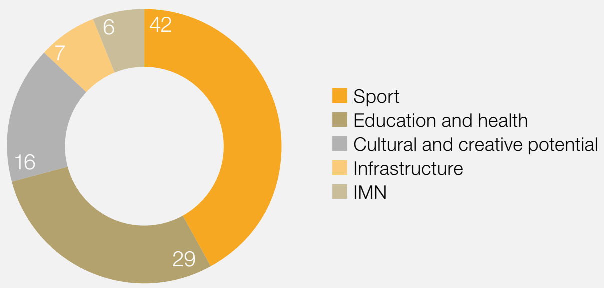
Investing in communities

Our investment priorities have been determined through feedback from local populations 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:

- education and healthcare;
- infrastructure;
- sports facilities and healthy lifestyle initiatives; and
- indigenous peoples' cultural development.

In 2013, these investments totalled about US$5.3 million.

Social investments in 2013 %



One of Russia's top 100 kindegartens at Dukat

The Panther youth ice hockey club in the blue strip

Long-term commitment

As a taxpayer and employer in the areas in which we operate, we provide valuable financial stability to local economies. We are also committed to our community investment programme, which is driven by our desire to improve the quality of life of local communities and indigenous people. This is a long-term programme, developed in consultation with local communities, which enables us to maintain and enhance local infrastructure and services, retain and increase employment opportunities and provide relevant training and education for local people.

Our goals and achievements

Goals	Main achievements in 2013
Strengthen social partnerships with local communities, including IMN communities	We invested US$5.3 million in social and charitable programmes in all areas and paid more than US$320.7 million in regional and local taxes. Regular charitable assistance and targeted support was provided to war veterans and large families. Following a competition for social and cultural projects in three districts, the best projects have been included in our social programme for 2014.
Provide comfortable living conditions and improve quality of life for the population in areas where we work	Construction of a residential house for employees was completed in Amursk. A number of programmes for the population of certain territories are ongoing: improving the quality of children's facilities; repairing, insulating and equipping 13 children's facilities; building and equipping children's playgrounds; management of health services and equipping local hospitals; and improving living conditions in remote villages.
Improve the quality of feedback and co-operation with local communities and IMN groups	We were very proactive during 2013: holding 15 open meetings with and providing feedback to local populations; holding public hearings on new mining activities and environmental issues; conducting public surveys in the Far East; and organising 15 visits to our production sites by members of the public, local schoolchildren, representatives of environmental protection bodies, IMN and veterans. Company representatives regularly take part in the work of local commissions on social and working partnerships.
Facilitate public access in remote areas to physical training and sporting events, and support children's sports	Work on the building, renovation, repairs and equipping of five sporting facilities has been completed, as well as three sports grounds for children. Regular support is provided to children's sport clubs and sport teams. Sporting events bringing together employees and the local population were organised. New sports equipment was supplied to local schools and sport clubs.
Provide residents of remote areas, including IMN, with opportunities for cultural and creative development	Ongoing support is provided to children's ecological clubs and scientific research expeditions, ecological events and volunteering on Saturdays. We have funded the repair and equipment of local cultural centres. Cultural/educational projects included: publishing books about the traditions and culture of IMN; a competition with a cash prize for success in learning an indigenous language; and support for local festivals and exhibitions of IMN communities.

[1] Regular tax payments for 2013, not including additional payments for previous tax periods, paid by Polymetal companies excluding the Head office.

Highlights

- Revenue in 2013 decreased by 8% to US$1,707 million compared to 2012 ('year-on-year') as a result of average realised gold and silver prices decreasing 19% and 28% respectively year-on-year. This unprecedented price decline was to a significant extent offset by 14% growth in the volume of gold equivalent sold.
- Group Total cash cost[1] was US$745 per gold equivalent ounce ('GE oz'), up 8% compared to the 2012 level. Cash costs were negatively affected by the elevated level of unit costs and lower recoveries during the ramp-up at the Amursk POX facility and at the newly launched Mayskoye mine, while the mature mines demonstrated resilient cost performance. Total cash costs in the second half of the year declined by 8% versus the first half of 2013 to US$721/GE oz driven by operational improvements at the Albazino/Amursk, where cash costs declined by 27% half-on-half to US$707/GE oz, and Omolon, where as a result of mine plan revision a 32% cash cost reduction to US$756/GE oz was achieved.
- All-in sustaining cash costs[1] comprised US$1,086/GE oz and increased slightly by 3% year-on-year, driven mostly by an increase in total cash costs during the period, which was largely offset by production growth and reduction of per ounce sustaining capital and exploration expenditure at our operating mines.
- Adjusted EBITDA was US$598 million, a decrease of 36%, driven mainly by a decline in commodity prices. Adjusted EBITDA margin was 35%, compared to 50% in 2012.
- A non-cash pre-tax impairment charge of US$366 million resulting from the decline in gold and silver prices was recorded as at 31 December 2013, mainly due to the write-off of goodwill and mining assets at Varvara, Khakanja and low-grade ore stockpiles at Omolon. The post-tax amount recorded was US$315 million. The impairment calculations were performed using conservative price assumptions of US$1,200/oz for gold and US$18/oz for silver, which are meaningfully below current spot prices.
- As a result of non-cash foreign exchange losses and impairment charges, the Group recorded a net loss of US$198 million in 2013, compared to a US$428 million net profit in 2012. Underlying net earnings (adjusted for the after-tax amount of impairment charges) were US$117 million.
- The Group's liquidity profile remained comfortable. Net debt was US$1,045 and remained almost flat compared to the 2012 level of US$1,037, supported by strong free cash flow generation capacity despite challenging market conditions. Free cash flow[1] for the year was US$138 million, remaining flat year-on-year, of which US$263 million was recorded in 2H 2013 on the back of increased production, significant de-stockpiling, and lower operating and capital expenditure levels.
- Based on Net Debt[1]/Adjusted EBITDA as at 31 December 2013 of 1.75 (31 December 2012: 1.1) and in accordance with the Company's dividend policy, a final dividend of US$0.08 per share representing 30% of the Group's underlying net earnings for 2H 2013 is proposed by the Board.

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

Financial highlights

	2013	2012	% change[1]
Revenue, US$m	**1,707**	1,854	**-8%**
Total cash cost, US$/GE oz	**745**	690	**+8%**
All-in cash cost, US$/GE oz	**1,086**	1,059	**+3%**
Adjusted EBITDA, US$m	**598**	932	**-36%**
Adjusted EBITDA margin, %	**35%**	50%	**-15%**
Average realised gold price, US$/oz	**1,326**	1,640	**-19%**
Average LBMA gold price, US$/oz	**1,410**	1,668	**-16%**
Average realised silver price, US$/oz	**21.6**	30.0	**-28%**
Average LBMA silver price, US$/oz	**23.8**	31.1	**-24%**
Net earnings, US$m	**(198)**	428	**NM**
Underlying net earnings, US$m	**117**	431	**-73%**
Basic EPS, US$/share	**(0.51)**	1.10	**NM**
Underlying EPS, US$/share	**0.30**	1.13	**-73%**
Dividend declared during the period, US$/share[2]	**0.32**	0.70	**-54%**
Net debt, US$m	**1,045**	1,037	**+1%**
Net debt/Adjusted EBITDA	**1.75**	1.11	**+57%**
Net operating cash flow, US$m	**462**	541	**-15%**
Capital expenditure, US$m	**319**	397	**-20%**
Free cash flow, US$m	**138**	138	**0%**

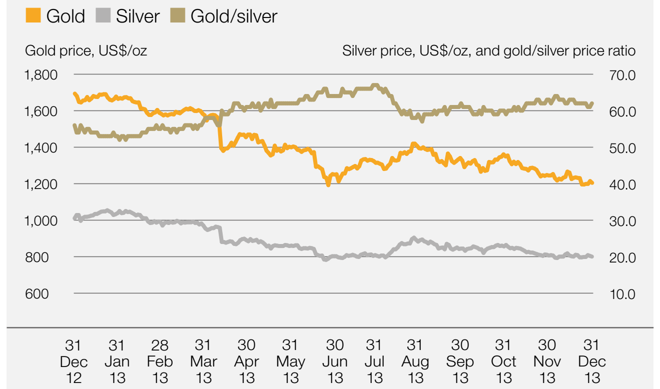
[1] Percentage changes can be different from zero even when absolute amounts are unchanged because of rounding. Likewise, percentage changes can be equal to zero when absolute amounts differ due to the same reason. This note applies to all tables in this release.
[2] FY 2013: final dividend for FY 2012 declared in April 2013 and interim dividend proposed for 1H 2013 declared in August 2013. FY 2012: final dividend for FY 2011 declared in April 2012 and special dividend for FY 2012 declared in December 2012.

Market summary

Precious metals

The year 2013 witnessed significant fluctuations in the precious metals markets, with a reversal of a positive trend that had dominated since 2009. In the first quarter, markets were generally stable, with the gold price fluctuating in the range of US$1,580-1,690/oz. However, in the middle of April gold witnessed one of the sharpest daily and weekly declines of the past decade, decreasing to US$1,378/oz, and then further dropping to US$1,192/oz by the end of June. This steep decline was prompted by significant reductions in ETF holdings and other investment demand sources, and the plans by the US Federal Reserve to gradually decrease the amount of monetary stimulus to the US economy. Later in the year, the gold price fluctuated between US$1,193/oz and US$1,420/oz, ending the year at US$1,202/oz on the back of the above-mentioned investor demand factors, offset by a record level of consumer demand, especially from China and India. As a result, the average LBMA gold price for the period decreased 16% year-on-year. Silver price dynamics followed gold with an increased level of volatility, dropping from US$30.9/oz as at 1 January 2013 to US$19.5/oz as at 31 December 2013. This has also resulted in a further reduction in the gold/silver price ratio. The average gold/silver price ratio decreased from 1/54 in 2012 to 1/59 in 2013, while as at 31 December 2013 it was 1/62.

Precious metals market summary



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 affect its financial results and performance. During 2013, the Russian Rouble depreciated after a moderate strengthening against US Dollar in 2012. From 1 January to 31 December 2013 the Russian Rouble depreciated against the US Dollar by 7.6% from 30.4 RUB/US$ to 32.7 RUB/US$, while the average rate was down just 2.3% year-on-year from 31.09 RUB/US$ in 2012 to 31.85 RUB/US$ in 2013 providing a slight benefit to operating profit and cash costs. The depreciation of the Rouble had a more pronounced negative effect on the Group's net earnings in 2013 due to the effect of retranslating its US Dollar debt to closing rate while the cost performance is yet to reflect the much lower rates in 2014 seen to date.

Operating results

	Year ended 31 December 2013	2012	% change
Waste mined, Kt	**84,956**	85,173	**0%**
Underground development, m	**55,339**	46,717	**+18%**
Ore mined, Kt	**10,379**	12,591	**-18%**
Open-pit	**7,975**	10,937	**-27%**
Underground	**2,404**	1,654	**+45%**
Ore processed, Kt	**10,749**	9,809	**+10%**
Average grade processed, GE g/t	**4.6**	4.4	**+4%**
Production			
Gold, Koz	**805**	589	**+37%**
Silver, Moz	**27.2**	26.5	**+3%**
Copper, tonnes	**4,841**	6,567	**-26%**
Gold equivalent, Koz[1]	**1,282**	1,063	**+21%**
Sales			
Gold, Koz	**808**	589	**+37%**
Silver, Moz	**27.4**	27.8	**-2%**
Copper, tonnes	**6,141**	7,011	**-12%**
Gold equivalent, Koz[2]	**1,285**	1,129	**+14%**
Headcount[3]	**9,232**	8,993	**+3%**
Safety			
LTIFR	**0.57**	0.59	**-3%**
FIFR	**0.06**	–	**NA**

[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.

The Company has exceeded its original annual production guidance and produced 1,282 Koz of gold equivalent, up 21% year-on-year. This achievement was driven by the successful ramp-up at the Amursk POX and Mayskoye and strong operational delivery at the Dukat hub.

Other developments

In March 2014, the majority of Polymetal's employees waived their rights under the legacy Executive Incentive Plan adopted in 2010. A new grant of options under the new Long-term Incentive Plan is expected in April 2014 following the issuance of the Company's Annual Report.

Financial review

Revenue

Sales volumes		2013	2012	% change
Gold	Koz	**808**	589	**+37%**
Silver	Moz	**27.4**	27.8	**-2%**
Copper	t	**6,141**	7,011	**-12%**
Gold equivalent sold[1]	Koz	**1,285**	1,129	**+14%**

[1] Based on actual realised prices.

Sales by metal (US$m unless otherwise stated)		2013	2012	% change	Volume variance, US$m	Price variance, US$m
Gold		**1,071**	966	**+11%**	358	(254)
Average realised price	US$/oz	**1,326**	1,640	**-19%**		
Average LMBA closing price	US$/oz	**1,410**	1,668	**-16%**		
Share of revenues	%	**63%**	52%			
Silver		**593**	833	**-29%**	(13)	(228)
Average realised price	US$/oz	**21.6**	30.0	**-28%**		
Average LBMA closing price	US$/oz	**23.8**	31.1	**-24%**		
Share of revenues	%	**35%**	45%			
Copper		**41**	53	**-23%**		
Share of revenues	%	**2%**	3%			
Total metal sales		**1,704**	1,852	**-8%**	256	(404)
Other revenue		**2**	2	**+32%**		
Total revenue		**1,707**	1,854	**-8%**		

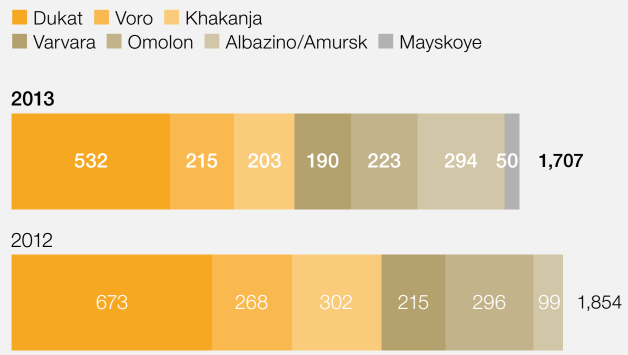
In 2013, revenue declined by 8% year-on-year to US$1.71 billion, driven by a 19% decline in the average realised gold price, while gold equivalent volume sold was up 14%. Gold sales volumes increased by 37%, and silver sales declined by 2% year-on-year while production grew 37% and 3%, respectively.

The average realised price for gold was US$1,326/oz in 2013, down 19% from US$1,640/oz in 2012, and slightly below the average market price of US$1,410/oz due to a larger volume of Polymetal's sales recorded in the second half of the year when the market prices had already deteriorated. The average realised silver price was US$21.6/oz, down 28% year-on-year, and reflecting market price movements in the same pattern.

The share of gold sales as a percentage of total revenue increased from 52% in 2012 to 63% in 2013, with a corresponding decline in the share of silver sales from 45% to 35%, driven by production and sales volume movements.

Analysis by segment	Revenue, US$m 2013	2012	% change	Gold equivalent sold, Koz (silver for Dukat) 2013	2012	% change
Dukat	**532**	673	**-21%**	**24,865**	22,570	**+10%**
Voro	**215**	268	**-20%**	**154**	161	**-4%**
Khakanja	**203**	302	**-33%**	**148**	180	**-18%**
Varvara	**190**	215	**-12%**	**140**	135	**+4%**
Omolon	**223**	296	**-25%**	**162**	177	**-9%**
Albazino/Amursk	**294**	99	**+196%**	**230**	65	**+254%**
Mayskoye	**50**	–	**NA**	**48**	–	**NA**
Other	**2**	0	**NA**	**NA**	NA	**NA**
Total revenue	**1,707**	1,854	**-8%**	**1,285**	1,129	**+14%**

Revenue by segment
US$m



Due to the decline in gold and silver prices during the period, the decline in revenue affected all operating segments of the Group, with the exception of Albazino/Amursk where increased production at the POX plant and off-take concentrate sales led to a nearly three-fold increase in dollar sales. Among the mature mines, sales generally followed production dynamics and gold/silver ratio price movements.

Changes in accounting policies and basis of estimates

Application of IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine'

IFRIC 20 provides guidance on the accounting for the costs of stripping activities during the production phase of a mine. When the benefit from the stripping activity is improved access to a component of the ore body in future periods, the stripping costs in excess of the average ore-to-waste ratio for the life-of-mine of that component are recognised as a non-current asset. IFRIC 20 became effective for the Group from 1 January 2013.

Prior to adoption of IFRIC 20, the Group's accounting policy was not to capitalise stripping costs during the production phase. Therefore, as at 1 January 2012 there were no stripping assets on the Group's balance sheet. The adoption of IFRIC 20 has resulted in the capitalisation of certain stripping costs and a reduction in the cost of sales and inventory recorded in 2012. The stripping assets recognised as a result of the application of IFRIC 20 will also affect the level of depreciation charges in future periods. See details in Note 25 to the consolidated financial statements. Total cash costs, adjusted EBITDA and other non-GAAP metrics have been restated accordingly. The capitalised stripping costs in 2013 comprised US$91 million compared to US$61 million in 2012 and were mainly represented by Omolon, Khakanja and Varvara.

Use of JORC reserves for depreciation calculation

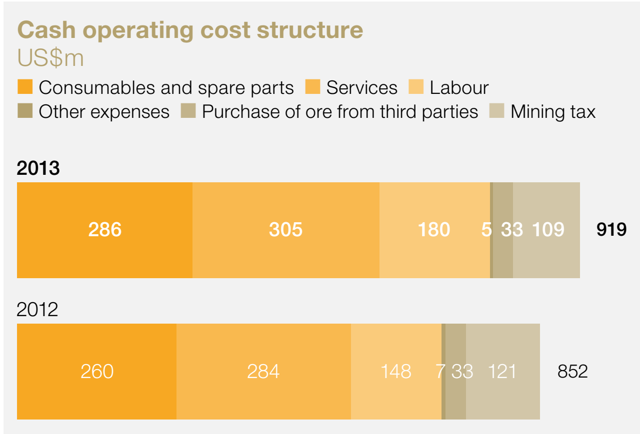
From 1 January 2013, the Group began to use JORC as opposed to GKZ reserves as the basis for unit-of-production depreciation calculations, as management believes this revised basis better reflects the long-term mine plans, which are also being prepared based on JORC reserves estimates.

The increase in profit for the period due to the adoption of IFRIC 20 was almost entirely offset by the change in depreciation calculation basis.

Cost of sales

Cost of sales (excluding write-downs of metal inventories) (US$m)	2013	2012	% change
On-mine costs	393	363	+8%
Smelting costs	384	336	+14%
Purchase of ore from third parties	33	33	+1%
Mining tax	109	121	-10%
Total cash operating costs	919	852	+8%
Depreciation and depletion of operating assets	245	178	+38%
Rehabilitation expenses	2	4	-53%
Total costs of production	1,167	1,034	+13%
Increase in metal inventories	(54)	(187)	-71%
Write-down of non-metal inventories to net realisable value	11	2	+357%
Total change in metal inventories	(43)	(185)	-77%
Cost of other sales	1	2	-72%
Total cost of sales	1,124	852	+32%

Cash operating cost structure	2013 US$m	2013 % of total	2012 US$m	2012 % of total
Consumables and spare parts	286	31%	260	30%
Services	305	33%	284	33%
Labour	180	20%	148	17%
Other expenses	5	1%	7	1%
Purchase of ore from third and related parties	33	4%	33	4%
Mining tax	109	12%	121	14%
Total cash operating costs	919	100%	852	100%



Total cost of sales grew by 32% in 2013 to US$1,124 million, mainly on the back of volume-based growth in production and sales (21% and 14% year-on-year respectively in gold equivalent terms). Other cost drivers include domestic inflation in Russia (6.5% in 2013), which was only partially offset by Rouble depreciation, and a significant increase in depreciation charges as a result of the launch and ramp-up of the Mayskoye concentrator and the Amursk POX plant, which are now both in commercial production.

The cost of consumables and spare parts and the cost of services grew by 10% and 7% respectively, with most of the growth being volume-based. Specific cost increases in the period are attributable to consumables and spare parts at the Amursk POX, which was fully operational during the year and displayed elevated consumption rates due to limited throughput and recovery during the ramp-up process. Amursk POX was the main driver of increased smelting costs during the period.

The total cost of labour within cash operating costs in 2013 was US$180 million, a 22% increase mainly stemming from production volume growth, increase in the rates of payroll tax for highly paid employees, and growth in the average number of employees at Amursk and Mayskoye which are now fully in commercial production.

Mining tax decreased by 10% year-on-year to US$109 million driven by a revenue decrease of 8%.

Depreciation and depletion was US$245 million, up 38% year-on-year, mainly as a result of the commencement of commercial production at the Amursk POX and the Mayskoye concentrator, as well as an increased share of underground mining at Dukat resulting in increased depreciation of capital underground development costs, and depreciation of capitalised stripping costs. US$11 million of depreciation and depletion expenses in 2013 which related to ore and concentrate stockpiles was included in metal inventories as at 31 December 2013.

In 2013 a net metal inventory increase of US$54 million was recorded (excluding write-downs to net realisable value). In the second half of the year, the Company successfully progressed with scheduled stockpile reductions, with total gold equivalent sales meaningfully exceeding production by 54 Koz. De-stockpiling was driven mainly by the Dukat hub, Khakanja and Albazino.

General, administrative and selling expenses

(US$m)	2013	2012	% change
Labour	107	92	+16%
Share-based compensation	24	54	-55%
Services	19	18	+2%
Depreciation	4	4	-13%
Other	14	12	+19%
Total	168	182	-7%

General, administrative and selling expenses decreased by 7% year-on-year from US$182 million to US$168 million, mainly because of the decrease in share-based compensation. The amount of US$24 million of share-based compensation recognised during 2013 represents the final accrual made in respect of the old Long-term Employee Incentive Programme ('Old EIP'), which was adopted in 2010 and had a vesting date of 11 June 2013 (or, at the discretion of the participants, 11 June 2014). None of the options vested in June 2013, as the performance conditions (excess of price over strike price of US$16.74 per share) were not met. Further, in March 2014 the majority of employees waived their rights under the Old EIP in order to be able to participate in the new Long-Term Incentive Plan (the 'New LTIP'). However, the expense previously recognised does not reverse as a credit to the income statement in accordance with IFRS rules as the non-vesting is related to a market-based condition. Should any remaining options vest in June 2014 at the revised target share price (US$18.75 per share), no additional expense will be recognised in the income statement.

The New LTIP was approved by the AGM in June 2013 and the first grant of options under the New LTIP is expected to take place in April 2014 following the issuance of the Annual Report. The share-based payment expense in relation to the New LTIP will therefore be recognised after grant in 2014.

Labour costs increased by 16% to US$107 million due to planned increases in administrative personnel at the new mines, including Amursk POX and Mayskoye, and payroll tax increases.

Other expenses

(US$m)	2013	2012	% change
Exploration expenses	**24**	33	**-27%**
Taxes, other than income tax	**21**	14	**+49%**
Social payments	**11**	11	**+2%**
Loss on disposal of property, plant and equipment	**10**	9	**+2%**
Housing and communal services	**7**	8	**-17%**
Bad debt allowance	**1**	–	**+100%**
Additional mining taxes, penalties and accrued interest	**1**	66	**-99%**
Other expenses	**15**	13	**+19%**
Total	**88**	154	**-42%**

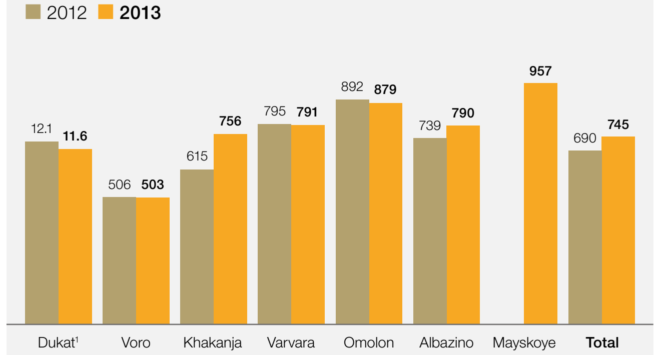
Other expenses decreased from US$154 million in 2012 to US$88 million in 2013. There were no additional mining tax charges, including penalties and accrued interest recognised in 2013, and there were no material changes to the provisions previously recognised. The decrease in exploration expenses from US$33 million in 2012 to US$24 million in 2013 is mainly due to a lower amount of exploration costs written off as generating no future benefits.

Total cash costs by mine

	Cash cost per GE ounce, US$/oz			Gold equivalent sold, Koz (silver for Dukat)		
Total cash costs per gold equivalent ounce[1]	2013	2012	% change	2013	2012	% change
Dukat (silver equivalent oz)	**11.6**	12.1	**-5%**	**24,865**	22,570	**+10%**
Voro	**503**	506	**-1%**	**154**	161	**-4%**
Khakanja	**756**	615	**+23%**	**148**	180	**-18%**
Varvara	**791**	795	**-1%**	**140**	135	**+4%**
Omolon	**879**	892	**-1%**	**162**	177	**-9%**
Albazino	**790**	739	**+7%**	**230**	65	**+254%**
Mayskoye	**957**	–	**NM**	**48**	–	**NM**
Total	**745**	690	**+8%**	**1,285**	1,129	**+14%**

[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 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.

Total cash costs
US$/GE oz



[1] Silver equivalent oz for Dukat.

In 2013 the total cash costs per gold equivalent ounce sold ('TCC') were US$745/GE oz, up 8% year-on-year due to elevated cost levels at the Amursk POX and Mayskoye plants during their ramp-up periods, combined with a higher share of these segments in total production and sales.

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

Reconciliation of TCC movements	US$/oz	% change
Total cash cost per gold equivalent ounce – 2012	**690**	
Domestic inflation	51	**7%**
US$ rate change	(16)	**-2%**
Mining tax change – Au and Ag price	(21)	**-3%**
Au/Ag ratio change	31	**4%**
Change in average grade processed by mine	22	**3%**
Change in recovery rate	(22)	**-3%**
Change in share of sales between mines[1]	11	**2%**
Total cash cost per gold equivalent ounce – 2013	**745**	**8%**

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

Total cash cost by mine:

- Dukat's total cash cost per silver equivalent ounce sold decreased by 5% year-on-year to US$11.6/ oz. This has been achieved on the back of sustainably strong grades and recoveries at the Omsukchan concentrator and increased throughput at both Omsukchan and Lunnoye plants.
- At Voro, which continues to be our lowest cost operation, cash costs decreased further by 1% compared to 2012, to US$503/GE oz, despite a moderate decrease in total gold equivalent production. Cost performance was supported by grade profile of the primary ore processed during the period and the higher share of gold produced at the CIP plant versus heap leaching, as well as by robust operating performance of the mine.
- Khakanja's TCC was US$756/GE oz, a 23% increase year-on-year. This cost increase was driven by a scheduled decline in average grade processed (from 9.4 g/t to 8.1 GE g/t year-on-year), and a higher share of relatively high-cost ore from Avlayakan processed during the second half of the year.
- At Varvara, TCC was US$791/GE oz, decreasing by 1% year-on-year. This decrease was achieved on the back of a stable grade profile and open-pit mine productivity improvements with the introduction of the new dragline excavator.
- At Omolon, TCC amounted to US$879/GE oz, remaining almost flat compared to the 2012 level despite a moderate decline in average grades and production. The improvement in cost performance was mainly achieved in the second half of the year as a result of implemented changes to the mine plan following the decrease in gold and silver prices. A higher share of higher grade ore from Sopka and Tsokol, as well as suspension of mining at Birkachan during the year, contributed to the cost reduction.
- At Albazino/Amursk, TCC was US$790/GE oz, up 7% compared to 2012, due to lower throughput and recoveries at the Amursk POX in the first half of the year before the remedial actions were implemented. TCC improved considerably over the second half of the year as the POX plant reached design throughput and recovery levels. This was further supported by significant concentrate de-stockpiling through a combination of sales to third-party off-takers and accelerated concentrate processing at the POX plant after achieving design parameters.
- TCC at Mayskoye was US$957/GE oz, with the high level mainly associated with cost inefficiencies inherent in the ramp-up period of the processing plant (lower average throughput and recoveries) and a lower grade of ore processed during the ramp-up period. Cost levels in 2014 are set to improve as Mayskoye delivers its first full year of production.

All-in sustaining cash costs[1]

	Total, US$m			US$/GE oz		
	2013	2012	% change	2013	2012	% change
Total cash costs	**957**	779	**+23%**	**745**	690	**+8%**
SG&A and other operating expenses not included in TCC	**142**	146	**-2%**	**111**	129	**-14%**
Capital expenditure excluding new projects	**256**	237	**+8%**	**199**	210	**-5%**
Exploration expenditure (capital and current)	**41**	33	**+25%**	**32**	29	**+9%**
All-in sustaining cash costs	**1,396**	1,195	**+17%**	**1,086**	1,059	**+3%**
Finance cost	**49**	41	**+19%**	**38**	36	**+5%**
Income tax expense	**40**	223	**-82%**	**31**	197	**-84%**
After-tax All-in cash costs	**1,485**	1,459	**+2%**	**1,156**	1,292	**-11%**
Development capital	**60**	163	**-63%**	**47**	144	**-67%**
SG&A and other expenses for development assets	**7**	12	**-43%**	**5**	10	**-50%**
All-in costs	**1,552**	1,633	**-5%**	**1,208**	1,447	**-17%**

[1] All-in sustaining cash costs comprise total cash costs, all selling, general and administrative ('SGRA') 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 sustaining cash costs amounted to US$1,086 in 2013 and increased by 3% year-on-year, with the increase in total cash costs substantially offset by reduction of per ounce SG&A, sustaining Capex and exploration expenditure.

Impairment charges

(US$m)	Khakanja	Varvara	Omolon	Mayskoye	Other operating segments	Corporate and other	Total
Goodwill	13	63	–	–	–	–	**76**
Mining assets	91	17	17	–	–	–	**125**
Metal inventories	28	19	75	16	15	–	**153**
Investments in associates	–	–	–	–	–	12	**12**
Total impairment charges	132	99	92	16	15	12	**366**

In accordance with IFRS requirements, Polymetal conducts impairment tests for its goodwill, property, plant and equipment, other non-current assets and inventories at each reporting date.

Following a significant decline in market prices for gold and silver in 2013, a total pre-tax impairment charge of US$366 million (equivalent to a post-tax amount of US$315 million) was recorded in the consolidated financial statements as a result of these impairment tests. Additional impairment charges recognised in the second half of 2013 were US$61 million and mainly resulted from the re-optimisation of mine plans at the Omolon hub and write-off of low-grade ore stockpiles across our operations.

Polymetal used conservative price assumptions in the tests performed, with the following flat forward real prices meaningfully below the current spot prices:

- Gold – US$1,200/oz
- Silver – US$18/oz
- Copper – US$7,000/tonne.

The following major impairment losses were recognised:

- An impairment of US$132 million in respect of Khakanja hub assets, including US$104 million of goodwill and mining assets and US$28 million of ore stockpiles. The impairment mainly relates to the value of Avlayakan mining assets, which were acquired in 2009 for stock then valued at US$60 million with a view to establishing resources sufficient for a standalone mine. Currently the asset operates as a satellite mine to Khakanja, which generates a significant amount of trucking and shipping costs which are offsetting (at the prices used) the high reserve grade of the deposit. Ore impairment is also mainly represented by the existing stockpiles of Avlayakan ore and low-grade ore from Khakanja. The ongoing shift to underground mining will enable an increase in grade profile and improve cost levels accordingly.
- An impairment of US$99 million was incurred in respect of Varvara, mainly represented by goodwill write-off. Due to the relatively low grade ore, Varvara operations are more sensitive to gold and copper prices. The impairment model does not include any purchased third-party ore (due to the short-term nature of the purchase arrangements), which represented about 20% of gold equivalent production at Varvara in 2012 and 16% in 2013, and was an important contribution to the economics of the asset by leveraging existing processing capacity. Goodwill on the original purchase transaction arose mainly due to this additional contribution, which was assessed when estimating the purchase consideration paid.
- An impairment of US$92 million was recorded in respect of Omolon hub assets, mainly represented by a US$75 million write-off of the low-grade ore stockpiles at Sopka (written off) and Birkachan (net realisable value reduced to reflect lower price assumptions). The impairment model assumes that Polymetal will not proceed with the Sopka heap leach at the prices used, due to a lower than required return on the capital that needs to be invested in the start of the facility, and therefore assigns zero value to the low-grade ore stockpiles accumulated for heap leaching. However, the construction of the heap leach at Birkachan is already completed and leaching is planned from 2014. At the assumed prices of US$1,200/oz for gold and US$18/oz for silver this would result in positive cash flow contribution, making processing of these stockpiles economic.
- At Mayskoye, an US$16 million write-down of inventories is represented by relatively low-grade and high-cost concentrate produced during the first months of the concentrator operation, with higher costs inherently associated with the ramp-up of the processing facility. The source of impairment is expected to be non-recurring as Mayskoye had achieved design throughput and recovery by the end of 2013.
- A total US$15 million impairment of ore stockpiles was recorded at Dukat and Voro and was represented by marginal low-grade material.
- Polymetal has also written off its investment in its associate Ural-Polymetal totalling US$12 million, having assessed the enterprise value using the assumptions above.

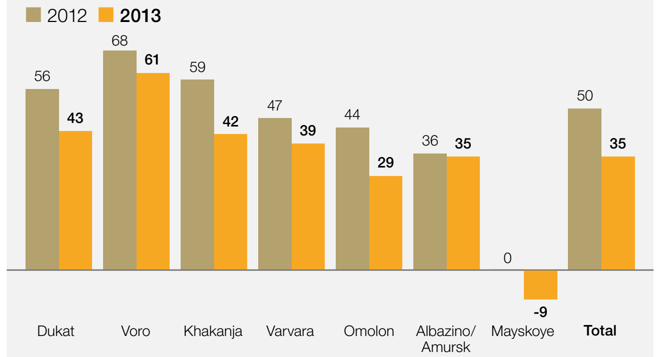
Adjusted EBITDA and EBITDA margin[1]

Reconciliation of Adjusted EBITDA (US$m)	2013	2012	% change
Net earnings	**(198)**	428	**NM**
Finance cost (net)	**40**	22	**+80%**
Income tax expense	**40**	223	**-82%**
Depreciation and depletion	**238**	142	**+68%**
EBITDA	**120**	815	**-85%**
Impairment of inventories	**153**	4	**NM**
Impairment of goodwill and mining assets	**201**	–	**100%**
Impairment of investment in associate	**12**	–	**100%**
Share-based compensation	**24**	54	**-57%**
Exchange gains/losses	**74**	(7)	**NM**
Change in fair value of contingent liability	**(8)**	5	**NM**
Rehabilitation costs	**2**	3	**-46%**
Write-down of non-metal inventory	**11**	2	**+357%**
Gain on disposal of subsidiary/bargain purchase gain	**9**	(10)	**NM**
Additional tax charges according to the Supreme Arbitration Court decision	**1**	66	**-99%**
Adjusted EBITDA	**598**	932	**-36%**

Adjusted EBITDA by segment (US$m)	2013	2012	% change
Dukat	**229**	378	**-39%**
Voro	**130**	182	**-29%**
Khakanja	**85**	178	**-52%**
Varvara	**74**	102	**-27%**
Omolon	**64**	129	**-51%**
Albazino/Amursk	**103**	35	**+192%**
Mayskoye	**(4)**	(12)	**-63%**
Corporate and other and intersegment operations	**(82)**	(59)	**+36%**
Total	**598**	932	**-36%**

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

Adjusted EBITDA margin
%



In 2013, Adjusted EBITDA was US$598 million, 36% lower year-on-year, with adjusted EBITDA margin of 35%. The decrease was mainly driven by a 19% reduction in the average realised gold price and a 28% reduction in the average realised silver price, as well as a 8% increase in total cash costs. The Albazino/Amursk hub increased the Adjusted EBITDA almost threefold year-on-year due to significant production and sales growth, and Adjusted EBITDA at other segments declined year-on-year on the back of price-driven revenue decrease.

Other income statement items

Polymetal recorded a net foreign exchange loss in 2013 of US$74 million compared to a gain of US$7 million in 2012. These unrealised non-cash losses represent the appreciation of the Group's mostly US-Dollar-denominated borrowings against the Russian Rouble, the functional currency of all Group companies other than Varvara. The Group's average gross debt during 2013 was US$987 million, with more than 95% denominated in US Dollars, while the US Dollar appreciated against the Russian Rouble by 8.0% during the period, from 30.4 RUB/US$ at 31 December 2012 to 32.7 RUB/US$ as at 31 December 2013. In 2014, this exchange rate dynamic has continued and is expected to have a more meaningful positive effect on operating cash cost levels.

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

Net earnings, earnings per share and dividends

The Group recorded a net loss of US$198 million in 2013 versus a net profit of US$428 million in 2012. The loss resulted mainly from non-cash impairment charges (pre-tax amount of US$366 million, equal to after-tax amount of US$315 million), unrealised foreign exchange losses in 2013 versus smaller absolute gains in 2012, and the decrease in Adjusted EBITDA.

Underlying net earnings (excluding the after-tax impact of impairment charges) were US$117 million, compared to US$431 million in 2012. The decrease in underlying net earnings was mainly a result of a decrease in adjusted EBITDA by US$334 million year-on-year, as well as the effects of foreign exchange.

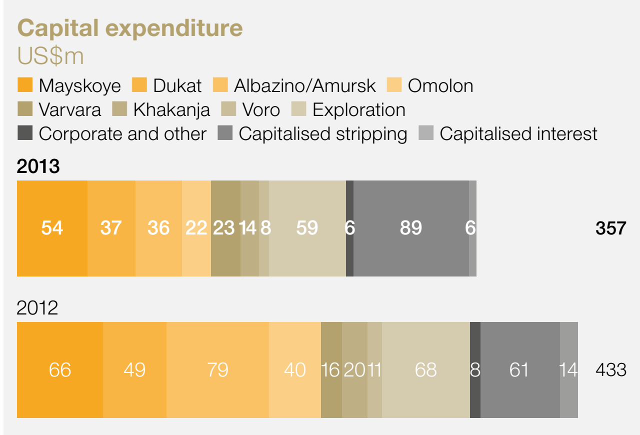
Basic earnings per share were a loss of US$0.51 per share compared to earnings of US$1.10 per share in 2012. Underlying basic EPS was US$0.30 per share, compared to US$1.13 per share in 2012.

In accordance with the Company's dividend policy, the Board is proposing to pay a final dividend of US$0.08 per share representing approximately 30% of the Group's underlying net earnings for the period. During 2013, Polymetal paid a total of US$316 million in dividends, representing special and final dividends for FY 2012 and interim dividends for 1H 2013.

Capital expenditure

(US$m)	2013	2012	% change
Mayskoye	54	66	-19%
Dukat	37	49	-24%
Amursk/Albazino	36	79	-54%
Omolon	22	40	-44%
Varvara	21	16	+37%
Khakanja	14	20	-28%
Voro	8	11	-27%
Exploration	59	68	-13%
Corporate and other	6	8	-22%
Capitalised stripping	91	61	+51%
Capitalised interest	6	14	-57%
Total capital expenditure[1]	**357**	433	**-18%**

[1] Total capital expenditure includes amounts payable at the end of the period. On a cash basis, capital expenditure was US$319 million in 2013 (2012: US$397 million). The difference with the one on the accrual basis is mostly due to depreciation of US$33 million (2012: US$26 million) capitalised into exploration and stripping assets.



In 2013, total capital expenditure was US$357 million, down 18% year-on-year. All of the Group's major investment projects are now complete with the launch of the Mayskoye concentrator in April 2013. Consequently, starting from 2H 2013 the bulk of the Group's capital expenditure is now related to stay-in-business spending and exploration. In addition, the implementation of IFRIC 20 (refer to 'Changes in accounting policies' above) resulted in the partial capitalisation of production-phase stripping costs, all of which were previously expensed. Capital expenditure excluding stripping costs would have been US$265 million in 2013 (2012: US$372 million).

The major capital expenditure items in 2013 were:

- US$54 million was spent on completion of construction of the processing plant at Mayskoye and sustaining capital expenditure for the newly launched mine. The concentrator was launched in April 2013, and by the end of the year the ramp-up process was complete.
- US$36 million was invested at Albazino/Amursk, mostly related to mining fleet expansion and continued underground exploration activities at Albazino, as well as investing in equipment upgrades at the Amursk POX.
- Capital expenditure at Dukat was US$37 million, down 24% year-on-year, and is mainly represented by expansion of underground operations and maintenance Capex at the Lunnoye and Omsukchan plants.
- At Varvara, capital expenditure was US$21 million and is mainly related to the expansion of the mining fleet, including an electrical dragline excavator commissioned in Q1 2013.
- At Omolon, capital expenditures declined by 44% year-on-year to US$22 million due to revision of the mine plans and suspension of the Birkachan mine, as well as due to postponement of the Sopka and Birkachan heap leaching projects. The actual expenditure during 2013 is mainly related to development of Dalneye open-pit mine and maintenance Capex.
- Across the other mature mines, Khakanja and Voro, capital expenditures declined year-on-year and were mainly represented by mining fleet upgrades/replacements and maintenance expenditure at the processing facilities.
- The Company continues to invest in standalone exploration projects. Capital expenditure on exploration in 2013 was US$59 million compared to US$68 million in 2012, and focused mostly on Maminskoye, Svetloye, and Kutyn.
- Capitalised stripping costs totalled US$91 million in 2013 (2012: US$61 million) and are attributable to operations with stripping ratios during the period exceeding their life-of-mine ('LOM') averages, including most importantly Khakanja, Omolon and Varvara. The capitalisation of stripping costs at Omolon and Varvara has resulted in increased impairment charges recorded in respect of those segments' mining assets (refer to 'Impairment charges' above).
- Total capital expenditure includes US$6 million of capitalised interest (2012: US$14 million), which declined materially as the Group has already commissioned all of its major growth assets, and led to an increase in finance costs recognised in profit and loss.

Cash flows

(US$m)	2013	2012	% change
Operating cash flows before changes in working capital	450	724	-38%
Changes in working capital	12	(184)	NM
Total operating cash flows	462	541	-15%
Capital expenditure	(319)	(397)	-20%
Other	(5)	(6)	-16%
Investing cash flows	(324)	(403)	-19%
Financing cash flows			
Net increase in borrowings	213	(149)	-243%
MTO and squeeze-out obligation repayment	–	(569)	-100%
Dividends paid	(316)	(77)	+313%
Total financing cash flows	(104)	(794)	-87%
Net decrease/increase in cash and cash equivalents	34	(656)	NM
Cash and cash equivalents at the beginning of the year	19	659	-97%
Effect of foreign exchange rate changes on cash and cash equivalents	13	16	-20%
Cash and cash equivalents at the end of the year	66	19	+252%

Operating cash flows in 2013 were under pressure from declining commodities prices. Operating cash flows before changes in working capital decreased by 38% year-on-year to US$450 million as a result of adjusted EBITDA decrease. Net operating cash flows were US$462 million, compared to US$541 million in 2012, and were almost unaffected by changes in working capital in 2013 (the increase in working capital in 2012 was US$184 million) despite a meaningful increase in production volumes and scope of operations.

Total cash and cash equivalents increased from US$19 million as at 31 December 2012 to US$66 million as at 31 December 2013, with the following items affecting the cash position of the Group:

- operating cash flows of US$462 million;
- investment cash outflows of US$324 million, down 19% year-on-year and mainly represented by capital expenditure (down 20% year-on-year to US$319 million);
- payment of special and regular dividends for 2012 amounting to US$316 million; and
- an increase in borrowings of US$213 million.

Balance sheet, liquidity and funding

(US$m)	31 December 2013	31 December 2012	% change
Short-term debt and current portion of long-term debt	81	244	-67%
Long-term debt	1,030	620	+66%
Dividends payable	–	191	-100%
Gross debt	1,111	1,055	+5%
Less: cash and cash equivalents	66	19	+252%
Net debt	1,045	1,037	+1%
Net debt/adjusted EBITDA	1.75	1.11	+59%

The Group continues to maintain a comfortable liquidity and funding profile in the current turbulent market environment. The Group's net debt was almost flat and comprised US$1,045 million as of 31 December 2013, representing a net debt/adjusted EBITDA ratio of 1.75.

The Group maintains a healthy debt structure, which is comfortable from both the liquidity and cost standpoints. In the second half of the year, the Group refinanced a total of US$400 million of its short-term borrowings into long-term facilities. As a result, the proportion of long-term borrowings increased from 48% as at 30 June 2013 to 93% as at 31 December 2013. This new borrowing facility led to a significant improvement of the Group's debt maturity profile now extending to more than three years.

In addition, as at 31 December 2013 the Group had US$1.6 billion of available undrawn facilities from a wide range of lenders, which maintains its operational flexibility in the current environment.

The average cost of debt remained low at 2.99% in 2013 (2012: 3.06%), supported by low base interest rates and the ability to negotiate competitive premiums on the back of the solid financial position of the Company and Polymetal's excellent credit history.

2014 year outlook

While we recognise that our financial performance will significantly depend on commodity price movements in the year ahead, Polymetal expects to deliver a resilient financial performance at the current price levels which will be driven by the following factors:

- the Company is fully equipped to deliver on its production guidance of 1.3 Moz of gold equivalent for 2014;
- in 2014, Polymetal expects total cash costs of US$700-750/GE oz and all-in sustaining cash costs of US$975-1,025/GE oz, which will be supported by the ongoing devaluation of the Russian Rouble and Kazakh Tenge;
- capital expenditure will decline further to US$250 million (including exploration and capitalised stripping) as there will be no major investment in growth projects before project development decisions are taken closer to the end of the financial year.

EFFECTIVE RISK IDENTIFICATION AND MANAGEMENT

Robust risk management systems are critical to the long-term success of the Company. We believe that the creation of sustainable value for our stakeholders should be firmly 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.

Internal control and risk management systems are continuously improved to add value to the business. The number of KPIs used to assess the qualitative measures of the key business activities' performance has significantly increased over the past years.

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 (including the treasury policy governing management of financial risks) and is responsible for reviewing their effectiveness. Its duties include the review of:

- policies and overall processes 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;
- periodic 'deep dives' in significant risks; and
- the timeliness of, and reports on, the effectiveness of corrective action taken by management.

Risk identification

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

Risk assessment

Once identified, potential risk factors are assessed to consider the impact and consequences that the event or events may have on achieving objectives, and the likelihood and probability of the event (see table on top of page 71). Together these create a risk profile.

Risk response

When the appropriate ranking has been identified, a response to each risk is formulated and implemented. This is tracked through a comprehensive risk assurance map. Management assesses the effects of a risk's likelihood and impact, as well as costs and benefits of a particular risk mitigation method. The degree to which the response brings the risk within acceptable tolerance levels is then evaluated and corrective actions are taken where necessary.

Monitoring and reporting

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

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

> IMPACT/FINANCIAL CONSEQUENCES

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

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 ten years	Has happened at some time or could happen within 20 years	Is highly unlikely that it would occur in the next 20 years

Risk category	Risk description and potential effect	Risk response
1 Market risk	Gold and silver price volatility may result in material adverse movement in the Company's operating results, revenues and cash flows.	In the light of the recent decline in commodity prices, the Company has implemented a number of measures to maintain profitability and cash flow, including: • redistribution of ore mined volumes between deposits to achieve a better cost profile due to better logistics and less expensive mining methods; • suspension of high-cost operations; • deferral of certain marginal growth projects; • staffing level review and hiring freeze; • asset-level cost-cutting. Key capital expenditure savings include: • deferral of certain marginal growth projects; • greenfield/brownfield exploration budget reviewed and re-prioritised; • certain non-core maintenance projects/mining equipment purchases at operating mines cancelled/delayed. Conservative commodity price assumptions are used for future period budgets and life-of-mine models to ensure viability of the plans in the event of a sustained weakness in precious metals prices. The Company has also developed action plans to address any further severe price reduction scenario. Currently the Company does not hedge as its strategy is to offer stakeholders full exposure to potential gold and silver price upside potential.
2.1 Production risks – mining plans	The risk of failure to meet the planned production programme. Failure to meet production targets may adversely affect the operating performance and financial results of the Group. The risk of lower than expected metal grades or dilution is caused by complex mining and geological conditions, mainly at underground mines. Recoveries at the Group's processing plants may not reach planned levels due to the complex technological properties of the ore processed.	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 senior engineering team. The approved production programme includes an increased volume of on-mine exploration works, such as in-fill drilling and grade control sampling. To mitigate the risk the Group invests considerable resources in ore quality assessment procedures and seeks to control ore quality by the formation of ore stacks with the required characteristics.
2.2 Production risks – procurement	The Group's production activity depends heavily on the effectiveness of its 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 its supply chain system to closely link the production demand of resources with inventory levels, optimise the number of order placements and ensure in-time inventory and equipment delivery to production sites.
2.3 Production risks – qualified labour availability	Failure to retain key employees or to recruit new staff, mainly at the Group's mining and processing facilities, may lead to increased staff costs, interruptions to existing operations and delays in new projects. Lack of skilled and knowledgeable staff at remote locations may occur due to extreme weather conditions.	A working conditions improvement programme is in place. Remuneration policies are designed to incentivise, motivate and retain key employees. There is an increased focus on health and safety – refer to pages 50-51 of this report – and there is active promotion of a positive corporate culture within the Group.

Residual risk level
High Medium Low

Risk category	Risk description and potential effect	Risk response
2.4 **Production risks – reliance on contractors**	Risk of underperformance against production plan, of exceeding available resources: budget overspending, delayed results.	A contractors' performance control system is designed, implemented and applied.
3 **Tax risk**	Due to frequent changes in tax legislation in Russia and Kazakhstan, a lack of established practices in tax law means that additional costs such as taxes or penalties may arise. The most recent Russian government initiatives include significant amendments to tax law governing operations with entities from off-shore jurisdictions. The taxation risk level correlates with legal and political risks levels.	The Company's policy is to comply fully with the requirements of applicable tax laws, providing adequate controls over tax accounting and tax reporting. Given the prevailing practice accepted by arbitration courts when deciding on certain cases in tax disputes in 2012-13, as well as particular outcomes of tax disputes involving Kazakh and Russian subsidiaries of the Group, the tax risk is assessed as 'High'. The consolidated financial statements reflect provisions booked in connection with the Company's evaluation of tax risks. To date the Company is not aware of any significant outstanding tax claims which could lead to additional taxes accruing in the future (except for amounts already booked or disclosed in the Group's financial statements).
4 **Exploration risks**	Exploration and development are time- and capital-intensive activities and may involve a high degree of risk, but are necessary for future growth. Failure to discover new reserves of sufficient magnitude could adversely affect the Company's results. Exploration risks include exploration site selection, defining the optimal method of exploration, licensing and permits, exploration process supply (staff, equipment etc.), exploration contractors' performance control and reporting. Potential effects include financial losses due to poor exploration results on selected properties, financial losses or unreliable exploration results due to use of incorrect exploration methods, inefficient use of the resources available or/and not achieving the reserve/resource targets set.	Risk and uncertainty are inherent in exploration and development activities. 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 for commercial production.
5 **Construction and development risk**	Failure to achieve the return required from 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, could adversely affect the Group's financial results, cash flow position and increase capital costs.	The Company implements global best practice in project management. The Group's engineering team is responsible for the oversight of capital expenditure projects, including project support, co-ordination of service organisations, contractors, constructors and co-operation with regulatory bodies. Significant elements of our exploration and development projects are performed by the Group in-house by Polymetal Engineering, a subsidiary company with significant expertise and a strong track record of designing and commissioning mines and processing plants. Our techniques for construction risk management are constantly improved including the employment of world-class consultants with recognised international experience.
6 **Logistics and supply chain risk**	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.	To improve procurement management, in 2013 the Group restructured the procurement function by creating regional branches. To mitigate the logistics risk the Group invests considerable resources in the 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.
7 **Health and safety risk**	Health, safety and environment risk includes regulatory compliance, environmental pollution and damage, and personal safety.	There is labour and industrial safety control system in place that includes risk assessment of individual workplaces/functions, protection of personnel with safety equipment etc. The Company has tightened responsibility for implementation of safety procedures by raising employees awareness of risk, and has developed additional safety measures in relation to any identified weaknesses.

Residual risk level
High Medium Low

Risk category	Risk description and potential effect	Risk response
8 **Environmental risk**	Major pollution arising from operations could include deforestation, air and water pollution and land contamination. Potential impacts include fines and penalties, statutory liability for environmental redemption and other financial consequences, which may be significant.	The Company has implemented an eco-management system with meets international standards, and compliance certificates have been received. The Company implements a number of initiatives to monitor and limit the impact of its operations on the environment, including external expert assessment of pollution generated and adopting best practice in the industry for its corporate policies and procedures.
9 **Mergers and acquisitions risks**	The Group invests considerable resources in gold mining assets and operations in the Russian Federation and Kazakhstan. There is a risk of failure to achieve the expected benefits from any acquisition in the case of adverse changes in assumptions or any inaccuracy of estimates made, or where the information used for decision-making was incomplete or inaccurate. Failure to deliver expected benefits from an acquisition can 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. Board and/or shareholder approval is required for any acquisition.
10 **Legal risk**	Operating in developing countries such as Russia and Kazakhstan involves the risk that changes in tax and other legislation may occur from time to time. The most sensitive areas are regulation of foreign investments, private property, environmental protection and taxation. In recent years, however, the governments of both Russia and Kazakhstan have become more consistent regarding the introduction of new regulations and taxes, demonstrating an 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 the Russian and Kazakh jurisdictions, having developed its own expertise in corporate, tax, licensing and other legal areas. The Group's financial and legal teams monitor current legislation and proposed changes and incorporate these into their practice. Corporate and operational management teams are responsible for meeting legal requirements in their operating activities. Head office and on-site legal teams ensure appropriate controls over compliance issues. The Group takes into account the results of tax audits and court rulings when interpreting taxation rules and determining future tax positions.
11 **Political risk**	Operating in Russia and Kazakhstan involves some risk of political instability, which may include changes in government, negative policy shifts, international sanctions 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. We aim to maintain open working relationships with local authorities in the countries where we operate.
12.1 **Financial risks – cash and liquidity risk**	The inability to raise sufficient funds to meet current operating or ongoing financial needs, to develop new projects and fund growth. Inadequate cash management in terms of cash flow forecast, available resources and future requirements.	The Group's treasury function is responsible for ensuring that there are sufficient funds in place, including loan facilities, cash flow from operating activities and cash on hand, to meet short-term business requirements. Long-term credit lines are used to finance new projects and organic growth.
12.2 **Financial risks – currency risk**	Currency risk arises from the Company's receipts from metal sales and foreign currency-denominated debt, as well as the foreign currency-denominated cost of imported capital goods and consumables.	Natural hedging is used to reduce the risk exposure: revenue is matched with US Dollar-denominated debt. Flexible budgeting is used to monitor the effect of exchange rate fluctuations on the Group's financial results.
12.3 **Financial risks – interest rate risk**	The Group is exposed to interest rate risk, as a significant part of the Group's debt portfolio is US Dollar and Euro-denominated floating rate borrowings.	Based on analysis of the current economic situation, the Group has decided to accept the risk of floating interest rates rather than hedge 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 ongoing economic situation suggest this may be profitable.
12.4 **Financial risks – inflation rate risk**	A higher rate of inflation may increase future operational costs and have a negative impact on the Company's financial results if there is no related depreciation of the local currency against the US Dollar, or an increase in LBMA gold and silver fixings.	As part of the budgeting process, the Group estimates possible inflation levels and incorporates them into its cost planning.

Residual risk level
High Medium Low

Governance
Board of Directors

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

> 01 Bobby Godsell
Chairman of the Board of Directors

Appointed 29 September 2011.

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

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

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

Committees Chairman of the Nomination Committee.

> 04 Jean-Pascal Duvieusart
Non-executive Director

Appointed 29 September 2011.

Experience Managing Partner for Central Europe and the CIS at McKinsey; joined McKinsey in 1992 and worked in Brussels, New York and Central Europe before becoming Managing Partner in Prague. Advisor to banks, insurers and industrial companies in Russia and Central Europe. Board member of Nomos Bank and Fesco.

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

Other roles Director of PPF Advisory (Russia), PPF B.V., PPF Group N.V., Flowervale Ltd and HC B.V. Member of the Supervisory Board of PPF since 2010.

> 02 Vitaly Nesis
Chief Executive Officer

Appointed 29 September 2011.

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

Qualifications BA in Economics from Yale University.

> 05 Marina Grönberg
Non-executive Director

Appointed 29 September 2011.

Experience Board member of JSC Polymetal since September 2008. Various positions in banks and private equity firms.

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

Other roles Board member of Waterstones Holding, Hachette-Atticus, MIG Credit, Marenco Swiss Helicopters, SPAR-Retail, A&NN Capital Management Fund; Managing Director of A&NN (Schweiz), member of management committee of A&NN Capital Management Fund; President of the Nadezhda charity fund.

> 03 Konstantin Yanakov
Non-executive Director

Appointed 29 September 2011.

Experience Member of JSC Polymetal's Board of Directors since September 2008, member of its Audit Committee until 2011. Various positions at MDM Bank. CFO of JSC Polymetal until 2004.

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

Other roles Chief Financial Officer of ICT Group, Director of LLC ICT-Capital, Director of Greek organisation of Football Prognostics SA (OPAP S.A.). Member of the Supervisory Board of Rigensis Bank AS, Board member at Piraeus Bank.

> 06 Charles Balfour
Senior Independent non-executive Director

Appointed 29 September 2011.

Experience Over 40 years' experience in the investment banking industry in the USA, UK, France and Hong Kong working for Dillon Read, Banque Paribas, Durlacher and Fleming Family Partners. Executive of Nasdaq International, 1993–2004, and its Chairman in 2000-2004; Director of Humber Power and Humber Energy.

Qualifications Educated at Eton in the UK and the Sorbonne in France.

Other roles Trustee of the Bawdsey Estates.

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

> 07 Jonathan Best
Independent non-executive Director

Appointed 29 September 2011.

Experience More than 30 years' experience in the mining industry. Board member of JSC Polymetal since December 2006; Chairman of the Audit Committee of Gulf Industrials; Interim CEO of Trans-Siberian Gold in 2006; CFO and Executive Director of AngloGold Ashanti.

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

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

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

> 08 Russell Skirrow
Independent non-executive Director

Appointed 29 September 2011.

Experience Board member of JSC Polymetal since September 2008. Total of 34 years' work experience in the global mining industry and investment banking, including ten years at Merrill Lynch in London as Head of Global Metals, Mining & Steel Research and subsequently as Global Chairman of the Metals/Mining team, and 12 years in Gold Fields Ltd (South Africa) and Western Mining Corporation in Australia, and the USA. Chairman of Dampier Gold Ltd 2010-2013.

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

Committee Member of the Audit and Risk Committee.

> 09 Leonard Homeniuk
Independent non-executive Director

Appointed 29 September 2011.

Experience Board member of JSC Polymetal since June 2010. President, CEO and member of the Board of Directors of Centerra Gold, 2004-2008. Held executive positions with Centerra Gold, Kumtor Gold and Cameco Corporation.

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

Other roles Director of Trade Ideas LLC. Chair, President and Chief Executive Officer of Polygon Gold Inc.

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

Senior management

Vitaly Savchenko
Chief Operating Officer

Appointed 2009.

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

Qualifications Degree with Honours in underground mineral mining engineering, Kyrgyz Mining Institute; completed Strategy course of the MBA programme at the UK's Open University Business School and is currently undertaking the final stage.

Sergey Cherkashin
Chief Financial Officer

Appointed 2005.

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

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

Sergey Trushin
Deputy CEO, Mineral Resources

Appointed 2010.

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

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

Roman Shestakov
Deputy CEO, Project Development and Construction

Appointed 2009.

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

Qualifications Honours degree in Open-pit Mining from the Mining Department of the St. Petersburg State Mining Institute.

Valery Tsyplakov
Managing Director, Polymetal Engineering

Appointed 2004.

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

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

Pavel Danilin
Deputy CEO, Strategic Development

Appointed 2009.

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

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

Igor Kapshuk
Chief Legal Officer

Appointed 2009.

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

Qualifications Degree from the Law School of Irkutsk State University.

Dear Shareholders

We remain committed to upholding good governance throughout every strand of our organisation. Effective corporate stewardship is essential in good times, but in the current difficult market environment, its importance as the key to timely and effective decision-making is vital.

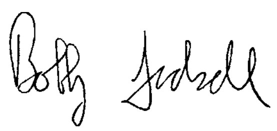
During 2013, the Polymetal Board has faced – and been equal to – the challenges it has met, achieving full compliance with the UK Code during the year and enabling us to build upon our track record of strong governance. We made advances in our executive remuneration, with our best practice scheme being fully endorsed by shareholders. We have maintained a sound system of internal control and risk management with regular internal audits, risk assessment and reporting, and have in place robust anti-corruption procedures including anti-corruption training of all employees. We also made significant progress in sustainability governance and reporting, gaining ISO certification and producing a comprehensive report, compliant with the exacting standards of the Global Reporting Initiative (GRI).

We regard strong governance as a dynamic process, in which continuous improvement is paramount. In 2013, a full formal Board evaluation was conducted by an independent external advisor, enabling us to review the Board's effectiveness and identify areas for improvement.

The Board is continuously focused on providing effective strategic leadership to the Company both in the best interests of its stakeholders and in order to ensure full accountability of the Company's management to the Board. This process is supported by a robust internal control system embedded in all areas, including most importantly operations, finance, and sustainability. This robust system ensures delivery on the Company's strategic objectives and appropriate risk management. A rigorous approach to succession planning will ensure that leadership is aligned to corporate strategy, both at Board and senior management levels, to help bolster the long-term success of the business.

Our resilient financial performance is underpinned by a conservative approach to funding, aimed at striking the right balance between equity and debt, and maintaining conservative liquidity and gearing. Polymetal was successful in further extending the maturity profile of its debt during the year while maintaining a safe gearing ratio and a low cost of debt, as well as securing substantial additional unused credit facilities.

We continue to strengthen and improve our business, both operationally and financially, but never lose sight of the Board's responsibility of ensuring that the Company is run in the best interests of all its stakeholders through our commitment to the highest levels of ethical and responsible behaviour.



Bobby Godsell
Chairman

Statement of compliance with the UK Corporate Governance Code

The Directors are committed to maintaining high standards of corporate governance. As a premium UK listed company, during the year ended 31 December 2013 Polymetal International was required to comply with the UK Code of Corporate Governance ('the UK Code') published in September 2012 and available through the UK Financial Reporting Council's website or, where the provisions of the UK Code have not been complied with, to provide appropriate explanations. During 2013, the Company achieved compliance with all provisions of the UK Code.

As well as complying with the UK Code, the Company has complied with all applicable regulations of the Moscow Stock Exchange and Russian securities laws since admission of its shares to secondary trading on the Moscow Exchange in June 2013.

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 the reporting of performance of the Company; to review the integrity of financial information; and that the Company's internal financial controls and system of risk management are robust and defensible. They are responsible for determining appropriate level of remuneration for the CEO and have a primary role in appointing and, when necessary, removing him.

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

The significant shareholders of the Company are represented on the Board by Mr Yanakov (who is a representative of Powerboom Investments Limited); Ms Grönberg (who is a representative of Vitalbond Limited, A&NN and Capital Management Fund Limited) and Mr 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 Mr Best 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 a 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 its interest in Veduga, which is US$15.6 million and represents approximately 0.5% of the Group's total assets as at 31 December 2013.

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

Charles Balfour has informed the Board of his intention not to offer himself for re-election at the upcoming AGM of the Company and to retire as a Director at the conclusion of the AGM in order to pursue other opportunities. Further to Mr Balfour's decision not to offer himself for re-election at the AGM, the Board has appointed Spencer Stuart as an international search firm to assist with the search for a replacement independent non-executive Director.

Board meetings

In 2013, the Board met nine times. One of the meetings, held by way of a conference call between Messrs Godsell and Nesis, approved an administrative matter previously agreed by the whole Board. Further business was approved by a committee 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 to 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 for setting the Board's agenda. His responsibilities include:
- effective running of the Board;
- ensuring there is appropriate delegation of authority from the Board to executive management;
- promoting a culture of openness and debate by facilitating the effective contribution of non-executive Directors in particular and ensuring constructive relations between executive and non-executive Directors;
- encouraging active engagement by all members of the Board and ensuring that the directors receive accurate, timely and clear information; and
- ensuring that the views of the shareholders are communicated to the Board as a whole.

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

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

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 ('SID')
Charles Balfour acts as the Board's SID. 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 2013 as part of the Company's investor day. The Board is regularly updated on shareholders' opinions following meetings with the Company's management.

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

Board composition

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. A replacement Senior Independent Director will be appointed following the AGM.
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.

Further to Mr Balfour's decision not to offer himself for re-election as a Director, the Board will appoint a new SID following the AGM.

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

Shareholders who are not able to attend the AGM are encouraged to submit proxy votes either electronically or in paper format. At the Company's 2013 AGM we received votes representing approximately 82% 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 2013 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 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 meeting attendance

	Board meetings[1] (nine)	Audit and Risk Committee meetings[2] (six)	Remuneration Committee meetings[3] (two)	Nomination Committee meetings (two)
Bobby Godsell	all	NA	NA	all
Vitaly Nesis	all	NA	NA	NA
Jonathan Best	8	all	all	NA
Russell Skirrow	8	all	NA	NA
Leonard Homeniuk	8	NA	all	all
Charles Balfour	8	all	all	all
Konstantin Yanakov	8	NA	NA	NA
Marina Grönberg	8	NA	NA	NA
Jean-Pascal Duvieusart	8	NA	NA	NA

1 Further business conducted by the Board was approved by a committee of the Board on two further occasions. One of the meetings, held by way of a conference call between Messrs Godsell and Nesis, approved an administrative matter previously agreed by the whole Board.
2 Further business conducted by the Audit and Risk Committee was approved by written resolutions on five further occasions.
3 Further business conducted by the Remuneration Committee was approved by written resolutions on two 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 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, evaluates 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 relates to the composition of the Board and whether non-executive Directors are spending enough time to discharge their duties.

There were no changes to the Board structure in 2013 and the Company has not employed external search consultants. The Company has appointed Spencer Stuart as an international search firm to search for a further independent non-executive Director to replace Mr Balfour, and a replacement member of the Nomination Committee will be appointed following the AGM.

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

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

The Directors' biographical details are set out on pages 74 to 75 and the Board considers that each of the Directors standing for re-election 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 (including externally facilitated evaluation) was conducted by the Board in 2013, 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 Memorandum on Inside Information, Insider Lists and Code of Practice on Dealing in Securities. Directors also receive the Company's guidelines on matters reserved to the Board, terms of reference of the Board Committees and other governing documents of the Company. Directors and chairmen of the Board Committees regularly receive updates on changes to corporate governance and regulatory requirements and other changes affecting the Company. The Board is kept informed of relevant developments in the Company by way of monthly management reports, including comprehensive information on operating and financial performance and the progress of capital projects. A field trip to the Amursk POX plant and Albazino for non-executive Directors took place in August 2013.

There were two meetings of the Nomination Committee in 2013. In 2013 the Nomination Committee organised a full externally facilitated Board evaluation, full details of which are set out further on this page.

At its meetings the Committee continued discussing diversity and ways of helping to promote women in the Company. The Board welcomes diversity at all levels; it believes that the right way to approach diversity is not to introduce fixed quotas, but to seek the right qualities in every appointment, where competence comes first. Diversity becomes an additional advantage of such an approach and is in line with the Company's objective of promoting women at all levels of the Group. Despite challenges presented by the industry the Company operates in, it takes steps to promote women, including hiring women in positions traditionally held by men. In 2013, the proportion of women working in the Group was 22%. Women represent 11% of Board members; 22% of senior management positions; and 44% of qualified employees. The audit under taken in 2013 by the HR Department revealed no instances of discrimination towards employees of the Company. All candidates and employees have equal opportunities regardless of gender, age, race, nationality, language, origin, wealth, residence, religion and other beliefs, social membership or other personal circumstances.

During the year the Nomination Committee reviewed existing succession planning arrangements in the Company and held interviews with senior managers to discuss matters that needed to be addressed to ensure continued effective performance through leadership continuity. Methods of building up the leadership pipeline were discussed including whether stronger candidates for senior management positions should be those with fluent English and some experience and/or education outside Russia along with experience of working in Russia and the CIS. The Nomination Committee acknowledges that a deeper and more rigorous approach to succession planning is vital for the Company's continuing success so that leadership is fully aligned to corporate strategy, both at Board and senior management levels, and will continue addressing this matter in the future.

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

Polymetal is committed to best practice in corporate governance and commissioned its first externally-facilitated Board review in 2013. This was performed by Lintstock Ltd., an independent advisor with no other connection to the Company. The Board carried out a performance evaluation of itself, its Committees, the Chairman and each individual Director. In accordance with the UK Code, it is the Board's policy that the evaluation process will be externally facilitated every three years.

The evaluation process consisted of the Board reviewing its own performance, the performance of each Committee of the Board, individual Directors and the Chairman. All Directors and the Company Secretary completed detailed questionnaires on the basis of which a report was produced for the Board's review. In-depth discussion of the results took place at the meetings of the Committees of the Board and subsequently at a Board meeting. Each individual director including the Chairman and the CEO, did not fill in questionnaires on their own performance and were not present at the subsequent discussion of their performance. Areas of review included: Board composition, Board expertise, Board dynamics, time management, Board support, Board Committees, strategic oversight, risk management and internal control, succession planning and human resource management and priorities for change.

The majority of areas were rated very highly with all areas receiving at least adequate feedback. Top priorities for the Board over the coming year were identified as: focusing on strategy; understanding the views of investors and shareholders; and succession planning. The top strategic issues facing the Company were identified as: replacing and growing reserves; M&A; commodity prices; cost control; the investor base; and maintaining the dividend.

The Board will continue to perform an annual self-evaluation to assess its effectiveness and identify development requirements.

Audit and Risk Committee report

Dear Shareholders

In 2013 the regulatory environment became more demanding – and the Committee's approach reflected this, with its ongoing focus on active management of risks and robust internal control. During the year, a new effectiveness framework for the assessment of the Committee's work was implemented.

Negative market movements prompted a more rigorous approach towards key financial statements risks, namely impairments and underlying assumptions. We also strengthened our financial/internal controls team, with the aim of enhancing the quality of the reporting function to the Committee and the Board.

In addition, the Committee has an ongoing responsibility for the review, evaluation and stewardship of the Company's risk management processes to minimise the strategic risks to the business identified by the Board, of which market risk is currently our top priority.

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 2013 six meetings of the Audit and Risk Committee were held and further business conducted by the Committee was approved by written resolutions on five additional 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 2012;
- reviewed and recommended for approval Polymetal's results for the six months to 30 June 2013;
- discussed and approved the Committee work plan;
- supervised compliance with the Company's anti-bribery and corruption policy;
- reviewed the treasury policy and recommended its approval by the Board;
- reviewed the Group's internal audit plan and monitored the effectiveness of internal audit;
- reviewed the Group's external audit plan and recommended for approval the interim and year end audit fees;
- reviewed the actual audit fee in 2013 compared to the authorised amount;
- approved the terms of engagement, including the engagement letter issued at the start of each audit and the scope of the audit;
- reviewed the independence and effectiveness of the external auditor; reviewed non-audit work performed by the auditors;
- recommended the reappointment of Deloitte LLP as external auditor;
- reviewed the critical risks and exposures of the Group, including significant judgements, impairments and tax risks;
- reviewed the capability of the Group's finance team; and
- performed an externally-facilitated assessment of the Committee's effectiveness.

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

We as a Committee remain fully focused on being an effective key body scrutinising the reporting, internal control and risk management processes in order to ensure transparency and objectivity of the Company's financial statements.

Jonathan Best
Chairman, Audit and Risk Committee

Audit and Risk Committee

The Audit and Risk Committee is chaired by Mr Best and its other members are Mr Skirrow and Mr Balfour, both independent non-executive Directors. The Directors consider that Mr Best has recent and relevant financial experience (refer to page 75 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. As a result of Mr Balfour's decision not to offer himself for re-election as a Director, a replacement member of the Audit and Risk Committee will be appointed following the AGM.

The responsibilities of the Audit and Risk Committee comprise:

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

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

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

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

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

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

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

The Audit and Risk Committee has considered information pertaining to the balance between fees for audit and non-audit work for the Group in 2013 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.

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

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

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

An auditor assessment tool is completed each year by each member of the Audit Committee and by the CFO. Feedback is also sought from the CEO, other members of the finance team, divisional management and the head of internal audit. The assessment tool adopted is comprehensive and includes detailed questions which are completed by way of a formal questionnaire every three years, with the key areas being performed every year. The feedback from this process is considered by the Audit Committee and is provided both to the auditors and to management. Action plans arising are also reviewed by the Committee.

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

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

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

- **Testing the recoverability of goodwill and PPE.** The Committee examined the potential indicators of impairment for each of the cash-generating units and the life-of-mine financial models used for assessing the fair value less costs to sell of the individual CGUs tested for impairment. The Committee examined and challenged the commodity price, discount rate and exchange rate assumptions used by management in its impairment tests.
- **Testing the existence and recoverability of metal inventories.** The Committee examined the price assumptions used by management as well as unit costs and other internal assumptions used in determining the net realisable value of unfinished goods within metal inventories (ore and concentrate stockpiles).
- **Testing the recoverability of exploration and development assets.** The Committee evaluated management's approach to determine whether the existing exploration and development asset are likely to generate future economic benefits, reviewing prior exploration results and future development plans.
- **Provisioning and disclosure of tax exposures.** The Committee assessed the existing and potential tax exposures of the Group in Russia and Kazakhstan and the developments of the related court cases since the last reporting date, and evaluated whether the amount of provisions recognised in the financial statements continued to be the best estimate for probable exposures.
- **Other items:** the Committee examined the impact of the implementation of IFRIC 20 ('Stripping costs'), a new regulation covering accounting for stripping costs, and the related impact on current and prior period financial statements. The Committee also evaluated the accounting policies adopted by management, internal controls and the risk of misstatement.

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

The re-appointment of Deloitte LLP as the Group's external auditor is reviewed annually by the Audit and Risk Committee. Deloitte LLP was appointed auditor in 2011, with Deloitte CIS having been auditor of JSC Polymetal since the last tendering process in 2007. The Group has a policy of tendering the external audit at least every ten years. The Committee's assessment of the external auditor's performance and independence underpins its recommendation to the Board to propose to shareholders the re-appointment of Deloitte LLP as auditor until the conclusion of the AGM in 2015. Resolutions to authorise the Board to re-appoint and determine the auditor's remuneration will be proposed at the AGM on 21 May 2014.

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

Internal control and risk management

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

In conducting its annual review of the effectiveness of risk management and internal control (including financial, operating and compliance controls), the Board considers the key findings from the ongoing monitoring and reporting processes, management assertions and independent assurance reports. The Board also takes account of material changes and trends in the risk profile and considers whether the control system, including reporting, adequately supports the Board in achieving its risk management objectives.

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

Internal audit

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

The head of internal audit reports to the 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:

- an appropriate tone set from the top (Board level), aimed at building the appropriate control environment;
- a proper risk identification and management system (for more detail please refer to page 70-71);
- a strict division of responsibilities and adequate delegation of authority;
- specific control activities implemented at all levels of the Group; and
- a periodic review of the effectiveness of internal controls.

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

Within this framework, authority is delegated within clearly prescribed limits and decisions are escalated where either project size or risk profile require a higher level of authority.

In addition to controls operating in specific areas (production, exploration, construction, procurement), the control framework also includes a set of common procedures for financial accounting, reporting and budgeting – see details below.

The Board confirms that the actions it considers necessary have been or are being taken to remedy any failings or weaknesses in the Group's system of internal controls.

This has involved considering the matters reported to it and developing plans and programmes that it considers are reasonable in the circumstances. Based on the results of the review of risk management and internal control activities, undertaken by the Board and the Audit and Risk Committee the Board considers that the risk management and internal control systems are in accordance with the Revised Guidance for Directors on the UK Code.

Financial reporting systems

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

Accounting policies are developed centrally for each of the Group's subsidiaries and are adapted for the peculiarities of each entity and Group-wide policies. Employees responsible for accounting and reporting functions have powers to review upcoming transactions and propose adjustments, where necessary, to ensure proper accounting and tax treatments.

The use of a centralised 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 transactions with banks on accounts maintenance, deposits and borrowings and foreign currency transactions are also performed at head office level in compliance with the treasury policy approved by the Board.

Controls over IT systems used in financial accounting and reporting

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

UK Bribery Act 2010

The Company and its Directors are committed to ensuring adherence to the highest legal and ethical standards. This must be reflected in every aspect of the way of the Group operates. Bribery is a criminal offence in the countries in which the Group operates. Corrupt acts expose the Group and its employees to the risk of prosecution, fines and imprisonment, as well as endangering the Company's reputation. The Group has a Code of Conduct in place, which refers to anti-bribery and corruption policy. The Policy extends across all the Group's business dealings in all countries and territories in which the Group operates and applies to all employees of the Group, as well as relevant business partners and other relevant individuals and entities. The Board attaches the utmost importance to this policy and applies a 'zero tolerance' approach to acts of bribery and corruption by any of the Group's employees or by business partners working on the Group's behalf. The Policy prohibits the payment, offer or authorisation of bribes, the receipt or acceptance of a bribe, or the payment, offer or promise to pay any facilitating payments. Any breach of this policy is regarded as a serious matter by the Company and is likely to result in disciplinary action.

As part of its implementation of internal procedures to comply with the UK Bribery Act, the Group has 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.

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

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

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 2013.

Corporate governance

Refer to pages 77 to 80 for a description of the Group's corporate governance structure and policies.

Going concern

In assessing its going concern status, the Group has taken account of its financial position, anticipated future trading performance, its borrowings and other available credit facilities, and its forecast compliance with covenants on those borrowings and its capital expenditure commitments and plans. As at 31 December 2013, the Group held US$66 million of cash and had net debt of US$1,045 million, with US$1,324 million of undrawn but committed facilities available subject to the Net debt/Adjusted EBITDA covenant compliance.

The Board is satisfied that the Group's forecasts and projections, having taken account of reasonably possible changes in trading performance, show that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of this report and that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2013.

Financial and business reporting

The Board believes that the disclosures set out in the Strategic report on pages 1 to 73 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 74-75 and 78 of the Report.

Appointment and replacement of Directors

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

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

Directors' interests

Information on Directors' interests in shares of the Company is set out in the Remuneration report on page 98.

Directors' indemnities

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

Political donations

The Company may not make a political donation to a political party or other political organisation, or to an independent election candidate, or incur any political expenditure, unless such donation or expenditure is authorised by an ordinary resolution of shareholders passed before the donation is made or the expenditure incurred. No such donations were made in 2013 (2012: none).

Capital structure

The structure of the Company's share capital is detailed in Note 32 to the financial statements.

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

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

Substantial shareholdings in the Company are disclosed on page 162.

Details of employee option schemes are set out in the Remuneration report on pages 90 to 101.

There were no acquisitions of the Company's own shares in 2013. At 31 December 2013, the Group and its subsidiaries held no treasury shares (31 December 2012: no shares). As at 31 December 2013, the Company had shareholders' authority to purchase up to 38,947,286 of its own ordinary shares.

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

Pursuant to the Company's Articles, the Directors have the power to allot Equity Securities (as defined in the Articles). At the AGM of the Company held in 2013, the power to allot Equity Securities was renewed up to an aggregate number of 129,824,288 ordinary shares, provided that the Directors' power in respect of such an amount may only be used in connection with a pre-emptive issue (as defined in the Articles). The Directors are further empowered pursuant to Article 12.4 of the Company's Articles to allot Equity Securities for cash as if Article 13 of the Articles (Pre-emptive rights) did not apply and for the purposes of paragraph (b) of Article 12.4 of the Articles, the Non Pre-emptive Shares (as defined in the Articles) are an aggregate number of up to 19,473,643 ordinary shares. In 2013, the Company used the above powers to allot 5,491,661 new ordinary shares relating to the Maminskoye 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 38,947,286 ordinary shares;
- the minimum price (excluding expenses) which may be paid for each ordinary share is 1 penny;
- the maximum price (excluding expenses) which may be paid for each ordinary share is the higher of:
  a. an amount equal to 105% of the average of the middle market quotations of an ordinary share in the Company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; and
  b. an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System;
- pursuant to Article 58A of the Companies (Jersey) Law 1991, the Company may hold as treasury shares any ordinary shares purchased pursuant to the authority conferred in this Resolution.

The authorities above shall, unless previously revoked or varied, expire at the conclusion of the Company's next AGM (or, if earlier, at the close of business on the date which is 15 months after the date of the resolution, which granted them, being 12 December 2014).

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 loss for the year ended 31 December 2013 attributable to equity holders of the Company was US$198 million (2012: profit US$428 million). Underlying net earnings (adjusted for the after-tax amount of impairment charges) in 2013 were US$117 million (2012: US$431 million). In August 2013 the Company declared an interim dividend of US$0.01 per share which was paid in September 2013. The Directors have proposed the payment of a final dividend of US$0.08 per share (2012: US$0.31 per share). In addition, a special dividend of US$0.50 per share was declared by the Company in December 2012 and paid in January 2013.

Annual General Meeting

The AGM of shareholders of the Company will take place on 21 May 2014 at 11.00 am (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

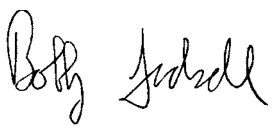
Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- 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 auditor is aware of that information.

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

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

On behalf of the Board



Bobby Godsell
Chairman
30 March 2014

Dear Shareholders
2013 was a challenging year for all mining companies when adverse movements in commodity prices forced the sector to focus on controlling costs, producing robust operating performance and maintaining capital discipline. With this in mind, the Remuneration Committee decided that any significant changes to the remuneration of Directors and officers of the Company during 2014 would be inappropriate. Instead we have put our efforts into finalising the Performance Share Plan, approved at last year's AGM.

As a FTSE250 company, whose shares are listed on the London Stock Exchange, we believe that our shareholders rightfully expect Polymetal to comply with the strictest of corporate governance requirements. We remain committed to full adherence to all regulatory requirements and, as such, also reflect this in our remuneration policies and decisions. As a result, we consistently receive over 95% of the votes in favour of AGM resolutions related to remuneration and to reappointment of Directors. This unequivocal backing from shareholders in support of the Company's decisions is very heartening as we strive to develop our remuneration policies in line with best practices, and substantially aligned with the business strategy and performance.

Polymetal's remuneration policy remains a key element in providing a clear framework to motivate, incentivise and retain our senior management team. With the introduction of a significant amount of changes to disclosure requirements, this has been a challenging reporting year. However, I believe that Polymetal's remuneration structure is both straightforward and substantially aligned with shareholder interests – as evidenced by the overwhelming support that this received at the 2013 AGM. This has enabled us to meet the challenge with relative ease.

Remuneration philosophy
The focus on sustainable shareholder value creation is the cornerstone of our executive remuneration system. The Company's remuneration policy is set to ensure that Directors are fairly rewarded with regard to the responsibilities undertaken, and considers comparable pay levels in the countries of operation and the international mining industry. The executive remuneration strategy, and underlying policy, supports this by enabling the Company to attract and retain talent that will maximise shareholder value.

Corporate and individual performance is taken into account in setting pay levels for the CEO, and this is reviewed on an annual basis to ensure it remains in line with companies of a similar nature, size and complexity. An external benchmarking is undertaken every three years in order to ensure comparability with other gold mining companies worldwide and London-listed peers (such benchmarking was last performed in 2012). Remuneration levels for non-executive Directors are based on comparable levels for companies of a similar nature, size and complexity, and take into account specific responsibilities undertaken.

Context to the Committee's decisions
2013 was a challenging year for all mining companies. At Polymetal, we continued to concentrate on controlling costs, delivering robust operating performance and maintaining capital discipline. However, despite resilient operating and cost performance, the financial results of the Company in 2013 were inevitably affected by the market conditions. Our net profit and dividends decreased on the back of significant decline in commodities prices, however we were able to sustain free cash flow as a result of decrease in capital expenditure and production growth.

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

Key committee decisions
- In 2013 the Remuneration Committee concentrated on finalising the Long-term Incentive Plan (LTIP), which was supported by 99.82% of shareholders who voted on it. The plan includes a total shareholder return (TSR) underpin stipulating that no options will vest in the event that TSR for the period is negative. Other features include the mandatory deferral of 50% of an annual bonus for three years in shares, clawback provisions, a one year holding period for all plans, and a substantial minimum shareholding requirement for the Company's executives.
- Due to unfavourable market conditions, the Remuneration Committee decided that any significant changes to the existing approach to remuneration of Directors and senior officers of the Company in 2014 would be inappropriate.
- The Committee approved the increase in Rouble based Chief Executive's base salary for 2014 by 8% (there was no increase in 2013 versus 2012), which partially compensates for the more significant depreciation of the Rouble against the US Dollar (14%) and inflation. The US Dollar equivalent of the Chief Executive's base salary would decrease by 5%.
- Annual bonus of 88% of the maximum opportunity was awarded to the Chief Executive in respect of 2013.

Changes during the year
- In the context of the changing regulations, Polymetal did not have to make additional changes to its existing executive remuneration structure. It formalised some of the existing procedures, adopted changes required by the new regulation and presents in this annual report a comprehensive yet simple remuneration strategy and seeks shareholder approval of the policy, which will come into effect immediately after the AGM 2014 and will apply for three years.
- Subsequent to 2013 year-end, 99% of employees entitled to the legacy long-term incentive plan waived their entitlement to these options and will be granted options under the new LTIP.

Approach to disclosure
This Report sets out the Company's remuneration policy and implementation for its Directors and provides details of their remuneration and share interests for the year ended 31 December 2013. The Board believes that for a Company whose shares are listed on the London Stock Exchange it is expected that the Directors' remuneration policy report and annual remuneration report of the Company should be approved by shareholders, and it is an element of good corporate governance for the Company to seek this. Accordingly, the Directors' remuneration policy report will be put to a binding shareholder vote and the Directors' annual remuneration report will be put to an advisory shareholder vote at the Annual General Meeting of the Company on 21 May 2014.

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

L.A. Homeniuk

Yours sincerely,
Leonard Homeniuk
Chairman, Remuneration Committee

Directors' remuneration policy

The Committee will be requesting shareholder approval of the following remuneration policy at the Annual General Meeting on 21 May 2014 to cover a period of three years. The policy will apply from the date of approval.

Element and purpose/ link to strategy	Operation	Opportunity	Performance metrics used and period applicable
Executive Director – CEO			
Base salary To attract and retain high-calibre executives	• The Committee reviews base salary on an annual basis, taking into account general economic and market conditions, underlying Company performance, the level of increases made across the Company as a whole, the remuneration of executives in similar positions in FTSE 250 and global mining peers, and individual performance when setting base salary for the following year	• Over the policy period, base salary for the Chief Executive will be set at an appropriate level within the peer group and will increase in line with base salary increases for the wider workforce, except where a change in the scope of the role occurs • The annual base salary for the reporting year and the current year is set out in the Annual Report on Remuneration	• Not applicable
Benefits	• The Company does not provide any benefits for its Chief Executive	• Not applicable	• Not applicable
Pension To provide funding for retirement	• The Company does not fund any pension contributions or retirement benefits, except contributions to the mandatory pension fund of the Russian Federation, as required by Russian law • The Company pays defined contributions of 10% of total pay to the mandatory pension fund. This permits retiring employees to retire and to receive a defined monthly pension for life from the statutory pension fund	• Does not exceed the mandatory contribution made to the pension fund of the Russian Federation • Currently 10% of total pay	• Not applicable
Annual bonus To focus on achieving annual performance goals, which are based on the Company's key performance indicators (KPIs) and strategy	• The annual bonus result is determined by the Committee after the year end, based on performance against targets • Annual bonuses are paid three months after the end of the financial year to which they relate • 50% of annual bonus earned is paid in cash and the remaining 50% is compulsorily deferred into shares which are released annually to the employee over the next three years in equal instalments through the Deferred Share Awards plan (DSA) • Details of the DSA are set out on the next page	• Maximum bonus opportunity – 150% of base salary • Target bonus opportunity – 100% of base salary • Threshold – Nil annual bonus for threshold performance	• The annual bonus is earned on the basis of the achievement of a mix of financial and non-financial measures • For 2014, performance metrics and associated weightings for each would be: – Production (30%) – Total cash costs (30%) – Completion of new projects on time and within budget (30%) – Health and safety (10%) • The Committee has discretion to vary the weighting of performance metrics over the life of this remuneration policy. In addition, the Committee has discretion to vary performance metrics part-way through a performance year if there is a significant event which causes the Committee to believe that the original performance conditions are no longer appropriate • Performance is measured over the financial year

Element and purpose/ link to strategy	Operation	Opportunity	Performance metrics used and period applicable
Long-Term Incentive Plan (LTIP)			
Deferred Share Awards plan (DSA) Deferral to encourage retention and alignment with shareholders	• 50% of annual bonus earned is paid in cash and the remaining 50% is compulsorily deferred into shares which are released annually to the employee over the next three years in equal instalments • Malus provisions apply for the unvested portion of the DSA; the Remuneration Committee may, at any time up to and including vesting, reduce the number of shares that vest, should material misstatement, misconduct and/or a failure of risk management occur • Dividend equivalents will be received on vested shares, reflecting the value of dividends which have been paid during the period from the grant date to the vesting date		• Entitlement to this deferred component is subject to continued employment over the deferral period
Performance Share Plan (PSP) To provide long-term alignment with shareholders' interests	• Under this plan, annual rolling awards are made with a four-year vesting period and an additional mandatory holding period of one year following vesting • Stretching performance targets reward participants for delivering positive absolute and superior relative total shareholder return (TSR) performance against global peers over a long-term period • Malus provisions apply for the unvested portion of the PSP; the Remuneration Committee may, at any time up to and including vesting, reduce the number of shares that vest, should material misstatement, misconduct, and/or a failure of risk management occur • Retesting of the performance conditions in future years is not allowed under any circumstances • First grants under the PSP are expected to be made in April 2014	• Maximum grant permitted under the plan rules is 200% of salary • Normal grant level is expected to be 150% of base salary • Threshold vesting is equivalent to 20% of the award • Dividend equivalents will be received on vested shares, reflecting the value of dividends which have been paid during the period from the grant date to the vesting date	• Vesting is based on relative TSR, measured against the constituents of the FTSE Gold Mines Index, and also on the Company's absolute TSR • Peers are ranked and the Company's position determines vesting: – 0% vests for below median performance – 20% vests at median performance – 100% vests at top decile performance and above – No award will vest if absolute TSR is negative, regardless of relative performance • The Committee may substitute, vary or waive the performance targets if an event occurs which causes the Committee to consider that the target is no longer appropriate • The Committee has discretion to vary the proportion of awards that vest, to ensure that the outcomes are fair and appropriate and reflect the underlying financial performance of the Group
Minimum shareholding requirements To strengthen alignment between interests of executive Directors and those of shareholders	• The CEO is required to build a minimum shareholding over a five-year period • Unvested shares under the PSP or DSA are not taken into account when calculating progress towards the minimum shareholding requirements • For the purposes of determining whether the requirements have been met, share price is measured at the end of each financial year • Post vesting and tax, all shares acquired under PSP and DSA awards must be retained until the shareholding requirement is met	• 500% of base salary for the CEO	• Not applicable

Element and purpose/ link to strategy	Operation	Opportunity	Performance metrics used and period applicable
Non-executive Directors			
Fees for non-executive Directors To attract and retain high-calibre non-executive Directors	• The fees of independent non-executive Directors are set by reference to those paid by other FTSE 250 mining companies • Fees are set to reflect the responsibilities and time spent by the non-executive Directors on the affairs of the Company • No fees are paid to non-independent non-executive Directors • Non-executive Directors are not eligible to receive benefits and do not participate in incentive or pension plans • The Chairman receives a base fee only • The following fees are paid in addition to the non-executive Director base fee: – Committee Chairmanship fee; – Committee membership fee; – Board and Committee attendance fee The Remuneration Committee determines the framework and broad policy for the remuneration of the Chairman. The remuneration of non-executive Directors is a matter for the Chairman of the Board and the executive members of the Board, i.e. the CEO. Directors do not participate in discussions relating to their own fees	• Fees are reviewed, but not necessarily increased, on an annual basis • Any increase in non-executive Director fees will normally be in line with base salary increases for the wider workforce, except where a change in the scope of the role occurs • Current fee levels are set out in the Annual Report on Remuneration	• Not applicable

Remuneration policy for other employees

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

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

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

Notes to the policy table

Performance measures and targets

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

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

Changes to remuneration policy from that operating in 2013

Design element	Changes made during the year
Base salary	No changes made
Annual bonus	No changes made
LTIP	Introduction of new plan (LTIP) and removal of EIP. See below for details
Non-executive Directors	No changes made

The new LTIP

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

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

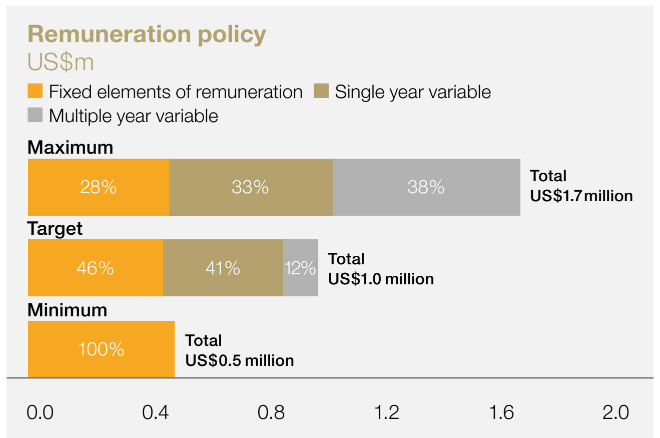
The Board believes that the new LTIP will ensure continued alignment of the executive team's performance with shareholder interests and will reward superior long-term performance and the creation of sustainable shareholder value. The Board also believes that the LTIP is in line with UK best practice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

The PSP was put to a shareholder vote at the AGM in June 2013 and, following approval by 99.82% of shareholders, will be implemented upon vesting of the current EIP after June 2014 or, for those participants who have waived their rights under the EIP, from April 2014.

Illustration of application of remuneration policy

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

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



Note: Scenario values are translated at the closing exchange rate of the Rouble to the US Dollar stated by the Central Bank of the Russian Federation as of 31 December 2013.

The scenarios are defined as follows:

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

No allowance has been made for share price appreciation or for the payment of dividend equivalents. Non-executive Directors do not receive performance-related pay. Their fees are disclosed in the policy table on page 97.

Approach to recruitment remuneration

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

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

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

Service contracts and policy on payment for loss of office

Loss of office policy

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

Please note that Mr Nesis is a Director of both Polymetal International plc and JSC Polymetal, a 100% subsidiary of the Group incorporated in Russia. Further details are set out in the Current Directors' service contracts section below.

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

Area	Policy and operation	
Notice period	Polymetal International 6 months from Company 6 months from Director	JSC Polymetal With immediate effect from Company 1 month from Director
Compensation for loss of office in service contracts	• No entitlement in respect of directorship of Polymetal International. • Up to three times average monthly salaries in respect of directorship of JSC Polymetal.	
Treatment of annual bonus awards	• Where an executive Director's employment is terminated after the end of the performance year, but before the payment of the annual bonus is made, the executive may be eligible for an annual bonus award for that performance year subject to an assessment based on performance achieved over the period. No award will be made in the event of gross misconduct. • Where an executive Director's employment is terminated during a performance year, a pro-rated annual bonus award for the period worked in that performance year may be payable, subject to an assessment based on performance achieved over the period.	
Treatment of unvested Deferred Share Awards under plan rules	• In normal circumstances, Deferred Share Awards will continue until the normal time of vesting upon cessation of employment by way of injury, ill-health, disability, redundancy, retirement, or any other circumstances which the Committee determines. • Alternatively, the Board may determine that Deferred Share Awards will vest immediately. In both circumstances there would be no pro-rating of the Deferred Share Awards for time from the award date until cessation of employment or for performance.	
Treatment of unvested Performance Share Plan awards under plan rules	• Any outstanding award will lapse at cessation of employment with the Company, unless the reason for cessation due to death, injury, ill-health, disability, redundancy, retirement, or any other circumstances which the Committee determines, when the award will vest as normal in accordance with the terms of the award. • Alternatively, the Committee may determine that a proportion of the award will vest immediately, with the proportion determined by the Committee, taking into account (where relevant) the extent to which the performance conditions have been met or are likely to be met at the end of the performance period, and any other factors the Committee may consider relevant. • The number of shares shall also normally be pro-rated down to reflect the reduced service period.	
Exercise of discretion	• Any discretion available in determining the treatment of incentives upon termination of employment is intended only to be relied upon to provide flexibility in unusual circumstances. • The Committee's determination will take into account the particular circumstances of the Director's departure and the recent performance of the Company.	
Change of control	In relation to Performance Share Plan awards: • each or any award will not vest where there is a corporate event resulting in a new person or company acquiring control of the Company, but will instead be exchanged for new awards, on an equivalent basis, over shares in the new company; or • the Committee may determine that a proportion of the awards shall vest or become exercisable (as the case may be), taking into account such factors as the Committee may consider relevant including, but not limited to, the length of time the award has been held at the time the change of control event occurs and having regard to performance targets or other performance conditions imposed on the award. In relation to the Deferred Share Awards, the Committee may determine that a proportion of the awards shall vest, taking into account such factors as the Committee may consider relevant.	

Current Directors' service contracts

CEO

The table below highlights key elements of the service contract of the CEO with JSC Polymetal:

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

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

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

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

Non-executive Directors

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

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

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

Director	Date of contract or appointment	Notice period
Bobby Godsell	29 September 2011	1 month
Charles Balfour	29 September 2011	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

Statement of consideration of shareholder views

The Committee consults with the Company's major shareholders regularly, and seeks their feedback on the CEO's remuneration policy. This year, shareholders were extensively consulted around the new long-term incentive arrangements, and the structure of the new LTIP takes into account some of the comments made by shareholders. The plan was put to a shareholder vote at the AGM in June 2013 and, following approval by 99.82% of shareholders who voted, will be implemented upon vesting of the current EIP.

Statement of consideration of employment conditions elsewhere in the Group

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

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

Annual report on remuneration

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

The table below sets out 2013 remuneration for the CEO. The CEO's remuneration is denominated in Russian Roubles and converted to US$ for presentation purposes. The approach to exchange rates and Russian Rouble remuneration equivalent is set out in the note to this table.

Base salary		Taxable benefits		Annual bonus[1]		Long-term incentive plans		Pension		Total	
2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
434,148	458,051	**–**	–	**599,624**	542,091	**–**	–	**47,800**	37,261	**1,081,572**	1,037,403

[1] 50% of the bonus received has been deferred into 30,081 shares on 11 March at £5.68 (RUB 317) per share (using average price for 90 days preceding the bonus award). The shares will be allotted in April 2014 following release of the Company's financial results. In line with policy, deferred shares will be released in equal tranches over a period of three years in March 2015, March 2016 and March 2017 and are not subject to further performance conditions.
[2] The amounts are translated at average rates of the Russian Rouble to the US Dollar for 2013 and 2012, respectively.

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

	Total fees	
US$	**2013**	2012
Bobby Godsell	**450,999**	449,253
Jonathan Best	**270,762**	264,997
Russell Skirrow	**212,516**	208,051
Leonard Homeniuk	**242,265**	236,220
Charles Balfour	**264,398**	258,418
Konstantin Yanakov	**–**	–
Marina Grönberg	**–**	–
Jean-Pascal Duvieusart	**–**	–
Total non-executive fees	**1,440,940**	1,416,939

Notes: The amounts for 2013 and 2012 are translated at cross-rates of the British Pound and the US Dollar to the Russian Rouble stated by the Central Bank of the Russian Federation as of the dates of each payment.

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

Annual bonus targets and outcomes

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

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

This resulted in the CEO receiving a bonus of 88% of maximum opportunity for the year (133% of salary; US$599,624).

LTIP

No share options vested or were exercised in 2013. No options were granted to Mr Nesis or other Directors in 2013. The 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 period.

12,000,000 options were granted to Mr Nesis under the EIP with a vesting date in June 2014, subject to a vesting condition. As at the date of this Report, Mr Nesis has waived all his rights under the legacy Long-term EIP.

Scheme interests awarded during the financial year

No share awards were made to the CEO in 2013.

Total pension entitlements (audited information)
Save for the Group's defined contributions to the mandatory pension fund of the Russian Federation during the financial year ended 31 December 2013, no amounts were set aside or accrued by the Group to provide pension, retirement or other benefits to the Directors and senior management.

Loss of office payments or payments to past Directors (audited information)
No loss of office payments or payments to past Directors were made in the year under review.

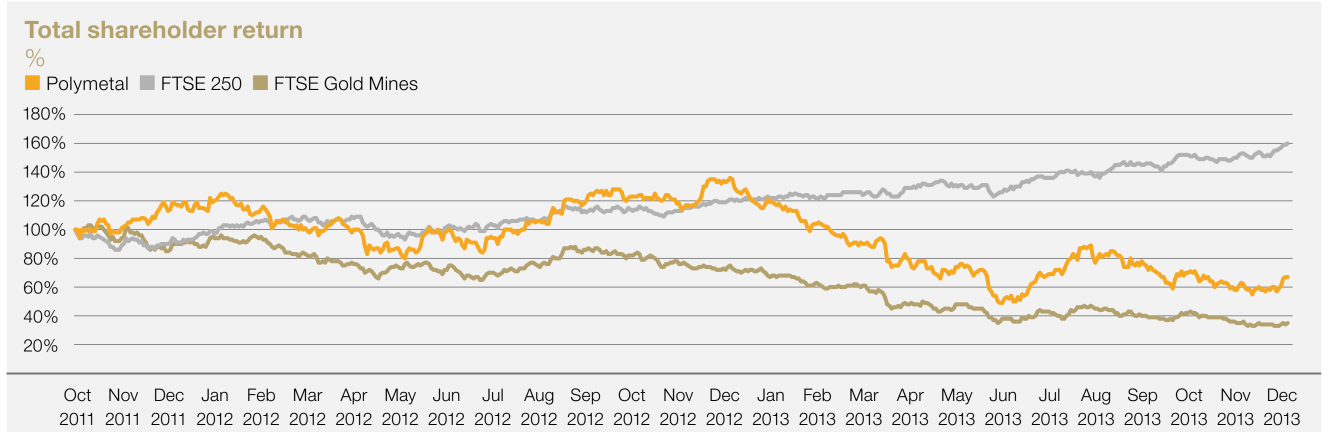
Directors' shareholdings (audited information)
- The CEO is required to retain a shareholding equal to five times his base salary, i.e. 232,067 shares.
- For the purposes of determining whether the requirements have been met, share price is measured at the end of each financial year. Shares are valued for these purposes at the year-end price of £5.75 (US$9.48) per share at 31 December 2013 translated at the closing exchange rate of GBP to Russian Rouble as of 31 December 2013.
- Shares that count towards shareholding requirements include unfettered shares.

The table below sets out the number of shares held, or potentially held, by Directors.

		Shares held[1]		Options held			
Director	Shareholding requirement (% of salary)	Owned outright	Subject to performance conditions	Vested but unexercised	Exercised in year	Current shareholding (% salary)	Guideline met
Vitaly Nesis	500%	3,100,000	–	–	–	6,679%	yes
Leonard Homeniuk	–	64,000	–	–	–		
Bobby Godsell	–	2,000	–	–	–		

[1] There have been no changes in the Directors' shareholdings between 31 December 2013 and the date of this Report.

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



CEO's pay in last five years

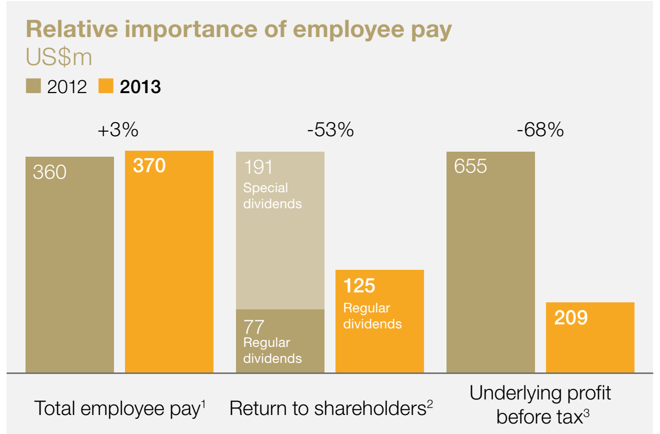
US$ '000	2013	2012	2011	2010	2009
CEO total remuneration	**1,081,572**	1,037,413	1,138,013	248,565	291,172
Annual bonus – % of maximum	**88%**	90%	137%[1]	–	–
LTIP award – % of maximum	**–**	–	–	–	–

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

Percentage change in CEO remuneration
Excluding the value of long-term incentives, the percentage change in total remuneration for the CEO was 4% increasing from US$1,037,413 in 2012 to US$1,081,572 in 2013. The average percentage change in total remuneration for all employees in the year was 3%.

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

Relative importance of spend on pay
The chart below shows how staff remuneration costs compared to profit before tax and distributions made to shareholders in 2013 and 2012.



[1] Total spend on pay is as set out in Note 13 to the accounts.
[2] Total dividends were taken from Note 17 to the accounts. Regular dividends include both interim and final dividends for the year. Special dividends are the dividend payments which, in accordance with Company's policy, are considered by the Board annually based on the Company's current and expected free cash flow.
[3] Underlying profit before tax excludes pre-tax impact of impairment charges.

Implementation of remuneration policy in the following financial year
In 2014 the Committee intends to implement the executive and non-executive Director remuneration policies as follows:

Base salary
The policy for determining 2014 base salaries will remain unchanged. Base salary for the CEO for 2013 and 2014 is set out below:

	2014 salary[1]	2013 salary[1]	% change
CEO	**Roubles 15,600,000**	Roubles 14,400,000	**+8%**
	US$428,546	US$452,148	**-5%**

[1] Base salary for 2014 is translated at the closing exchange rate of the Rouble to the US Dollar stated by the Central Bank of the Russian Federation as of 22 March 2014. Base salary for 2013 is translated at the average exchange rate of Rouble to US Dollar stated by Central Bank of Russian Federation during 2013.

The Remuneration Committee decided to increase the base salary of the CEO in 2014 in Rouble terms for the first time since 2011, having taken into account the inflation in Russian Federation, as well as significant devaluation of the Russian Rouble against the US Dollar during the period. The US Dollar equivalent of the base salary has decreased by 5% compared to 2013 as a result of the Rouble devaluation.

Pension and benefits
No pension or benefits plans are in place for 2014, except for the defined pension contributions to the mandatory pension fund of the Russian Federation.

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

Long-term Incentive Plan (Deferred Share Awards Plan and Performance Share Plan)
Deferred Share Awards Plan
The Committee intends to defer annual bonus awards earned for the 2014 performance period in line with policy.

Performance Share Plan
The Committee intends to make an award under the PSP to the CEO in 2014, in line with the disclosed policy on pages 90-91.

Vesting is based on relative TSR measured against the constituents of the FTSE Gold Mines Index and on the Company's absolute TSR. Peers are ranked and the Company's position determines vesting:

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

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

Non-executive Directors
The policy for determining non-executive Directors' fees will be unchanged from 2013. Fee rates for 2013 and 2014 are set out below:

Role	**2014 fees (US$)**	2013 fees (US$)
Non-executive Chairman	**412,150**	412,150
Senior Independent Director	**No additional fee**	No additional fee
Independent non-executive Director basic fee	**164,860**	164,860
Additional fees		
Audit and Risk Committee Chairman	**49,458**	49,458
Chairman of other Committees	**24,729**	24,729
Committee membership fee (not payable to the Committee Chair)	**16,486**	16,486
Board and Committee meeting attendance fee	**4,946 per meeting**	4,946 per meeting

Note: Non-executive Director fees are denominated in Pounds sterling and for presentation purposes the figures are translated to US$ at cross-rates of the British Pound and the US Dollar to the Rouble stated by the Central Bank of the Russian Federation as of 31 December 2013.

Remuneration Committee
The Remuneration Committee comprises three independent non-executive Directors who have no personal financial interest, other than as a shareholder, in the matters to be decided. As a result of Mr Balfour's decision not to offer himself for re-election as a Director, a replacement member of the Remuneration Committee will be appointed following the AGM. 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 its interest in Veduga in the Group's financial statements which is US$15.6 million and represents approximately 0.5% of the Group's total assets as at 31 December 2013.

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

Name	Role
Leonard Homeniuk	Chairman
Jonathan Best	Member
Charles Balfour	Member

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

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

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

Consideration by the Directors of matters relating to Directors' remuneration
Further business conducted by the Remuneration Committee was approved by written resolutions on two further occasions.

In 2013 the meetings of the Committee covered the following key areas:

- reviewed and approved Board expenses and reimbursement policy;
- reviewed and approved bonuses for 2012;
- reviewed individual and corporate performance of the CEO and senior executives, and set KPI levels for 2013;
- approved Remuneration report for the year ended 31 December 2012;
- following review of 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, the Committee proposed the introduction of the new Long-term Incentive Plan (LTIP), to replace the Employee Incentive Programme once it expires. This LTIP was approved by shareholders at the AGM held in 2013; and
- reviewed proposed changes to the remuneration report regulations and agreed the 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 250 company whose shares are listed on the London Stock Exchange, it is in keeping with good corporate governance to voluntarily adopt the new disclosure provisions, including carrying out a binding vote on remuneration policy at the 2014 AGM.

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

Statement of voting at AGM
At the 2013 AGM, held on 12 June, votes for the Remuneration report were as follows:

Votes for	Votes against	Withheld
320,242,860 (99.75%)	809,134 (0.25%)	32,095

At this meeting, the Company's new long-term incentive plan was put to a vote, with 99.82% of shareholders in favour of the introduction of the new plan.

Advisors
The Committee appointed PricewaterhouseCoopers LLP ('PwC') as independent external remuneration consultants to provide support in relation to the design and operation of the new LTIP and on the changes associated with the new remuneration report regulations. PwC is a member of the Remuneration Consultants' Group ('RCG') and a signatory of the RCG Voluntary Code of Practice, and incorporates the principles of Voluntary Code of Practice into its engagement. No other services were provided by PwC during 2013. Fees paid to PwC in relation to remuneration services provided to the Committee in 2013 totalled US$54,500, with fees quoted in advance and based on the level of complexity of the work undertaken. The Committee reviews the objectivity and independence of the advice it receives from PwC at a private meeting held on an annual basis.

During its work in 2013, the Committee was also aided by the Chief Executive Officer, and senior finance and human resources executives of the Company.

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

Approval
This report was approved by the Board of Directors on 30 March 2014 and signed on its behalf by

L.A. Homeniuk

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 IFRSs. However, the Directors are also required to:

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK and Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

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

By order of the Board

Bobby Godsell
Chairman of the Board of Directors

Vitaly Nesis
Chief Executive
30 March 2014

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

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 2013 and of the group's loss for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and**
- **have been prepared in accordance with the Companies (Jersey) Law 1991.**

The financial statements comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash flows and the related notes 1 to 37. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Going concern

We have reviewed the directors' statement on page 86 that the Group is a going concern. We confirm that:

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

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

Our assessment of risks of material misstatement

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

Risk	How the scope of our audit responded to the risk
Recoverability of PP&E and Goodwill	
Recoverability of PP&E and goodwill is dependent on several assumptions, the determination of which requires a significant level of judgement (see note 18). Management has assessed whether any indicators of impairment existed at its seven cash generating units ('CGUs') (as set out in Note 5). Where an indicator of impairment was identified, it assessed the recoverable amount of the CGU to ensure this was not less than its net book value.	We critically assessed developments in the wider economic environment and the performance of the CGUs in the year through visiting certain operations and meeting with local and Group operational management, to challenge management's assessment of the existence of impairment indicators. Where indicators were identified and valuations were performed, our audit procedures included testing the principles and integrity of the models and challenging assumptions through comparison with externally and internally derived data for the key inputs such as the discount rate used, expected metal prices, and foreign exchange rates.
Recoverability of Exploration and Development (E&D) assets	
Recoverability is dependent on the expected future success of exploration activities. E&D expenditure is capitalised once it has been determined that the mineral property can be economically developed. The valuation assessment of each asset's future prospectivity requires significant judgement. At 31 December 2013 the group held US$337 million in respect of E&D expenditure on the Balance Sheet.	Management undertook a detailed valuation of E&D assets for impairment, which included a summary of the group's current licence obligations and an assessment of the likelihood of future success of exploration activities as well as management's future plans for further E&D expenditure were prepared on a consistent basis. We assessed the recoverability of the assets by meeting with operational management to discuss material E&D assets, reviewing drilling and other testing results in the year and confirming future development plans. We reviewed Board-approved budgets for 2014/5 to check that exploration projects were committed and we performed detailed testing to assess the validity of costs capitalised in the year.

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

Risk	How the scope of our audit responded to the risk
Existence and valuation of metal inventories	
Management's determination of the contained metal levels in ore stockpiles and work in progress involves the use of sampling techniques and theoretical models. The assessment of the recoverability of metal inventories requires judgement both in terms of calculating the expected costs to process and refine ore stock piles to produce concentrate or doré for sale, and in terms of estimating future gold, silver or copper prices to be realised on sale. At 31 December 2013 the group held US$438 million in respect of metal inventories on the Balance Sheet.	We tested the existence of metal inventories through attending inventory counts conducted by management at material operating locations and performing detailed roll forward testing from the count dates through to year end by testing management's metal inventory models. We tested the recoverability of metal inventories through the recalculation of projected net realisable values based on expected commodity prices (which were consistent with prices used in the Group's PP&E and goodwill impairment calculations) and costs to complete. We also performed a detailed analytical review of management's inventory costing calculations. We tested inventories for obsolescence by reviewing management's strategic mine plans and assessing whether there was appropriate provisioning in place, where stockpiles are no longer expected to be used.
Provisioning and disclosure in respect of income tax and mineral extraction tax liabilities	
Russian and Kazakh tax legislation is subject to varying interpretations and management's interpretation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. The determination of whether a potential exposure is probable, possible or remote requires significant judgement.	We examined the Group's assessment of its potential tax exposures, including related interest and penalties, and we utilised tax audit specialists, both in Russia and in Kazakhstan, to assess the likelihood of an exposure crystallising. We reconciled court documentation received to provisions recognised or settlements paid and disclosures made in Note 16. We considered the impact of court cases on other exposures identified. We agreed payments made to bank statements.

The Audit Committee's consideration of these risks is set out on page 83.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the group to be US$16 million, which is 5.6% of adjusted pre-tax profit, and less than 1% of equity. Pre-tax profit is adjusted for the materiality calculation to exclude one-off impairments, write-downs and net foreign exchange losses recognised which would, if included, significantly distort the materiality calculation year on year.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of US$320,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls and assessing the risks of material misstatement across the Group. Our audit scope focused primarily on the seven key operating segments (Voro, Khakanja, Dukat, Omolon, Varvara, Amursk-Albazino and Mayskoye) plus the Head Office entity such that 100% of revenues and over 99% of total assets were subject to a full scope audit.

The Group audit team was involved in the work of the component auditors at all stages of the audit process. The signing partner and senior members of the Group engagement team visited the head offices in St. Petersburg several times in the past year and have also visited at least one of the key business units, at least once a year, since our appointment as external auditors. The Group audit team directed and reviewed in detail the work performed on significant risks by the component auditors.

Our audit work was executed at levels of materiality applicable to each individual component; which were lower than group materiality.

Matters on which we are required to report by exception
Adequacy of explanations received and accounting records
Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Corporate Governance Statement
Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report
Under International Standards on Auditing (UK and Ireland), we are required to report to you if in our opinion information in the Annual Report is:
- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Other matters
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the UK Companies Act 2006 as if that Act had applied to the company.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Christopher Thomas

Christopher Thomas
for and on behalf of Deloitte LLP
Chartered Accountants and Recognized Auditor
London, UK
30 March 2014

Consolidated income statement

	Notes	Year ended 31 December 2013 US$'000	31 December 2012 restated[1] US$'000
Revenue	6	**1,706,597**	1,854,065
Cost of sales	7	**(1,123,796)**	(851,839)
Write-downs of metal inventories to net realisable value	23	**(153,327)**	(4,000)
Gross profit		**429,474**	998,226
General, administrative and selling expenses	11	**(168,132)**	(181,648)
Other operating expenses	12	**(88,486)**	(153,855)
Impairment of non-current assets	18	**(201,105)**	–
Impairment of investment in associate	18	**(12,291)**	–
Share of loss of associates and joint ventures	21	**(2,340)**	(1,804)
Operating (loss)/profit		**(42,880)**	660,919
Loss on disposal of subsidiaries	4	**(8,746)**	(10,709)
Gain on acquisition of remaining interest in joint venture	21	**–**	21,051
Net foreign exchange (losses)/gains		**(74,240)**	6,677
Change in fair value of contingent consideration liability	30	**8,131**	(4,717)
Finance income		**2,850**	4,657
Finance costs	15	**(42,735)**	(26,787)
(Loss)/Profit before income tax		**(157,620)**	651,091
Income tax expense	16	**(40,417)**	(222,868)
(Loss)/Profit for the financial year		**(198,037)**	428,223
(Loss)/Profit for the year attributable to:			
Equity shareholders of the Parent		**(198,037)**	421,196
Non-controlling interest		**–**	7,027
		(198,037)	428,223

	Notes	US$	US$
(Loss)/Earnings per share			
Basic	32	**(0.51)**	1.10
Diluted	32	**(0.51)**	1.10

	2013 Cents per share	2012 Cents per share	2013 US$'000	2012 US$'000
Final dividend proposed (Note 17)	**8**	31	**31,158**	119,034
Interim dividend (Note 17)	**1**	–	**3,879**	–
Special dividend declared (Note 17)	**–**	50	**–**	191,603

Consolidated statement of comprehensive income

	Year ended 31 December 2013 US$'000	31 December 2012 restated[1] US$'000
(Loss)/Profit for the financial year	**(198,037)**	428,223
Other comprehensive (loss)/income		
Effect of translation to presentation currency[2]	**(153,575)**	111,656
Total comprehensive (loss)/income for the financial year	**(351,612)**	539,879

	Year ended 31 December 2013 US$'000	31 December 2012 restated US$'000
Total comprehensive (loss)/income for the financial year attributable to:		
Equity Shareholders of the Parent	**(351,612)**	522,730
Non-controlling interest	**–**	17,149
	(351,612)	539,879

[1] Restated following adopting IFRIC 20 Stripping *Costs in the Production Phase of a Surface Mine. Refer to Note 35.*
[2] May be subsequently reclassified to the Income Statement.

Consolidated balance sheet

	Notes	31 December 2013 US$'000	31 December 2012 restated[1] US$'000
Assets			
Property, plant and equipment	19	**2,094,742**	2,205,732
Goodwill	20	**30,889**	115,106
Investments in associates	21	**15,651**	29,822
Non-current loans and receivables	22	**22,853**	14,811
Deferred tax asset	16	**88,484**	58,024
Non-current inventories	23	**53,142**	98,864
Total non-current assets		**2,305,761**	2,522,359
Current inventories	23	**727,144**	840,621
Current VAT receivable		**85,135**	103,192
Trade and other receivables	24	**44,526**	107,596
Prepayments to suppliers		**18,170**	31,044
Income tax prepaid		**8,433**	14,481
Cash and cash equivalents	25	**65,567**	18,622
Total current assets		**948,975**	1,115,556
Total assets		**3,254,736**	3,637,915
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	28	**(117,974)**	(312,218)
Current borrowings	26	**(81,331)**	(244,211)
Income tax payable		**(37,174)**	(63,021)
Other taxes payable		**(56,885)**	(72,119)
Environmental obligations	27	**(212)**	(1,565)
Total current liabilities		**(293,576)**	(693,134)
Non-current borrowings	26	**(1,029,813)**	(619,612)
Contingent consideration liability	30	**(15,523)**	(25,276)
Deferred tax liability	16	**(63,085)**	(82,760)
Environmental obligations	27	**(65,152)**	(65,128)
Other non-current liabilities		**(97)**	(134)
Total non-current liabilities		**(1,173,670)**	(792,910)
Total liabilities		**(1,467,246)**	(1,486,044)
NET ASSETS		**1,787,490**	2,151,871
Stated capital account	32	**1,664,170**	1,576,123
Share-based compensation reserve		**143,524**	119,291
Translation reserve		**(206,836)**	(53,261)
Retained earnings		**186,632**	509,718
Total equity		**1,787,490**	2,151,871

[1] Restated following adopting IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine. Refer to Note 35.*

The notes on pages 110 to 151 form part of these financial statements. These financial statements are approved and authorised for issue by the Board of Directors on 30 March 2014 and signed on its behalf by:

Vitaly Nesis
Chief Executive
30 March 2014

Bobby Godsell
Chairman of the Board of Directors

Financial statements

Consolidated statement of cash flows

	Notes	Year ended 31 December 2013 US$'000	31 December 2012 restated[1] US$'000
Net cash generated by operating activities	36	**461,667**	540,840
Cash flows from investing activities			
Purchases of property, plant and equipment	19	**(319,448)**	(397,076)
Consideration for acquisitions	4	**(11,934)**	(20,797)
Proceeds from disposal of subsidiary		**–**	25,000
Convertible loan repaid by/(advanced to) Polygon Gold	21	**10,000**	(10,000)
Other investing activities		**(3,681)**	(4,559)
Interest received		**1,965**	5,686
Contingent consideration paid	30	**(1,329)**	(1,227)
Net cash used in investing activities		**(324,427)**	(402,973)
Cash flows from financing activities			
Borrowings obtained	26	**3,099,855**	1,236,036
Repayments of borrowings	26	**(2,887,041)**	(1,384,913)
MTO and squeeze-out obligation repayment		**–**	(568,837)
Dividends paid	17	**(316,429)**	(76,537)
Net cash used in financing activities		**(103,615)**	(794,251)
Net increase/(decrease) in cash and cash equivalents		**33,625**	(656,384)
Cash and cash equivalents at 1 January	25	**18,622**	658,795
Effect of foreign exchange rate changes		**13,320**	16,211
Cash and cash equivalents at 31 December	25	**65,567**	18,622

[1] Restated following adopting IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine. Refer to Note 35.*

Sales of property, plant and equipment in 2013 for consideration of US$11.3 million (resulting in a loss on disposal of US$9.0 million) were on deferred payment terms with $nil cash received in the current year.

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 2012		**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		–	–	–	–	101,533	–	421,197	522,730	17,149	539,879
Amortisation of bonus received from depositary		–	–	–	–	–	–	1,258	1,258	–	1,258
Share based compensation		–	–	53,515	–	–	–	–	53,515	764	54,279
Issue of shares in exchange for assets		520,422	9,737	–	–	–	–	–	9,737	–	9,737
Dividends		–	–	–	–	–	–	(267,880)	(267,880)	–	(267,880)
Acquisition of non-controlling interest under MTO and Squeeze-out		–	–	6,537	395	(3,765)	561,659	(398,429)	166,397	(166,397)	–
Balance at 31 December 2012 restated[1]		**383,206,204**	**1,576,123**	**119,291**	**–**	**(53,261)**	**–**	**509,718**	**2,151,871**	**–**	**2,151,871**
Total comprehensive income		–	–	–	–	(153,575)	–	(198,037)	(351,612)	–	(351,612)
Share based compensation	33	–	–	24,233	–	–	–	–	24,233	–	24,233
Issue of shares in exchange for assets	4	775,000	13,423	–	–	–	–	–	13,423	–	13,423
Issue of shares in exchange for business acquisitions	4	5,491,661	74,624	–	–	–	–	–	74,624	–	74,624
Dividends	17	–	–	–	–	–	–	(125,049)	(125,049)	–	(125,049)
Balance at 31 December 2013		**389,472,865**	**1,664,170**	**143,524**	**–**	**(206,836)**	**–**	**186,632**	**1,787,490**	**–**	**1,787,490**

[1] Restated following adopting IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine. Refer to Note 35.*

1. General

Corporate information

Polymetal Group is a leading gold and silver mining group, operating in Russia and Kazakhstan.

Polymetal International plc (the Company) is the ultimate parent entity of Polymetal Group. The Company was incorporated on 29 July 2010 as a public limited company under Companies (Jersey) Law 1991. Its shares are traded on the London and Moscow stock exchanges.

Significant subsidiaries

At 31 December 2013, the Company held an effective 100% interest in JSC Polymetal, an entity incorporated in Russia. Through this subsidiary, the Company held the following significant mining and production subsidiaries:

Name of subsidiary	Deposits	Country of incorporation	Effective interest held by JSC Polymetal, % 31 December 2013	31 December 2012
CJSC Gold of Northern Urals	Vorontsovskoye	Russia	**100**	100
LLC Okhotskaya Mining and Exploration Company	Khakandjinskoye	Russia		
	Yurievskoye			
	Avlayakan			
	Ozernoye		**100**	100
CJSC Magadan Silver	Dukat	Russia		
	Lunnoye			
	Arylakh			
	Goltsovoye		**100**	100
Mayskoye Gold Mining Company LLC	Mayskoye	Russia	**100**	100
Omolon Gold Mining Company LLC	Kubaka	Russia		
	Birkachan			
	Tsokol			
	Danleye			
	Sopka Kvartsevaya		**100**	100
Albazino Resources Ltd	Albazino	Russia	**100**	100
Amursk Hydrometallurgical Plant LLC	NA	Russia	**100**	100
JSC Varvarinskoye	Varvarinskoye	Kazakhstan	**100**	100

Going concern

In assessing its going concern status, the Group has taken account of its financial position, anticipated future trading performance, its borrowings and other available credit facilities, and its forecast compliance with covenants on those borrowings and its capital expenditure commitments and plans. As at 31 December 2013, the Group held US$66 million of cash and had net debt of US$1,045 million, with US$1,324 million of undrawn but committed facilities available subject to the Net debt/Adjusted EBITDA covenant compliance.

The Board is satisfied that the Group's forecasts and projections, having taken account of reasonably possible changes in trading performance, show that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of this report and that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2013.

Basis of presentation

The Group's annual consolidated financial statements for the year ended 31 December 2013 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements have been prepared on the historical cost basis, except for certain financial instruments and share-based payments which are measured at fair value.

The accounting policies set out in Note 2 have been applied in preparing the consolidated financial statements for the year ended 31 December 2013.

New and amended standards adopted by the entity

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

In October 2011, the IASB issued IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. IFRIC 20 provides guidance on the accounting for the costs of stripping activities during the production phase of a mine. When the benefit from the stripping activity is the improved access to a component of the ore body in future periods, the stripping costs in excess of the average ore to waste ratio for the life of mine of that component are recognised as a non-current asset. After initial recognition, the stripping activity asset is depreciated on a systematic basis (unit-of-production method) over the expected useful life of the identified component of the ore body made accessible as a result of the stripping activity.

The Group has adopted IFRIC 20 retrospectively according to the transitional provisions, and the 2012 results have been restated accordingly. Prior to adoption of IFRIC 20, the Group's accounting policy was to expense all the production stripping costs as incurred therefore at 1 January 2012 there were no deferred stripping assets on the Group's balance sheet, and no restatement was required at that date.

The adoption of IFRIC 20 has resulted in capitalisation of certain waste stripping costs within property, plant and equipment and a reduction in cost of sales and metal inventories in the year ended 31 December 2012. For further detail of the effect on the Group financial statements the year ended 31 December 2012 please refer to Note 35.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 impact the Group's statement of comprehensive income by requiring the grouping of items presented in other comprehensive income based on whether or not they will be reclassified to profit or loss in future. Adoption of the amendment did not impact earnings per share.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to IFRS 7 require entities to disclose information about rights of offset and related agreements for financial instruments under an enforceable master netting agreement or similar arrangements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single framework for measuring fair value when such measurements are required or permitted by other standards. The application of IFRS 13 has not materially affected the fair value measurements carried out by the Group. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. The additional disclosure requirements are reflected within the relevant notes to the financial statements.

Changes in accounting estimates

From 1 January 2013, the Group began to use JORC as opposed to GKZ reserves as the basis for the unit-of-production depreciation calculations as management believes this revised basis better reflects the long-term mine plans which are also being prepared based on JORC reserves estimates. The impact on the total depreciation charge for the year ended 31 December 2013 was an increase of US$40 million.

Standards and Interpretations in issue not yet adopted

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 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 for companies reporting under IFRS as adopted by the EU.

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 for companies reporting under IFRS as adopted by the EU.

1. General continued

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 for companies reporting under IFRS as adopted by the EU.

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 2014 for companies reporting under IFRS as adopted by the EU.

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 2014 for companies reporting under IFRS as adopted by the EU.

Amendments to IAS 32 *Financial Instruments* – Presentation is effective for annual periods beginning 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 P*rovisions, Contingent Liabilities and Contingent Assets* or IAS 39 *Financial Instruments Recognition and Measurement* with the corresponding amount being recognised in profit or loss.

The identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in the consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in equity are reclassified to profit or loss, where such treatment would be appropriate if that interest was disposed of.

Goodwill and goodwill impairment

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the consolidated income statement as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable goodwill is included in the determination of the profit or loss on disposal.

Acquisition of mining licences

The acquisition of mining licences is often effected through a non-operating corporate entity. As these entities do not represent a business, it is considered that the transactions do not meet the definition of a business combination and, accordingly, the transaction is accounted for as the acquisition of an asset. The net assets acquired are accounted for at cost.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint 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.

2. Significant accounting policies continued

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), as well as for the investment holding companies, including Polymetal International plc. The functional currency of the Group's entity located in Kazakhstan (JSC Varvarinskoye) 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 2013	31 December 2012
Russian Rouble/US Dollar		
Year end	**32.73**	30.37
Average for the year	**31.85**	30.09
Kazakh Tenge/US Dollar		
Year end	**153.61**	150.74
Average for the year	**152.14**	149.11

The Russian Rouble and Kazakh Tenge are not freely convertible currencies outside the Russian Federation and Kazakhstan and, accordingly, any translation of Russian Rouble and Kazakh Tenge denominated assets and liabilities into US Dollar for the purpose of the presentation of consolidated financial statements does not imply that the Group could or will in the future realise or settle in US Dollars the translated values of these assets and liabilities.

Foreign currency transactions

Transactions in currencies other than 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 according to the JORC Code, which is the basis on which the Group's mine plans are prepared. Changes in proven and probable reserves are dealt with prospectively. Depreciation is charged on new mining ventures from the date that the mining asset is capable of commercial production. 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.

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 capitalised if management concludes that future economic benefits are likely to be realised and determines that economically viable extraction operation can be established as a result of exploration activities and internal assessment of mineral resources.

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.

During the production phase of a mine when the benefit from the stripping activity is the improved access to a component of the ore body in future periods, the stripping costs in excess of the average ore to waste ratio for the life of mine of that component are recognised as a non-current asset. After initial recognition, the stripping activity asset is depreciated on a systematic basis (unit-of-production method) over the expected useful life of the identified component of the ore body made accessible as a result of the stripping activity.

2. Significant accounting policies continued

Estimated ore reserves

Estimated proven and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits. The Group's reserves are estimated in accordance with JORC Code.

Leases

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.

Financial instruments at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in Note 30.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Non-derivative financial assets are classified into the following specified categories: FVTPL, available for sale (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. No financial instruments have been classified as available for sale.

Income is recognised on an effective interest basis for financial instruments other than those financial assets classified as at FVTPL.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is determined by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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.

2. Significant accounting policies continued

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest rate method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated income statement.

Derivative financial instruments

The Group may enter into a variety of derivative financial instruments to manage its exposure to certain risks. Further details of derivative financial instruments are disclosed in Note 30.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the consolidated income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated income statement depends on the nature of the hedge relationship.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the hybrid contracts are not measured at FVTPL.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or 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.

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.

2. Significant accounting policies continued

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 bullions and copper, gold and silver concentrate and is measured at the fair value of consideration received or receivable, after deducting discounts.

Revenue from the sale of gold and silver bullion and sale of copper, gold and silver concentrate is recognised when the risks and rewards of ownership are transferred to the buyer, the Group retains neither a continuing degree of involvement nor control over the goods sold, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue from the sale of gold and silver bullion represents the invoiced value of metal shipped to the buyer, net of value added tax (VAT).

Sale of gold and silver bullion

The Group processes doré produced in the Russian Federation (at Dukat, Khakanja, Voro, Omolon, and Amursk-Albazino) into London Good Delivery Bars prior to sale. This final stage of processing is carried out on a toll-treatment basis at four state-owned refineries. The Group sells gold and silver bullion to banks through long-term agreements. The sales price, as determined in the agreement, may be variable based upon the London Bullion Market Association (LBMA) spot 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 Bullion Market Association (LMBA) 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 equity-settled share-based payments awarded in 2010 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. No other share based payment awards were issued by the Group during the year ended 31 December 2013.

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 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.

Amursk POX achieved commercial production in November 2012.

The Mayskoye plant and underground mine reached commercial production in April 2013.

Acquisitions

IFRS 3 *Business Combinations* applies to a transaction or other event that meets the definition of a business combination. When acquiring new entities or assets, the Group applies judgement to assess whether the assets acquired and liabilities assumed constitute an integrated set of activities and thus whether the transaction constitutes a business combination, using the guidance provided in the standard. In making this determination, management evaluates the inputs, processes and outputs of the asset or entity acquired.

As a result of this evaluation process, management has determined that its 2012 acquisitions of Olcha, 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 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;
- stock piles and work in-process;
- share-based compensation;
- environmental obligations;
- contingencies; and
- income taxes.

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

Fair value of net assets acquired and liabilities assumed in business combinations

In accordance with the Group's policy, the Group allocates the cost of the acquired entity to the assets acquired and liabilities assumed based on their fair values as estimated on the date of acquisition. Any difference between the cost of the acquired entity and the fair value of the assets acquired and liabilities assumed is recorded as goodwill. The Group exercises significant judgement in the process of identifying tangible and intangible assets and liabilities, valuing these assets and liabilities, and estimating their remaining useful lives. The valuation of these assets and liabilities is based on assumptions and criteria that, in some cases, include management's estimates of discounted future cash flows.

If actual results are not consistent with estimates and assumptions considered, the Group may have to adjust its estimates of the fair values of assets and liabilities recognised and the goodwill balance during the measurement period. Such a remeasurement could have an impact on the amounts reported in the consolidated income statement in current and future periods.

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 JORC Code (JORC), which is the basis on which the Group's mine plans are prepared as the useful lives of these assets are considered to be limited to the life of the relevant mine. For other property, plant and equipment, the straight-line method is applied over the estimated useful life of the asset which does not exceed the estimated mine life.

The calculation of the units-of-production rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on proved and probable ore reserves. This would generally arise when there are significant changes in any of the factors or assumptions used in estimating ore reserves.

Impairment of goodwill, mining assets and other property, plant and equipment

The Group considers both external and internal sources of information in assessing whether there are any indications that goodwill, mining assets or other property, plant and equipment owned by the Group are impaired. External sources of information the Group considers include: changes in the market and economic and legal environment in which the Group operates, that are not within its control and that affect the recoverable amount of goodwill, mining assets or other property, plant and equipment.

Internal sources of information the Group considers include the manner in which mining properties, plant and equipment are being used or expected to be used and indications of economic performance of the assets. In determining the recoverable amounts of the Group's mining assets and other property, plant and equipment, the Group's management determines the fair value less costs to sell by estimating the discounted future after-tax cash flows expected to be derived from the Group's mining properties, costs to sell the mining properties and the appropriate post-tax discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable reserves and resources and/or adverse current economics can result in a write-down of the carrying amounts of the Group's goodwill, mining assets or other property, plant and equipment.

In making the assessment for impairment, assets that do not generate independent cash inflows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash inflows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value-in-use calculation. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

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 2013 the carrying value of the ore stock piles was US$194 million and work in-process was US$78 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 was 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 behavioral considerations. The awards include an option, exercisable at the discretion of the participant, to defer the measurement period by one year from June 2013 to June 2014. For further details see Note 33.

As at 31 December 2013, all options issued are fully vested and no unrecognised share-based compensation expense remains. No other share based payment awards were issued by the Group during the year ended 31 December 2013.

Environmental obligations

The Group's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The Group's provision for future decommissioning and land restoration cost represents management's best estimate of the present value of the future cash outflows required to settle the liability which reflects estimates of future costs, inflation, movements in foreign exchange rates and assumptions of risks associated with the future cash outflows; and the applicable interest rate for discounting the future cash outflows. Actual costs incurred in future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgements and estimates of the outcome of future events.

Income Taxes and Mining Taxes

The Group is subject to income tax and mining taxes in the Russian Federation and Kazakhstan. Mining taxes do not meet the definition of a tax under IAS 12 Income taxes. Significant judgement is required in determining the provision for these taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes, penalties and interest will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgements based on the expected performance. Various factors are considered in order to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

4. Acquisitions and disposals

(a) Business combinations and asset acquisitions

Olymp Ltd.

On 24 January 2013 the Group completed the acquisition of 100% of Olymp Ltd., a Russian legal entity holding the mining and exploration licence for the Olcha gold-silver deposit in exchange for 775,000 new ordinary shares in Polymetal.

Olymp Ltd. does not meet the definition of a business pursuant to IFRS 3 (2008) thus it is accounted for as an acquisition of a group of assets. The Group purchased mineral rights at cost of US$13.4 million and other current liabilities of $(0.01) million.

ZAO 'Maminskaya Gornorudnaya kompania'

On 20 February 2013 the Group entered into a binding memorandum of understanding with Vitalex Investments Ltd and Arrowline Investments Ltd to acquire a 100% interest in ZAO 'Maminskaya Gornorudnaya kompania' ('MGK'), which holds an exploration and mining licence for the Maminskoye gold mining field ('Maminskoye').

On 9 April 2013 the Group completed the acquisition of 100% of the ordinary share capital and debt in MGK. The consideration for the equity investment was US$3.9 million payable in cash and 5,491,661 of Polymetal's ordinary shares valued at the acquisition date at US$74.6 million. The debt investment in MGK was acquired for consideration payable in cash and equalling its carrying value of US$8.0 million.

MGK meets the definition of a business pursuant to IFRS 3 (2008) thus it was accounted for at fair value using the acquisition method.

The allocation of the purchase price based on the consideration paid and the fair value of the assets acquired was as follows:

	US$'000
Net assets acquired	
Mineral rights	115,127
Property, plant and equipment	2,952
Non-current liabilities	(9,896)
Deferred tax liability	(23,025)
Other assets, net	1,400
Net assets acquired	**86,558**
Consideration:	
Fair value of shares issued in Polymetal International plc	74,624
Cash consideration for equity investment	3,900
Cash consideration for debt investment	8,034
Total consideration	**86,558**

In the prior year, the following transactions took place:

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 21 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 26). 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

(b) Disposal of subsidiary

Habarovsk Exploration Company LLC

On 22 October 2013 the Group sold its subsidiary Habarovsk Exploration Company LLC for US$3.5 million in deferred cash consideration to an unrelated party. The loss on disposal was calculated as follows:

	US$'000
Property, plant and equipment	7,124
Other non-current assets	1,395
Current assets	4,374
Current liabilities	(598)
Non-current liabilities	(10,121)
Net assets disposed of	**2,174**
Consideration receivable	**3,475**
Intercompany debt assigned to acquirer	(10,047)
Loss on disposal	**(8,746)**

In the prior year, the Group disposed of the 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 21.

	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)**
(Loss)/Gain on disposal	**(1,389)**	**627**	**(1,163)**	**(8,784)**	**(10,709)**

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; Olymp LLC);
- Omolon (Omolon Gold Mining Company LLC);
- Varvara (JSC Varvarinskoye);
- Amursk-Albazino (Albazino Resources Ltd, Amursk 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 structure. Minor companies and activities (management, exploration, purchasing and other companies) which do not meet the reportable segment criteria are disclosed within corporate and other segment. Each segment is engaged in gold, silver or copper mining and related activities, including exploration, extraction, processing and reclamation. The Group's segments are all based in the Russian Federation, except for Varvara 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, impairment of non-current assets, write-downs of inventory to net realisable value, share-based compensation expenses, rehabilitation expenses, gains or losses arising on acquisition or disposal of subsidiaries, foreign exchange gains or losses, changes in the fair value of contingent consideration, finance income, finance costs, income tax expenses and other tax exposure accrued within other operating expenses. The accounting policies of the reportable segments are consistent with those of the Group's accounting policies under IFRS 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, and rendering management services to the Group's production entities. Intersegment revenue is recognised based on costs incurred plus a fixed margin basis. External revenue shown within corporate and other represents revenue from services provided to third parties by the Group's non-mining subsidiaries.

Business segment current assets and liabilities, other than current inventory, are not reviewed by the CODM and therefore are not disclosed in these consolidated financial statements.

The segment Adjusted EBITDA reconciles to the profit before income tax as follows:

For the year ended 31 December 2013 ($'000)	Voro	Khakanja	Dukat	Omolon	Varvara	Amursk – Albazino	Mayskoye	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	**214,712**	**202,641**	**531,587**	**222,795**	**189,527**	**293,778**	**49,547**	**1,704,587**	**2,010**	**–**	**1,706,597**
Intersegment revenue	**–**	**–**	**–**	**1,298**	**760**	**605**	**–**	**2,663**	**411,786**	**(414,449)**	**–**
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	**69,174**	**102,168**	**270,576**	**134,967**	**106,748**	**172,194**	**40,612**	**896,789**	**298,092**	**(316,984)**	**877,897**
Cost of sales	86,437	126,345	330,341	188,623	123,465	231,933	56,409	1,143,553	297,227	(316,984)	**1,123,796**
Depreciation included in Cost of sales	(16,990)	(23,627)	(60,666)	(43,154)	(16,392)	(59,673)	(13,177)	(233,679)	–	–	**(233,679)**
Write-down of non-metal inventory to net realisable value	(166)	(435)	1,847	(10,005)	(325)	117	(2,594)	(11,561)	865	–	**(10,696)**
Rehabilitation expenses	(107)	(115)	(596)	(497)	–	(183)	(26)	(1,524)	–	–	**(1,524)**
General, administrative and selling expenses, excluding depreciation, amortization and share based compensation	**8,086**	**9,459**	**13,469**	**11,495**	**5,074**	**9,536**	**10,255**	**67,374**	**99,476**	**(26,805)**	**140,045**
General, administrative and selling expenses	19,776	16,497	24,976	17,876	5,555	12,630	12,362	109,672	127,384	(68,924)	**168,132**
Intercompany management services	(10,780)	(6,799)	(10,737)	(6,232)	(302)	(2,927)	(1,882)	(39,659)	(2,460)	42,119	**–**
Depreciation included in SGA	(910)	(239)	(770)	(149)	(179)	(167)	(225)	(2,639)	(1,215)	–	**(3,854)**
Share based compensation	–	–	–	–	–	–	–	–	(24,233)	–	**(24,233)**
Other operating expenses excluding additional tax charges	**7,325**	**6,056**	**18,221**	**14,334**	**4,368**	**9,342**	**2,971**	**62,617**	**19,630**	**5,577**	**87,824**
Other operating expenses	7,325	6,056	18,622	14,334	4,629	9,342	2,971	63,279	19,630	5,577	**88,486**
Mining taxes, penalties and accrued interest	–	–	(401)	–	(261)	–	–	(662)	–	–	**(662)**
Share of loss of associates and joint ventures	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,340**	**–**	**2,340**
Adjusted EBITDA	**130,127**	**84,958**	**228,971**	**63,297**	**74,097**	**103,311**	**(4,291)**	**680,470**	**(5,742)**	**(76,237)**	**598,491**
Depreciation expense	17,900	23,866	61,436	43,303	16,571	59,840	13,402	236,318	1,215	–	**237,533**
Rehabilitation expenses	107	115	596	497	–	183	26	1,524	–	–	**1,524**
Write-down of non-metal inventory to net realisable value	166	435	(1,847)	10,005	325	(117)	2,594	11,561	(865)	–	**10,696**
Impairment of non-current assets	–	104,404	–	16,587	80,114	–	–	201,105	–	–	**201,105**
Impairment of investment in associate	–	–	–	–	–	–	–	–	12,291	–	**12,291**
Write-downs of metal inventories to net realisable value	2,559	28,160	11,954	75,229	19,301	–	16,124	153,327	–	–	**153,327**
Share-based compensation	–	–	–	–	–	–	–	–	24,233	–	**24,233**
Mining taxes, penalties and accrued interest	–	–	401	–	261	–	–	662	–	–	**662**
Operating profit/(loss)	**109,395**	**(72,022)**	**156,431**	**(82,324)**	**(42,475)**	**43,405**	**(36,437)**	**75,973**	**(42,616)**	**(76,237)**	**(42,880)**
Foreign exchange loss											**(74,240)**
Loss on disposal of subsidiaries											**(8,746)**
Change in fair value of contingent consideration											**8,131**
Finance income											**2,850**
Finance costs											**(42,735)**
Loss before tax											**(157,620)**
Income tax benefit											**(40,417)**
Loss for the financial period											**(198,037)**
Current metal inventories	62,154	53,671	83,533	72,332	14,527	84,716	59,471	430,404	222	(3,474)	**427,152**
Current non-metal inventories	8,898	54,548	51,414	57,494	23,882	46,804	50,354	293,394	25,420	(18,822)	**299,992**
Non-current segment assets:											
Property, plant and equipment, net	93,866	59,741	416,822	250,847	150,564	568,599	325,580	1,866,019	264,395	(35,672)	**2,094,742**
Goodwill	–	–	8,876	–	–	–	22,013	30,889	–	–	**30,889**
Non-current inventory	2,554	5,165	11,135	16,189	9,178	4,802	5,905	54,928	759	(2,545)	**53,142**
Investments in associates	–	–	–	–	–	–	–	–	15,651	–	**15,651**
Total segment assets	**167,472**	**173,125**	**571,780**	**396,862**	**198,151**	**704,921**	**463,323**	**2,675,634**	**306,447**	**(60,513)**	**2,921,568**
Additions to non-current assets:											
Property, plant and equipment	19,701	39,443	40,309	57,317	42,323	70,997	58,006	328,096	40,650	(11,929)	**356,817**
Acquired in business combinations and acquisition of group of assets	–	–	13,400	–	–	–	–	13,400	118,079	–	**131,479**

5. Segment information continued

For the year ended 31 December 2012 ($'000) restated	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	**72,346**	**101,595**	**262,198**	**150,294**	**103,533**	**51,240**	**1**	**741,207**	**366,971**	**(399,281)**	**708,897**
Cost of sales	90,417	131,963	294,120	187,494	117,147	66,370	(3,362)	884,149	366,971	(399,281)	**851,839**
Depreciation included in Cost of sales	(17,673)	(29,486)	(31,698)	(31,008)	(13,883)	(14,041)	–	(137,789)	–	–	**(137,789)**
Write-down of non-metal inventory to net realisable value	–	(4)	71	(5,836)	269	(206)	3,363	(2,343)	–	–	**(2,343)**
Rehabilitation expenses	(398)	(878)	(295)	(356)	–	(883)	–	(2,810)	–	–	**(2,810)**
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 management services	(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	**182,083**	**177,519**	**378,158**	**128,840**	**101,582**	**35,429**	**(11,648)**	**991,963**	**(5,326)**	**(54,149)**	**932,488**
Depreciation expense	19,613	29,950	32,197	31,091	14,038	14,252	162	141,303	923	–	**142,226**
Rehabilitation expenses	398	878	295	356	–	883	–	2,810	–	–	**2,810**
Write-downs of metal inventories to net realisable value	–	–	–	–	–	4,000	–	4,000	–	–	**4,000**
Write-down of non-metal inventory to net realisable value	–	4	(71)	5,836	(269)	206	(3,363)	2,343	–	–	**2,343**
Additional tax charges according to the Supreme Arbitration Court decision	–	–	53,607	–	12,304	–	–	65,911	–	–	**65,911**
Share-based compensation	–	–	–	–	–	–	–	–	54,279	–	**54,279**
Operating profit/(loss)	**162,072**	**146,687**	**292,130**	**91,557**	**75,509**	**16,088**	**(8,447)**	**775,596**	**(60,528)**	**(54,149)**	**660,919**
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											**651,091**
Income tax expense											**(222,868)**
Profit for the year attributable to the equity holders of the parent											**428,223**
Current metal inventories	58,652	84,983	102,062	109,105	51,998	126,924	13,515	547,241	486	(4,558)	**543,169**
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	104,708	146,536	449,867	285,904	154,276	595,261	320,119	2,056,671	176,823	(27,762)	**2,205,732**
Goodwill		14,238	8,737		68,411		23,720	115,106			**115,106**
Non-current inventory	4,213	7,554	10,993	45,987	5,933	9,832	10,119	94,631	4,232	–	**98,863**
Investments in associates	–	–	–	–	–	–	–	–	29,822	–	**29,822**
Total segment assets	**175,526**	**306,526**	**621,091**	**506,782**	**301,911**	**777,039**	**398,673**	**3,087,548**	**254,477**	**(51,885)**	**3,290,140**
Additions to non-current assets:											
Property, plant and equipment	27,125	28,788	52,452	82,363	16,476	104,037	106,262	417,503	21,142	(4,261)	**434,384**
Acquired in the year	–	–	–	–	–	–	–	–	10,270	–	**10,270**

6. Revenue

Revenue analysed by geographical regions of customers is presented below:

	Year ended 31 December 2013 US$'000	Year ended 31 December 2012 US$'000
Sales within the Russian Federation	**1,060,935**	1,055,569
Sales to Kazakhstan	**170,178**	396,543
Sales to Europe	**151,970**	219,546
Sales to China	**165,368**	178,059
Sales to Korea	**90,512**	1,429
Sales to Japan	**65,183**	1,066
Total metal sales	**1,704,146**	1,852,212
Other sales	**2,451**	1,853
Total	**1,706,597**	1,854,065

Metal sales to related parties (sales to Nomos-Bank) are disclosed in Note 34.

Included in revenues for the year ended 31 December 2013 are revenues which arose from sales to three of the Group's largest customers amounting to US$391 million, US$273 million and US$175 million, respectively (2012: US$357 million, US$340 million and US$234 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 2013				Year ended 31 December 2012			
	Thousand ounces/ tonnes (unaudited) shipped	**Thousand ounces/ tonnes (unaudited) payable**	**Average price (US Dollar per troy ounce/tonne payable) (unaudited)**	**US$'000**	Thousand ounces/ tonnes (unaudited) shipped	Thousand ounces/ tonnes (unaudited) payable	Average price (US Dollar per troy ounce/tonne payable) (unaudited)	US$'000
Gold (thousand ounces)	**818**	**808**	**1,326**	**1,070,847**	593	589	1,640	966,463
Silver (thousand ounces)	**27,414**	**27,376**	**22**	**592,576**	27,797	27,797	30	832,886
Copper (tonnes)	**6,468**	**6,141**	**6,631**	**40,723**	7,011	7,011	7,540	52,863
Total				**1,704,146**				1,852,212

7. Cost of sales excluding write-downs of metal inventories to net realisable value

	Year ended 31 December 2013 US$'000	Year ended 31 December 2012 restated US$'000
Cash operating costs		
On-mine costs (Note 8)	**393,067**	364,134
Smelting costs (Note 9)	**384,192**	335,564
Purchase of ore from third parties	**18,836**	29,519
Purchase of ore from related parties	**13,983**	3,035
Mining tax	**109,421**	120,910
Total cash operating costs	**919,499**	853,162
Depreciation and depletion of operating assets (Note 10)	**245,483**	178,417
Rehabilitation expenses	**1,524**	2,810
Total costs of production	**1,166,506**	1,034,389
Increase in metal inventories	**(53,985)**	(186,989)
Write-down of non-metal inventories to net realisable value (Note 23)	**10,696**	2,343
Cost of other sales	**579**	2,096
Total	**1,123,796**	851,839

Due to significant decline in gold and silver prices during first half of the year ended 31 December 2013, the Group has separately written down some of its metal inventories (refer to Note 23).

7. Cost of sales excluding write-downs of metal inventories to net realisable value continued

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 2013 US$'000	31 December 2012 restated US$'000
Consumables and spare parts	114,679	121,366
Services	165,936	146,876
Labour	109,475	90,760
Taxes, other than income tax	609	1,115
Other expenses	2,368	4,017
Total (Note 7)	**393,067**	364,134

9. Smelting costs

	Year ended	
	31 December 2013 US$'000	31 December 2012 US$'000
Consumables and spare parts	171,358	138,258
Services	139,489	137,339
Labour	70,650	57,063
Taxes, other than income tax	1,021	902
Other expenses	1,674	2,002
Total (Note 7)	**384,192**	335,564

10. Depletion and depreciation of operating assets

	Year ended	
	31 December 2013 US$'000	31 December 2012 restated US$'000
On-mine	159,218	117,504
Smelting	86,265	60,913
Total (Note 7)	**245,483**	178,417

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 from 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 2013 US$'000	31 December 2012 US$'000
Labour	106,952	92,429
Services	18,739	18,430
Share-based compensation	24,233	54,279
Depreciation	3,854	4,437
Other	14,354	12,073
Total	**168,132**	181,648

12. Other expenses

	Year ended	
	31 December 2013 US$'000	31 December 2012 US$'000
Mining taxes, penalties and accrued interest (Note 16)	662	65,911
Exploration expenses	24,144	32,908
Taxes, other than income tax	21,164	14,205
Social payments	10,709	10,544
Loss on disposal of property, plant and equipment	9,503	9,325
Housing and communal services	6,547	7,860
Bad debt allowance	1,089	267
Other expenses	14,668	12,835
Total	**88,486**	153,855

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.

13. Employee costs

The weighted average number of employees during the year ended 31 December 2013 was:

	Year ended	
	31 December 2013 Number	31 December 2012 Number
Voro	913	901
Khakanja	1,144	1,132
Dukat	1,952	1,926
Omolon	910	1,027
Varvara	730	695
Amursk-Albazino	1,158	1,119
Mayskoye	941	759
Corporate and other	1,484	1,434
Total	**9,232**	8,993

	Year ended	
	31 December 2013 US$'000	31 December 2012 restated US$'000
Wages and salaries	281,316	252,152
Social security costs	64,557	53,963
Share based payments expense	24,233	54,279
Total payroll costs	**370,106**	360,394
Reconciliation:		
Less: employee costs capitalised	(52,003)	(53,831)
Less: employee costs absorbed into unsold metal inventory balances	(13,815)	(23,176)
Employee costs included in operating costs	**304,288**	283,387

Compensation for key management personnel is disclosed within Note 34.

14. Auditor's remuneration

	Year ended 31 December 2013 US$'000	Year ended 31 December 2012 US$'000
Fees payable to the auditor and their associates for the audit of the Company's Annual Report		
United Kingdom	**353**	254
Overseas	**595**	588
Total audit fees	**948**	842
Audit-related assurance services (half year review)	**527**	355
Total audit and half-year review fees	**1,475**	1,197
Taxation compliance services (i.e. related to assistance with corporate tax returns)	**16**	99
Capital project consulting services	**394**	–
Other non-audit services	**10**	10
Total non-audit services (excluding half-year review)	**420**	109
Total fees	**1,895**	1,306

15. Finance costs

	Year ended 31 December 2013 US$'000	Year ended 31 December 2012 US$'000
Interest expense on borrowings	**29,972**	18,523
Unwinding discount on borrowings	**9,070**	4,643
Unwinding of discount on environmental obligations	**3,693**	3,621
Total	**42,735**	26,787

Interest expense on borrowings excludes borrowing costs capitalised in the cost of qualifying assets of US$6,1 million and US$14.7 million during the years ended 31 December 2013 and 2012, respectively. These amounts were calculated based on the Group's general borrowing pool and by applying an effective interest rate of 2.99% and 3.06%, respectively, to cumulative expenditure on such assets.

16. Income tax

The income tax expense for the year ended 31 December 2013 is as follows:

	Year ended 31 December 2013 US$'000	Year ended 31 December 2012 restated US$'000
Current income taxes	**105,096**	174,444
Excess profit taxes payable in Kazakhstan	**8,313**	17,111
Income tax expense arising in respect of lost litigation	**–**	27,475
Deferred income taxes	**(72,992)**	3,838
	40,417	222,868

A reconciliation between the reported amount of income tax expense attributable to loss/profit before income tax for the year ended 31 December 2013 is as follows:

	Year ended 31 December 2013 US$'000	Year ended 31 December 2012 restated US$'000
(Loss)/Profit before income tax	**(157,620)**	651,091
Statutory income tax expense at the tax rate of 20%	**(31,524)**	130,218
Loss incurred in tax-free jurisdictions	**8,309**	(4,336)
Share-based compensation	**4,720**	10,856
Excess profit taxes payable in Kazakhstan	**8,313**	17,111
Effect of income tax rate adjustment	**–**	–
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	**50,599**	36,489
Total income tax expense	**40,417**	222,868

The actual tax expense differs from the amount which would have been determined by applying the statutory rate of 20% for the Russian Federation and Kazakhstan to profit before income tax as a result of the application of relevant jurisdictional tax regulations, which disallow certain deductions which are included in the determination of accounting profit. These deductions include share-based payment expenses, social related expenditures and other non-production costs, certain general and administrative expenses, financing expenses, foreign exchange related and other costs.

In the normal course of business, the Group is subject to examination by tax authorities throughout the Russian Federation and Kazakhstan. Out of the large operating companies of the Group, tax authorities have audited CJSC Gold of Northern Urals up to 2011, Omolon Gold Mining Company LLC, LLC Okhotskaya Mining and Exploration Company CJSC and Mayskoye Gold Mining Company LLC up to 2010, CJSC Magadan Silver for the period up to 2009, 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

At 31 December 2012

During the year ended 31 December 2012, the Group provided for certain expenses and tax exposures in respect of lost litigation.

The additional income tax charges incurred in respect of litigations during the year ended 31 December 2012 total US$27.5 million and comprised US$14.5 million paid out 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$5.1 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, a total additional income tax expense of US$49.6 million was recognised in the year ended 31 December 2012.

The Group also recognised mining taxes, interest and penalties totalling US$65.9 million which were recognised within Other Operating Expenses (see Note 12). These expenses comprised US$15.0 million paid out in respect of the Magadan Silver/ABN AMRO case, US$9.2 million provided for in respect of the Magadan Silver Mineral Extraction Tax case, US$10.1 million paid out in respect of Varvara litigation and US$31.6 million in respect of other exposures.

At 31 December 2013

During the year ended 31 December 2013 the Group paid US$8.3 million of mining taxes, interest and penalties in respect of the Magadan Silver Mineral Extraction Tax case, US$17.1 million of Varvara Excess Profits Tax provided for in 2012 and US$7.3 million of various Varvara exposures.

In respect of the year ended 31 December 2013, no additional significant income tax and mining tax exposures have been provided for.

Other exposures considered possible but not probable and therefore not provided for total to US$22.3 million (31 December 2012: US$3 million) and are described in Note 29.

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 2013 restated	**13,343**	**(18,637)**	**(90,154)**	**6,078**	**57,621**	**(1,834)**	**8,847**	**(24,736)**
Credit to income statement	709	11,555	16,086	5,767	32,229	1,749	4,898	**72,993**
Acquisition	–	–	(23,025)	353	595	–	(556)	**(22,633)**
Disposal	–	587	(484)	(160)	(37)	–	(6)	**(100)**
Exchange differences	(980)	1,014	6,323	(601)	(5,036)	85	(930)	**(125)**
At 31 December 2013	**13,072**	**(5,481)**	**(91,254)**	**11,437**	**85,372**	**–**	**12,253**	**25,399**

16. Income tax continued

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following analysis shows deferred tax balances presented for financial reporting purposes:

	Year ended 31 December 2013 US$'000	31 December 2012 restated US$'000
Deferred tax liabilities	(63,085)	(82,760)
Deferred tax assets	88,484	58,024
Total	**25,399**	(24,736)

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, Amursk Hydrometallurgy Plant LLC and the Company during the period up to 2023. 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 2013 and 31 December 2012 the aggregate tax losses carried forward were US$426.8 million (RUB13.9 billion) and US$288.1 million (RUB 8.8 billion), respectively.

The Group believes that recoverability of the recognized deferred tax asset (DTA) of US$88.5 million at 31 December 2013 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 2013. 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 2013 US$'000
31 December 2014	2,680
31 December 2015	7,401
31 December 2016	6,229
31 December 2017	8,971
31 December 2018	25,059
31 December 2019	19,939
31 December 2020	22,272
31 December 2021	67,575
31 December 2022	90,698
31 December 2023	176,034
Total loss carried forward for tax purposes	**426,858**

The deferred tax liabilities for taxes that would be payable on the unremitted earnings of certain of the Group subsidiaries have not been recognised as the Group has determined that the undistributed profit of its subsidiaries will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognised, amount to US$1,802 million (2012: US$1,712 million).

17. Dividends

A final dividend has been proposed in relation to the year of 8 cents per share giving a total expected dividend of US$31.2 million. This is subject to approval by shareholders at the Annual General Meeting and has therefore not been included as a liability in these financial statements.

On 23 September 2013 an interim dividend of 1 cent per share was paid to shareholders by the Company resulting in cash outflows of US$3.9 million.

On 17 June 2013 a final dividend for 2012 of 31 cents per share was paid to shareholders by the Company resulting in cash outflows of US$121.2 million. On 16 January 2013, a special dividend of 50 cents per share was paid to shareholders by the Company resulting in cash outflows of US$191.3 million.

On 14 June 2012 a final dividend for 2011 of 20 cents per share was paid to shareholders by the Company resulting in cash outflows of US$76.5 million.

18. Impairment losses

At 30 June 2013, due to significant decline in gold, silver and copper market prices in first quarter 2013, the Group carried out an impairment review of its property, plant and equipment, goodwill and other non-current assets. As a result of this review, total impairment charges of US$199.1 million were recognised as at 30 June 2013.

During second half of the year ended 31 December 2013 there was a stabilisation in gold, silver and copper market prices. Therefore, the impairment review was performed only for the Omolon cash generating unit, where individual impairment indicators exist due to downgrades in reserves and changes in the life of mine plan. As a result, a further impairment of US$12 million was recognised as at 31 December 2013.

In the view of management there are no indicators of impairment (or impairment reversal) for other cash generating units as at 31 December 2013 and no further impairment as at 31 December 2013 was recognised.

Total impairment charges of US$213.4 million (2012: nil) recognised during the year ended 31 December 2013 comprise the following:

	Year ended 31 December 2013					
	Khakanja US$'000	Varvara US$'000	Omolon US$'000	Total operating segments US$'000	Corporate and other US$'000	Total US$'000
Property, plant and equipment	91,184	17,358	16,587	125,129	–	125,129
Goodwill	13,220	62,756	–	75,976	–	75,976
Investments in associates	–	–	–	–	12,291	12,291
Total	104,404	80,114	16,587	201,105	12,291	213,396

After the related tax credit of US$21.1 million, the post-tax impairment charge is US$192.3 million.

Impairment of Property, Plant and Equipment

Each cash generating unit is determined on the basis of Group's geographical structure and equals to the Group's reporting segments (refer to Note 5). The carrying amount of cash generating units excludes certain exploration assets included within the segment assets which are currently under development and have not reached a stage where there is enough information to estimate the future cash flows that might be eventually generated by the project. The following amounts are excluded from cash generating units carrying amounts: US$36.7 million. These were assessed for impairment separately.

The carrying amounts of all the cash-generating units were assessed against their recoverable amounts determined based on a fair value less costs to sell calculation. Fair value is based on the application of the Discounted Cash Flow Method (DCF) using post-tax cash flows. The DCF method is attributable to the development of proved and probable reserves and certain resources where a relevant resource-to-reserve conversion ratio can be reasonably applied.

The Group used a post-tax real discount rate of 7.1% (2012: 7.1%) in the DCF calculations which is equal to its nominal weighted average cost of capital of 9% (2012: 9%) translated into real terms. The DCF method used is based on the following key assumptions:

Commodity prices

Commodity prices are based on latest internal forecasts, benchmarked against external sources of information. In the impairment tests performed, the flat real long-term gold, silver and copper prices of US$1,200 per ounce, US$18 per ounce and US$7,000 per tonne, respectively, have been used to estimate future revenues.

18. Impairment losses continued

Proved and probable reserves and mineral resources

Production volumes are derived from the detailed long-term life of mine plans which are based on JORC proven and probable reserves and certain mineral resources (using a relevant resource-to-reserve conversion ratio) at the end of the period.

Production costs

Production costs are based on management's best estimates over the life of the mine, and reflect past experience.

Impairment of investment in associate

The Group has fully written off its investment in JSC Ural-Polymetal as the carrying values of the exploration assets this associate holds are not considered recoverable. In management's view there are no indicators of a reversal as at 31 December 2013. See Note 21.

19. 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 2012	94,873	1,559,526	87,464	511,427	**2,253,290**
Additions	66,077	186,007	18,756	163,544	**434,384**
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	2,261,824	98,327	353,622	**2,798,698**
Additions	60,355	245,287	13,216	37,959	**356,817**
Transfers	78,138	143,437	(6,627)	(214,948)	**–**
Change in decommissioning liabilities	–	(549)	–	–	**(549)**
Acquired on acquisition	128,521	6	–	2,952	**131,479**
Eliminated on disposal of subsidiary	–	(12,535)	(218)	(42)	**(12,795)**
Disposals	–	(45,325)	(6,455)	(1,828)	**(53,608)**
Translation to presentation currency	(14,713)	(161,806)	(6,964)	(20,154)	**(203,637)**
Balance at 31 December 2013	**337,226**	**2,430,339**	**91,279**	**157,561**	**3,016,405**

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 2012	–	(335,167)	(16,149)	–	**(351,316)**
Charge for the year	–	(226,851)	(9,521)	–	**(236,372)**
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	–	(568,272)	(24,694)	–	**(592,966)**
Charge for the period	–	(281,157)	(6,186)	–	**(287,343)**
Disposals	–	27,115	3,804	–	**30,919**
Eliminated on disposal of subsidiary	–	5,469	160	–	**5,629**
Impairment recognised in profit and loss	(4,670)	(114,984)	(1,938)	(3,537)	**(125,129)**
Translation to presentation currency	1	44,894	2,339	(7)	**47,227**
Balance at 31 December 2013	**(4,669)**	**(886,935)**	**(26,515)**	**(3,544)**	**(921,663)**
Net book value					
1 January 2012	94,873	1,224,359	71,315	511,427	**1,901,974**
31 December 2012	84,925	1,693,552	73,633	353,622	**2,205,732**
31 December 2013	**332,557**	**1,543,404**	**64,764**	**154,017**	**2,094,742**

Mining assets at 31 December 2013 included mineral rights with net book value which amounted to US$376.3 million (31 December 2012: US$367.8 million). Mineral rights of the Group comprise assets acquired upon acquisition of subsidiaries and asset acquisitions.

IFRIC 20 was adopted from 1 January 2012 (see note 35). Comparative balance were restated to recognise stripping assets of US$56.3 million at 31 December 2012. At 31 December 2013 stripping costs of US$91.3 million have been capitalised within Mining assets.

Transfers from Capital construction in-progress to Mining assets during the year relate mainly to Mayskoye (transfers amounting to US$133 million), where assets reached commercial production in April 2013.

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 21).

No property, plant and equipment were pledged as collateral at 31 December 2013 or at 31 December 2012.

Impairment losses recognised during the year ended 31 December 2013

During the current year, as a result of significant gold, silver and copper market price declines below levels used in the Group's 2012 impairment tests, the Group carried out a review of the recoverable amount of its property, plant and equipment. The review led to the recognition of impairment losses of US$125.1 million, which has been recognised in the income statement. Refer to Note 18 for further details.

20. Goodwill

Cost and Accumulated impairment losses	**31 December 2013 US$'000**	31 December 2012 US$'000
At 1 January	**115,106**	108,587
Impairment losses recognised in the year	**(75,976)**	–
Translation effect	**(8,241)**	6,519
At 31 December	**30,889**	115,106

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

	31 December 2013 US$'000	31 December 2012 US$'000
Varvara	**–**	68,411
Mayskoye	**22,013**	23,720
Khakanja	**–**	14,237
Dukat	**8,876**	8,738
Total	**30,889**	115,106

Impairment losses recognised during the year ended 31 December 2013

As a result of significant gold, silver and copper market prices decline below levels used in the Group's 2012 annual impairment tests during the period ended 30 June 2013, the Group carried out a review of the recoverable amount of goodwill at 30 June 2013. The review led to the recognition of an impairment charge of US$76 million of goodwill, which has been recognised in the income statement. Refer to Note 18 for details.

During the second half of 2013 there was a stabilisation of gold, silver and copper market prices. In management's view there are no indicators of impairment as of 31 December 2013 and no further impairment of goodwill at 31 December 2013 was recognised.

Sensitivity analysis

For the cash-generating units where the goodwill was not fully impaired at 31 December 2013, being Dukat and Mayskoye, management has performed an analysis as to whether a reasonably possible adverse change to any of the key assumptions would lead to an impairment.

The following scenarios were considered as reasonably possible and were used for this sensitivity analysis:

- 5% simultaneous decrease in gold and silver prices over the life of mine;
- 5% increase in operating expenses over the life of mine; and
- 0.5% increase in the discount rate applied.

20. Goodwill continued

Each of the sensitivities above has been determined by assuming that the relevant key assumption moves in isolation, and without regard to potential mine plan changes and other management decisions which would be taken to respond to adverse changes in existing management projections.

An adverse change in a key assumption described above would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the Dukat and Mayskoye cash-generating units.

21. Investments in associates

	31 December 2013		31 December 2012	
	Voting power %	Carrying value US$'000	Voting power %	Carrying value US$'000
JSC Ural-Polymetal	**49.9**	**–**	33.3	10,507
Polygon Gold	**42.65**	**15,651**	42.65	19,315
Total	**–**	**15,651**	–	29,822

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') who 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 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 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 strategic decision to exit the Russian Federation.

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. The investment has been accordingly recognised as an investment in associate.

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. has now decreased to 42.65%. It continues to exercise significant influence over Polygon.

Equity investment in JSC Ural-Polymetal
At 1 January 2013 the group held 33.3% of JSC Ural-Polymetal, a Russian entity which holds an operating copper and zinc open pit mine and a processing plant. As a result of an impairment review performed as at 30 June 2013, the investment in JSC Ural-Polymetal was written off to nil (see Note 18).

On 29 October 2013 the Group acquired an additional 16% interest in JSC Ural-Polymetal for $2.5 million, taking its share in the business to 49.9%. In management's view it continues to hold significant influence in JSC Ural-Polymetal however it does not have the ability to exercise control. As a result of an impairment review performed at 31 December 2013 the additional investment in JSC Ural-Polymetal was also written off, as the project development is at an early stage and a new NPV estimate for the assets cannot be prepared at this stage. Therefore and consistently with the assumptions used as at 30 June 2013, full investment in Ural-Polymetal is written off.

The following tables summarise the aggregate financial position and the Group's share of net losses of the investments in JSC Ural-Polymetal and Polygon Gold Inc:

	Polygon Gold Inc		JSC Ural-Polymetal
	31 December 2013 US$'000	31 December 2012 US$'000	31 December 2012 US$'000
Revenue	**14,617**	–	40,794
Net loss	**(5,492)**	(1,658)	(3,660)
Group's share of net loss	**(2,340)**	(706)	(1,098)

	Polygon Gold Inc		JSC Ural-Polymetal
	31 December 2013 US$'000	31 December 2012 US$'000	31 December 2012 US$'000
Non-current assets	**78,908**	68,609	48,894
Current assets	**6,807**	13,731	12,970
Non-current liabilities	**(30,352)**	(18,150)	(10,237)
Current liabilities	**(16,508)**	(19,844)	(14,651)
Equity	**(38,855)**	(44,347)	(36,975)

22. Non-current loans and accounts receivable

	Interest rate	31 December 2013 US$'000	31 December 2012 US$'000
Long-term accounts receivable	Nil	**11,255**	1,475
Loans extended to third parties	8.00%	**7,334**	3,813
Polygon Gold	8.00%	**–**	5,469
Loans extended to investments in associates	3.5%-6%	**1,017**	–
Employees	6.00%	**3,247**	4,054
Total	–	**22,853**	14,811

23. Inventories

	31 December 2013 US$'000	31 December 2012 restated US$'000
Inventories expected to be recovered after twelve months		
Consumables and spare parts	**41,885**	62,267
Ore stock piles	**11,257**	36,597
Total non-current inventories	**53,142**	98,864
Inventories expected to be recovered in the next twelve months		
Ore stock piles	**182,269**	285,006
Copper, gold and silver concentrate	**133,037**	141,878
Work in-process	**77,848**	64,811
Metal for refinery	**9,117**	21,206
Doré	**24,881**	30,268
Total metal inventories	**427,152**	543,169
Consumables and spare parts	**299,992**	297,452
Total	**727,144**	840,621

23. Inventories continued

Write-downs of metal inventories to net realisable value

During the year ended 31 December 2013, the Group recognised the following write-downs to net realisable value of its metal inventories due to low content of precious metals and metal price decline (see Note 18):

	Year ended 31 December 2013								Year ended 31 December 2012 restated
	Voro US$'000	Khakanja US$'000	Dukat US$'000	Omolon US$'000	Varvara US$'000	Mayskoye US$'000	Total operating segments US$'000	Total US$'000	Total operating segments US$'000
Ore stock piles	2,559	28,160	11,954	75,229	19,301	–	137,203	137,203	–
Copper, gold and silver concentrate	–	–	–	–	–	16,124	16,124	16,124	4,000
Total	2,559	28,160	11,954	75,229	19,301	16,124	153,327	153,327	4,000

After the related tax credit of US$30.7 million, the post-tax impairment charge is US$122.6 million.

Write-downs of metal inventories to net realisable value were recognised during the year ended 31 December 2013 in amount of US$153 million as a result of decline in gold, silver and copper prices. The key assumptions used as at 31 December 2013 in determining net realisable value of inventories (including the commodity price assumptions) were consistent with the assumptions used in the impairment review of goodwill and non-current assets (see Note 18).

In addition, during the year ended 31 December 2013 the Group wrote-down US$4.6 million of costs (2012: US$5.6 million) in Omolon which did not significantly enhance the value of the ore stock piles.

During the year ended 31 December 2013 the Group provided for obsolete consumables and spare parts inventory in the amount of US$10.7 million (year ended 31 December 2012: reversal of US$3.3 million).

The amount of inventories held at net realisable value at 31 December 2013 is US$100.7 million (31 December 2012: US$7 million).

24. Trade and other receivables

	31 December 2013 US$'000	31 December 2012 US$'000
Receivables from provisional copper, gold and silver concentrate sales	14,902	59,508
Other trade receivables	2,268	–
Non-trade receivables	21,889	24,948
Prepaid expenses	3,827	5,417
Accounts receivable from related parties	164	4,717
Short-term loans provided to employees	3,941	2,765
Short-term loans provided to equity method investments	190	11,792
Total trade and other receivables	47,181	109,147
Less: Allowance for doubtful debts	(2,655)	(1,551)
Total	44,526	107,596

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 2013, US$12.5 million (2012: US$47.0 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 2013 was 25 days (2012: 30 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 2013 (31 December 2012: 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 2013 was 36 days (2012: 93 days). No interest is charged on short term 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$4.7 million as at 31 December 2013 (2012: US$3.7 million). 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.

25. Cash and cash equivalents

	31 December 2013 US$'000	31 December 2012 US$'000
Bank deposits – RUB	11,293	–
Bank deposits – foreign currencies	32,821	4,095
Current bank accounts – RUB	8,919	5,124
Current bank accounts – foreign currencies	12,364	9,346
Other cash and cash equivalents	170	57
Total	65,567	18,622

Bank deposits as at 31 December 2013 bear interest of 0.2%-1.08% per annum for US dollars denominated deposits (2012: 0.3% per annum) and 6.75%-7.15% for RUB denominated deposits with an average maturity at inception of 15 days (2012: 15 days).

26. Borrowings

Borrowings at amortised cost:

		Actual interest rate at 31 December		31 December 2013			31 December 2012		
	Type of rate	2013	2012	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	3.22%	3.1%	37,500	537,500	575,000	222,874	485,862	708,736
Total		–	–	37,500	537,500	575,000	222,874	485,862	708,736
Unsecured Loans from third parties									
US Dollar denominated	Floating	2.74%	2.8%	30,769	469,231	500,000	–	100,000	100,000
US Dollar denominated	Fixed	7.5%	7.35%	–	11,443	11,443	6,859	7,712	14,571
Euro denominated	Floating	2.24%	2.8%	3,757	3,757	7,514	5,306	7,243	12,549
Total				34,526	484,431	518,957	12,165	114,955	127,120
Loans from related parties									
Euro denominated	Floating	4.90%	4.4%	8,903	7,624	16,527	8,583	15,932	24,515
CAD denominated	Floating	5.69%	8%	402	258	660	589	711	1,300
RUB denominated	Fixed	–	5.7%	–	–	–	–	2,152	2,152
Total		–	–	9,305	7,882	17,187	9,172	18,795	27,967
		–	–	81,331	1,029,813	1,111,144	244,211	619,612	863,823

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 Rubles, US Dollars, Euro and Canadian Dollars. Where security is provided it is in form of pledge of revenue from certain sales agreements.

During the year ended 31 December 2013, the Group drew down a total of US$3,100 million and repaid US$2,887 million, a net drawdown of US$213 million.

The Group secured new facilities in the year for a total amount of US$975 million with unrelated parties. These credit facilities are repayable between first quarter 2014 and fourth quarter 2018 and bear interest at a rate of between Libor +2.35% and Libor +3.05%.

26. Borrowings continued

At 31 December 2013, the Group had undrawn borrowing facilities of US$1,324 million (31 December 2012: US$913 million). The Group complied with its debt covenants throughout 2013 and 2012. The table below summarises maturities of borrowings:

Year ended	US$'000
31 December 2013	81,331
31 December 2014	253,904
31 December 2015	306,773
31 December 2016	57,692
31 December 2017	403,814
31 December 2018	5,086
31 December 2019	2,544
Total	**1,111,144**

27. Environmental obligations

Environmental obligations include decommissioning and land restoration costs and are recognised on the basis of existing project business plans as follows:

	31 December 2013 US$'000	31 December 2012 US$'000
Opening balance	**66,693**	54,463
Changes in estimates for the year:		
Decommissioning liabilities recognised in income statement	**(1,064)**	–
Decommissioning liabilities recognised in PPE	**(549)**	3,245
Rehabilitation liabilities	**1,814**	3,873
Effect of unwinding of discount	**3,693**	3,621
Amounts paid in the year	**(901)**	(1,479)
Translation effect	**(4,322)**	2,970
Closing balance	**65,364**	66,693

Rehabilitation expenses relate to the increase of the environmental obligation which arises on production phase of mining activities. During the year ended 31 December 2013 rehabilitation expenses amounting to US$0.3 million (2012: US$1.1 million) were removed from cost of production and capitalised through the application of IFRIC 20 (see note 35).

The principal assumptions used for the estimation of environmental obligations were as follows:

	2013	2012
Discount rates	**5.78%-8.43%**	3.74%-6.9%
Inflation rates	**4.12%-5.77%**	5.67%-7.21%
Expected mine closure dates	**2-19 years**	2-22 years

The Group does not hold any assets that are legally restricted for purposes of settling environmental obligations.

28. Trade payables and accrued liabilities

	31 December 2013 US$'000	31 December 2012 US$'000
Trade payables	**56,667**	64,238
Dividends payable (Note 17)	**–**	191,343
Accrued liabilities	**41,856**	40,851
Labour liabilities	**13,033**	11,978
Other payables	**6,418**	3,808
Total	**117,974**	312,218

In 2013, the average credit period for payables was 34 days (2012: 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 payment schedules to ensure that all amounts payable are settled within the credit period.

29. Commitments and contingencies

Commitments

Capital commitments

The Group's budgeted capital expenditure commitments as at 31 December 2013 amounted to US$22.3 million (2012: US$37 million).

Forward sale commitments

The Group has certain physical gold and silver forward sale commitments which are priced at the prevailing market price, calculated with reference to the LBMA or LME gold price, which are accounted for as executed as the Group expects to and has historically physically delivered into these contracts.

Operating leases: Group as a lessee

The land in the Russian Federation and Kazakhstan on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through to 2058.

Future minimum lease payments due under non-cancellable operating lease agreements at the end of the period were as follows:

	31 December 2013 US$'000	31 December 2012 US$'000
Due within one year	**2,831**	1,832
From one to five years	**3,904**	4,278
Thereafter	**2,334**	2,702
Total	**9,069**	8,812

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 transaction and activity of the companies of the Group may be challenged by the relevant regional and federal authorities and as a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

During 2012 and 2013 the Group has been involved in a number of litigations in Russia and in Kazakhstan. See Note 16 for details of these cases and their outcomes. In addition to the cases detailed within Note 16, management has identified a total exposure (covering taxes and related interest and penalties) of US$22.3 million in respect of contingent liabilities (2012: US$3 million).

30. Fair value accounting

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30. Fair value accounting continued

At 31 December 2013 and 31 December 2012 the Group held the following financial instruments:

31 December 2013 US$'000	Level 1	Level 2	Level 3	Total
Receivables from provisional concentrate sales	–	14,902	–	14,902
Contingent consideration liability	–	–	(15,523)	(15,523)
	–	14,902	(15,523)	(621)

31 December 2012 US$'000	Level 1	Level 2	Level 3	Total
Receivables from provisional concentrate sales	–	59,508	–	59,508
Contingent consideration liability	–	–	(25,276)	(25,276)
	–	59,508	(25,276)	34,232

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 2013 was US$15.5 million (2012: US$25.3 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 2013:

	31 December 2013 US$'000	31 December 2012 US$'000
Opening balance	25,276	22,290
Additions	–	54
Change in fair value, recognised in the Income Statement	(8,131)	4,717
Translation effect	(294)	53
Settlement	(1,328)	(1,838)
Total	15,523	25,276

Additions in the year ended 31 December 2012 represent the contingent consideration payable by the Group on Semchenskoye Zoloto acquisition (see Note 4 for further details).

The directors consider that a reasonably possible change in a valuation assumption 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*.

31. Risk management activities

Capital management
The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains from prior years.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 26 offset by cash and bank balances as detailed in Note 25) and equity of the Group (comprising the Stated Capital account, reserves and retained earnings as detailed in Note 32.

The Group is not subject to any externally imposed capital requirements. The Group's Board reviews the capital structure of the Group on a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

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 2013 US$'000	31 December 2012 US$'000
Financial assets		
Financial assets at FVTPL		
Receivables from provisional copper, gold and silver concentrate sales	14,902	59,508
Loans and receivables, including cash and cash equivalents		
Cash and cash equivalents	65,567	18,622
Trade and other receivables	25,797	48,088
Non-current loans and receivables	22,853	14,811
Total financial assets	129,119	141,029
Financial liabilities		
Financial liabilities at FVTPL		
Contingent consideration liability	15,523	25,276
Financial liabilities at amortised cost		
Borrowings	1,111,144	863,823
Dividends payable	–	191,343
Trade and other payables	63,085	68,046
Total financial liabilities	1,189,752	1,148,488

Trade and other payables exclude employee benefits and social security.

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables and short-term debt recorded at amortised cost approximate to their fair values because of the short maturities of these instruments. The estimated fair value of the Group's long-term debt, calculated using the market interest rate available to the Group as at 31 December 2013, is US$1,017 million, and the carrying value as at 31 December 2013 is US$1,111 million (see Note 26). Carrying values of the other long-term loans provided to related parties as at 31 December 2013 and 31 December 2012 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 2013 US$'000	31 December 2012 US$'000
Receivable from provisional concentrate sales	Accounts receivable	14,902	59,508

	Location of loss recorded in Income Statement	Year ended 31 December 2013 US$'000	Year ended 31 December 2012 US$'000
Receivable from provisional concentrate sales	Revenue	(9,481)	(2,830)

31. Risk management activities continued

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 2013 and 31 December 2012 were as follows:

	Assets		Liabilities	
	31 December 2013 US$'000	31 December 2012 US$'000	**31 December 2013 US$'000**	31 December 2012 US$'000
US Dollar	**60,524**	78,544	**1,099,804**	1,022,458
Euro	**119**	99	**25,883**	39,938
GBP	**99**	79	**720**	31
Total	**60,742**	78,722	**1,126,407**	1,062,427

Currency risk is monitored on a monthly basis by performing a sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level.

The table below details the Group's sensitivity to changes in exchange rates by 10% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items denominated in respective currencies at the reporting dates.

	31 December 2013 US$'000	31 December 2012 US$'000
Profit or loss (RUB to US Dollar)	**(106,524)**	(93,453)
Profit or loss (RUB to Euro)	**(3,637)**	(4,979)
Profit or loss (RUB to GBP)	**(107)**	5
Profit or loss (KZT to US Dollar)	**(1,786)**	8,570

Provisionally priced sales

Under a long-established practice prevalent in the industry, copper, gold and silver concentrate sales are provisionally priced at the time of shipment. The provisional prices are finalised in a contractually specified future period (generally one to three months) primarily based on quoted LBMA or LME prices. Sales subject to final pricing are generally settled in a subsequent month. The forward price is a major determinant of recorded revenue.

Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group does not currently hedge its exposure to interest rate risk.

The Group's exposure to interest rates on financial assets and financial liabilities 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 2013 would have decreased/increased by US$9.8 million (2012: US$7.7 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 2013 and 31 December 2012 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 2013 of US$65.6 million (2012: US$18.6 million).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities as they fall due.

The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting, cash forecasting processes and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

The following tables detail the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2013:

					31 December 2013 US$'000	31 December 2012 US$'000
	Less than 3 months	3-12 months	1-5 years	More than 5 years	**Total**	Total
Special dividend payable	–	–	–	–	**–**	191,343
Borrowings	20,194	94,772	1,096,285	8,130	**1,219,381**	923,155
Accounts payable and accrued expenses	59,754	3,331	–	–	**63,085**	68,046
Contingent consideration	–	1,169	16,940	2,192	**20,301**	36,259
Total	**79,948**	**99,272**	**1,113,225**	**10,322**	**1,302,767**	**1,218,803**

32. Stated capital account and retained earnings

As at 31 December 2013, the Company's issued share capital consisted of 389,472,865 ordinary shares (2012: 383,206,204 ordinary shares) of no par value, each carrying one vote. The Company does not hold any shares in treasury (2012: 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 number of shares	Stated capital account US$'000
Balance at 1 January 2012	382,685,782	1,566,386
Issue of shares to acquire Svetlobor	520,422	9,737
Balance at 31 December 2012	383,206,204	1,576,123
Issue of shares to acquire Olcha	775,000	13,423
Issue of shares to acquire Maminskoye	5,491,661	74,624
Balance at 31 December 2013	**389,472,865**	**1,664,170**

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.

32. Stated capital account and retained earnings continued

Weighted average number of shares: Diluted loss/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 33).

Both basic and diluted loss/earnings per share were calculated by dividing loss/profit for the year attributable to equity holders of the parent by the weighted average number of outstanding common shares before/after dilution respectively. The calculation of the weighted average number of outstanding common shares after dilution is as follows:

	Year ended	
	31 December 2013 Number	31 December 2012 Number
Weighted average number of outstanding common shares	**387,932,387**	382,705,692
Weighted average number of outstanding common shares after dilution	**387,932,387**	382,705,692

The outstanding LTIP awards at 31 December 2013 and 2012 represent anti-dilutive potential ordinary shares with respect to earnings per share for continuing operations. Therefore, basic and diluted earnings per share are the same for the current and prior year.

33. Share-based payments

The US$24 million share based payment expense recognised during 2013 (2012: $54 million) represents the final accrual made in respect of the Long-term employee incentive programme (adopted in 2010). The options vested in June 2013 however recipients had the option to defer their measurement period by one year to June 2014 (though in doing so the benchmark share price needed to receive the awards, would increase).

Following significant gold and silver price declines in April 2013, the Company's share price fell below the minimum target price such that no LTIPs would have been awarded to option holders in June 2013. All recipients opted to defer their measurement period to 2014 and with it the award vesting dates, albeit sufficiently close to the original June 2013 vesting date such that the share based payment expense had already been fully recognised in the Income Statement.

At the Annual General Meeting in June 2013, shareholders approved the new Long-Term Incentive Plan (the 'New LTIP'). The first grant of options under the New LTIP is expected to take place in April 2014 provided that the relevant participants do not hold any options under the Old EIP. Share-based payment expenses in relation to the New LTIP are therefore expected to be recognised in 2014.

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 was 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

34. Related parties

Related parties are considered to include shareholders, affiliates, associates, joint ventures and entities under common ownership and control with the Group and members of key management personnel. 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, also previously held a substantial interest) and equity method investees as presented in tables below.

Nomos-Bank ceased to meet the definition of a related party from 27 February 2013 due to changes in its shareholder structure and composition of its Board of Directors. However in line with IAS 24 Related Party Transactions, deposits or borrowings taken out with Nomos where terms were agreed prior to this date, continue to be recognised as related party transactions.

	Year ended	
	31 December 2013 US$'000	31 December 2012 US$'000
Income from transactions with related parties		
Revenue from sales to Nomos-Bank	**81,641**	466,250
Interest income on deposits placed with Nomos-Bank	**34**	1,500
Other income	**1,740**	3,680
Expenses from transactions with related parties		
Interest expense on loans provided by Nomos-Bank	**996**	2,016
Purchases from associates	**13,983**	3,035

Outstanding balances owed to or from related parties at 31 December 2013 are presented below:

	31 December 2013 US$'000	31 December 2012 US$'000
Short-term loans provided to equity method investments	**190**	11,792
Long-term loans provided to equity method investments	**1,017**	5,469
Total loans provided to related parties	**1,207**	17,261
Short-term loans provided by Nomos-Bank	**9,305**	9,172
Long-term loans provided by Nomos-Bank	**7,882**	16,643
Long-term loans provided by equity method investments	**–**	2,152
Total loans provided by related parties	**17,187**	27,967
Accounts receivable from related parties	**164**	4,717
Interest receivable from related parties	**242**	836

Carrying values of other long-term loans provided to related parties as at 31 December 2013 and 31 December 2012 approximate their fair values. Details of the significant terms of the loans provided by related parties are disclosed in Note 26.

The amounts outstanding at the balance sheet dates are unsecured and expected to be settled in cash. No expense has been recognised in the reporting period for bad or doubtful debts in respect of the amounts owed by related parties. All trade payable and receivable balances are expected to be settled on a gross basis.

The remuneration of directors and other members of key management personnel during the periods was as follows:

	Year ended	
	31 December 2013 US$'000	31 December 2012 US$'000
Share-based payments	**12,359**	27,682
Short-term benefits of Board members	**1,866**	2,454
Short-term employee benefits	**2,565**	2,981
Post-employment benefits	**399**	264

35. Restatement

The impact of adopting IFRIC 20 on the prior periods consolidated financial statements is presented in the tables below.

Adjustments to the condensed consolidated balance sheet

	31 December 2012 (previously stated) US$'000	Adjustment for change in accounting policy US$'000	31 December 2012 (restated) US$'000
Property, plant and equipment	2,149,400	56,332	2,205,732
Non-current inventories	100,972	(2,108)	98,864
Current inventories	859,856	(19,235)	840,621
Deferred income tax liability	(75,938)	(6,822)	(82,760)
Translation reserve	54,366	(1,105)	53,261
Increase in retained earnings		**27,062**	

Adjustments to the condensed consolidated income statement

	Year ended		Year ended
	31 December 2012 (previously stated) US$'000	Adjustment for change in accounting policy US$'000	31 December 2012 (restated) US$'000
Cost of sales excluding write-downs of metal inventories to net realisable value	(875,199)	23,360	(851,839)
Write-downs of metal inventories to net realisable value	(14,366)	10,366	(4,000)
Income tax expense	(216,204)	(6,664)	(222,868)
Increase in profit for the financial period		**27,062**	
Equity shareholders of the Parent	394,348	26,848	421,196
Non-controlling interest	6,813	214	7,027
Profit for the financial period	**401,161**	**27,062**	**428,223**

Adjustments to the condensed consolidated statement of comprehensive income

	Year ended		Year ended
	31 December 2012 (previously stated) US$'000	Adjustment for change in accounting policy US$'000	31 December 2012 (restated) US$'000
Profit for the period	401,161	27,062	428,223
Effect of translation to presentation currency	110,550	1,106	111,656
Total comprehensive income for the period	**511,711**	**28,168**	**539,879**

Adjustments to the condensed consolidated statement of cash flows

	Year ended		Year ended
	31 December 2012 (previously stated) US$'000	Adjustment for change in accounting policy US$'000	31 December 2012 (restated) US$'000
Profit before income tax	617,365	33,726	651,091
Adjustment for the following items:			
Depreciation	156,102	(13,876)	142,226
Rehabilitation expenses	3,873	(1,063)	2,810
Write-downs of metal inventories to net realisable value	14,366	(10,366)	4,000
Write-down of non-metal inventories to net realisable value	(3,288)	5,631	2,343
Increase in inventories	(219,678)	30,954	(188,724)
Cash generated from operations	**568,740**	**45,006**	**613,746**
Purchases of property, plant and equipment	(350,807)	(46,269)	(397,076)
Net cash used in investing activities	**(350,807)**	**(46,269)**	**(397,076)**
Effect of foreign exchange rate changes on cash and cash equivalents	**14,947**	**1,263**	**16,210**

Adjustment for write-down of non-metal inventories to net realisable value relates to write-down of US$5.6 million costs in Omolon which did not significantly enhance the value of the work in-process, which was previously presented within increase in inventories.

36. Notes to the consolidated statement of cash flows

		Year ended	
	Notes	31 December 2013 US$'000	31 December 2012 restated US$'000
Profit before tax		**(157,620)**	651,091
Adjustments for:			
Depreciation and depletion, recognised in statement of comprehensive income		**237,533**	142,226
Mining taxes, penalties and accrued interest	12	**–**	39,150
Write-down of exploration assets		**–**	7,654
Write-down metal inventory to net realisable value	23	**153,327**	4,000
Write-down of non-metal inventory to net realisable value	7	**10,696**	2,343
Impairment of non-current assets	18	**201,105**	–
Impairment of investment in associate	18	**12,291**	–
Share-based compensation	11, 33	**24,233**	54,279
Finance costs	15	**42,735**	26,787
Finance income		**(2,850)**	(4,657)
Loss on disposal of property, plant and equipment	12	**9,503**	9,325
Change in contingent consideration liability	30	**(8,131)**	4,717
Change in allowance for doubtful debts	12	**1,089**	267
Rehabilitation expenses		**1,524**	2,810
Share of loss of associates and joint ventures	21	**2,340**	1,804
Foreign exchange loss/(gain)		**74,240**	(6,677)
Loss on disposal of subsidiaries		**8,746**	10,709
Gain on acquisition of remaining interest in joint venture	4	**–**	(21,051)
Other non-cash expenses		**2,528**	5,152
Movements in working capital			
Increase in inventories before impairment		**(62,957)**	(188,724)
Decrease in VAT receivable		**11,560**	14,262
Increase/ (decrease) in trade and other receivables		**60,675**	(34,284)
Decrease in prepayments to suppliers		**11,560**	9,307
Increase in trade and other payables		**2,246**	7,305
(Decrease)/increase in other taxes payable		**(10,744)**	8,480
Cash generated from operations		**625,629**	746,274
Interest paid		**(35,921)**	(34,629)
Income tax paid		**(128,041)**	(170,805)
Net cash generated by operating activities		**461,667**	540,840

Additions to property, plant and equipment of US$3.7 million and US$8.0 million during the year ended 31 December 2013 and 31 December 2012, respectively were acquired on deferred payment terms.

Other non-cash transactions during the year ended 31 December 2013 represents issuance of shares amounting to US$88 million (2012: the issuance of US$1.5 million of shares for the acquisition of assets).

37. Subsequent events

A final dividend has been proposed in relation to the year of 8 cents per share (2012: 31 cents per share) giving a total expected dividend of US$31.2 million (2012: US$119.0 million).

Mineral resources and ore reserves as at 1 January 2014[1]

Mineral resources	Tonnage	Content			
	Kt	Au, Koz	Ag, Koz	Cu, Kt	GE, Koz
Measured	11,110	870	39,532	15	1,665
Indicated	39,156	2,534	38,053	61	3,705
Measured + indicated	**50,266**	**3,404**	**77,585**	**76**	**5,370**
Inferred	88,057	10,026	39,613	69	11,293
Measured + indicated + inferred	**138,324**	**13,430**	**117,198**	**145**	**16,663**
Ore reserves					
Proved	53,525	4,950	129,354	8	7,161
Probable	59,440	3,950	90,107	69	6,116
Proved + probable	**112,965**	**8,900**	**219,461**	**77**	**13,277**

[1] Mineral resources and ore reserves are reported in accordance with the JORC Code (2012). Mineral resources are in addition to ore reserves. Discrepancies in calculations are due to rounding.

Ore reserves: precious metals deposits as at 1 January 2014[1]

Ore reserves	Tonnage	Grade			Content		
Proved	Kt	Au, g/t	Ag, g/t	GE, g/t	Au, Koz	Ag, Koz	GE, Koz
Dukat	5,330	1.0	443	8.8	171	76,013	1,505
Voro[2]	13,230	2.8	4	2.8	1,186	1,504	1,195
Lunnoye	1,330	1.6	296	6.6	68	12,676	283
Arylakh	345	0.9	478	8.7	10	5,301	97
Khakanja	1,370	1.5	112	2.8	65	4,939	124
Mayskoye	3,310	9.0	–	9.0	955	–	955
Albazino	6,700	5.1	–	5.1	1,093	–	1,093
Sopka Kvartsevaya	2,970	2.4	95	3.8	230	9,053	360
Birkachan	3,050	1.7	5	1.8	166	488	172
Dalneye	1,250	4.3	92	5.4	172	3,693	218
Oroch[3]	930	4.0	172	6.6	119	5,154	197
Tsokol Kubaka	430	6.3	11	6.5	87	157	89
Avlayakan	170	11.3	89	12.7	61	484	69
Ozerny	380	3.9	43	4.4	47	519	53
Maminskoye[4]	4,810	1.9	–	1.9	295	–	295
Total proved	**45,605**			**4.6**	**4,725**	**119,981**	**6,704**
Probable							
Dukat	4,670	0.8	386	7.6	119	57,959	1,136
Lunnoye	1,320	1.1	346	6.9	45	14,683	294
Arylakh	310	1.0	500	9.2	10	4,985	92
Mayskoye	3,820	8.6	–	8.6	1,058	–	1,058
Albazino	2,460	5.2	–	5.2	409	–	409
Sopka Kvartsevaya	80	4.5	145	7.4	13	406	19
Birkachan	730	13.0	58	13.9	306	1,364	325
Oroch[3]	190	4.2	197	7.2	26	1,206	44
Tsokol Kubaka	440	8.1	13	8.3	114	178	117
Avlayakan	280	18.4	163	20.8	166	1,473	188
Ozerny	400	5.9	29	6.3	76	369	81
Maminskoye[4]	9,890	1.9	–	1.9	618	–	618
Total probable	**24,590**			**5.5**	**2,959**	**82,622**	**4,380**
Proved + probable							
Dukat	10,000	0.9	416	8.2	290	133,972	2,640
Voro[2]	13,230	2.8	4	2.8	1,186	1,504	1,195
Lunnoye	2,650	1.3	321	6.8	113	27,359	577
Arylakh	655	1.0	489	9.0	20	10,286	189
Khakanja	1,370	1.5	112	2.8	65	4,939	124
Mayskoye	7,130	8.8	–	8.8	2,013	–	2,013
Albazino	9,160	5.1	–	5.1	1,501	–	1,501
Sopka Kvartsevaya	3,050	2.5	97	3.9	242	9,459	379
Birkachan	3,780	3.9	15	4.1	471	1,853	497
Dalneye	1,250	4.3	92	5.4	172	3,693	218
Oroch[3]	1,120	4.0	177	6.7	144	6,360	241
Tsokol Kubaka	870	7.2	12	7.4	201	335	207
Avlayakan	450	15.7	135	17.8	227	1,956	257
Ozerny	780	5.0	36	5.4	123	887	134
Maminskoye[4]	14,700	1.9	–	1.9	913	–	913
Total proved + probable	**70,195**			**4.9**	**7,684**	**202,603**	**11,084**

[1] Ore reserves are reported in accordance with the JORC Code (2012). Discrepancies in calculations are due to rounding.
[2] Including Voro South.
[3] Estimate prepared by Polymetal as at 01.01.2014. Price: Au = US$1,300/oz, Ag = US$23/oz.
[4] Initial estimate prepared by Snowden as at 01.01.2013. Revised estimate prepared by Polymetal as at 01.01.2014.

Ore reserves: polymetallic ore deposits as at 1 January 2014[1]

Ore reserves	Tonnage	Grade				Content			
Proved	Kt	Au, g/t	Ag, g/t	Cu, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	GE, Koz
Goltsovoye	470	–	623	–	10.7	–	9,373	–	162
Varvara[2]	7,450	0.9	–	0.46	1.2	225	–	7.9	295
Total proved	**7,920**				**1.8**	**225**	**9,373**	**7.9**	**457**
Probable									
Goltsovoye	450	–	519	–	8.9	–	7,485	–	129
Varvara[2]	34,400	0.9	–	0.45	1.5	991	–	69.1	1,607
Total probable	**34,850**				**1.5**	**991**	**7,485**	**69.1**	**1,736**
Proved + probable									
Goltsovoye	920	–	572	–	9.9	–	16,858	–	291
Varvara[2]	41,850	0.9	–	0.45	1.4	1,216	–	77.0	1,902
Total proved + probable	**42,770**				**1.6**	**1,216**	**16,858**	**77.0**	**2,192**

[1] Ore reserves are reported in accordance with the JORC Code (2012). Discrepancies in calculations are due to rounding.
[2] Cu grade only represents average grade of Float feed. Ore reserves of Float feed: 1.7 Mt proved and 15.5 Mt probable.

Mineral resources: precious metals as at 1 January 2014[1]

Mineral resources	Tonnage	Grade			Content		
Measured	Kt	Au, g/t	Ag, g/t	GE, g/t	Au, Koz	Ag, Koz	GE, Koz
Dukat	1,190	1.2	490	9.8	46	18,808	376
Voro[2]	800	2.1	4	2.1	53	105	54
Lunnoye	510	2.6	604	12.8	42	9,913	210
Arylakh	50	1.3	880	15.7	2	1,404	25
Khakanja	350	5.4	341	9.5	61	3,818	106
Mayskoye	660	8.9	–	8.9	188	–	188
Albazino[3]	1,150	5.2	–	5.2	193	–	193
Sopka Kvartsevaya	70	1.9	97	3.2	4	216	7
Birkachan	160	15.1	24	15.5	79	123	81
Dalneye	90	3.0	58	4.0	9	177	11
Oroch[4]	230	2.1	92	3.5	16	677	26
Tsokol Kubaka	40	6.0	10	6.1	8	14	8
Avlayakan	10	12.4	119	14.3	5	49	6
Ozerny	10	3.1	37	3.6	1	7	1
Maminskoye[8]	980	1.4	–	1.4	44	–	44
Total measured	**6,300**			**6.6**	**751**	**35,312**	**1,336**
Indicated							
Dukat	1,170	0.8	383	7.5	31	14,446	284
Lunnoye	420	1.7	390	8.3	23	5,287	113
Arylakh	40	1.2	625	11.5	2	796	15
Khakanja	100	4.8	199	7.1	17	689	25
Mayskoye	1,090	8.7	–	8.7	306	–	306
Albazino[3]	9,930	4.5	–	4.5	1,443	–	1,443
Sopka Kvartsevaya	10	2.5	85	2.9	1	21	1
Birkachan	180	10.3	34	10.7	59	197	62
Oroch[4]	180	2.4	131	4.4	14	756	26
Tsokol Kubaka	110	9.2	11	9.4	31	36	31
Avlayakan	40	15.3	104	16.9	20	138	22
Ozerny	30	3.4	29	3.7	3	24	3
Maminskoye[8]	1,150	1.5	–	1.5	55	–	55
Total indicated	**14,450**			**5.1**	**2,003**	**22,390**	**2,385**
Measured + indicated							
Dukat	2,360	1.0	436	8.6	76	33,254	660
Voro[2]	800	2.1	4	2.1	53	105	54
Lunnoye	930	2.2	508	10.8	65	15,200	323
Arylakh	90	1.3	767	13.8	4	2,200	40
Khakanja	450	5.3	308	8.9	77	4,507	131
Mayskoye	1,750	8.8	–	8.8	493	–	493
Albazino[3]	11,080	4.6	–	4.6	1,636	–	1,636
Sopka Kvartsevaya	80	1.9	96	3.2	5	237	8
Birkachan	340	12.6	29	13.0	138	321	143
Dalneye	90	3.0	58	4.0	9	177	11
Oroch[4]	410	2.2	109	3.9	30	1,433	51
Tsokol Kubaka	150	8.3	11	8.5	39	50	39
Avlayakan	50	14.6	108	16.2	25	187	28
Ozerny	40	3.3	30	3.7	3	31	4
Maminskoye[8]	2,130	1.4	–	1.4	99	–	99
Total measured + indicated	**20,750**			**5.6**	**2,754**	**57,702**	**3,721**

Appendices

Reserves and resources
As at 1 January 2014
continued

Mineral resources: precious metals as at 1 January 2014[1] continued

Mineral resources	Tonnage	Grade			Content		
Inferred	Kt	Au, g/t	Ag, g/t	GE, g/t	Au, Koz	Ag, Koz	GE, Koz
Lunnoye	550	1.9	667	13.2	33	11,791	233
Arylakh	130	0.7	385	7.0	3	1,598	29
Khakanja	10	2.8	199	5.2	1	49	1
Mayskoye	10,990	10.1	–	10.1	3,569	–	3,569
Albazino[3]	12,470	4.9	–	4.9	1,980	–	1,980
Birkachan	20	13.7	63	14.6	10	47	11
Oroch[4]	790	3.9	394	9.9	99	10,001	250
Tsokol Kubaka	50	7.5	13	7.7	11	19	12
Avlayakan	50	16.3	88	17.6	28	150	30
Kirankan[5]	142	6.5	8	6.7	30	39	30
Svetloye[6]	4,083	5.8	4	5.9	767	544	776
Ozerny	30	3.9	28	4.2	3	23	4
Kutyn[7]	5,505	4.1	–	4.1	717	–	717
Tamunier[9]	24,070	1.9		1.9	1,475		1,475
Olcha[10]	9,200	2.2	12	2.4	653	3,590	713
Total inferred	**68,090**			**4.5**	**9,379**	**27,852**	**9,830**
Measured + indicated + inferred							
Dukat	2,360	1.0	437	8.7	76	33,254	660
Voro[2]	800	2.1	4	2.1	53	105	54
Lunnoye	1,480	2.1	567	11.7	98	26,991	555
Arylakh	220	0.9	541	9.8	7	3,798	69
Khakanja	460	5.2	306	8.9	78	4,556	132
Mayskoye	12,740	9.9	–	9.9	4,062	–	4,062
Albazino[3]	23,550	4.8	–	4.8	3,615	–	3,615
Sopka Kvartsevaya	80	1.9	96	3.1	5	237	8
Birkachan	360	12.6	31	13.1	148	368	154
Dalneye	90	3.0	58	4.0	9	177	11
Oroch[4]	1,200	3.3	296	7.8	128	11,434	302
Tsokol Kubaka	200	8.1	11	8.3	50	69	51
Avlayakan	100	15.5	98	16.9	53	337	58
Kirankan[5]	142	6.5	8	6.7	30	39	30
Svetloye[6]	4,083	5.8	4	5.9	767	544	776
Ozerny	70	3.6	29	3.9	7	55	7
Kutyn[7]	5,505	4.1	–	4.1	717	–	717
Maminskoye[8]	2,130	1.4	–	1.4	99	–	99
Tamunier[9]	24,070	1.9	–	1.9	1,475	–	1,475
Olcha[10]	9,200	2.2	12	2.4	653	3,590	713
Total measured + indicated + inferred	**88,840**			**4.7**	**12,132**	**85,554**	**13,551**

1 Mineral resources are reported in accordance with the JORC Code (2012). Mineral resources are additional to ore reserves. Discrepancies in calculations are due to rounding.
2 Including Voro South.
3 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$1,500/oz. Zones Ekaterina 1 and 2, and resources of Anfisa and Olga zones (including Nadezhda) for underground mining remained unchanged.
4 Estimate prepared by Polymetal as at 01.01.2014 Price: Au = US$1,500/oz, Ag = US$26/oz.
5 Estimate prepared by Snowden as at 01.07.2011. COG = 1.5 g/t.
6 Estimate prepared by Snowden as at 01.07.2011. COG = 3.0 g/t.
7 Estimate prepared by Snowden as at 01.07.2011. COG = 2.0 g/t.
8 Initial estimate prepared by Snowden as at 01.01.2013. Revised estimate prepared by Polymetal as at 01.01.2014.
9 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.
10 Estimate prepared by Mir Resources as at 07.07.2011. COG = 1.0 g/t.

Mineral resources: polymetallic ore deposits as at 1 January 2014[1]

Mineral resources	Tonnage	Grade				Content			
Measured	Kt	Ag, g/t	Ag, g/t	Cu, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	GE, Koz
Goltsovoye	160	–	837	–	14.4	–	4,220	–	73
Varvara[2]	4,650	0.8	–	0.42	1.7	119	–	15.4	256
Perevalnoye[3]	–	–	–	–	–	–	–	–	–
Total measured	**4,810**				**2.1**	**119**	**4,220**	**15.4**	**329**
Indicated									
Goltsovoye	120	–	616	–	10.6	–	2,434	–	42
Varvara[2]	23,490	0.7	–	0.44	1.4	531	–	57.0	1,039
Perevalnoye[3]	1,096	–	375	0.34	6.8	–	13,229	3.7	239
Total indicated	**24,706**				**1.7**	**531**	**15,663**	**60.8**	**1,320**
Measured + indicated									
Goltsovoye	280	–	740	–	12.8	–	6,654	–	115
Varvara[2]	28,140	0.7	–	0.44	1.4	650	–	72.4	1,295
Perevalnoye[3]	1,096	–	375	0.34	6.8	–	13,229	3.7	239
Total measured + indicated	**29,516**				**1.7**	**650**	**19,883**	**76.2**	**1,649**
Inferred									
Goltsovoye	470	–	738	–	12.7	–	11,248	–	194
Varvara[2]	19,420	1.0	–	0.56	2.0	648	–	68.6	1,259
Perevalnoye[3]	78	–	206	0.46	4.1	–	513	0.4	10
Total inferred	**19,968**				**2.3**	**648**	**11,761**	**69.0**	**1,463**
Measured + indicated + inferred									
Goltsovoye	750	–	739	–	12.7	–	17,902	–	309
Varvara[2]	47,560	0.8	–	0.49	1.7	1,297	–	141.1	2,554
Perevalnoye[3]	1,174	–	364	0.35	6.6	–	13,742	4.1	249
Total measured + indicated + inferred	**49,484**				**2.0**	**1,297**	**31,644**	**145.2**	**3,112**

1 Mineral resources are reported in accordance with the JORC Code (2012). Mineral resources are additional to ore reserves. Discrepancies in calculations are due to rounding.
2 Cu estimate is listed for fresh ore and powder ore that has high Cu grade (total mineral resources for fresh ore and powder ore with high Cu grade of 23.5 and 5.4 tonnes of ore respectively).
3 Estimate prepared by Snowden as at 01.07.2011. Prices: Ag = US$13/oz, Cu = 220c/lb.

Compliance statement

This estimate was prepared by employees of JSC Polymetal Management Company and CJSC Polymetal Engineering, subsidiaries of the Company, led by Mr Valery 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 13 years' experience in gold, silver and polymetallic mining. He is a Member of the Institute of Materials, Minerals and Mining (MIMMM), London, and a Competent Person under the JORC Code.

Listed below are other Competent Persons employed by the Company that are responsible for relevant research on which the mineral resources and ore reserves estimate is based:

- Geology and mineral resources – Roman Govorukha, Head of Geologic Modelling and Monitoring, MIMMM, with 13 years' relevant experience;
- Mining and ore reserves – Igor Epshteyn, Head of Mining Process Department, FIMMM, with 32 years' relevant experience;
- Concentration and metals – Igor Agapov, Deputy Director of Science and Technology, MIMMM, with 16 years' relevant experience;
- Environmental issues – Tatiana Kuleshova, Director for Ecology, MIMMM, with 22 years' relevant experience.

All above mentioned Competent Persons have sufficient experience that is relevant to the style of mineralisation and types of deposits under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (JORC Code).

All Competent Persons have given their consent to the inclusion in the report of the matters based on his (or her) information in the form and context in which it appears.

Metals prices used in estimating mineral resources and ore reserves are listed below (unless otherwise indicated in the footnotes):
Au = US$1300/oz;
Ag = US$22.5/oz;
Cu = US$7000/t.

Reserves and resources As at 1 January 2014
continued

Gold equivalent data is based on reporting of metal equivalent ratios provided below. Lead and zinc ore reserves and mineral resources have not been assessed in this report due to immateriality.

Reporting of metal equivalents

Silver/gold equivalent conversion ratio for precious metals deposits

GE = Ag/k

Where *k* is the silver to gold equivalent conversion rate based on the difference in respective metals' value using the following formula:

k = ((Au price/31.1035 – (Au price/31.1035 – treatment charge Au)(Royalty Au)/100 – (treatment charge Au))*(recovery Au)/((Ag price/31.1035 – (Ag price/31.1035 – treatment charge Ag)*(Royalty Ag)/100 – (treatment charge Ag))*(recovery Ag));*

where *Royalty* is the mineral extraction tax at applicable rate, recovery – life-of-mine expected recovery of the respective the metal in the processing technology applied.

Silver/gold equivalent conversion ratios for precious metals deposits:

Deposit	Ore processing technology	k
Dukat	Conventional flotation	57
Voro	Heap leaching+Merrill-Crowe process	121
	Cyanidation carbon-in-pulp	177
Lunnoye	Cyanidation+Merrill-Crowe process	59
Arylakh	Cyanidation+Merrill-Crowe process	61
Khakanja	Cyanidation+Merrill-Crowe process	84
Sopka	Cyanidation+Merrill-Crowe process	61
	Heap leaching+Merrill-Crowe process	85
Birkachan	Cyanidation carbon-in-pulp	71
	Heap leaching+carbon-in-colon	79
Dalneye	Cyanidation+Merrill-Crowe process	77
	Heap leaching+Merrill-Crowe process	100
Oroch	Cyanidation+Merrill-Crowe process	66
Tsokol Kubaka	Cyanidation carbon-in-pulp	71
Avlayakan	Cyanidation+Merrill-Crowe process	66
Kirankan[1]	Cyanidation+Merrill-Crowe process	60
Svetloye[1]	Heap leaching+Merrill-Crowe process	60
Olcha[1]	Cyanidation+Merrill-Crowe process	60
Ozerny	Cyanidation+Merrill-Crowe process	81

[1] Silver to gold equivalent conversion ratios were not recalculated to deposits that were evaluated in 2011-2012.

Gold equivalent conversion ratio for polymetallic deposits

GE = Me/k

Where *Me* is the evaluated metal content (copper, silver);

where *k* is the silver to gold equivalent conversion rate that is calculated considering the difference in metals value issuing the following formula;

for silver (similar to the formula for precious metals deposits), for copper (%):
k = 100((Au price/31.1035-treatment charge Au)*(1-royalty Au%/change Au%)*(recovery Au%))/((Cu price-treatment charge Cu)*(1-royalty Cu%/recovery Cu%)*(recovery Cu%));*

where *Royalty* is the mineral extraction tax at applicable rate, recovery – life-of-mine expected recovery of the respective the metal in the processing technology applied.

Gold equivalent conversion ratios for polymetallic deposits:

Deposit	Ore processing technology	k	
		Ag	Cu
Goltsovoye[1]	Conventional flotation	58	
Varvara	Powder ore with high copper content[2]		0.36
	Primary ore with high copper content – conventional flotation		0.36
Perevalnoye[3]	Conventional flotation	60	0.64

[1] Due to the lack of gold in ore the ratio equals silver/gold ratio.
[2] This type of ore is currently not being processed, it is stockpiled and reflected only in mineral resources.
[3] Silver to gold equivalent conversion ratios were not recalculated to deposits that were evaluated in 2011-2012.

Glossary

Abbreviations

AGM	Annual General Meeting
CIS	Commonwealth of Independent States
FSU	Former Soviet Union
IMN	Indigenous Minorities of the North
JORC	Australasian Joint Ore Reserves Committee
JSC	joint stock company
LBMA	London Bullion Market Association
LTIP	Long-Term Incentive Programme
NA	not applicable
NGO	non-governmental organisation
NM	not meaningful
NPV	net present value
PGM	platinum group metal
POX	pressure oxidation

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
Oz or oz	troy ounce (31.1035 g)
pp	percentage points
t	tonne (1,000 kg)
tpd	tonnes per day

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

Glossary
continued

Grade means the relative amount of metal in ore, expressed as grams per tonne for precious metals and as a percentage for most other metals

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

Inconel an alloy of nickel, chromium, and iron that is highly resistant to high temperatures and corrosion

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 bodyparameters 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

Pd palladium

POX or pressure oxidation a technological operation in which slurry is subjected to high pressure and high temperature in an autoclave with the goal to destroy sulphide particles enveloping gold particles and make slurry amenable to cyanide leaching

Precipitate the semi-finished product of mineral processing by Merrill-Crowe process, normally containing very high concentrations of silver and/or gold

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

Pt platinum

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

SAG mill a semi-autogenous grinding mill, generally used as a primary or first stage grinding solution

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

Appendices
Shareholder information

As at 31 December 2013, the Company's issued share capital consisted of 389,472,865 ordinary shares of no par value. The Company does not hold any ordinary shares in treasury. The ordinary shares reflect 100% of the total issued share capital of the Company.

Substantial shareholdings as at 30 March 2014

Shareholder	Beneficial owner	Number of shares	Percentage of issued share capital (%)	Nature of holding
Fodina B.V.	Mr Petr Kellner	79,840,437	20.50	Indirect
Powerboom Investments Limited	Mr Alexander Nesis	71,997,758	18.49	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

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