

Delivering **sustainable value**

Polymetal International plc Annual Report 2011 / www.polymetalinternational.com



Delivering sustainable value

Polymetal is a leading gold and silver mining group, operating in Russia and Kazakhstan. We are proud to be the first Russian business to enter the FTSE 100.

We are a dynamic and progressive group with a simple objective – to deliver sustainable value to all our stakeholders. We intend to achieve this through our commitment to our strategy, business model and a culture of excellence throughout our operations.

We aim to become the leading precious metals mining group in Russia and the CIS, and we have a number of competitive advantages – including a robust project pipeline and strong track record – which we believe make us well-positioned to achieve this objective.

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

We have a strong record of setting and achieving demanding targets and are confident about our growth prospects following our listing.

Our unique business model



A detailed description of our unique business model, and how this enables us to generate value.

[Read more on page 12](#)

Operational review



An in-depth review of our operations and their performance over the year.

[Read more on page 22](#)

Sustainability



How sustainability planning and responsible development are core to our strategy.

[Read more on page 64](#)

Corporate governance



A description of our approach to governance and its importance to the Company.

[Read more on page 72](#)

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A transformational year

Key achievements

- > Premium listing on the London Stock Exchange and inclusion in FTSE 100
- > All time production volume record (250 Koz of gold equivalent in Q4)
- > Newly-commissioned Albazino concentrator reaching design parameters; first shipments of concentrate to Chinese off-takers
- > Completion of the expansion of the Omsukchan concentrator (Dukat hub)
- > Construction completed at Amursk POX
- > Merrill-Crowe section successfully commissioned at the Kubaka plant (Omolon hub)
- > Beginning of underground mining at Mayskoye
- > Long-term transportation agreement signed with FESCO
- > High-grade ore mining commenced at Avlayakan

The highlight of 2011 was our admission to the London Stock Exchange's Official List in November.

Historically the Russian financial markets have proved to be too limited and too volatile for a business such as Polymetal. These challenges create a significant disadvantage for both the Company and its long-term stakeholders. The London listing was a reflection of our intention to raise the Company's profile with the international investment community and improve its marketability.

We received a positive response to the IPO from the majority of existing shareholders and attracted many new investors. The move has resulted in increased interest in Polymetal from a more diversified investor base, significantly improving the liquidity of the stock. We now have greater access to capital to fund organic growth and create a currency for any potential consolidation opportunities.

Our inclusion in the benchmark FTSE 100 index brings with it additional tracker funds, which will also considerably enhance our access to new finance.

Polymetal has always sought to uphold the highest standards of corporate governance and transparency and has further strengthened the Board as part of the UK listing. This focus on continuous improvement demonstrates our ongoing commitment to best practice in this field.



Locations

Russia
Magadan Region
Sverdlovsk Region
Khabarovsk Territory
Chukotka Autonomous Territory

Kazakhstan
Kostanay Region

Our portfolio

(as at 31 December 2011)

6

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

1

Operation in construction Mayskoye

52

Licences

10,039

Total licence area (km²)

Key financial figures

1,326

Sales revenue (US\$ million)
2010: US\$925 million

701

Total cash cost (US\$/GE oz)²
2010: US\$555/GE oz

624

Adjusted EBITDA³ – total (US\$ million)
2010: US\$425 million

290

Profit for the year (US\$ million)
2010: US\$239 million

Reserves and resources¹

Gold equivalent

14.3 Moz

Ore reserves (GE oz)

13.8 Moz

Mineral resources (GE oz)

4.2

Average reserve grade (GE g/t)

Production

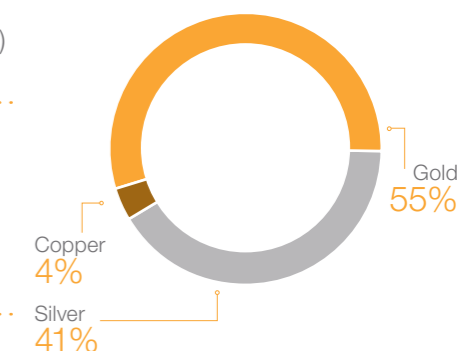
810 Koz

of gold equivalent
2010: 753 Koz

+8%

increase of gold equivalent
production on 2010

Production output (%)
Gold equivalent



¹ Mineral Resources and Ore Reserves are estimated in accordance with the JORC Code (2004). Mineral Resources are additional to Ore Reserves.

² Total cash costs comprise cost of sales of the operating assets (adjusted for depreciation expense, rehabilitation expenses and write-down of inventory to net realisable value) and general, administrative and selling expenses of the operating assets. Gold equivalent sales volume is calculated based on average realised metal prices in the relevant period. Total cash cost per gold equivalent ounce sold is calculated as total cash costs divided by total gold equivalent unit ounces sold.

³ The Company defines Adjusted EBITDA (a non-IFRS measure) as profit for the period adjusted for depreciation expense, rehabilitation expenses, writedown of inventory to net realisable value, share-based compensation, listing expenses, income on disposal of subsidiaries, bargain purchase gain, foreign exchange gain/(loss), change in fair value of derivatives, change in fair value of contingent consideration, finance income, finance costs, and income tax expense. Adjusted EBITDA margin is Adjusted EBITDA divided by revenue. See Note 6 to the financial statements.

Strong results reinforcing our strategy

Financial highlights

Revenue (US\$m)	+43%	Adjusted EBITDA (US\$m)	+47%	Net Income ¹ (US\$m)	+21%
2011	1,326	2011	624	2011	290
2010	925	2010	425	2010	239

¹ Profit for the financial year.

Diluted EPS (US\$/share)	+12%	Total cash cost (US\$/GE oz)	+26%	Net debt/adjusted EBITDA	-24%
2011	0.74	2011	701	2011	1.41
2010	0.66	2010	555	2010	1.85

Capital projects completed in 2011

- > Ramp-up of the Albazino concentrator and start of commercial production
- > Expansion of the Omsukchan concentrator
- > Installation of the Merrill-Crowe section at the Kubaka plant

Capital expenditure (US\$m)	+8%
2011	480
2010	444

Operational highlights

Ore mined (Kt)	+47%	Ore processed (Kt)	+12%	Gold equivalent production (Koz)	+8%
2011	11,002	2011	8,821	2011	810
2010	7,474	2010	7,845	2010	753

Environmental and social highlights

Lost time injury frequency rate (LTIFR)	-63%	Social investments (US\$m)	+18%	Air emissions ¹ (per 10 Kt of ore produced)	-26%
2011	0.7	2011	4.6	2011	4.72
2010	1.9	2010	3.9	2010	6.17

¹ See page 71.



Top:
Reviewing operations at Varvara mine

Bottom:
Ore analysis at Khakanja



Mining at Albazino

Our operations

Voro	
900 Ktpa	HL
900 Ktpa	CIP
	Voro, Degtyarskoye, Fevral'skoye
	South Voro, Volchansky



Mayskoye (Amursk POX hub)	
850 Ktpa	Mayskoye concentrator



Khakanja	
600 Ktpa	Merrill-Crowe plant
	Khakanja, Avlayakan, Yurievskoye
	Khakanja
	Ozerny



Omolon hub	
850 Ktpa	Kubaka CIP & Merrill-Crowe plant
1.3 Mtpa	Birkachan HL plant
	Birkachan, Sopka
	Tsokol, Oroch, Dalneye
	Pyatinakh, Burgali



Dukat hub	
1.5 Mtpa	Dukat concentrator
300 Ktpa	Lunnoye CIL plant
	Dukat, Goltsovoye, Lunnoye, Arylakh
	Perevalny, Arylakh, Nachalny-2
	Krasin, Zvezdny, Kamenisty



Albazino (Amursk POX hub)	
1.5 Mtpa	Albazino concentrator

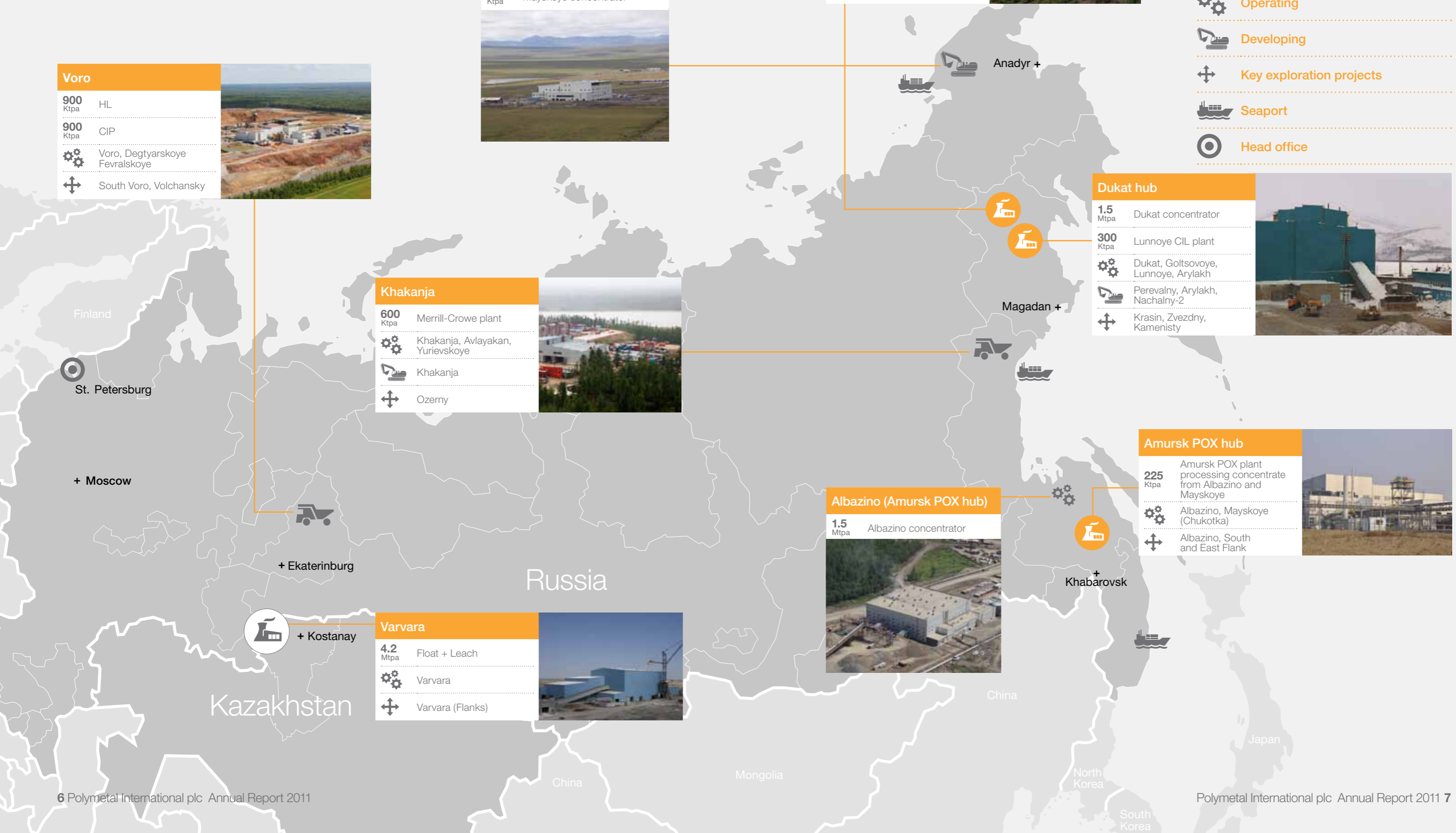


Amursk POX hub	
225 Ktpa	Amursk POX plant processing concentrate from Albazino and Mayskoye
	Albazino, Mayskoye (Chukotka)
	Albazino, South and East Flank



Map key

- Hub
- Potential hub
- Standalone mining operations
- Operating
- Developing
- Key exploration projects
- Seaport
- Head office



A year of achievement



I have become Chairman of Polymetal International at an extremely exciting point in the Company's development. We are entering a new era, and I have every confidence that Polymetal is well positioned to build and sustain a strong future for all our stakeholders.

A year of achievement

2011 was a tremendous year for Polymetal, both operationally and in terms of corporate development.

Not only did we deliver record levels of production, we also achieved a Premium Listing on the London Stock Exchange in November – a month later gaining entry to the FTSE 100 index. As a result, we have raised our international profile, increased our transparency, broadened our shareholder base and significantly improved our access to capital markets.

We have also maintained a strong focus on investment, both in new and existing processing facilities and exploration. As a result, we have made significant progress across all our key investment projects.

Corporate governance

We have historically operated according to high standards of governance. During the year we have paid particular attention to ensuring that our practices are further developed to reflect the change in our status, and that we achieve compliance with the majority of the requirements of the UK Corporate Governance Code. Our aim is to deliver progressively more effective stewardship and accountability to all our stakeholders through an ongoing process of review and assessment. Improved internal control systems and a renewed Board are the key changes that we have implemented in 2011.

We now have a stronger and more experienced Board, with half of the Directors, excluding the Chairman, being independent non-executives. A careful and disciplined selection process has enabled us to attract Board members with extensive international experience in the mining industry. The new Board has a greater role in strategic decision-making, conducts in-depth reviews of the Company's performance and is better positioned to maintain a constructive dialogue with our expanded stakeholder base. The Board's Audit and Risk, Nomination and Remuneration Committees are also now chaired by – and are composed of – independent non-executives and the Board Chairman.

We have also implemented a range of policies and procedures that cover internal control, financial reporting, risk management and disclosure, enabling us to fulfil all the obligations required of a UK Premium Listed company. The Directors and I are strongly committed to maintaining the highest standards of corporate governance and best practice.

Our people

I would like to extend my sincere thanks to my fellow Directors for their wise counsel and hard work in what has been a momentous year for Polymetal. This year's good performance is the result of a collaborative effort on the part of all our people. I am, therefore, extremely grateful to all our employees whose talents and commitment have contributed to our success to date.

Share and dividend policy

Over 83% of JSC Polymetal shareholders converted their shares to Polymetal International through the Institutional Share Swap Facility (ISSF). A Mandatory Tender Offer (MTO) for the remaining shareholders was launched in November, and on completion in February 2012 we had achieved 99.48% ownership of JSC Polymetal, while JSC Polymetal delisted its global depository receipts from the London Stock Exchange.

When moving to the London Stock Exchange, we carefully considered our approach to dividend payment. As a result, a new dividend policy was adopted in 2011, reflecting our commitment to meet shareholder expectations in an environment characterised on the one hand by high commodity prices, and tight financial markets on the other. A dividend of US\$0.20 per share is proposed by the Board for payment for 2011. From 2012, we intend to pay annual dividends of 20% of net income, provided that net debt/adjusted EBITDA is less than 1.75.

Outlook

Polymetal is entering a new era. Our strategy of improving efficiencies in existing mines, creating centralised processing hubs to benefit from economies of scale, and investing in exploration has given us the foundations to deliver long-term growth.

Despite continuing economic uncertainty across global markets, we believe we have a robust business model and a clear strategy that will enable us to prosper in the years ahead. We remain firmly focused on delivering the sustainable value that will establish Polymetal as a world class mining company.

Bobby Godsell
Chairman of the Board of Directors
24 April 2012

Board of Directors and committees



- Chairman
- Executive director
- Non-executive director
- Independent non-executive director

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 ●▲■

- Audit and Risk Committee
- ▲ Remuneration Committee
- Nomination Committee

Summary

- > Successful Premium Listing on the London Stock Exchange
- > Improved governance systems and practices
- > Stronger, more experienced Board
- > Talented people throughout the business
- > New dividend policy
- > Strong outlook for sustainable value

Effective leadership >

For more information on our corporate governance

[Go to page 72](#)

In shape for long-term growth



2011 was a year to remember for Polymetal. Our listing on the London Stock Exchange in November and achieving record production volumes represent milestones of which we are particularly proud.

Record production levels

In 2011, we produced a record 810 Koz of gold equivalent ounces¹. This was achieved despite some grade decline at mature operations, which was more than offset by production from new operations and the successful expansion of existing mines.

Annual gold production was essentially flat at 443 Koz, with a further 28 Koz of payable gold contained in Albazino concentrate prepared for processing at the Amursk POX plant. Silver production increased by 15% to 19.9 Moz, a record for Polymetal. Copper production was 6.9 Kt, up 73% on 2010.

The early months of the year were particularly challenging, with various issues relating to grade quality and production processes resulting in an initial operational underperformance. However as these issues were resolved, the business subsequently performed well, and we achieved our revised targets – reaching a run-rate of 1 Moz annual production in the last

quarter of 2011. This was supported in particular by the full ramp-up of the Albazino plant and stabilisation of grades at our Dukat hub.

As a result, we are now firmly on track to deliver on our target of 1.4 Moz gold equivalent production per annum by the end of 2014.

Strong financial performance

2011 was a very successful year for the Company. The increase in gold equivalent production and the growth

in metal prices during the year pushed the revenues up 43% to a record US\$1,326 million. While cost pressures in Russia and in the mining industry in general remained high, we nevertheless believe we have been successful in managing our cash costs. Our cash costs were at US\$701 per gold equivalent ounce, up 26% as a result of some operational challenges and low volumes due to the ramp-up of significant new operations at Albazino, and further influenced by Russia's domestic inflation and the Rouble strengthening against the US Dollar.

Adjusted EBITDA, which is a key metric of our core cash earnings, increased by 47% to US\$624 million, in line with revenue growth, and the adjusted EBITDA margin increased to 47%. Bottom-line net earnings were up 21%, driven by EBITDA growth, growth in non-cash expenses, and change in the effective tax rate.

As a result of the cash raised at IPO and robust growth in operating cash

flows, we have significantly reduced leverage to 1.41 net debt/adjusted EBITDA, with the majority of debt (65%) being long-term. Both these factors give us and our investors comfort as to the Company's liquidity and funding.

Robust project delivery

I am very pleased to report that all our key projects are now progressing to plan and schedule. The Amursk POX facility was completed in December and has entered the commissioning stage. In 2012 it will start processing refractory concentrates from Albazino, and in 2013-14 will reach design capacity with the inclusion of concentrate from the Mayskoye mine.

Much development and construction work has been completed at Mayskoye, our most remote mine, with mills installed and the power substation nearing completion. Underground development has reached a steady rate of 1,100 m per month.

The Merrill-Crowe circuit was successfully commissioned at the Kubaka plant (Omolon hub), and is ready to commence full scale processing of high grade Sopka ore.

Commitment to safety and responsible development

During the year we continued to demonstrate a strong commitment to responsible corporate citizenship. We have maintained high environmental standards both at existing and new operations. We have also continued to provide meaningful support to local communities wherever we operate.

I would also like to highlight a marked improvement in safety at work last year. We had no fatalities, and our lost time injury frequency rate was 63% lower than in 2010. This very successful outcome was achieved as a result of great efforts throughout our operations to improve safety policies and working practices. These new policies have been strictly implemented to ensure full compliance across all locations, and are supported by extensive training and relevant incentive arrangements.

Looking ahead

Our teams are firmly focused on delivering further growth in 2012. This will be driven by the start-up of the Amursk POX facility and the achievement of full production capacity at Omolon.

In the year ahead we expect to produce 590-640 Koz of gold, 21-23 Moz of silver and 6-7 Kt of copper. We aim to increase our total annual gold equivalent production to over 1 Moz in the coming year and to 1.4 Moz by 2014.

We continue to focus on operational excellence, commitment to our strategic objectives and proven business model. With our talented and dedicated workforce, I am confident that we will continue to deliver sustainable value as we continue to grow.

Vitaly Nesis
Chief Executive
24 April 2012

A secure demand

The global demand for gold is secure and dynamic.

Key categories include: Investment

Gold will always play a vital role in any long-term savings or investment portfolios. It is a foundation asset offering a hedge against currency and asset price volatility.

Jewellery

Jewellery accounts for over 50% of the market for gold. Growing affluence in the major markets of India and China will continue to drive demand for gold jewellery, not just a decorative item but also as a key component of household savings.

Central banks and government agencies

Gold reserves held by central banks have increased over the past two years. The factors that motivated these purchases will remain relevant for the foreseeable future.

Industry and technology

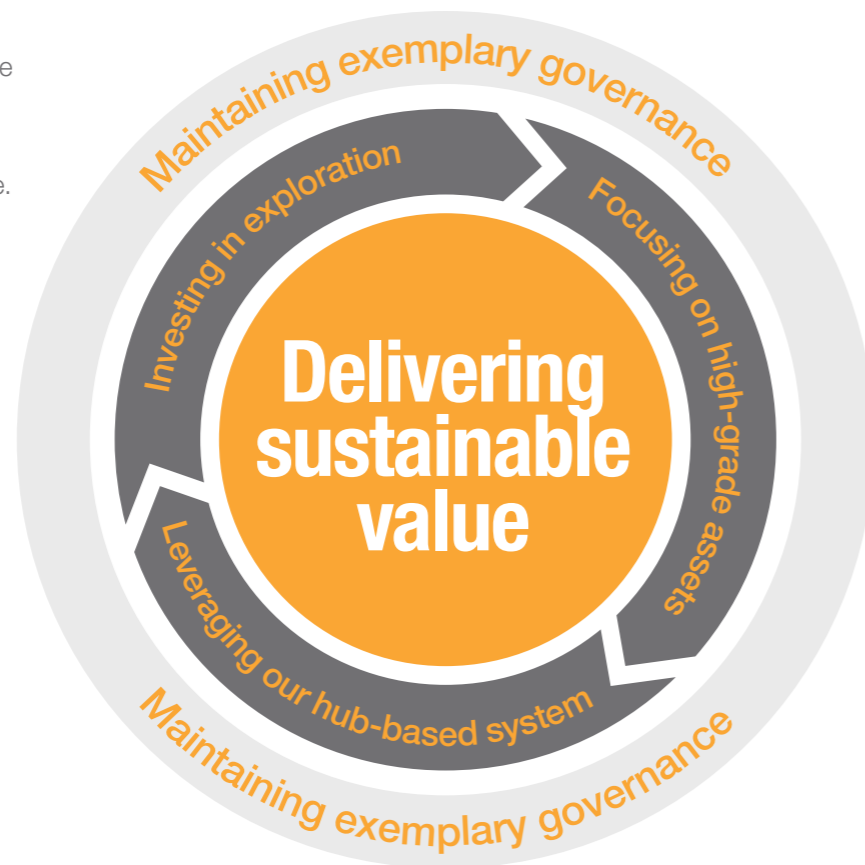
Gold is used in an increasingly wide range of consumer and industrial technologies. It has unique technical properties of high conductivity, resistance to corrosion, malleability and ductility.

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

How we deliver sustainable value

Today's precious metals markets are highly competitive; no single producer has a significant influence over selling prices. On the other hand, the world's gold and silver resources are characterised by declining grades, with increased complexity in mining and processing of ores as the higher quality resources are depleted worldwide. Success in this environment therefore depends, to a large extent, on our ability to increase the resource base and production volumes, whilst simultaneously maintaining tight control of capital spending and operating costs.

We have developed a business model that enables us to achieve these objectives, and which has demonstrated its effectiveness as the Group has evolved. We are strongly committed to this model, and are confident that it will enable us to continue delivering growth and value.



There are three elements that form the substance of our business model – a focus on high-grade assets, support and expansion of our hub-based operating system, and investment in exploration – which are described below and in more detail in the following pages. All these core elements are supported by exemplary governance.

> Focusing on high-grade assets

We also have a preference for open-pit mining unless higher grades justify underground development. Grades and mining conditions are the key cost factors that drive return on invested capital in the precious metals industry. By setting appropriate thresholds on head grades and focusing on open-pit mines we are achieving better returns from our project portfolio.

[Read more on page 14](#)



> Leveraging our hub-based system

Allowing us to minimise processing and logistics costs and achieve economies of scale through creation of centralised facilities for the treatment of materials from different sources.

[Read more on page 16](#)



> Investing in exploration

This will allow us to ensure a cost-effective increase in our reserve base which is, in turn, the key source of long-term organic growth.

[Read more on page 18](#)



> Maintaining exemplary governance

In order to ensure proper steering of the Company, accountability to shareholders and attention to other stakeholders' interests.

[Read more on page 74](#)



Focusing on high-grade assets



Albazino and Omolon
Ramp-up of new mines – in particular Albazino and Omolon – pushed grade quality up to 4.5 g/t.



1.4 Moz

Strategic target of gold equivalent production by 2014

4.2 g/t

Average reserve grade

3.8 g/t

Average gold equivalent grade processed

Average grade processed

	2011	2010	% Change
Gold equivalent, g/t	3.8	3.8	-1
Dukat	7.3	7.3	0
Khakanja	7.4	10.1	-26
Voro	3.8	3.7	+2
Varvara	1.5	1.4	+8
Omolon	2.4	1.8	+38
Amursk hub	4.3	-	n/a



Mining operations at Mayskoye

2011-2014 growth is expected to come mostly from high-grade assets:

- > Albazino
- > Omolon
- > Mayskoye

Gold equivalent reserve grade



Leveraging our hub-based system

The creation of the Dukat, Amursk POX and Omolon hubs highlights Polymetal's strategy of creating centralised processing facilities to treat ores and concentrates from various sources. By the end of 2014 we expect these three hubs to be producing up to 70% of the Group's total production.



Omolon
The Group's newest operating hub includes the refurbished Kubaka plant and two high-grade mines.



Dukat
The Group's first and largest asset since its acquisition in 1998 has been converted into a hub processing ore from four operating mines.



Albazino
Albazino is part of the Amursk hub. It comprises an open-pit mine and a new flotation concentrator.

We believe this model provides us with several key advantages, including:

- > allowing the Group to bring small and medium-size deposits into production by sharing processing plants and other infrastructure. The development of standalone operations at such deposits is typically uneconomic;
- > providing the Group with benefits in terms of capital expenditure and operating costs, with larger processing plants enjoying higher productivity and energy efficiency, as well as a smaller footprint per unit of capacity; and
- > allowing the Group to use high calibre staff from its existing processing plants. The Group's processing plant employees are generally better qualified and are therefore typically more difficult to recruit, train and retain than mining personnel.

We intend to create additional processing hubs in the future. We will also review acquisition opportunities near our existing hubs and standalone mines, with a view to creating additional synergies through leveraging the existing processing facilities.



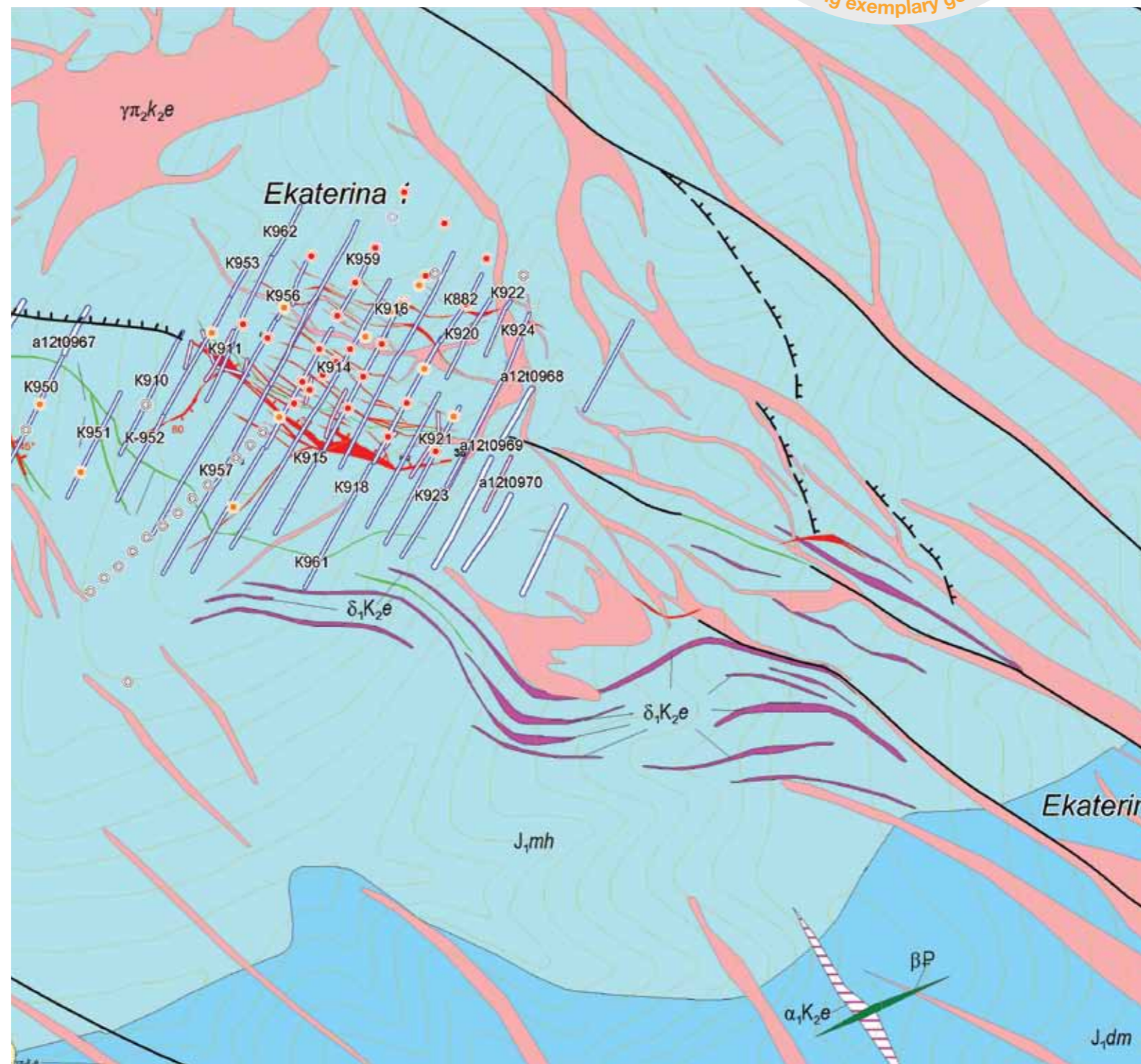
Investing in exploration



Exploration at Prognozny

Investment in greenfield exploration with the aim of establishing the feasibility of constructing two new standalone mines by 2013 is a key objective for us. Typically our target standalone mines will need to meet the following internal criteria that drive the cost and, ultimately, the return on capital invested into the project.

- > Minimum peak production of 300 Koz of gold equivalent per year for at least ten years
- > Minimum mine life of 15 years
- > Minimum grades for non-refractory ores of 1.5-3 g/t depending on the processing method



Our key standalone exploration projects include:

- > Avlayakan-Kirankan (Khabarovsk Territory)
- > Kutyn (Khabarovsk Territory)
- > Svetloye (Khabarovsk Territory)
- > Prognozny (Magadan Region)
- > Tamunier (Sverdlovsk Region)
- > Elmus (Karelia)

[Read more on page 50](#)

New mineralised areas discovered in 2011 containing

Gold
4.6-6.7 Moz¹

¹ Internal non-JORC estimate.



Drilling samples

Consistent strategy

Strategy	Objective
<p>Achieving design capacity Achieve design capacity at projects currently in construction or ramp-up phase by the second half of 2013 and achieve an annualised run-rate of over 1.4 Moz of gold equivalent ounces in 2014. Assets in construction or ramp-up phase expected to generate production growth are the Amursk POX hub, the Omolon hub and the Dukat hub.</p>	<ul style="list-style-type: none"> > Achieve design capacity at all plants and targeted production volumes (1.4 Moz) > Complete key capex projects
<p>Investment in exploration Near-mine Investment in near-mine exploration with the aim of expanding the Group's reserve base and creating opportunities for production growth, either through grade improvement or expansion of existing processing facilities. Assets targeted for this expansion are Albazino within the Amursk POX hub, Khakanja and Voro.</p> <p>Greenfield Investment in greenfield exploration with the aim of establishing the feasibility of constructing two new standalone mines by 2013. We are targeting large deposits, capable of sustaining production of at least 300 Koz of gold equivalent per year for at least ten years. The Group spent US\$66 million in exploration in 2011 and plans to increase exploration spending up to US\$80.0 million in 2012.</p>	<ul style="list-style-type: none"> > Invest in near-mine and greenfield exploration
<p>Pursuing acquisitions Pursuit of selected synergistic 'bolt-on' acquisition opportunities with a view to leveraging processing capacity, infrastructure and operational expertise at our existing processing hubs or transforming current standalone mines into new hubs.</p>	<ul style="list-style-type: none"> > Synergetic bolt-on acquisitions
<p>Increasing profitability Deliver superior operating profitability by maintaining tight cost control, focusing on return on capital in investment decisions and maintaining safe debt levels.</p>	<ul style="list-style-type: none"> > Deliver superior operating profitability
<p>Refining corporate governance Maintain high standards of corporate governance, strictly adhering to the principles of sustainable development in our interaction with all stakeholders in our operations, including communities, employees and government bodies. We are compliant with the majority of provisions of the UK Corporate Governance Code and adequate provisions have already been made by the Board to ensure full compliance in 2012. The Group is also a participant in the UN Global Compact, a recognised international standard for sustainable development.</p>	<ul style="list-style-type: none"> > Maintain high standards of corporate governance and sustainable development

Our corporate objective is to generate sustainable value for our stakeholders. Our strategy to achieve this remains consistent, with clearly defined objectives, key performance indicators, targets and measurement processes.

KPI	2011 Performance	2010 Performance	% Change
> Gold equivalent produced (Koz)	810	753	+8%
> Revenue (US\$m)	1,326	925	+43%
> Capital expenditure (US\$m)	480	444	+8%
> Major project milestones completed	<ul style="list-style-type: none"> > Albazino – full ramp up > Amursk – completion of construction > Omolon – installation of the Merrill-Crowe section 		
> Capital expenditure on exploration (US\$m)	66	59	+13%
> Resources (GE Moz)	13.8	13.5	+3%
> New mineralised areas discovered	<ul style="list-style-type: none"> > Ekaterina-2 (Albazino) 	<ul style="list-style-type: none"> > Nadezhda (Albazino) > Ozernoye (Khakanja) 	
> Transactions made during 2011	<ul style="list-style-type: none"> > Acquisition of the Kutyn deposit – substantial oxidised mineral resources with easy open-pit mining, high heap leach recoveries and proximity to the sea 		
> Total cash cost (US\$/GE oz)	701	555	+26%
> Adjusted EBITDA (US\$m)	624	425	+47%
> Adjusted EBITDA margin (%)	47.0	45.9	+110bps
> Compliance with UK Corporate Governance Code	<ul style="list-style-type: none"> ✓ Refer to page 75 detailing how we have complied 		
> LTIFR	0.7	1.9	-63%
> CSR spending (US\$m)	4.0	3.9	+3%

Delivering a strong performance

In 2011 Polymetal delivered another year of strong performance. We produced 810 Koz of gold equivalent ounces¹, an increase of 8% over 2010. While there was some grade decline at mature operations, this was more than compensated for by new operations and the successful expansion of the Dukat mill.

Key production achievements

Annual gold production was essentially flat at 443 Koz, with a further 28 Koz of payable gold contained in Albazino concentrates prepared for processing at the Amursk POX plant. Silver production increased by 15% to 19.9 Moz, an all-time record for Polymetal. Copper production increased by 73% reaching 6.9 tonnes.

Throughout the year all our key projects progressed as planned (see table below).

Capital projects completed in 2011

- > Full ramp-up of the Albazino processing plant and successful start of commercial production ✓
- > Reconstruction of the Omsukchan concentrator – gravity circuit launched ✓
- > Expansion of the Kubaka plant – Merrill-Crowe section installed ✓
- > Inaugural silver and gold concentrate sales (Dukat to Kazakhstan, Albazino to China) ✓
- > Implementation of laser scanning of mining works at Dukat for further automated mine planning ✓

Production highlights

	2011	2010	% Change
Stripping, Kt	80,683	63,283	+27
Underground development, m	35,150	23,577	+49
Ore mined, Kt	11,002	7,474	+47
Open-pit	9,636	6,509	+48
Underground	1,366	965	+42
Ore processed, Kt	8,821	7,845	+12
Average grade processed, GE g/t	3.8	3.8	-1
Production^{2,3}			
Gold, Koz	443	444	0
Silver, Moz	19.9	17.3	+15
Copper, tonnes	6,915	4,003	+73
Sales			
Gold, Koz	448	440	+2
Silver, Moz	17.1	18.0	-5
Copper, tonnes	6,363	3,991	+59
Safety⁴			
LTIFR	0.7	1.9	-63
FIFR	-	0.5	-100

Notes

- 1 Based on 1:60 Ag/Au and 5:1 Cu/Au conversion ratios.
- 2 As of 1 April 2011, the Group changed its methodology for calculating and reporting on the metals it produced. Previously, production of metals contained in doré and zinc precipitate was recorded by the Group upon shipment of the doré or precipitate from its mine gold rooms to third party refineries. Under the new methodology, these metals are considered to be produced upon receipt of doré or precipitate at the Group's gold rooms. In addition, production of metals contained in concentrates was previously recorded upon shipment of concentrate to third party off-takers, whereas under the new methodology these metals are considered to be produced when concentrate is bagged, sampled and prepared for shipment. The Company believes that the new methodology is more accurate as it reflects the Group's physical production and eliminates variations associated with shipment cycles. This mostly applies to concentrates, where stockpile build-up accelerated during 2011. To a lesser extent, it also applies to doré and precipitate, where shipment cycles have remained largely unchanged during 2011. Consequently, year-on-year comparisons have not been restated, as the Company believes such restatement would not lead to material differences to those results.
- 3 Polymetal reports production of metals contained in concentrates based on percentages payable for these metals by off-takers. Final assays are typically determined at the receiving smelters several months after shipment from the Group's mines.
- 4 LTIFR = Lost Time Injury Frequency Rate; FIFR = Fatal Injury Frequency Rate.

Focus on POX >

First pressure oxidisation plant in Russia

 Read more on page 34.



Amursk POX plant

The 225 Ktpa plant uses POX and cyanidation technologies to process refractory ores.

Analysis of production results

Mining

Ore mined was 11,002 Kt, 47% above 2010 levels. The bulk of ore mined – around 88% (2010: 87%), came from open-pit mines, a strong strategic preference for Polymetal. The largest increase – 1,248 Kt, representing a 2.8 fold increase – came from Omolon. Significant additional contributions came from the Amursk hub with another 625 Kt of ore, due to start of underground mining at Mayskoye and the open-pit mine at Albazino reaching full capacity.

Average grades in ore mined decreased slightly from 4.4 g/t of metal equivalent to 3.8 g/t, with the decline mostly coming from mature operations such as Dukat, Khakanja and Voro. The grade decline at Omolon was related to mine sequencing (mostly heap leach ore mined at Sopka). This was compensated for by grade growth at new operations, in particular Albazino and Mayskoye which both produce high grade refractory gold ores.

Processing

Ore processed was up 12% in 2011 at 8,821 Kt. The difference between ore mined and processed resulted principally from inability to operate a winter road at the start of 2011 at Omolon. As a result, ore from Sopka could not be processed at the Kubaka plant as originally planned. However, some Sopka ore was delivered to Khakanja by sea and processed there. Notable increases have been seen at Dukat, on completion of the Omsukchan concentrator reconstruction, and at Varvara at both leach and float circuits in line with mining volume increases.

Average gold equivalent grades processed in 2011 were stable compared to 2010 at 3.8 g/t. However the ramp-up of new mines – in particular Albazino and Omolon – in the second half of the year pushed the grade up to 4.5 g/t in the fourth quarter. Next year we plan to process ore with grades close to our current reserve grade of 4.2 g/t.

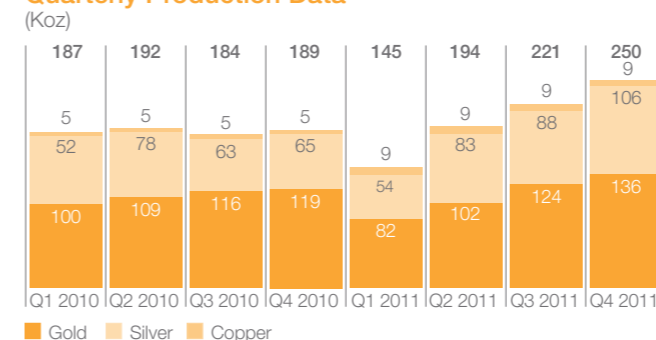
Production

Throughout the year we consistently improved production results on a quarter-on-quarter basis, as we overcame the operational challenges of the first half of the year and started to reap the rewards of ramping-up new plants and reconstruction of existing facilities in the second half of the year. As a result, in Q4 we achieved a record production level of 250 Koz of gold equivalent, representing a run-rate of 1 Moz per year.

Major contributions to production growth resulted from three operations:

- > **Dukat** – which saw grade stabilisation by the year end and increased production capacity following gravity circuit completion
- > **Amursk hub** – the start of production and ramp-up of the Albazino processing plant produced saleable flotation concentrate
- > **Omolon** – ramp-up of the Kubaka plant, which will be followed by a significant increase in production in 2012 on the back of full use of Sopka ore and introduction of the Merrill-Crowe section into commercial production

Quarterly Production Data



	2011	2010	% Change
Gold equivalent production, Koz	810	753	+8
Dukat	319	280	+14
Khakanja	128	170	-25
Voro	160	185	-14
Varvara	127	99	+28
Omolon	46	19	+142
Albazino	30	-	n/a

Delivering a strong performance continued

Sales

	2011	2010	% Change
Au, Koz	448	440	+2
Ag, Moz	17.0	18.0	-5
Cu, Kt	6,363	3,991	+59
Gold equivalent, Koz¹	764	759	+1

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

Sales of metal in 2011 were 765 Koz of metal equivalent, representing a 1% increase over 2010. Sales were lower than production volumes by 6% as some of the concentrate produced by the Group was not delivered to third-party refineries. The difference was short-term in nature and is not expected to reoccur.

During 2011 the Group commenced successful sales of concentrates from its Dukat and Albazino plants. Dukat now sells most of its production in the form of flotation and gravitation concentrates to a third-party refinery in Kazakhstan, a decision made based on the economics of third party refining compared with in-house refinery costs and recovery.

Concentrate produced at the Albazino plant was sold to generate immediate cash flows from the Amursk/Albazino project prior to completion and commencement of commercial gold production at the Amursk POX. 20,000 tonnes of concentrate – with gold content at more than 40 g/t – was successfully sold to a Chinese off-taker. Additional sales may take place in 2012, depending on market conditions and the exact timing of the Amursk POX camp-up.

Exploration

In 2011, we conducted exploration works in four regions of Russia – Khabarovsk, Karelia, Magadan and Sverdlovsk – as well as in Kazakhstan. We currently have 52 licences for geological studies, exploration and gold and silver mining. Our exploration projects portfolio includes 39 licences with a total area of approximately 9,664 km².

In 2011 we conducted exploration projects in 25 licensed areas, of which seven are at an advanced stage.

Key exploration objectives in 2011 included:

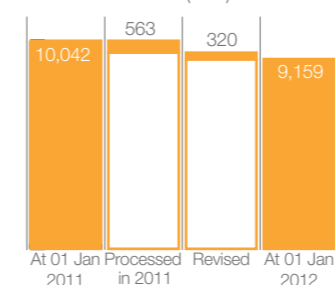
- > increasing the resource base of existing processing facilities (Albazino, Dukat, Omolon, Varvara, Voro)
- > ensuring a constant supply of ore for Khakanja, which currently has the shortest life of our existing mines
- > exploring for new gold and silver deposits having a potential for the creation of new standalone mines.

2011 exploration projects

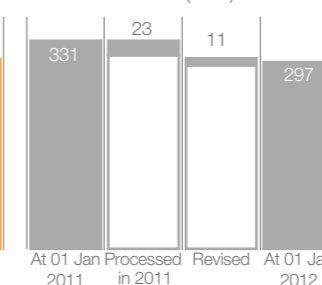
	Unit	2011	2010	% Change
Exploration works				
Core drilling	km	129.7	84.0	+54
Trenching	th. m ³	187.0	315.0	-41
Geochemical sampling	th. assays	53.0	48.0	+10
– trench	th. assays	11.6	19.0	-39
– core	th. assays	71.9	60.0	+20
Geophysical sampling	km ²	75	51	+47
Licences held				
Exploration licences		39	34	+15
Area covered	km ²	9,664	8,908	+8

As a result of these exploration activities, we have identified new or expanded mineralised areas with estimated 4.6-6.7 Moz of contained gold (internal non-JORC estimate) in addition to our existing reserves and resources.

Movements in gold ore reserves (Koz)



Movements in silver ore reserves (Moz)



Reserves and resources

	2011	2010	% Change
Ore reserves (proved + probable), GE Moz			
Gold, Moz	9.2	10.0	-8
Silver, Moz	297.0	331.3	-10
Copper, Kt	43.4	58.0	-26
Mineral resources (indicated + measured + inferred), GE Moz			
Gold, Moz	10.4	9.5	+10
Silver, Moz	181.1	212.0	-15
Copper, Kt	74.0	80.0	-8
Total Reserves and Resources	28.2	29.3	-4

We expect that a modest reduction in Polymetal's ore reserves in 2011 will be more than reversed in 2012 as our exploration efforts translate into new significant reserve and resource additions.

During 2011, the Group's reserves and resources were revised as at 30 June 2011 as part of an audit by mineral experts. Mineral Expert Reports and reserve and resource statements as of 30 June 2011 can be reviewed in the Prospectus dated 28 October 2011, issued by the Company in relation to the Initial Public Offering of its shares on the London Stock Exchange. As at 30 June 2011, the Group's proved and probable ore reserves were 15.0 Moz of gold equivalent, and mineral resources (measured, indicated and inferred) were 13.4 Moz of gold equivalent.

For more detail on reserves and resources and the statement by the Competent Persons please refer to page 137.

Objectives for 2012

Our development strategy is aimed at optimising operations and increasing the effectiveness of our existing plants. We also aim to improve current assets by developing their reserve and resource base – creating a new generation of assets – whilst maintaining total unit production costs at a level of no more than 50% of market prices.

Operations

In the coming year we expect to produce 590-640 Koz of gold, 21-23 Moz of silver and 6-7 Kt of copper. As a result, the Group aims to increase its total annual gold equivalent production to over 1 Moz¹. The structure of production mix is shifting towards gold as opposed to silver: our share of gold is expected to grow from 55% in 2011 to more than 65% in 2012.

We are firmly focused on delivering further growth in 2012, driven by the start-up of the Amursk POX facility and achievement of full production capacity at Omolon. Other operations will support this by maintaining grade and volume.

In 2012, we are also targeting completion and ramp-up of the Mayskoye concentrator. This will contribute significant production volumes from 2013 as the concentrate produced at Mayskoye will be further treated at the Amursk plant. By 2014, the existing portfolio of assets – including Albazino and Mayskoye – will achieve full capacity, with annual gold equivalent production targeted at 1.4 Moz.

As part of our commitment to enhancing existing mining and processing facilities, we have implemented a number of initiatives, which include:

- > full implementation of JORC-based mine planning based on use of the Datamine system for mine modelling and laser scanning. Mine planning will include full cycle, from reserve and resource estimation and audit to detailed mine sequencing plans on-site
- > design and implementation of automated production management systems, including second generation automated enterprise management systems
- > further implementation of energy saving solutions and audit of energy use, including automated systems for energy saving and control
- > research, design and implementation of technologies for improving recoveries and optimization of ore processing (geotechnological mapping).

Exploration

Further growth post-2014 will be mostly based on the results of ongoing exploration projects, both greenfield and brownfield. We believe these will lead to development of additional mines, allowing us to leverage the existing processing capacity at the maturing mines. Delivering on the ongoing exploration projects and progressing further to feasibility studies and subsequent construction remains one of our strategic priorities.

Acquisitions

On the M&A front, Polymetal continues to be focused on relatively small potential near-mine targets, aimed at increasing ore feed for maturing operations such as Varvara and Voro.

Operating review

Dukat

Our cornerstone asset and largest silver mine

Russia, Magadan Region
 Managing director: Gennady Kuzmenko
 Employees: 1,911

3rd
 Largest silver deposit in the world

+17%
 Silver production in 2011: 17.0 Moz

401 Moz
 Silver reserves and resources, Moz

+83%
 Adjusted EBITDA growth,
 2011/2010, %

Located in the Magadan Region in the Russian Far East, Dukat is one of Polymetal's original assets. It is the third largest silver deposit in the world, the largest primary silver operation in Russia and our flagship operation.

The Dukat hub was created in 2008 by merging the Dukat and Lunnoye operating units. It consists of the Omsukchan concentrator, which processes ore from the Dukat and Goltsovoye mines, and the Lunnoye processing plant, which processes ore from the Lunnoye and Arylakh mines, as well as concentrate from the Omsukchan facility. The Dukat hub also includes the Nachalny-2 mine.

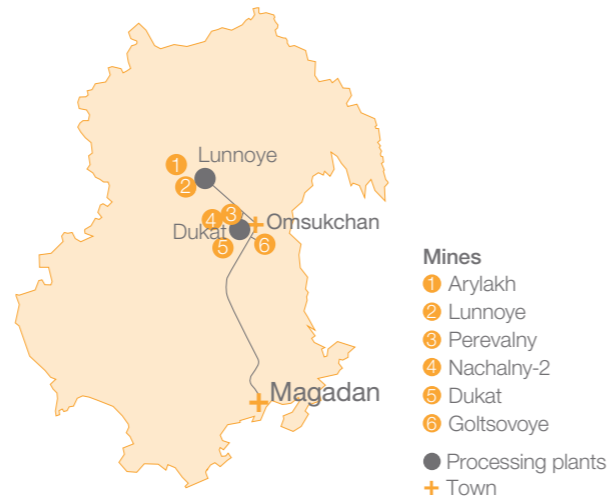
The year ahead

In 2012, the Dukat hub will continue to see a decrease in open-pit mining volumes as open-pit deposits approach depletion. However underground mining volumes at Dukat, Goltsovoye and Lunnoye will continue to grow and will become the key source of ore, worked through a combination of open stoping and cut-and-fill methods to maintain full utilisation of the processing plant.

Grades will remain at around current levels which, combined with improved recoveries, will allow us to achieve moderate growth in volumes of silver produced. No major reconstruction or modifications are expected at the existing processing plants, and near-mine exploration activities will continue with the aim of further strengthening the hub's resource base.



Dukat continued



2011 highlights

Mining

Underground development at Dukat and Goltsovoye increased significantly during the year. Ore mined grew by 12% and 451% respectively. However, both mines were experiencing some grade decline.

At Lunnoye and Arylakh, ore mined grew 12%, with a modest silver grade decline (-7%).

In 2011 we also started mining at the Nachalny-2 deposit.

Processing

2011 saw significant improvements in recoveries and throughput following the successful completion of a

lengthy and complex expansion project for the Omsukchan concentrator. Installation of the gravity circuit was the last stage completed in 2011. Whilst grades at the mine declined slightly, overall grades processed improved due to the inclusion of higher-grade feed from the Goltsovoye mine. As a result, total silver production at the Dukat plant increased by 23%.

Mining statistics

	Dukat			Goltsovoye			Lunnoye + Arylakh			Total		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Stripping	810	2,002	-60	-	-	n/a	2,837	2,724	+4	3,647	4,726	-23
Underground development, m	15,705	12,244	+28	4,238	3,518	+20	2,444	3,139	-22	22,387	18,901	+18
Ore mined, Kt	1,197	1,069	+12	126	23	+451	321	286	+12	1,644	1,378	+19
Metal in ore mined (grade, g/t)												
- gold	0.8	1.1	-28	-	--	n/a	1.3	1.3	-1	0.8	1.1	-26
- silver	387	406	-5	467	623	-25	397	426	-7	395	414	-5

Production statistics

	Omsukchan concentrator			Lunnoye processing plant			Total		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Ore processed	1,432	1,259	+14	301	275	+10	1,733	1,533	+13
Metal in ore processed (grade, g/t)									
- gold	0.7	0.9	-23	1.3	1.3	+4	0.8	1.0	-17
- silver	383	366	+5	414.1	426.1	-3	388	377	+3
Recovery									
- gold	76%	70%	+7	92%	94%	-2			
- silver	77%	72%	+7	87%	90%	-3			
Production			n/a						
- gold, Koz	25	27	-9	12	11	+11	37	38	-3
- silver, Moz	13.6	11.1	+23	3.4	3.4	-2	17.0	14.5	+17
Gold equivalent, Koz	251	212	+19	68	68	0	319	280	+14
Total cash cost/silver equivalent oz (US\$/oz)							14.0	9.9	+42
Adjusted EBITDA, US\$m							282	154	+83



Processing facilities at Dukat

At Lunnoye, ore processed increased by 10%. The amount of silver produced was 2% lower than in 2010, due to modest grade declines in ore processed. However gold production increased by 11%.

optimisation of the production programme for the Lunnoye cyanidation circuit, which is now only treating ores with higher potential recovery.

Near-mine exploration

In 2011, we successfully commenced sales of flotation concentrate to a third party refinery in Kazakhstan. More than 17,000 tonnes of concentrate were shipped. The rationale for concentrate sales – as opposed to doré sales – was the better recoveries achieved by the third party refinery, which offset the additional treatment charges and transportation costs. Sales of concentrate also enabled

Key exploration activities in 2011 were focused on Goltsovoye, as with of additional exploration works performed at ore zones 2 and 3. We also completed exploration works at the Krasin deposit. An estimate of open-pit resources at Krasin is expected in 2012.

Processing plants

Omsukchan concentrator	
Type	Flotation/gravitation
Capacity (Ktpa)	1,500
Commencement of production (year)	2002
Ore sources	Dukat, Goltsovoye
Lunnoye processing plant	
Type	Cyanide leaching and Merrill-Crowe
Capacity (Ktpa)	300
Commencement of production (year)	2001
Ore sources	Lunnoye, Arylakh, concentrate from Omsukchan concentrator

Mine information

	Dukat	Goltsovoye	Perevalny	Lunnoye	Arylakh	Total
Status	Operating	Operating	Scoping	Operating	Operating	
Mineralisation type	Vein-veinlet	Narrow vein	Vein-veinlet	Mineralised zone	Vein-veinlet	
Mine type	Underground and open-pit	Underground	Underground	Underground	Open-pit	
Commencement of mining (year)	2001	2011	n/a	2000	2006	
Current life-of-mine end (year)	2021	2021	n/a	2023	2013	
Reserves/resources						
Reserves						
Gold, Moz	0.5	-	-	0.2	0.0	0.6
Gold reserve grade, g/t	1.2	-	-	1.8	0.7	1.2
Silver, Moz	215.9	-	-	32.4	9.8	258.3
Silver reserve grade, g/t	550	-	-	372	457	515
Gold equivalent, Moz	4.1	-	-	0.7	0.2	4.9
Gold equivalent reserve grade, g/t	10.3	-	-	8.0	8.3	9.8
Resources						
Gold, Moz	0.1	-	-	0.1	0.0	0.2
Gold reserve grade, g/t	0.6	n/a	n/a	1.6	0.9	0.7
Silver, Moz	55.8	42.1	13.7	27.2	4.0	142.8
Silver reserve grade, g/t	293	850	364	350	490	392
Gold equivalent, Moz	1.1	0.7	0.2	0.6	0.1	2.6
Gold equivalent reserve grade, g/t	5.6	14.2	6.1	7.4	8.9	7.2

Operating review

Omolon

A turnaround story for 2012

Russia, Magadan Region
Managing Director: Sergey Antipin
Employees: 1,064

+183%

Ore mined in 2011: 1,928 Kt

3.3 Moz

Gold equivalent reserves and resources

4.4 g/t

Average gold equivalent reserve and resource grade

✓ Completion of Kubaka plant refurbishment

The year ahead

A trial heap leach facility to treat run-of-mine ore currently will operate at Birkachan between May and October. With the successful completion of trucking high-grade ore from Sopka to the Kubaka plant, we are expecting to more than treble metal production, supported by higher grades and the introduction of the Merrill-Crowe section. We also plan to commence open-pit mining at

Tsokol. This high grade ore will then be sent to Kubaka for processing together with Birkachan ore.

A new 8 MW coal-fired boiler will be commissioned during the year and used mostly for heating the heap leach solution.

The Group will continue to carry out near-mine exploration projects at Tsokol, Oroch and Dalheye, with the aim of expanding the Omolon hub reserves.



Omolon continued



2011 highlights

Mining

Ore mined increased nearly threefold, with significant increases achieved at both Birkachan and Sopka deposits. However, adverse weather conditions and excessive snowfall restricted the amount of waste that could be removed from the Birkachan mine in the first quarter and this led to a failure to operate a winter road to deliver ore from Sopka to the Kubaka plant. Some of the ore mined at Sopka (23 Kt) was therefore shipped to Khakanja for processing.

Gold in ore mined at Birkachan increased by 14% to 1.6 g/t, whilst at Sopka, lower grade ore (2.6 g/t compared to 7.2 g/t in 2010) was mined for further heap leaching.

In December 2011, we successfully completed construction of the winter road for the 2012 season. It became operational on 30 December 2011, and we are targeting to truck more than 250 Kt of ore by the end of April 2012.

Processing

No ore was stacked to heap leach pads at Birkachan in 2011, although we received 4 Koz of gold from ore stacked in 2010.

At the Kubaka plant, production trebled as a result of an increase in ore mined at Birkachan combined with improved grades and recoveries. However, the plant operated below its potential capacity of 850 Ktpa due lack of ore from Sopka.

Overall, annual gold production at Omolon more than doubled in 2011.

Mining statistics

	Birkachan			Sopka			Total		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Stripping	7,925	3,039	+161	4,956	2,025	+145	12,880	5,064	+154
Ore mined, Kt	1,192	521	+129	735	159	+362	1,928	680	+183
Metal in ore mined (grade, g/t)									
– gold	1.6	1.4	+14	2.6	7.2	-63	2.0	2.8	-28
– silver	–	–	n/a	85.7	224.8	-62	32.7	52.7	-38

Production statistics

	Kubaka plant			Birkachan heap leach			Total		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Ore processed	574	223	+157	–	459	n/a	574	682	-16
Metal in ore processed (grade, g/t)									
– gold	2.4	2.2	+10	–	1.6	n/a	2.4	1.8	+38
Recovery									
– gold	92%	91%	+1						
Production									
– gold, Koz	39	13	+210	4	6	-30	43	18	+136
– silver, Moz	0.1	0.0	+291	–	–	n/a	0.2	0.0	+341
Gold equivalent, Koz	41	13	+214	4	6	-25	46	19	+142
Total cash cost/GE oz (US\$/oz)							1,481	1,162	+27
Adjusted EBITDA US\$m							4.8	(8.2)	n/a



Processing activity at Omolon

Construction

During the year construction of a new processing section was undertaken to enable treatment of ores with high silver content – initially from the Sopka deposit. The upgraded plant includes new leaching, counter-current decantation and a Merrill-Crowe circuit, which was successfully commissioned at the end of the year.

We also completed construction of an unpaved road between Birkachan and Kubaka. A 180-metre permanent bridge over the Omolon river was also completed, which means the road now operates all year round.

Exploration

We have received exploration licenses for 91 km² around Kubaka, the key project being Burgali, 40 km north of Birkachan. These areas saw extensive trenching and some drilling performed to identify high-grade deposits with open-pit mining potential, and improve of medium term grade profiles at the Kubaka plant.

Burgali was a new discovery in 2011. We obtained several trench assays – the best grading 11.1 g/t gold with a width of 17.9 m, and core assays – the best grading 17.5 g/t gold with a width of 6.9 m. Projects are continuing at the evaluation stage, with major scoping drilling scheduled for 2012.

Processing plants

Kubaka	
Type	CIL, Merrill-Crowe
Capacity (Ktpa)	850
Commencement of production (year)	2010
Ore sources	Birkachan, Sopka
Birkachan	
Type	Heap leach
Capacity (Ktpa)	n/a
Commencement of production (year)	2010
Ore sources	Birkachan

Mine information

	Birkachan	Sopka	Oroch	Tsokol	Dalneye	Total
Status	Operating	Operating	Pre-feasibility	Construction	Feasibility	
Mineralisation type	Vein-veinlet, stockwork	Vein-veinlet	Vein-veinlet	Vein-veinlet	Vein-veinlet	
Mine type	Open-pit underground from 2017	Open-pit	Open-pit	Open-pit	Open-pit	
Commencement of mining (year)	2010	2010	n/a	n/a	n/a	
Current life-of-mine end (year)	2023	2018	n/a	n/a	n/a	
Reserves/resources						
Reserves						
Gold, Moz	1.0	0.46	–	–	–	1.5
Gold reserve grade, g/t	2.5	4.30	–	–	–	2.9
Silver, Moz	4.3	16.37	–	–	–	20.7
Silver reserve grade, g/t	11	155	–	–	–	41
Gold equivalent, Moz	1.1	0.73	–	–	–	1.8
Gold equivalent reserve grade, g/t	2.7	6.9	–	–	–	3.6
Resources						
Gold, Moz	0.3	0.1	0.2	0.3	0.2	1.1
Gold reserve grade, g/t	3.3	4.4	3.3	8.1	4.0	4.2
Silver, Moz	1.5	1.9	10.3	0.6	5.3	19.6
Silver reserve grade, g/t	16	164	167	13	95	75
Gold equivalent, Moz	0.3	0.1	0.4	0.3	0.3	1.4
Gold equivalent reserve grade, g/t	3.6	7.1	6.0	8.3	5.6	5.5

Operating review

Amursk POX hub

Future growth source with a high-grade profile

Russia, Khabarovsk Territory
 Managing Directors: Aleksander Simon (Albazino), Vladimir Shamin (Amursk), Aleksander Zarubin
 Employees: 1,781

10.1 Moz

Gold reserves and resources

7.3 g/t

Average reserve and resources grade

2011

First year of commercial production

Located in the Khabarovsk Territory in the Russian Far East, the Amursk hub is Polymetal's largest project. It comprises two high-grade refractory gold deposits, Albazino and Mayskoye, and three processing facilities, the Amursk hydrometallurgical plant, the Albazino concentrator and the Mayskoye concentrator.

30 Koz

Gold produced in 2011

The year ahead

Underground development is currently underway on the central part of the Mayskoye deposit, with the aim of beginning production of primary ore from stopes in the first quarter of 2012.

Completion of the Mayskoye concentrator is scheduled for Q3 2012, with the first gold concentrate to be produced towards the end of the year. The concentrate will then be shipped to Amursk during the navigation period (typically between the end of June and the end of November).

Construction of the Amursk POX plant has been completed and the first gold pour is scheduled for the first half of 2012.

We have already secured shipping capacity from FESCO (the largest fleet operator in the Far East) for these shipments through a long-term agreement.

Additional exploration works at Olga, Nadezhda and Ekaterina-2 are expected to yield an increase in resource potential in the Albazino area. Further exploration and probing will also be carried out in two standalone areas – Kutyn and Uchamin – where we expect to significantly increase the existing resource potential.



Amursk POX hub continued



2011 highlights

The Amursk hydrometallurgical plant uses pressure oxidation (POX) and cyanidation technologies to process refractory ores from the operational Albazino mine and Mayskoye (under construction). It has a design processing capacity of approximately 225 Ktpa of concentrate resulting in 400-440 Koz of gold produced per annum depending on the gold grade.

Albazino is a remote deposit located 680 km from the Amursk plant. It comprises a high-grade gold open-pit mine and a 1.5 Mtpa on-site flotation concentrator, and it achieved full design capacity in Q3 2011. Albazino's reserves are estimated to be 2.2 Moz of gold.

Mayskoye is located in the Chaun district of the Chukotka Autonomous Territory. Proved and probable reserves are estimated to be 7.9 Mt of ore, grading 9.6 g/t gold for 2.4 Moz of contained gold.

Ores at both these mines require pre-treatment oxidation before conventional cyanidation to extract the sulphur component. Polymetal selected POX (also known as autoclave leaching) as the preferred processing option since – despite higher initial capital costs – it offers several advantages over alternative processes.

These include the ability to treat various feedstocks in one facility, higher recoveries, lower operating costs and reduced environmental impact compared to other technologies such as bioleaching or roasting.

Mining

At Albazino, three times as much ore was mined in 2011 compared to 2010 as the mine has operated at full capacity, while gold grades improved from 3.7 g/t to 4.3 g/t.

At Mayskoye, underground development reached a steady state rate of 1,100 m per month. Ore mined reached 79 Kt grading 9.8 g/t gold, as the mine intensified projects preparing feedstock for the concentrator.

Processing

The on-site flotation concentrator at Albazino was successfully started in April 2011. The plant took 30 months from approval to completion and the construction was completed within budget, despite some challenging logistical and climatic issues. This was Polymetal's first launch of a greenfield mine since 2004, and it reached full capacity by the end of Q3 2011. Since then we have seen significantly improved recoveries at Albazino as processing transitioned from semi-oxidised to primary ore, reaching 88% in January 2012.

During the year we sold some 20 Kt of gold concentrate, containing 29.8 Koz of payable gold, to a Chinese off-taker. These sales allowed us to receive immediate cash flow from the project before completion of the POX plant at Amursk. Additional sales may be considered in 2012 depending on the exact timing of the Amursk POX start-up. Another 23 Kt of concentrate with 30 Koz of contained gold produced in 2011 were delivered to Amursk to accumulate feedstock for further processing at the POX plant.

Construction

The Amursk POX facility entered the commissioning stage in December 2011. The start of 2012 saw testing of the autoclave integrity using high pressure steam and hot water and the first gold pour is scheduled for the first half of 2012. Full ramp-up is expected towards the end of the year.

At Mayskoye, civil works were completed and mills installed with the majority of equipment and construction materials delivered in 2011 by sea. Work is currently focused on the flotation, filtering and drying sections.

The power substation is nearing completion and is expected to link to the regional power grid in the first half of 2012. Completion of construction is scheduled for Q3 2012.

Mining statistics

	Albazino			Mayskoye			Total		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Stripping	14,584	10,367	+41	–	–	n/a	14,584	10,367	+41
Underground development, m	–	–	n/a	10,999	4,318	+155	10,999	4,318	+155
Ore mined, Kt	841	278	+202	79	16	+380	920	295	+212
Metal in ore mined (grade, g/t)									
– gold	4.3	3.7	+16	9.8	8.7	+13	4.8	3.5	+37



Reviewing operations at Albazino



Ore analysis at Mayskoye

In February 2011 we signed a letter of intent with FESCO Transportation Group for arrangement of the long term transportation of concentrate from Mayskoye to Amursk.

Exploration

Exploration works near Albazino revealed good potential for a further significant increase in reserves in the territories adjacent to the existing mine. In August we started

construction of an underground exploration decline at Albazino, to trace continuity of mineralisation.

As a result of our exploration projects, we have established new mineralised areas with an estimated 3.2-4.3 Moz of gold (non-JORC estimates), including 1.2-1.3 Moz at the Olga and Nadezhda zones and 2-3 Moz at the newly-discovered Ekaterina-2 zone.

In 2012, a new Uchamin area will be included in the scope of exploration projects. In 2011, results of re-probing exploration works, performed by previous owners, have revealed high resource potential with the possibility of open-pit mining.

Processing plants

Albazino concentrator	
Type	Flotation
Capacity (Ktpa)	1500
Commencement of production (year)	2011
Ore sources	Albazino

Mayskoye concentrator	
Type	Flotation
Capacity (Ktpa)	850
Commencement of production (year)	2012*
Ore sources	Mayskoye

Amursk POX	
Type	POX + cyanidation
Capacity (Ktpa)	225 (concentrate)
Commencement of production (year)	2012*
Ore sources	Concentrate from Albazino and Mayskoye

Production statistics

	Albazino		
	2011	2010	% Change
Ore processed	620	–	n/a
Metal in ore processed (grade, g/t)			
– gold	4.3	–	n/a
Recovery			
– gold	70%	–	n/a
Production			
– concentrate, Kt	43	–	
– gold in concentrate, Koz	59	–	
– including saleable gold, Koz	30	–	n/a
Gold equivalent production, Koz	30	–	n/a
Total cash cost/GE oz (US\$/oz)	1,018	–	n/a
Adjusted EBITDA, US\$m (excluding Mayskoye)	4.5	(9.1)	n/a

Mine information

	Albazino	Mayskoye	Total
Status	Operating	Construction	
Mineralisation type	Mineralised zones; refractory ore	Narrow vein; refractory ore	
Mine type	Open-pit	Underground	
Commencement of mining (year)	2009	2011	
Current life-of-mine end (year)	2020	2024	
Reserves/resources			
Reserves			
Gold, Moz	2.2	2.4	4.6
Gold reserve grade, g/t	3.7	9.6	6.8
Resources			
Gold, Moz	0.6	4.8	5.5
Gold reserve grade, g/t	3.1	8.3	7.7

Operating review

Khakanja

A key asset with underground potential

Russia, Khabarovsk Territory
 Managing Directors: Alexander Akamov
 Employees: 1,071

128 Koz

Gold equivalent produced in 2011

8.3 g/t

Average gold equivalent grade in ore mined in 2011

1.3 Moz

Gold equivalent reserves and resources

7.1 g/t

Average gold equivalent reserve and resource grade

Located in the Russian Far East, Khakanja is one of Polymetal's principal assets, comprising a standalone gold/silver open-pit mine and a 600 Ktpa Merrill-Crowe processing plant. Contributing mines include the main Khakanja pit, the small Yurievskoye satellite deposit and a trial mine at the AK Project (see page 50 'Standalone exploration projects' for more information). Ore from Sopka – part of the Omolon hub – was also processed at Khakanja prior to completion of refurbishment of the Kubaka processing plant.

Yurievskoye is accessible only by a winter road from January to April, and underground mining commenced in 2010, following the completion of open-pit operations.

The year ahead

In 2012 we expect to deliver production growth at Khakanja as ore from higher grade mines will constitute an increasing share of the overall supply to the processing plant.

We expect to expand open-pit mining at Khakanja's pit 3, to commence underground mining at Khakanja and to begin open-pit

mining at the new satellite Ozerny operation towards the end of 2012, with ore to be processed at Khakanja in 2013. Ozerny is of considerable importance to the Group, given the relatively short life of the Khakanja mine (2018) and the resulting potential under-utilisation of the plant from 2015 unless new reserves are discovered and mined.



Khakanja continued



2011 highlights

Mining

At Khakanja, including the Yurievskoye satellite deposit, ore mined grew by 11%. Gold equivalent grade in ore mined declined as expected from 10.6 g/t to 6.2 g/t as a result of the depletion of the higher grade pit 1 and the start of mining at the lower grade pit 3.

Underground development at Yurievskoye and open-pit mining at the Avlayakan trial mine intensified in

2011. Notably, at Avlayakan the average gold content in ore mined was 17.1 g/t. To deliver this high-grade ore to Khakanja, we built new port facilities at Kiran which will be used for transportation of Avlayakan ore going forward.

Based on the increased share of these two higher grade mines in the 2012 mining programme, we are looking to improve the grade profile at Khakanja in 2012.

Processing

During 2011, the plant processed ore at its full capacity – slightly above 600 Ktpa. Gold production declined by around one third to 84 Moz principally as a result of lower grades from the main Khakanja deposit, while silver production remained flat due to significant improvement in recovery rates. Overall production levels were supported by additional higher grade ore coming from Yurievskoye, Avlayakan and Sopka.

Mining statistics

	Khakanja + Yurievskoye			Avlayakan			Total		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Stripping	9,601	10,106	-5	1,191	33	+3,510	10,792	10,139	+6
Underground development, m	1,764	358	+393	–	–	n/a	1,764	358	+393
Ore mined, Kt	528	478	+11	128	4	+3,475	657	481	+36
Metal in ore mined (grades, g/t)									
– gold	2.9	6.6	-56	17.1	1.3	+1,237	5.7	6.6	-14
– silver	199	240	-17	–	–	n/a	160	238	-33

Production statistics

	Khakanja plant		
	2011	2010	% Change
Ore processed	617	622	-1
Metal in ore processed (grades, g/t)			
– gold	4.6	6.6	-31
– silver	172.7	204.9	-16
Recovery			
– gold	92%	95%	-3
– silver	78%	63%	+23
Production			
– gold, Koz	84	127	-33
– silver, Moz	2.6	2.6	+2
Gold equivalent, Koz	128	170	-25
Total cash cost/GE oz (US\$/oz)	672	478	+41
Adjusted EBITDA, US\$m	113	120	-6



The plant at Khakanja



Ore transportation

Exploration

The Group is undertaking several brownfield exploration projects with the aim of extending the economic life of Khakanja. During the year, five target exploration areas close to Khakanja saw drilling or substantial trenching. This activity was part of our efforts to identify small-scale locations with potential for open-pit operations.

At Ozerny, we have considerably increased the resource base at ore body 1 and are preparing for both statutory and JORC-compliant reserve estimates in 2012. Northern flanks of this ore body yielded grades ranging from 4.8 g/t gold (trench: width 15 m) to 6.4 g/t gold (core: width 4 m).

Processing plant

Khakanja plant	
Type	Cyanide leaching and Merrill-Crowe
Capacity (Ktpa)	600
Commencement of production (year)	2003
Ore sources	Khakanja, Yurievskoye, Avlayakan, Sopka (temporary)

Mine information

	Khakanja	Yurievskoye	Ozerny	Total
Status	Operating	Operating	Feasibility study	
Mineralisation type	Vein-veinlet	Vein		
Mine type (open pit/underground mining method)	Open-pit to be followed by underground	Open-pit to be followed by underground	Open-pit	
Commencement of mining (year)	2002	2007	n/a	
Current life of mine end (year)	2018	2013	n/a	
Reserves/resources				
Reserves				
Gold, Moz	0.2	0.03	–	0.3
Gold reserve grade, g/t	3.7	8.1	–	3.9
Silver, Moz	16.2	0.05	–	16.2
Silver reserve grade, g/t	242	11	–	230
Gold equivalent, Moz	0.5	0.03	–	0.5
Gold equivalent reserve grade, g/t	7.7	8.1	–	7.7
Resources				
Gold reserve grade, g/t	3.2	7.0	5.5	4.8
Silver, Moz	13.3	0.02	1.5	14.8
Silver reserve grade, g/t	241	14	24	219.0
Gold equivalent, Moz	0.4	0.0	0.4	0.8
Gold equivalent reserve grade, g/t	7.3	7.1	5.9	6.6

Operating review

Voro

Our lowest cost and highest margin mine

Russia, Sverdlovsk Region
 Managing Directors: Andrey Novikov
 Employees: 889

553

Cash cost per gold equivalent ounce in 2011, US\$/oz

62.5%

Adjusted EBITDA margin in 2011

160 Koz

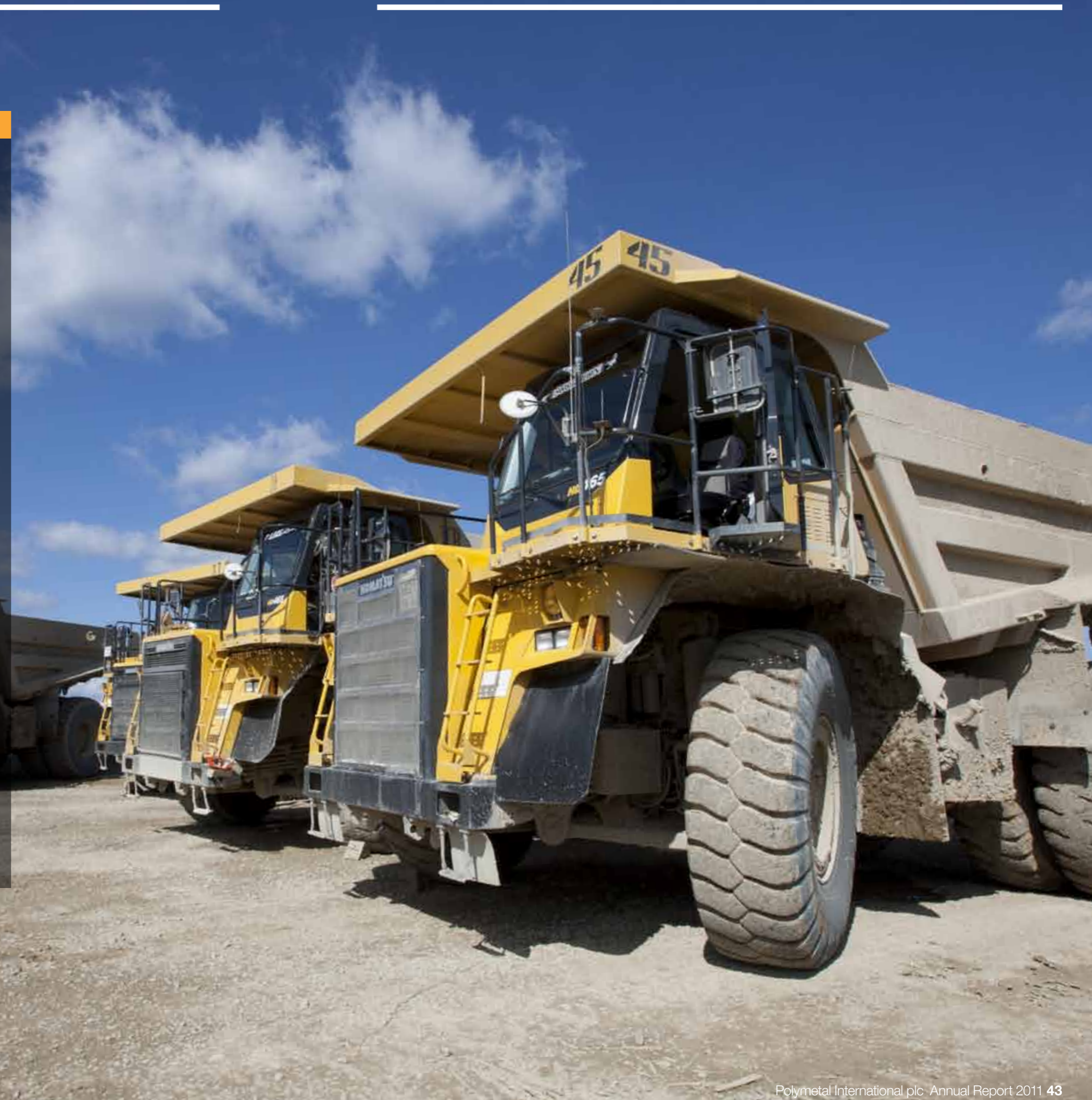
Gold equivalent produced in 2011

Voro is one of Polymetal's key assets, contributing consistent cash returns. Located in the Sverdlovsk Region, it comprises two open-pit mines – Voro and the smaller Degtyarskoye, and a newly developed mine at Fevral'skoye. This asset also has a sizeable brownfield exploration area consisting of the South Voro and Volchansky projects. Primary and oxidised ores are processed at the 900 Ktpa CIP and 1 Mtpa heap leach plants.

The year ahead

In 2012, the total volume of ore mined at main Vorontsovskoye deposit will slightly decrease, with most of the decrease coming from oxidised ore. Ore mined at Fevral'skoye will be sent for trial processing at Varvara. At Degtyarskoye, we expect to see a continuing reduction in mining volumes, with the low-grade ore to be sent to Varvara for processing.

Total production volumes at both heap leach and CIP circuits will be stable, along with a slight decrease in head grades processed. Our exploration activities in 2012 will be focused around increasing the resource base at the south of the Voro area, in both primary and oxidised ores.



Voro continued



2011 highlights

Mining

At Vorontsovskoye, ore mined in 2011 grew by 74% compared to 2010. The main increase was due to the start of mining of oxidised ore at the southern flanks of the main Vorontsovskoye deposit, while head grades reduced for the same reason.

At Degtyarskoye, ore mined declined by 29% as the mine nears depletion. This is also affecting the grade levels.

We commenced mining at Fevralskoye in early 2011 and are currently assessing the viability of further activity. The average gold grade in ore mined was 2.4 g/t. It is planned that ore from this mine will be transported to Varvara for processing.

Production

2010 was the year of peak performance for Voro, which is now entering its mature stage. In 2011,

annual gold production decreased by 14% from 183 Koz to 157 Koz. This was principally due to the expected decrease in grades and recoveries at the CIP plant, driven in turn by the exhaustion of the Degtyarskoye satellite mine. The higher share of oxidised ore mined at Vorontsovskoye also pushed the overall grades processed down. Recoveries at both heap leach and CIL plants were stable.

Mining statistics

	Vorontsovskoye			Degtyarskoye			Fevralskoye			Total		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Stripping	10,954	9,465	+16	1,591	1,566	+2	243	-	n/a	12,788	11,032	+16
Ore mined, Kt	1,665	956	+74	194	274	-29	12	-	n/a	1,871	1,230	+52
Metal in ore mined (grade, g/t)												
- gold	3.6	5.1	-30	4.2	5.7	-26	2.4	-	n/a	3.6	5.2	-30

Production statistics

	Voro CIP			Voro heap leach			Total		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Ore processed	901	907	-1	902	1,024	-12	1,803	1,931	-7
Metal in ore processed (grade, g/t)									
- gold	5.9	6.1	-4	1.7	1.6	+7	3.8	3.7	+2
Recovery									
- gold	78%	80%	-3	74%	73%	+2			
Production									
- gold, Koz	125	149	-16	32	34	-6	157	183	-14
- silver, Moz	0.1	0.2	n/a	0.04	-	n/a	0.2	0.2	-11
Gold equivalent, Koz	127	149	-14	32	34	-4	160	185	-14
Total cash cost/GE oz (US\$/oz)							553	423	+31
Adjusted EBITDA, US\$m							175	131	+33



Operating activities at Voro

Exploration

Exploration at Voro is focused on Volchansk where we commenced drilling towards the end of the year and at South Voro where reconnaissance and geophysical activities began. Our main aim is to identify near-surface mineralised areas that have the potential to extend the useful life of the heap leach facility at Voro.

Processing plants

Voro CIP		Voro heap leach	
Type	Flotation/gravitation	Type	Cyanide leaching and Merrill-Crowe
Capacity (Ktpa)	940	Capacity (Ktpa)	n/a
Commencement of production (year)	2005	Commencement of production (year)	2000
Ore sources	Vorontsovskoye, Degtyarskoye	Ore sources	Vorontsovskoye, Degtyarskoye

Mine information

	Vorontsovskoye	Degtyarskoye	Fevralskoye	Total
Status	Operating	Operating	Operating	
Mineralisation type	Mineralised zones	Gossan	Gossan	
Mine type	Open-pit	Open-pit	Open-pit	
Commencement of mining (year)	1999	2010	2011	
Current life-of-mine end (year)	2026	2012	n/a	
Reserves/resources				
Reserves				
Gold, Moz	1.4	-	-	1.4
Gold reserve grade, g/t	2.8	-	-	2.8
Silver, Moz	2.0	-	-	2.0
Silver reserve grade, g/t	4	-	-	4
Gold equivalent, Moz	1.4	-	-	1.4
Gold equivalent reserve grade, g/t	2.9	-	-	2.9
Resources				
Gold, Moz	0.1	-	-	0.1
Gold reserve grade, g/t	1.6	-	-	1.6
Silver, Moz	0.1	-	-	0.1
Silver reserve grade, g/t	3	-	-	3
Gold equivalent, Moz	0.1	-	-	0.1
Gold equivalent reserve grade, g/t	2.9	-	-	2.9

Operating review

Varvara

A success story in Kazakhstan

Kazakhstan, Kostanay Region
Managing Directors: Nikolay Goncharov
Employees: 689

+66%

Adjusted EBITDA growth,
2011/2010

+28%

Gold equivalent production growth,
2011/2010

127 Koz

Gold equivalent produced in 2011

Varvara is a fast-growing standalone gold and copper mine – our first project in Kazakhstan acquired in 2009. Located in north-west Kazakhstan, it is 10 km from the Russian border and has excellent transport infrastructure, inexpensive energy and promising development potential.

The year ahead

2012 will bring moderate production volume increase both for gold and copper. The processing plant will undertake test processing of Fevralskoye

and Degtyarskoye ores, which we expect to yield higher recoveries. In addition, we are aiming to complete exploration and scoping on the flanks of main Varvara mine.

Varvara continued



2011 highlights

Mining

Total ore mined at Varvara grew by 17%, with the increase coming from float ore with a high copper content. Gold content in leach ore decreased slightly to 0.8g/t, whilst the total amount of leach ore itself declined by 7%.

Production

In 2011 we commenced purchases of ore from the nearby Komarovskoye deposit, which supported overall production and recovery levels.

Annual gold production at Varvara grew by 17% in 2011 from 78 Koz

to 92 Koz. Copper production rose by 73% from 4,003 tonnes to 6,915 tonnes, resulting from a considerable increase in float ore processed, along with increased copper content and improved recoveries (from 82% to 89%). As a result, the mine met or exceeded all its design parameters.

Mining statistics

	Varvara – float ore		
	2011	2010	% Change
Stripping	25,993	21,955	+18
Ore mined, Kt	3,983	3,411	+17
– float ore	1,508	752	+101
– leach ore	2,475	2,659	-7
Metal in ore mined (grades)			
– gold, g/t – float ore	1.1	1.0	+8
– gold, g/t – leach ore	0.8	0.9	-4
– copper, % (float ore)	0.6%	0.7%	-13

Production statistics

	Varvara – flotation			Varvara – leaching			Total		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
Ore processed	950	793	+20	2,523	2,283	+11	3,473	3,076	+13
Metal in ore processed (grades)									
– gold, g/t	1.3	1.1	+17	1.1	1.1	-3	1.1	1.1	+2
– copper, %	0.9%	0.7%	+23	–	–	n/a	0.24%	0.18%	+30
Recovery									
– gold	61%	55%	+12	82%	77%	+6			
– copper	89%	82%	+9						
Production			n/a						
– gold, Koz	22	14	+60	70	61	+14	92	78	+17
– copper, t	6,915.4	4,002.9					6,915.4	4,002.9	+73
Gold equivalent, Koz	57	37	+52	70	62	+14	127	99	+28
Total cash cost/GE oz (US\$/oz)							747	626	+19
Adjusted EBITDA, US\$m							91	55	+66



The Varvara plant



Delivering ore from Varvara

Construction

In 2011 we began work on construction of a US\$15 million 21 km railway spur to facilitate bulk transport of ores from other deposits to the Varvara processing plant. This will involve both third party ores and those from our own mines – such as the Fevral'skoye deposit which is part of our Voro operations. We expect to commission the line in the second half of 2013.

Exploration

We have a licence to explore a 533 km² area immediately surrounding Varvara. During the year we commenced exploration with a view to identifying the continuation of the main Varvara mineralisation structure along strike.

Processing plants

Varvara plant	
Type	CIP
Capacity (Ktpa)	3,150
Commencement of production (year)	2002
Ore sources	Varvarinskoye, Fevral'skoye

Varvara plant	
Type	Flotation
Capacity (Ktpa)	1,050
Commencement of production (year)	2001
Ore sources	Varvarinskoye

Mine information

Status	Operating
Mineralisation type	Stock/stock work
Mine type (open-pit/underground mining method)	Open-pit
Commencement of mining (year)	2006
Current life-of-mine end (year)	2023
Reserves/resources	
Reserves	
Gold, Moz	0.8
Gold reserve grade, g/t	0.9
Copper, Kt	43.4
Copper content, %	0.44
Gold equivalent, Moz	1.1
Gold equivalent reserve grade, g/t	1.1
Resources	
Gold, Moz	1.2
Gold reserve grade, g/t	1.6
Copper, Kt	74.0
Copper content, %	0.44
Gold equivalent, Moz	1.6
Gold equivalent reserve grade, g/t	1.0

Pursuing standalone exploration projects

Polymetal pursues standalone exploration projects with the aim of discovering economically significant deposits.

Typically, the standalone mines we target need to meet the following internal criteria that drive the cost and, ultimately, the return on capital invested into the project:

- > Minimum peak production of 300 Koz of gold equivalent per year for at least ten years;
- > Minimum overall mine life of 15 years;
- > Minimum grades for non-refractory ores:
 - 1.5 g/t for heap leaching;
 - 2 g/t for milling with grid power available;
 - 3 g/t for milling with grid power unavailable.

These thresholds typically translate into a minimum requirement of 7 Moz for the size of resource for a new standalone operation and 5 Moz for the size of reserve.

Our key standalone projects are: Avlayakan-Kirankan (the 'AK project')

The AK project covers an area of 323 km² in the Khabarovsk Territory, approximately 250 km north east of Albazino. Polymetal acquired the project in 2010 and began trial ore mining early in 2011. An open-pit trial mine is currently under way at Avlayakan, with high-grade ore mined then trucked to the port of Kiran, shipped to Okhotsk and then transported to the Khakanja plant. In 2011 the Group completed 17 km of core drilling at the site. We aim to bring the potential resource base of the AK project to the level of the Group's internal size threshold.

A pre-feasibility study for the project – with a project-wide estimate of JORC reserves – is planned for the second half of 2013.

Kutyn

Polymetal acquired the Kutyn deposit in 2011. The licence area is 113 km north east of Albazino, only 25% of which has been covered by exploration works. In 2011 we undertook technological mapping of ores and achieved a recovery rate of more than 80% from heap leach testing at a relatively coarse crush size. Preliminary research results also supported high potential recoveries from cyanidation on higher grade ore.

We plan to drill additional 20 km of diamond core holes in 2012 with a view to identifying the extent of known ore zones and testing any significant anomalies. To date, only a quarter of the 120 km² licence territory has been sampled by drilling. An external audit of JORC-compliant resources is planned for the first half of 2013.

Svetloye

Svetloye is located 220 km south west of Okhotsk. Eight major target areas of gold mineralisation have been discovered and initial metallurgical tests have confirmed a recovery rate of over 90% gold recovery through cyanide extraction with low cyanide consumption. Metallurgical test work is also underway at Svetloye to determine the viability of heap leaching; multiple targets are awaiting drilling on this 40 km² land package.

No active exploration was undertaken in 2011; plans for a further exploration strategy will be confirmed once the feasibility of heap leaching has been determined.

Tamunier

Located in the Sverdlovsk Region of Russia, the Tamunier licence covers 23 km². The Group completed 0.5 km of diamond core drilling here in 2011 with the aim of obtaining detailed delineation of productive mineralised

area and tracing mineralised structure in a recently acquired adjacent 18 km² licence area.

Technological research of the Tamunier ore has proved potential recoveries of up to 90% which support the feasibility of the mine. In 2012 we are planning to delineate high grade mineralised areas to assess resources which can be economically processed at our Voro plant.



Exploration in the Sverdlovsk Region

Prognozny

Acquired by the Group with the Kubaka processing plant in 2010, Prognozny is located 40 km from the Sopka mine. We completed 6 km of diamond core drilling and 30,000 m³ of trenching in 2011 with the aim of tracing known mineralisation along strike and searching for deeper levels of gold-bearing material.

Elmus

The Elmus licence area covers 188 km² in the Republic of Karelia in north-west Russia and was acquired in 2011.

We drilled 14 km in diamond core holes in 2011 and plan to drill a further 23 km in 2012. The results of these activities will help us to determine whether this location merits further exploration.



Financial review

Key financial indicators and performance highlights

We had a very successful financial year:

- > Revenue was up 43% to US\$1,326 million, driven by 13% increase in gold equivalent ounces sold and a 26% increase in the average realised gold price;
- > Adjusted EBITDA of US\$624 million, up 47% and exceeding revenue growth; adjusted EBITDA margin was up 110bps to 47% despite ramp-up of new mines and operational challenges in the beginning of the year;
- > Total cash cost of US\$701/AuEq oz, up 26% compared to 2010 as a result of Russia's domestic inflation of 6.1%, Rouble strengthening against the US Dollar by 3.4%, and relatively high cost levels at Omolon and Albazino mines which have just commenced commercial production and are still in ramp up mode;
- > Total cash cost of mature operations (ex. Omolon and Albazino) was US\$642/ AuEq oz, up 19% compared to 2010;
- > Diluted EPS up 12% to US\$0.74 per share as net earnings increased by 21% to US\$290 million;
- > Inaugural dividend of US\$0.20 per share proposed in accordance with the new dividend policy;
- > Strong liquidity and funding profile: Net debt/adjusted EBITDA reduced to 1.41, with 65% of borrowings being long-term.

Key financial indicators

	2011	2010	% Change
Revenue, US\$m	1,326	925	+43
Adjusted EBITDA, US\$m	624	425	+47
Total cash cost, US\$/GE oz	701	555	+26
Adjusted EBITDA margin, %	47.0%	45.9%	+2.4
Net income	290	239	+21
Diluted EPS, US\$/share	0.74	0.66	+12
Net debt, US\$m	879	785	+12
Net debt/adjusted EBITDA	1.41	1.85	-24
Operating cash flow before changes in working capital, US\$m	462	333	+39
Operating cash flow, US\$m	212	215	-1

Precious metals market summary



2011 witnessed another period of strong price growth both for gold and silver, with gold reaching its all-time high in the beginning of September at US\$1900/oz, and silver demonstrating even stronger growth, going up to as much as US\$48.4/oz in April, with the gold/silver ratio standing at 32, a record low. Both gold and silver were rising on the back of continuing debt crisis in peripheral EU countries and US budget deficit problems, which, together with continued quantitative easing policy by the Federal Reserve System, raised doubts both about euro and dollar long-term strength as a reserve currency. Gold and silver therefore were viewed as 'safe haven' by many institutions and private investors, while silver price highs were purportedly also driven by speculative dealing, to which the less liquid silver market is more sensitive.

By the end of the year, there was a moderate price decline to US\$1564/oz for gold and US\$27.8/oz for silver. As a result, the average 2011 gold price was US\$1,572/oz, up 28%, and the silver price was US\$35.3/oz, up 75% compared to 2010. The gold/silver ratio during 2011 dropped to 45 Ag/Au compared to 61 Ag/Au in the prior year.

Looking ahead to 2012, we believe that the gold price will stay above US\$1,500/oz, as the key fundamental factors affecting the price are still in place for this year and are supporting the investment demand for gold. For silver, we expect a more modest price performance, with an average level slightly above US\$30/oz.

Accounting and reporting basis

The financial information presented for the Polymetal International plc Group, represents the enlarged Group from its formation on 2 November 2011 until 31 December 2011. The enlarged Polymetal International plc Group was created following the completion of the institutional share swap facility ('ISSF') under which the Company obtained a controlling shareholding in the Open Joint Stock Company Polymetal ('JSC Polymetal'). In accordance with International Financial Reporting Standard ('IFRS') guidance for a reverse acquisition, the assets and liabilities of the JSC Polymetal group were not revalued, although a non controlling interest was recognized for the interest in its net assets held by JSC Polymetal shareholders who did not participate in the ISSF. Prior to this date the financial information presented is solely that of JSC Polymetal on a consistent basis to that previously reported in accordance with IFRS, other than for a reclassification within the issued equity balances. This retrospective reclassification has been made to reflect the legal capital of Polymetal International plc as if it had always been the legal parent company. For more detail please refer to Note 1 to the consolidated financial statements on page 92.

Revenue

In 2011, revenue grew by 43% to US\$1,326 million, driven mostly by significant increases in the gold and silver prices. Gold sales volume was up by 2%, in line with production dynamics. Silver sales volumes were down 5% despite 15% production growth, as we started to sell most of our silver produced at the Dukat plant

Revenue

Sales volumes		2011	2010	% Change
Gold	Koz	448	440	+2
Silver	Moz	17.0	18.0	-5
Copper	Kt	6.4	4.0	+59
Gold equivalent sold¹	Koz	851	750	+13

¹ Based on actual realised prices.

Sales by (metal)		2011	2010	% Change	Volume variance US\$m	Price variance US\$m
Gold	US\$m	697	542	+29	10	145
Average realised price	US\$/oz	1,556	1,232	+26		
Share of revenues		53%	59%			
Silver	US\$m	580	353	+64	-18	245
Average realised price	US\$/oz	34.0	19.6	+73		
Share of revenues		44%	38%			
Copper	US\$m	46	29	+58		
Share of revenues		3%	3%			
Total metal sales	US\$m	1,323	924	+43		
Other revenue		3	1	+121		
Total revenue		1,326	925	+43		

(the major silver producing segment) in the form of silver concentrate to a third party off-taker in Kazakhstan. This has led to a one-off increase in finished goods inventories representing concentrate in transit or awaiting treatment at third-party refineries.

The average realised price for gold was US\$1,556/oz, up 26% compared to 2010 and in line with market price of US\$1,572/oz. The average realised silver price stood at US\$34.0/oz, up 73% compared to 2010 which again closely reflects the market price levels and movements. The share of gold in total revenue reduced from 59% in 2010 to 53% in 2011, while the share of silver grew from 38% to 44% on the back of the significant change in the gold/silver price ratio in the market.

Revenue by segment

2011	40%	21%	16%	14%	6%	3%	US\$1,326m
2010	37%	23%	23%	14%			US\$925m

Legend: Dukat, Voro, Khakanja, Varvara, Omolon, Amursk Hub

Dukat continues to be the largest revenue contributor for the Group, with 40% of metal sales revenues coming from that segment. Voro and Varvara contributed 21% and 14% to the revenues respectively, broadly unchanged from 2010, while the share of Khakanja declined in 2011 from 23% to 16% as a result of a 25% decrease in gold equivalent produced driven by a lower grade profile. Albazino generated its first sales of gold concentrate to a Chinese third party off-taker in 2011 amounting to 3% of total revenues, and will become a meaningful revenue generating operation in 2012.

Financial review

continued

Key operating statistics

	2011	2010	% Change
Stripping, Kt	80,683	63,283	+27
Underground development, m	35,150	23,577	+49
Ore mined, Kt	11,002	7,474	+47
Open-pit	9,636	6,509	+48
Underground	1,366	965	+42
Average grade in ore mined (gold equivalent, g/t)	3.8	4.4	-15
Ore processed, Kt	8,821	7,845	+12
Average grade in ore processed (gold equivalent, g/t)	3.8	3.8	-1
Production			
Au, Koz	443	444	-0
Ag, Moz	19.9	17.3	+15
Cu, Kt	6,915	4,003	+73
Gold equivalent, Koz¹	810	753	+8
Sales			
Au, Koz	448	440	+2
Ag, Moz	17.0	18.0	-5
Cu, Kt	6.4	4.0	+59
Gold equivalent, Koz²	851	750	+13
Average headcount	8,051	6,912	+16

1 Based on 1:60 Ag/Au and 5:1 Cu/Au conversion ratios.
2 Based on actual realised prices.

Cost of sales

Total cost of sales grew by 37% in 2011 to US\$626 million, mainly on the back of volume-based growth both in ore mined (by 47%) and ore processed (by 12%). The key cost drivers were the domestic inflation in Russia (6.1% CPI growth in 2011), and appreciation of the rouble against the dollar (3.4% increase in average rate from 2010 to 2011). The increased operating assets base, which now fully includes Omolon and Albazino, both currently higher cost assets, contributed 21% of the 37% increase, while inflationary factors and production growth at other mines made up another 16%.

Diesel fuel price inflation in particular is an important factor affecting our cost base and driving cost increases, especially for remote mines generating power using diesel gensets, and in-house and third party transportation costs. Depending on the region, the price of diesel fuel increased by 20-50% in 2011.

Cost of sales	2011	2010	% Change
On-mine costs	320	174	+84
Consumables and spare parts	111	67	+66
Services	120	61	+99
Labour	83	44	+90
Taxes, other than income tax	2	0	n/a
Other expenses	4	3	+35
Smelting costs	255	174	+47
Consumables and spare parts	117	80	+46
Services	88	57	+54
Labour	47	34	+39
Taxes, other than income tax	0	0	n/a
Other expenses	2	2	+8
Purchase of ore from third parties	17	11	+50
Mining tax	97	57	+69
Total cash operating costs	688	416	+66
Depreciation and depletion of operating assets	140	76	+85
Rehabilitation expenses	4	3	+25
Total costs of production	832	494	+68
Increase in metal inventories	(215)	(53)	+305
Write-down to net realisable value	6	15	-59
Total change in metal inventories	(209)	(38)	+453
Cost of other sales	3	2	+87
Total cost of sales	626	458	+37

The total cost of labour within cash operating costs increased by 68% in 2011 to a total of US\$130 million, as a result of general labour cost inflation, and also as a result of growth in the average number of employees directly involved in production by 46% as a result of production commencing at Albazino and a full year of commercial production at Omolon (including the Sopka mine). The cost of labour at those operations was mostly included in inventory costs in 2010. Another important factor was the increase in social tax rates in Russia from 26% to 34%.

Cash operating costs

2011	33%	30%	19%	14%	US\$688m
2010	35%	28%	19%	14%	US\$416m

■ Consumables and spare parts
 ■ Services
 ■ Labour
 ■ Other expenses
 ■ Purchase or ore from third parties
 ■ Mining tax

The cost of consumables and spare parts and the cost of services grew by 55% and 77% respectively, mainly affected by mining and processing volume increases (47% and 12%, respectively), and further inflated by increased diesel and electricity prices, as well as increases in US Dollar costs for other consumables in line with general CPI levels. Specific cost increases throughout the year were related to a shift of mining and, to some extent, processing volumes mix towards more complex and expensive mines and locations. In particular, significant increases are attributable to increased ore and concentrate haulage costs at Dukat, Omolon and Khakanja, as well as concentrate shipping costs and general transportation costs at Albazino.

Mining tax represents a consistent 14% share of total cost of sales and has increased by 69% in 2011 on the back of soaring metal prices, as well as an increased amount of total metal contained in ore mined in 2011.

Depreciation and depletion expenses nearly doubled in 2011 and amounted to US\$140 million as we put into production new mining and processing assets and completed several capex projects, including expansion of the Omsukchan factory at Dukat, the start-up of a new mine at Goltsovoye and a trial mine at Avlayakan, the launch of commercial production at Albazino, and the inclusion of a full year of mining and production at Omolon. The biggest increases are attributable to three mines where mining volumes significantly exceeded ore processed at relevant processing plants: ore mined at Sopka and not processed at Kubaka (Omolon hub), Albazino ore and concentrate prepared for further processing, and ore at the Avlayakan trial mine. At all locations mentioned, depreciation charges (mainly represented by depletion of mineral rights) were mostly included in metal inventories at the year-end.

In 2011 a net metal inventory increase of US\$215 million was recorded as we have been building concentrate stockpiles at Albazino (awaiting further processing at Amursk POX in 2012), and Dukat (concentrate in transit and in third-party refineries), both largely representing one-off factors. The Group has also been building ore stockpiles at Sopka (awaiting transportation by winter road at the beginning of 2012), Mayskoe and Avlayakan.

General, administrative and selling expenses

	2011	2010	% Change
Labour	72	43	+69
Services	24	21	+18
Share-based compensation	57	8	+623
Depreciation	4	2	+106
Other	12	9	+34
Total	170	82	+107

General, administrative and selling expenses grew from US\$82 million to US\$170 million, with the bulk of the increase arising from increase in non-cash share-based compensation costs. Labour costs grew by 69% as a result of the start of production and/or mining at Omolon, Albazino and Mayskoye, whilst previously general and administrative costs of those operations were capitalised.

Other expenses

	2011	2010	% Change
Taxes, other than income tax	11.3	14.5	-22
Listing expenses	9.5	-	n/a
Exploration expenses	30.2	8.1	+273
Omolon plant pre-commissioning expenses	-	7.2	-100
Social payments	8.7	6.5	+34
Housing and communal services	6.4	4.3	+49
Loss on disposal of property, plant and equipment	6.2	6.3	-1
Bad debt allowance	(1.2)	2.3	-150
Other expenses	7.3	6.4	+13
Total	78.3	55.5	+41

Other expenses grew by 41% to US\$78.3 million. The increase was mostly comprised of listing expenses (a US\$9.5 million one-off item, representing transaction costs of the Company's listing on the London Stock Exchange, excluding costs related to new capital issued), and an increase in exploration expenses (US\$22.1 million) related to assets where no probable or proved reserves were established. Other components demonstrated a moderate increase on the back of increased production, asset base and general cost inflation.

Financial review

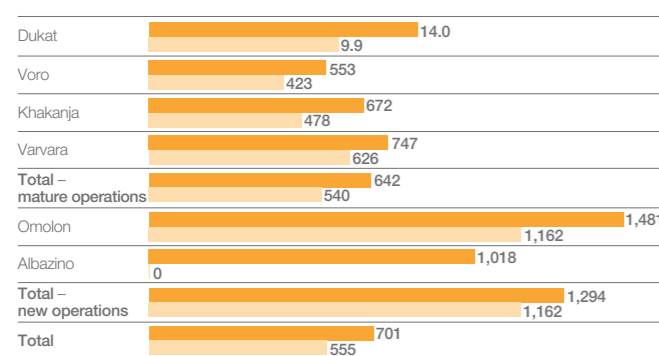
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Cash cost of sales

Cash cost per gold equivalent ounce	Cash cost per GE ounce, US\$/oz			Gold equivalent sold (silver for Dukat), Koz		
	2011	2010	% Change	2011	2010	% Change
Dukat (silver)	14.0	9.9	+42	15,546	17,608	-12
Voro	553	423	+31	176	174	+1
Khakanja	672	478	+41	138	175	-21
Varvara	747	626	+19	120	101	+19
Total – mature operations	642	540	+19	774	731	+6
Omolon	1,481	1,162	+27	46	19	+146
Albazino	1,018	–	n/a	31	–	n/a
Total – new operations	1,294	1,162	+11	77	19	+314
Total	701	555	+26	851	750	+13

Cash cost per tonne milled	Cash cost per tonne milled, US\$/t			Ore processed, Kt		
	2011	2010	% Change	2011	2010	% Change
Dukat	138	109	+27	1,733	1,533	+13
Voro	48	40	+19	1,803	1,931	-7
Khakanja	173	113	+53	617	622	-1
Varvara	30	25	+20	3,473	3,076	+13
Total – mature operations	70	55	+29	7,627	7,163	+6
Omolon	185	48	+285	574	682	-16
Albazino	88	–	n/a	620	–	n/a
Total – new operations	134	48	+180	1,194	682	+75
Total	79	54	+46	8,821	7,845	+12

Total cash cost per ounce (US\$/oz)
(silver equivalent ounce for Dukat, gold equivalent ounce for all other operations and totals)



■ 2011 ■ 2010

We believe we have demonstrated a good ability to control costs in the face of both global and local inflationary pressures which the mining industry is facing. Total cash costs of gold equivalent ounce sold were US\$701/GE oz, up 26% compared to 2010. The cash cost dynamics was significantly influenced by Omolon and Albazino, the former operating under design capacity during 2011, and the latter going through the ramp-up stage and reaching design volumes and recoveries in the last quarter of the year. As a result, both operations have demonstrated cash costs which are higher than the ones at our mature mines, however we are confident that their 2012 performance will however be in line with the Group's average. Excluding these two operations, total cash cost was US\$642/GE oz, or up just 19% compared to 2010. The key factors contributing to the growth in cash costs were the domestic inflation (6.1%) and appreciation of the US Dollar against the Rouble (3.4%) in 2011.

Cash cost by mine:

> At **Dukat**, the cash cost per silver equivalent ounce sold grew by 42% to US\$14.0/AgEq oz due to an increased share of underground mining (Goltsovoye) and increased ore and concentrate haulage costs, as well as significantly higher mining tax on the back of rapid growth in the average silver price by 73% year-on-year. General inflation and increased diesel fuel prices also contributed to the growth. However, in the second half of 2011, cash cost per silver equivalent dropped to US\$13.4/AgEq oz as the both grades and recoveries improved, and silver prices slightly retreated from April highs.

> At **Voro**, the cash cost per gold equivalent ounce sold in 2011 was US\$553/AuEq oz, the lowest among our assets. Cash cost of gold equivalent ounce increased by 31% in 2011 on the back of a decrease in average grade in ore mined from 5.2 g/t to 3.6 g/t and a resulting production volume decline, combined with increased metal prices driving up mining tax, as well as general inflationary factors.

> **Khakanja's** cash cost per gold equivalent ounce sold was US\$672/AuEq oz, up 41% compared to 2010. The growth in cost was driven mainly by the grade decline after processing of high grade ore from Yurievskoe had been completed and the grades declined at the main Khakanja mine, coupled by Avlayakan ore transportation costs and diesel fuel price growth.

> **Varvara** has demonstrated the least cost inflation among our assets, with cash cost per gold equivalent ounce growing by 19% in 2011 to US\$747/AuEq oz. The growth was mainly driven by increased use of third party ore and metal prices pushing the mining taxes up. On the positive side, cost inflation has been limited due to average grade improvement and 13% growth in total ore processed at the mine, with a 28% increase in gold equivalent production achieved in 2011.

> At **Omolon**, cash costs were US\$1,481/AuEq oz sold, significantly above the Company's and industry average as the Group has been unable to reach this year's production volume targets. From a spike of US\$1,833/AuEq oz in first half of the year, the Group achieved a notable improvement to US\$1,303/AuEq oz in the second half, on the back of significant increased grade in Birkachan ore processed (from 1.9 g/t in 1H 2011 to 3.1 g/t in 2H 2011) and improved recoveries. The Group expects a radical improvement in the cost profile of the Kubaka plant in 2012 as it will be able to process high grade ore from the Sopka mine as originally planned and achieve more than a three-fold increase in gold equivalent production volume.

> At **Albazino**, the cash cost was US\$1,018/AuEq oz, a high level driven by the ramp-up of both the mine and processing plant during 2011. By the end of the year the processing plant has reached both its designed volume and recoveries, so the Group is quite positive about the 2012 cost outlook.

Adjusted EBITDA and EBITDA margin¹

	2011	2010	% Change
Net income	290	239	+21
Finance cost (net)	25	21	+18
Income tax expense	119	67	+76
Depreciation and depletion	97	70	+37
EBITDA	530	398	+33
Share-based compensation	57	8	+623
Exchange gains/losses	14	0	n/a
Listing expenses	10	–	n/a
Change in fair value of contingent liability	7	4	+89
Rehabilitation costs	4	3	+25
Write-down of inventory	6	15	-59
Change in fair value of derivatives	2	1	+104
Gain on disposal of subsidiary/ bargain purchase gain	(5)	(4)	+38
Adjusted EBITDA	624	425	+47
Adjusted EBITDA margin	47.0%	45.9%	+110bps

Adjusted EBITDA by segment	2011	2010	% Change
Dukat	282	154	+83
Voro	175	131	+33
Khakanja	113	120	-6
Varvara	91	55	+66
Omolon	5	(8)	-159
Amursk hub	(6)	(14)	-60
Corporate and other + eliminations	(36)	(12)	+191
Total	624	425	+47

¹ The Company defines Adjusted EBITDA (a non-IFRS measure) as profit for the period adjusted for depreciation expense, rehabilitation expenses, writedown of inventory to net realisable value, share-based compensation, listing expenses, income on disposal of subsidiaries, bargain purchase gain, foreign exchange gain/(loss), change in fair value of derivatives, change in fair value of contingent consideration, finance income, finance costs, and income tax expense. Adjusted EBITDA margin is Adjusted EBITDA divided by revenue.

Financial review

continued

In 2011, adjusted EBITDA grew by 47% to US\$624 million, slightly ahead of revenue growth. This year the Group fully benefited from increased metal prices, production growth, and our ability to keep costs under control in a challenging environment. The adjusted EBITDA margin grew slightly by 110bps to 47.0%. Dukat and Voro contributed most to the adjusted EBITDA growth. Adjusted EBITDA at Dukat grew by 83% to US\$282 million on the back of soaring silver prices and a 17% increase in silver production volumes, while at Voro the Group benefited from the lowest cost base among its assets, pushing adjusted EBITDA up by 33% despite some production volume decline. At Albazino (excluding Amursk and Mayskoe, both assets under construction), in 2011 the Group has already achieved a positive adjusted EBITDA contribution of US\$4.5 million.

Other income statement items

Foreign exchange losses increased significantly from US\$0.3 million in 2010 to US\$13.6 million in 2011, mainly stemming from the appreciation of the Group's mostly US Dollar denominated borrowings against the Russian Rouble as the US Dollar appreciated against the Rouble by 5.6% year-on-year. The Company does not use any hedging instruments on foreign exchange, other than a natural hedge arising from the fact that the majority of the Group's revenue is denominated or calculated in US dollars.

A US\$6.8 million non-cash loss was recorded in 2011, arising from changes in the fair value of contingent consideration liabilities. The change mainly arises from an increase in metal prices, as the Group is obliged to pay a perpetual 2% of revenues from deposits acquired as part of the acquisition of Kubaka in 2008. In September 2011, the Group fully settled deferred liabilities in relation to the acquisition of Varvara by paying US\$5.5 million consideration to the previous owner.

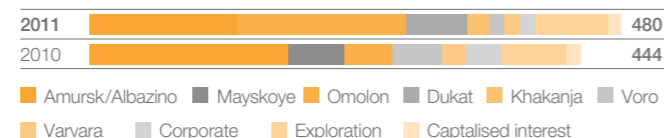
Net income, earnings per share and dividends

Pre-tax earnings in 2011 were US\$409 million, up 33% compared to 2010, reflecting strong revenue growth and controlled cost dynamics. The Group's effective tax rate in 2011 was 29%, up from 22% in 2010, as a result of an increase in various non-deductible expense items or expenses incurred in jurisdictions outside Russia. The biggest single non-deductible expense item was share-based compensation (a non-cash item, US\$57 million in 2011 compared to US\$8 million in 2010). Other significant non-deductible expenses included contingent consideration, and charitable and social expenses.

As a result, net income grew by 21% to US\$290 million. Basic earnings per share were US\$0.79, or 18% higher than 2010 (the average number of shares in issue in 2011 was 2% higher as a result of the IPO). Diluted earnings per share were US\$0.74, up 12% compared to 2010 and further influenced by an increase in the dilutive effect of shares potentially issuable by the Company under the terms of its Long-term Employee Incentive Programme.

From 2011, the Company has implemented a new dividend policy. For 2011, the Directors propose to pay a dividend of US\$0.20 per share, and from 2012 the Company intends to pay a dividend of 20% of net earnings provided that net debt to adjusted EBITDA ratio is below 1.75.

Capital expenditure (US\$m)



In 2011, total capital expenditure was US\$480 million, up 8% compared to 2010 as the Group was completing a number of major projects during the year. The Company expects that in 2012 it will see a considerable decrease in investment as most of the construction projects on the existing assets have been completed or are nearing completion.

The major capital expenditure items in 2011 were:

- > US\$133 million has been invested in completion of construction at **Amursk POX** and **Albazino** concentrator, with all major construction works completed at both sites in 2011. The concentrator already is up and running and the Amursk POX is completing the commissioning stage;
- > US\$85 million was spent on construction of processing plant and underground mine at **Mayskoye**, where the Group is targeting completion in Q4 2012;
- > US\$68 million was invested in the **Omolon** operations, including installation of a Merrill-Crowe section and completion of refurbishment at the Kubaka plant (completed in December 2011) and expansion of the mining fleet at Sopka and Birkachan;
- > Capital expenditure at **Dukat** was US\$55 million, representing mainly completion of refurbishment of the Omsukchan concentrator (gravity circuit installed) and expansion of underground operations and fleet at Dukat and Goltsovoye mines;
- > Other operating mines incurred less significant capital expenditures in 2011, mainly representing routine maintenance investment and upgrades to mining fleet;

> We have continued to actively invest in **greenfield and brownfield exploration**. Capital expenditure on exploration was US\$66 million, up 12% compared to 2010;

> Total capital expenditure in 2011 includes US\$12 million of capitalised interest (2010: US\$14 million).

Cash flow

	2011	2010	% Change
Operating cash flows before changes in working capital	462	333	+39
Changes in working capital	(250)	(118)	+113
Total operating cash flows	212	215	-1
Investing cash flows	(472)	(410)	+15
Financing cash flows			
Net changes in gross debt	191	178	+8
Proceeds from IPO	763	-	n/a
Other	(47)	-	n/a
Total financing cash flows	907	178	+410
Net increase/(decrease) in cash and cash equivalents	647	(17)	n/a
Cash and cash equivalents at the beginning of the year	11	28	-61
Effect of foreign exchange rate changes on cash and cash equivalents	1	(0)	-373
Cash and cash equivalents at the end of the year	659	11	n/a

Cash flows in 2011 were strong, supported by metal prices and the inflow of funds from the IPO. Cash and cash equivalents increased from US\$11 million in 2010 to US\$659 million as at 31 December 2011 as a result of the following:

- > Operating cash flows before changes in working capital were US\$462 million, up 39% from 2010 and supported by growth in adjusted EBITDA;
- > Changes in working capital were negative at US\$250 million (2010: US\$118 million) mainly as a result of increase in metal inventories at Omolon (ore mined at Sopka for further processing in 2012 at the Kubaka plant) and Albazino (concentrate produced for further processing at the Amursk POX in 2012) and, to a lesser extent, at other mines where the amounts of ore mined exceeded processing capacity in 2011 and stockpiles of saleable concentrate have built up;
- > Investing cash flows were up 15% driven by progress at major capital expenditure projects in 2011;
- > Financing cash flows were US\$907 million, mainly represented by the IPO proceeds of US\$763 million and US\$191 million net increase in debt.

Liquidity and funding

Net debt	2011	2010	% Change
Short-term debt and current portion of long-term debt	348	91	+285
Share purchase obligation under MTO	535	-	n/a
Finance lease liabilities	-	5	-100
Long-term debt	655	595	+10
Derivatives	-	105	-100
Gross debt	1,538	796	+93
Less: cash and cash equivalents	659	11	n/a
Net debt	879	785	+12
Net debt / adjusted EBITDA	1.41	1.85	-24

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

The Group's net debt stood at US\$879 million as of 31 December 2011, representing a Net debt/adjusted EBITDA ratio of 1.41 as a result of receipt of IPO proceeds received in November 2011, and recognition of the MTO obligation.

The Group continues to focus on building a healthy debt profile, which is comfortable both from the liquidity and cost standpoints. The majority of our borrowings (65%) were long-term as at 31 December 2011, while the average cost of debt remained at a low 3.2% in 2011 (2010: 3.1%), supported by low base interest rates and our ability to negotiate competitive premiums on the back of the improved financial position of the Company and our excellent credit history.

Key 2012 financial targets

We are positively looking into 2012. It will be a year when we will be benefiting from the following factors:

- > Achievable production targets of 1 Moz of gold equivalent, representing a 24% increase over the 2011 level;
- > Completion of a major capital investment cycle in 2011, with significantly less capital expenditure planned for 2012;
- > Completion of the ramp-up of new operations at Omolon and Albazino allowing the Group to achieve robust cost performance.

We therefore expect a strong financial year, both in terms of earnings and free cash flow. The Company will continue to implement a rigid liquidity policy, further pushing the debt level down in order to maintain net debt/adjusted EBITDA below 2011 levels and to be able to generate the anticipated dividend flow to our shareholders.

Effective risk identification and management

Managing our risks well is critical to the long-term sustainability and success of the Company. We believe that delivery of sustainable value to our stakeholders should be based on effective risk identification and an appropriate response to each risk.

Risk management process

Polymetal's risk management process is designed to minimise the potential threats to achieving our strategic objectives. The process incorporates the following stages:

- > identify and document risks;
- > assess, quantify and classify each risk;
- > develop and implement risk mitigation/control strategies; and
- > monitor, report and review risk.

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

- > policies and overall process to identify and assess business risks and manage their impact on the Company and the Group;
- > regular assurance reports from management, internal audit, external audit and others on matters related to risk and control; and
- > the timeliness of, and reports on, the effectiveness of corrective action taken by management.

Risk identification

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

Risk management is one of the key functions of the Audit and Risk Committee. Strategic risks are identified by the Board based on a detailed understanding of the Company, its markets and the legal, social, political, economic, technological, environmental and cultural environments in which we operate. Our risk identification system considers not only single, mutually exclusive risks, but also multiple linked and correlated risks.

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

Risk assessment

Once identified, potential risk factors are assessed to consider the impact (consequences) the event or events may have on achieving objectives and the likelihood (probability) of the event (see table on top of page 61). Together these create a risk profile.

Risk response

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

Monitoring and reporting

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

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

Impact/Financial Consequences

>US\$50m	US\$50m-US\$10m	US\$10-US\$5m	US\$5m-US\$0.1m	<US\$0.1m
Catastrophic > Significant impact on strategy or operational activities > Multiple significant stakeholder concern	Major > Major impact on strategy or operational activities > Major stakeholder concern	Moderate > Serious impact on strategy or operational activities > Moderate stakeholder concern	Minor > Minor impact on strategy or operational activities > Limited stakeholder concern	Insignificant > Minimal impact on strategy or operational activities > Low stakeholder concern
Likelihood/Probability Almost certain Occurs one or more times per year and is likely to reoccur within one year	Likely Occurs less than once a year and is likely to reoccur within five years	Possible Could occur or may reoccur at some point within 10 years	Unlikely Has happened at some time or could happen within 20 years	Rare Is highly unlikely that it could occur in the next 20 years

Residual risk level
High Medium Low

Risk category	Risk description and potential effect	Risk response
1 Market risk	Gold and silver price volatility can result in material and adverse movement in the Group's operating results, revenues and cash flows. Movement in gold equivalent price for all metals produced of 10% will cause EBITDA to increase/decrease 19% in accordance with Group budgeted figures for 2012.	The Group monitors gold and silver prices on an ongoing basis. There are market signs which support analyst and investor confidence in the current levels of gold and silver prices. The Group has therefore decided not to hedge gold prices in order to maximise the benefits from the positive price trends.
2 Production risks	The risk of failure to meet the planned production programme. Failure to meet production targets may adversely affect operating performance and financial results of the Group.	Annual, quarterly and monthly production budgeting and subsequent monthly control against budget is designed to mitigate the risk. The effectiveness and efficiency of the production process is ensured by the Group's engineering team senior management.
2.1 Production risk – low grade / potential dilution of ore	The risk of lower than expected metal grade or dilution is caused by complex mining and geological conditions, mainly at underground mines.	An approved production programme includes increased volume of operational prospecting works, such as in-fill drilling and grade control sampling.
2.2 Production risk – ore and concentrate shipping	The Company operates in remote locations that require complex and significant transportation of ore and gold/silver concentrates, most of which is conducted by third party contractors. Production targets may not be reached if any element of the logistics chain is disrupted.	To mitigate the logistics risk the Group invests considerable amounts into construction and maintenance of permanent and temporary winter roads at exploration and production sites. The Group exercises effective control over the whole logistics chain, including selection and operation of contractors.
2.3 Production risk – supply chain risks	The Group's production activity depends heavily on the effectiveness of supply chains. These might be negatively affected by complex logistics to remote locations and delays in construction and delivery of purchased mining and processing equipment or spare parts.	The Group has implemented and constantly improves the supply chain system to closely link the production demand of resources with inventory levels, optimise the number of order placements and ensure the in-time inventory and equipment delivery to production sites.
2.4 Production risk – low recovery rate	Recoveries at the Group's processing plants may not reach planned levels due to complex technological properties of ore processed.	To mitigate the risk the Group invests considerable amounts in ore quality assessment procedures and seeks to control ore quality by formation of ore stacks with the required characteristics.
3 Production risk – construction and renovation	Failure to meet return required from the major capital expenditure projects, such as building new mines and processing facilities or production capacity increase / renovation at existing mines, as a result of failure to meet project delivery timeline and budgets which can adversely affect the Group's financial results, cash flow position and increase capital costs. Most significant ongoing projects include launch of Amursk POX facility and construction of Maskoye concentrator.	The Group's engineering team is responsible for the oversight of capital expenditure projects, including project support, coordination of service organisations, contractors, constructors and cooperation with regulatory bodies. Significant parts of exploration and development projects are performed by the Group in-house by Polymetal Engineering, a subsidiary company with significant expertise and track record of designing and commissioning mines and processing plants. On complex projects, such as construction of the Amursk POX plant, the Group employs world class consultants with recognised international experience.

Effective risk identification and management

continued

Risk category	Risk description and potential effect	Risk response
4 Legal risk	<p>Operating in developing countries, such as Russia and Kazakhstan, has a risk of changes in tax and other legislation which may occur from time to time. The most sensitive areas are regulation of foreign investments, private property and environmental protection.</p> <p>In the recent years, however, both Russian and Kazakh governments have become more predictable in implementing new regulations and taxes, demonstrating consciousness of the investment climate.</p>	<p>Polymetal has a successful track record of operating in both Russian and Kazakh jurisdictions, having developed its own expertise in corporate, tax, licensing and other legal areas.</p> <p>The Group's financial and legal teams monitor current legislation and proposed changes and incorporate these into the practice.</p> <p>Corporate and operating management teams are responsible for meeting the legal requirements in their operating activities. Head office and on-site legal teams guarantee appropriate controls over compliance issues.</p>
5 Mergers and acquisitions	<p>The Group invests considerable amounts in gold mining assets and operations in the Russian Federation and Kazakhstan. There is a risk of failure to achieve expected benefits from any acquisition in the case of adverse changes in assumptions or inaccuracy of estimates made, or where the information used for decision making was incomplete or inaccurate.</p> <p>Failure to deliver expected benefits from an acquisition can result in adverse financial performance, lower planned production volumes or problems with product quality.</p>	<p>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.</p> <p>Board and/or shareholder approval is required for any acquisition.</p>
6 Environmental risks	<p>Environmental damage may arise from operations, including air and water pollution from toxic waste. Waste storage and recycling is subject to government regulation. Potential impacts include fines and penalties, statutory liability for environmental rehabilitation and other financial consequences that may be significant.</p>	<p>The Group has implemented a number of initiatives to monitor and limit the impact of its operations on the environment. These include external expert assessment of pollution generated and adoption of industry best practice on the corporate level policies and procedures. Refer to page 69 of this report.</p>
7 Political risk	<p>Operating in Russia and Kazakhstan involves some risk of political instability, which includes, but is not limited to, changes in government, negative policy shifts and civil unrest. These may have an adverse effect on the Group's market value and operating environment.</p>	<p>The Group actively monitors political developments on an ongoing basis.</p> <p>We aim to maintain open working relationships with local authorities in the countries where we operate.</p>
8 Currency risk	<p>Currency risk arises as the Group's revenue is linked to London Bullion Market Association (LBMA) gold and silver fixings and denominated in US Dollars. The expenses are mostly incurred and denominated in Russian Rubles.</p>	<p>Natural hedging is used to reduce the risk exposure: revenue is matched with US Dollar denominated debt.</p> <p>Flexible budgeting is used to monitor the effect of exchange rate fluctuations on the Group's financial results.</p>

Residual risk level
High Medium Low

Risk category	Risk description and potential effect	Risk response
9 Human resources	<p>Failure to retain key employees or to recruit new staff mainly at the Group's mining and processing facilities may lead to increased staff costs, interruptions to existing operations and delay in new projects.</p> <p>Lack of skilled and knowledgeable staff at remote locations may occur due to extreme weather conditions.</p>	<p>A working conditions improvement programme is in place.</p> <p>Remuneration policies are designed to incentivise, motivate and retain key employees.</p> <p>There is an increased focus on health and safety – refer to page 68 of this report and there is active promotion of a positive corporate culture within the Group.</p>
10 Liquidity risk	<p>Inability to raise sufficient funds to meet current operating or ongoing financial needs, to develop new projects and growth.</p>	<p>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.</p> <p>In 2011, the Group moved to the LSE's main market, raising additional US\$768 million during its IPO. Part of the IPO proceeds will be used to reduce the current net debt level.</p>
11 Failure to meet exploration objectives	<p>Exploration and development are capital- and time-intensive activities and may involve a high degree of risk. They are, however, necessary for the future growth. Failure to discover new reserves of sufficient magnitude could adversely affect the Group's medium and long-term growth prospects.</p>	<p>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 mining and engineering specialists has a track record of successful greenfield and brownfield exploration leading to subsequent development of exploration fields into commercial production.</p>
12 Interest rates	<p>The Group is exposed to interest rate risk as significant part of the Group's debt portfolio comprises US Dollar denominated floating rate borrowings.</p>	<p>Based on analysis of the current economic situation, the Group has decided to accept the risk of floating interest rate rather than hedge it or borrow at fixed rates. However the Group does not rule out the possibility of fixing the interest rate on its borrowings in the future, should assessment of the ongoing economic situation suggest this may be profitable.</p>
13 Inflation risk	<p>The Group is exposed to potentially high rates of inflation in the Russian Federation and Kazakhstan. Higher rates of inflation may increase future operating costs and have a negative impact on financial results if there is no related depreciation of the local currency against US Dollar or an increase in LBMA gold and silver fixings.</p>	<p>As part of the budgeting process, the Group estimates possible inflation levels and incorporates them into cost planning.</p>

Sustainability – being a responsible business

Polymetal aims to create shareholder value whilst protecting the interests of employees, communities and wider society, in order to underpin the Company's long-term success. Consequently, responsible development and sustainability are crucial parts of our overall strategy.

In our view, sustainability is achieved through the provision of high quality jobs, secure and safe employment, protection of the environment and a positive relationship with local communities and other stakeholders. We work hard to be a good corporate citizen in all of our operational locations.

Scope of sustainability actions

Polymetal's sustainability actions cover all Group operations, including the headquarters in St. Petersburg and each of the subsidiary companies.

Sustainability governance

Sustainability is the ultimate responsibility of the Group CEO, Vitaly Nesis. To assist him, a Technical Council is convened monthly to review strategy and agree priorities and actions. Heads of department report to the Council, covering employees, community outreach, health and safety and environmental management. The Council defines and monitors sustainability strategy and oversees implementation of associated policies across all operating subsidiaries. The latter is the responsibility of the relevant human resources, communications, health and safety and environmental heads within these businesses.

The overall sustainability strategy is designed to meet the requirements of the UN Global Compact.

This voluntary international standard commits affiliated companies to compliance with ten principles in the areas of human rights, labour, environment and anti-corruption. In 2009 Polymetal became an active member of the UN Global Compact Network in Russia.

The UN Global Compact is the starting point for more detailed policies and associated management systems, all of which are defined at Group level and implemented through the head office and the subsidiary companies. Ongoing monitoring and regular audits ensure that performance is measured against the relevant regulatory and company internal requirements.

Stakeholder engagement

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

Sustainability priorities

Our sustainability priorities are to:

- > Operate with the full co-operation of local people, government authorities and non-governmental organisations (NGOs)
- > Maintain productive relationships with local communities, government authorities and NGOs, where mining, processing or transportation is taking place
- > Provide excellent career opportunities and compensation levels for people with diverse skills and experience
- > Provide a safe, healthy and positive working environment for all employees
- > Deal fairly with suppliers, customers and business partners
- > Maintain an effective environmental management strategy in order to reduce any potential negative impact

Stakeholders

- > Shareholders and investors
- > Employees
- > Government and regulatory bodies
- > NGOs
- > Local communities

Working with Indigenous Minorities of the North



"Polymetal is currently the only company in the Khabarovsk Territory which recognises its responsibilities towards indigenous people.

Polymetal recognises the importance of direct assistance for indigenous groups, including promoting village life,

maintaining boarding schools and supporting the families of reindeer herders."

Lyubov Passar
President of the Khabarovsk Territory Association of Indigenous Minorities of the North

Recognition from our stakeholders

Polymetal has received formal recognition for its actions from the following stakeholders in 2011:

- > local communities – for doctors' visits and healthcare provision for children in remote villages, material support for elderly and vulnerable people and for a proactive approach to tackling particular social problems;
- > NGOs – for sponsoring cultural institutions, promoting sports and supporting ecological education projects for young people;
- > Indigenous Minorities of the North (IMN) associations – for ongoing support and co-operation with IMN, helping to preserve their cultural heritage and lifestyle;
- > managers in local sports, healthcare, educational and cultural organisations – for improving facilities and purchasing equipment; and
- > local government authorities – for ongoing co-operation, partnerships and a contribution to local and regional economic development through direct investment as well as tax payments.

In 2011, the Group CEO was given a 'For Merit' award by the Khabarovsk local administration in recognition of his and the Company's contribution to social and economic development in the Territory.

Communities

Polymetal maintains positive working relationships with local authorities and communities, where its subsidiaries operate. We recognise that future business growth will be underpinned by such relationships in areas where we are planning new operations.

Our community engagement priorities are:

- > education and healthcare;
- > development of local infrastructure;
- > sports and healthy lifestyles;
- > local culture and creativity; and
- > welfare of IMN.

The standards expected of our subsidiaries and employees in relation to these priorities is set out in our Corporate Governance Code and Policy on Social and Charitable Investments.

Community benefit in 2011

In 2011, our Russian subsidiaries paid taxes and made payments to extra-budgetary funds of US\$40 million. Taxes paid by the Group's subsidiary in Kazakhstan amounted to US\$3 million. Over and above our tax commitments, we maintained and enhanced local infrastructure and services, increased employment opportunities, provided training and education for local people and operated a long-term programme of community investment.

Community investment in 2011

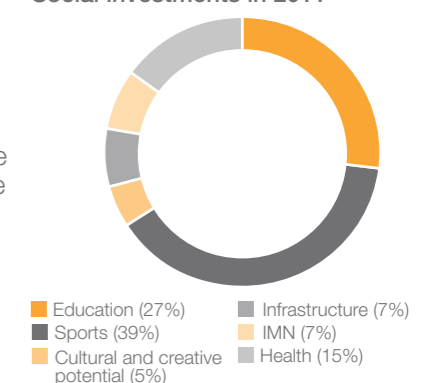
We invested US\$4.0 million in communities, with the principal emphasis on health, education and sports related projects.

The investments were made in all areas of our operations and most are part of long-term programmes, many of which were started in 2010. The ongoing and future implementation is very much driven by local authorities, communities and NGOs. We have established formal dialogue and feedback mechanisms with all of these stakeholder groups, including surveys, hotlines and public hearings. Through this process, we have learned about the effectiveness of the programmes and made some changes for 2012. We have positive feedback and there is high level of support for the work.

Supporting the Indigenous Minorities of the North

Maintaining long-term supportive relationships with IMN communities is a priority for Polymetal. We work with such communities in Chukotka, Magadan Region and Khabarovsk Territory, providing nomadic reindeer herding teams with materials, fuel, transport, healthcare and food.

Social investments in 2011



Sustainability – being a responsible business continued

We also work with younger people in the IMN communities to explore and promote their own traditions and culture, including sponsorship of celebrations, involving music, art and ethnography. In 2011, we funded the publication of a book about the Negidals, the smallest of the IMN communities, whose future is under threat. In the same year, we began a long-term programme of support for reindeer herders in the Okhotsk District, Khabarovsk Territory. This involves the purchase of materials, veterinary medicines and transport, repairs to equipment and grants to assist in building up reindeer herds.

All of this work is done with the full co-operation of IMN representatives. Regular meetings provide us with opportunities to identify their needs and assess the success of our funding programmes. Accordingly,

the Association of IMN in the Khabarovsk Territory described Polymetal as “the best business providing assistance in preserving and developing ethnic cultures.”

Employees

An ability to recruit and retain high quality motivated people is essential to the sustainable long-term growth of our business. In line with the UN Global Compact, our main human resources objectives are:

- > to operate a fair and internationally competitive system of wages and benefits, linked to collective and individual performance;
- > to operate an effective training and career development programme;
- > to ensure that all employees are trained in occupational safety and accident prevention procedures;

- > to maintain an excellent working and living environment for employees and their families; and
- > to engender a positive working culture through clear and regular two-way communication.

Employment policies and profile

We have clearly defined human resources policies for all employees. These cover recruitment, professional development, appraisal, training, resources and skills, organisational design and motivation. As at 31 December 2011, we employed 8,747 people across the Group, with 6,497 in production, 599 in exploration and 735 in research, development, design, logistics and management.

The Group operates an equal opportunities policy and is committed to fair employment

Community Investment Priorities	Performance in 2011
To invest for the long term in communities adjacent to Group operations. To improve the living standards of local residents through timely completion of development projects.	<ul style="list-style-type: none"> > Refurbished and re-opened a cinema in Amursk. > Built eight playgrounds in remote communities. > Refurbished and equipped seven nurseries, two schools, 11 hospitals and medical centres. > Improved residential infrastructure (including gas and electricity supply, street lighting and heating). > Provided medical services to 1,500 people in remote communities.
To build residential and recreational facilities as part of wider community investment projects.	<ul style="list-style-type: none"> > Public ‘reporting’ meetings held with communities in all regions of operation. > Adopted the Deer Breeding Support Programme after consultation with local communities. > Contributed to consultative councils and working groups with community and local authority representatives. > Organised site visits for representatives of local communities.
To improve two-way communication and access to information for and with remote communities, including IMN.	<ul style="list-style-type: none"> > Equipped sports halls and facilities in seven remote communities. > Constructed and equipped a school stadium in Polina Osipenko District and ski school in Krasnoturinsk. > Organised and sponsored children’s sports competitions and supported three children’s hockey teams in remote communities.

A university partnership



Polymetal has signed a five-year cooperation agreement with the North Eastern State University.

“We have a longstanding relationship with the University, and over the last few years students have been completing pre-degree practical training at Polymetal’s businesses in the Magadan Region. We supervise this training, review degree work

and also take an active part in employment fairs, the annual professional career event and practical research conferences organised by the North Eastern State University.”

Yevgeniya Prevysk-Kvinto
Deputy Head of Human Resources at the Magadan branch of the Polymetal Management Company

practices for qualified people with a disability, observing all applicable labour and employment laws wherever its businesses are located. Every employee has equal access to training, career development and promotion programmes, including those with disabilities.

Employee compensation and benefits

Polymetal is fully compliant with all labour laws in Russia and Kazakhstan. In 2011 and 2010, our average salary levels were between 3-30% higher when compared with other mining companies, varying on a region-by-region basis. These levels are set through collective agreements with employees in each subsidiary, which recognise that the salary is linked to the quality of an individual’s work and the overall performance of the Group.

Expenditure on social benefits in 2011 was US\$3,950 per employee. These benefits include pensions, medical care, access to sports facilities, clubs and competitions, nursery and school provision, food and accommodation, when working away from home,

injury compensation, transport at work and transport to and from home, when working in remote areas. Additional discretionary allowances are also granted to reflect particular roles and skills shortages in certain markets and across certain functions.

Freedom of association

In line with the UN Global Compact, all employees have the right to freedom of association and to enter collective agreements with the Group. As a consequence, employee managed Workers’ Councils operate at all major operating subsidiaries. Where plants remain under construction or subsidiary companies have just joined the Group, local labour standards are fully adopted as a precursor to the establishment of formal Workers’ Councils.

Selection and appraisal

Polymetal is committed to being an employer of choice for young, educated and ambitious professionals. We, therefore, offer a wide range of career paths, backed by excellent benefits packages. This emphasis on skills retention, development and transfer provides many opportunities for internal candidates to progress within the business.

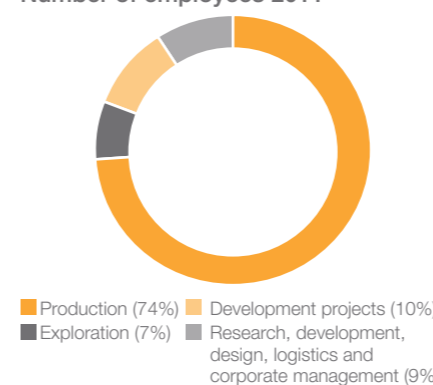
Given the growth of our business, it is not always possible to identify suitable internal candidates, so we also operate an extensive external recruitment

programme. An important component is the ‘Youth-Professionalism-Career’ scheme, which in 2011 offered 118 students work experience at 9 plants, including return travel, accommodation and a salary. Under the scheme, children of employees also receive education support to degree level with the guarantee of employment at the end of the course. This has led to a significant increase in the number of student interns and graduates employed across the Group.

Training

Ongoing professional development and training is essential for operational integrity, safety and personal motivation. Our appraisal and training processes are, therefore, comprehensive and cover all aspects of the business. A new appraisal system adopted in 2010 measures each employee’s personal development and identifies career paths within the Group. The training framework includes both distance and experiential learning and continuing professional development, with opportunities to attend specialist courses, conferences and exhibitions. Specialist engineering and environmental management training is also available. Polymetal Engineering, the internal centre of excellence, places great emphasis on training and professional development for its engineers and environmental professionals.

Number of employees 2011



Sustainability – being a responsible business

continued

Internal communications

Given the scale and geographic spread of our business, we use many communication channels to keep employees informed about Group-wide developments. Our monthly newspaper, *The Northern Latitude*, is a key communications tool with different editions published according to specific Group activities. Our regular employee surveys highlight the high regard in which *The Northern Latitude* is held.

Events are also important in terms of sharing experiences and building morale. Metallurgists', Geologists' and Miners' Days are celebrated across the Group with awards ceremonies, gala concerts, sports competitions and activities for children and local communities. Gifts are distributed to first year schoolchildren on the Day of Knowledge and war veterans are recognised on Victory Day.

In 2007, we initiated a formal employee feedback system to channel corporate information, receive comments on management decisions and suggestions for improved working

practices. This feedback is channelled through mailboxes at every plant, telephone hotlines, direct contact with plant management, direct contact with the Group CEO, the corporate website and *The Northern Latitude*. We track feedback and ideas and are committed to responding within a certain time to all such communications. In 2011, 397 employee messages were delivered and responded to via this system. For example, employee feedback in Mayskoye led to changes in the way food is purchased and delivered, the provision of new equipment in factory canteens, the building of new bathing facilities, the opening of a physiotherapy unit and an improved library.

Health and Safety

Our approach to Health and Safety is governed by our employee protection and workplace safety management system. This is designed to detect, assess and manage production risks, ensure employee health and workplace safety, and define the safe use of buildings and equipment.

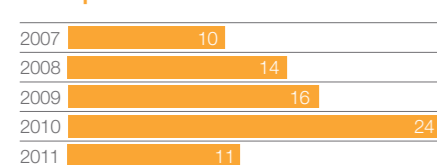
The system complies with ILO-OSH 2001, OHSAS 18001 and GOST R 12.0.007-2009.

In 2011, health and safety activity focused on:

- > ongoing implementation, operation and refinement of the system;
- > reducing workplace injuries;
- > enhancing the culture of safety across all operations;
- > ensuring that the latest employee safety techniques and equipment are applied; and
- > enhancing safety training and techniques for motivating employees.

We operate 102 production sites and processes, each with its own risk profile. These include open and underground mines, geological exploration sites, ore processing and explosive depots, as well as transportation of people, equipment, spoil and ore. Every employee receives illustrated guides, backed up by regular briefings and formal training sessions, and is provided with the necessary equipment and workwear.

Workplace accidents



Indicators	2011	2010	% Change
Emergencies	–	–	–
Incidents	–	–	–
Accidents	11↓	24	-54
Occurrences	14	14	0
Occurrences with sub-contractors	9↓	10	-10
Injury frequency coefficient	1.3↓	3.5	-63
Injury gravity coefficient	49↓	75	-35
Lost time injury frequency rates (LTIFR)	0.7↓	1.9	-63
Fatal injury frequency rate (FIFR)	–↓	0.5	-100

This is backed up by ongoing internal audits that identify areas of poor and positive practice, in order to maintain the integrity of the system.

Workplace accidents

In 2011, there were 11 workplace accidents across the Group, none of which were fatal. This reflected a major upgrade of the health and safety system following poor performance in 2010, which saw 24 such accidents, six of which were fatal. The severity of incidents in 2011 was also reduced compared to the previous year, with a 50% decrease in serious incidents.

Work-related illness

No cases of production-related illness were recorded in 2011. Each employee receives, as a minimum, an annual health check from one of our medical professionals. In some cases, these checks identify the need for specific treatment, for example treatment away from the workplace in one of our health centres.

Environment

Polymetal's operations generate hazardous and non-hazardous waste, liquid effluent and air emissions, use significant volumes of water and displace significant quantities of soil. Whilst complying with all relevant national and regional environmental legislation, our environmental priorities are:

- > pollution prevention;
- > reduction in greenhouse gas emissions;
- > efficient use of energy and natural resources; and
- > effective management of waste.

These priorities are addressed through the adoption and effective use of technology, ongoing refinement of management processes, rational use of natural resources, reuse and recycling of waste, efficient use and conservation

of energy, employee involvement in environmental management and prevention of accidents with an environmental impact.

Environmental governance

Group performance is managed by the environmental department at its headquarters in St. Petersburg, from where the environmental management system is defined and monitored. This system was revised and updated in 2011 in line with the ISO 14001 standard and in accordance with relevant legislation in Russia and Kazakhstan.

The Group environmental department comprises specialists in water pollution management, water treatment, air quality, land management and ecology. Each of our subsidiary companies has its own environmental team, responsible for management and monitoring and the provision of monthly reports to the Group.

Safety is a personal matter



Our new shift risk assessment (SRA) system is placing a much greater emphasis on personal health and safety assessment at the Dukat and Omolon hubs. At the start of a shift, each employee will make a note on an SRA card about the nature and

condition of their clothing and personal safety equipment and the type of work that they are about to do. Through this discipline, the employees essentially carry out their own assessment of the degree of risk, leading them to make a conscious decision about the acceptability or otherwise of that risk.

Experience has shown that the success of this approach depends largely on the attention paid to the process by the employee and their colleagues, which in turn places more responsibility on foremen and supervisors. This requires a high degree of communication and feedback from all parties, which in turn improves safety practices. Consequently,

at the Omolon hub we now require all foremen to maintain electronic SRA logs, the data from which is used to adjust safety procedures as and when new issues arise, and the system is being rolled out across all Group operations in the Magadan Region.

"Having deployed SRA, we can see the benefits it brings in terms of personal responsibility and safety. It is very much here to stay as an integral part of our overall health and safety management system."

Konstantin Savchuk
Head of the Industrial Safety Department

Sustainability – being a responsible business continued

Air quality, surface water and ground water samples, collected through this system, are analysed at laboratories, certified to international standards. We also have one of the largest in-house engineering operations in the Russian mining sector. Polymetal Engineering employs more than 100 specialists in the design and construction of mines and processing facilities and, since 2010, has included an environmental management function.

Auditing and monitoring

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

Environmental teams at each plant, supported by headquarters specialists and Polymetal Engineering, monitor performance and ensure compliance against the Group system and external standards.

Environmental compliance

Environmental auditing and monitoring of Group subsidiaries is undertaken by state regulatory authorities in line with the requirements of relevant environmental legislation.

Regulatory authorities specify, that we make quarterly payments in line with the intensity of monitoring and auditing required. In 2011, these payments amounted to US\$2.3 million, a third more than in 2010 and in line with the substantial expansion of our production capacities over this period.

Employee environmental training

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

Environmental management at Albazino



“One of the main objectives for environmental specialists, working at Albazino, is to prevent the pollution of surface and underground water. Industrial waste, a mix of water and

subsurface rock, passes along the conveying pipe into a tailings pond, where layers of impervious soil and a polyethylene membrane prevent any leaks. After cleaning, the water from the pond is used in the plant's flotation process.

“The preparation plant has installed tanks, that store sediment from quarry and underoil water.

As this water passes through filtration dams, it is cleansed of oil and impurities particles before it is discharged to local water courses.

Ongoing monitoring of water and soil quality is undertaken as a mandatory requirement across the whole of the Albazino mining and processing plant. The resulting samples are tested on-site by an independent laboratory.”

Lyudmila Koval
Environmental protection specialist at the Khabarovsk branch of the Polymetal Management Company



Laboratory testing for environmental impact analysis

Environmental management performance

Air emissions (total, tonnes)

Stripping, mined waste storage and energy generation and use are the main sources of air emissions, mainly representing greenhouse gas.

2011	4,980.6
2010	4,612.8

Air emissions (per 10 Kt of ore produced)

We continue to optimise energy usage at all plants. Production levels at existing mines and plants continued to grow, consequently, air emissions per tonne of ore reduced by 26% between 2010 and 2011.

2011	4.72
2010	6.17

Greenhouse gas emissions (per 10 Kt of ore mined)

Power and energy generation (boiler houses, diesel power plants) are the main sources of greenhouse gas emissions.

2011	1.99
2010	1.90

More remote sites, operating in the areas, where electricity is generated using diesel gensets, were operating in 2011, therefore the greenhouse gas emissions per tonne of ore mined grew by 5%.

Waste volume (Kt) and type

The total volume of waste from all operating subsidiaries is broken down as follows: 88% – mined waste; 11% – tailings from metal production; and 1% – other production and consumption waste.

2011	65,844
2010	50,478

The increase in 2011 reflects the addition of new processing facilities.

Waste (per tonne of ore produced)

In 2011, we further optimised production at Dukat, Omolon and Varvara. This allowed us to reduce the volume of waste per tonne of ore produced between 2010 and 2011.

2011	5.985
2010	6.754

Waste water discharge to surface waters (tonnes)

Waste water discharge to surface waters from all company processing sites, open-cut mines and mine dumps.

2011	5,318.1
2010	4,591.8

Waste water (per 10 Kt of ore mined)

Increased and widespread use of close water circuits at all of our processing facilities has led to a reduction of waste water volumes per tonne of ore produced.

2011	4.83
2010	6.14

Environmental incidents and fines

No environmental incidents, environmental fines or penalty notices, were issued in 2011 and 2010.

Environmental expenditure (US\$ million)

Expenditure on environmental management and capital construction of environmental protection facilities (excluding expenditure relating to compliance).

2011	5.6
2010	3.0

An experienced team

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



01 Bobby Godsell
Chairman

Mr Godsell is Chairman of the Nomination Committee. He is also Chairman of Business Leadership South. He is a member of the South African National Planning Commission and co-Chairman of the South African Millennium Labour Council. His previous roles have included President of the South African Chamber of Mines and Chairman of Eskom, and he has over 30 years' experience in the mining sector, previously serving as Chief Executive of AngloGold Ashanti. He has a BA from the University of Natal and an MA from the University of Cape Town.

04 Konstantin Yanakov
Non-Executive Director

Mr Yanakov has been a member of JSC Polymetal's Board of Directors since September 2008. He is also currently the CFO at CJSC ICT. Prior to joining ICT, he held various posts at MDM Bank before becoming the CFO of JSC Polymetal. He graduated from the Government of Russia's Finance Academy with a degree in Global Economics and received a PhD in Economics from the Russian State University of Management. In 2007, Mr Yanakov received an MBA from the London Business School.

02 Charles Balfour
Senior Independent Non-Executive Director

Mr Balfour is the Senior Independent member of the Board of Directors and is a member of the Audit and Risk, Remuneration and Nomination Committees. He has over 40 years' experience in the investment banking industry in the US, UK, France and Hong Kong including working for Dillon Read, Banque Paribas, Durlacher and Fleming Family Partners. Between 1993 and 2004 Mr Balfour was an executive of Nasdaq International and Chairman from 2000 until 2004. He is currently a director of Humber Power and Humber Energy. Mr Balfour was educated at Eton and the Sorbonne in Paris.

05 Jean-Pascal Duvieusart
Non-Executive Director

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

03 Vitaly Nesis
Chief Executive Officer

Mr Nesis was appointed Chief Executive in September 2011. He was JSC Polymetal's CEO from 2003, becoming a member of the Board in June 2004. Between 2002 and 2003, he was CEO of Vostsibugol and in 2000 he was Strategic Development Director at the Ulyanovsk Automobile Plant. From 2001 to 2002 he headed the Investment Planning Department at SUAL-Holding. From 1999 to 2000 he worked for McKinsey in Moscow, and from 1997 to 1999 he was an analyst at Merrill Lynch in New York. He graduated from Yale University in 1997 with a BA in Economics.

06 Marina Grönberg
Non-Executive Director

Ms Grönberg has been a member of JSC Polymetal's Board of Directors since September 2008. She is also a board member of Mozaik Holdings, Waterstone's Holdings, the Azbuka-Atticus publishing group, MIG Credit, Marengo Swiss Helicopters, A&NN Capital Management Fund and Chairman of GLP and of CJSC SPAR-Retail. She is a member of the supervisory board of Euroset Holdings, President of the Nadezhda charitable fund and of A&NN US, and Managing Director of A&NN (Schweiz). Ms Grönberg's qualifications include degrees in Law from Moscow State Law Academy and in Applied Mathematics from Moscow State University.

07 Jonathan Best
Independent Non-Executive Director

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

08 Russell Skirrow
Independent Non-Executive Director

Dr Skirrow is a member of the Audit and Risk Committee, having been an independent member of Polymetal's board since September 2008. He has 17 years' experience in investment banking, including ten years at Merrill Lynch as Head of Global Metals, Mining & Steel Research and subsequently as Global Chairman of the Metals/Mining team. Dr Skirrow is Chairman of Dampier Gold, and has 12 years' experience in the international mining industry having worked with companies such as Gold Fields (South Africa) and Western Mining Corporation in Australia and the US. He is a member of the Institute of Materials, Minerals & Mining with Chartered Engineer status, and a Fellow of the Financial Services Institute of Australia. He has a BSc in Geology from Durham University and a PhD from the Royal School of Mines, Imperial College London.

09 Leonard Homenuik
Independent Non-Executive Director

Mr Homenuik has been an independent member of the Board since June 2010. He is Chairman of the Remuneration Committee and a member of the Nomination Committee. From 2004 to 2008 he served as President, CEO and member of the Board of Directors of Centerra Gold and subsequently Chairman of the Board of Trade Ideas LLC. He has over 35 years' experience in the mineral sector, having held executive positions with Centerra Gold, Kumtor Gold and Cameco Corporation. Mr Homenuik received an MSc from the University of Manitoba and is a member of the Ontario Society of Professional Engineers, the Canadian Institute of Mining and Metallurgy and the Prospectors and Developers Association of Canada. He is an Honorary Professor of the Kyrgyz Mining Institute.

Senior management

Vitaly Savchenko
Chief Operating Officer

Mr Savchenko was appointed COO of JSC Polymetal in 2009 and elected to the management board in September 2011. From 2007 to 2009 he was Director of the Production Department, having held senior production, technical and mining positions since 2004. From 1994 to 2003 he worked at Priargunskoe Mining and Chemical Company, latterly as a chief engineer. Mr Savchenko graduated from the Kyrgyz Mining Institute in 1994 with a degree in underground mineral mining engineering and is a recipient of a third-category Miner's Glory Medal.

Sergey Cherkashin
Chief Financial Officer

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

Sergey Trushin
Deputy CEO for Mineral Resources

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

Roman Shestakov
Deputy CEO, Project Development and Construction

Mr Shestakov was appointed Deputy CEO for Development and Construction of Polymetal Management Company in 2009, having been Chief Engineer at Gold of Northern Ural from 2007 to 2009. During 2004-2005 he was a mining superintendent at the Okhotsk Mining and Exploration Company, and in the preceding

two years he was a mining engineer in the Production and Technical Department of JSC Polymetal. He graduated from the Mining Department of the St. Petersburg State Mining Institute, majoring in Open-pit Mining.

Valery Tsyplakov
Managing Director,
JSC Polymetal Engineering

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

Pavel Danilin
Deputy CEO, Strategic Development

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

Igor Kapshuk
Chief Legal Officer

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

Corporate Governance



Dear Shareholders

This was a very exciting year for us with the listing on the London Stock Exchange and entry to the FTSE 100 index.

I was excited to join the Board as Chairman, committing my time and experience to create sustainable value to the Company's stakeholders. I will do my best to ensure that the work of the Board and overall governance system we operate at Polymetal International will be conducted to the highest international standards.

It is important that we build trust and reputation through our commitment to stringent governance practices and accountability.

We are complying with the majority of the provisions of the UK Corporate Governance Code 2010 with adequate provisions made to ensure compliance in 2012 (see details opposite). Our belief is that effective governance is realised through leadership and collaboration. We have a renewed Board with the balance of skills and experience needed to support and enhance the work of the Executives. In my role as Chairman I will also ensure that we collaborate and operate with due diligence and discipline across the whole Group.

It is important that we encourage dialogue with stakeholders in order to guide and define our approach to governance and risk management now and in the future.

As a Board we are responsible for defining the long-term direction and strategic aims of the Company. We have a robust business model and a focused strategy that will deliver sustainable value, underpinned by our commitment to high standards of governance, enabling us to achieve our vision of being a world-class mining company.

Bobby Godsell
Chairman

Statement of compliance with UK Corporate Governance Code

The Directors are committed to maintaining high standards of corporate governance. As a premium listed company, Polymetal International is required to comply with the UK Code of Corporate Governance published in June 2010 ('the UK Code') and, where the provisions of the UK Code have not been complied with, to provide appropriate explanations. In 2011, the Company has complied with the provisions of the UK Code, except for the following:

- > B.6.1 'Performance evaluation of the Board, its committees and its individual Directors;
- > Schedule A of the UK Code recommends share options and awards should not vest in less than three years.

The reason for non-compliance was the short period between the formation of the Group and the year end (B.6.1) and the existence of share option arrangements prior to admission (Schedule A). B.6.1 will be complied with in 2012.

Following the admission of the Company to trading on the London Stock Exchange in November 2011, certain planned improvements relating to corporate governance remained incomplete by the end of the year. However, arrangements have already been made by the Board to ensure compliance in 2012 in these respects. All matters subject to review and/or approval by the Board and its committees were included into the Board's and respective committees' agenda. The schedule and number of meetings planned for 2012 meets the requirements of the UK Code.

The UK Code recommends that share options and awards should not vest in fewer than three years. During 2010, prior to the UK Code becoming applicable to the Company options were awarded to certain employees that could, subject to the meeting of specific performance criteria, vest in fewer than three years. This was considered appropriate to align employee incentives with the Company's objectives.

Role and structure of the Board

The Company's Board comprises one executive Director, non-executive Chairman and seven non-executive Directors (half of whom are independent non-executives) – refer to the schedule below for the structure of the Board and Committees, showing this status of each Director.

Non-executive Directors are 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 at the Board is to challenge the strategy and scrutinise the performance of management, monitor performance of the Company, review the integrity of financial information and review the appropriateness of the Company's internal controls and risk management system.

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

Mr Yanakov is a representative of Powerboom Investments Limited, Ms Grönberg is a representative of Vitalbond Limited, A&NN and Capital Management Fund Limited and Mr Duvieusart 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 any duties owed by the Directors or senior management to the Company and their private interests or other duties.

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

Board 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
 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.

Corporate Governance

continued

Board meetings

In 2011, the Board met twice. Following the listing in November 2011, the Board meets at least quarterly. There are seven Board meetings scheduled for 2012.

Role of the Board

The Board is responsible for:

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

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

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

The Board has approved division of responsibilities between the Chairman and the Chief Executive Officer (CEO) and the role of the Senior Independent Director (SID).

The Chairman reports to the Board and is responsible for the leadership and overall effectiveness of the Board and setting the Board's agenda. His responsibilities include:

- > effective running of the Board;
- > ensuring there is appropriate delegation of authority from the Board to executive management;
- > promoting a culture of openness and debate by facilitating the effective contribution of non-executive Directors in particular and ensuring constructive relations between executive and non-executive Directors;
- > facilitating the effective contribution of non-executive Directors and encouraging active engagement by all members of the Board;
- > ensuring constructive relations between the executive and non-executive Directors; and
- > ensuring that the views of the shareholders are communicated to the Board as a whole so that all Directors develop an understanding of their views.

In August 2011 Mr Godsell resigned from the board of African Barrick Gold to be able to commit sufficient time to his role as non-executive Chairman of Polymetal International. Mr Godsell's other significant commitments are as the Chair of the board of Optimum Coal Holdings, a Johannesburg listed medium size coal mining company, and membership of the South African National Planning Commission, a government commission. In January 2012 he also accepted a non-executive Directorship in the South African state owned Industrial Development Corporation, however, the additional time commitment required by this additional role will be more than offset by the expected termination of his role on the board of Optimum Coal Holdings, which is in the process of being acquired by Glencore plc. This process should be complete by July 2012.

The CEO is responsible for the day-to-day management of the Group and developing the Group's business strategy, objectives, budget and forecasts and, once approved by the Board, overseeing their successful implementation. The Chief Executive Officer reports to the Chairman and to the Board directly. All members of executive management report directly to the Chief Executive Officer. His responsibilities include:

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

Senior Independent Director

Charles Balfour acts as the Board's Senior Independent Director. Mr Balfour is available to shareholders and as an intermediary for the other directors if necessary. He attends meetings with a range of 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 shareholders took place in 2011 prior to the admission of the Company on the LSE and year end. Arrangements have been made for such meetings to take place in 2012.

Board and Committee meetings' attendance

	Board meetings (two)	Audit Committee meetings (two)	Remuneration Committee meetings (nil)	Nomination Committee meetings (nil)
Bobby Godsell	all	n/a	n/a	n/a
Jonathan Best	all	all	n/a	n/a
Russell Skirrow	all	all	n/a	n/a
Leonard Homeniuk	all	n/a	n/a	n/a
Charles Balfour	all	all	n/a	n/a
Konstantin Yanakov	all	n/a	n/a	n/a
Marina Grönberg	all	n/a	n/a	n/a
Jean-Pascal Duvieusart	all	n/a	n/a	n/a

Note 1: Business conducted since formation of the Remuneration Committee on 29 September 2011 was approved by written resolutions of the Remuneration Committee.

Note 2: Nomination Committee did not meet since its formation on 29 September to 31 December 2011.

Note 3: Certain pre-IPO matters were dealt with by an IPO committee of the Board, comprising Bobby Godsell, Vitaly Nesis, Charles Balfour and Jonathan Best.

Evaluation and re-election policies

Nomination Committee

The Nomination Committee is chaired by Mr Godsell and its other members are Mr Homeniuk and Mr Balfour. The Committee has responsibility for making recommendations to the Board on the composition of the Board and its Committees, including appointments of additional and replacement Directors. The Committee:

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

During the process of identifying the Chairman and the additional non-executive Directors to form the Board of Company and in the two months period since admission the Company has not employed external search consultants.

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

The biographical details are set out on pages 72 to 73 and the Board considers that each of the Directors will be an effective contributor to the success of the Group.

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 UK Listing Authority ('UKLA') Model Code, and details of the Company's procedure regarding Directors' share dealings and the disclosure of price sensitive information, the Company's guidelines on matters reserved for the Board; terms of reference of the Board committees and other governing documents of the Company. A field trip to some of the Group's major assets is scheduled in 2012 for non-executive Directors.

There were no meetings of the Nomination Committee from the date of admission to trading to the year end. Two meetings are scheduled in 2012. No evaluation of performance of the Board, its Committees and individual Directors was performed in 2011 due to the short time from admission to the year end (as required under B.6.1).

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 Corporate Governance Code.

Audit and Risk Committee

The Audit and Risk Committee is chaired by Mr Best and its other members are Mr Skirrow and Mr Balfour, all independent non-executive Directors. The Directors consider that Mr Best has recent and relevant financial experience (refer to page 73 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.

Corporate Governance

continued

The responsibilities of the Audit and Risk Committee comprise:

- > monitoring the integrity of the Group's consolidated financial statements and reviewing its annual and interim financial statements, including, but not limited to the consistency of, and any changes to, accounting and treasury policies across the Company and the Group; the methods used to account for significant or unusual transactions; the reasonableness of significant estimates and judgements, taking into account the views of the external auditor; and the clarity and completeness of disclosure in the consolidated financial statements;
- > considering and making recommendations to the Board, to be put to the shareholders to consider at the annual general meeting, in relation to the appointment, re-appointment, resignation or removal of the Group's external auditors;
- > overseeing the Group's relationship with its external auditors and reviewing the effectiveness of the external audit process; The Committee meets with the external auditors at least once a year without management being present, to discuss their remit and any issues arising from the audit;
- > reviewing the independence of external auditors and the appropriateness of the provision of any non-audit services by the external auditor;
- > reviewing the effectiveness of the Group's system of internal controls and risk management systems;
- > monitoring and review of the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system; and
- > 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.

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

The ultimate responsibility for reviewing and approving the interim and annual financial statements remains with the Board. The Committee gives due consideration to applicable laws and regulations, the provisions of the UK Code and the requirements of the Listing Rules. In 2011 the Audit and Risk Committee dealt with the following matters:

- > reviewed and approved financial and risk information included in the prospectus, working capital model, Financial Reporting Procedures and Long Form Report;
- > reviewed JSC Polymetal's results for the six months to 30 June 2011;
- > discussed and approved the Committee work plan;
- > approved Deloitte LLP as external auditors;
- > discussed and recommended for approval by the Board policies for compliance with the UK Bribery Act;
- > reviewed the Group's internal audit plan;
- > reviewed the Group's external audit plan.

The Audit and Risk Committee monitors the Company's relationship with external auditors relating to the provision of non-audit services to ensure that auditor objectivity and independence is safeguarded. This is achieved by disclosure of the extent and nature of non-audit services (see note 14 to the consolidated financial statements) and the prohibition of selected services being provided by the external auditor. The Audit and Risk Committee has considered information pertaining to the balance between fees for audit and non-audit work for the Company in 2011 and concluded that the nature and extent of non-audit fees do not present a threat to the external auditor's objectivity or independence.

The appointment of Deloitte LLP as the Group's external auditors following the listing in 2011 (with Deloitte CIS having been auditors of JSC Polymetal since the last tendering process in 2008) is kept under annual review by the Audit and Risk Committee.

The Committee's assessment of the external auditors' performance and independence underpins its recommendation to the Board to propose to shareholders the re-appointment of Deloitte LLP as auditors until the conclusion of the AGM in 2013. Resolutions to authorise the Board to re-appoint and determine their remuneration will be proposed at the AGM on 13 June 2012.

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

Internal control and risk management

The Company aims to ensure that all its activities are adequately controlled to mitigate risk and support the achievement of its objectives, while avoiding the creation of excessive bureaucracy. The system of internal controls is designed to manage rather than completely eliminate the risk to achieve the Company's business objectives in order to bring the residual risk to an acceptable level.

In conducting its annual review of the effectiveness of risk management, 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'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 achievement of strategic objectives within the set risk tolerance levels. This framework includes:

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

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

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

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, which it has determined to be significant from its review of that system. This has involved considering the matters reported to it and developing plans and programmes that it considers are reasonable in the circumstances.

UK Bribery Act 2010

The Company and Directors are committed to ensuring adherence to the highest legal and ethical standards. This must be reflected in every aspect of the way in which the Group operates. Bribery is a criminal offence in the countries in which the Group operates, and corrupt acts expose the Group and its employees to the risk of prosecution, fines and imprisonment, as well as endangering the Company's reputation. The Group has adopted anti-bribery policies, which extend across all of Group's business dealings in all countries and territories in which the Group operates and apply to employees of the Group as well as relevant business partners and other necessary individuals and entities. The Board attaches the utmost importance to this policy and applies a 'zero tolerance' approach to acts of bribery and corruption by any of the Group's employees or by business partners working on the Group's behalf and prohibits the payment, offer or authorisation of bribes, the receipt or acceptance of a bribe, and 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 implementation of internal procedures to comply with the UK Bribery Act, the Group has implemented a formalised whistle-blowing policy which describes processes in place for staff to communicate, in confidence, concerns about possible improprieties, unethical or illegal activities and ensures that arrangements are in place for independent investigation of such matters.

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

Directors' report

The Directors submit the Annual Report of Polymetal International Plc together with the audited financial statements of Polymetal International Plc for the year ended 31 December 2011.

Principal activities and Business review

Polymetal International is a large gold and silver mining company, operating central processing hubs and a number of standalone mines in Russia and Kazakhstan. Detailed information on the Group's business, activities and financial performance can be found in Overview and Business Review sections of this report on pages from 2 to 71. These sections also include description of likely future developments and any research and development activities held by the Company and the Group.

Principal risks and uncertainties

Refer to pages 60 to 63 for a description of principal risk and uncertainties and the Group's response.

Corporate governance

Refer to pages 74 to 79 for a description of the Group's corporate governance structure and policies.

Going concern

The business of the Group, its strategy and the factors that may affect future performance are described on pages 2 to 51 of this report. The risks in achieving the Group's strategic objectives, together with assessment of their potential impact and mitigating actions are set out on pages 60 to 63 of this report. The financial position of the Group, its cash flows and liquidity are further analysed on pages 52 to 59 of this report.

The Board, having considered all relevant factors related to financial position, risks and business prospects of the Group, have a reasonable expectation that the Group has adequate resources to continue operations in the foreseeable future. Therefore, the going concern basis is appropriately used in accounting and preparation of the financial statements for the year ended 31 December 2011. Refer also to Note 1 of the financial statements.

Directors

The Directors, their status and Board Committee memberships are set out on pages 72 to 73 of the report.

Directors' interests

The information on Directors' interests in shares of the Company is set out in the Remuneration report on page 84.

Directors' indemnities

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

Supplier payment policy

The Company's and the Group's policy is to set the terms of payment with suppliers when agreeing the terms of each transaction, ensure that the suppliers are made aware of the terms of payment and abide by the agreed terms of payment. Polymetal International plc is a holding company and therefore did not have any material trade creditors as at 31 December 2011.

Charitable and political donations

The Company may not make a political donation to a political party or other political organisation, or to an independent election candidate, or incur any political expenditure, unless such donation or expenditure is authorised by an ordinary resolution of shareholders and is passed before the donation is made or the expenditure incurred.

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

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

As part of this social programme, the Group has entered into social partnership agreements with municipalities and regional governments. Under these social partnership agreements, the Group organises and finances a variety of humanitarian projects and development and maintenance projects in these communities. In addition, the Group also undertakes various social projects in accordance with the agreements with the public organisations of indigenous minorities of the north of Russia ('IMN') and in accordance with the Group's own charitable programmes. More detail on these activities can be found on pages 64 to 71 of this Annual Report.

In 2011, the Group spent US\$4.0 million on social and community projects (2010: US\$3.9 million).

Capital structure

The structure of the Company's share capital is detailed in Note 31 to the financial statements.

There are no specific restrictions on the size of a holding or on the transfer of shares, which are both regulated by the Articles of Association 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 147.

Details of employee option schemes are set out in the Remuneration report on pages 82 to 85.

There were no acquisitions of the Company's own shares in 2011, other than the 3,305,988 shares that were repurchased and cancelled out at a cost of 920 pence per ordinary share in December 2011 as part of the provision of stabilisation mechanism following the listing. At 31 December 2011 the Group and its subsidiaries legally held no treasury shares. In the financial statements the Group present treasury shares in JSC Polymetal. These were legally sold under a sale and repurchase arrangement for which the accounting treatment has been to continue to recognise the treasury shares. As at 31 December 2011, the Company did not have any shareholder authorities to purchase its own shares.

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

The Board may appoint a person, who is willing to act to be a Director, either to fill a vacancy or as an additional Director and in either case whether or not for a fixed term. Irrespective of the terms of his appointment, a Director so appointed shall hold office only until the next following annual general meeting. If not re-appointed at such annual general meeting, he 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 of Association or of any agreement between the Company and such Director, but without prejudice to any claim he 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.

Dividends

The Group's net profit for the year ended 31 December 2011 attributable to equity holders of the Company was US\$290 million (2010: US\$ 239 million). The Directors have proposed the payment of dividend of US\$0.20 per share (2010: nil).

Annual General Meeting

The Annual General Meeting of shareholders of the Company will take place on 13 June 2012 at 11am BST time in Le Hocq Suite, Radisson Blu Waterfront Hotel, Rue De L'Etai, 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

The Directors confirm that at the date of approval of this Annual Report:

- > so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- > the Directors have taken all reasonable steps to ascertain any relevant audit information and ensure the auditors are aware of such information.

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

On behalf of the Board



Bobby Godsell
24 April 2012

Remuneration report

This report sets out the Company's remuneration policy and practice for its Directors and provides details of their remuneration and share interests for the year ended 31 December 2011. Although it is not a requirement of Jersey company law to have the Directors' remuneration report approved by shareholders, the Board believes that as a Company whose shares are listed on the London Stock Exchange, it is an element of good corporate governance for it to do so.

The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board applied the principles relating to the Directors' remuneration in the UK Code. Accordingly, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be put to shareholders for approval.

Remuneration Committee

The Remuneration Committee is chaired by Mr Homeniuk and its other members are Mr Best and Mr Balfour. All members are independent non-executive Directors.

The principal role of the Remuneration Committee are:

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

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

The Committee will meet at least twice a year. In 2011, there were no meetings of the Committee as the Company was only admitted to trading on the LSE in November 2011. However, the business conducted since formation of the Remuneration Committee on 29 September 2011 was approved by written resolutions of the Remuneration Committee. Two meetings of the Committee are scheduled in 2012.

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

Remuneration policy – executive Directors: salary, bonuses, share options, long-term incentive schemes, pension

The Company put in place an executive remuneration policy for Directors and senior management that is comparable to FTSE 100 and other international mining companies in order to attract and retain high quality executive talent at the top level that will help to maximise shareholder value.

Under the policy, executive remuneration comprises a base salary, an annual bonus and participation in a long-term Employee Incentive Programme approved by shareholders. No pension contributions are funded, other than paid to Vitaly Nesis in accordance with Russian law (refer to page 85).

Base salary is reviewed and compared to FTSE 100 and international mining companies annually by the Remuneration Committee. Salary increases are determined taking into account the Company's performance.

Annual bonus obtainable is a maximum of 150% of the base salary and focuses participants on achieving relevant annual performance goals, including meeting budget on production, total costs, completion of new projects on time and within budgets, and safety.

Long-term Employee Incentive Programme

A long-term incentive share option plan is designed to reward participants for increasing the share price and delivering superior performance over a long-term horizon.

In September 2010, the Board of JSC Polymetal approved the Employee Incentive Programme. The Employee Incentive Programme established a bonus fund (the 'Bonus Fund'), consisting of up to 30 million JSC Polymetal shares. The shares were to be transferred to participants in the Programme (the 'Participants') in 2013 or 2014, pursuant to a prescribed formula linked to the price of the shares in those years.

On 29 September 2011 and 30 September 2011 respectively, the Board of Directors and the Board of JSC Polymetal approved several amendments to the Employee Incentive Programme, which amongst other matters, provided that effective from admission of the Company to the London Stock Exchange, all awards made under the Employee Incentive Programme will be satisfied by the transfer of shares of the Company, rather than shares of JSC Polymetal, to the Participants. The Bonus Fund consists of up to 30 million shares.

The principal terms of the Employee Incentive Programme, are summarised below:

- > participants of the Programme are executive Directors and senior employees of the Group selected at the discretion of the Board. The Participants, with an indication of the percentage of the Bonus Fund due to each Participant, were determined by the Board of JSC Polymetal on 8 November 2010 and further supplemented by decisions of the management board of JSC Polymetal. Over 150 employees have been selected to participate in the Employee Incentive Programme. Of those employees, 76 have received an entitlement to 85 per cent of the Bonus Fund pursuant to the decision of the Board of JSC Polymetal;
- > the total size of the Bonus Fund is to be determined according to a prescribed formula, which is linked to share price performance;
- > exercise price: Shares from the Bonus Fund may be purchased by Participants at the price of one penny per share
- > performance conditions: the number of shares awarded to each Participant from the Bonus Fund is based on certain non-financial performance criteria, such as job performance and career growth potential, all at the discretion of the Board or the executive management;
- > the Employee Incentive Programme vesting date is 11 June 2013 and may, with respect to a particular Participant, at such Participant's discretion, be postponed for one year until 11 June 2014; and
- > vesting period, if 2013 is chosen, is 2.5 years which is shorter than the three years recommended by the UK Code. See Note 32 of the financial statements.
- > Vesting mechanism: in the base case scenario the aggregate number of shares comprising the Bonus Fund will be determined on June 11, 2013 (the 'Programme Implementation Date') according to the following formula:

$$BF = M * (X - S) / X$$
, where
 M – Maximum Number of shares;
 X – Average Weighted Price of a share (quotation period from 11 December 2012 to 11 June 2013); and
 S – Strike Price (US\$16.74 per share) adjusted by the amounts of dividends paid.

E.g., to receive the maximum amount in full, the Averaged Weighted Price of a share must be US\$33.48 $((33.48 - 16.74) / 16.74 = 1)$.

The possible deviations from the base case scenario include:

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

Each time the dividends upon shares are paid prior to the Exercise Date, the Strike shall be reduced by the amount calculated according to the following formula:

$$D * 1,12^{(T/365)}$$
, where
 D – dividend paid per share;
 T – number of calendar days from the date of payment of dividends to the relevant Exercise Date.

For the purposes of the relevant calculations, the amounts of dividends shall be converted into US Dollars at the relevant daily spot exchange rate (XUDLUSS) published by the Bank of England on its official website (www.bankofengland.co.uk/) for the day the relevant dividends have been paid.

Mr Nesis, as the only Executive Director, is subject to the Employee Incentive Programme. None of the non-executive Directors are included in the Programme.

Mr Nesis has entered into an appointment letter with the Company in relation to his appointment as a Director. The appointment of Mr Nesis as a Director took effect from the date of admission, of shares to trading on the LSE and is subject to annual re-election in accordance with the Articles of Association. Mr Nesis does not receive any fees in respect of his appointment as a Director but is entitled to reimbursement of his reasonable expenses incurred in relation to the carrying out of his duties as a Director. Appointment of Mr Nesis as a Director may be terminated at any time in accordance with the Articles of Association. Mr Nesis can terminate his appointment as a Director on one month's notice. Mr Nesis is not entitled to receive any compensation in respect of his role as Director on termination of his appointment as Director.

On 25 July 2008, JSC Polymetal, a subsidiary of the Company incorporated in Russia, entered into an employment contract with Mr Nesis as its Chief Executive Officer (the general director) further to the resolution of the Board of Directors of JSC Polymetal dated 23 July 2008, pursuant to which Mr Nesis was appointed to this position. The contract became effective on 1 September 2008 and was subsequently amended on 5 September 2011. The contract was entered into for a period of five years and expires on 31 August 2013. Under the terms of the contract the Chief Executive Officer undertakes to perform general management of JSC Polymetal, arrange for its commercial, economic, social and other activities with a view to provide for JSC Polymetal's further development. The contact can be terminated at any time in accordance with Russian Law.

Mr Nesis receives a salary of RUB 10,356,480 (equivalent to US\$352,000 in 2011) per annum under his employment contract with JSC Polymetal. The employment contract does not contain any specific grounds for early termination, but may be terminated prior to its expiration in accordance with the Russian labour law.

Save for the Group's contributions to the mandatory pension fund of the Russian Federation during the financial year ended 31 December 2011, no amounts were set aside or accrued by the Group to provide pension, retirement or other benefits to the Directors and senior management.

Remuneration report

continued

Remuneration policy – non-executive Directors

The Company has a remuneration programme for independent members of the Board of Directors, as well as a system of compensating them for the expenses incurred in connection with their duties as Board members. Review of comparable companies was performed to determine average remuneration for non-executive members of the board of other FTSE 100 mining companies. There is an annual review of the level of remuneration for non-executive Directors.

Non-executive Director remuneration includes separate fees for chairmanship of the Board, for committee membership, and for chairing a Board committee. Non-executive Directors also receive a fee for attending each meeting of the Board. The Company also compensates independent Board members for attendance at Board meetings and for all reasonable expenses incurred by them in carrying out their duties as Board members. Non-executive Directors are not entitled to receive any pension benefits or options in the Company.

Each of the non-executive Directors, save for Mr Yanakov, Mr Duvieusart, Ms Grönberg and Mr Godsell, is entitled to receive an annual fee of £100,000 (less any statutory deductions). Mr Godsell is entitled to receive an annual fee of £250,000 as the Chairman of the Board. Each of the non-executive Directors, save for Mr Yanakov, Mr Duvieusart and Ms Grönberg, is entitled to reimbursement of his reasonable expenses incurred in relation to carrying out of his duties for the Group. In addition, any non-executive Director who is appointed chairman of the Audit and Risk Committee of the Board is entitled to a further £30,000 per annum and a further £15,000 per annum to serve as chairman of any other Committee of the Board. Members of a Committee of the Board (save for the respective chairmen) are entitled to an additional fee of £10,000 per annum, and all non-executive Directors, save for Mr Yanakov, Mr Duvieusart and Ms Grönberg, are entitled to a fee of £3,000 for each meeting of the Board or its committees, which the Director attends.

Directors' contracts

The appointment of each of the non-executive Directors took effect on and from admission until the next AGM of the Company, subject to annual re-election.

The appointment of any non-executive Director may be terminated at any time in accordance with the Articles of Association. The appointment of each non-executive Director may be terminated by either party on one month's notice.

A non-executive Director is not entitled to receive any compensation on termination of his appointment. Each non-executive Director is subject to confidentiality restrictions without limitation in time.

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

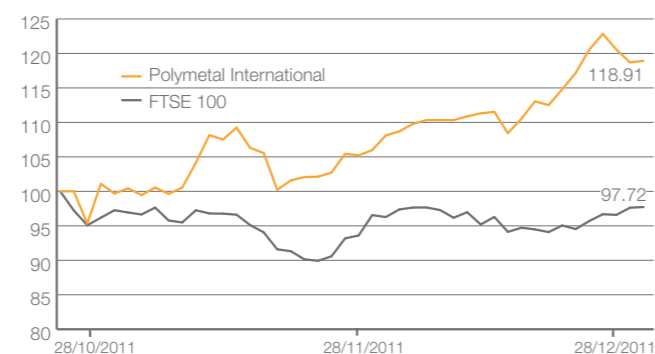
Amounts paid to third parties

No consideration was paid to or became receivable by third parties for making available the services of any person as a Director of the Company, or while a Director of the Company, as a Director of any of the Company's subsidiary undertakings, or otherwise in connection with the management of the Company or any undertaking during the year ended 31 December 2011.

Total shareholder return

Total shareholder return graph represents performance of the Company's shares against FTSE 100 index for the period since the admission of the Company's shares to trading on 28 October 2011 to 31 December 2011. The selected FTSE 100 index is the most appropriate benchmark for the Company as it has become a FTSE 100 constituent in December 2011 and its performance is measured externally and internally against that index.

Total shareholder return



Directors' share interests

As at 31 December 2011, the Directors who served during the year and subsequently, together with their and their families' beneficial interests in shares in the Company were as follows:

Director	Number of shares	Percentage of issued share capital (%)
Bobby Godsell	–	0.00
Vitaly Nesis ¹	3,000,000	0.78
Jonathan Best	–	0.00
Russell Skirrow	–	0.00
Leonard Homeniuk	–	0.00
The Hon. Charles Balfour	–	0.00
Konstantin Yanakov	–	0.00
Marina Grönberg	–	0.00
Jean-Pascal Duvieusart	–	0.00

¹ In addition to the 3,000,000 shares held by Mr Nesis, Mr Nesis has been granted the option to acquire a number of shares in 2013 or 2014, pursuant to a prescribed formula which is linked to share price performance. The maximum number of shares that Mr Nesis can acquire is 12,000,000. See page 83 for further details.

Audited information

Directors' emoluments (US\$)

Name of Director	Fees/Basic salary	Pension contributions	Annual bonus	Total 2011	Total 2010
Executive					
Vitaly Nesis	332,292	8,193	797,528	1,138,013	249,649
Non-executive					
Bobby Godsell	79,579	–	–	79,579	–
Jonathan Best	160,371	–	–	160,371	88,215
Russell Skirrow	184,304	–	–	184,304	176,597
Leonard Homeniuk	164,815	–	–	164,815	161,882
Charles Balfour	46,563	–	–	46,563	–
Konstantin Yanakov	–	–	–	–	–
Marina Grönberg	–	–	–	–	–
Jean-Pascal Duvieusart	–	–	–	–	–
Total non-executive	635,634	–	–	635,634	426,694
Total	967,926	8,193	797,528	1,773,646	676,343

Note: where Directors were previously Directors of JSC Polymetal, their remuneration for the full 12 months 2011 and 2010 is shown.

Employee Incentive Programme

In 2010, Mr Nesis has been granted the option to acquire a number of ordinary shares in the capital of Polymetal International Plc in 2013 or 2014, pursuant to a prescribed formula which is linked to share price performance (for details refer to the description of the Programme on page 83 above). The maximum number of shares that Mr Nesis can acquire is 12,000,000. The Employee Incentive Programme vesting date is 11 June 2013 and may, with respect to a particular Participant, at such participant's discretion, be postponed for one year until 11 June 2014.

No options vested in 2011. No additional options were granted to Mr Nesis or other Directors in 2011.

Approval

This report was approved by the Board of Directors on 24 April 2012 and signed on its behalf by:

Mr Leonard Homeniuk
Chairman, Remuneration Committee

Statement of Directors' responsibilities

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 directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board



Vitaly Nesis
Chief Executive Officer



Bobby Godsell
Chairman of the Board
24 April 2012

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

We have audited the Group financial statements (the financial statements) of Polymetal International plc for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- > give a true and fair view of the state of the group's affairs as at 31 December 2011 and of the Group's profit for the year then ended;
- > have been properly prepared in accordance with IFRS as adopted by European Union; and
- > have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters, where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

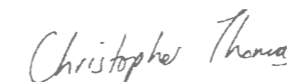
- > proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- > the financial statements are not in agreement with the accounting records and returns; or
- > we have not received all the information and explanations we require for our audit.

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

Other matters

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

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



Christopher Thomas
for and on behalf of Deloitte LLP
Chartered Accountants and Recognized Auditor
London, UK
24 April 2012

Consolidated income statement

	Note	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Revenue	6	1,326,430	925,376
Cost of sales	7	(625,740)	(458,114)
Gross profit		700,690	467,262
General, administrative and selling expenses	11	(169,623)	(82,100)
Other operating expenses	12	(78,344)	(55,524)
Share of loss of associates and joint ventures	19	(1,952)	(1,170)
Operating profit		450,771	328,468
Gain on disposal of subsidiaries	4	4,931	3,580
Foreign exchange loss, net		(13,634)	(337)
Change in fair value of derivative financial instruments	29	(1,855)	(909)
Change in fair value of contingent consideration liability	29	(6,828)	(3,616)
Finance income		4,208	785
Finance costs	15	(28,746)	(21,541)
Profit before income tax		408,847	306,430
Income tax expense	16	(118,985)	(67,414)
Profit for the financial year		289,862	239,016
Profit for the period attributable to:			
Equity shareholders of the Parent		289,323	239,016
Non-controlling interest		539	–
		289,862	239,016

	Note	Year ended 31 December 2011 US\$	Year ended 31 December 2010 US\$
Earnings per share			
Basic	31	0.79	0.67
Diluted	31	0.74	0.66

	Year ended 31 December 2011 Cents per share	Year ended 31 December 2010 Cents per share	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Final dividend proposed in relation to the year (Note 35)	20	–	76,537	–

Consolidated statement of comprehensive income

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Profit for the financial year	289,862	239,016
Other comprehensive loss		
Effect of translation to presentation currency	(115,474)	(12,937)
Total comprehensive income for the financial year	174,388	226,079

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Total comprehensive income for the financial year attributable to:		
Equity Shareholders of the Parent	185,033	226,079
Non-controlling interest	(10,645)	–
	174,388	226,079

Consolidated balance sheet

	Note	31 December 2011 US\$'000	31 December 2010 US\$'000
Assets			
Property, plant and equipment	17	1,901,974	1,643,481
Goodwill	18	108,587	114,712
Investments in associates and joint ventures	19	23,558	26,821
Non-current loans	20	8,962	5,187
Deferred tax assets	16	62,118	57,676
Non-current inventories	21	44,318	21,017
Total non-current assets		2,149,517	1,868,894
Current inventories	21	613,216	368,515
Current VAT receivable		111,887	94,148
Trade and other receivables	22	67,991	43,683
Prepayments to suppliers		38,912	29,025
Income tax prepaid		11,787	4,378
Cash and cash equivalents	23	658,795	11,056
Total current assets		1,502,588	550,805
Total assets		3,652,105	2,419,699
Liabilities and shareholders' equity			
Trade and other payables	27	(79,548)	(67,028)
Current borrowings	24	(348,429)	(90,610)
Accrued liabilities		(27,856)	(23,303)
Share purchase obligation under MTO	1	(534,597)	–
Income tax payable		(13,366)	(3,993)
Other taxes payable		(21,327)	(13,365)
Finance lease liabilities	25	–	(4,819)
Total current liabilities		(1,025,123)	(203,118)
Non-current borrowings	24	(654,666)	(595,359)
Derivatives	29	–	(105,437)
Contingent consideration liability	29	(22,290)	(23,754)
Deferred tax liabilities	16	(79,342)	(83,345)
Environmental obligations	26	(54,463)	(45,156)
Other non-current liabilities		(1,623)	(2,578)
Total non-current liabilities		(812,384)	(855,629)
Total liabilities		(1,837,507)	(1,058,747)
NET ASSETS		1,814,598	1,360,952
Stated capital account	31	1,566,386	865,483
Treasury shares in JSC Polymetal		(395)	(457)
Share-based compensation reserve		59,239	7,896
Translation reserve		(151,029)	(49,443)
Share purchase obligation under MTO	1	(561,659)	–
Retained earnings	31	753,572	537,473
Total equity attributable to the parent		1,666,114	1,360,952
Non-controlling interest		148,484	–
TOTAL EQUITY		1,814,598	1,360,952

The notes on pages 92 to 136 form part of these financial statements.

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



Vitaly Nesis
Chief Executive Officer
24 April 2012



Bobby Godsell
Chairman of the Board

Consolidated statement of cash flows

	Notes	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Net cash generated by operating activities	34	212,099	215,215
Cash flows from investing activities			
Purchases of property, plant and equipment	17	(461,632)	(403,769)
Consideration for asset acquisitions	4	(4,761)	(8,479)
Loans provided to third parties	20	(1,286)	(421)
Receipt of repayment of loans provided to third parties		156	14
Loans provided to related parties	33	(5,029)	(3,871)
Receipt of repayment of loans provided to related parties	33	1,910	7,845
Contingent consideration payment	29	(6,943)	(1,500)
Proceeds from subsidiary disposal	4	5,300	–
Net cash used in investing activities		(472,285)	(410,181)
Cash flows from financing activities			
Borrowings obtained	24	1,695,078	1,142,927
Repayments of borrowings	24	(1,498,518)	(960,781)
Proceeds from issuance of shares of the Company	31	762,641	–
Purchase of treasury shares in the Company	31	(46,649)	–
Payments on finance lease obligations		(5,217)	(4,225)
Net cash generated by financing activities		907,335	177,921
Net increase/(decrease) in cash and cash equivalents		647,149	(17,045)
Cash and cash equivalents at the beginning of the financial year	23	11,056	28,317
Effect of foreign exchange rate changes on cash and cash equivalents		590	(216)
Cash and cash equivalents at the end of the financial year	23	658,795	11,056

Consolidated statement of changes in equity

	Notes	Polymetal International shares outstanding number	Stated capital account US\$'000	Share based compensation reserve US\$'000	Treasury shares in JSC Polymetal US\$'000	Translation reserve US\$'000	Share purchase obligation US\$'000	Retained earnings US\$'000	Total equity attributable to the parent US\$'000	Non- controlling interest US\$'000	Total equity US\$'000
Balance at 1 January 2010		n/a	804,329	–	(481)	(36,506)	–	298,457	1,065,799	–	1,065,799
Total comprehensive income		–	–	–	–	(12,937)	–	239,016	226,079	–	226,079
Amortisation of bonus received from depositary		–	978	–	–	–	–	–	978	–	978
Share based compensation		–	–	7,896	–	–	–	–	7,896	–	7,896
Issue of treasury shares of JSC Polymetal in exchange for assets	4	–	60,176	–	24	–	–	–	60,200	–	60,200
Balance at 31 December 2010		n/a	865,483	7,896	(457)	(49,443)	–	537,473	1,360,952	–	1,360,952
Total comprehensive income		–	–	–	–	(104,290)	–	289,323	185,033	(10,645)	174,388
Amortisation of bonus received from depositary		–	819	–	–	–	–	–	819	–	819
Share based compensation		–	–	56,266	–	–	–	–	56,266	850	57,116
Issue of treasury shares of JSC Polymetal in exchange for assets	4, 31	–	66,966	–	24	–	–	–	66,990	–	66,990
Issuance of ordinary shares under ISSF	31	332,641,773	–	–	–	–	–	–	–	–	–
Issuance of shares on IPO	31	53,350,000	762,641	–	–	–	–	–	762,641	–	762,641
Cancellation of treasury shares of the Company	31	(3,305,988)	(46,649)	–	–	–	–	–	(46,649)	–	(46,649)
Share purchase obligation under MTO	31	–	–	–	–	–	(561,659)	–	(561,659)	–	(561,659)
Reclassification to non-controlling interest	1	–	(82,874)	(4,923)	38	2,704	–	(73,224)	(158,279)	158,279	–
Balance at 31 December 2011		382,685,785	1,566,386	59,239	(395)	(151,029)	(561,659)	753,572	1,666,114	148,484	1,814,598

Notes to the consolidated financial statements

1. General

Formation of the Polymetal International plc Group

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

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

On 30 September 2011, PMTL Holding Limited (PMTL), the Company's wholly-owned subsidiary, made an offer (known as the Institutional Share Swap Facility or the ISSF) to certain institutional shareholders of JSC Polymetal to acquire their JSC Polymetal shares and JSC Polymetal GDRs. The ISSF terms provided for the issue of new shares in the Company in exchange for JSC Polymetal shares or GDRs on a one for one basis.

The completion of the ISSF was conditional on the IPO such that 2 November 2011 was the date on which Polymetal International plc, via PMTL, acquired control of the JSC Polymetal Group and the enlarged Group (the Group) was formed. Polymetal International issued new shares to those investors participating in the ISSF and who tendered these shares to PMTL. Polymetal International plc contributed JSC Polymetal shares acquired in course of ISSF as a capital investment in PMTL.

Following completion of the ISSF, PMTL became the owner of more than 50% of the issued share capital of JSC Polymetal and, in accordance with Russian law, launched a mandatory tender offer (MTO) for all of the JSC Polymetal shares or GDRs not held by it.

The formation of the enlarged Polymetal International Group has been accounted for as a reverse acquisition under *IFRS 3 Business Combinations*. Although the ISSF resulted in Polymetal International plc becoming the controlling shareholder of the JSC Polymetal Group, for accounting purposes in the consolidated financial statements, JSC Polymetal is treated as the acquirer of the Company.

The following accounting treatment has been applied to account for the reverse asset acquisition:

- > the consolidated assets and liabilities of the subsidiary Joint Stock Company Polymetal were recognised and measured at their pre-restructuring carrying amounts, without restatement to fair value;
- > the assets and liabilities of the Company are recognized at their fair value and are consolidated from 2 November 2011, the date at which the new company was formed;
- > comparative numbers presented in the consolidated financial statements are those reported in the consolidated financial statements of Joint Stock Company Polymetal, for the year ended 31 December 2010, except for the presentation of the stated capital account, which has been retrospectively restated to reflect the legal issued share capital of the Company as the legal parent;
- > the Group's consolidated income statement and statement of other comprehensive income for the year ended 31 December 2011 therefore comprises the results of the JSC Polymetal Group from 1 January 2011 to 1 November 2011 and the results of the Group from 2 November 2011 to 31 December 2011. The Group's retained earnings and other reserves shown in the balance sheet as at 31 December 2011 and the statement of changes in equity are the effective 91.1% share (after excluding treasury shares) in the equity of the JSC Polymetal Group acquired by the Company on formation of the Group on 2 November 2011 plus the subsequent equity movements of the Group in the period to 31 December 2011.
- > the open MTO offer represents an unavoidable obligation to transfer cash to any persons taking up the offer. In accordance with IAS 32 Financial Statements: Presentation a US\$561.7 million Rouble-denominated liability was recognised at 2 November 2011, with a corresponding debit recognised in reserves. At 31 December the liability was retranslated at the year end exchange rate to US\$534.6 million with the movement recognised within the Translation reserve.

Significant subsidiaries

As disclosed above at 31 December 2011, the Company held an effective 91.1% interest in JSC Polymetal. 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 2011	31 December 2010
CJSC Zoloto Severnogo Urala	Vorontsovskoye	Russia	100	100
JSC Okhotskaya GGC	Khakandjinskoye	Russia		
	Yurievskoye		100	100
CJSC Serebro Magadana	Dukat			
	Lunnoye			
	Arylakh			
	Goltsovoye	Russia	100	100
ZK Mayskoye LLC	Mayskoye	Russia	100	100
JSC Omolon Gold Mining Company	Kubaka	Russia		
	Birkachan		100	100
Albazino Resources LLC	Albazino	Russia	100	100
Amursky Hydrometallurgy Plant LLC	N/A	Russia	100	100
	Sopka Kartsevaya	Russia	100	100
Rudnik Kvantsevy LLC	Varvarinskoye	Kazakhstan	100	100

Significant shareholders

At 31 December 2011, the significant shareholders in the Company are: Pearlmoon Limited, the ultimate beneficial owner of which is Mr Petr Kellner (20.86%), Powerboom Investments Limited, the ultimate beneficial owner of which is Mr Alexander Nesis (17.90%), Vitalbond Limited and its affiliated companies, the ultimate beneficial owner of which is Mr Alexander Mamut (10.12%), MBC Development Limited, the ultimate beneficial owner of which is Mr Alexander Mosionzhik (4.44%), and Staroak Limited, the ultimate beneficial owner of which is Mr Oleg Shuliakovskii (4.27%). No other parties control more than 3% of the Company shares. There were no changes to the Significant shareholders' ownerships as of 1 April 2012.

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 capital expenditure commitments and plans. It has also considered the US\$534 million payment made in February 2012 for the purchase of JSC Polymetal shares not participating in the Group reconstruction under the Mandatory Tender Offer and the further payment expected in June 2012 to purchase the remaining JSC Polymetal shares under the Squeeze Out (meaning the compulsory acquisition of JSC Polymetal Shares under Russian law), together with the risks facing the Group.

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

Basis of presentation

The Group's annual consolidated financial statements for the year ended 31 December 2011 are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. IFRS includes the standards and interpretations approved by the IASB including International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

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

The accounting policies set out in Note 2 have been applied in preparing the consolidated financial statements for the year ended 31 December 2011. The Group used IFRS, effective as at 31 December 2011, in preparation of these Consolidated financial statements.

Standards and Interpretations in issue not yet adopted

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

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

Notes to the consolidated financial statements

continued

1. General (continued)

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 2013.

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 2013.

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 2013.

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

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

IFRS 13 *Fair Value Measurement* provides a single framework for all fair value measurements and applies to annual periods beginning on or after 1 January 2013.

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

An amendment to IAS 12 *Income taxes* is to be applied for annual periods beginning on or after 1 January 2012.

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

Amendments have been made to IAS 27 and it has been reissued as IAS 27 *Separate Financial Statements*. The revised standard prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates in consolidated financial statements are prescribed by IFRS 10, IFRS 11 and IFRS 12. The revised standard is to be applied for annual periods beginning on or after 1 January 2013. Amendments have been made to IAS 28 and it has been reissued as IAS 28 *Investments in Associates and Joint Ventures*. The revised standard prescribes the application of the equity method when accounting for investments in associates and joint ventures. The revised standard is to be applied for annual periods beginning on or after 1 January 2013. The amendment to IFRS 7 *Financial Instruments: Disclosures* is effective for annual periods beginning on or after 1 July 2011.

2. Significant accounting policies**Basis of consolidation****Subsidiaries**

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

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-Group balances, transactions and any unrealised profits or losses arising from intra-Group transactions are eliminated on consolidation.

Changes to the Group's ownership interests that do not result in a loss of control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Group's interests and non-controlling interests are adjusted to reflect the change in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Parent.

When the Group loses control of a subsidiary, the profit or loss on the disposal is calculated as the difference between 1) the aggregated fair value of the consideration received and the fair value of any retained interest and 2) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and non-controlling interests.

For non-wholly owned subsidiaries, non-controlling interests are initially measured at the non-controlling interest's proportion of the fair values of net assets recognised at acquisition. Thereafter, a share of the profit or loss for the financial year and other movements in the net assets or liabilities of the subsidiary is attributed to the non-controlling interests as shown in the income statement and balance sheet.

Business combinations

IFRS 3 *Business Combinations* applies to a transaction or other event that meets the definition of a business combination. When acquiring new entities or assets, the Group applies judgement to assess whether the assets acquired and liabilities assumed constitute an integrated set of activities, whether the integrated set is capable of being conducted and managed as a business by a market participant, and thus whether the transaction constitutes a business combination, using the guidance provided in the standard. Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the consolidated income statement as incurred. Transaction costs incurred in connection with the business combination are expensed. Provisional fair values are finalised within 12 months of the acquisition date.

Where applicable, the consideration for the acquisition may include an asset or liability resulting from a contingent consideration arrangement. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Subsequent changes in such fair values are adjusted against the cost of acquisition retrospectively with the corresponding adjustment against goodwill where they qualify as measurement period adjustments. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed at the acquisition date. The measurement period may not exceed one year from the effective date of the acquisition. The subsequent accounting for contingent consideration that does not qualify for as a measurement period adjustment is based on how the contingent consideration is classified. Contingent consideration that is classified as equity is not subsequently remeasured. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IAS 39 *Financial Instruments Recognition and Measurement* with the corresponding amount being recognised in profit or loss.

At the acquisition date, 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 statement of comprehensive income. 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.

Notes to the consolidated financial statements

continued

2. Significant accounting policies (continued)

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 not control or joint control over the enactment of those policies. The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting.

Interests in joint ventures

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

Equity method of accounting

Under the equity method, an investment in an associate or jointly controlled entity (investee) is initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the investee. When the Group's share of the losses of an associate exceeds the Group's interest in that entity, the Group ceases to recognise its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an investee recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investments. Where an indicator of impairment exists or the carrying value of the asset contains goodwill with an indefinite useful life, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* (IAS 36) as a single cash generating unit through the comparison of its recoverable amount (the higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36.

When a Group entity transacts with its investees, profits and losses resulting from the transactions with the investee are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Functional and presentation currency

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. For all Russian entities the functional currency is the Russian Rouble (RUB). The investment holding companies, including Polymetal International plc, also have a Rouble functional currency as they are in substance an extension of the Russian group and have significant Rouble-denominated intercompany loans in most cases. The functional currency of the Group's entity located in Kazakhstan and operating with significant degree of autonomy is the Kazakh Tenge (KZT).

The Group has chosen to present its consolidated financial statements in US Dollars (US\$), as management believes it is a more convenient presentation currency for international users of the consolidated financial statements of the Group as it is a common presentation currency in the mining industry. The translation of the financial statements of the Group entities from their functional currencies to the presentation currency is performed as follows:

- > all assets and liabilities are translated at closing exchange rates at each reporting period end date;
- > all income and expenses are translated at the average exchange rates for the periods presented, except for significant transactions that are translated at rates on the date of such transactions;
- > resulting exchange differences are included in equity and presented as movements relating to the effect of translation to the Group's presentation currency within the Translation reserve; and
- > in the consolidated statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated using exchange rates prevalent at those respective dates. All cash flows in the period are translated at the average exchange rates for the periods presented, except for significant transactions that are translated at rates on the date of transaction.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated income statement. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated income statement.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

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

	31 December 2011	31 December 2010
Russian Rouble/US Dollar		
Year end	32.20	30.48
Average for the year	29.39	30.36
Kazakh Tenge/US Dollar		
Year Period end	148.40	147.40
Average for the year	146.60	147.35

The Rouble and Kazakh Tenge are not freely convertible currencies outside the Russian Federation and Kazakhstan and, accordingly, any translation of 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 proved and probable ore reserves under the Russian Resource Reporting Code (GKZ), which is the basis on which the Group's mine plans are prepared. Changes in proved and probable reserves are dealt with prospectively. Depreciation is charged on new mining ventures from the date that the mining asset is capable of commercial production. In respect of those mining assets whose useful lives are expected to be less than the life of the mine, depreciation over the period of the asset's useful life is applied. The difference in the depreciation charge which would have been applied had the Group based the depreciation expense on JORC reserves is considered to be immaterial. When there is little likelihood of a mineral right being exploited, or the value of the exploitable mineral right has diminished below cost, an impairment loss is recognised in the consolidated income statement.

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

Non-mining assets are depreciated to their residual values on a straight-line basis over their estimated useful lives. When parts of an item of property, plant and equipment are considered to have different useful lives, they are accounted for and depreciated separately. Depreciation methods, residual values and estimated useful lives are reviewed at least annually.

Estimated useful lives are as set out below:

Machinery and equipment	Up to 20 years
Transportation and other assets	Up to 15 years

Notes to the consolidated financial statements

continued

2. Significant accounting policies (continued)

Assets held under finance leases are depreciated over the shorter of the lease term and the estimated useful lives of the assets.

Gains or losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the asset's carrying amount at the date. The gain or loss arising is recognised in the consolidated income statement.

Stripping costs

When it has been determined that a mining asset can be economically developed as a result of established proven and probable reserves, the costs to remove any overburden and other waste materials to initially expose the ore body, referred to as stripping costs, are capitalised as a part of mining assets.

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

Estimated ore reserves

Estimated proved 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 GKZ and the 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 stockpiles 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 stockpiles are valued at the average cost of mining ore.

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 29.

Financial assets

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.

Effective interest rate method

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.

When an available for sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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.

Notes to the consolidated financial statements

continued

2. Significant accounting policies (continued)

For all other financial assets objective evidence of impairment could include:

- > significant financial difficulty of the issuer or counterparty; or
- > breach of contract, such as a default or delinquency in interest or principal payments; or
- > it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- > the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated income statement.

Derivative financial instruments

The Group may enter into a variety of derivative financial instruments to manage its exposure to certain risks. Further details of derivative financial instruments are disclosed in Note 29.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the consolidated income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated income statement depends on the nature of the hedge relationship.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the hybrid contracts are not measured at FVTPL.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or fewer, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Environmental obligations

An obligation to incur environmental restoration, rehabilitation and decommissioning costs arises when disturbance is caused by the development or ongoing production of mining assets. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value using a risk-free rate applicable to the future cash flows, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are recognised in the consolidated income statement over the life of the operation, through the depreciation of the asset in the cost of sales line and the unwinding of the discount on the provision in the finance costs line. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and recognised in the consolidated income statement as extraction progresses.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work (that result from changes in the estimated timing or amount of the cash flow or a change in the discount rate), are added to or deducted from the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the consolidated income statement.

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.

Notes to the consolidated financial statements

continued

2. Significant accounting policies (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax

Current and deferred tax is recognised in the consolidated income statement, except when they relate to items that are recognised in the consolidated statement of comprehensive income or directly in equity, in which case, the current and deferred tax also recognised in consolidated statement of comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Revenue recognition

Revenue is derived principally from the sale of gold and silver 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, and Omolon) into London Good Delivery Bars prior to sale. This final stage of processing is carried out on a toll-treatment basis at four state-owned refineries. The Group sells gold and silver bullion to banks through long-term agreements. The sales price, as determined in the agreement, may be variable based upon the London Bullion Market Association (LBMA) spot price or fixed but the Group's policy is not to enter into fixed price contracts. For domestic sales, title passes from the Group to the purchaser at the refinery gate with revenue recognised at that point. For export sales, once the gold and/or silver bars have been approved for export by Russian customs, they are then transported to the vault of the purchaser, which is typically located in London. Title passes and revenue is recognised at the point when the gold and/or silver bars are received by the purchaser.

Sales of copper, gold and silver concentrate

The Group sells copper, gold and silver concentrate under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. Concentrate sales are initially recorded based on forward prices for the expected date of final settlement. Revenue is recorded at the time of shipment, which is also when risks and rewards pass to the buyer. Revenue is calculated based on the copper, gold and silver content in the concentrate and using the forward London Metal Bulletin (LMB) or London Metal Exchange (LME) price to the estimated final pricing date, adjusted for the specific terms of the relevant agreement. Until final settlement occurs, adjustments to revenue are made to take into account the changes in metal quantities upon receipt of new information and assay. Revenue is presented net of refining and treatment charges which are subtracted in calculating the amount to be invoiced.

The Group's sales of copper, gold and silver concentrate are based on a provisional price and as such, contain an embedded derivative that is required to be separated from the host contract for accounting purposes. The host contract is the receivable from the sale of the concentrate at the forward exchange price at the time of sale. The embedded derivative, which does not qualify for hedge accounting, is measured at FVTPL with changes in its fair value recognised within revenue in the consolidated income statement for each period prior to the final settlement.

Share-based compensation

The Group applies IFRS 2 *Share-based Payments* to its accounting for share-based compensation. IFRS 2 requires companies to recognise compensation costs for share-based payments to employees based on the grant-date fair value of the award.

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

The fair value of the awards granted is recognised as a general and administrative expense over the vesting period with a corresponding increase in the share-based compensation reserve. Where relevant, the proceeds received on exercise of the

awards, net of any directly attributable transaction costs, are credited to the stated capital account, and the amounts recognised within the share-based compensation reserve transferred to retained earnings.

Earnings per share

Earnings per share calculations are based on the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated using the treasury stock method, whereby the proceeds from the potential exercise of dilutive stock options with exercise prices that are below the average market price of the underlying shares are assumed to be used in purchasing the Company's common shares at their average market price for the period.

3. Critical accounting judgements and key sources of estimation uncertainty

The following are the critical judgements, apart from those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Production start date

The Group assesses the stage of each mine construction project to determine when a mine moves into the production stage. The criteria used to assess the start date are determined by the unique nature of each mine 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 and silver in saleable form (within specifications); and
- > the ability to sustain ongoing commercial level of production of gold.

When a mine construction project moves into the 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.

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 2011 acquisitions of Kutynskaya GGK LLC, Industriya LLC and Office LLC 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). Such purchases are recorded at cost, allocated across the assets and liabilities acquired pro-rata to their fair values.

Key sources of estimation uncertainty

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgements which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

The most significant areas requiring the use of management estimates and assumptions relate to:

- > fair value of net assets acquired and liabilities assumed in business combinations;
- > ore reserve estimates;
- > depreciation;
- > impairment of goodwill, mining assets and other property, plant and equipment;
- > inventory obsolescence and write-downs;
- > share-based compensation;
- > environmental obligations;
- > contingencies; and
- > income taxes.

Notes to the consolidated financial statements

continued

3. Critical 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 Russian Resource Reporting Code (GKZ), which is the basis on which management's mine plans are prepared. 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 based on proved and probable ore reserves as the useful lives of these assets are considered to be limited to the life of the relevant mine.

The calculation of the units-of-production rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on proved and probable ore reserves. This would generally arise when there are significant changes in any of the factors or assumptions used in estimating ore reserves. The Group's units-of-production depreciation rates are based on the GKZ reserves figures which are different to the reserves calculated under the JORC reporting code and included into the Group's external reporting.

Impairment of goodwill, mining assets and other property, plant and equipment

The Group considers both external and internal sources of information in assessing whether there are any indications that goodwill, mining assets or other property, plant and equipment owned by the Group are impaired. External sources of information the Group considers include changes in the market, 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 and 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 makes estimates of 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 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 flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows 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.

Inventory obsolescence and write-downs

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, silver and copper 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.

Share-based compensation

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

The fair value of share based compensation is measured using the Monte-Carlo model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

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

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

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

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

Environmental obligations

The Group's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The Group's provision for future decommissioning and land restoration cost represents management's best estimate of the present value of the future cash outflows required to settle the liability which reflects estimates of future costs, inflation, movements in foreign exchange rates and assumptions of risks associated with the future cash outflows; and the applicable interest rate for discounting the future cash outflows. Actual costs incurred in future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgements and estimates of the outcome of future events.

Income taxes

The Group is subject to income taxes in the Russian Federation and Kazakhstan. Significant judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgements based on the expected performance. Various factors are considered in order to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

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4. Acquisitions and disposals

(a) Asset acquisitions

Kutyn LLC

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

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

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

Industriya LLC

On 27 May 2011, the Group acquired a 100% interest in Industriya LLC (Industriya) from Kuzmichev V.V., an unrelated party. The Group acquired Industriya as it holds the hard-rock gold exploration and mining licence for the Elmus property. The Group paid cash consideration of US\$1.78 million. Industriya does not meet the definition of a business pursuant to IFRS 3 (2008) thus it was accounted for as an acquisition of a group of assets. The Group purchased mineral rights of US\$1.82 million and other current liabilities of US\$(0.04) million.

Office LLC

On 13 May 2011, the Group acquired a 100% interest in Office LLC (Office) from ICT-Kolyma LLC, an unrelated party, for US\$10.32 million, of which US\$6.2 million was netted against advance provided to ICT-Kolyma LLC in 2010. The Group acquired Office as it holds three storeys of an office premises in Magadan. The cost of the office premises was US\$9.76 million, with the residual amount of US\$0.6 million representing other assets and liabilities acquired.

In the prior year, the following transactions took place:

Rudnik Avlayakan LLC and Kirankan LLC

On 8 October 2010, the Group acquired a 100% interest in Rudnik Avlayakan LLC (Avlayakan) and Kirankan LLC (Kirankan) from Doland Business Limited, an unrelated party, in exchange for 3,500,000 of JSC's GDRs, with a market price of US\$17.20 per GDR on the acquisition date. The Group acquired Avlayakan and Kirankan as they hold the mining licences for Avlayakan and Kirankan gold and silver deposits located in the Khabarovsk region.

Avlayakan and Kirankan did not meet the definition of a business pursuant to IFRS 3 (2008) thus these acquisitions were accounted for as an acquisition of a group of assets. The allocation of the cost of acquisition to the group of assets acquired was as follows:

	US\$'000
Mineral rights	64,297
Property, plant and equipment	916
Construction in progress	492
Other liabilities	(440)
Non-current borrowings	(5,065)
Net assets acquired	60,200
Consideration:	
Fair value of GDRs transferred	60,200

PD RUS LLC

On 9 December 2010, the Group acquired a 100% interest in PD RUS LLC (PD RUS) from Castalian Trading Limited, an unrelated party. The Group acquired PD RUS as it holds the mining and exploration licence for Svetloye gold deposit located in the Khabarovsk region. The Group paid a cash consideration of US\$9.25 million in the form of settlement of PD RUS's liabilities.

PD RUS did 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 allocation of the cost of acquisition to the group of assets acquired was as follows:

	US\$'000
Mineral rights	7,345
Property, plant and equipment	744
Other assets	1,161
Net assets acquired	9,250
Consideration:	
Cash	9,250

(b) Disposal of subsidiary

CJSC Northeastern Coal Company

On 29 June 2011 the Group sold 100% of CJSC Northeastern Coal Company for US\$5.3 million to an unrelated party. CJSC Northeastern Coal Company did not perform any operations during 2010 or 2011. The gain on disposal was calculated as follows:

	US\$'000
Consideration received	5,300
Carrying value of property, plant and equipment disposed of	(5,725)
Carrying value of other liabilities disposed of	5,356
Gain on disposal	4,931

(c) Disposal of subsidiary in exchange for an interest in an associate

In November 2010, a Group subsidiary signed an agreement to establish JSC Ural-Polymetal (Ural-Polymetal), with Valentorskiy Rudnik LLC and Kuzmichev V.V. The Group contributed 100% of its interest in North Ural LLC, a subsidiary of the Group, holding the Galka gold, zinc and silver mining licence to Ural-Polymetal (see Note 19). The other investors also contributed assets in the entity with the Group receiving a 33% equity interest in Ural-Polymetal.

The carrying value of the net assets transferred to the equity investment on the date of disposal approximated fair value. The amount disposed of was as follows:

	US\$'000
Carrying value of assets disposed	
Mineral rights	3,936
Other assets	2,641
Net assets disposed of	6,577
Gain on disposal	3,580
Fair value of interest in associate undertaking acquired	10,157

5. Segment information

The Group has seven reportable segments:

- > Voro (CJSC Zoloto Severnogo Urala);
- > Khakanja (JSC Okhotskaya GGC, Rudnik Avlayakan LLC and Kirankan LLC, see Note 4);
- > Dukat (CJSC Serebro Magadana, CJSC Ayax);
- > Omolon (JSC Omolon Gold Mining Company, Rudnik Kvantseviy LLC);
- > Varvara (JSC Varvarinskoye);
- > Amursk-Albazino (Albazino Resources LLC, Amursky Hydrometallurgy Plant LLC); and
- > Mayskoye (ZK Mayskoye LLC).

Reportable segments are determined based on the Group's internal management reports and are separated based on the Group's geographical profile. Minor companies and activities (management, exploration, purchasing and other companies) which do not meet the reportable segment criteria are disclosed within Corporate and other. Each segment is engaged in gold, silver and copper mining and related activities, including exploration, extraction, processing and reclamation. The Group's segments are all based in the Russian Federation other than Varvara which is based in Kazakhstan.

The measure which management and the Chief Operating Decision Maker (the CODM) use to evaluate the performance of the Group is segment adjusted EBITDA, which is defined as profit for the period adjusted for depreciation and amortization, write-downs of inventory to net realisable value, share-based compensation expenses, listing expenses, rehabilitation expenses, gains or losses arising on disposal of subsidiaries, foreign exchange gains or losses, changes in the fair value of derivatives, changes in the fair value of contingent consideration, finance income, finance costs and income tax expenses. The accounting policies of the reportable segments are consistent with those of the Group's accounting policies under IFRS as described in Note 2.

Notes to the consolidated financial statements

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5. Segment information (continued)

Revenue shown as corporate and other comprises, principally, intersegment revenue relating to the supply of inventories, spare parts and fixed assets to the Group's production entities. Intersegment revenue is recognised based on costs incurred plus a fixed margin basis. External revenue shown within Corporate and other represents revenue from services provided to third parties by the Group's non-mining subsidiaries.

Business segment current assets and liabilities, other than current inventory, are not reviewed by the CODM and therefore are not disclosed in these consolidated financial statements.

The segment adjusted EBITDA reconciles to the profit before income tax as follows:

As at and for the year ended 31 December 2011 (US\$'000)	Voro	Khakanja	Dukat	Omolon	Varvara	Amursk Albazino	Mayskoye	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	280,206	214,114	531,964	73,417	182,004	44,689	-	1,326,394	36	-	1,326,430
Intersegment revenue	458	202	1,141	9,157	8,964	-	-	19,922	459,043	(478,965)	-
Share of loss of associates and joint ventures	-	-	-	-	-	-	-	-	1,952	-	1,952
Adjusted EBITDA	175,180	112,885	281,869	4,815	91,189	4,523	(10,258)	660,203	14	(36,351)	623,866
Depreciation expense	(24,957)	(15,852)	(23,172)	(11,137)	(13,055)	(7,631)	(246)	(96,050)	(604)	-	(96,654)
Rehabilitation expenses	(1,753)	(804)	(938)	(88)	-	-	-	(3,583)	-	-	(3,583)
Write-down of inventory to net realisable value	16	2,476	(2,657)	(3,352)	(423)	(398)	(1,893)	(6,231)	-	-	(6,231)
Listing expenses	-	-	-	-	-	-	-	-	(9,511)	-	(9,511)
Share-based compensation	-	-	-	-	-	-	-	-	(57,116)	-	(57,116)
Operating profit/(loss)	148,486	98,705	255,102	(9,762)	77,711	(3,506)	(12,397)	554,339	(67,217)	(36,351)	450,771
Gain on disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	4,931
Foreign exchange net loss	-	-	-	-	-	-	-	-	-	-	(13,634)
Change in fair value of derivatives	-	-	-	-	-	-	-	-	-	-	(1,855)
Change in fair value of contingent consideration	-	-	-	-	-	-	-	-	-	-	(6,828)
Finance income	-	-	-	-	-	-	-	-	-	-	4,208
Finance costs	-	-	-	-	-	-	-	-	-	-	(28,746)
Profit before tax											408,847
Income tax expense	-	-	-	-	-	-	-	-	-	-	(118,985)
Profit for the year attributable to the equity holders of the parent											289,862
Current metal inventories	48,911	49,005	92,378	89,414	39,279	47,795	16,768	383,550	214	(5,057)	378,707
Current non-metal inventories	7,379	35,099	41,897	45,621	22,175	35,327	10,679	198,177	52,526	(16,194)	234,509
Non-current segment assets:											
Property, plant and equipment, net	98,872	151,311	415,421	229,851	153,505	483,370	171,645	1,703,975	197,999	-	1,901,974
Goodwill	-	13,431	8,242	-	64,537	-	22,377	108,587	-	-	108,587
Non-current inventory	2,947	6,401	7,356	9,711	2,842	8,278	3,912	41,447	2,871	-	44,318
Investments in associates and joint ventures	-	-	-	-	-	-	-	-	23,558	-	23,558
Total segment assets	158,109	255,247	565,294	374,597	282,338	574,770	225,381	2,435,736	277,168	(21,251)	2,691,653
Additions to non-current assets:											
Property, plant and equipment	12,693	39,148	71,878	74,858	15,897	155,188	94,476	464,138	19,232	(3,821)	479,549
Acquired in acquisition of group of assets	-	-	-	-	-	-	-	-	79,912	-	79,912

As at and for the year ended 31 December 2010 (US\$'000)	Voro	Khakanja	Dukat	Omolon	Varvara	Amursk Albazino	Mayskoye	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	213,906	215,300	345,457	24,649	125,456	-	-	924,768	608	-	925,376
Intersegment revenue	310	57	116	-	-	-	-	483	287,462	(287,945)	-
Share of loss of associates and joint ventures	-	-	-	-	-	-	-	-	(1,170)	-	(1,170)
Adjusted EBITDA	131,349	119,831	153,932	(8,202)	54,831	(9,104)	(5,281)	437,356	(7,254)	(5,223)	424,879
Depreciation expense	(22,537)	(14,030)	(21,957)	(1,662)	(9,062)	-	(767)	(70,015)	(319)	-	(70,334)
Rehabilitation expenses	(1,059)	(524)	(170)	(232)	(877)	-	-	(2,862)	-	-	(2,862)
Write-down of inventory to net realisable value	-	(491)	(1,043)	(384)	(13,401)	-	-	(15,319)	-	-	(15,319)
Share based compensation	-	-	-	-	-	-	-	-	(7,896)	-	(7,896)
Operating profit/(loss)	107,753	104,786	130,762	(10,480)	31,491	(9,104)	(6,048)	349,160	(15,469)	(5,223)	328,468
Gain on disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	3,580
Foreign exchange (loss)	-	-	-	-	-	-	-	-	-	-	(337)
Change in fair value of derivatives	-	-	-	-	-	-	-	-	-	-	(909)
Change in fair value of contingent consideration	-	-	-	-	-	-	-	-	-	-	(3,616)
Finance income	-	-	-	-	-	-	-	-	-	-	785
Finance costs	-	-	-	-	-	-	-	-	-	-	(21,541)
Profit before tax											306,430
Income Tax expense	-	-	-	-	-	-	-	-	-	-	(67,414)
Profit for the year attributable to the equity holders of the parent											239,016
Current metal inventories	45,086	18,578	56,497	34,746	24,315	12,664	1,541	193,427	-	-	193,427
Current non-metal inventories	7,450	34,227	35,106	23,674	16,901	17,983	6,242	141,583	45,969	(12,464)	175,088
Non-current segment assets:											
Property, plant and equipment	118,808	155,799	424,529	206,352	152,888	348,589	123,691	1,530,656	112,825	-	1,643,481
Goodwill	-	14,189	8,707	-	68,177	-	23,639	114,712	-	-	114,712
Non-current inventories	2,593	3,042	6,514	4,146	-	-	-	16,295	4,722	-	21,017
Investments in associates and joint ventures	-	-	-	-	-	-	-	-	26,821	-	26,821
Additions to non-current assets:											
Additions to property, plant and equipment	11,828	9,837	43,354	60,657	21,766	204,827	59,748	412,017	31,543	-	443,560
Acquired on acquisition of group of assets	-	-	-	-	-	-	-	-	73,794	-	73,794

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6. Revenue

Revenue by major customers is as follows:

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
VTB	241,815	301,015
Kazzink	136,661	4,901
Russian Federation State Fund of Precious Metals (GOHRAN)	122,048	7,752
Metalor S.A.	106,870	80,942
Sberbank	106,430	76,316
HSBC	100,314	9,703
Other	250,455	127,963
Total sales to third parties	1,064,593	608,592
Sales to related parties		
Nomos-Bank	258,794	315,405
	258,794	315,405
Total metal sales	1,323,387	923,997
Other	3,043	1,379
Total	1,326,430	925,376

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

	Year ended 31 December 2011 (US\$'000)					Total
	Dukat	Khakanja	Voro	Omolon		
VTB	191,889	–	49,926	–	–	241,815
Nomos-Bank	–	177,559	18,288	62,947	–	258,794
Kazzinc	136,661	–	–	–	–	136,661
Total	328,550	177,559	68,214	62,947	–	637,270

	Year ended 31 December 2010 (US\$'000)					Total
	Dukat	Khakanja	Voro	Omolon		
Nomos-Bank	81,641	167,208	42,084	24,472	–	315,405
VTB	235,146	32,797	33,072	–	–	301,015
Total	316,787	200,005	75,156	24,472	–	616,420

Revenue analysed by geographical region of customers is presented below:

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Sales within the Russian Federation	862,763	780,284
Sales to China	119,823	44,515
Sales to Europe	207,184	95,676
Sales to Kazakhstan	136,660	4,901
Total	1,326,430	925,376

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

	Year ended 31 December 2011			Year ended 31 December 2010		
	Thousand ounces/tonne (unaudited)	Average price (US\$ per troy ounce/tonne) (unaudited)	US\$'000	Thousand ounces/tonne (unaudited)	Average price (US\$ per troy ounce/tonne) (unaudited)	US\$'000
Gold (thousand ounces)	448	1,556.10	697,135	440	1,232.09	542,118
Silver (thousand ounces)	17,045	34.04	580,182	17,961	19.64	352,721
Copper (tonne)	6,363	7,240.30	46,070	3,991	7,305.94	29,158
Total			1,323,387			923,997

7. Cost of sales

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Cash operating costs		
On-mine costs (Note 8)	319,740	173,922
Smelting costs (Note 9)	254,817	173,540
Purchase of ore from third parties	16,817	11,198
Mining tax	96,955	57,210
Total cash operating costs	688,329	415,870
Depreciation and depletion of operating assets (Note 10)	140,253	75,709
Rehabilitation expenses	3,583	2,862
Total costs of production	832,165	494,441
Increase in metal inventories	(215,492)	(53,160)
Write-down to net realisable value (Note 21)	6,232	15,319
Total change in metal inventories	(209,260)	(37,841)
Cost of other sales	2,835	1,514
Total	625,740	458,114

8. On-mine costs

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Consumables and spare parts	110,695	66,810
Services	120,398	60,536
Labour	83,299	43,743
Taxes, other than income tax	1,839	242
Other expenses	3,509	2,591
Total (Note 7)	319,740	173,922

9. Smelting costs

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Consumables and spare parts	117,407	80,339
Services	88,069	57,249
Labour	47,088	33,900
Taxes, other than income tax	178	134
Other expenses	2,075	1,918
Total (Note 7)	254,817	173,540

10. Depletion and depreciation of operating assets

	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Mining	106,402	48,211
Smelting	33,851	27,498
Total (Note 7)	140,253	75,709

Depreciation on operating assets excludes depreciation relating to non-operating assets (included in general, administrative and selling expenses) and depreciation related to assets employed in development projects where the charge is capitalised. Depreciation expense, which is excluded in the Group's calculation of Adjusted EBITDA (see note 5), also excludes amounts absorbed into unsold metal inventory balances.

Notes to the consolidated financial statements

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11. General, administrative and selling expenses

	Year ended	
	31 December 2011 US\$'000	31 December 2010 US\$'000
Labour	72,291	42,745
Services	24,177	20,540
Share-based compensation	57,116	7,896
Depreciation	4,122	2,005
Other	11,917	8,914
Total	169,623	82,100

12. Other expenses

	Year ended	
	31 December 2011 US\$'000	31 December 2010 US\$'000
Exploration expenses	30,212	8,105
Taxes, other than income tax	11,278	14,467
Listing expenses	9,511	–
Social payments	8,692	6,468
Housing and communal services	6,357	4,269
Loss on disposal of property, plant and equipment	6,203	6,296
Omolon plant pre-commissioning expenses	–	7,156
Bad debt allowance	(1,171)	2,333
Other expenses	7,262	6,430
Total	78,344	55,524

Costs incurred in connection with the admission to the Official List of the UK Listing Authority and the related Group restructuring have been expensed. Costs incurred in relation to the issuance of the new (primary) equity at the time of admission have been deducted from the Stated Capital account.

Exploration expenses include an US\$13.2 million write down of evaluation and exploration assets relating to the Dukat segment, where management have decided to suspend development activities principally relating to the Rogovikskaya field.

13. Employee costs

The weighted average number of employees as of 31 December 2011 was:

	Year ended	
	31 December 2011 Number	31 December 2010 Number
Voro	848	830
Khakanja	1,021	914
Dukat	1,824	1,787
Omolon	913	607
Varvara	657	614
Amursk-Albazino	897	581
Mayskoye	617	397
Corporate and other	1,274	1,182
Total	8,051	6,912

	Year ended	
	31 December 2011 US\$'000	31 December 2010 US\$'000
Wages and salaries	204,379	143,107
Social security costs	40,040	23,785
Share based payments	57,116	7,896
Total payroll costs	301,535	174,788
Less: employee costs capitalised	(30,250)	(41,802)
Less: employee costs absorbed into unsold metal inventory balances.	(30,935)	(6,398)
Employee costs included in operating costs	240,350	126,588

The Group pays mandatory contributions to state social funds, including the pension funds of the Russian Federation and Kazakhstan, which are expensed as incurred. The Group contributed US\$31.8 million and US\$15.3 million during the years ended 31 December 2011 and 2010, respectively.

Compensation for management personnel is disclosed within Note 33.

14. Auditor's remuneration

	Year ended	
	31 December 2011 US\$'000	31 December 2010 US\$'000
Fees payable to the auditor and their associates for the audit of the Company's Annual Report		
United Kingdom	250	–
Overseas	555	877
Total audit fees	805	877
Audit-related assurance services – half year review	–	135
Taxation compliance services	28	30
Other services	3,482	–
Total non-audit fees	3,510	165
Total auditor remuneration	4,315	1,042

Other services provided in the year relate to services in relation to the Group listing and capital raising in the year (see Note 1). US\$0.5 million of these costs were allocated to the Stated Capital Account in line with the methodology as set out in Note 31.

15. Finance costs

	Year ended	
	31 December 2011 US\$'000	31 December 2010 US\$'000
Interest expense on borrowings	20,074	16,991
Unwinding of discount on borrowings	5,344	2,138
Unwinding of discount on decommissioning obligations	3,328	2,412
Total	28,746	21,541

Interest expense on borrowings excludes borrowing costs capitalised in the cost of qualifying assets of US\$12.5 million and US\$9.59 million during the years ended 31 December 2011 and 2010, respectively. These amounts were calculated based on the Group's general borrowing pool and by applying an effective interest rate of 2.81% and 6.11%, respectively, to cumulative expenditure on such assets.

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16. Income tax

The income tax expense for the year ended 31 December 2011 is as follows:

	31 December 2011 US\$'000	31 December 2010 US\$'000
Current income taxes	127,671	76,922
Deferred income taxes	(8,686)	(9,508)
	118,985	67,414

A reconciliation between the reported amount of income tax expense attributable to profit before income for the year ended 31 December 2011 is as follows:

	Year ended	
	31 December 2011 US\$'000	31 December 2010 US\$'000
Profit before income tax	408,847	306,430
Statutory income tax expense at the tax rate of 20%	81,769	61,286
Loss incurred in tax-free jurisdictions	5,998	234
Share-based compensation	11,423	1,579
Tax effect of non-deductible expenses and other permanent differences	14,490	4,315
Prior year adjustment	5,305	–
Total income tax expense	118,985	67,414

The actual tax expense differs from the amount which would have been determined by applying the statutory rate of 20% for the Russian Federation and Kazakhstan to profit before income tax as a result of the application of relevant jurisdictional tax regulations, which disallow certain deductions which are included in the determination of accounting profit. These deductions include share-based compensation, social related expenditures and other non-production costs, certain general and administrative expenses, financing expenses, foreign exchange related and other costs.

In the normal course of business, the Group is subject to examination by tax authorities throughout the Russian Federation and Kazakhstan. Out of the large operating companies of the Group, tax authorities have audited OJSC Okhotskaya Mining and Exploration Company, CJSC Magadan Silver for the period up to 2007, CJSC Gold of Northern Urals for the period up to 2009 and JSC Varvarinskoye for the period up to 2010. According to Russian and Kazakhstan tax legislation, previously conducted audits do not fully exclude subsequent claims relating to the audited period. No significant adjustments have been proposed by the Federal Tax Service of the Russian Federation and Tax Service of the Republic of Kazakhstan as at 31 December 2011.

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 2011	8,881	2,774	(84,262)	822	36,213	–	9,903	(25,669)
(Charge)/credit to profit or loss	2,723	(11,538)	2,985	3,663	21,234	(2,875)	(7,506)	8,686
Exchange differences	(614)	942	3,254	36	(3,786)	251	(324)	(241)
At 31 December 2011	10,990	(7,822)	(78,023)	4,521	53,661	(2,624)	2,073	(17,224)

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	31 December 2011 US\$'000	31 December 2010 US\$'000
Deferred tax liabilities	(79,342)	(83,345)
Deferred tax assets	62,118	57,676
	(17,224)	(25,669)

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 and the Company during the period up to 2021. Each legal entity within the Group represents a separate tax-paying component for income tax purposes. The tax losses of one entity cannot be used to reduce taxable income of other entities of the Group. As at 31 December 2011 and 31 December 2010 the aggregate tax losses carried forward were US\$268.3 million (RUB 8.6 billion) and US\$181.1 million (RUB 5.52 billion), respectively.

The Group believes that recoverability of the recognized net deferred tax asset (DTA) of US\$62.1 million at 31 December 2011 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 2011. 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 proved and probable reserves which can be economically developed. The income from the Group's proved and probable mineral reserves is a predictable source of future income and produces sufficient taxable income for realisation of the Group's net DTA. The Group is projecting to generate sufficient 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 recognised tax losses carried forward expire as follows:

	31 December 2011 US\$'000
Year ended 31 December 2012	–
31 December 2013	13
31 December 2014	2,735
31 December 2015	7,563
31 December 2016	12,385
31 December 2017	21,813
31 December 2018	34,359
31 December 2019	43,937
31 December 2020	46,916
31 December 2021	98,578
Total losses carried forward for tax purposes	268,299

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\$1,066.3 million (2010: US\$nil).

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17. Property, plant and equipment

	Exploration and evaluation assets US\$'000	Mining assets US\$'000	Non-mining assets US\$'000	Capital construction in-progress US\$'000	Total US\$'000
Cost					
Balance at 1 January 2010	66,364	1,021,066	62,427	222,115	1,371,972
Additions	63,053	87,603	4,741	288,163	443,560
Transfers	(59,299)	112,470	1,641	(54,812)	–
Change in decommissioning liabilities	–	7,836	–	–	7,836
Acquired on acquisition of group of assets	565	72,737	–	492	73,794
Eliminated on disposal of subsidiary	(3,936)	–	–	–	(3,936)
Disposals	(1,633)	(12,151)	(4,259)	–	(18,043)
Translation to presentation currency	(572)	(9,039)	(481)	(2,528)	(12,620)
Balance at 31 December 2010	64,542	1,280,522	64,069	453,430	1,862,563
Additions	63,386	103,286	12,999	299,878	479,549
Transfers	(7,945)	208,807	8,726	(209,588)	–
Change in decommissioning liabilities	–	5,876	–	–	5,876
Acquired on acquisition of group of assets	–	70,156	9,756	–	79,912
Eliminated on disposal of subsidiary	(5,383)	–	(342)	–	(5,725)
Disposals	(13,263)	(12,580)	(1,167)	(120)	(27,130)
Translation to presentation currency	(6,464)	(96,541)	(6,577)	(32,173)	(141,755)
Balance at 31 December 2011	94,873	1,559,526	87,464	511,427	2,253,290

	Exploration and evaluation assets US\$'000	Mining assets US\$'000	Non-mining assets US\$'000	Capital construction in-progress US\$'000	Total US\$'000
Accumulated depreciation, amortisation					
Balance at 1 January 2010	–	(123,546)	(5,878)	–	(129,424)
Charge for the year	–	(89,610)	(7,138)	–	(96,748)
Disposals	–	3,965	1,888	–	5,853
Translation to presentation currency	–	1,174	63	–	1,237
Balance at 31 December 2010	–	(208,017)	(11,065)	–	(219,082)
Charge for the year	–	(155,875)	(6,697)	–	(162,572)
Disposals	–	5,949	468	–	6,417
Translation to presentation currency	–	22,776	1,145	–	23,921
Balance at 31 December 2011	–	(335,167)	(16,149)	–	(351,316)
Net book value					
1 January 2010	66,364	897,520	56,549	222,115	1,242,548
31 December 2010	64,542	1,072,505	53,004	453,430	1,643,481
31 December 2011	94,873	1,224,359	71,315	511,427	1,901,974

Mining assets at 31 December 2011 included mineral rights with a net book value which amounted to US\$363.5 million (31 December 2010: US\$384.3 million). Mineral rights of the Group comprise assets acquired upon acquisition of subsidiaries and asset acquisitions.

At 31 December 2010 property, plant and equipment included leased assets with a net book value of US\$10.6 million (all of which was machinery). At 31 December 2011 there were no leased assets.

Exploration expenses include an US\$13.2 million write down of evaluation and exploration assets relating to the Dukat segment, where management have decided to suspend development activities principally relating to the Rogovikskaya field.

Property, plant and equipment with a total net book value of US\$137.8 million (including mineral rights with a net book value of US\$9.2 million) were pledged as collateral to secure the Group's borrowings at 31 December 2010 (see Note 24). No property, plant and equipment were pledged as collateral at 31 December 2011.

18. Goodwill

	31 December 2011 US\$'000	31 December 2010 US\$'000
At 1 January	114,712	115,729
Translation effect	(6,125)	(1,017)
At 31 December	108,587	114,712

Goodwill has been allocated for impairment testing purposes to the following cash-generating units comprising operating segments:

	31 December 2011 US\$'000	31 December 2010 US\$'000
Varvara	64,537	68,177
Mayskoye	22,377	23,639
Khakanja	13,431	14,189
Dukat	8,242	8,707
Total	108,587	114,712

The carrying amount of goodwill is reviewed annually to determine whether it is in excess of its recoverable amount. The recoverable amount of cash-generating unit is determined based on a fair value less costs to sell calculation. Fair value is based on the application of the Discounted Cash Flow Method (DCF). The DCF method is attributable to the development of proved and probable reserves. The tail margin method, an extension of the DCF method, is attributable to the development of resources beyond proved and probable reserves, assuming they could be developed after the end of the DCF forecast period. Resources used in calculations are based on the amounts of measured and indicated and inferred resources, which are adjusted for a conversion factor in order to obtain a forecast production figure. A steady state cash flow per unit of subject metal is usually applied to the annual resource recovery amount to determine the total annual cash flow, based on past experience with an appropriate risk adjustment.

The discount rate used in the calculations was fixed and equalled the Polymetal WACC (9% both periods). The DCF method is used based on proved and probable reserves and uses the following key assumptions:

- > production volumes;
- > commodity prices;
- > proved and probable reserves; and
- > production costs.

Recoverable reserves and resources are based on the proved and probable reserves and resources in existence at the end of the year. Production costs are based on management's best estimate over the life of the mine. Estimated production volumes are based on detailed life of mine plans and take into account development plans for the mines approved by management as part of the long-term planning process. Commodity prices are based on latest internal forecasts, benchmarked against external sources of information.

The tail margin method is used to value resources not currently included within an asset's mine plan. The methodology involves calculating an estimated unit cost per ounce in order to forecast net operating cash flows which are discounted to present value. While applying the tail margin method the Company used the following key assumptions:

- > production forecasts were calculated based on the weighted average amount of measured and indicated and inferred resources with a conversion factor of 0.7 for measured and indicated resources and 0.5 for inferred resources; and
- > steady state cash flow per unit of subject metal (gold or silver) was determined as the average of cash flows per unit of subject metal for the period during which their values in real terms were relatively stable.

In management's view, no reasonably possible changes in the key assumptions would trigger an impairment charge of goodwill.

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19. Investments in associates and joint ventures

The Group's investments in joint ventures and associates as at 31 December 2011 and 2010 consisted of the following:

	31 December 2011		31 December 2010	
	Voting power %	Carrying Value US\$'000	Voting power %	Carrying Value US\$'000
Associates				
JSC Ural-Polymetal	33.3	11,152	33.3	10,901
Joint ventures				
JV with AngloGold Ashanti Limited	50	12,406	50	15,920
Total		23,558		26,821

Joint venture with AngloGold Ashanti Limited

In February 2008, the Company signed an agreement to set up a strategic alliance and a joint venture (the Joint Venture) with AngloGold Ashanti Limited. Within the framework of this agreement each party owns 50% in the Joint Venture. The Joint Venture was created in order to execute development projects in several territories of the Russian Federation. In February 2012 the Group acquired the remaining 50% interest in the Joint Venture, see Note 35 for further post balance sheet event disclosures.

Equity investment in JSC Ural-Polymetal

In November 2010, a Group subsidiary signed an agreement to establish JSC Ural-Polymetal (Ural-Polymetal), with Valentorskiy Rudnik LLC and Kuzmichev V.V. The Group contributed 100% of its interest in North Ural LLC, a subsidiary of the Group, holding Galka gold, zinc and silver mining licence (see Note 4) to Ural-Polymetal. In addition to Galka, assets contributed to Ural-Polymetal by other investors consist of an operating copper and zinc open-pit mine, an operating copper and iron ore underground mine and a processing plant. Within the framework of this agreement the Group, Valentorskiy Rudnik LLC and Kuzmichev V.V. each own 33.3%, 55.7% and 11%, respectively, of Ural-Polymetal. Ural-Polymetal was established in order to execute development projects in the North Ural region of the Russian Federation concerned with silver, zinc, copper and iron ore extraction and processing.

The Group's ownership interests in the subsidiaries of the Joint Venture and Ural-Polymetal as at 31 December 2011 and 2010 are as follows:

	Country of incorporation	Ownership interest, %	
		31 December 2011	31 December 2010
Joint venture with AngloGold Ashanti Limited			
CJSC Enisey Mining and Geological Company	Russia	50	50
Imitoloto LLC	Russia	50	50
Amikan LLC	Russia	50	50
Zoloto Taigi LLC	Russia	50	50
JSC Ural-Polymetal			
Polymetals of North Ural LLC	Russia	33	33
Valentorskiy Medniy Karier LLC	Russia	33	33
Uraldragmet LLC	Russia	33	33

The following tables summarise the aggregate financial position and the Group's share in the net losses of the Joint Venture with AngloGold Ashanti Limited and the investment in Ural-Polymetal:

	AngloGold Ashanti Limited 100% basis		JSC Ural-Polymetal 100% basis	
	31 December 2011 US\$'000	31 December 2010 US\$'000	31 December 2011 US\$'000	31 December 2010 US\$'000
Non-current assets	84,191	89,159	45,925	46,952
Current assets	659	477	9,229	6,722
Non-current liabilities	(24,560)	(25,013)	(7,582)	(9,215)
Current liabilities	(4,784)	(2,592)	(12,198)	(11,824)
Equity	(55,506)	(62,031)	(35,374)	(32,634)

	AngloGold Ashanti Limited Year ended		JSC Ural-Polymetal Year ended	
	31 December 2011 US\$'000	31 December 2010 US\$'000	31 December 2011 US\$'000	31 December 2010 US\$'000
Revenue	–	–	28,603	3,266
Net (loss)/income	(5,731)	(1,820)	2,740	(780)
Group's share in joint venture's net (loss)/income	(2,866)	(910)	914	(260)

20. Non-current loans

	Interest rate	31 December 2011 US\$'000	31 December 2010 US\$'000
AngloGold Ashanti Limited (Note 33)	7%-8%	6,303	3,455
Employees	6.00%	2,659	1,732
Total		8,962	5,187

21. Inventories

	31 December 2011 US\$'000	31 December 2010 US\$'000
Inventories expected to be recovered after twelve months		
Consumables and spare parts	44,318	21,017
Total	44,318	21,017
Inventories expected to be recovered in the next twelve months		
Ore stock piles	216,243	103,914
Work in progress	111,866	70,023
Copper, gold and silver concentrate	27,685	16,762
Dore	22,889	2,407
Refined metals	24	321
Total metal inventories	378,707	193,427
Consumables and spare parts	234,509	175,088
Total	613,216	368,515

During the year ended 31 December 2011, the Group recognised a US\$2.8 million (2010: US\$13.5 million) write-down to net realisable value of its ore stock piles in Varvara due to poor gold and copper recovery on ore with lower content of precious metals respectively.

As of 31 December 2011 and 31 December 2010 amount of inventories held at NRV is nil.

In addition, during the year ended 31 December 2011 the Group wrote-down US\$3.5 million of costs (2010: nil) in Omolon which did not significantly enhance the value of the ore stockpiles.

During 2011 the Group reversed previous obsolescence provisioning against consumables and spare parts inventory during the year ended 31 December 2011 in the amount of US\$0.6 million (2010: write-down of US\$1.8 million).

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22. Trade and other receivables

	31 December 2011 US\$'000	31 December 2010 US\$'000
Trade receivables	37,609	19,765
Non-trade receivables	28,099	23,574
Short-term loans provided to entity under common control	1,522	–
Short-term loans provided to employees	1,426	2,507
Short-term loans provided to equity method investments	315	–
Total trade and other receivables	68,971	45,846
Less: Allowance for doubtful debts	(980)	(2,163)
Total	67,991	43,683

Trade receivables mainly relate to JSC Varvarinskoye for their sales of provisionally priced copper and gold concentrate, and to CJSC Serebro Magadana for their sales of provisionally priced silver concentrate.

	31 December 2011 US\$'000	31 December 2010 US\$'000
Kazzink	30,960	4,901
Metalor S. A.	4,440	3,014
Trafigura	2,036	11,096
Other	173	754
Total	37,609	19,765

The average credit period on sales of copper, gold and silver concentrate at 31 December 2011 was 28 days (2010: 22 days). No interest is charged on trade receivables. The Group's allowance for doubtful debt relates to its non-trade receivables. The Group's trade receivables are neither past due nor impaired as at 31 December 2011 and 31 December 2010.

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 2011 was 143 days (2010: 101 days). No interest is charged on non-trade receivables.

Non-trade receivables disclosed above include those that are past due at the end of the reporting period for which the Group has not recognised a bad debt allowance because there has not been a significant change in credit quality and the amounts are still considered to be recoverable. Such past due but not impaired receivables amounted to US\$2.8 million as at 31 December 2011 (2010: US\$1.08 million), the majority of which mature within 90 days. The Group does not hold any collateral or other security over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

23. Cash and cash equivalents

	31 December 2011 US\$'000	31 December 2010 US\$'000
Bank deposits – RUB	15,695	–
– foreign currencies	629,259	–
Current bank accounts – RUB	2,110	2,120
– foreign currencies	11,684	8,884
Other cash and cash equivalents	47	52
Total	658,795	11,056

Bank deposits as at 31 December 2011 bear interest of 3.5% per annum with an average maturity at inception of 90 days. All US\$629 million of deposits held in foreign currencies was held in US Dollars at 31 December 2011 (2010: nil).

24. Borrowings

	Interest rate	Actual rate	31 December 2011 US\$'000	31 December 2010 US\$'000
Borrowings at amortised cost				
Bank loans				
<i>US\$ denominated</i>				
Otkritie	1m LIBOR+2.75%	3.05%	250,050	–
Raiffeisenbank	1m LIBOR +3.1%	3.40%	150,000	153,000
Syndicate of Banks	3m LIBOR +3%	3.88%	136,203	127,133
UniCredit bank AG	3m LIBOR + 2.75%	3.33%	100,000	100,000
UniCredit bank	3m LIBOR +2.75%	3.33%	100,000	100,000
BSGV	3m LIBOR +2.5%	3.08%	100,000	–
ING bank (Eurasia)	3m LIBOR +2.5%	3.08%	66,667	75,000
BNP Paribas	3m LIBOR +2.5%	3.08%	50,000	–
Sberbank	3m LIBOR +6.5%	6.81%	–	50,000
Gazprombank	3.5%-4.5%	–	–	21,000
HSBC	3m LIBOR +3.5%	3.85%	–	8,070
<i>RUB denominated</i>				
HSBC	MOSPRIME +3%	6.42%	–	10,828
Other	–	–	14,774	–
Loans from related parties (Note 33)	–	–	35,401	40,938
Total borrowings	–	–	1,003,095	685,969
Less: current borrowings	–	–	(348,429)	(90,610)
Non-current borrowings	–	–	654,666	595,359

The table below summarises maturities of borrowings:

Maturing during the Year ended:	US\$'000
31 December 2012	348,429
31 December 2013	244,435
31 December 2014	223,169
31 December 2015	185,012
31 December 2016	2,050
Total	1,003,095

Bank loans

As at 31 December 2011, the Group has US\$803 million of undrawn funds available under its credit facilities (2010: US\$237 million). The most significant financial covenant in place is that the ratio of net debt to EBITDA must not exceed 3.25.

Otkritie

On 6 September 2011 the Group entered into a general master repurchase agreement (the GMRA). Under the GMRA 34,450,357 Polymetal shares (representing approximately 8.6% of the issued share capital of JSC Polymetal) were transferred to Otkritie Securities Limited in exchange for an aggregate purchase price of US\$250 million.

The accounting substance of this arrangement is that it is a securitised loan. It has been accounted for at amortised cost with interest accrued for. The treasury shares have accordingly not been shown as sold and these shares are therefore excluded from the calculation of non-controlling interest in the JSC Polymetal Group.

On Repurchase Date the Group has the obligation to repurchase all of the Polymetal Shares transferred under the GMRA for the repurchase price which is calculated as the sum of (i) the price received for the relevant Polymetal shares; and (ii) the aggregate amount obtained by daily application of LIBOR + 2.75% to the relevant price for the number of days during the period commencing on the relevant transfer date and ending on the Repurchase Date.

Subsequent to the reporting date, the Group accelerated the Repurchase Date and repaid the loan in full on 16 February 2012 in accordance with the terms of the GMRA.

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24. Borrowings (continued)

BSGV

In June 2011, the Group entered into a long-term credit facility with BSGV which allows the Group to borrow funds, denominated in US Dollars, up to US\$100.0 million to finance its current operations. Borrowings under this credit facility are available until May 2014. The credit facility is repayable in quarterly instalments. Interest is also payable quarterly. The repayment of this long-term credit facility is guaranteed with a pledge of revenue under a sales agreement with Rosbank (see Note 28). Following the re-organisation of Joint-Stock Company 'Banque Societe Generale Vostok' ('BSGV') by way of merger with Joint Stock Commercial Bank 'ROSBANK', the rights of BSGV inured to the benefit of Joint Stock Commercial Bank 'ROSBANK' (Open joint-stock company).

BNP Paribas

In January 2011, the Group entered into a long-term credit facility with BNP Paribas which allows the Group to borrow funds, denominated in US Dollars, up to US\$50.0 million to finance the Group's general corporate purposes and for refinancing of short-term and long-term indebtedness of the Group. Borrowings under this credit facility are available until February 2015. The credit facility is repayable in eleven equal quarter instalments starting from July 2012. Interest is payable quarterly.

The repayment of this long-term loan is guaranteed with a pledge of revenue under a sales agreement with Nomos-Bank (see Note 28), a related party.

Raiffeisenbank

In October 2010, the Group received a long-term facility from Raiffeisenbank which allows the Group to borrow funds up to US\$150 million. The Group used the funds in part, to refinance long-term credit obtained from Raiffeisenbank in December 2009. The remainder is being used to finance its current operations. The loan facility is available until September 2015. Interest is payable monthly.

Syndicate of Banks (including restructuring on 6 April 2011)

Upon the acquisition of JSC Varvarinskoye, the Group assumed a long-term loan of US\$85.7 million, payable to a Syndicate of Banks including Investec Bank Ltd, Investec Bank plc, Nedbank Limited and Natixis Bank (Syndicate of Banks). This loan had a carrying amount of US\$74.7 million on 6 April 2011.

In addition to the loan described above, the Group assumed obligations for amounts payable for previously realised flat forward gold sales and purchase contracts. As at 6 April 2011, the Group had not settled its liability under these contracts. This had a carrying amount of US\$50.8 million on 6 April 2011.

For repayment of these two liabilities a cash sweep arrangement was applied to all free cash flows generated from JSC Varvarinskoye. In accordance with the cash sweep agreement, on each day following the quarter-end, JSC Varvarinskoye shall pay 100% of the amount by which the cash inflow for the quarter exceeds US\$5.0 million. In 2013 and 2014, 35% and 65%, respectively, of the obligation would become due if not previously repaid through the cash sweep arrangement.

In addition the Group had unrealised net derivative liabilities for the forward sale and purchase commitments which were presented separately (see Note 28). This had a carrying amount of US\$100.7 million on 6 April 2011.

On 6 April 2011, the Group signed an agreement to restructure its debt obligations and related derivative gold forward sale and purchase contracts (the Restructuring). As a result of this Restructuring, the Group's derivative forward sale and purchase commitments outstanding as at the date of the Restructuring were converted to debt obligations based on the present value of the future net settlement payments of these derivative contracts. Following a partial immediate repayment of US\$14.8 million, the remaining debt obligation held by Three K Exploration and Mining Limited, a wholly owned subsidiary of the Group, was transferred to JSC Polymetal. All security arrangements held with the counterparty under the debt obligations and forward sale and purchase agreements, such as pledges of shares and movable and immovable property, plant and equipment, have been foregone as part of this restructuring.

The derivatives were previously recognised at fair value and no gain or loss arose on their conversion to debt. The amendment to the previous debt obligations did not constitute a significant modification and it continues to be held at their previous carrying value. These totalled US\$226.2 million before and US\$211.4 million after the repayment of US\$14.8 million. The carrying value of the new debt arrangement at 6 April 2011 was therefore US\$211.4 million, for which the fair value was US\$221 million. The difference will be accreted using the effective interest rate method as an additional interest charge over the term of the loan. The par value of the debt transferred, net of repayment, was US\$230 million.

As of 31 December 2011 the Group repaid US\$80.0 million and following schedule was agreed: US\$30.0 million in 2013, and US\$60.0 million in each of 2014 and 2015.

UniCredit bank AG (incorporated in Great Britain)

In November 2010, the Group received a long-term loan from UniCredit bank of US\$100.0 million to finance its current operations and to refinance other credit facilities. The loan is repayable in equal instalments on a quarterly basis through November 2015. Interest is payable quarterly.

The repayment of this long-term loan is partially guaranteed by the pledge of revenue under a sale agreement completed with HSBC Bank (see Note 28).

UniCredit bank (incorporated in the Russian Federation)

In November 2010, the Group received a long-term loan from UniCredit bank of US\$100.0 million to finance its current operations and to refinance long-term facilities obtained from UniCredit bank in August and September 2009. The loan is repayable in equal instalments on a quarterly basis through November 2015. Interest is payable quarterly.

The repayment of this long-term loan is guaranteed by the pledge of revenue under a sale agreement completed with HSBC Bank (see Note 28).

ING bank (Eurasia)

In December 2010, the Group received a long-term loan from ING Bank (Eurasia) of US\$75.0 million to finance its current operations. The loan is repayable in nine equal instalments on a quarterly basis through December 2013. Interest is payable quarterly.

Nomos-Bank

In January 2010, the Group received two long-term credit facilities from Nomos-Bank, a related party, which allows the Group to borrow funds, denominated in Euros, up to Euro 6.5 million (US\$8.7 million as at 31 December 2011) to finance the purchase of equipment for Amursky Hydrometallurgy Plant LLC. The credit facilities are repayable in ten equal semi-annual instalments over five years starting from April 2011. Interest is payable quarterly.

In July 2010, the Group received two long-term credit facilities from Nomos-Bank, a related party which allow the Group to borrow funds, denominated in Euro, up to Euro 1.76 million and 1.3 million (US\$2.6 million and US\$1.9 million as at 31 December 2011) to finance the purchase of equipment for Amursky Hydrometallurgy Plant LLC. Borrowings under these credit facilities are available through to 2016. The credit facilities are repayable in ten equal semi-annual instalments over five years starting from October and November 2010, respectively. Interest is payable quarterly.

In September 2010, the Group received an additional long-term credit facility from Nomos-Bank, denominated in Canadian Dollars, up to Canadian Dollar 1.5 million (US\$1.6 million as at 31 December 2011) to finance the purchase of equipment for Amursky Hydrometallurgy Plant LLC. Borrowings under this credit facility are available until December 2015. The credit facility is repayable in ten equal semi-annual instalments over five years starting from December 2010. Interest is payable quarterly.

In October 2010, the Group received a long-term credit facility from Nomos-Bank, denominated in Canadian Dollars up to Canadian Dollar 0.85 million (US\$0.88 million as at 31 December 2011) to finance the purchase of equipment for Amursky Hydrometallurgy Plant LLC. Borrowings under this credit facility are available until December 2015. The credit facility is repayable in ten equal semi-annual instalments starting from December 2010. Interest is payable quarterly.

In addition the Group has certain undrawn facilities at 31 December 2011, including: VTB, HSBC, Gazprombank, Alfabank (Note 30).

Gazprombank

In February 2010, the Group entered into a long-term credit facility with Gazprombank which allows the Group to borrow funds, denominated in Russian Roubles or US Dollars, up to US\$74.8 million (Russian Rouble 2.1 billion as at 31 December 2011) to finance its current operations. Borrowings under this credit facility were available until December 2011 and were settled in full at that date. The repayment term is established separately for each loan received from the credit facility at the time of the draw-down date. Each loan received from the credit facility must be repaid within twelve months of the draw-down. Interest is payable monthly, based on a fixed rate determined by Gazprombank for each tranche but not to exceed 14% annually for funds borrowed in Russian Roubles and 9% for funds borrowed in US Dollars.

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25. Finance lease liabilities

In April 2009 the Group entered into finance sale and leaseback agreement, denominated in Russian Roubles, with Nomos-Leasing, a related party. The Group leased certain of its machinery, equipment and transport vehicles. The lease term of finance lease was until July 2012. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

The implicit interest rate of underlying obligation under finance lease is fixed at 24.25% per annum.

Future minimum lease payments for the assets under finance leases are as follows:

	31 December 2010
Current portion	4,819
Non-current portion	–
Present value of minimum payments	4,819
Interest payable over the term of lease	81
Total future minimum lease payments	4,900

The Group proposed to the lessor to purchase the leased property and settle its leasing liabilities prior to the maturity dates. Accordingly, the total amount of leasing obligations is classified as current as of 31 December 2010. The purchase was completed in January 2011 for the amount of US\$4.9 million (including leasing liability of US\$4.8 million and interest of US\$0.1 million).

26. Environmental obligations

Environmental obligations include decommissioning and land restoration costs and are recognised on the basis of existing project business plans as follows:

	31 December 2011 US\$'000	31 December 2010 US\$'000
Opening balance	45,156	32,487
Changes in the year:		
– Decommissioning liabilities	5,876	7,836
– Rehabilitation liabilities	3,583	2,862
Unwinding of discount	3,328	2,412
Amounts paid	(213)	(161)
Translation effect	(3,267)	(280)
Closing Balance	54,463	45,156

The principal assumptions used for the estimation of environmental obligations were as follows:

	2011	2010
Discount rates	3.9%-7.28%	3.7%-9.4%
Inflation rates	5%-7.18%	3.9%-7.9%
Expected mine closure dates	1-23 years	1-24 years

The expected timings for the settlement of environmental obligations are as follows:

	31 December 2011 US\$'000	31 December 2010 US\$'000
Within one year	424	256
Due from second to fifth year	11,436	9,141
Due from sixth to tenth year	30,339	25,362
Due from eleventh to fifteenth year	3,687	5,834
Due from sixteenth to twentieth year	3,309	–
Due thereafter	5,268	4,563
Total	54,463	45,156

The Group does not hold any assets that are legally restricted for purposes of settling environmental obligations.

27. Trade and other payables

	31 December 2011 US\$'000	31 December 2010 US\$'000
Trade payables	61,219	54,217
Labour liabilities	10,049	7,273
Other payables	8,280	5,538
Total	79,548	67,028

In 2011, the average credit period for payables was 51 days (2010: 57 days). There was no interest charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments' schedules to ensure that all amounts payable are settled within the credit period.

28. Commitments and contingencies

Commitments

Capital commitments

The Group's budgeted capital expenditures' commitments as at 31 December 2011 amounted to US\$42.7 million (2010: US\$55.2 million).

Operating leases: Group as a lessee

The land in the Russian Federation and Kazakhstan on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through 2058.

Future minimum lease payments due under non-cancellable operating lease agreements at the end of the period were as follows:

	31 December 2011 US\$'000	31 December 2010 US\$'000
Due within one year	1,758	2,148
From one to five years	3,065	2,791
Thereafter	1,594	1,469
Total	6,417	6,408

Forward sales commitments

Under the sale agreements with Nomos-Bank, the Company's subsidiary, JSC Okhotskaya GGC are required to sell 45,000 ounces of gold and 3,350,000 ounces of silver during 2012 at a price determined by London Bullion Market Association (LBMA).

Under the sale agreement with Rosbank, the Company's subsidiary, CJSC Zoloto Severnogo Urala is required to sell 39,000 ounces of gold during 2012; 48,000 ounces of gold during 2013; 19,000 ounces of gold during 2014 at a price determined by LBMA.

Under the sale agreement with Sberbank, the Company's subsidiary, CJSC Zoloto Severnogo Urala is required to sell 64,000 ounces of gold during 2012 at a price determined by LBMA.

Under the sale agreements with Gazprombank, the Company's subsidiaries, JSC Omolon Gold Mining Company and JSC Okhotskaya GGC are required to sell 36,000 ounces of gold till 28 February 2012 at a price determined by LBMA.

Under the sale agreement with Trafigura Beheer B.V., the Company's subsidiary, JSC Varvarinskoe is required to sell 17,000 ounces of gold during 2012 at a price determined by LBMA and 4,488,000 tonnes of copper concentrate during 2012 at a price determined by the London Metal Exchange (LME) and adjusted for further processing costs.

Under the sale agreement with Glencore, the Company's subsidiary, JSC Varvarinskoe is required to sell 9,000 ounces of gold during 2012 at a price determined by LBMA and 2,448,000 tonnes of copper concentrate during 2012 at a price determined by LME and adjusted for further processing costs.

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28. Commitments and contingencies (continued)

Contingencies

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the companies of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

With regards to matters where practice concerning payment of taxes is unclear, management estimated the tax exposure at 31 December 2011 to be approximately US\$46.7 million (2010: US\$38.8 million) including the CJSC Serebro Magadana tax litigation described below. This amount had not been accrued at 31 December 2011 as management does not believe the payment to be probable.

Transfer pricing legislation, which was introduced from 1 January 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. Arbitration court practice in this respect is contradictory and inconsistent.

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

Litigation

During the respective periods, the Group was involved in a number of court proceedings (both as a plaintiff and as a defendant) arising in the ordinary course of business.

During 2009 a field tax audit was performed in relation to CJSC Serebro Magadana with respect to all taxes, duties and contributions to social funds for the period from 1 January 2007 to 31 December 2007 (including CJSC Serebro Territorii as a legal predecessor).

As a result of this audit, the tax authorities issued Decision #12-13/23 dated 31 March 2009. The most significant issues were the alleged understatement of profits tax by US\$18.4 million (including interest and penalties) and the understatement of mineral extraction tax by US\$4.4 million (including interest and penalties) owing to the potential application of transfer pricing rules in respect of export transactions with ABN AMRO Bank N.V. The tax authorities challenged the prices applied by CJSC Serebro Magadana (previously CJSC Serebro Territorii) owing to their deviation by more than 20% from London Stock Exchange fixings and accounting prices set by the Central Bank of the Russian Federation. This deviation was caused by signing a flat forward sales contract with Standard Bank of London that provided for fixed prices that were agreed by CJSC Serebro Territorii in 2004. CJSC Serebro Territorii supplied silver to ABN AMRO Bank N.V. in 2007 in accordance with its obligations under the contract and at the fixed priced stipulated in the contract. In 2004 the negotiated fixed prices were consistent with market prices. However, due to a significant increase in the price of silver in the intervening period, by 2007 the contract price was much lower than the London Metal Exchange price.

CJSC Serebro Magadana appealed against this Decision in the arbitration court and has been successful in the latest appeal. The Directors believe that CJSC Serebro Magadana should win any new challenge based on its argument that it was bound by the contractual obligations and had sound business reasons to apply such prices.

In the opinion of management of the Group, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations, financial position or cash flows of the Group and which have not been accrued or disclosed in the consolidated financial statements.

29. Fair value accounting

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as follows:

- > Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- > Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- > Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2011 and 31 December 2010 the Group held the following financial instruments:

	31 December 2011 US\$'000			
	Level 1	Level 2	Level 3	Total
Receivables from provisional copper, gold and silver concentrate sales	–	37,609	–	37,609
Contingent consideration liabilities	–	–	(22,290)	(22,290)
	–	37,609	(22,290)	15,319

	31 December 2010 US\$'000			
	Level 1	Level 2	Level 3	Total
Receivables from provisional copper, gold and silver concentrate sales	–	19,011	–	19,011
Derivatives	–	(105,437)	–	(105,437)
Contingent consideration liabilities	–	–	(23,754)	(23,754)
	–	(86,426)	(23,754)	(110,180)

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.

Derivatives

The fair value of derivative financial instruments is determined using either present value techniques or option pricing models that utilise a variety of inputs that are a combination of quoted prices and market-corroborated inputs. The fair value of the Group's derivative contracts is adjusted for the Group's credit risk based upon the observed credit default swap spread as appropriate. The Group closed the open derivative positions at 6 April 2011 as part of the Restructuring as described in Note 24.

The table below sets forth a summary of changes in the fair value of the Group's Level 2 financial liabilities for the year ended 31 December 2011:

	31 December 2011 US\$'000	31 December 2010 US\$'000
Opening balance	105,437	149,514
Change in fair value, included in profit or loss	1,855	909
Settlement	(107,292)	(44,986)
Closing Balance	–	105,437

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29. Fair value accounting (continued)

Commodity forward contracts

Except for the forward sales contracts entered by JSC Varvarinskoye, other Group's forward sales contracts (see Note 28) qualify for the normal purchase/sales or 'own use' exemption. Prior to their Restructuring in April 2011, the fair value of Varvarinskoye commodity forward contracts was determined by discounting contractual cash flows using a discount rate derived from observed US Treasury yield curve rates. Contractual cash flows were calculated using a forward pricing curve derived from market forward prices for each commodity. The commodity forward contracts were 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 2011 was US\$22.3 million (2010: US\$18.3 million).

In 2009, the Group recorded a contingent consideration liability related to the acquisition of 100% of shares in JSC Varvarinskoye in Kazakhstan. The fair value of the contingent consideration liability was determined using a valuation model which simulates expected future prices of gold, silver and copper against the gold strike price applied pursuant to the terms of the gold forward purchase contracts entered into (see Note 25) and the copper price as published by the LME as at the date when the gold forward purchase contracts described above were entered into. The liability recognised at 31 December 2010 was US\$5.5 million and was fully settled in July 2011. The contingent consideration liability is classified within Level 3 of the fair value hierarchy.

The table below sets forth a summary of changes in the fair value of the Group's Level 3 financial liabilities for the year ended 31 December 2011:

	31 December 2011 US\$'000	31 December 2010 US\$'000
Opening balance	23,754	21,775
Change in fair value, included in profit or loss	6,828	3,616
Translation effect	(1,349)	(137)
Settlement	(6,943)	(1,500)
Total	22,290	23,754

The Directors consider that a change in a reasonably possible valuation assumption used would not have a material effect on the Group.

30. Risk management activities

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains from prior years.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 24 offset by cash and bank balances as detailed in Note 23) and equity of the Group (comprising the Stated Capital account, reserves and retained earnings as detailed in Note 31).

The Group is not subject to any externally imposed capital requirements. The Group's Board reviews the capital structure of the Group on a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, derivatives, finance lease liabilities, trade and other payables. The Group has various financial assets such as accounts receivable, loans advanced and cash and cash equivalents.

	31 December 2011 US\$'000	31 December 2010 US\$'000
Financial assets		
Financial assets at FVTPL		
Receivables from provisional copper, gold and silver concentrate sales	37,609	19,011
Loans and receivables, including cash and cash equivalents		
Cash and cash equivalents	658,795	11,056
Trade and other receivable	30,382	24,672
Non-current loans to related parties	8,962	5,187
Total financial assets	735,748	59,926
Financial liabilities		
Financial liabilities at FVTPL		
Derivatives	–	105,437
Contingent consideration liability	22,290	23,754
Financial liabilities at amortised cost		
Share purchase obligation under MTO	534,597	–
Current and non-current borrowings	1,003,095	685,969
Finance lease liabilities	–	4,819
Trade and other payables*	62,738	55,118
Total financial liabilities	1,622,720	875,097

*Trade and other payables exclude employee benefits and social security.

The carrying values of cash and cash equivalents, share purchase obligation, trade and other receivables, trade and other payables and short-term debt recorded at amortised cost approximate to their fair values because of the short maturities of these instruments. The estimated fair value of the Group's long-term debt, calculated using the market interest rate available to the Group as at 31 December 2011, is US\$591.8 million, and the carrying value as at 31 December 2011 is US\$654.6 million (see Note 24). Carrying values of the other long-term loans provided to related parties as at 31 December 2011 and 31 December 2010 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 2011 US\$'000	31 December 2010 US\$'000
Flat forward gold sales and purchase contracts	Derivatives	–	(105,437)
Receivable from provisional copper, gold and silver concentrate sales	Accounts receivable	37,609	19,011

	Location of gain (loss) recorded in profit or loss	Year ended 31 December 2011 US\$'000	Year ended 31 December 2010 US\$'000
Flat forward gold sales and purchase contracts	Change in fair value of derivatives	(1,855)	(909)
Receivable from provisional copper, gold and silver concentrate sales	Revenue	(5,979)	1,660

The Group closed out the open derivative positions on 6 April 2011 as part of the Restructuring as described in Note 24.

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30. 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 2011 and 31 December 2010 were as follows:

	Assets		Liabilities	
	31 December 2011 US\$'000	31 December 2010 US\$'000	31 December 2011 US\$'000	31 December 2010 US\$'000
US Dollar	681,023	28,206	973,395	791,779
Euro	274	27	49,524	44,585
GBP	5,604	–	375	–
Total	686,901	28,233	1,023,294	836,364

Currency risk is monitored on a monthly basis by performing a sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level.

The table below details the Group's sensitivity to changes of exchange rates by 10% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items denominated in respective currencies at the reporting dates.

	31 December 2011 US\$'000	31 December 2010 US\$'000
Profit or loss (RUB to US Dollar)	(34,790)	55,438
Profit or loss (RUB to Euro)	(6,964)	4,471
Profit or loss (RUB to GBP)	882	–
Profit or loss (KZT to US Dollar)	2,518	21,114

Forward sales and purchase contracts

As at 31 December 2010, the Group held the following derivative financial instruments which were subsequently closed out on 6 April 2011 as part of the Restructuring as described in Note 24.

A flat forward gold sales contract was assumed on the acquisition of JSC Varvarinskoye in October 2009. On the same date the Group entered into an offsetting flat forward gold purchase contract with the same notional amount and monthly settlement dates as the aforementioned flat forward gold sales contract. The gold forward purchase contract economically locks in the losses on the existing flat forward gold sales contract. The contracts have total notional amounts of 320,160 ounces of gold; fixed forward sales price of US\$574.25 per ounce and fixed forward purchase price of US\$1,129.65 per ounce; and monthly settlement dates between November 2009 and April 2014.

The Group was liable to pay a net settlement amount on each delivery date. If any settlement were not paid on its applicable delivery date, such settlement amount would accrue interest at 3 months LIBOR plus 3% and shall be payable on 31 December 2013 (35% of the total and all interest accrued thereon to date) and on 31 December 2014 (the full balance of the settlement amount and all interest accrued thereon to date). In addition, a cash sweep mechanism applied to all free cash flows generated by Varvarinskoye until all the obligations were fully repaid.

As at 6 April 2011 and 31 December 2010 net settlement amounts of US\$50.8 million and US\$50.9 million, respectively, have not been paid and were recorded in the 'Non-current borrowings' line of the balance sheet (see Note 24).

These contracts had not been designated as hedging instruments. Changes in the fair value were recorded as part of gain/loss on financial instruments in the consolidated income statement. As the Group has legally enforceable master netting agreements with counterparties and intends to settle the contracts on a net basis, the flat forward gold sales and purchase contracts are presented net in the balance sheet as derivatives.

During the period ended 6 April 2011, the Group settled derivative contracts resulting in realised derivative losses of US\$1.9 million (2010: loss of US\$0.9 million).

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.

LME copper price has averaged US\$8,820 per tonne since January 2011 compared with the Group's recorded average provisional price of US\$8,629 per tonne. The applicable forward copper price at 31 December 2011 was US\$7,592 per tonne. During the year 2011 decreasing copper prices resulted in a provisional pricing mark-to-market loss of US\$0.4 million (included in revenue). At 31 December 2011 the Group had copper sales of 3,067 tonnes priced at an average of US\$7,682 per tonne, subject to final pricing in the first quarter of 2012.

LBMA gold price averaged US\$1,572 per ounce since January 2011 compared with the Group's recorded average provisional price of US\$1,581 per ounce. The applicable forward gold price at 31 December 2011 was US\$1,525 per ounce. During the third quarter 2011 decreasing gold prices resulted in a provisional pricing mark-to-market loss of US\$1.2 million (included in revenue). At 31 December 2011 the Group had gold sales of 67,751 ounces priced at an average of US\$1,667 per ounce, subject to final pricing in the first quarter of 2012.

LBMA silver price averaged US\$35.30 per ounce since January 2011 compared with the Group's recorded average provisional price of US\$38.50 per ounce. The applicable forward silver price at 31 December 2011 was US\$30.50 per ounce. During the third quarter 2011 decreasing silver prices resulted in a provisional pricing mark-to-market loss of US\$4.3 million (included in revenue). At 31 December 2011 the Group had silver sales of 972,092 ounces priced at an average of US\$29.4 per ounce, subject to final pricing in the first quarter of 2012.

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 or lower and all other variables were held constant, the Group's profit for the year ended 31 December 2011 would decrease or increase by US\$6.5 million (2010: US\$6.9 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 2011 and 31 December 2010 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 22 are cash and cash equivalents at 31 December 2011 of US\$659 million (2010: US\$11 million).

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30. Risk management activities (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due.

The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting, cash forecasting processes and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

The following tables detail the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2011:

	Less than 3 months	3-12 months	1-5 years	More than 5 years	31 December 2011 US\$'000 Total	31 December 2010 US\$'000 Total
Derivatives	–	–	–	–	–	117,269
Share purchase obligation under MTO	534,597	–	–	–	534,597	–
Borrowings	16,877	361,915	704,117	–	1,082,909	781,247
Finance lease liability	–	–	–	–	–	4,900
Trade and other payables	54,749	7,485	494	–	62,728	55,119
Contingent consideration	393	3,022	8,265	27,464	39,144	31,541
Total	606,616	372,422	712,876	27,464	1,719,378	990,076

31. Stated Capital Account and Retained Earnings

The Company was incorporated in Jersey on 29 July 2010 as a public no par value company with limited liability under the Companies (Jersey) Law 1991 for the purpose of becoming the new holding company of JSC Polymetal.

On incorporation, the number of shares that the Company was authorised to issue pursuant to its memorandum of association was an unlimited number of shares. Two shares were issued on incorporation at a price of US\$1 per share. One of these subscriber shares referred to above was transferred to Metal One Limited (a company incorporated in the British Virgin Islands) on 12 August 2010. On 13 August 2010, the Company issued a further 9,998 shares to Metal One Limited at a price of US\$1 per share. These shares, which were unpaid, were redeemed on completion of the IPO.

On 30 September 2011, PMTL, the Company's wholly owned subsidiary, made an offer (known as the Institutional Share Swap Facility or the ISSF) to certain institutional shareholders of JSC Polymetal to acquire their Polymetal Shares and Polymetal GDRs. The consideration under the ISSF is the issue of new shares in the Company in exchange for Polymetal shares on a one for one basis. Under the ISSF, which completed simultaneously with the IPO on 2 November 2011, 332,641,773 new shares in the Company were issued.

On 2 November 2011, the Company successfully completed its IPO. 53,350,000 shares with no par value were issued at a price of 920 pence (US\$14.74) per share. The net proceeds raised were US\$762.6 million. As part of the price stabilisation provisions, 3,305,988 of the new shares were repurchased at a cost of US\$46.6 million and cancelled by the Company in the five week period following the IPO.

The total transaction costs incurred were US\$33.7 million. US\$24.2 million of the transaction costs were attributable to the issue of new equity and have been deducted against the Stated capital account, while US\$9.5 million were attributable to the expenses associated with the above noted restructuring. Joint transaction costs were allocated based on the ratio of new shares issued, in relation to total shares outstanding.

As at 31 December 2011, the Company's issued share capital consisted of 382,685,785 ordinary shares of no par value, each carrying one vote. The Company does not hold any ordinary shares in treasury. The ordinary shares reflect 100% of the total issued share capital of the Company.

The movements in the Stated Capital account in the year were as follows:

	Stated Capital Account, no. of shares	Treasury shares no. of shares	Total no. of shares	Stated Capital Account US\$'000
Balance at 31 December 2010	n/a	–	–	865,483
Issue of treasury shares in JSC Polymetal in exchange for assets	–	–	–	66,966
Amortisation of bonus received from depository	–	–	–	819
Issuance of ordinary shares under ISSF	332,641,773	–	332,641,773	–
Issuance of shares on IPO	53,350,000	–	53,350,000	762,641
Repurchased shares	(3,305,988)	3,305,988	–	(46,649)
Cancellation of repurchased shares	–	(3,305,988)	(3,305,988)	–
Non-controlling interest arising on restructuring	–	–	–	(82,874)
Balance at 31 December 2011	382,685,785	–	382,685,785	1,566,386

Retained earnings

Reserves available for distribution to shareholders are based on the statutory historical financial information of the Company as a standalone entity, which are prepared in accordance with Russian accounting standards and which differ significantly from IFRS. Russian legislation identifies the basis of distribution as accumulated profit. However, current legislation and other statutory regulations dealing with distribution rights are open to legal interpretation; consequently, actual distributable reserves may differ from the amount of accumulated profit under Russian statutory accounting rules.

Weighted average number of shares: Diluted earnings per share

The Group had potentially dilutive securities, namely the Group's equity-settled share appreciation plan, which was established during 2010 (see Note 32).

Basic and diluted earnings per share were calculated by dividing profit for the year attributable to equity holders of the parent by the weighted average number of outstanding common shares before and after dilution respectively. The calculation of the weighted average number of outstanding common shares after dilution is as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Weighted average number of outstanding common shares	366,969,369	358,732,335
Dilutive effect of share appreciation plan	25,875,610	3,140,220
Weighted average number of outstanding common shares after dilution	392,844,979	361,872,555

There were no adjustments required to earnings for the purposes of calculating diluted Earnings per share in the current year (2010: nil). The dilutive effect of equity-settled share appreciation rights has been calculated using the treasury stock method.

32. Share-based payments

In 2010, the Group established an equity incentive plan (the Plan) for executive directors and senior employees of the Group in which the grant of equity-settled share appreciation rights up to 30 million shares in JSC Polymetal (the Bonus Fund) was approved. The number of awards to which a qualifying participant is entitled was determined by the board of JSC Polymetal on 8 November 2010. Group management believes that such awards better align the interests of its employees with those of its shareholders.

Under the terms of the plan these awards were eligible for immediate vesting on the Group restructuring and listing. However, the executive Director and senior managers waived that right and the entitlement to JSC Polymetal shares was exchanged for an entitlement to Polymetal International shares on a one to one basis with the same vesting conditions as existed previously. As the cancellation and reissuance of the awards was done solely to preserve the existing rights of the award holders, no accelerated share based charge has been recognised.

The aggregate number of shares comprising the Bonus Fund will be determined on 11 June 2013 and will depend on the excess of the weighted average price of the Company's shares during the period between 11 March 2013 and 11 June 2013 over an established price of US\$16.74.

Equity-settled stock appreciation rights granted have an exercise price of 1 penny, vest at the end of a 2.6 year service period and are exercisable on the vesting day in one year from the vesting date.

Notes to the consolidated financial statements

continued

32. Share-based payments (continued)

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 is then amortised on a straight-line basis over the requisite service periods of the awards, which is generally 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 Company's 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 year vesting condition and the participant may exercise their right to redeem shares within one year after vesting occurs and such right is obtained, the Group used the 2.6 years expected term for the first stage of the Monte-Carlo simulation (the First date) and 3.6 – for the second stage (the Second date).
- > *Fair value of common stock* is equal to the market price of underlying GDRs at the grant date.
- > *Risk-free interest rate.* The risk-free rate is based on US Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant.

At the grant date, the Group had not historically declared dividends and management believed the Company would not declare a dividend over the life of the option. As such, the expected annual dividend per share was therefore nil. Any subsequent change in dividend policy will be taken into account when valuing options granted in the future.

Risk free rate	0.79% for the First date, 1.24% for the Second date
Expected dividend yield	Nil
Expected volatility	40%
Expected life, years	2.6 for the First date, 3.6 for the Second date
Fair value per share, US Dollars	16.97

A summary of option activity under the Plan for the year ended 31 December 2011 is presented below:

	Awards number	Weighted average exercise price (per share) US\$	Weighted average fair value of awards (per share) US\$	Weighted average remaining Years
Awards at 1 January 2011	29,917,460	0.03	4.96	3.45
Forfeited	(577,778)	0.03	4.96	–
Non-vested awards at 31 December 2011	29,339,682	0.03	4.96	2.45

None of the share awards outstanding as at 31 December 2011 were exercisable as they are not fully vested. For the year ended 31 December 2011, share-based compensation in the amount of US\$57 million, (2010: US\$7.9 million) was recognised in general, administrative and selling expenses in the consolidated income statement (see Note 11). As at 31 December 2011 and 31 December 2010, the Group had US\$75.7 million and US\$136 million, respectively of unrecognised share-based compensation expense related to non-vested equity-settled stock appreciated rights with a weighted average expected amortisation period of 2.45 years and 3.45 years, respectively.

33. Related parties

Related parties are considered to include shareholders, affiliates, associates, joint ventures and entities under common ownership and control with the Group and members of key management personnel. In the course of its business the Group entered into various transactions with Nomos-Bank (an entity in which Alexander Nesis, a significant shareholder of the Company (Note 1), also holds a substantial interest), equity method investments and its employees and officers as follows:

	Year ended	
	31 December 2011 US\$'000	31 December 2010 US\$'000
Interest expense on loans provided by Nomos-Bank	2,339	1,886
Revenue from sales to Nomos-Bank	258,794	315,405
Other income from entities under common control	1,559	–
Lease payments to Nomos Leasing	5,082	4,819

Outstanding balances are presented below:

	31 December 2011 US\$'000	31 December 2010 US\$'000
Short-term loans provided to equity method investments	315	–
Long-term loans provided to equity method investments	6,303	3,455
Short-term loans provided to entity under common control	1,522	–
Total loans provided to related parties	8,140	3,455
Short-term loans provided by Nomos-Bank	8,318	14,379
Long-term loans provided by Nomos-Bank	25,223	24,820
Long-term loans provided by equity method investments	1,860	1,739
Total loans provided by related parties	35,401	40,938
Capital lease liabilities to Nomos Leasing	–	4,819
Other accounts receivable from related parties	2,940	175
Interest receivable from Nomos-Bank	1,573	–

Carrying values of other long-term loans provided to related parties as at 31 December 2011 and 31 December 2010 approximate their fair values.

Details of the significant terms of the loans provided by related parties are disclosed in Note 24. As at 31 December 2011 and 31 December 2010, the Group has certain forward sales commitments to related parties (see Note 28).

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 2011 US\$'000	Year ended 31 December 2010 US\$'000
Share-based payments	28,901	4,264
Short-term benefits of Board members*	2,278	982
Short-term employee benefits	1,779	844
Post-employment benefits	70	18

* Benefits of Board members include the remuneration of the Board members of JSC Polymetal.

The remuneration of Directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

Notes to the consolidated financial statements

continued

34. Notes to the consolidated statements of cash flows

	Notes	Year ended	
		31 December 2011 US\$'000	31 December 2010 US\$'000
Profit before tax		408,847	306,430
Adjustments for:			
Depreciation expense		96,654	70,334
Write-down of exploration assets	17	13,263	–
Write-down of inventory to net realisable value	7	6,232	15,319
Share-based compensation	11, 32	57,116	7,896
Finance costs	15	28,746	21,541
Finance income		(4,208)	(785)
Loss on disposal of property, plant and equipment	12	6,203	6,296
Change in fair value of contingent consideration liability	29	6,828	3,616
Change in allowance for doubtful debts	12	(1,171)	2,333
Loss from equity method investments	19	1,952	1,170
Change in fair value of derivative financial instruments	29	1,855	909
Foreign exchange losses		13,634	337
Gain on disposal of subsidiary	4	(4,931)	(3,580)
Other non-cash expenses		1,388	(1,840)
Movements in working capital			
Increase in inventories		(222,889)	(86,424)
Increase in VAT receivable		(22,766)	(10,491)
Increase in trade and other receivables		(19,556)	(32,023)
Increase in prepayments to suppliers		(11,437)	(13,296)
Increase in trade and other payables		6,394	19,899
Increase in other taxes payable		8,676	4,821
Cash generated from operations		370,830	312,462
Interest paid		(32,414)	(16,991)
Income tax paid		(126,317)	(80,256)
Net cash generated by operating activities		212,099	215,215

Additions to property, plant and equipment of US\$16.9 million and US\$4.8 million during the year ended 31 December 2011 and 31 December 2010, respectively were acquired on deferred payment terms. Other non-cash transactions during the year ended 31 December 2011 included the issuance of US\$67.0 million of treasury shares for the acquisition of assets in 2011.

35. Subsequent events

On 7 February 2012 the Company completed the acquisition from AngloGold Ashanti Holdings PLC (AngloGold) of AngloGold's 50% interest in various companies (the Companies) held in joint venture with Polymetal comprising the AngloGold Ashanti – Polymetal Strategic Alliance (the Alliance). The Companies include Amikan Holding Limited, which owns the Veduga gold deposit in the Krasnoyarsk region of the Russian Federation. The consideration for the acquisition, including the repayment of all shareholder loans made by AngloGold to the Companies, was US\$20 million, paid in cash. The Group's existing 50% investment had a carrying value of US\$12.4 million along with a loan asset of US\$6.3 million. The Group intends to introduce a new joint venture partner in 2012 and as such the asset acquired is considered held for sale under the definitions within IFRS 5.

On 17 February 2012 the Company executed the Mandatory Tender Offer, made on 23 November 2011 (the MTO) at a cost of US\$538 million. As a result the Company's holding in JSC Polymetal has increased to 397,287,592 Ordinary Shares, representing approximately 99.48% of the total share capital of JSC Polymetal. The Company intends to exercise its right to proceed with a statutory squeeze out (i.e. purchase) of the remaining JSC Polymetal shares on terms and within the period as provided under applicable Russian law.

As set out in Note 24, on 31 August 2012 (the Repurchase Date) Polymetal ESOP Limited would have been obligated to repurchase all of the JSC Polymetal shares transferred under the General Master Repurchase Agreement (the GMRA) for the repurchase price which is calculated as the sum of (i) the price received for the relevant Polymetal shares; and (ii) the aggregate amount obtained by daily application of LIBOR + 2.75% to the relevant price for the number of days during the period commencing on the relevant transfer date and ending on the Repurchase Date. On 16 February 2012, Polymetal ESOP Limited accelerated the Repurchase Date under the GMRA and settled its obligations under the GMRA in full for US\$250 million.

A final dividend has been proposed in relation to the year of 20 cents per share (2010: nil) giving a total expected dividend of US\$76.5 million (2010: nil). This is subject to approval by shareholders at the Annual General Meeting and has therefore not been included as a liability in these financial statements.

Reserves and Resources

Mineral Resources and Ore Reserves as at 1 January 2012¹

Mineral Resources	Tonnage Kt	Content Au, Koz	Ag, Koz	Cu, Kt	AuEqv, Koz
Measured	17,347	1,067	62,426	14.5	2,179
Indicated	43,360	1,762	88,016	32.6	3,392
Measured + Indicated	60,708	2,829	150,442	47.1	5,572
Inferred	48,927	7,615	30,657	26.9	8,260
Measured + Indicated + Inferred	109,635	10,444	181,099	74.0	13,832

Mineral Resources and Ore Reserves as at 1 January 2012¹

Ore Reserves	Tonnage Kt	Content Au, Koz	Ag, Koz	Cu, Kt	AuEqv, Koz
Proved	56,449	5,057	189,507	9.5	8,263
Probable	49,333	4,101	107,518	33.9	6,063
Proved + Probable	105,782	9,159	297,025	43.4	14,326

¹ Mineral Resources and Ore Reserves are estimated in accordance with the JORC Code (2004). Mineral Resources are in addition to Ore Reserves. Discrepancies in calculations are due to rounding.

This estimate was prepared by employees of JSC Polymetal Management Company and CJSC Polymetal Engineering, subsidiaries of the Company, led by Valeri Tsyplakov, who assumes overall responsibility for the Mineral Resources and Ore Reserves Report. Mr Tsyplakov is the Managing Director of CJSC Polymetal Engineering and has 11 years' experience in gold and silver mining. He is a Member of the Institute of Materials, Minerals & Mining (MIMMM), London, and a Competent Person under the JORC Code.

Other Competent Persons employed by the Company are responsible for relevant research on which the Mineral Resources and Ore Reserves estimate is based. They include:

- > Geology and Mineral Resources – Vladimir Ryabukhin, Adviser to Director General of JSC Polymetal Management Company, MIMMM, with 38 years' relevant experience;
- > Geology and Mineral Resources – Mikhail Fomkin, Head of Geologic Modelling, MIMMM, with 26 years' relevant experience;
- > Mining and Ore Reserves – Igor Epstein, Head of Mining Process Department, MIMMM, with 30 years' relevant experience;
- > Concentration and Metals – Igor Agapov, Deputy Director of Science and Technology, MIMMM, with 14 years' relevant experience;
- > Environmental Issues – Tatiana Kuleshova, Director for Ecology, MIMMM, with 21 years' relevant experience.

All Competent Persons have given consent for their material to be included in the Report, based on the information provided by them and in the form and the context in which the material is hereby presented.

Metals prices used in estimating Mineral Resources and Ore Reserves are listed below (unless otherwise indicated in the footnotes):

Ore Reserves:
Au=1,200 US\$/oz
Ag=20 US\$/oz
Cu=6,063 US\$/t

Mineral Resources:
Au=1,350 US\$/oz
Ag=24 US\$/oz
Cu=7,165 US\$/t

Appendices

Reserves and Resources

continued

Ore Reserves: Precious Metals Deposits as at 1 January 2012¹

Ore Reserves	Tonnage Kt	Grade Au, g/t	Content Ag, g/t	AuEqv, g/t	Au, Koz	Ag, Koz	AuEqv, Koz
Proved							
Dukat ²	8,170	1.0	546	10.1	265	143,406	2,655
Voro ³	14,630	2.7	4	2.8	1,286	1,900	1,318
Lunnoye	1,480	1.9	313	7.1	91	14,885	339
Arylakh	210	0.8	367	7.0	6	2,466	47
Khakanja	1,660	3.1	230	7.0	167	12,306	372
Yurievskoye	90	8.6	13	8.5	24	40	25
Mayskoye ⁴	2,699	9.7	–	9.7	839	–	839
Albazino	11,790	4.0	–	4.0	1,499	–	1,499
Sopka Kwartsevaya	2,730	4.1	151	6.6	361	13,201	581
Birkachan ⁵	6,620	1.8	6	1.9	377	1,303	399
Subtotal	50,079	3.1	118	5.0	4,915	189,507	8,074
Probable							
Dukat ²	4,045	1.5	557	10.8	193	72,501	1,402
Voro ³	500	4.4	4	4.4	70	55	71
Lunnoye	1,230	1.7	443	9.1	66	17,538	358
Arylakh	460	0.6	498	8.9	9	7,371	132
Khakanja	420	5.9	288	10.7	80	3,881	145
Yurievskoye	20	5.7	11	6.4	4	7	4
Mayskoye ⁴	5,178	9.5	–	9.5	1,587	–	1,587
Albazino	6,530	3.1	–	3.1	656	–	656
Sopka Kwartsevaya	560	5.2	175	8.1	94	3,164	147
Birkachan ⁵	5,980	3.3	16	3.6	642	3,001	692
Subtotal	24,923	4.2	134	6.5	3,401	107,518	5,193
Proved + Probable							
Dukat ²	12,215	1.2	550	10.3	458	215,907	4,057
Voro ³	15,130	2.8	4	2.9	1,356	1,955	1,389
Lunnoye	2,710	1.8	372	8.0	157	32,421	697
Arylakh	670	0.7	457	8.3	15	9,837	179
Khakanja	2,080	3.7	242	7.7	247	16,187	517
Yurievskoye	110	8.1	11	8.1	28	47	29
Mayskoye ⁴	7,877	9.6	–	9.6	2,426	–	2,426
Albazino	18,320	3.7	–	3.7	2,155	–	2,155
Sopka Kwartsevaya	3,290	4.3	155	6.9	455	16,365	728
Birkachan ⁵	12,600	2.5	11	2.7	1,019	4,304	1,091
Total	75,002	3.4	123	5.5	8,317	297,025	13,267

¹ Ore Reserves are estimated in accordance with the JORC Code (2004). Discrepancies in calculations are due to rounding.

² Including Nachalny-2

³ Including Vorontsovskoye South

⁴ Estimate prepared by Snowden as at 01.07.2011 Price: Au=900 US\$/oz

⁵ Ore Reserves for underground mining were not re-estimated. Previous estimation as at 01.07.2011 by SRK Consulting is used. Price: Au=900 US\$/oz and Ag=14.5 US\$/oz.

Ore Reserves: Polymetallic Ore Deposits as at 1 January 2012¹

Ore reserves	Tonnage Kt	Content Au, g/t	Cu, %	Au Eqv, g/t	Metal Au, Koz	Cu, Kt	AuEqv, Koz
Proved							
Varvara ²	6,370	0.7	0.50	0.9	142	9.5	190
Subtotal	6,370	0.7	0.50	0.9	142	9.5	190
Probable							
Varvara ²	24,410	0.9	0.43	1.1	700	33.9	870
Subtotal	24,410	0.9	0.43	1.1	700	33.9	870
Proved+Probable							
Varvara ²	30,780	0.9	0.44	1.1	842	43.4	1,059
Total	30,780	0.9	0.44	1.1	842	43.4	1,059

¹ Ore Reserves are estimated in accordance with the JORC Code (2004). Discrepancies in calculations are due to rounding.

² Cu grade only represents average grade of Float feed. Ore Reserves of Float feed: 1.9 Mt Proved and 7.8 Mt Probable

Reserves and Resources

continued

Mineral Resources: Precious metals as at 1 January 2012¹

Mineral Resources	Tonnage Kt	Au, g/t	Grade Ag, g/t	AuEqv, g/t	Au, Koz	Content Ag, Koz	AuEqv, Koz
Measured							
Dukat ²	3,550	0.6	294	5.5	70	33,524	629
Voro ³	1,190	1.5	3	1.6	59	125	61
Lunnoye	690	1.7	267	6.2	38	5,913	137
Arylakh	60	0.9	333	6.1	1	646	12
Khakanja	1,260	3.4	272	7.9	138	11,020	322
Yurievskoye	40	6.5	13	6.4	8	15	8
Mayskoye ⁴	463	6.3	–	6.3	93	–	93
Albazino	1,170	2.9	–	2.9	108	–	108
Sopka Kwartsevaya	240	4.2	158	6.8	32	1,227	52
Birkachan ⁵	900	1.3	6	1.4	37	176	40
Dalneye	1,730	4.0	95	5.6	221	5,305	309
Tsokol Kubaka ⁷	454	9.6	15	9.8	140	226	144
Subtotal	11,747	2.5	154	5.1	945	58,177	1,914
Indicated							
Dukat ²	2,350	0.6	290	5.5	47	21,909	412
Voro ³	90	2.6	3	2.8	8	8	8
Lunnoye	680	1.2	301	6.2	26	6,594	136
Arylakh	125	0.8	640	11.4	3	2,559	46
Khakanja	330	2.8	148	5.2	29	1,597	56
Yurievskoye	10	9.1	20	9.6	3	5	3
Mayskoye ⁴	1,642	6.1	–	6.1	324	–	324
Albazino	3,440	2.9	–	2.9	326	–	326
Sopka Kwartsevaya	110	4.5	164	7.3	16	589	26
Birkachan ⁵	1,530	1.5	8	1.6	74	413	81
Oroch ⁶	1,365	3.3	143	5.6	143	6,284	247
Tsokol Kubaka ⁷	592	6.4	11	6.6	122	207	126
Subtotal	12,264	2.8	102	4.5	1,121	40,166	1,791

Mineral Resources: Precious metals as at 1 January 2012¹ (continued)

Mineral Resources	Tonnage Kt	Au, g/t	Grade Ag, g/t	AuEqv, g/t	Au, Koz	Content Ag, Koz	AuEqv, Koz
Measured + Indicated							
Dukat ²	5,900	0.6	292	5.5	117	55,433	1,041
Voro ³	1,280	1.6	3	1.7	67	133	69
Lunnoye	1,370	1.4	284	6.2	64	12,507	272
Arylakh	185	0.8	541	9.7	4	3,205	57
Khakanja	1,590	3.3	247	7.4	167	12,617	377
Yurievskoye	50	7.0	14	7.1	11	20	11
Mayskoye ⁴	2,105	6.2	–	6.2	417	–	417
Albazino	4,610	2.9	–	2.9	434	–	434
Sopka Kwartsevaya	350	4.3	160	7.0	48	1,816	78
Birkachan ⁵	2,430	1.4	7	1.5	111	589	121
Dalneye	1,730	4.0	95	5.6	221	5,305	309
Oroch ⁶	1,365	3.3	143	5.6	143	6,284	247
Tsokol Kubaka ⁷	1,047	7.8	13	8.0	262	434	269
Subtotal	24,012	2.7	127	4.8	2,066	98,343	3,705
Inferred							
Dukat ²	30	0.7	367	7.3	1	364	7
Lunnoye	1,050	1.8	435	9.0	60	14,689	305
Arylakh	70	1.0	357	6.8	2	797	15
Khakanja	120	3.0	167	5.6	11	646	22
Mayskoye ⁴	16,016	8.6	–	8.6	4,428	–	4,428
Albazino	1,870	3.4	–	3.4	202	–	202
Sopka Kwartsevaya	10	7.0	300	10.7	2	86	3
Birkachan ⁵	410	14.7	68	15.8	193	888	208
Oroch ⁶	561	3.3	225	7.0	59	4,056	126
Tsokol Kubaka ⁷	249	9.3	15	9.6	75	118	77
Avlayakan	1,394	5.9	72	7.1	263	3,227	317
Kirankan ⁸	142	6.5	8	6.7	30	39	30
Svetloye ⁹	4,083	5.8	4	5.9	767	544	776
Ozerny ¹⁰	1,910	5.5	24	5.9	337	1,474	361
Kutyn ¹¹	5,505	4.1	–	4.1	717	–	717
Subtotal	33,420	6.7	25	7.1	7,146	26,929	7,595

¹ Mineral Resources are estimated in accordance with the JORC Code (2004). Mineral Resources are in addition to Ore Reserves. Discrepancies in calculations are due to rounding.

² Including Nachalny-2.

³ Including Vorontsovskoye South

⁴ Estimate prepared by Snowden as at 01.07.2011. Price: Au=1150 US\$/oz

⁵ Mineral Resources for underground mining were not re-estimated. Previous estimation as at 01.07.2011 by SRK Consulting is used. Price: Au=1150 US\$/oz and Ag=18.5 US\$/oz.

⁶ Estimate prepared by SRK Consulting as at 01.07.2011. Price: Au=900 US\$/oz and Ag=13 US\$/oz

⁷ Estimate prepared by SRK Consulting as at 01.07.2011. Price: Au=1000 US\$/oz and Ag=16 US\$/oz

⁸ Estimate prepared by Snowden as at 01.07.2011. COG=1.5 g/t

⁹ Estimate prepared by Snowden as at 01.07.2011. COG=3.0 g/t

¹⁰ Estimate prepared by Snowden as at 01.07.2011. COG=1.0 g/t

¹¹ Estimate prepared by Snowden as at 01.07.2011. COG=2.0 g/t

Reserves and Resources

continued

Mineral Resources: Precious metals as at 1 January 2012¹ (continued)

Measured + Indicated + Inferred	Tonnage Kt	Au, g/t	Grade Ag, g/t	AuEqv, g/t	Au, Koz	Content Ag, Koz	AuEqv, Koz
Dukat ²	5,930	0.6	293	5.5	118	55,797	1,048
Voro ³	1,280	1.6	3	1.7	67	133	69
Lunnoye	2,420	1.6	350	7.4	124	27,196	577
Arylakh	255	0.9	490	8.9	6	4,002	73
Khakanja	1,710	3.2	241	7.3	178	13,263	399
Yurievskoye	50	7.0	14	7.1	11	20	11
Mayskoye ⁴	18,121	8.3	–	8.3	4,845	–	4,845
Albazino	6,480	3.1	–	3.1	636	–	636
Sopka Kwartsevaya	360	4.4	164	7.1	50	1,902	82
Birkachan ⁵	2,840	3.3	16	3.6	304	1,477	329
Dalneye	1,730	4.0	95	5.6	221	5,305	309
Oroch ⁶	1,926	3.3	167	6.0	201	10,341	374
Tsokol Kubaka ⁷	1,296	8.1	13	8.3	337	552	346
Avlayakan	1,394	5.9	72	7.1	263	3,227	317
Kirankan ⁸	142	6.5	8	6.7	30	39	30
Svetloye ⁹	4,083	5.8	4	5.9	767	544	776
Ozerny ¹⁰	1,910	5.5	24	5.9	337	1,474	361
Kutyn ¹¹	5,505	4.1	–	4.1	717	–	717
Total	57,431	5.0	68	6.1	9,212	125,272	11,300

1 Mineral Resources are estimated in accordance with the JORC Code (2004). Mineral Resources are in addition to Ore Reserves.

Discrepancies in calculations are due to rounding.

2 Including Nachalny-2.

3 Including Vorontsovskoye South

4 Estimate prepared by Snowden as at 01.07.2011 Price: Au=1150 US\$/oz

5 Mineral Resources for underground mining were not re-estimated. Previous estimation as at 01.07.2011 by SRK Consulting is used. Price: Au=1150 US\$/oz and Ag=18.5 US\$/oz.

6 Estimate prepared by SRK Consulting as at 01.07.2011. Price: Au=900 US\$/oz and Ag=13 US\$/oz

7 Estimate prepared by SRK Consulting as at 01.07.2011. Price: Au=1000 US\$/oz and Ag=16 US\$/oz

8 Estimate prepared by Snowden as at 01.07.2011. COG=1.5 g/t

9 Estimate prepared by Snowden as at 01.07.2011. COG=3.0 g/t

10 Estimate prepared by Snowden as at 01.07.2011. COG=1.0 g/t

11 Estimate prepared by Snowden as at 01.07.2011. COG=2.0 g/t

Mineral Resources: Polymetallic Ore Deposits as at 1 January 2012¹

Mineral resources	Tonnage Kt	Grade Ag, g/t	Ag, g/t	Cu, %	AuEqv, g/t	Au, Koz	Ag, Koz	Content Cu, Kt	AuEqv, Koz
Measured									
Goltsovoye	110	–	1,200	–	20.0	–	4,249	–	71
Varvara	5,490	0.7	–	0.40	1.1	122	–	14.5	195
Subtotal	5,600	0.7	24	0.40	1.5	122	4,249	14.5	265
Indicated									
Goltsovoye	1,270	–	848	–	14.1	–	34,621	–	577
Varvara	28,730	0.7	–	0.41	0.9	641	–	32.6	804
Perevalnoye ²	1,096	–	375	–	6.3	–	13,229	–	220
Subtotal	31,096	0.6	48	0.41	1.6	641	47,850	32.6	1,601
Measured + Indicated + Inferred									
Goltsovoye	1,380	–	876	–	14.6	–	38,870	–	648
Varvara	34,220	0.7	–	0.41	0.9	763	–	47.1	999
Perevalnoye ²	1,096	–	375	–	6.3	–	13,229	–	220
Subtotal	36,696	0.6	44	0.41	1.6	763	52,099	47.1	1,867
Inferred									
Goltsovoye	160	–	625	–	10.4	–	3,215	–	54
Varvara	15,270	1.0	–	0.52	1.2	469	–	26.9	604
Perevalnoye ²	78	–	206	–	3.4	–	513	–	9
Subtotal	15,508	0.9	7	0.52	1.3	469	3,728	26.9	666
Measured + Indicated + Inferred									
Goltsovoye	1,540	–	850	–	14.2	–	42,085	–	701
Varvara	49,490	0.8	–	0.44	1.0	1,232	–	74.0	1,602
Perevalnoye ²	1,174	–	362	–	6.1	–	13,742	–	229
Total	52,204	0.7	33	0.44	1.5	1,232	55,827	74.0	2,532

1 Mineral Resources are estimated in accordance with the JORC Code (2004). Mineral Resources are in addition to Ore Reserves. Discrepancies in calculations are due to rounding.

2 Estimate prepared by SRK Consulting as at 01.07.2011. Price: Ag=13 \$/oz

3 Cu grade only represents average grade of Float feed. 10.9 Mt High Grade Copper Fresh and 7.8 Mt High Grade Copper Powder.

Glossary

Abbreviations

AGM	Annual General Meeting
AK Project	Avlayakan-Kirankan project
CIS	Commonwealth of Independent States
GDRs	global depositary receipts
IMN	Indigenous Minorities of the North
ISSF	Institutional Share Swap Facility
JORC	Australasian Joint Ore Reserves Committee
JSC	Joint Stock Company
LBMA	the London Bullion Market Association
MICEX	MICEX Stock Exchange
MTO	Mandatory Tender Offer
NGO	non-governmental organisation
POX	pressure oxidation
RTS	'Russian Trading System' Stock Exchange

Units of measurements

g/t	gram per tonne
km	kilometres
Koz	thousand ounces
Kt	thousand tonnes
Ktpa	a thousand tonnes per annum
m	metres
Moz	million ounces
Mt	million tonnes
Mtpa	million tonnes per annum
MW	megawatts
t	tonne (1,000 kg)
Oz or oz	troy ounce (31.1035 g)

Glossary of technical terms

Assay	a chemical test performed on a sample of any material to determine the amount of valuable metals contained in the sample
Ag	silver
Au	gold
AuEqOz	gold equivalent ounce (and 'AuEq' means gold equivalent)
Autoclave	a lined stainless-steel vessel in which a technological operation of pressure oxidation takes place
Biological oxidation	a technological operation in which slurry is subjected to the activity of bacteria with the goal to destroy sulphide particles enveloping gold particles and make slurry amenable to cyanide leaching

By-product	a secondary metal or mineral that is produced or recovered during mining and processing at a deposit. A by-product offers additional economic benefits to the project, but it is not necessary in order for the project to be economically efficient
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
Counter-current decantation	a technological operation in which gold-and-silver bearing clear liquid is separated from the slurry through several stages of water addition (washing) and solid/liquid separation (thickening). Employed in the Merrill-Crowe process
Cu	copper
Cut-and-fill	a method of underground mining which requires purposeful backfilling of space emptied of ore. It is used where ore contains relatively high mineral values and ground conditions are less competent.
Cut-off grade	the minimum grade at which mineralized 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
Diamond core drilling	a method of exploration in which rock samples from underground are retrieved as core (whole rock cylinders) for further examination and assaying
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 per cent. 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
Gossan	rust-coloured oxide and hydroxide minerals of iron and manganese that cap an ore deposit. Gossans form by the oxidation of the sulfide minerals in an ore deposit and they thus may be used as clues to the existence of subsurface ore deposits. In addition to hydrous oxides of iron and manganese, gold and silver in the native state can occur in gossans
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 CIL or the Merrill-Crowe process
Indicated resource	means that part of a resource for which tonnage, grade and content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed
Inferred resource	means that part of a resource for which tonnage, grade and content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability
In-fill drilling	a conventional method of detailed exploration on already defined resource of reserve, consisting of drilling on a denser grid to allow more precise estimation of ore body parameters and location

Leaching	the process of dissolving mineral values from solid into liquid phase of slurry
Measured resource	means that part of a resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity
Merrill-Crowe process	a technological operation for extraction of gold and/or silver after cyanide leaching. In the first step slurry containing gold and/or silver is separated into liquid and solid phases by washing the solids off in countercurrent decantation thickeners. In the second step pregnant leach solution (liquid phase of slurry) is filtered to remove impurities and deaerated. Finally, gold and silver are deposited onto the solid bed of claylike material where they replace zinc particles which pass into a solution. Merrill-Crowe is preferentially used for silver-rich ores
Mill	a mineral processing plant
Mineralisation	a rock containing valuable components, not necessarily in the quantities sufficient for economically justifiable extraction. Consists of ore minerals and gangue
Open-pittable	amenable for economically feasible mining by open-pit methods
Open-pit mine	a mine that is entirely on surface. Also referred to as open-cut or open-cast mine
Open stoping	a method of underground mining in which underground voids left after ore is extracted are left behind unfilled and unsupported
Ore	the part of mineralisation that can be mined and processed profitably
Ore body	a spatially compact and geometrically connected location of ore
Ore mined	ore extracted from the ground for further processing
Ore processed	ore subjected to treatment in a mineral processing plant
Ore stacked	the ore stacked for heap leach operations.
Oxidised ore	ore in which both ore minerals and gangue are fully or partially oxidised thus impacting its physical and chemical properties and influencing the choice of a processing technology

Precipitate	the semi-finished product of mineral processing by Merrill-Crowe process, normally containing very high concentrations of silver and/or gold	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
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	Roasting	a technological operation in which slurry is subjected to high temperature in the presence of oxygen with the goal to burn sulphide particles enveloping gold particles and make slurry amenable to cyanide leaching
Primary ore	unoxidised ore	Run-of-mine ore	ore as mined in terms of grade, size, moisture, etc
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	Stockwork	one of the types of mineralisation, a complex system of structurally controlled or randomly oriented veins. Stockworks are common in many ore deposit types
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	Stope	a large underground excavation entirely within an ore body, a unit of ore extraction
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	Strike	a horizontal extension of an ore body or mineralisation
Reclamation	the restoration of a site after mining or exploration activity is completed.	Stripping	the mining of waste in an open pit mine.
Recovery or recovery rate	the percentage of valuable metal in the ore that is recovered by metallurgical treatment in the final or semi-finished product	Tailings	part of the original feed of a mineral processing plant that is considered devoid of value after processing
Refractory	a characteristic of gold-bearing ore denoting impossibility of recovering gold from it by conventional cyanide leaching	Underground development	excavation which is carried out to access ore and prepare it for extraction (mining).
Reserves	the economically mineable part of a measured and/or indicated mineral resource. It takes into account mining dilution and losses. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Reserves are subdivided in order of increasing confidence into probable reserves and proved reserves	Vein	a relatively narrow ore body with significant dip and strike dimensions and sharply defined boundaries
		Waste	barren rock that must be mined and removed to access ore in a mine

Shareholder information

As at 31 December 2011, the Company's issued share capital consisted of 382,685,782 ordinary shares of no par value, each carrying one vote. The Company does not hold any ordinary shares in treasury. The ordinary shares reflect 100% of the total issued share capital of the Company.

Substantial shareholdings as at 24 April 2012

Shareholder	Beneficial owner	Number of shares	Nature of holding	Percentage of issued share capital (%)
Pearlmoon Limited	Mr Petr Kellner	79,840,437	Indirect	20.86
Powerboom Investments Limited	Mr Alexander Nesis	68,497,758	Indirect	17.90
Vitalbond Limited, A&NN Capital Management Fund Limited	Mr Alexander Mamut	38,740,784	Indirect	10.12
MBC Development Limited	Mr Alexander Mosionzhik	17,000,000	Indirect	4.44
Staroak Limited	Mr Oleg Shuliakovskii	16,335,275	Indirect	4.27

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Notes



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