

SUSTAINABLE BUSINESS SUSTAINABLE FUTURE



SECURING A SUSTAINABLE FUTURE

AT POLYMETAL, WE BELIEVE THAT SUSTAINABILITY IS THE ONLY WAY FORWARD. AS WELL AS BEING THE RIGHT THING TO DO, SUSTAINABILITY IS ESSENTIAL TO HELPING US SECURE OUR BUSINESS IN THE LONG-TERM.

We are committed to delivering sustainable value for all our stakeholders. This includes our people, investors, and the local communities where we operate. Our sustainability programme prioritises protecting the environment, valuing our employees, ensuring their health and safety, supporting local communities and creating economic value.

All these priorities are crucial for the well-being of our planet and people – and the future of our business.

ABOUT THIS REPORT

We are pleased to present Polymetal International's Sustainability Report 2016. This covers Group-wide policies and activities at our wholly owned operating mines and sites, as well as our headquarters in St Petersburg, and other projects in Russia, Kazakhstan and Armenia (see full list of segments on pages 66). It includes performance for the reporting period 1 January 2016 to 31 December 2016 and comparative information for prior years.

The report presents comprehensive and detailed information on our sustainable development performance from operations within our reporting boundary. We currently do not report on non-financial information for our Nezhda development project in Yakutia, which is managed together with our partner Polyus Gold.

The report follows Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines, which are the benchmark for sustainability reporting globally. We report

at a core option against the guidelines, which means we assess what is material for our business and focus our reporting on these Aspects.

For the second year running, PwC has assured our performance data relating to our most critical economic, social and environmental impacts. By following GRI's model and seeking external assurance, we hope to increase levels of stakeholder trust and understanding.

In this report, you will read a summary of our past accomplishments, as well as our main achievements in 2016. We focus on issues that are most 'material', or relevant, to our stakeholders.

If you have any questions about anything you read in this report, please do get in touch at sustainability@polymetalinternational.com.

We look forward to hearing from you.



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THE GROUP CEO'S STATEMENT



OUR VISION AT POLYMETAL IS TO CONTINUE TO BUILD A THRIVING AND RESPONSIBLE MINING BUSINESS, AND WE ARE TAKING ACTION TO ACHIEVE THIS.

A THRIVING AND RESPONSIBLE BUSINESS

As Nelson Mandela once said, "Action without vision is only passing time, vision without action is merely day dreaming, but vision with action can change the world."

Our vision at Polymetal is to continue to build a thriving and responsible mining business, and we are taking action to achieve this.

Our employees' dedication and hard work ensures that safety is prioritised, we are minimising our environmental footprint, we have a positive impact on the local communities where we operate, and we continue to engage stakeholders – whether they are investors, NGOs, or local, regional or national authorities – all while growing our business.

SAFETY – OUR NUMBER ONE PRIORITY

Safety is, and will continue to be, our number one priority. We want a culture of safety that spreads across every aspect of our work.

In 2016, we were deeply saddened to lose four colleagues in tragic workplace accidents, two of which were caused by falling rock in our underground mines. We have now introduced a positioning system which hugely improves safety in our underground operations – our most significant risk in 2015. We have also identified problem areas, defined near-miss incidents, and applied advanced methods to identify the primary cause of incidents. In 2017, we will continue to improve safety in our mines, as well as focus on other risks in our operations. And we will prioritise critical risk management over general organisational safety activities.

LOWERING OUR ENVIRONMENTAL FOOTPRINT

Following a sustainability agenda has numerous benefits – for our planet, for our local communities, for our employees and even for our costs.

In 2016, we became signatories to the International Cyanide Management Code. We maintained our long track record of zero environmental incidents, and worked on preventing potential accidents by auditing our tailings dams.

When designing and constructing new mines, such as our flagship Kyzyl project, we implement best practices, such as conducting an Environmental Social Impact Assessment in line with European Bank for Reconstruction and Development standards. In 2016, we also included biodiversity conservation and restoration in our Environmental Management System (EMS) and Corporate Environmental Policy for the first time, and we will continue to offset biodiversity.

OUR POSITIVE IMPACT ON LOCAL COMMUNITIES

We want to increase our positive impact on the communities where we operate. In 2016, we invested more than US\$5 million in local communities and constructed or upgraded over 50 community facilities, including kindergartens, schools, hospitals, and sports and cultural centres.

In 2016, corporate philanthropy was our key focus area. We are helping more than 1,000 people from vulnerable social groups. We held several fundraising initiatives,

involving 1,300 employees. We have also updated policies and procedures to allow us to prioritise charity initiatives, work closely with our partner charities to identify their needs, and provide support in a timely manner.

In 2017, we plan to further structure our charity activities and update our Social and Charitable Donations Policy, ensuring our investments in local communities respond to community needs and help as many people as possible.

ENGAGING OUR STAKEHOLDERS

Engaging our stakeholders means listening and acting upon feedback received. In 2016, for example, we started a dialogue with the community in Kapan, which is the location of our new project in Armenia. We also continue to engage community stakeholders at each site where we operate.

CONTINUOUS GROWTH AND IMPROVEMENT

Sustainability is a journey – we have made good progress, and are continuously looking at ways we can improve and grow our operations.

In 2016, we introduced our new policies on human rights and carbon management, and will start to implement these throughout 2017. As well as our new site in Armenia, we acquired new assets in Russia (JV at Nezhda), and Kazakhstan (Komar). And we achieved re-certification of our EMS and Occupational Health and Safety Management System in compliance with international standards.

We were delighted to have our work in 2016 recognised externally, having been reaffirmed as a member of the FTSE4Good Index, and included in the STOXX ESG Leaders Index. And in 2017, we will continue on our journey of continuous growth and improvement.

SUSTAINABILITY – AN ISSUE THAT BUSINESSES CANNOT IGNORE

We believe that sustainability is no longer 'nice to do' – it is central to business success and is an issue that businesses can no longer afford to ignore.

The Board and I are devoting considerable efforts to making our business more sustainable, and we are involved in sustainability issues across the Group. We cannot achieve our goals alone, and are grateful to the involvement of all Polymetal stakeholders.

It is important to remember that when our environment and society flourish, our business can flourish. When they falter, our business will falter. Only by working in harmony with our surroundings can we thrive together.

In 2017, we will continue to build a thriving and responsible business.

Vitaly Nesis
Group Chief Executive Officer

RECOGNITIONS OF OUR EFFORTS



AWARDS

- Viksha PGM was awarded Best Exploration Project at MINEX
- Polymetal has been named Employer of the Year by Superjob.ru
- Named Philanthropist of the Year in Khabarovsk region (Far East of Russia) by Russian Ministry of Culture
- Albazino won Best Pension Insurance Company Award in All-Russia Contest
- Varvara obtained a 3-year Certificate of Credibility (compliance with labour law) from Kazakhstan Government
- Kubaka land reclamation was named Best Project by People Investor
- Dukat won Magadan Government's Best Employee Mentoring System Award
- Omolon came third in High Culture's Creation contest
- Our CEO and PR director were ranked first in mining sector by biggest news agency Kommersant



ACHIEVEMENTS

- Polymetal was included in international sustainability index STOXX ESG Leaders
- Reaffirmed membership in FTSE4Good
- Renewed membership of Euronext Vigeo 70 Emerging Markets



HONOURS

45 of our employees received honorary diplomas, certificates and Miner's Glory/Honourable Miner Awards from various Government Ministries in Russia and Kazakhstan, including the Ministry of Industry and Trade, Ministry of Natural Resources and Environment, Ministry of Energy, and the Mining Association



LETTERS OF GRATITUDE

We received 80 letters of gratitude from local community groups, NGOs, IMN groups and local authorities in the regions where we operate

AT A GLANCE

Polymetal International plc is a leading precious metals mining group operating in Russia, Kazakhstan and Armenia. Listed on the London Stock Exchange, Polymetal has a portfolio of eight producing mines, an impressive pipeline of future growth projects, and is a major employer in the regions where it operates.

Sustainability is a vital component of our business strategy. For us, it represents an investment in society and the environment, as well as in the long-term future of our Company.

| KEY FACTS 2016 | OUR STRATEGY | | | | | | |
|--|---|---|---|---|---|--|--|
| <p>OPERATING ASSETS 8</p> <p>EMPLOYEES 11,261</p> <p>COMMUNITY INVESTMENT (US\$) 5.1m</p> <p>ENVIRONMENTAL INCIDENTS 0</p> <p>GE PRODUCTION 1.27Moz</p> <p>SALES REVENUE (US\$) 1,583m</p> | <p>KEY GOALS – COMBINING GROWTH AND DIVIDEND</p> <ul style="list-style-type: none"> Pay significant and sustainable dividends through the cycle Continue to grow our business without diluting its quality <p>STRATEGIC OBJECTIVES TO ACHIEVE KEY GOALS</p> <ul style="list-style-type: none"> Deliver robust operating and financial performance at existing mines through cost control and reserve replacement Deliver medium-term growth through building and ramping up Kyzyl Build and advance long-term growth pipeline through opportunistic M&A and greenfield exploration Maintain high standards of corporate governance and sustainable development <p>▶ READ MORE IN OUR ANNUAL REPORT 2016 (PAGES 11–19)</p> | | | | | | |
| <p>OUR VALUES</p> <table border="1"> <tr> <td> <p>STEWARDSHIP We work to protect the environment, maximise the health, safety and well-being of employees, and respect the rights of all stakeholders affected by our operations.</p> </td> <td> <p>DIALOGUE We promote stakeholder dialogue based on openness, honesty and transparency.</p> </td> <td> <p>FAIRNESS We show fairness, equality and respect to our employees and local communities.</p> </td> </tr> <tr> <td> <p>COMPLIANCE We meet all legal obligations at local, national and international levels.</p> </td> <td> <p>ETHICAL CONDUCT We expect employees, contractors and business partners to display the highest standards of ethical conduct, with zero tolerance for corruption, bribery and fraud.</p> </td> <td> <p>EFFECTIVENESS We aim to be effective in everything that we do.</p> </td> </tr> </table> | | <p>STEWARDSHIP We work to protect the environment, maximise the health, safety and well-being of employees, and respect the rights of all stakeholders affected by our operations.</p> | <p>DIALOGUE We promote stakeholder dialogue based on openness, honesty and transparency.</p> | <p>FAIRNESS We show fairness, equality and respect to our employees and local communities.</p> | <p>COMPLIANCE We meet all legal obligations at local, national and international levels.</p> | <p>ETHICAL CONDUCT We expect employees, contractors and business partners to display the highest standards of ethical conduct, with zero tolerance for corruption, bribery and fraud.</p> | <p>EFFECTIVENESS We aim to be effective in everything that we do.</p> |
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2016 SUSTAINABILITY HIGHLIGHTS

| | |
|--|--|
|  <p>BECAME SIGNATORIES TO THE INTERNATIONAL CYANIDE MANAGEMENT CODE</p> | |
|  <p>BIODIVERSITY CONSERVATION INCORPORATED INTO ENVIRONMENTAL POLICY</p> |  <p>50% REDUCTION IN EXTREME RISK AND 14% LTIFR REDUCTION</p> |
|  <p>CORPORATE CHARITABLE DONATIONS POLICY AND APPROACH REVIEWED AND STRUCTURED</p> |  <p>STAFF TURNOVER RATE DECREASED BY 34% (FROM 8.3% TO 5.5%)</p> |
|  <p>OVER 50 SOCIAL SERVICE INSTITUTIONS CONSTRUCTED OR UPGRADED IN HOST COMMUNITIES</p> |  <p>INCLUDED AMONG STOXX ESG LEADERS REAFFIRMED AS A FTSE4GOOD MEMBER</p> |

WHERE WE OPERATE

Workforce
 GHG emissions
 Head office
 Hub
 Exploration projects:

City/town
 Operating mine
 11 Viksha

Local employees
 Seaport
 Development project
 12 Nezhda

13 Prognoz

8 Varvara

Life of mine: 2029

Climate and economic context

- 13 km railway spur to facilitate bulk transportation of ores from other deposits to the Varvara processing plant.
- Unpredictable weather with 24h changes from +10°C to -5°C, very windy and cold winters (-45°C) and very hot and dry summers (+40°C).

Renovation of boarding school

1,123
 96%
 177 Kt

9 Kyzyl

Life of mine: 2039

Climate and economic context

- Located in a traditional mining region with good infrastructure including easy access to power and rail; 75 km west of the mining and metallurgical industry centre of Oskemen.
- ESIA completed in 2016. Our first resettlement experience was successful.

Intensive overhaul of the only kindergarten in the whole settlement

407
 92%
 38 Kt

10 Kapan

Climate and economic context

- Located 320 km from the capital city of Yerevan.
- The climate is highland continental, dry with four seasons. Temperatures can vary considerably between seasons: +25°C in summer to -5°C in winter.

Transportation of teachers and students to Kapan school from the neighbouring community

1,135
 99%
 8 Kt

7 Voro

Life of mine: 2027

Climate and economic context

- Railway connection with a Group-owned spur located 18 km from the site. The site has access to a power grid station.
- Very humid and cool summers (400–550 mm of rain) and cold winters with the average temperature -20°C (to -50°C).

Renovation of culture centre in settlement

849
 100%
 53 Kt

1 Dukat hub

Life of mine: 2023

Climate and economic context

- No railways, accessible by sea and auto transport
- Severe climate, with long, cold winters (-40°C) and short and humid summers (+25°C). The surrounding area is very sparsely populated and mostly covered with tundra forests.

Renovation of a kindergarten and playground

1,885
 86%
 179 Kt

2 Omolon hub

Life of mine: 2024

Climate and economic context

- Located in remote, unpopulated areas mostly covered with taiga forest and with only seasonal access available.
- Land transportation between production sites is only possible during winter. In summer, access is available only by light aircraft or helicopter.

Renovation of heating system in a kindergarten

745
 93%
 41 Kt

3 4 Amursk/Albazino

Life of mine: 2031

Climate and economic context

- Albazino is located in a remote area covered with taiga forest, at times accessible only by ferry (summer period) or helicopter. Electricity is generated on-site by diesel-powered generators.
- Amursk POX is located in the city.
- Climate is very humid with -40°C in winter and +30°C in summer.

Complete overhaul of a kindergarten's baby swimming pool

1,325
 98%
 119 Kt

6 Okhotsk hub

Life of mine: 2024

Climate and economic context

- Located in a very sparsely populated area covered with taiga forest.
- The seaport of Okhotsk is 118 km to the south and can be accessed by an unpaved road.

Medical equipment supply for hospital neonatal intensive care unit

1,235
 100%
 30 Kt

5 Mayskoye

Life of mine: 2034

Climate and economic context

- Accessible all year round via 187 km of improved unpaved road from the town of Pevek (major seaport operating from July to early November).
- Harsh climate: -18°C to -42°C (-60°C) in winter, wind up to 40–80 m/sec.

Transport supply for the reindeer herders

886
 93%
 80 Kt



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BUSINESS MODEL

Our business model achieves positive outcomes for our stakeholders: the strength of our capitals, how we manage our assets and the differentiators that make us successful.

OUR CAPITAL

FINANCIAL

Strong balance sheet and a large portfolio of available undrawn credit facilities; access to international equity markets and use of shares as acquisition currency.

INTELLECTUAL

Investment in skills and expertise; mastering leading technologies in refractory gold processing (POX); selective mining; development of know-how.

BUSINESS

Key competencies in refractory gold concentrate trading; sustainable relationships with suppliers and contractors.

HUMAN

Attracting and retaining high-potential employees across Russia and Kazakhstan; nurturing young leaders to manage further growth.

SOCIAL

Mitigating the impact of our licence to operate; fostering and maintaining good relations with local governments and communities

NATURAL

Unparalleled portfolio of high-grade reserves ensuring robust cost and operating performance through the cycle; water, energy and fuel to run our operations.

MINING CYCLE

Our investment in the skills and expertise that support key competencies, backed by strong financial discipline, ensures a robust performance throughout the cycle.



MINING CLOSURE AND REHABILITATION

We manage the end-of-mine life responsibly, employing environmental best practice and a duty of care to local communities during the closure/rehabilitation process.



EXPLORATION

We replenish reserves through active brownfield and greenfield exploration, and have a robust evaluation system to select high-quality assets for further development.



SELLING

We sell gold and silver bars, mainly to Russian and Kazakhstan banks, and gold concentrates to off-takers throughout the global market.



DEVELOPMENT

We have a track record of delivery on time and within budget, including growth projects in challenging locations without access to infrastructure.



PROCESSING

We employ both conventional (such as flotation or heap leaching) and leading processing technologies (such as POX) that maximise recoveries at our plants.



MINING ORE

We have a strong skill set in selective open-pit and underground mining, incorporating global best practices and robust grade and dilution control.



LOGISTICS/ TRANSPORTING ORE

In the remote regions of our operation, we have acquired vital skills for inbound logistics of consumables and outbound transportation of ores and concentrates to make the best use of our hub strategy.

MARKET CHALLENGES AND OPPORTUNITES

Our business model allows us to invest in high-quality assets at attractive valuations during the low point of the commodities cycle; these in turn ensure sustainable free cash flow generation even at depressed commodity price levels.

▶ READ MORE IN OUR ANNUAL REPORT 2016 (PAGES 10–11)

STRATEGY

A robust business model is supported by flexible strategies, which enable us to respond effectively to both market opportunities and challenges.

▶ READ MORE IN OUR ANNUAL REPORT 2016 (PAGES 11–19)

WHAT MAKES US DIFFERENT

INVESTING IN EXPLORATION

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

HUB-BASED SYSTEM

Our centralised hub-based system handles ores from different sources, achieving economies of scale by minimising processing and logistics costs, as well as reducing capital spending per ounce. This facilitates production at otherwise uneconomical medium- and small-sized near-plant deposits.

FOCUS ON HIGH-GRADE ASSETS

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

STRONG CAPITAL DISCIPLINE

We engender a strong focus on capital discipline throughout the business; maximising risk-adjusted return on capital is our priority in all investment decisions. We do not retain excess cash and we return free cash flow to shareholders through substantial dividend payments while retaining a safe leverage level.

EXEMPLARY GOVERNANCE AND RESPONSIBILITY

We believe that good corporate governance is key to the ongoing success of the business and value creation for our shareholders. We are compliant with all regulatory requirements and are recognised as sustainability leaders in the countries in which we operate, adopting best practice in nurturing relationships with all our stakeholders in government, industry and the communities.

OPERATIONAL EXCELLENCE

We pride ourselves on our operational excellence and delivering on our promises to shareholders. Despite difficult trading conditions, we beat our production guidance for the fourth consecutive year.

RISK MANAGEMENT

Efficient risk management system is designed to minimise potential threats to achieving our strategic objectives.

▶ READ MORE ON PAGE 14 AND IN OUR ANNUAL REPORT 2016 (PAGES 64–69)

VALUE CREATION FOR STAKEHOLDERS



SHAREHOLDERS

We deliver on our promises while providing a sustainable dividend stream and future growth through quality assets.



OTHER CAPITAL PROVIDERS

We have an excellent credit history and strong partnerships within financial markets.



EMPLOYEES

We provide remuneration that is above the regional average and comfortable working conditions, along with career development opportunities.



COMMUNITIES

We invest in our local communities, providing employment opportunities and improving infrastructure, and engage with them to achieve their support for the projects that we undertake.



GOVERNMENT

We contribute to the national wealth and are a significant tax payer in the regions of operation, supporting local governments' social projects.



SUPPLIERS

We provide fair terms and are developing long-term partnerships, while ensuring suppliers' integrity and Environmental, Social And Governance (ESG) compliance.

GOVERNANCE

Through effective leadership and management we adhere to the highest of ethical standards that shape our business model and strategic approach.

▶ READ MORE ON PAGES 10–14 AND IN OUR ANNUAL REPORT 2016 (PAGES 71–103)

OUR APPROACH TO SUSTAINABILITY



WE KNOW THAT THE WAY WE INTERACT WITH COMMUNITIES AND THE ENVIRONMENT WILL DETERMINE OUR LONG-TERM FUTURE AS AN ORGANISATION.

Leonard Homeniuk
Chair of the Polymetal Safety and Sustainability Committee

Our approach to sustainability is based on regular consultation with stakeholders, identifying material issues, rigorous risk management, and complying with international standards and best practice.

COMPLYING WITH THE HIGHEST LEVEL STANDARDS
Our sustainability strategy is designed to meet the principles of the UN Global Compact, a voluntary international standard which Polymetal first signed up to back in 2009. We comply with the Ten Principles relating to human rights, labour, environment and anti-corruption.

These standards – along with our corporate values of dialogue, compliance, ethical conduct, fairness, stewardship and effectiveness – help to inform our sustainability policies. These policies are agreed by central management and implemented Group-wide. And through regular monitoring and auditing, we benchmark our performance against the most up-to-date regulatory requirements.

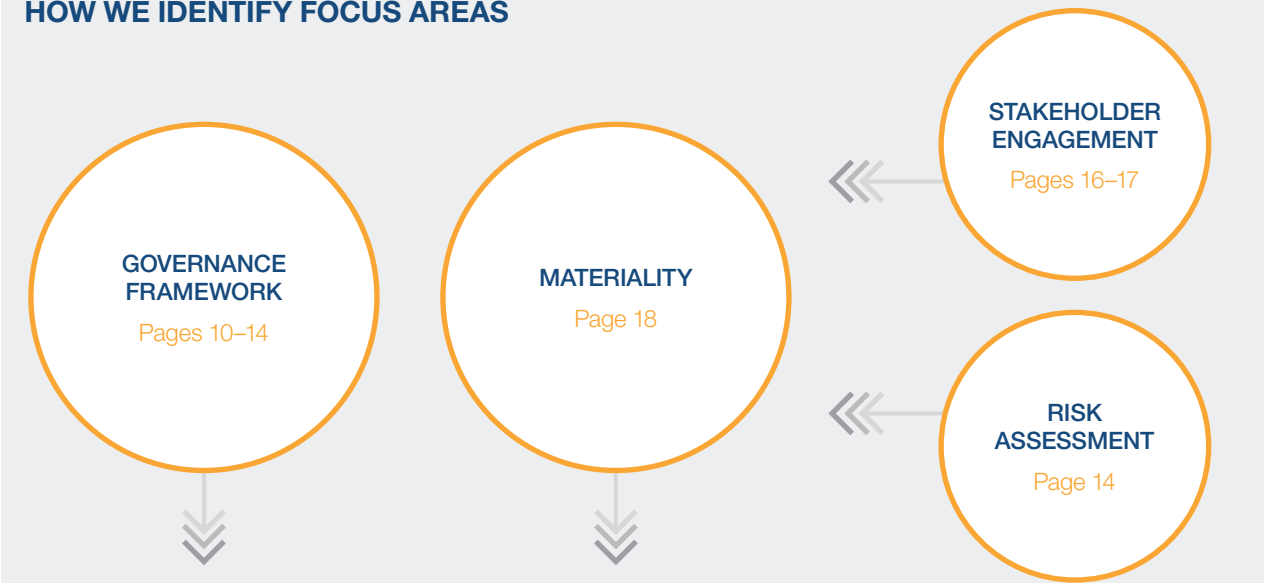
SUSTAINABILITY RISK MANAGEMENT
Drawing on our engagement with stakeholders, we work hard to identify, manage and mitigate the sustainability risks that we face. Responsibility for this process lies with the Board's Audit and Risk Committee and Safety and Sustainability Committee (see page 14).

STAKEHOLDER ENGAGEMENT AND MATERIALITY
We want our sustainability initiatives to address the issues most relevant to our stakeholders. To identify the stakeholders on whom we have the biggest impact, we conduct stakeholder mapping exercises (see page 18 for more information). Once we have identified these core groups, we engage with them and record all issues and concerns they raise in order to inform our decision-making process. We conduct an in-depth materiality analysis regularly to identify the key 'Aspects' we need to tackle in our sustainability initiatives and reports (see pages 16–17). Our directors also engage in communication with shareholders' CSR teams to better understand their approach to governance and sustainability.

**SUSTAINABILITY LEADERSHIP
ROLE OF OUR BOARD AND CEO**
Ultimate responsibility for sustainability lies with our Board of Directors. Our Group CEO, Vitaly Nesis, oversees all local management decisions and processes, and sustainability performance reviews take place at Board meetings several times a year. The Board approves sustainability strategy initiatives and has final sign-off on our sustainability reports.

We act in full compliance with the UK Code of Corporate Governance, and our Board comprises the non-executive Chairman, Group CEO and seven non-executive Directors (four of which are independent). The Chairman and non-executive Directors assess the Company's management and performance, review financial information and monitor internal risk management procedures and controls. The interests of Directors are disclosed on an annual basis and any changes to those interests are made known to the Company Secretary. Additional information on our Board is included in the Governance section of our Annual Report.

HOW WE IDENTIFY FOCUS AREAS



SUSTAINABILITY FOCUS AREAS

We have used our materiality analysis and stakeholder engagement processes to define six core focus areas. These are:

- Improving health and safety for our employees and contractors (see Health and Safety section).
- Attracting and retaining more high-quality people, creating an even better place to work (see Employees section).
- Enhancing transparency in our communications with suppliers, subcontractors and partners (see Overview).
- Maintaining positive working relationships with local government, NGOs and the communities where we operate (see Economic and Communities sections).
- Continuously upgrading our technologies and approach to environmental protection (see Environment section).
- Further developing water and energy efficiency programmes (see Environment section).

SUSTAINABILITY STANDARDS

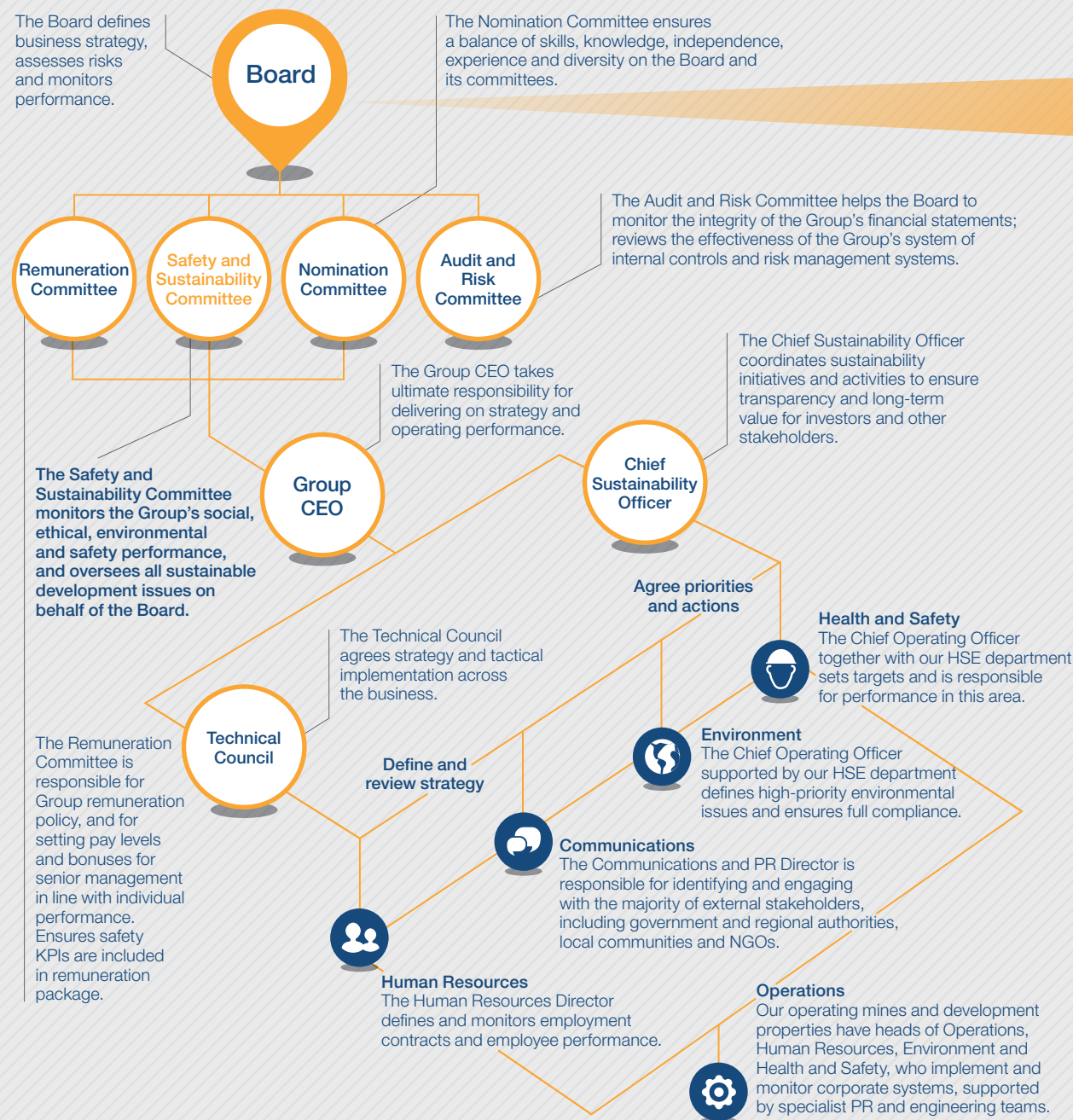
| INTERNAL STANDARDS | EXTERNAL STANDARDS |
|---|--|
| <ul style="list-style-type: none"> • Safety and Sustainability Committee terms of reference • Sustainability values • Code of Conduct • Political and Charitable Donations Policy • Policy on Social Investment • Community Engagement System • Anti-Bribery and Corruption Policy • Human Rights Policy • Health and Safety Policy • Environmental Management Policy • Carbon Management Policy • Human Resources policies • Employee development and training standard | <ul style="list-style-type: none"> • UN Global Compact • EBRD Environmental and Social Policy (ESP) • GRI G4 Sustainability Reporting Guidelines • UK Corporate Governance Code • International Cyanide Management Code • ISO 14001 • OHSAS 18001 |



OUR APPROACH TO SUSTAINABILITY CONTINUED

Responsibility for sustainability lies with our senior management and Board-level committees, reflecting its centrality and importance within the Company.

GOVERNANCE FRAMEWORK



- Chairman**
Bobby Godsell ^N
 - Executive Director**
Vitaly Nesis ^S
 - Non-executive Directors**
Konstantin Yanakov
Jean-Pascal Duvieusart
Marina Grönberg ^S
 - Independent non-executive Directors**
Christine Coignard ^{A R N}
Russell Skirrow ^{A S}
Jonathan Best ^{A R}
Leonard Homeniuk ^{R S N}
- Committees**
- ^A Audit and Risk Committee
 - ^R Remuneration Committee
 - ^N Nomination Committee
 - ^S Safety and Sustainability Committee

SAFETY AND SUSTAINABILITY COMMITTEE EMBED AND INTEGRATE

In 2015, we established our Safety and Sustainability Committee to provide support to the Board by monitoring the Group's safety record, sustainability performance and ethical conduct. The Committee oversees the Company's overall approach to sustainability, developing and implementing short and long-term policies and standards; it ensures that the Company consistently exhibits and promotes ethical, transparent and responsible behaviour, and engages key stakeholders and communities. To address safety, which is the significant area of concern, the Committee has been working hard to implement major improvements in the risk management procedures to achieve our goal of zero fatalities. The Committee measures the impact of the Company's initiatives, and helps the Audit and Risk Committee to identify, manage and mitigate sustainability risks (see page 16).

In 2016, the Safety and Sustainability Committee held four meetings, during which it reviewed circumstances of all accidents that took place; analysed pay structure to ensure no unnecessary risks were taken; reviewed a visit to a peer's operations to share best practice; and analysed safety checks at specific operations. The Committee is supported by the Technical Council, which meets each month to assess progress on our sustainability targets. All heads of department report to the Technical Council, giving senior management an opportunity to input on sustainability issues.

REMUNERATION COMMITTEE ALIGN VALUES AND INCENTIVES

The Remuneration Committee determines the framework and broad policy for the remuneration of the Chairman, Group Chief Executive, and any other members of the executive management team. With sustainable shareholder value creation as its guiding principle, the Remuneration Committee works to ensure that Directors and senior managers are fairly rewarded for responsibilities they successfully undertake and ensures pay levels and bonuses are in line with our overall health and safety performance. Following the fatalities in 2015, we have significantly increased the focus on safety KPIs within senior management remuneration. This includes remuneration for the Group CEO, COO, the Managing Directors of Operations and cascades down throughout the Group.

NOMINATION COMMITTEE

The Nomination Committee is responsible for making recommendations on the composition of the Board and its committees. It ensures a balance of skills, knowledge, independence, experience and diversity and promotes healthy corporate culture. Regularly reviewing leadership needs and priorities, the Nomination Committee ensures the Group can continue to compete effectively in the marketplace. It also leads evaluation of the Board and non-executive Directors.

READ MORE IN OUR ANNUAL REPORT 2016 (PAGES 70-99) AND ON OUR WEBSITE AT WWW.POLYMETALINTERNATIONAL.COM

OUR APPROACH TO SUSTAINABILITY CONTINUED

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee is a fully independent body, consisting only of independent non-executive Directors with relevant skills and experience in financial reporting and risk management. It actively encourages a commitment to discipline right across the business, which is very much in keeping with Polymetal's overall approach to governance. The Committee focuses on ensuring the consistent quality of reporting, internal control and risk management processes that, in turn, warrant the objectivity and transparency of the Company's financial statements.

MANAGING OUR RISKS

We are committed to minimising risks to our people, local communities and the environment.

Our Group CEO and Technical Council together identify our business risks. Our Board of Directors then takes responsibility for monitoring these risks and ensuring they are managed effectively. And the Board's Audit and Risk Committee develops and oversees implementation of our risk management strategies. These are informed by our stakeholder engagement – with government agencies, employees, local communities, NGOs, and the financial community, as well as our suppliers and customers.

RISK MANAGEMENT RESPONSIBILITIES

| | |
|--|--|
| BOARD OF DIRECTORS, AUDIT AND RISK COMMITTEE OF THE BOARD | Monitor and control risk management efficiency, approve risk management policies and guidelines, review risk management strategy and risk reports, take responsibility for key risk identification |
| GROUP CEO AND TECHNICAL COUNCIL | Identify risks to the business and associated management operations |
| INTERNAL AUDIT DEPARTMENT | Define and monitor the risk management process and mitigation tools and actions, prepare risk reports |
| OPERATIONAL MANAGERS | Identify and evaluate everyday risks and report them, implement risk mitigation programmes |

KEY SUSTAINABILITY RISKS

Across our operations we have identified a number of sustainability risks. These include:

| ENVIRONMENT | EMPLOYEES | COMMUNITY | ECONOMIC |
|---|---|--|---|
| The Company's management systems may not negate or reduce harmful spillages or releases into the environment, which may also harm employees and others living in the vicinity | The Company may fail to recruit and retain enough talented people to maintain operational integrity | Our operations may cause potential harm to local communities | The title to mineral rights may be challenged and the purchase of land may be opposed locally, thereby preventing or curtailing their use by the Company. Failure to secure such additional reserves will lead to a long-term reduction in output |
| The Company may fail to comply with environmental laws and regulations | The Company's health and safety systems may not protect employees from harm | Community members may oppose new mining construction projects or mine expansions | Severe weather and climate conditions may disrupt ongoing operations |
| Issues may arise relating to management, biodiversity and planning for mine closure | Unforeseen emergencies may impact the health and safety of employees | The Company may fail to demonstrate shared value or to deliver on commitments | Access to and security of affordable energy may become restricted |
| Company emissions may contribute to severe weather conditions and global warming | Labour relations may become strained over wages and benefits | | Ineffective use of materials and energy may lead to unwanted financial cost/inefficiency |
| | | | The Company may fail to adequately manage third-party suppliers, leading to financial inefficiency in the supply chain, delays and disruption |

SUSTAINABLE DEVELOPMENT GOALS

On 1 January 2016, the United Nations ushered in the New Year with the new 2030 Agenda for Sustainable Development. The 17 Sustainable Development Goals (SDGs) replace the Millennium Development Goals, and comprise 169 targets to wipe out poverty, fight inequality and tackle climate change.



Organisations such as the UN Global Compact (to which Polymetal is a signatory) expect companies to take responsibility to advance these goals.

We are playing our part, and have aligned our business strategy with the SDGs.

We provide decent work to people by full and productive employment to fight against poverty, support of local/IMN communities and charity activities

We build and support infrastructure projects

We ensure healthy workplaces and promote well-being

We drive efficiency in material use and monitor all production processes

We provide learning opportunities for all and invest in education of communities and our employees by donating money to schools, cooperating with colleges and universities, providing internships and training our employees

We are aware of climate change and demonstrate our commitment by implementing our Carbon Management Policy and cooperating with the Carbon Disclosure Project

We are proud of maintaining full gender equality and empowering women in Polymetal

We support life on land by restoring land, planting forests and preventing biodiversity loss

We care about water (and run water-efficiency and water management programmes)

We promote responsible business and societies by applying best practices in business ethics and corporate governance

We provide economic growth by creating processing hubs and ensuring further scale up, and we are a significant taxpayer

We strive to revitalise global partnerships for sustainable development by supporting the UN Global Compact with its Ten Principles and other international and local organisations and initiatives

STAKEHOLDER ENGAGEMENT

We are committed to regular, meaningful and transparent stakeholder engagement. Using a range of communication channels, we encourage open and honest dialogue with our stakeholders, building a clear understanding of the issues that matter to them and how we can address them.

| | INVESTORS AND SHAREHOLDERS | EMPLOYEES |
|--|--|---|
| |  |  |
| WHY THEY ARE IMPORTANT TO US | <p>As a company, Polymetal exists to create sustainable value for shareholders.</p> <p>In turn, our shareholders and investors provide us with the capital we need to develop and expand our operations.</p> | <p>Our people are one of our core strengths and assets; the success of our business depends upon their expertise, dedication and skill.</p> <p>We hire the most talented staff and invest significantly in their training and development. We also work hard to provide a safe environment for them.</p> |
| WHO IS RESPONSIBLE WITHIN POLYMETAL | <ul style="list-style-type: none"> • Board • Group CEO • Chief Financial Officer • Chief Sustainability Officer • IR team | <ul style="list-style-type: none"> • Group CEO • Chief Financial Officer • Human Resources team • Health and Safety team • Communications team • Operations directors and chief engineers |
| CHANNELS OF ENGAGEMENT | <ul style="list-style-type: none"> • AGM/GM • Annual and Sustainability Reports • Investor conferences and one-to-one meetings • Presentations/conference calls • Site visits • Direct correspondence | <ul style="list-style-type: none"> • Employee opinion polls and questionnaires • Workers' councils • Internal hotline, website, suggestion boxes and grievance mechanisms • Meetings and face-to-face communication with management • Performance reviews • Annual direct line with the Group CEO |
| MATERIAL ISSUES | <ul style="list-style-type: none"> • Financial, operational and sustainability performance • Dividends • Regulation, economics and politics • Mergers and acquisitions • Labour • Health and safety • Compliance with international environmental standards | <ul style="list-style-type: none"> • Wages, benefits and social packages • Working and living conditions • Health and safety • Career progression and opportunities • Social needs • Training, development and education |
| | <p>▶ READ MORE IN OUR ANNUAL REPORT 2016</p> | <p>▶ READ MORE IN OUR IN THE EMPLOYEES SECTION OF THIS REPORT</p> |

| SUPPLIERS AND CONTRACTORS | GOVERNMENT AND INDUSTRY AUTHORITIES | COMMUNITIES AND NGOS |
|--|--|--|
|  |  |  |
| <p>Our suppliers and contractors make a significant contribution to our business. We build stable, long-term relationships with them, enabling us to achieve mutually beneficial terms of contract and uninterrupted supply.</p> <p>In collaboration with our contract partners, we work to ensure compliance with environmental and safety standards across the Polymetal supply chain.</p> | <p>We maintain good relations with the national and local governments under whose jurisdictions we operate.</p> <p>We abide by all laws and regulations that apply to our business, and we enter into open and transparent dialogue with industry authorities. In particular, we engage with authorities on issues relating to improvements in mining legislation.</p> | <p>Polymetal depends upon communities and NGOs for its licence to operate in specific localities and regions.</p> <p>We work with these stakeholders to create mutually beneficial conditions. We also respect the rights of local and indigenous communities and invest in those areas that are important to them.</p> |
| <ul style="list-style-type: none"> • All production departments • Legal team • Polymetal Trading and procurement teams within operations | <ul style="list-style-type: none"> • Group CEO • Managing directors at our operations • GR team • Communications team • Legal team | <ul style="list-style-type: none"> • Communications and PR team |
| <ul style="list-style-type: none"> • Direct correspondence • Contractual relationships • Meetings and trainings • Compliance audits with Polymetal's requirements with focus on safety | <ul style="list-style-type: none"> • Working groups • Meetings • Direct correspondence • Industry conferences | <ul style="list-style-type: none"> • Opinion polls and questionnaires • Public and face-to-face meetings • Communication with Company managers • Press conferences • Working groups (for NGOs) • Grievance mechanisms • Email and telephone helplines |
| <ul style="list-style-type: none"> • Contract specifications • Tenders • Account management relationships • Health and safety • Regulation • Impact on environment, human rights and society | <ul style="list-style-type: none"> • Regulatory compliance • Taxes • Labour issues • Health and safety • Environmental protection • Infrastructure and local development | <ul style="list-style-type: none"> • Investment • Employment • Infrastructure development • Environmental and health impacts • Local culture, lifestyle, language and traditions |
| <p>▶ READ MORE IN THE ECONOMIC SECTION OF THIS REPORT</p> | <p>▶ READ MORE ON PAGES 22, 32, 40, 46, 54 OF THIS REPORT</p> | <p>▶ READ MORE IN THE COMMUNITIES SECTION OF THIS REPORT</p> |

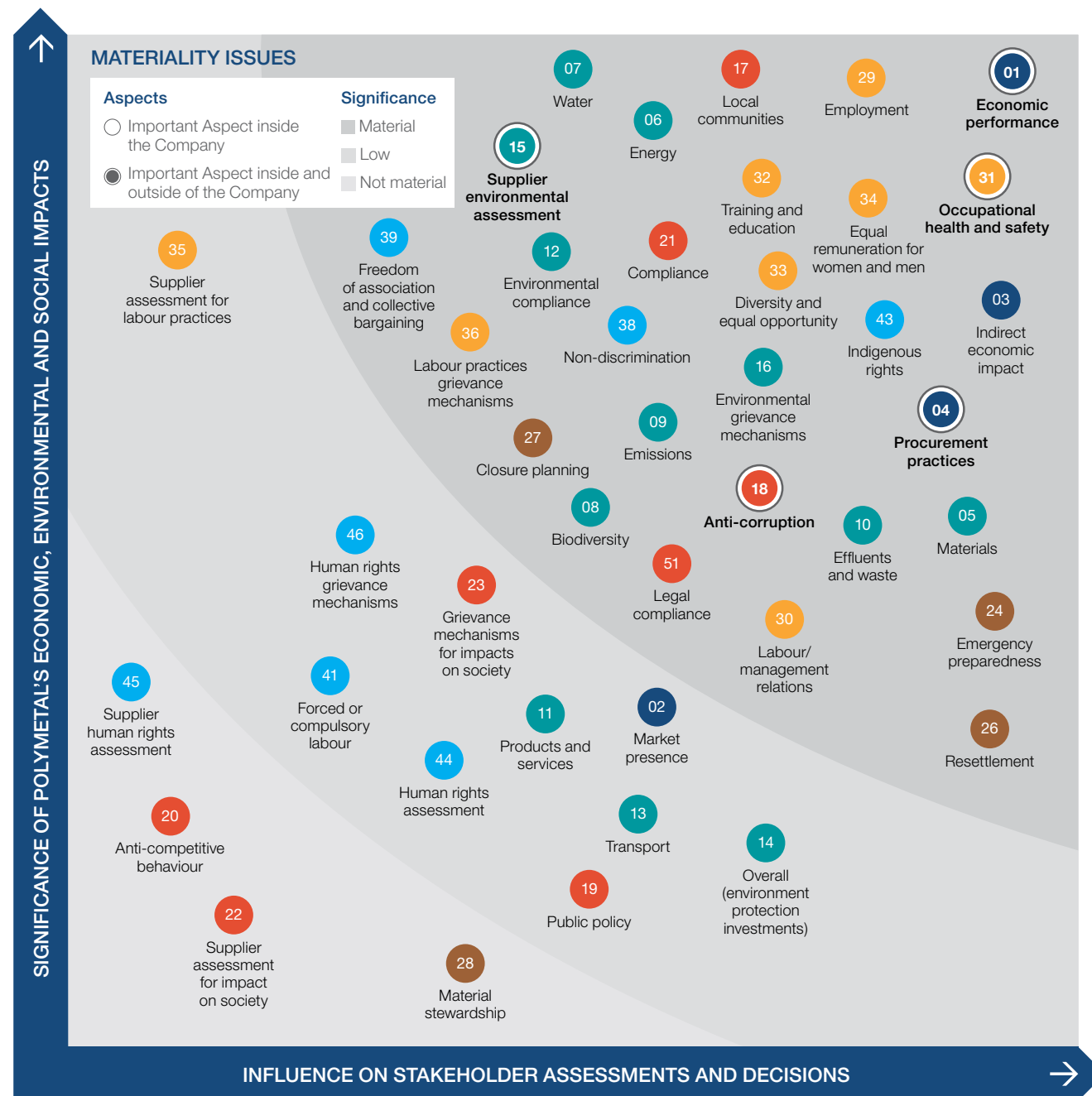
MATERIALITY

It is challenging for a company the size and geographical diversity of Polymetal to select issues for inclusion in its reporting. In this report, we address the sustainability issues that mattered most to our business and stakeholders in 2016.

A full-scale materiality assessment was carried out in 2014 by a working group of managers responsible for all our activity relating to GRI reporting Categories and Aspects.¹ The group consulted our stakeholders through a questionnaire and personal meetings, and from this was able to establish materiality scores for sustainable development issues. The challenges identified in 2014 are still relevant to the current business issues.

The results of our materiality assessment are presented in the chart below, and for the purposes of this report, we cover all Aspects listed in the dark grey zone. These Aspects are relevant to all parts of our Group. The matrix also identifies five material issues for management and reporting which are applied to our partners, contractors and suppliers. Issues that fall outside of the material zone are still important but less relevant because, for example, they are already managed by national legislation or regulations.

¹ The GRI defines relevant Aspects as those that 'may reasonably be considered important for reflecting an organisation's economic, environmental and social impacts, or influencing the decisions of stakeholders'. 'Materiality' is the threshold 'at which Aspects become sufficiently important that they should be reported' (source: g4.globalreporting.org/how-you-should-report/reporting-principles/principles-for-defining-report-content/materiality).



OUR PERFORMANCE

| SUSTAINABILITY GOALS | 2016 OUTCOMES |
|--|--|
| GOVERNANCE | |
| Ensure high standards of corporate governance and sustainable development | <ul style="list-style-type: none"> Adopted new Human Rights Policy and Carbon Management Policy Included in STOXX ESG Leaders Index and reaffirmed as a FTSE4Good and Euronext Vigeo member |
| ENVIRONMENT | |
| Reduce our environmental footprint | <ul style="list-style-type: none"> Underwent ISO 14001 recertification audit and obtained a compliance certificate for our EMS for three years Included biodiversity conservation and restoration in our corporate Environmental Policy and Management System Became signatories to the International Cyanide Management Code – another step in implementing international best practices across all areas of sustainable development |
| EMPLOYEES | |
| Embed robust safety procedures and safeguard employee well-being | <ul style="list-style-type: none"> Strengthened safety procedures, especially those aiming to reduce the risk level in our underground mines Continued Group recertification of safety in compliance with OHSAS 18001 Continued developing measures and incentives for better safety performance Continued implementing safety monitoring and control software Further involved contractors in risk management and health and safety control procedures |
| Build a motivated, loyal and capable workforce | <ul style="list-style-type: none"> Decreased staff turnover rate from 8.3% to 5.5% Upgraded training initiatives, procedures and courses; invested US\$866 thousand in professional training, and as a result 82% of our employees received development training Signed collective bargaining agreements at our new operations: Bakyrchik (Kazakhstan), Kapan (Armenia), Svetloye (Okhotsk hub), Komar (Kazakhstan) and extended them at existing operations (Mayskoye, Okhotsk, Voro) Upgraded our social benefits package: treatment in health resorts is now available for all employees; the budget for employee financial aid in 2017 was increased twofold |
| SOCIAL | |
| Maintain strong links and relationships in the regions where we operate | <ul style="list-style-type: none"> We continue to work closely with local communities under the 25 active cooperation agreements currently in place Invested US\$5.1 million in social support and territorial development programmes; provided assistance to 51 entities (schools, kindergartens, health centres, sports and cultural facilities) Supported and promoted charity campaigns aimed at helping vulnerable groups; provided targeted assistance to over 1,000 people Started dialogue with the Kapan community (Armenia) in order to implement grievance mechanisms for local people and our employees |
| ECONOMIC | |
| Ensure financial stability and shareholder returns | <ul style="list-style-type: none"> Generated a healthy free cash flow of US\$257 million; coupled with a strong balance sheet this translated into cash returns for our investors |
| Pursue further growth opportunities | <ul style="list-style-type: none"> Began gold production at Svetloye – the key driver for sustaining production levels at our Okhotsk hub Acquired Komar gold deposit, an easily accessible ore feed for Varvara Acquired Kapan mine close to our Lichkvaz deposit, to strengthen operating platform in Armenia |
| Maintain excellent working relationships with suppliers | <ul style="list-style-type: none"> Worked with large, global manufacturers who operate to the highest international standards on services, employment, quality and environment Worked with local, reliable suppliers – around 50% of our supplier purchases come from the regions where we operate (in Russia and Kazakhstan, approximately 30% in Armenia) |

OVERVIEW
ENVIRONMENT
EMPLOYEES
COMMUNITIES
ECONOMIC
APPENDICES

ENVIRONMENT

PROTECTING THE ENVIRONMENT

Through innovation and continuous improvement, we aim to achieve greater efficiencies across our business and minimise the impact of our operations, putting environmental sustainability at the heart of everything we do.



WHO IS RESPONSIBLE?

Group CEO, Chief Sustainability Officer, Chief Operating Officer, HSE Director, Head of Environment, regional environmental managers, managing directors, chief engineers and heads of environmental departments at our operations



WHAT GUIDELINES DO WE FOLLOW?

UN Global Compact, Group Code of Conduct, Environmental Policy, ISO 14001, Carbon Management Policy, Cyanide Code, EBRD Environmental and Social Policy



STAKEHOLDERS

Employees, government, local communities, indigenous peoples' groups and other NGOs, suppliers and contractors



PRIORITIES

Maintain ISO 14001 compliance and implement 2015 version; continue tailing dams inspections, expand application of Cyanide Management Code guidelines at all operations, implement energy management system; develop detailed management standards, including a water management policy and corporate standard on waste management and materials reduction use



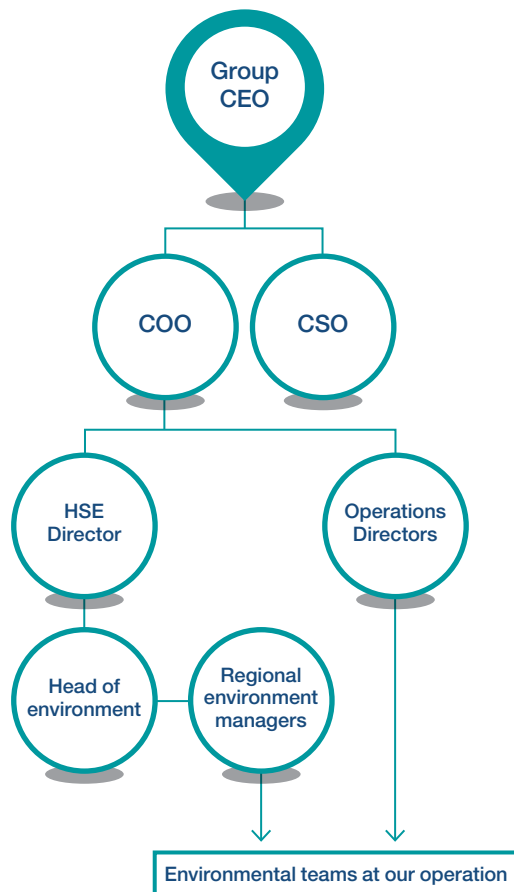
MATERIAL ASPECTS

- Materials
- Energy
- Water
- Biodiversity
- GHG and other emissions assessment
- Land reclamation
- Effluents and waste
- Supplier environmental assessment
- Environmental grievance mechanisms



AS OUR BUSINESS GROWS, WE ARE COMMITTED TO CONDUCTING BUSINESS IN AN ENVIRONMENTALLY RESPONSIBLE WAY TO MITIGATE OUR RISKS AND PROTECT THE NATURAL ENVIRONMENT.

Andrey Savchenko
HSE Director



OUR GROUP-WIDE ENVIRONMENTAL APPROACH

No organisation today can afford to risk its reputation by ignoring its environmental responsibility. Organisations need continual, robust and wide-ranging environmental management. We operate systems designed to protect human health and the environment.

As with all mining companies, our work involves a number of environmental risks, and to manage these, our Group-wide Environmental Management System (EMS) focuses on driving resource and energy efficiency across the business. This includes using modern, efficient equipment and technologies, preventing pollution, and engaging employees on environmental issues. We currently follow international standard ISO 14001 (2004). In 2017, we plan to upgrade our EMS to comply with the 2015 version of the standard, and to certify it in 2018.

Our Environmental Policy shapes all our environmental activities. The policy focuses on continuous improvement, risk reduction, use of best practice, and compliance. It also covers the management of key environmental issues, including incident and emergency control and the use of environmentally friendly materials.

Our in-house engineering company, Polymetal Engineering, works to ensure that all environmental aspects are taken into account during the design, construction and operation of our mines and processing facilities. We also ensure that every production site has its own environmental team to monitor impacts. Teams collect surface and ground water and air quality samples, which are analysed at internationally certified laboratories, and review performance in quarterly reports to the Group.

INNOVATION AND RESEARCH AND DEVELOPMENT

Our scientific and technical department focuses on identifying the latest innovations and integrating them into our production processes.

As a result of the development of autoclave oxidation technology, for example, we have been able to launch and successfully operate the first hydrometallurgical autoclave gold mining plant in Russia (Amursk POX). The plant includes new technology that improves energy efficiency, arsenic management, closed water cycle and semi-dry cake storage, which together help to minimise our impact on the environment.

We strive to incorporate a culture of ongoing improvement across our operations, and since 2012 we have implemented our Continuous Improvement System (CIS), which aims to improve operational efficiency. While CIS is focused on saving money by improving processes, it often involves actions such as reducing material consumption and more efficient use of equipment – actions that help to reduce our environmental footprint. We have created five specialised departments at key operating mines to drive our CIS, and we plan to create two more in 2017. So far, in total, we have saved more than US\$14 million through Continuous Improvement.

THE IMPORTANCE OF AUDITING AND COMPLIANCE

In addition to complying with relevant legislation and ISO 14001, we undergo audits by state authorities and external service providers to drive our environmental performance. In 2016, we received no significant fines or non-monetary sanctions for breaches or infringements. Historically, we have had no major, moderate or catastrophic environmental incidents.

WE ASSESS SUPPLIER AND CONTRACTOR ENVIRONMENTAL PERFORMANCE

In our contractual agreements with suppliers, we insist on compliance with all applicable laws and regulations, our EMS, and with all requirements around issues like packaging, noise, pollution and emergency preparedness. We ask equipment suppliers to provide guarantees that their hardware operates within established limits. In addition, our Supply Chain Management Department (Polymetal Trading) is developing a new supplier assessment programme, which will help us conduct formal supplier assessments and audits for environmental compliance and best practice.

LISTENING TO OUR STAKEHOLDERS

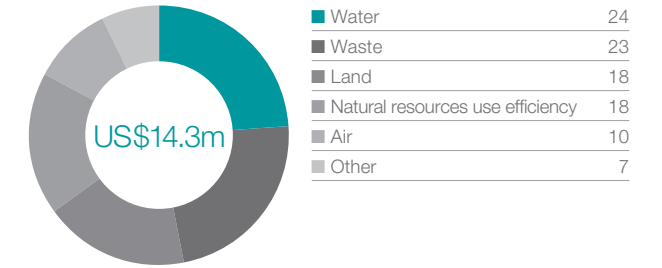
We enable our stakeholders to voice any concerns or grievances by complying with rigorous environmental impact assessment procedures, including public hearings and other mechanisms. At each of our sites we document comments from the public in a log book, and deliver a range of engagement activities to hear stakeholder feedback. In 2016, we received no new complaints or grievances about our environmental impacts.

ENVIRONMENTAL TRAINING IS CRITICAL

Training is important to ensure our staff are up-to-date on key environmental issues. Our environmental managers attend national and international seminars, and we encourage participation in courses on issues such as environmental management, water quality assessment, hazardous waste, environmental security and land reclamation.



ENVIRONMENTAL INVESTMENTS 2016 (%)



WE INVEST IN ENVIRONMENTAL PROTECTION

During 2016, our overall investment in environmental protection was US\$14.3 million, a significant increase from US\$5.1 million in 2015. These investments include expenditures on maintenance and acquisitions of environmental equipment, EMS programmes and monitoring. Above these investments we make quarterly payments to governments in the regions where we operate to offset any negative environmental impact caused by our business. These payments are governed by environmental law and are defined by audits conducted at our sites by government agencies.



ENVIRONMENT CONTINUED

WATER

FOCUS ON WATER

Whether for industrial use, drinking or irrigation, water management is essential to our business and to our host communities. However, as a result of demographic and climate changes, concerns have increased about long-term availability, quality and security of access to water. We recognise that water management is not just a technical debate around levels of abstraction and quantitative data – it is also an issue that our stakeholders feel passionate about.

Our sites are located in low water stress areas and in our case, the major water issue is not its scarcity but its excess. We have to mitigate the threat of flooding by evacuating the excess water. Despite the additional cost of pumping it to the surface, being able to use it in our operations is a positive outcome. We strive to increase efficiencies in the use of water by maximising water recycling and reuse within mining operations.

In 2016, we used 14.5 million cubic metres per annum, compared to 11.7 million in 2015. At each of our sites, we are committed to reducing our water use and minimising the volume and impact of liquid discharged into watercourses in accordance with local legislation and target indicators. All water is either re-used or treated and discharged, or stored in tailings dams. We use water and flow meters and indirect measuring to capture all water consumption and discharge data.

Local and state authorities grant permission for our water withdrawal each year, and as our operations are spread across a wide geographical area, we do not over-exploit any single source. Our usage always remains within acceptable limits. We do not withdraw water from surface sources in environmentally sensitive areas, or where water is of great importance to local or indigenous communities.

We actively source water for our operations, such as the water that naturally seeps down and collects in our underground mines. We use this water underground, but we also pump it to the surface to be used in our gold processing operations. When extra water is needed, we may purchase it from utility suppliers, and as a last resort, we are also allowed a certain level of take-off from rivers, dams, and groundwater aquifers.

As far as possible, we re-use water. In fact, we get most of our water from internal recycling. As well as minimising offtake of fresh water, it also means we reduce the risk of releasing unsafe water into the surrounding area. Any water that we do release is tested to make sure it meets discharge standards and is safe.

WASTE

REDUCING OUR MATERIALS AND WASTE

We are firmly committed to the responsible management of waste materials. In our production processes, we use large quantities of ore and energy to produce products such as Doré bars, zinc precipitate, and flotation and gravity concentrates. Overburden and tailings are the most significant waste streams associated with our operations, accounting for more than 99% of the total waste volume. Overburden is the material that is extracted to uncover ore deposits, while tailings is a by-product of ore processing.

In order to minimise our impact, we drive efficiency in material use. For example, we identify the most harmful materials in our operational processes – such as explosives, drilling parts and mill balls for grinding – and make efforts to reduce volumes of these materials without impacting quality. During 2016, we mined 13,380 Kt of ore, processed 11,417 Kt, and generated 73,974 Kt of waste. (While this is more than in 2015, when we generated 69,878 Kt of waste, the number of our mines has increased).

Our audit teams carry out regular internal checks and assess our compliance with national and regional standards, and government agencies conduct regular environmental performance spot-checks at our facilities. We now operate eight tailings dams, and in 2016 there were no significant or major environmental accidents involving tailings facilities at our operations.

RECYCLING OUR WASTE

Wherever we can, we re-use the waste that we generate within our operations. We have developed systems and procedures that enable us to maximise the amounts we recycle and minimise waste to landfill. In 2016, we were able to recycle 20%, the same as in 2015.

We also find uses for our waste outside of Polymetal. For example, at Amursk POX we signed a contract in 2016 with a waste recycling company to provide them with 300 kg of packaging (PE, PP, wood) for incineration and energy production. This is the first agreement of this kind at the Company. Where we can't recycle or re-use materials, we dispose of them at our own waste facilities or outsource waste disposal to external companies. In 2016, we disposed of 56,132 (Kt) of waste, compared to 56,836 (Kt) in 2015.

STRICT PROCEDURES TO PREVENT CONTAMINATION

Environmental legislation in countries where we operate sets out strict requirements for the prevention of soil and water contamination. Our tailings storage facilities (TSF) have been built in full compliance with these requirements, and they also take into account detailed engineering and geological studies. In 2016, we hired external consultants to conduct an independent audit of our design and management system and to reassess the stability of one of our tailings dams, Varvara TSF. We will continue this practice at our other TSFs.

CYANIDE AND HAZARDOUS WASTE MANAGEMENT

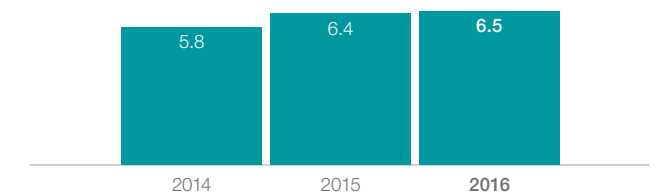
Our production methods involve several harmful consumables. Among these, the largest is cyanide, which generates hazardous waste during the recovery of gold from the ore we process. Within our process, cyanide can also exist as a chemical compound found in gas, water and solids, which we later purify.

We are rigorous in our handling, management and monitoring of cyanide due to its hazardous potential. Our approach involves identifying all associated hazards, strictly controlling all cyanide levels in our tailings, and monitoring air, soil, surface and ground waters. We also provide environmental monitoring results to public authorities, and deliver environmental protection measures. These include the design, construction and monitoring of tailings dams, and the monitoring of water sources and quality, riverbed changes and associated drainage.

In 2016, we became signatories to the International Cyanide Management Code followed by the certification of Amursk POX. At Polymetal, we used 8.8 thousand tonnes of cyanide in 2016. To ensure there is no waste, we always use 100% of the volumes of cyanide we purchase. And we also take a cautious approach to the transportation of hazardous materials. In 2016, we did not transport, import or export any waste deemed hazardous under the terms of the Base Convention 2, Annex I, II, III and VIII. In total in 2016, we produced 11 Kt of hazardous waste, compared to 15 Kt in 2015.

WASTE INTENSITY

(tonnes of waste per tonne of ore mined)



The waste intensity increase is associated with the start of operations at Kyzyl which resulted in a growth in stripping volumes and therefore an increase in waste rock.

WATER

(thousand of cubic meters)



WASTE (Mt)



ENVIRONMENT CONTINUED

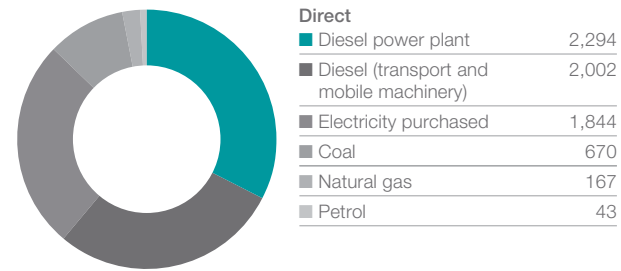
ENERGY AND CARBON MANAGEMENT

SECURING OUR ENERGY SUPPLY

The wide geographical spread and remote location of our facilities, extreme weather and limited grid power, make us dependent on diesel as a fuel source. Along with the gas we procure from third-party suppliers, diesel accounts for the bulk of our total direct energy consumption – primarily for heating, powering equipment and vehicles. In 2016, we consumed 7,020 terajoules of energy, compared to 6,195 terajoules in 2015.

To ensure energy security for our operations, we use company-owned diesel generators. In 2016, in-house power generation accounted for 32% MWh of our total electric power consumption. In 2017, we plan to increase power generation capacity, and to conduct energy audits aimed at optimising mill and ventilation operations (the largest items in electricity consumption).

ENERGY CONSUMPTION (thousand gigajoules)



WE AIM TO BE ENERGY EFFICIENT

Balancing our energy requirements with the need for efficiency is a challenge. However, we are committed to achieving energy efficiency – it makes business sense and it is better for the environment. In 2016 we decreased energy intensity of ore mining and processing for 6% Group-wide.

As part of this commitment, we adopt a range of measures. For example, we carefully plan the amount of power resources we need, provide our operations with the requisite amount of fuel within a set period of time, and monitor power supply and consumption against approved budgets and energy efficiency targets. We also conduct regular energy efficiency audits, and appoint external agencies to inspect our operations and resolve power supply issues.

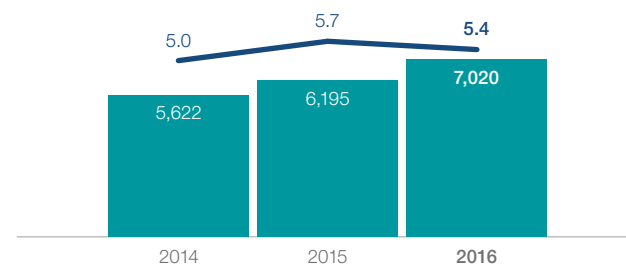
In 2016, we continued to refurbish our main power infrastructure and install new equipment to help improve our operational efficiencies. For example, we reduced consumption of natural gas by 11% compared to 2015 at Amursk POX and Voró. We were able to do this by adjusting the equipment and by using the thermal energy released from an isothermal reaction in the autoclave. We have also implemented automatic control systems at our power plants at Lunnoye (Dukat hub) and Kubaka (Omolon hub).

And across our sites, we have introduced a range of energy saving initiatives, such as a lightning update and frequency changer application, which has led to savings in diesel fuel consumption.

OUR COMMITMENT TO ALTERNATIVE ENERGY SOURCES

We are continuously assessing options for sourcing energy from alternative and renewable sources. In 2017, we will conduct a feasibility assessment into the use of solar and wind energy at our remote sites.

ENERGY



Values for 2015 and 2014 were restated due to methodology change in 2016. See reportable segments for 2015 and 2016 in the GRI G4 Table and Reportable Segments 2016 at the end of this Report.

LOWERING OUR GREENHOUSE GAS EMISSIONS

Finding renewable energy sources is a priority if we are to lower our greenhouse gas emissions (GHGs) and manage carbon emissions (see our Carbon Management Policy). Heat and electricity from our diesel generators, as well as our mining fleet operations, produce GHG emissions. The burning of natural gas and coal and the use of landfill also contribute to our GHG footprint. We measure and monitor our CO₂ emissions using established international methodology.

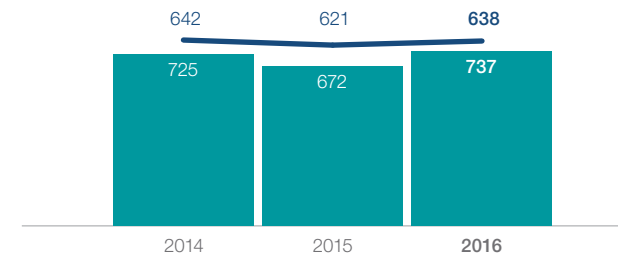
In 2016, direct CO₂ emissions linked to our operations amounted to 268 Kt compared to 244 Kt in 2015. In order to minimise future emissions, we will continue to ensure that our vehicles and mining equipment are modern and compliant with European quality standards, and feature the most up-to-date technology.

The increase in the intensity of greenhouse gas emissions is associated with the increase in production (+6%), mining (+6%), stripping (+25%) and underground development (+26%) in our newly launched mines, Svetloye, Komar and Kapan while these processes are fuel intensive.

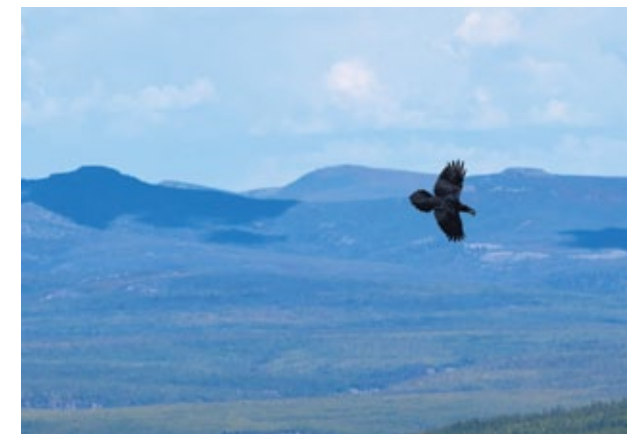
Growth is also associated with energy consumption at our new project Kyzyl, with intensive open pit mining carried out, while the first concentrate production will begin in the 3Q 2018.

However, there is a 5% reduction in GHG emissions intensity at our mature mines as a result of our energy and cost efficiency programme.

GHG EMISSIONS



See reportable segments for 2015 and 2016 in the GRI G4 Table and Reportable Segments 2016 on page 65 of this Report.



AIR QUALITY

Many of our core activities, including stripping, mined waste storage, ore processing and energy use, generate air emissions. These emissions include carbon dioxide and nitrogen, sulphur oxides and non-organic dust.

Between 2012 and 2016 we saw an increase in pollutant emissions as a result of the expansion of our mining activities and energy usage. However, during 2016 Polymetal emitted no ozone-depleting substances and our organisational efficiency improved overall. In order to minimise future emissions, we will continue to ensure that our vehicles and mining equipment are modern and compliant with European quality standards, and feature the most up-to-date technology.

5%
reduction in GHG emissions

6%
reduction of energy intensity



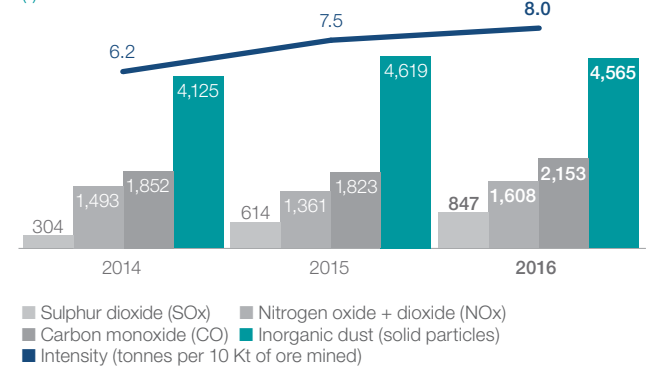
A FIRST IN RUSSIA – ELECTRIC VEHICLES IN UNDERGROUND MINES

In 2016, Polymetal became the first company in Russia to use battery-driven mining equipment. Our new load-haul dumpers (LHDs) are world-class, and because nobody in Russia had any experience in operating the upgraded machinery, we provided training for our people to obtain the appropriate expertise.

Battery-driven LHDs have many environmental advantages. They do not generate exhaust emissions, eliminating any additional ventilation costs and lowering our impact on climate change. They also do not thaw drifts within a rock mass – this means there is lower risk of spontaneous rock mass detachment, hugely improving mining safety. They also have lowered our costs. Our operational expenses have gone down by 40%, and electricity costs from mine ventilation are 50% lower.

“The new equipment is not only good for the environment, it is also good for business. These machines have good prospects,” summarised Tagir Ibragimov, Mayskoye Mine Manager. We will now fully assess the overall impact of our new LHDs, and will consider rolling them out to other operations.

POLLUTANTS INTO AIR (t)



BIODIVERSITY

PROTECTING BIODIVERSITY

We are committed to treading lightly in the regions where we operate and work hard to minimise our impact on local biodiversity. To this end, as a matter of policy we do not operate in or adjacent to protected or vulnerable areas. We respect, and will not encroach upon, land that has particular value – natural, historical or cultural – for Indigenous Minorities of the North (IMN). We also engage in comprehensive land rehabilitation once we have finished working in a particular area, focusing on the reparation of any environmental damage that our operations may have caused.

In 2016, we evaluated the status of biodiversity and our impact on it at our production sites as well as in neighbouring areas. The results of baseline data gathering showed the presence of just one critically endangered species at one of our mines – we identified the Calypso onion flower, which is listed in Russia’s Red Data Book, at Albazino mine. So we have included measures to help conserve this flower in our action plans.

Due to the extreme northern location of most of our sites, where the surrounding territory is low in conservational value, there are no significant biodiversity impacts linked to our operations. However, some sites are situated in the forest and tundra areas of Russia’s Far East, which provide natural habitats for various rare and threatened or vulnerable plant and animal species. Some of our licence areas are located in these territories, which means we have to be mindful of temporary extraction of land for mining and construction of facilities, and temporary change in conditions necessary to support flora, fauna, and invertebrates.

Following this evaluation, we included a biodiversity conservation commitment in our Corporate Environmental Policy, and biodiversity management and monitoring procedures in our EMS.

Our 2016–2017 Biodiversity Conservation Plan includes:

- Releasing young fish in waterbeds where communities catch fish
- Making artificial mineral and salt licks for deer and hare
- Cleaning waterbeds (springs)
- Installing bird repellents and nets at tailings dams and ponds to protect them from contact with cyanide and other chemicals
- Planting trees and grass
- Installing troughs in habitats
- Fencing at depleted pits
- Installing road signs where roads and animal migration routes cross paths, and where wild animals appear frequently

In addition, we insist that all site staff, including contractors, take part in environmental, health and safety awareness training to ensure they understand their responsibilities to protect biodiversity.



SUPPORTING THE FIRST EVER ‘REINDEER CENSUS’ IN OKHOTSKY DISTRICT

Some of our sites are situated in the forest areas of Russia’s Far East, which provide natural habitats for plants and animals. So we play our part in protecting biodiversity in the areas where we operate. In 2016, for example, we funded the first ever veterinary reindeer census in Okhotsky District, Russia. The Okhotsky division of the Public Association of Indigenous Minorities of the North invited a veterinary team to examine 1,000 of the region’s reindeer. Due to lack of previous funding, this was the first time in more than 20 years that a vet had examined the reindeer.

“We went into the heart of the taiga forest some 300 km away,” says veterinarian Oleg Emelyanov. “We worked under all weather conditions, because we needed to complete the examination before the cold set in. It took over six weeks but we were there in good time to complete everything.”

The examination involved taking blood samples to test the health of the reindeer – all were found to be in good health. In another ‘first’, the reindeer were also chipped to help with identification and breeding. “Now that every reindeer has a chip,” says reindeer breeder Oleg Danilov, “we’ll know everything about their migration, growth, and diseases – we’ll know their entire life story.” All information from the chips will be entered into the All-Russian Database of Chipped Animals.

In total, there are 6,000 reindeer in the District, and breeders hope to continue with the deer identification process.

[▶ READ MORE IN THE COMMUNITIES SECTION](#)



PLANNING FOR MINE CLOSURES

As all sites will eventually deplete their mineral resource and ore reserves, it is essential that we plan responsibly for the end of each mine’s operational life. As a priority, we relocate workers to our other mines (see Employees section for information about changes to key employment terms). Mining impacts land through open pits, tailings facilities, processing plants, roads and other infrastructure.

Our long-term remediation obligations include fulfilling decommissioning and restoration liabilities and covering suspension or abandonment costs in compliance with national regulations and legislation. Costs are covered by the Company. We also carry out geological, surveying and repair works to ensure that, once a mine is suspended or abandoned, underground operations, drilling sites and buildings are not hazardous or dangerous, and that we carry out any environmental rehabilitation.

OUR PROGRESS IN 2016

Our action plan for 2015–2017 is geared towards the continuous improvement of our environmental footprint. The plan’s targets, and the progress we have made against them, are set out below:

| WE SAID... | WE DID... |
|---|---|
| We would complete the reconstruction of the dump facility for solid domestic and industrial waste in Lunnoye. | Work is ongoing, design has been completed and documents are going through the state approval procedure. |
| We would start the recycling of industrial waste in Mayskoye. | The recycling facility has been acquired and we now use waste oil to produce energy. |
| We would carry out external audits and stability assessments of tailings dams, and deliver project updates. | The tailing dam at Varvara underwent external inspection and design was improved as a result of re-assessment. |
| We would obtain approval for our Carbon Management Policy. | Policy has been signed and is now being implemented. |
| We would launch a biodiversity offset assessment programme at one of our production sites, and expand to other sites if successful. | We updated our Environmental Policy to incorporate biodiversity protection and we implemented internal procedures aimed at preserving biodiversity. We have collected baseline data for eight production sites and made an action plan for nine sites for 2017. |

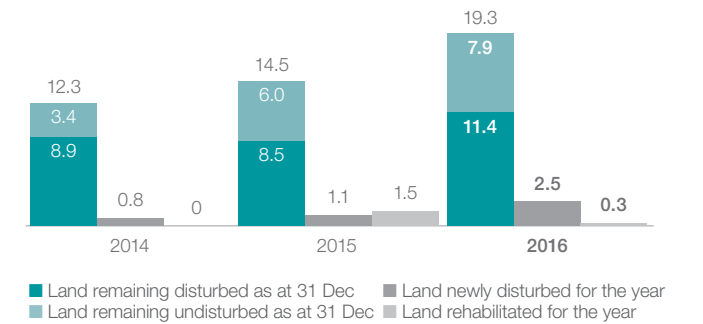
[▶ SEE OUR ENVIRONMENTAL PERFORMANCE IN DETAIL IN OUR KEY SUSTAINABILITY FIGURES TABLE AT THE END OF THIS REPORT.](#)

PLANS FOR 2017 AND BEYOND

Looking ahead, we plan to:

- Develop corporate energy management system in compliance with ISO 50001 standard
- Consider using renewable energy sources (wind and solar) at remote production sites
- Complete reconstruction of the dump facility for solid domestic and industrial waste in Lunnoye
- Improve heating system at Amursk POX and use heat released from autoclave for plant heating
- Implement our biodiversity conservation action plan
- Reconstruct ponds of waste and pit waters at Albazino
- Review our Environmental Management System and start transition to ISO 14001:2015

LAND LEASED AND OWNED
(in thousands hectares)



EMPLOYEES

VALUING OUR EMPLOYEES

The training, development and well-being of our employees is of paramount importance. We invest heavily in these areas as part of our commitment to our people and the long-term future of our company.



WHO IS RESPONSIBLE?

Group CEO, HR Director and HR team, COO, Head of HSE, communications department, managing directors and HR teams at our operations



WHAT GUIDELINES DO WE FOLLOW?

UNDHR, UN Global Compact, Group Code of Conduct, National Labour Codes, Standard Regulation on Social Conditions and Service Quality Control, Human Resources policies, Collective Agreements



STAKEHOLDERS

Employees, specialised agencies, suppliers



PRIORITIES

Provide safety environment and equal opportunities, ensure equal remuneration, promote diversity, implement Human Rights Policy; recruit and retain engaged and motivated employees and interns, develop career pathways, improve communications with employees, enhance training programmes



MATERIAL ASPECTS

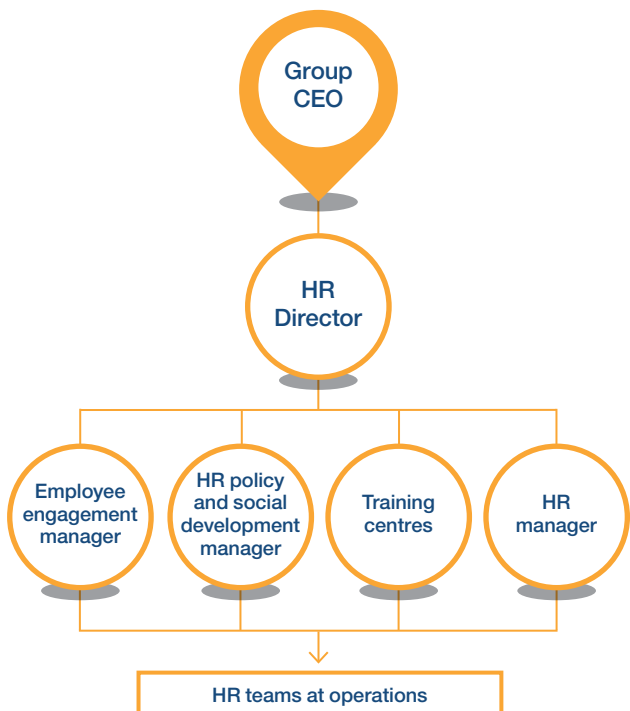
- Employment
- Labour/management relations
- Training and education
- Diversity and equal opportunities
- Equal remuneration for women and men
- Labour practices and grievance mechanisms
- Occupational health and safety
- Non-discrimination
- Freedom of association and collective bargaining
- Human rights
- Mine closure

INVESTING IN OUR PEOPLE



BUILDING A MOTIVATED, LOYAL AND CAPABLE WORKFORCE IS CRITICAL TO THE EXPANSION OF OUR BUSINESS.

Dmitry Razumov
Deputy CEO, Human Resources



OUR APPROACH TO ATTRACT AND RETAIN TOP TALENT

We work to create a fair and inclusive environment to attract the best people and keep them inspired to stay. By developing our employees' skills and enhancing their leadership capabilities, we increase their motivation and create our leaders of the future.

We pay competitive salaries that benchmark well within the industry, and offer equal terms of recruitment and employment. By rewarding good performance and prioritising health and safety, our people know they are supported, listened to and looked after.

In return, we expect all employees to sign up to our Company Code of Conduct and to contribute to sustainable value creation. This is underpinned by a range of policies, covering equality, professional development, appraisal, training, resources and skills, organisational design, productivity, and motivation and reward. By ensuring our employees comply with our policies on these issues, and by listening and responding to their concerns, our company culture is based on mutual understanding, respect and trust.

INTERNATIONAL STANDARDS

We take guidance from the UN's Global Compact and International Labour Organization Principles, and we have developed a range of policies and procedures that are coordinated by our Group Head of Human Resources. Our Human Resources Committee and operating subsidiary managing directors implement these policies in collaboration with relevant HR teams.

CODE OF CONDUCT

We introduced our Code of Conduct in December 2011, with which all employees must comply. The Code guides ethical behaviour across the Company, covering employees' conduct towards colleagues and customers, business partners, state authorities and society. It focuses on numerous issues, including equality, health and safety, government and community relations, environmental protection, transparency, competition and data protection. It also sets out our zero tolerance approach to drug use, conflicts of interest, bribery and bullying. Employees can access all documents and policies associated with the Code through the Company's intranet portal.

We monitor all commercial actions and decisions taken across the Company. Responsibility for this process lies with our Internal Audit Department (IAD). The head of IAD reports to our Group CEO and to the Board of Directors through the Audit and Risk Committee. The IAD conducts random audits of stocks and assets, assesses building and assembly contracts, and reviews decisions that relate to major construction projects. In 2016, we had five cases of Code of Conduct violations.

ANTI-CORRUPTION

We work hard to raise awareness of bribery and corruption and its potential impact on our business. Across the Group, we have implemented a variety of measures to help prevent corruption and fraud among our employees, contractors and suppliers. We continued our anti-corruption training in 2016, for example, holding more than 70 seminars, which were attended by more than 1,800 Polymetal employees and contractors.

During the year, the instances of corruption identified within our business were limited to minor fraud relating to purchasing, equipment inventory, supplier lobbying and the quality of materials and equipment. Four managers were sanctioned for fraudulent activities and four were dismissed. None of these cases had a material impact on our operations or financial position, and no court cases relating to corruption were brought against the Company or any of our employees.

HUMAN RIGHTS

In 2016, we adopted our new policy on human rights, and will start to implement this throughout 2017. We take a zero tolerance approach to slavery and human trafficking. We also engage in dialogue with stakeholders to promote human rights, and seek to influence partners, contractors and suppliers to apply the same rigorous standards.

EQUAL OPPORTUNITIES

We are committed to equal opportunities and terms of employment. We recruit people on merit and do not discriminate on any grounds, including gender, race, skin colour, religion, nationality, social origin and political opinions. In 2016, we employed eight people with disabilities or health conditions. And we are fully compliant with national and international standards relating to staff and management, ensuring that our working environment is based on fairness and respect. In 2016, no reported cases of discrimination were made within the Group.

HEADCOUNT AND TURNOVER

At 31 December 2016, we employed 11,261 people compared to 9,238 in 2015 across the Group's research, development, design, exploration, production, logistics and management activities. This increase in headcount was a result of new acquisitions of Kapan in Armenia and Komar in Kazakhstan, and new project works getting underway at our Kyzyl and Svetloye. The majority of our people work on a 'fly-in/fly-out' basis rather than permanent relocations, because of the demanding nature of the work and our remote site locations. Each year, on average approximately half of our employees are shift workers. All of our personnel (100%) are employed on a permanent basis.



REWARDING 'BEST IN PROFESSION' KNOWLEDGE AND SKILLS

In our 2015 Employee Survey, our employees told us that they enjoy competitions as a way of improving learning. So building on from our successful quizzes for mining specialists on Miner's Days, in 2016 we held 'Best in Profession' – our new skills contest for more than a dozen professions in our operations.

Held at Albazino and Svetloye, over 1,000 employees, including geologists, lab technicians, miners, environmental engineers, truck drivers and mechanics among others, tested their knowledge and practical skills to help us find the very best. Winners received a financial reward, and there were some surprising results. For instance, the winner of our drivers' competition at Lunnoye was former sailor Nikolai Varlamov, who traded the sea for underground mining only two years ago and beat other drivers with more than 30 years' experience.

The contest has helped to improve knowledge and operating methods, as well as the status of 'blue-collar' jobs. It has also helped us engage staff and increase labour efficiency. "It's a challenge," says Dmitry Aryshev, Deputy Chief Production Engineer at Mayskoye. "To prepare for the competition, participants really worked hard and interacted very closely, practising with senior managers and asking their advice."

Following very positive feedback, in 2017 we plan to hold 'Best in Profession' contests across all of our sites.

INVESTING IN OUR PEOPLE CONTINUED

42%
of qualified personnel are female

60
hours of training per person



COMPETITIVE SALARIES AND BENEFITS

We acknowledge and reward employees' hard work and achievements. To help us attract and retain the best candidates, we offer competitive salaries and benefits which exceed regional averages in our areas of operation. Our long-term incentive programme, meanwhile, links directly to share price performance (see our Remuneration Report for more details www.polymetalinternational.com).

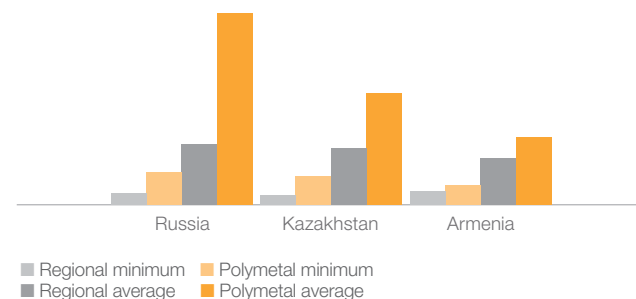
Our operational staff receive a time-paid salary that is set according to the number of hours worked and the amount of work completed, plus performance-based monthly and annual bonuses. As always, in 2016, we sustained stable wage growth in line with inflation.

We also offer social support for workers. For example, we offer financial aid to those in need, and we doubled the amount of each payment in 2016 compared to 2015. We provide housing support and cover interest payments on employee mortgages. We subsidise our employees' children's kindergarten, afterschool activities and a holiday camp. And we pay holiday travel costs for employees working in remote locations – and their families – once every two years.

Health is important, not only to our employees but also to the health of the business. We take steps to ensure a healthy workplace and promote well-being. For example, in 2016 we introduced an annual free stay in a partner health resort. We provide additional severance pay to retired employees upon their leaving, and offer parental leave. In 2016, 296 people took maternity (99%) and paternity (1%) leave, and 100% returned to Polymetal following their leave.

POLYMETAL SALARIES COMPARED TO REGIONAL WAGES

(Polymetal minimum salaries were 218% higher than the regional minimum)



IMPROVING WORKING AND LIVING CONDITIONS

In 2016, we continued to improve working and living conditions for employees, particularly those engaged in shift work in remote locations. Our efforts included infrastructure improvement and development at the mines.

At Albazino, we renovated our existing dormitory and built a new one for 100 employees. At Khakanja, the canteen facilities and dormitory were renovated at a cost of around US\$300,000. At Mayskoye, we renovated facilities for women, and opened a new office and canteen building as the former ones were located on the site of our expanded open pit. At Dukat, we renovated an entire housing estate, while at Kyzyl, we built a new dormitory for our contractors. In 2017, we plan to complete construction of a portable sports complex for training and holding team competitions.

WE INVEST IN TRAINING AND DEVELOPMENT

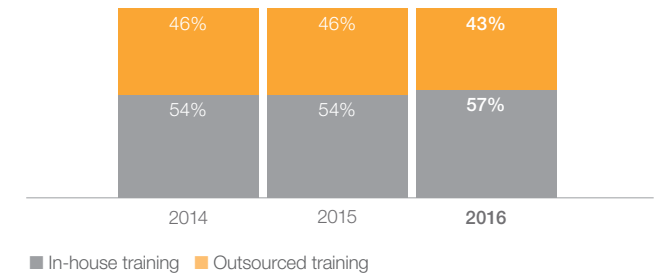
We invest in Group-wide training and development to build our workforce's skills, ensuring we meet our long-term Company objectives and provide opportunities for our employees to progress in their careers. This includes our Talent Pool to help develop the next generation of skilled managers.

From day one, each employee is given an appraisal where a personal training programme is decided upon, covering both general operational and technical aspects of our business. At each subsequent appraisal, we agree further training – professional and managerial – through our network of corporate training centres and guest coaches. And to expand horizons, we give key employees the opportunity to attend training sessions held by other international mining companies, and we provide training sessions to the teams of other mining and engineering companies.

Over the past years, we have also offered a distance learning programme, which complements the work of our training centres and on-site teaching facilities, increases productivity and efficiency, and particularly helps us provide training for employees in remote locations. In 2016, we updated some of our distance learning training courses and published exams to help employees test their knowledge. This culminated in our 2016 competition to find our 'Best in Profession' (see case study for more information).

In 2016, we invested US\$866 thousand in professional training across the business – 28% more than in 2015. 8,891 employees (82% of our workforce) received training, and the number of employees trained in-house increased by 10% at the same cost as in 2015. We also increased our number of in-house trainers. On average, those trained received 60 hours of training, while managers, qualified employees and workers received 34, 41 and 104 hours respectively.

TRAINING (number of employees trained)



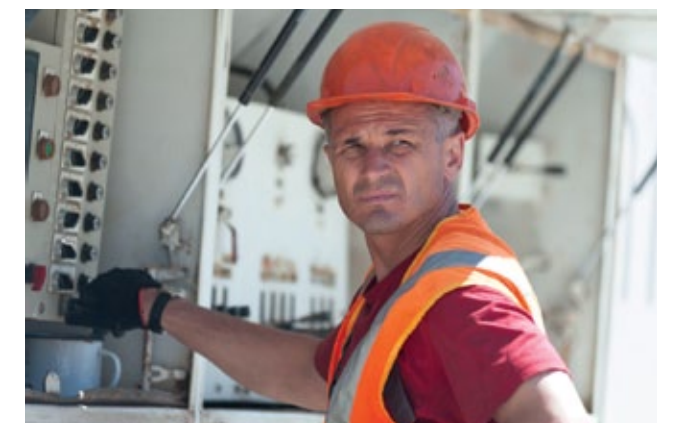
Talent pool

We continued to provide all employees in our Talent Pool with personalised targets, assessments and development plans in 2016. As a result of comprehensive training conducted in 2014–2016, last year we were able to promote 16 employees from our Talent Pool to key positions within the Company. In fact, our Talent Pool provided 33% of our internal recruitment needs (52% was met by other in-house promotions, and only 15% through external recruitment).

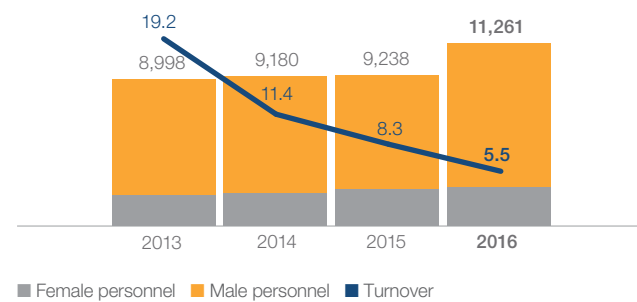
Programmes for young people

During 2016, people under 30 accounted for 24% of our workforce (24% of those are female). We provided training for those with high potential to prepare them for leadership challenges of the future. We covered subjects such as occupational health and safety, production control, construction, mine planning and labour relations. In 2017, we will expand the number of groups and participants.

In 2016, we held a scientific and industrial conference for young professionals in three regions simultaneously. This attracted 43 participants (32 in 2015) to discuss their research interests and explore career development opportunities. For the second time, we held a contest for best project proposal, and the winners were announced at the International Forum of Young Scientists at the Mining University of St Petersburg in April 2016. We have also been working with 12 universities and five technical colleges to provide internships, placements and other opportunities for their young students to gain experience in industry.



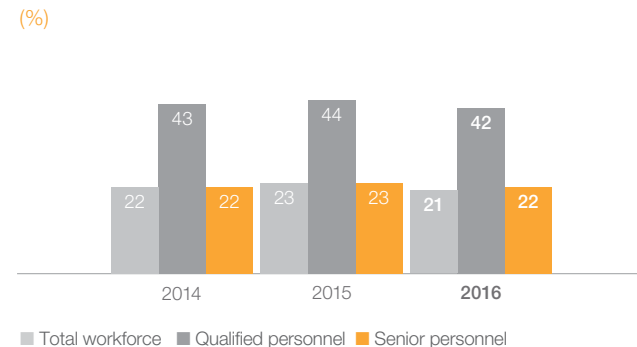
HEADCOUNT AND TURNOVER



DIVERSITY

Our industry is known for being traditionally male dominant, due to the physical requirements and nature of mining. Nevertheless, we actively promote the inclusion of women in our workforce and leadership teams. In 2016, women occupied 22% of our senior management roles, and represented 42% of our qualified personnel. Women also make up 22% of our Board and 21% of our total workforce (see the diagram below).

FEMALE PERSONNEL (%)



INVESTING IN OUR PEOPLE CONTINUED

0 strikes or lockouts

5.5% turnover rate



REGULATED AND FAIR EMPLOYEE RELATIONS

We have an excellent track record in regulating employee relations based on equality, consideration of mutual interests, strict compliance with local social and labour regulations and constructive dialogue between partners on all social and labour issues.

We support our employees' rights to freedom of association and collective agreements. In 2016, 88% of all our employees worldwide and 100% of personnel at our operating sites in Russia, Armenia and Kazakhstan were covered by collective bargaining agreements. We signed collective bargaining agreements at all our new operations including Kyzyl, Svetloye, Komar and Kapan mines. We also extended agreements at Mayskoye, Voro and Okhotsk for a further three years.

At each site, we have established Labour Relations Commissions to facilitate discussions between our employees and the Company. We have also created Workers' Councils and set up a system of formal feedback sessions. We provide employees with opportunities to feed back any concerns – including anonymously – through our Internal Communication System. In 2016, we received 1,269 enquiries (814 in 2015). So far, we have responded to 99.6% of these, mostly at meetings (57%) and through our hotline (17%). We also introduced a new system that outlines department regulations and job descriptions to improve transparency for all our employees. And we conducted personnel audits at our sites at Mayskoye and Omolon, in line with state labour inspection requirements.

CHANGES TO KEY EMPLOYMENT TERMS AND NOTICE PERIODS

We communicate any changes in working conditions and other significant events in a timely and appropriate way. The amount of notice given to employees is covered by collective agreements and complies with appropriate legislation in the country of employment. In the Russian Federation and Republic of Armenia, the minimum notice period for changes in employment terms due to organisational change; changes to operational working conditions; changes in, or introduction or review of worktime standards; or upcoming dismissal due to Company liquidation is two months before changes come into effect. In the Republic of Kazakhstan, the notice period for these changes is one month.

In the face of any potential numerous layoffs the Company dismisses step-by-step, and temporarily suspends recruitment. We provide training for workers to enhance their skills or change professions as needed by the Company, continue to pay salaries throughout re-training, and wherever possible, transfer employees to other areas of the business.

OUR PROGRESS IN 2016

| WE SAID... | WE DID... |
|---|--|
| We would promote safe behaviour and risk assessments to help decrease injury rate. | We continued to promote safe behaviour by providing safety training to our personnel. We also continued implementing shift risk assessments in hazardous production facilities and automated data collection and processing aimed at eliminating hazards at work places. |
| We would keep our turnover rate level at less than 10%. | We decreased it by 34% from 8.3% to 5.5%. |
| We would develop our young leaders' skills according to our new programmes implemented in 2015. | We developed our young employees through training, holding our conference and participating in International Forum of Young Scientists at the Mining University of St Petersburg. |
| We would conduct targeted training for engineers. | We expanded the number of courses and added technical training. |
| We would launch new courses at our Mining IT centre. | Achieved – we have expanded the number of courses. |
| We would conduct targeted training for employees involved in underground mining. | We trained our employees involved in underground mining to operate machines via remote control, enabling them to work in hazardous areas. |
| We would progress 30% of our interns to full-time employment. | We employed 19% of our interns in full-time positions. |

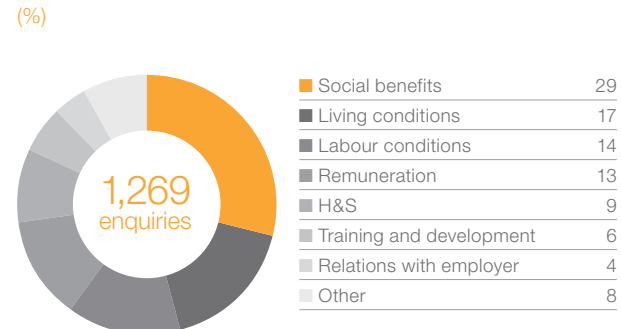
PLANS FOR 2017 AND BEYOND

Looking ahead, our key objectives for 2017 and beyond are as follows:

- To implement more training on safety and risk assessment
- In February 2017, to hold a Young Geologist meeting at Voro, involving training on our Company standards – this will also help us expand our Talent Pool
- To create multimedia for training courses in our centres.
- To continue to provide a salary increase in line with inflation
- To expand our Talent Pool and include energy engineers and geologists in this



ENQUIRIES FROM EMPLOYEES (%)



HEALTH AND SAFETY

PRIORITISING HEALTH AND SAFETY

The safety of our employees is our number one priority. We won't compromise on making sure our people work in a safe environment, despite often harsh and remote conditions, a greater number of employees, and increasing our underground operations. We invest heavily in safety training, and strive to meet the most stringent international health and safety standards. Our goal is a zero harm work culture.



WHO IS RESPONSIBLE?

Group CEO, Chief Operating Officer, HSE Director, Head of Health and Safety, managing directors, chief engineers and health and safety managers at our operations, HR department



WHAT GUIDELINES DO WE FOLLOW?

UN Global Compact, ICMC guideline, Group Code of Conduct, Health and Safety Policy, OHSAS 18001, GOST R 12.0.007-2009 and management systems relating to labour protection, adhering to national occupational safety standards



STAKEHOLDERS

Employees, contractors, suppliers, local communities, specialised government agencies, independent auditors



PRIORITIES

To achieve zero harm, reduce and effectively manage critical risks, and maintain a safe working environment for all employees; promote safe conduct; prevent workplace accidents and work-related illnesses; comply with relevant regulations and standards and embed responsible safety behaviour across every aspect of our operations



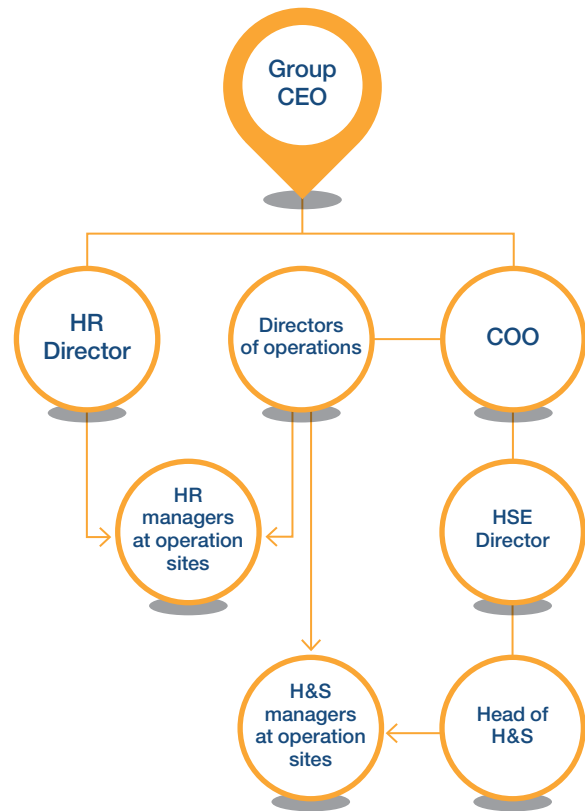
MATERIAL ASPECTS

- Types of injury
- Rates of injury
- Occupational diseases
- Lost days and absenteeism
- Total number of work-related accidents
- Risk assessment and management
- Emergency preparedness



WORKING IN REMOTE LOCATIONS AND ENVIRONMENTS MEANS THAT MAINTAINING RIGOROUS SAFETY PROCESSES CAN SOMETIMES BE CHALLENGING. BUT WE TAKE SERIOUSLY OUR RESPONSIBILITY TO EMBED SAFETY AT ALL TIMES, AND ACROSS OUR ENTIRE ORGANISATION. OUR EMPLOYEES' SAFETY IS OUR ABSOLUTE TOP PRIORITY.

Vitaly Savchenko
Chief Operating Officer



OUR 'ZERO HARM' APPROACH

We strive for a 'zero harm' culture, in which every employee takes personal responsibility for their own safety as well as that of their colleagues. We continually promote excellent safety behaviours to ensure all our people and contractors work in a safe environment. And we are not complacent – this is an ongoing journey of constant training, improvement and re-evaluation.

Despite our best efforts on training, creating safety management systems and complying with stringent international standards and regulations, accidents unfortunately can happen. In recent years, we have been faced with larger volumes of underground mining operations in more challenging geomechanical conditions. However, we are encouraged that we have been able to maintain our Lost Time Injury Frequency Rate (LTIFR), despite an increase in personnel, underground operations and operations intensity.

While we had modest improvement in 2016, the loss of four lives during the year is a tragic result, which we view as an area of major concern.

CORPORATE GOVERNANCE, REGULATION AND STANDARDS

We comply fully with H&S legislation wherever we operate, and strive to meet all relevant international requirements. In 2016, we worked hard to ensure that our compliance with external certification OHSAS 18001 was reaffirmed for our Occupational Health and Safety Management System (OHSMS). Following the update of our Health and Safety Policy in 2014, (available at www.polymetalinternational.com), we have continued to communicate this to our employees and stakeholders through information boards, our internal newspaper, and weekly Safety Day meetings. All facilities across our operations are also fully insured.

ASSESSING OUR RISKS

Our Health and Safety (H&S) system guides us in detecting, assessing and mitigating risks, safeguarding employee health and workplace safety, and making sure equipment, buildings and other structures are used safely. It also ensures that supervision measures are carefully controlled, and that we conduct internal audits effectively.

Each year, we identify and assess risks across the Group and create risk maps for all our working processes and locations. We then develop detailed programmes to help us reduce these risks. We follow a Shift Risk Assessment (SRA) model to raise employee awareness of workplace dangers, manage risks promptly, and control the accuracy of our risk assessments. We implement SRA most rigorously in hazardous operational areas, for example automobile transport, mines, and plant and power supply.

IDENTIFYING RISK MANAGEMENT FOCUS AREAS

We recognise the risks associated with each of our sites – in Russia, Kazakhstan and Armenia, 93 individual units across our production facilities, plants and mines have been classified as 'hazardous'. That is why our primary focus is on reducing the level of the most significant risks at our 12 underground operations.

We carry out an annual qualitative hazardous risk assessment, and inform employees of the results through a range of communications channels. We have increased the number of critical risks (from five in 2015, seven in 2016 to ten in 2017). And we have identified the greatest hazards at our sites as falling rock, road transportation accidents and working at heights. Other hazards include maintenance works, trapping, blows, fires and electricity.

In 2016, we updated our OHSMS. For example, we re-allocated responsibilities for actions and outcomes, checked equipment and our mining fleet from a safety perspective, and changed incentive systems to reduce risks and avoid safety being sacrificed for achieving production targets.

We are now implementing our new Critical Risks Management (CRM) system. Our old system looked at three types of general organisational measures aimed at safety improvements, but we now focus on critical risks. For 2017, we identified risks as being extreme (20%), high (23%), average (30%) and low (27%).

WORKPLACE ACCIDENTS

We are deeply saddened that in 2016 we lost four colleagues in tragic workplace accidents. Two were caused by falling rock at our Dukat and Albazino underground mines (on April 14 and June 30 respectively). One welder died at our Varvara mine on 6 October as a result of thermal injury, and one driver passed away at our Svetloye mine on 8 October as a result of a road accident. There were also 15 non-fatal accidents in total across the Group. Of these, one was severe and 14 were minor. This causes us considerable concern.

Any fatality, accident or injury within our operations is wholly unacceptable, and we offer our sincere condolences to the families and friends of the deceased. We pay tribute to their dedication and hard work, and are of course covering related costs and delivering ongoing financial support to their families. In 2017, we will re-double our efforts to return to our previous record of zero fatalities across all our operations.

While we are encouraged that the overall number of fatalities has reduced by 1.5 times year-on-year, and that our LTIFR decreased by 14% compared to 2015, we will continue to dedicate significant resources and implement additional measures to do all we can to safeguard our employees from future injury.



NEW POSITIONING SYSTEM IMPROVES SAFETY FOR MINERS

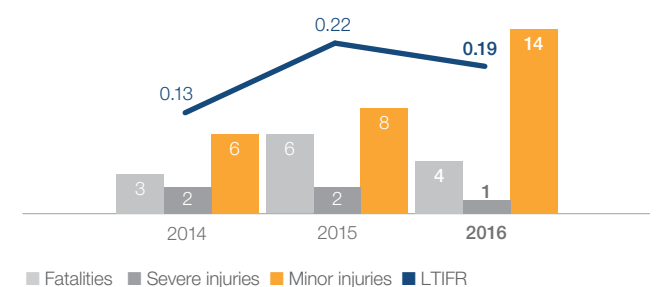
In 2016, we introduced an innovative positioning system at all our Polymetal underground mines. The new system allows us to track – in real-time – the whereabouts of all our people working underground. This means that in the event of an emergency, trackers could more accurately detect our miners' location.

The system can provide audio and visual alarms to the miners, alerting them to get in contact with the dispatcher and leave the work zone. It uses a gas analyser to monitor the air quality in the mine, and records dispatchers' audio messages, similar to flight data recorders on aircrafts. The system saves daily information on our server, allowing us to develop a positioning archive, and as mining proceeds, the system can be adapted to cover new working zones.

We first launched the new system at our Avlayakan mine, followed by Albazino, in Russia. To use all the system capabilities, we increased the internet connection speed at each site and hired an employee to continuously monitor our people's movements.

"A chip is built in to the miner's headlight, and from this our system receives data at set intervals, updating the mine dispatcher's screen," says Sergey Novoselov, Engineer – Occupational and Industrial Safety. "While the chip is small, the implications for our miners' safety are huge."

HEALTH AND SAFETY PERFORMANCE



HEALTH AND SAFETY CONTINUED

OUR HEALTH AND SAFETY PERFORMANCE

Company statistics

| | 2016 | 2015 | 2014 |
|--------------------|------|------|------|
| Accidents | 19 | 16 | 11 |
| – of which fatal | 4 | 6 | 3 |
| Incidents | 3 | 0 | 1 |
| Occurrences | 46 | 36 | 25 |
| LTIFR ¹ | 0.19 | 0.22 | 0.13 |

Contractor statistics

| | 2016 | 2015 | 2014 |
|--------------------|------|------|------|
| Accidents | 12 | 4 | 9 |
| – of which fatal | 3 | 3 | 1 |
| Incidents | 0 | 0 | 0 |
| Occurrences | 50 | 16 | 13 |
| LTIFR ¹ | 0.37 | 0.12 | 0.25 |

Definition of health and safety terms: **Accident:** an unfortunate event that occurs in the course of work, on the way to or from work, or in a Company vehicle, which leads to mental or physical harm. **Incident:** an event that gives rise to an accident, or has the potential to lead to an accident (for example, an unexpected explosion and/or the release of dangerous substances). **Occurrence:** a failure, near miss or dangerous event. **LTIFR:** Lost Time Injury Frequency Rate per 200,000 hours worked.

¹ Any restatement and variances are due to changes in methodology: we now use 200,000 man-hours rather than one million man-hours for the calculation of LTIFR.

ANALYSIS AND RESPONSE

To help us understand any weaknesses in our safety performance, we always investigate and analyse all workplace accidents. We apply the ‘5 Whys?’ principle to internal investigations, which we undertake in addition to investigations by state authorities. This process involves evaluating all possible health and safety risks – from technological and technical liabilities to employees’ psychological and emotional influences.

After thorough research and analysis, we draw comprehensive conclusions and implement measures to help prevent re-occurrence. We inform all employees and contractors of our findings and incorporate new measures into our Company safety action plan. In addition, we implement all recommendations by state authorities.

OUR NEW SAFETY MEASURES

In 2016, we implemented several new measures to further improve safety. We ran a pilot on a new mining method, which involves choosing optimum parameters, increasing the number of backfill systems (rock support), and means no workers are required to enter the stope. We provided training to our underground machine operators on remote control operating, which enables them to work safely in hazardous areas. We also mechanised ancillary underground processes by implementing special-purpose machinery and new materials (timbering, blasting).

We fully implemented SRA in hazardous production facilities, and automated data collection, processing, and control procedures. We engaged internal and external coaches to train our staff on safe and responsible behaviour in hazardous production facilities. And we installed our new positioning system in our underground mines to more accurately track our underground workers. (Read more in our case study on page 41.)

THE IMPORTANCE OF EMPLOYEE ENGAGEMENT AND TRAINING

Training and engaging employees is critical to establishing safe practices. Our human resources team has created an HR management system that defines procedures for recruiting and assigning employees with specific skills, and providing training to develop skills. We also clarify competence requirements for each relevant job description. Our heads of business units identify training needs, and we train specialists in occupational health and industrial, electric and fire safety. We also provide refresher and special-purpose training.

In 2016, 10,837 employees (100% of all our workers) attended safety courses; 9,100 (84% of total headcount) underwent mandatory training; 1,069 (10%) received risk management and safety behaviour training; while 668 (6%) were trained on safety culture.

To engage and motivate employees further, we run contests to improve safety (see our case study on page 41), and we reward departments that achieve zero occurrences and incidents. We also publish our ‘safety barometer’ in our corporate newspaper, and on information desks and portals.

HOW WE RESPONDED TO THE FOUR WORKPLACE FATALITIES IN 2016:

| ORGANISATIONAL | TECHNICAL | MOTIVATIONAL |
|---|---|---|
| <ul style="list-style-type: none"> Held quarterly meetings on safety with contractors Revised individual instruction cards as well as technological maps Trained employees on risk determination and safety culture Intensified incidents reporting Improved visualisation | <ul style="list-style-type: none"> Equipped all mining fleet with safety elements (protective shields, cabins, speed control) Developed and implemented management standard for geo-mechanical conditions Prohibited use of open-fire heaters Optimised mining technology Installed automated system for medical testing at our Dukat mine | <ul style="list-style-type: none"> Increased operators’ pay for use of remote control Linked drivers’ pay to speed performance Promoted use of protective glasses Held monthly safety and key risks events on particular topics Promoted the Company’s ‘Golden rules for safety’ |

OCCUPATIONAL DISEASES

There were four cases of occupational diseases and health difficulties recorded in 2016 (two cases of silicosis, one of hearing loss and one of neuropathy of the forearm). All of the employees had been involved in underground mining with more than 20 years’ experience working in hazardous conditions, including cold climate, noise, vibration, dust and hard physical work. Three employees continue to work with us, and one left the profession.

2016 is the first year we have recorded diseases because the Company’s history is relatively short (19 years) and our personnel are generally young. We are only now facing the challenges of aging employees. In response to these cases, we revised our social package, adding a resort treatment option, and we aim to expand social guarantees further in 2017–2018.

OUR PROGRESS IN 2016

| WE SAID... | WE DID... |
|---|---|
| We would ensure we have a rigorous and robust OHSMS in place, certified in excellence by a three-stage external audit by Bureau Veritas. | Our certification has been reaffirmed following inspection audit. |
| We would isolate the risk of rock fall in underground environments, and prevent injuries caused by this risk. | We have halved the number of incidents involving rock mass fall. |
| We would create conditions for our employees that promote safe behaviour, and ensure each employee works in accordance with our shift-by-shift risk assessment system. | We have implemented measures, such as hiring external consultants to analyse behaviour, and improving contractors’ management and relations – we trained contractors, required compliance with our standards, and engaged with them in safety meetings. We also increased motivation through our revised payment structure. |
| We would keep on top of safety by applying technology to locate workers in emergency situations. | We have implemented this at all sites (it is ongoing at Dukat). |
| We would rigorously analyse monthly risk assessments (MRA) results and devise appropriate and impactful measures in response to any inefficiencies or weak points revealed. | We have identified two risks – working with electricity and fire. We have expanded the number of risks from five to seven, and managed them throughout 2016. |
| We would reduce the level of the most significant risks that cause injuries, and ensure that monthly injury rates are reduced by 10% against average quarterly indicators from the same period. | The dominant risks were rock fall (decreased by 50%), transport accidents (flat), and working at height (flat). Our LTIFR stays at constant low level. |
| We would continue extending our OHSMS to all production processes and work performed by Polymetal employees and by contractors on our premises. | We have implemented OHSMS at new production sites (Komar, Kapan and Kyzyl). We increased contractor responsibility by requiring suppliers and contractors to continuously assess risks and promote safe behaviour. |

PLANS FOR 2017 AND BEYOND

Our key objectives for 2017 and beyond are as follows:

- To use our CRM system and expand the number of risks
- To continue safety training for all our employees at all our operations, provided by our newly trained coaches
- To improve existing visualisation of hazards and implement it at our new mines to prevent employees entering dangerous areas
- To install speed control tools in all of our own vehicles and those of our contractors
- To continue replacing more manual work with equipment in underground mining to improve safety
- To update our OHSMS in terms of allocating responsibilities and KPIs to managers to promote safety leadership

COMMUNITIES

SUPPORTING LOCAL COMMUNITIES

We work very closely with communities where we operate, to make sure our activities have a positive impact and support local development.



WHO IS RESPONSIBLE?

Group CEO, PR Director, Technical Council, subsidiary managing directors working with heads of Finance, Communications



WHAT GUIDELINES DO WE FOLLOW?

UN Global Compact, Group Code of Conduct, Policy on Social Investment, Community Relationship Management System



STAKEHOLDERS

Employees, national government, local government, specialist government agencies, local communities, indigenous peoples' groups and other NGOs



PRIORITIES

Expand the range of community partnership agreements, improve the quality of life for communities, improve communication and cooperation with communities, promote sports and cultural activities



MATERIAL ASPECTS

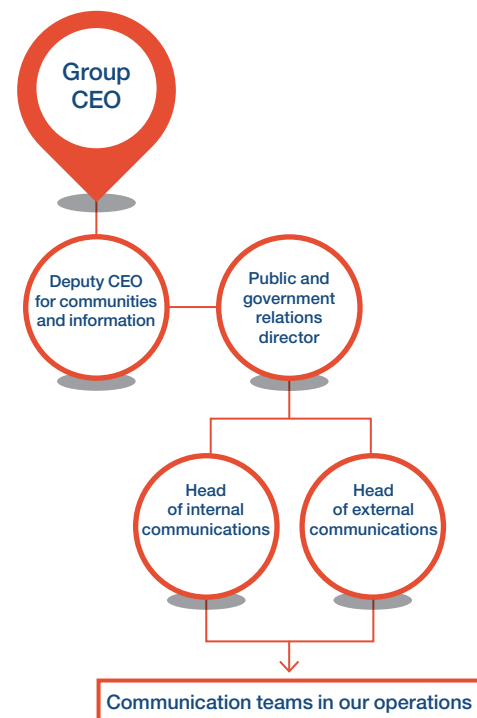
- Local communities
- Public policy
- Investment
- Development and impact of infrastructure investments
- Formal agreements with indigenous people and local communities
- Grievance mechanisms for impacts on society
- Rights of indigenous people
- Resettlement

COMMUNITIES



WE BELIEVE THAT AS OUR BUSINESS GROWS, SO DOES OUR RESPONSIBILITY TO THE LOCAL COMMUNITIES WHERE WE OPERATE. WE WANT COMMUNITIES TO SEE US AS A POSITIVE ADDITION, AND TO RECOGNISE US AS A RESPONSIVE COMPANY THAT IS GENUINELY CONCERNED WITH THEIR WELL-BEING.

Yulia Pivovarova
Public Relations Director



OUR APPROACH: MEANINGFUL ENGAGEMENT AND INVESTMENT

Every single one of our sites and facilities provides employment opportunities for local people. As well as paying regional taxes, we invest in local communities – funding education, health, culture and infrastructure. We also work to minimise any negative impact of our business on society, aiming to incorporate local community requests, for example at all stages of planning and development.

We have dedicated teams overseeing our community investment and engagement programmes. And each time we invest in a new mining site or project, as a priority we assess social and economic risks and impacts that our activities may have at local and regional level. We develop long-term strategies and engage with local communities, institutions, authorities and organisations to ensure we deliver maximum value to local people.

We have implemented our Community Engagement System (CES) at all our subsidiaries, which helps us to manage local investments and keep track of our regular community interactions. Local people can stay up-to-date with our activities, and it gives us good opportunities to consult with them, listen to their needs, and respond to any concerns. In fact, as a result of our ongoing community engagement over several years, by the end of 2016 we had a total of 25 community cooperation agreements (including newly integrated for Kapan) covering most of the areas where we operate.

WE COMPLY WITH INTERNATIONAL STANDARDS

We follow international standards and conventions on community relations, such as the UN Declaration on the Rights of Indigenous Peoples and the UN Global Compact. And we have developed our in-house standards and policies in line with international best practice.

In 2016, we developed our new Community Engagement Standard as a part of CES. We have implemented this at several sites, and by 2018 it will become Group-wide, covering all of our sites. This will ensure a universal approach to all our community engagement.

The new Standard complements our Corporate Code of Conduct, which sets out how we expect our employees to conduct themselves towards others, including local communities and authorities. The Standard also accompanies our Social and Charity Investments Policy, and other key procedures.

HUMAN RIGHTS

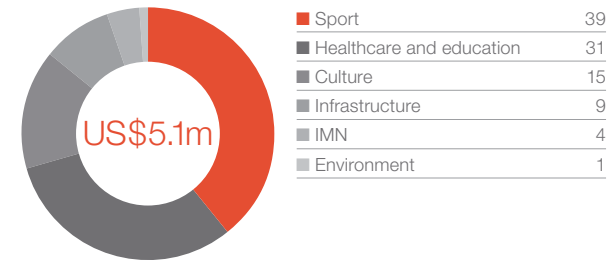
In 2016, we adopted our new policy on human rights, which reaffirms our commitment to respecting human rights and preserving the cultural heritage of the indigenous communities in the areas where we operate. We will implement this throughout 2017. During the year, there were no recorded violations of the rights of minority groups.

OUR COMMITMENT TO SOCIAL INVESTMENT

In 2016, we invested more than US\$5 million in local communities. Over the past five years, our investment has reached a total of US\$24.9 million, focusing particularly on projects involving healthcare and education, infrastructure, sport and lifestyle, culture and creative potential, Indigenous Minorities of the North (IMN), and environmental protection. We also made charitable donations worth US\$68 thousand.

In addition to financial, we make 'in-kind' donations. In 2016, our in-kind investments included humanitarian aid to reindeer herders, with donations including food, fuel, lubricants, firewood and medicines; delivery of food and medicine to remote communities and indigenous minorities in the Magadan, Khabarovsk and Chukotka territories; and construction and maintenance of roads in remote areas.

SOCIAL INVESTMENTS IN 2016 (%)

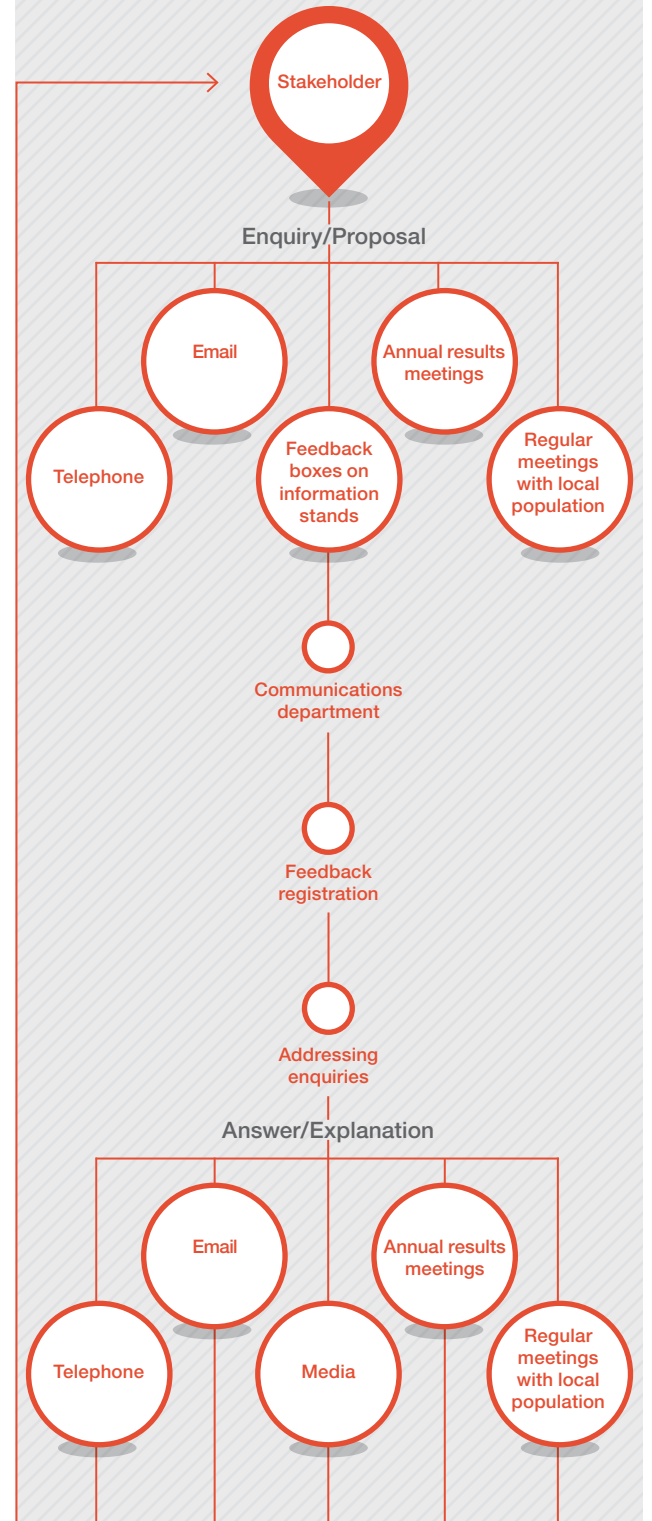


INVOLVING EMPLOYEES IN OUR CHARITY ACTIVITIES

We involve our employees across our sites – including new operations – in our charity initiatives. In 2016, for example, 1,300 employees participated in 18 charity events. We also structured our corporate volunteering activities and conducted information campaigns about them.



FEEDBACK MECHANISM



COMMUNITIES CONTINUED

KEY SOCIAL INVESTMENT

| | NUMBER OF PROJECTS | INVESTMENTS (US\$ '000) | TOP PROJECTS |
|---|--------------------|-------------------------|---|
| HEALTHCARE AND EDUCATION | | | |
|  | Over 60 projects | US\$1,563 | <ol style="list-style-type: none"> 1. Kindergarten for 180 children in Zharminsky District (Kyzyl project) 2. Delivering medical care to remote areas of the Khabarovsk Territory 3. Purchasing a couvouse for the central district hospital in Okhotsk |
| INFRASTRUCTURE | | | |
|  | Over 20 projects | US\$461 | <ol style="list-style-type: none"> 1. Building bridges in the Chukotka region 2. Village lighting project in Khabarovsk Territory 3. Public park in Krasnoturyinsk |
| SPORTS | | | |
|  | 35 projects | US\$2,000 | <ol style="list-style-type: none"> 1. Repairing roof of the children's sports school in Omsukchan 2. Repairing the swimming pool in Amursk – the only local pool in which infants can swim 3. Arrangement of a protective net on Krasnoturyinsk's stadium |
| CULTURE | | | |
|  | Over 40 projects | US\$751 | <ol style="list-style-type: none"> 1. Repairing the cultural centre in Vorontsovka settlement 2. Equipping the sculpture and ceramics workshop in Amursk 3. Repairing/replacing stage and lighting equipment in the leisure and folk arts centre in Omsukchan |
| INDIGENOUS MINORITIES OF THE NORTH (IMN) | | | |
|  | Over 50 projects | US\$208 | <ol style="list-style-type: none"> 1. Implanting microchips in reindeers for the census in Khabarovsk Territory 2. Repairing the reindeer herders' staging area in Magadan Oblast, and constructing the staging area in Chukotka 3. Purchasing tools for the IMN culture workshop in Khabarovsk Territory |
| ENVIRONMENT | | | |
|  | Over 15 projects | US\$39 | <ol style="list-style-type: none"> 1. Equipping the environment section of the Amur River Nature Museum with interactive points 2. 'Healthy Environment' community engagement programme expanded at Ayano-Maysky district of Khabarovsk Territory 3. Trash Carnival drawing attention to waste and pollution by featuring costumes made of waste materials |

RESPONDING TO COMMUNITY NEEDS

Our Board of Directors and Management team review our annual community investments and targets to ensure they deliver meaningful change for communities. We also discuss community needs and decide investment priorities with local stakeholders. We communicate about our activities through our Community Engagement System (CES), and encourage local stakeholders to give us their feedback. Local communities in remote areas are important, and we regularly organise field trips and face-to-face consultations with them.

In 2016, we received 270 enquiries from local communities, mostly relating to employment opportunities, development plans, impacts on quality of life, and requests for support for cultural, sporting and environmental initiatives. During the year, we held 32 meetings, public gatherings and hearings for local community members and indigenous people. We also organised 15 site visits for members of the public and community representatives.

We began a dialogue with the community of Kapan, our newly acquired mine in Armenia. This involved identifying community stakeholders and introducing our CES to the local community. We created communication channels and provided all stakeholders with access to these channels, including employees, local residents, public organisations and authorities. As with our other operations, all stakeholders are now able to reach us easily and are guaranteed to receive a detailed response within two weeks.

At Kyzyl, we follow our resettlement action plan and stay in contact with former inhabitants who left the village in 2015. In 2016, we had no new resettlements.



MAKING A DIFFERENCE TO THE COMMUNITY OF KYZYL

After we acquired the Kyzyl project in 2014, we signed social and economic collaboration agreements with local authorities – and we have reaffirmed these agreements every year since then.

Together, we aim to improve life for the local community. We have bought an ambulance and a school bus, repaired water pipelines, helped renovate and equip an outpatient clinic, a youth centre, park, school, and even a wrestling gym.

Our largest contribution has been renovating the community's only daycare centre, which had been out of action for 20 years as it needed a major overhaul. Today, the centre cares for the emotional well-being and educational and social development of 180 children. "I'm not worried when I'm at work because I can leave my kids here," says local resident Savina Makulbaeva. "It's reassuring to know that I can work and they will be safe and sound."



COMMUNITIES CONTINUED

ASSESSING THE IMPACT OF OUR SOCIAL PROJECTS AND OPERATIONS

Designated departments at each of our operations regularly collect data relating to our social projects. They conduct community polls, and hold annual performance review meetings with stakeholders to evaluate the social and economic performance of our projects. This helps us respond flexibly to changing situations, adjust investments, and eliminate any possibility of funds being inappropriately diverted. They also provide local communities with the opportunity to participate directly in the development and monitoring of our social programmes.

In 2016, we conducted community polls in eight districts and met to discuss various issues over the course of 32 meetings. Our assessments showed several positive and no negative impacts from our operations. Positive impacts included tax payments, support of infrastructure and auxiliary industries, environmental protection and ecological projects, regional population increase due to the industrial growth, local employment opportunities, and social investment and community support. In fact, we received more than 80 letters from community groups expressing gratitude for our efforts in addressing social issues.

It gives us great satisfaction that in 2016 we constructed or upgraded 51 socially significant institutions (kindergartens, schools, health centres, sport and culture centres) in host communities in new and remote areas, providing targeted assistance to vulnerable people, including children from poor and disadvantaged families and the elderly.



TOMATOES IN THE COLD

Back in 2013, we launched our Healthy Environment Concerns Everyone project in the Khabarovsk Territory. Following its success, we extended this to four other regions where Polymetal operates. In 2016, almost 11 thousand people participated in more than 50 project activities.

For example, in the Magadan Region we introduced our 'Tomatoes in the Cold' initiative. Thirty-five boarding school children – 80% of whom belong to Indigenous Minorities of the North – participated in the activity, and decided to grow tomatoes despite harsh weather conditions. Our employees helped the kids by constructing a greenhouse, and checking the soil for safety and fertility. Together, we managed to produce 167kg of tomatoes.

As a result of this initiative, the children have become skilled at growing plants, which is unusual in such a remote area. Their understanding of healthy eating and the environment has increased, and for the first time, tomatoes are now included in their school's daily menu.

"In Evensk, constructing a shift camp is easier than constructing a greenhouse," explains Vladimir Bloshkin, Managing Director, Omolon Gold Mining Company, who was the first to support this project. "But it's important to support our children's goals – all the more so as resources are our speciality."



OUR PROGRESS IN 2016

| WE SAID... | WE DID... |
|---|---|
| We would develop, sign and implement a comprehensive community policy. | We have started the process and already implemented the policy in Kapan. In 2017–2018, we will continue roll-out to develop a Group-wide policy. |
| We would identify any additional stakeholders, establish stakeholder relations, and assess stakeholder needs. | After acquiring the Kapan mine, we analysed our stakeholder groups and opened communication channels to engage with each of them. |
| We would implement a stakeholder feedback system and carry out regular surveys in our new business areas. | We began integrating our Kapan stakeholders into our feedback system. Now all stakeholders can easily reach the Company and get a response to their questions/concerns. We have identified stakeholders at our newly acquired Komar site, and already carried out three meetings with the community. |
| We would increase the efficiency of social investments by engaging local communities in cooperative projects and social partnership programmes. | We have developed activity plans based on community feedback to engage local people, enabling them to participate in various activities and competitions. |
| We would enhance the quality of our social programme monitoring – in 2016, we intend to hold six meetings with local residents in our new regions of operation and receive their feedback on implemented social programmes. | We have conducted comprehensive social programme monitoring in two areas, and will hold a further one in March 2017 (due to logistical challenges in the remote area). We will also begin monitoring in two areas of Kapan and Komar in 2017, where we have recently signed community cooperation agreements. |
| We would extend the coverage of our social project assessment to 650 people. | We have conducted monitoring in nine areas, reaching more than 600 people. In 2017, we will continue to increase coverage, attracting more participants as we begin monitoring in several new territories. |
| We would expand our Healthy Environment project to four new areas and involve 4,500 people. | We extended our Healthy Environment programme to four new regions where we operate, including Kazakhstan. In 2016, almost 11,000 local people participated in programme events. |
| We would develop the scope of our stakeholder engagement by improving our corporate website. | We expanded the scope by implementing our Community Engagement System at our newly acquired Kapan mine. |

PLANS FOR 2017 AND BEYOND

Looking ahead, our objectives for 2017 and beyond are as follows:

- To continue implementing our Community Engagement Standard at all sites, identify any additional stakeholders, establish stakeholder relations, assess their needs, implement a stakeholder feedback system, and carry out regular surveys in our new areas of operation
- To carry out at least three meetings with local residents in our new regions of operation, and receive their feedback on implemented social programmes
- To systemise our charity activities and update our Social and Charitable Donations Policy

ECONOMIC

CREATING ECONOMIC VALUE

The long-term sustainability of our business depends upon economic success. A strong financial performance also helps improve local economies and livelihoods in the communities where we operate.



WHO IS RESPONSIBLE?

Group CEO, Polymetal trading and procurement teams, operations managing directors, heads of Finance, Communications, Operations, HR at the mine sites



WHAT GUIDELINES DO WE FOLLOW?

UN Global Compact, UK Corporate Governance Code, Group Code of Conduct



STAKEHOLDERS

Employees, government, local communities, indigenous peoples' groups and other NGOs, suppliers and contractors



PRIORITIES

Increase community investments, maintain all relevant tax payments, create shareholder value



MATERIAL ASPECTS

- Economic performance
- Market presence
- Procurement practices
- Indirect economic impact
- Product responsibility



AS WELL AS DELIVERING VALUE TO OUR SHAREHOLDERS, WE HAVE A MAJOR POSITIVE IMPACT ON THE ECONOMIC DEVELOPMENT OF THE REGIONS WHERE WE OPERATE. WE ARE HELPING TO IMPROVE LIVES THROUGH OUR INVESTMENT IN LOCAL COMMUNITIES, FACILITIES AND INFRASTRUCTURE. WE ALSO SUPPORT LOCAL, REGIONAL AND NATIONAL ECONOMIES THROUGH TAX TRANSPARENCY, HIRING LOCAL EMPLOYEES AND USING LOCAL SUPPLIERS.

Maxim Nazimok
Chief Financial Officer

OUR APPROACH: IMPROVING LIVELIHOODS AND ECONOMIC GROWTH

Our business model is focused on the delivery of long-term value for shareholders, employees, partners and other stakeholders.

But our economic impact is so much more. We contribute to regional economic progress by paying national and local taxes. When we develop our operations, for example by investing in upgrades and improvements, we employ many local people, helping to improve their quality of life. And wherever possible, we find local or regional suppliers to buy from – this helps to further boost local economies, as well as minimise the impact of supply transportation on the environment.

We also make social investments, helping to improve people’s livelihoods and strengthening our relationships with local communities.

We have a positive impact on the regions where we operate through the payment of taxes to Russian, Armenian and Kazakhstan state and local authorities. In 2016 alone, our tax payments across the Group amounted to US\$272 million, compared to US\$172 million in 2015. These payments include mandatory contributions to state social funds, including pension funds of the Russian Federation, Armenia and Kazakhstan. In the last reporting year, we did not incur any significant fines or non-monetary sanctions for non-compliance with laws and regulations.

In 2016, for the first time we also issued a separate report on payments to governments by Polymetal International plc and its subsidiary undertakings. This report covers the year ending 31 December 2015.

The report is required by the UK’s Report on Payments to Governments Regulations 2014 (as amended in December 2015). These regulations are in line with EU Accounting Directive 2013/34/EU. They apply to large extractive companies whose securities are publicly listed on a UK-regulated stock market – companies that are involved in the exploration, prospection, discovery, development and extraction of minerals, oil, natural gas deposits or other materials. This report is also intended to satisfy the requirements of the Disclosure and Transparency Rules of the UK’s Financial Conduct Authority.

LOCAL EMPLOYMENT

Employing locally has many benefits – it helps to strengthen ties between our business and communities where we operate. It lowers our costs and environmental impact, by not having to ‘fly in and fly out’ as many employees from other areas. It means employees – even before day one – are already dedicated to the well-being of the local community. And it helps us to increase our positive impact on local economies.

We actively recruit from local communities, creating employment opportunities at our major operational sites. In 2016, 96.5% of our employees were local nationals (Russian, Armenian and Kazakh, depending on the location of the site). This is higher than in 2015 (94.9%), and shows a year-on-year increase in local employment since we started keeping records in 2014.

SUPPLY CHAIN

In 2016, we moved all our procurement to a new, business-to-business e-procurement system. This has allowed us to expand our list of contractors and make our procurement system more transparent and effective. We conduct audits to ensure we work only with ethical suppliers. In 2016, we audited 3,744 companies (potential contractors) and rejected partnerships with 262 of them as they did not fit our principles of corporate governance and corruption policies. We also placed 130 on a blacklist.

Our capital expenditure suppliers – for example those providing plant infrastructure material and equipment – are often large, global manufacturers, which helps us lower risk and cost. Specific site requirements mean that goods and services are sometimes procured centrally, and we use Trading Platforms software to enable us to find the best supplier solutions. In 2016, we improved purchase control by tracking the status of each tender process. This helps us to distribute work to procurement teams within the Group in the most effective way.

Wherever we can, we engage local and regional suppliers, helping to stimulate regional and national supply chains and economies. On average, around 48% of our supplier purchases in Russia comes from the regions where we operate. We have maintained this rate for the past five consecutive years. In Kazakhstan and Armenia, local suppliers represent 90% and 30% of our procurement portfolio respectively.

The remoteness of many of our sites – and their extreme weather conditions – mean that our relations with regional suppliers are essential. In the more remote areas such as the Omolon, Okhotsk and Amursk hubs, all equipment is



delivered by sea during the navigation season, and we are dependent on regional suppliers. In the Magadan Region, building strong supply chain relationships is also critical, due to the limited transport options available. And at Mayskoye, 39% of all procurement came from local suppliers in 2016, the highest since operations began there in 2011.

VOLUNTARY SOCIAL INVESTMENTS

In addition to contributing to sustainable development through our core business, tax payments, local employment and local suppliers, we also contribute directly to our host communities through our voluntary social investment. This is reflected in the priorities and focus areas outlined in the Communities section of this report.

In the 2016 financial year, our voluntary social investment came to US\$5 million. You can read more about our commitment to making meaningful social investments in the regions where we operate on pages 47–48].

PRODUCT RESPONSIBILITY

Since 1998, we have not received any significant fines for non-compliance with laws and regulations relating to the use and provision of products and services.

ECONOMIC VALUE DISTRIBUTION¹
(US\$m)

| | 2016 | 2015 | 2014 |
|--|-------|-------|-------|
| Revenue | 1,583 | 1,441 | 1,690 |
| Cash operating costs (excluding depreciation, labour costs and mining tax) | 470 | 405 | 587 |
| Wages and salaries; other payments and benefits for employees | 222 | 203 | 248 |
| Payments to capital providers | 64 | 56 | 39 |
| Payments to shareholders | 179 | 216 | 173 |
| Taxes (excluding payroll taxes included in labour costs) | | | |
| – Income tax and excess profit tax | 169 | 55 | 72 |
| – Taxes, other than income tax | 11 | 12 | 22 |
| – Mining tax | 82 | 97 | 110 |
| – Social payments | 10 | 8 | 9 |
| Undistributed economic value retained | 376 | 390 | 430 |

¹ Any restatements and variances are due to changes in methodology and ensure consistent estimation across current and previous year values.

INDEPENDENT LIMITED ASSURANCE REPORT TO THE SHAREHOLDERS OF POLYMETAL INTERNATIONAL PLC



INTRODUCTION

We have been engaged by management of Polymetal International plc (hereinafter – the “Company”) to provide limited assurance on the Selected Information described below and included in the Sustainability Report for the year ended 31 December 2016 (hereinafter – the “Sustainability Report”).

SELECTED INFORMATION

We assessed the qualitative and quantitative information that is disclosed in the Sustainability Report and included in the Tables of the Global Reporting Initiative for standard disclosures in environmental, workforce, safety and socio-economic areas in the reporting scope of the Sustainability Report (hereinafter – the “Selected Information”). The scope of our assurance procedures was limited to Selected Information for year ended 31 December 2016.

REPORTING CRITERIA

We assessed the Selected Information using G4 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) (hereinafter – “GRI G4”). We believe that these reporting criteria are appropriate given the purpose of our limited assurance engagement.

POLYMETAL INTERNATIONAL PLC RESPONSIBILITIES

Management of the Company is responsible for:

- designing, implementing and maintaining internal controls over information relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- establishing objective Reporting Criteria for preparing the Selected Information;
- measuring and reporting the Selected Information based on the Reporting Criteria; and
- accuracy, completeness and fair presentation of the Selected Information.

OUR RESPONSIBILITIES

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
- forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to the management of the Company.

This report, including our conclusions, has been prepared solely for the management of the Company in accordance with the agreement between us, to assist management in reporting on the Company’s sustainability performance and activities. We permit this report to be disclosed in the Company’s Sustainability Report for the year ended 31 December 2016, to assist management in responding to their governance responsibilities by obtaining an independent assurance report in connection with the Selected Information.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than management of the Company for our work or this report except where terms are expressly agreed between us in writing and our prior consent in writing is obtained.

PROFESSIONAL STANDARDS APPLIED AND LEVEL OF ASSURANCE

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) ‘Assurance Engagements other than Audits and Reviews of Historical Financial Information’, issued by the International Auditing and Assurance Standards Board. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, together with the ethical requirements of the Auditor’s Professional Ethics Code and Auditor’s Independence Rules that are relevant to our assurance procedures over Selected Information in the Russian Federation.

Our firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

WORK DONE

We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information. In doing so, we:

- made enquiries of the Company’s management, including the Sustainability Reporting (SR) team and those with responsibility for SR management and group SR reporting;
- conducted interviews of personnel responsible for sustainability reporting data collection (interviews were held in Saint Petersburg);
- performed analysis of the relevant policies and basic reporting principles, gaining an understanding and evaluating the design of the key structures, systems, processes and controls for managing, recording and reporting the Selected Information;
- performed limited substantive testing on a selective basis of the Selected Information to check that data had been appropriately measured, recorded, collated and reported; and
- reviewed the Selected Information for compliance of the disclosures with the requirements of GRI G4.

REPORTING AND MEASUREMENT METHODOLOGIES

There are no globally recognised and established practices for evaluating and measuring the Selected Information. The range of different, but acceptable, techniques can result in materially different reporting outcomes that may affect comparability with other organisations. The reporting criteria used as a basis of the Company’s sustainability reporting should therefore be read in conjunction with the Selected Information and associated statements reported on the Company’s website¹.

LIMITED ASSURANCE CONCLUSION

Based on the procedures we have performed and the evidence we have obtained:

- nothing has come to our attention that causes us to believe that the Selected Information for the year ended 31 December 2016 has not been prepared, in all material respects, in accordance with the requirements of GRI G4; and
- nothing has come to our attention that causes us to believe that the Selected Information does not meet the Core requirements in accordance with GRI G4.

AO PricewaterhouseCoopers Audit

28 March 2017

Moscow, Russian Federation

A.V. Davydova, certified auditor (licence № 01-000490), AO PricewaterhouseCoopers Audit

Audited entity: Polymetal International plc

Zinas Kanther and origenous Corner street, Zinas Kanther Business Center, 3035, Limassol, Cyprus

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

ORNZ 11603050547 in the register of auditors and audit organizations

¹ The maintenance and integrity of the Company’s website is the responsibility of management; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information or Reporting Criteria when presented on the Company’s website.

KEY SUSTAINABILITY FIGURES

| ECONOMIC | Units | 2016 | 2015 |
|--|-------|-------|-------|
| Revenue | US\$m | 1,583 | 1,441 |
| Cash operating costs (excluding depreciation, labour costs and mining tax) | US\$m | 470 | 405 |
| Wages and salaries; other payments and benefits for employees | US\$m | 222 | 203 |
| Payments to capital providers | US\$m | 64 | 56 |
| Payments to shareholders | US\$m | 179 | 216 |
| Taxes (excluding payroll taxes included in labour costs) | | | |
| – Income tax and excess profit tax | US\$m | 169 | 55 |
| – Taxes, other than income tax | US\$m | 11 | 12 |
| – Mining tax | US\$m | 82 | 97 |
| – Social payments | US\$m | 10 | 8 |
| Undistributed economic value retained | US\$m | 376 | 390 |

| OPERATION | Units | 2016 | 2015 |
|---|-------|----------|------------|
| Stripping | Mt | 81.8 | 65.3 |
| Underground development | km | 92.2 | 73.1 |
| Ore mined | Kt | 13,380 | 12,679 |
| Open-pit | Kt | 9,506 | 9,626 |
| Underground | Kt | 3,874 | 3,053 |
| Ore processed | Kt | 11,417 | 10,821 |
| Average grade in ore processed (gold equivalent) | g/t | 4 | 4.2 |

| Production | | 2016 | 2015 |
|------------------------------|-----|-------|-------|
| Gold | Koz | 890 | 861 |
| Silver | Moz | 29.2 | 32.1 |
| Copper | Kt | 1.5 | 0.8 |
| Zinc | Kt | 2.9 | – |
| Gold equivalent ¹ | Koz | 1,269 | 1,267 |
| Sales | | 2016 | 2015 |
| Gold | Koz | 880 | 864 |
| Silver | Moz | 30.7 | 31.2 |
| Copper | Kt | 1.6 | 1.5 |
| Zinc | Kt | 2.8 | – |
| Gold equivalent ² | Koz | 1,301 | 1,278 |

| PRINCIPAL CONSUMABLES | Units | 2016 | 2015 |
|------------------------------|-------|--------|--------|
| Quicklime | t | 55,270 | 21,718 |
| Grinding body | t | 16,964 | 15,303 |
| Sodium cyanide | t | 8,814 | 8,495 |
| Concrete | t | 6,710 | 7,479 |
| Perhydrol | t | 6,597 | 6,870 |
| Flotation reagents | t | 3,244 | 1,823 |
| Soda | t | 1,124 | 1,093 |
| Caustic soda | t | 720 | 621 |
| Flocculant | t | 324 | 513 |
| Zinc powder | t | 318 | 359 |

Notes

1 Based on 1:80 Ag/Au, 5:1 Cu/Au and 2:1 Zn/Au conversion ratios.

2 Based on actual realised prices.

| ENERGY | Units | 2016 | 2015 |
|---|-----------|------------------|------------------|
| Diesel power plant | GJ | 2,293,803 | 2,177,000 |
| Diesel (transport and mobile machinery) | GJ | 2,001,618 | 1,875,000 |
| Electricity purchased | GJ | 1,844,458 | 1,618,000 |
| Coal | GJ | 670,278 | 613,000 |
| Natural gas | GJ | 167,126 | 180,000 |
| Petrol | GJ | 43,079 | 41,000 |
| Total energy | GJ | 7,020,362 | 6,195,602 |

| WATER | Units | 2016 | 2015 |
|---|-------------------------------|---------------|---------------|
| Ground water | thousand m ³ | 8,284 | 9,235 |
| Surface water | thousand m ³ | 5,779 | 2,479 |
| External water supply | thousand m ³ | 414 | |
| Total reused or recycled water | thousand m ³ | 12,125 | 7,670 |
| Water percent recycled and reused | % | 84 | 65 |
| Total water discharge | thousand m ³ | 11,850 | 7,486 |
| Watercourses | thousand m ³ | 8,478 | NA |
| Collecting ponds | thousand m ³ | 3,169 | NA |
| Landscape | thousand m ³ | 26 | NA |
| Sewage | thousand m ³ | 177 | NA |
| Water sources significantly affected by withdrawal of water | number | 0 | 0 |
| Total water withdrawn | thousand m³ | 14,477 | 11,713 |

| LANDS | Units | 2016 | 2015 |
|---|-----------------|---------------|--------------|
| Total managed land area | hectares | 19,285 | 14,543 |
| Land disturbed during year | hectares | 2,482 | 1,078 |
| Land reclaimed during year | hectares | 261 | 1,516 |
| Total land disturbed and not yet rehabilitated | hectares | 11,411 | 8,533 |

| EMISSIONS | Units | 2016 | 2015 |
|---|-------|---------|---------|
| Total Scope 1 & 2 Greenhouse gas emissions | t | 728,468 | 672,000 |
| Scope 1 Greenhouse gas emissions | t | 268,093 | 244,000 |
| Scope 2 Greenhouse gas emissions | t | 460,375 | 428,000 |
| Sulphur dioxide | t | 847 | 614 |
| Oxides of nitrogen | t | 1,608 | 1,361 |
| Carbon monoxide | t | 2,153 | 2,153 |
| Inorganic dust (solid particles) | t | 4,565 | 4,619 |
| Ozone depleting (CFC-11 equivalents) substances emitted | t | 0 | 0 |

| PROCESS WASTES | Units | 2016 | 2015 |
|---|----------|-------------------|-------------------|
| Waste rock | t | 63,116,390 | 59,338,000 |
| Tailings | t | 10,625,666 | 10,495,000 |
| Hazardous | t | 10,610 | 15,000 |
| Non-hazardous | t | 73,963,349 | 69,843,000 |
| Percentage of waste reused of total waste generated | % | 20 | 19 |
| Total process wastes | t | 73,973,958 | 69,878,000 |

| ENVIRONMENTAL EXPENDITURES | Units | 2016 | 2015 |
|-----------------------------------|---------------|--------|-------|
| Total environmental expenditures | US\$ thousand | 14,371 | 5,100 |

KEY SUSTAINABILITY FIGURES CONTINUED

| BIODIVERSITY | Units | 2016 | 2015 |
|---|--------|--------|-------|
| Total number of IUCN red list species and national conservation list species with habitats in areas affected by operations | number | 1 | 0 |
| Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas | number | 0 | 0 |
| SOCIAL | Units | 2016 | 2015 |
| Total workforce as of 31 December | number | 11,261 | 9,238 |
| Average headcount | number | 10,862 | 9,292 |
| Percentage of employees covered by collective bargaining agreements | number | 88 | 85 |
| Turnover rate | % | 5.5 | 8.3 |
| Shift workers | % | 53 | 51 |
| WORKFORCE DIVERSITY | Units | 2016 | 2015 |
| Percentage of female employees | % | 21 | 22 |
| Percentage of female managers | % | 22 | 23 |
| Percentage of female qualified personnel | % | 42 | 44 |
| Total young personnel (under 30) | number | 2,566 | 2,239 |
| Female young personnel (under 30) | number | 613 | NA |
| Male young personnel (under 30) | number | 1,953 | NA |
| Percentage of young personnel (under 30) | % | 24 | 25 |
| Disabled personnel | number | 8 | 8 |
| Taken parental leave | number | 296 | NA |
| Male employees on parental leave | % | 1 | 1 |
| Female employees on parental leave | % | 99 | 99 |
| Return to work and retention rates after parental leave | % | 100 | 100 |
| TRAINING | Units | 2016 | 2015 |
| Trained personnel | number | 8,891 | 8,111 |
| Percentage of employees trained in-house | % | 57 | 54 |
| Percentage of employees trained by external services | % | 43 | 46 |
| Average number of training hours per employee (per year) | number | 60 | 63 |
| SAFETY | Units | 2016 | 2015 |
| Polymetal | | | |
| Accidents | number | 19 | 16 |
| Fatalities | number | 4 | 6 |
| Incidents | number | 3 | 0 |
| Occurrences | number | 46 | 36 |
| LTIFR | rate | 0.19 | 0.22 |
| Contractors | | | |
| Accidents | number | 12 | 4 |
| Fatalities | number | 3 | 3 |
| Incidents | number | 0 | 0 |
| Occurrences | number | 50 | 16 |
| LTIFR | rate | 0.37 | 0.12 |
| HEALTH | Units | 2016 | 2015 |
| Occupational diseases and health difficulties | number | 4 | 0 |

| ETHICS | Units | 2016 | 2015 |
|----------------------------|--------|------|------|
| Code of conduct violations | number | 5 | 4 |
| Cases of corruption | number | 4 | 4 |

| PRODUCT RESPONSIBILITY | | 2016 | 2015 |
|--|---------------|------|------|
| Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data | US\$ thousand | 0 | 0 |
| Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services | US\$ thousand | 0 | 0 |
| Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services | US\$ thousand | 0 | 0 |

| COMMUNITY INVESTMENT | | 2016 | 2015 |
|---|---------------|-------|-------|
| Sport | US\$ thousand | 2,000 | 1,309 |
| Healthcare and education | US\$ thousand | 1,563 | 1,255 |
| Culture and art | US\$ thousand | 751 | 735 |
| Infrastructure of social importance | US\$ thousand | 461 | 200 |
| IMN support | US\$ thousand | 208 | 108 |
| Environment | US\$ thousand | 40 | |
| Charitable donations | US\$ thousand | 68 | |
| Number of partnership agreements | number | 25 | 21 |
| Total value of financial contributions to political parties, politicians, and political action committees | US\$ thousand | 0 | 0 |
| Total community investment | US\$ thousand | 5,023 | 3,606 |

| COMMUNICATION | | 2016 | 2015 |
|--------------------------------------|--------|-------|------|
| Employees enquiries | number | 1,269 | 814 |
| Responded employees enquiries | number | 1,264 | 814 |
| Communities enquiries | number | 270 | 100 |
| Public meetings and gatherings | number | 32 | 26 |
| Site visits by external stakeholders | number | 15 | 13 |

| COMPLIANCE | | 2016 | 2015 |
|------------------------|---------------|------|------|
| Significant fines | US\$ thousand | 0 | 0 |
| Non-monetary sanctions | US\$ thousand | 0 | 0 |
| Cases brought | number | 0 | 0 |

GRI G4 CONTENT INDEX

All indicators included in the appendix 'GRI G4 Content Index' have undergone external certification by an independent auditor (see the Independent Limited Assurance Report on the previous page).

GRI G4 GENERAL STANDARD DISCLOSURES

| GENERAL STANDARD DISCLOSURES | SCOPE | PAGES/NOTES |
|--|-------|--|
| STRATEGY AND ANALYSIS | | |
| G4-1 Statement from the most senior decision-maker | 1 | p. 2–3 |
| G4-2 Provide a description of key impacts, risks and opportunities | 1 | p. 14, 19 |
| ORGANISATION PROFILE | | |
| G4-3 Report the name of the organisation | 1 | Cover |
| G4-4 Report the primary brands, products, and services | 1 | p. 4, 8–9 |
| G4-5 Report the location of the organisation's headquarters | 1 | p. 6–7 |
| G4-6 Report the number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report | 1 | p. 6–7 |
| G4-7 Report the nature of ownership and legal form | 1 | Annual Report, p. 180 |
| G4-8 Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries) | 1 | p. 6–7, 16–17 |
| G4-9 Report the scale of the organisation | 3 | p. 4–7 |
| G4-10 Report the total number of employees by employment contract and gender | 3 | p. 33–34 |
| G4-11 Report the percentage of total employees covered by collective bargaining agreements | 2 | p. 36 |
| G4-12 Describe the organisation's supply chain | 1 | p. 8, 17, 55 |
| G4-13 Report any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain | 1 | p. 2–3, 6–7, 19 |
| G4-14 Report whether and how the precautionary approach or principle is addressed by the organisation | 1 | www.polymetalinternational.com |
| G4-15 List externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses | 1 | p. 11 |
| G4-16 List membership of associations (such as industry associations) and national or international advocacy organisations | 1 | p. 11 |
| IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES | | |
| G4-17 List all entities included in the organisation's consolidated financial statements or equivalent documents | 1 | p. 65 Annual Report 2016, p.131 |
| G4-18 Explain the process for defining the report content and the Aspect Boundaries | 1 | Inside front cover, 10–11, 18 |
| G4-19 List all the material Aspects identified in the process for defining report content | 1 | p. 18 |
| G4-20 Report the material Aspect Boundary within the organisation | 1 | p. 18, 65 |
| G4-21 Report the material Aspect Boundary outside the organisation | 1 | p. 18, 42, 65 |
| G4-22 Report the effect of any restatements of information provided in previous reports and the reasons for such restatements | 1 | In the footnotes on p. 26 and the GRI table |
| G4-23 Report significant changes from previous reporting periods in the scope and Aspect Boundaries | 1 | p. 18 |
| STAKEHOLDER ENGAGEMENT | | |
| G4-24 Provide a list of stakeholder groups engaged by the organisation | 1 | p. 16–17, 20, 23, 30, 32, 38, 44, 52 |
| G4-25 Report the basis for identification and selection of stakeholders with whom to engage | 1 | p. 16–17, 20, 23, 30, 32, 38, 44, 52 |
| G4-26 Report the organisation's approach to stakeholder engagement | 1 | p. 16–17, 22–23, 30, 32–33, 40, 46–47, 52–55 |
| G4-27 Report key topics and concerns that have been raised through stakeholder engagement | 1 | p. 10, 18 |
| REPORT PROFILE | | |
| G4-28 Reporting period (such as fiscal or calendar year) for information provided | 1 | Inside front cover |
| G4-29 Date of most recent previous report (if any) | 1 | March 2016 |
| G4-30 Reporting cycle (annual, biennial etc.) | 1 | Annual reporting cycle |
| G4-31 Provide the contact point for questions regarding the report or its contents | 1 | Inside front cover |
| G4-32 GRI content index | 1 | p. 61–64 |
| G4-33 External assurance | 1 | p. 56 |

* See Reportable segments on page 66.

GRI G4 GENERAL STANDARD DISCLOSURES CONTINUED

| GENERAL STANDARD DISCLOSURES | SCOPE* | PAGES/NOTES |
|--|--------|---|
| GOVERNANCE | | |
| G4-34 Report the governance structure of the organisation | 1 | p. 12–14 |
| G4-35 Process for delegating authority | 1 | p. 10–14 |
| G4-36 Executive-level positions | 1 | p. 12, 16–17, 20, 22, 30, 32, 38, 40, 44, 46, 52, 54 |
| G4-37 Consultation between stakeholders and the highest governance body | 1 | p. 10–11 |
| G4-38 Composition of the highest governance body | 1 | p. 13 |
| G4-39 Report whether the Chair of the highest governance body is also an executive officer | 1 | p. 13 |
| G4-40 Nomination and selection processes for the highest governance body and its committees | 1 | Annual Report 2016 http://www.polymetalinternational.com/investors-and-media/annual-reports.aspx?sc_lang=en ; Website www.polymetal.ru/about-us/corporate-governance.aspx?sc_lang=ru-RU |
| G4-42 Highest governance body's role in setting purpose, values, and strategy | 1 | p. 13–14 |
| G4-45 Highest governance body's role in the identification and management of risks | 1 | p. 13–14 |
| G4-49 Highest governance body's role in evaluating economic, environmental and social performance | 1 | p. 13–14 |
| G4-51 Remuneration policies for the highest governance body and senior executives | 1 | Annual Report 2016 |
| ETHICS AND INTEGRITY | | |
| G4-56 Organisation's values, principles, standards, and norms of behaviour | 1 | p. 4, 10–11, 15 |
| G4-58 Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour | 1 | p. 47 |

GRI G4 SPECIFIC STANDARD DISCLOSURES

| CATEGORY | GRI G4 CODE | TOPIC | SCOPE* | PAGES/NOTES |
|---------------------------|---------------|--|----------------|---------------------|
| ECONOMIC | | | | |
| Economic performance | G4-DMA | Disclosures on Management Approach | 1 | p. 54 |
| | G4-EC1 | Direct economic value generated and distributed | 1 | p. 54–55 |
| Market presence | G4-DMA | Disclosures on Management Approach | 1 | p. 34, 47–48, 54–55 |
| | G4-EC5 | Ratios of standard entry level wage to local minimum wage at significant locations of operation | 3 | p. 34 |
| | G4-EC6 | Employees hired from the local community at significant locations of operation | 3 | p. 6–7 |
| Indirect economic impacts | G4-DMA | Disclosures on Management Approach | 1 | p. 47–48, 54–55 |
| | G4-EC7 | Development and impact of infrastructure investments | 1 | p. 48 |
| Procurement practices | G4-DMA | Disclosures on Management Approach | 2 | p. 23, 55 |
| | G4-EC9 | Policy, practices, and proportion of spending on local suppliers at significant locations of operation | 2 | p. 55 |
| ENVIRONMENT | | | | |
| Materials | G4-DMA | Disclosures on Management Approach | 2, 4 | p. 24 |
| | G4-EN1 | Materials used by weight or volume | 4 | p. 57 |
| | G4-EN2 | Percentage of materials used that are recycled input materials | 2 | p. 25 |
| Energy | G4-DMA | Disclosures on Management Approach | 2 | p. 26 |
| | G4-EN3 | Energy consumption within the organisation | 4 ¹ | p. 26 |
| | G4-EN5 | Energy intensity | 4 ¹ | p. 26 |
| | G4-EN6 | Reduction of energy consumption | 2 ² | p. 26 |
| | G4-EN7 | Reductions in energy requirements of products and services | 2 | p. 26 |

¹ The data for 2015 excludes Bakyrchik Mining Venture LLP.

² The data for 2015 and 2016 excludes Bakyrchik Mining Venture LLP.

* See Reportable segments on page 66.

GRI G4 CONTENT INDEX CONTINUED

GRI G4 SPECIFIC STANDARD DISCLOSURES CONTINUED

| CATEGORY | GRI G4 CODE | TOPIC | SCOPE* | PAGES/NOTES |
|---|-------------|---|----------------|-------------|
| Water | G4-DMA | Disclosures on Management Approach | 1, 2 | p. 24 |
| | G4-EN8 | Total water withdrawal by source | 2 | p. 24 |
| | G4-EN9 | Water sources significantly affected by withdrawal of water | 1 | p. 58 |
| | G4-EN10 | Percentage and total volume of water recycled and reused | 2 | p. 24 |
| Biodiversity | G4-DMA | Disclosures on Management Approach | 1, 2 | p. 28 |
| | G4-EN11 | Operations in protected areas or areas of high biodiversity | 1 | p. 28 |
| | G4-EN12 | Significant impacts on biodiversity | 1 | p. 28 |
| | G4-MM1 | Amount of land disturbed or rehabilitated | 2 | p. 29 |
| Emissions | G4-DMA | Disclosures on Management Approach | 2 | p. 27 |
| | G4-EN15 | Direct greenhouse gas (GHG) emissions | 2 ¹ | p. 26–27 |
| | G4-EN16 | Indirect greenhouse gas (GHG) emissions | 2 ¹ | p. 26–27 |
| | G4-EN18 | Greenhouse gas (GHG) emissions intensity | 2 ¹ | p. 27 |
| | G4-EN19 | Reduction of greenhouse gas (GHG) emissions | 4 ² | p. 26 |
| | G4-EN21 | NOx, SOx, and other significant air emissions | 2 | p. 58 |
| Effluents and waste | G4-DMA | Disclosures on Management Approach | 1, 2 | p. 24 |
| | G4-EN22 | Total water discharge | 2 | p. 24 |
| | G4-EN23 | Total weight of waste by type and disposal method | 2 | p. 25 |
| | G4-EN24 | Total number and volume of significant spills | 1 | p. 25 |
| | G4-EN25 | Weight of transported, imported, exported, or treated waste deemed hazardous | 2 | p. 25 |
| | G4-MM3 | Total amounts of overburden, rock, tailings, and sludges | 2 | p. 25 |
| Environmental compliance | G4-DMA | Disclosures on Management Approach | 1 | p. 22–23 |
| | G4-EN29 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance | 1 | p. 60 |
| Overall | G4-DMA | Disclosures on Management Approach | 2 | p. 22–23 |
| | G4-EN31 | Environmental protection expenditures and investments | 2 | p. 23, 59 |
| Supplier environmental assessment | G4-DMA | Disclosures on Management Approach | 1 | p. 23 |
| | G4-EN32 | New suppliers that were screened using environmental criteria | 1 | p. 23, 55 |
| Environmental grievance mechanisms | G4-DMA | Disclosures on Management Approach | 1 | p. 47 |
| | G4-EN34 | Number of grievances about environmental impacts | 1 | p. 60 |
| SOCIAL | | | | |
| LABOUR PRACTICES AND DECENT WORK | | | | |
| Employment | G4-DMA | Disclosures on Management Approach | 3 | p. 32–33 |
| | G4-LA1 | Total number and rate of employee turnover | 3 | p. 34 |
| | G4-LA3 | Return to work and retention rates after parental leave, by gender | 3 | p. 34 |
| Labour/management relations | G4-DMA | Disclosures on Management Approach | 1 | p. 36 |
| | G4-MM4 | Number of strikes and lock-outs exceeding one week's duration | 1 | p. 36 |
| | G4-LA4 | Minimum notice periods regarding operational changes | 1 | p. 36 |
| Occupational health and safety | G4-DMA | Disclosures on Management Approach | 1 | p. 40–41 |
| | G4-LA6 | Rates of injury, occupational diseases, lost days, and number of work-related fatalities | 1 | p. 42 |

1 The data for 2015 excludes Bakyrchik Mining Venture LLP and Svetloye LLC.

2 The data 2015 and 2016 is presented for eight mature operating mines (not including Svetloye LLC, Bakyrchik Mining Venture LLP, Orion Minerals LLC and Kapan Mining and Processing Company CJSC).

* See Reportable segments on page 66.

GRI G4 SPECIFIC STANDARD DISCLOSURES CONTINUED

| CATEGORY | GRI G4 CODE | TOPIC | SCOPE* | PAGES/NOTES |
|--|-------------|---|--------|---------------|
| Training and education | G4-DMA | Disclosures on Management Approach | 5 | p. 35 |
| | G4-LA9 | Average hours of training by subject | 5 | p. 35, 42 |
| | G4-LA11 | Percentage of employees receiving regular performance and career development reviews | 6 | p. 35 |
| Diversity and equal opportunity | G4-DMA | Disclosures on Management Approach | 1, 3 | p. 33 |
| | G4-LA12 | Composition of governance bodies and breakdown of employees | 1, 3 | p. 34, 59 |
| Labour practices grievance mechanisms | G4-DMA | Disclosures on Management Approach | 5 | p. 47 |
| | G4-LA16 | Number of grievances about labour practices filed, addressed, and resolved | 5 | p. 36 |
| HUMAN RIGHTS AND POLICIES | | | | |
| Non-discrimination | G4-DMA | Disclosures on Management Approach | 1 | p. 33 |
| | G4-HR3 | Total number of incidents of discrimination and corrective actions taken | 1 | p. 33 |
| Freedom of association and collective bargaining | G4-DMA | Disclosures on Management Approach | 1 | p. 36 |
| | G4-HR4 | Freedom of association and collective bargaining | 1 | p. 36 |
| Indigenous rights | G4-DMA | Disclosures on Management Approach | 1 | p. 46 |
| | G4-HR8 | Total number of incidents of violations involving rights of indigenous peoples | 1 | p. 46 |
| | G4-MM5 | Total number of operations taking place in or adjacent to indigenous peoples' territories and formal agreements made | 1 | p. 47 |
| SOCIETY | | | | |
| Local communities | G4-DMA | Disclosures on Management Approach | 1 | p. 46–47 |
| | G4-SO1 | Percentage of operations with implemented local community engagement, impact assessments, and development programmes | 1 | p. 6–7, 48–49 |
| | G4-SO2 | Operations with significant actual and potential negative impacts on local communities | 1 | None |
| Anti-corruption | G4-DMA | Disclosures on Management Approach | 1 | p. 33 |
| | G4-SO4 | Communication and training on anti-corruption policies and procedures | 1 | p. 33 |
| | G4-SO5 | Confirmed incidents of corruption and actions taken | 1 | p. 33 |
| Compliance | G4-DMA | Disclosures on Management Approach | 1 | p. 46 |
| | G4-SO8 | Monetary value of significant fines and total number of non-monetary sanctions | 1 | p. 60 |
| Grievance mechanisms for impacts on society | G4-DMA | Disclosures on Management Approach | 1 | p. 47 |
| | G4-SO11 | Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms | 1 | p. 49 |
| Resettlement | G4-DMA | Disclosures on Management Approach | 1 | p. 49 |
| | G4-MM9 | Sites where resettlement took place, the number of households resettled in each, and how their livelihoods were affected in the process | 1 | p. 49 |
| Closure planning | G4-DMA | Disclosures on Management Approach | 1 | p. 29 |
| | G4-MM10 | Number and percentage of operations with closure plans | 1 | p. 29 |
| PRODUCT RESPONSIBILITY | | | | |
| Compliance | G4-DMA | Disclosures on Management Approach | 1 | p. 60 |
| | G4-PR9 | Fines for non-compliance with laws and regulations concerning the provision and use of products and services | 1 | p. 60 |

* See Reportable segments on page 66.

OTHER INFORMATION

REPORTABLE SEGMENTS

| REPORTABLE SEGMENT | COMPANY NAME | SCOPES | | | | | |
|--------------------|---|--------|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 |
| Polymetal | Group | | | | | | |
| Voro | CJSC Gold of Northern Urals | | | | | | |
| Okhotsk | Okhotskaya Mining and Exploration Company LLC | | | | | | |
| Okhotsk | Svetloye LLC | | | | | | |
| Dukat | CJSC Magadan Silver | | | | | | |
| Omolon | Omolon Gold Mining Company LLC | | | | | | |
| Varvara | JSC Varvarinskoye | | | | | | |
| Varvara | Orion Minerals LLC (Komar) | | | | | | |
| Amursk/Albazino | Albazino Resources Ltd | | | | | | |
| Amursk/Albazino | Amur Hydrometallurgical Plant LLC | | | | | | |
| Mayskoye | Mayskoye Gold Mining Company LLC | | | | | | |
| Kyzyl | Bakyrchik Mining Venture LLP | | | | | | |
| Kapan | Kapan Mining and Processing Company CJSC | | | | | | |
| Omolon | Polymetal Underground Development LLC | | | | | | |
| Polymetal offices | Polymetal Management JSC | | | | | | |
| Polymetal offices | Polymetal Engineering JSC | | | | | | |
| Polymetal offices | Polymetal Trading Ltd | | | | | | |

Following the acquisitions of Kapan (28 April 2016) and Komar (August 1, 2016) data for these assets is presented for 8 and 5 months respectively.

ABBREVIATIONS

| | |
|------------|------------------------------------|
| CIS | Commonwealth of Independent States |
| eq | equivalent |
| GE | gold equivalent |
| IMN | Indigenous Minorities of the North |
| NGO | non-governmental organisation |
| PGM | platinum group metal |
| POX | pressure oxidation |

UNITS OF MEASUREMENT

| | |
|-----------------|----------------------------------|
| g/t | gram per tonne |
| GJ | gigajoules (one billion joules) |
| TJ | terajoules (one trillion joules) |
| km | kilometres |
| Koz | thousand ounces |
| Kt | thousand tonnes |
| Ktpa | thousand tonnes per annum |
| m | metres |
| Moz | million ounces |
| Mt | million tonnes |
| Mtpa | million tonnes per annum |
| MWh | megawatt-hour |
| Oz or oz | troy ounce (31.1035 g) |
| t | tonne (1,000 kg) |
| tpd | tonnes per day |



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