Managing working capital management, liquidity and investment

In a highly uncertain and challenging environment, our ultimate goal is to preserve the fundamental value of the business and deliver future dividends to our shareholders.

Our capital allocation priorities

Strong balance sheet and liquidity

We aim to maintain a liquidity and financing structure that will enhance the robustness of our business in the current tough climate.

Dividends

Paying dividends to all shareholders was once formulated as the fundamental mission of the Company and we are working diligently to restore this ability in light of multiple external uncertainties.

Disciplined, strategic growth investments

By prioritising high-return investments that provide development optionality, we have created a successful and resilient business that generates significant capital return across cycles and acts as a platform for sustainable growth.

Strong balance sheet and liquidity

We believe that a strong balance sheet provides resilience to our value-creation strategy. We aim to maintain the liquidity and financing structure that will enhance the robustness of our business in the current tough climate.

We maintain sufficient undrawn credit lines in various currencies, which provide refinancing optionality and a strong cash position in order to maintain operational, stability. We stress test our liquidity through modelling and forecasting different scenarios.

In 2022, Polymetal's leverage increased to 2.35x Net debt/Adjusted EBITDA (2021: 1.13x). Net debt increased by $0.7 billion to $2.4 billion during the year. The increase in net debt was driven by unsold metal inventory accumulation, accelerated purchases of equipment and spares, funding of critically important contractors and suppliers, and upward Dollar re-valuation of Rouble-denominated debt. Notably, despite unprecedented challenges for the Company, in the second half of 2022, net debt decreased by $0.4 billion on the back of strong positive free cash flows from the unwinding of working capital.

Our cash position increased by 52% to $633 million at 31 December 2022, allowing the business to be more sustainable in the challenging macroeconomic environment.

The total debt will mature as follows: 17% in 2023; 24% in 2024; 19% in 2025, 40% in 2026 and beyond. The portion of debt maturing in 2023 is fully covered by available cash balances, while the Company will focus on securing new long-term debt over the course of 2023 to cover the refinancing needs of 2024 and beyond.

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Dividends

Paying dividends to all shareholders was once formulated as the fundamental mission of the Company and we are working diligently to restore this ability.

Our Dividend Policy stipulates a minimum 50% pay-out of underlying net earnings, paid each half year (subject to absolute Net debt/ previous 12-months' Adjusted EBITDA ceiling of 2.5x). In addition, the Board has discretion to increase the final dividend for the second half year to a maximum annual pay-out of 100% of free cash flow. In making this decision, the Board considers, among other factors, the macroeconomic outlook, debt position and future investment requirements of the Group.

From free cash flow from 2012 to 2021 totalling $2.7 billion, Polymetal has paid out $2.6 billion in annual dividends to shareholders since the IPO.

In 2022, the Group's free cash flow was negative for the first time since 2011 and amounted to $445 million, while the Group's leverage increased to 2.35x Net Debt/EBITDA, somewhat above the comfort level of 2.0x.

The Board carefully evaluated the liquidity and solvency of the business in light of multiple external uncertainties. Taking into account a significant decline in operating cash flows, challenges in establishing new sales channels faced by the Group in 2022 and the short-term liquidity headwinds, the Board decided to permanently cancel the full-year 2021 dividend. Given the continuing impact of these external uncertainties, the Board will not propose any interim or final 2022 dividends to allow the Group to strengthen its cash position and enhance its resilience in a highly uncertain climate.

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Disciplined, strategic growth investments

We ensure that we create long-term strategic value for our shareholders, employees and communities. By prioritising high-return investments that provide development optionality, we have created a successful and resilient business that generates significant capital return across cycles and acts as a platform for sustainable growth.

Our strategy is to operate a portfolio of high-quality and long-life assets that support low-carbon and climate-change-resilient growth, from which we will deliver sustainable shareholder returns. In 2022, we were focused on business continuity and advancement of the key strategic projects.

- We revised the portfolio and execution timeline of growth projects based on the changes in operating environment.
- Amursk POX-2 and other development projects progressed in line with revised schedules. In Q3 2022, we successfully completed the construction and commissioning activities at Kutyn heap leach facility.
- 2023 will be marked by the launch of the Voro flotation plant and start of mining at Prognoz.
- Despite external pressures, we pursue value creation through joint ventures with junior explorers
- We created social value for our employees and communities through social investments.

In 2022, capital expenditure was $793 million (2021: $759 million). This comprised $378 million (2021: $418 million) of development capital expenditure, $115 million (2021: $140 million) of stripping and underground development capital expenditure, $275 million (2021: $188 million) of sustaining capital expenditure and $24 million (2021: $12 million) invested in exploration. Much of the year's increases relate to high inflation and continued logistical challenges exerting significant upward pressure on capital expenditure.

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