Market review

Global and local markets in 2022

Significant volatility in both gold and silver prices, throughout 2022, was due to geopolitical tensions caused by the Russia-Ukraine conflict, worldwide inflation and China's continuing zero-Covid restrictions.

Global trends

Commodity price volatility

Throughout 2022, a combination of geopolitical tension, inflationary fears and a zero-Covid policy in China contributed towards considerable anxiety among international markets, which led to significant volatility in both gold and silver prices. In March, following Russia-Ukraine conflict, LBMA gold and silver prices hit an annual maximum of $2,039/oz and $26.2/oz, respectively. Conversely, the minimum values for metals were reached in the second half of 2022, due to aggressive monetary tightening by various central banks. In September, gold slumped to $1,618/oz, as silver reached the bottom at $17.8/oz. Average 2022 metal prices were $1,800/oz for gold (2021: $1,799/oz) and $21.8/oz for silver (2021: $25.2/oz).

Worldwide inflation

The tightening financial conditions in most regions, Russia-Ukraine conflict and the lingering COVID-19 pandemic all weighed heavily on the global inflation. In addition to demand-pull factors, ongoing geopolitical tension and sanctions on Russia fuel contributed towards elevated energy prices. 2022 global inflation reached 9% (Russia – 12%, Kazakhstan – 20%, United States – 6.5%).

Local currencies

Although economic sanctions were implemented against Russia, the average annual Rouble rate stood firm at 68.6 RUB/$ (2021: 73.7 RUB/$) due to contracted demand for the hard currency, with a slight fall to 70.3 RUB/$ at the end of the year. Consistent geopolitical tension within the CIS region, which strengthened the Dollar, as well as a decline in Kazakhstani oil production, subsequently contributed to a weak average Tenge of 461 KZT/$ (2021: 426 KZT/$), closing the year at 463 KZT/$. Kazakhstan GDP grew 3%, while the Russian economy contracted by 3% on the back of sanction impact.

Implications for Polymetal and responses

Revenue decreased 3% year-on-year to $2,801 million due to lower average gold and silver prices. A surge in global inflation and the Rouble strengthening caused significant pressure on cash costs. TCC were at $942/oz (2021: $730/oz) and capital expenditure was $793 million (2021: $759 million), although TCC and AISC stayed within the Company's guidance, while capital expenditure was slightly higher.

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Sanction risks

In 2022, a great number of Western sanctions were imposed on Russia, Russian companies, banks and individuals, which affected ongoing business, investment projects, international trade, financing and other areas of business in Russia. Russia, in turn, introduced counter-sanctions, which included restricted capital movements and corporate actions against residents of "unfriendly" jurisdictions.

Implications for Polymetal and responses

The Group adheres strictly to all relevant laws and has implemented comprehensive measures to ensure compliance with all international sanctions and counter-sanctions. While Polymetal believes that targeted sanctions against the Company are unlikely, they cannot be completely ruled out.

Polymetal has announced its intention to re-domicile to a "friendly" jurisdiction in order to enable the Company to undertake business activites such as modifications to the asset-holding structure to ensure distinct ownership between its assets in Kazakhstan and Russia.

Read more on pages 10, 99, 106, 154

Supply chain disruptions

In 2022, the Western countries imposed sanctions against Russia prohibiting the export of industrial goods and technologies.

Implications for Polymetal and responses

The lack of access to consumables, spare parts and equipment has posed a risk to the Company's operations and development projects, including in Kazakhstan. Procurement has been largely adapted to the current environment by replacing sanctioned and self-sanctioned equipment, consumables, and spare parts with alternatives within Russia and from other countries. Most existing contracts with foreign suppliers continue to be honoured, and the Company has accumulated significant reserve stock of critical items.

Read more on pages 12, 81, 101

Sales channels restructuring

As a result of the sanctions imposed against Russian gold, the traditional sales structure was significantly affected. Covid-related restrictions in China also contributed to disruptions in concentrate shipments.

Implications for Polymetal and responses

During the first half of 2022, Polymetal accumulated 130 Koz of GE in gold and silver bullion inventory. The bulk of it was successfully sold during the second half of the year through the newly established, alternative sales channels. This enabled Polymetal to stabilise revenue dynamics and normalise net debt level.

Read more on pages 12, 29, 85, 86

Mining industry trends

Gold and silver demand

In 2022, gold demand increased by 18% to 4,741 tonnes, the strongest in over a decade. Although jewellery consumption decreased by 3% to 2,086 tonnes, investment demand rose 10% to 1,107 tonnes, with a 2% increase in demand for gold bars and coins. ETF holdings fell by a smaller amount compared with 2021 (-110 tonnes vs -189 tonnes). Fear of a global crisis sparked demand from the central banks, hitting the highest level since 1967, totalling 1,136 tonnes compared with 450 tonnes in 2021.

Total annual gold supply increased 2% to 4,755 tonnes, with mine production reaching a four-year high of 3,612 tonnes.

Although 2022 was a turbulent year for silver, advances in technology and green infrastructure, as well as geopolitical tension, kept demand intact. Support also came from investors fearing high inflation, recessionary concerns and buying-on price dips.

The social licence to operate

Mining activities frequently take place in remote locations with limited infrastructure and economic options. Many mining sites are located near populated areas, indigenous communities and environmentally sensitive regions. In order to obtain operating permits and maintain sustainable operations, mining companies must contribute to local communities through job creation, tax payments and environmental responsibility.

Implications for Polymetal and responses

We remain open and transparent with our stakeholders.

The level of public interest in our operations is increasing. Ongoing, rigorous engagement, plus regular feedback, helps us maintain our social licence to operate and reduce risk.

Read more on page 18

Global reserves depletion

The world's major gold miners have seen a decline in their economically minable gold reserves over the past ten years, as exploration budgets continue to shrink. Acquisitions to replenish reserves or bolster production have become the preference of many.

Implications for Polymetal and responses

Polymetal relies on strategic exploration rather than acquisition.

The Company carries out brownfield and grassroots exploration, including joint ventures with junior explorers, and successfully replaces depleted reserves through the addition of new discoveries and reserves at existing mines. We have a pipeline of ambitious exploration projects, which we expect to contribute further to our reserves base and increase life-of-mine.

Read more on pages 30, 220

Reducing environmental impacts

There is an increasing call for companies, particularly those deemed high polluters (like mining), to take action to reduce negative environmental impacts. Carbon footprint, water discharge, biodiversity, reforestation, tailings safety and cyanide management are key focus areas. Stakeholders expect best practice and standards for these as well as ambitious emission and net-zero targets.

Implications for Polymetal and responses

Polymetal remains committed to its environmental and climate strategy.

Greenhouse gas emissions intensity reduced by 15% in 2022, compared with the 2019 baseline, and can be attributed to increasing our renewable energy consumption (30% of total energy consumption) and also to energy efficiency initiatives, such as improving heat utilisation systems and the introduction of solar plants.

In 2022, the share of water we reused and recycled amounted to 91% of the total water consumption at our sites (compared with 90% in 2021). In 2022, fresh water intensity for ore processing decreased by 49% (compared with the 2019 baseline) to 138 m^3/1000 t of ore processed.

Read more on pages 56, 58, 62, 72

Global refractory processing demand

Asia Pacific maintains its status as the largest region in the refractory market. China, however, is actively tightening its environmental regulations and began restricting refractory concentrate imports, which will increase the demand for refractory processing elsewhere.

Implications for Polymetal and responses

Polymetal prioritises refractory gold in its strategy.

Refractory ores make up 74% of Polymetal's ore reserves and are likely to increase. Our Amursk POX plant, Russia's largest (by production), processes refractory concentrates using low-impact environmental technology. Our larger Amursk POX-2 investment will more than double processing capacity and allow processing of double refractory materials, eliminating the dependence on and higher costs of Chinese offtake. We have initiated a feasibility study for a third plant, POX-3, to meet third-party demands and the extension of our own reserve base and would allow to achieve operational independence of the Kazakh operations.

Read more on pages 7, 13, 31, 36