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Polymetal International plc

Preliminary results for the year ended 31 December 2013

Polymetal International plc (LSE, MOEX: POLY, ADR: AUCOY) (together with its subsidiaries – “Polymetal”, the “Company”, or the “Group”) is pleased to announce the Group’s preliminary results for the year ended 31 December 2013.

FINANCIAL HIGHLIGHTS

- Revenue in 2013 decreased by 8% to US\$ 1,707 million compared to 2012 (“year-on-year”) as a result of average realised gold and silver prices decreasing 19% and 28% respectively year-on-year. This unprecedented price decline was to a large extent offset by 14% growth in the volume of gold equivalent sold during the period.
- Group Total cash cost¹ was US\$ 745/ gold equivalent ounces (“GE oz”), up 8% compared to 2012 level. Cash costs were negatively affected by an elevated level of unit costs and lower recoveries during the ramp-up at the Amursk POX facility and at the newly launched Mayskoye mine, while the mature mines demonstrated resilient cost performance. Total cash costs in the second half of the year decreased by 8% versus the first half of 2013 to US\$ 721/ GE oz driven by operational improvements at the Albazino/Amursk, where cash costs decreased by 27% half-on-half to US\$ 707/GE oz, and Omolon, where as a result of mine plan revision a 32% cash cost reduction to US\$ 756/GE oz was achieved.
- All-in sustaining cash costs¹ comprised US\$ 1,086/GE oz and increased slightly by 3% year-on-year, driven mostly by an increase in total cash costs during the period, which was largely offset by production growth and reduction of per ounce sustaining capital and exploration expenditure at our operating mines.
- Adjusted EBITDA¹ was US\$ 598 million, a decrease of 36%, driven mainly by a decline in commodity prices. Adjusted EBITDA margin was 35% compared to 50% in 2012;
- A non-cash pre-tax impairment charge of US\$ 366 million for the year resulting from the decline in gold and silver prices was recorded as at 31 December 2013, mainly due to the write-off of goodwill and mining assets at Varvara, Khakanja and low-grade ore stockpiles at Omolon. The post-tax amount recorded was US\$ 315 million. The impairment calculations were performed using conservative price assumptions of US\$ 1,200/oz for gold and US\$ 18/oz for silver, which are meaningfully below current spot prices.
- Underlying net earnings (adjusted for the after-tax amount of impairment charges) were US\$ 117 million. As a result of lower price-driven EBITDA, non-cash foreign exchange losses and impairment charges, the Group recorded a loss for the year of US\$ 198 million in 2013, compared to a US\$ 428 million profit in 2012.
- The Group’s liquidity profile remained comfortable. Net debt was US\$ 1,045 million and remained almost flat compared to the 2012 level of US\$ 1,037 million, supported by strong free cash flow generation capacity despite challenging market conditions. Free cash flow¹ for the year was US\$ 138 million, remaining flat year-on-year, of which US\$ 263 million was recorded in 2H 2013 on the back of increased production, significant destocking, and lower operating and capital expenditure levels.
- A final dividend of US\$ 0.08 per share representing 30% of the Group’s underlying net earnings for 2H 2013 is proposed by the Board in accordance with the Company’s dividend policy, based on Net Debt¹ / Adjusted EBITDA as at 31 December 2013 of 1.75 (31 December 2012: 1.1).

OPERATING HIGHLIGHTS

- Polymetal exceeded its original annual production guidance and produced 1.28 Moz of gold equivalent in 2013, up 21% year-on-year. This achievement was driven by the successful ramp-up at Amursk POX and Mayskoye

¹ The definition and calculation of non-IFRS measures used in this report, including Adjusted EBITDA, Total cash costs, All-in sustaining cash costs, Underlying net earnings, Net debt, Free cash flow and the related ratios, is explained in the “Financial Review” section below.

and strong operational delivery at the Dukat hub. During the year, the Amursk POX plant successfully ramped up to design throughput and recovery (averaging 93% in Q4), an important strategic milestone for the Company which now possesses a unique competitive advantage in the Former Soviet Union (“FSU”).

- The Company re-iterates its production guidance of 1.3 Moz of gold equivalent for 2014 and 1.35 Moz for 2015. In 2014, Polymetal expects total cash costs of US\$ 700-750/ “GE oz, all-in sustaining cash costs of US\$ 975-1025/ GE oz, and capital expenditure of US\$ 250 million (including exploration and capitalised stripping).
- In 2013, Polymetal’s Ore Reserves decreased by 12% to 13.3 Moz of “GE, while Mineral Resources (additional to Ore Reserves) declined by 11%. The declines were driven mostly by more stringent economic evaluation with the same prices of \$1300/oz gold and \$22.5/oz silver used to estimate both Reserves and Resources. Material additions to Ore Reserves during 2014 are expected at Svetloye (Q2), Albazino (Q4), and Kutyn (Q4), with further likely additions at near-mine properties at Omolon and Voro.

“I am pleased to report robust cost performance and cash flow generation in a year which was so challenging in terms of market conditions”, said Vitaly Nesis, CEO of Polymetal, commenting on the results. “This resilient performance, combined with our strong balance sheet position, allows us to progress on further growth opportunities while generating meaningful cash returns to our shareholders”.

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

Notes:

(1) % changes can be different from zero even when absolute amounts are unchanged because of rounding. Likewise, % changes can be equal to zero when absolute amounts differ due to the same reason. This note applies to all tables in this release

(2) FY 2013: final dividend for FY 2012 declared in April 2013 and interim dividend proposed for the 1H 2013 declared in August 2013.
FY 2012: final dividend for FY 2011 declared in April 2012 and special dividend for FY 2012 declared in December 2012.

PRESENTATION AND WEBCAST

Polymetal will hold a conference call and webcast on Monday, March 31, 2014 at 9:30 am London time (12:30 pm Moscow time).

To participate in the call, please dial:

8 10 8002 4902044 (toll-free from Russia), or

0808 109 0700 (toll-free from the UK), or

1 866 966 5335 (toll-free from the US), or

+44 (0) 20 3003 2666 (from outside the UK, the US and Russia), or follow the link:

<http://webcast.instinctif.tv/p/795-1028-14115/en>

Please be prepared to introduce yourself to the moderator or register.

Webcast replay will be available on Polymetal's website (www.polymetalinternational.com) and at <http://webcast.instinctif.tv/p/795-1028-14115/en>. A recording of the call will be available immediately after the call at +44 (0) 20 8196 1998 (from within the UK), 1 866 583 1035 (from within the US) and 8 10 8002 4832044 (from within Russia), access code 7594381, from 3:30 pm Moscow time Monday, March 31, till 3:30 pm Moscow time Monday, April 7, 2014.

Enquiries

Media		Investor Relations	
Instinctif Partners	+44 20 7457 2020	Polymetal	ir@polymetalinternational.com
Leonid Fink		Maxim Nazimok	
Tony Friend		Evgenia Onuschenko	+7 812 313 5964 (Russia)
		Elena Revenko	+44 20 7016 9503 (UK)
Joint Corporate Brokers			
Morgan Stanley	+44 20 7425 8000	RBC Europe Limited	+44 20 7653 4000
Bill Hutchings		Stephen Foss	
Sam McLennan		Jonny Hardy	

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CHAIRMAN'S STATEMENT

Resilient performance in 2013

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

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

Dividends and value creation

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

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

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

Building on strong corporate governance

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

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

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

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

Our people make the difference

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

Outlook for 2014

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

Bobby Godsell
Chairman

CEO STATEMENT

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

Robust operating performance

Polymetal has beaten its original production guidance for the second consecutive year, delivering an increase of 21% year-on-year which was 7% above our production guidance. This robust achievement was driven by the successful ramp-up at Amursk POX and Mayskoye and strong operational delivery at the Dukat hub.

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

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

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

Strategy

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

Financial performance

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

Sustainability

Polymetal is one of the employers of choice in the mining sector in Russia and Kazakhstan, employing nearly 9,000 people at 31 December 2013. Alongside the responsible development of our business, the well-being of our dedicated staff is paramount to the success of the Company. We have made solid progress across all business operations to put in place an employee protection and workplace safety management system. Our health and safety focus for 2014-15 is to enhance our capabilities in three key areas: training, visualisation and monitoring as well as rolling out the system to our supplier and contractor network.

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

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

Looking to the future

Our plans for 2014 and beyond already take into account the current reduced level of commodity prices. Due to the high reserve grade and conservative price assumptions used in our life-of-mine models, the vast majority of our long-term mine plans remain intact after the recent price decline. All our operating mines continue to generate positive cash flow and can withstand further fluctuations in the gold and silver price. As a result, the Company

reconfirms its production guidance of 1.3 Moz of gold equivalent for 2014 and 1.35 Moz for 2015, as well as our medium-term production guidance of 1.4 Moz in 2016.

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

Vitaly Nesis

Chief Executive

OPERATING REVIEW

Resilient operating performance supported by high-quality assets

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

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

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

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

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

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

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

The actions outlined above made no impact on our 2013 production plans and only a minor impact on the medium-term production up to 2016, when our original 1.4 Moz of gold equivalent production target will be achieved. Furthermore, we were also able to bring cash costs down by 7% in the second half of the year compared to those in the first half.

Production highlights

	2013	2012	Change, %
Key operating highlights			
Stripping, Kt	84,956	85,173	0%
Underground development, m	55,339	46,717	+18%
Ore mined, Kt	10,379	12,591	-18%
- open-pit	7,975	10,937	-27%
- underground	2,404	1,654	+45%
Metal in ore mined, GE grade g/t	4.7	3.9	+22%
Ore processed, Kt	10,749	9,809	+10%
Metal in ore processed, GE grade g/t	4.6	4.4	+4%
Production			
- gold, Koz	805	589	+37%
- silver, Moz	27.2	26.5	+3%
- copper, Kt	4,841	6,567	-26%
Gold equivalent production, Koz	1,282	1,063	+21%
Sales			
- gold, Koz	808	593	+36%
- silver, Moz	27.4	27.8	-2%
- copper, Kt	6,141	7,011	-12%
Gold equivalent sales, Koz	1,295	1,091	+19%
Health and safety			
LTIFR	0.57	0.59	-3%
FIFR	0.06	-	NA

Exceeding expectations for production and sales

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

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

Successful completion of key capital projects

Amursk POX

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

Launch of Mayskoye

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

Analysis of production results

Mining

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

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

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

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

Processing

Ore processed increased by 9% in 2013 and totalled 10.7 Mt. The increase was driven by further capacity expansion at the Dukat hub (including both Lunnoye and Omsukchan plants) and the launch of the Mayskoye processing plant in April 2013, which milled 488 Kt by the end of the year. Our mature mines demonstrated stable performance in terms of throughput and Albazino mine, as a result of debottlenecking, increased its capacity to 1.6 Mtpa of ore by the end of the year.

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

Production

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

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

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

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

Quarterly production data (GE Koz)

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Gold	101	154	196	137	121	190	281	212
Silver	94	135	113	99	107	126	126	94
Copper	8	8	9	8	7	7	6	4
Total gold equivalent production	203	298	317	244	235	323	413	310

Gold equivalent production by mine (Koz)

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

Metal sales in 2013 were 1,295 Koz of gold equivalent¹, and grew by 19% compared to 2012. Sales volumes slightly exceeded production for the full year.

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

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

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

Exploration

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

Our current exploration portfolio includes 40 licences with a total area of approximately 10,240 km². Of these, our exploration activities in 2013 covered 28 licence areas, including 20 areas in the scoping stage and eight areas in the advanced exploration stage.

Our exploration targets for 2013 included:

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

¹ At 1/60 Ag oz /Au oz ratio, 5/1 Cu mt / Au oz ratio

Key 2013 exploration statistics

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

In 2013, despite a significant decline in gold and silver prices, we continued to invest in exploration with total metres drilled increasing 72% year-on-year to 194.9 km. The total capital expenditure on exploration declined by 12% to US\$68 million thanks mostly to the decrease in the unit costs of drilling and reduction in early-stage activities such as trenching.

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

Reserves and resources

Ore Reserves and Mineral Resources summary

	1 January 2014	1 January 2013	Change, %
Ore Reserves (Proved + Probable), gold equivalent Moz	13.3	15.1	-12%
Gold, Moz	8.9	9.6	-7%
Silver, Moz	219.5	307.6	-29%
Copper, Kt	77.0	82.9	-7%
Mineral Resources (Indicated + Measured + Inferred), gold equivalent Moz	16.7	18.7	-11%
Gold, Moz	13.4	14.9	-10%
Silver, Moz	117.2	146.1	-20%
Copper, Kt	145.2	281.4	-48%

¹ Mineral Resources and Ore Reserves are reported in accordance with the JORC Code (2012). Mineral Resources are in addition to Ore Reserves. Discrepancies in calculations are due to rounding

Ore Reserves reconciliation, GE Koz

Ore Reserves, 01.01.2013	Processing	Revaluation	Initial evaluation	Ore Reserves, 01.01.2014
15,138	-1,517	-1,498	1,154	13,277

In 2013, Polymetal decreased its ore reserves by 12% to 13.3 Moz of gold equivalent while mineral resources (additional to ore reserves) declined by 16%. The reductions were driven mostly by more stringent economic evaluation with the same prices of US\$1,300/oz gold and US\$22,5/oz silver used to estimate both reserves and resources.

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

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

conditions.

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

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

Acquisitions remain an important pillar of our strategy

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

Outlook for 2014

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

Operations

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

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

Our operational objectives for other existing mines are:

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

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

Exploration

In 2014, our exploration activities will be focused on:

- continued resource-to-reserve conversions and resource category updates at our advanced standalone exploration targets and brownfield targets through in-fill drilling;
- additional drilling at the flanks of Ozerny and Avlayakan with a view to extend life-of-mine at Khakanja;

-
- further increase of resource potential at Albazino through additional underground development and drilling at Olga zone, in-fill drilling at Ekaterina-1 and Ekaterina-2 zones, and additional step-out drilling at the flanks of the Albazino field;
 - completion of resource estimate at Burgali and continued exploration at the other brownfield targets in the Omolon hub area;
 - in-fill drilling and finalisation of resource estimates at Olcha with preparation for open-pit mining and exploration for new ore bodies in the area;
 - continued exploration at the two key greenfield targets – Kutyn and Svetloye, followed by resource estimates and preparation of oxidised ores for open-pit mining;
 - continued scoping and exploration at Elmus and Semcha areas in Karelia, with a view to develop a new standalone gold/PGM asset in the region; and
 - preparation of Maminskoye resources for open-pit mining and step-out drilling at the flanks of the deposit.

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

DUKAT

Delivering further growth at Russia's largest silver mine

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

Key operating and financial statistics

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

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

2013 highlights

Mining

In 2013, underground development at Dukat increased by 26% year-on-year to 30.7 km, with more than 1.25 Mt of ore mined from underground, and average silver grade in ore mined increasing by 5% to 423 g/t. This compensated for the decrease in the total amount of ore mined by 6% after the completion of open-pit mining. Within the mine, we commenced development of the Eastern zone and further improved dilution levels by fine-tuning the parameters of blasting and drilling works.

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

At Arylakh, volumes of stripping and ore mined from open-pit continued to decline due to depletion while being substituted by higher grade ore from underground. At Lunnoye works progressed steadily across ore zones 7 and 9

in accordance with the mine plan. Total ore mined increased by 7% year-on-year to 394 Kt, although there was a slight decrease in average silver grade to 367 g/t due to the depletion of the open pit at Arylakh.

Processing

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

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

Resources and exploration

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

Priorities for 2014

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

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

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

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

AMURSK POX HUB

Unparalleled competitive advantage in the Former Soviet Union

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

Key statistics

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

2013 highlights

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

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

After the completion of remedial work to the water treatment unit in Q3, full design recoveries were achieved in October. In Q4 the Amursk POX plant delivered a full quarter of stable performance at the design parameters in terms of both throughput and recovery. Gold production was 58 Koz in Q4 while average recovery reached 93%. A further optimisation programme is now in place to ensure continuous improvements in the recovery and cost profile of the operation. Currently, the plant is running at an average throughput of 500 tonnes per day, exceeding its nameplate capacity for Albazino concentrate, with the goal to fast-track processing of accumulated stockpiles.

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

Priorities for 2014

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

ALBAZINO

Solid operating performance throughout 2013

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

Key operating and financial statistics

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

Production	2013	2012	Change, %
Ore processed	1,513	1,226	+23%
Gold grade in ore processed, g/t	5.6	5.3	+6%
Recoveries to concentrate	88.2%	86.9%	+1%
Concentrate produced, Kt	140	115	+122%
Gold grade in concentrate produced, g/t	53.1	49.0	+8%
Gold in concentrate, Koz	239	181	+32%
Concentrate sold, Kt	49	40	+23%
Saleable gold in concentrate sold to off-takers, Koz	79	63	+25%
Gold production at Amursk POX	159	14	+1036%
Total gold equivalent production, Koz	238	77	+207%
Total cash cost/GE oz (USD/oz)	790	739	+7%
Adjusted EBITDA, USDm	103	35	+196%

Mining

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

Processing

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

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

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

Exploration and growth potential

The new resources established at Albazino in 2012 represent significant growth potential for the operation. This may require the expansion of Albazino mine and the concentrator, with concentrate to be further processed at the Amursk POX plant. In 2013, we focused on the key areas required to prepare the feasibility study for this project. These included geotechnical studies to determine pit slope angle and underground mining method, additional in-fill

drilling, and trade-off studies for coal/ heavy fuel oil power station. In addition, the outcome of the Mayskoye concentrate long-term, off-take negotiations in 2014 will be an important input to the expansion decision.

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

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

Priorities for 2014

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

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

MAYSKOYE

Getting our newest mine up to speed

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

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

Key operating and financial statistics

Mining	2013	2012	Change, %
Underground development, m	9,989	11,068	-10%
Ore mined, Kt	667	40	NM
Gold grade in ore mined	7.4	9.9	-26%

Production	2013	2012	Change, %
Ore processed	488	-	NA
Gold grade in ore processed, g/t	7.1	-	NA
Recoveries to concentrate	77.7%	-	NA
Concentrate produced, Kt	49	-	NA
Gold grade in concentrate produced, g/t	55.3	-	NA
Gold in concentrate, Koz	87	-	NA
Concentrate sold, Kt	30	-	NA
Saleable gold in concentrate sold to off-takers, Koz	48	-	NA
Total gold equivalent production, Koz	48	-	NA
Total cash cost/GE oz (USD/oz)	957	-	NA
Adjusted EBITDA, USDm	(4)	-	NA

Mining

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

Plant ramp-up and processing

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

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

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

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

Sales and downstream processing

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

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

Priorities for 2014

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

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

OMOLON HUB

Flexibility at our multi-source processing hub supports performance

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

Key operating and financial statistics

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

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

Mining

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

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

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

The heap leach project for low-grade Sopka and Dalnee ore has been further postponed from 2015 to 2016. Consequently, the last pushback in the Sopka pit has also been excluded from the mine plan with some loss of

reserves below the current pushback boundary. The potential for underground mining at Sopka will be assessed by Q4 2014.

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

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

Processing

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

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

Reserves, resources and exploration

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

Priorities for 2014

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

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

KHAKANJA HUB

Developing new, cost-efficient ore sources

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

Key operating and financial statistics

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

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

Mining

Mining at the Yurievskoye mine was completed in the beginning of 2013. At the Khakanja open-pit mine, the pushback at pit 1 continued, which limited the amounts of ore mined (down 76% on 2012). Average gold and silver grades in ore mined decreased by 42% and 28%, compared to 2012 when ore was mainly sourced from pit 3 and Yurievskoye. Ore mining is expected to be resumed in Q2 2014. As a result of additional studies, the commencement of underground mining at Khakanja has been postponed indefinitely due to geotechnical concerns with the corresponding reserve being re-classified as resource. The resulting reduction in life-of-mine is expected to be compensated for by reserve additions at Ozerny which are based on the results of ongoing step-out drilling.

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

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

Processing

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

Priorities for 2014

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

VORO

At the peak of performance

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

Key operating and financial statistics

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

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

Mining

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

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

Processing

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

Gold production at Voro in 2013 decreased marginally by 1% year-on-year and comprised 153 Koz, of which 15% is produced at the heap leaching circuit and remaining 85% at the CIP circuit. The modest grade and throughput decline at the heap leaching circuit was fully offset by 7% increase in average grade and continued improvements in throughput (+1%) at the CIP circuit.

Ongoing improvement process

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

Priorities for 2014

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

The Voro deposit is developed as an open-pit mine and this is expected to continue until the end of its mine life in 2027. Efforts are under way to identify additional sources of primary and oxidised ore, including third-party supplies.

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

VARVARA

Keeping up stable performance in Kazakhstan

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

Key operating and financial statistics

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

Production	Varvara - flotation			Varvara - leaching			Total		
	2013	2012	% change	2013	2012	% change	2013	2012	% change
Ore processed	1,005	992	+1%	2,671	2,654	+1%	3,676	3,643	0%
Metal in ore processed (grades)									
- gold, g/t	1.3	1.2	+2%	1.3	1.2	+9%	1.3	1.2	+7%
- copper, %	0.6%	0.8%	-24%	-	-	NA	0.16%	0.20%	-22%
Recoveries									
- gold	56%	61%	-7%	82%	85%	-3%			
- copper	89%	92%	-3%						
Production									
- gold, Koz	21	22	-6%	86	79	+9%	107	101	+6%
- copper, t	4,841	6,567	-26%				4,841	6,567	-26%
Gold equivalent, Koz	45	55	-18%	86	79	+9%	132	134	-2%
Total cash cost/GE oz (USD/oz)							791	795	-1%
Adjusted EBITDA, USDm							74	102	-27%

Mining

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

Processing

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

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

Priorities for 2014

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

FINANCIAL REVIEW

MARKET SUMMARY

Precious metals

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

Foreign exchange

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

OPERATING RESULTS

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

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

(2) Based on actual realised prices.

(3) Average for the period

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

OTHER DEVELOPMENTS

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

REVENUE

		2013	2012	Change, %
Sales volumes				
Gold	Koz	808	589	+37%
Silver	Moz	27.4	27.8	-2%
Copper	Kt	6.141	7.011	-12%
Gold equivalent sold¹	Koz	1,285	1,129	+14%

¹ Based on actual realised prices

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

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

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

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

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

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

CHANGES IN ACCOUNTING POLICIES AND BASIS OF ESTIMATES

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

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

Prior to adoption of IFRIC 20, the Group's accounting policy was not to capitalise stripping costs during the production phase. Therefore, as at 1 January 2012 there were no stripping assets on the Group's balance sheet. The adoption of IFRIC 20 has resulted in the capitalisation of certain stripping costs and a reduction in the cost of sales and inventory recorded in 2012. The stripping assets recognised as a result of the application of IFRIC 20 will also affect the level of depreciation charges in future periods. See details in Note 22 to the consolidated financial statements. Total cash costs, adjusted EBITDA and other non-GAAP metrics have been restated accordingly. The capitalised stripping costs in 2013 comprised US\$ 91 million compared to US\$ 61 million in 2012 and were mainly represented by Omolon, Khakanja and Varvara.

Use of JORC reserves for depreciation calculation

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

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

COST OF SALES

Cost of sales (excluding write-downs of metal inventories) (US\$ mln)

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

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

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

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

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

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

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

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

GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

<i>(US\$ mln)</i>	2013	2012	Change, %
Labour	107	92	+16%
Share based compensation	24	54	-55%
Services	19	18	+2%
Depreciation	4	4	-13%
Other	14	12	+19%
Total	168	182	-7%

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

The New LTIP was approved by the AGM in June 2013 and the first grant of options under the New LTIP is expected to take place in April 2014 following the issuance of the annual report. The share-based payment expense in relation to the New LTIP will therefore be on a straight line basis over the 4 year vesting period, starting from the grant date in 2014.

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

OTHER EXPENSES

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

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

TOTAL CASH COSTS BY MINE

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

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

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

Reconciliation of TCC movements

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

Total cash cost by mine:

- Dukat’s total cash cost per silver equivalent ounce sold decreased by 5% year-on-year to US\$ 11.6/ oz. This has been achieved on the back of sustainably strong grades and recoveries at the Omsukchan concentrator and increased throughput at both Omsukchan and Lunnoye plants.
- At Voro, which continues to be our lowest cost operation, cash costs decreased further by 1% compared to 2012, to US\$ 503/GE oz, despite a moderate decrease in total gold equivalent production. Cost performance was supported by grade profile of the primary ore processed during the period and the higher share of gold produced at the CIP plant versus heap leaching, as well as by robust operating performance of the mine.
- Khakanja’s TCC was US\$ 756/GE oz, a 23% increase year-on-year. This cost increase was driven by a scheduled decline in average grade processed (from 9.4 g/t to 8.1 GE g/t year-on-year), and higher share of relatively high cost ore from Avlayakan processed during the second half of the year.
- At Varvara, TCC was US\$ 791/GE oz, decreasing by 1% year-on-year. This decrease was achieved on the back of stable grade profile and open-pit mine productivity improvements with the introduction of the new dragline excavator.
- At Omolon, TCC amounted to US\$ 879/GE oz, remaining almost flat to 2012 level despite the moderate decline in average grades and production. The improvement in cost performance was mainly achieved in the second half of the year as a result of implemented changes to the mine plan following the decrease in gold and silver prices. Higher share of higher grade ore from Sopka and Tsokol, as well as suspension of mining at Birkachan in the year contributed to the cost reduction.

¹ Total cash costs comprise cost of sales of the operating assets (adjusted for depreciation expense, rehabilitation expenses and write-down of inventory to net realisable value and certain other adjustments) and general, administrative and selling expenses of the operating assets. Gold equivalent sales volume is calculated based on average realised metal prices in the relevant period. Total cash cost per gold equivalent ounce sold is calculated as total cash costs divided by total gold equivalent unit ounces sold.

² Effect of mix change between mines with different cost levels.

- At Albazino/Amursk, TCC was US\$ 790/ GE oz, up 7% compared to 2012, due to lower throughput and recoveries at the Amursk POX in the first half of the year before the remedial actions were implemented. Total cash costs improved considerably over the second half of the year as the POX plant reached the design throughput and recovery levels. This was further supported by significant concentrate de-stockpiling through a combination of sales to third-party off-takers and accelerated concentrate processing at the POX plant after achieving design parameters.
- Total cash costs at Mayskoye were 957/GE oz, with the high level mainly associated with cost inefficiencies inherent in the ramp-up period of the processing plant (lower average throughput and recoveries) and lower grade of ore processed during the ramp-up period. Cost levels in 2014 are set to improve as Mayskoye delivers its first full year of production.

Analysis of 2H 2013 versus 1H 2013 performance:

<i>Total cash costs per gold equivalent ounce</i> ¹	Cash cost per GE ounce, US\$/oz			Gold equivalent sold, Koz (silver for Dukat)		
	2H 2013	1H 2013	Change, %	2H 2013	1H 2013	Change, %
Dukat (SE oz)	10.8	12.6	-15%	14,289	10,576	+35%
Voro	430	583	-26%	81	73	+11%
Khakanja	824	672	+23%	89	58	+54%
Varvara	819	723	+13%	67	74	-9%
Omolon	756	1,120	-32%	109	52	+109%
Albazino	707	963	-27%	156	74	+109%
Mayskoye	957	-	NM	48	-	NM
Total	721	787	-8%	778	507	+54%

In 2H 2013, total cash costs decreased by 8% compared to the 1H 2013 driven by operational improvements at the Albazino/Amursk, where cash costs declined by 27% half-on-half to US\$ 707/GE oz, and Omolon, where as a result of mine plan revision a 32% cash cost reduction to US\$ 756/GE oz was achieved.

Total cash cost by mine:

- Dukat's total cash cost per silver equivalent ounce sold decreased by another 15% half-on-half to US\$ 10.8/oz. In addition to robust operating performance and lower Rouble/dollar exchange rate, this was also aided by accelerated sales of concentrate in 2H 2013, increased throughput at both Omsukchan and Lunnoye and, as a result, lower share of fixed costs;
- At Voro, total cash costs decreased by 26% to US\$ 430/GE oz as purchases and processing of lower quality third-party ore were discontinued from June in response to lower gold prices;
- At Khakanja, total cash costs grew by 23% half-on-half following the switch to processing of the lower grade ore from Khakanja and higher cost ore shipped from Avlayakan in the second half of the year. The seasonal cash cost fluctuations will continue to 2014, when the first half of the year cost level will be supported by processing ore from Ozerny;
- At Varvara, TCC was US\$ 819/GE oz and increased by 13% half-on-half. The increase mainly stemmed from higher amount of third party ore processed in the second half of the year and its deteriorating quality. Purchases of third-party ore were subsequently discontinued;
- At Omolon, a notable 32% decrease in total cash costs to US\$ 756/GE oz was achieved compared to 1H 2013. The improvement in cost performance was a result of implemented changes to the mine plan following the decrease in gold and silver prices. Higher share of higher grade ore from Sopka and Tsokol, as well as suspension of mining at Birkachan in the second half of the year contributed to the cost reduction;
- At Albazino/Amursk, TCC was US\$ 707/ GE oz, down 27%. Total cash costs improved considerably over the second half of the year as the POX plant reached the design throughput and recovery levels. This was further supported by significant concentrate de-stockpiling through a combination of sales to third-party off-takers and accelerated concentrate processing at the POX plant after achieving design parameters.

¹ Total cash costs comprise cost of sales of the operating assets (adjusted for depreciation expense, rehabilitation expenses and write-down of inventory to net realisable value and certain other adjustments) and general, administrative and selling expenses of the operating assets. Gold equivalent sales volume is calculated based on average realised metal prices in the relevant period. Total cash cost per gold equivalent ounce sold is calculated as total cash costs divided by total gold equivalent unit ounces sold.

ALL-IN SUSTAINING CASH COSTS¹

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

All-in sustaining cash costs amounted to US\$ 1,086/GE oz in 2013 and increased by 3% year-on-year, with the increase in total cash costs substantially offset by reduction of per ounce SG&A, sustaining capex and exploration expenditure.

IMPAIRMENT CHARGES

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

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

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

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

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

The following major impairment losses were recognised:

- An impairment of US\$ 132 million in respect of Khakanja hub assets, including US\$ 104 million of goodwill and mining assets and US\$ 28 million of ore stockpiles. The impairment mainly relates to the value of Avlayakan

¹ All-in sustaining cash costs comprise total cash costs, all selling, general and administrative expenses for operating mines and head office not included in TCC (mainly represented by head office SG&A), other expenses (excluding write-offs and non-cash items, in line with the methodology used for calculation of Adjusted EBITDA), and current period capex for operating mines (i.e. excluding new project capex, but including all exploration expenditure (both expensed and capitalised in the period) and minor brownfield expansions).

mining assets which were acquired in 2009 for stock then valued at US\$ 60 million with a view to establish resources sufficient for a stand-alone mine. Currently the asset operates as a satellite mine to Khakanja, which requires a significant amount of trucking and shipping costs which are offsetting (at the prices used) the high reserve grade of the deposit. Ore impairment is also mainly represented by the existing stockpiles of Avlayakan ore and low-grade ore from Khakanja. The ongoing shift to underground mining will enable an increase in grade profile and improve the cost levels accordingly.

- An impairment of US\$ 99 million was incurred in respect of Varvara, mainly represented by goodwill write-off. Due to its relatively low grades, Varvara operations are more sensitive to the gold and copper prices compared to other mines in our portfolio. The impairment model does not include any purchased third-party ore (due to the short-term nature of the purchase arrangements), which represented about 20% of gold equivalent production at Varvara in 2012 and 16% in 2013, and was an important contribution to the economics of the asset by leveraging existing processing capacity. Goodwill on the original purchase transaction arose mainly due to this additional contribution which was assessed when estimating the purchase consideration paid.
- An impairment of US\$ 92 million was recorded in respect of Omolon hub assets, mainly represented by a US\$ 75 million write-off of the low-grade ore stockpiles at Sopka (written off) and Birkachan (net realisable value reduced to reflect lower price assumptions). The impairment model assumes that Polymetal will not proceed with Sopka heap leach at the prices used due to the lower than required return on the upfront capital investment required, and therefore assigns zero value to the low-grade ore stockpiles accumulated for heap leaching. However, the construction of the heap leach at Birkachan is already completed and leaching is planned from 2014. At the assumed prices of US\$ 1,200/oz for gold and US\$ 18/oz for silver this would result in positive cash flow contribution, making processing of these stockpiles economic.
- At Mayskoye, a US\$ 16 million write-down of inventories is represented by relatively low-grade and high-cost concentrate produced during the first months of the concentrator operation, with higher costs inherently associated with the ramp-up of the processing facility. The source of impairment is expected to be non-recurring as Mayskoye had achieved design throughput and recovery by the end of 2013.
- A total of US\$ 15 million impairment of ore stockpiles was recorded at Dukat and Voro and was related to marginal low-grade material.
- Polymetal has also written off its investment in associate, Ural-Polymetal, totalling US\$ 12 million, having assessed the enterprise value using the assumptions above.

ADJUSTED EBITDA AND EBITDA MARGIN¹

Reconciliation of Adjusted EBITDA

(US\$ mln)

	2013	2012	Change, %
(Loss) / Profit for the year	(198)	428	NM
Finance cost (net)	40	22	+80%
Income tax expense	40	223	-82%
Depreciation and depletion	238	142	+68%
EBITDA	120	815	-85%
Impairment of inventories	153	4	NM
Impairment of goodwill and mining assets	201	-	100%
Impairment of investment in associate	12	-	100%
Share-based compensation	24	54	-57%
Exchange gains/losses	74	(7)	NM
Change in fair value of contingent liability	(8)	5	NM
Rehabilitation costs	2	3	-46%
Write-down of non-metal inventory	11	2	+357%
Gain on disposal of subsidiary/bargain purchase gain	9	(10)	NM
Mining taxes, penalties and accrued interest	1	66	-99%
Adjusted EBITDA	598	932	-36%

Adjusted EBITDA by segment

(US\$ mln)

	2013	2012	Change, %
Dukat	229	378	-39%
Voro	130	182	-29%
Khakanja	85	178	-52%
Varvara	74	102	-27%
Omolon	64	129	-51%
Albazino/Amursk	103	35	+196%
Mayskoye	(4)	(12)	-63%
Corporate and other and intersegment operations	(82)	(59)	+36%
Total	598	932	-36%

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

OTHER INCOME STATEMENT ITEMS

Polymetal recorded a net foreign exchange loss in 2013 of US\$ 74 million compared to a gain of US\$ 7 million in 2012. These unrealised non-cash losses represent the appreciation of the Group's mostly US Dollar denominated borrowings against the Russian Rouble, the functional currency of all Group companies other than Varvara (which is Tenge). The Group's average gross debt during 2013 was US\$ 987 million, with more than 95% denominated in US Dollars, while the US Dollar appreciated against the Russian Rouble by 8% during the period, from 30.4 RUB/USD at 31 December 2012 to 32.7 RUB/USD as at 31 December 2013. In 2014, this exchange rate dynamic has continued and are expected to have a more meaningful positive effect on the operating cash cost levels.

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

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

NET EARNINGS, EARNINGS PER SHARE AND DIVIDENDS

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

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

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

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

CAPITAL EXPENDITURE

<i>(US\$ mln)</i>	2013	2012	Change, %
Mayskoye	54	66	-19%
Dukat	37	49	-24%
Amursk/Albazino	36	79	-54%
Omolon	22	40	-44%
Varvara	21	16	+37%
Khakanja	14	20	-28%
Voro	8	11	-27%
Exploration	59	68	-13%
Corporate and other	6	8	-22%
Capitalised stripping	91	61	+51%
Capitalised interest	6	14	-57%
Total capital expenditure¹	357	433	-18%

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

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

The major capital expenditure items in 2013 were:

- US\$ 54 million was spent on completion of construction of the processing plant at Mayskoye and sustaining capital expenditure of the newly launched mine. The concentrator was launched in April 2013, and by the end of the year the ramp-up process was complete.
- US\$ 36 million was invested at Albazino/Amursk, mostly related to mining fleet expansion and continued underground exploration activities at Albazino, as well as investing in equipment upgrades at the Amursk POX;
- Capital expenditure at Dukat was US\$ 37 million, down 24% year-on-year, and is mainly represented by expansion of underground operations and maintenance capex at Lunnoye and Omsukchan plants;

- At Varvara, capital expenditure was US\$ 21 million and is mainly related to the expansion of mining fleet, including electrical dragline excavator commissioned in Q1 2013;
- At Omolon, capital expenditures declined by 44% year-on-year to US\$ 22 million due to revision of the mine plans and suspension of the Birkachan mine, as well as due to postponement of the Sopka and Birkachan heap leaching projects. The actual expenditure during 2013 is mainly related to development of Dalneye open-pit mine and maintenance capex;
- Across other mature mines, Khakanja and Voro, capital expenditures declined year-on-year and were mainly represented by mining fleet upgrades/replacements and maintenance expenditure at the processing facilities;
- The Company continues to invest in standalone exploration projects. Capital expenditure on exploration in 2013 was US\$ 59 million compared to US\$ 68 million in 2012, and focused mostly on Maminskoye, Svetloye, and Kutyn;
- Capitalised stripping costs totalled US\$ 91 million in 2013 (2012: US\$ 61 million) and are attributable to operations with stripping ratios during the period exceeding their life of mine (“LOM”) averages, including most importantly Khakanja, Omolon, and Varvara. The capitalisation of stripping costs at Omolon and Varvara has resulted in increased impairment charges recorded in respect of those segments’ mining assets (refer to “Impairment charges” above).
- Total capital expenditure includes US\$ 6 million of capitalised interest (2012: US\$ 14 million), which declined materially as the Group has already commissioned all of its major growth assets, and lead to an increase of the finance costs recognised in profit and loss.

CASH FLOWS

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

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

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

- Operating cash flows of US\$ 462 million;
- Investment cash outflows totalled US\$ 324 million, down 19% year-on-year and are mainly represented by capital expenditure (down 20% year-on-year to US\$ 319 million);
- Payment of special and regular dividends for 2012 and 1H 2013 amounting to US\$ 316 million; and

- The increase in borrowings of US\$ 213 million.

BALANCE SHEET, LIQUIDITY AND FUNDING

Net debt	31-Dec-13	31-Dec-12	Change, %
Short-term debt and current portion of long-term debt	81	244	-67%
Long-term debt	1,030	620	+66%
Dividends payable	-	191	-100%
Gross debt	1,111	1,055	+5%
Less: cash and cash equivalents	66	19	+252%
Net debt	1,045	1,037	+1%
Net debt / adjusted EBITDA	1.75	1.11	+59%

The Group continues to maintain a comfortable liquidity and funding profile in the current turbulent market environment.

The Group's net debt was almost flat and comprised US\$ 1,045 million as of 31 December 2013, representing a Net debt / adjusted EBITDA ratio of 1.75.

The Group maintains a healthy debt structure, which is comfortable both from the liquidity and cost standpoints. In the second half of the year, the Group refinanced a total of US\$ 400 million of its short-term borrowings into long-term facilities. As a result, share of long-term borrowings increased from 48% as at 30 June 2013 to 93% as at 31 December 2013. This new borrowing facility led to a significant improvement of the Group's debt maturity profile now extending to more than 3 years.

In addition to that, as at 31 December 2013 the Group had US\$ 1.3 billion of available undrawn facilities from a wide range of lenders which maintains its operational flexibility in the current environment.

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

2014 OUTLOOK

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

- The Company is fully equipped to deliver on its production guidance of 1.3 Moz of gold equivalent for 2014;
- In 2014, Polymetal expects total cash costs of US\$ 700-750 / GE oz and all-in sustaining cash costs of US\$ 975-1025 /GE oz, which will be supported by the ongoing devaluation of the Russian Rouble and Kazakh tenge;
- Capital expenditure will decline further to US\$ 250 million (including exploration and capitalised stripping) as there will be no major investment in growth projects before project development decisions are taken closer to the end of the financial year.

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results.

The principal risks and uncertainties of the Group are listed below:

- Market risk;
- Production risks, including:
 - a) low grade/ potential dilution;
 - b) ore and concentrate shipping;
 - c) supply chain risks; and
 - d) low recovery rate;
- Production risk – construction and renovation;
- Legal risk;
- Taxation risk;
- Mergers and acquisitions;
- Environmental risks;
- Political risk;
- Currency risk;
- Human resources;
- Liquidity risk;
- Failure to meet exploration objectives;
- Interest rate risk; and
- Inflation risk.

A detailed explanation of these risks and uncertainties can be found on pages 76 to 79 of the 2012 annual report which is available at www.polymetalinternational.com. Further updates will be presented in the full annual financial report for 2013.

GOING CONCERN

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

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

FINANCIAL STATEMENTS

POLYMETAL INTERNATIONAL PLC

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2013	Year ended 31 December 2012 restated ¹
		US\$'000	US\$'000
Revenue	4	1,706,597	1,854,065
Cost of sales	5	(1,123,796)	(851,839)
Write-downs of metal inventories to net realisable value	18	(153,327)	(4,000)
Gross profit		429,474	998,226
General, administrative and selling expenses	9	(168,132)	(181,648)
Other operating expenses	10	(88,486)	(153,855)
Impairment of non-current assets	15	(201,105)	-
Impairment of investment in associate	15	(12,291)	-
Share of loss of associates and joint ventures		(2,340)	(1,804)
Operating (loss) / profit		(42,880)	660,919
Loss on disposal of subsidiaries	2	(8,746)	(10,709)
Gain on acquisition of remaining interest in joint venture		-	21,051
Net foreign exchange (losses)/gains		(74,240)	6,677
Change in fair value of contingent consideration liability		8,131	(4,717)
Finance income		2,850	4,657
Finance costs	12	(42,735)	(26,787)
(Loss) / Profit before income tax		(157,620)	651,091
Income tax expense	13	(40,417)	(222,868)
(Loss) / Profit for the financial year		(198,037)	428,223
(Loss) / Profit for the year attributable to:			
Equity shareholders of the Parent		(198,037)	421,196
Non-controlling interest		-	7,027
		(198,037)	428,223
(Loss) / Earnings per share		US\$	US\$
Basic		(0.51)	1.10
Diluted		(0.51)	1.10
		2013	2012
		Cents per share	Cents per share
		2013	2012
		\$'000	\$'000
Final dividend proposed (Note 14)	8	31	31,158
Interim dividend (Note 14)	1	-	3,879
Special dividend declared (Note 14)	-	50	-
			191,603

¹ Restated following adopting IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. Refer to Note 22

POLYMETAL INTERNATIONAL PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2013	Year ended 31 December 2012 restated ¹
	US\$'000	US\$'000
(Loss) / Profit for the financial year	(198,037)	428,223
<i>Other comprehensive (loss) / income</i>		
Effect of translation to presentation currency ²	(153,575)	111,656
Total comprehensive (loss) / income for the financial year	(351,612)	539,879
	Year ended 31 December 2013	Year ended 31 December 2012 2 restated
	US\$'000	US\$'000
Total comprehensive (loss) / income for the financial year attributable to:		
Equity Shareholders of the Parent	(351,612)	522,730
Non-controlling interest	-	17,149
	(351,612)	539,879

¹ Restated following adopting IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. Refer to Note 22

² May be subsequently reclassified to Income Statements

POLYMETAL INTERNATIONAL PLC

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2013 US\$'000	31 December 2012 restated ³¹ US\$'000
Assets			
Property, plant and equipment	16	2,094,742	2,205,732
Goodwill	17	30,889	115,106
Investments in associates		15,651	29,822
Non-current loans and receivables		22,853	14,811
Deferred tax asset	13	88,484	58,024
Non-current inventories	18	53,142	98,864
Total non-current assets		2,305,761	2,522,359
Current inventories	18	727,144	840,621
Current VAT receivable		85,135	103,192
Trade and other receivables		44,526	107,596
Prepayments to suppliers		18,170	31,044
Income tax prepaid		8,433	14,481
Cash and cash equivalents		65,567	18,622
Total current assets		948,975	1,115,556
Total assets		3,254,736	3,637,915
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities		(117,974)	(312,218)
Current borrowings	19	(81,331)	(244,211)
Income tax payable		(37,174)	(63,021)
Other taxes payable		(56,885)	(72,119)
Environmental obligations		(212)	(1,565)
Total current liabilities		(293,576)	(693,134)
Non-current borrowings	19	(1,029,813)	(619,612)
Contingent consideration liability		(15,523)	(25,276)
Deferred tax liability	13	(63,085)	(82,760)
Environmental obligations		(65,152)	(65,128)
Other non-current liabilities		(97)	(134)
Total non-current liabilities		(1,173,670)	(792,910)
Total liabilities		(1,467,246)	(1,486,044)
NET ASSETS		1,787,490	2,151,871
Stated capital account		1,664,170	1,576,123
Share-based compensation reserve		143,524	119,291
Translation reserve		(206,836)	(53,261)
Retained earnings		186,632	509,718
Total equity		1,787,490	2,151,871

¹ Restated following adopting IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. Refer to Note 22

The notes on pages 51 to 79 form part of these financial statements. These financial statements are approved and authorised for issue by the Board of Directors on 30 March 2014 and signed on its behalf by:

Vitaly Nesis
Chief Executive

Bobby Godsell
Chairman of the Board of Directors

POLYMETAL INTERNATIONAL PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2013	Year ended 31 December 2012 restated ⁴¹
		US\$'000	US\$'000
Net cash generated by operating activities	23	461,667	540,840
Cash flows from investing activities			
Purchases of property, plant and equipment		(319,448)	(397,076)
Consideration for acquisitions	2	(11,934)	(20,797)
Proceeds from disposal of subsidiary		-	25,000
Convertible loan repaid by / (advanced to) Polygon Gold		10,000	(10,000)
Other investing activities		(3,681)	(4,559)
Interest received		1,965	5,686
Contingent consideration paid		(1,329)	(1,227)
Net cash used in investing activities		(324,427)	(402,973)
Cash flows from financing activities			
Borrowings obtained	19	3,099,855	1,236,036
Repayments of borrowings	19	(2,887,041)	(1,384,913)
MTO and squeeze-out obligation repayment		-	(568,837)
Dividends paid		(316,429)	(76,537)
Net cash used in financing activities		(103,615)	(794,251)
Net increase / (decrease) in cash and cash equivalents		33,625	(656,384)
Cash and cash equivalents at 1 January		18,622	658,795
Effect of foreign exchange rate changes		13,320	16,211
Cash and cash equivalents at 31 December		65,567	18,622

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

¹ Restated following adopting IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. Refer to Note 22

POLYMETAL INTERNATIONAL PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Number of Polymetal International shares outstanding	Stated capital account	Share-based compensation reserve	Treasury shares in JSC Polymetal	Translation reserve	Share purchase obligation	Retained earnings	Total equity attributable to the parent	Non- controlling interest	Total equity
Balance at 1 January 2012		382,685,782	1,566,386	59,239	(395)	(151,029)	(561,659)	753,572	1,666,114	148,484	1,814,598
Total comprehensive income			-	-	-	101,533	-	421,197	522,730	17,149	539,879
Amortisation of bonus received from depositary			-	-	-	-	-	1,258	1,258	-	1,258
Share based compensation			-	53,515	-	-	-	-	53,515	764	54,279
Issue of shares in exchange for assets		520,422	9,737	-	-	-	-	-	9,737	-	9,737
Dividends			-	-	-	-	-	(267,880)	(267,880)	-	(267,880)
Acquisition of non-controlling interest under MTO and Squeeze-out			-	6,537	395	(3,765)	561,659	(398,429)	166,397	(166,397)	-
Balance at 31 December 2012 restated¹²¹		383,206,204	1,576,123	119,291	-	(53,261)	-	509,718	2,151,871	-	2,151,871
Total comprehensive income			-	-	-	(153,575)	-	(198,037)	(351,612)	-	(351,612)
Share based compensation			-	24,233	-	-	-	-	24,233	-	24,233
Issue of shares in exchange for assets	2	775,000	13,423	-	-	-	-	-	13,423	-	13,423
Issue of shares in exchange for business acquisitions	2	5,491,661	74,624	-	-	-	-	-	74,624	-	74,624
Dividends	14		-	-	-	-	-	(125,049)	(125,049)	-	(125,049)
Balance at 31 December 2013		389,472,865	1,664,170	143,524	-	(206,836)	-	186,632	1,787,490	-	1,787,490

¹ Restated following adopting IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. Refer to Note 22

1. GENERAL

The consolidated financial information for Polymetal International plc and its subsidiaries (the "Company") set out in this preliminary announcement has been derived from the audited consolidated financial statements of the Company for the year ended 31 December 2013 (the "financial statements").

This preliminary announcement does not constitute the full financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"). The financial statements were approved by the Board of directors on 28 March 2014. Statutory accounts for 2012 have been delivered to the Registrar of Companies and those for 2013 will be delivered in due course.

The report of the auditors on the 2013 Financial Statements was unqualified, did not draw attention to any matters by way of emphasis without qualifying their report, and did not contain a statement under Article 113B (2) or (3) of Companies (Jersey) Law 1991.

Corporate information

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

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

Significant subsidiaries

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

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

Going concern

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

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

Basis of presentation

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

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

New and amended standards adopted by the entity

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

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

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

The adoption of IFRIC 20 has resulted in capitalisation of certain waste stripping costs within property, plant and equipment and a reduction in cost of sales and metal inventories in the year ended 31 December 2012. For further detail of the effect on the Group financial statements the year ended 31 December 2012 please refer to Note 22.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

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

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

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

IFRS 13 Fair Value Measurement

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

Changes in accounting estimates

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

2. ACQUISITIONS AND DISPOSALS

(a) Business combinations and asset acquisitions

Olymp Ltd.

On 24 January 2013 the Group completed the acquisition of 100% of Olymp Ltd., a Russian legal entity holding the mining and exploration licence for the Olcha gold-silver deposit in exchange for 775,000 new ordinary shares in Polymetal.

Olymp Ltd. does not meet the definition of a business pursuant to IFRS 3 (2008) thus it is accounted for as an acquisition of a group of assets. The Group purchased mineral rights at cost of US\$13.4 million and other current liabilities of \$(0.01) million.

ZAO "Maminskaya Gornorudnaya kompania"

On 20 February 2013 the Group entered into a binding memorandum of understanding with Vitalex Investments Ltd and Arrowline Investments Ltd to acquire a 100% interest in ZAO "Maminskaya Gornorudnaya kompania" ("MGK"), which holds an exploration and mining licence for the Maminskoye gold mining field ("Maminskoye").

On 9 April 2013 the Group completed the acquisition of 100% of the ordinary share capital and debt in MGK. The consideration for the equity investment was US\$3.9 million payable in cash and 5,491,661 of Polymetal's ordinary shares valued at the acquisition date at US\$74.6 million. The debt investment in MGK was acquired for consideration payable in cash and equalling its carrying value of US\$8.0 million.

MGK meets the definition of a business pursuant to IFRS 3 (2008) thus it was accounted for at fair value using the acquisition method.

The allocation of the purchase price based on the consideration paid and the fair value of the assets acquired was as follows:

	US\$'000
Net assets acquired	
Mineral rights	115,127
Property, plant and equipment	2,952
Non-current liabilities	(9,896)
Deferred tax liability	(23,025)
Other assets, net	1,400
Net assets acquired	86,558
Consideration:	
Fair value of shares issued in Polymetal International plc	74,624
Cash consideration for equity investment	3,900
Cash consideration for debt investment	8,034
Total consideration	86,558

In the prior year, the following transactions took place:

Veduga

On 7 February 2012 the Group completed the acquisition from AngloGold Ashanti Holdings PLC (AngloGold) of AngloGold's 50% interest in various companies held in joint venture with Polymetal comprising the AngloGold Ashanti – Polymetal Strategic Alliance for US\$20 million. It subsequently entered into a series of transactions with new investors (unrelated parties), retaining a 42.65% economic interest in the principal asset – the Veduga licence. See Note 21 for further information.

Semchenskoye Zoloto

On 22 August 2012 the Group acquired 100% interest in "Semchenskoye Zoloto LLC" (Semchenskoye Zoloto) from Suntsov V.A. (25% interest) and Polister Limited (75% interest), both unrelated parties. Semchenskoye Zoloto holds the exploration licence for Semchenskoye field in Karelia. The Group paid cash consideration of US\$ 0.8 million; in addition, a contingent consideration of US\$0.5 million is payable by the Group in case the exploration of the licence area proves to be successful and the mining licence for the new gold deposit is received before 25 December 2014. Another US\$1.2 million is payable depending on the level of proved and probable ore reserves of the new deposit.

After evaluation of the possible outcome of the contingency, the Group estimated fair value of the contingent consideration to be US\$ 0.1 million.

Semchenskoye Zoloto does not meet the definition of a business pursuant to IFRS 3 (2008), thus it was accounted for as an acquisition of a group of assets. The Group purchased mineral rights of US\$0.8 million and other current liabilities of US\$ 0.024 million.

Svetlobor

On 17 December 2012, the Group acquired 24.99% interest in JSC Nevyansk Group (NG), a Russian legal entity whose wholly-owned subsidiary holds a mining and exploration licence for the Svetlobor area. The Group issued consideration in the form of 130,053 new ordinary shares in the Company. Simultaneously, CJSC VTB Capital (VTB) purchased a 75.01% stake in NG in exchange for 390,369 new Polymetal ordinary shares, which were subscribed for by a subsidiary of VTB for a total cash consideration of US\$6.9 million.

The Group also entered into legally binding agreement to acquire the 75.01% stake in NG from VTB, as soon as this transaction is approved by the Government Commission on Monitoring of Foreign Investments, for cash consideration of US\$6.9 million, plus any interest accrued on this amount at a rate of 7.25% per annum.

The Group determined 17 December 2012 to be the date when it obtained control over NG, and consolidated the acquiree from that date. The cash received from VTB has been accounted for as a loan and included within borrowings (Note 19). NG does not meet the definition of a business pursuant to IFRS 3 (2008) and this transaction has been treated as an acquisition of assets. The allocation of the consideration paid to the assets acquired was as follows:

	US\$'000
Net assets acquired	
Mineral rights	9,449
Other assets	299
Other liabilities	(11)
Net assets acquired	9,737
Consideration:	
Fair value of shares issued	9,737

(b) Disposal of subsidiary

Habarovsk Exploration Company LLC

On 22 October 2013 the Group sold its subsidiary Habarovsk Exploration Company LLC for US\$3.5 million in deferred cash consideration to an unrelated party. The loss on disposal was calculated as follows:

	US\$'000
Property, plant and equipment	7,124
Other non-current assets	1,395
Current assets	4,374
Current liabilities	(598)
Non-current liabilities	(10,121)
Net assets disposed of	2,174
Consideration receivable	3,475
Intercompany debt assigned to acquirer	(10,047)
Loss on disposal	(8,746)

In the prior year, the Group disposed of the following minor subsidiaries: Ural'skoye GRP LLC, Severno-Ural'skoye GRP LLC and JSC Aurum.

	Ural'skoye US\$'000	Severno- Ural'skoye US\$'000	Aurum US\$'000	Amikan US\$'000	Total US\$'000
Net assets disposed of:					
Property, plant and equipment	295	2,749	127	67,842	71,013
Other non-current assets	1,388	-	2,317	3,577	7,282
Current assets	1,848	1,688	-	230	3,766
Current liabilities	(549)	(17)	(1,278)	-	(1,844)
Non-current liabilities	-	(3,572)	-	(17,995)	(21,567)
	2,982	848	1,166	53,654	58,650
Consideration receivable	1,593	1,475	3	28,000	31,071
Fair value of interest in associate undertaking acquired	-	-	-	20,201	20,201
Intercompany debt assigned to acquirer	-	-	-	(3,331)	(3,331)
(Loss)/Gain on disposal	(1,389)	627	(1,163)	(8,784)	(10,709)

3. SEGMENT INFORMATION

The Group has seven reportable segments:

- Voro (CJSC Gold of Northern Urals);
- Khakanja (LLC Okhotskaya Mining and Exploration Company);
- Dukat (CJSC Magadan Silver, Olymp LLC);
- Omolon (Omolon Gold Mining Company LLC);
- Varvara (JSC Varvarinskoye);
- Amursk-Albazino (Albazino Resources Ltd, Amur Hydrometallurgical Plant LLC); and
- Mayskoye (Mayskoye Gold Mining Company LLC).

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

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

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

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

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

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

For the year ended 31 December 2013 (\$'000)	Voro	Khakanja	Dukat	Omolon	Varvara	Amursk - Albazino	Mayskoye	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	214,712	202,641	531,587	222,795	189,527	293,778	49,547	1,704,587	2,010		1,706,597
Intersegment revenue				1,298	760	605		2,663	411,786	(414,449)	-
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	69,174	102,168	270,926	134,967	106,748	172,194	40,612	896,789	298,092	(316,984)	877,897
Cost of sales	86,437	126,345	330,341	188,623	123,465	231,933	56,409	1,143,553	297,227	(316,984)	1,123,796
Depreciation included in Cost of sales	(16,990)	(23,627)	(60,666)	(43,154)	(16,392)	(59,673)	(13,177)	(233,679)	-	-	(233,679)
Write-down of non-metal inventory to net realisable value	(166)	(435)	1,847	(10,005)	(325)	117	(2,594)	(11,561)	865	-	(10,696)
Rehabilitation expenses	(107)	(115)	(596)	(497)	-	(183)	(26)	(1,524)	-	-	(1,524)
General, administrative and selling expenses, excluding depreciation, amortization and share based compensation	8,086	9,459	13,469	11,495	5,074	9,536	10,255	67,374	99,476	(26,805)	140,045
General, administrative and selling expenses	19,776	16,497	24,976	17,876	5,555	12,630	12,362	109,672	127,384	(68,924)	168,132
Intercompany management services	(10,780)	(6,799)	(10,737)	(6,232)	(302)	(2,927)	(1,882)	(39,659)	(2,460)	42,119	-
Depreciation included in SGA	(910)	(239)	(770)	(149)	(179)	(167)	(225)	(2,639)	(1,215)	-	(3,854)
Share based compensation	-	-	-	-	-	-	-	-	(24,233)	-	(24,233)
Other operating expenses excluding additional tax charges	7,325	6,056	18,221	14,334	4,368	9,342	2,971	62,617	19,630	5,577	87,824
Other operating expenses	7,325	6,056	18,622	14,334	4,629	9,342	2,971	63,279	19,630	5,577	88,486
Mining taxes, penalties and accrued interest	-	-	(401)	-	(261)	-	-	(662)	-	-	(662)
Share of loss of associates and joint ventures	-	-	-	-	-	-	-	-	2,340	-	2,340
Adjusted EBITDA	130,127	84,958	228,971	63,297	74,097	103,311	(4,291)	680,470	(5,742)	(76,237)	598,491
Depreciation expense	17,900	23,866	61,436	43,303	16,571	59,840	13,402	236,318	1,215	-	237,533
Rehabilitation expenses	107	115	596	497	-	183	26	1,524	-	-	1,524
Write-down of non-metal inventory to net realisable value	166	435	(1,847)	10,005	325	(117)	2,594	11,561	(865)	-	10,696
Impairment of non-current assets	-	104,404	-	16,587	80,114	-	-	201,105	-	-	201,105
Impairment of investment in associate	-	-	-	-	-	-	-	-	12,291	-	12,291
Write-downs of metal inventories to net realisable value	2,559	28,160	11,954	75,229	19,301	-	16,124	153,327	-	-	153,327
Share-based compensation	-	-	-	-	-	-	-	-	24,233	-	24,233
Mining taxes, penalties and accrued interest	-	-	401	-	261	-	-	662	-	-	662
Operating profit / (loss)	109,395	(72,022)	156,431	(82,324)	(42,475)	43,405	(36,437)	75,973	(42,616)	(76,237)	(42,880)
Foreign exchange loss											(74,240)
Loss on disposal of subsidiaries											(8,746)
Change in fair value of contingent consideration											8,131
Finance income											2,850
Finance costs											(42,735)
Loss before tax											(157,620)
Income tax benefit											(40,417)
Loss for the financial period											(198,037)
Current metal inventories	62,154	53,671	83,533	72,332	14,527	84,716	59,471	430,404	222	(3,474)	427,152
Current non-metal inventories	8,898	54,548	51,414	57,494	23,882	46,804	50,354	293,394	25,420	(18,822)	299,992
Non-current segment assets:											
Property, plant and equipment, net	93,866	59,741	416,822	250,847	150,564	568,599	325,580	1,866,019	264,395	(35,672)	2,094,742
Goodwill	-	-	8,876	-	-	-	22,013	30,889	-	-	30,889
Non-current inventory	2,554	5,165	11,135	16,189	9,178	4,802	5,905	54,928	759	(2,545)	53,142
Investments in associates	-	-	-	-	-	-	-	-	15,651	-	15,651
Total segment assets	167,472	173,125	571,780	396,862	198,151	704,921	463,323	2,675,634	306,447	(60,513)	2,921,568
Additions to non-current assets:											
Property, plant and equipment	19,701	39,443	40,309	57,317	42,323	70,997	58,006	328,096	40,650	(11,929)	356,817
Acquired in business combinations and acquisition of group of assets	-	-	13,400	-	-	-	-	13,400	118,079	-	131,479

For the year ended 31 December 2012 (\$'000) restated	Amursk						Mayskoye	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
	Voro	Khakanja	Dukat	Omolon	Varvara	Albazino					
Revenue from external customers	268,427	302,482	672,881	295,748	215,241	99,182	-	1,853,961	104	-	1,854,065
Intersegment revenue	183	-	-	-	674	9,730	-	10,587	480,432	(491,019)	-
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	72,346	101,595	262,198	150,294	103,533	51,240	1	741,207	366,971	(399,281)	708,897
Cost of sales	90,417	131,963	294,120	187,494	117,147	66,370	(3,362)	884,149	366,971	(399,281)	851,839
Depreciation included in Cost of sales	(17,673)	(29,486)	(31,698)	(31,008)	(13,883)	(14,041)	-	(137,789)	-	-	(137,789)
Write-down of non-metal inventory to net realisable value	-	(4)	71	(5,836)	269	(206)	3,363	(2,343)	-	-	(2,343)
Rehabilitation expenses	(398)	(878)	(295)	(356)	-	(883)	-	(2,810)	-	-	(2,810)
General, administrative and selling expenses, excluding depreciation, amortization and share based compensation	7,823	8,833	12,487	9,279	4,329	10,297	8,779	61,827	99,428	(38,323)	122,932
General, administrative and selling expenses	20,085	15,842	23,197	15,581	5,342	11,669	9,088	100,804	157,389	(76,545)	181,648
Intercompany management services	(10,322)	(6,545)	(10,211)	(6,219)	(858)	(1,161)	(147)	(35,463)	(2,759)	38,222	-
Depreciation included in SGA	(1,940)	(464)	(499)	(83)	(155)	(211)	(162)	(3,514)	(923)	-	(4,437)
Share based compensation	-	-	-	-	-	-	-	-	(54,279)	-	(54,279)
Other operating expenses excl additional tax charges	6,358	14,535	20,038	7,335	6,471	11,946	2,868	69,551	17,659	734	87,944
Other operating expenses	6,358	14,535	73,645	7,335	18,775	11,946	2,868	135,462	17,659	734	153,855
Mining taxes, penalties and accrued interest	-	-	(53,607)	-	(12,304)	-	-	(65,911)	-	-	(65,911)
Share of loss of associates and joint ventures	-	-	-	-	-	-	-	-	1,804	-	1,804
Adjusted EBITDA	182,083	177,519	378,158	128,840	101,582	35,429	(11,648)	991,963	(5,326)	(54,149)	932,488
Depreciation expense	19,613	29,950	32,197	31,091	14,038	14,252	162	141,303	923	-	142,226
Rehabilitation expenses	398	878	295	356	-	883	-	2,810	-	-	2,810
Write-downs of metal inventories to net realisable value	-	-	-	-	-	4,000	-	4,000	-	-	4,000
Write-down of non-metal inventory to net realisable value	-	4	(71)	5,836	-	206	(3,363)	2,343	-	-	2,343
Additional tax charges according to the Supreme Arbitration Court decision	-	-	53,607	-	12,304	-	-	65,911	-	-	65,911
Share-based compensation	-	-	-	-	-	-	-	-	54,279	-	54,279
Operating profit / (loss)	162,072	146,687	292,130	91,557	75,509	16,088	(8,447)	775,596	(60,528)	(54,149)	660,919
Loss on disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	(10,709)
Gain on acquisition of remaining interest in joint venture	-	-	-	-	-	-	-	-	-	-	21,051
Foreign exchange	-	-	-	-	-	-	-	-	-	-	6,677
Change in fair value of contingent consideration	-	-	-	-	-	-	-	-	-	-	(4,717)
Finance income	-	-	-	-	-	-	-	-	-	-	4,657
Finance costs	-	-	-	-	-	-	-	-	-	-	(26,787)
Profit before tax											651,091
Income tax expense	-	-	-	-	-	-	-	-	-	-	(222,868)
Profit for the year attributable to the equity holders of the parent											428,223
Current metal inventories	58,652	84,983	102,062	109,105	51,998	126,924	13,515	547,241	486	(4,558)	543,169
Current non-metal inventories	7,953	53,215	49,432	65,786	21,293	45,022	31,200	273,901	43,116	(19,565)	297,452
Non-current segment assets:											
Property, plant and equipment, net	104,708	146,536	449,867	285,904	154,276	595,261	320,119	2,056,671	176,823	(27,762)	2,205,732
Goodwill	-	14,238	8,737	-	68,411	-	23,720	115,106	-	-	115,106
Non-current inventory	4,213	7,554	10,993	45,987	5,933	9,832	10,119	94,631	4,232	-	98,863
Investments in associates	-	-	-	-	-	-	-	-	29,822	-	29,822
Total segment assets	175,526	306,526	621,091	506,782	301,911	777,039	398,673	3,087,548	254,477	(51,885)	3,290,140
Additions to non-current assets:											
Property, plant and equipment	27,125	28,788	52,452	82,363	16,476	104,037	106,262	417,503	21,142	(4,261)	434,384
Acquired in the year	-	-	-	-	-	-	-	-	10,270	-	10,270

4. REVENUE

Revenue analysed by geographical regions of customers is presented below:

	Year ended	
	31 December 2013	31 December 2012
	US\$'000	US\$'000
Sales within the Russian Federation	1,060,935	1,055,569
Sales to Kazakhstan	170,178	396,543
Sales to Europe	151,970	219,546
Sales to China	165,368	178,059
Sales to Korea	90,512	1,429
Sales to Japan	65,183	1,066
Total metal sales	1,704,146	1,852,212
Other sales	2,451	1,853
Total	1,706,597	1,854,065

Metal sales to related parties (sales to Nomos-Bank) are disclosed in Note 21.

Included in revenues for the year ended 31 December 2013 are revenues which arose from sales to three of the Group's largest customers amounting to US\$391 million, US\$273 million and US\$175 million, respectively (2012: US\$357 million, US\$340 million and US\$234 million, respectively). No other customers individually account for more than 10% of the Group's revenues.

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

	Year ended 31 December 2013				Year ended 31 December 2012			
	Thousand ounces/tonnes (unaudited) shipped	Thousand ounces/tonnes (unaudited) payable	Average price (U.S. Dollar per troy ounce/tonne payable) (unaudited)	US\$'000	Thousand ounces/tonnes (unaudited) shipped	Thousand ounces/tonnes (unaudited) payable	Average price (U.S. Dollar per troy ounce/tonne payable) (unaudited)	US\$'000
Gold (thousand ounces)	818	808	1,326	1,070,847	593	589	1,640	966,463
Silver (thousand ounces)	27,414	27,376	22	592,576	27,797	27,797	30	832,886
Copper (tonnes)	6,468	6,141	6,631	40,723	7,011	7,011	7,540	52,863
Total				1,704,146				1,852,212

5. COST OF SALES EXCLUDING WRITE-DOWNS OF METAL INVENTORIES TO NET REALISABLE VALUE

	Year ended	
	31 December 2013	31 December 2012 restated
	US\$'000	US\$'000
Cash operating costs		
On-mine costs (Note 6)	393,067	364,134
Smelting costs (Note 7)	384,192	335,564
Purchase of ore from third parties	18,836	29,519
Purchase of ore from related parties	13,983	3,035
Mining tax	109,421	120,910
Total cash operating costs	919,499	853,162
Depreciation and depletion of operating assets (Note 8)	245,483	178,417
Rehabilitation expenses	1,524	2,810
Total costs of production	1,166,506	1,034,389
Increase in metal inventories	(53,985)	(186,989)
Write-down of non-metal inventories to net realisable value (Note 18)	10,696	2,343
Cost of other sales	579	2,096
Total	1,123,796	851,839

Due to significant decline in gold and silver prices during first half of the year ended 31 December 2013, the Group has separately written down some of its metal inventories (refer to Note 18).

Mining tax is a royalty payable in Russian Federation and Kazakhstan which is calculated based on the value of the precious metals extracted in the period. This value is usually determined based on the realised selling price of precious metals or, in case if there were no sales during the period, cost of sales of metals extracted (Russian Federation) or the average market price (Kazakhstan) during the period.

Mining tax in respect of the metal inventories produced during the year is recognised within cost of sales, while the additional mining tax accruals in respect of various disputes with tax authorities are recognised within other expenses (see Note 10).

6. ON-MINE COSTS

	Year ended	
	31 December 2013	31 December 2012 restated
	US\$'000	US\$'000
Consumables and spare parts	114,679	121,366
Services	165,936	146,876
Labour	109,475	90,760
Taxes, other than income tax	609	1,115
Other expenses	2,368	4,017
Total (Note 5)	393,067	364,134

7. SMELTING COSTS

	Year ended	
	31 December 2013	31 December 2012 restated
	US\$'000	US\$'000
Consumables and spare parts	171,358	138,258
Services	139,489	137,339
Labour	70,650	57,063
Taxes, other than income tax	1,021	902
Other expenses	1,674	2,002
Total (Note 5)	384,192	335,564

8. DEPLETION AND DEPRECIATION OF OPERATING ASSETS

	Year ended	
	31 December 2013	31 December 2012 restated
	US\$'000	US\$'000
On-Mine	159,218	117,504
Smelting	86,265	60,913
Total (Note 5)	245,483	178,417

Depreciation on operating assets excludes depreciation relating to non-operating assets (included in general, administrative and selling expenses) and depreciation related to assets employed in development projects where the charge is capitalised. Depreciation expense, which is excluded from the Group's calculation of Adjusted EBITDA (see Note 3), also excludes amounts absorbed into unsold metal inventory balances.

9. GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

	Year ended	
	31 December 2013	31 December 2012
	US\$'000	US\$'000
Labour	106,952	92,429
Services	18,739	18,430
Share based compensation	24,233	54,279
Depreciation	3,854	4,437
Other	14,354	12,073
Total	168,132	181,648

10. OTHER OPERATING EXPENSES

	Year ended	
	31 December 2013	31 December 2012
	US\$'000	US\$'000
Mining taxes, penalties and accrued interest (Note 13)	662	65,911
Exploration expenses	24,144	32,908
Taxes, other than income tax	21,164	14,205
Social payments	10,709	10,544
Loss on disposal of property, plant and equipment	9,503	9,325
Housing and communal services	6,547	7,860
Bad debt allowance	1,089	267
Other expenses	14,668	12,835
Total	88,486	153,855

Mining taxes, penalties and accrued interest have been accrued in respect of various disputes with the Russian and Kazakh tax authorities. The background to these cases and their impact on the results of the Group has been set out in more detail within Note 13.

11. EMPLOYEE COSTS

The weighted average number of employees during the year ended 31 December 2013 was:

	Year ended	
	31 December 2013	31 December 2012
	Number	Number
Voro	913	901
Khakanja	1,144	1,132
Dukat	1,952	1,926
Omolon	910	1,027
Varvara	730	695
Amursk-Albazino	1,158	1,119
Mayskoye	941	759
Corporate and other	1,484	1,434
Total	9,232	8,993

	Year ended	
	31 December 2013	31 December 2012 restated
	US\$'000	US\$'000
Wages and salaries	281,316	252,152
Social security costs	64,557	53,963
Share based payments expense	24,233	54,279
Total payroll costs	370,106	360,394
Reconciliation:		
Less: employee costs capitalised	(52,003)	(53,831)
Less: employee costs absorbed into unsold metal inventory balances	(13,815)	(23,176)
Employee costs included in operating costs	304,288	283,387

Compensation for key management personnel is disclosed within Note 21.

12. FINANCE COST

	Year ended	
	31 December 2013	31 December 2012 restated
	US\$'000	US\$'000
Interest expense on borrowings	29,972	18,523
Unwinding discount on borrowings	9,070	4,643
Unwinding of discount on environmental obligations	3,693	3,621
Total	42,735	26,787

Interest expense on borrowings excludes borrowing costs capitalised in the cost of qualifying assets of US\$6.1 million and US\$14.7 million during the years ended 31 December 2013 and 2012, respectively. These amounts were calculated based on the Group's general borrowing pool and by applying an effective interest rate of 2.99% and 3.06%, respectively, to cumulative expenditure on such assets.

13. INCOME TAX

The income tax expense for the year ended 31 December 2013 is as follows:

	Year ended	
	31 December 2013	31 December 2012 restated
	US\$'000	US\$'000
Current income taxes	105,096	174,444
Excess profit taxes payable in Kazakhstan	8,313	17,111
Income tax expense arising in respect of lost litigation	-	27,475
Deferred income taxes	(72,992)	3,838
	40,417	222,868

A reconciliation between the reported amount of income tax expense attributable to loss/ profit before income tax for the year ended 31 December 2013 is as follows:

	Year ended	
	31 December 2013	31 December 2012 restated
	US\$'000	US\$'000
(Loss) / Profit before income tax	(157,620)	651,091
Statutory income tax expense at the tax rate of 20%	(31,524)	130,218
Loss incurred in tax-free jurisdictions	8,309	(4,336)
Share-based compensation	4,720	10,856
Excess profit taxes payable in Kazakhstan	8,313	17,111
Effect of income tax rate adjustment	-	-
Income tax arising in respect of lost litigation	-	27,475
Income tax provision in respect of other exposures	-	5,055
Tax effect of non-deductible expenses and other permanent differences	50,599	36,489
Total income tax expense	40,417	222,868

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

In the normal course of business, the Group is subject to examination by tax authorities throughout the Russian Federation and Kazakhstan. Out of the large operating companies of the Group, tax authorities have audited CJSC Gold of Northern Urals up to 2011, Omolon Gold Mining Company LLC, LLC Okhotskaya Mining and Exploration Company CJSC and Mayskoye Gold Mining Company LLC up to 2010, CJSC Magadan Silver for the period up to 2009, JSC Varvarinskoye for the period up to 2010. According to Russian and Kazakhstan tax legislation, previously conducted audits do not fully exclude subsequent claims relating to the audited period.

Income tax and other expenses arising in respect of lost litigation

At 31 December 2012

During the year ended 31 December 2012, the Group provided for certain expenses and tax exposures in respect of lost litigation.

The additional income tax charges incurred in respect of litigations during the year ended 31 December 2012 total US\$27.5 million and comprised US\$14.5 million paid out in respect of a case concerning Magadan Silver sales to ABN AMRO in 2007 and US\$13.0 million in respect of cases relating to the deductibility of transportation and processing expenses and of foreign exchange losses in Varvara. Including US\$5.1 million of additional income tax exposures provided for and US\$17.1 million excess profit tax in Kazakhstan recognised for the first time in 2012, a total additional income tax expense of US\$49.6 million was recognised in the year ended 31 December 2012.

The Group also recognised mining taxes, interest and penalties totalling US\$65.9 million which were recognised within Other Operating Expenses (see Note 10). These expenses comprised US\$15.0 million paid out in respect of the Magadan Silver/ABN AMRO case, US\$9.2 million provided for in respect of the Magadan Silver Mineral Extraction Tax case, US\$10.1 million paid out in respect of Varvara litigation and US\$31.6 million in respect of other exposures.

At 31 December 2013

During the year ended 31 December 2013 the Group paid US\$8.3 million of mining taxes, interest and penalties in respect of the Magadan Silver Mineral Extraction Tax case, US\$17.1 million of Varvara Excess Profits Tax provided for in 2012 and US\$7.3 million of various Varvara exposures.

In respect of the year ended 31 December 2013, no additional significant income tax and mining tax exposures have been provided for.

Other exposures considered possible but not probable and therefore not provided for total to US\$22.3 million (31 December 2012: US\$3 million) and are described in Note 20.

Deferred taxation

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the reporting period.

	Environmental obligation US\$'000	Inventories US\$'000	Property, plant, and equipment US\$'000	Trade and other payables US\$'000	Tax Losses US\$'000	Loan US\$'000	Other US\$'000	Total US\$'000
At 1 January 2013 restated	13,343	(18,637)	(90,154)	6,078	57,621	(1,834)	8,847	(24,736)
Credit to income statement	709	11,555	16,086	5,767	32,229	1,749	4,898	72,993
Acquisition	-	-	(23,025)	353	595	-	(556)	(22,633)
Disposal	-	587	(484)	(160)	(37)	-	(6)	(100)
Exchange differences	(980)	1,014	6,323	(601)	(5,036)	85	(930)	(125)
At 31 December 2013	13,072	(5,481)	(91,254)	11,437	85,372	-	12,253	25,399

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

	Year ended	
	31 December 2013	31 December 2012 restated
	US\$'000	US\$'000
Deferred tax liabilities	(63,085)	(82,760)
Deferred tax assets	88,484	58,024
	25,399	(24,736)

Tax losses carried forward represent amounts available for offset against future taxable income generated by JSC Omolon Gold Mining Company, ZK Mayskoye LLC, Albazino Resources LLC, Amursky Hydrometallurgy Plant LLC and the Company during the period up to 2023. Each legal entity within the Group represents a separate tax-paying component for income tax purposes. The tax losses of one entity cannot be used to reduce taxable income of other entities of the Group. As at 31 December 2013 and 31 December 2012 the aggregate tax losses carried forward were US\$426.8 million (RUB13.9 billion) and US\$288.1 million (RUB 8.8 billion), respectively.

The Group believes that recoverability of the recognized deferred tax asset (DTA) of US\$88.5 million at 31 December 2013 is more likely than not based upon expectations of future taxable income in the Russian Federation and Kazakhstan and available tax planning strategies.

Losses incurred in certain taxable entities in recent years have created a history of losses as of 31 December 2013. The Group has concluded that there is sufficient evidence to overcome the recent history of losses based on forecasts of sufficient taxable income in the carry-forward period.

The Group's estimate of future taxable income is based on established proven and probable reserves which can be economically developed. The related detailed mine plans and forecasts provide sufficient supporting evidence that the Group will generate taxable earnings to be able to fully realise its net DTA even under various stressed scenarios. The amount of the DTA considered realisable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced due to delays in production start dates, decreases in ore reserve estimates, increases in environmental obligations, or reductions in precious metal prices. The Group's tax losses carried forward expire as follows:

	31 December 2013
	US\$'000
Year ended 31 December 2014	2,680
31 December 2015	7,401
31 December 2016	6,229
31 December 2017	8,971
31 December 2018	25,059
31 December 2019	19,939
31 December 2020	22,272
31 December 2021	67,575
31 December 2022	90,698
31 December 2023	176,034
Total loss carried forward for tax purposes	426,858

The deferred tax liabilities for taxes that would be payable on the unremitted earnings of certain of the Group subsidiaries have not been recognised as the Group has determined that the undistributed profit of its subsidiaries will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognised, amount to US\$1,802 million (2012: US\$1,712 million).

14. DIVIDENDS

A final dividend has been proposed in relation to the year of 8 cents per share giving a total expected dividend of US\$31.2 million. This is subject to approval by shareholders at the Annual General Meeting and has therefore not been included as a liability in these financial statements.

On 23 September 2013 an interim dividend of 1 cent per share was paid to shareholders by the Company resulting in cash outflows of US\$3.9 million.

On 17 June 2013 a final dividend for 2012 of 31 cents per share was paid to shareholders by the Company resulting in cash outflows of US\$121.2 million. On 16 January 2013, a special dividend of 50 cents per share was paid to shareholders by the Company resulting in cash outflows of US\$191.3 million.

On 14 June 2012 a final dividend for 2011 of 20 cents per share was paid to shareholders by the Company resulting in cash outflows of US\$76.5 million.

15. IMPAIRMENT LOSSES

At 30 June 2013, due to significant decline in gold, silver and copper market prices in first quarter 2013, the Group carried out an impairment review of its property, plant and equipment, goodwill and other non-current assets. As a result of this review, total impairment charges of US\$199.1 million were recognised as at 30 June 2013.

During second half of the year ended 31 December 2013 there was a stabilisation in gold, silver and copper market prices. Therefore, the impairment review was performed only for the Omolon cash generating unit, where individual impairment indicators exist due to downgrades in reserves and changes in the life of mine plan. As a result, a further impairment of US\$12 million was recognised as at 31 December 2013.

In the view of management there are no indicators of impairment (or impairment reversal) for other cash generating units as at 31 December 2013 and no further impairment as at 31 December 2013 was recognised.

Total impairment charges of US\$213.4 million (2012: nil) recognised during the year ended 31 December 2013 comprise the following:

Year ended 31 December 2013

	Khakanja	Varvara	Omolon	Total operating segments	Corporate and other	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Property, plant and equipment	91,184	17,358	16,587	125,129	-	125,129
Goodwill	13,220	62,756	-	75,976	-	75,976
Investments in associates	-	-	-	-	12,291	12,291
Total	104,404	80,114	16,587	201,105	12,291	213,396

After the related tax credit of US\$21.1 million, the post-tax impairment charge is US\$192.3 million.

Impairment of Property, Plant and Equipment

Each cash generating unit is determined on the basis of Group's geographical structure and equals to the Group's reporting segments (refer to Note 3). The carrying amount of cash generating units excludes certain exploration assets included within the segment assets which are currently under development and have not reached a stage where there is enough information to estimate the future cash flows that might be eventually generated by the project. The following amounts are excluded from cash generating units carrying amounts: US\$ 36.7 million. These were assessed for impairment separately.

The carrying amounts of all the cash-generating units were assessed against their recoverable amounts determined based on a fair value less costs to sell calculation. Fair value is based on the application of the Discounted Cash Flow Method (DCF) using post-tax cash flows. The DCF method is attributable to the development of proved and probable reserves and certain resources where a relevant resource-to-reserve conversion ratio can be reasonably applied.

The Group used a post-tax real discount rate of 7.1% (2012: 7.1%) in the DCF calculations which is equal to its nominal weighted average cost of capital of 9% (2012: 9%) translated into real terms. The DCF method used is based on the following key assumptions:

Commodity prices

Commodity prices are based on latest internal forecasts, benchmarked against external sources of information. In the impairment tests performed, the flat real long-term gold, silver and copper prices of US\$1,200 per ounce, US\$18 per ounce and US\$7,000 per tonne, respectively, have been used to estimate future revenues.

Proved and probable reserves and mineral resources

Production volumes are derived from the detailed long-term life of mine plans which are based on JORC proven and probable reserves and certain mineral resources (using a relevant resource-to-reserve conversion ratio) at the end of the period.

Production costs

Production costs are based on management's best estimates over the life of the mine, and reflect past experience.

Impairment of investment in associate

The Group has fully written off its investment in JSC Ural-Polymetal as the carrying values of the exploration assets this associate holds are not considered recoverable. In management's view there are no indicators of a reversal as at 31 December 2013.

16. PROPERTY, PLANT AND EQUIPMENT

	Exploration and evaluation assets US\$'000	Mining assets US\$'000	Non-mining assets US\$'000	Capital construction in-progress US\$'000	Total US\$'000
Cost					
Balance at 1 January 2012	94,873	1,559,526	87,464	511,427	2,253,290
Additions	66,077	186,007	18,756	163,544	434,384
Transfers	(74,723)	436,721	(7,187)	(345,964)	8,847
Change in decommissioning liabilities	-	3,245	-	-	3,245
Acquired on acquisition of group of assets	-	10,264	6	-	10,270
Eliminated on disposal of subsidiary	-	(10,815)	(1,114)	-	(11,929)
Disposals	(7,654)	(19,219)	(1,897)	(2,105)	(30,875)
Translation to presentation currency	6,352	96,095	2,299	26,720	131,466
Balance at 31 December 2012	84,925	2,261,824	98,327	353,622	2,798,698
Additions	60,355	245,287	13,216	37,959	356,817
Transfers	78,138	143,437	(6,627)	(214,948)	-
Change in decommissioning liabilities	-	(549)	-	-	(549)
Acquired on acquisition	128,521	6	-	2,952	131,479
Eliminated on disposal of subsidiary	-	(12,535)	(218)	(42)	(12,795)
Disposals	-	(45,325)	(6,455)	(1,828)	(53,608)
Translation to presentation currency	(14,713)	(161,806)	(6,964)	(20,154)	(203,637)
Balance at 31 December 2013	337,226	2,430,339	91,279	157,561	3,016,405
Accumulated depreciation, amortisation					
Balance at 1 January 2012	-	(335,167)	(16,149)	-	(351,316)
Charge for the year	-	(226,851)	(9,521)	-	(236,372)
Disposals	-	8,705	752	-	9,457
Eliminated on disposal of subsidiary	-	8,369	389	-	8,758
Translation to presentation currency	-	(23,328)	(165)	-	(23,493)
Balance at 31 December 2012	-	(568,272)	(24,694)	-	(592,966)
Charge for the period	-	(281,157)	(6,186)	-	(287,343)
Disposals	-	27,115	3,804	-	30,919
Eliminated on disposal of subsidiary	-	5,469	160	-	5,629
Impairment recognised in profit and loss	(4,670)	(114,984)	(1,938)	(3,537)	(125,129)
Translation to presentation currency	1	44,894	2,339	(7)	47,227
Balance at 31 December 2013	(4,669)	(886,935)	(26,515)	(3,544)	(921,663)
Net book value					
1 January 2012	94,873	1,224,359	71,315	511,427	1,901,974
31 December 2012	84,925	1,693,552	73,633	353,622	2,205,732
31 December 2013	332,557	1,543,404	64,764	154,017	2,094,742

Mining assets at 31 December 2013 included mineral rights with net book value which amounted to US\$376.3 million (31 December 2012: US\$367.8 million). Mineral rights of the Group comprise assets acquired upon acquisition of subsidiaries and asset acquisitions.

IFRIC 20 was adopted from 1 January 2012 (see note 22). Comparative balance were restated to recognise stripping assets of US\$56.3 million at 31 December 2012. At 31 December 2013 stripping costs of US\$ 91.3 million have been capitalised within Mining assets.

Transfers from Capital construction in-progress to Mining assets during the year relate mainly to Mayskoye (transfers amounting to US\$133 million), where assets reached commercial production in April 2013.

The additions and the disposals of property, plant and equipment in the year ended 31 December 2012 are shown net of US\$67.8 million of exploration and development assets recognised on acquisition of a controlling interest in Amikan Holding Ltd in February 2012 and subsequently derecognised on loss of control in that entity following its disposal in May 2012.

No property, plant and equipment were pledged as collateral at 31 December 2013 or at 31 December 2012.

Impairment losses recognised during the year ended 31 December 2013

During the current year, as a result of significant gold, silver and copper market price declines below levels used in the Group's 2012 impairment tests, the Group carried out a review of the recoverable amount of its property, plant and equipment. The review led to the recognition of impairment losses of US\$125.1 million, which has been recognised in the income statement. Refer to Note 15 for further details.

17. GOODWILL

Cost and Accumulated impairment losses	31 December 2013	31 December 2012
	US\$'000	US\$'000
At 1 January	115,106	108,587
Impairment losses recognised in the year	(75,976)	-
Translation effect	(8,241)	6,519
At 31 December	30,889	115,106

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

	31 December 2013	31 December 2012
	US\$'000	US\$'000
Varvara	-	68,411
Mayskoye	22,013	23,720
Khakanja	-	14,237
Dukat	8,876	8,738
Total	30,889	115,106

Impairment losses recognised during the year ended 31 December 2013

As a result of significant gold, silver and copper market prices decline below levels used in the Group's 2012 annual impairment tests during the period ended 30 June 2013, the Group carried out a review of the recoverable amount of goodwill at 30 June 2013. The review led to the recognition of an impairment charge of US\$76 million of goodwill, which has been recognised in the income statement. Refer to Note 15 for details.

During the second half of 2013 there was a stabilisation of gold, silver and copper market prices. In management's view there are no indicators of impairment as of 31 December 2013 and no further impairment of goodwill at 31 December 2013 was recognised.

Sensitivity analysis

For the cash-generating units where the goodwill was not fully impaired at 31 December 2013, being Dukat and Mayskoye, management has performed an analysis as to whether a reasonably possible adverse change to any of the key assumptions would lead to an impairment.

The following scenarios were considered as reasonably possible and were used for this sensitivity analysis:

- 5% simultaneous decrease in gold and silver prices over the life of mine;
- 5% increase in operating expenses over the life of mine; and
- 0.5% increase in the discount rate applied.

Each of the sensitivities above has been determined by assuming that the relevant key assumption moves in isolation, and without regard to potential mine plan changes and other management decisions which would be taken to respond to adverse changes in existing management projections.

An adverse change in a key assumption described above would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the Dukat and Mayskoye cash-generating units.

18. INVENTORIES

	31 December 2013	31 December 2012 restated
	US\$'000	US\$'000
Inventories expected to be recovered after twelve months		
Consumables and spare parts	41,885	62,267
Ore stock piles	11,257	36,597
Total non-current inventories	53,142	98,864
Inventories expected to be recovered in the next twelve months		
Ore stock piles	182,269	285,006
Copper, gold and silver concentrate	133,037	141,878
Work in-process	77,848	64,811
Metal for refinery	9,117	21,206
Dore	24,881	30,268
Total metal inventories	427,152	543,169
Consumables and spare parts	299,992	297,452
Total	727,144	840,621

Write-downs of metal inventories to net realisable value

During the year ended 31 December 2013, the Group recognised the following write-downs to net realisable value of its metal inventories due to low content of precious metals and metal price decline (see Note 15):

	Year ended 31 December 2013						Year ended 31 December 2012 restated		
	Voro	Khakanja	Dukat	Omolon	Varvara	Mayskoye	Total operating segments	Total	Total operating segments
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Ore stock piles	2,559	28,160	11,954	75,229	19,301	-	137,203	137,203	-
Copper, gold and silver concentrate	-	-	-	-	-	16,124	16,124	16,124	4,000
Total	2,559	28,160	11,954	75,229	19,301	16,124	153,327	153,327	4,000

After the related tax credit of US\$30.7 million, the post-tax impairment charge is US\$122.6 million.

Write-downs of metal inventories to net realisable value were recognised during the year ended 31 December 2013 in amount of US\$153 million as a result of decline in gold, silver and copper prices. The key assumptions used as at 31 December 2013 in determining net realisable value of inventories (including the commodity price assumptions) were consistent with the assumptions used in the impairment review of goodwill and non-current assets (see Note 15).

In addition, during the year ended 31 December 2013 the Group wrote-down US\$4.6 million of costs (2012: US\$5.6 million) in Omolon which did not significantly enhance the value of the ore stock piles.

During the year ended 31 December 2013 the Group provided for obsolete consumables and spare parts inventory in the amount of US\$10.7 million (year ended 31 December 2012: reversal of US\$3.3 million).

The amount of inventories held at net realisable value at 31 December 2013 is US\$100.7 million (31 December 2012: US\$7 million).

19. BORROWINGS

Borrowings at amortised cost:

	Type of rate	Actual interest rate at 31 December		31 December 2013			31 December 2012		
		2013	2012	Current	Non-current	Total	Current	Non-current	Total
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Secured loans from third parties									
<i>U.S. Dollar denominated</i>	floating	3.22%	3,1%	37,500	537,500	575,000	222,874	485,862	708,736
Total				37,500	537,500	575,000	222,874	485,862	708,736
Unsecured Loans from third parties									
<i>U.S. Dollar denominated</i>	floating	2.74%	2,8%	30,769	469,231	500,000	-	100,000	100,000
<i>U.S. Dollar denominated</i>	fixed	7,5%	7,35%	-	11,443	11,443	6,859	7,712	14,571
<i>Euro denominated</i>	floating	2.24%	2,8%	3,757	3,757	7,514	5,306	7,243	12,549
Total				34,526	484,431	518,957	12,165	114,955	127,120
Loans from related parties									
<i>Euro denominated</i>	floating	4.90%	4,4%	8,903	7,624	16,527	8,583	15,932	24,515
<i>CAD denominated</i>	floating	5.69%	8%	402	258	660	589	711	1,300
<i>RUB denominated</i>	fixed	-	5,7%	-	-	-	-	2,152	2,152
Total				9,305	7,882	17,187	9,172	18,795	27,967
				81,331	1,029,813	1,111,144	244,211	619,612	863,823

Bank loans

The Group has a number of borrowing arrangements with various lenders. These borrowings consist of unsecured and secured loans and credit facilities denominated in Rubles, U.S. Dollars, Euro and Canadian Dollars. Where security is provided it is in form of pledge of revenue from certain sales agreements.

During the year ended 31 December 2013, the Group drew down a total of US\$3,100 million and repaid US\$2,887 million, a net drawdown of US\$213 million.

The Group secured new facilities in the year for a total amount of US\$975 million with unrelated parties. These credit facilities are repayable between first quarter 2014 and fourth quarter 2018 and bear interest at a rate of between Libor +2.35% and Libor+3.05%.

At 31 December 2013, the Group had undrawn borrowing facilities of US\$1,324 million (31 December 2012: US\$913 million). The Group complied with its debt covenants throughout 2013 and 2012. The table below summarises maturities of borrowings:

	US\$'000
Year ended, 31 December 2013	81,331
31 December 2014	253,904
31 December 2015	306,773
31 December 2016	57,692
31 December 2017	403,814
31 December 2018	5,086
31 December 2019	2,544
	<hr/>
Total	1,111,144
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20. COMMITMENTS AND CONTINGENCIES

Commitments

Capital commitments

The Group's budgeted capital expenditure commitments as at 31 December 2013 amounted to US\$22.3 million (2012: US\$37 million).

Forward Sale Commitments

The Group has certain physical gold and silver forward sale commitments which are priced at the prevailing market price, calculated with reference to the LBMA or LME gold price, which are accounted for as executed as the Group expects to and has historically physically delivered into these contracts.

Operating leases: Group as a lessee

The land in the Russian Federation and Kazakhstan on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through to 2058.

Future minimum lease payments due under non-cancellable operating lease agreements at the end of the period were as follows:

	31 December 2013	31 December 2012
	US\$'000	US\$'000
Due within one year	2,831	1,832
From one to five years	3,904	4,278
Thereafter	2,334	2,702
Total	9,069	8,812

Contingencies

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transaction and activity of the companies of the Group may be challenged by the relevant regional and federal authorities and as a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

During 2012 and 2013 the Group has been involved in a number of litigations in Russia and in Kazakhstan. See Note 13 for details of these cases and their outcomes. In addition to the cases detailed within Note 13, management has identified a total exposure (covering taxes and related interest and penalties) of US\$22.3 million in respect of contingent liabilities (2012: US\$3 million).

21. RELATED PARTIES

Related parties are considered to include shareholders, affiliates, associates, joint ventures and entities under common ownership and control with the Group and members of key management personnel. In the course of its business the Group entered into various transactions with Nomos-Bank (an entity in which Alexander Nesis, a significant shareholder of the Company, also previously held a substantial interest) and equity method investees as presented in tables below.

Nomos-Bank ceased to meet the definition of a related party from 27 February 2013 due to changes in its shareholder structure and composition of its Board of Directors. However in line with IAS 24 Related Party Transactions, deposits or borrowings taken out with Nomos where terms were agreed prior to this date, continue to be recognised as related party transactions.

	Year ended	
	31 December 2013	31 December 2012
	US\$'000	US\$'000
Income from transactions with related parties		
Revenue from sales to Nomos-Bank	81,641	466,250
Interest income on deposits placed with Nomos-Bank	34	1,500
Other income	1,740	3,680
Expenses from transactions with related parties		
Interest expense on loans provided by Nomos-Bank	996	2,016
Purchases from from associates	13,983	3,035

Outstanding balances owed to or from related parties at 31 December 2013 are presented below:

	31 December 2013	31 December 2012
	US\$'000	US\$'000
Short-term loans provided to equity method investments	190	11,792
Long-term loans provided to equity method investments	1,017	5,469
Total loans provided to related parties	1,207	17,261
Short-term loans provided by Nomos-Bank	9,305	9,172
Long-term loans provided by Nomos-Bank	7,882	16,643
Long-term loans provided by equity method investments	-	2,152
Total loans provided by related parties	17,187	27,967
Accounts receivable from related parties	164	4,717
Interest receivable from related parties	242	836

Carrying values of other long-term loans provided to related parties as at 31 December 2013 and 31 December 2012 approximate their fair values. Details of the significant terms of the loans provided by related parties are disclosed in Note 19.

The amounts outstanding at the balance sheet dates are unsecured and expected to be settled in cash. No expense has been recognised in the reporting period for bad or doubtful debts in respect of the amounts owed by related parties. All trade payable and receivable balances are expected to be settled on a gross basis.

The remuneration of directors and other members of key management personnel during the periods was as follows:

	Year ended	
	31 December 2013	31 December 2012
	US\$'000	US\$'000
Share-based payments	12,359	27,682
Short-term benefits of board members	1,866	2,454
Short-term employee benefits	2,565	2,981
Post-employment benefits	399	264

22. RESTATEMENT

The impact of adopting IFRIC 20 on the prior periods consolidated financial statements is presented in the tables below.

Adjustments to the condensed consolidated balance sheet

	31 December 2012 (previously stated)	Adjustment for change in accounting policy	31 December 2012 (restated)
	US\$'000	US\$'000	US\$'000
Property, plant and equipment	2,149,400	56,332	2,205,732
Non-current inventories	100,972	(2,108)	98,864
Current inventories	859,856	(19,235)	840,621
Deferred income tax liability	(75,938)	(6,822)	(82,760)
Translation reserve	54,366	(1,105)	53,261
Increase in retained earnings		27,062	

Adjustments to the condensed consolidated income statement

	Year ended 31 December 2012 (previously stated)	Adjustment for change in accounting policy	Year ended 31 December 2012 (restated)
	US\$'000	US\$'000	US\$'000
Cost of sales excluding write-downs of metal inventories to net realisable value	(875,199)	23,360	(851,839)
Write-downs of metal inventories to net realisable value	(14,366)	10,366	(4,000)
Income tax expense	(216,204)	(6,664)	(222,868)
Increase in profit for the financial period		27,062	
Equity shareholders of the Parent	394,348	26,848	421,196
Non-controlling interest	6,813	214	7,027
Profit for the financial period	401,161	27,062	428,223

Adjustments to the condensed consolidated statement of comprehensive income

	Year ended 31 December 2012 (previously stated)	Adjustment for change in accounting policy	Year ended 31 December 2012 (restated)
	US\$'000	US\$'000	US\$'000
Profit for the period	401,161	27,062	428,223
Effect of translation to presentation currency	110,550	1,106	111,656
Total comprehensive income for the period	511,711	28,168	539,879

Adjustments to the condensed consolidated statement of cash flows

	Year ended 31 December 2012 (previously stated)	Adjustment for change in accounting policy	Year ended 31 December 2012 (restated)
	US\$'000	US\$'000	US\$'000
Profit before income tax	617,365	33,726	651,091
Adjustment for the following items:			
Depreciation	156,102	(13,876)	142,226
Rehabilitaion expenses	3,873	(1,063)	2,810
Write-downs of metal inventories to net realisable value	14,366	(10,366)	4,000
Write-down of non-metal inventories to net realisable value	(3,288)	5,631	2,343
Increase in inventories	(219,678)	30,954	(188,724)
Cash generated from operations	568,740	45,006	613,746
Purchases of property, plant and equipment	(350,807)	(46,269)	(397,076)
Net cash used in investing activities	(350,807)	(46,269)	(397,076)
Effect of foreign exchange rate changes on cash and cash equivalents	14,947	1,263	16,210

Adjustment for write-down of non-metal inventories to net realisable value relates to write-down of US\$5.6 million costs in Omolon which did not significantly enhance the value of the work in-process, which was previously presented within increase in inventories.

23. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2013	Year ended 31 December 2012 restated
		US\$'000	US\$'000
Profit before tax		(157,620)	651,091
Adjustments for:			
Depreciation and depletion, recognised in statement of comprehensive income		237,533	142,226
Mining taxes, penalties and accrued interest	10	-	39,150
Write-down of exploration assets		-	7,654
Write-down metal inventory to net realisable value	18	153,327	4,000
Write-down of non-metal inventory to net realisable value	18	10,696	2,343
Impairment of non-current assets	15	201,105	-
Impairment of investment in associate	15	12,291	-
Share-based compensation	9	24,233	54,279
Finance costs	12	42,735	26,787
Finance income		(2,850)	(4,657)
Loss on disposal of property, plant and equipment	10	9,503	9,325
Change in contingent consideration liability		(8,131)	4,717
Change in allowance for doubtful debts	10	1,089	267
Rehabilitaion expenses		1,524	2,810
Share of loss of associates and joint ventures		2,340	1,804
Foreign exchange loss/(gain)		74,240	(6,677)
Loss on disposal of subsidiaries		8,746	10,709
Gain on acquisition of remaining interest in joint venture	2	-	(21,051)
Other non-cash expenses		2,528	5,151
Movements in working capital			
Increase in inventories before impairment		(62,957)	(188,724)
Decrease in VAT receivable		11,560	14,262
Increase/ (decrease) in trade and other receivables		60,675	(34,284)
Decrease in prepayments to suppliers		11,560	9,307
Increase in trade and other payables		2,246	7,305
(Decrease)/increase in other taxes payable		(10,744)	8,480
Cash generated from operations		625,629	746,274
Interest paid		(35,921)	(34,629)
Income tax paid		(128,041)	(170,805)
Net cash generated by operating activities		461,667	540,840

Additions to property, plant and equipment of US\$3.7 million and US\$8.0 million during the year ended 31 December 2013 and 31 December 2012, respectively were acquired on deferred payment terms.

Other non-cash transactions during the year ended 31 December 2013 represents issuance of shares amounting to US\$ 88 million (2012: the issuance of US\$1.5 million of shares for the acquisition of assets).

24. SUBSEQUENT EVENTS

A final dividend has been proposed in relation to the year of 8 cents per share (2012: 31 cents per share) giving a total expected dividend of US\$31.2 million (2012: US\$119.0 million).

RESERVES AND RESOURCES

Mineral Resources and Ore Reserves as at 1 January 2014 ⁽¹⁾

	Tonnage		Content		
	Kt	Au, Koz	Ag, Koz	Cu, Kt	Gold equivalent, Koz
Mineral Resources					
Measured	11,110	870	39,532	15	1,665
Indicated	39,156	2,534	38,053	61	3,705
Measured + Indicated	50,266	3,404	77,585	76	5,370
Inferred	88,057	10,026	39,613	69	11,293
Measured + Indicated + Inferred	138,324	13,430	117,198	145	16,663
Ore Reserves					
Proved	53,525	4,950	129,354	8	7,161
Probable	59,440	3,950	90,107	69	6,116
Proved + Probable	112,965	8,900	219,461	77	13,277

¹ Mineral Resources and Ore Reserves are reported in accordance with the JORC Code (2012). Mineral Resources are in addition to Ore Reserves. Discrepancies in calculations are due to rounding.

Ore Reserves: Precious Metals Deposits as at 1 January 2014 ⁽¹⁾

Ore Reserves	Tonnage		Grade			Content	
	Kt	Au, g/t	Ag, g/t	GE, g/t	Au, Koz	Ag, Koz	GE, Koz
Proved							
Dukat	5,330	1.0	443	8.8	171	76,013	1,505
Voro ⁽²⁾	13,230	2.8	4	2.8	1,186	1,504	1,195
Lunnoye	1,330	1.6	296	6.6	68	12,676	283
Arylakh	345	0.9	478	8.7	10	5,301	97
Khakanja	1,370	1.5	112	2.8	65	4,939	124
Mayskoye	3,310	9.0	-	9.0	955	-	955
Albazino	6,700	5.1	-	5.1	1,093	-	1,093
Sopka Kwartsevaya	2,970	2.4	95	3.8	230	9,053	360
Birkachan	3,050	1.7	5	1.8	166	488	172
Dalnee	1,250	4.3	92	5.4	172	3,693	218
Oroch ⁽³⁾	930	4.0	172	6.6	119	5,154	197
Tsokol Kubaka	430	6.3	11	6.5	87	157	89
Avlayakan	170	11.3	89	12.7	61	484	69
Ozerny	380	3.9	43	4.4	47	519	53
Maminskoye ⁽⁴⁾	4,810	1.9	-	1.9	295	-	295
Total Proved	45,605			4.6	4,725	119,981	6,704
Probable							
Dukat	4,670	0.8	386	7.6	119	57,959	1,136
Lunnoye	1,320	1.1	346	6.9	45	14,683	294
Arylakh	310	1.0	500	9.2	10	4,985	92
Mayskoye	3,820	8.6	-	8.6	1,058	-	1,058
Albazino	2,460	5.2	-	5.2	409	-	409
Sopka Kwartsevaya	80	4.5	145	7.4	13	406	19
Birkachan	730	13.0	58	13.9	306	1,364	325
Oroch ⁽³⁾	190	4.2	197	7.2	26	1,206	44
Tsokol Kubaka	440	8.1	13	8.3	114	178	117

Ore Reserves	Tonnage		Grade			Content	
	Kt	Au, g/t	Ag, g/t	GE, g/t	Au, Koz	Ag, Koz	GE, Koz
Avlayakan	280	18.4	163	20.8	166	1,473	188
Ozerny	400	5.9	29	6.3	76	369	81
Maminskoye ⁽⁴⁾	9,890	1.9	-	1.9	618	-	618
Total Probable	24,590			5.5	2,959	82,622	4,380
Proved + Probable							
Dukat	10,000	0.9	416	8.2	290	133,972	2,640
Voro ⁽²⁾	13,230	2.8	4	2.8	1,186	1,504	1,195
Lunnoye	2,650	1.3	321	6.8	113	27,359	577
Arylakh	655	1.0	489	9.0	20	10,286	189
Khakanja	1,370	1.5	112	2.8	65	4,939	124
Mayskoye	7,130	8.8	-	8.8	2,013	-	2,013
Albazino	9,160	5.1	-	5.1	1,501	-	1,501
Sopka Kwartsevaya	3,050	2.5	97	3.9	242	9,459	379
Birkachan	3,780	3.9	15	4.1	471	1,853	497
Dalnee	1,250	4.3	92	5.4	172	3,693	218
Oroch ⁽³⁾	1,120	4.0	177	6.7	144	6,360	241
Tsokol Kubaka	870	7.2	12	7.4	201	335	207
Avlayakan	450	15.7	135	17.8	227	1,956	257
Ozerny	780	5.0	36	5.4	123	887	134
Maminskoye ⁽⁴⁾	14,700	1.9	-	1.9	913	-	913
Total Proved + Probable	70,195			4.9	7,684	202,603	11,084

¹ Ore Reserves are reported in accordance with the JORC Code (2012). Discrepancies in calculations are due to rounding

² Including Voro South

³ Estimate prepared by Polymetal as at 01.01.2014. Price: Au=1,300 \$/oz, Ag = 23 \$/oz

⁴ Initial estimate prepared by Snowden as at 01.01.2013. Revised estimate prepared by Polymetal as at 01.01.2014

Ore Reserves: Polymetallic Ore Deposits as at 1 January 2014 ⁽¹⁾

Ore Reserves	Tonnage		Grade			Content			
	Kt	Au, g/t	Ag, g/t	Cu, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	GE, Koz
Proved									
Goltsovoye	470	-	623	-	10.7	-	9,373	-	162
Varvara ⁽²⁾	7,450	0.9	-	0.46	1.2	225	-	7.9	295
Total Proved	7,920				1.8	225	9,373	7.9	457
Probable									
Goltsovoye	450	-	519	-	8.9	-	7,485	-	129
Varvara ⁽²⁾	34,400	0.9	-	0.45	1.5	991	-	69.1	1,607
Total Probable	34,850				1.5	991	7,485	69.1	1,736
Proved + Probable									
Goltsovoye	920	-	572	-	9.9	-	16,858	-	291
Varvara ⁽²⁾	41,850	0.9	-	0.45	1.4	1,216	-	77.0	1,902
Total Proved + Probable	42,770				1.6	1,216	16,858	77.0	2,192

¹ Ore Reserves are reported in accordance with the JORC Code (2012). Discrepancies in calculations are due to rounding

² Cu grade only represents average grade of Float feed. Ore Reserves of Float feed: 1.7 Mt Proved and 15.5 Mt Probable.

Mineral Resources: Precious metals as at 1 January 2014 ⁽¹⁾

Mineral Resources	Tonnage Kt	Grade			Content		
		Au, g/t	Ag, g/t	GE, g/t	Au, Koz	Ag, Koz	GE, Koz
Measured							
Dukat	1,190	1.2	490	9.8	46	18,808	376
Voro ⁽²⁾	800	2.1	4	2.1	53	105	54
Lunnoye	510	2.6	604	12.8	42	9,913	210
Arylakh	50	1.3	880	15.7	2	1,404	25
Khakanja	350	5.4	341	9.5	61	3,818	106
Mayskoye	660	8.9	-	8.9	188	-	188
Albazino ⁽³⁾	1,150	5.2	-	5.2	193	-	193
Sopka Kwartsevaya	70	1.9	97	3.2	4	216	7
Birkachan	160	15.1	24	15.5	79	123	81
Dalnee	90	3.0	58	4.0	9	177	11
Oroch ⁽⁴⁾	230	2.1	92	3.5	16	677	26
Tsokol Kubaka	40	6.0	10	6.1	8	14	8
Avlayakan	10	12.4	119	14.3	5	49	6
Ozerny	10	3.1	37	3.6	1	7	1
Maminskoye ⁽⁸⁾	980	1.4	-	1.4	44	-	44
Total Measured	6,300			6.6	751	35,312	1,336
Indicated							
Dukat	1,170	0.8	383	7.5	31	14,446	284
Lunnoye	420	1.7	390	8.3	23	5,287	113
Arylakh	40	1.2	625	11.5	2	796	15
Khakanja	100	4.8	199	7.1	17	689	25
Mayskoye	1,090	8.7	-	8.7	306	-	306
Albazino ⁽³⁾	9,930	4.5	-	4.5	1,443	-	1,443
Sopka Kwartsevaya	10	2.5	85	2.9	1	21	1
Birkachan	180	10.3	34	10.7	59	197	62
Oroch ⁽⁴⁾	180	2.4	131	4.4	14	756	26
Tsokol Kubaka	110	9.2	11	9.4	31	36	31
Avlayakan	40	15.3	104	16.9	20	138	22
Ozerny	30	3.4	29	3.7	3	24	3
Maminskoye ⁽⁸⁾	1,150	1.5	-	1.5	55	-	55
Total Indicated	14,450			5.1	2,003	22,390	2,385
Measured + Indicated							
Dukat	2,360	1.0	436	8.6	76	33,254	660
Voro ⁽²⁾	800	2.1	4	2.1	53	105	54
Lunnoye	930	2.2	508	10.8	65	15,200	323
Arylakh	90	1.3	767	13.8	4	2,200	40
Khakanja	450	5.3	308	8.9	77	4,507	131
Mayskoye	1,750	8.8	-	8.8	493	-	493
Albazino ⁽³⁾	11,080	4.6	-	4.6	1,636	-	1,636
Sopka Kwartsevaya	80	1.9	96	3.2	5	237	8
Birkachan	340	12.6	29	13.0	138	321	143
Dalnee	90	3.0	58	4.0	9	177	11
Oroch ⁽⁴⁾	410	2.2	109	3.9	30	1,433	51
Tsokol Kubaka	150	8.3	11	8.5	39	50	39
Avlayakan	50	14.6	108	16.2	25	187	28
Ozerny	40	3.3	30	3.7	3	31	4
Maminskoye ⁽⁸⁾	2,130	1.4	-	1.4	99	-	99

Mineral Resources	Tonnage	Au, g/t	Grade	GE, g/t	Au, Koz	Content	GE, Koz
	Kt		Ag, g/t			Ag, Koz	
Total Measured + Indicated	20,750			5.6	2,754	57,702	3,721
Inferred							
Lunnoye	550	1.9	667	13.2	33	11,791	233
Arylakh	130	0.7	385	7.0	3	1,598	29
Khakanja	10	2.8	199	5.2	1	49	1
Mayskoye	10,990	10.1	-	10.1	3,569	-	3,569
Albazino ⁽³⁾	12,470	4.9	-	4.9	1,980	-	1,980
Birkachan	20	13.7	63	14.6	10	47	11
Oroch ⁽⁴⁾	790	3.9	394	9.9	99	10,001	250
Tsokol Kubaka	50	7.5	13	7.7	11	19	12
Avlayakan	50	16.3	88	17.6	28	150	30
Kirankan ⁽⁵⁾	142	6.5	8	6.7	30	39	30
Svetloye ⁽⁶⁾	4,083	5.8	4	5.9	767	544	776
Ozerny	30	3.9	28	4.2	3	23	4
Kutyn ⁽⁷⁾	5,505	4.1	-	4.1	717	-	717
Tamunier ⁽⁹⁾	24,070	1.9	-	1.9	1,475	-	1,475
Olcha ⁽¹⁰⁾	9,200	2.2	12	2.4	653	3,590	713
Total Inferred	68,090			4.5	9,379	27,852	9,830
Measured + Indicated + Inferred							
Dukat	2,360	1.0	437	8.7	76	33,254	660
Voro ⁽²⁾	800	2.1	4	2.1	53	105	54
Lunnoye	1,480	2.1	567	11.7	98	26,991	555
Arylakh	220	0.9	541	9.8	7	3,798	69
Khakanja	460	5.2	306	8.9	78	4,556	132
Mayskoye	12,740	9.9	-	9.9	4,062	-	4,062
Albazino ⁽³⁾	23,550	4.8	-	4.8	3,615	-	3,615
Sopka Kwartsevaya	80	1.9	96	3.1	5	237	8
Birkachan	360	12.6	31	13.1	148	368	154
Dalnee	90	3.0	58	4.0	9	177	11
Oroch ⁽⁴⁾	1,200	3.3	296	7.8	128	11,434	302
Tsokol Kubaka	200	8.1	11	8.3	50	69	51
Avlayakan	100	15.5	98	16.9	53	337	58
Kirankan ⁽⁵⁾	142	6.5	8	6.7	30	39	30
Svetloye ⁽⁶⁾	4,083	5.8	4	5.9	767	544	776
Ozerny	70	3.6	29	3.9	7	55	7
Kutyn ⁽⁷⁾	5,505	4.1	-	4.1	717	-	717
Maminskoye ⁽⁸⁾	2,130	1.4	-	1.4	99	-	99
Tamunier ⁽⁹⁾	24,070	1.9	-	1.9	1,475	-	1,475
Olcha ⁽¹⁰⁾	9,200	2.2	12	2.4	653	3,590	713
Total Measured + Indicated + Inferred	88,840			4.7	12,132	85,554	13,551

¹ Mineral Resources are reported in accordance with the JORC Code (2012). Mineral Resources are additional to Ore Reserves. Discrepancies in calculations are due to rounding

² Including Voro South

³ Revaluation performed only for mineral resources of Anfisa and Olga zones for open-pit mining. Initial estimate of mineral resources performed by Snowden as at 01.08.2012. Price: Au=1,500 \$/oz. Zones Ekaterina 1 and 2, and resources of Anfisa and Olga zones (including Nadezhda) for underground mining remained unchanged.

⁴ Estimate prepared by Polymetal as at 01.01.2014 Price: Au=1,500 \$/oz, Ag=26 \$/oz

⁵ Estimate prepared by Snowden as at 01.07.2011. COG=1.5 g/t

⁶ Estimate prepared by Snowden as at 01.07.2011. COG=3.0 g/t

⁷ Estimate prepared by Snowden as at 01.07.2011. COG=2.0 g/t

⁸ Initial estimate prepared by Snowden as at 01.01.2013. Revised estimate prepared by Polymetal as at 01.01.2014

⁹ Estimate prepared by Snowden as at 01.01.2012. COG (Au)=1.0 g/t. The mineral resource estimate includes ore zone 2 where Inferred mineral resources are estimated at: 840 Kt, grading 4.0 g/t Au, 49 g/t Ag, containing 109 Koz Au and 1,327 Koz Ag. In other parts of the deposit there are no silver mineral resources.

¹⁰ Estimate prepared by Mir Resources as at 07.07.2011. COG=1.0 g/t

Mineral Resources: Polymetallic Ore Deposits as at 1 January 2014 ¹

Mineral Resources	Tonnage Kt	Grade			Content				
		Au, g/t	Ag, g/t	Cu, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	GE, Koz
Measured									
Goltsovoye	160	-	837	-	14.4	-	4,220	-	73
Varvara ⁽²⁾	4,650	0.8	-	0.42	1.7	119	-	15.4	256
Perevalnoye ⁽³⁾	-	-	-	-	-	-	-	-	-
Total Measured	4,810				2.1	119	4,220	15.4	329
Indicated									
Goltsovoye	120	-	616	-	10.6	-	2,434	-	42
Varvara ⁽²⁾	23,490	0.7	-	0.44	1.4	531	-	57.0	1,039
Perevalnoye ⁽³⁾	1,096	-	375	0.34	6.8	-	13,229	3.7	239
Total Indicated	24,706				1.7	531	15,663	60.8	1,320
Measured + Indicated									
Goltsovoye	280	-	740	-	12.8	-	6,654	-	115
Varvara ⁽²⁾	28,140	0.7	-	0.44	1.4	650	-	72.4	1,295
Perevalnoye ⁽³⁾	1,096	-	375	0.34	6.8	-	13,229	3.7	239
Total Measured + Indicated	29,516				1.7	650	19,883	76.2	1,649
Inferred									
Goltsovoye	470	-	738	-	12.7	-	11,248	-	194
Varvara ⁽²⁾	19,420	1.0	-	0.56	2.0	648	-	68.6	1,259
Perevalnoye ⁽³⁾	78	-	206	0.46	4.1	-	513	0.4	10
Total Inferred	19,968				2.3	648	11,761	69.0	1,463
Measured + Indicated + Inferred									
Goltsovoye	750	-	739	-	12.7	-	17,902	-	309
Varvara ⁽²⁾	47,560	0.8	-	0.49	1.7	1,297	-	141.1	2,554
Perevalnoye ⁽³⁾	1,174	-	364	0.35	6.6	-	13,742	4.1	249
Total Measured + Indicated + Inferred	49,484				2.0	1,297	31,644	145.2	3,112

¹ Mineral Resources are reported in accordance with the JORC Code (2012). Mineral Resources are additional to Ore Reserves. Discrepancies in calculations are due to rounding.

² Cu estimate is listed for fresh ore and powder ore that has high Cu grade (total Mineral Resources for fresh ore and powder ore with high Cu grade of 23.5 and 5.4 Mt of ore respectively)

³ Estimate prepared by Snowden as at 01.07.2011. Prices: Ag = 13\$/oz, Cu=220c/lb

This estimate was prepared by employees of JSC Polymetal Management Company and CJSC Polymetal Engineering, subsidiaries of the Company, led by Mr. Valery Tsyplakov, who assumes overall responsibility for the Mineral Resources and Ore Reserves Report. Mr. Tsyplakov is the employed full-time as the Managing Director of CJSC Polymetal Engineering and has more than 13 years' experience in gold, silver and polymetallic mining. He is a Member of the Institute of Materials, Minerals & Mining (MIMMM), London, and a Competent Person under the JORC Code.

Listed below are other Competent Persons employed by the Company that are responsible for relevant research on which the Mineral Resources and Ore Reserves estimate is based:

- *Geology and Mineral Resources – Roman Govorukha, Head of Geologic Modelling and Monitoring, MIMMM, with 13 years’ relevant experience;*
- *Mining and Ore Reserves - Igor Epshteyn, Head of Mining Process Department, FIMMM, with 32 years’ relevant experience;*
- *Concentration and Metals – Igor Agapov, Deputy Director of Science and Technology, MIMMM, with 16 years’ relevant experience;*
- *Environmental Issues – Tatiana Kuleshova, Director for Ecology, MIMMM, with 22 years’ relevant experience.*

All above mentioned Competent Persons have sufficient experience that is relevant to the style of mineralisation and types of deposits under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’ (JORC Code).

All Competent Persons have given their consent to the inclusion in the report of the matters based on his (or her) information in the form and context in which it appears.

Metals prices used in estimating Mineral Resources and Ore Reserves are listed below (unless otherwise indicated in the footnotes):

Au = US\$1,300/oz;

Ag = US\$22.5/oz;

Cu = US\$7,000/t;

Gold equivalent data is based on “Conversion ratios of metals into gold equivalent” provided in the Appendix below. Lead and zinc Ore Reserves and Mineral resources have not been assessed in this report due to immateriality.

Appendix

Reporting of Metal Equivalents

Silver/gold equivalent conversion ratio for precious metals deposits:

$$AuEqv=Ag/k$$

Where k is the silver to gold equivalent conversion rate based on the difference in respective metals' value using the following formula:

$$k=((Au \text{ price}/31.1035 - (Au \text{ price} /31.1035 - \text{treatment charge Au})*(Royalty Au)/100 - (\text{treatment charge Au}))*(\text{recovery Au}))/((Ag \text{ price}/31.1035 - (Ag \text{ price}/31.1035 - \text{treatment charge Ag})*(Royalty Ag)/100 - (\text{treatment charge Ag}))*(\text{recovery Ag}))$$

where *Royalty* is the mineral extraction tax at applicable rate, recovery – life-of-mine expected recovery of the respective the metal in the processing technology applied.

Silver/gold equivalent conversion ratios for precious metals deposits:

Deposit	Ore processing technology	k
Dukat	Conventional flotation	57
Voro	Heap leaching+Merrill Crowe process	121
Lunnoye	Cyanidation carbon-in-pulp	177
Arylakh	Cyanidation+Merrill Crowe process	59
Khakanja	Cyanidation+Merrill Crowe process	61
Sopka	Cyanidation+Merrill Crowe process	84
	Heap leaching+Merrill Crowe process	61
Birkachan	Heap leaching+Merrill Crowe process	85
	Cyanidation carbon-in-pulp	71
	Heap leaching+carbon-in-colon	79
Dalnee	Cyanidation+Merrill Crowe process	77
	Heap leaching+Merrill Crowe process	100
Oroch	Cyanidation+Merrill Crowe process	66
Tsokol Kubaka	Cyanidation carbon-in-pulp	71
Avlayakan	Cyanidation+Merrill Crowe process	66
Kirankan ¹⁾	Cyanidation+Merrill Crowe process	60
Svetloye ¹⁾	Heap leaching+Merrill Crowe process	60
Olcha ¹⁾	Cyanidation+Merrill Crowe process	60
Ozerny	Cyanidation+Merrill Crowe process	81

1) Silver to gold equivalent conversion ratios were not recalculated to deposits that were evaluated in 2011-2012

Gold equivalent conversion ratio for polymetallic deposits

$$AuEqv=Me/k$$

Where Me is the evaluated metal content (copper, silver)

Where k is the silver to gold equivalent conversion rate that is calculated considering the difference in metals value issuing the following formula:

$$k = 100*((Au \text{ price}/31.1035 - \text{treatment charge Au})*(1 - \text{royalty Au\%/change Au\%})*(\text{recovery Au\%}))/((Cu \text{ price} - \text{treatment charge Cu})*(1 - \text{royalty Cu\%/recovery Cu\%})*(\text{recovery Cu\%}))$$

where *Royalty* is the mineral extraction tax at applicable rate, recovery – life-of-mine expected recovery of the respective the metal in the processing technology applied.

Gold equivalent conversion ratios for polymetallic deposits

Deposit	Ore processing technology	k	
		Ag	Cu
Goltsovoye ⁽¹⁾	Conventional flotation	58	
Varvara	Powder ore with high copper content ⁽²⁾		0.36
	Primary ore with high copper content - conventional flotation		0.36
Perevalnoye ⁽³⁾	Conventional flotation	60	0.64

1) Due to the lack of gold in ore the ratio equals silver/gold ratio

2) This type of ore is currently not being processed, it is stockpiled and reflected only in Mineral Resources

3) Silver to gold equivalent conversion ratios were not recalculated to deposits that were evaluated in 2011-2012