

Release time IMMEDIATE

Date 30 March 2015

Polymetal International plc

Preliminary results for the year ended 31 December 2014

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 2014.

FINANCIAL HIGHLIGHTS

- Revenue for the year ending 2014 was US\$ 1,690 million, largely unchanged from 2013 (“year-on-year”) despite average realised gold and silver prices decreasing 7% and 18% respectively year-on-year. The price decline was mostly offset by 7% increase in the volume of gold equivalent sold during the period.
- Group Total cash cost¹ (“TCC”) was US\$ 634/gold equivalent ounce (“GE oz”), down 15% from 2013 levels due to a robust operational performance, resulting in higher average grades processed and increased throughputs across the portfolio, coupled with significant Russian Rouble depreciation against the US dollar. Total cash costs in the second half of the year increased slightly by 2% to US\$ 641/GE oz versus the first half of 2014 driven by production from Mayskoye with cost levels higher than the Group average.
- All-in sustaining cash costs¹ decreased by 18% year-on-year to US\$ 893/GE oz as a result of reduction in total cash costs during the period, combined with increased production levels and associated reduction in per ounce sustaining capital expenditure at operating mines.
- Adjusted EBITDA¹ was US\$ 685 million, an increase of 15% year-on-year, driven predominantly by strong cost performance and production growth offsetting the decline in commodity prices. Adjusted EBITDA margin was 41% compared to 35% in 2013.
- Underlying net earnings for the year (adjusted for the after-tax amount of impairment charges/reversals and foreign exchange loss) were US\$ 282 million (2013: US\$ 179 million). As a result of non-cash foreign exchange losses, the Group recorded a net loss for the year of US\$ 210 million in 2014 (2013: US\$ 198 million).
- Net debt of US\$ 1,249 million (including the liability for the special dividend payable), an increase of 20% versus 2013 levels as the Company raised an additional US\$ 318.5 million of debt for the acquisition of the Kyzyl gold project in Kazakhstan (completed on September 4, 2014), while continuing to generate free cash flow and pay dividends. Net debt/Adjusted EBITDA was 1.82 (31 December 2013: 1.75). Free cash flow for the year¹ was US\$ 306 million, an increase of more than two-fold compared to 2013.
- A final dividend of US\$ 0.13 per share representing 30% of the Group’s underlying net earnings for 2H 2014 is proposed by the Board, which, in accordance with the current dividend policy, has the discretion to declare regular dividend at the Net debt/Adjusted EBITDA ratio above 1.75. This will bring total dividend declared for the period to US\$ 0.41 per share, or US\$ 173 million.

OPERATING HIGHLIGHTS

- In 2014 Polymetal increased its gold equivalent (“GE”) production by 12% to 1.43 Moz and exceeded both its original production guidance of 1.3 Moz of GE by 10% and the updated production guidance of 1.365 Moz by 5%. This achievement was mostly driven by the full ramp-up of Mayskoye and strong operational delivery at Dukat and Omolon.

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, are explained in the “Financial Review” section below.

- The Company reiterates its production guidance of 1.35 Moz of GE for 2015 and 2016. In 2015, Polymetal expects a lower TCC of US\$ 575-625 per GE oz and AISC of US\$ 750-800 per GE oz. Capital expenditure in 2015 is expected to total approximately US\$ 240 million (including exploration, capitalised stripping and spending on the Kyzyl project). This guidance is heavily dependent on the RUB/USD exchange rate, inflation in Russia, and oil price dynamics and is based on management's current estimates of these variables in 2015.
- Ore Reserves increased by 63% to 21.6 Moz of GE as a result of Kyzyl acquisition (+6.7 Moz) and updated Ore Reserves estimates at several of our operating mines and exploration projects including, among others, Albazino underground, Svetloye, Kutyn, Veduga. Average Ore Reserves grade increased by 16% to 4.3 g/t GE.

"I am pleased to report robust cost performance and cash flow generation in a year which was 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 | 2014 | 2013 | Change, %⁽¹⁾ |
|--|-------------|-------------|--------------------------------|
| Revenue, US\$m | 1,690 | 1,707 | -1% |
| Total cash cost, US\$/GE oz | 634 | 745 | -15% |
| All-in cash cost, US\$/GE oz | 893 | 1,086 | -18% |
| Adjusted EBITDA, US\$m | 685 | 598 | +15% |
| Adjusted EBITDA margin, % | 41% | 35% | +6% |
| Average realised gold price, US\$/ oz | 1,231 | 1,326 | -7% |
| Average LBMA gold price, US\$/ oz | 1,266 | 1,410 | -10% |
| Average realised silver price, US\$/ oz | 17.7 | 21.6 | -18% |
| Average LBMA silver price, US\$/ oz | 19.1 | 23.8 | -20% |
| Loss for the year, US\$m | (210) | (198) | +6% |
| Underlying net earnings, US\$m | 282 | 179 | +57% |
| Return on Equity, % | 21% | 9% | +12% |
| Dividend payout ratio, % ⁽²⁾ | 58% | 19% | +39% |
| Basic EPS, US\$/share | (0.53) | (0.51) | +3% |
| Underlying EPS, US\$/share | 0.71 | 0.46 | +53% |
| Dividend declared during the period, US\$/share ⁽³⁾ | 0.36 | 0.32 | +13% |
| Dividend declared for the period, US\$/share | 0.41 | 0.09 | NM ⁽⁵⁾ |
| Net debt, US\$m | 1,249 | 1,045 | +20% |
| Net debt/Adjusted EBITDA | 1.82 | 1.75 | +4% |
| Net operating cash flow, US\$m | 515 | 462 | +11% |
| Capital expenditure, US\$m | 210 | 319 | -34% |
| Free cash flow, US\$m ⁽⁴⁾ | 306 | 138 | +122% |

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) Dividend payout ratio is calculated as percentage of dividend declared for the period to underlying EPS.
- 3) FY 2014: final dividend for FY 2013 declared in March 2014, interim dividend proposed for the 1H 2014 declared in August 2014, and special dividend declared in December 2014.
FY 2013: final dividend for FY 2012 declared in April 2013 and interim dividend proposed for the 1H 2013 declared in August 2013.
- 4) Free cash flow excludes cash payment for the Kyzyl acquisition.
- 5) NM = not meaningful

PRESENTATION AND WEBCAST

Polymetal will hold a conference call and webcast on Monday, March 30, 2015 at 10:30 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/795-1028-14478>

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/795-1028-14478>. A recording of the call will be available immediately after the call at 0800 640 1726 (from within the UK) and +44 0 (20) 3350 6902 (from all countries), access code 8844176#, from 3:30 pm Moscow time Monday, March 30, till 18:30 pm Moscow time Thursday, April 30, 2015.

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 | | Darrell Uden | |
| Sam McLennan | | Jonny Hardy | |

FORWARD-LOOKING STATEMENTS

THIS RELEASE MAY INCLUDE STATEMENTS THAT ARE, OR MAY BE DEEMED TO BE, "FORWARD-LOOKING STATEMENTS". THESE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS AT THE DATE OF THIS RELEASE. THESE FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY, INCLUDING THE WORDS "TARGETS", "BELIEVES", "EXPECTS", "AIMS", "INTENDS", "WILL", "MAY", "ANTICIPATES", "WOULD", "COULD" OR "SHOULD" OR SIMILAR EXPRESSIONS OR, IN EACH CASE THEIR NEGATIVE OR OTHER VARIATIONS OR BY DISCUSSION OF STRATEGIES, PLANS, OBJECTIVES, GOALS, FUTURE EVENTS OR INTENTIONS. THESE FORWARD-LOOKING STATEMENTS ALL INCLUDE MATTERS THAT ARE NOT HISTORICAL FACTS. BY THEIR NATURE, SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER IMPORTANT FACTORS BEYOND THE COMPANY'S CONTROL THAT COULD CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF THE COMPANY TO BE MATERIALLY DIFFERENT FROM FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. SUCH FORWARD-LOOKING STATEMENTS ARE BASED ON NUMEROUS ASSUMPTIONS REGARDING THE COMPANY'S PRESENT AND FUTURE BUSINESS STRATEGIES AND THE ENVIRONMENT IN WHICH THE COMPANY WILL OPERATE IN THE FUTURE. FORWARD-LOOKING STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE. THERE ARE MANY FACTORS THAT COULD CAUSE THE COMPANY'S ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED IN SUCH FORWARD-LOOKING STATEMENTS. THE COMPANY EXPRESSLY DISCLAIMS ANY OBLIGATION OR UNDERTAKING TO DISSEMINATE ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENTS CONTAINED HEREIN TO REFLECT ANY CHANGE IN THE COMPANY'S EXPECTATIONS WITH REGARD THERETO OR ANY CHANGE IN EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENTS ARE BASED.

TABLE OF CONTENTS

| | |
|---|----|
| Chairman’s statement..... | 5 |
| Group CEO statement..... | 7 |
| Operating review | 9 |
| Financial review..... | 14 |
| Principal risks and uncertainties | 25 |
| Reserves and resources..... | 61 |

CHAIRMAN'S STATEMENT

Bobby Godsell talks about Polymetal's performance, economic environment and prospects

What were the key challenges for the Company in 2014?

2014 was a difficult year for the entire natural resources sector worldwide, impacted by a number of disparate variables. Persisting low commodities prices, the devastating outbreak of the Ebola virus and the increasing tensions of the global geopolitical situation all had a part to play in creating a challenging backdrop for the Company during the last 12 months.

Our businesses in Russia and Kazakhstan were strongly affected by some of these factors but demonstrated both resilience and a commitment to achieving the strategic objectives that we had set ourselves for the year. So, I am delighted to be able to report a very robust set of financial results for our shareholders.

In 2014 Polymetal increased its gold equivalent (GE) production by 12% to 1.43 Moz, exceeding our original production guidance by 10%. Our adjusted EBITDA grew by 15% to US\$ 685 million, and the Company maintained a significant dividend flow to our shareholders, achieving an average dividend yield of 4% over the last three years.

How did Polymetal achieve this, given such difficult circumstances?

Our conscious focus on building a portfolio of high-grade assets and developing a hub-based model provides our operations with a greater degree of resilience against macroeconomic and commodity price fluctuations.

As a result, all our assets have delivered above the original plan for the year. And, moreover, we did not have to make any major revisions to mine plans or shut down mines. The financial impact of further decreases in the price of gold was more than offset by currency devaluations both in Russia and Kazakhstan, which in turn reduced our operating costs.

We have always been conservative in our price assumptions when taking on new projects and assessing reserves. That said, it is still our policy to grow the business through investment in new assets should the opportunity arise. Supported by strong free cash flow generation, we were able to make a bold strategic move by acquiring the Kyzyl gold project in Kazakhstan, expanding our footprint in the country. Kyzyl is both a good fit with Polymetal's asset profile and represents a major boost for the Group, increasing our total reserves by 50% with a single high-grade property and a life of mine of 20 years, as well as a significant exploration upside.

How do you ensure the effective operation of the Board and good governance?

Since its formation in 2011, the Board has comprised a number of individuals who bring a depth of expertise and wealth of experience from both within the mining industry and from other complementary disciplines, such as corporate finance and investment banking. The international composition of the Board also gives us a truly global perspective of best practice in corporate governance which informs how we guide and advise the business to the highest ethical and responsible standards.

This year, more than ever before, we have focused strongly on strategic issues in view of the complex macroeconomic and geopolitical conditions in which we find ourselves. The acquisition of Kyzyl was the largest but not the only area of the Board's focus. We approved other development decisions while re-prioritising the existing development pipeline in order to focus capital and management resources on key priority projects and maintain a conservative balance sheet structure. The Board believes all of this will enhance the overall performance of the Company.

The mix of appropriate and diverse skills and opinions contributes to the lively debate and open discussions that characterise our Board meetings. Combined with detailed reporting and input from the Polymetal senior management team, this is vital to the decision-making process and ensures that we provide a clear leadership framework for our operations.

What, in your view, makes Polymetal different from its competitors?

Capital discipline is key to our day-to-day operations and for future prosperity the business – it drives both our investing and financing policies – and instills a healthy mindset for management at the operational level. At a time when others have been forced to make wide-ranging cuts within their organisations, this approach has enabled us to push ahead with our longstanding strategy of targeting high-quality, low-risk assets with large reserves and high grades.

Capital discipline also guides us to prioritise shareholder returns (as well as the interests of other stakeholders) in all our decision-making. With this in mind, during 2014, we were pleased to be able to pay a special dividend of US\$0.20 per ordinary share (approximately US\$84 million in total). The significant devaluation of the Russian Rouble against the US Dollar together with a strong operating performance across all our mines resulted in an increased free cash flow generation for the Group, enabling us to go beyond the minimum prescribed by our dividend policy.

Our ability to deliver to cash flow to shareholders whilst maintaining production growth is surely the best evidence that we can give to the market that our strategy works. Given that Polymetal's projected capital spending in 2015 will be light, the Company has the requisite flexibility to finance its investment projects (including Kyzyl) going forward.

Due to the significant movement in currency markets, we felt it was appropriate to refine the Company's regular dividend policy. This will still pay out dividends on 30% of the Company's net earnings or higher, provided that net debt/adjusted EBITDA is below 1.75x – at the Board's discretion. However, net earnings will now be adjusted for non-cash foreign exchange gains/losses and impairment charges.

In line with the refined policy, the Board proposes a final dividend for 2014 of US\$0.13 per share, which will be paid in May 2015, subject to the approval of shareholders at the 2015 Annual General Meeting.

What are the objectives and challenges for Polymetal in coming year?

The geopolitical tensions may continue to weigh on our cost of debt funding; however, Polymetal's free cash flow generating capacity and comfortable leverage level mean that this is less of an issue. The Board and management are focusing on the key development project, Kyzyl – which is expected to come online in 2018, and on other smaller projects – Svetloye and PGM (platinum group metals) assets.

By staying true to our business model, with the leadership of our executive management team and the support of our loyal workforce, I believe that Polymetal has the capability and structures in place to deliver on our production guidance over the coming months. I look forward to reporting on our progress during 2015.

Bobby Godsell
Chairman

GROUP CEO STATEMENT

Weak commodity prices persisted with debilitating outcomes for many. Polymetal, however, bucked the market trends and delivered a strong set of results. If 2013 was a testing time for gold miners, then 2014 will be remembered as the year when commodity-price weakness persisted with material consequences within the global mining industry. Many companies were forced to make cuts in exploration and development spending as well as operating and capital expenditure.

For Polymetal, however, it was a different story. We continued to deliver on our promises and demonstrated resilience to both current market trends and geopolitical challenges.

Outstanding operating performance

For the third consecutive year, we beat our production guidance despite challenging market conditions. Our gold equivalent (GE) production was 1.43 Moz (2013: 1.28 Moz), up by 12%. This exceeded both our original production guidance of 1.3 Moz of GE by 10% and the updated guidance of 1.365 Moz (by 5%).

Annual gold production for the year increased by 17% to 945 Koz (2013: 805 Koz). Annual silver production rose by 5% to 28.7 Moz (2013: 27.2 Moz). Gold production now accounts for over two-thirds of our total revenue – 69%, up from 63% in 2013.

The full ramp-up of our Mayskoye underground mine and strong operational delivery at the Dukat and Omolon hubs were the key drivers in helping us achieve these record figures for the business. At Mayskoye, the total gold produced during 2014 increased almost three-fold to 142.6 Koz (2013: 48.4 Koz), due to a full year of design throughput and recovery. We also commenced concentrate processing at the Amursk pressure oxidation (POX) plant while sales of concentrate to China more than doubled. Our state-of-the-art Amursk POX plant performed in line with expectations and we exceeded design recoveries for both Albazino and Mayskoye concentrate.

Growth by strategic acquisition

Our high-grade assets and the completion of a major construction cycle in advance of the drop in the price of gold put us in a unique position in the sector. We entered the year with a strong cost and operating profile and comfortable leverage. The turn of the commodities cycle created a window of opportunity for Polymetal and allowed us to invest in an exciting growth project, Kyzyl.

Located in a traditional mining region with good infrastructure in north-eastern Kazakhstan, Kyzyl is ready for development. The project exactly matches our strategic target characteristics: a large, high-grade asset with a clear path to production and cash flow generation, which leverages Polymetal's core strengths in selective mining and refractory ore processing. As a result of the acquisition, our gold equivalent reserves increased by about 50%. The project has a mine life of at least 20 years with substantial exploration potential, allowing us to deliver significant, long-term shareholder value. This acquisition also leverages our business presence in Kazakhstan, where we have been operating successfully since 2009.

With all our production assets operating stably, our main focus has shifted to delivering growth post-2017. We are concentrating on Kyzyl and other development projects: Svetloye, where construction will begin later this year with a view to production starting in Q3 2017, and our greenfield PGM exploration projects.

Capital discipline delivers returns

On the back of a very successful production year, Polymetal was also able to deliver a solid financial performance, due in part to the current macro-economic environment in Russia. The devaluation of the Rouble against the US Dollar and the two-fold drop in the price of oil were significant factors in bringing down operating costs across the business and the corresponding increase in free cash flow generation.

Our adjusted EBITDA increased by 15% to US\$ 685 million, while pre-acquisition free cash flow more than doubled, to US\$ 306 million. The underlying return on equity (excluding non-cash foreign exchange losses and impairments) increased from 9% in 2013 to 21% in 2014. This has allowed us to offer a substantial 58% dividend payout in the reporting year, while maintaining a comfortable leverage ratio of 1.82x Net debt/EBITDA.

Our commitment to capital discipline has been – and will remain – central to our ability to deliver such a dynamic financial performance. Even after a major investment like the Kyzyl acquisition, the Company is able to continue paying regular dividends and declare a special dividend, while still maintaining comfortable leverage levels.

Employee safety and well-being are paramount

We are saddened to report the loss of three colleagues during 2014 and also one workplace fatality at a contractor's operation. The increased fatality rate is of great concern at both Board and executive management

level. Our investigations show that the lapse in safety performance was in part due to the increased scope of underground mining in complex geotechnical conditions at these operations.

It is vital that we significantly reduce risks and improve health and safety performance during the year ahead, aiming for zero fatalities in 2015. We have already launched new risk assessment systems and the implementation of additional measures to ensure proper enforcement of existing safety standards and management procedures. We are also actively reinforcing the need for individual responsibility for personal safety and risk awareness across our operating mines.

We continue to support the well-being of our employees and communities in the current, complex macroeconomic environment in Russia. We are mindful of the need to take account of the increase in consumer prices and the inevitable impact this has on our workforce. We will be monitoring the situation and providing salary increases to match the rising inflation levels.

Looking to the future

At Kyzyl, initial research is already providing more clarity and comfort regarding the chosen project development route. The pilot metallurgical testing confirmed the viability of ore flotation to concentrate and signals the potential to improve on the parameters achieved in previous testing. The decommissioning of old infrastructure, site clearing and various licencing applications – including environmental and social impact assessments – are all ongoing. We have successfully completed preliminary public consultations with the Bakyrchik community. The full feasibility study for Kyzyl is due to be published by the end of 2015 with the start of full-scale construction in 2016.

Our operating mines are set to deliver on our annual production guidance of 1.35 Moz of gold equivalent for 2015; with our current guidance for 2016 set at the same level. Our financial performance will inevitably be influenced by the Rouble devaluation and the drop in oil prices. This will support our cost performance and cash flow generation, despite being partially offset by rising inflation during 2015.

With that, I am confident in our outlook for Polymetal in 2015. We are committed to delivering value to our shareholders through meaningful dividend payments in the current market environment while preparing the Company for the next growth stage.

Vitaly Nesis

Chief Executive

OPERATING REVIEW

Another year of solid performance

Polymetal continued to consistently beat expectations in 2014, despite the persisting weakness of commodity prices.

Our gold equivalent production in 2014 increased by 12% to 1.43 Moz, exceeding by 10% its original production guidance of 1.3 Moz of gold equivalent and the updated production guidance of 1.365 Moz by 5%. This achievement was mostly driven by the full ramp-up of Mayskoye and strong operational delivery at Dukat and Omolon.

Annual gold production for the year increased by 17% to 945 Koz. Annual silver production increased by 5% to 28.7 Moz, led mostly by Dukat's strong performance. The share of gold in revenue composition increased to 69%, compared with 63% in 2013. Production of copper concentrate at Varvara was temporarily shut down due to the persisting weakness of the concentrate market, resulting in a significant decline in copper production year-on-year.

The underlying production trend was emulated very closely by sales for the year. Increased sales of Mayskoye concentrate and further diversification of the off-taker base for concentrate from Dukat contributed to the reduction in working capital and improved financial performance.

Production highlights

| Key operating highlights | 2014 | 2013 | Change, % |
|---|--------------|--------------|-------------|
| Stripping, Kt | 77,458 | 84,956 | -9% |
| Underground development, m | 61,417 | 55,339 | +11% |
| Ore mined, Kt | 13,706 | 10,379 | +32% |
| Open-pit | 11,046 | 7,975 | +39% |
| Underground | 2,660 | 2,404 | +11% |
| Ore processed, Kt | 11,300 | 10,749 | +5% |
| Average grade in ore processed (gold equivalent, g/t) | 4.7 | 4.6 | +3% |
| Production | | | |
| Gold, Koz | 945 | 805 | +17% |
| Silver, Moz | 28.7 | 27.2 | +5% |
| Copper, tonnes | 1,631 | 4,841 | -66% |
| Gold equivalent, Koz | 1,431 | 1,282 | +12% |
| Sales | | | |
| Gold, Koz | 943 | 808 | +17% |
| Silver, Moz | 29.3 | 27.4 | +7% |
| Copper, Kt | 1.029 | 6.141 | -83% |
| Gold equivalent, Koz | 1,372 | 1,285 | +7% |
| Health and safety | | | |
| LTIFR | 0.65 | 0.57 | +14% |
| FIFR | 0.18 | 0.06 | +200% |

All operating mines at full capacity

Of seven operating units, only two were the subject of particular management focus. We can confidently report that in 2014 all of our operating mines were producing to their design parameters and at full capacity.

Amursk POX

Amursk POX, our state-of-the-art pressure oxidation facility, completed a full year of operations at design parameters. Having processed more than 160 Kt of concentrates from Albazino and Mayskoye, and produced more than 240 Koz of gold, by the end of the year the POX plant exceeded its original design recoveries.

Mayskoye

The Mayskoye mine and concentrator operated fully in line with our expectations, achieving the average reserve grade and design recovery during the course of the year. With increased sales to off-takers in China and the start of processing Mayskoye concentrate at the Amursk POX, Mayskoye contributed 143 Koz, or 10% of the Group's total GE production.

Analysis of production results

Mining

Stripping volumes in 2014 decreased year-on-year to 77.5 Mt of rock moved (2013: 85 Mt). This encompassed: the completion of the stripping campaigns at Varvara; the move to underground mining at Arylakh (Dukat hub) and Avlayakan (Khakanja hub); and the completion of open-pit mining at Sopka, with Dalneye nearing completion. Underground development increased by a further 11% to more than 64 km (2013: 55 km), with increased capacity to match processing volumes at Dukat and Mayskoye underground mines, while underground development continued at Avlayakan (Khakanja hub) and commenced at both Birkachan (Omolon hub) and Arylakh (Dukat hub).

Ore mined increased by 32% to 13.7 Mt (2013: 10.4 Mt), mainly as a result of the completion of a major stripping campaign at Varvara in 2013, increased volumes at Albazino to match processing capacity and accelerated completion of open-pit mining at Sopka (Omolon hub). Underground mining increased at Dukat and Mayskoye in line with the respective plant throughputs.

Processing

Ore processed increased by 5% year-on-year to 11.3 Mt (2013: 10.7 Mt). The main contributors were Dukat hub and Albazino with increased plant capacity, while Mayskoye achieved a full year of production at the design throughput.

In line with increased grades in ore mined, average gold equivalent grade in ore processed grew by a further 3% to 4.7 g/t. This was driven by increased contributions from Mayskoye and Albazino, combined with a stronger grade profile at Omolon and stable grades at other mature mines (with the exception of Khakanja and Varvara).

Production and sales

We exceeded our original guidance with a record production level of 1.43 Moz of gold equivalent. Key drivers behind this performance were Dukat, Omolon and Mayskoye. At Khakanja, where the mine is approaching the end of its mine life, production declined due to the decrease in average grade. At Varvara there was a 19% decrease in production, due mainly to the temporary shutdown of the flotation circuit on the back of the continued weakness in the copper concentrate market.

Production dynamics on a quarterly basis are shown in the graph below. With the full ramp-up of Mayskoye, the third and fourth quarters were the strongest during the year as concentrate was shipped out of the mine for sale or processing at the POX plant in the July – November navigation period.

Quarterly production data (GE Koz)

| | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | Q1 2014 | Q2 2014 | Q3 2014 | Q4 2014 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| Gold | 121 | 190 | 281 | 212 | 191 | 196 | 259 | 299 |
| Silver | 107 | 126 | 126 | 94 | 122 | 135 | 128 | 92 |
| Copper | 7 | 7 | 6 | 4 | 4 | 4 | 1 | - |
| Total gold equivalent production | 235 | 323 | 413 | 310 | 316 | 335 | 388 | 391 |

Gold equivalent production by mine (Koz)

| | 2014 | 2013 | % change |
|-------------------------|--------------|--------------|-------------|
| Dukat | 443 | 409 | +9% |
| Khakanja | 127 | 144 | -12% |
| Voro | 159 | 154 | +3% |
| Varvara | 106 | 131 | -19% |
| Omolon | 226 | 158 | +43% |
| Albazino/Amursk | 227 | 238 | -4% |
| Mayskoye | 143 | 48 | +195% |
| Total production | 1,431 | 1,282 | +12% |

While most of the sales are comprised of refined metals, we continue to sell concentrates from Dukat (gold-silver), Varvara (gold-copper) and Mayskoye (refractory gold) to off-takers in Kazakhstan, Japan, South Korea and China. The off-take allows us to maximise the margins compared with in-house processing of these materials. In 2014, we continued to diversify our off-taker base in order to achieve an optimal combination of transportation costs and treatment charges/recoveries. Off-take concentrate trading was pioneered by Polymetal in the Russian gold sector and has now clearly become one of our core competencies. This will be leveraged further in the Kyzyl project.

Exploration

Polymetal exploration activity is focused on five regions in Russia (Chukotka, Khabarovsk region, Karelia, Magadan, Sverdlovsk regions) and in Kazakhstan. The company owns 62 gold, silver and copper exploration and mining licences covering the total surface of 8,624 km².

In 2014, gold and silver exploration activities were held in 29 licence areas including the following stages:

- Mining – 2;
- Evaluation – 15;
- Exploration – 12.

Main goals in 2014 included:

- on-going brownfield exploration activities: Dukat, Omolon, Khakanja, Voro, Albazino, Varvara;
- exploration at greenfield gold assets, preparing for development stage: Svetloye, Kutyn, Maminskoye, Kyzyl;
- continuation of exploration for platinum group metals (PGM) deposits in Karelia and Ekaterinburg regions in order to establish new hard-rock PGM resources sufficient for a standalone mining operation.

Key 2014 exploration statistics

| Exploration works | 2014 | 2013 ⁽¹⁾ | Change, % |
|---|-------|---------------------|-----------|
| Core drilling, km | 268.8 | 220.4 | +22% |
| Trenching, th. m ³ | 229.1 | 138.5 | +65% |
| Underground development for exploration purposes, m | 3,312 | 1,137 | 191% |

¹⁾ Restated data.

As a result of exploration activities during the year, significant resource to reserve conversions were achieved. Maiden Ore Reserves and Mineral Resources estimates were completed for several greenfield and brownfield projects:

- initial Ore Reserves estimate at Svetloye (Khakanja hub) of 677 Koz GE with an additional 80 Koz GE of Mineral Resources that was followed by the Polymetal Board approval of the project development decision;
- initial Ore Reserves estimate at Kutyn (completed in 2015) reached 386 Koz with additional Mineral Resources at 649 Koz;
- initial Mineral Resources estimate for Tarutin (685 Koz of GE of which Polymetal currently owns 50%) that is now included into Varvara resource base;
- initial Ore Reserves estimate for North Kaluga (171 Koz GE);
- resource-to-reserves conversion at Albazino (+1.4 Moz) and Olcha (Dukat hub) (+120 Koz), initial Ore Reserves estimate at Burgali (+72 Koz).

Reserves and resources

- In 2014 Polymetal expanded its Ore Reserves to 21.6 Moz of gold equivalent (GE) as a result of Kyzyl acquisition (+6.7 Moz) and updated Ore Reserves estimates at several of our operating mines and exploration projects including, among others, Albazino underground, Svetloye, Kutyn, Veduga;
- Mineral Resources (additional to Ore Reserves) decreased by 12% mainly due to resource-to-reserve conversion at Albazino and Svetloye, and a more conservative approach in Mineral Resources estimation for underground mining and as a result of lower prices used. In the meantime, the acquisition of Kyzyl added 3.8 Moz to Mineral Resources;

- Average Ore Reserves grade increased by 16% to 4.3 g/t GE while average Mineral Resources grade increased by 14% to 4.2 g/t GE, both mainly due to the Kyzyl project acquisition;
- More conservative gold and silver prices were used for the analysis compared to prior year (\$1,200/oz and \$17/oz in 2014 vs \$1,300/oz and \$22.5/oz in 2013);

Ore Reserves and Mineral Resources summary⁽¹⁾

| | 1 January 2015 | 1 January 2014 | Change ⁽²⁾ |
|---|-------------------|-------------------|-----------------------|
| Ore Reserves (Proved + Probable), gold equivalent Moz | 21.6 | 13.3 | 63% |
| Gold, Moz | 17.8 | 8.9 | 100% |
| Silver, Moz | 210.7 | 219.5 | -4% |
| Copper, Kt | 79.8 | 77.0 | 4% |
| Mineral Resources (Measured + Indicated + Inferred), gold equivalent Moz | 14.6 | 16.7 | -12% |
| Gold, Moz | 12.6 | 13.4 | -6% |
| Silver, Moz | 50.3 | 117.2 | -57% |
| Copper, Kt | 152.6 | 145.2 | 5% |

- 1) Mineral Resources and Ore Reserves are reported in accordance with the JORC Code (2012). Mineral Resources are additional to Ore Reserves.
2) Differences are due to rounding.

Ore Reserves reconciliation, GE Koz

| Ore Reserves, 01.01.2014 | Processing | Re-valuation | Acquisitions and initial reserve estimates ⁽¹⁾ | Ore Reserves, 01.01.2015 |
|-----------------------------|------------|--------------|---|-----------------------------|
| 13,277 | -1,688 | 2,591 | 7,455 | 21,635 |

- 1) Including Kyzyl project, North Kaluga, Veduga

Outlook for 2015

We are confident about the outcomes for 2015. With all of our operating mines now running at full capacity, the Company is on track to produce 1.35 Moz in 2015 and in 2016. There will be a slight decrease in production, mainly due to a reduction at Omolon after record levels in 2014 and the ongoing grade decline at Khakanja as it approaches the end of its mine life.

Operational plans

Our current year's operational objectives for existing mines include:

- commencing mining at Oroch (Omolon hub);
- further increasing volumes of underground mining with the start of underground mining at Birkachan and further expansion at Arylakh (Dukat hub), Avlayakan (Khakanja) and Mayskoye;
- materially improving health and safety performance, including at underground mines, and enhancing risk management activities with particular attention given to underground mining and blasting works.

Project development

The key focus of management will increasingly shift towards our new projects – Kyzyl being the largest. Our efforts in 2015 will centre around completion of the full feasibility study for the project in Q4 2015 and the start of full-scale construction in Q2 2016. We will proceed with the construction of the Svetloye mine, approved in 2014, with mining expected to start in Q4 2015. We will also continue geological and metallurgical studies at Viksha – our PGM project in Karelia.

Exploration

In 2015, Polymetal will continue to expand its exploration portfolio into new potential areas. The Company filed 19 applications for licenses in 2015 including six gold areas in the Urals, nine gold and silver areas – four in Magadan and five in Khabarovsk regions, four PGM areas – one in the Urals and three in Karelia.

Our efforts during the year to come will be focused on:

- step-out drilling at Kyzyl, including the drilling to establish resources for the Bolshevik deposit and Bakyrchik exploration area;
- continuing brownfield exploration near Omolon and Khakanja operations;
- step-out drilling at the flanks of known-ore bodies at Albazino;
- in-fill drilling at Svetloye ahead of the expected commencement of mining in Q4 2015;
- completing the PGM resource assessment at Semcha area and prospecting for new objects with PGM mineralisation in the region.

FINANCIAL REVIEW

MARKET SUMMARY

Precious metals

Both gold and silver prices saw reduced volatility throughout 2014, with gold prices ending the year relatively unchanged at \$1,206/oz. The modest weakening of the gold price was driven by the continued strength of US Dollar and equity markets, as well as expectations around a potential interest rate increase by the US Federal Reserve in 2015. Throughout the majority of the year, gold traded in the range of \$1,200 - \$1,300/oz, with the lowest LBMA fixing at \$1,145/oz in November and highest at \$1,379/oz in March 2014. On an annual average basis, gold price decreased by 10% from \$1,410/oz in 2013 to \$1,266/oz in 2014.

Silver closely tracked the price dynamics of gold, although due to weaker investment demand the gold/silver price ratio continued to increase from 61/1 at the beginning of the year to 75/1 by the end of 2014. The average silver price decreased by 20% from \$23.8/oz in 2013 to \$19.1/oz in 2014, while the year-end price was down 19.9% from \$19.9/oz at the beginning of the year to \$16.6/oz at the year end.

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. As a result, changes in exchange rates affect its financial results and performance. Both average monthly and period-end RUB/USD exchange rates fluctuated significantly during 2014, resulting in a material depreciation of the Russian Rouble against the US Dollar by the year-end. From 1 January to 31 December 2014 the Russian Rouble depreciated against the US Dollar by 72.2% from 32.7 RUB/USD to 56.3 RUB/USD, and the average rate was up 23% year-on-year from 31.8 RUB/USD in 2013 to 38.4 RUB/USD in 2014. The devaluation of the Rouble has had a significant negative non-cash effect on the Group's net earnings in 2014 due to the effect of retranslating its US Dollar debt, which was partially offset by a more long-lasting positive effect on the Dollar value of the Group's Rouble-denominated operating costs and Adjusted EBITDA.

OPERATING RESULTS

| | Year ended 31 December, | | Change, % |
|-----------------------------------|-------------------------|---------------|-----------|
| | 2014 | 2013 | |
| Waste mined, Kt | 77,458 | 84,956 | -9% |
| Underground development, m | 61,417 | 55,339 | +11% |
| Ore mined, Kt | 13,706 | 10,379 | +32% |
| Open-pit | 11,046 | 7,975 | +39% |
| Underground | 2,660 | 2,404 | +11% |
| Ore processed, Kt | 11,300 | 10,749 | +5% |
| Average grade processed, GE g/t | 4.7 | 4.6 | +3% |
| Production | | | |
| Gold, Koz | 945 | 805 | +17% |
| Silver, Moz | 28.7 | 27.2 | +5% |
| Copper, tonnes | 1,631 | 4,841 | -66% |
| Gold equivalent, Koz ¹ | 1,431 | 1,282 | +12% |
| Sales | | | |
| Gold, Koz | 943 | 808 | +17% |
| Silver, Moz | 29.3 | 27.4 | +7% |
| Copper, tonnes | 1,029 | 6,141 | -83% |
| Gold equivalent, Koz ² | 1,372 | 1,285 | +7% |
| Headcount ³ | 8,853 | 9,232 | -4% |
| Safety | | | |
| LTIFR | 0.65 | 0.57 | +14% |
| FIFR | 0.18 | 0.06 | +200% |

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

REVENUE

| | | 2014 | 2013 | Change, % |
|---|------------|--------------|--------------|------------|
| Sales volumes | | | | |
| Gold | Koz | 943 | 808 | +17% |
| Silver | Moz | 29.3 | 27.4 | +7% |
| Copper | tonnes | 1,029 | 6,141 | -83% |
| Gold equivalent sold¹ | Koz | 1,372 | 1,285 | +7% |

1) Based on actual realised prices

| Sales by metal (US\$ mln unless otherwise stated) | | 2014 | 2013 | Change, % | Volume variance, US\$ mln | Price variance, US\$ mln |
|---|---------|--------------|--------------|-------------|------------------------------|-----------------------------|
| Gold | | 1,161 | 1,071 | +8% | 180 | (90) |
| Average realised price | US\$/oz | 1,231 | 1,326 | -7% | | |
| Average LMBA closing price | US\$/oz | 1,266 | 1,410 | -10% | | |
| Share of revenues | % | 69% | 63% | | | |
| Silver | | 520 | 593 | -12% | 43 | (115) |
| Average realised price | US\$/oz | 17.7 | 21.6 | -18% | | |
| Average LBMA closing price | US\$/oz | 19.1 | 23.8 | -20% | | |
| Share of revenues | % | 31% | 35% | | | |
| Copper | | 7 | 41 | -82% | | |
| Share of revenues | % | 0% | 2% | | | |
| Total metal sales | | 1,689 | 1,704 | -1% | 115 | (131) |
| Other revenue | | 2 | 2 | -30% | | |
| Total revenue | | 1,690 | 1,707 | -1% | | |

In 2014, revenue decreased slightly by 1% year-on-year to US\$ 1.69 billion driven by a 7% decline in the average realised gold price, while gold equivalent volume sold was up 7%. Gold and silver sales volumes increased by 17% and 7% year-on-year, while production grew 17% and 5%, respectively.

The average realised price of gold was US\$ 1,231/oz in 2014, down 7% from US\$ 1,326/oz in 2013, and slightly below the average market price of US\$ 1,266/oz. The average realised silver price was US\$ 17.7/oz, down 18% year-on-year, and 7% below the average market price of US\$ 19.1/oz due to a larger volume of Polymetal's sales recorded in the second half of the year when the market prices had significantly deteriorated.

The share of gold sales as a percentage of total revenue increased from 63% in 2013 to 69% in 2014, driven by production and sales volume movements and the relative decline in the silver price.

Copper sales were limited by the current weakness in the copper concentrate market, resulting in a temporary shutdown of the flotation circuit at Varvara.

| Analysis by segment | Revenue, US\$ mln | | | Gold equivalent sold, Koz (silver for Dukat) | | |
|----------------------|----------------------|--------------|------------|---|--------------|------------|
| | 2014 | 2013 | Change, % | 2014 | 2013 | Change, % |
| Dukat | 486 | 532 | -9% | 27,783 | 24,865 | +12% |
| Voro | 204 | 215 | -5% | 160 | 154 | +4% |
| Khakanja | 158 | 203 | -22% | 125 | 148 | -15% |
| Varvara | 120 | 190 | -36% | 95 | 140 | -32% |
| Omolon | 277 | 223 | +24% | 219 | 162 | +35% |
| Albazino/Amursk | 299 | 294 | +2% | 236 | 230 | +3% |
| Mayskoye | 145 | 50 | +193% | 141 | 48 | +194% |
| Other | 1 | 2 | n/a | n/a | n/a | n/a |
| Total revenue | 1,690 | 1,707 | -1% | 1,372 | 1,285 | +7% |

The decline in gold and, notably, silver prices during the period affected revenues at Voro and Dukat, respectively, despite the increase in production volumes. Sales at Omolon and Albazino followed production growth, while Khakanja experienced some reduction in revenues due to lower production driven by the planned grade decline. At Varvara, the decline in sales was driven by the weakness in the copper concentrate market and resulting production decline.

COST OF SALES

Cost of sales (excluding write-downs of metal inventories)

(US\$ mln)

| | 2014 | 2013 | Change, % |
|---|--------------|--------------|--------------|
| On-mine costs | 391 | 393 | -0% |
| Smelting costs | 363 | 384 | -5% |
| Purchase of ore from third parties | 2 | 33 | -95% |
| Mining tax | 110 | 109 | +1% |
| Total cash operating costs | 866 | 919 | -6% |
| Depreciation and depletion of operating assets | 292 | 245 | +19% |
| Rehabilitation expenses | 3 | 2 | +78% |
| Total costs of production | 1,161 | 1,167 | -0% |
| Increase in metal inventories | (142) | (54) | +163% |
| Write-down of non-metal inventories to net realisable value | 4 | 11 | -62% |
| Total change in metal inventories | (138) | (43) | +219% |
| Cost of other sales | 0 | 1 | -36% |
| Total cost of sales | 1,023 | 1,124 | -9% |

| Cash operating cost structure | 2014, US\$ mln | 2014, % of total | 2013, US\$ mln | 2013, % of total |
|------------------------------------|-------------------|---------------------|-------------------|---------------------|
| Consumables and spare parts | 258 | 30% | 286 | 31% |
| Services | 323 | 37% | 305 | 33% |
| Labour | 169 | 19% | 180 | 20% |
| Other expenses | 5 | 1% | 6 | 1% |
| Purchase of ore from third parties | 2 | 0% | 33 | 4% |
| Mining tax | 110 | 13% | 109 | 12% |
| Total cash operating costs | 866 | 100% | 919 | 100% |

Total cost of sales decreased by 9% in 2014 to US\$ 1,023 million, mainly on the back of decreased amounts of purchased ore from third parties at Voro and Varvara, combined with Russian Rouble depreciation during 2014. This was partially offset by volume-based growth in production and sales (12% and 7% year-on-year respectively in gold equivalent terms) and a significant increase in depreciation charges at Mayskoye and Omolon driven by larger mining and production volumes.

The cost of consumables and spare parts decreased by 10% and the cost of services remained almost flat despite meaningful production growth.

The total cost of labour within cash operating costs in 2014 was US\$ 169 million, a 6% decrease, mainly stemming from a decline in the average number of employees at Khakanja, Omolon and Mayskoye.

Mining tax remained flat year-on-year at US\$ 110 million as production volume growth of 12% offset the decrease in average realised prices.

Depreciation and depletion was US\$ 292 million, up 19% year-on-year, mainly as a result of the full ramp-up of Mayskoye as well as the revision of the mine plan at Omolon triggering faster depreciation of capitalised stripping costs and depletion of mineral rights. US\$ 36 million of depreciation and depletion expenses in 2014, related to ore and concentrate stockpiles, was included in metal inventories as at 31 December 2014.

In 2014 a net metal inventory increase of US\$ 142 million was recorded (excluding write-downs to net realisable value). The increase was mainly represented by temporary increase in ore stockpiles at the Omolon hub, represented by low-grade heap leach ore at Birkachan and ores at Sopka where mining was completed ahead of schedule and Dalneye, and accumulation of excess concentrate stockpiles at Varvara.

GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

| <i>(US\$ mln)</i> | 2014 | 2013 | Change, % |
|--------------------------|-------------|-------------|------------------|
| Labour | 93 | 107 | -13% |
| Share based compensation | 2 | 24 | -92% |
| Services | 17 | 19 | -11% |
| Depreciation | 5 | 4 | +25% |
| Other | 14 | 14 | -1% |
| Total | 131 | 168 | -22% |

General, administrative and selling expenses decreased by 22% year-on-year from US\$ 168 million to US\$ 131 million, mainly because of the fall in (Rouble-denominated) labour and share-based compensation costs.

The US\$ 24 million of share-based compensation recognised during 2013 represented 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 (the share price exceeding the 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 ("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. The first grant of options under new LTIP took place on 22 April 2014, and US\$ 2 million was recognised in share-based compensation expense for 2014.

OTHER EXPENSES

| <i>(US\$ mln)</i> | 2014 | 2013 | Change, % |
|---|-------------|-------------|------------------|
| Mining taxes, VAT, penalties and accrued interest | 20 | 1 | NM |
| Exploration expenses | 51 | 24 | +109% |
| Taxes, other than income tax | 22 | 21 | +5% |
| Social payments | 9 | 11 | -14% |
| Housing and communal services | 7 | 7 | +10% |
| Loss on disposal of property, plant and equipment | 4 | 10 | -53% |
| Business acquisition related costs | 4 | - | NM |
| Allowance for doubtful debt | (0) | 1 | NM |
| Change in estimate of environmental obligations | (1) | (1) | -32% |
| Other expenses | 16 | 16 | -0% |
| Total | 132 | 88 | +49% |

Other expenses increased from US\$ 88 million in 2013 to US\$ 132 million in 2014. Additional charges recognised in 2014 were recorded by the Company in relation to various tax exposures and tax penalties and are related to the mining tax exposures of US\$11 million, VAT exposure of US\$2 million, tax exposure at Varvara in respect of the commercial discovery bonus of US\$3 million and penalties and interest related to income tax of US\$4 million. For more information refer to Note 10 of the consolidated financial statements.

The increase in exploration expenses from US\$ 24 million in 2013 to US\$ 51 million in 2014 is mainly due to a higher amount of previously capitalised exploration costs being written off (on a cash basis the exploration expenses were US\$ 16 million and US\$ 23 million respectively).

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) | | |
|--|---------------------------------|------------|-------------|---|--------------|------------|
| | 2014 | 2013 | Change, % | 2014 | 2013 | Change, % |
| Dukat (SE oz) ² | 8.7 | 11.6 | -25% | 27,783 | 24,865 | +12% |
| Voro | 376 | 503 | -25% | 160 | 154 | +4% |
| Khakanja | 704 | 756 | -7% | 125 | 148 | -15% |
| Varvara | 705 | 791 | -11% | 95 | 140 | -32% |
| Omolon | 570 | 879 | -35% | 219 | 162 | +35% |
| Albazino | 625 | 790 | -21% | 236 | 230 | +3% |
| Mayskoye | 966 | 957 | +1% | 141 | 48 | +194% |
| Total | 634 | 745 | -15% | 1,372 | 1,285 | +7% |

In 2014 the total cash costs per gold equivalent ounce sold ("TCC") were US\$ 634/GE oz, down 15% year-on-year. The recent depreciation of the Russian Rouble had a meaningful positive impact on cost levels reported in US dollars, which was supported by robust operating performance across Polymetal's operations.

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 – 2013 | 745 | |
| Domestic inflation | 72 | 10% |
| USD rate change | (194) | -26% |
| Au/Ag ratio change | 34 | 5% |
| Change in average grade processed by mine | (0) | 0% |
| Change in recovery rate | 5 | 1% |
| Change in share of sales between mines ³ | (19) | -3% |
| Other internal factors | (8) | -1% |
| Total cash cost per gold equivalent ounce – 2014 | 634 | -15% |

Total cash cost by mine:

- Dukat's total cash cost per silver equivalent ounce sold decreased by 25% year-on-year to US\$ 8.7/oz. Beyond the effect of the Rouble depreciation, this decrease in cash costs has been achieved as a result of stable grades and solid improvement in throughput at both Omsukchan and Lunnoye plants.
- At Voro, which continues to be our lowest cost operation, cash costs decreased further by 25% compared to 2013, to US\$ 376/GE oz. The key driver of cost dynamics was the discontinued use of purchased ore with relatively low grade and higher cost, as well as higher recoveries at the CIP plant and higher production at the heap leach facility.
- Khakanja's TCC was US\$ 704/GE oz, a 7% decrease year-on-year. This cost performance was supported by the significant devaluation of the Russian Rouble, which offset the scheduled decline in average grade processed (from 5.7 g/t to 5.3 GE g/t year-on-year).
- At Varvara, TCC was US\$ 705/GE oz, decreasing by 11% year-on-year. This performance was achieved on the back of stable grade profile and significant devaluation of Kazakh Tenge in early 2014.
- At Omolon, TCC amounted to US\$ 570/GE oz, a 35% decrease year-on-year. This strong performance was achieved on the back of 31% growth in average gold equivalent grade processed at the Kubaka mill during the period (from 5.1 g/t to 6.7 g/t), as well as an 8% increase in Kubaka mill throughput.

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, including addition of treatment and refinery charges related to concentrate offtake) 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 Dukat's total cash cost per gold equivalent was US\$ 621/GE oz (2013: US\$ 732/GE oz) and was included in the Group TCC calculation.

³ Effect of mix change between mines with different cost levels.

- At Albazino/Amursk, TCC was US\$ 625/GE oz, down 21% compared to 2013. This improvement was achieved on the back of steady mine performance, increased capacity at Albazino, as well as the POX plant operating for a full year at design throughput and exceeded design recovery levels.
- Total cash costs at Mayskoye were US\$ 966/GE oz as the majority of sales was generated from concentrate offtake, which is more expensive than concentrate processing at the POX plant.

Analysis of 2H 2014 versus 1H 2014 performance:

| Total cash costs per gold equivalent ounce ¹ | Cash cost per GE ounce, US\$/oz | | | Gold equivalent sold, Koz (silver for Dukat) | | |
|---|---------------------------------|------------|------------|---|------------|-------------|
| | 2H 2014 | 1H 2014 | Change, % | 2H 2014 | 1H 2014 | Change, % |
| Dukat (SE oz) | 8.2 | 9.1 | -10% | 14,119 | 13,665 | +3% |
| Voro | 343 | 421 | -18% | 91 | 69 | +31% |
| Khakanja | 648 | 792 | -18% | 76 | 49 | +54% |
| Varvara | 744 | 648 | +15% | 57 | 38 | +50% |
| Omolon | 533 | 622 | -14% | 130 | 89 | +46% |
| Albazino | 585 | 668 | -12% | 124 | 112 | +11% |
| Mayskoye | 957 | NM | n/a | 139 | 2 | n/a |
| Total | 641 | 627 | +2% | 812 | 560 | +45% |

In 2H 2014, total cash costs increased by 2% compared to the 1H 2014 driven by a change in the mining plan in response to weakness in the copper concentrate market, and lower recoveries at Varvara, where cash costs increased by 15% half-on-half to US\$ 744/GE oz.

Total cash cost by mine:

- At all operating mines except for Varvara, significant Russian Rouble depreciation during 2H 2014 outweighed the negligible effect of other operating factors resulting in decreased total cash costs half-on-half.
- At Varvara, TCC was US\$ 744/GE oz and increased by 15% half-on-half. The increase mainly stemmed from temporary suspension of the flotation circuit in July 2014 in order to prevent accumulation of excess concentrate stockpiles in a weaker copper concentrate market.

ALL-IN SUSTAINING CASH COSTS²

| | Total, US\$ mln | | | US\$ / GE oz | | |
|---|-----------------|--------------|-------------|--------------|--------------|-------------|
| | 2014 | 2013 | Change, % | 2014 | 2013 | Change, % |
| Total cash costs | 864 | 957 | -10% | 634 | 745 | -15% |
| SG&A and other operating expenses not included in TCC | 165 | 142 | +16% | 121 | 111 | +9% |
| Capital expenditure excluding new projects | 138 | 256 | -46% | 101 | 199 | -49% |
| Exploration expenditure (capital and current) | 51 | 41 | +24% | 37 | 32 | +17% |
| All-in sustaining cash costs | 1,218 | 1,396 | -13% | 893 | 1,086 | -18% |
| Finance cost | 46 | 49 | -6% | 34 | 38 | -12% |
| Income tax expense | 72 | 40 | +80% | 53 | 31 | +68% |
| After-tax All-in cash costs | 1,336 | 1,485 | -10% | 980 | 1,156 | -15% |
| Development capital | 34 | 60 | -43% | 25 | 47 | -47% |
| SG&A and other expenses for | 40 | 7 | NM | 29 | 5 | NM |

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 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).

development assets

| | | | | | | |
|---------------------|--------------|--------------|------------|--------------|--------------|-------------|
| All-in costs | 1,410 | 1,552 | -9% | 1,034 | 1,208 | -14% |
|---------------------|--------------|--------------|------------|--------------|--------------|-------------|

All-in sustaining cash costs amounted to US\$ 893/GE oz in 2014 and decreased by 18% year-on-year, with the decrease in total cash costs and reduction of per ounce SG&A, capex expenditure on the back of continued production growth.

All-in sustaining cash costs by mines were represented as follows:

| <i>All-in sustaining cash cost per ounce, USD/oz</i> | 2014 | 2013 | 2014/2013, % |
|--|-------------|--------------|---------------------|
| Dukat | 10.9 | 13.9 | -22% |
| Voro | 515 | 692 | -26% |
| Khakanja | 909 | 1,065 | -15% |
| Varvara | 1,049 | 1,088 | -4% |
| Omolon | 722 | 1,322 | -45% |
| Albazino | 901 | 1,139 | -21% |
| Mayskoye | 1,134 | 2,307 | -51% |
| Total | 893 | 1,086 | -18% |

IMPAIRMENT CHARGES/REVERSALS

| | 2014 | 2013 |
|---------------------------------|-------------|--------------|
| Goodwill | - | (76) |
| Mining assets | - | (125) |
| Metal inventories | 39 | (153) |
| Investments in associates | - | (12) |
| Total impairment charges | 39 | (366) |

Reversals recorded in 2014 are related to ore in heap leaching piles, work-in-progress and metal for refinery previously impaired, which was further processed or determined to be economic for further processing. The reversals are mainly driven by the decline in unit cash costs required to bring the work-in-progress stockpiles into saleable metal.

ADJUSTED EBITDA AND EBITDA MARGIN¹

Reconciliation of Adjusted EBITDA

(US\$ mln)

| | 2014 | 2013 | Change, % |
|--|------------|------------|-------------|
| Loss for the year | (210) | (198) | +6% |
| Finance cost (net) | 37 | 40 | -8% |
| Income tax expense | 72 | 40 | +80% |
| Depreciation and depletion | 260 | 238 | +9% |
| EBITDA | 159 | 120 | +33% |
| (Reversal)/write-down of inventories metal inventory to net realisable value | (39) | 153 | -125% |
| Impairment of non-current assets | - | 201 | -100% |
| Impairment of investment in associate | - | 12 | -100% |
| Share-based compensation | 2 | 24 | -92% |
| Net foreign exchange losses | 559 | 74 | NM |
| Change in fair value of contingent liability | (23) | (8) | +180% |
| Rehabilitation costs | 2 | 2 | +16% |
| Write-down of non-metal inventory to net realisable value | 4 | 11 | -62% |
| Gain on disposal of subsidiary | - | 9 | -100% |
| Mining taxes, VAT, penalties and accrued interest | 20 | 1 | NM |
| Adjusted EBITDA | 685 | 598 | +15% |

Adjusted EBITDA by segment

(US\$ mln)

| | 2014 | 2013 | Change, % |
|---|------------|------------|-------------|
| Dukat | 230 | 229 | +0% |
| Voro | 141 | 130 | +9% |
| Khakanja | 60 | 85 | -29% |
| Varvara | 45 | 74 | -40% |
| Omolon | 142 | 64 | +124% |
| Albazino/Amursk | 133 | 103 | +29% |
| Mayskoye | 28 | (4) | NM |
| Kyzyl | (3) | - | NM |
| Corporate and other and intersegment operations | (91) | (82) | +10% |
| Total | 685 | 598 | +15% |

In 2014, Adjusted EBITDA was US\$ 685 million, 15% higher year-on-year, resulting in an Adjusted EBITDA margin of 41%. The increase was mainly driven by the 15% decrease in total cash costs, which was partially offset by a 7% and 18% reduction in the average realised gold and silver price, respectively. Adjusted EBITDA increased at Voro, Omolon and Albazino, while it decreased at Khakanja due to the scheduled grade declines, as well as at Varvara due to lower sales volumes and increased costs. The Adjusted EBITDA margin at Mayskoye was 19%, as most sales were derived from high-cost concentrate off-take.

OTHER INCOME STATEMENT ITEMS

Polymetal recorded a net foreign exchange loss in 2014 of US\$ 559 million compared to US\$ 74 million in 2013. These unrealised non-cash losses represent the appreciation of the Group's predominantly 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 2014 was US\$ 1,217 million, fully denominated in US Dollars, while the US Dollar appreciated against the Russian Rouble by 72.2% during the period, from 32.7 RUB/USD at 31 December 2013 to 56.3 RUB/USD as at 31 December 2014.

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\$ 210 million in 2014 versus US\$ 198 million in 2013. The loss resulted from unrealised foreign exchange losses (pre-tax amount of US\$ 559 million, equal to after-tax amount of US\$ 523 million).

Underlying net earnings (excluding after-tax impact of impairment charges/reversals and foreign exchange losses) were US\$ 282 million, compared to US\$ 179 million in 2013. The increase in underlying net earnings was mainly driven by increase in the Adjusted EBITDA.

Basic earnings per share were a loss of US\$ 0.53 per share compared to US\$ 0.51 per share in 2013. Underlying basic EPS was US\$ 0.71 per share, compared to US\$ 0.46 per share in 2013.

In accordance with the Company's dividend policy, the Board is proposing to pay a final dividend of US\$ 0.13 per share representing approximately 30% of the Group's underlying net earnings for the period. During 2014, Polymetal paid a total of US\$ 65 million in dividends, representing final dividends for FY 2013 and interim dividends for the 1H 2014. In January 2015, Polymetal paid an additional US\$ 84 million of special dividends on the back of strong free cash flow generation and comfortable leverage position.

CAPITAL EXPENDITURE

| <i>(US\$ mln)</i> | 2014 | 2013 | Change, % |
|-----------------------|------------|------------|-------------|
| Dukat | 25 | 37 | -33% |
| Mayskoye | 18 | 54 | -67% |
| Varvara | 14 | 21 | -34% |
| Khakanja | 14 | 14 | -3% |
| Amursk/Albazino | 13 | 36 | -64% |
| Omolon | 7 | 22 | -68% |
| Voro | 7 | 8 | -21% |
| Kyzyl | 1 | - | n/a |
| Corporate and other | 15 | 6 | +128% |
| Exploration | 72 | 59 | +22% |
| Capitalised stripping | 31 | 91 | -66% |
| Capitalised interest | 5 | 6 | -15% |
| | 223 | 357 | -38% |

1) Total capital expenditure includes amounts payable at the end of the period. On a cash basis, capital expenditure was US\$ 210 million in 2014 (2013: US\$ 319 million). The difference with the one on the accrual basis is mostly due to depreciation of US\$ 19 million (2013: US\$ 33 million) capitalised into exploration and stripping assets.

In 2014, total capital expenditure was US\$ 223 million, down 38% year-on-year. All of the Group's major investment projects are now complete following the launch of the Mayskoye concentrator in April 2013. From 2H 2013 the bulk of the Group's capital expenditure has been related to stay-in-business spending and exploration. Capital expenditure excluding stripping costs was US\$ 192 million in 2014 (2013: US\$ 265 million).

The major capital expenditure items in 2014 were:

- Across all mines, capital expenditures declined year-on-year and was 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 2014 was US\$ 72 million compared to US\$ 59 million in 2013, and focused, in addition to near-mine properties, mostly on PGM assets, Maminskoye and Kutyn;
- Capitalised stripping costs totalled US\$ 31 million in 2014 (2013: US\$ 91 million) and are attributable to operations with stripping ratios during the period exceeding their life of mine ("LOM") averages, including most importantly Varvara, Voro and Khakanja. The decline is mainly related to completion of major stripping campaigns in 2013.

- Total capital expenditure in 2014 includes US\$ 5 million of capitalised interest (2013: US\$ 6 million), which has declined as the Group has commissioned all of its major growth assets.

CASH FLOWS

| <i>(US\$ mln)</i> | 2014 | 2013 | Change, % |
|--|--------------|--------------|------------------|
| Operating cash flows before changes in working capital | 614 | 450 | +37% |
| Changes in working capital | (99) | 12 | -902% |
| Total operating cash flows | 515 | 462 | +11% |
| Capital expenditure | (210) | (319) | -34% |
| Kyzyl acquisition | (315) | - | NM |
| Other | 1 | (5) | -124% |
| Investing cash flows | (524) | (324) | +61% |
| Financing cash flows | | | |
| Net increase in borrowings | 202 | 213 | -5% |
| Dividends paid | (65) | (316) | -80% |
| Total financing cash flows | 137 | (104) | -232% |
| Net decrease/increase in cash and cash equivalents | 127 | 34 | +276% |
| Cash and cash equivalents at the beginning of the year | 66 | 19 | +252% |
| Effect of foreign exchange rate changes on cash and cash equivalents | (36) | 13 | -369% |
| Cash and cash equivalents at the end of the year | 157 | 66 | +139% |

Operating cash flows in 2014 strengthened compared to the prior period. Operating cash flows before changes in working capital grew by 37% year-on-year to US\$ 614 million as a result of an increase in adjusted EBITDA. Net operating cash flows were US\$ 515 million, compared to US\$ 462 million in 2013. This was also affected by an increase in working capital in 2014 of US\$ 99 million. These increases are mainly due to additional ore stockpiles at Omolon (net increase of US\$ 72 million) and accumulation of excess concentrate stockpiles at Varvara (net increase of US\$ 30 million).

Total cash and cash equivalents increased by 139% compared to 2013 and comprised US\$ 157 million, with the following items affecting the cash position of the Group:

- Operating cash flows of US\$ 515 million;
- Investment cash outflows totalled US\$ 524 million, up 61% year-on-year and are represented by capital expenditure (down 34% year-on-year to US\$ 210 million) and other investing cash flows represented by cash portion of the Kyzyl acquisition;
- Payment of regular dividends for 2013 and 1H 2014 amounting to US\$ 65 million; and
- The net increase in borrowings of US\$ 202 million.

BALANCE SHEET, LIQUIDITY AND FUNDING

| | 31-Dec-14 | 31-Dec-13 | Change, % |
|---|------------------|------------------|------------------|
| Net debt | | | |
| Short-term debt and current portion of long-term debt | 509 | 81 | +528% |
| Long-term debt | 814 | 1,030 | -21% |
| Dividends payable | 84 | - | NM |
| Gross debt | 1,407 | 1,111 | +27% |
| Less: cash and cash equivalents | 157 | 66 | +140% |
| Net debt | 1,249 | 1,045 | +20% |
| Net debt / adjusted EBITDA | 1.82 | 1.75 | +4% |

The Group continues to maintain a comfortable liquidity and funding profile.

The Group's net debt increased to US\$ 1,249 million as of 31 December 2014, representing a Net debt / adjusted EBITDA (over the last 12 months) ratio of 1.82. The increase is mainly attributable to debt financing of the Kyzyl acquisition in 2H 2014.

The proportion of long-term borrowings comprised 58% as at 31 December 2014 (93% as at 31 December 2013).

In addition, as at 31 December 2014 the Group had US\$1.0 billion (31 December 2013: US\$1.3 billion) of available undrawn facilities, of which US\$ 0.8 billion is committed, from a wide range of lenders. This ensures that Polymetal maintains its operational flexibility in the current environment.

The average cost of debt remained low at 3.5% in 2014 (2013: 2.99%), supported by low base interest rates and the ability to negotiate competitive premiums given the solid financial position of the Company and Polymetal's excellent credit history. Despite ongoing tightening of the credit markets in Russia, the Group is confident in its ability to refinance the existing borrowings as they fall due. In January 2015, the Group negotiated a 4-year US\$ 100 million loan from a large European bank.

2015 OUTLOOK

While we recognise that our financial performance is heavily dependent on the RUB/USD exchange rate, inflation in Russia, and oil price dynamics, Polymetal expects to deliver resilient financial performance at the current price levels which will be driven by the following factors:

- The Company is fully on track to deliver on its production guidance of 1.35 Moz of gold equivalent for 2015;
- In 2015, Polymetal expects total cash costs of US\$ 575-625/GE oz and all-in sustaining cash costs of US\$ 750-800/GE oz;
- Capital expenditure in 2015 is expected to total approximately US\$ 240 million (including exploration, capitalised stripping and spending on the Kyzyl project);
- As a result, the Company expects to continue to generate meaningful free cash flow and dividend payments in 2015.

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) mining plans;
 - b) procurement;
 - c) qualified labour availability; and
 - d) reliance on contractors;
- Tax risk;
- Exploration risks;
- Construction and development risk;
- Logistics and supply chain risk;
- Health and safety risk;
- Environmental risks;
- Mergers and acquisitions;
- Legal risk;
- Political risk;
- Financial risks, including:
 - a) cash and liquidity;
 - b) currency risk;
 - c) interest rate risk;
 - d) inflation rate risk

As a consequence of the sanctions imposed on certain Russian companies and individuals by the EU and US during the 2014, the Group believes that an additional sanctions risk needs to be considered in addition to the list above. For more details refer to Note 20 of the consolidated financial statements.

A detailed explanation of these risks and uncertainties can be found on pages 70 to 73 of the 2013 annual report which is available at www.polymetalinternational.com. Further updates will be presented in the full annual financial report for 2014.

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, including the potential exercise of the put option in respect of the Kyzyl transaction. As at 31 December 2014, the Group held US\$ 157 million of cash and had net debt of US\$ 1,249 million, with US\$ 0.8 billion of undrawn but committed facilities available subject to the applicable covenants 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 2014.

Directors' responsibility statement

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted for use in the European Union (IFRS). The financial statements are required by law to be properly prepared in accordance with the Companies (Jersey) Law 1991. International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'.

In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, the Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK and Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the strategic report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board,

Bobby Godsell

Chairman of the Board of Directors

Vitaly Nesis

Chief Executive

30 March 2015

POLYMETAL INTERNATIONAL PLC

CONSOLIDATED INCOME STATEMENT

| | Notes | Year ended 31 December 2014 000'\$ | Year ended 31 December 2013 000'\$ |
|--|-------|--|--|
| Revenue | 4 | 1,690,391 | 1,706,597 |
| Cost of sales | 5 | (1,023,219) | (1,123,796) |
| Reversals/ (write-downs) of metal inventories to net realisable value | 18 | 39,174 | (153,327) |
| Gross profit | | 706,346 | 429,474 |
| General, administrative and selling expenses | 9 | (131,293) | (168,132) |
| Other operating expenses | 10 | (131,901) | (88,486) |
| Impairment of non-current assets | 15 | - | (201,105) |
| Impairment of investment in associate | 15 | - | (12,291) |
| Share of loss of associates and joint ventures | | (7,139) | (2,340) |
| Operating profit/(loss) | | 436,013 | (42,880) |
| Loss on disposal of subsidiaries | 2 | - | (8,746) |
| Net foreign exchange losses | | (559,266) | (74,240) |
| Change in fair value of contingent consideration liability | | 22,788 | 8,131 |
| Finance income | | 3,216 | 2,850 |
| Finance costs | 12 | (40,626) | (42,735) |
| Loss before income tax | | (137,875) | (157,620) |
| Income tax expense | 13 | (71,965) | (40,417) |
| Loss for the financial year attributable to equity shareholders of the Parent | | (209,840) | (198,037) |
| | | US\$ | US\$ |
| Loss per share | | | |
| Basic | | (0.53) | (0.51) |
| Diluted | | (0.53) | (0.51) |

| | Year ended 31 December 2014 Cents per share | Year ended 31 December 2013 Cents per share | Year ended 31 December 2014 000'\$ | Year ended 31 December 2013 000'\$ |
|--|--|--|---|---|
| Final dividend proposed in relation to the year (Note 14) | 13.0 | 8.0 | 54,707 | 31,158 |
| Interim dividend (Note 14) | 8.0 | 1.0 | 33,666 | 3,879 |
| Special dividend declared (Note 14) | 20.0 | - | 84,164 | - |

POLYMETAL INTERNATIONAL PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|--|--------------------------------|--------------------------------|
| | 000'\$ | 000'\$ |
| Loss for the financial year | (209,840) | (198,037) |
| <i>Other comprehensive loss</i> | | |
| Effect of translation to presentation currency | (617,758) | (153,575) |
| Total comprehensive loss for the financial year attributable to equity shareholders of the Parent | (827,598) | (351,612) |

POLYMETAL INTERNATIONAL PLC

CONSOLIDATED BALANCE SHEET

| | Notes | 31 December 2014 | 31 December 2013 |
|--|-------|--------------------|--------------------|
| | | 000'\$ | 000'\$ |
| Assets | | | |
| Property, plant and equipment | 16 | 2,020,924 | 2,094,742 |
| Goodwill | 17 | 17,970 | 30,889 |
| Investments in associates | | 2,107 | 15,651 |
| Non-current loans and receivables | | 12,890 | 22,853 |
| Deferred tax asset | 13 | 61,787 | 88,484 |
| Non-current inventories | 18 | 114,227 | 53,142 |
| Total non-current assets | | 2,229,905 | 2,305,761 |
| Current inventories | 18 | 468,731 | 727,144 |
| Current VAT receivable | | 55,367 | 85,135 |
| Trade and other receivables | | 56,010 | 44,526 |
| Prepayments to suppliers | | 20,531 | 18,170 |
| Income tax prepaid | | 9,410 | 8,433 |
| Cash and cash equivalents | | 157,224 | 65,567 |
| Total current assets | | 767,273 | 948,975 |
| Total assets | | 2,997,178 | 3,254,736 |
| Liabilities and shareholders' equity | | | |
| Accounts payable and accrued liabilities | | (160,735) | (117,397) |
| Share repurchase obligation | | (275,838) | - |
| Current borrowings | 19 | (508,811) | (81,331) |
| Income tax payable | | (38,306) | (37,174) |
| Other taxes payable | | (44,139) | (56,885) |
| Environmental obligations | | (2,991) | (212) |
| Current portion of contingent consideration liability | | (1,783) | (577) |
| Total current liabilities | | (1,032,603) | (293,576) |
| Non-current borrowings | 19 | (813,824) | (1,029,813) |
| Contingent consideration liability | | (17,506) | (15,523) |
| Deferred tax liability | 13 | (205,506) | (63,085) |
| Environmental obligations | | (51,301) | (65,152) |
| Other non-current liabilities | | (6,954) | (97) |
| Total non-current liabilities | | (1,095,091) | (1,173,670) |
| Total liabilities | | (2,127,694) | (1,467,246) |
| NET ASSETS | | 869,484 | 1,787,490 |
| Stated capital account | | 1,939,084 | 1,664,170 |
| Share-based compensation reserve | | 2,387 | 143,524 |
| Translation reserve | | (824,594) | (206,836) |
| Repurchase obligation for shares issued for business acquisition | 2 | (218,722) | - |
| Retained earnings | | (28,671) | 186,632 |
| Total equity | | 869,484 | 1,787,490 |

The notes on pages 32 to 60 form part of these financial statements. These financial statements are approved and authorised for issue by the Board of Directors on 30 March 2015 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 2014 000'\$ | Year ended 31 December 2013 000'\$ |
|--|-------|--|--|
| Net cash generated by operating activities | 22 | 514,839 | 461,667 |
| Cash flows from investing activities | | | |
| Purchases of property, plant and equipment | 16 | (209,751) | (319,448) |
| Net cash outflow on business combinations | 2 | (314,344) | (11,934) |
| Convertible loan repaid by Polygon Gold | | - | 10,000 |
| Interest received | | 3,317 | 1,965 |
| Contingent consideration payment | | (1,722) | (1,329) |
| Other investing activities | | (1,612) | (3,681) |
| Net cash used in investing activities | | (524,112) | (324,427) |
| Cash flows from financing activities | | | |
| Borrowings obtained | 19 | 453,991 | 3,099,855 |
| Repayments of borrowings | 19 | (252,455) | (2,887,041) |
| Dividends paid | | (64,824) | (316,429) |
| Net cash generated/(used in) by financing activities | | 136,712 | (103,615) |
| Net decrease/increase in cash and cash equivalents | | 127,439 | 33,625 |
| Cash and cash equivalents at the beginning of the financial year | | 65,567 | 18,622 |
| Effect of foreign exchange rate changes on cash and cash equivalents | | (35,782) | 13,320 |
| Cash and cash equivalents at the end of the financial year | | 157,224 | 65,567 |

POLYMETAL INTERNATIONAL PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Notes | Number of Polymetal International shares outstanding | Stated capital account | Share-based compensation reserve | Translation reserve | Share purchase obligation | Retained earnings | Total equity |
|---|-------|--|---------------------------|--|------------------------|------------------------------|----------------------|------------------|
| Balance at 1 January 2013 | | 383,206,204 | 1,576,123 | 119,291 | (53,261) | - | 509,718 | 2,151,871 |
| Total comprehensive loss | | - | - | - | (153,575) | - | (198,037) | (351,612) |
| Share based compensation | | - | - | 24,233 | - | - | - | 24,233 |
| Issue of shares in exchange for assets | 2 | 775,000 | 13,423 | - | - | - | - | 13,423 |
| Issue of shares in exchange for business acquisitions | 2 | 5,491,661 | 74,624 | - | - | - | - | 74,624 |
| Dividends | 14 | - | - | - | - | - | (125,049) | (125,049) |
| Balance at 31 December 2013 | | 389,472,865 | 1,664,170 | 143,524 | (206,836) | - | 186,632 | 1,787,490 |
| Total comprehensive loss | | - | - | - | (617,758) | - | (209,840) | (827,598) |
| Share based compensation | | - | - | 2,387 | - | - | - | 2,387 |
| Transfer to retained earnings | | - | - | (143,524) | - | - | 143,524 | - |
| Issue of shares in exchange for business acquisitions | 2 | 31,347,078 | 274,914 | - | - | - | - | 274,914 |
| Put option issued for business acquisition recognised in equity | 2 | - | - | - | - | (218,722) | - | (218,722) |
| Dividends | 14 | - | - | - | - | - | (148,987) | (148,987) |
| Balance at 31 December 2014 | | 420,819,943 | 1,939,084 | 2,387 | (824,594) | (218,722) | (28,671) | 869,484 |

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 2014 (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 30 March 2015. Statutory accounts for 2013 have been delivered to the Registrar of Companies and those for 2014 will be delivered in due course.

The report of the auditors on the 2014 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 (the 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 2014 the Company held the following significant mining and production subsidiaries:

| Name of subsidiary | Deposits | Country of incorporation | Effective interest held, % | |
|---|-------------------|--------------------------|----------------------------|------------------|
| | | | 31 December 2014 | 31 December 2013 |
| CJSC Gold of Northern Urals LLC Okhotskaya Mining and Exploration Company | Vorontsovskoye | Russia | 100 | 100 |
| | Khakandjinskoye | Russia | 100 | 100 |
| | Avlayakan | | | |
| | Ozernoe | | | |
| CJSC Magadan Silver | Dukat | Russia | | |
| | Lunnoe | | | |
| | Arylakh | | | |
| | Goltsovoye | | 100 | 100 |
| Mayskoye Gold Mining Company LLC | Mayskoye | Russia | 100 | 100 |
| Omolon Gold Mining Company LLC | Kubaka | Russia | | |
| | Birkachan | | | |
| | Tsolol | | | |
| | Danleye | | | |
| | Sopka Kwartsevaya | | 100 | 100 |
| Albazino Resources Ltd | Albazino | Russia | 100 | 100 |
| Amur Hydrometallurgical Plant LLC | N/A | Russia | 100 | 100 |
| JSC Varvarinskoye | Varvarinskoye | Kazakhstan | 100 | 100 |
| Bakyrchik Mining Venture LLP | Bakyrchik | Kazakhstan | 100 | 100 |
| JSC Inter Gold Capital | Bolshevik | 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, including the potential exercise of the put option in respect of the Kyzyl transaction. As at 31 December 2014, the Group held US\$157 million of cash and had net debt of US\$1,249 million, including liability for special dividends payable (Note 14), with US\$1,038 million of undrawn facilities available, of which US\$ 810 million were considered committed.

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 2014.

Foreign currency considerations

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. Changes in foreign exchange rates affect the Group's financial results and performance. Both the average and year end RUB/US\$ exchange rates fluctuated significantly during 2014, in particular in the second half, resulting in significant depreciation of the Russian Rouble against the US Dollar by the year-end. From 1 January to 31 December 2014 the Russian Rouble depreciated against the US Dollar by 72.2% from 32.7 RUB/USD to 56.3 RUB/USD, and the yearly average rate by 23.5% from 31.8 RUB/USD in 2013 to 38.4 RUB/USD in 2014.

Foreign exchange losses recognised in the Consolidated Income Statement predominantly arise on the re-translation of US Dollar-denominated external loans in Rouble functional currency entities and represent a non-cash loss.

The Group's net assets have also reduced with a US\$618 million non-cash loss arising in reserves relating to the translation of the Russian Rouble and Kazakh Tenge denominated Balance Sheets into the US Dollar presentational currency.

The devaluation of the Rouble had a limited effect on operating costs and Adjusted EBITDA in the first three quarters of the year, however this benefit became more significant in Q4 2014 when a significant devaluation took place. Should the RUB/USD exchange rate continue at the current levels throughout 2015, there will be further significant operating cost and Adjusted EBITDA benefits relative to 2014.

Basis of presentation

The Group's annual consolidated financial statements for the year ended 31 December 2014 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 2014.

New and amended standards adopted by the entity

The following standards became effective for annual periods beginning on or after January 1, 2014 for the companies reporting under IFRS as adopted by the EU, with earlier application permitted. The Group adopted these standards and they did not have a material impact on its consolidated financial statements:

IFRS 10 *Consolidated Financial Statements* replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses accounting for consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 provides a single basis for consolidation with a new definition of control.

IFRS 11 *Joint Arrangements* replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. Under IFRS 11 a joint arrangement is classified as either a joint operation or a joint venture, and the option to proportionately consolidate joint ventures has been removed. Interests in joint ventures must be equity accounted.

IFRS 12 *Disclosures of Interests in Other Entities* accompanies IFRS 10 and IFRS 11. This standard combines the disclosure requirements previously covered by IAS 27, related to consolidated financial statements, IAS 31 *Interest in Joint Ventures* and IAS 28 *Investments in Associates*, as well as including additional disclosure requirements.

Amendments have been made to IAS 28 *Investments in Associates* and it has been reissued as IAS 28 *Investments in Associates and Joint Ventures*. The revised standard prescribes the application of the equity method when accounting for investments in associates and joint ventures.

IAS 32 *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)*. On December 16, 2011 the IASB published amendments to IAS 32, *Financial Instruments: Presentation* to clarify the application of the offsetting requirements. The Group has assessed that whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments has had no impact on the amounts recognized in the Group's consolidated financial statements.

Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* remove the requirements to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. The amendments introduce additional disclosure requirements applicable to when the recoverable

amount of an asset or a CGU is measured at fair value less costs of disposal. The application of these amendments has had no material impact in the disclosures in the Group's consolidated financial statements.

Amendments to IAS 36 *Novation of Derivatives and Continuation of Hedge Accounting* and IFRIC 21 *Levies* issued in May 2013 on the accounting for levies imposed by governments has had no material impact on the Group's consolidated financial statements.

2. ACQUISITIONS AND DISPOSALS

(a) Business combinations and asset acquisitions

Kyzyl acquisition

On 4 September 2014 the Group acquired 100 per cent of the share capital of Altynalmas Gold Ltd (AAG), the holding company for the Kyzyl gold project in Kazakhstan.

The initial consideration for this acquisition comprised US\$318.5 million in cash and 31,347,078 new ordinary shares of Polymetal International plc issued to Sumeru Gold B.V., representing approximately 7.45% of the Company's enlarged issued share capital. The number of shares issued was determined by dividing US\$300 million by the unweighted mean average closing price of Polymetal shares on the Main Market of the London Stock Exchange in the twelve calendar months ending three trading days before completion which equated US\$9.57027 per share. Using the share price in completion gave a fair value for the share consideration of US\$274.9 million. Deferred additional cash consideration up to an agreed cap, contingent on certain conditions being met and dependent on the relative dynamics of the gold price and the price of Polymetal's shares, may be payable over the next seven years, and this forms the basis for a contingent consideration liability which was valued on acquisition at US\$27.7 million.

Sumeru Gold B.V. is entitled to a put option giving it a right to require Polymetal to acquire or procure acquirers for the consideration shares by notice to Polymetal during the one month period immediately following the first anniversary of completion at a price per consideration share equal to US\$9.57027. On completion Polymetal recognised the repurchase obligation at the net present value of maximum repayment of US\$300 million, which approximates to US\$273 million, with a corresponding decrease in equity. The put option has an exercise period from 4 September to 4 October 2015. When the option lapses or is exercised, both the liability and the corresponding balance in equity will be derecognised. After any cash payments to the vendor are taken into account, the balancing figure goes through retained earnings.

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

Assets acquired and liabilities recognised at the date of acquisition

The initial accounting of the acquisition of AAG has only been provisionally determined at the end of the reporting period based on the directors' best estimate.

The management believes that this business acquisition does not give rise to goodwill and excess of consideration over net asset assets of the acquiree should be fully attributed the mineral rights. The amount recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below.

| | US\$'000 |
|--|----------------|
| Assets acquired and liabilities recognised at the date of acquisition | |
| Cash and cash equivalents | 4,156 |
| Mineral rights (Exploration and development assets) | 853,600 |
| Other property, plant & equipment | 6,144 |
| Other assets | 1,583 |
| Environmental obligations | (16,346) |
| Contingent liabilities | (5,627) |
| Deferred income taxes | (166,325) |
| Other liabilities | (1,507) |
| Net assets acquired | 675,677 |
| Consideration transferred | |
| Cash | 318,500 |
| Fair value of shares issued | 274,914 |
| Contingent consideration | 27,699 |
| Seller put option | 54,565 |

| | |
|---|----------------|
| Total consideration | 675,677 |
| Net cash out flow on acquisition | 314,344 |

Contingent liabilities assumed in the business combination of US\$ 5.6 million, represent social obligations set by the Sub-Soil Use contracts, being amounts committed to be spent on professional trainings and other social engagements over the life of project. The potential undiscounted amount of future payments that the Group could be required to make approximates to US\$ 10 million (refer to Note 20).

No significant financial assets were acquired in the business combination.

Valuation of consideration

The fair value of the 31,347,078 ordinary shares issued as part of the consideration paid for AAG was determined based on the spot price at the acquisition date, being US\$8.77.

The deferred additional cash consideration described above meets the definition of contingent consideration and was fair valued as of the acquisition date using a Monte Carlo valuation simulation. Potential amounts payable for each of the next seven years are linked to the average gold price in each period, with a deduction for the effect of the share value appreciation. The average annual gold price must exceed US\$1,250/oz for any consideration to be payable. The total amount payable is limited to US\$500 million. The key assumptions used in the contingent consideration calculation are set out below:

| | |
|---|-------------|
| Gold price volatility | 7.16% |
| Share price volatility | 31.2% |
| Constant correlation between gold price and share price | 93.3% |
| Dividend yield | 2% |
| Gold price as of the acquisition date | US\$1,271.5 |
| Share price as of the acquisition date | US\$8.77 |
| Discount rate | 9% |

The acquisition date fair value was calculated at US\$27.7 million.

At acquisition the fair value of the Seller's put option was calculated using a Black Scholes option pricing model, using assumptions consistent with the Monte Carlo simulation. The fair value has been calculated at US\$54.6 million.

Impact of the acquisition on the result of the Group

Acquisition-related costs (included in Other operating expenses) amount to US\$4 million (Note 10).

Altynalmas Gold Ltd (AAG) contributed US\$3 million loss to the Group's loss for the period between the acquisition date and year end. AAG generated no revenues in 2014. Had the acquisition completed on the first day of the financial year, it would have increased the Group's loss by US\$10.1 million.

North Kaluga deposit

On 29 August 2014 Polymetal International plc acquired 100% ownership in the North Kaluga property following the restructuring of the JSC Ural-Polymetal, which was previously classified as an associate in the IFRS consolidated financial statements.

Under the terms of the restructuring agreement, the Ural-Polymetal was dissolved and the asset and liabilities of the former associate were distributed amongst the shareholders. Polymetal received a 100% interest in the North Kaluga property and assumed US\$20 million of debt. The other assets and liabilities of the associate were transferred to the other shareholders. Polymetal owned 49.99% of the Ural-Polymetal prior to the transaction and the asset had nil carrying value in the Group's financial statements due to write-off in 2013 following the commodities price decline.

North Kaluga 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. As a result the Group acquired mineral rights at cost of US\$20.9 million, debt amounting to US\$20.3 million and other current liabilities of \$(0.6) million.

Other minor acquisitions

During the year ended 31 December 2014 the Group acquired several minor companies, which hold exploration licences and capital construction in progress assets. The acquired subsidiaries do not meet the definition of a business pursuant to IFRS 3 (2008) thus they were accounted for as an acquisition of a group of assets. The

Group purchased mineral rights at total cost of US\$1.7 million, capital construction in progress at cost of US\$2.6 million and other current liabilities of US\$ 3.0 million for total cash consideration of US\$ 1.3 million.

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 |

(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) |

3. SEGMENT INFORMATION

The Group has eight reportable segments (2013: seven):

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

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 and Kyzyl which are 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 and reversals 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:

| For the year ended 31 December 2014 (\$'000) | Voro | Khakanja | Dukat | Omolon | Varvara | Amursk - Albazino | Mayskoye | Kyzyl | Total reportable segments | Corporate and other | Intersegment operations and balances | Total |
|---|----------------|----------------|----------------|----------------|----------------|-------------------|----------------|----------------|---------------------------|---------------------|--------------------------------------|------------------|
| Revenue from external customers | 204,490 | 157,771 | 485,608 | 276,930 | 120,374 | 298,547 | 145,242 | - | 1,688,962 | 1,429 | - | 1,690,391 |
| Intersegment revenue | 1,527 | 554 | 383 | 168 | - | 3,893 | - | - | 6,525 | 237,297 | (243,822) | - |
| Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value | 53,938 | 81,538 | 229,648 | 115,500 | 62,618 | 139,806 | 102,105 | - | 785,153 | 163,343 | (187,113) | 761,383 |
| Cost of sales | 70,104 | 101,808 | 287,022 | 180,442 | 76,051 | 197,038 | 134,524 | - | 1,046,989 | 163,343 | (187,113) | 1,023,219 |
| Depreciation included in Cost of sales | (16,708) | (19,518) | (57,520) | (63,121) | (12,760) | (55,837) | (30,202) | - | (255,666) | - | - | (255,666) |
| Write-down of non-metal inventory to net realisable value | (106) | - | 109 | (619) | (375) | (966) | (2,112) | - | (4,069) | - | - | (4,069) |
| Rehabilitation expenses | 648 | (752) | 37 | (1,202) | (298) | (429) | (105) | - | (2,101) | - | - | (2,101) |
| General, administrative and selling expenses, excluding depreciation, amortization and share based compensation | 6,416 | 10,531 | 10,753 | 9,095 | 4,260 | 7,838 | 11,704 | 1,973 | 62,570 | 74,084 | (12,563) | 124,091 |
| General, administrative and selling expenses | 15,915 | 16,492 | 20,322 | 14,299 | 5,951 | 14,785 | 17,793 | 2,199 | 107,756 | 80,789 | (57,252) | 131,293 |
| Intercompany management services | (8,766) | (5,452) | (8,685) | (5,074) | (1,458) | (6,839) | (5,552) | - | (41,826) | (2,863) | 44,689 | - |
| Depreciation included in SGA | (733) | (509) | (884) | (130) | (233) | (108) | (537) | (226) | (3,360) | (1,455) | - | (4,815) |
| Share based compensation | - | - | - | - | - | - | - | - | - | (2,387) | - | (2,387) |
| Other operating expenses excluding additional tax charges | 4,165 | 6,015 | 15,990 | 10,371 | 8,972 | 21,526 | 3,919 | 852 | 71,810 | 37,220 | 3,362 | 112,392 |
| Other operating expenses | 4,537 | 6,015 | 28,580 | 12,721 | 11,871 | 21,526 | 5,217 | 852 | 91,319 | 37,220 | 3,362 | 131,901 |
| Mining taxes, VAT, penalties and accrued interest | (372) | - | (12,590) | (2,350) | (2,899) | - | (1,298) | - | (19,509) | - | - | (19,509) |
| Share of loss of associates and joint ventures | - | - | - | - | - | - | - | - | - | 7,139 | - | 7,139 |
| Adjusted EBITDA | 141,498 | 60,241 | 229,600 | 142,132 | 44,524 | 133,270 | 27,514 | (2,825) | 775,954 | (43,060) | (47,508) | 685,386 |
| Depreciation expense | 17,441 | 20,027 | 58,404 | 63,251 | 12,993 | 55,945 | 30,739 | 226 | 259,026 | 1,455 | - | 260,481 |
| Rehabilitation expenses | (648) | 752 | (37) | 1,202 | 298 | 429 | 105 | - | 2,101 | - | - | 2,101 |
| Write-down of non-metal inventory to net realisable value | 106 | - | (109) | 619 | 375 | 966 | 2,112 | - | 4,069 | - | - | 4,069 |
| Reversal/(write-down) of metal inventory to net realisable value | 5 | (4,982) | (548) | (34,287) | 5,845 | - | (5,207) | - | (39,174) | - | - | (39,174) |
| Share-based compensation | - | - | - | - | - | - | - | - | - | 2,387 | - | 2,387 |
| Mining taxes, penalties and accrued interest | 372 | - | 12,590 | 2,350 | 2,899 | - | 1,298 | - | 19,509 | - | - | 19,509 |
| Operating profit / (loss) | 124,222 | 44,444 | 159,300 | 108,997 | 22,114 | 75,930 | (1,533) | (3,051) | 530,423 | (46,902) | (47,508) | 436,013 |
| Foreign exchange loss | - | - | - | - | - | - | - | - | - | - | - | (559,266) |
| Loss on disposal of subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - |
| Change in fair value of contingent consideration | - | - | - | - | - | - | - | - | - | - | - | 22,788 |
| Finance income | - | - | - | - | - | - | - | - | - | - | - | 3,216 |
| Finance costs | - | - | - | - | - | - | - | - | - | - | - | (40,626) |
| Loss before tax | | | | | | | | | | | | (137,875) |
| Income tax expense | - | - | - | - | - | - | - | - | - | - | - | (71,195) |
| Loss for the financial period | | | | | | | | | | | | (209,840) |
| Current metal inventories | 35,937 | 26,714 | 54,853 | 79,007 | 24,776 | 39,953 | 43,419 | - | 304,659 | 112 | (3,970) | 300,801 |
| Current non-metal inventories | 4,501 | 33,230 | 26,621 | 30,387 | 16,109 | 22,445 | 28,819 | 975 | 163,087 | 15,055 | (10,212) | 167,930 |
| Non-current segment assets: | | | | | | | | | | | | |
| Property, plant and equipment, net | 65,362 | 55,459 | 218,414 | 95,106 | 124,093 | 311,005 | 178,142 | 862,649 | 1,910,230 | 132,954 | (22,260) | 2,020,924 |
| Goodwill | - | - | 5,164 | - | - | - | - | - | 17,970 | - | - | 17,970 |
| Non-current inventory | 1,394 | 23,380 | 6,364 | 52,263 | 18,678 | 6,846 | 6,555 | - | 115,480 | - | (1,253) | 114,227 |
| Investments in associates | - | - | - | - | - | - | - | - | - | 2,107 | - | 2,107 |
| Total segment assets | 107,194 | 138,783 | 311,416 | 256,763 | 183,656 | 380,249 | 269,741 | 863,624 | 2,511,426 | 150,228 | (37,695) | 2,623,959 |
| Additions to non-current assets: | | | | | | | | | | | | |
| Property, plant and equipment | 17,695 | 34,814 | 32,943 | 20,623 | 21,498 | 43,698 | 18,606 | 3,641 | 193,518 | 30,184 | - | 223,702 |
| Acquired in business combinations and acquisition of group of assets | 20,912 | - | - | - | - | - | - | 859,744 | 880,656 | 4,307 | - | 884,963 |

| 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 | 270,576 | 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 |

4. REVENUE

Revenue analysed by geographical regions of customers is presented below:

| | Year ended | |
|-------------------------------------|------------------|------------------|
| | 31 December 2014 | 31 December 2013 |
| | 000'\$ | 000'\$ |
| Sales within the Russian Federation | 1,165,729 | 1,060,935 |
| Sales to Kazakhstan | 169,242 | 170,178 |
| Sales to Korea | 158,625 | 90,512 |
| Sales to China | 133,497 | 165,368 |
| Sales to Japan | 51,864 | 65,183 |
| Sales to Europe | 9,716 | 151,970 |
| Total metal sales | 1,688,673 | 1,704,146 |
| Other sales | 1,718 | 2,451 |
| Total | 1,690,391 | 1,706,597 |

Included in revenues for the year ended 31 December 2014 are revenues which arose from sales to three of the Group's largest customers amounting to US\$573 million, US\$221 million and US\$164 million, respectively (2013: US\$391 million, US\$273 million and US\$175 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 2014 | | | | Year ended 31 December 2013 | | | |
|--------------------------|--|--|--|------------------|--|--|--|------------------|
| | Thousand ounces/tonnes shipped (unaudited) | Thousand ounces/tonnes payable (unaudited) | Average price (U.S. Dollar per troy ounce/tonne payable) (unaudited) | 000'\$ | Thousand ounces/tonnes shipped (unaudited) | Thousand ounces/tonnes payable (unaudited) | Average price (U.S. Dollar per troy ounce/tonne payable) (unaudited) | 000'\$ |
| Gold (thousand ounces) | 958 | 943 | 1,231 | 1,160,984 | 818 | 808 | 1,326 | 1,070,847 |
| Silver (thousand ounces) | 29,661 | 29,342 | 17.7 | 520,469 | 27,414 | 27,376 | 22.0 | 592,576 |
| Copper (tonnes) | 1,093 | 1,029 | 7,015 | 7,220 | 6,468 | 6,141 | 6,631 | 40,723 |
| Total | | | | 1,688,673 | | | | 1,704,146 |

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

| | Year ended | |
|---|------------------|------------------|
| | 31 December 2014 | 31 December 2013 |
| | 000'\$ | 000'\$ |
| Cash operating costs | | |
| On-mine costs (Note 6) | 391,256 | 393,067 |
| Smelting costs (Note 7) | 363,382 | 384,192 |
| Purchase of ore from third parties | 1,506 | 18,836 |
| Purchase of ore from related parties (Note 21) | - | 13,983 |
| Mining tax | 110,064 | 109,421 |
| Total cash operating costs | 866,208 | 919,499 |
| Depreciation and depletion of operating assets (Note 8) | 291,940 | 245,483 |
| Rehabilitation expenses | 2,714 | 1,524 |
| Total costs of production | 1,160,862 | 1,166,506 |
| Increase in metal inventories | (142,082) | (53,985) |
| Write-down of non-metal inventories to net realisable value (Note 18) | 4,069 | 10,696 |
| Cost of other sales | 370 | 579 |
| Total | 1,023,219 | 1,123,796 |

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 2014 | 31 December 2013 |
| | 000'\$ | 000'\$ |
| Consumables and spare parts | 101,252 | 114,679 |
| Services | 184,364 | 165,936 |
| Labour | 103,704 | 109,475 |
| Taxes, other than income tax | 1,015 | 609 |
| Other expenses | 921 | 2,368 |
| Total (Note 5) | 391,256 | 393,067 |

7. SMELTING COSTS

| | Year ended | |
|------------------------------|------------------|------------------|
| | 31 December 2014 | 31 December 2013 |
| | 000'\$ | 000'\$ |
| Consumables and spare parts | 156,904 | 171,358 |
| Services | 138,609 | 139,489 |
| Labour | 65,177 | 70,650 |
| Taxes, other than income tax | 675 | 1,021 |
| Other expenses | 2,017 | 1,674 |
| Total (Note 5) | 363,382 | 384,192 |

8. DEPLETION AND DEPRECIATION OF OPERATING ASSETS

| | Year ended | |
|-----------------------|------------------|------------------|
| | 31 December 2014 | 31 December 2013 |
| | 000'\$ | 000'\$ |
| On-Mine | 205,856 | 159,218 |
| Smelting | 86,084 | 86,265 |
| Total (Note 5) | 291,940 | 245,483 |

Depreciation of 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.

On-mine depreciation increased due to significant depreciation of the deferred stripping assets and increased mining volumes on several deposits during the year ended 31 December 2014.

9. GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

| | Year ended | |
|--------------------------|------------------|------------------|
| | 31 December 2014 | 31 December 2013 |
| | 000'\$ | 000'\$ |
| Labour | 93,168 | 106,952 |
| Services | 16,664 | 18,739 |
| Share based compensation | 2,387 | 24,233 |
| Depreciation | 4,815 | 3,854 |
| Other | 14,259 | 14,354 |
| Total | 131,293 | 168,132 |

10. OTHER OPERATING EXPENSES

| | Year ended | |
|---|------------------|------------------|
| | 31 December 2014 | 31 December 2013 |
| | 000'\$ | 000'\$ |
| Exploration expenses | 50,525 | 24,144 |
| Taxes, other than income tax | 22,191 | 21,164 |
| Mining taxes, VAT, penalties and accrued interest (Note 13) | 19,509 | 662 |
| Social payments | 9,247 | 10,709 |
| Housing and communal services | 7,191 | 6,547 |
| Loss on disposal of property, plant and equipment | 4,473 | 9,503 |
| Business acquisition related costs (Note 2) | 4,039 | - |
| Allowance for doubtful debts | (213) | 1,089 |
| Change in estimate of environmental obligations | (723) | (1,064) |
| Other expenses | 15,662 | 15,732 |
| Total | 131,901 | 88,486 |

Mining taxes, VAT, 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.

Exploration expenses include write downs of \$35.6 million (2013: nil) recognised within Exploration and Development assets (Note 16). Operating cash flow spent on exploration activities amounts to US\$ 15.8 million (2013: US\$ 23.2 million).

11. EMPLOYEE COSTS

| | Year ended | |
|---|------------------|------------------|
| | 31 December 2014 | 31 December 2013 |
| | 000'\$ | 000'\$ |
| Wages and salaries | 245,494 | 281,316 |
| Social security costs | 59,321 | 64,557 |
| Share based payments expense | 2,387 | 24,233 |
| Total payroll costs | 307,202 | 370,106 |
| Reconciliation: | | |
| Less: employee costs capitalised | (36,954) | (52,003) |
| Less: employee costs absorbed into unsold metal inventory balances. | (18,079) | (13,815) |
| Employee costs included in operating costs | 252,169 | 304,288 |

The weighted average number of employees during the year ended 31 December 2014 was:

| | Year ended | |
|---------------------|------------------|------------------|
| | 31 December 2014 | 31 December 2013 |
| | Number | Number |
| Voro | 936 | 913 |
| Khakanja | 1,049 | 1,144 |
| Dukat | 1,836 | 1,952 |
| Omolon | 805 | 910 |
| Varvara | 727 | 730 |
| Amursk-Albazino | 1,194 | 1,158 |
| Mayskoye | 870 | 941 |
| Kyzyl | 110 | - |
| Corporate and other | 1,326 | 1,484 |
| Total | 8,853 | 9,232 |

Compensation for key management personnel is disclosed within Note 21.

12. FINANCE COSTS

| | Year ended | |
|--|------------------|------------------|
| | 31 December 2014 | 31 December 2013 |
| | 000'\$ | 000'\$ |
| Interest expense on borrowings | 33,793 | 29,972 |
| Unwinding discount on borrowings | - | 9,070 |
| Unwinding discount on repurchase obligation (Note 2) | 2,551 | |

| | | |
|--|---------------|---------------|
| Unwinding of discount on decommissioning obligations | 4,282 | 3,693 |
| Total | 40,626 | 42,735 |

Interest expense on borrowings excludes borrowing costs capitalised in the cost of qualifying assets of US\$5.1 million and US\$6.1 million during the years ended 31 December 2014 and 2013, respectively. These amounts were calculated based on the Group's general borrowing pool and by applying an effective interest rate of 3.5% and 2.99%, respectively, to cumulative expenditure on such assets.

The repurchase obligation relates to the put option issued to the seller of Altynalmas Gold Ltd (AAG), giving it a right during a specified period to require Polymetal International plc to acquire or procure acquirers for the 31,347,078 of consideration shares issued by Polymetal International plc at a price of US\$9.57027 per share (Note 2).

13. INCOME TAX

The income tax expense for the year ended 31 December 2014 is as follows:

| | Year ended | |
|---|------------------|------------------|
| | 31 December 2014 | 31 December 2013 |
| | 000'\$ | 000'\$ |
| Current income taxes | 79,003 | 105,096 |
| Excess profit taxes payable in Kazakhstan | - | 8,313 |
| Deferred income taxes | (7,038) | (72,992) |
| | 71,965 | 40,417 |

A reconciliation between the reported amount of income tax expense attributable to loss before income tax for the year ended 31 December 2014 is as follows:

| | Year ended | |
|--|------------------|------------------|
| | 31 December 2014 | 31 December 2013 |
| | 000'\$ | 000'\$ |
| Loss before income tax | (137,875) | (157,620) |
| Statutory income tax expense at the tax rate of 20% | (27,575) | (31,524) |
| Loss incurred in tax-free jurisdictions | 75,444 | 8,309 |
| Share-based compensation | 375 | 4,720 |
| Excess profit taxes payable in Kazakhstan | - | 8,313 |
| Income tax provision in respect of Magadan Silver | 6,865 | - |
| Deferred tax asset provided for | 3,627 | - |
| Adjustments recognised in the current year in relation to the current tax of prior years | (2,016) | 15,210 |
| Tax effect of non-deductible expenses and other permanent differences | 15,245 | 35,389 |
| Total income tax expense | 71,965 | 40,417 |

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 and CJSC Magadan Silver up to 2012, Omolon Gold Mining Company LLC, LLC Okhotskaya Mining and Exploration Company CJSC and Mayskoye Gold Mining Company LLC up to 2010, 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.

Tax exposures recognised in income tax and other expenses

At 31 December 2014

In respect of the year ended 31 December 2014 the Group has identified and provided for additional mining tax exposures amounting to US\$2.4 million at Omolon, US\$1.3 million at Mayskoye, US\$0.4 million at Voro and various Varvara tax exposures of US\$2.9 million. The Group has also accrued interest related to Magadan Silver tax exposures previously identified of US\$4.1 million, mining tax exposure for 2013 amounting to US\$2.4 million. During the year ended 31 December 2014 the Group has also identified a VAT exposure of US\$2.4 million including penalties and interest and an income tax exposure of US\$10.2 million including penalties and interest of US\$3.6 million at Magadan Silver, which were provided for. VAT and mining tax exposures, including penalties and interest, as well as penalties and interest related to income tax exposure, are recognised within other operating expenses (Note 10).

Tax, penalties and interest of US\$ 3.9 million previously accrued were paid at Magadan Silver and Varvara during the year.

Total provision as of 31 December 2014 is US\$36.1 million.

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.

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.

| | Environm ental obligation | Inventories | Property, plant, and equipment | Trade and other payables | Tax Losses | Loans | Other | Total |
|----------------------------|---------------------------------|-----------------|--------------------------------------|--------------------------------|---------------|--------------|---------------|------------------|
| | 000'\$ | 000'\$ | 000'\$ | 000'\$ | 000'\$ | 000'\$ | 000'\$ | 000'\$ |
| At 1 January 2014 | 13,072 | (5,481) | (91,254) | 7,992 | 85,372 | 3,445 | 12,253 | 25,399 |
| Charge to income statement | 40 | (18,080) | (4,094) | 239 | 31,647 | 670 | (3,384) | 7,038 |
| Acquisition | 3,175 | | (170,625) | 1,125 | - | | | (166,325) |
| Exchange differences | (5,429) | 7,780 | 39,160 | (2,751) | (42,741) | (1,648) | (4,202) | (9,831) |
| At 31 December 2014 | 10,858 | (15,781) | (226,813) | 6,605 | 74,278 | 2,467 | 4,667 | (143,719) |

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 2014 | 31 December 2013 |
| | 000'\$ | 000'\$ |
| Deferred tax liabilities | (205,506) | (63,085) |
| Deferred tax assets | 61,787 | 88,484 |
| | (143,719) | 25,399 |

Tax losses carried forward represent amounts available for offset against future taxable income generated by ZK Mayskoye LLC, Albazino Resources LLC, Amursky Hydrometallurgy Plant LLC, Svetloye LLC and the JSC Polymetal during the period up to 2024. 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 2014 and 31 December 2013 the aggregate tax losses carried forward were US\$371.4 million (RUB 20.6 billion) and US\$426.8 million (RUB13.9 billion), respectively.

The Group believes that recoverability of the recognized deferred tax asset (DTA) of US\$74.2 million at 31 December 2014 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 2014. 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 2014 | 31 December 2013 |
|--|------------------|------------------|
| | 000'\$ | 000'\$ |
| Year ended 31 December 2014 | - | 2,680 |
| 31 December 2015 | 4,320 | 7,401 |
| 31 December 2016 | 3,660 | 6,229 |
| 31 December 2017 | 5,199 | 8,971 |
| 31 December 2018 | 14,674 | 25,059 |
| 31 December 2019 | 10,483 | 19,939 |
| 31 December 2020 | 11,315 | 22,272 |
| 31 December 2021 | 12,886 | 67,575 |
| 31 December 2022 | 63,881 | 90,698 |
| 31 December 2023 | 90,885 | 176,034 |
| 31 December 2024 | 154,085 | - |
| Total loss carried forward for tax purposes | 371,388 | 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\$1,231 million (2013: US\$1,802 million).

14. DIVIDENDS

A final dividend has been proposed in relation to the year of 13 cents per share giving a total expected dividend of US\$54.7 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 4 December 2014 the Board of Directors approved a special dividend of 20 cents per share. The liability of US\$ 84.2 million as at 31 December 2014 is included within accounts payable and accrued liabilities.

Dividends paid during the year ended 31 December 2014 are detailed in the below:

| | Year ended | | | |
|-----------------------|------------------|---------------|------------------|----------------|
| | 31 December 2014 | | 31 December 2013 | |
| | cents per share | 000'\$ | cents per share | 000'\$ |
| Final dividend paid | 8.0 | 31,158 | 31.0 | 121,247 |
| Interim dividend paid | 8.0 | 33,666 | 1.0 | 3,879 |
| Special dividend paid | - | - | 50.0 | 191,303 |
| | | 64,824 | | 316,429 |

15. IMPAIRMENT LOSSES

The Group assesses the impairment of property, plant and equipment when indicators of impairment exist and assess cash generating units (CGU) where goodwill is attributed for impairment on an annual basis when updated proved and probable reserves and mineral resources estimates and life of mine plans are available or when indicators of impairment exist.

Each cash generating unit is determined on the basis of the 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. 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.

Year ended 31 December 2014

The Group analyses whether indicators of impairment exist based on internal and external information, taking into account both global and domestic operating environment factors.

Based on current proved and probable reserves and mineral resources estimates and life of mine plans no indicators of impairment were identified for individual cash generating units.

During the year ended 31 December 2014 gold, silver and copper market prices were stable, being close to commodity prices assumptions used in 2013 impairment tests performed (see below). At the same time the Russian economy experienced challenges resulting in a significant depreciation of Russian Rouble in the second half of 2014 and an increase in the key interest rate established by Central Bank of the Russian Federation.

The Group benefits from Russian Rouble depreciation against US dollar, as it leads to decreases in the Group's operating costs which are mainly denominated in Russian Rouble. The Group revised the discount rate used for DCF method arriving to a post-tax real discount rate of 9.0% (2013: 7.1%), which is equal to its nominal weighted average cost of capital of 11.7% (2013: 9.0%) translated into real terms.

No impairments or impairment reversals were recognised for the year ended 31 December 2014 for both Property, Plant and Equipment or Goodwill (see Note 17).

The carrying amount of the cash generating units excludes certain exploration and developments assets which are currently under development. These assets are assessed for impairment separately using the same assumptions set below and where applicable impairment is recognised within Exploration expenses (Note 10).

Year ended 31 December 2013

During the year ended 31 December 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\$213.4 million were recognised during 2013.

Summary of key assumptions used for impairment assessment

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 (2013: US\$1,200), US\$17 per ounce (2013: US\$18) and US\$5,400 (2013: US\$7,000 per tonne), respectively, have been used to estimate future revenues.

Discount rate

The Group used a post-tax real discount rate of 9.0% (2013: 7.1%).

Proved and probable reserves and mineral resources

Future annual 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.

Rouble exchange rates

Management have analysed RUR/US\$ rate movements for the year ended 31 December 2014. For the purposes of the impairment test, RUR/\$US exchange rate is estimated at 50 RUR/\$US (2013: RUR/\$US 33).

16. PROPERTY, PLANT AND EQUIPMENT

| | Exploration and development assets | Mining assets | Non-mining assets | Capital construction in-progress | Total |
|--|---|------------------|----------------------|--|------------------|
| | 000'\$ | 000'\$ | 000'\$ | 000'\$ | 000'\$ |
| Cost | | | | | |
| Balance at 1 January 2013 | 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) |
| Business combinations and asset acquisitions (Note 2) | 128,521 | 6 | - | 2,952 | 131,479 |
| Eliminated on disposal of subsidiary | - | (12,535) | (218) | (42) | (12,795) |
| Disposals and write-offs | - | (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 |
| Additions | 76,090 | 91,809 | 3,388 | 52,415 | 223,702 |
| Transfers | (10,840) | 83,457 | 3,305 | (75,922) | - |
| Change in decommissioning liabilities | - | (7,497) | - | - | (7,497) |
| Business combinations and asset acquisitions (Note 2) | 876,187 | 5,332 | 1,915 | 1,528 | 884,962 |
| Disposals and write-offs | (35,595) | (31,006) | (3,358) | (2,487) | (72,446) |
| Translation to presentation currency | (167,192) | (1,008,109) | (38,062) | (54,303) | (1,267,666) |
| Balance at 31 December 2014 | 1,075,876 | 1,564,325 | 58,467 | 78,792 | 2,777,460 |
| Accumulated depreciation, amortisation and impairment | | | | | |
| | Exploration and development assets | Mining assets | Non-mining assets | Capital construction in-progress | Total |
| | 000'\$ | 000'\$ | 000'\$ | 000'\$ | 000'\$ |
| Balance at 1 January 2013 | - | (568,272) | (24,694) | - | (592,966) |
| Charge for the year | - | (281,157) | (6,186) | - | (287,343) |
| Disposals and write-offs | - | 27,115 | 3,804 | - | 30,919 |
| Eliminated on disposal of subsidiary | - | 5,469 | 160 | - | 5,629 |
| Impairment recognised in profit and loss (Note 15) | (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) |
| Charge for the period | - | (319,439) | (8,657) | - | (328,096) |
| Disposals and write-offs | 543 | 24,196 | 1,362 | 200 | 26,301 |
| Transfers | (384) | (691) | (115) | 1,190 | - |
| Translation to presentation currency | 3,700 | 447,498 | 13,709 | 2,015 | 466,922 |
| Balance at 31 December 2014 | (810) | (735,371) | (20,216) | (139) | (756,536) |
| Net book value | | | | | |
| 1 January 2013 | 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 |
| 31 December 2014 | 1,075,066 | 828,954 | 38,251 | 78,653 | 2,020,924 |

Mining assets and Exploration and development assets at 31 December 2014 included mineral rights with net book value which amounted to US\$1,033 million, including mineral rights of US\$853.6 million acquired in Kyzyl transaction (31 December 2013: US\$376.3 million) and capitalised stripping costs with net book value of US\$54.9 million (31 December 2013: US\$114.8 million).

Mineral rights of the Group comprise assets acquired upon acquisition of subsidiaries and asset acquisitions.

No property, plant and equipment were pledged as collateral at 31 December 2014 or at 31 December 2013.

17. GOODWILL

| | 31 December 2014 | 31 December 2013 |
|---|------------------|------------------|
| Cost and Accumulated impairment losses | | |
| | 000'\$ | 000'\$ |
| At 1 January | 30,889 | 115,106 |
| Impairment losses recognised (Note 15) | - | (75,976) |
| Translation effect | (12,919) | (8,241) |
| At 31 December | 17,970 | 30,889 |

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

| | 31 December 2014 | 31 December 2013 |
|--------------|------------------|------------------|
| | 000'\$ | 000'\$ |
| Mayskoye | 12,806 | 22,013 |
| Dukat | 5,164 | 8,876 |
| Total | 17,970 | 30,889 |

Sensitivity analysis

For 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 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 2014 | 31 December 2013 |
|---|------------------|------------------|
| | 000'\$ | 000'\$ |
| Inventories expected to be recovered after twelve months | | |
| Consumables and spare parts | 34,706 | 41,885 |
| Ore stockpiles | 79,521 | 11,257 |
| Total non-current inventories | 114,227 | 53,142 |
| Inventories expected to be recovered in the next twelve months | | |
| Ore stockpiles | 127,245 | 182,269 |
| Copper, gold and silver concentrate | 100,699 | 133,037 |
| Work in-process | 50,762 | 77,848 |
| Metal for refinery | 10,357 | 9,117 |
| Dore | 11,738 | 24,881 |
| Total metal inventories | 300,801 | 427,152 |
| Consumables and spare parts | 167,930 | 299,992 |
| Total | 468,731 | 727,144 |

Increase in non-current ore stockpiles pertains mainly to impairment reversals described below and certain reclassification in accordance to mine-plans.

Write-downs of metal inventories to net realisable value

The Group recognised the following reversals/ (write-downs) to net realisable value of its metal inventories:

| | Year ended 31 December 2014 | | | | | | Year ended 31 December 2013 | |
|-------------------------------------|-----------------------------|--------------|------------|---------------|----------------|--------------|--------------------------------------|--------------------------------|
| | Voro | Khakanja | Dukat | Omolon | Varvara | Mayskoye | Total operating segments | Total operating segments |
| | 000'\$ | 000'\$ | 000'\$ | 000'\$ | 000'\$ | 000'\$ | 000'\$ | 000'\$ |
| Ore stock piles | (265) | 3,982 | 130 | 30,961 | (5,845) | (106) | 28,857 | (137,203) |
| Ore in heap leach piles | - | - | - | 3,326 | - | - | 3,326 | - |
| Work in-process | 260 | - | - | - | - | - | 260 | - |
| Metal for refinery | - | 1,000 | 418 | - | - | - | 1,418 | - |
| Copper, gold and silver concentrate | - | - | - | - | - | 5,313 | 5,313 | (16,124) |
| Total | (5) | 4,982 | 548 | 34,287 | (5,845) | 5,207 | 39,174 | (153,327) |

The write-downs were recognised in respect of the ore stockpiles with a low content of precious metal. Reversals of the previously recorded write-downs were driven by a costs reduction due to the Russian Rouble devaluation, changes in mine plans and favourable changes in contract terms with off-takers, which have the economic viability of the stockpiles.

The key assumptions used as at 31 December 2014 in determining net realisable value of inventories (including the commodity price assumptions) were consistent with the assumptions used in the impairment review (see Note 15), except for RUR/US\$ exchange rate for the metal inventories that are expected to be realised during first half 2015. Analysis of such metal inventories was performed using the rate assumption of 60 RUR/US\$.

During the year ended 31 December 2013 the Group provided for obsolete consumables and spare parts inventory in the amount of US\$4.1 million (year ended 31 December 2013: write-down of US\$10.7 million).

The amount of inventories held at net realisable value at 31 December 2014 is US\$32.4 million (31 December 2013: US\$100.7 million).

19. BORROWINGS

Borrowings at amortised cost:

| | Type of rate | Actual interest rate at 31 December | | 31 December 2014 | | | 31 December 2013 | | |
|------------------------------------|--------------|-------------------------------------|-------|------------------|----------------|------------------|------------------|------------------|------------------|
| | | 2014 | 2013 | Current | Non-current | Total | Current | Non-current | Total |
| | | | | 000'\$ | 000'\$ | 000'\$ | 000'\$ | 000'\$ | 000'\$ |
| Secured loans from third parties | | | | | | | | | |
| <i>U.S. Dollar denominated</i> | floating | 2.84% | 3.22% | 166,026 | 371,474 | 537,500 | 37,500 | 537,500 | 575,000 |
| Total | | | | 166,026 | 371,474 | 537,500 | 37,500 | 537,500 | 575,000 |
| Unsecured Loans from third parties | | | | | | | | | |
| <i>U.S. Dollar denominated</i> | floating | 3.03% | 2.74% | 23,692 | 429,615 | 453,307 | 30,769 | 469,231 | 500,000 |
| <i>U.S. Dollar denominated</i> | fixed | 6.60% | 7.50% | 319,093 | 12,735 | 331,828 | - | 11,443 | 11,443 |
| <i>Euro denominated</i> | floating | | 2.24% | - | - | - | 3,757 | 3,757 | 7,514 |
| Total | | | | 342,785 | 442,350 | 785,135 | 34,526 | 484,431 | 518,957 |
| Loans from related parties | | | | | | | | | |
| <i>Euro denominated</i> | floating | | 4.90% | - | - | - | 8,903 | 7,624 | 16,527 |
| <i>CAD denominated</i> | floating | | 5.69% | - | - | - | 402 | 258 | 660 |
| Total | | | | - | - | - | 9,305 | 7,882 | 17,187 |
| | | | | 508,811 | 813,824 | 1,322,635 | 81,331 | 1,029,813 | 1,111,144 |

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 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 2014, the Group drew down a total of US\$454 million and repaid US\$252 million, a net drawdown of US\$202 million.

The Group secured new facilities in the year for a total amount of US\$186.7 million with unrelated parties. These credit facilities are undrawn as at 31 December 2014 and have maturity dates between 2017 and 2020.

At 31 December 2014, the Group had undrawn borrowing facilities of US\$ 1,038 million (31 December 2013: US\$1,324 million). The Group complied with its debt covenants throughout 2014 and 2013. The table below summarises maturities of borrowings:

| | 31 December 2014 | 31 December 2013 |
|------------------------------|------------------|------------------|
| | 000'\$ | 000'\$ |
| Year ended, 31 December 2014 | - | 81,331 |
| 31 December 2015 | 508,811 | 253,904 |
| 31 December 2016 | 306,278 | 306,773 |
| 31 December 2017 | 94,812 | 57,692 |
| 31 December 2018 | 404,245 | 403,814 |
| 31 December 2019 | 5,660 | 5,086 |
| 31 December 2020 | 2,829 | 2,544 |

| | | |
|--------------|------------------|------------------|
| Total | 1,322,635 | 1,111,144 |
|--------------|------------------|------------------|

20. COMMITMENTS AND CONTINGENCIES

Commitments

Capital commitments

The Group's budgeted capital expenditure commitments as at 31 December 2014 amounted to US\$13.6 million (2013: US\$22.3 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

During the year ended 31 December the Group recognised US\$12.5 million as operating lease expenses (2013: US\$13.5 million).

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:

| | <u>31 December 2014</u> | <u>31 December 2013</u> |
|------------------------|-------------------------|-------------------------|
| | <u>000'\$</u> | <u>000'\$</u> |
| Due within one year | 1,760 | 2,831 |
| From one to five years | 2,395 | 3,904 |
| Thereafter | 1,125 | 2,334 |
| Total | <u>5,280</u> | <u>9,069</u> |

Contingencies

Operating Environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the Company's financial position.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. International credit agencies downgraded Russia's long-term foreign currency sovereign rating with a negative outlook. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in higher interest rates on domestic borrowings. The exchange rate of the Russian Rouble depreciated significantly. These developments may result in reduced access of the Russian businesses to international capital and export markets, capital flight, further weakening of the Rouble and other negative economic consequences.

The impact of further political and economic developments in Russia on future operations and financial position of the Group is at this stage difficult to determine.

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 2014 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\$17.2 million in respect of contingent liabilities (2013: US\$22.3 million).

Commitments and contingencies related to Kyzyl

On the 4 September 2014 the Group acquired 100 per cent of share capital of Altynalmas Gold Ltd (AAG), the holding company for the Kyzyl gold project in Kazakhstan (refer to Note 2). AAG subsidiaries located in Kazakhstan have certain social and other obligations which were recognised as liabilities in purchase price allocation if can be measured reliably.

The Subsoil Use Contracts contain minimum work obligations for both Bakyrchik and Bolshevik projects. Non-compliance with these programs may, in certain circumstances, lead to the revocation of the Subsoil Use Contracts.

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.

Bank Otkritie (previously 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, continued to be recognised as related party transactions. Borrowings taken out with Nomos Bank were fully repaid during first quarter 2014.

| | Year ended | |
|--|---------------------|---------------------|
| | 31 December 2014 | 31 December 2013 |
| | 000'\$ | 000'\$ |
| Income from transactions with related parties | | |
| Revenue from sales to Bank Otkritie (until 27 February 2013) | - | 81,641 |
| Interest income on deposits placed with Bank Otkritie | - | 34 |
| Other income from equity method investments | 3,050 | 1,740 |
| Expenses from transactions with related parties | | |
| Interest expense on loans provided by Bank Otkritie | 174 | 996 |
| Purchases from equity method investments | - | 13,983 |

Outstanding balances owed to or from related parties at 31 December 2014 are presented below:

| | 31 December 2014 | 31 December 2013 |
|--|------------------|------------------|
| | 000'\$ | 000'\$ |
| Short-term loans provided to equity method investments | - | 190 |
| Long-term loans provided to equity method investments | 618 | 1,017 |
| Total loans provided to related parties | 618 | 1,207 |
| Short-term loans provided by Bank Otkritie (prior to 27 February 2013) | - | 9,305 |
| Long-term loans provided by Bank Otkritie (prior to 27 February 2013) | - | 7,882 |
| Total loans provided by related parties | - | 17,187 |
| Accounts receivable from related parties | 465 | 164 |
| Interest receivable from related parties | - | 242 |

Carrying values of other long-term loans provided to related parties as at 31 December 2014 and 31 December 2013 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.

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

| | Year ended | |
|--------------------------------------|------------------|------------------|
| | 31 December 2014 | 31 December 2013 |
| | 000'\$ | 000'\$ |
| Share-based payments | 472 | 12,359 |
| Short-term benefits of board members | 2,124 | 1,866 |
| Short-term employee benefits | 2,444 | 2,565 |
| Post-employment benefits | 280 | 399 |

22. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|-------|--------------------------------|--------------------------------|
| | | 000'\$ | 000'\$ |
| Profit before tax | | (137,875) | (157,620) |
| Adjustments for: | | | |
| Depreciation and depletion, recognised in statement of comprehensive income | | 260,481 | 237,533 |
| Mining taxes, VAT, penalties and accrued interest | 10 | 19,509 | 662 |
| Write-down of exploration assets and construction in progress | | 38,082 | - |
| Write-down of non-metal inventory to net realisable value | 18 | 4,069 | 10,696 |
| (Reversal)/ Write-down metal inventory to net realisable value | 18 | (39,174) | 153,327 |
| Change in estimate of environmental obligations | | (723) | (1,064) |
| Impairment of non-current assets | | - | 201,105 |
| Impairment of investment in associate | | - | 12,291 |
| Share-based compensation | 9 | 2,387 | 24,233 |
| Finance costs | 12 | 40,626 | 42,735 |
| Finance income | | (3,216) | (2,850) |
| Loss on disposal of property, plant and equipment | 10 | 4,473 | 9,503 |
| Change in contingent consideration liability | | (22,788) | (8,131) |
| Change in allowance for doubtful debts | 10 | (213) | 1,089 |
| Rehabilitation expenses | | 2,101 | 1,524 |
| Loss from equity method investments | | 7,139 | 2,340 |
| Foreign exchange loss/(gain) | | 559,266 | 74,240 |
| (Loss)/Profit on disposal of subsidiaries | | - | 8,746 |
| Other non-cash expenses | | 3,600 | 2,528 |
| Movements in working capital | | | |
| Increase in inventories before impairment | | (58,228) | (61,893) |
| (Increase)/ decrease in VAT receivable | | (5,593) | 11,560 |
| (Increase)/decrease in trade and other receivables | | (19,779) | 60,675 |
| (Increase)/ decrease in prepayments to suppliers | | (13,122) | 11,560 |
| (Decrease)/increase in trade and other payables | | (2,838) | 2,246 |
| Decrease/(increase) in other taxes payable | | 525 | (11,406) |
| Cash generated from operations | | 638,709 | 625,629 |
| Interest paid | | (37,880) | (35,921) |
| Income tax paid | | (85,990) | (128,041) |
| Net cash generated by operating activities | | 514,839 | 461,667 |

The cash flow statement is initially prepared in the Group entities' functional currencies, being the Russian Rouble and Kazakh Tenge. Movements in working capital derived in Russian Rouble and Kazakh Tenge are translated into U.S. Dollars at average rates for the period or historical rates where applicable. Movements in working capital are also adjusted for non-cash movements such as depreciation absorbed into metal inventories and impairments (or impairment reversals).

Non-cash transactions during the year ended 31 December 2014 represent the issuance of shares amounting to US\$ 275 million in respect of business combination (2013: the issuance of US\$88 million of shares for the acquisition of assets).

Cash flows related to exploration amounted to US\$67.4 million for the year ended 31 December 2014 (2013: US\$ 58 million).

23. SUBSEQUENT EVENTS

On 3 February 2015 Polymetal International plc secured new facility of US\$100 million with Unicredit Bank. The loan will be repaid in equal quarterly installments starting from May 2017 to February 2019.

A final dividend has been proposed in relation to the year of 13 cents per share (2013: 8 cents per share) given a total expected dividend of US\$ 54.7 million (2013: US\$ 31.2 million).

On 18 March 2015 the Group has increased its interest in LLC "Vostochny Basis" (holder of the licence for the Tarutinskoye copper deposit (Tarutin) from 25% to 50%. The Group has purchased an additional 25% from the unrelated party for consideration of US\$14.2 million, payable through 1,746,692 newly issued Polymetal International plc shares (0.41% of Polymetal's increased ordinary share capital). The amount of shares was determined by dividing consideration by the unweighted mean average of Polymetal's closing share price during the 14 calendar day period ending two calendar days before completion. As result of the issuance of consideration shares, Polymetal's share capital comprises 422,566,635 shares.

RESERVES AND RESOURCES

Mineral Resources and Ore Reserves as at 1 January 2015⁽¹⁾

| | Tonnage | | Content | | |
|--|----------------|---------------|----------------|------------|---------------|
| | Kt | Au, koz | Ag, Koz | Cu, Kt | GE, Koz |
| Mineral Resources | | | | | |
| Measured | 7,160 | 522 | 4,495 | 18 | 732 |
| Indicated | 30,016 | 2,185 | 15,122 | 84 | 3,088 |
| Measured + Indicated | 37,176 | 2,707 | 19,617 | 102 | 3,821 |
| Inferred | 71,690 | 9,882 | 30,687 | 51 | 10,770 |
| Measured + Indicated + Inferred | 108,866 | 12,589 | 50,304 | 153 | 14,591 |
| Ore Reserves | | | | | |
| Proved | 53,090 | 5,037 | 119,788 | 5 | 6,904 |
| Probable | 103,650 | 12,741 | 90,873 | 74 | 14,731 |
| Proved + Probable | 156,740 | 17,778 | 210,660 | 80 | 21,635 |

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

Ore Reserves as at 1 January 2015⁽¹⁾

| | Tonnage | | Grade | | | Content | | | |
|-------------------------|---------------|---------|---------|-------|------------|------------|---------------|--------|--------------|
| | Kt | Au, g/t | Ag, g/t | Cu, % | GE, g/t | Au, Koz | Ag, Koz | Cu, Kt | GE, Koz |
| Proved | | | | | | | | | |
| Standalone Mines | | | | | | | | | |
| Albazino ⁽²⁾ | 7,560 | 5.2 | - | - | 5.2 | 1,259 | - | - | 1,259 |
| Mayskoye | 3,860 | 8.8 | - | - | 8.8 | 1,091 | - | - | 1,091 |
| Varvara ⁽³⁾ | 6,280 | 0.8 | - | 0.39 | 1.1 | 166 | - | 5.5 | 212 |
| Dukat hub | 7,020 | | | | 8.2 | 284 | 99,011 | - | 1,849 |
| Dukat | 5,020 | 1.0 | 446 | - | 8.0 | 169 | 71,947 | - | 1,293 |
| Lunnoye | 1,230 | 1.7 | 380 | - | 8.1 | 68 | 15,058 | - | 322 |
| Goltsovoye | 340 | - | 685 | - | 10.5 | - | 7,491 | - | 115 |
| Arylakh | 290 | 0.9 | 472 | - | 8.4 | 8 | 4,430 | - | 79 |
| Olcha ⁽⁴⁾ | 140 | 8.8 | 19 | - | 9.0 | 39 | 85 | - | 40 |
| Omolon hub | 7,680 | | | | 3.3 | 624 | 15,414 | - | 821 |
| Birkachan | 2,470 | 2.0 | 6 | - | 2.1 | 158 | 448 | - | 163 |
| Sopka | 2,800 | 1.9 | 82 | - | 2.9 | 171 | 7,430 | - | 260 |
| Oroch ⁽⁵⁾ | 930 | 4.0 | 172 | - | 6.6 | 119 | 5,154 | - | 197 |
| Dalneye | 1,170 | 3.3 | 61 | - | 4.0 | 125 | 2,280 | - | 149 |
| Tsokol Kubaka | 310 | 5.1 | 10 | - | 5.2 | 51 | 102 | - | 53 |
| Voro | 12,220 | | | | 2.5 | 966 | 1,299 | - | 980 |
| Voro ⁽⁷⁾ | 12,220 | 2.5 | 3 | - | 2.5 | 966 | 1,299 | - | 980 |

| | | | | | | | | | |
|-----------------------------|---------------|------|-----|---|------------|--------------|----------------|------------|--------------|
| Khakanja hub | 1,730 | | | | 3.8 | 165 | 4,064 | - | 209 |
| Avlayakan | 70 | 16.4 | 117 | - | 18.0 | 38 | 270 | - | 41 |
| Ozerny | 600 | 4.4 | 26 | - | 4.7 | 86 | 513 | - | 91 |
| Khakanja | 1,060 | 1.2 | 97 | - | 2.3 | 41 | 3,281 | - | 76 |
| Exploration projects | | | | | | | | | |
| Maminskoye ⁽¹¹⁾ | 4,810 | 1.9 | - | - | 1.9 | 295 | - | - | 295 |
| Veduga ⁽¹²⁾ | 350 | 1.7 | - | - | 1.7 | 19 | - | - | 19 |
| Kutyn ⁽¹³⁾ | 1,580 | 3.3 | - | - | 3.3 | 169 | - | - | 169 |
| Total Proved | 53,090 | | | | 4.0 | 5,037 | 119,788 | 5.5 | 6,904 |

Probable**Standalone Mines**

| | | | | | | | | | |
|-------------------------|--------|-----|---|------|-----|-------|---|------|-------|
| Albazino ⁽²⁾ | 8,660 | 5.1 | - | - | 5.1 | 1,421 | - | - | 1,421 |
| Mayskoye | 2,590 | 8.0 | - | - | 8.0 | 662 | - | - | 662 |
| Varvara ⁽³⁾ | 32,800 | 0.9 | - | 0.42 | 1.4 | 971 | - | 55.4 | 1,442 |

| | | | | | | | | | |
|----------------------|--------------|------|-----|---|------------|------------|---------------|---|--------------|
| Dukat hub | 6,920 | | | | 7.2 | 250 | 85,070 | - | 1,602 |
| Dukat | 4,430 | 0.8 | 386 | - | 6.9 | 118 | 54,973 | - | 977 |
| Lunnoye | 1,540 | 0.9 | 369 | - | 7.1 | 44 | 18,224 | - | 351 |
| Goltsovoye | 380 | - | 571 | - | 8.8 | - | 6,965 | - | 107 |
| Arylakh | 340 | 0.9 | 433 | - | 7.8 | 9 | 4,771 | - | 86 |
| Olcha ⁽⁴⁾ | 230 | 10.6 | 18 | - | 10.9 | 79 | 137 | - | 81 |

| | | | | | | | | | |
|------------------------|--------------|------|-----|---|-------------|------------|--------------|---|------------|
| Omolon hub | 1,520 | | | | 10.1 | 459 | 2,663 | - | 495 |
| Birkachan | 890 | 10.0 | 38 | - | 10.5 | 284 | 1,074 | - | 298 |
| Oroch ⁽⁵⁾ | 190 | 4.2 | 197 | - | 7.2 | 26 | 1,206 | - | 44 |
| Tsokol Kubaka | 170 | 14.8 | 24 | - | 15.1 | 80 | 130 | - | 81 |
| Burgali ⁽⁶⁾ | 270 | 7.8 | 29 | - | 8.1 | 69 | 254 | - | 72 |

| | | | | | | | | | |
|-----------------------------|------------|-----|-----|------|-------------|-----------|--------------|-------------|------------|
| Voro | 320 | | | | 16.4 | 70 | 1,056 | 18.9 | 171 |
| North Kaluga ⁽⁸⁾ | 320 | 6.7 | 101 | 5.81 | 16.4 | 70 | 1,056 | 18.9 | 171 |

| | | | | | | | | | |
|-------------------------|--------------|------|-----|---|------------|------------|--------------|---|------------|
| Khakanja hub | 7,580 | | | | 3.4 | 808 | 2,084 | - | 838 |
| Svetloye ⁽⁹⁾ | 7,320 | 2.8 | 3 | - | 2.9 | 664 | 765 | - | 677 |
| Avlayakan | 230 | 18.7 | 162 | - | 20.9 | 137 | 1,185 | - | 153 |
| Ozerny | 10 | 5.0 | 3 | - | 5.0 | 1 | 1 | - | 1 |
| Khakanja | 20 | 8.2 | 210 | - | 10.5 | 5 | 133 | - | 7 |

Exploration projects

| | | | | | | | | | |
|---|--------|-----|---|---|-----|-------|---|---|-------|
| Kyzyl project (Bakyrchik) ⁽¹⁰⁾ | 27,550 | 7.5 | - | - | 7.5 | 6,660 | - | - | 6,660 |
| Maminskoye ⁽¹¹⁾ | 9,890 | 1.9 | - | - | 1.9 | 618 | - | - | 618 |
| Veduga ⁽¹²⁾ | 3,750 | 5.1 | - | - | 5.1 | 605 | - | - | 605 |
| Kutyn ⁽¹³⁾ | 2,070 | 3.3 | - | - | 3.3 | 217 | - | - | 217 |

| | | | | | | | | | |
|-----------------------|----------------|--|--|--|------------|---------------|---------------|-------------|---------------|
| Total Probable | 103,650 | | | | 4.4 | 12,741 | 90,873 | 74.3 | 14,731 |
|-----------------------|----------------|--|--|--|------------|---------------|---------------|-------------|---------------|

Proved + Probable**Standalone Mines**

| | | | | | | | | | |
|-------------------------|--------|-----|---|---|-----|-------|---|---|-------|
| Albazino ⁽²⁾ | 16,220 | 5.1 | - | - | 5.1 | 2,679 | - | - | 2,679 |
|-------------------------|--------|-----|---|---|-----|-------|---|---|-------|

| | | | | | | | | | |
|---|----------------|------|-----|------|------------|---------------|----------------|-------------|---------------|
| Mayskoye | 6,450 | 8.5 | - | - | 8.5 | 1,753 | - | - | 1,753 |
| Varvara ⁽³⁾ | 39,080 | 0.9 | - | 0.42 | 1.3 | 1,137 | - | 60.9 | 1,655 |
| Dukat hub | 13,940 | | | | 7.7 | 534 | 184,081 | - | 3,451 |
| Dukat | 9,450 | 0.9 | 418 | - | 7.5 | 287 | 126,920 | - | 2,270 |
| Lunnoye | 2,770 | 1.2 | 374 | - | 7.6 | 111 | 33,282 | - | 672 |
| Goltsovoye | 720 | - | 625 | - | 9.6 | - | 14,456 | - | 222 |
| Arylakh | 630 | 0.9 | 451 | - | 8.1 | 18 | 9,201 | - | 165 |
| Olcha ⁽⁴⁾ | 370 | 9.9 | 19 | - | 10.2 | 119 | 222 | - | 122 |
| Omolon hub | 9,200 | | | | 4.4 | 1,082 | 18,077 | - | 1,316 |
| Birkachan | 3,360 | 4.1 | 14 | - | 4.3 | 442 | 1,522 | - | 461 |
| Sopka Kwartsevaya | 2,800 | 1.9 | 82 | - | 2.9 | 171 | 7,430 | - | 260 |
| Oroch ⁽⁵⁾ | 1,120 | 4.0 | 177 | - | 6.7 | 144 | 6,360 | - | 241 |
| Dalneye | 1,170 | 3.3 | 61 | - | 4.0 | 125 | 2,280 | - | 149 |
| Tsokol Kubaka | 480 | 8.5 | 15 | - | 8.7 | 131 | 231 | - | 134 |
| Burgali ⁽⁶⁾ | 270 | 7.8 | 29 | - | 8.1 | 69 | 254 | - | 72 |
| Voro | 12,540 | | | | 2.9 | 1,037 | 2,354 | 18.9 | 1,151 |
| Voro ⁽⁷⁾ | 12,220 | 2.5 | 3 | - | 2.5 | 966 | 1,299 | - | 980 |
| North Kaluga ⁽⁸⁾ | 320 | 6.7 | 101 | 5.81 | 16.4 | 70 | 1,056 | 18.9 | 171 |
| Khakanja hub | 9,310 | | | | 3.5 | 972 | 6,147 | - | 1,047 |
| Svetloye ⁽⁹⁾ | 7,320 | 2.8 | 3 | - | 2.9 | 664 | 765 | - | 677 |
| Avlayakan | 300 | 18.1 | 151 | - | 20.2 | 175 | 1,456 | - | 195 |
| Ozerny | 610 | 4.4 | 26 | - | 4.7 | 87 | 514 | - | 93 |
| Khakanja | 1,080 | 1.4 | 99 | - | 2.4 | 47 | 3,413 | - | 83 |
| Exploration projects | | | | | | | | | |
| Kyzyl project (Bakyrchik) ⁽¹⁰⁾ | 27,550 | 7.5 | - | - | 7.5 | 6,660 | - | - | 6,660 |
| Maminskoye ⁽¹¹⁾ | 14,700 | 1.9 | - | - | 1.9 | 913 | - | - | 913 |
| Veduga ⁽¹²⁾ | 4,100 | 4.8 | - | - | 4.8 | 623 | - | - | 623 |
| Kutyn ⁽¹³⁾ | 3,650 | 3.3 | - | - | 3.3 | 386 | - | - | 386 |
| Total Proved + Probable | 156,740 | | | | 4.3 | 17,778 | 210,660 | 79.8 | 21,635 |

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

²⁾ Including Olga/Nadezhda, Ekaterina-1 and Ekaterina-2. Initial Ore Reserves estimate prepared by Polymetal as at 01.01.2015.

³⁾ Cu grade only represents average grade of Float feed. Ore Reserves of Float feed: 1.4 Mt Proved and 13.2 Mt Probable.

⁴⁾ Initial estimate prepared by Polymetal as at 01.01.2015.

⁵⁾ Estimate prepared by Polymetal as at 01.01.2014. Price: Au=1,300 \$/oz, Ag = 23 \$/oz. Revised estimate was not performed due to lack of material changes.

⁶⁾ Initial estimate prepared by Polymetal as at 01.01.2015.

⁷⁾ Including Voro South.

⁸⁾ Initial estimate prepared by Polymetal as at 01.07.2014. Price: Au=1,300 \$/oz, Ag = 20 \$/oz, Cu = 7000\$/t. Revised estimate was not performed due to lack of material changes.

⁹⁾ Initial estimate prepared by Snowden as at 01.01.2014. Price: Au=1,300 \$/oz, Ag = 22.5 \$/oz. Revised estimate was not performed due to lack of material changes.

¹⁰⁾ Estimate prepared by RPA Inc. as at 26.06.2014 based on data as at 31.07.2013. Price: Au=1,300 \$/oz. Revised estimate was not performed due to lack of material changes.

¹¹⁾ Estimate prepared by Polymetal as at 01.01.2014. Price: Au=1,300 \$/oz. Revised estimate was not performed due to lack of material changes.

¹²⁾ Initial estimate prepared by Snowden as at 01.01.2014. Price: Au=1,300 \$/oz. Revised estimate prepared by Polymetal as at 01.01.2015 (only stoping without Au price change). Ore Reserves are presented in accordance with the Company's ownership equal to 42.65%

¹³⁾ Initial estimate prepared by Snowden as at 01.01.2015. Price: Au=1,300 \$/oz (only Ore Reserves estimate for Heap Leach).

Mineral Resources as at 1 January 2015⁽¹⁾

| | Tonnage | | Grade | | | Content | | | |
|---|---------------|---------|---------|-------|------------|--------------|---------------|-------------|--------------|
| | Kt | Au, g/t | Ag, g/t | Cu, % | GE, g/t | Au, Koz | Ag, Koz | Cu, Kt | GE, Koz |
| Measured | | | | | | | | | |
| Standalone Mines | | | | | | | | | |
| Albazino | 30 | 3.7 | - | - | 3.7 | 4 | - | - | 4 |
| Mayskoye | 660 | 8.9 | - | - | 8.9 | 188 | - | - | 188 |
| Varvara ⁽²⁾ | 4,170 | 0.8 | - | 0.45 | 2.0 | 113 | - | 18.2 | 267 |
| Omolon hub | 230 | | | | 3.5 | 16 | 677 | - | 26 |
| Oroch ⁽⁵⁾ | 230 | 2.1 | 92 | - | 3.5 | 16 | 677 | - | 26 |
| Khakanja hub | 350 | | | | 9.5 | 61 | 3,818 | - | 106 |
| Khakanja | 350 | 5.4 | 341 | - | 9.5 | 61 | 3,818 | - | 106 |
| Exploration projects | | | | | | | | | |
| Maminskoye ⁽¹¹⁾ | 980 | 1.4 | - | - | 1.4 | 44 | - | - | 44 |
| Kutyn ⁽¹³⁾ | 740 | 4.1 | - | - | 4.1 | 97 | - | - | 97 |
| Total Measured | 7,160 | | | | 3.2 | 522 | 4,495 | 18.2 | 732 |
| Indicated | | | | | | | | | |
| Standalone Mines | | | | | | | | | |
| Albazino | 140 | 5.1 | - | - | 5.1 | 22 | - | - | 22 |
| Mayskoye | 1,090 | 8.7 | - | - | 8.7 | 306 | - | - | 306 |
| Varvara ⁽²⁾ | 18,770 | 1.0 | - | 0.58 | 1.9 | 625 | - | 62.9 | 1,160 |
| Dukat hub | 1,096 | | | | 6.8 | - | 13,229 | 3.7 | 239 |
| Perevalnoye ⁽⁴⁾ | 1,096 | - | 375 | 0.34 | 6.8 | - | 13,229 | 3.7 | 239 |
| Omolon hub | 230 | | | | 4.6 | 22 | 792 | - | 34 |
| Oroch ⁽⁵⁾ | 180 | 2.4 | 131 | - | 4.4 | 14 | 756 | - | 26 |
| Burgali ⁽⁶⁾ | 50 | 5.0 | 23 | - | 5.3 | 8 | 36 | - | 8 |
| Khakanja hub | 730 | | | | 2.6 | 51 | 733 | - | 60 |
| Svetloye ⁽⁸⁾ | 630 | 1.7 | 2 | - | 1.7 | 35 | 44 | - | 35 |
| Khakanja | 100 | 4.8 | 199 | - | 7.1 | 17 | 689 | - | 25 |
| Exploration projects | | | | | | | | | |
| Kyzyl project (Bakyrchik) ⁽¹⁰⁾ | 3,220 | 8.0 | - | - | 8.0 | 820 | - | - | 820 |
| Maminskoye ⁽¹¹⁾ | 1,150 | 1.5 | - | - | 1.5 | 55 | - | - | 55 |
| Kutyn ⁽¹³⁾ | 2,070 | 4.2 | - | - | 4.2 | 279 | - | - | 279 |
| Tarutin ⁽¹⁴⁾ | 1,520 | 0.1 | 8 | 1.12 | 2.3 | 4 | 368 | 17.0 | 114 |
| Total Indicated | 30,016 | | | | 3.2 | 2,185 | 15,122 | 83.6 | 3,088 |

| | Tonnage | | Grade | | | Content | | | |
|---|---------------|---------|---------|-------|-------------|--------------|---------------|--------------|--------------|
| | Kt | Au, g/t | Ag, g/t | Cu, % | GE, g/t | Au, Koz | Ag, Koz | Cu, Kt | GE, Koz |
| Measured + Indicated | | | | | | | | | |
| Standalone Mines | | | | | | | | | |
| Albazino | 170 | 4.9 | - | - | 4.9 | 27 | - | - | 27 |
| Mayskoye | 1,750 | 8.8 | - | - | 8.8 | 493 | - | - | 493 |
| Varvara ⁽²⁾ | 22,940 | 1.0 | - | 0.55 | 1.9 | 738 | - | 81.1 | 1,427 |
| Dukat hub | 1,096 | | | | 6.8 | - | 13,229 | 3.7 | 239 |
| Perevalnoye ⁽⁴⁾ | 1,096 | - | 375 | 0.34 | 6.8 | - | 13,229 | 3.7 | 239 |
| Omolon hub | 460 | | | | 4.0 | 38 | 1,469 | | 60 |
| Oroch ⁽⁵⁾ | 410 | 2.2 | 109 | - | 3.9 | 30 | 1,433 | - | 51 |
| Burgali ⁽⁶⁾ | 50 | 5.0 | 23 | - | 5.3 | 8 | 36 | - | 8 |
| Khakanja hub | 1,080 | | | | 4.8 | 112 | 4,551 | - | 166 |
| Svetloye ⁽⁸⁾ | 630 | 1.7 | 2 | - | 1.7 | 35 | 44 | - | 35 |
| Khakanja | 450 | 5.3 | 308 | - | 8.9 | 77 | 4,507 | - | 131 |
| Exploration projects | | | | | | | | | |
| Kyzyl project (Bakyrchyk) ⁽¹⁰⁾ | 3,220 | 8.0 | - | - | 8.0 | 820 | - | - | 820 |
| Maminskoye ⁽¹¹⁾ | 2,130 | 1.4 | - | - | 1.4 | 99 | - | - | 99 |
| Kutyn ⁽¹³⁾ | 2,810 | 4.2 | - | - | 4.2 | 376 | - | - | 376 |
| Tarutin ⁽¹⁴⁾ | 1,520 | 0.1 | 8 | 1.12 | 2.3 | 4 | 368 | 17.0 | 114 |
| Total Measured + Indicated | 37,176 | | | | 3.2 | 2,707 | 19,617 | 101.8 | 3,821 |
| Inferred | | | | | | | | | |
| Standalone Mines | | | | | | | | | |
| Albazino | 4,770 | 5.5 | - | - | 5.5 | 837 | - | - | 837 |
| Mayskoye | 10,990 | 10.1 | - | - | 10.1 | 3,569 | - | - | 3,569 |
| Varvara ⁽²⁾ | 11,730 | 1.1 | - | 0.56 | 2.1 | 431 | - | 42.1 | 788 |
| Dukat hub | 1,088 | | | | 11.0 | 64 | 20,093 | 0.4 | 383 |
| Lunnoye | 290 | 2.1 | 517 | - | 10.8 | 20 | 4,829 | - | 101 |
| Goltsovoye | 440 | - | 880 | - | 13.5 | - | 12,550 | - | 193 |
| Arylakh | 150 | 0.7 | 427 | - | 7.5 | 3 | 2,050 | - | 36 |
| Olcha ⁽³⁾ | 130 | 9.4 | 35 | - | 9.9 | 40 | 151 | - | 42 |
| Perevalnoye ⁽⁴⁾ | 78 | - | 206 | 0.46 | 4.1 | - | 513 | 0.4 | 10 |
| Omolon hub | 820 | | | | 9.8 | 106 | 10,030 | - | 258 |
| Oroch ⁽⁵⁾ | 790 | 3.9 | 394 | - | 9.9 | 99 | 10,001 | - | 250 |
| Burgali ⁽⁶⁾ | 30 | 7.3 | 30 | - | 7.7 | 7 | 29 | - | 7 |
| Voro | 24,070 | | | | 1.9 | 1,475 | - | - | 1,475 |
| Tamunier ⁽⁷⁾ | 24,070 | 1.9 | - | - | 1.9 | 1,475 | - | - | 1,475 |
| Khakanja hub | 662 | | | | 4.9 | 99 | 351 | - | 103 |

| | | | | | | | | | |
|---|---------------|------|-----|------|------------|--------------|---------------|-------------|---------------|
| Svetloye ⁽⁸⁾ | 460 | 3.0 | 4 | - | 3.0 | 44 | 63 | - | 45 |
| Avlayakan | 50 | 16.4 | 136 | - | 18.3 | 24 | 200 | - | 27 |
| Khakanja | 10 | 2.8 | 199 | - | 5.2 | 1 | 49 | - | 1 |
| Kirankan ⁽⁹⁾ | 142 | 6.5 | 8 | - | 6.7 | 30 | 39 | - | 30 |
| Exploration projects | | | | | | | | | |
| Kyzyl project (Bakyrchik) ⁽¹⁰⁾ | 13,830 | 6.6 | - | - | 6.6 | 2,950 | - | - | 2,950 |
| Veduga ⁽¹²⁾ | 580 | 4.1 | - | - | 4.1 | 77 | - | - | 77 |
| Kutyn ⁽¹³⁾ | 2,110 | 4.0 | - | - | 4.0 | 273 | - | - | 273 |
| Tarutin ⁽¹⁴⁾ | 1,040 | 0.1 | 6 | 0.81 | 1.7 | 3 | 213 | 8.4 | 58 |
| Total Inferred | 71,690 | | | | 4.7 | 9,882 | 30,687 | 50.8 | 10,770 |

Measured + Indicated + Inferred

Standalone Mines

| | | | | | | | | | |
|------------------------|--------|-----|---|------|-----|-------|---|-------|-------|
| Albazino | 4,940 | 5.4 | - | - | 5.4 | 863 | - | - | 863 |
| Mayskoye | 12,740 | 9.9 | - | - | 9.9 | 4,062 | - | - | 4,062 |
| Varvara ⁽²⁾ | 34,670 | 1.0 | - | 0.55 | 2.0 | 1,169 | - | 123.2 | 2,215 |

| | | | | | | | | | |
|----------------------------|--------------|-----|-----|------|------------|-----------|---------------|------------|------------|
| Dukat hub | 2,184 | | | | 8.9 | 64 | 33,322 | 4.1 | 622 |
| Lunnoye | 290 | 2.1 | 517 | - | 10.8 | 20 | 4,829 | - | 101 |
| Goltsovoye | 440 | - | 880 | - | 13.5 | - | 12,550 | - | 193 |
| Arylakh | 150 | 0.7 | 427 | - | 7.5 | 3 | 2,050 | - | 36 |
| Olcha ⁽³⁾ | 130 | 9.4 | 35 | - | 9.9 | 40 | 151 | - | 42 |
| Perevalnoye ⁽⁴⁾ | 1,174 | - | 364 | 0.35 | 6.6 | - | 13,742 | 4.1 | 249 |

| | | | | | | | | | |
|------------------------|--------------|-----|-----|---|------------|------------|---------------|---|------------|
| Omolon hub | 1,280 | | | | 7.7 | 143 | 11,499 | - | 317 |
| Oroch ⁽⁵⁾ | 1,200 | 3.3 | 296 | - | 7.8 | 128 | 11,434 | - | 302 |
| Burgali ⁽⁶⁾ | 80 | 5.9 | 25 | - | 6.2 | 15 | 65 | - | 16 |

| | | | | | | | | | |
|-------------------------|---------------|-----|---|---|------------|--------------|---|---|--------------|
| Voro | 24,070 | | | | 1.9 | 1,475 | - | - | 1,475 |
| Tamunier ⁽⁷⁾ | 24,070 | 1.9 | - | - | 1.9 | 1,475 | - | - | 1,475 |

| | | | | | | | | | |
|-------------------------|--------------|------|-----|---|------------|------------|--------------|---|------------|
| Khakanja hub | 1,742 | | | | 4.8 | 211 | 4,902 | - | 270 |
| Svetloye ⁽⁸⁾ | 1,090 | 2.3 | 3 | - | 2.3 | 79 | 107 | - | 80 |
| Avlayakan | 50 | 16.4 | 136 | - | 18.3 | 24 | 200 | - | 27 |
| Khakanja | 460 | 5.2 | 306 | - | 8.9 | 78 | 4,556 | - | 132 |
| Kirankan ⁽⁹⁾ | 142 | 6.5 | 8 | - | 6.7 | 30 | 39 | - | 30 |

| | | | | | | | | | |
|---|--------|-----|---|------|-----|-------|-----|------|-------|
| Exploration projects | | | | | | | | | |
| Kyzyl project (Bakyrchik) ⁽¹⁰⁾ | 17,050 | 6.9 | - | - | 6.9 | 3,770 | - | - | 3,770 |
| Maminskoye ⁽¹¹⁾ | 2,130 | 1.4 | - | - | 1.4 | 99 | - | - | 99 |
| Veduga ⁽¹²⁾ | 580 | 4.1 | - | - | 4.1 | 77 | - | - | 77 |
| Kutyn ⁽¹³⁾ | 4,920 | 4.1 | - | - | 4.1 | 649 | - | - | 649 |
| Tarutin ⁽¹⁴⁾ | 2,560 | 0.1 | 7 | 0.99 | 2.1 | 7 | 581 | 25.4 | 171 |

| | | | | | | | | | |
|--|----------------|--|--|--|------------|---------------|---------------|--------------|---------------|
| Total Measured + Indicated + Inferred | 108,866 | | | | 4.2 | 12,589 | 50,304 | 152.6 | 14,591 |
|--|----------------|--|--|--|------------|---------------|---------------|--------------|---------------|

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 15.6 and 6.7 Mt of ore respectively).
- 3) Initial estimate prepared by Polymetal as at 01.01.2015.
- 4) Estimate prepared by SRK Consulting as at 01.07.2011. Price: Ag=13 \$/oz, Cr=220c/lb. Revised estimate was not performed due to lack of material changes.
- 5) Estimate prepared by Polymetal as at 01.01.2014. Price: Au=1,500 \$/oz, Ag = 26 \$/oz. Revised estimate was not performed due to lack of material changes.
- 6) Initial estimate prepared by Polymetal as at 01.01.2015.
- 7) 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. Revised estimate was not performed due to lack of material changes.
- 8) Estimate prepared by Snowden as at 01.01.2014. Price: Au=1,300 \$/oz, Ag=22.5 \$/oz. Revised estimate was not performed due to lack of material changes.
- 9) Estimate prepared by Snowden as at 01.07.2011. COG (Au)=1.5 g/t. Revised estimate was not performed due to lack of material changes.
- 10) Estimate prepared by RPA as at 31.07.2013. Price: Au=1,400 \$/oz. Revised estimate was not performed due to lack of material changes.
- 11) Estimate prepared by Polymetal as at 01.01.2014. Price: Au=1,300 \$/oz. Revised estimate was not performed due to lack of material changes.
- 12) Initial estimate prepared by Snowden as at 01.01.2014. COG (Au) = 2.0 g/t. Revised estimate prepared by Polymetal as at 01.01.2015. Mineral Resources are presented in accordance with the Company's ownership equal to 42.65%.
- 13) Initial estimate for open pit prepared by Snowden, for underground by CSA Global Pty Ltd as at 01.01.2015. Price: Au=1,300 \$/oz.
- 14) Initial estimate prepared by Polymetal as at 01.01.2015. Price: Cu= 5,600 \$/t. Mineral Resources are presented in accordance with the Company's ownership equal to 25% as at 01.01.2015.

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 14 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 14 years' relevant experience;*
- *Mining and Ore Reserves - Igor Epshteyn, Head of Mining Process Department, FIMMM, with 33 years' relevant experience;*
- *Concentration and Metals – Igor Agapov, Deputy Director of Science and Technology, MIMMM, with 17 years' relevant experience;*
- *Environmental Issues – Tatiana Kuleshova, Director for Ecology, MIMMM, with 24 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\$1200/oz;

Ag = US\$17.0/oz;

Cu = US\$7000/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:

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

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 | 64 |
| Voro | Heap leaching+Merrill Crowe process | 200 |
| | Cyanidation carbon-in-pulp | 93 |
| Lunnoye | Cyanidation+Merrill Crowe process | 59 |
| Arylakh | Cyanidation+Merrill Crowe process | 63 |
| Khakanja | Cyanidation+Merrill Crowe process | 94 |
| Sopka | Cyanidation+Merrill Crowe process | 73 |
| | Heap leaching+Merrill Crowe process | 96 |
| Birkachan | Cyanidation carbon-in-pulp | 79 |
| | Heap leaching+carbon-in-colon | 88 |
| Dalneye | Cyanidation+Merrill Crowe process | 86 |
| | Heap leaching+Merrill Crowe process | 113 |
| Oroch | Cyanidation+Merrill Crowe process | 66 |
| Tsokol Kubaka | Cyanidation carbon-in-pulp | 77 |
| Burgali | Cyanidation+Merrill Crowe process | 90 |
| Avlayakan | Cyanidation+Merrill Crowe process | 72 |
| Kirankan ¹⁾ | Cyanidation+Merrill Crowe process | 60 |
| Svetloye | Heap leaching+Merrill Crowe process | 60 |
| Olcha | Cyanidation+Merrill Crowe process | 71 |
| Ozerny | Cyanidation+Merrill Crowe process | 89 |

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:

For silver (similar to the formula for precious metals deposits), for copper (%):
 $k = 100 * ((Au\ price/31.1035 - treatment\ charge\ Au) * (1 - royalty\ Au\%/change\ Au\%)) * (recovery\ Au\%) / ((Cu\ price - treatment\ charge\ Cu) * (1 - royalty\ Cu\%/recovery\ Cu\%) * (recovery\ Cu\%))$

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 | Conventional flotation | 65 | |
| Varvara | Powder ore with high copper content ⁽¹⁾ | | 0.38 |
| | Primary ore with high copper content - conventional flotation | | 0.38 |
| North Kaluga | Conventional flotation | 91 | 0.68 |
| Tarutin | Conventional flotation | 87 | 0.52 |
| Perevalnoye ⁽²⁾ | Conventional flotation | 60 | 0.64 |

¹⁾ This type of ore is currently not being processed, it is stockpiled and reflected only in Mineral Resources.

²⁾ Silver to gold equivalent conversion ratios were not recalculated to deposits that were evaluated in 2011-2012.