POLYMETAL
INTERNATIONAL PLC

DELIVERING VALUE **DRIVING FURTHER GROWTH**

Polymetal International plc
Annual Report 2015

DELIVERING VALUE
DRIVING FURTHER GROWTH

Polymetal is a precious metals mining group with a strong track record of stable operating performance and new project delivery. Our performance this year generated robust operating and financial results.

We are confident that the development of Kyzyl, our largest project, will strengthen our position to deliver sustainable value to all our stakeholders.

Our investment proposition

We have a portfolio of high-grade assets generating free cash flow through the cycle. We employ a processing hub strategy to ensure high return on invested capital and reduce execution risks.

Read more on pages 18-19, 22-35

We continue to invest in greenfield exploration and review opportunistic M&A ideas with focus on reserve quality or low capital intensity.

Read more on pages 36-39

We are committed to capital discipline and provide a substantial dividend yield while maintaining a strong balance sheet.

Read more on pages 52-63

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Strong operating track record

Throughout our corporate history, we have built a sustainable track record of delivering on our promises. We have beaten our production guidance for four consecutive years, despite challenging market conditions from 2013-2015. This success is underpinned by the quality of our high-grade assets, strong management team and a robust operational risk management system. Crucially, we generated substantial free cash flow throughout the period.

Mining at Sopka, Magadan Region

Operational excellence

In 2015, Polymetal continued to deliver solid production results, producing 1.27 Moz of gold equivalent. The production guidance was exceeded by 4%. This was achieved against the backdrop of depressed gold and silver prices, and continued macroeconomic instability. Our operational results were driven by a better than expected performance at Dukat, which has increased both underground mining and processing capacity, and a solid performance across the rest of the asset portfolio.

Operational highlights in 2015 included the performance at Dukat, where the total ore mined at the underground mines grew 13% year-on-year to 2.2 Mt and underground development increased 11% year-on-year to match the increased mill throughput.

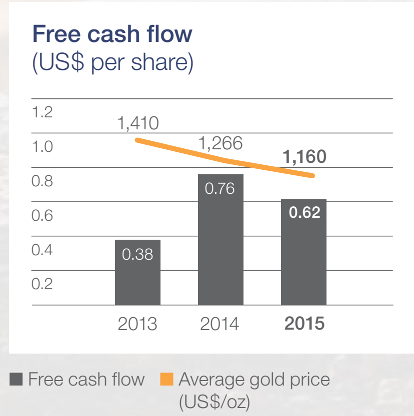
The silver grades were stronger than expected, contributing to a record 27.4 Moz silver production (up 15% year-on-year). Notably, our flagship Amursk POX plant performed above its original design parameters in terms of recovery for the blend of Albazino and Mayskoye concentrates, which were at a consistent 94% level throughout the year. We have commenced underground mining at Albazino's Olga zone which will complement the feed from the existing Anfisa pit.

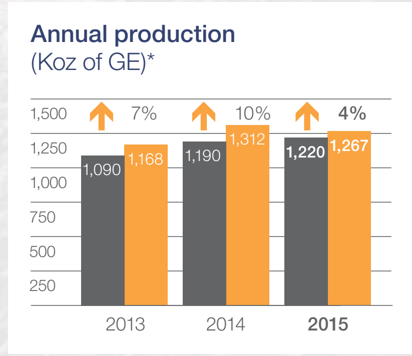
Importantly, all of our assets generate free cash flow at significantly lower commodity price levels. This is due both to high grades and, more recently, the significant devaluation of the Russian Rouble and Kazakh Tenge.

+ Read more on pages 22-35

46%
Adjusted EBITDA margin, up from 41% in 2014

+4%
GE production compared to FY 2015 guidance



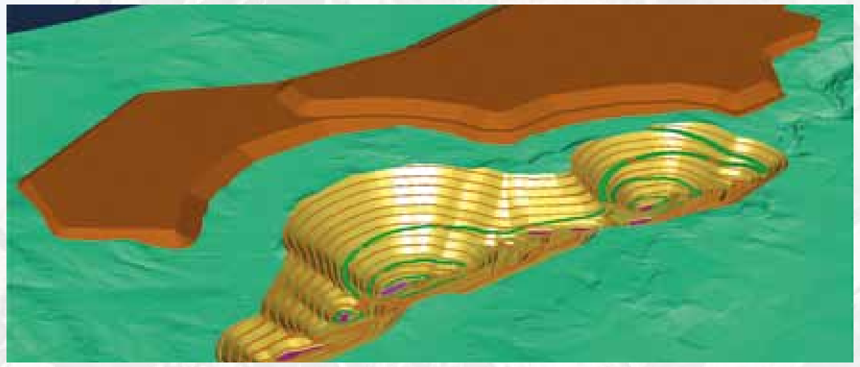


*Based on 80:1 Ag/Au ratio. Company historical gold equivalent guidance also recalculated using 80:1 Ag/Au conversion ratio.

On track at Kyzyl

Acquired in September 2014, Kyzyl is progressing well towards its scheduled launch in Q3 2018. In 2015, the completed feasibility study confirmed the viability of Polymetal's approach: initial mining with a large open pit and the sale of flotation concentrate – an approach characterised by lower operational risk and capital intensity. This enabled the Board to give the go-ahead for construction to start in Q2 2016.

Geologist collecting samples at Kyzyl



One of the world's best development-stage gold projects

Kyzyl is known for its complex double refractory ore and challenging underground conditions. So, despite a sizeable resource and high grade, this project had not been successfully developed by its previous owners. Polymetal, on the back of its excellent track record in open-pit mining and trading refractory gold concentrates, has adopted a different approach. During the first nine years of its 22-year mine life, the deposit will be run as an open-pit mine, switching to underground at a later stage. Additionally, instead of investing significant capital in downstream processing upfront, Polymetal is building a conventional flotation plant on-site, with concentrate to be shipped to one of our offtake partners in China.

This approach significantly reduces capital intensity and operational risk, resulting in a superior return on capital and cash flow generation. Among major gold development projects worldwide, Kyzyl is prominent because of its long mine life and significantly lower-per-ounce capital expenditure as well as its short-and-clear path to production. Kyzyl will be the main source of medium-term growth for Polymetal.

+ Read more on page 35

Project highlights

Large
7.3 Moz
gold reserves, of which 2.8 Moz is open-pittable

High-grade
7.7 g/t
reserve grade (6.7 g/t in the open pit)

Excellent exploration upside
Additional resources
3.1 Moz at 6.8 g/t

+ Bolshevik satellite deposit with further mineralised potential

Robust economics
Annual production
320 Koz p.a.
AISC
US$568/oz
CAPEX
US$320m
IRR
32% at US$1,200/oz

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A pipeline of quality growth projects

While Kyzyl is on track to deliver production growth from 2018, we still need to ensure that there are further sources of growth in the pipeline. We accomplish this through continuous investment in greenfield exploration projects and opportunistic M&A activity. With acquisitions, the commodity cycle is currently at an ideal stage for acquiring high-optionality assets at attractive valuations.

En route to the remote Svetloye mine

In constant pursuit of further growth opportunities

Free cash flow generation at existing mines and a strong balance sheet allows us to pursue longer-term growth opportunities. This was certainly the case in 2015, when we were able to exploit the availability of long-life projects with high-option values at attractive prices.

Our key greenfield exploration project currently is the Viksha PGM (platinum group metals) project in Karelia, North-West Russia. During 2015 we also acquired Primorskoye, a silver/gold site 215 km from our Omsukchan concentrator, which fits well into our portfolio of near-mine advanced exploration projects. We also acquired Lichkvaz, in Armenia, where initial exploration has started and a JORC-compliant resource estimate is expected later in 2016.

We have begun an exciting joint venture with Polyus Gold to develop Nezhdaninskoye, the fourth largest gold deposit in Russia (based on GKZ resources), with significant potential for high-grade ore and a long mine life. Nezhdaninskoye fits perfectly with our proven capabilities in operating remote assets, selective underground mining and refractory ore processing.

Read more on pages 23, 36-39

+380 Koz GE
Initial reserve estimates in 2015

+774 Koz GE
Initial resource estimates in 2015

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A dynamic business based on quality and performance

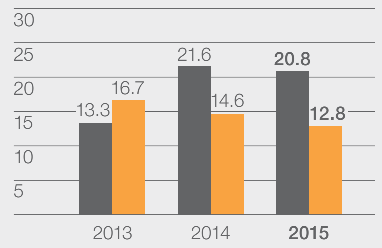
Listed on the London Stock Exchange, Polymetal International plc has a portfolio of seven operating gold and silver mines, an impressive pipeline of future growth projects in Russia, Kazakhstan and Armenia, and is a major employer in the regions.

Key financial figures

Revenue US$1,441 million (2014: US$1,690 million)	**Total cash cost**[1] US$538/GE oz (2014: US$634/GE oz)	**Adjusted EBITDA**[2] US$658 million (2014: US$685 million)
All-in sustaining cash cost US$733/GE oz (2014: US$893/GE oz)	**Free cash flow**[3] US$263 million (2014: US$306 million)	**Dividend yield 2015** 6% (5% during the previous 3 years)

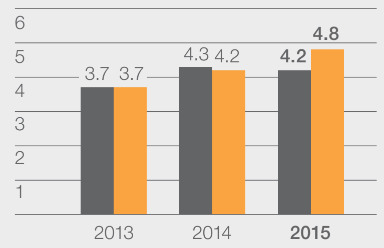
Reserves and resources[4]

Reserves and resources (Moz)



■ Reserves ■ Resources

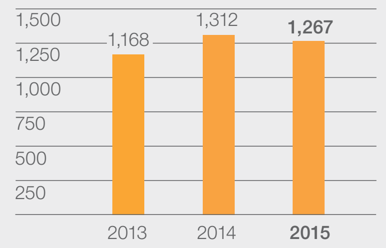
Average reserve/resource grades (GE g/t)



■ Reserves ■ Resources

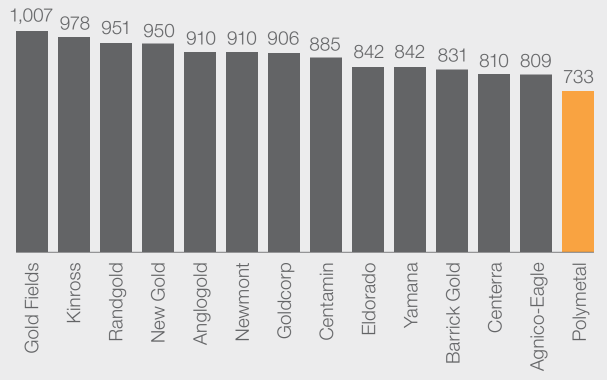
Production

Production growth (Koz)



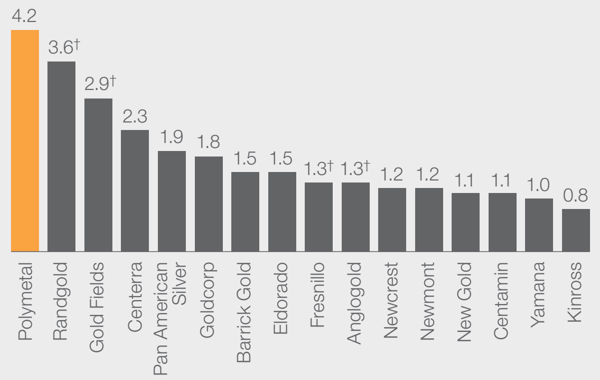
Profile among peers

All-in sustaining cash costs (US$/GE oz)



Source: Companies' data.

Average reserve grade (g/t GE)



Source: Company data. Gold, silver, copper proved and probable reserves as of 31.12.2015.

† Gold, silver, copper proved and probable reserves as of 31.12.2014. GE at 80:1 Ag oz/Au oz and 1:5 Cu mt/Au oz conversion ratios. Polymetal GE at 64.8:1 Ag/Au in accordance with the JORC code (2012) was 4.3 g/t as of 01.01.2015.

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 The Company defines Adjusted EBITDA (a non-IFRS measure) as profit for the period adjusted for depreciation expenses, rehabilitation expenses, write downs of inventory to net realisable value, share-based compensation, additional mining tax, VAT, penalties and accrued interest, income on disposal of subsidiaries, bargain purchase gains, foreign exchange gains/(losses), changes in fair value of derivatives, changes in fair value of contingent consideration, finance income, finance costs, and income tax expenses. Adjusted EBITDA margin is Adjusted EBITDA divided by revenue. See Note 6 to the financial statements.

3 Free cash flow is defined as total operating cash flows less investing cash flow (2014: excluding cash payment for the Kyzyl acquisition).

4 Mineral resources and ore reserves are estimated in accordance with the JORC Code (2012). Mineral resources are additional to ore reserves.

Operating assets

1 Dukat hub
Operating mines: Dukat, Lunnoye, Goltsovoye, Arylakh
Key exploration project: Perevalnoye
Processing: 1.6 Mtpa Dukat concentrator and 400 Ktpa Lunnoye Merrill-Crowe plant

2 Omolon hub
Operating mines: Birkachan, Sopka, Tsokol, Dalneye, Oroch
Development projects: Burgali, Olcha
Key exploration project: Yolochka, Irbychan, Nevenrekan
Processing: 850 Ktpa Kubaka CIP and Merrill-Crowe plant

3 Amursk POX hub
Operating mines: Albazino, Mayskoye
Processing: 500 tpd Amursk POX plant

4 Mayskoye
Processing: 850 Ktpa concentrator

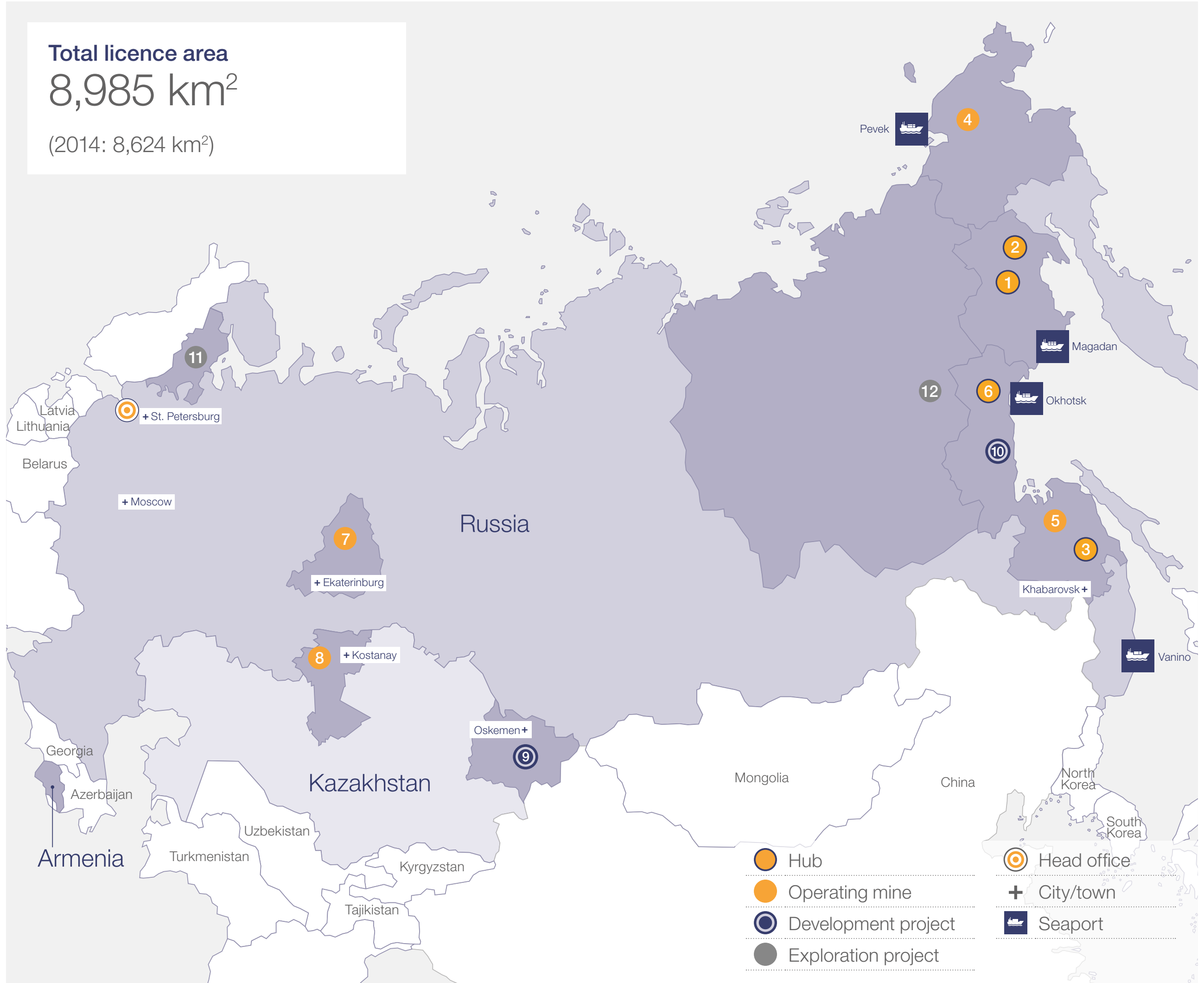
5 Albazino
Processing: 1.6 Mtpa concentrator

6 Okhotsk hub
Operating mines: Avlayakan, Ozerny
Development project: Svetloye
Processing: 600 Ktpa Merrill-Crowe plant

7 Voro
Operating mine: Voro
Key exploration project: North Kaluga
Processing: 950 Ktpa CIP and 900 Ktpa HL

8 Varvara
Operating mine: Varvara
Key exploration project: Tarutin
Processing: 4.2 Mtpa Float + Leach

Total licence area
8,985 km²
(2014: 8,624 km²)



Development projects

9 Kyzyl
Large high-grade gold project in North-Eastern Kazakhstan
Reserves: 7.3 Moz at 7.7 g/t Au (JORC)
Resources: 3.1 Moz at 6.8 g/t Au (JORC)
Mining: Open pit followed by underground
Processing: Flotation + concentrate offtake
First production: H2 2018
Life of mine of 22 years

10 Svetloye
Part of Okhotsk hub
Reserves: 0.6 Moz at 3.2 g/t GE (JORC)
1,000 Ktpa open pit heap leach operation
First production: 2016
Life of mine of 8 years

Exploration projects

11 Viksha
Potential of 4.2 Moz of PGM in Pd equivalent (internal estimate)

12 Nezhdaninskoye
Joint venture with Polyus Gold

Robust business model delivering value to all stakeholders

Our capital

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

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

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

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

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

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

Mining cycle

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

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

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

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

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

Selling concentrate
We were the first company in Russia to start selling refractory gold concentrates to off-takers in Asia and have transformed this into a competitive advantage.

Selling bars
We sell gold and silver bars, mainly to Russian commercial banks.

Mining closure and rehabilitation
We manage the end-of-mine life responsibly, maintaining high standards of environmental compliance during the closure/rehabilitation process.

What makes us different

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

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

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

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

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

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

Value creation for stakeholders

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

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

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

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

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

Suppliers
We provide fair terms and are developing long-term partnerships, while ensuring suppliers' integrity and ESG compliance.

Ensuring sustainable value for the future

We are committed to maintaining a robust free cash flow that ensures sustainable, through-the-cycle cash returns for our shareholders. At the same time, the development of a strong portfolio of next-generation assets offers a long-term investment that will help us sustain growth and create future wealth.

Dear fellow stakeholders

I am delighted to report that, despite the challenges in end markets for our products and currency volatilty, Polymetal has again delivered a solid set of operating and financial results.

While depressed commodity prices and geopolitical pressures continued to dominate in 2015, making market conditions ever-more difficult for the global gold mining industry, Polymetal's fundamental strengths have enabled us to continue making good progress.

The price of gold declined by 8% in 2015. The silver price was 18% lower. The price of copper and other non-precious minerals remained depressed suggesting an end of the commodity super-cycle.

The rapid decline in the price of oil had a major impact on the economies of both Russia and Kazakhstan, where Polymetal operates, resulting in currency devaluation, recession and increased inflation levels. The devaluation itself had a positive effect on the business, significantly reducing our Rouble- and Tenge-denominated costs. However, greater macroeconomic instability did impact our operations and created challenges for local governments and our own employees as consumers.

Our Group Chief Executive, Vitaly Nesis, reports in more detail about our performance on the following pages.

Dividends

Strong free cash flow generation remains a key differentiator for Polymetal. Generating a healthy free cash flow of US$263 million during the year coupled with a strong balance sheet, we continued to translate this into cash returns for our investors.

The Company paid out US$127 million in special dividends in 2015. This brings the total amount of dividends declared during 2015 to US$216 million, an increase of almost 25% on last year's total of US$173 million. Despite global and local challenges, Polymetal remains fully committed to delivering value to its shareholders.

+US$263 million
Free cash flow in 2015

6%
Dividend yield in 2015

Increased focus on health and safety is vital

I am extremely sad to report that we lost six of our colleagues at our operations during 2015. I would like to offer my personal condolences, along with those of the Board, to all their families and friends.

With the increased scope of underground mining across our operating mines and the geotechnical complexities that this entails, we must intensify our focus on improving the safety of underground operations and preventative risk management. With this objective, the Board has now established a dedicated Safety & Sustainability Committee. We are determined to turn the situation around in 2016 and the Committee has already begun an in-depth review of the safety and environmental management systems, along with the measures and incentives currently in place for better safety performance.

Capital discipline secures future

The Board upholds the principles of good corporate governance with clear and accountable reporting practices that ensure proper balance sheet management and an appropriate approach to leverage by the Company. The capital discipline we impose on all investment and operational decisions has enabled us – even in a depressed commodity cycle – to be confident about the business choices we make. In the current complex macroeconomic conditions, we remain committed to maintaining a healthy dividend stream whilst continuing to pursue value creating growth opportunities and maintaining appropriate leverage levels.

The Kyzyl project is a prime example of our business fundamentals. The feasibility study confirmed both the robust economics and development approach of the project. The Board approval was unequivocal and our task now is to ensure the timely construction of Kyzyl within the approved budget.

We are also well positioned to take advantage of new opportunities as they arise. One such opportunity is the recently formed joint venture with Polyus Gold for the development of the Nezhdaninskoye deposit. With Polymetal's management approach, this is another undertaking set to be characterised by low capital intensity.

A distinctive investment opportunity

Polymetal remains a distinctive name in our sector known for our high-grade assets, technological expertise and capital discipline that result in both growth and dividends through the cycle. By playing to our competitive strengths (selective mining, processing refractory ores, trading precious metals concentrates) and with our sound knowledge of the precious metals mining space in Russia and the Former Soviet Union, we have been able to pursue further attractive opportunities.

The Company's business model enables us to deliver dual value to our shareholders. We are committed to maintaining a robust free cash flow that ensures sustainable, through-the-cycle cash returns in the form of dividends for our shareholders. At the same time, the development of a strong portfolio of next-generation assets offers a long-term investment that will help us sustain growth and create future wealth.

Bobby Godsell
Chairman
28 March 2016

Today's resilient performance underpins future growth

US$733/GE oz
All-in sustaining cash cost -18%
(2014: US$893/GE oz)

1.27 Moz
Gold equivalent production
(+4% vs original guidance)

Our resilient financial performance today allows us the flexibility to develop our focused pipeline of long-life projects and continue to generate cash flow now and in the future.

Although currency movements were generally favourable for us during 2015, we still had to contend with continued pressure from depressed commodity prices in the gold mining sector. We retained our focus on preparing for the next growth stage and fulfilled expectations with a year of strong operational delivery.

The start of 2016 saw a moderate upturn in the global gold market and, while we are unlikely to see prices peak at 2011 levels, gold is certainly being viewed as a safe haven for investors during the continuing economic and political upheaval. Looking to the future, the gradual depletion of higher grade resources worldwide and the suspension of costly expansion projects will become more evident, with the reduction in supply serving to boost the gold price.

Dynamic performance reaps rewards

Polymetal's gold equivalent production for 2015 (based on 1:80 Ag/Au conversion ratio) comprised 1.27 Moz. This was 4% above the original production guidance for the year and the fourth year in a row in which we have exceeded our annual estimates.

Whilst all our operations delivered in line with expectations, the gold equivalent production at Dukat made a significant contribution, increasing by 14% year-on-year. The Amursk pressure oxidation (POX) plant delivered a stable operating performance. It has become a flagship operation, producing 260 Koz of gold in 2015.

Kyzyl – the highlight of the year

Our top priority is clearly the launch of Kyzyl, one of the highest grade and largest untapped gold deposits in the world. Our confidence in Kyzyl as an investment that matched our strategic growth priorities, whilst leveraging our core strengths, was fully validated by our audited feasibility study.

The feasibility study confirmed the economic viability of the project, which is now set to become one of the highest grade and largest development projects in the sector globally. It also endorsed Polymetal's capabilities for handling complex refractory ores and the proposed low-capital intensity approach, maximising the return on invested capital.

Following Board approval, construction work is now under way and we are on track to bring Kyzyl into production in 2018, ramping it up to full capacity in 2019. Kyzyl is set to become a substantial free cash flow contributor for Polymetal.

Safety and sustainability at the forefront

Reviewing and reinforcing our health and safety procedures continues to be a matter of urgency following the loss of six of our colleagues during 2015. The establishment of the new Safety and Sustainability Committee and the in-depth study of our risk and environmental management systems is part of a concerted effort to improve this situation. Management at all levels are committed to radically improving the Company's safety performance with zero fatalities still very much our aim.

The increase in underground mining across our operations has brought with it a heightened level of risk and we are working hard to alleviate this. At Mayskoye, one of our major underground mining sites, we have initiated a change to the mining method that aims to reduce geotechnical hazards.

We are very mindful of our duty of care towards all employees and to the communities in which we operate, particularly given the currently depressed general economic climate. We take our social and environmental responsibilities very seriously and were honoured to receive recognition from two significant bodies during 2015. We were integrated into the Euronext Vigeo Emerging 70 Index, comprised of the top 70 emerging market companies with the most advanced corporate social responsibility programmes. We were also included in both the FTSE4Good Global Index and FTSE4Good Europe Index for the first time; companies selected for both indices must meet stringent environmental, social and governance criteria.

Investing in future growth

Our resilient financial performance today allows us the flexibility to develop our focused pipeline of future projects. During the year we expanded our portfolio of near-mine advanced exploration projects through the acquisition of Primorskoye, a silver/gold site 215 km from our Omsukchan concentrator, and by acquiring Lichkvaz, our first asset in Armenia. Initial exploration drilling at Lichkvaz has begun and a JORC-compliant resource estimate is expected in 2016; drilling at Primorskoye will begin later in the year with an audited reserve estimate due by December 2016.

At the end of 2015 we announced an exciting new joint venture with Polyus Gold at Nezhdaninskoye, the fourth largest gold deposit in Russia based on the Russian reserves and reporting system (GKZ) resources. Nezhdaninskoye fits perfectly with Polymetal's proven capabilities in developing remote assets, selective underground mining and refractory ore processing. Given the size of the deposit, there is significant potential for high grade and a long mine life operation.

Summary

Increased production

- GE production 4% above original guidance
- GE production at Dukat increased 14% year-on-year
- 260 Koz gold produced at Amursk POX, now a flagship operation

Development and acquisitions

- Economic viability of Kyzyl confirmed; production to commence in 2018
- Acquisition of Lichkvaz, our first exploration asset in Armenia
- New joint venture at Nezhdaninskoye, Russia's 4th largest gold deposit

Safety and sustainability

- New Safety and Sustainability Committee established
- In-depth analysis of risk and environmental systems underway
- Inclusions in the Euronext Vigeo Emerging 70, FTSE4Good and FTSE4Good Europe indices

Looking further ahead, we are actively engaged in putting together a portfolio of long-life projects with high-option value, like that of Kyzyl, which will allow us to reap the benefit of major contributions to cash flow in the future. However, this in no way detracts from our firm commitment of delivering considerable value to our shareholders through substantial dividend payments out of free cash flow.

Our achievements to date are a testament to the quality, skills and commitment of our management and employees. I would like to thank them for all their efforts and I look forward to their continuing support and enthusiasm in helping Polymetal realise the next phase in its strategic plan.

Vitaly Nesis
Group CEO
28 March 2016

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Macro trends that drive our market

Demand

In 2015, gold and silver markets were again driven mostly by demand dynamics. Physical demand for gold fell by 2% to 4,076 tonnes, largely due to weakening jewellery fabrication and retail investment. This was partially offset by demand from central banks wishing to strengthen reserves – particularly in emerging markets – and was up 3% on 2014 at 482 tonnes. Nevertheless, total investment demand declined by a further 2%, down to 1,361 tonnes in 2015.

ETF outflows continued in 2015, but accounted for only 125 tonnes versus 160 tonnes in 2014. Demand pressures are mainly attributed to investors' expectations of further strengthening of monetary policy in the US.

Supply

Total gold supply decreased by 2% in 2015, while mine production and scrap supply remained stable. Net hedging supply was the biggest contributor to the gold supply drop. The mine supply of gold remained flat, although in Q4 2015 an estimated 4% drop in mine output was recorded, the largest quarterly reduction since 2008. This, in our view, is the first sign of a supply-side response to a prolonged price downturn, and is a result of decreasing production of mature operations and fewer new mines coming on stream. Total world mine production for the year reached 3,126 tonnes, only 6 tonnes more than in 2014. Thomson Reuters GFMS forecasts a further decline in mine supply in 2016 and the first annual decrease since 2008.

Global pricing

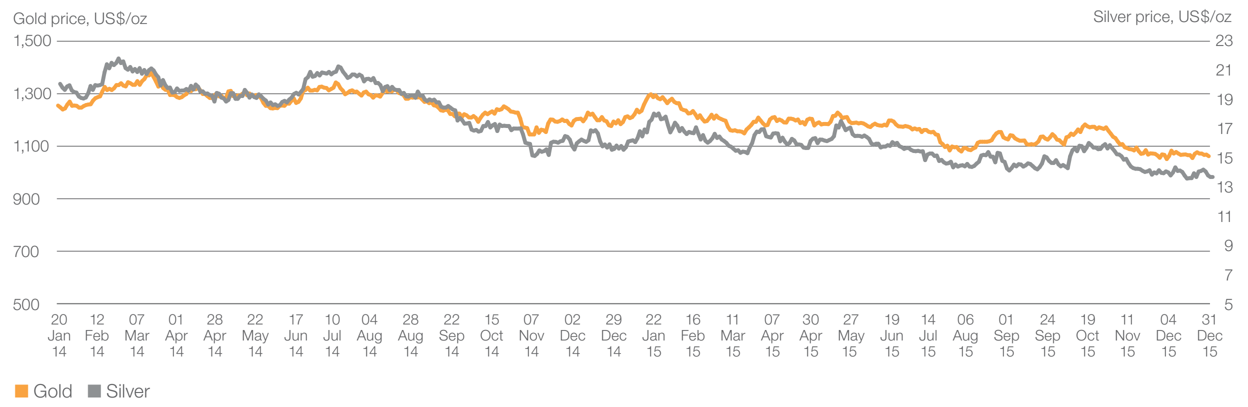
As a result, both gold and silver prices continued to decline in 2015. The average price decreased by 8% year-on-year – from US$1,266 to US$1,160/oz. The closing price for the year was US$1,062/oz, with the lowest price of US$1,050/oz recorded in December. That was US$137 less (-12%) than at the beginning of year.

Throughout 2015, the silver price dynamics followed gold, although the silver price fell more sharply in the second half of the year. The closing price for the year of US$13.82/oz was 13% lower compared with US$15.97/oz at the end of 2014. The average price for 2015 was US$15.7/oz, down 18% compared with 2014.

Given the relatively larger decline in the silver price, the gold/silver price ratio reached 77:1 compared with 75:1 at the beginning of the year; the average ratio in 2015 was 74:1 versus 68:1 in 2014.

2016 is likely to be a critical year for both gold and silver. A potential further rise in US interest rates by the Federal Reserve seems remote, given the challenges currently facing the global economy. This may prompt a gradual rebound of investors' interest in 'safe haven' assets.

Precious metal market summary



Mine production around the world

The biggest mining countries in 2015 were China, Russia and Australia, with little change in production volumes. While most gold producers continued to experience pressure from depressed commodity prices, the devaluation of national currencies in many mining jurisdictions and lower oil prices helped to maintain the profitability of existing mines. There was not, however, sufficient capital available for any major mine expansions or new projects.

Our operating environment

Russia remained the second largest gold producer globally in 2015. Despite the country's huge resource potential, including many large-scale deposits, the level of investment in the sector reduced significantly. This was largely due to the collapse of the gold price and geopolitical tensions, which restricted the availability of foreign debt and equity investments. At the same time, falling oil prices and the subsequent devaluation by more than 100% of the Russian Rouble buoyed up the economics of existing mines.

Although Kazakhstan has a smaller share in global gold mine production, the country has a much stronger growth profile. In 2015, refined gold production increased by 15% to 31 tonnes. This is partially attributable to a welcoming climate for foreign investment in the sector as well as other government incentives. The economics of Kazakh gold mining were also supported by the significant devaluation of the Kazakh Tenge in late 2015.

Gold demand by category in 2015 and 2014
(tonnes)

2015	
Jewellery	2,165
Industrial	376
Retail investment	1,053
Central bank net purchases	482

2014	
Jewellery	2,231
Technology	393
Retail investment	1,075
Central bank net purchases	466

How we respond to these trends

Polymetal has always selected high grade assets in order to ensure robust economics and sustainable free cash flow generation at each of our mines – even at depressed commodity price levels.

The new project approval process requires that stress testing is performed at a 20% discount to current spot prices. The prices that we use for reserve and resource estimates are reviewed regularly to reflect market fluctuations.

Due to robust free cash flow generation and a strong balance sheet, we are also using the low point of the commodities cycle to invest in high quality assets at attractive valuations. The acquisition of Kyzyl and several smaller-scale acquisitions in 2014-15 exemplify the success of this approach.

Read more about our strategy and market risk management process on pages 18-19, 64-69

Consistent strategy and agile execution

Key goals – combining growth and dividend

I. Pay significant and sustainable dividends through the cycle

Polymetal already stands out in the mining sector for its dividend policy and track record of substantial dividend payments. We want to continue delivering meaningful cash returns to our shareholders at any stage of the commodity cycle and our investment cycle through a combination of regular and special dividends.

II. Continue to grow our business without diluting its quality

At the same time, we also want to grow production and, hence, free cash flow, through the addition of new high-grade, value-accretive assets.

Read about how we measure our strategy on pages 20-21

Strategic objectives to achieve key goals

1. Ensure robust operating performance and financial performance at existing mines

Focus on full-capacity utilisation and robust cost performance of our operating mines by driving continued operating improvement. Extend our life-of-mine by investing in near-mine exploration. This will allow us to generate free cash flow and translate it into significant dividends.

Risks
- Production
- Market
- Exploration
- Health and safety

Performance
- 1.27 Moz GE produced in 2015, 4% above original guidance
- AISC of US$732/oz, down 18% year-on-year
- Free cash flow of US$263 million
- Acquisitions of Teploye and Tarutin – future satellite deposits
- Brownfield reserve additions: 380 Koz

Targets for 2016
- 1.23 Moz GE production
- First gold at Svetloye development project
- Switch to new mining method at Mayskoye
- AISC of US$700-750/oz in 2016

2. Deliver medium-term growth through building and ramping up Kyzyl

The Kyzyl project is a major medium-term growth driver for Polymetal, with average production of 320 Koz per annum from 2019. We are aiming to deliver the first gold at Kyzyl in Q3 2018. In 2016-2017, we will enter the active construction phase and will continue marketing concentrate.

Risks
- Market
- Construction and development risk

Performance
- Feasibility study audited by RPA confirmed the viability of our approach
- Reserves increased by 9% to 7.3 Moz at 7.7 g/t, of which 2.8 Moz at 6.7 g/t will be mined in open pit
- Capex budget of US$320 million approved
- Basic engineering completed
- Mining equipment contracted and arriving on-site

Targets for 2016
- Commence full-scale processing plant construction
- Commence pre-stripping
- Industrial batch concentrate to be shipped to potential Chinese offtakers

3. Opportunistically pursue high-optionality M&A targets, combined with own exploration efforts

While delivering free cash flow, we want to secure high-quality sources of long-term growth through our own greenfield exploration programme and M&A. We are actively looking at targets within the Former Soviet Union where we can create value with our core competencies.

Risks
- Exploration risk
- Financial risk
- Political risk

Performance
- Acquisitions during the year: Lichkvaz (Armenia), Dolinnoye (Kazakhstan)
- JV on Nezhdaninskoye deposit with Polyus Gold
- Initial resource estimates: 774 Koz GE

Targets for 2016
- Complete in-fill drilling at Nezhdaninskoye
- Integrate Kapan mine in Armenia
- Pursue further targets in the Former Soviet Union
- Resource estimates at Viksha, Lichkvaz

4. Maintain high standards of corporate governance and sustainable development

Maintaining high standards of corporate governance and sustainable development gives us a license to operate and the much-needed trust of all stakeholders. Health and safety at our operations is a key priority for the year.

Risks
- Health and safety risk
- Legal risk
- Political risk

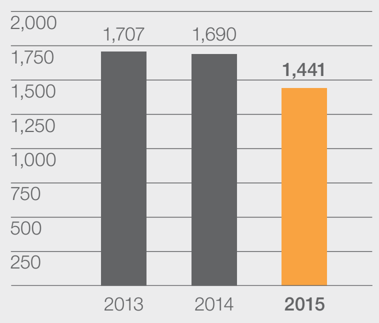
Performance
- Full compliance with the provisions of UK Corporate Governance Code
- Inclusion in FTSE4Good and Euronext Vigeo Emerging 70 sustainability indices
- ESIA for Kyzyl completed
- Six fatalities at our mines
- The Board established a dedicated Safety and Sustainability Committee

Targets for 2016
- Improvement in safety performance
- External assurance for sustainability reporting
- Continued compliance with global and local best practices in ESG

Measuring our performance

Financial KPIs

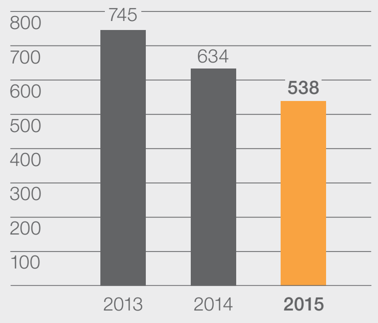
Revenue (US$m) -15%



Top-line indicator, heavily depends on commodity prices but also driven by delivery of production volumes.

Relevance to strategy
I 1

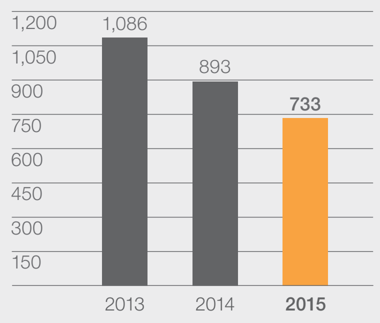
Total cash cost ★ (US$/GE oz) -15%



High-grade, full capacity utilisation and continued operating improvement, as well as foreign exchange rates and oil price are the key drivers of total cash cost per ounce.

Relevance to strategy
I 1

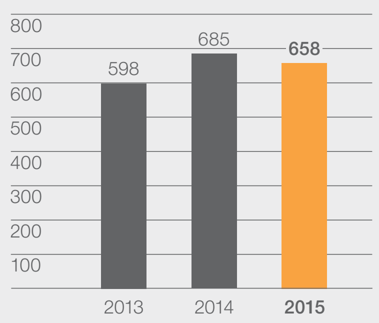
All-in sustaining cash cost (US$/GE oz) -18%



Our focus on high grade and low capital intensity ensures a low level of all-in sustaining cash costs.

Relevance to strategy
I 1

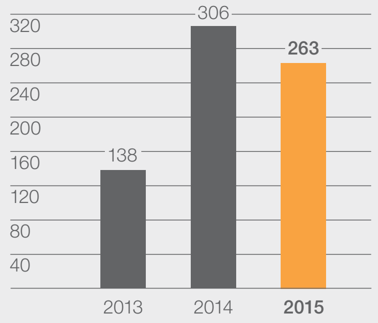
Adjusted EBITDA (US$m) -4%



Adjusted EBITDA provides an indicator of our ability to generate operating cash flows from the current business.

Relevance to strategy
I 1

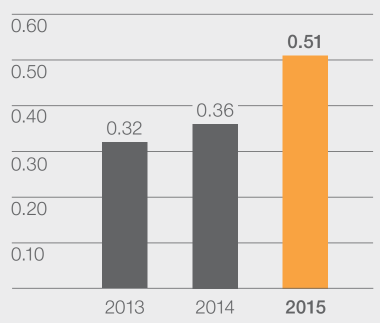
Free cash flow (US$m) -14%



A key indicator in any business. Generating a healthy free cash flow enables us to provide significant cash returns for shareholders.

Relevance to strategy
I 1

Dividends declared (US$/share) +42%

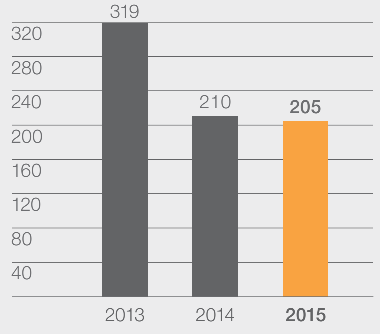


Our aim is to deliver meaningful dividends to our shareholders at all stages of both the commodity cycle and our investment cycle.

Relevance to strategy
I

★ KPI linked to executive remuneration

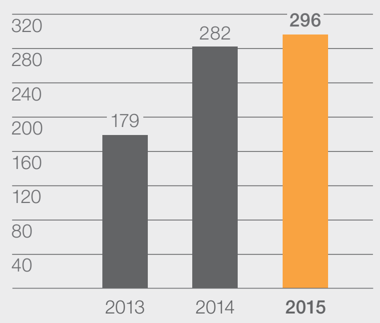
Capital expenditure ★ (US$m) -2%



Our rigorous approach to all investment decisions ensures tight controls on capital expenditure, boosting return on invested capital for shareholders and sustainable development for the business.

Relevance to strategy
II 2

Underlying net income (US$m) +5%

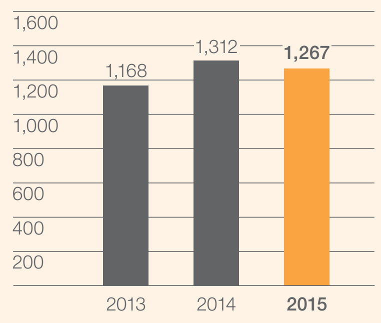


Underlying net income is a comprehensive benchmark of our core profitability excluding foreign exchange gains/losses and impairments.

Relevance to strategy
I 1

Operating KPIs

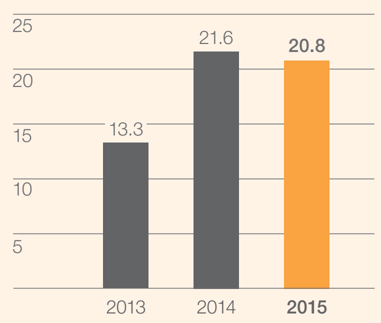
Gold equivalent production ★ (Koz) -3%



Annual targets for gold equivalent production are an indicator to the market of our confidence in our operating performance – and one that we regularly exceed.

Relevance to strategy
I 1

Ore reserves (Moz) -4%

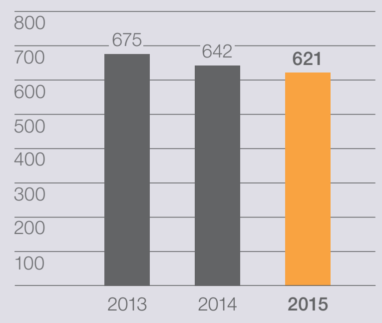


Extending mine life through near-mine exploration and new discoveries from greenfield exploration both contribute to the Company's long-term growth prospects.

Relevance to strategy
3

Sustainability KPIs

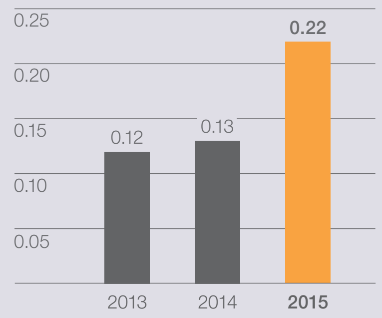
GHG emissions intensity (CO_2 equivalent tonnes per 10 Kt of ore processed) -3%



Reducing GHG emissions is one of the core pillars of our long-term commitment to maintaining the highest environmental, social and governance standards.

Relevance to strategy
4

Lost time injury ★ frequency rate (LTIFR) +69%



An improvement in the health and safety of employees at our operations is a key priority with a goal of zero fatalities.

Relevance to strategy
4

Robust operating performance

In 2015, Polymetal continued to deliver a consistent operating performance against a backdrop of depressed commodities prices and global macroeconomic volatility. The Company reported another year of strong operational delivery with gold equivalent production for the year reaching 1.27 Moz, which exceeded the original production guidance for 2015 of 1.22 Moz by 4%.[1]

Gold production was 861 Koz, a 9% year-on-year decrease, mainly as a result of scheduled production declines at mature mines, including Voro, Omolon hub and Varvara. Meanwhile, silver production increased by 12% reaching 32.1 Moz, driven mainly by the excellent grade and throughput at the Dukat hub. 827 Kt of copper were produced at our Varvara mine.

Gold sales were 864 Koz, down 8% year-on-year while, at 31.2 Moz, silver sales were up 6% year-on-year, in line with production dynamics and volume.

Key operating highlights

	2015	2014	Change, %
Stripping, Kt	65,345	77,458	-16%
Underground development, m	73,079	61,417	+19%
Ore mined, Kt	12,679	13,706	-7%
Open-pit	9,626	11,046	-13%
Underground	3,053	2,660	+15%
Ore processed, Kt	10,821	11,300	-4%
Average grade in ore processed (gold equivalent, g/t)	4.6	4.7	-1%
Production			
Gold, Koz	861	945	-9%
Silver, Moz	32.1	28.7	+12%
Copper, Kt	0.827	1.631	-49%
Gold equivalent, Koz	**1,267**	**1,312**	**-3%**
Sales			
Gold, Koz	864	943	-8%
Silver, Moz	31.2	29.3	+6%
Copper, Kt	1.488	1.029	+45%
Gold equivalent, Koz	**1,278**	**1,372**	**-7%**
Average headcount	9,292	8,853	+5%
Health and safety			
LTIFR	0.22	0.13	+54%
Fatalities	6	3	+100%

Analysis of production results

Mining

Stripping volumes in 2015 were 65.3 Mt of rock moved, a decrease of 16% year-on-year due to the completion of open-pit mining on several deposits, including Dalneye, Sopka and Tsokol (Omolon hub) and Khakanja (Okhotsk hub). At Varvara, there was a decrease in the amount of ore mined while processing stockpiles and due to the temporary shutdown of the flotation circuit. At the same time, due to favourable economic conditions, we resumed open-pit mining at Birkachan and commenced mining at Oroch (Omolon hub) and Svetloye.

Underground development increased by a further 20% to more than 73 km, with increased capacity to match processing volumes at the Dukat hub underground mines and a change in the mining method at Mayskoye. The underground development also continued at an active pace at Albazino, and Tsokol (Omolon hub), where the first ore from stopes was mined.

Ore mined decreased by 7% year-on-year to 12.7 Mt as we continued de-stockpiling at some of our operations, in particular Omolon and Okhotsk. We had to slow down ore mining at Mayskoye in the second half of the year due to a change in the mining method, which necessitated additional underground development.

Processing

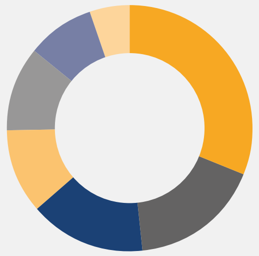
Ore processed decreased by 4% to 10.8 Mt, mainly as a result of the copper circuit shutdown at Varvara in the first half of the year and the temporary shutdown of the Mayskoye concentrator in Q4 as a result of a change in the mining method. Average gold equivalent grade in ore processed remained strong at 4.6 g/t and ensured a robust economic performance despite depressed commodity prices.

Production and sales dynamics

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 offtakers in Kazakhstan, Japan, Bulgaria, Belgium and China. Offtake allows us to maximise our margins, compared with the cost of processing these materials in-house. In 2015, we continued to diversify our offtaker base in China and Europe in order to achieve an optimal combination of transportation costs and treatment charges/recoveries. Offtake 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 our approach to the initial development of the Kyzyl project.

[1] Given the persistent change in gold/silver market price ratio, Polymetal has decided to change the gold/silver ratio used in presenting gold equivalent (GE) production from 1/60 to 1/80. All gold equivalent production numbers for current and prior periods in this report have been restated accordingly.

Gold equivalent production by mine in 2015 (%)



Dukat	31
Albazino/Amursk	17
Omolon	15
Voro	11
Mayskoye	11
Okhotsk	9
Varvara	6

Gold equivalent production by mine (Koz)

	2015	2014	Change, %
Dukat	393	344	+14%
Okhotsk	114	119	-4%
Voro	141	159	-11%
Varvara	72	106	-32%
Omolon	188	213	-12%
Albazino/Amursk	220	227	-3%
Mayskoye	138	143	-3%
Total production	**1,267**	**1,312**	**-3%**

Exploration

Our sustained investment in both greenfield and brownfield exploration, despite the current weak commodity price levels, is one of the key components of our strategy, and one that will ensure the extension of the mine life at existing operations and achieve further production growth through greenfield projects. Our exploration activities are focused on five regions in Russia – Khabarovsk, Magadan, Chukotka, Karelia and Ekaterinburg – as well as on Kazakhstan.

Polymetal currently has 79 licences for geological studies and gold, silver, copper and platinum group metals (PGM) mining, covering a total area of approximately 9,000 km^2. Of these licenses, 45 currently involve active exploration activities.

Our key exploration objectives in 2015 included:

- ongoing brownfield exploration activities aimed at extending mine lives at our existing operations: Okhotsk hub (currently the shortest mine life), Dukat, Omolon, Albazino and Voro;
- extending life-of-mine by resource-to-reserve conversion at Kyzyl through in-fill drilling;
- estimating hard-rock PGM resources at our Viksha project in Karelia, sufficient for a standalone mining operation;
- resource estimates for newly acquired exploration projects, including Lichkvaz (Armenia) and Dolinnoye (Kazakhstan);
- completion of reserve and resource estimates for gold/copper deposits in the Urals (including North Kaluga and Tarutin) for further processing at either Voro or Varvara; and
- further greenfield exploration for new precious metal deposits with a potential resource base sufficient in grade and size to justify the construction of a standalone mine.

In 2015, our drilling volumes decreased by 12% year-on-year to 232 km, mainly as a result of the completion of major drilling at Tarutin, Viksha and Albazino during 2014. Additional drilling volumes were allocated to new deposits, including Lichkvaz, Dolinnoye and Kyzyl. The total capital expenditure on exploration decreased by 34% to US$47 million on the back of the substantial devaluation of the Russian Rouble, which had a direct impact on drilling costs.

As a result of our exploration efforts, meaningful resource-to-reserve conversions were achieved during the year, along with maiden reserve-and-resource estimates completed for several projects. These included:

- upgrade of resource quality at Tamunier with current estimate of 626 Koz GE at 4.1 g/t;
- an initial resource estimate at Primorskoye (Dukat hub) acquired in 2015 (+21.3 Moz silver);
- an initial reserve estimate at Khrustalny zone (Dukat) of 11.5 Moz silver and 23 Koz gold (+167 Koz GE); and
- initial resources at Irbychan, Yolochka, Nevenrekan (Omolon hub) which, combined, added 298 Koz of gold equivalent.

In 2016, we plan to further expand our brownfield exploration activities at all processing hubs and to continue to pursue new greenfield exploration targets through the acquisition of new licences in key regions, including Karelia (for PGMs), Urals, Armenia and Kazakhstan.

Solid fundamentals and outlook

Reserves and resources

In 2015, our reserves remained almost unchanged as we were largely able to compensate for the depletion of existing mines by new reserve additions. Gold reserves decreased by 1% to 17.7 Moz, and silver reserves decreased by 2% to 207.2 Moz, while copper reserves increased by 7% to 85.4 thousand tonnes. Gold equivalent reserves decreased by 4% to 20.8 Moz, mainly as a result of change in the gold/silver price ratio.

The increase in reserves due to revaluation and new discoveries (a combined increase of 1.4 Moz gold equivalent) almost matched the depletion at existing operations. These increases included an upgrade of reserves at Kyzyl to 7.3 Moz (following the results of the feasibility study), initial reserve estimates at Perevalnoye and Khrustalny (Dukat hub), Tarutin (Varvara) and underground reserves at Burgali and Tsokol (Omolon hub). We have also revalued upwards reserves at Birkachan, Dukat and Lunnoye due to cut-off grade revisions on the back of the Russian Rouble devaluation.

Mineral resources (additional to ore reserves) decreased by 12% in 2015 to 12.8 Moz of gold equivalent. Key drivers were the change in gold/silver price ratio and conversion of resources into reserves, including Kyzyl, Perevalnoye, and Tarutin. A more conservative approach has also been taken for the Oroch, Svetloye and Goltsovoye resources. Key brownfield resource additions during the year include initial resource estimates at the Primorskoye deposit (acquired in 2015), Khrustalny zone (Dukat hub) and Irbychan, Yolochka, Nevenrekan (Omolon hub), as well as the newly discovered Farida zone at Albazino.

Average reserve grade decreased to 4.2 g/t gold equivalent, mainly due to the change in the gold/silver price ratio, but continues to be one of the highest in our sector. Average resource grade increased by 15% to 4.8 g/t gold equivalent as a result of high-grade resource additions. We continued to use conservative gold and silver price assumptions, of US$1,100/oz and US$15/oz respectively, in both reserve and resource estimates in 2015 (2014: US$1,200/oz and US$17/oz).

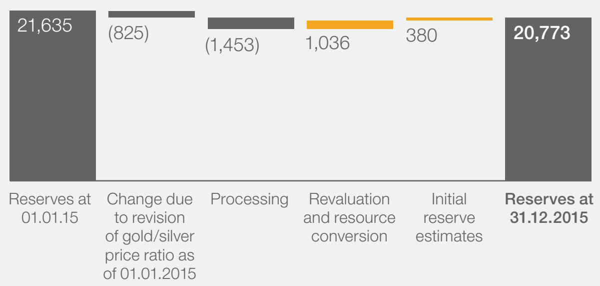
In 2016, we plan to complete independent audits of the initial resource estimates at our PGM project in Karelia (Viksha) and at the newly acquired assets: Lichkvaz in Armenia and Dolinnoye in Kazakhstan.

Ore reserves and mineral resources summary[1]

	1 January 2016	1 January 2015	Change, %[2]
Ore reserves (Proved + Probable), gold equivalent Moz	**20.8**	**21.6**	**-4%**
Gold, Moz	17.7	17.8	-1%
Silver, Moz	207.2	210.7	-2%
Copper, Kt	85.4	79.8	7%
Mineral resources (Measured + Indicated + Inferred), gold equivalent Moz	**12.8**	**14.6**	**-12%**
Gold, Moz	11.3	12.6	-10%
Silver, Moz	48.6	50.3	-3%
Copper, Kt	132.0	152.6	-13%

[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.

Movement in gold equivalent ore reserves (Koz)



Outlook for 2016

In 2016 Polymetal will focus on consistent operational delivery with a focus on safety at our existing mines, as well as moving the Kyzyl development towards meeting our first production target date in 2018.

Management will progressively concentrate its efforts on Kyzyl where construction is on track to start in Q2 2016, and pre-stripping will also commence. We take confidence in our development approach, with low capital intensity and conventional processing technology, which ensures a lower degree of operational risk during the construction and ramp-up period.

We will also focus on our new projects, including exploration drilling at the Nezhdaninskoye (a new joint venture with Polyus Gold) and the operational turnaround at the newly acquired Kapan mine in Armenia.

The Company is on track to produce 1.23 Moz of gold equivalent for 2016 and 1.30 Moz of gold equivalent for 2017[1]. First gold will be produced from the Svetloye heap leaching operation and ensure sustained production levels at the Okhotsk hub. We anticipate a continued strong performance at Dukat, Albazino, Voro and Omolon, and an improvement at Mayskoye and Varvara after the temporary production declines in the second half of 2015.

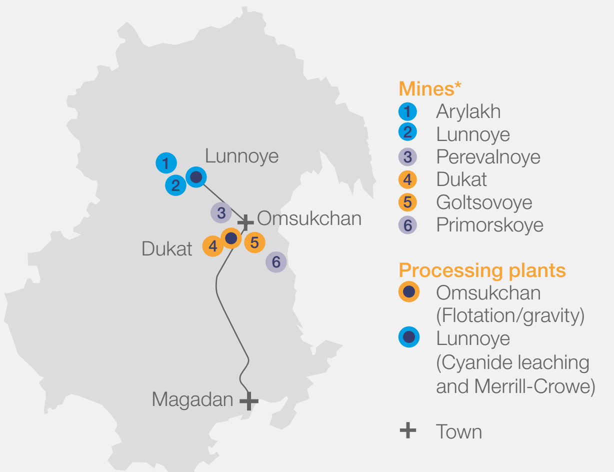
Importantly, in 2016, we will continue to be focused on health and safety performance, in particular at our underground mines, and our aim is to substantially improve our safety record.

[1] Guidance restated at the new gold/silver price ratio of 1/80.

Dukat

Record production with lower costs

Location: Magadan Region, Russia
Managing director: Mikhail Egorov
Employees: 1,892
Mining: underground
Processing: 1.8 Mtpa flotation (Omsukchan), 425 Ktpa Merrill-Crowe (Lunnoye)
Production start date: 2000
Life of mine: 2023 (Lunnoye), 2024 (Dukat)



3rd
Third largest silver deposit in the world

27.4 Moz
Silver production (+15%)

US$6.4 SE oz
Total cash cost (-26%)

2.2 Mt
Ore processed (+6%)

Dukat was a key driver of the Group's operating performance in 2015, producing a record 27.4 Moz and reducing total cash cost by 26% to US$6.4/Ag equivalent oz.

Mining

The annual amount of ore mined at the Dukat hub, which now includes four underground mines, grew 13% year-on-year to 2.2 Mt while underground development increased 11% year-on-year to match the increased mill throughput.

At the Dukat mine, a record volume of ore mined was achieved – 1,656 Kt (up 13% year-on-year). Underground development grew by 11% as a result of narrow ore bodies preparation. Underground garages were set up. We continued with the expansion of the fleet of small-scale equipment for mining narrow veins. Supporting machinery was supplemented by fuelling equipment and mine transport.

At Goltsovoye, mining continued at design capacity with 201 Kt ore mined at 486 g/t silver. Underground development increased by 10% year-on-year, mainly due to the development in ore zone 2 of grade control drilling and resource-to-reserve conversion.

At the Lunnoye mine, amounts of ore mined grew by 5% while average grades increased by 11% for gold, due to the redistribution of volumes between ore zones 9 and 7, and remained at the 2014 level for silver. Pilot cut-and-fill mining was successfully completed in horizontal layers in ore zone 7. Sublevel caving mining was launched in ore zone 9.

At Arylakh, total ore mined tripled year-on-year in line with the mine plan. Average gold and silver grades increased, by 51% and 2% respectively.

Processing and production

Processing volumes at the Omsukchan concentrator and Lunnoye plant continued to increase (up 6% and 4% year-on-year, respectively) due to debottlenecking through continuous improvement programmes. The volume of ore processed at Omsukchan rose to a new record of 1,817 Kt, with average grades increasing by 1% for gold to 0.7 g/t and by 11% for silver to 452 g/t. Silver and gold recoveries were sustainably high (85.3% and 85.7% respectively) due to an ore quality control system based on geological and process mapping. Gold and silver production increased by 4% and 14%, respectively, to 32.9 Koz of gold and 22.3 Moz of silver.

The Lunnoye plant demonstrated a very strong set of results: ore processed grew by 4% year-on-year to 416 Kt, with grades improving significantly by 15% for gold and 10% for silver due to input of high-grade ore from Arylakh and zone 7 underground mines. Average recoveries were strong at 90.5% for gold and 89.3% for silver. Gold production was 18.1 Koz, up 30% year-on-year, and silver production was 5.0 Moz, up 15%. The hub's total silver production was a record 27.4 Moz, up 15% year-on-year, due to continued strength of grades at the Dukat mine and steady increase in mine and plant throughput during the year. Gold production grew to 51 Koz, up 12% year-on-year.

Resources and exploration

Our near-mine exploration efforts were again focused on tracing ore bodies adjacent to the main deposits; for example, the Khrustalny zone next to Dukat has high-grade intercepts that represent a continuation of the Dukat ore bodies. At Perevalnoye, we focused on in-fill drilling (10 km) to refine the geometry of known-ore bodies and prepare them for pilot mining works. We have also commenced drilling at the newly acquired Primorskoye deposit where 5 km of drilling were performed to define ore zones 1 and 3. Drilling and resource modelling at Primorskoye are set to continue in 2016.

Priorities for 2016

In 2016, in order to reinforce safety monitoring, we plan to introduce position control systems for underground mining workers and equipment throughout all mines. At Dukat underground mine, any further increase in throughput will be limited due to increased mining from narrow veins. We will complete the integration of fuelling and mining transportation equipment into the automated business process. At Goltsovoye, after completion of in-fill drilling, we will commence underground development at ore zone 2. At the Lunnoye mine, we will fully transition to sublevel caving method in ore zone 9.

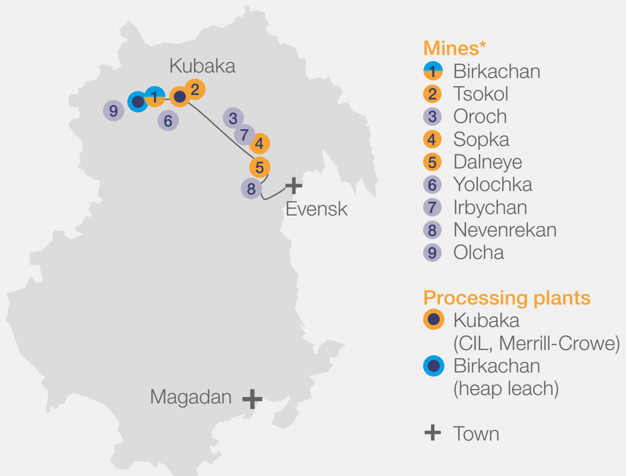
We expect to maintain strong gold and silver recoveries and throughput at both the Omsukchan concentrator and Lunnoye CIP, and maintain the solid production levels achieved in 2015.

*Processing plants and the mines feeding them are marked in the same colour. Exploration and development projects are marked in lilac.

Omolon

Flexible feedstock ensures profitability

Location: Magadan Region, Russia
Managing director: Vladimir Bloshkin
Employees: 738
Mining: open pit/underground
Processing: 850 Ktpa CIP/Merrill-Crowe (Kubaka)
Production start date: 2010
Life of mine: 2023



188 Koz
GE production (-12%)

US$555 GE oz
Total cash cost (-2%)

50%
Adjusted EBITDA margin (2014: 51%)

* Processing plants and the mines feeding them are marked in the same colour. Exploration and development projects are marked in lilac.

Omolon continued

At Omolon operations, gold equivalent production decreased by 12% year-on-year to 188 Kt as the Kubaka plant chiefly processed ore with lower gold grades from Dalneye and Sopka stockpiles. Tsokol is switching to underground mining and we have resumed open-pit mining at Birkachan, devaluation making it economically attractive, and have started open-pit mining at Oroch.

Mining

In 2015, the total ore mined decreased by 20% to 1,990 Kt following the completion of open-pit mining at Sopka and Dalneye. Open-pit mining resumed at Birkachan, on the back of strong economics supported by devaluation of the Rouble, with 779 Kt of ore mined. Underground operations there were postponed due to extension of open-pit reserves and the consequent redirection of the underground operations to Tsokol.

At Tsokol, the amount of ore mined was 176 Kt, a 45% decrease compared with 2014 as we completed open-pit mining. Underground development continued while the first 4 Kt of ore were mined from development openings.

At Dalneye, ore mining and ore volumes for transportation to the Kubaka mill for processing increased as we accelerated the completion of open-pit mining.

At Oroch, open-pit mining commenced with a total of 400 Kt of ore mined, ahead of original schedule. The additional volumes will enable optimised throughput at the Kubaka mill in 2016.

Processing

Throughput at the Kubaka mill remained stable, with 835 Kt of ore processed during 2015 (up 1% year-on-year). Recoveries for both gold and silver increased to 95% and 86.8% respectively. Average grades processed decreased by 16% for gold to 5.6 g/t and increased by 14% for silver to 151 g/t, due to a large share of ore processed from Sopka and Dalneye with high silver grades. As a result, gold production at Kubaka decreased by 18% to 144 Koz and silver production was up 19% to 3.5 Moz.

There was no ore stacking and processing of accumulated stockpiles at the Birkachan heap leach, however the process is expected to resume in 2017.

Reserves, resources and exploration

At Tsokol, we are continuing down-plunge drilling and exploration at deep horizons in order to increase resource base. We have also started exploration drilling at Yolochka (40 km south of the Kubaka plant, 5 km drilling in 2015) and Irbychan (150 km south of the Kubaka plant, 6 km drilling in 2015) which may become the next satellite deposits for the hub.

Priorities for 2016

In 2016, in order to reinforce safety monitoring, we plan to introduce position control systems for underground mining workers and equipment at the underground mines, including Tsokol and Birkachan (where underground mining will be resumed). At Oroch, full scale will be achieved at the open-pit mine, with the completion of ore mining scheduled by the end of 2016. Open-pit mining at Olcha will start in Q3 2016, with a subsequent switch to underground mining. We plan to process ore from Olcha at the Kubaka plant.

Gold production at the Kubaka mill is set to increase, while silver production will decline as the shift in the Omolon hub's ore feedstock mix will provide ores with higher gold and lower silver grades.

New brownfield exploration areas, such as Nizhniy Birkachan and Ryzhik, will be incorporated into the hub's drilling programme in 2016.

Amursk POX

Delivering a solid and reliable performance

Location: Khabarovsk Territory, Russia
Managing director: Vadim Kipot
Employees: 352
Processing: 500 tpd POX + cyanidation
Production start date: 2011

Mines
1 Albazino
2 Mayskoye

Processing plants
Amursk POX (POX + cyanidation)

+ Town
Sea port

167 Kt
Concentrate processed (+2%)

94%
POX recovery (+0%)

260 Koz
Total gold production (+9%)

2015 highlights

In 2015, the Amursk POX plant worked steadily at the design parameters while gradually increasing throughput. The concentrate processed increased by 2% year-on-year to 167 Kt, while total gold production amounted to 260 Koz of gold equivalent (up 7% year-on-year). The production increase was also propelled by the higher average grade processed (at 52.6 g/t, up 4% year-on-year), due to the higher share of Mayskoye concentrate in the feed. The mix was enhanced to achieve an optimal sulphur grade in the POX process feed.

Concentrate processed from Albazino dropped to 143 Kt (down 6% year-on-year) while the average grade was 52.3 g/t gold (up by 4% year-on-year). Concentrate processed from Mayskoye increased to 22 Kt (up 125% year-on-year) with the average grade at 57.9 g/t (up by 5% year-on-year). Recoveries from both Albazino and Mayskoye concentrate amounted to 94% and, in the case of Mayskoye, consistently exceeded design levels. Trial batches of third-party concentrate were processed and achieved similar recovery levels. These purchases are expected to continue in 2016.

We are very sad to report the untimely passing of Mr Viktor Nikitanov, managing director of Amursk POX since 2012, who made a great contribution to the Company.

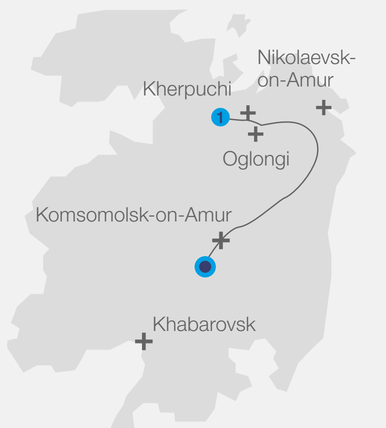
Priorities for 2016

In 2016, the share of Mayskoye concentrate processed through the POX will further increase as sufficient stockpiles have now been built up. We are targeting stable gold recoveries at 94% for both Albazino and Mayskoye concentrates. To supplement the internal feed, we plan to process concentrate from third parties should it become available in 2016.

Albazino

Underground reserves incorporated into production profile

Location: Khabarovsk Territory, Russia
Managing director: Alexei Sharabarin
Employees: 940
Mining: open pit/underground
Processing: 1.6 Mtpa flotation
Production start date: 2009
Life of mine: 2030



49 Kt
First 49 Kt ore mined from underground

US$460 GE oz
Total cash cost (-26%)

220 Koz
Total gold production (-3%)

In 2015 Albazino produced 220 Koz of gold; 3% lower year-on-year due to a 6% reduction in POX concentrate throughput, which was partially offset by the increase in grades and recoveries. The gold in concentrate produced increased to 233 Koz, up 7% year-on-year.

Mining

The open-pit mine at Albazino continues to run in accordance with the mine plan and with a stable grade profile. The amount of ore mined decreased 2% year-on-year to 1,533 Kt. Underground mining commenced in the Olga ore zone. First stopes were successfully completed, meeting tonnage and grade estimates, with 49 Kt mined. As a result, the total ore mined increased by 1%. We continued testing the use of the cut-and-fill method to optimise the underground mining system. Laser scanning has been implemented in the underground mine.

Processing

Ore processed was at the level of 2014 and amounted to 1,607 Kt with average grades processed of 5.2 g/t gold (up 8% year-on-year), while recoveries reduced by 1% to 87% due to the processing of ore with partially oxidised minerals from the top levels of the Olga ore zone. 136 Kt of concentrate with an average grade of 53.3 g/t were produced. The concentrate was processed at the Amursk POX plant. The application of a combined lining (rubber and steel) at the SAG mill helped reduce power consumption at the plant.

Exploration and development

We continued our brownfield exploration programme at Albazino in 2015. It involved drilling at the flanks of the Ekaterina-2 zone and at the newly discovered Farida zone, east of Ekaterina.

Priorities for 2016

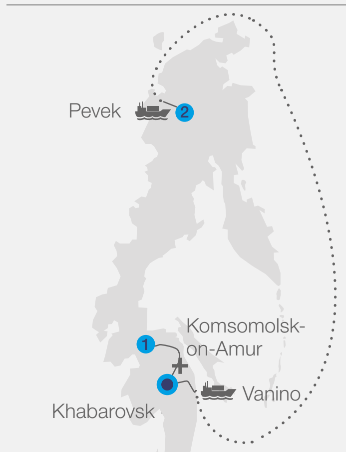
In 2016, we expect to complete testing of cut-and-fill options at the underground mine and source increasing volumes of ore from underground.

Position control systems for underground workers and equipment to reinforce safety monitoring will be introduced. We will begin drilling a transport adit for the Anfisa ore zone. In the Olga zone, we will complete open-pit mining. We will start pre-development works at the Ekaterina-1 and Ekaterina-2 ore zones.

Mayskoye

New mining methods for safer production

Location: Chukotka, Russia
Managing director: Evgeniy Tsybin
Employees: 847
Mining: underground
Processing: 850 Ktpa flotation
Production start date: 2011
Life of mine: 2023



8.4 g/t
Average reserve grade

US$752 GE oz
Total cash cost (-22%)

94%
POX recovery (+2%)

138 Koz
Total gold production (-3%)

In 2015, Mayskoye produced 138 Koz of gold, a slight decrease compared with 143 Koz in 2014. The production was split between the in-house POX processing (40 Koz) and concentrate offtake to China, which amounted to 98 Koz. It was a challenging year for the Mayskoye underground mine with 3 fatalities, which triggered an in-depth review and change of underground mining methods in the second half of the year with a consequent temporary reduction in volumes.

Mining

Persistent geotechnical problems with ground stability were partially responsible for fatalities at the mine. In response to these events, we accelerated a planned changeover from drift-and-fill mining to sublevel open stoping with backfill. The new mining system will ensure that employees are not exposed to rock falls within the partially broken stopes since all ore production drilling will be done from drawpoints.

As a result, ore mined at Mayskoye was 628 Kt, down 4% year-on-year. Average grade was 6.4 g/t (compared with 8.4 g/t in 2014) due to both the complex geological and mining conditions, and a transition to the new mining method that limited the availability of prepared extraction blocks at the target grade. Currently, mining is ramping up as stopes are redeveloped using a new mining method (sublevel open stoping with backfill). The current rate is approximately 2,000 tpd with dilution in line with forecasts.

We also commenced in-fill drilling for oxidised and transitional ore, and continued within the crown pillar, in order to evaluate open-pit mining and CIP processing of these reserves.

Processing

In 2015, a total of 683 Kt of ore (down 15% year-on-year) with an average gold grade of 6.71 g/t (down 23% year-on-year) were processed, while average recoveries comprised 85.95% (up 3% year-on-year). The decrease in volume and grade is attributable to the change in mining method, forcing the processing of lower-grade historic stockpiles in Q3 and concentrator stoppage in November. As a result, the gold in concentrate produced decreased by 33% year-on-year and comprised 126 Koz.

Priorities for 2016

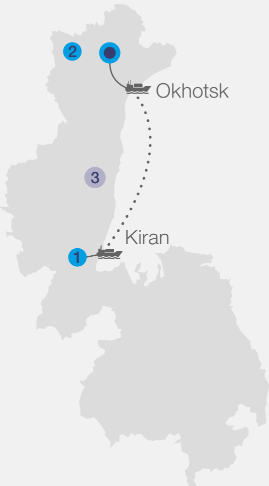
In 2016 we expect to deliver a more stable performance in terms of both mining and processing. Electric accumulator-driven underground trucks will be brought in to reduce ventilation costs and prevent stopes thawing. We will start the preparatory works for open-pit mining of oxidised ores.

The concentrator was successfully restarted in February 2016, as the mine had accumulated sufficient amounts of high-quality ore to maintain full capacity. As a result, an increase in the concentrator throughput with higher average grades is anticipated. We are planning to add a concentrate decarbon-isation section in the flowsheet in order to optimise concentrate parameters for processing at the Amursk POX plant.

Okhotsk

Focusing on life-of-mine extension

Location: Khabarovsk Territory, Russia
Managing director: Alexander Akamov
Employees: 1,366
Mining: open pit/underground
Production start date: 2003
Life of mine: 2024



100 Koz
Gold production
(+2%)

1.2 Moz
Silver production
(-32%)

US$573 GE oz
Total cash cost
(-19%)

631 Kt
Ore processed
(+1%)

Mining
The annual amount of ore mined at the Okhotsk hub decreased considerably in 2015 by 63% to 399 Kt. This was due to the completion of mining at two mature assets – Khakanja and Ozerny – and the subsequent sale of the Khakanja open-pit mine.

Avlayakan underground mine reached its design capacity and produced 114 Kt of ore in 2015, with average grade in ore mined of 11.0 g/t gold and 170.7 g/t silver.

Processing and production
Annual gold production during 2015 increased by 2% in accordance with expectations. Silver production decreased by 32% as the Khakanja open-pit mine was depleted. The plant used ore from Ozerny and Avlayakan as well as historic stockpiles. Both throughput and recovery remained stable.

Svetloye development project
At Svetloye, construction is progressing on schedule and the heap leaching operation is on track to produce first gold in 2016. Summer navigation was successfully completed with all materials delivered to the access point at Unchi. The accommodation camp and fuel storage depot have been commissioned. Open-pit mining commenced at the end of the year and was resumed at the start of 2016.

Resources and exploration
With the depletion of historic resources, brownfield exploration at Okhotsk hub is of primary importance. Our drilling programme in 2015 focused on the Khotorchan and Gyrbykan deposits where open-pittable ore bodies with an average grade of 14 g/t and 13 g/t gold were discovered.

We are continuing step-out drilling at the flanks of Svetloye. In 2015, we identified a new Levoberezhny zone with gold/silver mineralisation and promising intercepts. The works will continue during 2016.

Priorities for 2016
In 2016 we will focus on the optimisation of mining equipment at the hub, with excess items to be transferred to Olcha mine (Dukat hub).

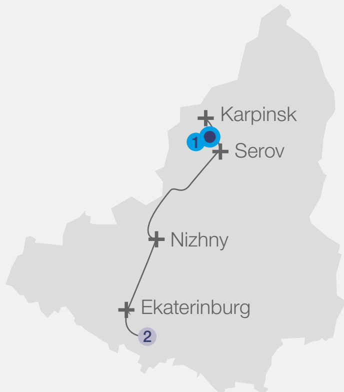
The processing volume in 2016 is expected to remain flat, with feed drawn from Khakanja and Ozerny ore stockpiles on-site as well as from newly mined Avlayakan ore. Nevertheless, before the ramp-up of Svetloye, further grade-driven decreases in gold and silver are expected in 2016.

Our brownfield exploration in 2016 will involve a number of new licence areas, while we will also continue step-out and in-fill drilling at existing exploration projects.

Voro

Excellent cost profile for a mature operation

Location: Sverdlovsk Region, Russia
Managing director: Andrey Novikov
Employees: 890
Mining: open pit
Processing: CIP, heap leach with CIC
Production start date: 2000 (Voro heap leach), 2005 (Voro CIP)
Life of mine: 2026



139 Koz
Gold production
(-12%)

US$336 GE oz
Total cash cost
(-11%)

924 Kt
Ore processed
(+1%)

Despite the mature stage of operations and a moderate scheduled decrease in production (mainly due to depletion of heap leach ore), Voro demonstrated an excellent operating and financial performance, making a significant contribution to free cash flow.

Mining
In 2015, total volumes of ore mined at Voro decreased by 8% to 1.75 Mt, due to a 60% decrease in oxidised ore volumes, while primary ore mined increased by 46%. Both types of ore saw the gradual decrease in grade as the mine approaches its maturity stage.

Significant efforts were made to optimise the mining process. Blasting operations were outsourced.

Processing and production
Heap leach operations entered seasonal stoppage earlier than usual due to the gradual depletion of oxidised ore. Nevertheless, total gold production at the heap leach plant was up 3% year-on-year, driven by higher grades and the switch from Merrill-Crowe recovery to carbon-in-column technology.

Total gold production decreased 12% to 139 Koz, driven by the planned decrease in grade and a related decline in CIP recoveries.

Resources and exploration
Our exploration targets mainly include satellite deposits that may provide oxidised ore for heap leaching operations and gold/copper ores for flotation. We completed 10 km of drilling at the Shilovskaya and Verkhoturskaya areas in 2015. We also resumed exploration at the Tamunier deposit where relatively high grade (3-5 g/t) polymetallic ore bodies were discovered. We are finalising the feasibility study for the North Kaluga gold/copper deposit.

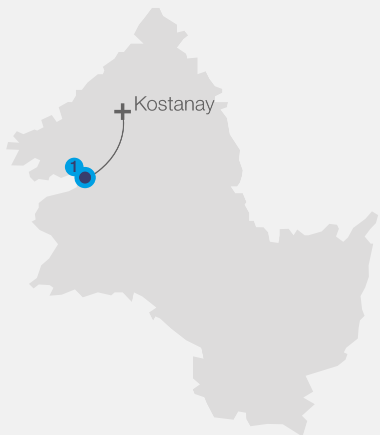
Priorities for 2016
In 2016 mining activities will be focused on the Central and Western parts of the South-Eastern pit.

We expect the heap leach will operate at 40-50% capacity in 2016 while the average grade processed is expected to increase slightly. At the CIP plant, an increase in processing volumes combined with a slight decrease in grade is expected.

Varvara

Improving grade and understanding variable metallurgy

Location: Kostanay Region, Kazakhstan
Managing director: Alexander Simon
Employees: 825
Mining: open pit
Processing: Leaching for gold ore (3.0 Mtpa)/ flotation for copper ore (1.0 Mtpa)
Production start date: 2007
Life of mine: 2030



US$818 GE oz
Total cash cost
(+16%)

3.5 Mt
Ore processed
(-6%)

Mining
Mining in 2015 was mainly concentrated in the Central, Southern and North-Western pits. Mining volumes increased slightly to 4,068 Kt although we experienced a reduction in grades.

Processing and production
Gold production decreased by 30% to 68.2 Koz, driven largely by lower grades and complex metallurgy in the currently mined ores. Copper production, which was resumed in 2015, was also impacted by lower grade sources from stockpiles. At the leaching circuit, 3,142 Kt was processed in 2015 (up 1% year-on-year) while the flotation circuit processed 315 Kt (down 42% year-on-year as copper production was only resumed in Q2).

In July 2015, we completed the construction of and launched a 13 km railway spur at Varvara, enabling the long-distance transportation of third-party material and resulting in a sizeable reduction in concentrate transportation costs.

Resources and exploration
We have completed exploration drilling at the Tarutin deposit in the Chelyabinsk Region with a proven significant potential for becoming a satellite deposit for Varvara given its reserves and resources of 47 Koz and 50 Koz GE, respectively.

Priorities for 2016
Mining works will be focused on the Central, North-Eastern and Southern pits. We will also commence the Prirechny pit development.

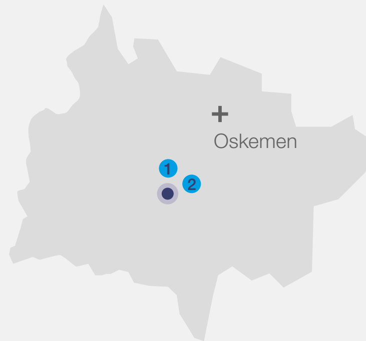
We expect an improvement both in grade and recovery from the beginning of 2016 as mining works will be redirected to new zones and additional measures to improve geotechnical mapping will be implemented.

Purchase of third-party ore is expected to resume in 2016 on the back of the lower Tenge exchange rate and reduced transportation costs due to the recently opened railway spur. We will also continue the feasibility study at the Tarutin deposit, which may become another component of the hub strategy at Varvara.

Kyzyl

One of the world's best development-stage gold projects

Location: Oskemen Region, Kazakhstan
Managing director: Yuri Ovchinnikov
Employees: 267
Scheduled production start date: 2018
Life of mine: 22 years



7.3 Moz
Gold reserves

7.7 g/t
Average reserve grade

22 years
Estimated life of mine (Bakyrchik)

32%
IRR at US$1,200/oz gold

In November 2015, just 14 months after the acquisition of the project, we completed the project feasibility study at Kyzyl. The feasibility study, audited by Roscoe Postle Associates, confirmed the economic viability of Polymetal's development approach characterised by low capital intensity and operating risk.

It will include a 1.8 Mtpa open pit to be mined for the first 10 years, followed by 12 years of underground mining at 1.2 Mtpa. Ore will be processed by sulphide flotation with concentrate to be sold to third-party processors. A 1.8 Mtpa flotation plant will produce 325 Koz of payable gold in concentrate per year on average from open pit mining followed by 270 Koz of gold in concentrate from underground mining.

The high grade ensures robust project economics:

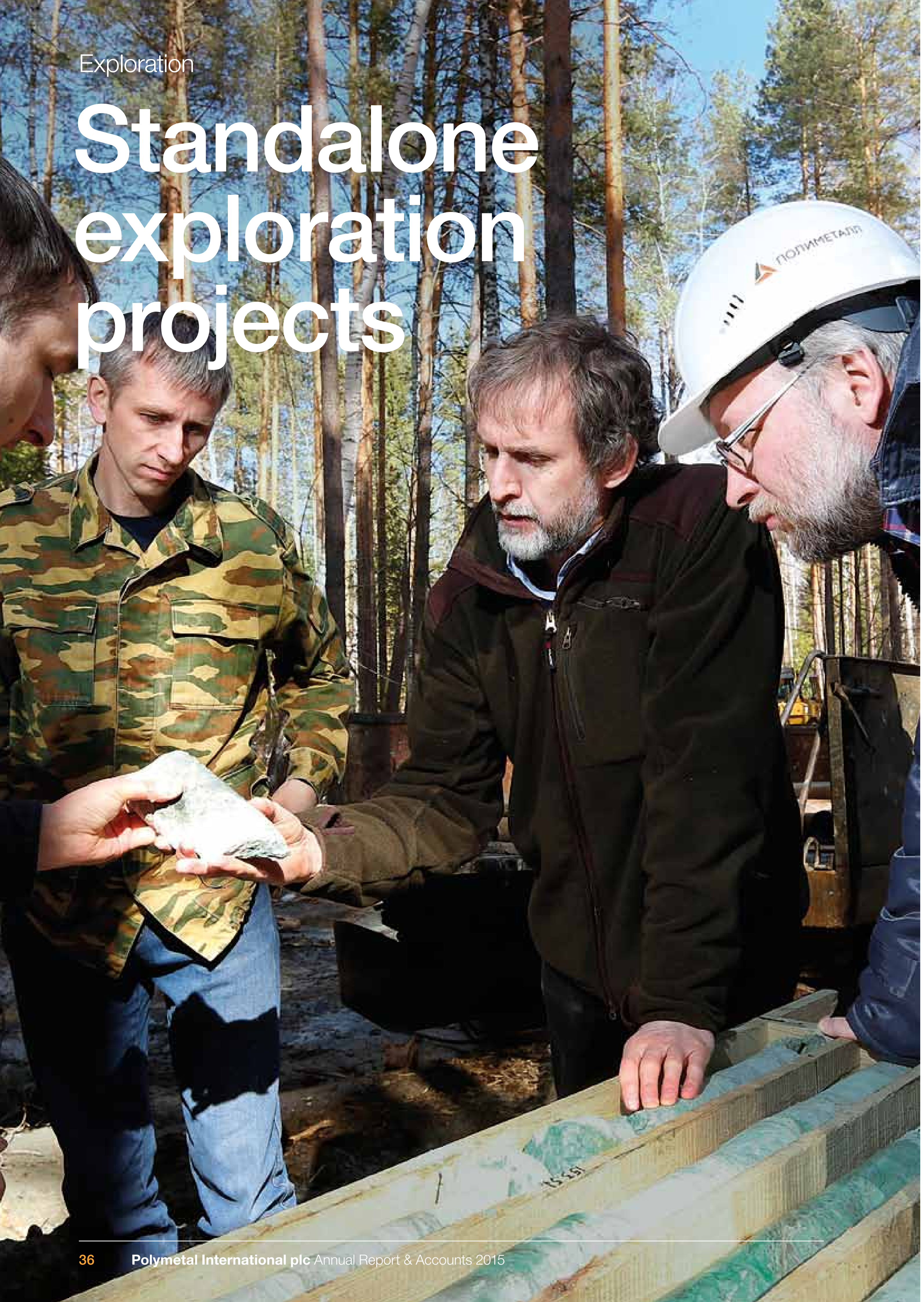
- The average All-in Sustaining Cash Cost is US$630/oz of gold and the average Total Cash Cost is US$591/oz of gold.
- Initial capital expenditures are estimated at US$328 million, and have benefited a lot from the devaluation of Rouble and Tenge. An additional US$69 million will be invested in pre-production stripping in 2016-2017. Sustaining capital is estimated at US$228 million over the life of mine.
- Underground mine start-up costs in 2024-2027 are estimated at US$202 million.
- Project IRR of 32% (after tax) was estimated at the gold price of US$1,200/oz, RUB/US$ exchange rate of 72 and Tenge/US$ exchange rate of 300, and is very resilient to any adverse movement in commodity prices or exchange rates.

Based on the feasibility study results, the Board approved the construction which is expected to start in Q2 2016. In the meantime, we have been conducting preparatory works on-site in 2015. These included dismantling of the old buildings in the zone of the future open pit, and preparation of the site infrastructure such as roads, administrative buildings and local power networks. We have also signed contracts for the major items of the mining fleet, including trucks (made in Belarus) and electric shovels (made in Russia). The first equipment arrived on-site in early 2016, and the pre-stripping is expected to commence in Q2 2016. Contracting of processing equipment is well underway.

In 2015, we also completed the environmental and social impact assessment (ESIA) for the project. As part of this assessment, we conducted public hearings for the project approval by the local communities and received their full support.

At Bolshevik, a satellite deposit to the main Bakyrchik deposit at the Kyzyl project, we have performed 10 km of core drilling during 2015 in order to prepare for a JORC resource estimate. Bolshevik is set to become a significant contributor of ore feedstock to Kyzyl once the main Bakyrchik deposit shifts to underground mining, following the first nine years of operation.

Standalone exploration projects



232 km
Drilling volumes
(-14%)

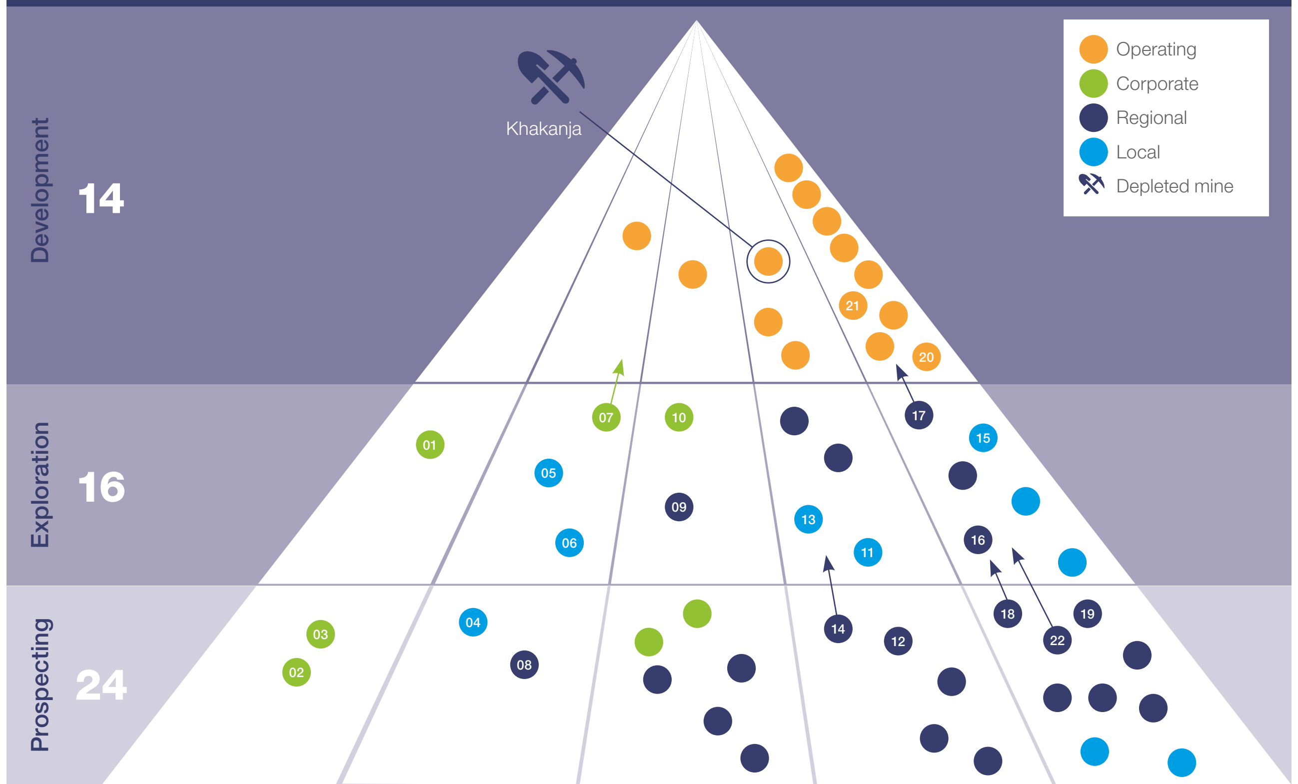
774 Koz GE
Initial resource estimates in 2015

Our sustained investment in both greenfield and brownfield exploration is one of the core pillars of our strategy as our continued growth is conditional on the replenishment and further increase in our ore reserves and mineral resources. We continue to explore areas adjacent to our processing and potential hubs (brownfield exploration) in order to extend the life of mine of existing operations. At the same time, we maintain an active portfolio of greenfield exploration projects with the potential to become sizeable standalone operations. The advancement of each exploration project is subject to a rigorous review through pre-established project stages that are linked to our estimate of its resource potential and economic prospects. At any stage, a project may be terminated, suspended or moved to the next exploration stage.

Our key greenfield exploration targets for 2015 were:

- continued exploration for platinum group metals (PGM) deposits in the Karelia and Ekaterinburg regions in order to establish new hard-rock PGM resources sufficient for a standalone mining operation; and
- exploration at key greenfield gold assets (including the newly acquired Lichkvaz (Armenia) and Dolinnoye (Kazakhstan), North Kaluga and Tarutin (Urals).

Exploration projects



Karelia	Kazakhstan	Ural	Khabarovsk	Magadan and Chukotka
01 Viksha	04 Flanks of Varvarinskoye	09 North Kaluga	11 Svetloye	15 Dukat ore field
02 Kuolisma	05 Bakyrchik (flanks)	10 Tarutin	12 Levoberezhnaya	16 Burgali
03 Kalaomo	06 Bolshevik (flanks)		13 Albazino	17 Olcha
	07 Dolinnoye		14 Gyrbykan	18 Irbychan
	08 Satpaevskoye			19 Yolochka
				20 Oroch
				21 Tsokol
				22 Primorskoye

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Pursuing further growth opportunities

Key greenfield projects

Karelian PGM

Our key PGM asset, Viksha, is very well-positioned for establishing a large PGM resource in Karelia, an accessible region with developed infrastructure. Currently, we are awaiting a conversion from exploration to mining licence at Viksha in 2016, which will allow us to publish the maiden JORC resource estimate for the project and open up pathways to further project development. Our exploration programme in Karelia extends well beyond Viksha, involving a number of nearby licence areas.

Dolinnoye (Kazakhstan)

At the Dolinnoye deposit, where Polymetal currently holds 25% with a further earn-in option for additional 25%, we have conducted in-fill and step-out drilling. We are currently preparing the deposit for a pilot mining project with ore sold to a third party.

Lichkvaz (Armenia)

Polymetal acquired an initial 25% stake in Lichkvaz in April 2015. Lichkvaz is located in the Meghri area of the Syunik-Marz province of southern Armenia, 380 km south of Yerevan. The infrastructure in the area is developed, with the availability of power, water, accommodation and a skilled labour force. A previous resource estimate (not JORC compliant) put the total mineral endowment of the property at 2.4 Mt of material at 6.9 g/t in the inferred category for approximately 0.5 Moz of gold equivalent contained.

Following successful exploration drilling, performed during the surveying season in 2015, a decision was taken to increase the Company's interest to 100%. Drilling has been completed, with 15.8 km drilled across 70 diamond drill holes. We plan to complete a resource estimate (JORC compliant) for release in Q2 2016.

Exploration areas and volumes (mine site exploration excluded)

	Drilling, km 2015	Drilling, km 2014[1]
Brownfield		
Voro	15.2	12.8
North Kaluga	5.2	5.2
Voro flanks	3.1	–
Tamunier	6.9	7.6
Varvara	**37.6**	**36.1**
Varvara	32.3	3.3
Tarutin	5.5	32.9
Dukat hub	**38.9**	**46.0**
Dukat flanks	19.6	29.9
Primorskoye	5.0	–
Perevalnoye	10.0	–
Olcha	0.7	11.5
Other	3.6	4.6
Albazino	**16.0**	**75.5**
Okhotsk hub	**11.9**	**17.7**
Ozerny	–	8.3
Khotorchan/Gyrbykan	2.8	–
Svetloye	3.6	6.1
Other	5.5	3.3
Omolon hub	**15.6**	**17.2**
Burgali	1.6	6.2
Yolochka	4.7	–
Irbychan	5.7	–
Other	3.6	11.0
Kyzyl	**45.6**	**16.8**
Bakyrchik	36.1	16.8
Bolshevik	9.5	–
Subtotal	**180.8**	**222.1**

	Drilling, km 2015	Drilling, km 2014[1]
Greenfield		
Urals	**10.6**	**16.7**
Maminskoye	–	5.4
Svetlobor (PGM)	2.4	3.6
Urals regional	8.2	7.7
Far East	**–**	**5.4**
Kutyn	–	5.4
North-West	**–**	**24.6**
Karelian PGM	–	18.7
Elmus	–	5.9
Kazakhstan		
Dolinnoye	24.3	–
Armenia		
Lichkvaz	15.8	–
Subtotal	**50.7**	**46.7**
Total	**231.5**	**268.8**

[1] Restated data.

Ensuring a sustainable future

Safety and Sustainability Committee established

FTSE4Good index inclusion

At Polymetal, we are committed to delivering sustainable value for all our stakeholders. For us, this means generating returns for our shareholders while fulfilling our responsibilities to society and the environment. By balancing our commercial interests with those of local communities and natural habitats, we are working to ensure a sustainable future.

Our approach

Sustainability forms a core part of our overall business strategy. Shaping our interactions with society and the environment, it is essential to our licence to operate and to our long-term future as an organisation. At the heart of our business ethos and operations, we have developed long-term commitments to safety, efficiency, community engagement and environmental protection. We also help to deliver economic development and prosperity in the regions where we operate.

In 2015, we established a dedicated Safety and Sustainability Committee; a clear sign of our commitment to systems and processes that will enhance our overall sustainability performance. During the year, we continued our strong focus on safety, health and the environment, reinforcing efforts to achieve zero harm while maintaining operational excellence. We also continued to focus on economic sustainability, working to ensure that, through in-house exploration and acquisition of new assets, we will extend the life of our business for many years by replenishing our reserves.

Our sustainability strategy is designed to meet the principles of the UN Global Compact, a voluntary international standard which Polymetal first signed up to in 2009. For the past six years we have complied with the Compact's ten principles in relation to human rights, labour, environment and anti-corruption. We also participate in the UN Global Compact Network Russia.

These standards, along with our corporate values of dialogue, compliance, ethical conduct, fairness, stewardship and effectiveness, help to inform our sustainability policies and management systems. We define these policies at Group level and implement them via our head office and subsidiaries. We also ensure that, through regular monitoring and auditing, we benchmark our performance against the most up-to-date regulatory requirements.

Stakeholder engagement and materiality

It is essential that our sustainability programmes and initiatives address those issues that are most relevant, or 'material', to our stakeholders. For this reason, we adhere closely to the principles of stakeholder inclusiveness and materiality that form a core part of the Global Reporting Initiative's (GRI) prioritisation guidelines. In order to identify the stakeholders on which we have the greatest impact, we regularly conduct stakeholder mapping exercises.

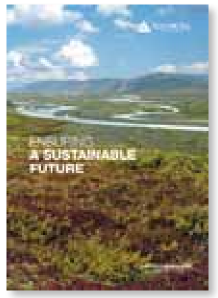
Sustainability focus areas

- Improving our health and safety system through more sophisticated visualisation, risk management systems and more rigorous monitoring within the Company and with our supplier network.
- Maintaining positive working relationships with local government, NGOs and communities by enhancing our partnership agreements and increasing the effectiveness of our investments.
- Attracting and retaining more high-quality people and improving the quality and terms of their employment.
- Further developing our certified environmental management system and embedding the system into production operations.
- Enhancing the rigour and transparency of our communications with suppliers, subcontractors and partners.
- Water and energy efficiency programmes.

Once we have identified these core groups, we engage with them and record all issues and concerns they raise. This process gives us insight into the issues that matter most to our stakeholders and ensures that we incorporate their ideas and opinions into our decision making. To reinforce these efforts, each year we conduct an in-depth materiality analysis to identify the key 'aspects' we need to tackle in our sustainability initiatives and reports. These six core focus areas are set out above.

Sustainability risk management

Risk management is another key component of our approach to sustainability. Drawing on our engagement and dialogue with stakeholders, we work hard to identify, manage and mitigate the sustainability risks that Polymetal faces. Responsibility for this process lies with the Board's Audit and Risk Committee and Safety and Sustainability Committee (read more on pages 64-69).



Sustainability Report 2015

This section of our Annual Report presents an overview of Polymetal's sustainability approach and performance in 2015. We have also published a full Sustainability Report 2015, which provides more detailed coverage.

This and copies of our previous reports are available on our website, along with regular updates about our sustainability activities during the year:
www.polymetalinternational.com/sustainable-development.

Measuring sustainability performance

The table below outlines the key goals against which we measure our sustainability performance. It details our progress over the last year in achieving the economic, environmental and social goals that will help us deliver a sustainable future for our business, our employees and the communities in which we operate.

Goals	2015 outcomes
Economic	
Ensure financial stability and shareholder returns	• Generated a healthy free cash flow of US$263 million; coupled with a strong balance sheet this translated into cash returns for our investors
Pursue further growth opportunities	• Acquired Primorskoye, a silver/gold site 215 km from our Omsukchan concentrator • Increased our interest in Lichkvaz and began initial exploration drilling • Entered a new joint venture with Polyus Gold at Nezhdaninskoye, the fourth largest gold deposit in Russia based on GKZ resources
Maintain excellent working relationships with suppliers	• Worked with large, global manufacturers who operate to the highest international standards on services, employment, quality and environment and local suppliers who provide relevant legal and financial documentation. Around 48% of our supplier purchases come from within the regions where we operate.
Environment	
Reduce our environmental footprint	• Invested US$5.1 million in environmental protection – 36% on protection of water resources, 54% on land reclamation and 9% on the reduction and purification of air emissions
Social	
Embed robust safety procedures and safeguard employee well-being	• Strengthened safety procedures, especially those aiming to prevent the risk of rock mass fall in underground mines • Established a dedicated Safety and Sustainability Committee • Began an in-depth review of the safety and environmental management systems • Developed measures and incentives for better safety performance • Implemented safety monitoring and control software • Involved contractors in risk management and health and safety control procedures
Build a motivated, loyal and capable workforce	• Reduced turnover by 28%, from 11.4% to 8.3% • Promoted internal employee mobility and achieved high job satisfaction levels across the business – on average over 65% in all areas • Invested US$678,000 in professional training, and as a result 88% of our employees received development training
Maintain strong links and relationships in the regions where we operate	• Developed community cooperation agreements – 21 agreements in 2015 compared to 18 in 2014 • Invested US$3.6 million in social and support and territorial development programmes, including US$1.2 million on 30 health and education projects, US$200,000 on infrastructure programmes, US$1.3 million on sports and healthy well-being initiatives, US$375,000 on cultural activities and US$108,000 on support projects for indigenous people.

Environment

Minimising our environmental footprint

We are committed to balancing our commercial interests and operational goals with the need to protect the natural environment. To this end, we manage and mitigate our risks and conduct our business in an environmentally responsible way.

We carry out highly complex processes, which generate large volumes of emissions and waste materials. We also use toxic substances, such as cyanide, and oversee operations in remote rural locations which can impact the natural environment.

To ensure we are able to manage and mitigate these risks, we have developed a Group-wide environmental management system (EMS) which adheres to national and international standards, legislation and best practice. It is overseen by dedicated environmental teams who now report directly to our Environment Department, which is responsible for collating and managing all Group-wide sustainability data. The Head of the Environment Department reports directly to the Chief Operating Officer (COO), our Group CEO and Chief Sustainability Officer. The system focuses on driving resource and energy efficiency, preventing pollution, employee engagement and using modern equipment and technologies.

As a result of our work in this area, and following a certification audit by an independent environmental assurance agency, in 2015 we initiated a three-year transition programme designed to achieve compliance with the revised ISO 14001:2015 standard. This programme will enable us to ensure that our EMS is compatible with key trends, such as an increased focus on leadership and strategic planning processes.

The Polymetal EMS is underpinned by our environmental policy, which can be viewed at www.polymetalinternational.com.

Auditing and compliance

In 2015, we continued our excellent compliance record in relation to environmental laws and regulations, receiving no significant fines or non-monetary sanctions for breaches or infringements. Historically, we have had no major environmental incidents and there were no spills or leakages in 2015. In our contractual agreements with suppliers, we insist on compliance with all applicable laws and regulations.

We enable our stakeholders to articulate their concerns and share their grievances by complying with rigorous environmental impact assessment procedures, including public hearings and other mechanisms.

Training is critical to ensure our staff are up-to-speed with key environmental issues and developments; we supplement our professional development programmes with site visits and conferences. In 2015, executive environmental personnel across the Group received formal training in environmental audit.

Investment in environmental protection

During 2015, our overall investment in environmental protection was US$5.1 million[1], a slight increase from US$4.9 million in 2014. Of this total, 36% went into the protection of water resources, 54% into land reclamation and 9% into the reduction and purification of atmospheric emissions.

Kyzyl environmental and social impact assessment

In 2015, two top international consultants completed a detailed review of the Kyzyl gold project in East Kazakhstan and issued a formal environmental and social impact assessment (ESIA) report, along with a project feasibility study, outlining priority action areas and benchmarking the project. Following detailed analysis of the management plan's findings, in 2016 we will implement best practice recommendations and solutions at Kyzyl and other production sites. These recommendations will help us address all social and environmental impacts in line with the International Finance Corporation Performance Standards and World Bank Environmental Health and Safety Guidelines.

We are committed to improving the quality of our ESIA assessments and building community support by involving local individuals and communities in associated decision making and consultation.

[1] Including payments for environment protection services provided by third parties.

Minimising our environmental footprint

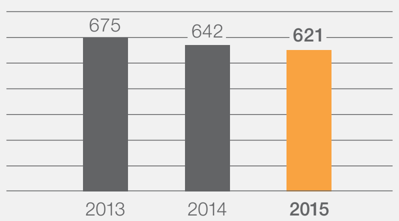
Performance

During 2015, we made excellent progress in our environmental management programmes and initiatives.

Our major achievements in this period include the authorisation of all environmental control and accounting processes, and their transfer to Group-wide software; the completion of the ESIA in Kyzyl, with recommendations being rolled out across the project and other production sites; the training of our executive environmental personnel in environmental audit; and the complex auditing of our Omolon site by state environment and technology agencies, with no violations recorded.

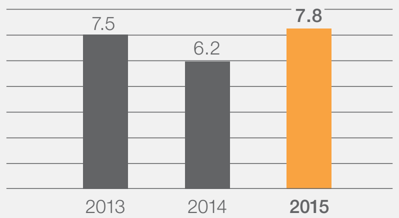
GHG emissions intensity (CO_2 equivalent tonnes per 10 Kt of ore processed)

We strive to reduce our carbon footprint and help fight global warming. In 2015 we managed to slightly decrease our GHG emissions.



Total air emissions (tonnes per 10 Kt of ore mined)

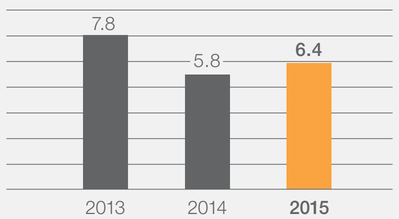
Many of our core activities, including stripping, mined waste storage, ore processing and energy use, all generate air emissions. These emissions include carbon dioxide and nitrogen, sulphur oxides and non-organic dust. In 2015, the 25% growth in emissions can be explained by the increased consumption of fuels.



Major waste components (tonnes per tonne of ore mined)

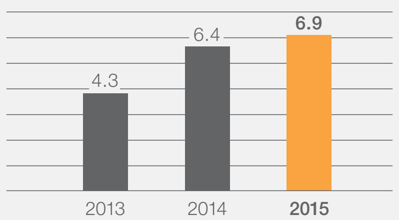
The main waste materials generated by our operational activities include overburden and tailings.

In order to mitigate the risks associated with these materials, our operational procedures are designed to maximise volumes of waste recycling and minimise potential impacts on people and the environment.



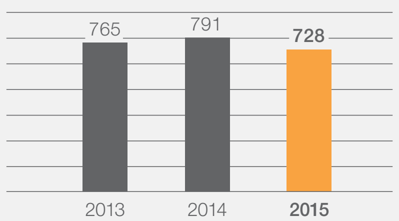
Discharges to surface water (thousand cubic metres per 10 Kt of ore processed)[1]

Across all of our sites and facilities, our aim is to reduce discharge intensity, improve the quality of discharged water, enhance the efficiency of water use and increase recycling.



Energy intensity (GJ per Kt of ore processed)

Currently, our remote subsidiary sites have to generate their own electricity and heat, leading to significant diesel consumption. In response, we are constantly reviewing associated costs, impacts and alternatives. In 2015, we managed to decrease the intensity by applying our energy efficiency strategy.



[1] Any restatements and variances are due to changes in methodology and consistent estimation with current year values.

Read more about our performance in each of these areas on the following pages.

Water

Across our operations we withdraw and use significant volumes of water. All water is re-used, treated and discharged as effluent to surface water. Alternatively, it can be treated and stored in tailings dams. We use water meters, flow meters and indirect measuring to capture all water consumption and discharge data.

Each year, local and state authorities consent to our withdrawal of water from a wide range of sources near to our operating sites. As our operations are dispersed across a wide geographical area, we are able to use water without over-exploiting any one single source. Our usage always remains within acceptable limits, and we take very little (less than 10%) from surface water bodies such as rivers or springs, with approximately 80% of our water sources located underground. Furthermore, we avoid withdrawing from surface sources in environmentally sensitive areas, and those found in areas where water is of great importance to local or indigenous communities.

In each of our sites, we are committed to reducing the amount of water we use per unit of output. We also aim to minimise the volume and impact of the liquids we discharge into watercourses, while ensuring the safety and sustainability of our tailings dams.

Over 2015, the volume of water re-used by all Group companies has averaged 65% of the total withdrawn.

Materials, waste and tailings

In our production processes, we use large quantities of ore and energy. During 2015, we mined 12,679 Kt of ore and processed 10,821 Kt. We also generate specific waste materials. In 2015, our total operations generated 69,900 Kt of production and consumption waste, compared with 79,435 Kt in 2014 and 81,141 Kt in 2013.

At our processing facilities we consume a range of materials, with associated economic and environmental impacts. In order to minimise such impacts, we drive efficiency in material use and closely monitor costs across all our production processes. Once the ore is processed, our final products include Doré bars, zinc precipitate, and flotation and gravity concentrates.

Overburden and tailings

Overburden and tailings are the most significant waste streams associated with our operations, accounting for more than 99% of the total volume. Overburden is the material that is extracted to uncover ore deposits, while tailings is a by-product of ore processing.

Recycled materials

Our aim, wherever we can, is to recycle the waste we generate. The proportion of recycled materials used across our operations as a percentage of total waste produced slightly decreased from 19.9% in 2014 to 18.6% in 2015.

Waste management

We are firmly committed to the responsible management of waste materials. We have developed systems and procedures that enable us to maximise the amounts we recycle and minimise our negative environmental impacts. As part of our approach, we re-use the production and consumption waste we generate within our own production processes, outsource them to external companies and dispose of them in our own waste facilities.

Cyanide and hazardous waste management

Our production methods involve several harmful consumables. The largest is cyanide, which generates hazardous waste components during the recovery of gold from the ore we process. In 2015, we used 8.5 thousand tonnes of cyanide, compared with 7.5 thousand tonnes in 2014. Within our process, cyanide can also exist as a chemical compound found in gas, water and solids, which we later purify. Additionally, to ensure there is no waste element, we always use 100% of the volumes of cyanide we purchase. We also take a rigorous approach to the transportation of hazardous materials.

Energy

The very nature of our work means that our operations involve significant energy use. In support of our sustainability commitments, across our sites we have implemented a range of energy-saving initiatives.

Our facilities are often situated in remote locations, where extreme weather and limited grid power combine to make us dependent upon diesel as a fuel source. Along with natural gas we procure from third-party suppliers, diesel accounts for the bulk of our total direct energy consumption – primarily for heating, powering equipment and vehicles.

Our operational power infrastructure helps ensure energy security: we use coal mined at our production sites as an internal energy source, as well as Company-owned diesel generators. In 2015, in-house power generation accounted for 34% MWh of our total electric power consumption.

We are committed to achieving energy efficiency and savings, and are actively pursuing strategic options for alternative and renewable energy sources.

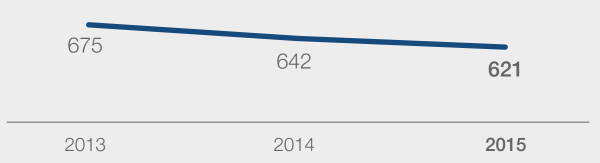
Strengthening safe practices

Greenhouse gas emissions

Heat and electricity from our diesel generators and our mining fleet operations produce greenhouse gas (GHG) emissions. The burning of natural gas and coal and the use of landfill also contributes to our GHG output.

We measure and monitor our CO_2 emissions using established international methodology. In 2015, direct CO_2 emissions linked to our operations amounted to 244 Kt compared with 304 Kt in 2014 and 327 Kt in 2013.

GHG emissions intensity
(CO_2 eq. t/10Kt of the processed)



Greenhouse gas emissions[1] (Kt)

	2015	2014	2013
Total GHG emissions	**672**	**725**	**725**
– direct GHG emissions[2]	244	304	327
– indirect GHG emissions[3]	428	420	398
GHG emissions intensity (CO_2 eq. t/10 Kt of ore processed)	621	642	675
GHG emissions intensity (CO_2 eq. t/Koz GE)	480	507	566

Other pollutants (t)

	2015	2014	2013
Sulphur dioxide (SOx)[4]	614	304	276
NOx, (Nitrogen oxide + dioxide)	1,361	1,493	1,358
Inorganic dust (solid particles)	4,619	4,125	3,750
Carbon monoxide (CO)	1,823	1,852	1,684

1 From 30 June 2015, the Group began calculating GHG emissions according to the guidance approved by the Ministry of Natural Resources of the Russian Federation by the order N300 from 30.06.2015.
2 Direct emissions include: CO_2-equivalent emissions produced by combustion of fuel (diesel fuel, petrol, gas, coal) and use of electric power when operating own power-generating facilities, automobile transport, main and auxiliary mining equipment.
3 Indirect emissions include: CO_2-equivalent emissions that relate to the generation of power purchased (imported) by the Company's operations.
4 The increase of SOx emissions in 2015 is due to growth of heat energy generation and volumes of coal used.

Biodiversity management

We tread lightly in the regions where we operate and work hard to minimise our impact on local biodiversity. Due to the extreme northern location of the majority of our sites, where the surrounding territory is low in conservational value, there are no significant biodiversity impacts linked to our operations. All site staff, including contractors, take part in environmental, health and safety awareness training to ensure that they understand their responsibilities to protect local fauna and flora.

As a matter of policy, we do not operate in or adjacent to protected or vulnerable areas. We also respect, and will not encroach upon, land that has particular value – natural, historical or cultural – for Indigenous Minorities of the North (IMN).

Planning for mine closures

Mine closure planning forms an integral part of the development of all our mines and projects. As all sites will eventually exploit their mineral resource and ore reserves, it is essential that we plan responsibly for the end of each mine's operational life with an in-depth assessment of potential closure liabilities.

Progress against goals within our action plan

Our action plan for 2013-2017 is geared towards the continuous improvement of our environmental footprint. During 2015 this included completing reclamation in the Ozerny area; a sewage collector at Amursk POX; and obtaining a licence to recycle industrial waste at Mayskoye. Good progress has also been made on waste and water purification projects at Lunnoye and Voro.

Health and safety

Putting health and safety first

Keeping employees safe and well is a key priority for Polymetal. Our people are our greatest asset, and maintaining their health and well-being is critical to our future success and sustainability. We are committed to creating safe working environments across our operations and meeting stringent health and safety standards.

Mining is, inevitably, a dangerous operation. Our employees work in remote locations and environments where rigorous safety procedures can be difficult to uphold. However, it is our responsibility to embed robust procedures across our organisation and safeguard employees' well-being. In recent years, we have renewed our focus on health and safety performance, and we are improving the ways in which we engage our people with health and safety issues and embed the right attitudes and behaviours internally. This is a journey of continual improvement and reassessment; we are committed to achieving a zero harm culture in which everyone takes responsibility both for individual and collective safety.

It is therefore with deep regret that we report that during 2015 there were six fatalities across the Group. Five of these fatalities were at underground operations and the sixth occurred as a result of a road accident. We offer our sincere condolences to the families and friends of those colleagues who lost their lives; we are deeply distressed by their deaths and would like to pay tribute to their dedication and hard work. We are of course covering any related costs and delivering ongoing financial support to the families of the deceased.

During 2015 there were also 10 non-fatal accidents in total across the Polymetal Group. Of these, two were severe accidents and eight were minor. Although our Lost Time Injury Frequency Rate (LTIFR) increased 69% during the year, the reduction in the number of injuries and attainment of zero fatalities remain critical KPIs. Achieving these objectives is our foremost priority, and we are working to improve our performance in these areas in the future.

Enhancing personal safety

After thorough research and analysis, we have drawn comprehensive conclusions and are implementing measures to ensure that factors that could cause such fatalities again are taken into account and addressed. We have informed all employees and contractors of our findings and incorporated these new measures into our Company safety action plan. We will also implement any actions recommended by the state authorities, following completion of their investigations.

To enhance personal safety and risk awareness across our operating mines, we have put in place a number of processes to help identify issues and devise corrective and preventative measures. Polymetal continuously monitors employees' disciplinary procedures and reviews the safety performance of the technical staff at the most problematic operations.

Our overall approach is driven by the Company's Health and Safety Policy (implemented in 2013 and updated in 2014) and underpinned by our Occupational Health and Safety Management System (OHSMS). We comply fully with health and safety legislation in the states and regions where we work, as well as meeting all relevant international requirements. Additionally, our OHSMS is based on the most up-to-date health and safety standards.

Group-wide, we operate 120 production sites and processes, comprising open-pit and underground mines, geological exploration sites, explosives depots and ore processing facilities. There are risks associated with each site, and, in Russia and Kazakhstan, 93 of Polymetal's production facilities have been classified as 'hazardous'.

As a consequence of fatalities and injuries between 2013 and 2015, we continue to refine our existing OHSMS. This system is currently undergoing a three-stage external audit by the external assurance agency Bureau Veritas. Covering a three-year period, the first stage was completed in 2015, when four production sites were audited. During 2016-2017, four more subsidiaries will be audited randomly each year to evaluate the efficacy of our system.

Health and safety performance

Company statistics

	2015	2014
Total accidents	16	11
– fatal	6	3
Incidents	0	1
Occurrences	36	25
LTIFR[1]	0.22	0.13

Contractor statistics

	2015	2014
Total accidents	4	9
– fatal	3	1
Incidents	0	0
Occurrences	16	13
LTIFR[1]	0.12	0.25

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

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

As part of our safety action plan, in 2015 we implemented a number of new safety initiatives, including:

- reinforcing transport speed control and safety monitoring;
- changing the incentive system where it has led to unsafe conduct for the jobs affected by certain risk (drifters, supporters and blasters);
- reviewing training programmes with a focus on key risks;
- visualising risks, consequences and personnel conduct in specific situations;
- improving the quality of safety checks and increasing the number of checks by independent external auditors;
- ensuring the geotechnical conditions assessment and management loop function effectively; and
- expanding and upgrading our geotechnical capabilities.

Enhancing employee opportunities

Emergency preparedness
Ensuring preparedness for any emergency that might jeopardise the well-being of our employees or damage the environment is crucial. We analyse historic accidents and conduct regular safety audits of the buildings and technical facilities used in hazardous activities. Every year, we initiate simulated emergency events and related training at each of our 93 hazardous production facilities. Within high-risk sites, we conduct more frequent – sometimes monthly – emergency preparation sessions.

As well as complying with legal requirements in the countries where we operate, all Polymetal facilities have Accident Prevention plans, developed collaboratively with local emergency authorities. We also have trained in-house rescuers and contracts with professionals who specialise in life-saving services and accident prevention.

Occupational diseases
Every year, each employee undergoes at least one medical check to evaluate their health and well-being, and our in-house team of medical professionals monitor employee health on an ongoing basis. In 2015 no cases of occupational diseases were recorded.

Employee engagement and training
Training and engaging employees is critical to establishing safe practices. Polymetal's human resources system has defined procedures for recruiting and assigning employees with specific skills, and providing training to further develop employees' skills. We also clarify competence requirements for each relevant job description, with training needs identified by the heads of business units. The Company funds comprehensive specialist training in occupational health, and industrial, electric and fire security as well as refresher courses and special-purpose training.

Progress against the goals in our action plan
As part of our risk reduction and automated safety control, we integrated geotechnical assessments and additional machinery for auxiliary underground work as well as implementing safety monitoring and control software. We developed a formal procedure to inform employees about hazards, risks, consequences and mitigation measures, and utilise their feedback to better analyse and eliminate hazardous conditions. We also involved contractors in risk management and assessment, and worked jointly on health and safety analysis and control.

Investing in our people

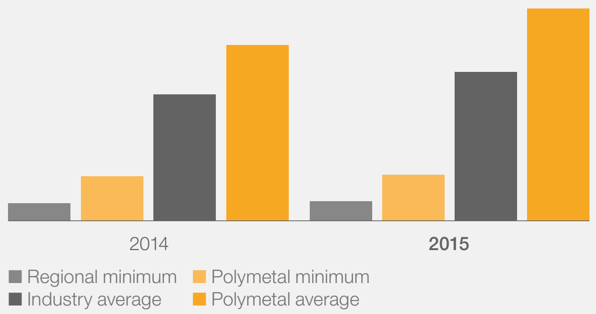
Committing to our people, committing to our future
The training, development and well-being of our employees is of paramount importance. We invest heavily in these areas as part of our commitment to our people and the long-term future of our Company.

Building a motivated, loyal and capable workforce is critical to the expansion of our business. Every year we work to develop our employees' skills and knowledge, and to enhance our leadership capabilities, so creating the human capital we need to sustain our operations for the future. We are also committed to making Polymetal a highly attractive place to work; to this end, we offer equal terms of recruitment and employment, and pay salaries that are competitive within our industry.

Our approach to human resources involves creating a fair and inclusive environment, which will enable us to attract and retain the best people. By rewarding good performance, developing talent and protecting health and safety, we aim to create an environment in which our people feel supported, listened to and looked after. In return, we expect all employees to sign up to the Polymetal Company Code of Conduct. This is in line with the UN Global Compact and International Labour Organisation Principles and provides incentives and conditions that promote and protect personal safety.

Salaries and benefits
We are firmly committed to acknowledging and rewarding employees' hard work and achievements. To help us attract and retain the best candidates, we offer competitive salaries and benefits that exceed regional averages in our areas of operation. In addition, our long-term incentive programme is linked directly to share price performance.

Polymetal salaries compared to regional wages
Polymetal minimum salaries were
136% higher than the regional minimum



The Polymetal pay structure is built around a base salary: this comprises a fixed salary plus a bonus aligned to personal attributes and qualifications. Our operational staff receive a time-paid salary, based on the number of hours worked and the amount of work completed, plus monthly and annual allowances. Our policies and procedures in these areas are fully compliant with, and indeed exceed, all legal requirements in Russia and Kazakhstan. We also provide annual bonuses for all our professional employees, which are linked to targets based on the Company's KPIs, and have developed a comprehensive range of social support and compensation measures, including:

- financial aid for those experiencing difficult life circumstances;
- partial sponsorship of a kindergarten, afterschool activities and a holiday camp;
- compensation of travel costs for those travelling to remote sites from other regions;
- reimbursement of holiday travel costs for all family members for those working in remote locations once every two years;
- housing support; and
- covering interest payments on employee mortgages.

In 2015, we maintained our reputation as a progressive and attractive employer in the regions where we operate, winning an Attractive Employer Award for the eighth time. This both demonstrates the trust with which candidates view Polymetal, and confirms our credentials as a company with integrity and a stable market position.

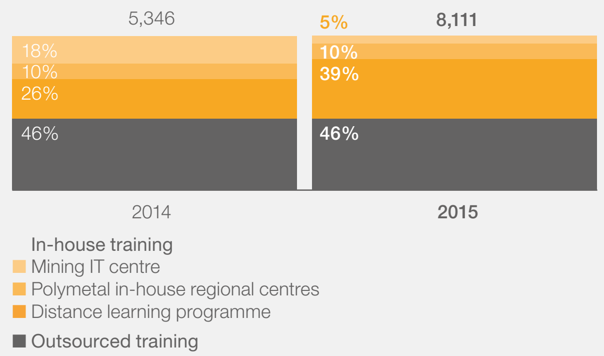
During the year we sustained stable wage growth in line with inflation. We continued improving working and living conditions for employees, particularly those in remote locations: building a new 60-bed dormitory and renovating canteen facilities at Varvara; renovating an entire housing estate for duty personnel at Lunnoye (Dukat hub); beginning construction of a 100-bed dormitory at Albazino; building a new gym and saunas at Omolon hub; and in Mayskoye completing a new gym, recreation room and dormitory.

Training and development
We are always looking to enhance the skills and capabilities of our people, investing in Group-wide training and development programmes. These are structured to help build the workforce we require to meet our Company objectives over the long term, and to provide opportunities for our employees to progress and develop in their careers. Each time someone joins Polymetal, we conduct a preliminary appraisal which helps to shape and inform a detailed training plan.

In 2015, we invested US$678 thousand in professional training across all areas of the business, which amounts to US$149 per trained employee for the year. In addition to our corporate training centres and on-site teaching facilities for general managers and technical specialists, we provide a distance learning programme, which is of particular benefit to employees in remote locations.

We have also created the Polymetal Talent Pool, which focuses on developing the next generation of skilled managers, expanding their professional horizons and developmental stimuli, as well as providing opportunities to train with other international mining companies. Our schedule of activities designed to prepare our younger employees for the leadership challenges of the future this year included effective HR management, change management and decision making. In 2016, the focus will be on occupational health and safety, production control, construction, mine planning and business ethics.

Training (number of employees trained)



Strategic report
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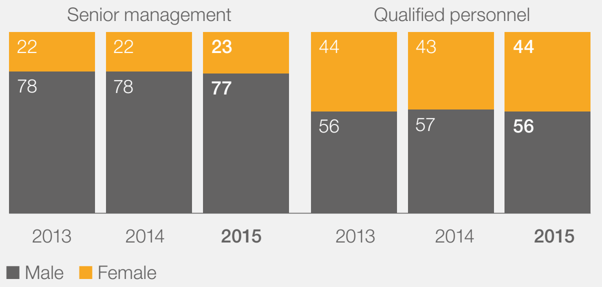
Appendices

Creating a positive legacy for local people and communities

Diversity
In 2015, women occupied 23% of our senior management roles, compared to 22% with 2014, and represented 44% of our qualified personnel. Women also made up 22% of our Board composition and 23% of our total workforce.

We have also been working with 12 local universities and five technical colleges to enable internships, placements and other opportunities for young people. At the end of 2015, people aged under 30 accounted for 24% of our workforce.

Gender composition (%)[1]



[1] Percentages are calculated for the average number of employees.

Headcount and turnover
At 31 December 2015, we employed 9,238 people across the Group's research, development, design, exploration, production, logistics and management activities. This slight increase in headcount is a result of new project works getting underway at our Kyzyl and Svetloye sites.

Over the last six years, we have been steadily reducing our average employee turnover rate (including fly-in/fly-out operations) and this trend continued in 2015 when we further reduced our turnover rate to 8.3% (11.4% in 2014). This is partly attributable to the complex macroeconomic environment which has impacted manpower demand. However, our efforts to promote internal employee mobility, our employee training and development programmes and the favourable working conditions that we have created were also key.

Anti-corruption
The Polymetal Code of Conduct sets out our positioning on issues like bullying and harassment, bribery, drugs, entertainment and gifts, government relations, anti-trust and anti-competition laws, community relations, insider dealing, data protection, transparency and disclosure, and environmental protection. Through appropriate training, we ensure that our employees comply with our rigorous stance against corruption of any kind. At the same time, by listening and responding to their concerns, we are building a Company culture based on mutual understanding, respect and trust.

Progress against the goals in our action plan
We made good progress with all our training objectives: we introduced a new management course for the Talent Pool; increased our in-house training capabilities; and developed programmes at our plants for engineers and technicians. We continued our collaboration with universities to attract talented interns and set up the Quick Start graduates programme. We increased the promotion of the employee feedback channels and can report a reduction in turnover of 28%.

Communities
As a mining company, our licence to operate depends upon the goodwill, trust and understanding of local communities and authorities. Our operational activities cover a vast geographical area, encompassing the Chukotka Autonomous Territory, Khabarovsk Territory, the Magadan Region, Yakutia, Sverdlovsk Region, Kazakhstan and Armenia. Building strong links and relationships in the regions where we operate is a core part of our corporate ethos and commitment to sustainability.

Our approach to community relations in these areas is underpinned by our belief that, as our operations increase, so do our responsibilities and commitments to the people whose lives we impact. As part of this, we adhere to relevant international standards and conventions, including the UN Declaration on the Rights of Indigenous Peoples and the UN Global Impact. Ultimately, our aim is to balance our commercial priorities with the interests and needs of local communities. To date, we have 21 community cooperation agreements in place in areas where we operate (18 in 2014).

Our interactions with local people and communities are numerous and varied. Across all our sites and facilities, we provide employment opportunities and use local services to help generate supply and demand. In addition, we invest in local education, health, culture and infrastructure, putting community interests at the centre of our local activities.

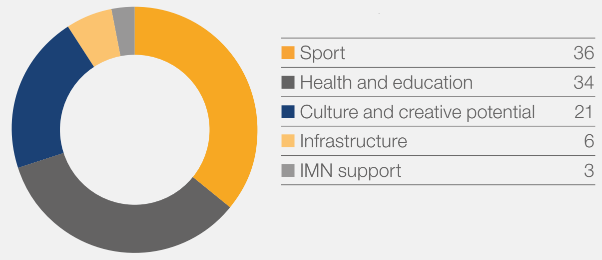
We have also developed rigorous measures designed to mitigate the negative impacts of our operations, such as the generation of waste materials and emissions. Each year, we exceed our regulatory obligations in an effort to ensure that local communities and environments are not affected by these aspects of our business.

In our social investment activities, we use industry benchmarks and standards to assess our progress and performance. We injected US$28 million into local projects from 2010-2015. In 2015, we invested US$3.6 million on social support and territorial development programmes. While this is less in US Dollar terms than the US$5 million invested in 2014, due to devaluation it is higher year-on-year in Russian and Kazakh currencies.

The Polymetal Board of Directors and management teams review our annual community investments and associated targets. They base their decisions on the perceived potential of a project to deliver meaningful change to local people and communities, with a particular focus on the following areas:

- **Health and education** – the quality of life of local communities depends upon access to healthcare and education and this underpins sustainable development at a local, regional and national level.
- **Infrastructure** – we invest heavily in local and regional infrastructure, by carrying out repairs and improvements to bridges, roads and built environments. This both creates employment opportunities and contributes to the socio-economic development of villages and towns.
- **Sport and lifestyle** – another key aspect is the promotion of health and well-being through sport and lifestyle initiatives; our primary focus is supporting mass sporting events and youth sports projects.
- **Culture and creative potential** – for many years, we have worked to preserve local history, traditions and ways of life, and to support schemes designed to promote local arts and crafts, including ethnographic museums, indigenous language programmes and music groups.

Social investments in 2015 (%)



- **Indigenous Minorities of the North (IMN)** – our support programmes are aimed at enhancing living standards for indigenous people in Chukotka, the Magadan Region and Khabarovsk Territory; we work closely with indigenous community members to ensure that we address IMN issues, needs and expectations.
- **Environmental protection** – over the years, we have created a strong culture of environmental protection and responsibility, developing activities to help raise awareness of ecological issues and safeguard the natural environment.

Progress against the goals in our action plan
We held public meetings, visits to our sites and implemented a feedback mechanism for local people and public associations in our new territories in the Urals and Kazakhstan. We developed local community engagement and social partnership programmes in line with local requirements, doubling the number of people surveyed in our social project assessments. We enhanced our methods of communication with residents in remote areas and IMN and signed an additional partnership agreement aimed at supporting IMN.

Strong operating and cost performance generating free cash flow

Highlights

- Polymetal has delivered a solid set of operating and financial results. The original production guidance was exceeded by 4% while operating costs and capital expenditures for the year were below original guidance.
- Revenue for the year ending 2015 decreased by 15% to US$1,441 million ('year-on-year') as a result of average realised gold and silver prices decreasing by 8% and 17% respectively year-on-year. Gold sales were 864 Koz, down 8% year-on-year while silver sales were 31.2 Moz, up 6% year-on-year, in line with production volume dynamics.
- Group Total cash cost[1] ('TCC') was US$538/gold equivalent ounce ('GE oz'), down 15% from 2014 levels and below original guidance of US$575-625/GE oz driven by significant Russian Rouble depreciation against the US Dollar, which more than offset the combined negative impact of domestic inflation and change in the gold/silver price ratio.
- All-in sustaining cash costs[1] ('AISC') decreased by 18% year-on-year to US$733/GE oz and were below original guidance of US$750-800/GE oz primarily as a result of decline in total cash costs during the period, and other expenditures significantly influenced by the Rouble and Tenge devaluation.
- Adjusted EBITDA[1] was US$658 million, a decrease of just 4% year-on-year despite the revenue decline which was largely offset by a strong cost performance. Adjusted EBITDA margin was 46% compared to 41% in 2014.
- Net earnings[2] were US$221 million versus a US$210 million loss in 2014. Underlying net earnings (adjusted for the after-tax amount of impairment charges/reversals and foreign exchange loss) were US$296 million (2014: US$282 million), up 5% year-on-year, driven by the depreciation of local currencies.
- Capital expenditure was US$205 million, below the original guidance of US$240 million, as a result of currency devaluation. The Group is on track with construction at the Kyzyl and Svetloye projects.
- The Company continued to generate significant free cash flow[1], which was US$263 million in 2015 (2014: US$306 million). On the back of robust cash flow generation for the year, the Company paid out US$127 million of special dividends to shareholders, bringing the total amount of dividends declared during 2015 to US$216 million.
- Net debt at 31 December 2015 was US$1,298 million, an increase of 4% year-on-year, mainly as a result of the net settlement of the Kyzyl put option in September 2015 and other cash-based acquisitions. The Group maintains a comfortable Net debt/Adjusted EBITDA ratio of 1.97x.
- A final dividend of US$0.13 per share representing 30% of the Group's underlying net earnings for 2H 2015 is proposed by the Board, which, in accordance with the current dividend policy, has the discretion to declare a regular dividend at a Net debt/Adjusted EBITDA ratio above 1.75.

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 on the following pages.
2 Profit/(loss) for the financial period.

Market summary

Please see the market overview on pages 16-17.

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.

The Russian economy, heavily reliant on crude oil exports, was hit by plummeting oil prices. During 2015, the Russian Rouble remained weak against the US Dollar on the back of a further decline in the oil price.

Following the oil price dynamics, from 1 January to 31 December 2015 the Russian Rouble depreciated against the US Dollar by 29.5% from 56.3 RUB/US$ to 72.9 RUB/US$, and the average rate was down 37% year-on-year from 38.42 RUB/US$ in 2014 to 60.96 RUB/US$ in 2015. The devaluation of the Rouble had a positive effect on the Dollar value of the Group's Rouble-denominated operating costs and Adjusted EBITDA, which was partially offset by the negative effect on the Group's net earnings in 2015 due to the effect of the retranslating of its US Dollar debt.

In August 2015, Kazakhstan opted to set the Tenge free following devaluations by Russia and China, its neighbours and two biggest trading partners. As a result, the Kazakh Tenge devalued by 46% during 2015, falling from about 182 KZT/US$ to 339 KZT/US$. The average rate was 222 KZT/US$, 18% down year-on-year.

Financial highlights

	2015	2014	Change, %[1]
Revenue, US$m	1,441	1,690	-15%
Total cash cost, US$/GE oz	538	634	-15%
All-in cash cost, US$/GE oz	733	893	-18%
Adjusted EBITDA, US$m	658	685	-4%
Average realised gold price, US$/oz	1,127	1,231	-8%
Average realised silver price, US$/oz	14.7	17.7	-17%
Net earnings/(loss) for the year, US$m	221	(210)	NM[4]
Underlying net earnings, US$m	296	282	+5%
Return on assets, %	17%	13%	+4%
Underlying EPS, US$/share	0.70	0.71	-1%
Dividend declared during the period, US$/share[2]	0.51	0.36	+42%
Net debt, US$m	1,298	1,249	+4%
Net debt/Adjusted EBITDA	1.97	1.82	+8%
Net operating cash flow, US$m	490	518	-6%
Capital expenditure, US$m	205	210	-2%
Free cash flow, US$m[3]	263	306	-14%

Notes
1 Totals may not correspond with the sum of the separate figures due to rounding. % 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 for the same reason. This note applies to all tables in this section.
2 FY 2015: final dividend for FY 2014 declared in May 2015, interim dividend for 1H 2015 declared in September 2015 and special dividend declared in December 2015. FY 2014: final dividend for FY 2013 declared in May 2014, interim dividend for 1H 2014 declared in September 2014 and special dividend declared in December 2014.
3 Free cash flow is defined as net cash flows from operating activities less cash flows used in investing activities (excluding acquisition costs in business combinations and investments in associates and joint ventures).
4 NM = not meaningful.

Operating highlights

See page 22.

Revenue

Sales volumes

		2015	2014	Change, %
Gold	Koz	864	943	-8%
Silver	Moz	31.2	29.3	+6%
Copper	Kt	1.488	1.029	+45%
Gold equivalent sold[1]	**Koz**	**1,278**	**1,372**	**-7%**

[1] Based on actual realised prices.

Sales by metal

(US$m unless otherwise stated)		2015	2014	Change, %	Volume variance, US$m	Price variance, US$m
Gold		974	1,161	-16%	(98)	(89)
Average realised price	US$/oz	1,127	1,231	-8%		
Average LBMA closing price	US$/oz	1,160	1,266	-8%		
Share of revenues	%	68%	69%			
Silver		460	520	-12%	33	(93)
Average realised price	US$/oz	14.7	17.7	-17%		
Average LBMA closing price	US$/oz	15.7	19.1	-18%		
Share of revenues	%	32%	31%			
Copper		7	7	-9%		
Share of revenues	%	0%	0%			
Total metal sales		**1,441**	**1,689**	**-15%**	**(116)**	**(132)**
Other revenue		0	2	-77%		
Total revenue		**1,441**	**1,690**	**-15%**		

In 2015, revenue decreased by 15% year-on-year to US$1,441 million driven mainly by an 8% decline in the average realised gold price and a 17% decline in average silver price. Gold equivalent volume sold decreased by 7%, mainly driven by the decline in silver price versus gold. Gold sales volumes decreased by 8%, while silver sales volumes increased by 6% year-on-year, both following the production dynamics.

The average realised price of gold was US$1,127/oz in 2015, down 8% from US$1,231/oz in 2014, and slightly below the average market price of US$1,160/oz. The average realised silver price was US$14.7/oz, down 17% year-on-year, and 6% below the average market price of US$15.7/oz due to a larger share of sales recorded in the second half of the year when market prices were lower.

The share of gold sales as a percentage of total revenue was 68% and remained almost flat compared to the 2014 share of 69%.

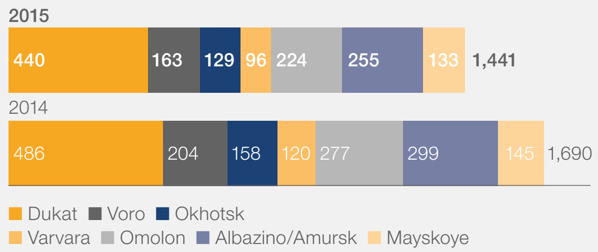
Copper sales resumed but were limited due to the continuing weakness in the copper concentrate market, which had resulted in a temporary shutdown of the flotation circuit at Varvara in 2014. The copper circuit was restarted in June 2015, after positive feedback was received from a European copper concentrate offtaker based on a trial product shipped in Q1. Currently, the circuit processes low-grade stockpiled copper/gold ore. Mining will be re-directed towards the float feed on a stable basis once a long-term offtake contract has been secured.

Analysis by segment

	Revenue, US$m			Gold equivalent sold, Koz (silver for Dukat)		
	2015	2014	Change, %	**2015**	2014	Change, %
Dukat	440	486	-9%	30,103	27,783	+8%
Albazino/Amursk	255	299	-15%	220	236	-7%
Omolon	224	277	-19%	193	219	-12%
Voro	163	204	-20%	141	160	-12%
Mayskoye	133	145	-8%	136	141	-3%
Okhotsk	129	158	-18%	112	125	-11%
Varvara	96	120	-20%	84	95	-11%
Other	0	1	n/a	n/a	n/a	n/a
Total revenue	**1,441**	**1,690**	**-15%**	**1,278**	**1,372**	**-7%**

The decline in gold and, notably, silver prices during the period affected revenues at all operating mines. Dukat experienced a physical sales volumes increase of 8% year-on-year, where gold and silver production grew by 12% and 15%, respectively. At all other operating mines, physical sales volumes generally followed production reduction dynamics.

Revenue by segment
(US$m)



Cost of sales

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

(US$m)	2015	2014	Change, %
On-mine costs	268	391	-32%
Smelting costs	261	363	-28%
Purchase of ore from third parties	5	2	+248%
Mining tax	97	110	-12%
Total cash operating costs	**630**	**866**	**-27%**
Depreciation and depletion of operating assets	154	292	-47%
Rehabilitation expenses	(2)	3	NM
Total costs of production	**782**	**1,161**	**-33%**
Increase in metal inventories	(27)	(142)	-81%
Write-down of non-metal inventories to net realisable value	5	4	+29%
Total change in metal inventories	**(22)**	**(138)**	**-84%**
Idle capacities and abnormal production costs	6	–	NM
Cost of other sales	0	0	-85%
Total cost of sales	**766**	**1,023**	**-25%**

Cash operating cost structure

	2015		2014	
	US$m	% of total	US$m	% of total
Consumables and spare parts	182	29%	258	30%
Services	214	34%	323	37%
Labour	128	20%	169	19%
Other expenses	4	1%	5	1%
Purchase of ore from third parties	5	1%	2	0%
Mining tax	97	15%	110	13%
Total cash operating costs	**630**	**100%**	**866**	**100%**

Total cost of sales decreased by 25% in 2015 to US$766 million, mainly on the back of the oil price decline and consequent Russian Rouble devaluation during 2015, more than offsetting domestic inflation in Russia (12.9%). Another significant cost reduction driver was the decrease in depreciation charges across the portfolio as the Group's mining assets are accounted for in Roubles and Tenge (see below).

The cost of consumables and spare parts and the cost of services decreased by 30% and 34%, respectively, compared with 2014 and driven mostly by the Rouble devaluation and decrease in the price of diesel fuel which is a significant component of transportation services costs.

The total cost of labour within cash operating costs in 2015 was US$128 million, a 24% decrease, mainly stemming from Rouble devaluation and the decline in the average number of employees at Okhotsk operations and Omolon, which collectively offset the annual salary increase (tracking Russian CPI inflation) and additional labour costs at the new Kyzyl asset.

Mining tax decreased by 12% year-on-year to US$97 million, mainly due to the decrease in average realised prices.

Depreciation and depletion was US$154 million, down 47% year-on-year. The decrease was mainly attributable to Rouble and Tenge devaluation. The specific decreases are attributable to Omolon, where mineral rights attributable to Sopka and Dalneye were fully depreciated in 2014, and to Albazino due to an increase of JORC reserves which serve as the depreciation basis. An amount of US$3 million of depreciation and depletion expenses in 2015, related to ore and concentrate stockpiles, was included in metal inventories as at 31 December 2015.

In 2015 a net metal inventory increase of US$27 million was recorded (excluding write-downs to net realisable value), mainly represented by concentrate produced but not yet sold at Dukat and Albazino, and ore stockpiles at Okhotsk operations and Varvara. In the second half of the year, the Company successfully progressed with scheduled stockpile reductions, with total gold equivalent sales exceeding production by 40 Koz. De-stockpiling was mainly driven by concentrate shipments from Mayskoye.

General, administrative and selling expenses

(US$m)	2015	2014	Change, %
Labour	88	93	-5%
Services	14	17	-16%
Depreciation	5	5	+5%
Share-based compensation	4	2	+60%
Other	16	14	+15%
Total	**127**	**131**	**-3%**

General, administrative and selling expenses were quite stable at US$127 million as compared to 2014. Despite the meaningful impact of the Russian Rouble devaluation, the labour costs within general, administrative and selling expenses decreased only moderately by 5%, mainly due to the increased headcount at Kyzyl and Svetloye where most employee costs are included in general, administrative and selling expenses prior to the start-up of production. The increase in share-based compensation is related to an increase in the number of option programme participants and outstanding share option tranches under the current long-term incentive programme (LTIP) and deferred share award (DSA).

Other expenses

(US$m)	2015	2014	Change, %
Exploration expenses	24	51	-52%
Taxes, other than income tax	12	22	-48%
Mining taxes, VAT, penalties and accrued interest	(4)	20	-119%
Social payments	8	9	-16%
Housing and communal services	4	7	-42%
Loss on disposal of property, plant and equipment	1	4	-72%
Business acquisition related costs	–	4	-100%
Allowance for doubtful debts	7	(0)	NM
Change in estimate of environmental obligations	(4)	(1)	NM
Other expenses	4	16	-76%
Total	**51**	**132**	**-61%**

Other operating expenses decreased by 61% to US$51 million in 2015, mainly due to a decrease in exploration expenses written off during the period. Cash-based exploration expenses in 2015 were US$12.6 million (2014: US$16 million). Taxes, other than income tax, and additional mining tax charges and VAT exposures recognised in 2014 were recorded by the Company in relation to tax exposure at Varvara with respect to the commercial discovery bonus; and at Omolon and Dukat with respect to the calculation of technical loss exempt from the mineral extraction tax; as well as tax penalties related to a previously identified tax exposure at Magadan Silver. In 2015 the Group released several mining tax provisions at Magadan Silver following the completion of tax audits, and paid US$12.6 million in early 2016 to settle these cases. For more information refer to Note 12 of the consolidated financial statements.

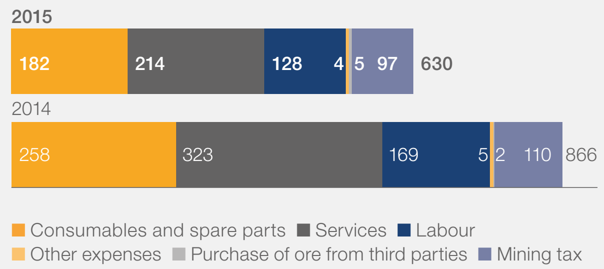
Total cash costs by mine

	Cash cost per GE ounce,[1] US$/oz			Gold equivalent sold, Koz (silver for Dukat)		
	2015	2014	Change, %	2015	2014	Change, %
Dukat (SE oz)[2]	6.4	8.7	-26%	30,103	27,783	+8%
Voro	336	376	-11%	141	160	-12%
Okhotsk	573	704	-19%	112	125	-11%
Varvara	818	705	+16%	84	95	-11%
Omolon	555	570	-2%	193	219	-12%
Albazino	460	625	-26%	220	236	-7%
Mayskoye	752	966	-22%	136	141	NM
Total	**538**	**634**	**-15%**	**1,278**	**1,372**	**-7%**

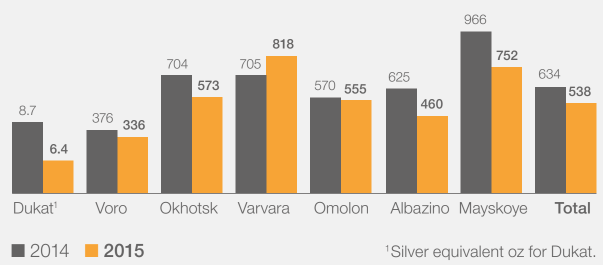
[1] Total cash costs comprise cost of sales of the operating assets (adjusted for depreciation expense, rehabilitation expenses and write-down/reversal of inventory to net realisable value and certain other adjustments, including addition of treatment and refinery charges related to concentrate offtake) 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$496/GE oz (2014: US$621/GE oz) and was included in the Group TCC calculation.

Cash operating cost structure
(US$m)



Total cash costs
(US$/GE oz)



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In 2015 the total cash costs per gold equivalent ounce sold ('TCC') were US$538/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 the robust operating performance across most operations.

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

Reconciliation of TCC movements

	US$/oz	Change, %
Total cash cost per gold equivalent ounce – 2014	**634**	
Domestic inflation	72	11%
US$ rate change	(207)	-33%
Au/Ag ratio change	18	3%
Change in average grade processed by mine	10	2%
Mining tax change – Au&Ag price	(12)	-2%
Other	22	4%
Total cash cost per gold equivalent ounce – 2015	**538**	**-15%**

Total cash cost by mine:

- Dukat's total cash cost per silver equivalent ounce sold decreased by 26% year-on-year to US$6.4/oz. Beyond the major effect of the Rouble depreciation, this decrease in cash costs has been achieved as a result of stronger grades and continuing debottlenecking at both the Omsukchan and Lunnoye plants.
- Voro continues to be our lowest cost operation. Cash costs decreased further by 11% compared to 2014, to US$336/GE oz. The key driver of cost dynamics was the significant devaluation of the Russian Rouble offsetting the impact of the scheduled decline in the average grades processed and a related decline in CIP recoveries.
- At Okhotsk operations, TCC was US$573/GE oz, a 19% decrease year-on-year. This cost performance was supported by the significant devaluation of the Russian Rouble, which offset the scheduled decline in average gold and silver grade processed.
- At Varvara, TCC was US$818/GE oz, growing by 16% year-on-year. The increase mainly stemmed from lower average grades. The Tenge devaluation happened only late in the year, thus limiting the positive impact of exchange rate dynamics.
- At Omolon, TCC amounted to US$555/GE oz, a 2% decrease year-on-year, thanks to the Russian Rouble devaluation offsetting the lower head grades processed at the Kubaka mill compared to 2014.
- At Albazino/Amursk, TCC was US$460/GE oz, down 26% compared to 2014. Beyond the strong support by the Rouble devaluation, this improvement was achieved on the back of steady mine performance and increased throughput at Albazino.
- Total cash cost at Mayskoye was US$752/GE oz, a 22% decrease year-on-year, as a larger share of gold was produced at the lower-cost in-house Amursk POX facility.

All-in sustaining cash costs[1]

	Total, US$m			US$/GE oz		
	2015	2014	Change, %	2015	2014	Change, %
Total cash costs	**683**	**864**	**-21%**	**538**	**634**	**-15%**
SG&A and other operating expenses not included in TCC	89	165	-46%	70	121	-42%
Capital expenditure excluding new projects	104	138	-25%	82	101	-19%
Exploration expenditure (capital and current)	54	51	+7%	43	37	+15%
All-in sustaining cash costs	**930**	**1,218**	**-24%**	**733**	**893**	**-18%**
Finance cost	84	46	+84%	67	34	+98%
Income tax expense	55	72	-24%	43	53	-18%
After-tax All-in cash costs	**1,069**	**1,336**	**-20%**	**842**	**980**	**-14%**
Development capital	66	34	+94%	52	25	+109%
SG&A and other expenses for development assets	35	40	-11%	28	29	-5%
All-in costs	**1,171**	**1,410**	**-17%**	**922**	**1,034**	**-11%**

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

All-in sustaining cash costs amounted to US$733/GE oz in 2015 and decreased by 18% year-on-year, with the decrease in total cash costs and reduction of per ounce other operating costs and capital expenditure.

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

US$/oz	2015	2014	Change, %
Dukat	7.8	10.9	-28%
Voro	391	515	-24%
Okhotsk	621	909	-32%
Varvara	1,092	1,049	+4%
Omolon	732	722	+1%
Albazino	667	901	-26%
Mayskoye	935	1,134	-18%
Total	**733**	**893**	**-18%**

Impairment charges/reversals of metal inventories

	2015	2014
Metal inventories	(13)	39
Total impairment (charges)/reversals	**(13)**	**39**

The net write-down of metal inventories of US$13 million recognised in 2015 is related to the low-grade material at Varvara mined before re-starting the copper circuit and the low grade ore stockpiled for heap leaching at Birkachan. Reversals recorded in 2014 were 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 were mainly driven by the decline in unit cash costs required to bring the work-in-progress stockpiles into saleable metal.

Adjusted EBITDA and EBITDA margin[1]

Reconciliation of Adjusted EBITDA (US$m)	2015	2014	Change, %
Profit/(loss) for the year	221	(210)	NM
Finance cost (net)	76	37	+105%
Income tax expense	55	72	-24%
Depreciation and depletion	156	260	-40%
EBITDA	**508**	**159**	**+219%**
Write-down/(reversal) of metal inventory to net realisable value	13	(39)	NM
Share-based compensation	4	2	+60%
Allowance for bad debt	7	(0)	NM
Net foreign exchange losses	133	559	-76%
Change in fair value of contingent liability	(4)	(23)	-81%
Rehabilitation costs	(2)	2	NM
Write-down of non-metal inventory to net realisable value	5	4	+29%
Gain on disposal of subsidiary	(1)	–	NM
Additional mining taxes, VAT, penalties and accrued interest	(4)	20	NM
Adjusted EBITDA	**658**	**685**	**-4%**

Adjusted EBITDA by segment (US$m)	2015	2014	Change, %
Dukat	239	230	+4%
Voro	115	141	-18%
Okhotsk	49	60	-19%
Varvara	25	45	-43%
Omolon	111	142	-22%
Albazino/Amursk	153	133	+15%
Mayskoye	34	28	+24%
Kyzyl	(14)	(3)	NM
Corporate and other and intersegment operations	(55)	(91)	-39%
Total	**658**	**685**	**-4%**

[1] The Company defines Adjusted EBITDA (a non-IFRS measure) as profit for the period adjusted for depreciation and amortisation, impairment of non-current assets, write-downs and reversals of inventory to net realisable value, share-based compensation, rehabilitation expenses, gains and losses on acquisitions and disposals of subsidiaries, foreign exchange gains or losses, change in fair value of contingent consideration, finance income, finance costs, income tax expense and other tax exposures accrued within other operating expenses. Adjusted EBITDA margin is Adjusted EBITDA divided by revenue. The figures presented above have been rounded and may not add to the total shown.

In 2015, Adjusted EBITDA was US$658 million, 4% lower year-on-year, resulting in an Adjusted EBITDA margin of 46%. The decrease was mainly driven by an 8% reduction in the average realised gold price and 17% reduction in the average realised silver price, which was substantially offset by a 15% decrease in TCC. Adjusted EBITDA increased at Dukat, Albazino and Mayskoye, while at other operating segments it declined year-on-year on the back of a price-driven revenue decrease.

Other income statement items

Polymetal recorded a net foreign exchange loss in 2015 of US$133 million compared with US$559 million in 2014. 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 the Group's operating companies other than for Varvara and Kyzyl (which is the Tenge). The Group's average gross debt during 2015 was US$1,336 million, fully denominated in US Dollars, while the US Dollar appreciated against the Russian Rouble by 29.5% during the period, from 56.3 RUB/US$ at 31 December 2014 to 72.9 RUB/US$ at 31 December 2015. Since 2015, the functional currency of the Group's top holding companies is the US Dollar, therefore the part of debt that is borrowed at the top holding company level and not pushed down to the operating company level is no longer generating these non-cash gains or losses.

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.

The exchange differences resulting from the translation of the financial statements of the Group entities from their functional currencies to the presentation currency are included in equity and presented as movements relating to the effect of translation to the Group's presentation currency within the Translation reserve.

Net earnings, earnings per share and dividends

The Group recorded a net income of US$221 million in 2015 versus a US$210 million loss in 2014. The underlying net earnings (excluding an after-tax impact of impairment charges/reversals and foreign exchange losses) were US$296 million, compared to US$282 million in 2014. The increase in underlying net earnings was mainly driven by stable EBITDA and the decrease of other Rouble-denominated expenses (mainly depreciation charges).

Basic earnings per share were US$0.52 per share compared to a US$0.53 loss per share in 2014. Underlying basic EPS was US$0.70 per share, compared to US$0.71 per share in 2014.

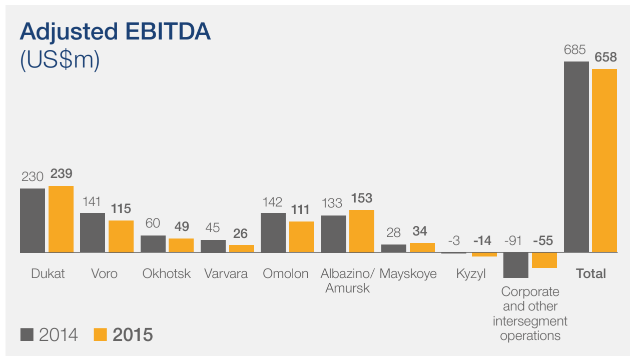
In accordance with the Company's dividend policy, the Board is proposing to pay a final dividend of US$0.13 per share (giving a total expected dividend of US$55 million) representing approximately 30% of the Group's underlying net earnings for the period. During 2015, Polymetal paid a total of US$216 million in dividends, representing final dividends for FY 2014, interim dividends for 1H 2015 and special dividends for 2015 paid on the back of strong free cash flow generation and a comfortable leverage level.

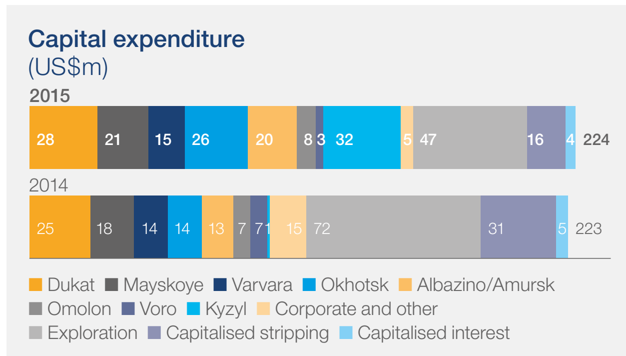
Capital expenditure

(US$m)	2015	2014	Change, %
Dukat	28	25	+12%
Mayskoye	21	18	+19%
Varvara	15	14	+8%
Okhotsk	26	14	+89%
Amursk/Albazino	20	13	+49%
Omolon	8	7	+7%
Voro	3	7	-57%
Kyzyl	32	1	NM
Corporate and other	5	15	-63%
Exploration	47	72	-34%
Capitalised stripping	16	31	-50%
Capitalised interest	4	5	-29%
	224	**223**	**+1%**

[1] Total capital expenditure includes amounts payable at the end of the period. On a cash basis, capital expenditure was US$205 million in 2015 (2014: US$210 million).

In 2015, total capital expenditure remained flat compared with the prior period at US$224 million. Capital expenditure excluding stripping costs was US$209 million in 2015 (2014: US$192 million).





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The major capital expenditure items in 2015 were:

- Across all mature open-pit mines, except for Okhotsk operations and Albazino, capital expenditures remained almost unchanged or slightly deviated year-on-year and were mainly represented by mining fleet upgrades/replacements and maintenance expenditure at the processing facilities.
- Capital expenditure at Okhotsk operations was US$26 million, almost a two-fold increase year-on-year, and was mostly represented by the construction of the Svetloye mine. In 2015, the Company obtained a full set of construction permits for the Svetloye project. Summer navigation started on time and the construction is progressing on schedule. Open-pit mining was suspended due to very heavy snowfall with the equipment diverted to construction activities. Mining was resumed in Q1 2016.
- US$20 million was invested at Albazino/Amursk, mostly related to commencement of underground development at the Olga zone and the start of underground mining.
- At Dukat and Mayskoye, the increased capital expenditure is mainly related to larger volumes of capitalised underground development.
- At Kyzyl, capital expenditure in 2015 comprised US$32 million, mainly representing project design costs, minor infrastructure and mining equipment. Major mining equipment contracts were agreed for trucks (BELAZ from Belarus) and electric shovels (OMZ from Russia), with equipment expected to arrive on site in the first half of 2016. Site activities progressed as planned with the focus on the construction of external infrastructure, including an access road, coal-fired boiler house and water pipeline. Polymetal is on track to start full-scale construction in Q2 2016.
- The Company continues to invest in standalone exploration projects. Capital expenditure on exploration in 2015 was US$47 million compared to US$72 million in 2014, due to the decrease in Rouble-denominated drilling costs on the back of the Rouble devaluation, although drilling volumes remained largely stable. In addition to near-mine properties, the exploration programme focused mostly on the Kyzyl, Svetloye and PGM assets.
- Capitalised stripping costs totalled US$16 million in 2015 (2014: US$31 million) and are attributable to operations with stripping ratios exceeding their life of mine (LOM) averages during the period, including most importantly Varvara, Voro and Albazino. The decline is mainly related to the completion of major stripping campaigns at Omolon and Varvara last year.
- Total capital expenditure in 2015 includes US$4 million of capitalised interest (2014: US$5 million), mainly related to small-scale growth projects.

Cash flows

(US$m)	2015	2014	Change, %
Operating cash flows before changes in working capital	504	617	-18%
Changes in working capital	(14)	(99)	-86%
Total operating cash flows	**490**	**518**	**-5%**
Capital expenditure	(205)	(210)	-2%
Kyzyl acquisition	(68)	(315)	-79%
Other	(29)	(3)	NM
Investing cash flows	**(302)**	**(527)**	**-43%**
Financing cash flows			
Net increase in borrowings	27	202	-87%
Dividends paid	(300)	(65)	+363%
Total financing cash flows	**(274)**	**137**	**-300%**
Net decrease/increase in cash and cash equivalents	(86)	127	-167%
Cash and cash equivalents at the beginning of the year	157	66	+140%
Effect of foreign exchange rate changes on cash and cash equivalents	(20)	(36)	-45%
Cash and cash equivalents at the end of the year	**52**	**157**	**-67%**

Operating cash flows in 2015 were under pressure from declining commodity prices. Operating cash flows before changes in working capital decreased by 18% year-on-year to US$504 million as a result of the decrease in Adjusted EBITDA and increase in cash tax payments by Albazino and Omolon, where previously tax losses carried forward were available. Net operating cash flows were US$490 million, compared to US$518 million in 2014. This was also slightly affected by an increase in working capital in 2015 of US$14 million.

Total cash and cash equivalents decreased by 67% compared to 2014 and comprised US$52 million, with the following items affecting the cash position of the Group:

- operating cash flows of US$490 million;
- investment cash outflows totalled US$302 million, down 43% year-on-year, and are represented by capital expenditure (almost unchanged from prior year at US$205 million) and other investing cash flows mainly represented by the net settlement of the put option for the Kyzyl acquisition (US$68 million);
- payment of regular and special dividends for 2014 and 1H 2015 amounting to US$300 million; and
- the net increase in borrowings of US$27 million.

Balance sheet, liquidity and funding

Net debt

	31 December 2015	31 December 2014	Change, %
Short-term debt and current portion of long-term debt	287	509	-44%
Long-term debt	1,063	814	+31%
Dividends payable	–	84	-100%
Gross debt	**1,350**	**1,407**	**-4%**
Less: cash and cash equivalents	52	157	-67%
Net debt	**1,298**	**1,249**	**+4%**
Net debt/Adjusted EBITDA	**1.97**	**1.82**	**+8%**

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

The Group's net debt increased slightly to US$1,298 million as of 31 December 2015, representing a Net debt/Adjusted EBITDA (over the last 12 months) ratio of 1.97. The increase is mainly attributable to the net settlement of the Kyzyl put option in September 2015.

The proportion of long-term borrowings comprised 79% as at 31 December 2015 (58% as at 31 December 2014).

In addition, as at 31 December 2015, the Group had US$1.2 billion (31 December 2014: US$1.0 billion) of available undrawn facilities, of which US$1.0 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 4.06% in 2015 (2014: 3.5%), 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. The increase in absolute finance costs (including capitalised interest) from US$41 million to US$81 million is mainly related to the notional accrual of interest on the put option liability on the Kyzyl transaction which expired in October 2015. Despite challenges in the credit markets in Russia and globally, the Group is confident in its ability to refinance the existing borrowings as they fall due.

2016 outlook

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

- the Company is fully on track to deliver on its production guidance of 1.23 Moz of gold equivalent for 2016 (after restatement of the gold/silver price ratio to 1/80);
- in 2016, Polymetal expects total cash costs of US$525-575/GE oz and all-in sustaining cash costs of US$700-750/GE oz at the current exchange rates;
- at the current exchange rates, capital expenditure in 2016 is expected to total approximately US$340 million (including exploration, capitalised stripping and construction of the Kyzyl project) in line with previous guidance;
- as a result, the Company expects to continue to generate meaningful free cash flow with the capacity to make further dividend payments in 2016.

Effective risk identification and management

Effective risk management is critical to the long-term sustainability and success of the mining business with its significant exposure to macroeconomic cycles. At Polymetal, we have developed a strict culture of risk management, which, we believe, is paramount to delivering sustainable value to our stakeholders. As the global and local markets in which we operate continue to be volatile in many ways – commodity prices, exchange rates, macroeconomic stability, climatic conditions – the Board continues to place significant focus on risk management, including both risk identification and response.

Risk management process

Polymetal's risk management process is designed to minimise the potential threats to achieving our strategic objectives.

Internal control and risk management systems are continuously reviewed to incorporate global best practices and add value to our business.

The risk management process includes the following stages:

- identification and documentation of risks;
- assessment, qualification and quantification of each risk;
- development and implementation of risk mitigation/control strategies;
- monitoring, reporting and reviewing risks; and
- establishment and enhancement of effective internal control procedures.

The Audit and Risk Committee of the Board sets the agenda for the risk management policies and procedures of the Group and is responsible for reviewing their effectiveness. Its duties include the review of:

- policies and processes to identify and assess principal business risks and to manage their impact on the Company and the Group;
- regular assurance reports from management, internal audit, external audit and others on matters related to risk and control;
- periodic 'deep dives' into significant risk areas; and
- the timeliness of and reporting on the effectiveness of corrective actions taken by management.

Risk identification

Risk awareness is embedded within the Group and is grounded in our strong ethical values and pro-active corporate culture. Our risk management philosophy is driven by the Company's Board of Directors and runs through all our management, employee and connected stakeholder activities – from developing strategy to day-to-day operations.

Risk management is one of the key functions of the Audit and Risk Committee. Principal risks are identified by the Board based on a detailed understanding of the Company, its markets and the legal, social, political, economic, technological, environmental and cultural environments in which we operate.

Our risk identification system considers not only single, mutually exclusive risks, but also multiple linked and correlated risks.

Our policy is to identify and assess risks at the earliest possible stage (preferably at the planning stage) and to implement an appropriate risk response and internal controls in advance. Our risk management procedures are designed to delegate the responsibility for risk identification while avoiding gaps and duplications. Risk identification requirements are also taken into account in the design of accounting and documentation systems in order to be able to identify and process information on potential risk triggers.

The Audit and Risk Committee has approved risk KPIs for all principal risks and monitors these KPIs on a quarterly basis. Risk matrices and assurance maps are used to record, prioritise and track each risk through the risk management process. These are reviewed regularly by the Audit and Risk Committee.

Risk assessment

Once identified, potential risk factors are assessed to consider the quantitative and qualitative impact that they might have on the business and the likelihood of the event (see table below). Together these create a risk profile.

Risk response

When the appropriate ranking has been identified, a response to each risk is formulated and implemented. Management assesses the effects of a risk's likelihood and impact, as well as the costs and benefits of possible mitigating actions. A response is then determined and implemented to bring the risk within acceptable tolerance levels.

Monitoring and reporting

Ongoing monitoring processes are embedded in Polymetal's business operations. These track the effective application of internal control and risk management policies and procedures, including internal audit and specific management reviews. Risk matrices and assurance maps are used to re-evaluate and adjust controls in response to changes in the Company's objectives, its business and the external environment.

Management is responsible for the implementation of effective follow-up procedures to ensure appropriate actions occur in response to changes in risk and control assessments.

Risk matrix

Consequence

Loss type	Insignificant	Minor	Moderate	Major	Catastrophic
Harm to people	Slight injury or health effects – first aid/minor medical treatment level	Minor injury or health effects – restricted work or minor lost workday case	Major injury or health effects – major lost workday case/permanent disability	Permanent total disabilities, single fatality	Multiple fatalities
Environmental impact	Minimal environmental harm	Material environmental harm	Serious environmental harm	Major environmental harm	Extreme environmental harm
Business disruption/asset damage and other consequential loss	<1% Adjusted EBITDA	>1% Adjusted EBITDA <5% Adjusted EBITDA	>5% Adjusted EBITDA <10% Adjusted EBITDA	>10% Adjusted EBITDA <20% Adjusted EBITDA	>20% Adjusted EBITDA
Legal and regulatory	Low level legal issue	Minor legal issue; non-compliance and breaches of the law	Serious breach of law; investigation/report to authority, prosecution and/or moderate penalty possible	Major breach of the law; prosecution and penalties applied	Very considerable penalties and jail term
Impact on reputation	Slight impact – public awareness may exist but no public concern	Limited impact – local public concern	Considerable impact – regional public concern	National impact – national public concern	International impact – international public concern

Likelihood

Rare	Unlikely	Possible	Likely	Almost certain
The unwanted event has never been known to occur in the business; or is highly unlikely to occur in the next 20 years	The unwanted event has happened in the business at some time; or could happen within 20 years	The unwanted event could well have occurred in the business at some point within 10 years and may re-occur within 10 years	The unwanted event has occurred infrequently; occurs less than once a year and is likely to re-occur within 5 years	The unwanted event has occurred frequently: occurs one or more times per year and is likely to re-occur within one year

Risk description and potential effect	Risk response	Residual risk level
1. Market risk		**High**
Gold and silver price volatility may result in material and adverse movements in the Company's operating results, revenues and cash flows.	The Company has developed and implemented plans to ensure consistent cash flow generation at operating mines, including: • redistribution of ore feedstock between hub deposits to achieve better margins due to better grade profile, better logistics or less expensive mining methods; • deferring the start of production while continuing ore stacking to achieve better cost profiles due to positive effects of scale; • managing the volume of third-party ore purchases; • staffing level review and hiring freeze; and • asset-level cost-cutting. Reserve and resource prices, as well as cut-off grades, are reviewed at least annually to reflect the prevailing commodity price levels. Short-, medium-, and long-term life-of-mine plans are adjusted as appropriate. Stress testing for these conservative price assumptions is performed to ensure resilience of the operating mines in a stress scenario and continued value creation. Contingency action plans have been developed to address performance in a stress scenario. In 2015, while the precious metals prices continued to decline, the measures taken by the Company ensured that each operating mine remained cash flow positive. The Company will continue with this approach going forward. Currently the Group does not hedge its commodity price exposure since its strategy is to offer stakeholders full exposure to the potential upside of gold and silver pricing.	
2. Production risks		**High**
The risk of failure to meet the planned production programme. Failure to meet production targets may adversely affect operating performance and the financial results of the Group. **The key sources of risk may include:** • **inability to achieve volume, grade or recovery assumed in life-of-mine plans;** • **failure of supply chains to procure complex logistics to remote locations;** • **failure to retain key employees or to recruit new staff; and** • **failure of contractors to meet required performance standards.**	**Inability to achieve volume, grade or recovery assumed in life-of-mine plans** Annual, quarterly and monthly production budgeting and subsequent monthly control against budget is designed to mitigate the risk. The effectiveness and efficiency of the production process is ensured by the Group's engineering team senior management. An approved production programme includes increased volume of operational prospecting works, such as in-fill drilling and grade control sampling. To mitigate the risk, the Group invests considerable amounts in ore quality assessment procedures and seeks to control ore quality by formation of ore stacks with the required characteristics. **Failure of supply chains to procure complex logistics to remote locations** The Group has implemented and constantly improves the supply chain system to closely link the production demand of resources with inventory levels, optimise the number of order placements and ensure in-time inventory and equipment delivery to production sites. **Failure to retain key employees or to recruit new staff** A working conditions improvement programme is in place. Remuneration policies are designed to incentivise, motivate and retain key employees. There is an increased focus on health and safety – refer to pages 46-47 of this report. There is an active promotion of a positive corporate culture within the Group. **Failure of contractors to meet required performance standards** The contractors' performance control system is designed, implemented and applied.	

Risk description and potential effect	Risk response	Residual risk level
3. Construction and development risk		**Medium**
Inability to achieve target return on capital for large investment projects, such as building new mines and processing facilities or extension/refurbishment of existing operating mines, due to delay in commissioning or capital expenditure overruns. This may have a negative impact on the Group' financial performance and cashflows	The Company applies global best practices in project management. Technical personnel of the Group are in charge of the project's capital expenditure, including project support, supply chain management and permitting process. A significant share of the projects is developed by the in-house engineering company Polymetal Engineering that has vast experience and a successful track record of design and ramp-up of mines and processing facilities. We are continuously improving our construction risk management systems and employ leading world class consultants in applicable areas.	
4. Tax risks		**High**
Due to frequent changes in tax legislation in Russia and Kazakhstan, lack of established practices in tax law means that additional costs such as taxes or penalties may occur. **The taxation risk level correlates with the legal and political risks levels.**	The Group's policy is to comply fully with the requirements of the applicable tax laws, providing adequate controls over tax accounting and tax reporting. Nevertheless, the ongoing changes to Russian and Kazakh tax legislation, and the evolving practice of application of these laws in courts, could lead to tax disputes and potential additional tax liabilities. The Group regularly evaluates its tax positions and makes sure they are adequately reflected in the consolidated financial statements. To date the Group is not aware of any significant outstanding tax claims, which could lead to additional taxes accrued in the future (except for amounts already booked or disclosed in the Group's financial statements). A new anti-offshore law has been enacted in Russia since 1 January 2015. The law introduced material changes into the taxation procedures for controlled foreign companies and established new criteria for beneficial ownership of income and tax residency in Russia. As all major operating entities of the Group are domiciled in Russia and Kazakhstan, Polymetal generates all of its revenues and profits and pays all related taxes in these countries. Therefore the Group does not expect any material impact from the 'de-offshorisation' law on its operations going forward. The Company fully complies with the new requirements.	
5. Exploration risks		**Medium**
Exploration and development are time- and capital-intensive activities and may involve high degrees of risk but are necessary for the future growth of the business. Failure to discover new reserves of sufficient magnitude could adversely affect the Company's future performance.	Risk and uncertainty are inherent for exploration and development activities. The Group invests considerable amounts in key exploration projects to obtain sufficient information about the quantity and quality of new reserves and to estimate expected cash flows. The Group's geology and engineering teams have a strong track record of successful greenfield and brownfield exploration, leading to the subsequent development of exploration fields into commercial production.	

Risk description and potential effect	Risk response	Residual risk level
6. Health and safety risk		Medium
The Group operates potentially hazardous sites such as open pits, underground mines, exploration sites, processing facilities and explosive storage facilities. The operation of these sites exposes our personnel to a variety of health and safety risks.	A control system covering occupational and industrial safety in the Company is in place, including risk assessment of individual work places and the use of safety equipment for the protection of personnel. The Company has reinforced the need for individual responsibility for personal safety and risk awareness, and developed additional security measures to ensure strict compliance with safety requirements by employees. The general approach of the Group to this risk is determined by the Group's Health and Safety Policy, which serves as the basis for the health and safety management system. The Group adopts the industry's global best practices in managing these risks and ensuring safe working conditions for our employees. Our health and safety management system ensures compliance with international, national and local regulatory requirements and is based on modern standards, including ILOOSH 2001, OHSAS 18001 and national safety standards. However, in 2015 we sadly report six fatalities on our sites. The increased frequency of injuries and these fatalities are mainly related to increased volumes of underground mining in complex geotechnical conditions. In response, we have intensified training programmes, with a particular focus on high-risk functions, and implemented a number of other measures, including a change of underground mining methods at certain sites. We are continuing to conduct a detailed review of the source of injuries and are further improving the shift risk assessment system, as well as conducting an external audit of our health and safety system.	
7. Environmental risk		Medium
Major pollution arising from operations includes: deforestation, air and water pollution, and land contamination. Potential impacts include fines and penalties, statutory liability for environmental redemption and other financial consequences that may be significant.	The Company operates a certified environmental management system which meets international standards and is audited for compliance. The Company has implemented a number of initiatives to monitor and limit the impact of its operations on the environment, including external expert assessment of pollution generated and adopting industry best practices for corporate and mine level policies and procedures.	
8. Legal risk		Medium
Operating in developing countries, such as Russia and Kazakhstan, involves the risk that changes in tax and other legislation may occur from time to time. The most sensitive areas are regulation of foreign investments, private property, environmental protection and taxation. In recent years, the governments of both Russia and Kazakhstan have become more consistent regarding the introduction of new regulations and taxes, demonstrating an awareness of investment climate issues. However, in the application of existing legislation requiring interpretation, courts often uphold the more assertive position of the tax authorities, which does not always coincide with the Company's position. As a result of changes in laws and regulations, certain types of transactions and technologies may become unavailable to the Group or the costs of compliance may be increased.	Polymetal has a successful track record of operating in both Russian and Kazakh jurisdictions, having developed its own expertise in corporate, tax, licensing and other legal areas. Corporate and operating management teams are responsible for meeting the legal requirements in their operating activities. Head office and on-site legal teams guarantee appropriate controls over compliance issues. The Group's policy is to ensure strict legal compliance in all jurisdictions where the Group companies operate. The Group's financial and legal teams monitor current legislation and proposed changes, and incorporate these into the practice, involving leading external experts where appropriate.	

Risk description and potential effect	Risk response	Residual risk level
9. Political risk		Medium
Operating in Russia and Kazakhstan involves some risk of political instability, which may include changes in government, negative policy shifts and civil unrest. Financial and economic sanctions imposed in 2014 by the United States and the European Union on certain businesses and individuals in Russia have increased political tensions and increased economic instability; there is a risk that further sanctions could impact the Group's ability to operate in Russia or Kazakhstan. Russia's complex relations with the United States and European Union, as well as its involvement in conflicts in the Middle East, may potentially present a risk to Group's operations. In addition, there is a risk that due to deterioration of the macroeconomic situation, governments in Russia and Kazakhstan may consider imposing currency controls and limitations on capital flows. These factors are not expected to affect the Group's operating performance yet may have a negative impact on the ability of the Group to secure external financing. These factors may have an adverse effect on the Group's market value and operating environment.	The Group actively monitors political developments on an ongoing basis. We aim to maintain open working relationships with local authorities in the countries where we operate. Sanctions imposed on Russian individuals and businesses in 2014, as well as further developments in 2015 have not currently had any direct influence on the Group's operations, however at the same time they have affected both the macroeconomic situation in Russia and interest rates for borrowings.	
10. Currency risk		High
The risk arises from the Company's receipts from metal sales and foreign currency denominated debt, as well as the foreign currency denominated cost of imported capital goods and consumables.	Natural hedging is used to reduce the risk exposure: revenue is matched with US Dollar denominated debt. Flexible budgeting is used to monitor the effect of exchange rate fluctuations on the Group's financial results. The Group has determined critical exchange rates levels for its operations and is monitoring risk against these levels. Depreciation of the Russian Rouble and Kazakhstan Tenge in 2014-2015 against the US Dollar and Euro resulted in recognition of unrealised negative foreign exchange losses on the revaluation of US Dollar denominated debt. However, the lower exchange rate resulted in a decrease in operating costs and higher cash flows from operations as most costs are denominated in local currencies.	
11. Liquidity risk		Medium
The inability to raise sufficient funds to meet current operating or ongoing financial needs or to develop new projects and growth. Inadequate cash management in terms of cash flow forecast, available resources and future requirements.	The Group's Treasury function is responsible for ensuring that there are sufficient funds in place, including loan facilities, cash flow from operating activities and cash on hand to meet short-term business requirements. Long-term credit lines and borrowings are used to finance new projects and organic growth. The Group ensures that significant undrawn committed facilities are in place to cover any funding gaps.	
12. Interest rate risk		Medium
The Group is exposed to interest rate risk as the significant part of the Group's debt portfolio is US Dollar denominated floating rate borrowings.	Based on analysis of the current economic situation, the Group has decided to accept the risk of floating interest rates rather than hedge it or borrow at fixed rates. The recent increase in base rate by the US Federal reserve has not changed the overall interest rate levels significantly. However, the Group does not rule out the possibility of fixing the interest rate on its borrowings in the future should assessment of the ongoing economic situation suggest this may be profitable. Due to the financial sanctions imposed against some Russian banking institutions in 2014, the overall level of interest rates in Russia has increased. Considering this, the Group has assessed risk level as medium.	

Board of Directors

Bobby Godsell
Chairman of the Board of Directors

Appointed 29 September 2011.

Previous experience President of the South African Chamber of Mines, Chairman of Eskom, Chief Executive of AngloGold Ashanti, Director of African Barrick Gold and Solar Capital, Chair of the Board of Optimum Coal Holdings, acquired by Glencore plc. Director of Platmin Limited, Member of the South African National Planning Commission.

Qualifications BA from the University of Natal and MA from the University of Cape Town.

Other roles Chairman of Business Leadership South Africa and co-Chairman of the South African Millennium Labour Council. Non-executive Director of the South African Industrial Development Corporation.

Committee Chair of the Nomination Committee.

Konstantin Yanakov
Non-executive Director

Appointed 29 September 2011.

Previous experience Member of JSC Polymetal's Board of Directors, 2008-2012 and member of its Audit Committee. Various positions at MDM Bank. CFO of JSC Polymetal until 2004. Member of the Board at Piraeus Bank and Inbank.

Qualifications MBA from the London Business School; PhD in Economics from the Russian State University of Management; degree in Global Economics from the Government of Russia's Finance Academy.

Other roles Chief Financial Officer of ICT Group, Director of LLC ICT-Capital, Director of Greek Organisation of Football Prognostics (OPAP S.A.), Director of O1 Properties. Member of the Supervisory Board of Rigensis Bank and member of the Board of Tiscali S.p.A. Member of the Board of non-state pension fund 'Future'.

Marina Grönberg
Non-executive Director

Appointed 29 September 2011.

Previous experience Board member of JSC Polymetal, 2008-2012. Various positions in banks and private equity firms.

Qualifications Degrees in Economics and Finance, and in Law from Moscow State Law Academy and in Applied Mathematics from Moscow State University.

Other roles Board member of Waterstones (UK), Hachette-Atticus, MIG Credit, Marenco Swiss Helicopters, PIK Group and Nexwafe GmbH; Managing Director of Lynwood (Schweiz); member of the Board of A&NN Investments, Lynwood Investments and Vitalbond; Chairman of Alpha Trust Investment committee; President of the Charity Fund named after Nadezhda Brezhneva.

Committee Member of the Safety and Sustainability Committee.

Vitaly Nesis
Group Chief Executive Officer

Appointed 29 September 2011.

Previous experience JSC Polymetal's Chief Executive from 2003, Member of its Board, 2004-2012. CEO of Vostsibugol, 2002-2003. Strategic Development Director at the Ulyanovsk Automobile Plant in 2000. Head of the Investment Planning Department at SUAL-Holding, 2001-2002. McKinsey in Moscow, 1999-2000. Merrill Lynch in New York, 1997-1999.

Qualifications BA in Economics from Yale University; MA in Mining Economics from St. Petersburg Mining Institute.

Committee Member of the Safety and Sustainability Committee.

Jean-Pascal Duvieusart
Non-executive Director

Appointed 29 September 2011.

Previous experience Managing Partner for Central Europe and the CIS at McKinsey; joined McKinsey in 1992 and worked in Brussels, New York and Central Europe before becoming Managing Partner in Prague. Advisor to banks, insurers and industrial companies in Russia and Central Europe. Shareholder of PPF Group N.V. since 2010.

Qualifications MBA from the University of Chicago; Master's degree in Commercial Engineering, Catholic University of Louvain, Belgium.

Christine Coignard
Senior Independent non-executive Director

Appointed 01 July 2014.

Previous experience 27 years' experience in the banking industry and advisory services world-wide, gained banking experience at Royal Bank of Canada, Société Générale and Citi; International Consultant for the Apogee Gold Fund based in Boston; project manager for Interros in Russia; Director of investments and financing for Norilsk Nickel; Managing Director at HCF International Advisers.

Qualifications Business degree from EMLYON, France, and MBA from the Schulich School of Business, Toronto, Canada.

Other roles Managing Director and Founding partner of Coignard & Haas GmbH.

Committees Chair of the Remuneration Committee; member of the Audit and Risk Committee and Nomination Committee.

Russell Skirrow
Independent non-executive Director

Appointed 29 September 2011.

Previous experience Board member of JSC Polymetal, 2008-2012. Total of 35 years' experience working in the global mining industry and investment banking, including ten years at Merrill Lynch in London as Head of Global Metals, Mining & Steel Research and subsequently as Global Chairman of the Metals/Mining investment banking team, and during the 1980s and early 1990s in Gold Fields Ltd (South Africa) and Western Mining Corporation in Australia, and the USA. Chairman of Dampier Gold Ltd 2010-2013.

Qualifications BSc with Honours in Geology from Durham University and a PhD from the Royal School of Mines, Imperial College, London. Member of the Institute of Materials, Minerals & Mining with Chartered Engineer status and Fellow of the Financial Services Institute of Australasia.

Committees Member of the Audit and Risk Committee and Safety and Sustainability Committee.

Jonathan Best
Independent non-executive Director

Appointed 29 September 2011.

Previous experience Over 34 years' experience in the mining industry. Board member of JSC Polymetal, 2006-2012; Chairman of the Audit Committee of Gulf Industrials; Chairman of Sentula Mining and Bauba Platinum, and member of their nomination and remuneration committees; Chairman of GoldStone Resources; Interim CEO of Trans-Siberian Gold in 2006; CFO and Executive Director of AngloGold Ashanti.

Qualifications MBA from the University of the Witwatersrand, Johannesburg, Chartered Management Accountant (ACMA), Associate of the Chartered Institute of Secretaries and Administrators.

Other roles Non-executive Director of AngloGold Ashanti Holdings plc and Chairman of its Audit Committee; Non-executive Director and Chairman of the Audit Committee of Metair Investments.

Committees Chair of the Audit and Risk Committee; member of the Remuneration Committee.

Leonard Homeniuk
Independent non-executive Director

Appointed 29 September 2011.

Previous experience Board member of JSC Polymetal, 2010-2012. President, CEO and member of the Board of Directors of Centerra Gold, 2004-2008. Chair, President and Chief Executive Officer of Polygon Gold Inc., 2011-2014. Held executive positions with Centerra Gold, Kumtor Gold and Cameco Corporation.

Qualifications MSc from the University of Manitoba. Member of the Ontario Society of Professional Engineers, the Canadian Institute of Mining and Metallurgy and the Prospectors and Developers Association of Canada. Honorary Professor at the Kyrgyz Mining Institute.

Other roles Director of Trade Ideas LLC.

Committees Chair of the Safety and Sustainability Committee; member of the Remuneration Committee and Nomination Committee.

Senior management

Vitaly Savchenko
Chief Operating Officer

Appointed 2009.

Experience Director of the Production Department, 2007-2009, senior production, technical and mining positions since 2004. Chief underground mine engineer at Priargunskoye Mining and Chemical Company as well as various managing positions at the mine, 1994-2003. Recipient of second and third-category Miner's Glory Medal.

Qualifications Degree with Honours in underground mineral mining engineering, Kyrgyz Mining Institute; MBA from the UK's Open University Business School.

Sergey Cherkashin
Chief Financial Officer

Appointed 2005.

Experience CFO of the Timashevsk Dairy Plant. Sales Director of the Ulyanovsk Automotive Plant. Deputy CEO of Development at the Volgograd Dairy Plant. Consultant for AT Kearney in Moscow.

Qualifications MBA from the University of Hartford. Degree in Applied Mathematics from the Moscow Institute of Physics and Technology.

Sergey Trushin
Deputy CEO, Mineral Resources

Appointed 2010.

Experience Chief Geologist at the Khabarovsk Exploration Company, 2008-2010. Chief Geologist at Albazino Resources 2006-2008 and various positions at Albazino Resources since 1998. Geologist with Dalnevostochnie Resources, 1991. Geologist with the Production Geological Association 'Dalgeology' and the Nizhne-Amursk exploration expedition in the preceding six years.

Qualifications Degree in Geological Surveying and Mining Engineering Exploration from the Novocherkassk State Polytechnic Institute.

Roman Shestakov
Deputy CEO, Project Development and Construction

Appointed 2009.

Experience Chief Engineer at Gold of Northern Urals, 2007-2009 and a pit superintendent from 2006. Mine superintendent at the Okhotsk Mining and Exploration Company, 2004-2005. Mining engineer in the Production and Technical Department of JSC Polymetal Management in the preceding two years.

Qualifications Honours degree in Open-pit Mining from the Mining Department of the St. Petersburg State Mining Institute. MBA from the UK's Open University Business School.

Valery Tsyplakov
Managing Director, Polymetal Engineering

Appointed 2004.

Experience Previous roles in Polymetal: Deputy General Director for Mineral Resources, Design and Technology and senior roles in the Production and Technology and Technological Research Departments, 2000-2004. Department Head at the Soviet Union Research Institute of Aeronautical Automation and, prior to this, a quest scientist at Aarhus University's Physics Institute (Denmark). Research Fellow in the Plasma Physics Department of the Moscow Physics and Engineering Institute. Professional Member of the Institute of Materials, Minerals & Mining (London).

Qualifications Degree in Experimental Nuclear Physics, the Moscow Physics and Engineering Institute. PhD in Physics and Mathematics.

Pavel Danilin
Deputy CEO, Strategic Development

Appointed 2009.

Experience Previous roles in Polymetal: Director of Corporate Finance and Investor Relations, Head of Corporate Finance. Head of Corporate Finance at CJSC ICT, 2002 and 2003. Deputy Head of Currency Department and Head of Financial Resources Department at the Kaliningrad branch of Bank Petrocommerce, 1998-2001.

Qualifications MBA from the University of California at Berkeley, Haas School of Business. Degree in Economics and Management, Kaliningrad State Technical University.

Igor Kapshuk
Chief Legal Officer

Appointed 2009.

Experience Previously worked in Polymetal as Head of the Legal Department from 2005 and Deputy Head from 2003. Deputy General Counsel, Head of the Department for Legal Matters and Head of Claims Department at the branch of Siberia Energy Coal Company and at Vostsibugol (Irkutsk), 2001-2003. Legal advisor for Pharmasintez, 1999-2001. Legal advisor and acting Head of the Legal Department at the Irkutsk Tea-Packing Factory, 1997-1998. Legal adviser at an insurance company (Irkutsk), 1994-1997.

Qualifications Degree from the Law School of Irkutsk State University.

Dear Shareholders

Our commitment to our shareholders remained paramount during 2015. Despite sustained trading difficulties in an unsettled global economy and a low point in the commodities cycle, the strength of our free cash flow generation enabled us to maintain meaningful dividend returns to our shareholders. But this has not compromised our ability to re-finance debt and maintain a comfortable leverage level: a testament to our commitment to capital discipline.

In 2015, the Board approved the approach for the Kyzyl project development and commencement of construction. The timetable is on track for production to start in 2018, with lower costs than previously predicted. With the Kyzyl put option, which could have stretched the balance sheet, now out of the way, we continue to look for value-accretive M&A opportunities and are focusing on projects with a low-cost entry level and long-term potential.

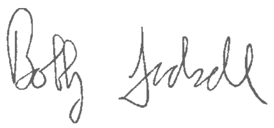
Maintaining an ongoing dialogue with shareholders and the investor-and-analyst community about major developments within Polymetal is vital to building and maintaining good relationships, and creating value. Through our investor relations programme, with regular presentations, webcasts and opportunities to meet members of our senior team, we are able to communicate a better understanding of the Company's strategy and how it operates.

The ability of the business to compete successfully in its marketplace relies on effective and strategic leadership. Through succession planning, we ensure that we maintain the right level of skills and experience in the Company and our Young Leaders Programme will certainly help us achieve this.

Sadly, our safety record for the year was poor, with six fatalities at the Company's sites. We have set up a new Safety and Sustainability Committee to fast track major improvements in our risk management procedures. The Committee met three times in 2015 and has already made good progress in addressing this situation.

On a more positive note, Polymetal was included in both the FTSE4Good Global Index and FTSE4Good Europe Index for the first time. Listing on both indices is determined by companies demonstrating good environmental, social and governance practices. Please read more in our 2015 Sustainability Report.

As a Board, we are committed to ensuring that Polymetal operates its business by adhering to the highest standards of ethical and responsible behaviour. Good corporate governance should be the hallmark by which all our stakeholders recognise the Company's standing as we continue to build and develop the future of the business.



Bobby Godsell
Chairman

Maintaining effective governance

Board of Directors

Chairman
Bobby Godsell N

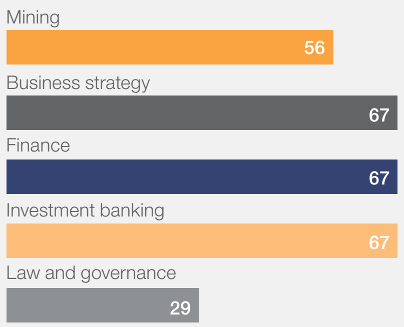
Group CEO
Vitaly Nesis S

Non-executive Directors
Konstantin Yanakov
Jean-Pascal Duvieusart
Marina Grönberg S

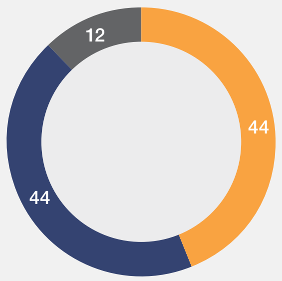
Independent non-executive Directors
Christine Coignard
A R N
Russel Skirrow
A S
Jonathan Best
A R
Leonard Homeniuk
R N S

Committees
A Audit and Risk Committee
R Remuneration Committee
N Nomination Committee
S Safety and Sustainability Committee

Board skills (%)

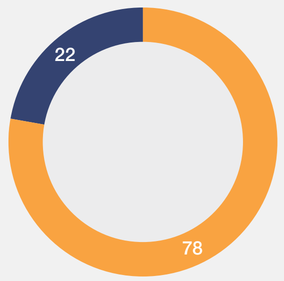


Board independence (%)



Independent directors	4
Non-independent directors	4
Chairman	1

Board diversity (%)



Men	7
Women	2

Statement of compliance with the UK Corporate Governance Code

The Directors are committed to maintaining high standards of corporate governance. As a premium UK-listed company, during the year ended 31 December 2015 Polymetal International was required to comply with the UK Corporate Governance Code (the UK Code) – published in September 2014 and available through the UK Financial Reporting Council's website – or, where the provisions of the UK Code have not been complied with, to provide appropriate explanations. During 2015, the Company was in compliance with all provisions of the UK Code.

As well as complying with the UK Code, the Company has complied with all applicable regulations of the Moscow Stock Exchange and Russian securities laws since its shares were admitted for secondary trading on the Moscow Exchange.

Role and structure of the Board

The Company's Board comprises the non-executive Chairman, one executive Director, and seven non-executive Directors. Excluding the Chairman, four members of the Board are independent non-executive Directors. Refer to the schedule opposite for the structure of the Board and its Committees, showing the status of each Director.

The independent non-executive Directors are those determined by the Board to be independent in character and judgement and to be free from relationships or circumstances which may affect or could appear to affect their judgement. The role of the independent Directors on the Board is to challenge the strategy and scrutinise the performance of management in meeting agreed goals and objectives, to monitor the reporting of performance of the Company, to review the integrity of financial information, and ensure that the Company's internal financial controls and system of risk management are robust and defensible. They are responsible for determining the appropriate level of remuneration for the Group Chief Executive (Group CEO) and have a primary role in appointing and, when necessary, removing him.

Directors' interests are disclosed in annual declarations and the Company Secretary is notified promptly of any changes to those interests. Before each Board meeting, independent non-executive Directors reconfirm their independence and all Directors disclose whether they hold any interests in any matters to be reviewed at the Board meeting.

Non-independent non-executive Directors include Mr Yanakov (who is a representative of Powerboom Investments Limited); Ms Grönberg (who is a representative of Vitalbond Limited, Lynwood Capital Management Fund Limited) and Mr Duvieusart (who is a representative of PPF Group). Mr Nesis is the brother of the beneficial owner of Powerboom Investments Limited. Save for the potential conflicts inherent in these relationships, there are no potential conflicts of interest between the duties owed by the Directors or senior management to the Company and their private interests or other duties.

The Board has determined Jonathan Best, Christine Coignard, Leonard Homeniuk, and Russell Skirrow to be independent non-executive Directors. Bobby Godsell met the independence criteria on appointment.

Jonathan Best has been on the Board of the Company since September 2011 and on the Board of JSC Polymetal since December 2006, and his reappointment is subject to particularly rigorous review. The Board believes that Mr Best continues to display all of the qualities of independence pursuant to the criteria set out in the Code. From October 2014, Mr Homeniuk no longer holds any shares, and since December 2014 is no longer Executive Chair and CEO of Polygon Gold Inc. (Polygon), in which Polymetal holds a 42.6% equity ownership and one of the three board seats. Polymetal's interest in Polygon, with a carrying value of less than US$0.5 million, is not material. Accordingly, the Board continues to consider that Mr Homeniuk was independent throughout 2015 and continues to be an independent non-executive Director.

The Company considers that the Board and its Committees have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. All Directors have access to the advice and services of the Company Secretary, and are able to take independent professional advice, if necessary, at the Company's expense.

Board meetings

In 2015, the Board met seven times. Further business was approved by written resolution on one further occasion and by a Committee of the Board on six occasions (four by way of a written resolution).

The Board is responsible for:

- defining the commercial strategy and long-term objectives of the Group;
- approving annual operating and capital expenditure budgets and any material changes to them;
- overseeing the Group's operations, ensuring competent and prudent management, sound planning, a strong system of internal control, and compliance with all statutory and regulatory obligations;
- reviewing the performance of the Group in the light of its business strategy, objectives, business plans and budgets and ensuring that any necessary corrective action is taken;
- approving any material extension of the Group's activities into new businesses or geographic areas and any decision to cease to operate all or any material part of the Group's business; and
- ensuring a mutual understanding of objectives and maintaining constructive dialogue with shareholders.

The schedule of matters reserved to the Board is reviewed at least annually.

Roles of the Chairman, Group Chief Executive and Senior Independent Director

The Board has approved the division of responsibilities between the Chairman and the Group Chief Executive (Group CEO) and the role of the Senior Independent Director (SID).

Chairman

The Chairman reports to the Board and is responsible for the leadership and overall effectiveness of the Board and for setting the Board's agenda. His responsibilities include:

- effective running of the Board;
- ensuring there is appropriate delegation of authority from the Board to executive management;
- promoting a culture of openness and debate by facilitating the effective contribution of non-executive Directors in particular and ensuring constructive relations between executive and non-executive Directors;
- encouraging active engagement by all members of the Board and ensuring that the Directors receive accurate, timely and clear information; and
- ensuring that the views of the shareholders are communicated to the Board as a whole.

Mr Godsell is able to commit sufficient time to his role as non-executive Chairman of Polymetal International and the Board believes that other commitments do not adversely affect his contribution to the Company. Mr Godsell's other significant commitment is a non-executive directorship in the South African Industrial Development Corporation. He is also the Chairman of Business Leadership South Africa and co-Chairman of the South African Millennium Labour Council.

Group CEO

The Group CEO exercises his role through his executive and/or director positions in the Group subholding companies. He reports to the Chairman and the Board directly and upholds the Group's responsibilities to its shareholders, customers, employees and other stakeholders. He is responsible for the management of the Group and for developing the Group's business strategy, objectives, budget and forecasts, and overseeing their successful implementation, once approved by the Board.

The Board interacts with management on a regular basis. Directors invite senior managers to attend relevant parts of the Board and Committee meetings, to report on agenda items and participate in discussion.

The Group CEO's responsibilities include:

- developing and proposing Group strategy, including communicating annual plans and commercial objectives to the Board;
- upholding the Group's responsibilities to its shareholders, customers, employees and other stakeholders;
- identifying and executing strategic opportunities;
- reviewing the operational performance and strategic direction of the Group;
- making recommendations on remuneration policies, executive remuneration and terms of employment for senior employees;
- ensuring that the development needs of senior management are identified and met;
- ensuring effective succession planning; and
- ensuring effective communication with shareholders and that appropriate, timely and accurate information is disclosed to the market, with issues escalated promptly to management and the Board.

Senior Independent Director (SID)

Christine Coignard serves as a SID of Polymetal. Ms Coignard is available to major shareholders in order to listen to their views and help develop a balanced understanding of their issues and concerns. She also acts as an intermediary for the other Directors if necessary. In 2015, Ms Coignard attended a series of one-on-one meetings with institutional shareholders and investors, arranged as part of the Company's roadshow, and the investor events organised by the Company's brokers. The Board is regularly updated on shareholders' opinions following meetings with the Directors and management.

Separate meetings are held between the non-executive Directors without the Chairman or the Group CEO being present; between non-executive Directors without the Chairman, led by the SID, to appraise his performance annually and on such other occasions as appropriate; and between the independent non-executive Directors without the other non-executive Directors being present. This includes both formal and informal meetings between Directors.

Board composition

Board member	Appointed	Executive	Non-executive	Independent	Audit and Risk Committee	Remuneration Committee	Nomination Committee	Safety and Sustainability Committee
Bobby Godsell	29 September 2011		✓				Chair	
Vitaly Nesis	29 September 2011	✓						Member
Jonathan Best	29 September 2011		✓	✓	Chair	Member		
Russell Skirrow	29 September 2011		✓	✓	Member			Member
Leonard Homeniuk	29 September 2011		✓	✓		Member	Member	Chair
Konstantin Yanakov	29 September 2011		✓					
Marina Grönberg	29 September 2011		✓					Member
Jean-Pascal Duvieusart	29 September 2011		✓					
Christine Coignard	1 July 2014		✓	✓	Member	Chair	Member	

Constructive use of the Annual General Meeting

The Board uses the Annual General Meeting (AGM) to communicate with investors and to encourage their participation. To ensure the Company's shareholders have time to consider our Annual Report and Notice of AGM and lodge their proxy votes in good time, all meeting materials are made available more than 20 working days prior to the AGM. Separate resolutions are proposed on each substantially separate subject and all resolutions are put to a poll. The Company also offers shareholders the option to abstain.

Shareholders who are not able to attend the AGM are encouraged to submit proxy votes either electronically or in paper format. At the Company's 2015 AGM, we received votes representing approximately 75% of our issued share capital. The Company did not have a significant percentage of shareholders voting against any resolution. The results of the proxy vote are presented at the meeting, with the final results announced via the London Stock Exchange and available on the website.

In addition, our AGM provides a valuable opportunity for shareholders to meet with and put questions to the Directors in person. The 2015 AGM was attended by all Directors, including the Chairs of the Audit and Risk, Remuneration and Nomination Committees. The 2016 AGM of the Company will be held in London to enable easier participation of shareholders in the meeting.

The primary means of communication with the majority of our shareholders, who have not requested paper copies of our documentation, is through our corporate website: www.polymetalinternational.com.

Board and Committee meeting attendance

	Board meetings[1] (eight)	Audit and Risk Committee meetings[2] (six)	Remuneration Committee meetings[3] (three)	Nomination Committee meetings (two)	Safety and Sustainability Committee meetings (three)
Bobby Godsell	all	n/a	n/a	all	n/a
Vitaly Nesis	all	n/a	n/a	n/a	all
Jonathan Best	6	all	all	n/a	n/a
Russell Skirrow	5	all	n/a	n/a	all
Leonard Homeniuk	6	n/a	all	all	all
Konstantin Yanakov	5	n/a	n/a	n/a	n/a
Marina Grönberg	6	n/a	n/a	n/a	all
Jean-Pascal Duvieusart	6	n/a	n/a	n/a	n/a
Christine Coignard	6	all	all	all	n/a

[1] Further business was approved by written resolution on one occasion; by a Committee of the Board on six occasions and by way of a written resolution of a Committee of the Board on four occasions. One of the meetings, held by way of a conference call between Messrs Godsell and Nesis, approved a matter previously agreed by the whole Board.
[2] Further business conducted by the Audit and Risk Committee was approved by written resolution on three further occasions.
[3] Further business conducted by the Remuneration Committee was approved by written resolution on three further occasions.

Nomination Committee

The Nomination Committee is chaired by Mr Godsell and its other members are Mr Homeniuk and Ms Coignard. The Committee has responsibility for making recommendations to the Board on the composition of the Board and its Committees, including appointments of additional and replacement Directors. The Committee:

- leads the process for Board appointments and makes recommendations to the Board;
- regularly reviews the Board structure, size and composition (including skills, knowledge, independence, experience and diversity) and makes recommendations to the Board about any changes that the Committee considers necessary;
- considers plans and makes recommendations to the Board for orderly succession to the Board and to senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board and to ensure progressive refreshing of the Board, taking into account the challenges and opportunities facing the Company;
- keeps under review the leadership needs of the Group, both executive and non-executive, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace;
- evaluates the balance of skills, knowledge, experience, independence and diversity of the Board before any appointment is made by the Board, and in the light of this evaluation prepares a description of the role and capabilities required for a particular appointment and the expected time commitment; and
- reviews the results of the Board's performance evaluation process that relates to the composition of the Board and whether non-executive Directors are spending enough time in discharging their duties.

There were two meetings of the Nomination Committee in 2015. At its meetings, the Committee continued discussing succession planning in the Company and the development of the Young Leaders Programme. This programme helps evaluate the talent pool for the Group and tailors training for the future senior management needs of the Group. As part of this programme, a series of meetings took place between young leaders and Board members. Training opportunities for all of the Group's employees continue to be discussed.

The Nomination Committee acknowledges that a deep and rigorous approach to succession planning is vital for the Company's continuing success so that leadership is fully aligned to corporate strategy, both at Board and senior management levels.

Diversity continues to be the focus of attention. In 2015, the proportion of women working in the Group was 23% (2014: 22%). Women represent 22% of Board members (2014: 22%), 23% of senior management positions (2014: 22%); and 44% of qualified employees (2014: 43%). The Board welcomes diversity at all levels; it believes that the right way to approach diversity is by putting competence first and seeking the right qualities for each and every appointment. Diversity becomes a distinct advantage with such an approach and is in line with the Company's objective of promoting women at all levels of the Group. The Company facilitates promotion of women within its offices and operations, including hiring women in positions traditionally held by men.

The regular monitoring of compliance in relation to the diversity policy is undertaken by the HR Department. No instances of discrimination towards the Group's employees have been reported. All candidates and employees have equal opportunities regardless of gender, age, race, nationality, language, origin, wealth, residence, religion and other beliefs, social membership or other personal circumstances.

Full terms of reference of the Nomination Committee are available on the Company's website: www.polymetalinternational.com.

The Board considers that the composition of the Board and the Nomination Committee complies with the requirements of the UK Code.

Board evaluation

In 2015, the Board carried out a performance evaluation of itself, its Committees, the Chairman and the Group CEO. This was conducted without the assistance of an external facilitator. The first externally facilitated Board review had taken place in 2013 and was performed by Lintstock Ltd, an independent advisor with no other connection to the Company. In accordance with the UK Code, it is the Board's intention that the evaluation process will be externally facilitated every three years and the next one will take place over the course of 2016.

Self-evaluation consisted of the Board discussing its composition and operational integrity; the balance of executive and non-executive Directors, independent Directors and Directors representing major shareholders; the balance of skills, experience, and knowledge of the Company; and international diversity. The number of Board and Committee meetings held was discussed as well as the performance of each Committee of the Board. The remuneration of Directors and senior management was also considered.

The outcomes of the self-evaluation were as follows:

- it was agreed that the Board worked effectively together as a unit;
- overall the Board and its Committees operated successfully;
- Directors receive accurate, timely and clear information ensuring ongoing Board effectiveness;
- each Director continues to contribute effectively and to demonstrate commitment to the role (including their commitment of time for Board and Committee meetings and any other duties);
- the Directors' training programme will be further tailored (with assistance from external advisors) to answer the skills development needs of the Board.

Re-election policies

In accordance with the UK Code, all Directors are subject to annual re-election.

Full terms and conditions of the appointment of non-executive Directors are available for inspection at the Company's registered office.

The Directors' biographical details are set out on pages 70 to 71 and following their performance evaluations, the Board and Chair consider that each of the Directors standing for re-election will continue to be an effective contributor to the Group's success and demonstrate commitment to his or her role. A performance evaluation of the Chairman was conducted by the Board in 2015, and the Board believes that the Chairman continues to be effective and to demonstrate commitment to his role.

Board site visits

Annual site visits greatly improve the Board's understanding of Polymetal's operations and organisation and contribute to the Board's evaluation of the Group's business plan and strategy. On a two-day visit to the Company's operations in Kazakhstan during 2014, the Board of Directors gained valuable first-hand insights into local management, challenges and opportunities. They met with key mine executives and employees, and were given a detailed tour of production facilities at the Varvara mine and of the proposed site at the Kyzyl project. In 2015, the Board visited Mayskoye, the newest operating mine in Polymetal's portfolio.

Induction

Upon appointment, Directors receive a full induction, including information about the Company; an outline of the role of a Director and a summary of his or her responsibilities and ongoing obligations under legislation, regulation and best practice; and a copy of the Memorandum on Inside Information, Insider Lists and Code of Practice on Dealing in Securities. Directors also receive the Company's guidelines on matters reserved to the Board, terms of reference of the Board Committees and other governing documents of the Company. Directors and Chairs of the Board Committees regularly receive updates on changes to corporate governance and regulatory requirements and other changes affecting the Company. The Board is kept informed of relevant developments in the Company by way of monthly management reports, including comprehensive information on operating and financial performance, and the progress of capital projects. A field trip to Mayskoye for Directors took place in August 2015.

Dear Shareholders

As reported in more detail elsewhere in this Annual Report, 2015 proved yet another difficult year for precious metals mining companies. Our own businesses in Russia and Kazakhstan were subjected to high levels of economic uncertainty, caused by the general geopolitical situation and the continued weakness in commodity prices.

The Audit and Risk Committee plays a key role in safeguarding the Company's exposure to risk and, in particular, confirming the adequacy of the risk management process and the procedures in place to minimise any potential negative impact. Given the current, challenging macroeconomic situation, we increased the focus on risk analysis during this year's Committee meetings.

I would also like to specifically highlight the sterling work carried out by the internal audit function. This has included both raising the awareness and understanding of risk levels within the Company and focusing on the operational risk matrix and its impacts on the business.

Under amendments to the UK Code, there is now a requirement for companies to include a longer-term viability statement to provide shareholders with an improved and broader assessment of the solvency and liquidity of a business over an extended period of time. Polymetal has been fully compliant with this process and able to demonstrate the strength of its disciplined financial planning in ensuring long-term stability for the Company.

The Audit and Risk Committee and the Board are pleased with the continued progress of the finance team. The high quality of financial reporting and implementation of internal controls has contributed greatly to our ability to police the principal risks to the business in an increasingly efficient manner; particularly for those relating to financial, tax and market risk.

The Audit and Risk Committee is a fully independent body, consisting only of independent non-executive Directors with relevant skills and experience in financial reporting and risk management.

In 2015, six meetings of the Audit and Risk Committee were held and further business conducted by the Committee was approved by written resolution on three additional occasions.

The Audit and Risk Committee dealt with the following matters:

- reviewed and recommended for approval financial and risk information included in the Annual Report 2014;
- reviewed and recommended for approval Polymetal's results for the six months to 30 June 2015;
- discussed and approved the Committee work plan;
- supervised compliance with the Company's anti-bribery and corruption policy;
- reviewed the Group's internal audit plan and monitored the effectiveness of internal audit;
- reviewed the Group's external audit plan and recommended for approval the interim and year-end audit fees;
- reviewed the actual audit fee in 2015 compared to the authorised amount;
- approved the terms of engagement, including the engagement letter issued at the start of each audit and the scope of the audit;
- reviewed the independence and effectiveness of the external auditor; reviewed non-audit work performed by the auditors;
- recommended the re-appointment of Deloitte LLP as external auditor;
- reviewed the critical risks and exposures of the Group, including significant judgements, impairments and tax risks;
- performed an in-depth analysis of some of the Company's main risks;
- reviewed the capability of the Group's finance team;
- performed an internal assessment of the Committee's effectiveness;
- reviewed corporate governance changes and planned for continued compliance in 2016; and
- reviewed requirements for the longer-term viability statement and supervised preparation of the first such statement for the Company.

In line with the Company's overall approach to governance, we have instilled a strong culture of discipline throughout our business, and are confident that we have robust systems and processes which enable the Committee to operate effectively.

The Committee remains fully focused on the quality of the reporting, internal control and risk management processes in order to ensure the transparency and objectivity of the Company's financial statements.

Jonathan Best
Chair, Audit and Risk Committee

Audit and Risk Committee

The Audit and Risk Committee is chaired by Mr Best and its other members are Mr Skirrow and Ms Coignard, all independent non-executive Directors. The Directors consider that Mr Best has recent and relevant financial experience (refer to pages 70-71 for details of Mr Best's experience). In addition, the other members of the Committee have a wide range of financial and other relevant experience.

The responsibilities of the Audit and Risk Committee comprise:

- monitoring the integrity of the Group's consolidated financial statements and reviewing its annual and interim financial statements, including, but not limited to the consistency of, and any changes to, accounting and treasury policies across the Company and the Group; the methods used to account for significant or unusual transactions; the reasonableness of significant estimates and judgements, taking into account the views of the external auditor; and the clarity and completeness of disclosure in the consolidated financial statements;
- considering and making recommendations to the Board, to be put to shareholders to consider at the AGM, in relation to the appointment, re-appointment, resignation or removal of the Group's external auditor;
- overseeing the Group's relationship with its external auditor and reviewing the effectiveness of the external audit process, taking into account relevant UK professional and regulatory requirements; the Committee meets with the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- reviewing the independence and objectivity of the external auditor and the appropriateness of the provision of any non-audit services by the external auditor, taking into account relevant ethical guidance;
- reviewing the effectiveness of the Group's system of internal controls and risk management systems;
- monitoring and reviewing the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system;
- reviewing the Group's policies and procedures for preventing and detecting fraud, the systems and controls in place for preventing bribery, and its policies for ensuring that the Group complies with relevant regulatory and legal requirements; and
- approving significant transactions.

Full terms of reference of the Audit and Risk Committee are available on the Company's website: www.polymetalinternational.com.

Ultimate responsibility for reviewing and approving the interim and annual financial statements remains with the Board. The Committee gives due consideration to applicable laws and regulations, the provisions of the UK Code and the requirements of the Listing Rules.

The Audit and Risk Committee monitors the Company's relationship with its external auditor relating to the provision of non-audit services to ensure that auditor objectivity and independence are safeguarded. This is achieved by disclosure of the extent and nature of non-audit services (see Note 14 to the consolidated financial statements) and the prohibition against selected services being provided by the external auditor.

The policy governing the provision of non-audit services by the external auditor approved by the Committee defines permitted audit and non-audit services.

Pre-approval thresholds are in place for the provision of non-audit services by the external auditor, being: pre-approval by the Chief Financial Officer (CFO) of JSC Polymetal if the services are provided to a Russian or Kazakh business entity of the Group, and the Director of the Cyprus office of Polymetal International plc if the services are provided to other Group companies if below US$5,000; by the Chair of the Audit and Risk Committee if between US$5,000 and US$20,000; or by the Audit and Risk Committee if above US$20,000.

Above a certain threshold, if it is determined that the external auditor has no obvious competitive advantage in the performance of proposed non-audit services, then the provider of those services must be chosen by way of a competitive tender. Certain types of non-audit work may be undertaken by the auditor without prior referral to the Audit and Risk Committee up to a cumulative annual value of US$100,000. Any further non-audit work is subject to approval by the Audit and Risk Committee in further tranches of US$100,000. In the event that the cumulative value of non-audit fees exceeds US$500,000 in any given year, separate approval by the Audit and Risk Committee is required explaining why there is no threat to independence. A copy of the policy is available on the Company's website: www.polymetalinternational.com.

The Audit and Risk Committee has considered information pertaining to the balance between fees for audit and non-audit work for the Group in 2015 and concluded that the nature and extent of non-audit services provided do not present a threat to the external auditor's objectivity or independence.

Review of the effectiveness of the external audit process and audit quality

The Audit and Risk Committee has adopted a formal framework in its review of the effectiveness of the external audit process and audit quality which focuses on the following areas:

- the audit partners, with particular focus on the lead audit engagement partner. In 2015 the Company's existing audit partner was rotated and the Committee started working with the new partner;
- the audit team;
- planning and scope of the audit and identification of areas of audit risk;
- execution of the audit;
- the role of management in an effective audit process;
- communications by the auditor with the Audit and Risk Committee, and how the auditor supports the work of the Audit and Risk Committee;
- how the audit contributes insights and adds value; and
- the independence and objectivity of the audit firm and the quality of the formal audit report to shareholders.

An auditor assessment is completed annually by each member of the Audit and Risk Committee and by the CFO. Feedback is also sought from the Group CEO, other members of the finance team, divisional management and the head of internal audit.

The assessment tool adopted is comprehensive and includes detailed questions which are completed by way of a formal questionnaire every three years, while the key areas are reviewed every year. The feedback from this process is considered by the Audit and Risk Committee and is provided both to the auditor and to management. Action plans arising are also reviewed by the Committee.

The effectiveness of management in the external audit process is assessed principally in relation to the timely identification and resolution of areas of accounting judgement, the quality and timeliness of papers analysing those judgements, management's approach to the value of the independent audit, the booking of audit adjustments arising (if any) and the timely provision of draft public documents for review by the auditor and the Audit and Risk Committee.

Every three years, the Audit and Risk Committee requests that a partner independent of the audit engagement team discusses the quality of the external audit process with the Audit and Risk Committee Chair and the CFO using this evaluation framework.

During this year, the Audit and Risk Committee focused on:

- evaluating the recoverability of goodwill and PPE. The Committee examined the potential indicators of impairment (or impairment reversal, where appropriate) for each of the cash-generating units and the life-of-mine financial models used for assessing the fair value less costs to sell of the individual CGUs tested for impairment. The Committee examined and challenged the commodity price, discount rate and exchange rate assumptions used by management in its impairment tests;
- evaluating the existence and recoverability of metal inventories. The Committee examined the price assumptions used by management as well as unit costs and other internal assumptions used in determining the net realisable value of unfinished goods within metal inventories (ore and concentrate stockpiles);
- evaluating the recoverability of exploration and development assets. The Committee evaluated management's approach to determine whether the existing exploration and development assets are likely to generate future economic benefits and whether any indicators of impairment had been identified;
- the impact of sanctions on the Company's performance and its access to external funding;
- internal controls and the risk of misstatement: the Committee reviewed reporting from internal audit in respect of its audit plan and discussed all significant findings;
- reviewing the construction risks at Kyzyl in detail as part of the annual 'deep dive' exercise; and
- reviewing readiness for preparing the longer-term viability statement and reviewing its draft.

The Chair of the Audit and Risk Committee makes himself available to major institutional shareholders annually to discuss the Company's annual reporting to shareholders as part of the Company's investor day. He is also available for one-on-one meetings with key shareholders at their request.

The re-appointment of Deloitte LLP as the Group's external auditor is reviewed annually by the Audit and Risk Committee. Deloitte LLP was appointed auditor in 2011, with Deloitte CIS having been auditor of JSC Polymetal since the last tendering process in 2007. The Group has a policy of tendering the external audit at least every ten years. The Committee's assessment of the external auditor's performance and independence underpins its recommendation to the Board to propose to shareholders the re-appointment of Deloitte LLP as auditor until the conclusion of the AGM in 2017. Resolutions to authorise the Board to re-appoint and determine the auditor's remuneration will be proposed at the AGM on 17 May 2016.

We intend to tender our external audit in 2020 for the 2021 audit, which will coincide with the completion of the 5 year term of our current audit partner, and at that point Deloitte LLP will have been our auditor for 10 years following our listing on the London Stock Market. It is our intention that Deloitte will be invited to participate in this tender process, along with other appropriately qualified international audit firms. We are in compliance with the provisions of The Statutory Audit Services for Large Companies Market Investigation Order 2014.

The Board considers that the Audit and Risk Committee complies with the requirements of the UK Code and Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Internal control and risk management

The Company aims to ensure that all its activities are adequately controlled to mitigate risk and support the achievement of its objectives while avoiding the creation of excessive bureaucracy. The system of internal controls is designed to manage rather than completely eliminate risk, to achieve the Company's business objectives whilst bringing residual risk to an acceptable level, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In conducting its annual review of the effectiveness of risk management and internal control (including financial, operating and compliance controls), the Board considers the key findings from the ongoing monitoring and reporting processes, management assertions and independent assurance reports.

The Board also takes account of material changes and trends in the risk profile and considers whether the control system, including reporting, adequately supports the Board in achieving its risk management objectives.

During the course of the year, the Board considered the Group's responsiveness to changes within its business environment. The Board is satisfied that there is an ongoing process, which has been operational during the year, and up to the date of approval of the Annual Report, for identifying, evaluating and managing the significant risks faced by the Group.

Internal audit

The internal audit function supports this aim by providing the Directors, through the Audit and Risk Committee, with an objective evaluation of the Company's and the Group's governance framework. The internal audit function also aims to raise levels of understanding and awareness of risk and control throughout the Group.

The head of internal audit reports to the Group CEO and, through the Audit and Risk Committee, to the Board of Directors. Where relevant, the internal audit function will additionally report its findings to members of the Group's executive management.

The internal audit function's annual work plan is designed to focus on matters arising from the operational risk matrix and is approved by the Audit and Risk Committee in advance. The internal audit function uses an annual self-certification process, which requires managers throughout the Group to personally confirm the testing of internal controls and compliance with Group policies within their business or function and the steps taken to address actual or potential issues that are identified.

Management provides a timely response to issues raised by internal audit. Where possible, the issues are resolved within one reporting period.

Internal control framework and activities

The management structure of the Group and internal policies and procedures are aimed at maintaining a robust control framework within the Group which will result in the achievement of strategic objectives within the set risk tolerance levels.

This framework includes:

- an appropriate tone set from the top (Board level), aimed at building the appropriate control environment;
- a proper risk identification and management system (for more detail please refer to pages 64-69);
- a strict division of responsibilities and adequate delegation of authority;
- specific control activities implemented at all levels of the Group; and
- a periodic review of the effectiveness of internal controls.

The governance framework reflects the specific structure and management of the Group, where authority and control are delegated by the Board to different levels, from the Group CEO to the managers of the Group's operating entities and then downward to business and project managers as appropriate.

Within this framework, authority is delegated within clearly prescribed limits and decisions are escalated where either project size or risk profile require a higher level of authority. In addition to controls operating in specific areas (production, exploration, construction, procurement), the control framework also includes a set of common procedures for financial accounting, reporting and budgeting – see details on the next page.

The Board confirms that the actions it considers necessary have been or are being taken to remedy any failings or weaknesses in the Group's system of internal controls. This has involved considering the matters reported to it and developing plans and programmes that it considers are reasonable in the circumstances. Based on the results of the review of risk management and internal control activities undertaken by the Board and the Audit and Risk Committee, the Board considers that the risk management and internal control systems are in accordance with the Revised Guidance for Directors in the UK Code.

Financial reporting systems

The quality of financial accounting and reporting is ensured through a set of control procedures in the following areas: accounting methodology, preliminary review of new transactions, documentation, accounting techniques and financial closing procedures. Accounting policies are developed centrally for each of the Group's subsidiaries and are adapted for the specifics of each entity and Group-wide policies. Employees responsible for accounting and reporting functions have powers to review upcoming transactions and propose adjustments, where necessary, to ensure proper accounting and tax treatments. The use of a centralised Enterprise Resource Planning (ERP) system in each of the Group companies ensures unification of the business and accounting processes. The Group implements a multi-level set of controls over financial and accounting data recorded in the system. These controls involve the accounting department of each subsidiary, senior management of the subsidiary and controls at the relevant headquarters level. In addition, the accounting and reporting data are regularly audited by internal and external auditors.

Procedures for approval of capital and current expenditures

The Group prepares annual operating and capital expenditure budgets based on its current and strategic goals and objectives. In addition to periodic control of actual versus budgeted financial performance, a procedure of ongoing control and authorisation of expenses is in place. The current system of pre-approval of significant transactions, along with accounting procedures in the ERP system, achieves a level of control over the amount and appropriateness of expenses.

Treasury operations

The Group operates a centralised treasury function, which is responsible for payments on behalf of all operating subsidiaries of the Group. Use of such a centralised system achieves the best level of control over the payments function without compromising the speed and reliability of payments. All transactions with banks on accounts maintenance, deposits and borrowings and foreign currency transactions are also performed at relevant headquarters level in compliance with the treasury policy approved by the Board.

Controls over IT systems used in financial accounting and reporting

The Group uses a 1C:Enterprise 8 ERP system for the automation of everyday enterprise activities. These include various business tasks of the economic and management functions, such as management accounting, business accounting, HR management, supplier relationship management (SRM) and material requirements planning (MRP). The Group also uses the ERP system for budgeting, accounting, HR record-keeping and payroll, supply chain management, operational reporting and procurement. The Group operates an IT management framework based on COBIT (Control Objectives for Information and Related Technology), which provides a complete set of high-level requirements to be considered for effective control of each IT process.

UK Bribery Act 2010

The Company and its Directors are committed to ensuring adherence to the highest legal and ethical standards. This must be reflected in every aspect of the way the Group operates. Bribery is a criminal offence in the countries in which the Group operates. Corrupt acts expose the Group and its employees to the risk of prosecution, fines and imprisonment, as well as endangering the Company's reputation. The Group has a Code of Conduct in place, which refers to its anti-bribery and corruption policy. The policy extends across all of the Group's business dealings in all countries and territories in which the Group operates and applies to directors, managers and all employees of the Group, as well as relevant business partners and other relevant individuals and entities.

The Board attaches the utmost importance to this policy and applies a zero tolerance approach to acts of bribery and corruption by any of the Group's employees or by business partners working on the Group's behalf. The policy prohibits the payment, offer or authorisation of bribes, the receipt or acceptance of a bribe, or the payment, offer or promise to pay any facilitating payments. Any breach of this policy is regarded as a serious matter by the Company and is likely to result in disciplinary action.

As part of its implementation of internal procedures to comply with the UK Bribery Act, the Group has a formalised whistle-blowing policy which defines the processes in place for staff to communicate, in confidence, concerns about possible improprieties, unethical or illegal activities and ensures that arrangements are in place for the independent investigation of such matters.

The Company affirms that it has not denied any personnel access to the Audit and Risk Committee and that it has provided protection to whistle-blowers from adverse personnel action.

The Code of Conduct, Anti-Bribery and Corruption Policy and the Whistle-Blowing Policy are available on the Company's website: www.polymetalinternational.com.

Dear Shareholders

I have the pleasure to now chair the Remuneration Committee. I am proud to take over the role from Mr Homeniuk and to continue the excellent work that he has carried out on behalf of the Board. His skills and experience will be a valuable asset in his role as the Chair of the newly formed Safety & Sustainability Committee.

Remuneration principles and strategy

Polymetal has, over the years, developed and implemented remuneration policies and structures that are aligned with our strategy, commercial objectives and culture as well as adapted to the large mining company that we have now become. A simple yet robust and comprehensive system, which is in line with best practices for FTSE 250 companies and our international peers, is in place. Therefore, at this stage I see our role in the Remuneration Committee as assisting the Board in ensuring that remuneration continues to allow us to attract and retain top talent and qualified executives as well as evolving smoothly with regulatory changes, market requirements and best practice.

Throughout the Group, we aim to compensate our employees fairly for their contribution and treat compensation as part of an overall motivation system that includes promoting an open, positive, fair, cooperative and thriving work environment, targeting best practice in all our endeavours. An environment in which everybody is offered the chance to progress.

The Remuneration Committee focuses on determining the framework and broad policy for the remuneration of our senior management team while reviewing remuneration trends across the Group. Salaries and benefits structures for operational and other professional staff are broadly covered in the Investing in our People section of the Sustainability Report.

Remuneration structure

The focus on sustainable shareholder value creation is the cornerstone of our executive remuneration system and is taken into consideration in all components of our remuneration structure.

Despite the significant recent devaluation of the currencies in which our Group CEO and only Executive Director Vitaly Nesis, our senior management and our employees are remunerated, we have had very low staff turnover.

We attribute this in part to our quick reaction early in 2015 in adjusting senior management and all employees' base salary with forecasted CPI numbers, a decision we have again endorsed early this year with a base salary increase of 13% for all Group employees (including senior management) whose salaries are denominated in Roubles and Tenge, and 12% for our Group CEO, effective from 1 April 2016. We remain nevertheless very prudent in maintaining a stable pay structure that is sustainable throughout a period of currency volatility, bearing in mind the risks associated with a potential reversal in currency trends.

The remuneration of Mr Nesis, all senior management and all key employees includes a clearly defined KPI component derived from top-level goals and adjusted to individual responsibilities and performance that forms the basis for determining, in a fully transparent manner, the variable part of remuneration. This year, following several fatalities at our mines, we have introduced a new bonus calculation system for senior managers and mine management that includes much more focus on health and safety KPIs.

As in 2014, 50% of bonuses awarded to the Group CEO and the senior management team were deferred into shares in the Company through the Long-Term Incentive Plan (LTIP), to ensure senior management's commitment to the Company and to its long-term objectives.

2015 was the second year in which our LTIP scheme was implemented. Shares granted in the previous year were allotted to the respective senior managers. As a clear sign that senior management interests are aligned with those of our shareholders, our LTIP plan stipulates that no option vests in the event that TSR for the period, as measured relative to peers and on the Company's absolute TSR, is negative.

There has been no change in 2015 in non-executive Directors' remuneration and no change is further planned in 2016.

Context to the Committee's decisions

2015 continued to be a challenging year with continued weakness in the commodities markets and ongoing macroeconomic and geopolitical issues in Russia and Kazakhstan. We continued to concentrate on controlling costs, delivering robust operating performance and maintaining capital discipline which allowed us to pay regular and special dividends on the back of a robust cash flow generation for the year.

We are well-informed about remuneration disclosure requirements and ensure that all procedures in place are fully compliant with the applicable regulations and best practice. These priorities are reflected in our remuneration decisions when awarding performance bonuses to the Group CEO and senior employees, and when reviewing their base salaries. As a result, we consistently receive over 96% of votes in favour of AGM resolutions related to remuneration and to the re-appointment of Directors.

Key Committee decisions

- Given the prevailing market conditions, the Remuneration Committee decided that any significant changes to the existing approach to the remuneration of Directors and senior officers of the Group in 2015 would be inappropriate.
- The Committee approved the increase of 12% in the Group CEO's Rouble-denominated base salary from 1 April 2016 in line with inflation in Russia.
- An annual bonus, representing 33% of the maximum available amount, was awarded to the Group CEO in respect of 2015.
- A Health and Safety KPI carrying a 25% weight in overall KPI measures, with a nil fatalities threshold, was introduced to the Group CEO's annual bonus targets.
- In 2015 the Remuneration Committee continued implementing the Long-Term Incentive Plan (LTIP), which was supported by a 99.8% shareholders' vote. The plan includes a total shareholder return (TSR) underpin stipulating that no options will vest in the event that TSR for the period is negative. Other features include the mandatory deferral of 50% of annual bonuses for three years, to be paid in shares, and clawback provisions for the Group's executives.

Corporate governance and approach to disclosure

As a FTSE 250 company, listed on the London Stock Exchange, we believe that our shareholders expect Polymetal to comply with the strictest of corporate governance requirements. We remain committed to full adherence to all regulatory requirements and best practice as reflected in our remuneration policy, decisions, disclosure practices and requests for shareholders' vote.

The Company's remuneration policy was approved by binding vote at the AGM held in 2014 with 99.77% of votes cast in favour, with the policy to be in force for three years and to be put to a new binding vote in 2017. The 2014 remuneration report was approved at the AGM held in May 2015, with 99.32% of votes cast in favour.

This section sets out the Company's remuneration policy and report for its Directors and provides details of their remuneration and share interests for the year ended 31 December 2015.

With our commitment to adhering to best practice in the marketplace and following shareholders' representatives' request, we are disclosing this year's retrospective targets when reporting Executive Director remuneration, as it helps provide a clearer picture of the relationship between the Company's performance and executive remuneration.

As there were no changes to the approved Directors' remuneration policy this year we will not be putting it to a binding shareholder vote. The Directors' annual remuneration report will be put to an advisory shareholder vote at the AGM of the Company on 17 May 2016.

Moving forward

In accordance with regulatory requirements, the Company's remuneration policy must be put to a new binding vote in May 2017. Therefore we will review it during the course of 2016 and adjust if and where required.

We anticipate keeping the 2017 remuneration policy broadly aligned with that put to a vote in 2014. Nevertheless we will review it this year against our strategy, market adjustments and in light of ongoing regulatory requirements, best corporate governance practice and investors' views. With caution, we intend to benchmark our total senior executive remuneration structure and level against a representative peer group. We also intend to obtain advice in respect of the compliance of our remuneration structure, corporate governance relating to remuneration and adequacy of existing terms of reference with best practices, and will act accordingly when appropriate.

On behalf of the Committee and of the Board, I welcome feedback from shareholders and look forward to receiving your support at the AGM.

C. Gifford.

Christine Coignard
Chair, Remuneration Committee

Directors' remuneration policy

Shareholders approved the Company's remuneration policy at the AGM on 21 May 2014 and it is expected to cover a period of three years from that date. The policy applies from the date of approval.

Element and purpose/ link to strategy	Operation	Opportunity	Performance metrics used and period applicable
Executive Director – Group CEO			
Base salary To attract and retain high-calibre executives.	The Committee reviews base salary on an annual basis, taking into account general economic and market conditions, underlying Group performance, the level of increases made across the Group as a whole, the remuneration of executives in similar positions in FTSE 250 and global mining peers, and individual performance when setting base salary for the following year.	Over the policy period, base salary for the Group Chief Executive Officer will be set at an appropriate level within the peer group and will increase in line with base salary increases for the wider workforce, except where a change in the scope of the role occurs. The annual base salary for the reporting year and the current year is set out in the Annual Report on Remuneration.	Not applicable.
Benefits	The Group does not provide any benefits for its Group CEO.	Not applicable.	Not applicable.
Pension To provide funding for retirement.	The Group does not fund any pension contributions or retirement benefits, except contributions to the mandatory pension fund of the Russian Federation, as required by Russian law. The Group pays defined contributions to the mandatory pension fund. This permits retiring employees to receive a defined monthly pension for life from the statutory pension fund.	Does not exceed the mandatory contribution made to the pension fund of the Russian Federation. Currently 10% of total pay.	Not applicable.
Annual bonus To focus on achieving annual performance goals, which are based on the Group's key performance indicators (KPIs) and strategy.	The annual bonus result is determined by the Committee after the year end, based on performance against defined targets. Annual bonuses are paid three months after the end of the financial year to which they relate. 50% of the annual bonus earned is paid in cash and the remaining 50% is compulsorily deferred into shares, which are released annually to the employee over the next three years in equal instalments through the Deferred Share Awards plan (DSA). Details of the DSA are set out on the next page.	Maximum bonus opportunity – 150% of base salary. Target bonus opportunity – 100% of base salary. Threshold – Nil annual bonus for threshold performance.	The annual bonus is earned on the basis of the achievement of a mix of financial and non-financial measures. For 2015, performance metrics and associated weightings for each were: • production (25%); • total cash costs (25%); • completion of new projects on time and within budget (25%); and • health and safety (25%). There is an additional penalty factor for fatal/severe cases for up to 50% of the annual bonus earned for non-safety related KPIs. The Committee has discretion to vary the weighting of performance metrics over the life of this remuneration policy. In addition, the Committee has discretion to vary performance metrics part-way through a performance year if there is a significant event which causes the Committee to believe that the original performance conditions are no longer appropriate. Performance is measured over the financial year.

Element and purpose/ link to strategy	Operation	Opportunity	Performance metrics used and period applicable
Long-Term Incentive Plan (LTIP)			
Deferred Share Awards plan (DSA) Deferral to encourage retention and alignment with shareholders.	50% of the annual bonus earned is paid in cash and the remaining 50% is compulsorily deferred into shares, which are released annually to the employee over the next three years in equal instalments. Malus provisions apply for the unvested portion of the DSA; the Remuneration Committee may, at any time up to and including vesting, reduce the number of shares that vest, should material misstatement, misconduct and/or a failure of risk management occur. Dividend equivalents will be received on vested shares, reflecting the value of dividends which have been paid during the period from the grant date to the vesting date.		Entitlement to this deferred component is subject to continued employment over the deferral period. In normal circumstances, Deferred Share Awards will continue until the normal time of vesting upon cessation of employment in Good Leaver Circumstances. Alternatively, the Board may determine that Deferred Share Awards will vest immediately. In both circumstances there would be no pro-rating of the Deferred Share Awards for the time from the award date until cessation of employment or for performance. No performance conditions apply to the Deferred Share Awards.
Performance Share Plan (PSP) To provide long-term alignment with shareholders' interests.	Under this plan, annual rolling awards are made with a four-year vesting period and an additional mandatory holding period of one year following vesting. Stretching performance targets reward participants for delivering positive absolute and superior relative total shareholder return (TSR) performance against global peers over a long-term period. Malus provisions apply for the unvested portion of the PSP; the Remuneration Committee may, at any time up to and including vesting, reduce the number of shares that vest, should material misstatement, misconduct, and/or a failure of risk management occur. Retesting of the performance conditions in future years is not allowed under any circumstances. First grant under the PSP was made in April 2014.	Maximum grant permitted under the plan rules is 200% of salary. Normal grant level is expected to be 150% of base salary. Threshold vesting is equivalent to 20% of the award. Dividend equivalents will be received on vested shares, reflecting the value of dividends which have been paid during the period from the grant date to the vesting date.	Vesting is based on relative TSR, measured against the constituents of the FTSE Gold Mines Index, and also on the Company's absolute TSR. Peers are ranked and the Company's position determines vesting: • 0% vests for below median performance; • 20% vests at median performance; • 100% vests at top decile performance and above; and • no award will vest if absolute TSR is negative, regardless of relative performance. The Committee may substitute, vary or waive the performance targets if an event occurs which causes the Committee to consider that the target is no longer appropriate. The Committee has discretion to vary the proportion of awards that vest, to ensure that the outcomes are fair and appropriate and reflect the underlying financial performance of the Group.

Element and purpose/ link to strategy	Operation	Opportunity	Performance metrics used and period applicable
Minimum shareholding requirements To strengthen alignment between interests of executive Directors and those of shareholders.	The Group CEO is required to build a minimum shareholding over a five-year period. Unvested shares under the PSP or DSA are not taken into account when calculating progress towards the minimum shareholding requirements. For the purposes of determining whether the requirements have been met, share price is measured at the end of each financial year. Post vesting and tax, all shares acquired under PSP and DSA awards must be retained until the shareholding requirement is met.	500% of base salary for the Group CEO.	Not applicable.
Non-executive Directors			
Fees for non-executive Directors To attract and retain high-calibre non-executive Directors.	The fees of independent non-executive Directors are set by reference to those paid by other FTSE 250 mining companies. Fees are set to reflect the responsibilities and time spent by non-executive Directors on the affairs of the Company. No fees are paid to non-independent non-executive Directors. Non-executive Directors are not eligible to receive benefits and do not participate in incentive or pension plans. The Chairman receives a base fee only. The following fees are paid in addition to the non-executive Director base fee: • Committee chairmanship fee; • Committee membership fee; and • Board and Committee attendance fee. The Remuneration Committee determines the framework and broad policy for the remuneration of the Chairman. The remuneration of non-executive Directors is a matter for the Chairman of the Board and the executive members of the Board, i.e. the Group CEO. Directors do not participate in discussions relating to their own fees.	Fees are reviewed, but not necessarily increased, on an annual basis. Any increase in non-executive Directors' fees will normally be in line with base salary increases for the wider workforce, except where a change in the scope of the role occurs. Current fee levels are set out in the Annual Report on Remuneration.	Not applicable.

Remuneration policy for other employees

The remuneration policy for the other members of the Group's executive team and broader management team of the Group is consistent in both structure and KPIs with the policy in respect of the Group CEO. Whilst the value of remuneration will vary throughout the Group, depending upon the individual's role, criticality to the business and level of seniority, the remuneration of all senior executives consists of a base salary, an annual bonus and participation in the new LTIP (the PSP and DSA). Employees up to three levels below the Board (approximately 300 employees throughout the Group) participate in the LTIP at the discretion of the Remuneration Committee. The PSP policy grant level is 150% of base salary for the Group CEO, 100% for Executive Committee members and 50-100% for employees of the level below the Executive Committee. Shareholding requirements are also set below Board level. The DSA operations mirror the arrangement set out for executive Directors in the policy table, where 50% of the annual bonus is compulsorily deferred into shares and released annually to employees over a period of three years.

Remuneration policy for the wider group of employees is aimed at aligning pay with the achievement of targeted results for each employee. The Company's policy on fair pay provides for the payment of additional remuneration for employees living in difficult climatic locations and the delivery of appropriate levels of pay for different levels of work. The bonus component of remuneration for mid-level management and operational staff is measured based on the achievement of production targets, increasing output, the level of justified cost savings and health and safety records. In terms of pension arrangements, the Company applies a consistent approach for the Group CEO and other employees and adheres to the mandatory pension contributions required under applicable laws.

Salaries are considered for annual increases based on the Company's performance results, inflation rates and the competitive level of salaries versus the wider market.

Notes to the policy table

Performance measures and targets

The Committee selected the performance conditions indicated in the policy table because they are central to the Company's overall strategy, and are the key metrics used under the annual bonus and LTIP by the Group CEO to oversee the operation of the business.

Performance targets for all of our incentive plans are reviewed annually, and where appropriate are typically set at a level that is in line with the Company's forecasts.

Changes to remuneration policy for 2016

Design element	Changes made during the year
Base salary	A 13% increase, equal to Russian CPI, across the workforce, including top management, and a 12% increase for the Group CEO Vitaly Nesis has been approved starting from 1 April 2016.
Annual bonus	No changes made. 50% of bonus deferred into shares as required by the DSA.
LTIP	Two grants of options were made under the new PSP plan in April 2014 and 2015. A new tranche of options is expected to be granted in April 2016 in the ordinary course of business.
Non-executive Directors	No changes made.

The LTIP

Following shareholder approval at the AGM in June 2013, a long-term incentive programme (the 'Performance Share Plan' or 'PSP') was put in place. Some minor amendments to the LTIP were approved by shareholders at the AGM in May 2014.

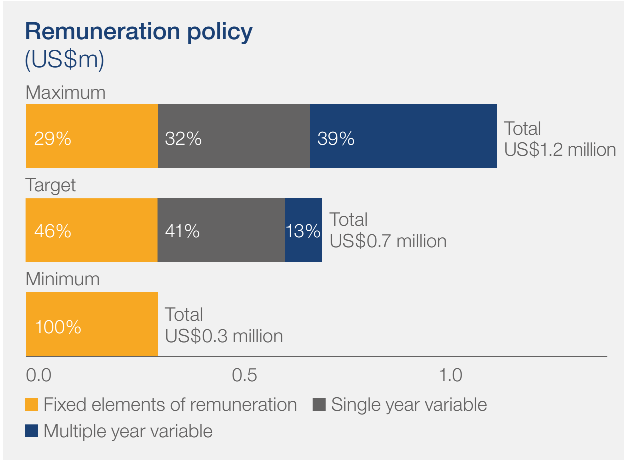
The key terms of the LTIP are described in the policy table above.

The Board believes that the LTIP ensures continued alignment of the executive team's performance with shareholder interests and rewards superior long-term performance and the creation of sustainable shareholder value. The Board also believes that the LTIP is in line with UK best practice and follows fully the provisions of the UK Corporate Governance Code and other relevant guidelines, while also containing features which are superior to common practice in the UK – such as a positive TSR underpin for vesting of the LTIP.

Illustration of application of remuneration policy

The composition and structure of the remuneration package for the Group CEO under three performance scenarios (Maximum performance, Target performance and Minimum performance) is set out in the chart below.

This chart shows that the proportion of remuneration delivered through short-term and long-term incentive schemes is in line with our remuneration policy and changes significantly across the three performance scenarios. As such, the package promotes the achievement of both short-term and long-term performance targets and drives the alignment of the Group CEO's interests with the interests of shareholders.



Note: Scenario values are translated at the closing exchange rate of Rouble to US Dollar stated by the Central Bank of the Russian Federation as at 28 March 2016.

The scenarios are defined as follows:

	Minimum	On-target	Maximum
Fixed elements	Base salary and pension.		
Single year variable	Performance against financial KPIs is below budget by more than 10%. Non-achievement of non-financial KPIs. 0% payout.	Performance against financial KPIs is at budgeted levels. Full achievement of non-financial KPIs. 100% of base salary payout (80% of maximum opportunity). Includes DSA awards.	Performance against financial KPIs is above budgeted levels. Full achievement of non-financial KPIs. 125% of base salary payout (100% of maximum opportunity). Includes DSA awards.
Multiple year variable	Share price performance is below the median of FTSE Gold Mines Index constituents. No shares vest.	Scenario is based on 150% policy awards. Share price performance is at median of FTSE Gold Mines Index constituents. Shares equivalent to 30% of base salary vest under the PSP (20% of total shares available).	Share price performance is in the top decile of FTSE Gold Mines Index constituents. Shares equivalent to 150% of base salary vest under the PSP (100% of total shares available).

No allowance has been made for share price appreciation or for the payment of dividend equivalents. Non-executive Directors do not receive performance-related pay. Their fees are disclosed in the policy table on page 87.

Approach to recruitment remuneration

The Committee's approach to recruitment remuneration is to pay a competitive overall package as appropriate to attract and motivate the right talent for the role. If an executive is promoted to the Board from within the Company, any pre-existing awards or benefits that were made available to him or her prior to becoming a Director (and not in anticipation of an imminent promotion to the Board) will be retained and allowed to vest or be provided under the original terms.

The following table sets out the various components, which would be considered for inclusion in the remuneration package for the appointment of an executive Director. Any new Director's remuneration package would include the same elements, be set at a level consistent with the scope of the role (at a level not exceeding that of the Group CEO as set out in the remuneration policy table) and be subject to the same constraints as those of existing Directors performing similar roles, as shown below.

Area	Policy and operation
Base salary and benefits	The base salary level will be set by taking into account the experience of the individual and the salaries paid in comparable companies. Depending on the circumstances of any particular appointment, the Committee may choose to set the base salary below market median and increase the amount paid over a period of time to achieve alignment with market levels for the role (with reference to the experience and performance of the individual), subject to the Company's ability to pay. In line with the remuneration policy, as set out in the Directors' remuneration policy table, no benefits will be provided to recruited Directors.
Pension	Pension contributions will be limited to the mandatory contributions required by Russian/Kazakh/Cypriot or any other applicable law, as set out in the Directors' remuneration policy table.
Annual bonus	The executive Director will be eligible to participate in the annual bonus scheme as set out in the Directors' remuneration policy table. The maximum annual opportunity is 150% of base salary. 50% of any bonus is deferred into shares under the DSA, as set out in the Directors' remuneration policy table.
Long-term incentives	The executive Director will be eligible to participate in the LTIP at the Remuneration Committee's discretion in line with the details set out in the Directors' remuneration policy table. The maximum annual grant permitted under the scheme rules is 200% of base salary and the normal grant level is up to 150% of base salary. Performance measures would apply, as set out in the remuneration policy table.
Replacement awards	The Committee will seek to structure any replacement awards so that overall they are no more generous in terms of quantum or vesting period than the awards due to be forfeited as a consequence of the individual joining the Company. In determining the quantum and structure of any replacement awards, the Committee will seek to replicate the fair value and, as far as practicable, the timing, form and performance requirements of the forfeited remuneration. The maximum value of replacement awards is capped at 50% of the individual's base salary, and at least 50% of any replacement award should be delivered in the Company's shares.
Other	Should relocation of a newly recruited executive Director be required, reasonable costs associated with this relocation will be met by the Company. Such relocation support may include, but not be limited to payment of legal fees, removal costs, temporary accommodation/hotel costs, a contribution to stamp duty, and replacement of non-transferable household items. In addition, and in appropriate circumstances, the Committee may grant additional support in relation to the payment of school fees and the provision of tax advice. The Company will reimburse the executive Director for all reasonable expenses which he/she may incur while carrying out executive duties.

Service contracts and policy on payment for loss of office

Loss of office policy

The Committee's approach when considering payments in the event of termination is to take into account individual circumstances, including the reason for termination, contractual obligations of both parties and applicable share plan and pension scheme rules (including any relevant performance conditions).

Vitaly Nesis is an Executive Director of Polymetal International plc and CEO of JSC Polymetal, a 100% subsidiary of the Group incorporated in Russia. Further details are set out in the Current Directors' service contracts section on page 92.

The table below summarises the key elements of the executive Director service contracts and policy on payment for loss of office.

Area	Policy and operation	
Notice period	Polymetal International	JSC Polymetal
	6 months from Company	With immediate effect from Company
	6 months from Director	1 month from Director
Compensation for loss of office in service contracts	No entitlement in respect of directorship of Polymetal International. Up to three times average monthly salaries in respect of directorship of JSC Polymetal.	
Treatment of annual bonus awards	Where an executive Director's employment is terminated after the end of the performance year, but before the payment of the annual bonus is made, the executive may be eligible for an annual bonus award for that performance year subject to an assessment based on performance achieved over the period. No award will be made in the event of gross misconduct. Where an executive Director's employment is terminated during a performance year, a pro-rated annual bonus award for the period worked in that performance year may be payable, subject to an assessment based on performance achieved over the period.	
Treatment of unvested Deferred Share Awards under plan rules	In normal circumstances, Deferred Share Awards will continue until the normal time of vesting upon cessation of employment in Good Leaver Circumstances. Alternatively, the Board may determine that Deferred Share Awards will vest immediately. In both circumstances there would be no pro-rating of the Deferred Share Awards for time from the award date until cessation of employment or for performance.	
Treatment of unvested Performance Share Plan awards under plan rules	Any outstanding award will lapse at cessation of employment with the Group, unless the cessation is due to death, injury, ill-health, disability, redundancy, retirement, or any other circumstances which the Committee determines, when the award will vest as normal in accordance with the terms of the award. Alternatively, the Committee may determine that a proportion of the award will vest immediately, with the proportion determined by the Committee, taking into account (where relevant) the extent to which the performance conditions have been met or are likely to be met at the end of the performance period, and any other factors the Committee may consider relevant. The number of shares shall also normally be pro-rated down to reflect the reduced service period.	
Exercise of discretion	Any discretion available in determining the treatment of incentives upon termination of employment is intended only to be relied upon to provide flexibility in unusual circumstances. The Committee's determination will take into account the particular circumstances of the Director's departure and the recent performance of the Group.	
Change of control	In relation to Performance Share Plan awards in the event the Company's shares cease to trade on the London Stock Exchange or any other recognised stock exchange (Delisting) or the Directors of the Company pass a resolution to the effect that Delisting is imminent or where the Board determines that a 'significant event' has occurred, which may be a demerger, winding up or compulsory acquisition of the Company, or any other event as determined by the Board, at the discretion of the Board and, where applicable, with the consent of the acquiring company, PSP Awards will not vest but will be exchanged for new PSP awards. In the event that the PSP Awards are exchanged for new PSP awards: • the award date of the new PSP award shall be deemed to be the same as the award date of the original PSP Award; • the new PSP award will be in respect of shares in a company determined by the Board which may include any acquiring company; • the new PSP award must be equivalent to the PSP Award and will vest at the same time and in the same manner as the PSP Award; and • where relevant, either the vesting of the new PSP award must be subject to any performance conditions which are, so far as possible, equivalent to any conditions applying to the PSP Award, or no performance conditions will apply but the value of shares comprised in the new PSP award shall be the value of the number of shares which would have vested under the PSP Award if they had not been exchanged for new PSP awards. Deferred Share Awards shall vest immediately and shall not be pro-rated for time or performance if any of the events referred to above occur.	

Current Directors' service contracts

Group CEO

The table below highlights key elements of the service contract of the Group CEO with JSC Polymetal, the Russian holding company of the Group where he holds the CEO position:

Date of contract	1 September 2013
Expiry of term	31 August 2018
Payment in lieu of notice	None
Pension	None, except for defined contributions to the mandatory pension fund of the Russian Federation

Mr Nesis entered into an appointment letter (as amended) with the Company in relation to his appointment as a Director. This appointment took effect from the date of admission of shares to trading on the London Stock Exchange on 29 September 2011 and is subject to annual re-election. Mr Nesis does not receive any fees in respect of his appointment as a Director of Polymetal International plc but is entitled to reimbursement of his reasonable expenses incurred in relation to the carrying out of his duties as a Director. The appointment of Mr Nesis as a Director may be terminated at any time in accordance with the Articles of Association. Mr Nesis can terminate his appointment as a Director on six months' notice. He is not entitled to receive any compensation in respect of his role as Director on termination of this appointment.

Following the expiry of the previous five-year employment contract, on 23 August 2013, JSC Polymetal, a 100% indirect subsidiary of the Company incorporated in Russia, entered into an employment contract with Mr Nesis as its Chief Executive Officer. The contract became effective on 1 September 2013. The contract was entered into for a period of five years and expires on 31 August 2018. Under the terms of the contract, the Chief Executive Officer undertakes to perform general management of JSC Polymetal (a subholding company which provides management services to each of the Group's subsidiaries) and arrange for its commercial, economic, social and other activities with a view to providing for JSC Polymetal's further development. The employment contract does not contain any specific grounds for early termination. The contract can be terminated at any time on one month's notice by Mr Nesis and with immediate effect by JSC Polymetal in accordance with Russian labour and civil law. This could result in compensation of three average monthly salaries.

The full terms and conditions of appointment are available for inspection at the Company's registered office in Jersey and its office in Cyprus.

Non-executive Directors

Non-executive Directors do not have service contracts. Rather, the terms of their appointment are set out in letters of appointment. The appointment of each of the non-executive Directors took effect from admission until the next AGM of the Company, subject to annual re-election. The appointment of any non-executive Director may be terminated at any time in accordance with the Articles of Association. The appointment of each non-executive Director may be terminated by either party on one month's notice. A non-executive Director is not entitled to receive any compensation on termination of his or her appointment. Each non-executive Director is subject to confidentiality restrictions without limitation in time.

The full terms and conditions of appointment of all of the Directors are available for inspection at the Company's registered office in Jersey and its office in Cyprus.

Dates of contract or appointment for non-executive Directors are set out in the table below:

Director	Date of contract or appointment	Notice period
Bobby Godsell	29 September 2011	1 month
Konstantin Yanakov	29 September 2011	1 month
Jean-Pascal Duvieusart	29 September 2011	1 month
Marina Grönberg	29 September 2011	1 month
Jonathan Best	29 September 2011	1 month
Russell Skirrow	29 September 2011	1 month
Leonard Homeniuk	29 September 2011	1 month
Christine Coignard	1 July 2014	1 month

Statement of consideration of shareholder views

The Committee consults with the Company's major shareholders regularly, and seeks their feedback on the Group CEO's remuneration policy. In 2014, the Company put the Directors' remuneration policy to a binding shareholder vote and received 99.8% of votes in favour; it is expected to cover a period of three years from that date. The Directors' annual remuneration report was put to an advisory shareholder vote at the 2015 AGM of the Company and received 99.32% support.

Statement of consideration of employment conditions elsewhere in the Group

In determining salary increases for the Group CEO, the Committee takes into account a range of factors, including overall base salary increases awarded to the wider employee population during the year.

The Committee does not directly consult with employees on the appropriateness of the Group CEO's pay arrangements, but any comments received by the Company will be considered.

Annual report on remuneration

Single total figure of remuneration (audited information) – US$

The table below sets out 2015 remuneration for the Group CEO. The Group CEO's remuneration is denominated in Russian Roubles and converted to US Dollars for presentation purposes. The approach to exchange rates and Russian Rouble remuneration equivalent is set out in footnote 2 to this table.

Base salary		Taxable benefits		Annual bonus		Performance Share Plan ('PSP')		Pension		Total	
2015	2014	**2015**	2014	**2015**[1]	2014	**2015**	2014	**2015**	2014	**2015**	2014
351,694	392,499	**–**	–	**122,005**	475,630	**–**	–	**37,965**	39,661	**511,665**	907,790

[1] 50% of the bonus received in 2015 has been deferred into 6,656 shares on 4 March 2017 at £5.62 (RUB 562) per share (using average price for the 90-day period ending 31 December 2015). In line with policy, deferred shares will be released in equal tranches over a period of three years in March 2017, March 2018 and March 2019 and are not subject to further performance conditions.

[2] The amounts are translated at the average rates of the Russian Rouble to the US Dollar for 2015 and 2014, respectively.

[3] No PSP awards vested or exercised in the year.

Details of total fees paid to non-executive Directors and the Chairman during 2015 and 2014 are set out in the table below:

US$	Total fees 2015	2014
Bobby Godsell	433,018	472,432
Jonathan Best	257,049	286,368
Russell Skirrow	210,150	221,784
Leonard Homeniuk	215,455	256,625
Charles Balfour	–	119,886
Christine Coignard	252,015	136,777
Konstantin Yanakov	–	–
Marina Grönberg	–	–
Jean-Pascal Duvieusart	–	–
Total non-executive fees	**1,367,687**	**1,493,871**

Note: The amounts for 2015 and 2014 are translated at GBP/US$ exchange rate at the dates of each payment.

Single total figure of remuneration – additional information

Annual bonus targets and outcomes

The targets for annual bonus measures and performance against these targets are set out below:

Measures	Weight	Achievement	Below	Target	Maximum
Achieving production budget	25%	21%		●	
Total Cash Cost per ounce of gold equivalent produced	25%	38%			●
Completion of new projects on time and within budget	25%	24%		●	
Health and safety	25%	0%	●		
Penalty factor for fatal/severe cases	n/a	-38%			
Total	**100%**	**46%**			

Penalty factor for fatal/severe cases is up to 50% of the annual bonus.

This resulted in the Group CEO receiving a bonus of 33% of maximum opportunity for the year (which constitutes 35% of his base salary or US$122,005).

LTIP

Deferred Share Awards plan (audited information)

In accordance with the DSA, the first award of shares under the DSA, which were granted in March 2014, vest on 31 March 2015 and were transferred to the Group CEO as presented in the table below:

Name	Position	Number of shares vested on 31 March 2015	Additional share awards for dividend equivalents awarded on 31 March 2015	Total amount of shares allotted on 31 March 2015	Total shareholding of employee following vesting of share award as at 31 March 2015
Vitaly Nesis	Director	10,027	418	10,445	3,110,445

In addition, further to the bonus approval for the year ended 31 December 2015, the Group CEO has received a deferred bonus award in shares under the terms of the DSA as per the schedule below. Share awards will vest annually over the next three years in equal instalments (in March 2016, 2017 and 2018). Under the terms of the DSA, dividend equivalents will be received on vested shares reflecting the value of the dividends, which have been paid during the period from the grant date to the vesting date. Dividend equivalents will also be paid as shares.

Name	Position	Outstanding shares under 2014 DSA (net of issued shares on 31 March 2015)	Share grant under 2015 DSA	Total number of deferred shares under the DSA
Vitaly Nesis	Director	20,054	22,178	42,232

Performance Share Plan (audited information)

Under the PSP, a conditional award of 74,165 ordinary shares with no par value was made to Mr Nesis in 2014 and 66,166 shares in 2015. It is exercisable following respective four-year vesting periods, subject to performance measures determined by Polymetal. For this award, vesting is based on relative TSR, measured against the constituents of the FTSE Gold Mines Index, and also on the Company's absolute TSR. Peers are ranked and the Company's position determines vesting (0% vests for below median performance; 20% vests at median performance; 100% vests at top decile performance and above). No award will vest if absolute TSR is negative, regardless of relative performance.

Name	Position	Number of awards granted in 2015	Total number of options outstanding under the PSP
Vitaly Nesis	Director	66,166	140,331

Scheme interests awarded during the financial year (audited information)

No other share awards were made to the Group CEO in 2015.

Total pension entitlements (audited information)

Save for the Group's defined contributions to the mandatory pension fund of the Russian Federation during the financial year ended 31 December 2015, no amounts were set aside or accrued by the Group to provide pension, retirement or other benefits to the Directors and senior management.

Loss of office payments or payments to past Directors (audited information)

No loss of office payments or payments to past Directors were made in the year under review.

Directors' shareholdings (audited information)

The Group CEO is required to retain a shareholding equal to five times his base salary, i.e. 161,250 shares.

For the purposes of determining whether the requirements have been met, share price is measured at the end of each financial year. Shares are valued for these purposes at the year-end price of £5.85 (US$8.65) per share at 31 December 2015 translated at the closing exchange rate of the British Pound to the Russian Rouble as at 31 December 2015.

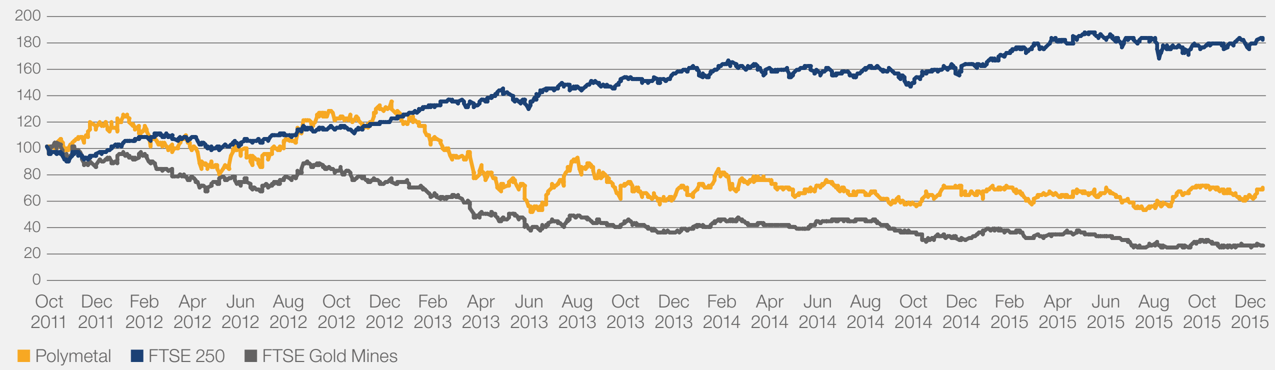
Shares that count towards shareholding requirements include unfettered shares. The table below sets out the number of shares held, or potentially held, by Directors.

		Shares held[1]		Options held			
Director	Shareholding requirement (% of salary)	Owned outright	Subject to performance conditions	Vested but unexercised	Exercised in year	Current shareholding (% salary)	Guideline met
Vitaly Nesis	500%	3,110,445	–	–	–	9,645%	yes
Leonard Homeniuk	–	64,000	–	–	–		n/a
Bobby Godsell	–	2,000	–	–	–		n/a
Marina Grönberg	–	11,000	–	–	–		n/a

Performance graph and table

The graph below illustrates the Company's TSR performance relative to the constituents of the FTSE 250 Index (excluding investment companies), of which the Company is a constituent, from the date of the Company's admission to trading on the London Stock Exchange in October 2011. To provide context to the Company's performance in its specific sector of operation, we also provide an illustration of the Company's TSR relative to the constituents of the FTSE Gold Mines Index.

Total shareholder return (%)



Group CEO's pay in last five years

US$	2015	2014	2013	2012	2011
Group CEO total remuneration	511,665	907,790	1,081,572	1,037,413	1,138,013
Annual bonus – % of maximum	33%	90%	88%	90%	137%[1]
LTIP award – % of maximum	–	–	–	–	–

[1] An additional bonus was awarded by the Remuneration Committee to Mr Nesis for the successful IPO of the Company in November 2011. Mr Nesis was required to devote a significant amount of time above and beyond his normal day-to-day responsibilities as CEO to successfully bring about the IPO. Excluding the additional bonus, the annual bonus comprised 49% of maximum opportunity in 2011.

Percentage change in Group CEO's remuneration

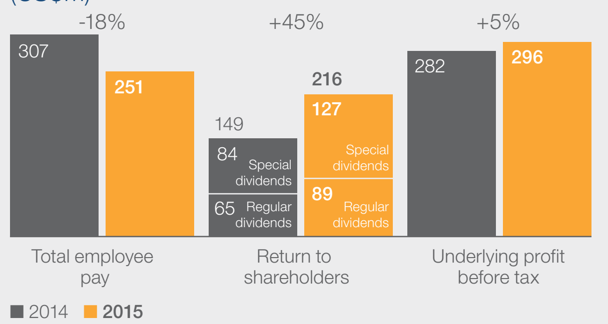
Excluding the value of long-term incentives, the percentage change in total remuneration for the Group CEO was a 44% decrease from US$907,790 in 2014 to US$511,665 in 2015 due to the significant devaluation of the Russian Rouble against the US Dollar and a penalty factor applied to the annual bonus because of fatalities (see page 47, 85, 93). In Rouble terms the Group CEO's total remuneration for 2015 decreased by 10% compared with 2014. The average percentage change in total remuneration for all employees in the year was a 18% decrease mainly driven by devaluation.

To ensure the comparability of this figure, and to minimise distortions, the all-employee remuneration figure is on the basis of full-time permanent employees.

Relative importance of spend on pay

The chart below shows how staff remuneration costs compared to profit before tax and distributions made to shareholders in 2015 and 2014.

Relative importance of employee pay
(US$m)



Implementation of remuneration policy in the following financial year

In 2016, the Committee intends to implement the executive and non-executive Director remuneration policies as follows:

Base salary

The policy for determining 2016 base salaries will remain unchanged. Base salary for the Group CEO for 2015 and 2016 is set out below:

	2016 salary[1]	2015 salary[1]	Change, %
	RUB20,354,880	RUB18,174,000	+12%
Group CEO	US$297,436	US$263,662	+13%

[1] Base salary for 2016 is translated at the closing exchange rate of Rouble to US Dollar stated by the Central Bank of the Russian Federation as at 28 March 2016. Base salary for 2015 is translated at the closing exchange rate of Rouble to US Dollar stated by the Central Bank of the Russian Federation as at 1 February 2015.

The Remuneration Committee decided to increase the base salary by 13% for all Group employees whose salaries are denominated in Roubles, and by 12% for the Group CEO Vitaly Nesis, effective 1 April 2016.

Pension and benefits

No pension or benefits plans are in place for 2016, except for the defined pension contributions to the mandatory pension fund of the Russian Federation.

Annual bonus

The targets for annual bonus measures are considered commercially sensitive, particularly in the gold mining industry, because of the sensitivity of information that their disclosure may provide to the Company's competitors, given that these are largely based outside the UK and hence are not subject to the same reporting requirements as the Company.

Long-term Incentive Plan (Deferred Share Awards Plan and Performance Share Plan)

Deferred Share Awards Plan

The Committee intends to defer annual bonus awards earned for the 2016 performance period in line with policy.

Performance Share Plan

The Committee intends to make an award under the PSP to the Group CEO in 2016, in line with the policy disclosed on page 86.

Vesting is based on relative TSR measured against the constituents of the FTSE Gold Mines Index and on the Company's absolute TSR. Peers are ranked and the Company's position determines vesting:

	TSR vs FTSE Gold Mines	Payout
Below threshold	Below median performance	0%
Threshold	Median performance	20%
Maximum	Upper decile performance	100%

Straight-line vesting will occur between the points set out above. No award will vest for performance below median, or if the Company's absolute TSR performance is negative, regardless of relative performance.

Non-executive Directors

The policy for determining non-executive Directors' fees will be unchanged from 2015. Fee rates for 2015 and 2016 are set out below:

Role	2016 fees (US$)	2015 fees (US$)
Non-executive Chairman	370,400	370,400
Senior Independent Director	No additional fee	No additional fee
Independent non-executive Director basic fee	148,160	148,160
Additional fees		
Audit and Risk Committee Chair	44,448	44,448
Chair of other Committees	22,224	22,224
Committee membership fee (not payable to the Committee Chair)	14,816	14,816
Board and Committee meeting attendance fee	4,445 per meeting	4,445 per meeting

Note: Non-executive Director fees are denominated in British Pounds Sterling and for presentation purposes the figures are translated to US Dollars at the exchange rate of British Pound to the US Dollar as at 31 December 2015.

Remuneration Committee

The Remuneration Committee comprises three independent non-executive Directors who have no personal financial interest, other than as a shareholder (where applicable), in the matters to be decided. Following Mr Homeniuk's appointment as Chair of the Safety and Sustainability Committee on 19 October 2015, he was replaced by Ms Coignard as Chair of the Remuneration Committee. Mr Homeniuk continues to serve as a member of the Committee.

The membership of the Remuneration Committee is shown in the table below.

Name	Role
Leonard Homeniuk	Chair up to 19 October 2015/Member from 19 October 2015
Jonathan Best	Member
Christine Coignard	Member up to 19 October 2015/Chair from 19 October 2015

The principal functions of the Remuneration Committee under its terms of reference are:

- to make recommendations to the Board on the Group's policy on the remuneration of executive management;
- to determine, within agreed terms of reference, the remuneration of the Chairman and specific remuneration packages for each of the Executive Director, the Company Secretary and the members of senior management, including pension rights and any compensation payments;
- to formulate suitable performance criteria for the performance-based pay of executive management;
- to review and oversee all aspects of any executive share scheme operated by or to be established by the Company; and
- to oversee and advise the Board on any major changes in employee benefit structures throughout the Company or the Group.

The full terms of reference of the Remuneration Committee can be found in the Corporate governance section on the Company's website: www.polymetalinternational.com.

Consideration by the Directors of matters relating to Directors' remuneration

In 2015 the Remuneration Committee met three times. Further business conducted by the Committee was approved by written resolutions on three further occasion.

In 2015, the meetings of the Committee covered the following key areas:

- reviewed KPIs for 2015;
- amended the structure of KPIs to put more emphasis on health and safety;
- approved awards of the participants in the PSP;
- approved annual bonuses and DSA grants;
- performed top management salary review;
- reviewed regulatory changes to and development of the Directors' remuneration reporting;
- reviewed remuneration policy and the annual remuneration report;
- reviewed and approved amended Board expenses and reimbursement policy;
- held induction of the new Chair;
- reviewed performance of the Remuneration Committee; and
- reviewed the Committee's terms of reference.

The Board considers that the composition and work of the Remuneration Committee complies with the requirements of the UK Corporate Governance Code.

Statement of voting at AGM

At the 2015 AGM, held on 20 May, votes for the Remuneration report and Remuneration policy were as follows:

	Votes for	Votes against	Withheld
Remuneration Report	316,756,504 (99.32%)	2,169,172 (0.68%)	38,983

Advisors

The Committee continued to use PricewaterhouseCoopers LLP (PwC) as independent external remuneration consultant to provide support in relation to the design and operation of the new LTIP and on the changes associated with the new remuneration report regulations. PwC is a member of the Remuneration Consultants' Group (RCG) and a signatory of the RCG Voluntary Code of Practice, and incorporates the principles of the Voluntary Code of Practice into its engagement. No other services were provided by PwC during 2015 other than external assurance services for the Company's Sustainability report. Fees paid to PwC in relation to remuneration services provided to the Committee in 2014 totalled US$48,000 (no fees in 2015), with fees quoted in advance and based on the level of complexity of the work undertaken. The Committee reviews the objectivity and independence of the advice it receives from PwC at a private meeting held on an annual basis.

During its work in 2015, the Committee was also aided by the Group CEO, and senior finance and human resources executives of the Company.

PwC's appointment was made by way of a competitive tender, the results of which were presented to the Remuneration Committee for approval.

Approval

This report was approved by the Board of Directors and signed on its behalf by

Christine Coignard
Chair, Remuneration Committee
28 March 2016

The Directors submit the Annual Report of Polymetal International plc together with the audited financial statements of Polymetal International plc for the year ended 31 December 2015.

Corporate governance

Refer to pages 73 to 77 for a description of the Group's corporate governance structure and policies.

Going concern

In assessing its going concern status, the Group has taken account of its financial position, anticipated future trading performance, its borrowings and other available credit facilities, and its forecast compliance with covenants on those borrowings and its capital expenditure commitments and plans. As at 31 December 2015, the Group held US$52 million in cash and had net debt of US$1,298 million, with US$1,196 million undrawn facilities of which US$980 million are considered committed. Debt of US$287 million is due for payment within one year and certain committed but undrawn facilities expire within that period, but the Group's cash generation and liquidity remains strong and the Group believes it will be able to operate within existing facilities, but could secure additional financing if and when needed.

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 2015.

Longer-term viability statement

Based on key drivers and measures of success used within the business, the Board assessed the prospects of the Group, taking account of potential impact of the principal risks to the Group's business model and ability to deliver its strategy, including solvency and liquidity risks during the reasonably reliable lookout period.

Lookout period

The period over which the Board considers it possible to form a reasonable expectation as to the Group's longer-term viability, based on the stress testing and scenario planning process employed by the Group, is the three-year period to December 2018. This is aligned with the Group's existing mid-term forecasting performed on the annual basis and covering strategic and investment mid-term planning. The Board is confident that routine operational risks are being effectively managed within the three-year lookout period and corporate scenario planning is focusing primarily on plausible changing external factors with a reasonable degree of confidence whilst still providing an appropriate longer-term outlook.

Principal risks

The Board has continued to place great emphasis on risk management in 2015, taking account of material external economic and geopolitical challenges and considering the Group's responsiveness to changes within its business environment. The detailed assessment of principal risks and uncertainties facing the Group is set out on pages 64-69 of this Annual Report.

The corporate planning process is underpinned by life-of-mine plans and stress scenario testing. The stress tests are designed to evaluate the resilience of the Group to the potential impact of principal risks and the availability and effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk and internal control systems, as discussed on pages 64-65, were taken into account.

Key assumptions

The key assumptions underpinning the Board's assessment include gold and silver prices, production volumes, foreign exchange rates and the ability to roll forward borrowing facilities as they fall due in the ordinary course of business. In making these forecasts, full consideration has also been given to all other principal risks to the business. These risks have been considered in our stress testing where appropriate, or are considered to be either immaterial or too remote to affect our viability over a three-year period.

Liquidity and solvency

The sources of funding available to the Group are set out in Note 25 to the consolidated financial statements. Our base case projections demonstrate that the Group should be able to operate within the currently available debt facilities and comply with all related covenants during the lookout period, assuming necessary roll-overs and limited additional debt based on the historically successful ability of the Group to raise finance. Our stress testing focuses in particular on significant adverse changes in market prices of gold and silver and demonstrates that under reasonably possible downside gold and silver price assumptions, only limited mitigating action is required to maintain liquidity and covenant compliance, including the refinancing of existing facilities as they mature.

Expectations

The Board confirms that taking into account the Group's current position and based upon the robust assessment of the principal risks facing the Group and stress testing-based assessment of the Group's prospects, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2018.

Financial and business reporting
The Board believes that the disclosures set out in the strategic report on pages 1 to 69 of this Annual Report provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Directors
The Directors, their status and Board Committee memberships are set out on pages 73 to 75 of the Report.

Appointment and replacement of Directors
The Board may appoint a person who is willing to act as a Director, either to fill a vacancy or as an additional Director and, in either case, whether or not for a fixed term. Irrespective of the terms of his or her appointment, a Director so appointed shall hold office only until the next AGM. If not re-appointed at such AGM, he or she shall vacate office at its conclusion.

The Company may, by ordinary resolution, remove any Director from office (notwithstanding any provision of the Company's Articles or of any agreement between the Company and such Director, but without prejudice to any claim that he or she may have for damages for breach of any such agreement). No special notice needs to be given of any resolution to remove a Director and no Director proposed to be removed has any special right to protest against his or her removal. The Company may, by ordinary resolution, appoint another person in place of a Director removed from office.

Directors' interests
Information on Directors' interests in shares of the Company is set out in the Remuneration report on page 95.

Directors' indemnities
To the extent permitted by the Companies (Jersey) Law 1991, the Company has indemnified every Director and other officer of the Company (other than any person (whether an officer or not) engaged by the Company as auditor) out of the assets of the Company against any liability incurred by him or her for negligence, default, breach of duty, breach of trust or otherwise in relation to the affairs of the Company. This provision does not affect any indemnity to which a Director or officer is otherwise entitled.

Political donations
The Company may not make a political donation to a political party or other political organisation, or to an independent election candidate, or incur any political expenditure, unless such donation or expenditure is authorised by an ordinary resolution of shareholders passed before the donation is made or the expenditure incurred. No such donations were made in 2015 (2014: none).

Capital structure
The structure of the Company's share capital is detailed in Note 31 to the financial statements. There are no specific restrictions on the size of a holding or on the transfer of shares, which are both regulated by the Articles of the Company and applicable legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or on voting rights.

The Articles of the Company can be altered by a special resolution of the Company. A resolution is a special resolution when it is passed by three-quarters of the members who (being entitled to do so) vote in person, or by proxy, at a General Meeting of the Company. Pursuant to the Company's Articles, the Directors have the power to allot Equity Securities (as defined in the Articles).

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as commercial contracts, bank loan agreements and employees' share plans. None of these is considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid. Substantial shareholdings in the Company are disclosed on page 178.

Details of employee option schemes are set out in the remuneration report on pages 93 to 98. There were no acquisitions of the Company's own shares in 2015. As at 31 December 2015, the Group and its subsidiaries held no treasury shares (31 December 2014: no shares). As at 31 December 2015, the Company had shareholders' authority to purchase up to 42,260,272 of its own ordinary shares.

At the AGM of the Company held in 2015, the power to allot Equity Securities was renewed up to an aggregate number of 140,867,574 ordinary shares, provided that the Directors' power in respect of such an amount may only be used in connection with a pre-emptive issue (as defined in the Articles).

The Directors are further empowered pursuant to Article 12.4 of the Company's Articles to allot Equity Securities for cash as if Article 13 of the Articles (Pre-emptive rights) did not apply and for the purposes of paragraph (b) of Article 12.4 of the Articles, the Non Pre-emptive Shares (as defined in the Articles) are an aggregate number of up to 21,130,136 ordinary shares.

The authorities above will, unless previously revoked or varied, expire at the conclusion of the Company's next AGM (or, if earlier, at the close of business on the date which is 15 months after the date of the resolution which granted them, being 20 August 2016).

Pursuant to Article 57 of the Companies (Jersey) Law 1991, the Company is authorised to make market purchases of ordinary shares of the Company, provided that:

- the maximum number of ordinary shares to be purchased is 42,260,272 ordinary shares;
- the minimum price (excluding expenses) which may be paid for each ordinary share is 1 penny;
- the maximum price (excluding expenses) which may be paid for each ordinary share is the higher of:
  a. an amount equal to 105% of the average of the middle market quotations of an ordinary share in the Company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; and
  b. an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System;
- pursuant to Article 58A of the Companies (Jersey) Law 1991, the Company may hold as treasury shares any ordinary shares purchased pursuant to the authority conferred in this resolution.

This authority will expire at the conclusion of the Company's next AGM or 18 months from the date of the passing of this Resolution, being 20 November 2016 (whichever is earlier).

Approval of share issues, consideration for which does not exceed US$15 million, is delegated to any director holding any executive office.

As of 28 March 2016 the total issued share capital of the Company comprises 424,650,138 ordinary shares of no par value, each carrying one vote. During the year, 3,830,195 ordinary shares in the Company were issued as follows: 1,746,692 shares as consideration payment for an additional 25% interest in the Tarutinskoye copper deposit; 36,089 shares to the Company's PDMRs in accordance with the Deferred Share Awards plan (DSA); 429,260 shares for a 25% stake in the Lichkvaz property in Armenia; 533,301 shares for a 100% interest in the Primorskoye silver/gold property; and 1,084,853 shares to increase the Company's interest in the Lichkvaz property.

Dividends
The Group's profit for the year ended 31 December 2015 attributable to equity holders of the Company was US$244 million (2014: loss of US$210 million). Underlying net earnings (adjusted for the after-tax amount of impairment charges/reversals and foreign exchange losses) in 2015 were US$293 million (2014: US$282 million). In August 2015, the Company declared an interim dividend of US$0.08 per share (2014: US$0.08 per share), which was paid in September 2015. A special dividend of US$0.30 per share (2014: US$0.20 per share) was declared and paid by the Company in December 2015. The Directors have proposed the payment of a final dividend of US$0.13 per share (2014: US$0.13 per share).

Annual General Meeting
The AGM of shareholders of the Company will take place on Tuesday 17 May 2016 at 10.30 am (BST) at Etc Venues, Bishopsgate Court, 4-12 Norton-Folgate, 5th Floor, London, E1 6DQ, UK.

Auditors
Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the Director has taken all steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint it will be proposed at the forthcoming AGM. The Audit and Risk Committee reviews both the level of the audit fee and the level and nature of non-audit fees as part of its review of the adequacy and objectivity of the audit process.

Having taken all matters considered by the Board and brought to the attention of the Board during the year into account, we are satisfied that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

Bobby Godsell

Bobby Godsell
Chairman
28 March 2016

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

Vitaly Nesis
Group CEO
28 March 2015

Independent auditor's report to the members of Polymetal International plc

Opinion on financial statements of Polymetal International plc

In our opinion the financial statements:

- **give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of the Group's profit for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and**
- **have been properly prepared in accordance with the Companies (Jersey) Law, 1991.**

The financial statements comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash flows and the related Notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Going concern

We have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within Note 1 to the financial statements and the Directors' statement on the longer-term viability of the Group contained within the Directors' report on page 99.

We have nothing material to add or draw attention to in relation to:

- the directors' confirmation on page 99 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 65-69 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in Note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the director's explanation on page 99 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Recoverability of PP&E and Goodwill (Notes 2, 3, 18 and 19)	
As a consequence of the recent volatility in gold and silver prices, foreign exchange rates and the political and economic uncertainties in Russia, the assessment of recoverability of PP&E (carried at $744 million) and goodwill (carried at $14 million) is a key judgement. Management has assessed whether any indicators of impairment existed at its eight cash generating units ('CGUs') (as set out in Note 5). Where goodwill is allocated to that CGU (at Dukat and Mayskoye), management performs formal impairment testing as at 31 December 2015 to assess whether the recoverable amount of the CGU exceeds its net book value.	We challenged management's assessments as to whether indicators of impairment (or impairment reversal) exist for the Group's CGUs through critical assessment of developments in the wider economic environment and the performance of each of the CGUs in the year and through meetings with local and Group operational management. We obtained copies of the valuation models used to determine the recoverable amount of CGUs and tested the arithmetical accuracy of the models. We challenged the assumptions underpinning the models, including the discount rate used, expected metal prices, capital and operating expenditure forecasts, production profiles and foreign exchange rates. This was achieved by comparison to third party documentation, the review of reserves and resources reports, consultation with Deloitte specialists (to critically assess the discount rate applied) and discussions with operational management. We assessed whether assumptions had been determined and applied consistently across the Group. We applied sensitivities to the price assumptions and operating cost forecasts. We assessed management's ability to forecast accurately by comparing their 2015 forecasts to 2015 actual financial results.
Recoverability of Exploration & Development (E&D) assets (Notes 2, 3 and 18)	
At 31 December 2015 the Group held $616 million in respect of E&D expenditure on the Balance Sheet of which $428 million related to Kyzyl project ('Kyzyl'). Recoverability is dependent on the expected future success of exploration activities. E&D expenditure is capitalised once it has been determined that the mineral property can be economically developed. The valuation assessment of each asset's future prospects requires significant judgement. In 2015, management completed a feasibility study for Kyzyl and the development was subsequently sanctioned by the Board in November 2015.	We reviewed the Competent Persons' Report prepared by management's technical experts and held discussions with them regarding the assumptions used in their report to ensure consistency with our understanding. We assessed the Competent Person's competence, capabilities and objectivity in providing their report. We challenged the recoverability of the Kyzyl asset carrying value by assessing management's assumptions used in their net present value ('NPV') calculation. We reviewed license conditions to ensure there were no breaches in the terms.
For the remainder of the E&D assets, management undertook a detailed assessment of E&D assets for impairment, which included a review of developments in the year and planned further E&D expenditure, including the expected timings for that spend.	We challenged management's conclusions as to where impairment indicators, under the requirements of IFRS 6 'Exploration and Evaluation Assets', existed for the remainder of the E&D assets and assessed the recoverability of assets by meeting with operational management to discuss material E&D assets, reviewing drilling and other testing results in the year and confirming future development plans. We reviewed Board-approved budgets for 2016/7 to check that specific exploration project spend was committed and we performed detailed testing to assess the validity of costs capitalised in the year.
Existence and valuation of metal inventories (Notes 2, 3 and 22)	
At 31 December 2015 the Group held $295 million in respect of metal inventories on the Balance Sheet. Management's determination of the contained metal levels in ore stockpiles and work in progress involves the use of sampling techniques and theoretical models.	We tested the existence of metal inventories through attending inventory counts performed by management's experts and assessing the controls surrounding measuring the net realisable value of the inventory at a sample of operating locations and performing roll forward testing from the count dates through to year end by testing management's metal inventory models. We assessed the management's experts' methodology, expertise and objectivity.
The assessment of the recoverability of metal inventories requires judgement both in terms of calculating expected costs to process and refine ore stock piles to produce concentrate or doré for sale, and in terms of estimating future prices to be realised on sale.	We tested the recoverability of metal inventories through the recalculation of projected net realisable values based on expected commodity prices (which were consistent with prices used in the Group's PP&E and goodwill impairment calculations) and costs to complete. We also performed substantive analytical procedures on management's inventory costing calculations. We tested inventories for obsolescence by reviewing management's strategic mine plans and assessing whether there is appropriate provisioning in place, in particular where stockpiles are no longer expected to be used.

Last year our report included one additional risk which is not included in our report this year, being accounting for and valuation of the Kyzyl consideration payable. The accounting treatment was established last year and has not changed since, therefore it has not been necessary for us to consider this a significant risk in the current year.

The description of risks above should be read in conjunction with the significant issues considered by the Audit and Risk Committee discussed on page 80.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be $16 million (2014: $18 million), which is 4% (2014: 5%) of adjusted pre-tax profit and 3% of equity (2014: 2%). Pre-tax profit is adjusted to exclude net foreign exchange losses recognised which would, if included, significantly distort materiality year on year. In 2014 we also excluded impairment losses, however there were no such losses to exclude in 2015.

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of $320,000 (2014: $360,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement across the Group. Our audit scope focused primarily on the eight key reportable segments (Voro, Okhotsk, Dukat, Omolon, Varvara, Amursk-Albazino, Mayskoye and Kyzyl) and the corporate entities such that 100% (2014: 100%) of revenue and 97% (2014: 99%) of total assets were subject to a full scope audit, which is consistent with last year's approach.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement in the aggregated financial information of the remaining components not subject to audit.

The Group audit team was involved in the work of the component auditors at all stages of the audit process. The signing partner and senior members of the Group engagement team visited the Head Office in St. Petersburg on multiple occasions in the past year and continued to follow a programme of regular planned visits to the Group's other business units. The Group audit team directed and reviewed in detail the work performed on significant risks by the component auditors.

Our audit work was executed at levels of materiality applicable to each individual component, which were between $8.0 million and $10.4 million (2014: $9.0 million and $12.6 million).

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies (Jersey) Law, 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Matters on which we are required to report by exception continued

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if in our opinion information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit and Risk Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Other matters

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the UK Companies Act 2006 as if that Act had applied to the company.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

James Leigh
FCA (Senior statutory auditor) for and on behalf of Deloitte LLP
Chartered Accountants and Recognized Auditor
London, UK
28 March 2016

Consolidated income statement

	Notes	Year ended 31 December 2015 000'$	31 December 2014 000'$
Revenue	6	1,441,093	1,690,391
Cost of sales	7	(766,252)	(1,023,219)
(Write-downs)/reversals of metal inventories to net realisable value	22	(12,976)	39,174
Gross profit		**661,865**	**706,346**
General, administrative and selling expenses	11	(127,486)	(131,293)
Other operating expenses	12	(51,221)	(131,901)
Share of loss of associates and joint ventures	20	(4,099)	(7,139)
Operating profit		**479,059**	**436,013**
Gain on disposal of subsidiary	4	1,205	–
Net foreign exchange losses		(132,870)	(559,266)
Change in fair value of contingent consideration liability	29	4,246	22,788
Finance income		4,889	3,216
Finance costs	15	(80,704)	(40,626)
Profit/(loss) before income tax		**275,825**	**(137,875)**
Income tax expense	16	(54,830)	(71,965)
Profit/(loss) for the financial year		**220,995**	**(209,840)**
Profit/(loss) for the year attributable to:			
Equity shareholders of the Parent		220,995	(209,840)

		US$	US$
Profit/(Loss) per share			
Basic	31	0.52	(0.53)
Diluted	31	0.52	(0.53)

	Year ended 31 December 2015 cents per share	31 December 2014 cents per share	31 December 2015 000'$	31 December 2014 000'$
Final dividend proposed in relation to the year (Note 17)	13	13	55,205	54,994
Interim dividend (Note 17)	8	8	33,885	33,665
Special dividend (Note 17)	30	20	127,395	84,164
			216,485	**172,823**

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Consolidated statement of comprehensive income

	Year ended 31 December 2015	Year ended 31 December 2014
Profit/(Loss) for the financial year	220,995	(209,840)
Items that will not be reclassified subsequently to profit or loss		
Translation to presentation currency	–	(683,063)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	(582,191)	(1,185)
Currency exchange differences on intercompany loans forming net investment in foreign operations, net of income tax	(58,413)	66,490
Total comprehensive loss for the financial year	**(419,609)**	**(827,598)**

	Year ended 31 December 2015	Year ended 31 December 2014
Total comprehensive loss for the financial year attritube to:		
Equity Shareholders of the Parent	(419,609)	(827,598)
	(419,609)	**(827,598)**

Consolidated balance sheet

	Notes	31 December 2015 000'$	31 December 2014 restated* 000'$
Assets			
Property, plant and equipment	18	1,359,844	1,964,508
Goodwill	19	13,871	17,970
Investments in associates and joint ventures	20	1,709	2,107
Non-current loans and receivables	21	12,669	12,890
Deferred tax asset	16	56,734	61,787
Non-current inventories	22	99,357	114,227
Total non-current assets		**1,544,184**	**2,173,489**
Current inventories	22	352,800	468,731
Current VAT receivable		59,885	55,367
Trade and other receivables	23	39,405	55,485
Prepayments to suppliers		25,084	20,531
Income tax prepaid		8,333	9,410
Cash and cash equivalents	24	51,798	157,224
Total current assets		**537,305**	**766,748**
Total assets		**2,081,489**	**2,940,237**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	27	(77,110)	(160,735)
Share repurchase obligation	4	–	(275,838)
Current borrowings	25	(286,861)	(508,811)
Income tax payable		(22,126)	(38,306)
Other taxes payable		(32,149)	(44,139)
Environmental obligations	26	(324)	(4,183)
Current portion of contingent consideration liability	29	(2,455)	(1,783)
Total current liabilities		**(421,025)**	**(1,033,795)**
Non-current borrowings	25	(1,062,685)	(813,824)
Contingent consideration liability	29	(23,703)	(17,506)
Deferred tax liability	16	(50,071)	(157,154)
Environmental obligations	26	(32,927)	(41,520)
Other non-current liabilities		(4,528)	(6,954)
Total non-current liabilities		**(1,173,914)**	**(1,036,958)**
Total liabilities		**(1,594,939)**	**(2,070,753)**
NET ASSETS		**486,550**	**869,484**
Stated capital account	31	1,969,125	1,939,084
Share-based compensation reserve	32	5,991	2,387
Translation reserve		(1,465,198)	(824,594)
Repurchase obligation for shares issued for business acquisition	4	–	(218,722)
Accumulated loss		(23,368)	(28,671)
Total equity		**486,550**	**869,484**

* Restated following determination of the final fair value of the assets acquired and the liabilities assumed as at the acquisition date in respect of the Kyzyl business combination. Refer to Note 4.

Notes on pages 112 to 160 form part of these financial statements. These financial statements are approved and authorised for issue by the Board of Directors on 28 March 2016 and signed on its behalf by:

Vitaly Nesis
Group CEO

Bobby Godsell
Chairman

Consolidated statement of cash flows

	Notes	Year ended 31 December 2015 000'$	Year ended 31 December 2014 000'$
Net cash generated by operating activities	34	490,044	518,156
Cash flows from investing activities			
Purchases of property, plant and equipment	18	(205,426)	(209,751)
Net cash outflow on business combinations	4	–	(314,344)
Acquisitions of JV and associate	20	(7,194)	–
Kyzyl put option exercise	4	(67,718)	–
Loans advanced, net		(22,143)	(3,356)
Other investing activities		1,516	1,744
Contingent consideration payment	29	(1,246)	(1,722)
Proceeds from disposals of subsidiary net of cash disposed		484	–
Net cash used in investing activities		**(301,727)**	**(527,429)**
Cash flows from financing activities			
Borrowings obtained	25	722,663	453,991
Repayments of borrowings	25	(696,126)	(252,455)
Dividends paid	17	(300,438)	(64,823)
Net cash (used in)/generated by financing activities		**(273,901)**	**136,713**
Net (decrease)/increase in cash and cash equivalents		(85,584)	127,440
Cash and cash equivalents at the beginning of the financial year	24	157,224	65,567
Effect of foreign exchange rate changes on cash and cash equivalents		(19,842)	(35,783)
Cash and cash equivalents at the end of the financial year	**24**	**51,798**	**157,224**

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 2014		**389,472,865**	**1,664,170**	**143,524**	**(206,836)**	**–**	**186,632**	**1,787,490**
Total comprehensive income		–	–	–	(617,758)	–	(209,840)	(827,598)
Share based compensation	32	–	–	2,387	–	–	–	2,387
Transfer to retained earnings	32	–	–	(143,524)	–	–	143,524	–
Issue of shares in exchange for business acquisitions	4	31,347,078	274,914	–	–	–	–	274,914
Put option issued for business acquisition recognised on equity	4	–	–	–	–	(218,722)	–	(218,722)
Dividends	17	–	–	–	–	–	(148,987)	(148,987)
Balance at 31 December 2014 restated		**420,819,943**	**1,939,084**	**2,387**	**(824,594)**	**(218,722)**	**(28,671)**	**869,484**
Total comprehensive income, net of income tax		–	–	–	(640,604)	–	220,995	(419,609)
Share based compensation	32	–	–	3,809	–	–	–	3,809
Shares alloted to employees	32	36,089	205	(205)	–	–	–	–
Issue of shares to acquire non-controlling interest	31	1,746,692	12,978	–	–	–	(12,978)	–
Issue of shares in exchange for asset acquisitions	4	1,618,154	13,240	–	–	–	–	13,240
Issue of shares to acquire share in joint venture	4	429,260	3,618	–	–	–	–	3,618
Share purchase obligation exercise	4	–	–	–	–	218,722	13,560	232,282
Dividends	17	–	–	–	–	–	(216,274)	(216,274)
Balance at 31 December 2015		**424,650,138**	**1,969,125**	**5,991**	**(1,465,198)**	**–**	**(23,368)**	**486,550**

1. General

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 and is domiciled in Cyprus. Its shares are traded on the London and Moscow stock exchanges.

Significant subsidiaries

At 31 December 2015 the Company held the following significant mining and production subsidiaries:

			Effective interest held, %	
Name of subsidiary	Deposits	Country of incorporation	**31 December 2015**	31 December 2014
JSC Gold of Northern Urals	Vorontsovskoye	Russia	100	100
LLC Okhotskaya Mining and Exploration Company	Ozernoe	Russia	100	100
	Avlayakan			
Svetloye LLC	Svetloye	Russia	100	100
JSC Magadan Silver	Dukat	Russia	100	100
	Lunnoe			
	Arylakh			
	Goltsovoye			
Mayskoye Gold Mining Company LLC	Mayskoye	Russia	100	100
Omolon Gold Mining Company LLC	Birkachan	Russia	100	100
	Tsokol			
	Dalneye			
	Sopka Kvartsevaya			
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. As at 31 December 2015, the Group held US$51.8 million of cash and had net debt of US$1,297.8 million, with US$1,195.8 million, of which US$979.7 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 2015.

While assessing the Group's longer-term viability, the Board confirms that taking into account the Group's current position and based upon the robust assessment of the principal risks facing the Group and stress-testing based assessment of Group's prospects, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2018. Please refer to the Longer-term viability statement on page 99 of the Annual report.

Basis of presentation

The Group's annual consolidated financial statements for the year ended 31 December 2015 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 2015.

Amended accounting standards adopted by the entity

The following new accounting pronouncements which became effective in the current reporting period:

- Annual Improvements to IFRSs 2010-2012 cycle;
- Annual Improvements to IFRSs 2011-2013 cycle;
- Amendments to IAS 19 *Employee Benefits*: Defined Benefit Plans – Employee Contributions.

The adoption of these new accounting pronouncements has not had a significant impact on the accounting policies, methods of computation or presentation applied by the Group.

New accounting standards issued but not yet effective

IFRS 15 *Revenue from Contracts with Customers.* In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ('IFRS 15'), which covers principles that an entity shall apply to report information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods beginning on or after 1 January 2018, with earlier application permitted. The Group is in the process of determining the impact of IFRS 15 on its consolidated financial statements and doesn't expect it to have a material impact on its consolidated financial statements.

IFRS 9 *Financial instruments.* In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ('IFRS 9'). This standard is effective for annual periods beginning on or after 1 January, 2018, and permits early adoption. IFRS 9 provides a revised model for recognition, measurement and impairment of financial instruments. IFRS 9 also includes a substantially reformed approach to hedge accounting. The Group is in the process of determining the impact of IFRS 9 on its consolidated financial statements.

IFRS 16 *Leases.* IFRS 16 replaces the following standards and interpretations: IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease.* The new standard provides a single lessee accounting model for the recognition, measurement, presentation and disclosure of leases. IFRS 16 applies to all leases including subleases and requires lessees to recognise assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset has a low value. Lessors continue to classify leases as operating or finance. The Group is in the process of determining the impact of IFRS 16 on its consolidated financial statements.

Amendments to IFRS 11 *Accounting for Acquisitions of Interest in Joint Operations.* The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 *Business Combination* and state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint venture. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations. Entities should apply the amendments prospectively to acquisitions of interest in joint operations occurring from the beginning of annual periods beginning on nor after 1 January 2016.

Amendments to IAS 1 *Presentation of Financial Statements: Disclosure.* Initiative provides guidance on the use of judgement in presenting financial statement information, including: the application of materiality; order of notes; use of subtotals; accounting policy referencing and disaggregation of financial and non-financial information.

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* remove an inconsistency between the two standards on the accounting treatment for gains and losses arising on the sale or contribution of assets by an investor to its associate or joint venture. Following the amendment, such gains and losses may only be recognised to the extent of the unrelated investor's interest, except where the transaction involves assets that constitute a business.

2. Significant accounting policies

Basis of consolidation

Subsidiaries

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group balances, transactions and any unrealised profits or losses arising from intra-group transactions are eliminated on consolidation.

Changes to the Group's ownership interests that do not result in a loss of control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Group's interests and non-controlling interests are adjusted to reflect the change in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on the disposal is calculated as the difference between
1) the aggregated fair value of the consideration received and the fair value of any retained interest and
2) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and non-controlling interests.

For non-wholly owned subsidiaries, non-controlling interests are initially measured at the non-controlling interest's proportion of the fair values of net assets recognised at acquisition. Thereafter, a share of the profit or loss for the financial year and other movements in the net assets or liabilities of the subsidiary is attributed to the non-controlling interests as shown in the income statement and balance sheet.

Business combinations

IFRS 3 *Business Combinations* applies to a transaction or other event that meets the definition of a business combination. When acquiring new entities or assets, the Group applies judgement to assess whether the assets acquired and liabilities assumed constitute an integrated set of activities, whether the integrated set is capable of being conducted and managed as a business by a market participant, and thus whether the transaction constitutes a business combination, using the guidance provided in the standard. Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the consolidated income statement as incurred. Transaction costs incurred in connection with the business combination are expensed. Provisional fair values are finalised within 12 months of the acquisition date.

Where applicable, the consideration for the acquisition may include an asset or liability resulting from a contingent consideration arrangement. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Subsequent changes in such fair values are adjusted against the cost of acquisition retrospectively with the corresponding adjustment against goodwill where they qualify as measurement period adjustments. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed at the acquisition date. The measurement period may not exceed one year from the effective date of the acquisition. The subsequent accounting for contingent consideration that does not qualify for as a measurement period adjustment is based on how the contingent consideration is classified. Contingent consideration that is classified as equity is not subsequently remeasured. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IAS 39 *Financial Instruments Recognition and Measurement* with the corresponding amount being recognised in profit or loss.

The identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in the consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in equity are reclassified to profit or loss, where such treatment would be appropriate if that interest was disposed of.

Goodwill and goodwill impairment

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the consolidated income statement as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable goodwill is included in the determination of the profit or loss on disposal.

Acquisition of mining licences

The acquisition of mining licences is often effected through a non-operating corporate entity. As these entities do not represent a business, it is considered that the transactions do not meet the definition of a business combination and, accordingly, the transaction is accounted for as the acquisition of an asset. The net assets acquired are accounted for at cost. Where asset acquisition is achieved in stages net assets acquired are accounted for sum of cost of the original interest acquired and the cost of additional interest acquired.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint arrangement. Significant influence constitutes the power to participate in the financial and operating policy decisions of the investee but does not extend to a control or joint control over the enactment of those policies. The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

A joint operation is a joint arrangement in which the parties that share joint control have rights to the assets, and obligations for the liabilities, relating to the arrangement. This includes situations where the parties benefit from the joint activity through a share of the output, rather than by receiving a share of the results of trading. In relation to its interest in a joint operation, the Group recognises: its share of assets and liabilities; revenue from the sale of its share of the output and its share of any revenue generated from the sale of the output by the joint operation; and its share of expenses.

2. Significant accounting policies continued

A joint venture is a joint arrangement in which the parties that share joint control have rights to the net assets of the arrangement and is accounted for using the equity accounting method.

Equity method of accounting

Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the investee. When the Group's share of the losses of an associate or a joint venture exceeds the Group's interest in that entity, the Group ceases to recognise its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an investee at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investments. Where an indicator of impairment exists or the carrying value of the asset contains goodwill with an indefinite useful life, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* (IAS 36) as a single cash generating unit through the comparison of its recoverable amount (the higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36.

When a Group entity transacts with its investees, profits and losses resulting from the transactions with the investee are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or the jont venture that are not related to the Group.

Functional and presentation currency

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. For all Russian entities the functional currency is the Russian Rouble (RUB). The functional currency of the Group's entities located and operating in Kazakhstan (JSC Varvarinskoye, Bakyrchik Mining Venture LLP, JSC Inter Gold Capital) is the Kazakh Tenge (KZT).

The Group determined that from 1 January 2015, there had been a change in facts and circumstances surrounding the operations of its parent company (Polymetal International plc) and some of its intermediate holding companies indicating that the functional currency of these companies had changed from the Russian Rouble to the US Dollar.

Following a number of international acquisitions in second half of the year ended 31 December 2014 and first half of the year ended 31 December 2015 funded by US Dollar-denominated loans, and a resulting increase in the share of the Group's operations outside Russia, management has determined that the functional currency of the parent company and some of the intermediate holding companies had changed to US Dollar from 1 January 2015.

In accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, this change has been accounted for prospectively from this date.

The Group has chosen to present its consolidated financial statements in US Dollars (US$), as management believes it is a more convenient presentation currency for international users of the consolidated financial statements of the Group as it is a common presentation currency in the mining industry. The translation of the financial statements of the Group entities from their functional currencies to the presentation currency is performed as follows:

- all assets and liabilities are translated at closing exchange rates at each reporting period end date;
- all income and expenses are translated at the average exchange rates for the periods presented, except for significant transactions that are translated at rates on the date of such transactions;
- resulting exchange differences are included in equity and presented as movements relating to the effect of translation to the Group's presentation currency within the Translation reserve; and
- in the consolidated statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated using exchange rates prevalent at those respective dates. All cash flows in the period are translated at the average exchange rates for the periods presented, except for significant transactions that are translated at rates on the date of transaction.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated income statement. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated income statement.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

The Group translated income and expenses occurred from second half of the year ended 31 December 2014 on monthly basis at average monthly exchange rates.

Exchange rates used in the preparation of the consolidated financial statements were as follows:

	Russian Rouble/ US Dollar	Kazakh Tenge/ US Dollar
Year ended 31 December 2014		
Year end	56.26	182.35
Average for:		
the six months ended 30 June 2014	34.98	176.24
July	34.64	183.52
August	36.11	182.05
September	37.88	181.96
October	40.77	181.48
November	45.91	180.87
December	55.54	181.79
Year ended 31 December 2015		
Year end	72.88	339.47
Average for:		
January	61.88	183.51
February	64.68	184.91
March	60.26	185.34
April	52.93	185.73
May	50.59	185.81
June	54.51	186.05
July	57.08	186.76
August	65.20	206.99
September	66.77	258.34
October	63.09	275.46
November	65.03	302.88
December	69.68	323.05

The Russian Rouble and Kazakh Tenge are not freely convertible currencies outside the Russian Federation and Kazakhstan and, accordingly, any translation of Russian Rouble and Kazakh Tenge denominated assets and liabilities into US Dollar for the purpose of the presentation of consolidated financial statements does not imply that the Group could or will in the future realise or settle in US Dollars the translated values of these assets and liabilities.

2. Significant accounting policies continued

Foreign currency transactions
Transactions in currencies other than an entity's functional currencies (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the consolidated income statement. Exchange differences generated by monetary items that form part of the intra-group net investment in the foreign operation are recognised in the consolidated financial statements within foreign currency translation reserve.

Property, plant and equipment
Mining assets
Mining assets include the cost of acquiring and developing mining assets and mineral rights. Mining assets are depreciated to their residual values using the unit-of-production method based on proven and probable ore reserves according to the JORC Code, which is the basis on which the Group's mine plans are prepared. Changes in proven and probable reserves are dealt with prospectively. Depreciation is charged on new mining ventures from the date that the mining asset is capable of commercial production (Note 5). In respect of those mining assets whose useful lives are expected to be less than the life of the mine, depreciation over the period of the asset's useful life is applied.

Mineral rights for the assets under development are included within Exploration and development. When a production phase is started, mineral rights are transferred into Mining assets and are depreciated as described below.

Capital construction-in-progress
Capital construction-in-progress assets are measured at cost less any recognised impairment. Depreciation commences when the assets are ready for their intended use.

Exploration and development assets
Mineral exploration and evaluation costs, including geophysical, topographical, geological and similar types of costs, are capitalised into Exploration and development assets if management concludes that future economic benefits are likely to be realised and determines that economically viable extraction operation can be established as a result of exploration activities and internal assessment of mineral resources.

When it has been determined that a mining asset can be economically developed as a result of established proven and probable reserves, the costs to remove any overburden and other waste materials to initially expose the ore body, referred to as stripping costs, are capitalised as a part of mining assets when these costs are incurred.

Non-mining assets
Non-mining assets are depreciated to their residual values on a straight-line basis over their estimated useful lives. When parts of an item of property, plant and equipment are considered to have different useful lives, they are accounted for and depreciated separately. Depreciation methods, residual values and estimated useful lives are reviewed at least annually.

Estimated useful lives are as set out below:

- Machinery and equipment 5-20 years
- Transportation and other assets 3-10 years

Gains or losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the asset's carrying amount at the date. The gain or loss arising is recognised in the consolidated income statement.

Stripping costs
During the production phase of a mine when the benefit from the stripping activity is the improved access to a component of the ore body in future periods, the stripping costs in excess of the average ore to waste ratio for the life of mine of that component are recognised as a non-current asset. After initial recognition, the stripping activity asset is depreciated on a systematic basis (unit-of-production method) over the expected useful life of the identified component of the ore body made accessible as a result of the stripping activity.

Estimated ore reserves
Estimated proven and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits. The Group's reserves are estimated in accordance with JORC Code.

Leases
Operating leases
Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Impairment of property, plant and equipment
An impairment review of property, plant and equipment is carried out when there is an indication that those assets have suffered an impairment loss. If any such indication exists, the carrying amount of the asset is compared to the estimated recoverable amount of the asset in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. The carrying amounts of all the cash-generating units are 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.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods.

A reversal of an impairment loss is recognised in the consolidated income statement immediately.

Inventories
Metal inventories
Inventories including refined metals, metals in concentrate and in process, doré and ore stockpiles are stated at the lower of production cost or net realisable value. Production cost is determined as the sum of the applicable expenditures incurred directly or indirectly in bringing inventories to their existing condition and location. Refined metals are valued at the average total cost of production per saleable unit of metal. Work in-process, metal concentrate and doré are valued at the average total production costs at each asset's relevant stage of production. Ore stockpiles are valued at the average cost of mining that ore. Where ore stockpiles and work in-process are not expected to be processed within 12 months, those inventories are classified as non-current.

Net realisable value represents the estimated selling price for that product based on forward metal prices for inventories which are expected to be realised within 12 months, and the flat long-term metal prices for non-current inventories, less estimated costs to complete production and selling costs.

Consumables and spare parts
Consumables and spare parts are stated at the lower of cost or net realisable value. Cost is determined on the weighted average moving cost. The portion of consumables and spare parts not reasonably expected to be used within one year is classified as a long-term asset in the Group's consolidated balance sheet. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments
Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

2. Significant accounting policies continued

Financial instruments designated as Fair Value Through Profit and Loss (FVTPL)
A financial instrument other than a financial instrument held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial instrument forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial instruments at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in Note 30.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets
Non-derivative financial assets are classified into the following specified categories: FVTPL, available for sale (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. No financial instruments have been classified as available for sale.

Income is recognised on an effective interest basis for financial instruments other than those financial assets classified as at FVTPL.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is determined by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

Other financial liabilities
Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest rate method.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated income statement.

Derivative financial instruments

The Group may enter into a variety of derivative financial instruments to manage its exposure to certain risks. Further details of derivative financial instruments are disclosed in Note 30.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the consolidated income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated income statement depends on the nature of the hedge relationship.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the hybrid contracts are not measured at FVTPL.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or fewer, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

2. Significant accounting policies continued

Environmental obligations

An obligation to incur environmental restoration, rehabilitation and decommissioning costs arises when disturbance is caused by the development or ongoing production of mining assets. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value using a risk-free rate applicable to the future cash flows, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are recognised in the consolidated income statement over the life of the operation, through the depreciation of the asset in the cost of sales line and the unwinding of the discount on the provision in the finance costs line. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and recognised in the consolidated income statement as extraction progresses.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work (that result from changes in the estimated timing or amount of the cash flow or a change in the discount rate), are added to or deducted from the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the consolidated income statement.

The provision for closure cost obligations is remeasured at the end of each reporting period for changes in estimates and circumstances. Changes in estimates and circumstances include changes in legal or regulatory requirements, increased obligations arising from additional mining and exploration activities, changes to cost estimates and changes to the risk free interest rate.

Employee benefit obligations

Remuneration paid to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period. The Group pays mandatory contributions to the state social funds, including the Pension Fund of the Russian Federation and Kazakhstan, which are expensed as incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the laws of countries where the Group operates.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax

Current and deferred tax is recognised in the consolidated income statement, except when they relate to items that are recognised in the consolidated statement of comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in consolidated statement of comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Revenue recognition

Revenue is derived principally from the sale of gold and silver bullion and copper, gold and silver concentrate and is measured at the fair value of consideration received or receivable, after deducting discounts.

Revenue from the sale of gold and silver bullion and sale of copper, gold and silver concentrate is recognised when the risks and rewards of ownership are transferred to the buyer, the Group retains neither a continuing degree of involvement nor control over the goods sold, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue from the sale of gold and silver bullion represents the invoiced value of metal shipped to the buyer, net of value added tax (VAT).

Sale of gold and silver bullion

The Group processes doré produced in the Russian Federation (at Dukat, Okhotsk, Voro, Omolon, and Amursk-Albazino) into London Good Delivery Bars prior to sale. This final stage of processing is carried out on a toll-treatment basis at four state-owned refineries. The Group sells gold and silver bullion to banks through long-term agreements. The sales price, as determined in the agreement, may be variable based upon the London Bullion Market Association (LBMA) spot or fixed price, however the Group does not enter into fixed price contracts. For domestic sales, title passes from the Group to the purchaser at the refinery gate with revenue recognised at that point. For export sales, once the gold and/or silver bars have been approved for export by Russian customs, they are then transported to the vault of the purchaser, which is typically located in London. Title passes and revenue is recognised at the point when the gold and/or silver bars are received by the purchaser.

Sales of copper, gold and silver concentrate

The Group sells copper, gold and silver concentrate under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. Concentrate sales are initially recorded based on forward prices for the expected date of final settlement. Revenue is recorded at the time of shipment, which is also when risks and rewards pass to the buyer. Revenue is calculated based on the copper, gold and silver content in the concentrate and using the forward London Bullion Market Association (LBMA) or London Metal Exchange (LME) price to the estimated final pricing date, adjusted for the specific terms of the relevant agreement. Until final settlement occurs, adjustments to revenue are made to take into account the changes in metal quantities upon receipt of new information and assay. Revenue is presented net of refining and treatment charges which are subtracted in calculating the amount to be invoiced.

The Group's sales of copper, gold and silver concentrate are based on a provisional price and as such, contain an embedded derivative that is required to be separated from the host contract for accounting purposes. The host contract is the receivable from the sale of the concentrate at the forward exchange price at the time of sale. The embedded derivative, which does not qualify for hedge accounting, is measured at FVTPL with changes in its fair value recognised within revenue in the consolidated income statement for each period prior to the final settlement.

Share-based compensation

The Group applies IFRS 2 *Share-based Payments* to account share-based compensation. IFRS 2 requires companies to recognise compensation costs for share-based payments to employees based on the grant-date fair value of the award.

At the Annual General Meeting in June 2013, shareholders approved the new Long-Term Incentive Plan (the 'LTIP'). Under the new LTIP options are awarded on the annual basis after the publication of annual results and before the AGM. The first grant of options under LTIP took place on 22 April 2014.

Total number of options granted under the LTIP during the year ended 31 December 2015 amounts to 2,448,413 (2014: 2,464,041 shares).

The fair value of the awards granted was estimated using a Monte Carlo model valuation (see Note 32).

2. Significant accounting policies continued

Under the management bonus deferral award plan, which is defined in the Remuneration report, a total amount of 187,953 shares was granted in 2015 (2014: 103,936), which will be released over a period of three years. The Deferred bonus was measured at share price at a grant date and will be prorated across periods to the different vest dates. During the year ended 31 December 2015 36,089 shares were released and issued in accordance with the plan (Note 31).

The fair value of the awards granted is recognised as a general, administrative and selling expense over the vesting period with a corresponding increase in the share-based compensation reserve. Upon the exercise of the awards, the proceeds received, net of any directly attributable transaction costs, are credited to the stated capital account, and the amounts recognised within the share-based compensation reserve transferred to retained earnings.

Earnings per share

Earnings per share calculations are based on the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated using the treasury stock method, whereby the proceeds from the potential exercise of dilutive stock options with exercise prices that are below the average market price of the underlying shares are assumed to be used in purchasing the Company's common shares at their average market price for the period.

3. Critical accounting judgements and key sources of estimation uncertainty

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Key sources of estimation uncertainty

Preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgements which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

The most significant areas requiring the use of management estimates and assumptions relate to:

- fair value of net assets acquired and liabilities assumed in business combinations;
- ore reserve estimates;
- depreciation;
- impairment of goodwill, mining assets and other property, plant and equipment;
- recoverability of exploration and development assets;
- valuation of stockpiles and work in-process;
- environmental obligations;
- contingencies; and
- income taxes.

Acquisitions

IFRS 3 *Business Combinations* applies to a transaction or other event that meets the definition of a business combination. When acquiring new entities or assets, the Group applies judgement to assess whether the assets acquired and liabilities assumed constitute an integrated set of activities and thus whether the transaction constitutes a business combination, using the guidance provided in the standard. In making this determination, management evaluates the inputs, processes and outputs of the asset or entity acquired.

Under IFRS 11 *Joint Arrangements*, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements (Note 2). When entering in a new joint arrangement, the Group applies judgement to assess whether the parties that have joint control over the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement (joint operation) or rights to the net assets of the arrangement (joint venture), using the guidance provided in the standard.

Fair value of net assets acquired and liabilities assumed in business combinations

In accordance with the Group's policy, the Group allocates the cost of the acquired entity to the assets acquired and liabilities assumed based on their fair values as estimated on the date of acquisition. Any difference between the cost of the acquired entity and the fair value of the assets acquired and liabilities assumed is recorded as goodwill. The Group exercises significant judgement in the process of identifying tangible and intangible assets and liabilities, valuing these assets and liabilities, and estimating their remaining useful lives. The valuation of these assets and liabilities is based on assumptions and criteria that, in some cases, include management's estimates of discounted future cash flows.

If actual results are not consistent with estimates and assumptions considered, the Group may have to adjust its estimates of the fair values of assets and liabilities recognised and the goodwill balance during the measurement period. Such a remeasurement could have an impact on the amounts reported in the consolidated income statement in current and future periods.

Ore reserve estimates

An ore reserve estimate is an estimate of the amount of product that can be economically and legally extracted from the Group's properties. Ore reserve estimates are used by the Group in the calculation of: depletion of mining assets using the units-of-production method; impairment charges and in forecasting the timing of the payment of decommissioning and land restoration costs. Also, for the purpose of impairment review and the assessment of the timing of the payment of decommissioning and land restoration costs, management may take into account mineral resources in addition to ore reserves where there is a high degree of confidence that such resources will be extracted.

In order to calculate ore reserves, estimates and assumptions are required about geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices, discount rates and exchange rates. Estimating the quantity and/or grade of ore reserves requires the size, shape and depth of ore bodies to be determined by analysing geological data such as the logging and assaying of drill samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Ore reserve estimates may change from period to period as additional geological data becomes available during the course of operations or if there are changes in any of the aforementioned assumptions. Such changes in estimated reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- asset carrying values due to changes in estimated future cash flows;
- depletion charged in the consolidated income statement where such charges are determined by using the units-of-production method;
- provisions for decommissioning and land restoration costs where changes in estimated reserves affect expectations about the timing of the payment of such costs;
- carrying value of deferred tax assets and liabilities where changes in estimated reserves affect the carrying value of the relevant assets and liabilities; and
- contingent consideration liabilities when it depends on future sales of metal produced by certain mines.

Depreciation

Mining assets are depreciated using the units-of-production method except where the useful lives of the assets are shorter than the life of mine. The units-of-production depreciation calculations are based on proved and probable reserves under the JORC Code, which is the basis on which the Group's mine plans are prepared as the useful lives of these assets are considered to be limited to the life of the relevant mine. For other property, plant and equipment, the straight-line method is applied over the estimated useful life of the asset which does not exceed the estimated mine life.

The calculation of the units-of-production rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on proved and probable ore reserves. This would generally arise when there are significant changes in any of the factors or assumptions used in estimating ore reserves.

Impairment of goodwill, mining assets and other property, plant and equipment

The Group considers both external and internal sources of information in assessing whether there are any indications that goodwill, mining assets or other property, plant and equipment owned by the Group are impaired. External sources of information the Group considers include: changes in the market and economic and legal environment in which the Group operates, that are not within its control and that affect the recoverable amount of goodwill, mining assets or other property, plant and equipment.

3. Critical accounting judgements and key sources of estimation uncertainty continued

Internal sources of information the Group considers include the manner in which mining properties, plant and equipment are being used or expected to be used and indications of economic performance of the assets. In determining the recoverable amounts of the Group's mining assets and other property, plant and equipment, the Group's management determines the fair value less costs to sell by estimating the discounted future after-tax cash flows expected to be derived from the Group's mining properties, costs to sell the mining properties and the appropriate post-tax discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable reserves and resources and/or adverse current economics can result in a write-down of the carrying amounts of the Group's goodwill, mining assets or other property, plant and equipment.

In making the assessment for impairment, assets that do not generate independent cash inflows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash inflows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value-in-use calculation. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Exploration and development assets

Exploration and development assets include mineral rights for the assets under development and exploration and evaluation costs, including geophysical, topographical, geological and similar types of costs.

Exploration and evaluation costs are expensed as incurred, unless the Group concluded that a future economic benefit is more likely than not to be realised. Conclusion on recoverability of exploration and evaluation assets is based on internal evaluation of current exploration results and mineral resources identified for each exploration area within exploration licence.

A high degree of confidence that the Group will determine the sufficient probability of future benefits viable requires a significant degree of judgement and assessment of all relevant factors such as the nature and objective of the project; the project's current stage and the extent of exploration and evaluation that has been performed; project timeline; current estimates of the project's net present value, including sensitivity analyses for the key assumptions; and the main risks of the project.

Mineral rights, usually acquired through business combination or acquisition of group of assets, are recognised in the balance sheet in accordance with applicable accounting policies (Note 2). Once mineral reserves and resources are established, such properties and capitalised evaluation and pre-production development expenditure are assessed for impairment in accordance with the Group's accounting policy stated above.

Stockpiles and work in-process

In determining mine operating costs recognised in the consolidated income statement, the Group's management uses survey and assay techniques to estimate quantities of ore stacked on leach pads and in process and the recoverable gold and silver in this material to determine the average costs of finished goods sold during the period. Changes in these estimates can result in a change in mine operating costs of future periods and carrying amounts of inventories. At 31 December 2015 the carrying value of the ore stockpiles was US$166 million (2014: US $207 million) and work in-process was US$34 million (2014: US$51 million).

Environmental obligations

The Group's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The Group's provision for future decommissioning and land restoration cost represents management's best estimate of the present value of the future cash outflows required to settle the liability which reflects estimates of future costs, inflation, movements in foreign exchange rates and assumptions of risks associated with the future cash outflows; and the applicable interest rate for discounting the future cash outflows. Actual costs incurred in future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgements and estimates of the outcome of future events.

Income taxes and mining taxes

The Group is subject to income tax and mining taxes in the Russian Federation and Kazakhstan. Mining taxes do not meet the definition of a tax under IAS 12 *Income taxes*. Significant judgement is required in determining the provision for these taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes, penalties and interest will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgements based on the expected performance. Various factors are considered in order to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

4. Acquisitions and disposals

(a) Year ended 31 December 2015

Business combinations and asset acquisitions

Kyzyl purchase price allocation

As described below, on 4 September 2014 the Group acquired 100% of the share capital of Altynalmas Gold Ltd (AAG), the holding company for the Kyzyl gold project in Kazakhstan.

As at 31 December 2014, purchase price allocation for the acquisition of Kyzyl was not completed and mineral rights were accounted for on a provisional basis. The Group completed the purchase price allocation review during the year ended 31 December 2015 and retrospectively adjusted the provisional amounts (Note 4b) recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The adjusted fair values of the identifiable assets and liabilities of Kyzyl as at the date of acquisition are presented in the following table:

	Provisional amount previously reported US$'000	Adjustments US$'000	Adjusted amounts US$'000
Assets acquired and liabilities recognised at the date of acquisition			
Cash and cash equivalents	4,156	–	4,156
Mineral rights	853,600	(56,156)	797,444
Property, plant and equipment	6,144	(260)	5,884
Other assets	1,583	(525)	1,058
Environmental obligations	(16,346)	8,589	(7,757)
Contingent liabilities	(5,627)	–	(5,627)
Deferred tax liability	(166,325)	48,352	(117,973)
Other liabilities	(1,507)	–	(1,507)
Net assets acquired	**675,677**	**–**	**675,677**

As a result of the determination of the final fair value of the assets acquired and the liabilities assumed as at the acquisition date as discussed above, the figures for the consolidated financial statements for the year ended 31 December 2014 have been restated. Fair value adjustments recognised had no significant impact on the consolidated income statement for the year ended 31 December 2014 and no consequent change in the consolidated equity was recognised.

The impact of the fair value adjustment is presented in the table below.

	31 December 2014 (previously stated) US$'000	Fair value adjustments US$'000	31 December 2014 (restated) US$'000
Property, plant and equipment	2,020,924	(56,416)	1,964,508
Trade and other receivables	56,010	(525)	55,485
Deferred tax liability	(205,506)	48,352	(157,154)
Environmental obligations	(54,292)	8,589	(45,703)
Change in equity		**–**	

4. Acquisitions and disposals continued

Settlement of the Kyzyl put option
In accordance with Kyzyl acquisition terms, the seller (Sumeru Gold B.V.) was entitled to a put option giving it a right to require Polymetal to acquire or procure acquirers for the consideration shares, described below, 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 approximated to US$273 million, with a corresponding decrease in equity. At the same time the Group recognised the seller put option fair value in amount of US$54.6 million within consideration transferred with corresponding increase in equity.

The put option had an exercise period from 4 September to 4 October 2015.

In September 2015 the Group agreed to the following settlement mechanism for the put option:

- Polymetal settled the full contractual put option liability to the seller and delivered a cash payment in the amount of US$300 million;
- Simultaneously, Polymetal transfered the right to receive consideration shares to Otkritie Investments Cyprus Limited in exchange for a cash consideration of US$232 million. The cash consideration payable by Otkritie to Polymetal represented the average closing price of the Polymetal shares for the agreed quotation period being one month ended five business days before the date of signing the assignment agreement, which was US$7.41 per share, multiplied by the number of Consideration Shares.

As a result the net amount of US$67.7 million was paid by Polymetal and the consideration shares remained in issue. On the put option being exercised, both the liability of US$300 million and the corresponding balance in equity of US$218.7 million were derecognised. After the cash payment has been taken into account, the balancing figure of US$13.6 million was recognised within retained earnings.

Primorskoye
In July 2015 Polymetal purchased a 100% interest in Primorskoye LLC, the company holding the licence for the Primorskoye silver/gold property located in the Magadan region of Russia from Decamor Investments Limited. The consideration for the acquisition comprised the initial consideration of US$4.1 million payable by issuing 533,301 new Polymetal International plc shares and the deferred conditional cash consideration payable in February 2017. The deferred consideration will be determined as the higher of US$13,333 per tonne of contained silver equivalent (translating into US$0.415 per silver equivalent ounce) based on the audited reserves estimate of the deposit, and US$8 million. On acquisition, the contingent consideration was valued at US$6.9 million. As of 31 December 2015 contingent consideration was valued at US$7.2 million (Note 29).

Primorskoye does not meet the definition of a business pursuant to IFRS 3, as it represents an acquisition of mining license though a non-operating corporate entity, and thus it was accounted for as an acquisition of a group of assets. The Group purchased mineral rights of US$11.1 million and other current liabilities of US$0.1 million.

LV Gold Mining
In April 2015 the Group purchased a 25% stake in CJSC LV Gold Mining, the company owning the Lichkvaz exploration and mining licence in Armenia (including related shareholder loans). The consideration comprised 429,260 shares equal to US$3.6 million. Polymetal has also entered into an 'earn-in' agreement for financing of exploration, metallurgical testing and a JORC-compliant feasibility study in exchange for a right to increase its share in the project up to 50% after the completion of these tasks. The arrangements constituted a joint venture and the investment was accounted for using the equity method at cost of US$3.6 million as of 30 June 2015.

On 11 November 2015, Polymetal signed an agreement to purchase the remaining 75% of LV Gold mining shares. The purchase price comprised 1,047,756 Polymetal International plc shares and a deferred consideration in an amount equal to 2% of value of precious metals in the ore extracted from the Lichkvaz deposit in the future during the life of mine. Under the contract the seller has also assigned to Polymetal an intercompany loan receivable of US$0.3 million in exchange for additional 37,097 Polymetal International plc shares. Total consideration payable in shares was valued at US$9.1 million and the contingent consideration was valued at US$5.4 million (Note 29).

LV Gold Mining does not meet the definition of a business pursuant to IFRS 3, as it represents an acquisition of mining license though a non-operating corporate entity, thus it was accounted for as an acquisition of a group of assets. The acquisition was achieved in stages and accounted for at cost which is the total of the cost of the original 25% interest and of the additional 75% interest. The Group purchased mineral rights of US$20.2 million and other current liabilities of US$0.1 million.

Disposal of subsidiary

Khakandjinskoye LLC
On 26 October 2015 the Group sold its subsidiary Khakandjinskoye LLC, which holds the Khakanja licence, for the cash consideration of US$0.5 million to an unrelated party. Total net assets disposed of amounted to US$(0.7) million, resulting in a gain on disposal of subsidiary amounting to US$1.2 million.

(b) Year ended 31 December 2014

In the prior year, the following transactions took place:

Kyzyl acquisition

On 4 September 2014 the Group acquired 100% 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.

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 year ended 31 December 2014 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**

4. Acquisitions and disposals continued

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 29).

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 12).

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 assets and liabilities of the former associate were distributed amongst the shareholders. Polymetal received a 100% interest in the North Kaluga property and assumed US$20.3 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 did 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.

5. Segment information

The Group has eight reportable segments:

- Voro (CJSC Gold of Northern Urals);
- Okhotsk operations (LLC Okhotskaya Mining and Exploration Company; Svetloye LLC);
- Dukat (CJSC Magadan Silver);
- 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 amortisation, 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.

5. Segment information continued

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

For the year ended 31 December 2015 ($'000)	Voro	Okhotsk	Dukat	Omolon	Varvara	Amursk-Albazino	Mayskoye	Kyzyl	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	162,901	129,372	440,473	223,650	96,471	254,892	133,140	–	1,440,899	194	–	1,441,093
Intersegment revenue	849	325	8	1,385	–	9,204	–	–	11,771	211,717	(223,488)	–
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	42,590	59,589	184,253	100,949	63,655	97,059	88,484	–	636,579	157,534	(182,093)	612,020
Cost of sales	53,742	71,232	222,456	129,353	77,894	127,705	107,956	–	790,338	158,007	(182,093)	766,252
Depreciation included in cost of sales	(11,463)	(10,935)	(38,375)	(24,254)	(14,121)	(31,424)	(20,227)	–	(150,799)	–	–	(150,799)
Write-down of non-metal inventory to net realisable value	(166)	(1,108)	(626)	(3,938)	(100)	329	829	–	(4,780)	(473)	–	(5,253)
Rehabilitation expenses	477	400	798	(212)	(18)	449	(74)	–	1,820	–	–	1,820
General, administrative and selling expenses, excluding depreciation, amortisation and share based compensation	4,693	19,658	8,697	6,935	5,148	6,338	6,789	7,719	65,977	64,571	(11,907)	118,641
General, administrative and selling expenses	10,875	26,013	15,072	11,639	6,122	11,817	11,422	8,260	101,220	71,579	(45,313)	127,486
Intercompany management services	(5,791)	(4,219)	(5,847)	(4,626)	(773)	(5,421)	(4,461)	–	(31,138)	(2,268)	33,406	–
Depreciation included in SGA	(391)	(2,136)	(528)	(78)	(201)	(58)	(172)	(541)	(4,105)	(931)	–	(5,036)
Share-based compensation	–	–	–	–	–	–	–	–	–	(3,809)	–	(3,809)
Other operating expenses excluding additional tax charges	1,051	1,398	8,435	6,051	2,510	7,654	3,767	6,645	37,511	(5,981)	16,789	48,319
Other operating expenses	2,210	1,579	3,682	10,134	2,510	7,501	5,181	6,645	39,442	(5,010)	16,789	51,221
Bad debt allowance	(1,146)	(181)	29	(4,404)	–	153	(94)	–	(5,643)	(971)	–	(6,614)
Additional mining taxes and VAT exposures, penalties and accrued interest	(13)	–	4,724	321	–	–	(1,320)	–	3,712	–	–	3,712
Share of income of associates and joint ventures	–	–	–	–	–	–	–	–	–	(4,099)	–	(4,099)
Adjusted EBITDA	**115,416**	**49,052**	**239,096**	**111,100**	**25,158**	**153,045**	**34,100**	**(14,364)**	**712,603**	**(8,312)**	**(46,277)**	**658,014**
Depreciation expense	11,854	13,071	38,903	24,332	14,322	31,482	20,399	541	154,904	931	–	**155,835**
Rehabilitation expenses	(477)	(400)	(798)	212	18	(449)	74	–	(1,820)	–	–	**(1,820)**
Write-down of non-metal inventory to net realisable value	166	1,108	626	3,938	100	(329)	(829)	–	4,780	473	–	**5,253**
Write-down of metal inventory to net realisable value	–	(883)	–	5,501	7,915	–	443	–	12,976	–	–	**12,976**
Share-based compensation	–	–	–	–	–	–	–	–	–	3,809	–	**3,809**
Bad debt allowance	1,146	181	(29)	4,404	–	(153)	94	–	5,643	971	–	**6,614**
Additional mining taxes and VAT exposures, penalties and accrued interest	13	–	(4,724)	(321)	–	–	1,320	–	(3,712)	–	–	**(3,712)**
Operating profit/(loss)	**102,714**	**35,975**	**205,118**	**73,034**	**2,803**	**122,494**	**12,599**	**(14,905)**	**539,832**	**(14,496)**	**(46,277)**	**479,059**
Net foreign exchange losses	–	–	–	–	–	–	–	–	–	–	–	**(132,870)**
Gain on disposal of subsidiary	–	–	–	–	–	–	–	–	–	–	–	**1,205**
Change in fair value of contingent consideration liability	–	–	–	–	–	–	–	–	–	–	–	**4,246**
Finance income	–	–	–	–	–	–	–	–	–	–	–	**4,889**
Finance costs	–	–	–	–	–	–	–	–	–	–	–	**(80,704)**
Profit before tax	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**275,825**
Income tax expense	–	–	–	–	–	–	–	–	–	–	–	**(54,830)**
Profit for the financial period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**220,995**
Current metal inventories	27,432	31,214	49,981	27,908	21,392	37,822	28,218	–	223,967	112	(2,400)	**221,679**
Current non-metal inventories	4,349	25,449	19,962	23,531	9,749	13,196	25,852	825	122,913	15,030	(6,822)	**131,121**
Non-current segment assets:												
Property, plant and equipment, net	45,822	60,987	168,653	70,199	68,075	241,261	136,150	459,603	1,250,750	126,860	(17,766)	**1,359,844**
Goodwill	–	–	3,986	–	–	–	9,885	–	13,871	–	–	**13,871**
Non-current inventory	1,556	12,618	5,745	64,035	3,656	5,756	7,529	–	100,895	–	(1,538)	**99,357**
Investments in associates	–	–	–	–	–	–	–	–	–	1,709	–	**1,709**
Total segment assets	79,159	130,268	248,327	185,673	102,872	298,035	207,634	460,428	1,712,396	143,711	(28,526)	**1,827,581**
Additions to non-current assets:												
Property, plant and equipment	6,745	35,601	33,400	28,118	20,441	37,781	21,225	32,383	215,694	8,832	–	**224,526**
Acquisition of group of assets	–	–	11,039	–	–	–	–	–	11,039	20,180	–	**31,219**

For the year ended 31 December 2014 ($'000)	Voro	Okhotsk	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, amortisation 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
Additional 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**
Additional 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	806,233	1,853,814	132,954	(22,260)	**1,964,508**
Goodwill	–	–	5,164	–	–	–	12,806	–	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**	**807,208**	**2,511,426**	**150,228**	**(37,695)**	**2,567,543**
Additions to non-current assets:												
Property, plant and equipment (restated)	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 (restated)	20,912	–	–	–	–	–	–	803,328	824,240	4,307	–	**828,547**

6. Revenue

Revenue analysed by geographical regions of customers is presented below:

	Year ended 31 December 2015 000'$	Year ended 31 December 2014 000'$
Sales within the Russian Federation	1,051,981	1,165,729
Sales to Kazakhstan	216,858	169,242
Sales to China	88,744	133,497
Sales to Japan	48,180	51,864
Sales to Europe	33,190	9,716
Sales to Korea	1,750	158,625
Total metal sales	**1,440,703**	**1,688,673**
Other sales	390	1,718
Total	**1,441,093**	**1,690,391**

Included in revenues for the year ended 31 December 2015 are revenues which arose from sales to three of the Group's largest customers amounting to US$501 million, US$185 million and US$162 million, respectively (2014: $573 million, US$221 million and US$164 million, respectively). Presented below is an analysis of revenue from gold, silver and copper sales:

	Year ended 31 December 2015				Year ended 31 December 2014			
	Thousand ounces/ tonnes (unaudited shipped	Thousand ounces/ tonnes (unaudited payable	Average price (US Dollar per troy ounce/ tonne payable) (unaudited)	000'$	Thousand ounces/ tonnes (unaudited shipped	Thousand ounces/ tonnes (unaudited payable	Average price (US Dollar per troy ounce/ tonne payable) (unaudited)	000'$
Gold (thousand ounces)	875	864	1,127	974,123	958	943	1,231	1,160,984
Silver (thousand ounces)	31,494	31,190	14.7	460,040	29,661	29,342	17.7	520,469
Copper (tonnes)	1,578	1,488	4,395	6,540	1,093	1,029	7,015	7,220
Total				**1,440,703**				**1,688,673**

7. Cost of sales excluding write-downs/(reversals) of metal inventories to net realisable value

Revenue analysed by geographical regions of customers is presented below:

	Year ended 31 December 2015 000'$	Year ended 31 December 2014 000'$
Cash operating costs		
On-mine costs (Note 8)	267,522	391,256
Smelting costs (Note 9)	260,566	363,382
Purchase of ore and semi-finished goods from third parties	5,241	1,506
Mining tax	96,941	110,064
Total cash operating costs	**630,270**	**866,208**
Depreciation and depletion of operating assets (Note 10)	153,770	291,940
Rehabilitation expenses	(1,928)	2,714
Total costs of production	**782,112**	**1,160,862**
Increase in metal inventories	(27,160)	(142,082)
Write-down of non-metal inventories to net realisable value (Note 22)	5,253	4,069
Idle capacities and abnormal production costs	5,990	–
Cost of other sales	57	370
Total	**766,252**	**1,023,219**

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 production 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 12).

Idle capacities and abnormal production costs were expenses as incurred and relate to Mayskoye where the processing plant was stopped in November 2015 while underground mining was ramping up due to the redevelopment of underground workings using a new mining method.

8. On-mine costs

	Year ended 31 December 2015 000'$	Year ended 31 December 2014 000'$
Services	120,041	184,364
Labour	78,010	103,704
Consumables and spare parts	67,458	101,252
Other expenses	1,009	921
Taxes, other than income tax	1,004	1,015
Total (Note 7)	**267,522**	**391,256**

9. Smelting costs

	Year ended 31 December 2015 000'$	31 December 2014 000'$
Consumables and spare parts	114,503	156,904
Services	94,094	138,609
Labour	49,884	65,177
Taxes, other than income tax	630	675
Other expenses	1,455	2,017
Total (Note 7)	**260,566**	**363,382**

10. Depletion and depreciation of operating assets

	Year ended 31 December 2015 000'$	31 December 2014 000'$
On-Mine	103,618	205,856
Smelting	50,152	86,084
Total (Note 7)	**153,770**	**291,940**

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 5), also excludes amounts absorbed into unsold metal inventory balances.

11. General, administrative and selling expenses

	Year ended 31 December 2015 000'$	31 December 2014 000'$
Labour	88,307	93,168
Services	13,937	16,664
Depreciation	5,036	4,815
Share based compensation	3,809	2,387
Other	16,397	14,259
Total	**127,486**	**131,293**

12. Other operating expenses, net

	Year ended 31 December 2015 000'$	31 December 2014 000'$
Exploration expenses	24,003	50,525
Taxes, other than income tax	11,564	22,191
Additional mining taxes, VAT, penalties and accrued interest	(3,712)	19,509
Social payments	7,807	9,247
Bad debt allowance	6,614	(213)
Housing and communal services	4,186	7,191
Loss on disposal of property, plant and equipment	1,246	4,473
Business acquisition related costs (Note 4)	–	4,039
Change in estimate of environmental obligations (Note 26)	(4,266)	(723)
Other expenses	3,779	15,662
Total	51,221	131,901

Mining taxes, VAT, penalties and accrued interest have been accrued in respect of various disputes with the Russian and Kazakh tax authorities.

During the year ended 31 December 2015 Group has partially released several mining tax provisions at Magadan Silver following the completion of the tax audits.

In respect of the year ended 31 December 2014 the Group 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 also accrued interest related to Magadan Silver tax exposures previously identified of US$4.1 million, and mining tax exposure for 2013 amounting to US$2.4 million. During the year ended 31 December 2014 the Group also identified a VAT exposure of US$2.4 million (including penalties and interest) and income tax penalties and interest of US$3.6 million at Magadan Silver, which were provided for.

Total provision for additional mining taxes and VAT exposures, including penalties and accrued interest as of 31 December 2015 is US$3.5 million (2014: US$36.1 million).

Exploration expenses include write downs of US$7.9 million (2014: US$35.6 million) recognised within Exploration and Development assets (Note 18). Operating cash flow spent on exploration activities amounts to US$12.6 million (2014: US$15.8 million).

Increase in the bad debt allowance relates to long-term non-trade receivables provided for as of 31 December 2015. These balances were not past due as of 31 December 2014.

13. Employee costs

	Year ended 31 December 2015 000'$	Year ended 31 December 2014 000'$
Wages and salaries	198,734	245,494
Social security costs	48,508	59,321
Share based compensation	3,809	2,387
Total payroll costs	**251,051**	**307,202**
Reconciliation:		
Less: employee costs capitalised	(24,617)	(36,954)
Less: employee costs absorbed into unsold metal inventory balances	(4,212)	(18,079)
Employee costs included in operating costs	**222,222**	**252,169**

The weighted average number of employees during the year ended 31 December 2015 was:

	Year ended 31 December 2015 000'$	Year ended 31 December 2014 000'$
Voro	924	936
Okhotsk operations	1,140	1,049
Dukat	1,856	1,836
Omolon	752	805
Varvara	789	727
Amursk-Albazino	1,286	1,194
Mayskoye	828	870
Kyzyl	414	110
Corporate and other	1,303	1,326
Total	**9,292**	**8,853**

Compensation for key management personnel is disclosed within Note 33.

14. Auditor's remuneration

	Year ended 31 December 2015 000'$	Year ended 31 December 2014 000'$
Fees payable to the auditor and their associates for the audit of the Company's Annual Report		
United Kingdom	311	342
Overseas	675	665
Total audit fees	**986**	**1,007**
Audit-related assurance services – half year review	398	400
Total audit and half-year review fees	**1,384**	**1,407**
Other services	33	579
Total non-audit fees	**33**	**579**
Total fees	**1,417**	**1,986**

Other service fees in 2014 relate to work on the class 1 circular for the Altynalmas acquisition services.

15. Finance costs

	Year ended 31 December 2015 000'$	Year ended 31 December 2014 000'$
Interest expense on borrowings	52,021	33,793
Unwinding discount on repurchase obligation (Note 4)	24,171	2,551
Unwinding of discount on environmental obligations (Note 26)	4,512	4,282
Total	**80,704**	**40,626**

Interest expense on borrowings excludes borrowing costs capitalised in the cost of qualifying assets of US$3.9 million and US$5.1 million during the years ended 31 December 2015 and 2014, respectively. These amounts were calculated based on the Group's general borrowing pool and by applying an effective interest rate of 4.06% and 3.5%, respectively, to cumulative expenditure on such assets.

The repurchase obligation relates to the put option issued to the seller of Altynalmas Gold Ltd, which gave 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 4). During the year ended 31 December 2015 the option was exercised as described in the Note 4.

16. Income tax

The amount of income tax expense for the years ended 31 December 2015 and 31 December 2014 recognised in profit and loss is as follows:

	Year ended 31 December 2015 000'$	Year ended 31 December 2014 000'$
Current income taxes	103,000	79,003
Deferred income taxes	(48,170)	(7,038)
	54,830	**71,965**

A reconciliation between the reported amounts of income tax expense attributable to income before income tax is as follows:

	Year ended 31 December 2015 000'$	Year ended 31 December 2014 000'$
Profit/(loss) before income tax	275,825	(137,875)
Statutory income tax expense at the tax rate of 20%	55,165	(27,575)
Effect of different tax rates of subsidiaries operating in other jurisdictions	3,731	–
Effect of foreign exchange and non-taxable income	(49,264)	85,881
Current year losses not recognised and losses previously recognised written-off	5,912	2,951
Non-deductible interest expense	10,623	769
Tax exposures recognised in income tax	2,431	4,504
Prior year adjustments to current tax	1,286	(2,016)
Other non-deductible expenses	24,946	7,451
Total income tax expense	**54,830**	**71,965**

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.

16. Income tax continued

For several entities, the tax calculation is prepared in local currencies that differ from the functional currency of the entity. This results in exchange gains and losses included in the local currency used as a basis for the tax computation and gives rise to significant permanent differences.

In the normal course of business, the Group is subject to examination by tax authorities throughout the Russian Federation and Kazakhstan. Of the large operating companies of the Group, the 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, and JSC Varvarinskoye for the period up to 2010. According to Russian and Kazakhstan tax legislation, previously completed audits do not fully preclude subsequent claims relating to the audited period.

Tax exposures recognised in income tax

During the year ended 31 December 2014 the Group had 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. Following the completion of the tax audit the amount was paid in full.

During the year ended 31 December 2015 no individually significant exposures were and provided for.

Income tax amounts included in other comprehensive income

An analysis of tax by individual item presented in the Consolidated statement of comprehensive income is presented below:

	Year ended	
	31 December 2015 000'$	31 December 2014 000'$
Net foreign exchange losses on net investment in foreign operation		
Current income tax	3,391	(2,205)
Deferred income tax	(14,053)	–
Total income tax recognised in other comprehensive income	**(10,662)**	**(2,205)**

Current and deferred tax presented in the consolidated statement of comprehensive income relate to the net exchange differences on translation of monetary items that form part of the intragroup net investments in the foreign operations. These net exchange differences are recognised in the consolidated financial statements within foreign currency translation reserve.

Deferred taxation

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

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

	Environmental obligation 000'$	Inventories 000'$	Property, plant, and equipment and other non-current assets 000'$	Trade and other payables 000'$	Tax losses 000'$	Long-term loans and payables 000'$	Other 000'$	Total 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	1,456		(156,289)	1,125	35,735			(117,973)
Exchange differences	(5,429)	7,780	39,160	(2,751)	(42,741)	(1,648)	(4,202)	(9,831)
At 31 December 2014 (restated)	**9,139**	**(15,781)**	**(212,477)**	**6,605**	**110,013**	**2,467**	**4,667**	**(95,367)**
Charge to income statement	165	(2,095)	(1,343)	1,571	49,691	(175)	356	48,170
Recognised in other comprehensive income	–	–	–	–	14,053	–	–	14,053
Exchange differences	(2,653)	3,642	86,654	(2,045)	(43,971)	(532)	(1,288)	39,807
At 31 December 2015	**6,651**	**(14,234)**	**(127,166)**	**6,131**	**129,786**	**1,760**	**3,735**	**6,663**

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 2015 000'$	31 December 2014 (restated) 000'$
Deferred tax liabilities	(50,071)	(191,170)
Deferred tax assets	56,734	95,803
	6,663	**(95,367)**

Tax losses carried forward represent amounts available for offset against future taxable income generated by ZK Mayskoye LLC, Svetloye LLC, JSC Varvarinskoye, Bakyrchik Mining Venture LLP and 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 2015 and 31 December 2014 the aggregate tax losses carried forward were US$648.9 million (RUB 15.8 billion and Kazakh Tenge 146.6 billion) and US$550.1 million (RUB 20.9 billion and Kazakh Tenge 32.6 billion), respectively.

The Group believes that recoverability of the recognised deferred tax asset (DTA) of US$129.8 million at 31 December 2015 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 2015. 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.

At 31 December 2015 deferred tax assets in the amount of US$7.5 million (31 December 2014: US$6.9 million) have not been recognised in respect of unused tax losses expiring during the years 2016-2026 because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

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16. Income tax continued

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 2015 000'$	31 December 2014 restated 000'$
Year ended 31 December 2015	–	4,320
31 December 2016	2,825	3,660
31 December 2017	4,013	5,199
31 December 2018	11,325	14,674
31 December 2019	18,185	29,245
31 December 2020	16,611	26,720
31 December 2021	24,310	40,413
31 December 2022	37,300	96,333
31 December 2023	64,357	114,755
31 December 2024	97,124	214,746
31 December 2025	372,880	–
Total loss carried forward for tax purposes	**648,930**	**550,065**

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$1,313 million (2014: US$1,231 million).

17. Dividends

Dividends recognised during the years ended 31 December 2015 and 31 December 2014 are detailed in the below:

	Dividends				
	Cents per share	000'$	Approved and deducted from the equity during the year	Proposed in relation to the year	Paid in
Final dividend 2013	8	31,158	2014	2013	2014
Interim dividend 2014	8	33,665	2014	2014	2014
Special dividend 2014	20	84,164	2014	2014	2015
Final dividend 2014	13	54,994	2015	2014	2015
Interim dividend 2015	8	33,885	2015	2015	2015
Special dividend 2015	30	127,395	2015	2015	2015
Final dividend 2015	13	55,205	N/A	2015	N/A
Total dividends for the year ended 31 December 2014	–	–	**148,987**	**172,823**	**64,823**
Total dividends for the year ended 31 December 2015	–	–	**216,274**	**216,485**	**300,438**

18. Property, plant and equipment

	Exploration and development assets	Mining assets	Non-mining assets	Capital construction in-progress	Total
Cost					
Balance at 1 January 2014	**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)
Acquired on acquisition restated (Note 4)	820,032	5,332	1,915	1,268	828,547
Eliminated on disposal of subsidiary	–	–	–	–	–
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 restated (Note 4)	**1,019,720**	**1,564,325**	**58,467**	**78,532**	**2,721,044**
Additions	51,733	75,913	4,787	92,093	224,526
Transfers	(57,946)	101,333	(3,090)	(40,297)	–
Change in decommissioning liabilities	–	4,307	–	–	4,307
Acquisition of group of assets (Note 4)	30,425	–	794	–	31,219
Disposals and write-offs incl. fully depleted mines	(7,902)	(159,709)	(1,555)	(908)	(170,074)
Translation to presentation currency	(420,051)	(412,108)	(14,913)	(25,634)	(872,706)
Balance at 31 December 2015	**615,979**	**1,174,061**	**44,490**	**103,786**	**1,938,316**
Accumulated depreciation, amortisation					
Balance at 1 January 2014	**(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)**
Charge for the period	–	(172,900)	(4,472)	–	(177,372)
Disposals and write-offs incl. fully depleted mines	107	153,220	725	9	154,061
Transfers	129	(642)	453	60	–
Translation to presentation currency	162	196,087	5,102	24	201,375
Balance at 31 December 2015	**(412)**	**(559,606)**	**(18,408)**	**(46)**	**(578,472)**
Net book value					
1 January 2014	**332,557**	**1,543,404**	**64,764**	**154,017**	**2,094,742**
31 December 2014 restated (Note 4)	**1,018,910**	**828,954**	**38,251**	**78,393**	**1,964,508**
31 December 2015	**615,567**	**614,455**	**26,082**	**103,740**	**1,359,844**

Mining assets at 31 December 2015 included mineral rights pertaining to the production stage and being amortised with net book value which amounted to US$39.6 million (31 December 2014: US$67.8 million) and capitalised stripping costs with net book value of US$33.2 million (31 December 2014: US$54.9 million). Exploration and development assets at 31 December 2015 included mineral rights related to the exploration stage with net book value which amounted to US$542.8 million (31 December 2014: US$908.8 million).

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

Exploration and development assets at 31 December 2015 included exploration and evaluation assets for the areas not yet achieved development stage amounted to US$7.8 million (31 December 2014: US$16.2 million).

Fully depleted mines relate to mineral rights and stripping assets in Omolon and Okhotsk operations segments, where several open pit mines were fully depleted during the year ended 31 December 2015 in accordance with effective mine plans.

No property, plant and equipment were pledged as collateral at 31 December 2015 or at 31 December 2014.

19. Goodwill

	31 December 2015 000'$	31 December 2014 000'$
Cost and Accumulated impairment losses		
At 1 January	**17,970**	**30,889**
Translation effect	(4,099)	(12,919)
At 31 December	**13,871**	**17,970**

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

	31 December 2015 000'$	31 December 2014 000'$
Mayskoye	9,885	12,806
Dukat	3,986	5,164
Total	**13,871**	**17,970**

The carrying amount of goodwill is reviewed annually to determine whether it is in excess of its recoverable amount. The recoverable amount of the cash-generating unit is 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.

The DCF method used is based on proved and probable reserves and uses the following key assumptions:

- production volumes;
- commodity prices;
- proved and probable reserves;
- production costs;
- Rouble exchange rates; and
- discount rates.

Recoverable reserves and resources are based on the proven and probable reserves and resources in existence at the end of the year. Estimated production volumes are based on detailed life of mine plans and take into account development plans for the mines approved by management as part of the long-term planning process.

The key assumptions used as at 31 December 2015 by the Group were as follows:

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 and silver prices were US$1,100 per ounce (2014: US$1,200) and US$14 per ounce (2014: US$17), respectively.

Discount rate
The Group used a post-tax real discount rate of 9.0% (2014: 9.0%).

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 has analysed US$/RUB rate movements for the year ended 31 December 2015. For the purposes of the impairment test, the US$/RUB exchange rate is estimated at 72 RUB/US$ (2014: 50 RUB/US$).

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:

- 10% simultaneous decrease in gold and silver prices over the life of mine;
- 10% decrease in Rouble exchange rates;
- 10% 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.

20. Investments in associates and joint ventures

	31 December 2015		31 December 2014	
	Voting power %	Carrying value 000'$	Voting power %	Carrying value 000'$
Polygon Gold Inc.	42.65	–	42.65	2,107
Aktogai Mys LLC	25	–	N/A	–
Proeks LLC	24.9	1,709	N/A	–
Total		**1,709**		**2,107**

Polygon Gold Inc.
Polygon Gold Inc. is a private shell company which holds a 100% interest in Veduga gold deposit in the Krasnoyarsk region of the Russian Federation. The Group owns 42.65% of Polygon Gold Inc. and holds significant influence in the entity.

During the year ended 31 December 2015 the Group's share of losses of Polygon Gold Inc. exceeded its interest in the associate due to foreign currency exchange losses recognised by Polygon Gold Inc., therefore the carrying amount of the investment was written down to nil. The Group's total accumulated unrecognised share of loss amounts to US$3.1 million as of 31 December 2015.

Aktogai Mys LLC
In June 2015 the Group signed the agreement to purchase 25% stake in the Aktogai Mys LLC, company owning the Dolinnoye exploration licence in Kazakhstan (including related shareholder loans). Polymetal has also entered into an 'earn-in' agreement for financing of exploration and technical research and may increase its share in the project up to 50% after the completion of these tasks. The consideration comprises US$2.4 million payable for shares and US$2.7 million payable for shareholders loan and related interest, which were paid in June 2015. The arrangements constitute a joint venture and the investment is accounted for using the equity method.

During the year ended 31 December 2015 the Group's share of losses of Aktogai Mys LLC exceeded its interest in the joint venture due to foreign currency exchange losses recognised by Aktogai Mys LLC, therefore the carrying amount of the investment was written down to nil. The Group's total accumulated unrecognised share of loss amounts to US$0.7 million as of 31 December 2015.

20. Investments in associates and joint ventures continued

Proeks LLC

In November 2015 the Group acquired a 24.9% share in a diamond exploration project located in the north-west of the Russian Federation for the cash consideration of US$2 million. The Group determined that it has significant influence in the entity and the investment is accounted for using the equity method.

The Group doesn't have any interest in equity method investments that are individually material. The following tables summarise the aggregate financial position and the Group's share of net losses of the investments in associates and joint ventures:

	31 December 2015 000'$	31 December 2014 000'$
Non-current assets	54,224	73,025
Current assets	17,925	10,652
Non-current liabilities	(79,144)	(77,468)
Current liabilities	(2,752)	(1,269)
Equity	9,747	(4,940)
Revenue	17,172	20,284
Net (loss)/income	(23,996)	(16,739)
Group's share in investment net (loss)/income	(7,963)	(7,139)
Share of loss recognised for the year	(4,099)	(7,139)
Unrecognised share of losses for the year	(3,864)	–

21. Non-current loans and accounts receivable

	Interest rate	31 December 2015 000'$	31 December 2014 000'$
Long-term accounts receivable	–	642	2,865
Loans extended to third parties	8.00%	2,918	6,807
Loans extended to equity method investments	3.5%-6%	5,956	618
Loans to employees and other long-term assets	6.00%	3,153	2,600
Total		**12,669**	**12,890**

22. Inventories

	31 December 2015 000'$	31 December 2014 000'$
Inventories expected to be recovered after twelve months		
Consumables and spare parts	26,013	34,706
Ore stock piles	68,832	79,521
Work in-process	4,512	–
Total non-current inventories	**99,357**	**114,227**
Inventories expected to be recovered in the next twelve months		
Ore stock piles	97,124	127,245
Copper, gold and silver concentrate	74,006	98,987
Work in-process	29,560	50,762
Metal for refinery	13,597	10,357
Doré	7,392	11,738
Total metal inventories	**221,679**	**299,089**
Consumables and spare parts	131,121	169,642
Total	**352,800**	**468,731**

Write-downs of metal inventories to net realisable value

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

	Year ended 31 December 2015					Year ended 31 December 2014
	Okhotsk 000'$	Omolon 000'$	Varvara 000'$	Mayskoye 000'$	Total operating segments 000'$	Total operating segments 000'$
Ore stock piles	883	202	(8,288)	(360)	(7,563)	28,857
Ore in heap leach piles	–	(5,703)	–	–	(5,703)	3,326
Work in-process	–	–	216	(83)	133	260
Metal for refinery	–	–	157	–	157	1,418
Copper, gold and silver concentrate	–	–	–	–	–	5,313
Total	**883**	**(5,501)**	**(7,915)**	**(443)**	**(12,976)**	**39,174**

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 and Kazakh Tenge devaluation, changes in mine plans and favourable changes in contract terms with off-takers, which have improved the economic viability of the stockpiles.

The key assumptions used as at 31 December 2015 in determining net realisable value of inventories (including the commodity price assumptions) were consistent with those used in the goodwill impairment review (Note 19).

During the year ended 31 December 2015 the Group provided for obsolete consumables and spare parts inventory in the amount of US$5.3 million (year ended 31 December 2014: write-down of US$4.1 million).

The amount of inventories held at net realisable value at 31 December 2015 is US$25.6 million (31 December 2014: US$32.4 million).

23. Trade and other receivables

	Year ended 31 December 2015 000'$	31 December 2014 (restated) 000'$
Receivables from provisional copper, gold and silver concentrate sales	12,219	36,613
Non-trade receivables	12,558	19,264
Accounts receivable from related parties	928	465
Short-term loans provided to employees	1,054	802
Short-term loans provided to third parties	14,606	–
Total trade and other receivables	41,365	57,144
Less: Allowance for doubtful debts	(1,960)	(1,659)
Total	**39,405**	**55,485**

The average credit period on sales of copper, gold and silver concentrate at 31 December 2015 was 21 days (2014: 24 days). No interest is charged on trade receivables. The Group's allowance for doubtful debt relates to its non-trade receivables. There are no trade receivables either past due or impaired as at 31 December 2015 (31 December 2014: US$ nil).

Short-term loans advanced to third parties are represented by a loan of US$7 million advanced to a third party processor for re-equipment for future Kyzyl ore processing and several other loans, advanced to third parties on market conditions.

24. Cash and cash equivalents

		31 December 2015 000'$	31 December 2014 000'$
Bank deposits	– foreign currencies	21,182	133,767
Current bank accounts	– RUB	2,794	12,137
	– foreign currencies	27,800	11,299
Other cash and cash equivalents		22	21
Total		**51,798**	**157,224**

Bank deposits as at 31 December 2015 bear an interest rate of 0.3%-5.56% per annum for US Dollar denominated deposits (2014: 2.75%-3.2% per annum) with an average maturity at inception of 23 days (2014: 50 days) with US$9.2 million deposits being demand deposit.

25. Borrowings

Borrowings at amortised cost:

	Actual interest rate at 31 December			31 December 2015			31 December 2014		
	Type of rate	2015	2014	Current 000'$	Non-current 000'$	Total 000'$	Current 000'$	Non-current 000'$	Total 000'$
Secured loans from third parties									
US Dollar denominated	floating	4.00%	2.84%	263,141	583,512	846,653	166,026	371,474	537,500
Total				**263,141**	**583,512**	**846,653**	**166,026**	**371,474**	**537,500**
Unsecured loans from third parties									
US Dollar denominated	floating	3.34%	3.03%	23,720	406,242	429,962	23,692	429,615	453,307
US Dollar denominated	fixed	7.50%	6.60%	–	72,931	72,931	319,093	12,735	331,828
Total				**23,720**	**479,173**	**502,893**	**342,785**	**442,350**	**785,135**
				286,861	**1,062,685**	**1,349,546**	**508,811**	**813,824**	**1,322,635**

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 US Dollars. Where security is provided it is in the form of pledge of revenue from certain sales agreements.

During the year ended 31 December 2015, the Group drew down a total of US$722.7 million and repaid US$696.1 million, a net drawdown of US$26.6 million.

The Group secured new facilities in the year for a total amount of US$515 million with unrelated parties. US$500 million of these credit facilities are drawn down as at 31 December 2015 and have maturity dates between 2017 and 2019.

At 31 December 2015, the Group had undrawn borrowing facilities of US$1,196 million (31 December 2014: US$1,038 million). The Group complied with its debt covenants throughout 2015 and 2014. The table below summarises maturities of borrowings:

	31 December 2015 000'$	31 December 2014 000'$
31 December 2015	–	508,811
31 December 2016	286,861	306,278
31 December 2017	157,159	94,812
31 December 2018	669,229	404,245
31 December 2019	220,089	5,660
31 December 2020	16,208	2,829
Total	**1,349,546**	**1,322,635**

26. Environmental obligations

Environmental obligations include decommissioning and land restoration costs and are recognised on the basis of existing project business plans as follows:

	31 December 2015 000'$	31 December 2014 (restated) 000'$
Opening balance	**45,703**	**65,364**
Changes in estimates for the year:		
Change in estimate of environmental obligations	(4,266)	(723)
Decommissioning liabilities recognised as increase in PPE	4,307	(7,497)
Rehabilitation liabilities	(1,928)	3,413
Effect of unwinding of discount	4,512	4,282
Acquired in business combinations	–	7,757
Amounts paid in the year	(940)	(1,202)
Disposal of subsidiary (Note 4)	(1,262)	–
Translation effect	(12,875)	(25,691)
Closing balance	**33,251**	**45,703**

Rehabilitation expenses relate to the increase of the environmental obligation which arises on production phase of mining activities. During the year ended 31 December 2015 rehabilitation expenses amounting to US$0.2 million (2014: US$0.7 million) were removed from cost of production and capitalised through the application of IFRIC 20.

The principal assumptions used for the estimation of environmental obligations were as follows:

	2015	2014
Discount rates	7.1%-12.5%	8.12%-14.56%
Inflation rates	4.0%-8.7%	4.10%-11.8%
Expected mine closure dates	1-26 years	1-16 years

The Group does not hold any assets that are legally restricted for the purposes of settling environmental obligations.

27. Trade payables and accrued liabilities

	31 December 2015 000'$	31 December 2014 000'$
Trade payables	36,583	38,694
Dividends payable (Note 17)	–	84,164
Accrued liabilities	25,622	26,555
Labour liabilities	7,679	8,281
Other payables	7,226	3,041
Total	**77,110**	**160,735**

In 2015, the average credit period for payables was 29 days (2014: 22 days). There was no interest charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payment schedules to ensure that all amounts payable are settled within the credit period.

28. Commitments and contingencies

Commitments

Capital commitments

The Group's budgeted capital expenditure commitments as at 31 December 2015 amounted to US$18.4 million (2014: US$13.6 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 2015 the Group recognised US$6.1 million as operating lease expenses (2014: US$12.5 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:

	31 December 2015 000'$	31 December 2014 000'$
Due within one year	1,263	1,760
From one to five years	1,943	2,395
Thereafter	767	1,125
Total	**3,973**	**5,280**

Contingencies

Operating environment

Emerging markets such as Russia and Kazakhstan 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, and 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 and Kazakhstan produce and export large volumes of oil and gas, their economies are particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to a substantial decrease in the Russian Rouble exchange rate. On 20 August 2015, the Government and the National Bank of Kazakhstan announced a transition to a new monetary policy based on a free floating Tenge exchange rate, and cancelled the currency corridor. In 2015 and in the first quarter of 2016 the Tenge depreciated significantly against major foreign currencies.

Starting from 2014, sanctions have been imposed in several packages by the US and the EU on certain Russian officials, businessmen and companies.

In the first quarter of 2015 two international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with a negative outlook.

The above mentioned events have led to reduced access for Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and the financial position of the Group is at this stage difficult to determine.

28. Commitments and contingencies continued

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 2015 and 2014 the Group has been involved in a number of litigations in Russia and in Kazakhstan. See Note 16 for details of these cases and their outcomes. In addition to the cases detailed within Note 16, management has identified a total exposure (covering taxes and related interest and penalties) of US$46.4 million in respect of contingent liabilities (2014: US$17.2 million).

29. Fair value accounting

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2015 and 31 December 2014, the Group held the following financial instruments:

	31 December 2015 000'$			
	Level 1	Level 2	Level 3	Total
Receivables from provisional copper, gold and silver concentrate sales	–	12,219	–	**12,219**
Contingent consideration liability	–	–	(26,158)	**(26,158)**
	–	**12,219**	**(26,158)**	**(13,939)**

	31 December 2014 000'$			
	Level 1	Level 2	Level 3	Total
Receivables from provisional copper, gold and silver concentrate sales	–	36,613	–	**36,613**
Share repurchase obligation	–	–	(275,838)	**(275,838)**
Contingent consideration liability	–	–	(19,289)	**(19,289)**
	–	**36,613**	**(295,127)**	**(258,514)**

During the reporting periods, there were no transfers between Level 1 and Level 2.

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables and short-term debt recorded at amortised cost approximate to their fair values because of the short maturities of these instruments. The estimated fair value of the Group's long-term debt, calculated using the market interest rate available to the Group as at 31 December 2015, is US$1,234.3 million, and the carrying value as at 31 December 2015 is US$1,350 million (see Note 25). Carrying values of the other long-term loans provided to related parties as at 31 December 2015 and 31 December 2014 approximated to their fair values.

Receivables from provisional copper, gold and silver concentrate sales

The fair value of receivables arising from copper, gold and silver concentrate sales contracts that contain provisional pricing mechanisms is determined using the appropriate quoted forward price from the exchange that is the principal active market for the particular metal. As such, these receivables are classified within Level 2 of the fair value hierarchy.

Contingent consideration liabilities

In 2008, the Group recorded a contingent consideration liability related to the acquisition of 98.1% of the shares in JSC Omolon Gold Mining Company (Omolon). The fair value of the contingent consideration liability was determined using a valuation model which simulates expected production of gold and silver at the Kubaka mine and future gold and silver prices to estimate future revenues at Omolon. This liability is revalued at each reporting date based on 2% of the life of mine revenues with the resulting gain or loss recognised in the consolidated income statement. The liability recognised at 31 December 2015 was US$13.3 million, including a current portion of US$2.5 million (2014: US$12.9 million).

During the year ended 31 December 2014 the Group completed the acquisition of Altynalmas Gold Ltd, the holding company for the Kyzyl gold project in Kazakhstan (Note 4). The fair value of the related contingent consideration liability was estimated using a Monte Carlo model. The liability was revalued at the 31 December 2015 using the same model with updated inputs as of the reporting date and amounts to US$0.2 million (2014: US$6.3 million).

During the year ended 31 December 2015 the Group the recorded a contingent consideration liability related to the acquisition of a 100% interest in Primorskoye (Note 4). Deferred conditional cash consideration, which will be determined as the highest of US$13,333 per tonne of contained silver equivalent (translating into US$0.415 per silver equivalent ounce) based on the audited reserves estimate of the deposit, and US$8 million, was valued at US$6.9 million.

During the year ended 31 December 2015 the Group completed the acquisition of LV Gold Mining, the company owning the Lichkvaz exploration licence in Armenia (Note 4). The fair value of the related contingent consideration liability was estimated at US$5.4 million using a valuation model which simulates expected production of metals and future gold, silver and copper prices to estimate future value of the metals in the actually extracted ore.

The table below sets forth a summary of changes in the fair value of the Group's Level 3 financial liabilities for the year ended 31 December 2015:

	31 December 2015					31 December 2014
	Omolon 000'$	Kyzyl 000'$	Primorskoye 000'$	Lichkvaz 000'$	Total 000'$	000'$
Opening balance	12,933	6,356	–	–	19,289	16,100
Additions (Note 4)	–	–	6,939	5,422	12,361	27,699
Change in fair value, included in profit or loss	1,632	(6,172)	294	–	(4,246)	(22,788)
Settlement	(1,246)	–	–	–	(1,246)	(1,722)
Total contingent consideration	**13,319**	**184**	**7,233**	**5,422**	**26,158**	**19,289**
Less current portion of contingent consideration liability	(2,455)	–	–	–	(2,455)	(1,783)
	10,864	**184**	**7,233**	**5,422**	**23,703**	**17,506**

The Directors consider that a reasonably possible change in a valuation assumption would not have a material impact on the financial statements for contingent considerations payable.

Commodity forward contracts

The Group enters into forward contracts for the physical delivery of metals which will be priced according to the prevailing London Bullion Market Association or London Metal Exchange index. The Group's policy is not to enter into fixed priced contracts. The forward sales contracts qualify for the normal purchase/sales or 'own use' exemption for accounting purposes and are outside the scope of IAS 39 *Financial Instruments: Recognition and Measurement*.

30. Risk management activities

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains from prior years.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 25 offset by cash and bank balances as detailed in Note 24) and equity of the Group comprising the Stated Capital account, reserves and retained earnings as detailed in Note 31.

The Group's committed borrowings are subject to certain financial covenants. Compliance with covenants is reviewed on a semi-annual basis and the Group's Board is satisfied with forecast compliance with covenants on those borrowings.

The Group's Board reviews the capital structure of the Group on a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, derivatives, finance lease liabilities, trade and other payables. The Group has various financial assets such as accounts receivable, loans advanced and cash and cash equivalents.

	31 December 2015 000'$	31 December 2014 000'$
Financial assets		
Financial assets at FVTPL		
Receivables from provisional copper, gold and silver concentrate sales	12,219	36,613
Loans and receivables, including cash and cash equivalents		
Cash and cash equivalents	51,798	157,224
Trade and other receivables	27,186	18,872
Non-current loans and receivables	12,669	12,890
Total financial assets	**103,872**	**224,813**
Financial liabilities		
Financial liabilities at FVTPL		
Contingent consideration liability	26,158	19,289
Financial liabilities at amortised cost		
Borrowings	1,349,546	1,322,635
Share repurchase obligation	–	275,838
Dividends payable	–	84,164
Trade and other payables	43,809	41,735
Total financial liabilities	**1,419,513**	**1,743,661**

Trade and other payables exclude employee benefits and social security.

The main risks arising from the Group's financial instruments are foreign currency and commodity price risk, and interest rate, credit and liquidity risks.

At the end of the reporting period, there are no significant concentrations of credit risk for receivables designated at FVTPL. The carrying amount reflected above represents the Group's maximum exposure to credit risk for such receivables.

Derivative financial instruments

Presented below is a summary of the Group's derivative contracts recorded on the consolidated balance sheet at fair value.

	Consolidated balance sheet location	**31 December 2015 000'$**	31 December 2014 000'$
Receivable from provisional copper, gold and silver concentrate sales	Accounts receivable	**12,219**	36,613

	Location of gain/(loss) recorded in profit or loss	**31 December 2015 000'$**	31 December 2014 000'$
Receivable from provisional copper, gold and silver concentrate sales	Revenue	**(6,348)**	2,088

Foreign currency and commodity price risk

In the normal course of business the Group enters into transactions for the sale of its commodities, denominated in US Dollars. In addition, the Group has assets and liabilities in a number of different currencies (primarily Russian Rouble and Kazakh Tenge). As a result, the Group is subject to transaction and translation exposure from fluctuations in foreign currency exchange rates.

The Group does not currently use derivative instruments to hedge its exposure to foreign currency risk.

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than functional currencies of the individual Group entities at 31 December 2015 and 31 December 2014 were as follows:

	Assets		Liabilities	
	31 December 2015 000'$	31 December 2014 000'$	**31 December 2015 000'$**	31 December 2014 000'$
US Dollar	55,172	181,012	596,789	1,714,775
Euro	134	9	1,653	2,286
GBP	242	240	105	2,456
Total	**55,548**	**181,261**	**598,547**	**1,719,517**

US Dollar denominated assets and liabilities disclosed above exclude balances outstanding held in Polymetal International plc and its intermediate holding companies, where functional currency was changed from Russian Rouble to US Dollar as described in Note 2.

Currency risk is monitored on a monthly basis by performing a sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level.

The table below details the Group's sensitivity to changes in exchange rates by 10% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items denominated in respective currencies at the reporting dates.

	31 December 2015 000'$	31 December 2014 000'$
Profit or loss (RUB to US Dollar)	(48,971)	(224,458)
Profit or loss (RUB to Euro)	(215)	(404)
Profit or loss (RUB to GBP)	(35)	(509)
Profit or loss (KZT to US Dollar)	(4,490)	577

Provisionally priced sales

Under a long-established practice prevalent in the industry, copper, gold and silver concentrate sales are provisionally priced at the time of shipment. The provisional prices are finalised in a contractually specified future period (generally one to three months) primarily based on quoted LBMA or LME prices. Sales subject to final pricing are generally settled in a subsequent month. The forward price is a major determinant of recorded revenue.

30. Risk management activities continued

Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group does not currently hedge its exposure to interest rate risk.

The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk section of this Note.

For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole period. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2015 would have decreased/increased by US$10.9 million (2014: US$11.6 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has increased during the current period mainly due to the increase in variable rate debt instruments.

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. The Group's financial instruments that are potentially exposed to concentration of credit risk consist primarily of cash and cash equivalents and loans and receivables.

Accounts receivable are regularly monitored and assessed and where necessary an adequate level of provision is maintained. Trade accounts receivable at 31 December 2015 and 31 December 2014 are represented by provisional copper, gold and silver concentrate sales transactions. A significant portion of the Group's trade accounts receivable is due from reputable export trading companies. With regard to other loans and receivables the procedures of accepting a new customer include checks by a security department and responsible on-site management for business reputation, licences and certification, creditworthiness and liquidity. Generally, the Group does not require any collateral to be pledged in connection with its investments in the above financial instruments. Credit limits for the Group as a whole are not set up.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The major financial assets at the balance sheet date other than trade accounts receivable presented in Note 24 are cash and cash equivalents at 31 December 2015 of US$51.8 million (2014: US$157.2 million).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities as they fall due.

The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting, cash forecasting processes and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

The following tables detail the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2015:

					31 December 2015 000'$	31 December 2014 000'$
	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total	Total
Borrowings	88,011	257,551	1,298,715	–	**1,644,277**	1,407,042
Share repurchase obligation (Note 4)	–	–	–	–	**–**	300,000
Dividend payable (Note 17)	–	–	–	–	**–**	84,164
Accounts payable and accrued expenses	43,027	782	–	–	**43,809**	41,735
Contingent consideration (Note 29)	259	2,196	23,661	11,069	**37,185**	23,581
Total	**131,297**	**260,529**	**1,322,376**	**11,069**	**1,725,271**	**1,856,522**

31. Stated capital account and retained earnings

As at 31 December 2015, the Company's issued share capital consisted of 424,650,138 ordinary shares (2014: 420,819,943 ordinary shares) of no par value, each carrying one vote. The Company does not hold any shares in treasury (2014: none). The ordinary shares reflect 100% of the total issued share capital of the Company.

The movements in the Stated Capital account in the year were as follows:

	Stated capital account, no. of shares	Stated capital account, 000'$
Balance at 1 January 2014	**389,472,865**	**1,664,170**
Issue of shares to acquire Kyzyl (Note 4)	31,347,078	274,914
Balance at 31 December 2014	**420,819,943**	**1,939,084**
Issue of shares to acquire non-controlling interest in Tarutin	1,746,692	12,978
Issue of shares in accordance with Deferred Share Awards plan (Note 32)	36,089	205
Issue of shares for LV Gold Mining CJSC (Note 4)	1,514,113	12,762
Issue of shares for Primorkoye (Note 4)	533,301	4,096
Balance at 31 December 2015	**424,650,138**	**1,969,125**

On 18 March 2015 the Group 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$12.9 million, payable through 1,746,692 newly issued Polymetal International plc shares. The Group has previously determined that LLC Vostochny Basis meets the definition of the subsidiary and it was consolidated from the date of the 25% share acquisition. The increase in interest in Tarutin was recognised as an acquisition of the non-controlling interest and recognised within equity. As of 31 December 2014 and during the year ended 31 December 2015, Tarutin does not give rise to a significant non-controlling interest to be presented within equity, income statement and statement of comprehensive income.

Retained earnings

Reserves available for distribution to shareholders are based on the available cash in the Company under Jersey law. The ability to distribute cash up to the Company from the Russian Federation and Kazakh operating companies will be based on the statutory historical information of each stand-alone entity, which is prepared in accordance with Russian or Kazakh accounting standards and which differs slightly from IFRS. Russian legislation identifies the basis of distribution as accumulated profit. However, current legislation and other statutory regulations dealing with distribution rights are open to legal interpretation; consequently, actual distributable reserves may differ from the amount of accumulated profit under Russian statutory accounting rules.

The distribution of cash up to the Company from the Russian Federation and Kazakh operating companies doesn't affect the the Company's ability to distribute dividends in accordance with its current dividend policy.

31. Stated capital account and retained earnings continued

Weighted average number of shares: Diluted loss/earnings per share

Both basic and diluted loss/earnings per share were calculated by dividing loss/profit for the year attributable to equity holders of the parent by the weighted average number of outstanding common shares before/after dilution respectively. The calculation of the weighted average number of outstanding common shares after dilution is as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Weighted average number of outstanding common shares	422,958,680	399,606,989
Dilutive effect of share appreciation plan	290,522	83,149
Weighted average number of outstanding common shares after dilution	**423,249,202**	**399,690,138**

The outstanding LTIP awards at 31 December 2015 and 2014 represent anti-dilutive potential ordinary shares with respect to earnings per share for continuing operations. Therefore, basic and diluted earnings per share are the same for the current and prior year.

32. Share-based payments

For the year ended 31 December 2015, share-based compensation in the amount of US$3.3 million including US$0.8 million of management bonus deferral award (2014: US$2.4 million and US$0.3 million, respectively) was recognised in general, administrative and selling expenses in the consolidated income statement (Note 11).

As at 31 December 2015 the Group has two portions amounting to US$3.8 million and US$6.2 million of unrecognised share-based compensation expense related to non-vested equity-settled stock appreciated rights with expected amortisation period of 2.2 and 3.2 years, respectively.

The previous LTIP scheme, which was granted in 2010, had fully vested by 30 June 2013. These options lapsed in H1 2014 and accordingly, the related balance of US$143.5 million in the share based payment reserve was transferred into retained earnings.

During the year ended 31 December 2015 36,089 shares under the management bonus plan deferral award were released and issued in accordance with the plan.

33. 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.

As of 31 December 2015 outstanding balances owed to or from related parties comprised long-term loans provided to equity method investments amounting to US$6.0 million (2014: US$0.6 million) and interest receivable in respect of these loans amounting US$0.6 million. No significant transactions with related parties took place during the year ended 31 December 2015 (2014: other income from equity method investments amounted to US$3.0 million).

Carrying values of other long-term loans provided to related parties as at 31 December 2015 and 31 December 2014 approximate their fair values.

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 2015 000'$	31 December 2014 000'$
Share-based payments	759	472
Short-term benefits of board members	1,722	2,124
Short-term employee benefits	1,655	2,444
Post-employment benefits	223	280

34. Notes to the consolidated statement of cash flows

		Year ended	
	Notes	31 December 2015 000'$	31 December 2014 000'$
Profit before tax		275,825	(137,875)
Adjustments for:			
Depreciation and depletion, recognised in income statement		155,835	260,481
Additional mining taxes, penalties and accrued interest	12	(3,712)	19,509
Write-down of exploration assets and construction in progress		8,703	38,082
Write-down non-metal inventory to net realisable value	22	5,253	4,069
Write-down/(reversal) of metal inventory to net realisable value	22	12,976	(39,174)
Change in estimate of environmental obligations		(4,266)	(723)
Share-based compensation	11,32	3,809	2,387
Finance costs	15	80,704	40,626
Finance income		(4,889)	(3,216)
Loss on disposal and write-down of assets	12	1,246	4,473
Change in contingent consideration liability	29	(4,246)	(22,788)
Change in allowance for doubtful debts	12	6,614	(213)
Rehabilitation expenses		(1,820)	2,101
Loss from equity method investments	20	4,099	7,139
Foreign exchange loss		132,870	559,266
Gain on disposal of subsidiary		(1,205)	–
Other non-cash expenses		5,272	3,600
Movements in working capital			
Increase in inventories before impairment		(26,084)	(58,228)
Increase in VAT receivable		(22,784)	(5,593)
Decrease/(increase) in trade and other receivables		19,251	(19,779)
Increase in prepayments to suppliers		(12,859)	(13,122)
Increase/(decrease) in trade and other payables		21,591	(2,838)
Decrease in other taxes payable		6,847	525
Cash generated from operations		**659,030**	**638,709**
Interest paid		(51,535)	(37,880)
Interest received		2,670	3,317
Income tax paid		(120,121)	(85,990)
Net cash generated by operating activities		**490,044**	**518,156**

The cash flow statement is initially prepared in the Group entities' functional currencies, being the Russian Rouble, Kazakh Tenge and US Dollars. Movements in working capital derived in Russian Rouble and Kazakh Tenge are translated into US 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 2015 represent the issuance of shares amounting to US$16.9 million in respect of the acquisition of a stake in a joint venture and the acquisition of assets (2014: the issuance of shares amounting to US$275 million in respect of the business combination).

Cash flows related to exploration amounted to US$41.3 million for the year ended 31 December 2015 (2014: US$67.4 million).

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35. Subsequent events

In December 2015, Polymetal International plc entered into a joint venture with OJSC Polyus Gold under which Polymetal will participate in advancing the development of the Nezhdaninskoye gold deposit in Yakutia, Russia ('Nezhdaninskoye'). The arrangement will allow Polymetal to acquire up to 50% in the company holding 100% of JSC South-Verkhoyansk Mining Company ('SVMC') through an earn-in mechanism. SVMC, which was previously a 100% subsidiary of Polyus Gold, holds the mining and exploration license for Nezhdaninskoye as well as certain infrastructure adjacent to the deposit.

On 19 January 2016, Polymetal acquired a 15.3% interest in SVMC, for a cash consideration of US$18 million.

In March 2016 Polymetal International plc entered into binding agreements with Dundee Precious Metals Inc. for the acquisition of CJSC Dundee Precious Metals Kapan ('DPMK'), the holding company for the Kapan Gold Mine ('Kapan') in the Republic of Armenia. The total consideration payable for the shares in DPMK at completion is US$25 million, subject to certain working capital adjustments. The consideration will consist of US$10 million payable in cash, which will be satisfied from existing cash balances, and US$15 million payable in Polymetal shares. In addition, Dundee will receive a 2% NSR (Net Smelter Return) royalty on the future production from the Kapan Gold Mine capped at US$25 million. Completion of the Transaction is conditional on certain regulatory approvals, including anti-monopoly approval in the Republic of Armenia.

Dukat

	Dukat			Goltsovoye			Lunnoye + Arylakh			Total		
Mining	2015	2014	Change, %	2015	2014	Change, %	2015	2014	Change, %	2015	2014	Change, %
Stripping, Kt	–	–	NA	–	–	NA	–	233	-100%	–	233	-100%
Underground development, m	34,573	31,204	11%	7,391	6,742	10%	5,624	4,876	15%	47,588	42,822	11%
Ore mined, Kt	1,656	1,468	13%	201	191	5%	401	384	4%	2,257	2,043	10%
Metal in ore mined (grades), g/t												
gold	0.7	0.8	-5%	–	–	NA	1.6	1.5	6%	0.8	0.8	-2%
silver	443	392	13%	486	624	-22%	417	421	-1%	442	419	6%

	Omsukchan concentrator			Lunnoye processing plant			Total		
Production	2015	2014	Change, %	2015	2014	Change, %	2015	2014	Change, %
Ore processed, Kt	1,817	1,711	6%	416	400	4%	2,233	2,111	6%
Metal in ore processed (grades), g/t									
gold	0.7	0.7	1%	1.5	1.3	15%	0.8	0.8	5%
silver	452	406	11%	422	383	10%	446	402	11%
Recoveries									
gold	85.3%	85.4%	0%	90.5%	85.6%	6%			
silver	85.7%	86.5%	-1%	89.3%	91.8%	-3%			
Production									
gold, Koz	33	32	4%	18	14	30%	51	45	12%
silver, Moz	22.3	19.5	15%	5.0	4.4	15%	27.4	23.9	15%
Gold equivalent, Koz	312	275	13%	81	68	18%	393	344	14%
Total cash cost, US$/SE oz							6.4	8.7	-26%
Adjusted EBITDA, US$m							239	230	4%

Albazino

Mining	2015	2014	Change, %
Stripping, Kt	17,307	16,321	6%
Underground development, m	5,030	3,325	51%
Ore mined, Kt	1,583	1,566	1%
Gold grade in ore mined, g/t	5.2	4.9	6%

Production	2015	2014	Change, %
Ore processed, Kt	1,607	1,609	0%
Gold grade in ore processed, g/t	5.2	4.8	8%
Recoveries to concentrate	86.9%	87.6%	-1%
Concentrate produced, Kt	136.1	136	0%
Gold grade in concentrate produced, g/t	53.3	50.0	7%
Gold in concentrate, Koz	233	219	7%
Concentrate sold, Kt	–	–	0%
Saleable gold in concentrate sold to off-takers, Koz	–	–	0%
Amursk POX			
Concentrate processed, Kt	143	153	-6%
Gold grade in concentrate processed, g/t	52.3	50.1	4%
Recoveries	94.0%	93.8%	0%
Gold production at Amursk POX, Koz	220	227	-3%
Total gold equivalent production, Koz	220	227	-3%
Total cash cost, US$/GE oz	460	625	-26%
Adjusted EBITDA, US$m	153	133	15%

Mayskoye

Mining	2015	2014	Change, %
Underground development, m	13,828	10,536	31%
Ore mined, Kt	628	653	-4%
Gold grade in ore mined, g/t	6.4	8.4	-24%

Production	2015	2014	Change, %
Ore processed, Kt	683	807	-15%
Gold grade in ore processed, g/t	6.7	8.7	-23%
Recoveries to concentrate	85.9%	83.6%	3%
Concentrate produced, Kt	68	93	-27%
Gold grade in concentrate produced, g/t	57.9	63.1	-8%
Gold in concentrate, Koz	126	188	-33%
Concentrate sold, Kt	52	72	-28%
Saleable gold in concentrate sold to off-takers, Koz	98	130	-25%
Amursk POX			
Concentrate processed, Kt	22	10	125%
Gold grade in concentrate processed, g/t	57.9	55.3	5%
Recoveries	94.0%	92.2%	2%
Gold production at Amursk POX, Koz	40.2	12.4	224%
Total gold equivalent production, Koz	138	143	-3%
Total cash cost, US$/GE oz	752	966	-22%
Adjusted EBITDA, US$m	34	28	24%

Amursk POX

	Albazino			Mayskoye			Total		
Mining	2015	2014	Change, %	2015	2014	Change, %	2015	2014	Change, %
Concentrate processed, Kt	143	153	-6%	22	10	125%	165	163	2%
Gold grade in concentrate processed, g/t	52.3	50.1	4%	57.9	55.3	5%	53.1	50.4	5%
Recoveries	94.0%	93.8%	0%	94.0%	92%	2%	94.0%	93.7%	0%
Total gold equivalent production, Koz	220	227	-3%	40	12	224%	260	240	9%

Omolon

	Birkachan			Sopka			Tsokol			Dalneye			Oroch			Total		
Mining	2015	2014	Change, %	2015	2014	Change, %	2015	2014	Change, %	2015	2014	Change, %	2015	2014	Change, %	2015	2014	Change, %
Stripping, Kt	2,021	535	278%	1	3,670	-100%	396	3,774	-90%	1,042	2,385	-56%	4,213	–	NA	7,673	10,364	-26%
Underground development, m	1,254	929	35%	–	–	NA	1,533	–	NA	–	–	NA	–	–	NA	2,787	929	200%
Ore mined, Kt	779	698	12%	–	922	-100%	179	317	-43%	635	550	16%	400	–	NA	1,994	2,487	-20%
Metal in ore mined (grades), g/t																		
gold	1.7	2.6	-32%	–	4.6	-100%	3.9	4.3	-9%	2.9	3.5	-17%	3.1	–	NA	2.6	3.8	-31%
silver	–	–	NA	–	175	-100%	–	–	NA	57	74	-23%	132	–	NA	45	81	-45%

Production	2015	2014	Change, %
Ore processed, Kt	835	825	1%
Metal in ore processed (grades), g/t			
gold	5.6	6.7	-16%
silver	151	133	14%
Recoveries			
gold	95.0%	94.7%	0%
silver	86.8%	83.5%	4%
Production			
gold, Koz	144	170	-15%
silver, Moz	3.5	2.9	21%
Total gold equivalent (incl. Birkachan heap leach), Koz	144	176	-18%
Total cash cost, US$/GE oz	555	570	-2%
Adjusted EBITDA, US$m	111	142	-22%

Voro

Mining	2015	2014	Change, %
Stripping, Kt	10,202	11,030	-8%
Ore mined, Kt	1,750	1,893	-8%
oxidised	386	958	-60%
primary	1,364	935	46%
Gold grade in ore mined, g/t	2.9	3.5	-15%
oxidised	1.7	1.8	-6%
primary	3.3	5.2	-37%

	Voro CIP			Voro heap leach			Total		
Production	2015	2014	Change, %	2015	2014	Change, %	2015	2014	Change, %
Ore processed, Kt	924	915	1%	450	747	-40%	1,374	1,662	-17%
Metal in ore processed (grades), g/t									
gold	4.2	5.6	-25%	1.8	1.4	24%	3.4	3.7	-9%
Recoveries									
gold	78.5%	82.5%	-5%	74.8%	74.2%	1%			
Production									
gold, Koz	112	130	-13%	27	28	-2%	139	158	-11%
silver, Moz	0.1	0.1	13%	0.02	0.03	-38%	0.1	0.1	0%
Gold equivalent, Koz	113	131	-13%	27	28	-3%	141	159	-11%
Total cash cost, US$/GE oz							336	376	-11%
Adjusted EBITDA, US$m							115	141	-18%

Varvara

Mining	2015	2014	Change, %
Stripping, Kt	28,583	30,552	-6%
Ore mined, Kt	4,068	3,985	2%
float ore	142	750	-81%
leach ore	3,926	3,235	21%
Metal in ore mined (grades)			
gold, g/t – float ore	0.9	1.4	-38%
gold, g/t – leach ore	0.7	1.2	-39%
copper, % (float ore)	0.3%	0.4%	-35%

	Varvara – flotation			Varvara – leaching			Total		
Production	2015	2014	Change, %	2015	2014	Change, %	2015	2014	Change, %
Ore processed, Kt	315	547	-42%	3,142	3,117	1%	3,457	3,664	-6%
Metal in ore processed (grades)									
gold, g/t	1.1	1.1	1%	0.8	1.1	-27%	0.8	1.1	-25%
copper, %	0.4%	0.4%	-9%	–	–	NA	0.03%	0.06%	-44%
Recoveries									
gold	45.2%	47.3%	-4%	75.6%	77.7%	-3%			
copper	71.8%	80.7%	-11%	–	–	NA			
Production									
gold, Koz	4.2	7.8	-46%	64	90	-29%	68	98	-30%
copper, t	827	1,631	-49%	–	–	NA	827	1,631	-49%
Gold equivalent, Koz	8	16	-48%	64	90	-29%	72	106	-32%
Total cash cost, US$/GE oz							818	705	16%
Adjusted EBITDA, US$m							25	45	-43%

Okhotsk

Mining	Khakanja 2015	Khakanja 2014	Khakanja Change, %	Ozerny 2015	Ozerny 2014	Ozerny Change, %	Avlayakan 2015	Avlayakan 2014	Avlayakan Change, %	Total 2015	Total 2014	Total Change, %
Stripping, Kt	**1,478**	4,671	-68%	**42**	4,288	-99%	**–**	–	NA	**1,520**	8,959	-83%
Underground development, m	**–**	–	NA	**–**	–	NA	**3,846**	3,805	1%	**3,846**	3,805	1%
Ore mined, Kt	**180**	271	-34%	**105**	764	-86%	**114**	42	171%	**399**	1,077	-63%
Metal in ore mined (grades), g/t												
gold	**2.3**	3.0	-24%	**4.9**	4.0	22%	**11.0**	13.8	-20%	**5.4**	4.1	32%
silver	**123**	142	-13%	**7**	28	-76%	**171**	105	63%	**106**	60	78%

Production	2015	2014	Change, %
Ore processed, Kt	**631.132**	622	1%
Metal in ore processed (grades), g/t			
gold	**5.2**	5.3	-2%
silver	**81**	117	-31%
Recoveries			
gold	**94.9%**	93.9%	1%
silver	**72.0%**	74.3%	-3%
Production			
gold, Koz	**100**	98	2%
silver, Moz	**1.2**	1.7	-32%
Gold equivalent, Koz	**114**	119	-4%
Total cash cost, US$/GE oz	**573**	704	-19%
Adjusted EBITDA, US$m	**49**	60	-19%

Reserves and resources

As at 1 January 2016

	Tonnage	Grade	Content			
Ore reserves	Kt	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	GE, Koz
Proved	54,450	3.4	4,847	92,407	4.2	6,003
Probable	100,260	4.6	12,804	114,766	81.2	14,770
Proved + Probable	**154,710**	**4.2**	**17,651**	**207,173**	**85.4**	**20,773**
Mineral resources						
Measured	6,980	2.6	453	–	19.6	585
Indicated	28,210	3.1	2,161	16,908	66.8	2,827
Measured + Indicated	**35,190**	**3.0**	**2,614**	**16,908**	**86.4**	**3,412**
Inferred	47,992	6.1	8,669	31,713	45.7	9,385
Measured + Indicated + Inferred	**83,182**	**4.8**	**11,283**	**48,621**	**132.0**	**12,797**

Notes
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.

	Tonnage	Grade				Content			
Ore reserves[1]	Kt	Au, g/t	Ag, g/t	Cu, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	GE, Koz
Proved									
Standalone mines									
Albazino[2]	6,070	5.3	–	–	5.3	1,027	–	–	1,027
Mayskoye	3,280	8.8	–	–	8.8	927	–	–	927
Dukat hub	**7,060**				**5.1**	**210**	**74,817**	**–**	**1,150**
Dukat[3]	5,220	0.6	323	–	4.5	102	54,206	–	763
Lunnoye	1,230	1.7	317	–	6.0	69	12,532	–	238
Goltsovoye	250	–	563	–	7.7	–	4,443	–	61
Arylakh	260	0.8	427	–	6.6	7	3,570	–	55
Olcha	100	10.4	22	–	10.7	32	67	–	32
Varvara hub	**5,130**				**0.9**	**124**	**–**	**4.2**	**152**
Varvara[5]	5,130	0.8	–	0.41	0.9	124	–	4.2	152
Omolon hub	**10,280**				**2.7**	**756**	**12,142**	**–**	**891**
Birkachan	5,110	1.8	6	–	1.8	293	907	–	302
Sopka Kvartsevaya[7]	2,330	1.1	54	–	1.7	86	4,060	–	125
Oroch	750	4.3	196	–	7.0	104	4,735	–	169
Dalneye[8]	1,430	2.6	43	–	3.0	119	1,947	–	137
Tsokol Kubaka	280	6.6	13	–	6.7	59	117	–	60
Burgali	380	7.9	31	–	8.2	95	375	–	98
Voro hub	**11,130**				**2.3**	**813**	**1,120**	**–**	**823**
Voro[9]	11,130	2.3	3	–	2.3	813	1,120	–	823
Okhotsk hub	**4,930**				**3.5**	**509**	**4,327**	**–**	**550**
Svetloye	3,360	3.2	4	–	3.2	349	463	–	350
Avlayakan	160	16.1	196	–	18.5	85	1,033	–	98
Ozerny	550	2.7	28	–	3.0	48	498	–	53
Khakanja[11]	860	1.0	84	–	1.7	27	2,334	–	49
Development and exploration projects									
Maminskoye[13]	4,810	1.9	–	–	1.9	295	–	–	295
Veduga[14]	180	3.2	–	–	3.2	18	–	–	18
Kutyn[15]	1,580	3.3	–	–	3.3	169	–	–	169
Total Proved	**54,450**				**3.4**	**4,847**	**92,407**	**4.2**	**6,003**

Notes
See page 169.

As at 1 January 2016

Ore reserves[1]	Tonnage Kt	Grade Au, g/t	Grade Ag, g/t	Grade Cu, %	Grade GE, g/t	Content Au, Koz	Content Ag, Koz	Content Cu, Kt	Content GE, Koz
Probable									
Standalone mines									
Albazino[2]	8,600	5.0	–	–	5.0	1,390	–	–	1,390
Mayskoye	2,590	8.0	–	–	8.0	662	–	–	662
Dukat hub	**8,930**				**6.0**	**306**	**111,266**	**–**	**1,729**
Dukat[3]	5,750	0.8	407	–	5.8	150	75,279	–	1,085
Lunnoye	2,000	1.2	338	–	5.8	80	21,783	–	375
Goltsovoye	380	–	469	–	6.4	–	5,773	–	79
Arylakh	270	0.8	399	–	6.2	7	3,461	–	53
Olcha	180	11.3	18	–	11.6	69	112	–	70
Perevalnoye[4]	350	–	428	–	5.9	–	4,860	–	67
Varvara hub	**31,110**				**1.4**	**937**	**180**	**62.3**	**1,354**
Varvara[5]	30,670	0.9	–	0.43	1.3	935	–	55.2	1,308
Tarutin[6]	440	0.1	13	1.62	3.3	1	180	7.2	47
Omolon hub	**1,840**				**8.6**	**490**	**1,552**	**–**	**507**
Birkachan	1,180	8.6	30	–	8.9	325	1,151	–	338
Sopka Kvartsevaya[7]	–	–	–	–	–	–	–	–	–
Oroch	10	5.0	244	–	8.4	2	79	–	3
Dalneye[8]	–	–	–	–	–	–	–	–	–
Tsokol Kubaka	490	8.8	11	–	9.0	139	178	–	141
Burgali	160	4.7	28	–	5.0	24	144	–	25
Voro hub	**370**				**14.6**	**73**	**1,065**	**18.9**	**174**
Voro[9]	50	2.0	7	–	2.1	3	9	–	3
North Kaluga[10]	320	6.7	101	5.81	16.4	70	1,056	18.9	171
Okhotsk hub	**2,210**				**4.0**	**278**	**703**	**–**	**285**
Svetloye	2,110	3.2	3	–	3.2	217	182	–	218
Avlayakan	100	18.9	162	–	20.9	61	521	–	67
Development and exploration projects									
Kyzyl project (Bakyrchik)[12]	29,150	7.7	–	–	7.7	7,254	–	–	7,254
Maminskoye[13]	9,890	1.9	–	–	1.9	618	–	–	618
Veduga[14]	3,500	5.1	–	–	5.1	579	–	–	579
Kutyn[15]	2,070	3.3	–	–	3.3	217	–	–	217
Total Probable	**100,260**				**4.6**	**12,804**	**114,766**	**81.2**	**14,770**

Notes
See page 169.

Ore reserves[1]	Tonnage Kt	Grade Au, g/t	Grade Ag, g/t	Grade Cu, %	Grade GE, g/t	Content Au, Koz	Content Ag, Koz	Content Cu, Kt	Content GE, Koz
Proved + Probable									
Standalone mines									
Albazino[2]	14,670	5.1	–	–	5.1	2,417	–	–	2,417
Mayskoye	5,870	8.4	–	–	8.4	1,589	–	–	1,589
Dukat hub	**15,990**				**5.6**	**515**	**186,084**	**–**	**2,879**
Dukat[3]	10,970	0.7	367	–	5.2	252	129,485	–	1,849
Lunnoye	3,230	1.4	330	–	5.9	149	34,315	–	613
Goltsovoye	630	–	506	–	6.9	–	10,216	–	140
Arylakh	530	0.8	413	–	6.4	14	7,031	–	109
Olcha	280	11.0	20	–	11.3	100	178	–	103
Perevalnoye[4]	350	–	428	–	5.9	–	4,860	–	67
Varvara hub	**36,240**				**1.3**	**1,061**	**180**	**66.5**	**1,507**
Varvara[5]	35,800	0.9	–	0.43	1.3	1,060	–	59.3	1,460
Tarutin[6]	440	0.1	13	1.62	3.3	1	180	7.2	47
Omolon hub	**12,120**				**3.6**	**1,245**	**13,694**	**–**	**1,398**
Birkachan	6,290	3.1	10	–	3.2	618	2,058	–	640
Sopka Kvartsevaya[7]	2,330	1.1	54	–	1.7	86	4,060	–	125
Oroch	760	4.3	197	–	7.0	106	4,815	–	172
Dalneye[8]	1,430	2.6	43	–	3.0	119	1,947	–	137
Tsokol Kubaka	770	8.0	12	–	8.2	198	296	–	201
Burgali	540	7.0	30	–	7.2	119	519	–	123
Voro hub	**11,500**				**2.7**	**886**	**2,186**	**18.9**	**997**
Voro[9]	11,180	2.3	3	–	2.3	815	1,130	–	826
North Kaluga[10]	320	6.7	101	5.81	16.4	70	1,056	18.9	171
Okhotsk hub	**7,140**				**3.6**	**787**	**5,030**	**–**	**835**
Svetloye	5,470	3.2	4	–	3.2	567	644	–	568
Avlayakan	260	17.2	183	–	19.4	146	1,554	–	165
Ozerny	550	2.7	28	–	3.0	48	498	–	53
Khakanja[11]	860	1.0	84	–	1.7	27	2,334	–	49
Development and exploration projects									
Kyzyl project (Bakyrchik)[12]	29,150	7.7	–	–	7.7	7,254	–	–	7,254
Maminskoye[13]	14,700	1.9	–	–	1.9	913	–	–	913
Veduga[14]	3,680	5.0	–	–	5.0	597	–	–	597
Kutyn[15]	3,650	3.3	–	–	3.3	386	–	–	386
Total Proved + Probable	**154,710**				**4.2**	**17,651**	**207,173**	**85.4**	**20,773**

1 Ore reserves are reported in accordance with the JORC Code (2012). Discrepancies in calculations are due to rounding.
2 Including Anfisa, Olga/Nadezhda, Ekaterina-1 and Ekaterina-2. Open-pit Ore reserves revised as at 01.01.2016. Underground Ore reserves estimate prepared by Polymetal as at 01.01.2015. Price: Au = US$1,200/oz. Revised estimate for underground was not performed due to lack of material changes.
3 Including Khrustalny zone, with initial estimate prepared by Polymetal as at 01.01.2016.
4 Initial estimate prepared by Polymetal as at 01.01.2016.
5 Cu grade only represents average grade of Float feed. Ore reserves of Float feed: 1.0 Mt Proved and 12.8 Mt Probable.
6 Initial estimate prepared by Polymetal as at 01.01.2016. Ore reserves are presented in accordance with the Company's ownership equal to 50%.
7 Stockpiled Ore reserves.
8 Stockpiled Ore reserves.
9 Including Voro South.
10 Initial estimate prepared by Polymetal as at 01.07.2014. Price: Au = US$1,300/oz, Ag = US$20/oz, Cu = US$7,000/t. Revised estimate was not performed due to lack of material changes.
11 Stockpiled Ore reserves.
12 Estimate prepared by RPA Inc. as at 01.01.2015. Price: Au = US$1,200/oz. Revised estimate was not performed due to lack of material changes.
13 Estimate prepared by Polymetal as at 01.01.2014. Price: Au = US$1,300/oz. Revised estimate was not performed due to lack of material changes.
14 Initial estimate prepared by Snowden as at 01.01.2014. Price: Au = US$1,300/oz. Revised estimate prepared by Polymetal as at 01.01.2016 (only stoping without Au price change). Ore reserves are presented in accordance with the Company's ownership equal to 42.65%.
15 Initial estimate prepared by Snowden as at 01.01.2015. Price: Au = US$1,300/oz (only Ore reserves estimate for Heap Leach). Revised estimate was not performed due to lack of material changes.

As at 1 January 2016

	Tonnage	Grade				Content			
Mineral resources[1]	Kt	Au, g/t	Ag, g/t	Cu, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	GE, Koz
Measured									
Standalone mines									
Albazino[2]	30	3.7	–	–	3.7	4	–	–	4
Mayskoye	660	8.9	–	–	8.9	188	–	–	188
Varvara hub	**4,570**				**1.7**	**120**	**–**	**19.6**	**252**
Varvara[6]	4,570	0.8	–	0.44	1.7	120	–	19.6	252
Development and exploration projects									
Maminskoye[14]	980	1.4	–	–	1.4	44	–	–	44
Kutyn[16]	740	4.1	–	–	4.1	97	–	–	97
Total Measured	**6,980**				**2.6**	**453**	**–**	**19.6**	**585**
Indicated									
Standalone mines									
Albazino[2]	570	5.4	–	–	5.4	97	–	–	97
Mayskoye	1,090	8.7	–	–	8.7	306	–	–	306
Dukat hub	**330**				**20.2**	**39**	**12,951**	**–**	**216**
Primorskoye[5]	330	3.6	1,208	–	20.2	39	12,951	–	216
Varvara hub	**19,080**				**1.8**	**626**	**60**	**66.8**	**1,075**
Varvara[6]	18,770	1.0	–	0.58	1.7	625	–	63.0	1,050
Tarutin[7]	310	0.1	6	1.25	2.5	1	60	3.8	25
Omolon hub	**310**				**12.1**	**84**	**3,242**	**–**	**121**
Irbychan[8]	240	8.9	189	–	11.3	68	1,439	–	86
Nevenrekan[10]	70	7.1	784	–	15.1	16	1,803	–	35
Voro hub	**870**				**4.8**	**130**	**655**	**–**	**133**
Tamunier[11]	870	4.6	23	–	4.8	130	655	–	133
Development and exploration projects									
Kyzyl project (Bakyrchik)[13]	2,740	6.2	–	–	6.2	545	–	–	545
Maminskoye[14]	1,150	1.5	–	–	1.5	55	–	–	55
Kutyn[16]	2,070	4.2	–	–	4.2	279	–	–	279
Total Indicated	**28,210**				**3.1**	**2,161**	**16,908**	**66.8**	**2,827**
Measured + Indicated									
Standalone mines									
Albazino[2]	600	5.3	–	–	5.3	102	–	–	102
Mayskoye	1,750	8.8	–	–	8.8	493	–	–	493
Dukat hub	**330**				**20.2**	**39**	**12,951**	**–**	**216**
Primorskoye[5]	330	3.6	1,208	–	20.2	39	12,951	–	216
Varvara hub	**23,650**				**1.7**	**746**	**60**	**86.4**	**1,327**
Varvara[6]	23,340	1.0	–	0.54	1.7	745	–	82.6	1,303
Tarutin[7]	310	0.1	6	1.25	2.5	1	60	3.8	25
Omolon hub	**310**				**12.1**	**84**	**3,242**		**121**
Irbychan[8]	240	8.9	189	–	11.3	68	1,439	–	86
Nevenrekan[10]	70	7.1	784	–	15.1	16	1,803	–	35
Voro hub	**870**				**4.8**	**130**	**655**	**–**	**133**
Tamunier[11]	870	4.6	23	–	4.8	130	655	–	133
Development and exploration projects									
Kyzyl project (Bakyrchik)[13]	2,740	6.2	–	–	6.2	545	–	–	545
Maminskoye[14]	2,130	1.4	–	–	1.4	99	–	–	99
Kutyn[16]	2,810	4.2	–	–	4.2	376	–	–	376
Total Measured + Indicated	**35,190**				**3.0**	**2,614**	**16,908**	**86.4**	**3,412**

Notes
See page 172.

	Tonnage	Grade				Content			
Mineral resources[1]	Kt	Au, g/t	Ag, g/t	Cu, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	GE, Koz
Inferred									
Standalone mines									
Albazino[2]	5,420	5.4	–	–	5.4	942	–	–	942
Mayskoye	10,990	10.1	–	–	10.1	3,569	–	–	3,569
Dukat hub	**980**				**13.7**	**99**	**24,347**	**–**	**430**
Dukat[3]	40	1.2	822	–	12.4	1	936	–	14
Lunnoye	240	2.2	651	–	11.0	17	4,994	–	84
Goltsovoye	250	–	872	–	12.0	–	7,098	–	97
Arylakh	150	0.9	502	–	7.7	4	2,423	–	37
Olcha	120	9.6	37	–	10.1	38	146	–	40
Perevalnoye[4]	20	–	564	–	7.7	–	379	–	5
Primorskoye[5]	160	7.2	1,597	–	29.1	38	8,370	–	152
Varvara hub	**11,840**				**1.9**	**428**	**84**	**45.7**	**735**
Varvara[6]	11,610	1.1	–	0.56	1.9	428	–	41.7	709
Tarutin[7]	230	0.1	11	1.71	3.5	1	84	3.9	26
Omolon hub	**610**				**13.4**	**192**	**6,134**	**–**	**264**
Oroch	130	7.5	608	–	15.9	31	2,517	–	66
Tsokol Kubaka	50	7.0	14	–	7.1	11	22	–	11
Burgali	50	11.9	15	–	12.0	21	26	–	21
Irbychan[8]	20	19.3	265	–	22.6	10	141	–	12
Yolochka[9]	240	11.1	10	–	11.2	85	73	–	86
Nevenrekan[10]	120	8.6	861	–	17.3	33	3,355	–	68
Voro hub	**3,880**				**3.9**	**488**	**1,041**	**–**	**493**
Tamunier[11]	3,880	3.9	8	–	3.9	488	1,041	–	493
Okhotsk hub	**162**				**7.7**	**39**	**108**	**–**	**40**
Avlayakan	20	17.8	137	–	19.5	9	69	–	10
Kirankan[12]	142	6.5	8	–	6.7	30	39	–	30
Development and exploration projects									
Kyzyl project (Bakyrchik)[13]	11,420	7.0	–	–	7.0	2,562	–	–	2,562
Veduga[15]	580	4.1	–	–	4.1	77	–	–	77
Kutyn[16]	2,110	4.0	–	–	4.0	273	–	–	273
Total Inferred	**47,992**				**6.1**	**8,669**	**31,713**	**45.7**	**9,385**

Notes
See page 172.

As at 1 January 2016

	Tonnage	Grade				Content			
Mineral resources[1]	Kt	Au, g/t	Ag, g/t	Cu, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	GE, Koz
Measured + Indicated + Inferred									
Standalone mines									
Albazino[2]	6,020	5.4	–	–	5.4	1,044	–	–	1,044
Mayskoye	12,740	9.9	–	–	9.9	4,062	–	–	4,062
Dukat hub	**1,310**				**15.3**	**137**	**37,297**		**646**
Dukat[3]	40	1.2	822	–	12.4	1	936	–	14
Lunnoye	240	2.2	651	–	11.0	17	4,994	–	84
Goltsovoye	250	–	872	–	12.0	–	7,098	–	97
Arylakh	150	0.9	502	–	7.7	4	2,423	–	37
Olcha	120	9.6	37	–	10.1	38	146	–	40
Perevalnoye[4]	20	–	564	–	7.7	–	379	–	5
Primorskoye[5]	490	4.8	1,336	–	23.1	76	21,320	–	368
Varvara hub	**35,490**				**1.8**	**1,174**	**144**	**132.0**	**2,062**
Varvara[6]	34,950	1.0	–	0.55	1.8	1,173	–	124.3	2,012
Tarutin[7]	540	0.1	8	1.45	2.9	2	144	7.7	50
Omolon hub	**920**				**13.0**	**276**	**9,376**	**–**	**384**
Oroch	130	7.5	608	–	15.9	31	2,517	–	66
Tsokol Kubaka	50	7.0	14	–	7.1	11	22	–	11
Burgali	50	11.9	15	–	12.0	21	26	–	21
Irbychan[8]	260	9.6	194	–	12.0	78	1,580	–	98
Yolochka[9]	240	11.1	10	–	11.2	85	73	–	86
Nevenrekan[10]	190	8.0	832	–	16.5	50	5,157	–	102
Voro hub	**4,750**				**4.1**	**618**	**1,696**	**–**	**626**
Tamunier[11]	4,750	4.0	11	–	4.1	618	1,696	–	626
Okhotsk hub	**162**				**7.7**	**39**	**108**		**40**
Avlayakan	20	17.8	137	–	19.5	9	69	–	10
Kirankan[12]	142	6.5	8	–	6.7	30	39	–	30
Development and exploration projects									
Kyzyl project (Bakyrchik)[13]	14,160	6.8	–	–	6.8	3,107	–	–	3,107
Maminskoye[14]	2,130	1.4	–	–	1.4	99	–	–	99
Veduga[15]	580	4.1	–	–	4.1	77	–	–	77
Kutyn[16]	4,920	4.1	–	–	4.1	649	–	–	649
Total Measured + Indicated + Inferred	**83,182**				**4.8**	**11,282**	**48,620**	**132.0**	**12,797**

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 Mineral resources estimate for Anfisa, Olga/Nadezhda, Ekaterina-1 and Ekaterina-2 zones revised as at 01.01.2016. Estimate for underground prepared by Polymetal as at 01.01.2015. COG (Au) = 3.0 g/t.
Revised estimate for underground was not performed due to lack of material changes. Farida zone was added, with initial Mineral resources estimate prepared by Polymetal as at 01.01.2016.
3 Including Khrustalny zone, with initial Mineral resource estimate prepared by Polymetal as at 01.01.2016.
4 Initial estimate prepared by Polymetal as at 01.01.2016.
5 Initial estimate prepared by Polymetal as at 01.01.2016.
6 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 7.1 Mt of ore respectively).
7 Estimate prepared by Polymetal as at 01.01.2016. Mineral resources are presented in accordance with the Company's ownership equal to 50%.
8 Initial estimate prepared by Polymetal as at 01.01.2016.
9 Initial estimate prepared by Polymetal as at 01.01.2016.
10 Initial estimate prepared by Polymetal as at 01.01.2016.
11 Initial estimate prepared by Snowden as at 01.01.2012. COG (Au) = 1.0 g/t. Revised estimate prepared by Polymetal as at 01.01.2016.
12 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.
13 Estimate prepared by RPA Inc. as at 01.01.2015. Price: Au = US$1,200/oz. Revised estimate was not performed due to lack of material changes.
14 Estimate prepared by Polymetal as at 01.01.2014. Price: Au = US$1,300/oz. Revised estimate was not performed due to lack of material changes.
15 Initial estimate prepared by Snowden as at 01.01.2014. COG (Au) = 2.0 g/t. Revised estimate prepared by Polymetal as at 01.01.2016. Mineral resources are presented in accordance with the Company's ownership equal to 42.65%.
16 Initial estimate for open pit prepared by Snowden, for underground by CSA Global Pty Ltd as at 01.01.2015. Price: Au = US$1,300/oz. Revised estimate was not performed due to lack of material changes.

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 15 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 15 years' relevant experience;
- Mining and Ore Reserves – Igor Epshteyn, Head of Mining Process Department, FIMMM, with 34 years' relevant experience;
- Concentration and Metals – Igor Agapov, Deputy Director of Science and Technology, MIMMM, with 18 years' relevant experience;
- Environmental Issues – Tatiana Kuleshova, Director for Ecology, MIMMM, with 25 years' relevant experience.

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

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

Metals prices used in estimating Mineral resources and Ore Reserves are listed below (unless otherwise indicated in the footnotes):
Au = US$1,100/oz;
Ag = US$15.0/oz; and
Cu = US$5,000/t.

Gold equivalent data is based on 'Conversion ratios of metals into gold equivalent' provided on the following page. Lead and zinc Ore reserves and Mineral resources have not been assessed in this report due to immateriality.

Reporting of Metal Equivalents

Silver/gold equivalent conversion ratio for precious metals deposits

AuEq = Ag/k

- where k is the silver to gold equivalent conversion rate based on the difference in respective metals' value using the following formula: k = ((Au 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	82
Khrustalny	Conventional flotation	73
Lunnoye	Cyanidation + Merrill-Crowe process	74
Goltsovoye	Conventional flotation	73
Arylakh	Cyanidation + Merrill-Crowe process	74
Olcha	Cyanidation + Merrill-Crowe process	74
Perevalnoye	Conventional flotation	73
Primorskoye	Conventional flotation	79
Birkachan	Cyanidation carbon-in-pulp	90
	Heap leaching + carbon-in-colon	104
Sopka Kvartsevaya	Cyanidation + Merrill-Crowe process	88
	Heap leaching + Merrill-Crowe process	108
Oroch	Cyanidation + Merrill-Crowe process	73
Dalneye	Cyanidation + Merrill-Crowe process	97
	Heap leaching + Merrill-Crowe process	126
Tsokol Kubaka	Cyanidation carbon-in-pulp	90
Burgali	Cyanidation + Merrill-Crowe process	115
Irbychan	Cyanidation + Merrill-Crowe process	80
Yolochka	Cyanidation carbon-in-pulp	91
Nevenrekan	Cyanidation + Merrill-Crowe process	98
Voro	Heap leaching + Merrill-Crowe process	219
	Cyanidation carbon-in-pulp	110
Tamunier	Conventional flotation	199
Svetloye	Heap leaching + Merrill-Crowe process	467
Avlayakan	Cyanidation + Merrill-Crowe process	81
Ozerny	Cyanidation + Merrill-Crowe process	93
Khakanja	Cyanidation + Merrill-Crowe process	107
Kirankan[1]	Cyanidation + Merrill-Crowe process	60

[1] Silver to gold equivalent conversion ratios were not recalculated for deposits that were evaluated in 2011-2012.

Gold equivalent conversion ratio for polymetallic deposits

AuEq = 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 from 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%/recovery 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 metal in the processing technology applied.

Gold equivalent conversion ratios for polymetallic deposits

		k	
Deposit	Ore processing technology	Ag	Cu
Varvara	Powder ore with high copper content[1]		0.48
	Primary ore with high copper content – conventional flotation		0.48
Tarutin	Primary ore – conventional flotation	94	0.53
	Oxidised ore – conventional flotation	94	0.53
North Kaluga	Conventional flotation	91	0.68

[1] This type of ore is currently not being processed, it is stockpiled and reflected only in Mineral resources.

Glossary

Abbreviations and units of measurement

AGM	Annual General Meeting
CIS	Commonwealth of Independent States
FSU	Former Soviet Union
GE	gold equivalent
IMN	Indigenous Minorities of the North
JORC	Australasian Joint Ore Reserves Committee
JSC	joint stock company
LBMA	London Bullion Market Association
LTIP	Long-Term Incentive Programme
NA	not applicable
NGO	non-governmental organisation
NM	not meaningful
NPV	net present value
PGM	platinum group metal
POX	pressure oxidation
SE	silver equivalent

g/t	gram per tonne
GJ	gigajoules
km	kilometres
Koz	thousand ounces
Kt	thousand tonnes
Ktpa	thousand tonnes per annum
m	metres
Moz	million ounces
Mt	million tonnes
Mtpa	million tonnes per annum
MWh	megawatt hour
Oz or oz	troy ounce (31.1035 g)
pp	percentage points
t	tonne (1,000 kg)
tpd	tonnes per day

Technical terms

Assay	a chemical test performed on a sample of any material to determine the amount of valuable metals contained in the sample
Ag	silver
Au	gold
Autoclave	a lined stainless-steel vessel in which a technological operation of pressure oxidation takes place
Carbon-in-leach or CIL	a technological operation in which slurry containing gold and silver is leached by cyanide in the presence of activated carbon. Gold is absorbed onto activated carbon in parallel with leaching
Carbon-in-pulp or CIP	a technological operation in which slurry containing gold and silver is leached by cyanide initially without and subsequently in the presence of activated carbon. Gold absorption onto carbon starts only after preliminary leaching
Concentrate	a semi-finished product of mineral processing (flotation or gravity separation) containing significantly more value per unit of weight than ore and subject to further processing for the production of metals or other substances in final useful form
Cu	copper
Cut-off grade	the minimum grade at which mineralised material can be economically mined and processed (used in the calculation of ore reserves)
Cyanide leaching	leaching with cyanide as the leaching agent
Dilution	the share (percentage) of material below the cut-off grade that is extracted together and irretrievably mixed with ore during mining. All other things being equal, higher dilution leads to lower grade in ore mined
Doré	one of the traditional end-products of a gold/silver mine; an alloy containing 90% in sum of gold and silver as well as 10% of impurities
Exploration	activity ultimately aimed at discovery of ore reserves for exploitation. Consists of sample collection and analysis, including reconnaissance, geophysical and geochemical surveys, trenching, drilling, etc
Flotation	a technological operation in which ore-bearing minerals are separated from gangue minerals in the slurry based on variance in the interaction of different minerals with water. Particles of valuable concentrate are carried upwards with froth and collected for further processing

Grade	the relative amount of metal in ore, expressed as grams per tonne for precious metals and as a percentage for most other metals
Head grade	the grade of ore coming into a processing plant
Heap leach	a technological operation in which crushed material is laid on a sloping, impervious pad where it is leached by cyanide solution to dissolve gold and/or silver. Metals are subsequently recovered from pregnant leach solution by CIC or the Merrill-Crowe process
Indicated resource	that part of a resource for which tonnage, grade and content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed
Inferred resource	that part of a resource for which tonnage, grade and content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability
In-fill drilling	a conventional method of detailed exploration on an already defined resource or reserve, consisting of drilling on a denser grid to allow more precise estimation of ore bodyparameters and location
Leaching	the process of dissolving mineral values from solid into liquid phase of slurry
Measured resource	that part of a resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity
Merrill-Crowe process	a technological operation for extraction of gold and/or silver after cyanide leaching. In the first step slurry containing gold and/or silver is separated into liquid and solid phases by washing the solids off in countercurrent decantation thickeners. In the second step pregnant leach solution (liquid phase of slurry) is filtered to remove impurities and deaerated. Finally, gold and silver are deposited onto the solid bed of claylike material where they replace zinc particles which pass into a solution. Merrill-Crowe is preferentially used for silver-rich ores
Mill	a mineral processing plant
Mineralisation	a rock containing valuable components, not necessarily in the quantities sufficient for economically justifiable extraction. Consists of ore minerals and gangue
Open-pittable	amenable for economically feasible mining by open-pit methods
Open-pit mine	a mine that is entirely on the surface. Also referred to as open-cut or open-cast mine
Ore	the part of mineralisation that can be mined and processed profitably
Ore body	a spatially compact and geometrically connected location of ore
Ore mined	ore extracted from the ground for further processing
Ore processed	ore subjected to treatment in a mineral processing plant
Ore stacked	the ore stacked for heap leach operations
Oxidised ore	ore in which both ore minerals and gangue are fully or partially oxidised thus impacting its physical and chemical properties and influencing the choice of a processing technology
POX or pressure oxidation	a technological operation in which slurry is subjected to high pressure and high temperature in an autoclave with the goal to destroy sulphide particles enveloping gold particles and make slurry amenable to cyanide leaching
Precipitate	the semi-finished product of mineral processing by Merrill-Crowe process, normally containing very high concentrations of silver and/or gold
Primary ore	unoxidised ore

Probable reserves	the economically mineable part of an indicated (and in some cases measured) resource, which has a lower level of confidence than proved reserves but is of sufficient quality to serve as the basis for a decision on the development of the deposit
Production	the amount of pure precious metals, measured in thousands of ounces for gold, millions of ounces for silver and tonnes for copper, produced following processing
Proved reserves	the economically mineable part of a measured resource, which represents the highest confidence category of reserve estimate. The style of mineralisation or other factors could mean that proved reserves are not achievable in some deposits
Pt	platinum
Reclamation	the restoration of a site after mining or exploration activity is completed
Recovery or recovery rate	the percentage of valuable metal in the ore that is recovered by metallurgical treatment in the final or semi-finished product
Refractory	a characteristic of gold-bearing ore denoting impossibility of recovering gold from it by conventional cyanide leaching
Reserves	the economically mineable part of a measured and/or indicated mineral resource. It takes into account mining dilution and losses. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Reserves are subdivided in order of increasing confidence into probable reserves and proved reserves
Resources	a concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of resources are known, estimated or interpreted from specific geological evidence and knowledge. Resources are sub-divided in order of increasing geological confidence, into inferred, indicated and measured categories
SAG mill	a semi-autogenous grinding mill, generally used as a primary or first stage grinding solution
Stockwork	one of the types of mineralisation, a complex system of structurally controlled or randomly oriented veins. Stockworks are common in many ore deposit types
Stope	a large underground excavation entirely within an ore body, a unit of ore extraction
Strike	a horizontal extension of an ore body or mineralisation
Stripping	the mining of waste in an open-pit mine
Tailings	part of the original feed of a mineral processing plant that is considered devoid of value after processing
Underground development	excavation which is carried out to access ore and prepare it for extraction (mining)
Vein	a relatively narrow ore body with significant dip and strike dimensions and sharply defined boundaries
Waste	barren rock that must be mined and removed to access ore in a mine

As at 28 March 2016, the Company's issued share capital consisted of 424,650,138 ordinary shares of no par value. The Company does not hold any ordinary shares in treasury. The ordinary shares reflect 100% of the total issued share capital of the Company.

Substantial shareholdings as at 28 March 2016

In accordance with the FCA's Disclosure and Transparency Rules (DTR 5), as at 28 March 2016 the Company received notification of the following material interests in voting rights over the Company's issued ordinary share capital (including qualifying financial instruments):

		Number of shares	Percentage of issued share capital (%)
Powerboom Investments Limited	Mr Alexander Nesis	90,390,567	21.29
Fodina B.V.	Mr Petr Kellner	74,516,688	17.55
Otkritie Holding JSC	–	28,654,470	6.75
Vitalbond Limited	Mr Alexander Mamut	28,115,959	6.62
Staroak limited	Mr Jiri Smejc	20,318,004	4.78
MBC Development Limited	Mr Alexander Mosionzhik	17,000,000	4.00
Lynwood Capital Management Fund Limited	Mr Nikolay Mamut, Mr Pyotr Mamut, Miss Esfir Mamut	15,130,782	3.56

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