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Polymetal International plc

Polymetal announces an initial resource estimate for Nezhda and enters into a legally binding agreement for the increase of its stake in the project to 24.7% with an option to acquire the remaining 75.3%.

Polymetal International plc (LSE, MOEX: POLY; ADR: AUCOY) (together with its subsidiaries – “Polymetal”, the “Company”, or the “Group”) has agreed to acquire an additional 7% in the joint venture Nezhdaninskoye gold deposit (“Nezhda”) from its partner, Ivan Kulakov. Simultaneously, Polymetal has acquired an option to buy out the remaining 75.3% in Nezhda.

A resource estimate for Nezhda has been prepared in accordance with the JORC Code (2012) and was audited by CSA Global. The resource inventory comprises 71 Mt of mineralized material containing 11 Moz of gold equivalent (GE) at an average grade of 4.8 g/t GE.

TRANSACTION DETAILS

Based on the highly encouraging resource estimate at Nezhda, Polymetal has decided to increase its share in the Nezhda JV and has been able to renegotiate the key terms and conditions of the previous JV agreement. As such, the existing Nezhda JV agreement and the related earn-in arrangement have been terminated with immediate effect.

Under the new shareholder agreement, Polymetal will acquire an additional 7% share in the JV for a cash consideration of US\$8 million. As a result, Polymetal’s share in Nezhda will increase to 24.7%. Mr. Kulakov’s investment vehicle, Pallavicino Holdings Ltd, will hold 75.3%.

Polymetal has also acquired a call option to buy out the remaining 75.3% in Nezhda (the “Call Option”) on the following terms:

- The Call Option premium will comprise US\$12 million in cash payable upfront;
- Following the preparation of the initial JORC-compliant ore reserve estimate for the open-pittable reserves, Polymetal will have the option to acquire the remaining stake for US\$100 per ounce of attributable gold reserves (equivalent to US\$75.3/oz multiplied by total reserve ounces). The total consideration shall not be less than US\$105 million and not more than US\$180 million;
- US\$10m of the consideration will be paid in cash, and the remaining amount will be paid in the Company’s shares (the “Consideration payable in shares”). The number of shares will be determined by dividing the amount of Consideration payable in shares by the unweighted average closing price of Polymetal ordinary shares on the main market of the London Stock Exchange in the 5 trading days ending two trading days before the call option completion date. The consideration shares will be subject to a lock-up period of 180 days;
- The Call Option is exercisable between 1 February and 1 June 2018 entirely at Polymetal’s discretion;
- Should Polymetal decide not to proceed with the exercise of the Call Option, Polymetal will have a put option to sell its 24.7% stake to Pallavicino Holdings Ltd at a notional cost of EUR 1 thousand.

Completion of the sale and purchase of the additional 7% share in the JV and exercise of the Call Option are subject to approval by the Russian Federal Government’s Commission on Foreign Investments into Companies of Strategic Importance. Exercise of the Call Option is also subject to approval by the Russian Federal Antimonopoly Service.

In the meantime, Polymetal will continue to advance pre-feasibility activities at Nezhda and aims to publish the initial reserve estimate by the end of 2017. RBC acted as financial adviser to Polymetal.

“Exploration at Nezhda confirmed a very large high-grade property with substantial open-pit potential. The asset fits perfectly with Polymetal’s core competencies in refractory ore processing and remote asset development” said Vitaly Nesis, Group CEO of Polymetal. “We are very pleased that the new terms of the agreement on Nezhda give us significant decision-making flexibility and offer Polymetal a clear path to consolidating full ownership in this highly prospective asset.”

MINERAL RESOURCE STATEMENT

The Nezhda Mineral Resources are reported in accordance with the JORC Code (2012) as at 1 July 2017 using US\$1,200/oz gold price and US\$16/oz silver price. The Mineral Resource statement has been audited by independent consultant CSA Global.

Polymetal completed 42,479 m of diamond drilling in 2015 and 2017 in addition to the 339,392 m of drilling completed by previous owners. Mineral resources were estimated with the following classification parameters: Measured Mineral Resources are reported within the first ellipsoid (20 m by 30 m) and Indicated Mineral Resources are reported within the second ellipsoid (40 m by 50 m). The remaining blocks are classified as Inferred. A total of 117 mineralised structures have been identified. Mineral resources for the open pit were estimated up to a depth of 250 m from the surface.

The largest identified mineralised structure is mineralised zone 1 ("MZ 1") which has a strike length of 4,900 m and a downdip extent over 1,800 m and comprises 80% of total Mineral Resources at Nezhda in terms of gold contained. For MZ 1, top cutting at 80 g/t gold was applied to reduce outlier grade influence on local estimation.

Nezhda Mineral Resources

Mineral Resources	Tonnage		Grade		Content		
	Mt	Au, g/t	Ag, g/t	GE, g/t	Au, Moz	Ag, Moz	GE, Moz
Measured							
Open-pit	7.5	4.1	26	4.2	1.0	6.3	1.0
Underground	1.3	5.2	13	5.2	0.2	0.5	0.2
Total Measured	8.8	4.2	24	4.4	1.2	6.8	1.2
Indicated							
Open-pit	7.3	3.8	15	3.8	0.9	3.6	0.9
Underground	6.1	5.1	17	5.2	1.0	3.2	1.0
Total Indicated	13.4	4.4	16	4.5	1.9	6.8	1.9
Measured+Indicated							
Open-pit	14.8	3.9	21	4.0	1.9	9.8	1.9
Underground	7.4	5.1	16	5.2	1.2	3.8	1.2
Total Measured+Indicated	22.2	4.3	19	4.4	3.1	13.6	3.2
Inferred							
Open-pit	1.8	3.0	13	3.0	0.2	0.7	0.2
Underground	46.7	4.9	10	5.0	7.4	15.4	7.5
Total Inferred	48.4	4.9	10	4.9	7.6	16.1	7.7
Measured + Indicated + Inferred							
Open-pit	16.6	3.8	20	3.9	2.0	10.5	2.1
Underground	54.1	5.0	11	5.0	8.6	19.1	8.8
Total Measured + Indicated + Inferred	70.6	4.7	13	4.8	10.7	29.7	10.9

Notes: Cut-off grades of 3.0 and 2.0 g/t gold equivalent (GE) have been applied for the underground and open pit Mineral Resources, respectively. Gold equivalent was calculated using a conversion factor of 147 for silver (kAg). Metal prices used were US\$1,200/oz for gold and US\$16/oz for silver. For the conversion factor formula (1) and full gold equivalent conversion formula (2), please refer to the appendix section of the press release. Due to the effects of rounding, the sum of individual values will not necessarily equal the total.

INFORMATION ON NEZHDA

Nezhda is the fourth largest gold deposit in Russia. It is located in northeast Yakutia, in the Tompon municipal district, approximately 480 km east from the city of Yakutsk. The property is remote with access by an all-season unpaved road and no grid connection. The climate is characterized by long severe winters and short hot summers. The relief is moderately mountainous with relative altitudes above valley floors not exceeding 600 m.

The deposit is composed of large mineralised zones, representing areas of intense brecciation comprised of crushed and sheared, hydrothermally altered, sedimentary rocks that have been variably enriched in quartz.

The Nezhda mineralisation is double refractory due to the encapsulation of fine gold particles within sulphide minerals and significant presence of preg-robbing carbonaceous material.

Polymetal currently envisions the construction of an open-pit mine and a conventional concentrator on-site with concentrates processed at the Amursk POX or sold to 3rd-party off-takers.

The gross assets of Nezhda are US\$56 million and a reported pre-tax loss of US\$5.4 million has been attributable to these assets in 2016.

APPENDIX

Competent persons

The CSA Global review was completed by Mr Dmitry Pertel – Principal Resource Geologist.

The information in this Report that relates to the Mineral Resources is based on and fairly represents information which has been compiled by Mr Dmitry Pertel who is a member of the Australian Institute of Geoscientists. Mr Pertel has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity that is 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”. Mr Pertel is a full time employee of CSA Global Pty Ltd and has consented to the inclusion of the matters in this report based on his information in the form and context in which it appears.

Ratios

(1) Conversion factor for silver to gold equivalent was calculated using the following formula:

$$kAg = \frac{((Au \text{ Price}/31.1035 - (Au \text{ Price}/31.1035 - Au \text{ Refinery cost}) * (Taxes Au)) / 100 - (Au \text{ Refinery cost Au})) * (Au \text{ Recovery})}{((Ag \text{ Price}/31.1035 - (Ag \text{ Price}/31.1035 - Ag \text{ Refinery cost}) * (Taxes Ag)) / 100 - (Ag \text{ Refinery cost})) * (Ag \text{ Recovery})}$$

where,

Taxes – mining taxes;

Recovery – complete recovery from ore to refined metal.

(2) Gold equivalent (g/t) was calculated using the following formula:

$$AuE = CAu + CAg / kAg$$

where,

CAu – in-situ gold grade, g/t,

CAg – in-situ silver grade, g/t.

Enquiries

Media		Investor Relations	
FTI Consulting	+44 20 3727 1000	Polymetal	ir@polymetalinternational.com
Leonid Fink		Evgenia Onuschenko	+44 20 7016 9505 (UK)
Jenny Payne		Maryana Nesis	
		Michael Vasiliev	+7 812 334 3666 (Russia)
Joint Corporate Brokers			
Morgan Stanley	+44 20 7425 8000	RBC Europe Limited	+44 20 7653 4000
Sam McLennan		Tristan Lovegrove	
Richard Brown		Marcus Jackson	
Panmure Gordon	+44 20 7886 2500		
Adam James			
Tom Salvesen			

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