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Polymetal International plc

Q4 and full year 2016 production results

Polymetal International plc (LSE, MOEX: POLY; ADR: AUCOY) (together with its subsidiaries – “Polymetal”, the “Company”, or the “Group”) announces the Group’s production results for the fourth quarter and twelve months ended December 31, 2016.

HIGHLIGHTS

- Polymetal regrettably reports two fatal accidents in the quarter: at Varvara on 8 October 2016 and at Okhotsk on 6 October 2016. While the total number of fatalities for the year has decreased to four compared to six in 2015, we cannot view this result as satisfactory. Polymetal remains committed to the implementation of additional measures to fully eliminate fatalities at all of its operations.
- Polymetal delivered a strong performance in Q4 2016, producing 375 Koz of gold equivalent (GE), a 21% increase on 310 Koz produced in Q4 2015. This brings total gold equivalent production for the year to 1,269 Koz, slightly above the production guidance of 1,260 Koz. A strong finish to the year was driven by solid performance at Omolon and contribution from new operations - Svetloye (Okhotsk hub), Komar (Varvara) and Kapan.
- Gold production for the quarter was at 285 Koz, up 30% year-on-year, while silver production was 7.0 Moz, down 3% from 2015.
- For 12 months, gold production was 890 Koz, up 3% year-on-year, while silver production was 29.2 Moz, a decrease of 9% compared to 2015.
- In 2016, the Company generated significant pre-acquisition free cash flows of approximately US\$250 million and paid out special dividends of US\$ 64 million (US\$ 0.15 per share), which brings the total amount of dividends declared and paid during 2016 to US\$ 158 million (US\$ 0.37 per share). The Company confirms its commitment to pay final dividends for 2016 in accordance with the regular dividend policy.
- Net debt as at 31 December 2016 decreased to US\$ 1,329 million from US\$ 1,469 million as of 30 September, and remained broadly unchanged year-on-year.
- At Kyzyl, construction activities are in line with the project schedule, with the first deliveries of processing equipment arriving on site. Permitting is 100% complete. Kyzyl remains on track to produce its first concentrate in Q3 2018.

“Polymetal continues to deliver a strong operating performance, driving solid cash flow and meaningful dividend payments. 2016 is the fifth consecutive year that the Company meets its production guidance”, said Vitaly Nesis, Group CEO of Polymetal, commenting on the results. “In 2017, we will continue to focus on delivering free cash flows and dividends, moving Kyzyl towards completion, and advancing our long-term project pipeline”.

2017 OUTLOOK

- The Company reconfirms its production guidance for 2017 and 2018 of 1.40 Moz and 1.55 Moz of gold equivalent, respectively. Traditionally, production in both years will be skewed towards the H2. The increase in production in 2017 will be driven by Varvara (Komar), Okhotsk (Svetloye), Omolon, and Kapan. This should offset the grade declines at Dukat and Voro.
- Cash costs for 2017 are expected in the range of US\$ 600-650 per ounce and all-in sustaining cash costs at US\$ 775-825/GE oz, above unchanged 2016 guidance of US\$ 525-575 per ounce and US\$ 700-750 per ounce, respectively. The increase is due to rising domestic diesel prices and strengthening of the Russian rouble on the back of oil price growth in the fourth quarter of 2016.

- The capital expenditure guidance for 2017 is US\$ 370 million, an increase of US\$ 30 million compared to the previous guidance. Additional investments will be directed towards the new project pipeline including Nezhda, Prognoz, and Viksha.

RESULTS SUMMARY

	3 months ended Dec 31,		% change ¹	12 months ended Dec 31,		% change ¹
	2016	2015		2016	2015	
Waste mined, Mt	23.7	15.3	+55%	81.8	65.3	+25%
Underground development, km	23.9	19.0	+25%	92.2	73.1	+26%
Ore mined, Kt	4,186	3,555	+18%	13,380	12,679	+6%
Open-pit	3,058	2,772	+10%	9,506	9,626	-1%
Underground	1,128	783	+44%	3,874	3,053	+27%
Ore processed, Kt	2,824	2,532	+12%	11,417	10,821	+6%
Production						
Gold, Koz	285	219	+30%	890	861	+3%
Silver, Moz	7.0	7.2	-3%	29.2	32.1	-9%
Copper, kt	0.2	0.0	+852%	1.5	0.8	+76%
Zinc, kt	0.9	-	NA	2.9	-	NA
Gold equivalent, Koz ²	375	310	+21%	1,269	1,267	+0%
Sales						
Gold, Koz	319	249	+28%	880	864	+2%
Silver, Moz	9.4	8.8	+7%	30.7	31.2	-2%
Copper, kt	1.2	0.8	+50%	1.6	1.5	+10%
Zinc, kt	1.3	-	NA	2.8	-	NA
Revenue, US\$m ³	524	391	+34%	1,583	1,441	+10%
Net debt, US\$m ⁴	1,329	1,469	-10%	1,329	1,298	+2%
Safety ⁵						
Fatalities	2	1	+100%	4	6	-33%
LTIFR	0.22	0.16	+38%	0.19	0.22	-14%

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

(2) Based on 1:80 Ag/Au, 5:1 Cu/Au and 2:1 Zn/Au conversion ratios.

(3) Calculated based on the unaudited consolidated management accounts. Concentrate sales are recorded based on forward prices for the expected dates of final settlement and concentrate revenue is presented net of refining and treatment charges.

(4) Non-IFRS measure based on unaudited consolidated management accounts. Net debt equals to current and non-current borrowings less cash and cash equivalents and includes the liability for dividend payable. Comparative information is presented for 30 September 2016 (for the three months period) and 31 December 2015 (for the twelve months period).

(5) LTIFR = lost time injury frequency rate per 200,000 hours worked.

(6) Hereinafter: NA = not available, NM – not material

PRODUCTION BY MINE

	3 months ended Dec 31,		% change ¹	12 months ended Dec 31,		% change ¹
	2016	2015		2016	2015	
<u>GOLD EQ. (KOZ)</u> ²						
Dukat	89	96	-7%	369	393	-6%
Albazino-Amursk	54	47	+15%	244	220	+11%
Mayskoye	47	46	+2%	116	138	-16%
Omolon	61	33	+84%	170	188	-10%
Voro	35	36	-1%	129	141	-9%
Varvara	28	14	+95%	85	72	+17%
Okhotsk	53	37	+41%	131	114	+15%
Kapan	7	-	NA	26	-	NA
TOTAL	375	310	+21%	1,269	1,267	+0%

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

(2) Based on 1:80 Ag/Au, 5:1 Cu/Au and 2:1 Zn/Au conversion ratios.

CONFERENCE CALL AND WEBCAST

Polymetal will hold a conference call and webcast on Thursday, 26 January, 16:00 Moscow time (13:00 London time).

To participate in the call, please dial:

8 10 800 204 140 11 access code 46089424# (free from Russia), or

+44 (0) 20 3367 9456 (free from the UK), or

+1 855 402 7763 (free from the US), or

Any of the above numbers (from outside the UK, the US and Russia) or follow the link: <http://www.audio-webcast.com/cgi-bin/visitors.ssp?fn=visitor&id=4235>

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

Webcast replay will be available on Polymetal's website (www.polymetalinternational.com) and at <http://www.audio-webcast.com/cgi-bin/visitors.ssp?fn=visitor&id=4235>. A recording of the call will be available immediately after the call at +44 20 3367 9460 (from within the UK), +1 87 7642 3018 (from within the US) and +7 495 745 7948 (from within Russia), access code 306231#, from 17:00 Moscow time Thursday, January 26, till 17:00 Moscow time Thursday, February 2, 2016.

Enquiries

Media		Investor Relations	
FTI Consulting	+44 20 3727 1000	Polymetal	ir@polymetalinternational.com
Leonid Fink		Maxim Nazimok	
Jenny Payne		Evgenia Onuschenko	+7 812 313 5964 (Russia)
		Maryana Nesis	+44 20 7016 9503 (UK)
Joint Corporate Brokers			
Morgan Stanley	+44 20 7425 8000	RBC Europe Limited	+44 20 7653 4000
Sam McLennan		Tristan Lovegrove	
Richard Brown		Marcus Jackson	

FORWARD-LOOKING STATEMENTS

THIS RELEASE MAY INCLUDE STATEMENTS THAT ARE, OR MAY BE DEEMED TO BE, "FORWARD-LOOKING STATEMENTS". THESE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS AT THE DATE OF THIS RELEASE. THESE FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY, INCLUDING THE WORDS "TARGETS", "BELIEVES", "EXPECTS", "AIMS", "INTENDS", "WILL", "MAY", "ANTICIPATES", "WOULD", "COULD" OR "SHOULD" OR SIMILAR EXPRESSIONS OR, IN EACH CASE THEIR NEGATIVE OR OTHER VARIATIONS OR BY DISCUSSION OF

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DUKAT OPERATIONS

	3 months ended Dec 31,		% change	12 months ended Dec 31,		% change
	2016	2015		2016	2015	
MINING						
Dukat						
Underground development, m	8,552	8,325	+3%	35,066	34,573	1%
Ore mined (underground), Kt	449	427	+5%	1,661	1,656	0%
Grade						
Gold, g/t				0.7	0.7	-8%
Silver, g/t				378	443	-15%
Goltsovoye						
Underground development, m	1,298	1,776	-27%	6,010	7,391	-19%
Ore mined (underground), Kt	41	49	-16%	183	201	-9%
Silver grade, g/t				370	486	-24%
Lunnoye + Arylakh						
Underground development, m	1,297	1,436	-10%	5,249	5,624	-7%
Ore mined (underground), Kt	121	108	+11%	435	401	+8%
Grade						
Gold, g/t				1.5	1.6	-2%
Silver, g/t				434	417	+4%
PROCESSING						
Dukat						
Ore processed, Kt	480	454	+6%	1,938	1,817	+7%
Grade						
Gold, g/t	0.6	0.7	-24%	0.6	0.7	-12%
Silver, g/t	366	407	-10%	372	452	-18%
Recovery ¹						
Gold	85.8%	87.7%	-2%	86.2%	85.3%	+1%
Silver	85.9%	85.1%	+1%	85.4%	85.7%	-0%
Production						
Gold, Koz	7.6	9.8	-22%	31.6	32.9	-4%
Silver, Moz	5.0	5.4	-6%	19.8	22.3	-11%
Lunnoye						
Ore processed, Kt	111	106	+5%	435	416	+5%
Grade						
Gold, g/t	1.4	1.4	-6%	1.5	1.5	+1%
Silver, g/t	356	411	-13%	436	422	+3%
Recovery ¹						
Gold	90.3%	90.0%	+0%	91.9%	90.5%	+2%
Silver	90.1%	90.4%	-0%	91.6%	89.3%	+3%
Production						
Gold, Koz	4.4	4.2	+6%	19.6	18.1	+8%
Silver, Moz	1.2	1.2	-3%	5.6	5.0	+12%
TOTAL PRODUCTION						
Gold, Koz	12.1	14.0	-13%	51.2	51.0	+0%
Silver, Moz	6.2	6.6	-6%	25.4	27.4	-7%

Note: (1) Technological recovery, includes gold and silver within work-in-progress inventory (concentrate, precipitate)

Full year silver production at Dukat decreased by 7% due to the normalisation of the grade profile at the Dukat underground mine that produced exceptionally high grades in 2015, as well as a planned grade decline at the maturing Goltsovoye mine.

The Dukat concentrator set a new throughput record while maintaining stable recoveries against the backdrop of increased variability and lower grade feedstock. The plant continued processing low-grade stockpiles from Dukat and introduced carbonaceous Lunnoye Zone 9 ore into the feed.

Lunnoye increases annual gold and silver production by 8% and 12%, respectively, on the back of higher-grade free-milling ore from Zone 7.

In 2017 we plan further grade erosion at the Dukat concentrator as Goltsovoye will be starting to wind down and more feed comes from Lunnoye. This is expected to translate into lower silver and gold production.

ALBAZINO-AMURSK

	3 months ended Dec 31,		% change	12 months ended Dec 31,		% change
	2016	2015		2016	2015	
MINING						
Waste mined, Kt	4,234	4,592	-8%	18,078	17,307	+4%
Underground development, m	1,459	1,516	-4%	5,838	5,030	+16%
Ore mined, Kt	498	464	+7%	1,866	1,583	+18%
Open-pit	436	415	+5%	1,599	1,533	+4%
Underground	62	49	+26%	267	49	+441%
Gold grade, g/t				4.8	5.2	-8%
Open-pit				4.7	5.2	-11%
Underground				5.2	3.6	+44%
PROCESSING						
Albazino concentrator						
Ore processed, Kt	415	416	-0%	1,654	1,607	+3%
Gold grade, g/t	5.0	5.0	+0%	5.0	5.2	-3%
Gold recovery ¹	87.7%	85.3%	+3%	87.2%	86.9%	+0%
Concentrate produced, Kt	33.5	35.9	-7%	136.3	136.1	+0%
Concentrate gold grade, g/t	53.6	48.8	+10%	53.3	53.3	+0%
Gold in concentrate, Koz ²	57.8	56.2	+3%	233.6	233.1	+0%
Amursk POX						
Concentrate processed, Kt	31.8	28.1	+13%	148.9	143.0	+4%
Gold grade, g/t	52.3	50.5	+4%	52.1	52.3	-0%
Recovery	95.7%	94.0%	+2%	94.5%	94.0%	+1%
Gold produced, Koz	53.7	46.8	+15%	243.6	220.2	+11%
TOTAL PRODUCTION						
Gold, Koz	53.7	46.8	+15%	243.6	220.2	+11%

Notes: (1) To concentrate

(2) For information only; not considered as gold produced and therefore not reflected in the table representing total production. Included in total production upon completion of downstream processing at the Amursk POX

At Albazino/Amursk, gold production in the fourth quarter was at 53.7 Koz, up 15% year-on-year despite the regular maintenance shutdown at the POX facility. The total gold production for 2016 was 243.6 Koz, an 11% increase from the previous year, driven by increased throughput at the POX and improved recoveries.

The quarterly decline in grades at Albazino was offset by increased throughput and stable recoveries at the concentrator, while underground mine productivity and dilution control continues to improve from 2015 with a substantial increase in underground ore mined.

The POX debottlenecking project is moving on schedule with all major equipment contracted and required earthworks underway. Polymetal plans to ramp up the debottlenecked POX plant to its full expanded capacity in the second half of 2018, in time to take feed from the Kyzyl concentrator.

The increase in POX capacity will enable Polymetal to retain approximately 50% of Kyzyl concentrate for in-house treatment as opposed to a 3rd party off-take and is expected to improve effective gold recovery from concentrate, as well as bring down processing and transportation costs.

We expect a stable production profile at Albazino in 2017 with increased contribution from the underground mine. The POX facility is expected to process more 3rd-party feed.

MAYSKOYE

	3 months ended Dec 31,		% change	12 months ended Dec 31,		% change
	2016	2015		2016	2015	
MINING						
Waste mined, Kt	50	-	NA	50	-	NA
Underground development, m	4,691	4,388	+7%	19,523	13,828	+41%
Ore mined (underground), Kt	227	109	+108%	730	628	+16%
Gold grade, g/t				5.3	6.4	-17%
PROCESSING						
Mayskoye concentrator						
Ore processed, Kt	220	49	+350%	761	683	+11%
Gold grade, g/t	5.1	5.4	-6%	5.3	6.7	-21%
Gold recovery ¹	88.0%	84.6%	+4%	87.7%	85.9%	+2%
Concentrate produced, Kt	19.1	4.9	+291%	70.8	67.9	+4%
Concentrate gold grade, g/t	51.5	45.7	+13%	50.2	57.9	-13%
Gold in concentrate, Koz ²	31.7	7.2	+341%	114.3	126.4	-10%
Concentrate sold, Kt	30.1	22.6	+34%	59.8	52.3	+14%
Payable gold in concentrate sold, Koz	43.5	38.0	+15%	86.7	97.6	-11%
Amursk POX						
Concentrate processed, Kt	2.9	5.5	-47%	16.6	22.3	-25%
Gold grade, g/t	56.9	56.4	+1%	55.2	57.9	-5%
Recovery	95.5%	94.0%	+2%	94.4%	94.0%	+0%
Gold produced, Koz	3.9	8.3	-53%	28.9	40.2	-28%
TOTAL PRODUCTION						
Gold, Koz	47.4	46.3	+2%	115.6	137.8	-16%

Notes: (1) To concentrate

(2) For information only; not considered as gold produced and therefore not reflected in the table representing total production. Included in total production upon sale to off-taker or internal downstream processing to saleable metal product.

For the 12 months, total gold production at Mayskoye decreased by 16% to 115.6 Koz compared to the previous year driven by decline of the average grade, while production for the quarter increased 2% year-on-year.

Meanwhile, the new mining method (sublevel open stoping with backfill) continues to make good progress as the amount of ore mined grew 7% to 227 Kt from the third quarter, and 108% from the previous year. This drove higher processing volumes. The focus remains on achieving rapid backfill to ensure lower dilution from secondary stopes and enable reduced primary stope length.

The Processing plant exceeded nameplate capacity and achieved higher recoveries on the back of careful selective processing of variable-quality feedstocks and reagent selection

The Company has initiated the project to extract crown pillars at Zones 1 and 2 by open-pit mining. The open pit will mine oxide and transitional ores that will be processed through the retrofitted processing plant. The upgrades include cyanide leaching tanks and tailings detox. Activated carbon will be transported to Amursk for elution and gold smelting.

First ore from the open pit is expected in Q2 and the leaching circuit should start processing ore in Q3 2017. The crown pillar project is planned to drive materially higher production at Mayskoye in 2017 on the back of higher grades in the open pit.

OMOLON

	3 months ended Dec 31,		% change	12 months ended Dec 31,		% change
	2016	2015		2016	2015	
MINING						
Dalneye						
Waste mined, Kt	-	-	NA	-	1 042	-100%
Ore mined (open pit), Kt	-	-	NA	-	635	-100%
Grade						
Gold, g/t				-	2.9	-100%
Silver, g/t				-	57	-100%
Tsokol						
Waste mined, Kt	-	-	NA	-	396	-100%
Underground development, m	980	748	+31%	3,934	1,533	+157%
Ore mined, Kt	33	4	+836%	103	179	-42%
Open-pit	-	-	NA	-	176	-100%
Underground	33	4	+836%	103	4	NM
Gold grade, g/t				12.7	3.9	+225%
Birkachan						
Waste mined, Kt	374	574	-35%	2,548	2,021	+26%
Underground development, m	712	-	NA	2,286	1,254	+82%
Ore mined, Kt	346	338	+2%	961	780	+23%
Open-pit	304	338	-10%	893	779	+15%
Underground	42	-	NA	68	1	NM
Gold grade, g/t				2.0	1.7	+15%
Open-pit				1.6	1.7	-10%
Underground				7.8	2.2	+251%
Silver grade, g/t				8	4	+94%
Open-pit				4	4	+12%
Underground				50	6	+676%
Oroch						
Waste mined, Kt	467	1 585	-71%	4,552	4,213	+8%
Ore mined (open pit), Kt	245	168	+46%	936	400	+134%
Grade						
Gold, g/t				2.9	3.1	-9%
Silver, g/t				134	132	+2%
Olcha						
Waste mined, Kt	800	-	NA	1,088	-	NA
Underground development, m	125	-	NA	125	-	NA
Ore mined (open pit), Kt	192	-	NA	232	-	NA
Gold grade, g/t				6.0	-	NA
TOTAL HUB						
Waste mined, Kt	1,641	2,159	-24%	8,188	7,673	+7%
Underground development, m	1,817	748	+143%	6,345	2,787	+128%
Ore mined, Kt	815	510	+60%	2,233	1,994	+12%
Open-pit	741	506	+46%	2,061	1,990	+4%
Underground	75	4	NM	172	4	NM

OMOLON

	<u>3 months ended Dec 31,</u>		<u>%</u>	<u>12 months ended Dec 31,</u>		<u>%</u>
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
PROCESSING						
Kubaka Mill						
Ore processed, Kt	211	213	-1%	840	835	+1%
Grade						
Gold, g/t	9.7	4.3	+124%	5.9	5.6	+5%
Silver, g/t	32	55	-41%	90	151	-40%
Recovery ¹						
Gold	94.3%	92.7%	+2%	92.2%	95.0%	-3%
Silver	78.4%	80.9%	-3%	85.5%	86.8%	-2%
Gold production, Koz	58.2	28.9	+101%	143.9	144.2	-0%
Silver production, Moz	0.3	0.4	-27%	2.1	3.5	-41%
TOTAL PRODUCTION						
Gold, Koz	58.2	28.9	+101%	143.9	144.4	-0%
Silver, Moz	0.3	0.4	-27%	2.1	3.5	-41%

Note: (1) Technological recovery, includes gold and silver within work-in-progress inventory

In the fourth quarter, gold production at Omolon grew by 101% to 58.2 Koz from 28.9 Koz in the previous quarter, driven by higher-grade gold ore from Tsokol and the Birkachan underground mines. Both Tsokol and Birkachan have relatively low silver content and, consequently, silver production declined.

At Birkachan open-pit activities are now complete, with personnel transferred to Olcha where the open pit exceeded expectations in terms of tonnage and productivity. Underground development at Olcha is currently underway and the open pit is expected to wind down in Q2 of 2017.

Oroch open pit is approaching full depletion with people and equipment to be transferred to Sopka where brownfield exploration identified attractive opportunities to resume open-pit mining.

In 2017, Omolon should increase production noticeably on the back of higher grades from underground and Olcha open pit. The resumption of the heap leach project is also planned with meaningful production to start in 2018.

VORO

	<u>3 months ended Dec 31,</u>		<u>%</u>	<u>12 months ended Dec 31,</u>		<u>%</u>
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
<u>MINING</u>						
Voro						
Waste mined, Kt	2,497	2,383	+5%	10,490	10,202	+3%
Ore mined (open pit), Kt	321	328	-2%	1,308	1,750	-25%
- primary	273	278	-2%	1,048	1,364	-23%
- oxidised	48	50	-4%	260	386	-33%
Gold grade						
- primary, g/t				4.0	3.3	+22%
- oxidised, g/t				1.9	1.7	+12%
<u>PROCESSING</u>						
Voro Heap Leach						
Ore stacked, Kt	24	27	-10%	319	450	-29%
Gold grade, g/t	1.2	1.8	-35%	1.6	1.8	-11%
Gold production, Koz	5.1	7.9	-35%	17.3	27.1	-36%
Voro CIP						
Ore processed, Kt	251	227	+11%	1,001	924	+8%
Gold grade, g/t	4.0	4.5	-12%	4.2	4.2	+1%
Gold recovery ¹	77.9%	77.9%	-0%	78.3%	78.5%	-0%
Gold production, Koz	29.9	27.6	+9%	110.2	112.3	-2%
<u>TOTAL PRODUCTION</u>						
Gold, Koz	35.0	35.4	-1%	127.5	139.4	-9%

Note: (1) Technological recovery, includes gold within work-in-progress inventory

In 2016, gold production at Voro decreased by 9% year-on-year to 127.5 Koz. The decline was driven by the planned downsizing of the heap leach operation, causing a 36% decrease in gold production at the circuit.

The CIP plant delivered record throughput and produced 29.9 Koz of gold in the fourth quarter, which is a 2% increase q-o-q and a 9% increase y-o-y.

In 2017, production is expected to decline on the back of weaker grades as well as lower throughput at the heap leach facility.

VARVARA

	3 months ended Dec 31,		%	12 months ended Dec 31,		%
	2016	2015		2016	2015	
MINING						
Varvara						
Waste mined, Kt	4,326	6,112	-29%	18,646	28,583	-35%
Ore mined (open pit), Kt	882	1,523	-42%	2,820	4,068	-31%
- float ore	112	24	+362%	156	142	+10%
- leach ore	770	1,498	-49%	2,664	3,926	-32%
Grade						
- gold, float ore, g/t				1.1	0.9	+29%
- copper, float ore, %				0.41%	0.29%	+41%
- gold, leach ore, g/t				0.8	0.7	+17%
Komarovskoye²						
Waste mined, Kt	1,889	-	NA	2,939	-	NA
Ore mined (open pit), Kt	318	-	NA	383	-	NA
Gold grade, g/t				1.5	-	NA
PROCESSING						
Flotation						
Ore processed, Kt	16	4	+307%	372	315	+18%
Grade						
Gold, g/t	11.7	1.4	+715%	1.8	1.1	+55%
Copper	0.03%	0.38%	-91%	0.32%	0.36%	-12%
Recovery ¹						
Gold	54.5%	NA	NA	65.8%	45.2%	+46%
Copper	52.1%	39.5%	+32%	72.5%	71.8%	+1%
Production						
Gold (in concentrate), Koz	3.2	0.2	+1949%	10.2	4.2	+141%
Copper (in concentrate), Kt	0.003	0.020	-86%	0.8	0.8	+1%
Leaching						
Ore processed, Kt	793	877	-10%	2,748	3,142	-13%
Gold grade, g/t	1.1	0.8	+46%	1.0	0.8	+16%
Gold recovery ¹	82.8%	68.7%	+21%	79.7%	75.6%	+5%
Gold production (in dore), Koz	24.4	14.0	+75%	70.2	64.0	+10%
Total ore processed, Kt	810	881	-8%	3,119	3,457	-10%
TOTAL PRODUCTION						
Gold, Koz	27.6	14.1	+96%	80.4	68.2	+18%
Copper, Kt	0.003	0.020	-86%	0.8	0.8	+1%

Note: (1) Technological recovery, includes gold and copper within work-in-progress inventory

(2) Since the acquisition date (1 August 2016)

In the fourth quarter, Varvara delivered 27.6 Koz of gold, a 96% increase year-on-year and a 29% increase quarter-on-quarter. The increase was driven by improved grades and recovery levels at the leaching circuit on the back of processing ore railed from Komarovskoye.

After catching up with the historic stripping backlog, Komarovskoye is now operating at 100% of its planned capacity and in 2017 should deliver 1.2 Mt of ore to the Varvara plant. This is expected to drive a strong jump in production in 2017.

OKHOTSK OPERATIONS

	3 months ended Dec 31,		% change	12 months ended Dec 31,		% change
	2016	2015		2016	2015	
MINING						
Khakanja						
Waste mined, Kt	-	-	NA	-	1,478	-100%
Ore mined (open-pit), Kt	-	-	NA	-	180	-100%
Grade						
Gold, g/t				-	2.3	-100%
Silver, g/t				-	123	-100%
Ozerny						
Waste mined, Kt	-	-	NA	-	42	-100%
Ore mined (underground), Kt	-	-	NA	-	105	-100%
Gold grade, g/t				-	4.9	-100%
Avlayakan						
Underground development, m	1,199	856	+40%	4,637	3,846	+21%
Ore mined (underground), Kt	46	36	+28%	141	114	+23%
Grade						
Gold, g/t				15.9	11.0	+45%
Silver, g/t				141	171	-18%
Svetloye						
Waste mined, Kt	208	60	+249%	972	60	NM
Ore mined (open pit), Kt	360	-	NA	1,336	-	NA
Gold grade, g/t				2.6	-	NA
TOTAL HUB						
Waste mined, Kt	208	60	+249%	972	1,580	-38%
Underground development, m	1,199	856	+40%	4,637	3,846	+21%
Ore mined, Kt	406	36	NM	1,476	399	+270%
Open-pit	360	-	NA	1,336	285	+369%
Underground	46	36	+28%	141	114	+23%
PROCESSING						
Khakanja						
Ore processed, Kt	161	160	+0%	627	631	-1%
Grade						
Gold, g/t	7.7	6.7	+13%	4.8	5.2	-8%
Silver, g/t	113	75	+52%	85	81	+5%
Recovery ¹						
Gold	96.1%	95.0%	+1%	95.7%	94.9%	+1%
Silver	82.2%	78.6%	+5%	78.9%	72.0%	+10%
Gold production, Koz	38.4	33.6	+14%	91.6	99.8	-8%
Silver production, Moz	0.5	0.3	+59%	1.3	1.2	+13%
Svetloye Heap Leach						
Ore stacked, Kt	27	-	NA	428	-	NA
Gold grade, g/t	1.8	-	NA	3.6	-	NA
Gold production, Koz	8.3	-	NA	23.0	-	NA
TOTAL PRODUCTION						
Gold, Koz	46.7	33.6	+39%	114.6	99.8	+15%
Silver, Moz	0.5	0.3	+59%	1.3	1.2	+13%

Note: (1) Technological recovery, includes gold and silver within work-in-progress inventory (precipitate)

At Okhotsk, total gold and silver production in Q4 increased year-on-year by 39% and 59%, respectively, while annual production grew by 15% and 13% over 2015. This is mainly due to the higher-grade ore with better metallurgical properties from the Avlayakan mine processed at the Khakanja plant. Additional production came from the newly commissioned Svetloye heap leach operation.

Svetloye is a seasonal operation and so it was shut down for the winter but is anticipated to resume operations in Q2 of 2017. In 2017, production is expected to be higher on the back of first full year of leaching at Svetloye.

Avlayakan underground mine is expected to wind down by Q2 2018. Production at the Khakanja plant beyond 2019 depends on the positive feasibility assessment and development of new ore sources. The current plan is to advance Kundumi, Kirankan (both in the vicinity of Avlayakan), and Khotorchan (half-way between Khakanja and Svetloye) into production by H2 2018. This should add at least two more years to Khakanja's life-of-mine.

KAPAN

	3 months ended Dec 31 ⁽¹⁾ ,		% change	12 months ended Dec 31 ⁽¹⁾ ,		% change
	2016	2015		2016	2015	
MINING						
Kapan						
Underground development, m	3,555	-	NA	9,493	-	NA
Ore mined (underground), Kt	106	-	NA	287	-	NA
Grade						
Gold, g/t				2.0	-	NA
Silver, g/t				41	-	NA
Copper, %				0.28%	-	NA
Zinc, %				1.42%	-	NA
PROCESSING						
Ore processed, Kt	113	-	NA	293	-	NA
Grade						
Gold, g/t	1.6	-	NA	2.0	-	NA
Silver, g/t	31	-	NA	40	-	NA
Copper, %	0.22%	-	NA	0.26%	-	NA
Zinc, %	1.10%	-	NA	1.38%	-	NA
Recovery						
Gold	75.9%	-	NA	82.4%	-	NA
Silver	75.9%	-	NA	81.5%	-	NA
Copper	87.9%	-	NA	90.6%	-	NA
Zinc	85.2%	-	NA	89.4%	-	NA
TOTAL PRODUCTION						
Gold, Koz	3.8	-	NA	13.7	-	NA
Silver, Moz	0.1	-	NA	0.3	-	NA
Copper, kt	0.2	-	NA	0.6	-	NA
Zinc, kt	0.9	-	NA	2.9	-	NA

Note: (1) Since the acquisition date (28 April 2016)

Total production at Kapan amounted to 26 Koz of gold equivalent since the acquisition on 28 April 2016. The quarterly reduction in grade and a related decrease in recovery and production in the fourth quarter is related to underground mine sequencing and is expected to revert in early 2017.

The improvement measures are proceeding as planned and on schedule. They include integration activities and modifications to operating practices with changes to the motivation system, productivity gap analysis, as well as targeted in-fill drilling. Polymetal is using teams comprising local and seconded employees in order to advance best practices at Kapan from other underground operations in the company's portfolio.

In the meantime, in-fill and step-out drilling is underway at Lichkvaz, a satellite deposit that is expected to provide additional tonnage to the existing concentrator.

A JORC-compliant reserve estimate and a combined LOM for Kapan and Lichkvaz is anticipated in Q3 2017, as originally planned. In 2017, production should see a meaningful jump on the back of higher throughput and full-year contribution from the asset.

KYZYL PROJECT

	3 months ended Dec 31,		% change	12 months ended Dec 31,		% change
	2016	2015		2016	2015	
MINING						
Waste mined, Kt	8,869	-	NA	22,486	-	NA

At Kyzyl, removal of historic waste stockpiles is now complete. Mining activities are now entirely focused on drill-and-blast pre-stripping. Mining volumes are expected to nearly double in 2017.

Project development remains on schedule. Polymetal has completed the permitting stage of the project. Engineering and design are expected to be finalized in Q1 2017.

The processing plant building is now fully built with the bridge cranes in place. Pouring foundations for processing equipment has commenced. First deliveries of processing (thickener, dryers, screens) equipment have arrived on site.

External infrastructure (road, electricity, water) is mostly in place with the focus now shifting towards site infrastructure.

OTHER DEVELOPMENTS

On 5 December, Polymetal acquired an 80% stake for US\$ 11 million paid in shares in the Saum polymetallic deposit in the Sverdlovsk region, Russia. Please refer to the press release dated 5 December 2016.

On January 19, the Company acquired a 5% indirect interest for US\$ 3 million in Prognoz, the largest undeveloped primary silver deposit in Russia with JORC-compliant resources of 292 Moz of silver at 586 g/t. Polymetal will have the option to increase its stake in Prognoz to 50%. Please refer to the press release dated 19 January 2017.

HEALTH AND SAFETY

Polymetal deeply regrets to report an accident at Varvara that occurred on 6 October and resulted in death from thermal injuries on October 17.

Employee health and safety remains an absolute priority for Polymetal as it strives to eliminate future accidents at all of its operations. The company is taking all possible steps to reduce the risk of injuries across the business and is making sure that it provides a safe operating environment for all employees throughout the Group. In 2017, we will introduce a Critical Risks Management system which will complement existing safety measures approach and will help us to reduce the risk of injuries in our business.

PERSONNEL

Alexander Akamov (46) has been appointed as the Director of Polymetal Management's Yakutia branch that will supervise Polymetal's exploration and development activities at Nezhda and the newly acquired interest in Prognoz.

Mr. Akamov was born in 1971 in the Irkutsk region, where he graduated from the Irkutsk State University in 1996 with a degree in Mineral deposit exploration and drilling methods. He has been with Polymetal since 2002, first joining as a procurement engineer and making his way to deputy CEO of the procurement department. Shortly after, he was appointed as the deputy CEO of production. From 2006, Mr Akamov was the deputy CEO of Albazino and then deputy managing director of logistics. In 2010, Mr. Akamov was appointed as the managing director of Okhotsk, and in 2014 he took on additional responsibilities as managing director of Svetloye while retaining his position at Okhotsk. Prior to joining Polymetal in 2002, Mr. Akamov was head of Rekona LLC from 1998.

Konstantin Lemanov (36), in addition to his responsibilities as Project Manager of the department of production, has been appointed as Managing Director of Okhotsk.

Mr. Lemanov graduated from the Plekhanov Saint-Petersburg State Mining Institute with a degree in Open-pit Mining in 2002, and in 2006 he graduated from the North-West Academy of Public Administration with a degree in Finance and Credit (part-time). He has been with Polymetal since 2005, starting his career at Okhotsk where he held several positions until 2006: Head Engineer, Head of the Khakanja Plant and Head of Khakanja Deposit.

He joined Polymetal Management in 2009 as a Chief Mining Specialist of the department of production and in 2011 was promoted to Head of Mining Development in the production project department. From 2012, Mr. Lemanov took on a new position as Head of the mining development and production project department. In October of 2012, he was transferred to Polymetal Management's Khabarovsk branch where he became Director of the production project department before taking on a new role in January 2016 as the Project Leader of the production project department with Polymetal Management.

Additionally, Polymetal has made some changes to management with effect from 23 January 2017:

Maxim Nazimok (35) has been promoted to the role of Chief Financial Officer of Polymetal. His responsibilities will include financial reporting, corporate finance, M&A execution, investor relations, risk management, treasury and tax matters.

Mr. Nazimok joined Polymetal in 2011 as Chief Financial Controller and was promoted to Finance Director in 2015. Maxim started his career at PricewaterhouseCoopers. He then worked at MDM Bank and Nomos Bank, both among top-5 private Russian banks. Mr. Nazimok holds a BA degree in Economics from St. Petersburg State University and is a Fellow member of ACCA. In 2016, Maxim graduated with distinction from the Executive MBA-Global Program at London Business School and Columbia Business School.

Sergey Cherkashin (54) has been promoted to the newly created position of Executive Vice President – Business Performance. His scope of responsibilities will encompass operating cost control, organizational effectiveness, information technology, continuous improvement initiatives, and investment project analysis.

Mr. Cherkashin was appointed CFO of Polymetal in 2005. Previously, he held CFO positions in several companies and was employed by AT Kearney as a business efficiency consultant. Sergey holds an MBA from the University of Hartford and Master's Degree in Applied Mathematics from the Moscow Institute of Physics and Technology.