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Polymetal International plc

Half-yearly report for the six months ended 30 June 2014

Polymetal International plc (LSE, MICEX: POLY; ADR: AUCOY) (together with its subsidiaries – "Polymetal", the "Company", or the "Group") is pleased to announce the Group's financial results for the six months ended 30 June 2014.

FINANCIAL HIGHLIGHTS

- Revenue in 1H 2014 increased by 1% to US$ 727 million compared to 1H 2013 ("year-on-year") despite the average realised gold and silver prices decreasing 10% and 21% respectively year-on-year. The price decline was offset by 12% growth in the volume of gold equivalent sold.
- Group Total Cash Cost[1] was US$ 627 per gold equivalent ounce ("GE oz"), down 13% compared to 2H 2013 ("half-on-half") and down 20% year-on-year due to a robust operational performance, resulting in higher average grades processed and increased throughput across the portfolio, coupled with significant Russian Rouble and Kazakh Tenge depreciation against the US Dollar. All-in cash costs[1] amounted to US$ 938/GE oz and decreased 22% year-on-year, driven mostly by a reduction in total cash costs during the period, combined with increased production levels and associated reduction in per ounce sustaining capital and exploration expenditure at operating mines.
- Adjusted EBITDA[1] was US$ 310 million, an increase of 30% compared to 1H 2013, driven mostly by strong cost performance and production growth which offset the decline in commodity prices. Adjusted EBITDA margin was 43% compared to 33% in H1 2013;
- Net earnings[2] were US$ 100 million compared to a net loss of US$ 255 million in 1H 2013 recorded as a result of non-cash foreign exchange losses and impairment charges in the prior period. Underlying net earnings (adjusted for the after-tax amount of impairment charges/reversals) were US$ 101 million (1H 2013: US$ 17 million).
- For 2013, a regular dividend of US$ 0.08 per share (total of US$ 31 million) was paid in May 2014, in accordance with Polymetal's dividend policy. Based on Net Debt[1] / Adjusted EBITDA as at 30 June 2014[3] being 1.55 (31 December 2013: 1.75), the Board has declared an interim dividend of US$ 0.08 per share, representing 30% of the Group's underlying net earnings for 1H 2014.
- Net debt at 30 June 2014 decreased by US$ 7 million to US$ 1,038 million (31 December 2013: US$ 1,045 million), while the Company paid dividends of US$ 31 million during the period. Free cash flow was US$ 29 million and is expected to be significantly stronger in the second half of the year due to the planned de-stockpiling at Mayskoye and the seasonal reduction of the timing gap between production and sales.
- The Company is reducing its full-year Total Cash Cost guidance to US$650-700 per gold equivalent ounce and All-in cash costs to US$950-1000 per gold equivalent ounce on the back of continued weakness of the Russian Rouble and expectation of a continued strong operating performance. This guidance could be further revised downwards should the weakness in the Rouble persist during the rest of the year.
- On 14 August 2014, the General Meeting of Shareholders approved the definitive agreement to purchase the Kyzyl Project, a large gold deposit in Kazakhstan with JORC-compliant reserves of 7 Moz of gold at 7.5 g/t. Completion is conditional on receiving regulatory approvals from the Kazakh authorities which is expected in September 2014. The cash element of the transaction will be financed with available undrawn committed facilities which currently amount to US$ 1,115 million.

[1] The definition and calculation of non-IFRS measures used in this report, including Adjusted EBITDA, Total cash costs, All-in cash costs, Underlying net earnings, Net debt, and the related ratios, is explained in the "Financial Review" section below.
[2] Profit /(loss) for the financial period
[3] On a last twelve months ("LTM") basis

FINANCIAL HIGHLIGHTS	1H 2014	1H 2013	Change, %[1]
Revenue, US$m	727	721	+1%
Total cash cost, US$/GE oz	627	787	-20%
All-in cash cost, US$/GE oz	938	1,210	-22%
Adjusted EBITDA, US$m	310	239	+30%
Adjusted EBITDA margin, %	43%	33%	+10 pp.
Average realized gold price, US$/ oz	1,297	1,441	-10%
Average LBMA gold price, US$/ oz	1,290	1,524	-15%
Average realized silver price, US$/ oz	19.1	24.3	-21%
Average LBMA silver price, US$/ oz	20.1	26.6	-25%
Net earnings, US$m	100	(255)	NM
Underlying net earnings, US$m	101	17	NM
Return on Equity, %	11%	2%	+9 pp.
Basic EPS, US$/share	0.26	(0.66)	NM
Underlying EPS, US$/share	0.26	0.04	NM
Dividend declared during the period, US$/share	0.08[2]	0.31	-74%
Dividend declared for the period, US$/share	0.08	0.01	NM
Net debt, US$m	1,038	1,045[3]	-1%
Net debt/Adjusted EBITDA	1.55	1.75[3]	-11%
Net operating cash flow, US$m	141	59	+139%
Capital expenditure, US$m	105	171	-38%
Free cash flow[4], US$m	29	(125)	NM[5]

Notes:

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

(2) Final dividend for FY 2013 paid in May 2014

(3) As at 31 Dec 2013

(4) Free cash flow is defined as net cash flows from operating activities less cash flows used in investing activities

(5) NM – hereinafter, not meaningful

“I am delighted to report Polymetal’s solid financial results for the period”, said Vitaly Nesis, CEO of Polymetal, commenting on the results. “Delivering robust cost performance, free cash flow and dividends in the current market environment reaffirms the resilience and strength of our strategy focused on capital discipline.”

CONFERENCE CALL AND WEBCAST

Polymetal will hold a conference call and webcast on Wednesday 27 August 17:30 Moscow time (14:30 London time).

To participate in the call, please dial:

8 10 8002 041 4011 access code 229312# (free from Russia), or

+44 (0) 20 3043 2439 (free from the UK), or

+1 866 907 5925 (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=2354

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=2354. A recording of the call will be available immediately after the call at +44 (0) 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 289062#, from 6:30 pm Moscow time Wednesday, August 27, till 6:30 pm Moscow time Wednesday, September 3, 2014.

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MARKET SUMMARY

Precious metals

So far this year, the gold market has steadied following the extremely volatile commodity price movements that were seen in 2013. The rapid 25% drop in the gold price during the April-June period of 2013 drove a sharp increase in physical gold demand. However, gold demand for the 1H 2014 was down 7% year-on-year, primarily due to a decline in jewellery demand from exceptional 2013 levels. Net investment demand was broadly steady compared with H1 2013 as bar and coin demand and ETF demand balanced each other out. ETF holdings appear to have stabilised over the last three quarters, following heavy outflows seen in 2013. A decline in local price premiums in regional markets – notably India and China – further confirmed a muted appetite for gold, after significant amounts of purchasing were effectively brought forward during last year's rush driven by lower prices. On the positive side, US real long-term rates and geopolitical instability during the period provided a supporting upward trend for gold prices. As a result of the above factors, the LBMA gold price increased by 9% from US$ 1,202/oz as at 31 December 2013 to US$1,315/oz as at 30 June 2014. The average LBMA gold price for the period was US$ 1,290/oz, down 15% year-on-year. Silver price dynamics tracked gold but with an increased level of volatility, dropping from an average US$ 26.6/oz for 1H 2013 to US$ 20.1/oz for 1H 2014. This has also resulted in a further reduction in the gold/silver price ratio. The average gold/silver price ratio decreased from 1/57 in 1H 2013 to 1/68 in 1H 2014, while as at 30 June 2014 it was 1/63.

Foreign exchange

The Group's revenues and the majority of its borrowings are denominated in US Dollars, while the majority of the Group's costs are denominated in Russian Roubles. Therefore changes in exchange rates affect the Group's financial results and performance. Both average and period-end RUB/US$ exchange rates increased during the first six months of 2014, resulting in depreciation of the Russian Rouble against the US Dollar. From 1 January to 30 June 2014 the Russian Rouble depreciated against the US Dollar by 2.8% from 32.7 RUB/USD to 33.6 RUB/USD, while the average rate was down 12.8% year-on-year from 31.0 RUB/USD in 1H 2013 to 35.0 RUB/USD in 1H 2014 as most of the depreciation occurred during February-May 2014. 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 1H 2014 due to the effect of retranslating its US Dollar debt.

OPERATING RESULTS

	1H 2014	1H 2013	Change, %
Waste mined, Kt	40,328	43,124	-6%
Underground development, m	28,832	27,596	+4%
Ore mined, Kt	**6,431**	**5,155**	+25%
Open-pit	5,155	3,932	+31%
Underground	1,276	1,223	+4%
Ore processed, Kt	**5,473**	**5,212**	+5%
Average grade processed, GE g/t	**4.9**	**4.3**	+14%
Production			
Gold, Koz	386	311	+24%
Silver, Moz	15.5	14.0	+11%
Copper, tonnes	1,527	2,838	-46%
Gold equivalent, Koz[1]	**652**	**559**	+17%
Sales			
Gold, Koz	352	293	+20%
Silver, Moz	13.9	11.4	+23%
Copper, tonnes	300	3,600	-92%
Gold equivalent, Koz[2]	**560**	**500**	+12%
Headcount[3]	8,766	9,264	-5%
Safety			
LTIFR	0.66	0.12	NM
FIFR	0.22	-	NM

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

(2) Based on actual realised prices

(3) Average for the period

Polymetal produced 652 Koz of gold equivalent in the first half of 2014, an increase of 17% compared to the same period of the prior year driven by continued robust performance at the Amursk POX as well as improved grades and throughput at Dukat and Omolon.

The original production guidance of 1.3 Moz is likely to be exceeded by approximately 5% with further production growth in the second half of the year being driven by the commencement of sales of Mayskoye. Contracts with three off-takers in China for Mayskoye concentrate were signed during the second quarter on terms which have been meaningfully improved compared to 2013 off-take agreements. The first shipments of concentrate from Mayskoye to the Amursk POX and Chinese off-takers will commence in August.

FINANCIAL REVIEW

REVENUE

		1H 2014	1H 2013	Change, %
Sales volumes				
Gold	Koz	352	293	+20%
Silver	Moz	13.9	11.4	+23%
Copper	Kt	0.3	3.6	-92%
Gold equivalent sold[1]	**Koz**	**560**	**500**	**+12%**

[1] *Based on actual realised prices*

Sales by metal *(US$ mln unless otherwise stated)*		1H 2014	1H 2013	Change, %	Volume variance, US$ mln	Price variance, US$ mln
Gold		**456**	**422**	**+8%**	**85**	**(51)**
Average realised price	*US$/oz*	1,297	1,441	-10%		
Average LMBA closing price	*US$/oz*	1,290	1,524	-15%		
Share of revenues	*%*	63%	59%			
Silver		**266**	**276**	**-3%**	**62**	**(71)**
Average realised price	*US$/oz*	19.1	24.3	-21%		
Average LBMA closing price	*US$/oz*	20.1	26.6	-25%		
Share of revenues	*%*	37%	38%			
Copper		**3**	**23**	**-86%**		
Share of revenues	*%*	0%	3%			
Total metal sales		**726**	**721**	**+1%**	**86**	**(81)**
Other revenue		1	0	+140%		
Total revenue		**727**	**721**	**+1%**		

In 1H 2014, revenue grew by 1% year-on-year to US$ 727 million driven by a 12% increase of gold equivalent volume sold, while the average realised gold price was down by 10%. Gold sales increased by 8%, and silver sales declined by 3% year-on-year while production grew 24% and 11%, respectively. Silver sales lagged production mainly due to increased inventories of concentrate in transit at Dukat. These increases are short-term and are expected to be reversed before year-end in Q4 2014.

The average realised price for gold was US$ 1,297/oz in 1H 2014, down 10% from US$ 1,441/oz in 1H 2013, in line with the average market price of US$ 1,290/oz. The average realised silver price was US$ 19.1/oz, down 21% year-on-year, and also reflecting underlying market price movements.

The share of gold sales as a percentage of total revenue increased from 59% in 1H 2013 to 63% in 1H 2014, driven by sales volume movements.

Copper sales were limited by the current weakness in the copper concentrate market, which led to the accumulation of excess concentrate stockpiles at Varvara.

Analysis by segment	**Revenue,** *US$ mln*			**Gold equivalent sold,** *Koz (silver for Dukat)*		
	1H 2014	1H 2013	Change, %	1H 2014	1H 2013	Change, %
Dukat	260	253	+2%	13,665	10,576	+29%
Voro	89	110	-18%	69	73	-5%
Khakanja	64	89	-28%	49	58	-15%
Varvara	50	97	-48%	38	71	-46%
Omolon	115	78	+47%	89	52	+70%
Albazino/Amursk	145	94	+55%	112	74	+50%
Mayskoye	2	-	NM	2	-	NM
Other	1	-	NM	NA	NA	NA
Total revenue	**727**	**721**	**+1%**	**560**	**500**	**+12%**

Sales at Omolon and Albazino followed production growth, while at Dukat sales partially lagged production (see above). Other mature mines, Khakanja and Voro, experienced some reduction in revenues due to lower production driven by planned grade decline. At Varvara, decline in sales was driven by temporary weaknesses in the copper concentrate market.

Sales at Mayskoye are represented by Dore produced at the Amursk POX plant during the pilot testing. Contracts with three off-takers in China for Mayskoye concentrate were signed during the second quarter on terms which were materially improved compared to the 2013 off-take agreements. 65 Kt of Mayskoye concentrate have been delivered to the seaport of Pevek awaiting the start of the summer navigation period at the end of July. It is expected that the volume shipped out in the current year will be approximately evenly split between Amursk POX and off-take sales.

COST OF SALES

Cost of sales *(US$ mln)*	**1H 2014**	**1H 2013**	**Change, %**
On-mine costs	217	217	-0%
Smelting costs	183	186	-2%
Purchase of ore from third and related parties	1	25	-97%
Mining tax	56	59	-6%
Total cash operating costs	**456**	**488**	**-6%**
Depreciation and depletion of operating assets	155	118	+31%
Rehabilitation expenses	4	0	NM
Total costs of production	**614**	**606**	**+1%**
Increase in metal inventories	(190)	(169)	+12%
Write-down to net realisable value	5	4	+37%
Total change in metal inventories	**(185)**	**(165)**	**+12%**
Cost of other sales	0	1	-39%
Total cost of sales	**430**	**441**	-3%

Cash operating cost structure	**1H 2014, US$ mln**	**1H 2014, % of total**	**1H 2013, US$ mln**	**1H 2013, % of total**
Services	166	37%	162	33%
Consumables and spare parts	140	31%	144	29%
Labour	91	20%	95	19%
Mining tax	56	12%	59	12%
Purchase of ore from third and related parties	1	0%	25	5%
Other expenses	2	0%	3	1%
Total cash operating costs	**456**	**100%**	**488**	**100%**

Total cost of sales decreased by 3% in 1H 2014 to US$ 430 million, mainly on the back of decreased amounts of purchased ore from third parties at Voro and Varvara and Russian Rouble depreciation during 1H 2014. This was partially offset by volume-based growth in production and sales (17% and 12% year-on-year respectively in gold equivalent terms) and a significant increase in depreciation charges at the Amursk POX plant and Omolon.

The cost of consumables and spare parts remained almost flat compared to 1H 2013 despite meaningful production growth.

The total cost of labour within cash operating costs in 1H 2014 was US$ 91 million, a 4% decrease, mainly stemming from a 5% decline in the average number of employees at Khakanja, Dukat and Omolon.

Mining tax decreased by 6% year-on-year to US$ 56 million, compared to production volume growth of 17%, mainly due to the increase in the average US dollar exchange rate and the decrease of average realised prices.

Depreciation and depletion was US$ 155 million, up 31% year-on-year, mainly as a result of the full ramp-up of the Amursk POX, commissioning and ramp-up of Mayskoye as well as the revision of the mine plan at Omolon triggering faster depreciation of capitalised stripping costs and depletion of mineral rights. US$ 51 million of depreciation and depletion expenses in 1H 2014, related to ore and concentrate stockpiles, was included in metal inventories as at 30 June 2014.

In 1H 2014 a net metal inventory increase of US$ 190 million was recorded (excluding write-downs to net realisable value). The increase was mainly represented by concentrate produced at Mayskoye (awaiting further sales to off-takers during the summer navigation period). The Company expects the majority of this increase to be reversed by the end of 2014. The increase in ore stockpiles is mainly due to the seasonal increase in ore stockpiles at the Omolon hub, represented by low-grade heap leach ore at Birkachan and ores at Sopka and Dalneye.

GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

(US$ mln)	**1H 2014**	**1H 2013**	**Change, %**
Labour	49	56	-12%
Services	7	11	-38%
Depreciation	2	2	+18%
Share based compensation	1	24	-97%
Other	6	7	-11%
Total	**65**	**100**	**-35%**

General, administrative and selling expenses decreased by 35% year-on-year from US$ 100 million to US$ 65 million, mainly because of the fall in share-based compensation. The amount of US$ 24 million of share based compensation recognised during 1H 2013 represents the final accrual made in respect of the old Long-term Employee Incentive Programme ("Old EIP") which was adopted in 2010 and had a vesting date of 11 June 2013 (or, at the discretion of the participants, 11 June 2014). None of the options vested in June 2013, as the performance conditions (the share price exceeding the strike price of US$ 16.74 per share) were not met. Further, in March 2014 the majority of employees waived their rights under the Old EIP in order to be able to participate in the new Long-Term Incentive Plan ("LTIP"). However, the expense previously recognised does not reverse as a credit to the income statement in accordance with IFRS rules as the non-vesting is related to a market-based condition.

The first grant of options under new LTIP took place on 22 April 2014, and US$ 1 million was recognised in share-based compensation expense for 1H 2014.

OTHER EXPENSES

(US$ mln)	**1H 2014**	**1H 2013**	**Change, %**
Taxes, other than income tax	15	8	+91%
Mining taxes, penalties and accrued interest	10	(1)	NM
Exploration expenses	6	24	-75%
Social payments	4	4	-10%
Housing and communal services	3	3	-1%
Loss on disposal of property, plant and equipment	3	3	-24%
Other expenses	7	9	-27%
Total	**47**	**51**	**-7%**

Other expenses decreased by 7% to US$ 47 million in 1H 2014. Additional mining tax charges recognised in 1H 2014 were recorded by the Company in relation to tax exposure at Varvara with respect to commercial discovery bonus, Omolon and Dukat with respect to calculation of technical loss exempt from mineral extraction tax, as well as tax penalties related to previously identified tax exposure at Magadan Silver. There were no material changes to the provisions previously recognized. For more information refer to Note 13 of the condensed consolidated financial statements. The decrease in exploration expenses from US$ 24 million in 1H 2013 to US$ 6 million in 1H 2014 is mainly due to a lower amount of previously capitalised exploration costs being written off.

TOTAL CASH COSTS BY MINE

Total cash costs per gold equivalent ounce [1]	**Cash cost per GE ounce, US$/oz**				
	1H 2014	**1H 2013**	**Change, %**	**2H 2013**	**Change, %**
Dukat (SE oz) [2]	9.1	12.6	-28%	11	-15%
Voro	421	583	-28%	430	-2%
Khakanja	792	672	+18%	824	-4%
Varvara	648	723	-10%	819	-21%
Omolon	622	1,120	-44%	756	-18%
Albazino	668	963	-31%	707	-5%
Mayskoye	NM	NM	NM	NM	NM
Total	**627**	**787**	**-20%**	**721**	**-13%**

In 1H 2014 the total cash costs per gold equivalent ounce sold ("TCC") were US$ 627/GE oz, down 20% year-on-year and 13% compared to 2H 2013. The recent depreciation of the Russian Rouble and Kazakh Tenge had a meaningful positive impact on cost levels reported in US dollars, which was supported by a robust operating performance.

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 – 1H 2013	**787**	
Domestic inflation	33	4%
USD rate change	(105)	-13%
Mining tax change - Au&Ag price	(8)	-1%
Au/Ag ratio change	34	4%
Change in average grade processed by mine	(131)	-17%
Change in recovery rate	7	1%
Change in share of sales between mines[3]	6	1%
Other internal factors	5	1%
Total cash cost per gold equivalent ounce – 1H 2014	**627**	**-20%**

Total cash cost by mine:

- Dukat's total cash cost per silver equivalent ounce ("SE oz") sold decreased by 28% year-on-year and 15% half-on-half to US$ 9.1/SE oz. This has been achieved on the back of strong grades and further improved recoveries at the Omsukchan concentrator and increased throughput at both Omsukchan and Lunnoe plants.
- At Voro, TCC in 1H 2014 was US$ 421/GE oz and decreased by 28% year-on-year and 2% half-on-half. The key driver of cost dynamics was the discontinued use of purchased ore with relatively low grade and higher cost, as well as higher recoveries at the CIP plant and higher production at the heap leach facility.
- Khakanja's TCC was US$ 792/GE oz, an 18% increase year-on-year and 4% decrease half-on-half. This cost increase was driven by a scheduled decline in average grade processed (from 6.6 g/t to 5.6 g/t year-on-year).
- At Varvara, TCC was US$ 648/GE oz, declining by 10% year-on-year and 21% half-on-half. This performance was achieved on the back of stable grade profile and significant devaluation of Kazakh Tenge in February 2014.
- At Omolon, TCC amounted to US$ 622/GE oz, a 44% decrease year-on-year and 18% half-on-half. This strong performance was achieved on the back of 14% growth in average gold equivalent grade processed at the Kubaka mill during the period (from 7.2 g/t to 9.4 g/t) and revision of the mine plan undertaken in June 2013 following the decline in commodities pricing.

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[1] Total cash costs comprise cost of sales of the operating assets (adjusted for depreciation expense, rehabilitation expenses and write-down of inventory to net realisable value and certain other adjustments) and general, administrative and selling expenses of the operating assets. Gold equivalent sales volume is calculated based on average realised metal prices in the relevant period. Total cash cost per gold equivalent ounce sold is calculated as total cash costs divided by total gold equivalent unit ounces sold.
[2] Dukat's total cash cost per gold equivalent was US$ 625/GE oz (1H 2013: US$ 779/GE oz) and was included in the Group TCC calculation.
[3] Effect of mix change between mines with different cost levels.

- At Albazino/Amursk, TCC was US$ 668/GE oz, down 31% compared to 1H 2013. This improvement was achieved as the POX plant reached design throughput and recovery levels during 2013, supported by significant de-stockpiling after achieving the design parameters.
- At Mayskoye, there were no meaningful sales during 1H 2014. Costs incurred during the period will be allocated to total cash costs of sales in 2H 2014 when the concentrate shipments to POX and off-takers will start.

ALL-IN CASH COSTS[1]

	US$ mln		US$ / GE oz		Change, %
	1H 2014	1H 2013	1H 2014	1H 2013	For US$ / GE oz
Total cash costs	**351**	**399**	**627**	**787**	**-20%**
SG&A and other operating expenses not included in TCC	70	71	126	141	-11%
Capital expenditure excluding new projects	78	82	140	161	-13%
Exploration expenditure (capital and current)	25	61	45	121	-62%
All-in sustaining cash costs	**525**	**613**	**938**	**1,210**	**-22%**
Finance cost	19	21	33	42	-21%
Income tax charge	41	(10)	74	(19)	NM
After-tax All-in cash costs	**585**	**625**	**1,045**	**1,233**	**-15%**
Development capital	11	38	20	75	-73%
SG&A and other expenses for development assets	6	19	11	37	-70%
All-in costs	**602**	**682**	**1,077**	**1,345**	**-20%**

All-in cash costs amounted to US$ 938/GE oz in 1H 2014 and decreased by 22% year-on-year, with the decrease in total cash costs and reduction of per ounce SG&A, capex and exploration expenditure on the back of continued production growth.

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

Total all-in cash costs per gold equivalent ounce	**All-in cash cost per GE ounce, US$/oz**				
	1H 2014	**1H 2013**	**Change, %**	**2H 2013**	**Change, %**
Dukat (SE oz)	11.0	14.8	-26%	13.2	-17%
Voro	653	797	-18%	572	+14%
Khakanja	1,153	1,054	+9%	1,088	+6%
Varvara	1,166	1,046	+12%	1,148	+2%
Omolon	765	1,676	-54%	1,142	-33%
Albazino	916	1,632	-44%	903	+1%
Mayskoye	NM	NM	NM	NM	NM
Total	**938**	**1,210**	**-22%**	**1,048**	**-10%**

All-in sustaining cash costs decreased across all mines except for Khakanja, due to higher TCC (see above), and Varvara, mostly due to increase of per ounce capex expenditure.

[1] All-in 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).

IMPAIRMENT CHARGES

	1H 2014	1H 2013	FY2013
Goodwill	-	76	76
Mining assets	-	113	125
Metal inventories	(3)	106	153
Investments in associates	3	10	12
Total impairment charges	-	**305**	**366**

Due to slightly improved commodity price assumptions (US$1,300/oz for short-term gold price) the reversal of previous metal inventories write-down of US$ 3 million was recognised in 1H 2014.

ADJUSTED EBITDA AND EBITDA MARGIN[1]

Reconciliation of Adjusted EBITDA

(US$ mln)	1H 2014	1H 2013	Change, %
Profit/(loss) for the financial period	100	(255)	NM
Finance cost (net)	15	17	-10%
Income tax expense/(benefit)	41	(10)	NM
Depreciation expense	106	84	+26%
EBITDA	**262**	**(165)**	**NM**
(Reversal)/write-down of metal inventory to net realisable value	(3)	106	NM
Impairment of non-current assets	-	189	-100%
Impairment of investment in associate	3	10	-65%
Share based compensation	1	24	-97%
Net foreign exchange losses	26	77	-66%
Change in fair value of contingent consideration liability	1	(7)	NM
Rehabilitation expenses	4	0	NM
Write-down of non-metal inventory to net realisable value	5	4	+37%
Mining taxes, penalties and accrued interest	10	(1)	NM
Adjusted EBITDA	**310**	**239**	**+30%**

Adjusted EBITDA by segment

(US$ mln)	1H 2014	1H 2013	Change, %
Dukat	129	114	+12%
Voro	59	63	-6%
Khakanja	23	43	-46%
Varvara	17	43	-60%
Omolon	56	11	NM
Albazino/Amursk	67	14	NM
Mayskoye	(8)	(9)	-7%
Corporate and other and intersegment operations	(32)	(40)	-20%
Total	**310**	**239**	**+30%**

In 1H 2014, Adjusted EBITDA was US$ 310 million, 30% higher year-on-year, with an adjusted EBITDA margin of 43%. The increase was mainly driven by the 20% decrease in total cash costs, which was partially offset by a 10% and 21% reduction in the average realised gold and silver price, respectively. Adjusted EBITDA increased at Dukat, Omolon and Albazino, while it decreased at Khakanja and Voro due to the scheduled production declines, as well as

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

at Varvara due to current weakness in the copper concentrate market which led to lower sales volumes. The Adjusted EBITDA at Mayskoye is not representative of the expected full year performance as sales are seasonal and will be recorded in the second half of the year.

OTHER INCOME STATEMENT ITEMS

Polymetal recorded a net foreign exchange loss in 1H 2014 of US$ 26 million compared to a loss of US$ 77 million in 1H 2013. These unrealised non-cash losses in both periods represent the appreciation of the Group's mostly US Dollar denominated borrowings against the Russian Rouble, the functional currency of all Group companies other than Varvara. The Group's average gross debt during 1H 2014 was US$ 1,083 million, fully denominated in US Dollars, while the US Dollar appreciated against the Russian Rouble by 2.8% during the period, from 32.7 RUB/USD at 31 December 2013 to 33.6 RUB/USD as at 30 June 2014.

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

NET EARNINGS, EARNINGS PER SHARE AND DIVIDENDS

The Group recorded a net income of US$ 100 million in 1H 2014 versus a net loss of US$ 255 million in 1H 2013 (recorded mainly as a result of impairment charges of US$ 305 million). The underlying net earnings were US$ 101 million compared to US$ 17 million in 1H 2013, mostly due to increased Adjusted EBITDA.

Basic earnings per share were US$ 0.26 per share compared to a loss of US$ 0.66 per share in 1H 2013.

In accordance with the Company's dividend policy, the Board is proposing to pay an interim dividend of US$ 0.08 per share representing approximately 30% of the Group's underlying net earnings for the period. During 1H 2014, Polymetal paid a total of US$ 31 million in dividends, representing final dividends for FY 2013.

CAPITAL EXPENDITURE

(US$ mln)	**1H 2014**	**1H 2013**	**Change, %**
Mayskoye	9	30	-69%
Dukat	13	15	-12%
Amursk/Albazino	9	23	-61%
Omolon	5	10	-53%
Varvara	5	11	-57%
Khakanja	3	7	-60%
Voro	3	5	-39%
Exploration	35	19	+82%
Corporate and other	6	9	-32%
Capitalised stripping	25	49	-49%
Capitalised interest	2	3	-31%
Total capital expenditure[1]	**115**	**181**	**-36%**

[1] *Total capital expenditure includes amounts payable at the end of the period. On a cash basis, capital expenditure was US$ 105 million in 1H 2014 (1H 2013: US$ 171 million).*

In 1H 2014, total capital expenditure was US$ 115 million, down 36% year-on-year. All of the Group's major investment projects are complete, with the launch of the Mayskoye concentrator in April 2013, and starting from 2H 2013 the bulk of the Group's capital expenditure is related to stay-in-business spending and exploration. Capital expenditure excluding stripping costs would have been US$ 90 million in 1H 2014 (1H 2013: US$ 132 million).

The major capital expenditure items in 1H 2014 were as follows:

- Across all mines, capital expenditures declined year-on-year and was mainly represented by mining fleet upgrades/replacements and maintenance expenditure at the processing facilities;
- The Company continues to invest in standalone exploration projects (included in the Corporate segment). Capital expenditure on exploration in 1H 2014 was US$ 35 million compared to US$ 19 million in 1H 2013, and focused mostly on Maminskoye, Svetloye, Kutyn and PGM assets;

- Capitalised stripping costs totalled US$ 25 million in 1H 2014 (1H 2013: US$ 49 million) and are attributable to operations with stripping ratios during the period exceeding their life of mine ("LOM") averages, including most importantly Varvara, Voro and Khakanja.
- Total capital expenditure in 1H 2014 includes US$ 2 million of capitalised interest (1H 2013: US$ 3 million), which has declined as the Group has commissioned all of its major growth assets.
- The Group maintains its annual guidance of capital expenditures of US$250 million including exploration and capitalized stripping.

CASH FLOWS

(US$ mln)	**1H 2014**	**1H 2013**	**Change, %**
Operating cash flows before changes in working capital	259	153	+69%
Changes in working capital	(118)	(94)	+26%
Total operating cash flows	**141**	**59**	**+139%**
Capital expenditure	(105)	(171)	-39%
Other	(7)	(13)	-48%
Investing cash flows	**(112)**	**(184)**	**-39%**
Financing cash flows			
Net (decrease)/ increase in borrowings	(48)	442	-111%
Dividends paid	(31)	(313)	-90%
Total financing cash flows	**(79)**	**130**	**-161%**
Net (decrease)/increase in cash and cash equivalents	**(50)**	**5**	**NM**
Cash and cash equivalents at the beginning of the year	66	19	NM
Effect of foreign exchange rate changes on cash and cash equivalents	(0)	(2)	-96%
Cash and cash equivalents at the end of the year	**16**	**21**	**-25%**

Operating cash flows in 1H 2014 strengthened compared to the prior period. Operating cash flows before changes in working capital grew by 69% year-on-year to US$ 259 million as a result of an increase in adjusted EBITDA and the decrease in other operating expenses. Net operating cash flows were US$ 141 million, compared to US$ 59 million in 1H 2013. This was also affected by an increase in working capital in 1H 2014 of US$ 118 million. These increases are mainly due to concentrate stockpiles at Mayskoye (net increase of US$ 71 million) and ore stockpiles Omolon (net increase of US$ 76 million).

Total cash and cash equivalents decreased by 25% compared to 1H 2013 and comprised US$ 16 million, with the following items affecting the cash position of the Group:

- Operating cash flows of US$ 141 million;
- Investment cash outflows totalled US$ 112 million, down 39% year-on-year and are mainly represented by capital expenditure (down 39% year-on-year to US$ 105 million);
- Payment of regular dividends for 2013 amounting to US$ 31 million; and
- The decrease in borrowings of US$ 48 million.

BALANCE SHEET, LIQUIDITY AND FUNDING

Net debt	30-Jun-14	31-Dec-13	Change, %
Short-term debt and current portion of long-term debt	149	81	+84%
Long-term debt	905	1,030	-12%
Gross debt	**1,054**	**1,111**	**-5%**
Less: cash and cash equivalents	16	66	-76%
Net debt	**1,038**	**1,045**	**-1%**
Net debt / adjusted EBITDA	**1.55**	**1.75**	-11%

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

The Group's net debt stood at US$ 1,038 million as of 30 June 2014, representing a Net debt / adjusted EBITDA (over the last 12 months) ratio of 1.55.

The Group's debt structure remains comfortable from both a liquidity and cost perspective. The proportion of long-term borrowings comprised 86% as at 30 June 2014 (93% as at 31 December 2013). In addition, as at 30 June 2014 the Group had US$1.5 billion (31 December 2013: US$1.6 billion) of available undrawn facilities, of which US$ 1.2 billion is committed, from a wide range of lenders, which maintain its operational flexibility in the current environment.

The average cost of debt remained low at 3.04% in 1H 2014 (2013: 3.06%), 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.

2014 YEAR-END OUTLOOK

Polymetal maintains a positive outlook for the second half of the year, both in terms of earnings and free cash flow, with the following factors driving the operating and financial performance towards the year-end:

- The original production guidance of 1.3 Moz of gold equivalent production is likely to be exceeded by approximately 5%;
- Total cash costs supported by operating performance and the weaker Rouble, are expected at US $650-700/GE oz. All-in cash costs are expected at to US$950-1000 GE/oz. This guidance may be further revised downwards should the weakness in the Rouble persist during the rest of the year;
- A planned decrease in working capital balances and related positive cash flows to be generated in 2H 2014, following sales of Mayskoye concentrate and the start of ore heap leaching at Birkachan.

PRINCIPAL RISKS AND UNCERTAINTIES

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

The directors do not consider that the principal risks and uncertainties have changed materially since the publication of the Annual report for the year ended 31 December 2013, except for the risk of sanctions as described below. As such these risks continue to apply to the Group for the remaining six months of the financial year.

The principal risks and uncertainties disclosed in the 2013 Annual report were categorised as:

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

As a consequence of the sanctions imposed on certain Russian companies and individuals by the EU and US during the 1H 2014, the Group believes that an additional sanctions risk needs to be considered in addition to the list above. For more details refer to Note 20 of the condensed consolidated interim financial statements.

A detailed explanation of these risks and uncertainties can be found on pages 70 to 73 of the 2013 Annual report which is available at www.polymetalinternational.com.

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 facilities and its capital expenditure commitments and plans. As at 30 June 2014, the Group held US $16 million of cash and had net debt of US $1,038 million, with US $1,201 million of undrawn but committed facilities available subject to the Net debt/Adjusted EBITDA covenant compliance.

The Board is satisfied that the Group's forecasts and projections, having taken account of the expected completion of the Kyzyl transaction in Q4 2014 and 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 these condensed consolidated financial statements for the six months ended 30 June 2014.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the condensed set of consolidated financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting";
- the interim report includes a fair review of the information required by DTR 4.2.7 (being an indication of important events that have occurred during the first six months of the financial year, their impact on the interim report and a description of the principal risks and uncertainties for the remaining six months of the financial year); and
- the interim report includes a fair review of the information required by DTR 4.2.8 (being disclosure of related party transactions and changes therein).

By order of the Board,

Vitaly Nesis
Chief Executive

Bobby Godsell
Chairman of the Board of Directors

27 August 2014

INDEPENDENT REVIEW REPORT TO POLYMETAL INTERNATIONAL PLC

We have been engaged by Polymetal International PLC ("the Company") to review the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 which comprises the condensed income statement, the condensed consolidated balance sheet, condensed consolidated statement of cash flows, condensed consolidated statement of changes in equity and related notes 1 to 25. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Company are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Recognised Auditor
London, United Kingdom
27 August 2014

POLYMETAL INTERNATIONAL PLC

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30 June 2014 (unaudited) US$'000	Six months ended 30 June 2013 (unaudited) US$'000	Year ended 31 December 2013 (audited) US$'000
Revenue	4	726,868	721,283	1,706,597
Cost of sales excluding reversals /(write-downs) of metal inventories to net realisable value	5	(429,866)	(441,480)	(1,123,796)
Reversals /(write-downs) of metal inventories to net realisable value	18	2,624	(106,132)	(153,327)
Gross profit		**299,626**	**173,671**	**429,474**
General, administrative and selling expenses	9	(65,301)	(100,166)	(168,132)
Other operating expenses	10	(47,145)	(50,959)	(88,486)
Impairment of non-current assets		-	(189,344)	(201,105)
Impairment of investment in associate	17	(3,412)	(9,750)	(12,291)
Share of loss of associates and joint ventures		(377)	(1,823)	(2,340)
Operating profit/ (loss)		**183,391**	**(178,371)**	**(42,880)**
Loss on disposal of subsidiaries		-	-	(8,746)
Net foreign exchange losses		(26,348)	(76,726)	(74,240)
Change in fair value of contingent consideration liability		(756)	6,611	8,131
Finance income		1,318	1,299	2,850
Finance costs	12	(16,209)	(17,914)	(42,735)
Profit/(loss) before income tax		**141,396**	**(265,101)**	**(157,620)**
Income tax (expense)/benefit	13	(41,122)	9,751	(40,417)
Profit /(loss) for the financial period		**100,274**	**(255,350)**	**(198,037)**
Profit /(loss) for the financial period attributable to:				
Equity shareholders of the Parent		100,274	(255,350)	(198,037)
		100,274	**(255,350)**	**(198,037)**
Earnings per share/(loss) (US$)				
Basic	14	0.26	(0.66)	(0.51)
Diluted	14	0.26	(0.66)	(0.51)

POLYMETAL INTERNATIONAL PLC

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2014 (unaudited) US$'000	Six months ended 30 June 2013 (unaudited) US$'000	Year ended31 December 2013 (audited) US$'000
Profit /(loss) for the period	100,274	(255,350)	(198,037)
Other comprehensive loss			
Effect of translation to presentation currency	(68,227)	(152,520)	(153,575)
Total comprehensive income/(loss) for the period	**32,047**	**(407,870)**	**(351,612)**
Total comprehensive income/(loss) for the financial period attributable to:			
Equity shareholders of the Parent	32,047	(407,870)	(351,612)
	32,047	**(407,870)**	**(351,612)**

POLYMETAL INTERNATIONAL PLC

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2014 (unaudited)	31 December 2013 (audited)	30 June 2013 (unaudited)
Assets		**US$'000**	**US$'000**	**US$'000**
Property, plant and equipment	16	1,954,468	2,094,742	2,084,969
Goodwill		30,061	30,889	30,908
Investments in associates	17	14,839	15,651	16,213
Non-current loans and receivables		22,648	22,853	15,753
Deferred tax asset		82,703	88,484	80,438
Non-current inventories	18	57,970	53,142	57,424
Total non-current assets		**2,162,689**	**2,305,761**	**2,285,705**
Current inventories	18	871,087	727,144	861,189
VAT receivable		77,223	85,135	88,158
Trade and other receivables		52,841	44,526	94,391
Prepayments to suppliers		29,123	18,170	43,750
Income tax prepaid		3,527	8,433	13,314
Cash and cash equivalents		15,927	65,567	21,260
Total current assets		**1,049,728**	**948,975**	**1,122,062**
Total assets		**3,212,417**	**3,254,736**	**3,407,767**
Liabilities and shareholders' equity				
Accounts payable and accrued liabilities		(124,739)	(117,974)	(118,934)
Current borrowings	19	(149,151)	(81,331)	(684,832)
Income tax payable		(31,228)	(37,174)	(20,594)
Other taxes payable		(65,609)	(56,885)	(67,123)
Current environmental obligations		(4,677)	(212)	(162)
Total current liabilities		**(375,404)**	**(293,576)**	**(891,645)**
Non-current borrowings	19	(905,405)	(1,029,813)	(631,751)
Contingent consideration liability		(15,042)	(15,523)	(17,821)
Deferred tax liability		(61,900)	(63,085)	(73,710)
Non-current environmental obligations		(63,223)	(65,152)	(57,107)
Other non-current liabilities		(2,323)	(97)	(604)
Total non-current liabilities		**(1,047,893)**	**(1,173,670)**	**(780,993)**
Total liabilities		**(1,423,297)**	**(1,467,246)**	**(1,672,638)**
NET ASSETS		**1,789,120**	**1,787,490**	**1,735,129**
Stated capital account	21	1,664,170	1,664,170	1,664,170
Share-based compensation reserve	22	741	143,524	143,524
Translation reserve		(275,063)	(206,836)	(205,781)
Retained earnings		399,272	186,632	133,216
Total equity		**1,789,120**	**1,787,490**	**1,735,129**

POLYMETAL INTERNATIONAL PLC

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

These financial statements are approved and authorised for issue by the Board of Directors on 27 August 2014 and signed on its behalf by

Vitaly Nesis	Bobby Godsell
Chief Executive Officer	Chairman of the Board of Directors

POLYMETAL INTERNATIONAL PLC

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six months ended 30 June 2014 (unaudited) US$'000	Six months ended 30 June 2013 (unaudited) US$'000	Year ended 31 December 2013 (audited) US$'000
Net cash generated by operating activities	24	**140,933**	**59,614**	**463,632**
Cash flows from investing activities				
Purchases of property, plant and equipment	16	(104,659)	(170,627)	(319,448)
Consideration for acquisitions	2	(1,346)	(11,934)	(11,934)
Convertible loan repaid by Polygon Gold		-	6,011	10,000
Other investing activities		(4,276)	(6,597)	(3,681)
Contingent consideration payment		(1,492)	(1,271)	(1,329)
Net cash used in investing activities		**(111,773)**	**(184,418)**	**(326,392)**
Cash flows from financing activities				
Borrowings obtained	19	56,328	1,486,454	3,099,855
Repayments of borrowings	19	(104,076)	(1,044,297)	(2,887,041)
Dividends paid	15	(31,158)	(312,529)	(316,429)
Net cash (used in)/ generated by financing activities		**(78,906)**	**129,628**	**(103,615)**
Net (decrease)/ increase in cash and cash equivalents		(49,746)	4,824	33,625
Cash and cash equivalents at the beginning of the period		65,567	18,622	18,622
Effect of foreign exchange rate changes on cash and cash equivalents		106	(2,186)	13,320
Cash and cash equivalents at the end of the period		**15,927**	**21,260**	**65,567**

Drawdowns and repayments decreased significantly during six month period ended 30 June 2014 due to increase of share of long term debt in the Group's borrowings structure.

POLYMETAL INTERNATIONAL PLC

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Number of Polymetal International shares outstanding	Stated capital account	Share based compensation reserve	Translation reserve	Retained earnings	Total equity
Balance at 31 December 2012 (audited)		**383,206,204**	**1,576,123**	**119,291**	**(53,261)**	**509,718**	**2,151,871**
Total comprehensive income		-	-	-	(152,520)	(255,350)	(407,870)
Share based compensation	22	-	-	24,233	-	-	24,233
Issue of shares in exchange for assets		775,000	13,423	-	-	-	13,423
Issue of shares for business acquisitions		5,491,661	74,624	-	-	-	74,624
Dividends	15	-	-	-	-	(121,152)	(121,152)
Balance at 30 June 2013 (unaudited)		**389,472,865**	**1,664,170**	**143,524**	**(205,781)**	**133,216**	**1,735,129**
Total comprehensive income		-	-	-	(1,055)	57,313	56,258
Dividends	15	-	-	-	-	(3,897)	(3,897)
Balance at 31 December 2013 (audited)		**389,472,865**	**1,664,170**	**143,524**	**(206,836)**	**186,632**	**1,787,490**
Total comprehensive income		-	-	-	(68,227)	100,274	32,047
Share based compensation	22	-	-	741	-	-	741
Transfer to retained earnings	22	-	-	(143,524)	-	143,524	-
Dividends	15	-	-	-	-	(31,158)	(31,158)
Balance at 30 June 2014 (unaudited)		**389,472,865**	**1,664,170**	**741**	**(275,063)**	**399,272**	**1,789,120**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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

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

Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union ('EU'), and the Disclosure and Transparency Rules of the Financial Conduct Authority effective for the Company's reporting for the period ended 30 June 2014. These unaudited condensed interim consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in the audited 2013 Annual Report of Polymetal International plc and its subsidiaries ("2013 Annual Report") available at www.polymetalinternational.com.

The half-yearly financial report does not constitute the Group's statutory financial statements. The Group's most recent statutory financial statements, which comprise the annual report and audited financial statements for the year ended 31 December 2013, were approved by the directors on 30 March 2014 and have been filed with the Jersey Registrar of Companies. The Auditor's Report on those accounts was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under Article 111(2) or Article 111(5) of the Companies (Jersey) Law 1991.

Accounting policies

The unaudited condensed interim consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments.

The accounting policies applied are consistent with those adopted and disclosed in the Group's financial statements for the year ended 31 December 2013, with the exception of certain amendments to accounting standards or new interpretations issued by the International Accounting Standards Board, which were applicable from 1 January 2014 and are noted for accounting policy changes below.

New and amended standards adopted by the Group

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

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

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

IFRS 12 *Disclosures of Interests in Other Entities* accompanies IFRS 10 and IFRS 11. This standard combines the disclosure requirements previously covered by IAS 27, related to consolidated financial statements, IAS 31 *Interest in Joint Ventures* and IAS 28 *Investments in Associates*, as well as including additional disclosure requirements. Adoption of this standard did not have an impact on the condensed interim consolidated financial statements.

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

IAS 32 *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)*. On December 16, 2011 the IASB published amendments to IAS 32, Financial Instruments: Presentation to clarify the application of the offsetting requirements.

IFRIC 21 *Levies*. In May 2013, the IASB issued IFRIC 21 on the accounting for levies imposed by governments.

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 compliance with covenants on those facilities and its capital expenditure commitments and plans. As at 30 June 2014, the Group held US$ 16 million of cash and had net debt of US$ 1,038 million, with US$ 1,201 million of undrawn but committed facilities available subject to the Net debt/Adjusted EBITDA covenant compliance.

The Board is satisfied that the Group's forecasts and projections, having taken account of the expected completion of the Kyzyl transaction in Q4 2014 and 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 these condensed consolidated financial statements.

Functional and presentation currencies

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), as well as for the investment holding companies, including Polymetal International plc. The functional currency of the Group's entity located in Kazakhstan (JSC Varvarinskoye) and operating with significant degree of autonomy is the Kazakh Tenge (KZT).

	30 June 2014	31 December 2013
Russian Rouble/U.S. Dollar		
Year end	33.63	32.73
Average for the period	34.98	31.85
Kazakh Tenge/U.S. Dollar		
Year end	183.51	153.61
Average for the period	176.19	152.14

The Group has chosen to present its consolidated financial statements in U.S. 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.

2. ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 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.

3. SEGMENT INFORMATION

The Group has seven reportable segments:

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

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

The measure which management and the Chief Operating Decision Maker (the CODM) use to evaluate the performance of the Group is segment Adjusted EBITDA, which is defined as profit for the period adjusted for depreciation and amortization, impairment of non-current assets, write-downs of inventory to net realisable value, share-based compensation expenses, rehabilitation expenses, gains or losses arising on acquisition or disposal of subsidiaries, foreign exchange gains or losses, changes in the fair value of contingent consideration, finance income, finance costs, income tax expenses and other tax exposure accrued within other operating expenses. The accounting policies of the reportable segments are consistent with those of the Group's accounting policies under IFRS as described in Note 1.

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 unaudited condensed interim consolidated financial statements.

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

3. Segment information (continued)

For the six months ended 30 June 2014 ($'000)	Voro	Khakanja	Dukat	Omolon	Varvara	Amursk - Albazino	Mayskoye	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	89,495	63,896	259,749	115,330	50,350	144,911	2,262	725,993	875	-	726,868
Intersegment revenue	425	191	72	4	-	788	-	1,480	105,920	(107,400)	-
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	25,645	35,563	119,017	50,641	22,123	70,360	2,428	325,777	71,265	(79,825)	**317,217**
Cost of sales	32,993	42,849	148,498	81,423	26,219	101,654	4,790	438,426	71,265	(79,825)	429,866
Depreciation included in Cost of sales	(7,229)	(6,798)	(29,017)	(25,576)	(4,121)	(29,794)	(821)	(103,356)	-	-	(103,356)
Write-down of non-metal inventory to net realisable value	(62)	(6)	(213)	(2,746)	25	(948)	(1,514)	(5,464)	-	-	(5,464)
Rehabilitation expenses	(57)	(482)	(251)	(2,460)	-	(552)	(27)	(3,829)	-	-	(3,829)
General, administrative and selling expenses, excluding depreciation, amortization and share based compensation	3,505	3,421	5,818	4,774	2,467	4,483	5,683	30,151	37,864	(5,695)	**62,320**
General, administrative and selling expenses	8,792	6,598	11,179	7,686	2,877	8,423	9,095	54,650	40,581	(29,930)	65,301
Intercompany management services	(4,913)	(3,117)	(4,873)	(2,836)	(299)	(3,876)	(3,112)	(23,026)	(1,209)	24,235	-
Depreciation included in SGA	(374)	(60)	(488)	(76)	(111)	(64)	(300)	(1,473)	(767)	-	(2,240)
Share based compensation	-	-	-	-	-	-	-	-	(741)	-	(741)
Other operating expenses excluding additional tax charges	1,516	2,096	6,390	4,062	8,516	4,252	2,619	29,451	6,662	731	**36,844**
Other operating expenses	1,877	2,096	11,819	6,358	10,731	4,252	2,619	39,752	6,662	731	47,145
Mining taxes, penalties and accrued interest	(361)	-	(5,429)	(2,296)	(2,215)			(10,301)			(10,301)
Share of loss of associates and joint ventures								-	377	-	377
Adjusted EBITDA	**59,254**	**23,007**	**128,596**	**55,857**	**17,244**	**66,604**	**(8,468)**	**342,094**	**(9,373)**	**(22,611)**	**310,110**
Depreciation expense	7,603	6,858	29,505	25,652	4,232	29,858	1,121	104,829	767	-	**105,596**
Rehabilitation expenses	57	482	251	2,460	-	552	27	3,829	-	-	**3,829**
Write-down of non-metal inventory to net realisable value	62	6	213	2,746	(25)	948	1,514	5,464	-	-	**5,464**
Reversal of metal inventory to net realisable value	479	1,086	1,628	(2,051)	1,258	-	(5,024)	(2,624)	-	-	**(2,624)**
Share-based compensation	-	-	-	-	-	-	-	**-**	741	-	**741**
Impairment of investment in associate									3,412		**3,412**
Mining taxes, penalties and accrued interest	361	-	5,429	2,296	2,215	-	-	**10,301**	-	-	**10,301**
Operating profit / (loss)	**50,692**	**14,575**	**91,570**	**24,754**	**9,564**	**35,246**	**(6,106)**	**220,295**	**(14,293)**	**(22,611)**	**183,391**
Foreign exchange loss											**(26,348)**
Change in fair value of contingent consideration											**(756)**
Finance income											**1,318**
Finance costs											**(16,209)**
Profit before tax											**141,396**
Income tax expense											**(41,122)**
Profit for the financial period											**100,274**
Current metal inventories	67,981	63,021	91,875	147,958	25,845	91,177	130,102	617,959	215	(11,287)	**606,887**
Current non-metal inventories	8,785	36,679	48,285	59,444	15,871	40,042	37,853	246,959	30,881	(13,640)	**264,200**
Non-current segment assets:											
Property, plant and equipment, net	92,083	63,069	387,537	197,722	126,458	539,636	308,512	1,715,017	274,024	(34,573)	**1,954,468**
Goodwill	-	-	8,638	-	-	-	21,423	30,061	-	-	**30,061**
Non-current inventory	1,556	5,477	11,199	22,396	8,221	5,055	7,125	61,029	139	(3,198)	**57,970**
Investments in associates								-	14,839		**14,839**
Total segment assets	**170,405**	**168,246**	**547,534**	**427,520**	**176,395**	**675,910**	**505,015**	**2,671,025**	**320,098**	**(62,698)**	**2,928,425**
Additions to non-current assets:											
Property, plant and equipment	11,208	16,197	18,654	8,698	11,142	23,520	9,671	99,090	17,858	(1,844)	**115,104**
Acquired in business combinations and acquisition of group of assets	-	-	-	-	-	-	-	-	4,307	-	**4,307**

3. Segment information (continued)

For the six months ended 30 June 2013 ($'000)	Voro	Khakanja	Dukat	Omolon	Varvara	Amursk - Albazino	Mayskoye	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	109,717	89,364	253,471	78,321	96,740	93,570	-	721,183	100		**721,283**
Intersegment revenue				990	758			1,748	171,725	(173,473)	**-**
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	38,100	33,531	123,601	55,090	50,842	66,304	14	367,482	127,959	(140,303)	**355,138**
Cost of sales	43,427	44,427	149,391	72,498	58,236	83,680	2,165	453,824	127,959	(140,303)	441,480
Depreciation included in Cost of sales	(5,073)	(10,983)	(27,321)	(13,934)	(7,394)	(17,289)	7	(81,987)	-	-	(81,987)
Write-down of non-metal inventory to net realisable value	(96)	139	1,501	(3,373)	-	-	(2,153)	(3,982)	-	-	(3,982)
Rehabilitation expenses	(158)	(52)	30	(101)	-	(87)	(5)	(373)	-	-	(373)
General, administrative and selling expenses, excluding depreciation, amortization and share based compensation	4,465	5,618	7,848	6,487	2,340	5,366	4,847	36,971	47,673	(10,600)	**74,043**
General, administrative and selling expenses	10,383	9,299	13,763	9,766	2,733	6,029	5,075	57,048	73,956	(30,838)	100,166
Intercompany management services	(5,544)	(3,487)	(5,510)	(3,208)	(304)	(575)	(122)	(18,750)	(1,488)	20,238	-
Depreciation included in SGA	(374)	(194)	(405)	(71)	(89)	(88)	(106)	(1,328)	(562)	-	(1,890)
Share based compensation	-	-	-	-	-	-	-	-	(24,233)	-	(24,233)
Other operating expenses excluding additional tax charges	4,147	7,648	8,194	6,432	1,198	8,089	4,239	39,947	10,584	1,090	**51,621**
Other operating expenses	4,147	7,648	7,532	6,432	1,198	8,089	4,239	39,285	10,584	1,090	50,959
Mining taxes, penalties and accrued interest	-	-	662		-	-	-	662	-	-	662
Share of loss of associates and joint ventures								-	1,823	-	1,823
Adjusted EBITDA	**63,005**	**42,567**	**113,828**	**10,640**	**43,118** -	**13,811**	**(9,100)**	**277,869**	**(16,214)**	**(23,660)**	**238,658**
Depreciation expense	5,447	11,177	27,726	14,005	7,483	17,377	100	83,315	562	-	**83,877**
Rehabilitation expenses	158	52	(30)	101	-	87	5	373	-	-	**373**
Write-down of non-metal inventory to net realisable value	96	(139)	(1,501)	3,373	-	-	2,153	3,982	-	-	**3,982**
Impairment of non-current assets and goodwill	-	104,404	-	4,824	80,116	-		189,344	-	-	**189,344**
Impairment of investment in associate	-	-	-	-	-	-	-	-	9,750	-	**9,750**
Write-downs of metal inventories to net realisable value	1,501	20,023	5,988	55,442	11,751	-	11,427	106,132	-	-	**106,132**
Mining taxes, penalties and accrued interest	-	-	(662)	-	-	-	-	(662)	-	-	**(662)**
Share-based compensation	-	-	-	-	-	-	-	-	24,233	-	**24,233**
Operating profit / (loss)	**55,803**	**(92,950)**	**82,307**	**(67,105)**	**(56,232)**	**(3,653)**	**(22,785)**	**(104,615)**	**(50,759)**	**(23,660)**	**(178,371)**
Foreign exchange loss											**(76,726)**
Change in fair value of contingent consideration											**6,611**
Finance income											**1,299**
Finance costs											**(17,914)**
Loss before tax											**(265,101)**
Income tax benefit											**9,751**
Loss for the financial period											**(255,350)**
Current metal inventories	63,645	86,937	112,314	109,330	33,713	125,642	43,401	574,982	2,232	(2,430)	**574,784**
Current non-metal inventories	7,883	30,573	51,270	71,682	26,012	44,812	25,895	258,127	43,196	(14,918)	**286,405**
Non-current segment assets:											
Property, plant and equipment, net	98,762	31,706	404,811	249,273	144,067	570,335	307,940	1,806,894	305,287	(27,212)	**2,084,969**
Goodwill		-	8,113		-		22,795	30,908			**30,908**
Non-current inventory	3,201	3,913	6,950	27,653	6,268	4,078	4,294	56,357	3,929	(2,863)	**57,424**
Investments in associates									16,213		**16,213**
Total segment assets	**173,491**	**153,129**	**583,458**	**457,938**	**210,060**	**744,867**	**404,325**	**2,727,268**	**370,857**	**(47,423)**	**3,050,704**
Additions to non-current assets:											
Property, plant and equipment	11,466	17,465	15,816	26,283	22,562	41,640	30,874	166,106	16,337	(1,206)	**181,237**
Acquired in business combinations and acquisition of group of assets									131,516		**131,516**

3. Segment information (continued)

For the year ended 31 December 2013 ($'000)	Voro	Khakanja	Dukat	Omolon	Varvara	Amursk - Albazino	Mayskoye	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	214,712	202,641	531,587	222,795	189,527	293,778	49,547	1,704,587	2,010		**1,706,597**
Intersegment revenue				1,298	760	605		2,663	411,786	(414,449)	**-**
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	69,174	102,168	270,576	134,967	106,748	172,194	40,612	896,789	298,092	(316,984)	**877,897**
Cost of sales	86,437	126,345	330,341	188,623	123,465	231,933	56,409	1,143,553	297,227	(316,984)	1,123,796
Depreciation included in Cost of sales	(16,990)	(23,627)	(60,666)	(43,154)	(16,392)	(59,673)	(13,177)	(233,679)	-	-	(233,679)
Write-down of non-metal inventory to net realisable value	(166)	(435)	1,847	(10,005)	(325)	117	(2,594)	(11,561)	865	-	(10,696)
Rehabilitation expenses	(107)	(115)	(596)	(497)	-	(183)	(26)	(1,524)	-	-	(1,524)
General, administrative and selling expenses, excluding depreciation, amortization and share based compensation	8,086	9,459	13,469	11,495	5,074	9,536	10,255	67,374	99,476	(26,805)	**140,045**
General, administrative and selling expenses	19,776	16,497	24,976	17,876	5,555	12,630	12,362	109,672	127,384	(68,924)	168,132
Intercompany management services	(10,780)	(6,799)	(10,737)	(6,232)	(302)	(2,927)	(1,882)	(39,659)	(2,460)	42,119	-
Depreciation included in SGA	(910)	(239)	(770)	(149)	(179)	(167)	(225)	(2,639)	(1,215)	-	(3,854)
Share based compensation	-	-	-	-	-	-	-	-	(24,233)	-	(24,233)
Other operating expenses excluding additional tax charges	7,325	6,056	18,221	14,334	4,368	9,342	2,971	62,617	19,630	5,577	**87,824**
Other operating expenses	7,325	6,056	18,622	14,334	4,629	9,342	2,971	63,279	19,630	5,577	88,486
Mining taxes, penalties and accrued interest			(401)		(261)			(662)			(662)
Share of loss of associates and joint ventures								-	2,340	-	2,340
Adjusted EBITDA	**130,127**	**84,958**	**228,971**	**63,297**	**74,097**	**103,311**	**(4,291)**	**680,470**	**(5,742)**	**(76,237)**	**598,491**
Depreciation expense	17,900	23,866	61,436	43,303	16,571	59,840	13,402	236,318	1,215	-	**237,533**
Rehabilitation expenses	107	115	596	497	-	183	26	1,524	-	-	**1,524**
Write-down of non-metal inventory to net realisable value	166	435	(1,847)	10,005	325	(117)	2,594	11,561	(865)	-	**10,696**
Impairment of non-current assets	-	104,404	-	16,587	80,114	-	-	201,105	-	-	**201,105**
Impairment of investment in associate								-	12,291	-	**12,291**
Write-downs of metal inventories to net realisable value	2,559	28,160	11,954	75,229	19,301	-	16,124	153,327	-	-	**153,327**
Share-based compensation	-	-	-	-	-	-	-	**-**	24,233	-	**24,233**
Mining taxes, penalties and accrued interest			401		261			**662**			**662**
Operating profit / (loss)	**109,395**	**(72,022)**	**156,431**	**(82,324)**	**(42,475)**	**43,405**	**(36,437)**	**75,973**	**(42,616)**	**(76,237)**	**(42,880)**
Foreign exchange loss											**(74,240)**
Loss on disposal of subsidiaries											**(8,746)**
Change in fair value of contingent consideration											**8,131**
Finance income											**2,850**
Finance costs											**(42,735)**
Loss before tax											**(157,620)**
Income tax benefit											**(40,417)**
Loss for the financial period											**(198,037)**
Current metal inventories	62,154	53,671	83,533	72,332	14,527	84,716	59,471	430,404	222	(3,474)	**427,152**
Current non-metal inventories	8,898	54,548	51,414	57,494	23,882	46,804	50,354	293,394	25,420	(18,822)	**299,992**
Non-current segment assets:											
Property, plant and equipment, net	93,866	59,741	416,822	250,847	150,564	568,599	325,580	1,866,019	264,395	(35,672)	**2,094,742**
Goodwill		-	8,876		-		22,013	30,889			**30,889**
Non-current inventory	2,554	5,165	11,135	16,189	9,178	4,802	5,905	54,928	759	(2,545)	**53,142**
Investments in associates									15,651		**15,651**
Total segment assets	**167,472**	**173,125**	**571,780**	**396,862**	**198,151**	**704,921**	**463,323**	**2,675,634**	**306,447**	**(60,513)**	**2,921,568**
Additions to non-current assets:											
Property, plant and equipment	19,701	39,443	40,309	57,317	42,323	70,997	58,006	328,096	40,650	(11,929)	**356,817**
Acquired in business combinations and acquisition of group of assets			13,400					13,400	118,079		**131,479**

4. REVENUE

Revenue analysed by geographical regions of customers is presented below:

	Six months ended		Year ended
	30 June 2014	30 June 2013	31 December 2013
	US$'000	US$'000	US$'000
Sales within the Russian Federation	518,793	451,618	1,060,935
Sales to Kazakhstan	99,309	87,686	170,178
Sales to South Korea	73,896	1,533	90,512
Sales to Japan	30,658	38,770	65,183
Sales to China	2,920	54,335	165,368
Sales to Europe	215	86,893	151,970
Total metal sales	**725,791**	**720,835**	**1,704,146**
Other sales	1,077	448	2,451
Total	**726,868**	**721,283**	**1,706,597**

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

	Six months ended 30 June 2014				Six months ended 30 June 2013			
	Thousand ounces/ tonnes (unaudited) shipped	Thousand ounces/ tonnes (unaudited) payable	Average price (US Dollar per troy ounce/tonne payable) (unaudited)	US$'000	Thousand ounces/ tonnes (unaudited) shipped	Thousand ounces/ tonnes (unaudited) payable	Average price (US Dollar per troy ounce/tonne payable) (unaudited)	US$'000
Gold (thousand ounces)	352	352	1,297	456,588	297	293	1,441	422,343
Silver (thousand ounces)	14,030	13,919	19.1	266,189	11,382	11,360	24.3	275,505
Copper (tonnes)	321	300	10,047	3,014	3,780	3,600	6,385	22,987
Total				**725,791**				**720,835**

	Year ended 31 December 2013			
	Thousand ounces/ tonnes (unaudited) shipped	Thousand ounces/ tonnes (unaudited) payable	Average price (US Dollar per troy ounce/tonne payable) (unaudited)	US$'000
Gold (thousand ounces)	818	808	1,326	1,070,847
Silver (thousand ounces)	27,414	27,376	21.6	592,576
Copper (tonnes)	6,468	6,141	6,631	40,723
Total				**1,704,146**

5. COST OF SALES

	Six months ended		Year ended
	30 June 2014	30 June 2013	31 December 2013
	US$'000	US$'000	US$'000
Cash operating costs			
On-mine costs (Note 6)	216,512	216,797	393,067
Smelting costs (Note 7)	183,051	186,174	384,192
Purchase of ore from third parties	816	10,892	18,836
Purchase of ore from related parties (Note 23)	-	14,358	13,983
Mining tax	55,637	59,464	109,421
Total cash operating costs	**456,016**	**487,685**	**919,499**
Depreciation and depletion of operating assets (Note 8)	154,585	118,102	245,483
Rehabilitation expenses	3,829	373	1,524
Total costs of production	**614,430**	**606,160**	**1,166,506**
Increase in metal inventories	(190,427)	(169,311)	(53,985)
Write-down of non-metal inventories to net realisable value (Note 18)	5,464	3,982	10,696
Cost of other sales	399	649	579
Total	**429,866**	**441,480**	**1,123,796**

6. ON-MINE COSTS

	Six months ended		Year ended
	30 June 2014	30 June 2013	31 December 2013
	US$'000	US$'000	US$'000
Services	105,422	92,756	165,936
Labour	54,888	60,140	109,475
Consumables and spare parts	55,392	62,519	114,679
Taxes, other than income tax	326	376	609
Other expenses	484	1,006	2,368
Total (Note 5)	**216,512**	**216,797**	**393,067**

7. SMELTING COSTS

	Six months ended		Year ended
	30 June 2014	30 June 2013	31 December 2013
	US$'000	US$'000	US$'000
Consumables and spare parts	84,842	81,305	171,358
Services	61,028	69,091	139,489
Labour	35,788	34,587	70,650
Taxes, other than income tax	449	504	1,021
Other expenses	944	687	1,674
Total (Note 5)	**183,051**	**186,174**	**384,192**

8. DEPLETION AND DEPRECIATION OF OPERATING ASSETS

	Six months ended		Year ended
	30 June 2014	30 June 2013	31 December 2013
	US$'000	US$'000	US$'000
On-mine	106,565	82,315	159,218
Smelting	48,020	35,787	86,265
Total (Note 5)	**154,585**	**118,102**	**245,483**

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

9. GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

	Six months ended		Year ended
	30 June 2014	30 June 2013	31 December 2013
	US$'000	US$'000	US$'000
Labour	49,326	56,154	106,952
Services	6,759	10,869	18,739
Depreciation	2,240	1,890	3,854
Share based compensation	741	24,233	24,233
Other	6,235	7,020	14,354
Total	**65,301**	**100,166**	**168,132**

10. OTHER OPERATING EXPENSES

	Six months ended		Year ended
	30 June 2014	30 June 2013	31 December 2013
	US$'000	US$'000	US$'000
Taxes, other than income tax	14,524	7,624	21,164
Mining taxes, penalties and accrued interest	10,301	(662)	662
Exploration expenses	5,867	23,787	24,144
Social payments	3,901	4,325	10,709
Housing and communal services	3,403	3,433	6,547
Loss on disposal of property, plant and equipment	2,540	3,327	9,503
Bad debt allowance	(64)	(28)	1,089
Other expenses	6,673	9,153	14,668
Total	**47,145**	**50,959**	**88,486**

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

Operating cash flow from exploration activities amounts to US$ 4.5 million (six months ended 30 June 2013: US$ 15.3 million; year ended 31 December 2013: US$ 23.2 million).

11. EMPLOYEE COSTS

	Six months ended		Year ended
	30 June 2014	30 June 2013	31 December 2013
	US$'000	US$'000	US$'000
Wages and salaries	127,313	139,034	281,316
Social security costs	36,349	38,502	64,557
Share-based compensation	741	24,233	24,233
Total payroll costs	**164,403**	**201,769**	**370,106**
Reconciliation:			
Less: employee costs capitalised	(21,038)	(24,593)	(52,003)
Less: employee costs absorbed into unsold metal inventory balances	(27,356)	(30,544)	(13,815)
Employee costs included in operating costs	**116,009**	**146,632**	**304,288**

The weighted average number of employees during the period ended 30 June 2014 was:

	Six months ended		Year ended
	30 June 2014	30 June 2013	31 December 2013
Voro	938	908	913
Khakanja	1,052	1,165	1,144
Dukat	1,855	1,984	1,952
Omolon	810	981	910
Varvara	734	733	730
Amursk-Albazino	1,169	1,152	1,158
Mayskoye	899	886	941
Corporate and other	1,311	1,456	1,484
Total	**8,768**	**9,264**	**9,232**

12. FINANCE COSTS

	Six months ended		Year ended
	30 June 2014	30 June 2013	31 December 2013
	US$'000	US$'000	US$'000
Interest expense on borrowings	13,897	13,836	29,972
Unwinding of discount on borrowings	-	2,219	9,070
Unwinding of discount on environmental obligations	2,312	1,859	3,693
Total	**16,209**	**17,914**	**42,735**

Interest expense on borrowings excludes borrowing costs capitalised in the cost of qualifying assets of US$2.4 million, US$3.3 million and US$6.1 million during the six months ended 30 June 2014, the six months ended 30 June 2013, and the year ended 31 December 2013, respectively. These amounts were calculated based on the Group's general borrowing pool and by applying an effective interest rate of 3.04% (annualised), 3.06% (annualised) and 2.99%, respectively, to cumulative expenditure on such assets.

13. INCOME TAX

Tax for the six months ended 30 June 2014 is charged 29% (six months ended 30 June 2013: 38%), representing the best estimate of the average annual effective tax rate expected for the full year, applied to the pre-tax income of the six month period.

	Six months ended		Year ended
	30 June 2014	30 June 2013	31 December 2013
	US$'000	US$'000	US$'000
Current income taxes	35,867	43,491	105,096
Excess profit taxes payable in Kazakhstan	641	1,946	8,313
Deferred income taxes	4,614	(55,188)	(72,992)
Total	**41,122**	**(9,751)**	**40,417**

Excess profit tax payable in Kazakhstan charge for six months ended 30 June 2014 is net of a US$ 2.6 million reversal of tax overprovided as of 31 December 2013.

The actual tax benefit /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 compensation, social related expenditures and other non-production costs, certain general and administrative expenses, financing expenses, foreign exchange related and other costs.

In the normal course of business, the Group is subject to examination by tax authorities throughout the Russian Federation and Kazakhstan. Out of the large operating companies of the Group, tax authorities have audited CJSC Gold of Northern Urals (Voro) up to 2012, Omolon Gold Mining Company LLC (Omolon), LLC Okhotskaya Mining (Khakanja) and Exploration Company CJSC and Mayskoye Gold Mining Company LLC (Mayskoye) up to 2010, CJSC Magadan Silver (Dukat) for the period up to 2009, JSC Varvarinskoye (Varvara) for the period up to 2010. According to Russian and Kazakhstan tax legislation, previously conducted audits do not fully exclude subsequent claims relating to the audited period.

Income tax and other expenses arising in respect of lost litigation

Position at 31 December 2013

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

The total provision as of 31 December 2013 amounted for US$30.6 million of mining taxes, interest and penalties in respect of Magadan Silver.

Position at 30 June 2014

In the period ended 30 June 2014 the Group identified and provided for additional exposures, and related interest and penalties amounting to US$ 6 million in respect of mining taxes. There were no significant settlements paid in the period in respect of tax litigations. The total provision as of 30 June 2014 is US$ 38.7 million (31 December 2013: US$ 30.6 million, 30 June 2013 US$ 42.6 million).

Other exposures considered possible but not probable and therefore not provided for total US$18.3 million (31 December 2013: US$22.3 million, 30 June 2013: US$ 8.5 million).

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

Weighted average number of shares: Diluted earnings per share

Basic/dilutive earnings per share were calculated by dividing 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:

	Six months ended		**Year ended**
	30 June 2014	**30 June 2013**	**31 December 2013**
Weighted average number of outstanding common shares	389,472,865	386,366,376	387,932,387
Dilutive effect of share appreciation plan	62,017	-	-
Weighted average number of outstanding common shares after dilution	**389,534,882**	**386,366,376**	**387,932,387**

There were no adjustments required to earnings for the purposes of calculating dilutive earnings per share in the current interim period (2013: nil).

The Group issued new long term incentive plan (LTIP) awards in April 2014 (see Note 22), which, on vesting, will result in the issuance of new shares in the Company to participants. These awards are not dilutive as of 30 June 2014 for the purposes of calculating diluted EPS because they are currently out of the money. Awards granted under previous share appreciation plans (established in November 2010 and lapsing in June 2014), were also out of the money and not dilutive for the year ended 31 December 2013 or for the six months ended 31 June 2013.

Awards issued under the management bonus deferral award plan are dilutive as of 30 June 2014 (being contingently issued shares) and are included in the calculation of diluted EPS based on the weighted average number of shares that would be issuable if the end of the reporting period were the end of the contingency period.

15. DIVIDENDS

An interim dividend of 8 cents per share is proposed by the Board for the period ended 30 June 2014.

On 27 May 2014 final dividend for 2013 of 8 cents per share was paid to shareholders by the Company resulting in cash outflows of US$31.2 million.

On 23 September 2013 an interim dividend of 1 cent per share was paid to shareholders by the Company resulting in cash outflows of US$ 3.9 million. On 17 June 2013 final dividend for 2012 of 31 cents per share was paid to shareholders by the Company resulting in cash outflows of US$121.2 million. On 16 January 2013, a special dividend of 50 cents per share was paid to shareholders by the Company resulting in cash outflows of US$191.3 million.

16. PROPERTY, PLANT AND EQUIPMENT

	Exploration and development assets	Mining assets	Non-mining assets	Capital construction in-progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
Cost					
Balance at 31 December 2013	**337,226**	**2,430,339**	**91,279**	**157,561**	**3,016,405**
Additions	35,521	57,980	946	20,657	115,104
Transfers	(8,475)	35,030	14,586	(41,141)	-
Change in decommissioning liabilities	-	(1,099)	-	-	(1,099)
Acquired on acquisitions (Note 2)	1,671	-	-	2,636	4,307
Disposals	(978)	(8,754)	(1,397)	(411)	(11,540)
Translation to presentation currency	(8,156)	(100,814)	(2,159)	(6,441)	(117,570)
Balance at 30 June 2014	**356,809**	**2,412,682**	**103,255**	**132,861**	**3,005,607**

Accumulated depreciation and impairment	Exploration and development assets	Mining assets	Non-mining assets	Capital construction in-progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 31 December 2013	**(4,669)**	**(886,935)**	**(26,515)**	**(3,544)**	**(921,663)**
Charge for the period	-	(169,750)	(4,450)	-	(174,200)
Disposals	509	5,498	453	22	6,482
Translation to presentation currency	83	37,368	572	219	38,242
Balance at 30 June 2014	**(4,077)**	**(1,013,819)**	**(29,940)**	**(3,303)**	**(1,051,139)**
Net book value					
Balance at 31 December 2013	**332,557**	**1,543,404**	**64,764**	**154,017**	**2,094,742**
Balance at 30 June 2014)	**352,732**	**1,398,863**	**73,315**	**129,558**	**1,954,468**

Mining assets at 30 June 2014 included mineral rights with net book value of US$338.3 million (31 December 2013: US$376.3 million) and capitalised stripping costs with net book value of US$106.3 million (31 December 2013: US$91.3 million). Mineral rights of the Group comprise assets acquired upon acquisition of subsidiaries and asset acquisitions.

No property, plant and equipment were pledged as collateral at 30 June 2014 and 31 December 2013.

17. INVESTMENTS IN ASSOCIATES

The Group's investments in associates as at 30 June 2014, 30 June 2013 and 31 December 2013 consisted of the following:

	30 June 2014		31 December 2013		30 June 2013	
	Voting power %	Carrying Value US$'000	Voting power %	Carrying Value US$'000	Voting power %	Carrying Value US$'000
ASSOCIATES						
JSC Ural-Polymetal	49.9	-	49.9	-	33.3	-
Polygon Gold	42.65	14,839	42.65	15,651	42.65	16,213
Total		**14,839**		**15,651**		**16,213**

During six months ended 30 June 2014 the Group invested US$3.4 million in JSC Ural Polymetal in form of loan. The Group considers that, in substance, the loan forms part of net investment in the associate and the amount was written off, as the project development is at an early stage and a new NPV estimate for the assets cannot be estimated reliably.

18. INVENTORIES

	30 June 2014	31 December 2013	30 June 2013
	US$'000	US$'000	US$'000
Inventories expected to be recovered after twelve months			
Consumables and spare parts	41,359	41,885	35,970
Ore stock piles	16,611	11,257	21,454
Total non-current inventories	**57,970**	**53,142**	**57,424**
Inventories expected to be recovered in the next twelve months			
Ore stock piles	234,315	182,269	258,432
Copper, gold and silver concentrate	229,999	133,037	168,430
Work in-process	80,963	77,848	67,144
Metal for refining	28,243	9,117	51,394
Dore	33,367	24,881	29,384
Total metal inventories	**606,887**	**427,152**	**574,784**
Consumables and spare parts	264,200	299,992	286,405
Total	**871,087**	**727,144**	**861,189**

Write-downs and reversals of metal inventories to net realisable value

During the six months ended 30 June 2014, the Group recognised following write-downs and reversals to net realisable value of its metal inventories:

	Six months ended 30 June 2014							Six months ended 30 June 2013	Year ended 31 December 2013
	Voro	Khakanja	Dukat	Omolon	Varvara	Mayskoye	Total operating segments	Total operating segments	Total operating segments
Ore stock piles	479	1,086	1,628	(2,051)	1,258	288	2,688	94,705	137,203
Copper, gold and silver concentrate	-	-	-	-	-	(5,312)	(5,312)	11,427	16,124
Total	**479**	**1,086**	**1,628**	**(2,051)**	**1,258**	**(5,024)**	**(2,624)**	**106,132**	**153,327**

Reversals of previously booked write-downs recognised were driven by a stable prevailing gold market price and favourable changes in sales contract terms negotiated with off-takers.

During the six month period ended 30 June 2014 the Group also recognised a write down of consumables and spare parts inventory of US$5.5 million (six months ended 30 June 2013: US$3.9 million; year ended 31 December 2013: write-down of US$10.7 million).

The amount of inventories held at net realisable value at 30 June 2014 was US$149.9 million (31 December 2013: US$100.7 million; 30 June 2013: US$77 million).

19. BORROWINGS

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

In the period ended 30 June 2014, the Group drew down a total of US$56.3 million and repaid US$104.1 million, a net repayment of US$47.7 million.

The fair values of the Group's borrowings approximate their carrying values.

20. COMMITMENTS AND CONTINGENCIES

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the companies of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in its interpretation of the legislation and assessments.

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.

Management has identified a total exposure (covering taxes and related interest and penalties) of approximately US$18.3 million in respect of contingent liabilities (31 December 2013: US$22.3 million; 30 June 2012: US$8.5 million) which relate to possibly incorrect calculations of technical loss exempt from mining tax and other tax exposures.

Impact of sanctions on Russian economic environment

Emerging markets such as the Russian Federation 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 the Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because the Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and E.U. on certain Russian officials, businessmen and companies. In addition, in April 2014 credit agency Standard & Poor's downgraded Russia's long-term foreign currency sovereign rating from BBB to BBB- with a negative outlook. Previously, Fitch credit agency has also revised Russia's creditworthiness outlook from stable to negative. These events, including official sanctions, particularly if further extended, may adversely affect the Russian economy through reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Rouble and other negative economic consequences.

21. STATED CAPITAL ACCOUNT AND RETAINED EARNINGS

At 30 June 2014, the Company's issued share capital consisted of 389,472,865 ordinary shares of no par value, each carrying one vote (31 December 2013: 389,472,865 ordinary shares). No shares were issued during the period ended 30 June 2014.

The Company does not hold any ordinary shares in treasury. The ordinary shares reflect 100% of the total issued share capital of the Company.

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 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 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.

22. SHARE-BASED PAYMENTS

LTIP awards

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 publication of annual results and before AGM. The first grant of options under LTIP took place on 22 April 2014.Total number of options granted under the LTIP amounts to 2,464,041 shares.

Under the plan, annual rolling awards will be made and each award will have a four-year vesting period and an additional mandatory holding period for shares received of one year following vesting. Recipients must remain in employment over the vesting period; the number of awards to vest will be based on relative Total Shareholder Return (TSR), measured against the constituents of the FTSE Gold Mines Index, and also on the Company's absolute TSR over the four-year period:

- 0% vests for below median performance;
- 20% vests for median performance;
- 100% vests at top decile performance and above;
- No award will vest if absolute TSR is negative, regardless of relative performance.

The fair value of the awards granted in April 2014 was calculated using a Monte-Carlo model. The amount determined (GBP 3.16) will be recognised on a straight-line basis over the four year vesting period as part of general, administrative and selling expenses with a corresponding increase in the share-based compensation reserve.

Use of the Monte-Carlo option pricing requires management to make certain assumptions with respect to selected model inputs. The assumptions used in the calculation and fair value of one award, calculated based on those assumptions, are set out below:

Risk free rate	1.345%
Expected dividend yield	Nil
Expected volatility	46.14%
Constant correlation	35.58%
Expected life, years	4
Share price at the date of grant (GBP)	6.08
Fair value of one award (GBP)	3.16

The dividend yield is set at zero as performance is based on Total Shareholder Return (i.e. share price movement + dividends paid) and dividend equivalents will be awarded on vested awards.

Bonus deferral awards

Under management's bonus deferral award plan, 50% of bonuses awarded are received up front in cash with the remainder issued in deferred shares. In March 2014 103,936 deferred shares were granted to Polymetal management, which will be released over a period of three years provided that the recipients remain in employment. There are no other vesting conditions associated with the awards. The fair value of the deferred shares is equal to the share price at the date of grant and a share based payment expense is pro-rated across the award's vesting period.

For the six months ended 30 June 2014, share-based compensation expenses totalled US$ 0.7 million including US$ 0.1 million relating to management bonus deferral awards (six months ended 30 June 2013 and year ended 31 December 2013: US$ 24.2 million). This expense is recognised in general, administrative and selling expenses (Note 9).

As at 30 June 2014 the Group has US$13.2 million of unrecognised share-based compensation expense related to non-vested equity-settled stock appreciated rights with expected amortisation period of 3.8 years.

The previous LTIP scheme (granted in November 2010) expired in the period to 30 June 2014, with no awards vesting. Related amounts held in the share based payment reserve were recycled to retained earnings.

23. RELATED PARTIES

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

Bank Otkritie ceased to meet definition of a related party from 27 February 2013 due to changes in shareholder structure and composition of its Board of Directors.

	Six months ended		Year ended
	30 June 2014	30 June 2013	31 December 2013
	US$'000	US$'000	US$'000
Income from transactions with related parties			
Revenue from sales to Bank Otkritie	-	81,641	81,641
Interest income on deposits placed with Bank Otkritie	-	35	34
Other income from equity method investments	2,281	650	1,740
Expenses from transactions with related parties			
Interest expense on loans provided by Bank Otkritie	174	516	996
Purchases from JSC Ural-Polymetal (Note 5)	-	14,358	13,983

Outstanding balances are presented below:

	30 June 2014	31 December 2013	30 June 2013
	US$'000	US$'000	US$'000
Short-term loans provided to equity method investments	-	190	6,996
Long-term loans provided to equity method investments	885	1,017	5,078
Total loans provided to related parties	885	1,207	12,074
Short-term loans provided by Nomos-Bank	-	9,305	8,874
Long-term loans provided by Nomos-Bank	-	7,882	11,947
Long-term loans provided by equity method investments	-	-	1,830
Total loans provided by related parties	-	17,187	22,651
Accounts receivable from related parties	2,085	164	2,872
Interest receivable from related parties	-	242	1,371

Carrying values of other long-term loans provided to related parties as at 30 June 2014, 30 June 2014 and 31 December 2013 approximate their fair values. During six months ended 30 June 2014 the Group invested US$ 3.4 million in JSC Ural Polymetal in form of loan. The Group considers that, in substance, the loan forms part of net investment in the associate and the amount was written off (Note 17).

Loans provided by Nomos bank were fully repaid during six months ended 30 June 2014.

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

24. NOTES TO THE CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Six months ended 30 June 2014 (unaudited) US$'000	Six months ended 30 June 2013 (unaudited) US$'000	Year ended 31 December 2013 (audited) US$'000
Profit before tax		141,396	(265,101)	(157,620)
Adjustments for:				
Depreciation and depletion, recognised in statement of comprehensive income		105,585	83,877	237,533
Impairment of non-current assets		-	189,344	201,105
Impairment of investment in associate		3,412	9,750	12,291
Write-down of exploration assets		469	7,138	-
Reversal / write-downs of metal inventories to net realisable value	18	(2,624)	106,132	153,327
Write-down of non-metal inventories to net realisable value	6	5,464	3,982	10,696
Mining taxes, penalties and accrued interest	10	10,301	(662)	
Share-based compensation		741	24,233	24,233
Finance costs	12	16,209	17,914	42,735
Finance income		(1,318)	(1,299)	(2,850)
Loss on disposal of property, plant and equipment	10	2,540	3,327	9,503
Rehabilitation expenses		3,829	373	1,524
Change in contingent consideration liability		756	(6,611)	(8,131)
Change in allowance for doubtful debts	10	(64)	(28)	1,089
Loss from equity method investments		377	1,823	2,340
Foreign exchange losses		26,348	76,726	74,240
Loss on disposal of subsidiaries		-	-	8,746
Other non-cash expenses		1,963	2,258	2,528
Movements in working capital				
Increase in inventories		(117,175)	(124,085)	(62,957)
Decrease in VAT receivable		4,588	8,966	11,560
(Increase)/decrease in trade and other receivables		(5,603)	15,816	60,675
(Increase)/decrease in prepayments to suppliers		(11,249)	(16,230)	11,560
Increase in trade and other payables		6,969	21,038	2,246
Increase/(decrease) in other taxes payable		4,372	404	(10,744)
Cash generated from operations		**197,286**	**159,085**	**625,629**
Interest paid		(16,173)	(14,894)	(35,921)
Interest received		1,003	530	1,965
Income tax paid		(41,183)	(85,107)	(128,041)
Net cash generated by operating activities		**140,933**	**59,614**	**463,632**

There were no material non-cash transactions during the six months ended 30 June 2014 (2013: US$88 million paid in shares for the acquisition of assets).

Cash flow related to exploration capitalised amounts to $US31.8 million for six months ended 30 June 2014 and is shown within Property, Plant and Equipment acquisition line (six months ended 30 June 2013: US$ 16.5 million; year ended 31 December 2013: US$ 58.0 million).

25. SUBSEQUENT EVENTS

In May 2014 The Group has entered into binding agreements with Sumeru Gold B.V. and Sumeru LLP for the acquisition of Altynalmas Gold Ltd (AAG), the holding company for the Kyzyl gold project, which comprises the Bakyrchik and Bolshevik gold deposits located in north-eastern Kazakhstan.

The consideration for the acquisition of AAG and related Shareholder Debt comprises of an initial consideration of US$318.5 million in cash and the issue of new Polymetal shares with an aggregate value of US$300 million ("Consideration Shares"), and deferred additional cash consideration up to an agreed cap of US$500 million, contingent on certain conditions being met and dependent on the relative dynamics of the gold price and the price of Polymetal's shares over up to the next seven years. The seller is entitled to a put option giving it a right to require the Group to acquire the Consideration Shares by notice to Polymetal during one month period immediately following the end of the one-year lock-up period (subject to adjustment in certain circumstances) at a price equal to the initial acquisition price of Consideration Shares by the seller.

The acquisition of AAG is conditional upon receipt of the required regulatory approvals and fulfilment of other conditions. The acquisition of AAG constitutes a Class 1 transaction under the UK Listing Rules and was therefore also conditional upon the approval of Polymetal shareholders. On 14 August 2014, the General Meeting of Shareholders approved the acquisition which is now expected to be completed in September 2014.