Capital allocation

Building long-term value per share

Our business model is our key strength, providing a platform for both growth and significant shareholder returns by generating a sustainable free cash flow throughout the cycle.

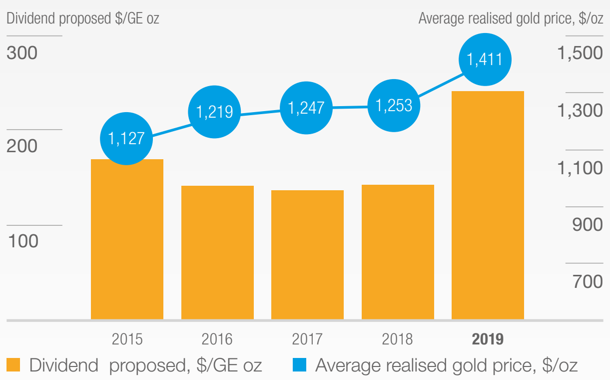
Regular dividends are a shareholder's right

We prioritise the payment of regular dividends over investment in growth. We are committed to delivering superior returns with a dividend policy of paying 50% of underlying earnings, subject to a hard ceiling of a Net debt/Adjusted EBITDA ratio below 2.5x.

In line with this policy, the Board proposed a final dividend equal to $0.42 per share, and announced a $0.20 per share special dividend for 2019. The discretionary payment is awarded based on available free cash flow (post regular dividends), the Company's leverage, market outlook, forward-looking financial projections and growth opportunities. This brings the total dividends proposed for the 2019 full year to $0.82 per share.

From free cash flow for 2012–2019 totalling $1.7 billion, Polymetal paid out $1.5 billion to shareholders through regular dividends in each year since the IPO and significant special dividends in five[1] years out of eight. This represents an average of $160 per ounce of gold produced and provides a sector-leading dividend yield of 5% over the five-year period and 6.5% in 2019, including the proposed dividend for the full year 2019 (based on average share price for the period).

DIVIDEND PER OUNCE PRODUCED



1 Including the special dividend for 2019 announced in January 2020.
2 Post M&A for 2019 and 2018.

Target Net debt/Adjusted EBITDA of 1.5x

Our near-term objective is to ensure that the Group's Net debt/Adjusted EBITDA ratio is no more than 1.5x

As at 31 December 2019, Polymetal achieved a Net debt/Adjusted EBITDA ratio of 1.38x (2018: 1.95x), well below the Group's target leverage ratio of 1.5x. The Group's net debt decreased 3% to $1.48 billion while the Adjusted EBITDA grew 38% to $1.08 billion, supported by strong commodity prices and further production growth driven by Kyzyl's first year of operation at full design capacity.

The Company continued to generate significant free cash flow that amounted to $299 million[2] (2018: $134 million). During 2019, we continued to successfully manage our balance sheet and significantly extended the maturity of $675 million of loans to 2024–2029 while maintaining the stable average cost of debt at 4.26%.

1.38

Net debt/Adjusted EBITDA
2018: 1.95

4.26%

Average cost of debt
2018: 4.19%

$299m

Free cash flow[1,2]
2018: $134m

Disciplined portfolio management

We impose strong capital discipline on all investment decisions across the business

- We apply high IRR hurdle rates (starting from 12% real unlevered at a $1,200/oz gold price for a base case project).
- Our strong preference is for high-grade, low-cost and low capital intensity projects with development optionality.
- We minimise our capital costs by employing a centralised hub-based system that handles ores from different high-grade sources.
- We preserve our focus by streamlining high-cost and short-lived assets.

We have made significant progress reshaping our portfolio, creating a more focused business. In 2018–2019, we divested several operations, including the Kapan mine in Armenia and Okhotsk in Russia, resulting in $111 million net cash inflows and a $20/oz positive impact on our cash costs and profitability. The excess cash was used to pay down debt in line with our strategy.

After the successful completion of Kyzyl on time and below budget in 2018, we started the construction of Nezhda (29% base case IRR) and POX-2 (14% base case IRR) in Q1 2019. Nezhda is one of the largest undeveloped high-grade deposits in Russia with 12.4 Moz of gold resources (inclusive of ore reserves) at 4.5 g/t. It will start contributing to free cash flow and dividends by 2022. POX-2 will fully de-risk our business model by bringing all concentrate processing in-house and eliminating our dependence on concentrate offtake from 2H 2023.

Investing for a sustainable future

Capital prioritised for safe and efficient technologies

We are finding new ways to work more sustainably as a business. In environmental stewardship, we continue to focus on zero-harm principles when designing and operating our mines. We have also taken our first steps with introducing renewable energy, especially in regions that have no access to the electricity grid. We are committed to improving the efficiency of our water and energy usage, recognising the impacts of climate change, and shifting towards safer methods of waste storage.

POX-2 will incorporate several important design features that will minimise the environmental impact and mitigate against related risks. It will also expand the scope of our existing social partnership agreements and create more than 400 new permanent jobs

Read more on pages 12, 41

The success of our business is dependent on our relationships with key external stakeholders which determine our social licence to operate. We will continue to engage with stakeholders and be responsive to their needs.

Read more about stakeholder engagement on pages 54–55, 100–103