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Polymetal International plc

Preliminary results for the year ended 31 December 2017

Polymetal International plc (LSE, MOEX: POLY, ADR: AUCOY) (together with its subsidiaries – "Polymetal", the "Company", or the "Group") is pleased to announce the Group's preliminary results for the year ended 31 December 2017.

FINANCIAL HIGHLIGHTS

- In 2017, revenue increased by 15% over 2016 to US$ 1,815 million, primarily driven by gold equivalent (GE) production growth of 13%. Gold sales were 1,090 Koz, up 24% year-on-year, while silver sales were down 14% to 26.5 Moz, in line with production volume dynamics. Average realised gold and silver prices remained largely unchanged from 2016 at US$ 1,247/oz and US$ 16.1/oz respectively.
- Group Total cash costs[1] ("TCC") were US$ 658/GE oz for the year, up 15% from 2016 levels and at the lower end of the Company's updated guidance of US$ 650-675/GE oz. The increase in TCC was predominantly driven by the strengthening of the Russian Rouble (by 15% from an average rate of 67.1 RUB/USD in 2016 to 58.3 RUB/USD in 2017) on the back of the recent oil price rally and stabilising macroeconomic conditions in Russia. All-in sustaining cash costs[1] ("AISC") amounted to US$ 893/GE oz, also within the Company's updated guidance, an increase of 15% year-on-year, driven mostly by the same factors, as well as significantly increased exploration spending across the portfolio.
- Adjusted EBITDA[1] was US$ 745 million, down 2% compared to 2016, as increased costs incurred due to a stronger Russian Rouble largely offset the production growth. The Adjusted EBITDA margin was at 41% compared to 48% in 2016.
- Net earnings[2] were US$ 354 million versus US$ 395 million in the prior year, reflecting the decrease in EBITDA and the impact of foreign exchange gains on 2016 earnings. Underlying net earnings[1] were US$ 376 million (2016: US$ 382 million).
- Capital expenditure came in at US$ 383 million[3], up 41% compared to 2016 due to accelerated pre-stripping and construction at Kyzyl, as well as an increased brownfield exploration spend across the operating assets portfolio. The Group is on track with the commissioning of Kyzyl and the ramp up of the debottlenecked POX plant in the second half of 2018.
- Net debt[1] increased to US$ 1,420 million during the period (31 December 2016: US$ 1,330 million), representing a Net debt/Adjusted EBITDA ratio of 1.91x. Despite intensive construction activities at Kyzyl in the course of 2017, the Company continued to generate meaningful free cash flow[1] that amounted to US$ 143 million (2016: US$ 257 million), while maintaining stable net cash operating inflow of US$ 533 million (2016: US$ 530 million).
- A final dividend of US$ 0.30 per share (approx. US$ 129 million) representing 50% of the Group's underlying net earnings for 2H 2017 has been proposed by the Board in accordance with the revised dividend policy and in compliance with the hard ceiling of Net debt/Adjusted EBITDA ratio below 2.5x. This will bring the total dividend declared for the period to US$ 189 million.

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[1] The financial performance reported by the Group contains certain Alternative Performance Measures (APMs) disclosed to compliment measures that are defined or specified under International Financial Reporting Standards (IFRS). For more information on the APMs used by the Group, including justification for their use, please refer to the "Alternative performance measures" section below. The definition and calculation of non-IFRS APMs used in this report, including Adjusted EBITDA, Total cash costs, All-in sustaining cash costs, Underlying net earnings, Net debt and Free cash flow are explained in the "Financial Review" section below.

[2] Profit for the financial period.

[3] On a cash basis, representing cash outflow on purchases of property, plant and equipment in the statement of consolidated cash flows. Total capital expenditure including loans advanced on capital spending at Nezhda and Prognoz joint ventures comprised US$ 435 million.

OPERATING HIGHLIGHTS

- Polymetal delivered a strong operational performance in 2017: total GE production increased 13% year-on-year to 1,433 Koz, 2% above our initial production guidance of 1,400 Koz. The strong finish to 2017 was driven by contributions from the fully ramped-up Svetloye heap leach (Okhotsk hub), as well as a strong performance at Komar (Varvara hub), Omolon and Amursk/Albazino.
- Full year gold production totalled 1,075 Koz, a 21% increase year-on-year. Gold sales generally followed production dynamics. Silver production was down 8% to 26.8 Moz compared to 2016.
- Polymetal has increased production materially over the 20 years since the Company's inception, delivering a compound annual growth rate of 24%
- Polymetal regrettably reports two fatal accidents in 2017. While the total number of fatalities for the year has halved compared to 2016, we view this result as unsatisfactory. The Company has commenced implementing additional safety measures in 2018 with a particular focus on smaller operating units, especially those in remote locations.
- The Company reiterates its production guidance for 2018 and 2019 of 1.55 Moz and 1.7 Moz of gold equivalent, respectively. As in prior years, production in both years will be skewed towards the 2H due to seasonality.
- TCC in 2018 are expected to be in the range of US$ 650-700/GE oz while AISC are expected at US$ 875-925/GE oz. The anticipated increase in costs comes on the back of rising domestic diesel prices and further potential strengthening of the Russian Rouble. Cost guidance remains contingent on the Rouble/Dollar exchange rate dynamic which has a significant effect on the Group's operating costs.

"I am delighted to report strong operational delivery and robust earnings for the year", said Vitaly Nesis, Group CEO of Polymetal, commenting on the results. "While we have reached peak capital expenditure during 2017 ahead of the launch of the Kyzyl project in Q3 2018, the Group continued to deliver positive free cash flow and generate meaningful cash returns to our shareholders".

FINANCIAL HIGHLIGHTS[1]	**2017**	**2016**	**Change, %**
Revenue, US$m	1,815	1,583	+15%
Total cash cost, US$ /GE oz	658	570	+15%
All-in sustaining cash cost, US$ /GE oz	893	776	+15%
Adjusted EBITDA, US$m	745	759	-2%
Average realised gold price, US$ /oz	1,247	1,216	+3%
Average realised silver price, US$ /oz	16.1	16.3	-1%
Net earnings, US$m	354	395	-10%
Underlying net earnings, US$m	376	382	-1%
Return on Assets, %	18%	26%	-8%
Return on Equity (underlying), %	16%	18%	-2%
Basic EPS, US$ /share	0.82	0.93	-12%
Underlying EPS, US$ /share	0.88	0.90	-3%
Dividend declared during the period, US$ /share[2]	0.32	0.37	-14%
Dividend proposed for the period, US$ /share[3]	0.44	0.42	+5%

[1] Totals may not correspond to the sum of the separate figures due to rounding. % changes can be different from zero even when absolute amounts are unchanged because of rounding. Likewise, % changes can be equal to zero when absolute amounts differ due to the same reason. This note applies to all tables in this release.
[2] FY 2017: final dividend for FY 2016 declared in May 2017 and interim dividend for the 1H 2017 declared in September 2017.
FY 2016: final dividend for FY 2015 declared in May 2016, interim dividend for the 1H 2016 declared in September 2016, and special dividend declared in December 2016.
[3] FY 2017: interim and final dividend for FY2017. FY 2016: interim, final and special dividend for FY2016.

FINANCIAL HIGHLIGHTS[1]	2017	2016	Change, %
Net debt, US$m	1,420	1,330	+7%
Net debt/Adjusted EBITDA	1.91	1.75	+9%
Net operating cash flow, US$m	533	530	+1%
Capital expenditure, US$m	383	271	+41%
Free cash flow[2], US$m	143	257	-44%

[1] Totals may not correspond to the sum of the separate figures due to rounding. % changes can be different from zero even when absolute amounts are unchanged because of rounding. Likewise, % changes can be equal to zero when absolute amounts differ due to the same reason. This note applies to all tables in this release.

[2] Net cash flows from operating activities less cash flows used in investing activities excluding acquisition costs in business combinations and investments in associates and joint ventures.

CONFERENCE CALL AND WEBCAST

Polymetal will hold a conference call and webcast on Monday, 12 March 2018 at 09:00 London time (12:00 Moscow time).

To participate in the call, please dial:
8 10 800 500 98 63 access code 50622354# (free from Russia), or
+44 20 3009 2483 (free from the UK), or
+1 646 722 4912 (free from the US), or

or follow the link: http://www.audio-webcast.com/cgi-bin/visitors.ssp?fn=visitor&id=5403

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=5403. A recording of the call will be available immediately after the call at +44 20 3364 5147 (from within the UK), +1 646 722 4969 (USA Toll Free) and +7 495 249 16 71 (from within Russia), access code 418742254#, from 12:30 Moscow time Monday, 12 March, till 12:30 Moscow time Monday, 19 March, 2018.

Enquiries

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

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CHAIRMAN'S STATEMENT

In March 2018, we celebrate 20 years since the foundation of Polymetal. During that time, we have consistently delivered a strong operating performance and made good on our promises to our shareholders, employees, communities and other stakeholders.

Dear fellow stakeholders

In 2018, Polymetal celebrates its 20th anniversary; perhaps still youthful by global metrics but, nevertheless, a respectable milestone for a business built from the ground up in an emerging market. During that time, the Company has delivered a compound annual growth rate (CAGR) of 24% in production, 16 mines developed from scratch, 6.7 Moz of gold equivalent and 9.5 Moz of palladium equivalent in newly discovered resources, over US$ 1 billion in dividends and attained industry leadership in processing refractory gold. We have expanded our operations within three mining jurisdictions in the former Soviet Union (Russia, Kazakhstan and Armenia) and have achieved a premium listing on the London Stock Exchange in 2011.

Playing to our strengths

Over the last 20 years, we have built on our core competencies: using a hub-based system (Dukat, Omolon and Okhotsk); mastering POX technology and trading refractory gold concentrates (Kyzyl, Albazino, Mayskoye); operating successfully in difficult climatic conditions at locations with little or no existing infrastructure (five operations in the Russian Far East). Consistently focusing on high-grade assets has also ensured that we have delivered superior returns on capital.

Financial prudence pays dividends

Adherence to strong capital discipline has been the foundation of our strategy – in careful project selection with a preference for high grade and low-capital-intensity, in value-accretive M&As, as well as in our dividend policy. From free cash flow for 2012-2017 totalling US$ 1.3 billion, Polymetal paid out US$ 1 billion in dividends, providing tangible returns to shareholders with a sector-leading three-year TSR[1] of 61%.

Leading by example

At the same time, Polymetal recognises its duty of care for its entire stakeholder base, as evidenced by its practice of good governance and sustainable development in the regions in which we operate. The Board and management are fully committed to a sustainability agenda with a renewed focus on health and safety. In other areas, Polymetal's position as an industry leader in sustainability is acknowledged both by local communities and by an increasing number of international rating agencies, most recently the World Wildlife Fund and Sustainalytics. We are also signatories to the International Cyanide Management Code.

Polymetal is at the start of another dynamic stage in its history. Our investment in new projects – Kyzyl, and potentially into Nezhda, Prognoz and a second Amursk POX line - is expected to enable Polymetal to deliver superior shareholder returns and industry leadership over the long term. I look forward to making this journey, along with the Company's stakeholders.

Bobby Godsell
Chairman

[1] Total shareholder return.

GROUP CEO STATEMENT

We have made significant progress in 2017 on existing operations and new projects, and 2018 looks set to be a transformational year for Polymetal.

A successful and eventful year

2017 has been an exciting year for Polymetal, with significant progress made on the Kyzyl construction and the Amursk POX expansion. Both projects are on track and will launch within a few months. We further advanced our growth pipeline with the initial resource and reserve estimate on Nezhda joint venture reaffirming the economic attractiveness of the asset and justifying our development approach; we have also secured an option to consolidate our ownership. During the year, we invested in Prognoz, the largest undeveloped silver asset in Russia and progressed with pilot plant testing at Viksha, our first platinum group metals (PGM) project.

We have substantially increased our resources this year. Reserves at Nezhda[1] were confirmed as 2.0 Moz of GE at 4.0 g/t with an exploration upside of 8.9 Moz of additional resources at 5.0 g/t. At Prognoz, where we have begun drilling, according to historical estimates there is a high-grade resource of 292 Moz of silver[1] at 586 g/t with excellent exploration potential. An updated reserve estimate at the Komar gold deposit reported an increase of 535 Koz of gold with the grade stable at 1.8 g/t. We are now planning to transport more than 2 million tonnes of ore from Komar to our Varvara processing site, doubling the anticipated production rate.

Operationally, we met the production guidance comfortably, growing GE production 13% year-on-year to 1.43 Moz. Just one year after launch, Svetloye delivered superior results while Komar provided strong support to our Varvara operations. Other mature mines generally performed in line with expectations, with the exception of Mayskoye where open-pit production has been delayed until 2018 in order to rectify recovery issues. By the end of the year we also achieved a record 97.2% recovery at our flagship Amursk POX hub.

Full-year gold production of 1,075 Koz, a 21% increase year-on-year, allowed Polymetal to join the prestigious 1Moz club, the second premium-listed London Stock Exchange gold company to achieve this impressive milestone.

Robust financial performance

Despite peak capital spending at Kyzyl and the Amursk POX expansion, in addition to our investment in new development projects, Polymetal delivered meaningful free cash flow, totalling US$ 143 million in 2017. There were some cost pressures during the year due to the significant 15% appreciation of the Russian Rouble, driven by the rebound in oil prices, which pushed TCC up to US$ 658/GE oz in 2017 (2016: US$ 570/GE oz). However, this was partially offset by the best performance in gold prices since 2010, with 13% annual growth.

This enabled us to deliver a net profit for the year of US$354 million. In line with the new dividend policy, the pay-out ratio for regular dividends has been increased to 50%. In 2017, dividends of US$ 138 million (US$ 0.32 per share) were paid out and a final dividend of US$ 129 million (US$ 0.30 per share) is proposed.

Health and safety still a key focus

Although there has been some improvement in our health and safety performance, there is no room for complacency since, sadly, we have to report the death of two employees in 2017. We continue to view this as unacceptable and remain committed to our zero-fatalities target, as our enhanced critical risk management system gains traction.

At the same time, we have received wide-spread recognition for our sustainability initiatives, both here in our home market and internationally. Most recently we were awarded a top ranking for environmental responsibility among Russian metals and mining companies by the World Wildlife Fund; Sustainalytics positioned Polymetal as an outperformer in the metals and mining industry, ranking it first among its peers and fourth among the 44 mining companies included in the report; our performance on the Dow Jones Sustainability Index was accessed as above industry average and up 28% over the previous year. We were also awarded the highest score for Corporate Governance and Anti-Corruption in the FTSE4Good Index.

[1] On a 100% basis

Anticipating the future

2018 looks set to become another transformational year for Polymetal. The launch of the Kyzyl project is scheduled for the third quarter and is much anticipated both within the Company and by all our stakeholders. This, in turn, should allow us to move closer to finalising decisions on two further investments by the end of 2018, namely the construction plans for Nezhda and the feasibility study for a second POX line at Amursk. We expect further production growth in 2018, with this predominantly driven by Kyzyl but also from Komar's ramp-up to 2.2 Mtpa and from our existing mines continuing to deliver stable performances.

Last, but by no means least, I wish to thank our employees for all their commitment and professionalism. It is their efforts that have helped to shape the Company over the last 20 years and should be celebrated, along with the anniversary itself. I am optimistically looking forward to the next decade in our history and to us all playing our parts in this new chapter of Polymetal's story.

Vitaly Nesis
Group CEO

OPERATING REVIEW

A record-breaking year

In 2017, Polymetal delivered a strong operational performance with a record gold equivalent production of 1,433 Koz, a 13% increase year-on-year, meeting our initial production guidance for the sixth consecutive year. The robust finish to the year was driven by contributions from the fully ramped-up Svetloye heap leach (Okhotsk hub), as well as a solid performance at Komar (Varvara hub), Omolon and Amursk-Albazino.

Gold production totalled 1,075 Koz, a 21% increase year-on-year, allowing Polymetal to join the prestigious 1 Moz club, the second premium-listed gold company on the London Stock Exchange to achieve this important milestone. Silver production was down 8% to 26.8 Moz, due to the planned grade decline at the Dukat and Lunnoye underground mines.

Gold sales were 1,090 Koz, up 24% year-on-year, while silver sales were down 14% year-on-year at 26.5 Moz, generally in line with production dynamics and volume.

Key operating highlights

	2017	2016	Change
Stripping, Mt	114.0	82.1	+39%
Underground development, km	115.4	92.2	+25%
Ore mined, Kt	**12,589**	**13,380**	**-6%**
Open-pit	8,241	9,506	-13%
Underground	4,347	3,874	+12%
Ore processed, Kt	**13,037**	**11,417**	**+14%**
Average grade in ore processed (gold equivalent, g/t)	**3.9**	**4.0**	-4%
Production			
Gold, Koz	1,075	890	+21%
Silver, Moz	26.8	29.2	-8%
Copper, Kt	2.7	1.5	+87%
Zinc, Kt	4.8	2.900	+66%
Gold equivalent, Koz[1]	**1,433**	**1,269**	**+13%**
Sales			
Gold, Koz	1,090	880	+24%
Silver, Moz	26.5	30.7	-14%
Copper, Kt	2.6	1.6	+57%
Zinc, Kt	4.7	2.800	+68%
Gold equivalent, Koz[2]	**1,456**	**1,301**	**+12%**
Average headcount	10,953	10,813	+1%
Health and safety			
Fatalities	2	4	-50%
LTIFR	0.15	0.19	-21%

Analysis of production results

Mining

Stripping volumes in 2017 grew by 39% to 114 Mt of rock moved, driven mostly by drill-and-blast pre-stripping at Kyzyl and the removal of historic waste stockpiles at Komar.

Underground development increased by a further 25% to 115 km (2016: 92.2 km), with increased capacity to match processing volumes at Kapan underground mine, as well as underground development for new brownfield extensions at an active pace at Omolon hub (Birkachan and Olcha) and at Dukat hub (Perevalnoye and Terem). At Olcha, first ore stopes were extracted at the underground mine, where development is in full swing. Underground development at Perevalnoye and Terem is making good progress with both ore sources expected to make significant contributions to the feed at the Omsukchan concentrator in 2018.

Ore mined decreased by 6% year-on-year to 12.6 Mt (2016: 13.4 Mt), mainly as a result of the completion of open-pit mining at Oroch and a temporary suspension at Birkachan (where sufficient historic ore stockpiles are available).

[1] Based on 1:80 Ag/Au, 5:1 Cu/Au and 2:1 Zn/Au conversion ratios.
[2] Based on actual realised prices.

Processing

Ore processed increased by 14% to 13.0 Mt (2016: 11.4 Mt), mainly on the back of the resumption of the Birkachan heap leach project and the ramp-up of Svetloye.

As expected, the average gold equivalent grade in ore processed decreased slightly from 4.0 g/t to 3.9 g/t, while remaining close to average reserve grade. The decline came mostly from mature operations: the normalisation of the grade profile at the Dukat and Lunnoye mines; a scheduled slight decline in average grades at the Voro heap leach facility; and a lower gold average grade at the Omolon's Kubaka plant due to a change in the feedstock mix.

Production and sales

In 2017, Polymetal continued to deliver solid production results, producing 1.4 Moz of gold equivalent, up 13% year-on-year. Key drivers behind this performance were Svetloye (Okhotsk hub), Komar (Varvara hub), Omolon and Amursk-Albazino.

At Okhotsk operations, Svetloye heap leach was ramped up to full capacity, making a significant contribution to the Group's strong performance and delivering superior results: GE production was 106 Koz compared with 23 Koz in 2016. Komar provided valuable support to the Varvara operations: almost 2 Mt of Komar ore was mined and railed to the Varvara hub, resulting in a record GE production of 130 Koz, up 54% year-on-year. At Kapan, GE production almost doubled: a good operational performance was driven by increased processing volumes and improved head grades on the back of ongoing measures to debottleneck the underground mine and improve recovery levels. Albazino/Amursk achieved record gold production of 269 Koz, up 10% year-on-year, driven by higher productivity and recovery levels, as well as a significant improvement in head grades. At Dukat, there was a 13% decline in GE production, where higher processing volumes and improved recoveries failed to offset declining grades. This is partially due to a reduction in cut-off grades, which take into account lower mining costs, lower treatment charges and higher recoveries.

Metal sales in 2017 were 1,456 Koz of gold equivalent, up 12% compared with 2016, broadly following the production dynamics. While most of the sales are comprised of refined metals, we continue to sell concentrates from Dukat (gold/silver), Varvara (gold/copper), Kapan (gold/copper and gold/zinc) and Mayskoye (refractory gold) to different offtakers worldwide. Offtake allows us to maximise our margins and achieve an optimal combination of transportation costs and treatment charges/recoveries, this being one of our core competencies. In February 2018, Polymetal also secured its first offtake contract for Kyzyl concentrate.

Gold equivalent production by mine (Koz)

	2017	2016	Change
Dukat	322	369	-13%
Albazino/Amursk	269	244	+10%
Mayskoye	124	116	+7%
Omolon	202	170	+19%
Voro	120	129	-7%
Varvara	130	85	+54%
Okhotsk	217	131	+65%
Kapan	50	26	+94%
TOTAL	**1,433**	**1,269**	**+13%**

Exploration

Greenfield and brownfield exploration is a core element in our strategy for driving long-term growth and has proved to be one of the most efficient growth sources for Polymetal historically. Both extending mine life through near-mine exploration at existing operations and new discoveries from greenfield exploration contribute to the Company's long-term development prospects. Our exploration activities are focused on six regions in Russia – Khabarovsk, Magadan, Karelia, Yakutia, Chukotka and Urals – as well as on Kazakhstan and Armenia.

4 new licences were obtained over the course of 2017, bringing the total number to 82, of which 60 are currently involved in active exploration activities.

Our key exploration objectives in 2017 included:

- Brownfield exploration and resource-to-reserve conversions and resource upgrades at our brownfield projects with particular focus mature assets: Omolon (Irbychan and Yolochka); Voro (Saum) and Okhotsk (Levoberezhny, Gyrbykan, and Kundumi);
- Comprehensive exploration campaign at Dukat (the deeper levels of Lunnoye deposit, Primorskoye and Perevalnoye) with a goal to extend the scope of resource estimates;

- Initial JORC reserve and resource estimate at Nezhda JV's Zone 1 and further drilling on smaller, potentially mineralised zones;
- 37 km of diamond drilling at the Prognoz silver deposit to confirm the resources of Main and Swamp ore zones;
- JORC-compliant reserve estimate and a combined LOM plan for Kapan and Lichkvaz;
- 30 km of step-out drilling at Komar and update of the reserve and resource estimates for the deposit;
- Continuing step-out and deep-level drilling at Kyzyl.

In 2017, Polymetal succeeded in extending life-of-mine at producing assets and continued to invest in the next leg of our growth. Polymetal completed 421 km of exploration drilling in 2017, up 48% year-on-year as the scope of exploration expanded to include new assets, mostly Prognoz and Nezhda, in addition to continued exploration efforts at existing operations. The total capital expenditure on exploration was US$ 58 million, up 43% compared to 2016.

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

- At Albazino, the initial ore reserve estimate for Farida open pit (169 Koz GE) and Anfisa underground (47 Koz GE);
- Significant ore reserves increase of 524 Koz of gold (+49%) at Komar;
- An initial JORC-compliant reserve estimate at Kapan, which comprises 558 Koz GE at an average grade of 4.3 g/t. Additional mineral resources were estimated at 1,632 Koz GE at an average grade of 6.1 g/t;
- An initial JORC-compliant reserve estimate at Lichkvaz comprised 134 Koz GE at 3.9 g/t, while additional mineral resources amounted to 257 Koz GE at 5.0 g/t;
- At Nezhda, an initial JORC-compliant ore reserve estimate for open pit mining at ore zone 1 that comprised (on a 100% ownership basis) 15.5 Mt of ore with an average grade of 4.0 g/t GE containing 2.0 Moz of GE[1]. Additional mineral resources for Nezhda were estimated at 55.9 Mt of ore with an average grade of GE 5.0 g/t, containing 8.9 Moz of GE[2].

In 2018, Polymetal will continue to invest in exploration with the goal to expand the pace and scope of drilling, as well as prospect evaluation. The key objectives are as follows:

- To achieve resource-to-reserve conversions at existing operations with relatively shorter LOM;
- Polymetal aims to complete initial ore reserves estimates for the following deposits in 2018: Irbychan and Yolochka at Omolon; Saum and Pesherny at Voro; Levoberezhny and Kundumi at Okhotsk; Primorskoye and Perevalnoye (revaluation) at Dukat;
- To prepare an updated mineral resource estimate and achieve resource-to-reserve conversion at Nezhda to include the southern flank of ore zone 1 and smaller mineralised zones;
- To compete an audited JORC-compliant resource estimate for Prognoz largest ore zones, Main and Swamp;
- To prepare an updated mineral resources estimate for Viksha based on new drilling data and metallurgical studies;
- To continue step-out and in-fill drilling at Kyzyl to increase reserves for open pit mining.

Reserves and resources

In 2017, the Company increased its Ore Reserves by 5% to 20.9 Moz of gold equivalent (GE) on the back of successful exploration at Albazino, Komar and Dukat, as well as initial reserve estimates at Kapan and Nezhda. Gold reserves were up 5% at 18.4 Moz, while silver reserves decreased 3% to 158 Moz. At the same time, copper reserves grew 25% to 82 Kt.

Mineral Resources (in addition to Ore Reserves) increased by 10% to 18.2 Moz of GE, mainly driven by initial resource estimates for the Pesherniy and Nezhda deposits, as well as resource additions at the deeper levels of Mayskoye and Dukat.

[1] 350 Koz pro rata to Polymetal's current ownership of 17.7%
[2] 1,576 Koz of GE pro rata to Polymetal's current ownership of 17.7%

The average grade in Ore Reserves was stable year-on-year at 3.9 g/t of GE and remains one of the highest in the sector. At the same time, the average grade in Mineral Resources increased by 11 % to 4.7 g/t of GE due to high-grade resource additions at new projects.

We expect 2018 to result in further significant extensions of our reserves and resources.

Ore Reserves and Mineral Resources summary[1]

	1 January 2018	1 January 2017	Change
Ore Reserves (Proved + Probable), gold equivalent Moz	**20.9**	**19.8**	**5%**
Gold, Moz	18.4	17.6	5%
Silver, Moz	158.0	163.0	-3%
Copper, Kt	81.6	65.4	25%
Zinc, Kt[2]	85.8	NA	NA
Average reserve grade, g/t	3.9	3.8	+1%
Mineral Resources (Measured + Indicated + Inferred), gold equivalent Moz	**18.2**	**16.5**	**+10%**
Gold, Moz	15.7	14.4	+9%
Silver, Moz	109.1	87.5	+25%
Copper, Kt	147.9	206.7	-28%
Zinc, Kt[2]	221.8	NA	NA
Average resource grade, g/t	4.7	4.2	+11%

Ore Reserves reconciliation, GE Moz

Ore Reserves, 01.01.2017	Gold/silver price ratio change	Depletion	Revaluation	Initial reserve estimates	Ore Reserves, 01.01.2018
19.8	0.05	-1.6	1.2	1.4	20.9

Outlook for 2018

Going into 2018, we have an important year ahead of us with the first production from Kyzyl, which is set to deliver free cash flow soon after ramp up. This will pave the way for further investment decisions by the end of the year: the construction plans for Nezhda and the feasibility study for a second POX line at Amursk. In the meantime, we will continue to focus on sustaining robust operating performance at mature operations and advancing our long-term project pipeline, including Prognoz and Viksha.

We expect further production growth in 2018, coming mainly from Kyzyl but also from Komar's (Varvara hub) full ramp up to 2.2 Mtpa and our existing mines continuing to deliver stable performances. At Mayskoye, a combined float-leach circuit with flotation will commence operation in May 2018, while open-pit mining will resume in Q1 2018.

The launch of the Kyzyl project is scheduled for the Q3 2018 and is much anticipated both within the Company and by all our stakeholders. At the processing facility, construction activities will be focused on the installation of smaller technological equipment. In Q1 to Q3 2018, we will commission the accommodation camp, engineering networks and facilities, warehouse facilities, and heat and power complex, as well as the tailing dump and the main concentrator complex. Kyzyl remains on track to produce the first concentrate in Q3 2018. In January 2018, the first ore was mined from the open-pit ahead of schedule. Polymetal is on track to ramp up the debottlenecked POX plant in the second half of 2018, in time to take feed from the Kyzyl concentrator.

We will also focus on our new projects that will drive growth beyond launch of Kyzyl. We plan to advance the feasibility studies for Nezhda and POX-2 projects, and continue the drilling campaign at the Prognoz silver project, with an updated resource estimate scheduled for Q4 2018.

The Company reiterates its production guidance for 2018 and 2019 of 1.55 Moz and 1.7 Moz of gold equivalent, respectively. The main growth drivers will be the ramp-up of Kyzyl, re-commissioning of the oxide circuit at Mayskoye

[1] Mineral Resources are additional to Ore Reserves. Mineral Resources and Ore Reserves of Lead are not presented due to the immateriality and are not included in the calculation of the gold equivalent. PGM Mineral Resources are presented separately and are not included in the calculation of the gold equivalent. Differences are due to rounding.
[2] Zinc was not included in the calculation of the gold equivalent for the Ore Reserves and Mineral Resource statement as at 01.01.2017 due to immateriality

and incremental improvements at Varvara and Kapan. This should offset anticipated grade declines at Khakanja and Voro. As previously, production in both years will be weighted towards the second of the year due to seasonality.

Our focus remains on health and safety, where we are yet to achieve our principal goal of zero fatalities at all operations. In 2018, we will continue implementing a geomechanical management system that will help eliminate accidents related to mining processes.

FINANCIAL REVIEW

MARKET SUMMARY

Precious metals

For the second year in a row, gold is one of the best performing assets after consecutive price declines in 2013-2015. The price of gold grew by 13.5% - its biggest annual gain since 2010 - outperforming all major asset classes other than equities. The positive price momentum was primarily supported by a weakened US dollar, as well as heightened investor uncertainty on the back of geopolitical instability and a potential pullback on increased P/E ratios and expensive stock valuations that fuelled investor flows into gold.

However, gold demand remained under pressure in 2017, down 7% to 4,072[1] tonnes over 2016. The decline was driven by substantially lower retail investment demand and lagging ETFs that added only one-third of 2016's inflows. On the other hand, buying from central banks recorded a substantial gain of 36% year-on-year as Russia and Turkey continued to bolster gold reserves. Technology demand recorded its first year of growth as the use of gold in smartphones and vehicles continues to increase, ending a six-year downtrend. Physical demand remained relatively flat over the previous year, while jewellery demand posted its first annual increase since 2013, but remains weak in historical context.

Although gold traded within a narrow range of US$ 1,200–1,300/oz for most of the year, it closed at US$ 1,297/oz vs US$ 1,159/oz in 2016, averaging US$ 1,257 for the year and recording a year-high of US$ 1,351 in the third quarter. Silver underperformed gold ending the year on par with its 2016 average of US$ 17.0/oz. The spot price at 31 December 2017 comprised US$ 16.9/oz, up 4% compared to 1 January 2017.

Foreign exchange

The Group's revenues and the majority of its borrowings are denominated in US Dollars, while the majority of the Group's operating costs are denominated in Russian Roubles. As a result, changes in exchange rates affect its financial results and performance.

For the Russian economy as a whole, 2017 proved to be a year of moderate improvement as oil continued the positive price momentum it gained in 2016, finishing the year at US$ 60 per barrel. At the same time, the Russian Rouble appreciated 15% year-on-year from an average of 67.1 RUB/USD in 2016 to 58.3 RUB/USD in 2017, while the spot rate as at 31 December 2017 appreciated by 5% to 57.6 RUB/USD compared to 31 December 2016. However, this trend had a negative impact on the mining sector, resulting in increased Dollar value of the Group's Rouble-denominated operating costs and lower Adjusted EBITDA margins in the reported period.

The economics of Kazakh gold mining operations were also impacted by a moderate strengthening of the Kazakh tenge (up 5% year-on-year, from 342 KZT/USD in 2016 to 326 KZT/USD in 2017). The Armenian dram remains the most stable currency in the CIS region with an average exchange rate of 484 AMD/USD in 2017 (2016: 480 AMD/USD).

REVENUE

		2017	2016	Change, %
Sales volumes				
Gold	Koz	1,090	880	+24%
Silver	Moz	26.5	30.7	-14%
Copper	Kt	2.6	1.63	+57%
Zinc	Kt	4.7	2.80	+67%
Gold equivalent sold[2]	**Koz**	**1,456**	**1,301**	**+12%**

Sales by metal *(US$m unless otherwise stated)*		2017	2016	Change, %	Volume variance, US$m	Price variance, US$m
Gold		**1,359**	**1,070**	**+27%**	**256**	**33**
Average realised price	*US$ /oz*	1,247	1,216	+3%		
Average LBMA closing price	*US$ /oz*	1,258	1,250	+1%		
Share of revenues	*%*	75%	68%			
Silver		**426**	**500**	**-15%**	**(68)**	**(6)**

[1] Gold Demand Trends Full Year 2017 published by World Gold Council
[2] Based on actual realised prices

Average realised price	*US$ /oz*	16.1	16.3	-1%		
Average LBMA closing price	*US$ /oz*	17.0	17.1	-1%		
Share of revenues	*%*	23%	32%			
Other metals		**30**	**13**	**+131%**		
Share of revenues	*%*	2%	1%			
Total revenue		**1,815**	**1,583**	**+15%**	**188**	**44**

In 2017, revenues grew by 15% over 2016 to US$ 1,815 million, primarily driven by gold equivalent production growth of 13%. The average realised gold and silver prices were largely unchanged compared to the prior year period. Gold sales volumes increased by 24% year-on-year, while silver sales volumes decreased by 14% in line with the production dynamics.

The average realised price of gold was US$ 1,247/oz in 2017, up 3% from US$ 1,216/oz in 2016, and slightly below the average market price of US$ 1,258/oz. The average realised silver price was US$ 16.1/oz, down 1% year-on-year and 6% below the average market price of US$ 17.0/oz as the bulk of Polymetal's sales were recorded in 2H 2017 when the silver market prices were lower.

The share of gold sales as a percentage of total revenue increased from 68% in 2016 to 75% in 2017, driven by sales volume movements.

Analysis by segment/operation			**Revenue,** *US$m*			**Gold equivalent sold,** *Koz (silver equivalent for Dukat, Moz)*	
Segment	**Operation**	**2017**	**2016**	**Change, %**	**2017**	**2016**	**Change, %**
	Dukat	405	497	-19%	25,415	30,771	-17%
Magadan	Omolon	266	207	+29%	211	168	+26%
	Mayskoye	139	119	+17%	124	114	+8%
	Total Magadan	**810**	**823**	**-2%**	**654**	**683**	**-4%**
	Albazino/Amursk	350	294	+19%	277	234	+18%
Khabarovsk	Okhotsk	142	149	-5%	111	122	-9%
	Svetloye	138	30	+360%	107	23	+360%
	Total Khabarovsk	**630**	**473**	**+33%**	**496**	**380**	**+31%**
Ural	Voro	155	157	-1%	123	125	-2%
Kazakhstan	Varvara	154	101	+52%	123	82	+50%
Armenia	Kapan	66	29	+128%	55	27	+104%
Total revenue		**1,815**	**1,583**	**+15%**	**1,456**	**1,301**	**+12%**

Sales at all operating mines were broadly in line with planned production dynamics.

COST OF SALES

Cost of sales *(US$m)*	**2017**	**2016**	**Change, %**
On-mine costs	414	320	+29%
Smelting costs	316	259	+22%
Purchase of ore and concentrates from third and related parties	92	38	+142%
Mining tax	88	82	+7%
Total cash operating costs	**910**	**699**	**+30%**
Depreciation and depletion of operating assets	193	162	+19%
Rehabilitation expenses	-	1	-100%
Total costs of production	**1,103**	**862**	**+28%**
Increase in metal inventories	(26)	(51)	-49%
Write-down of metal inventories to net realisable value	16	21	-24%
Total change in metal inventories	**(10)**	**(30)**	**-67%**
Write-down of non-metal inventories to net realisable value	3	6	-50%
Idle capacities and abnormal production costs	10	8	+25%
Total cost of sales	**1,106**	**846**	**+31%**

Cash operating cost structure	2017, US$m	2017, % of total	2016, US$m	2016, % of total
Services	308	34%	232	33%
Consumables and spare parts	233	26%	193	28%
Labour	183	20%	147	21%
Purchase of ore and concentrates from third and related parties	92	10%	38	5%
Mining tax	88	10%	82	12%
Other expenses	6	1%	7	1%
Total	**910**	**100%**	**699**	**100%**

The total cost of sales increased by 31% in 2017 to US$ 1,106 million, mainly on the back of a negative effect from the Russian Rouble appreciating 15% compared to 2016, combined with a volume-based increase in production and sales (13% and 12% year-on-year in gold equivalent terms, respectively), as well as a significant increase in purchases of third-party ore and concentrate at Varvara and Amursk.

Compared to 2016, the cost of services and the cost of consumables and spare parts increased by 33% and 21%, respectively, driven by the higher gold equivalent production coupled with a stronger Russian Rouble.

The total cost of labour within cash operating costs in 2017 was US$ 183 million, a 24% increase over 2016, mainly stemming from additional labour costs at the new Kapan, Komar and Svetloye operations and annual salary increases (tracking domestic CPI inflation).

Mining tax increased by 7% year-on-year to US$ 88 million as production increased by 13%, and was mainly driven by regional tax incentives introduced in the Russian Far East and utilised at Dukat, Omolon and Svetloye.

Depreciation and depletion was US$ 193 million, up 19% year-on-year and largely driven by the negative effect of a stronger Russian Rouble and a specific increase attributable to Varvara where depreciation of mineral rights for the new Komar asset has started.

In 2017, a net metal inventory increase of US$ 26 million was recorded (excluding write-downs to net realisable value) mainly represented by gold and silver concentrate produced but not yet sold at Dukat and Albazino. In the second half of the year, the Company successfully completed scheduled stockpile reductions, with total gold equivalent sales exceeding production by 42 Koz. De-stockpiling was mainly driven by concentrate shipments from Mayskoye and seasonal destockpiling at Svetloye.

GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

(US$m)	2017	2016	Change, %
Labour	116	87	+33%
Services	11	10	+10%
Share based compensation	10	7	+43%
Depreciation	4	3	+33%
Other	17	13	+31%
Total	**158**	**120**	**+32%**

General, administrative and selling expenses increased by 32% year-on-year from US$ 120 million to US$ 158 million on the back of Russian Rouble appreciation against 2016, as well as increased labour costs due to newly acquired operations, increased personnel at stand-alone exploration projects and regular salary reviews.

OTHER OPERATING EXPENSES

(US$m)	2017	2016	Change, %
Exploration expenses	18	10	+80%
Social payments	15	10	+50%
Provision for investment in Special economic zone	12	14	-14%
Taxes, other than income tax	11	11	-
Housing and communal services	4	4	-
Loss on disposal of property, plant and equipment	1	1	-
Change in estimate of environmental obligations	(4)	(5)	-20%
Additional mining taxes and VAT exposures, penalties and accrued interest, net	(8)	(12)	-33%

Other expenses	(5)	3	NM[1]
Total	**44**	**36**	**+22%**

Other operating expenses increased by 22% from US$ 36 million in 2016 to US$ 44 million in 2017. Written off exploration expenses during the period increased by 80% to US$ 18 million. Cash-based exploration expenses in 2017 were US$ 16 million (2016: US$ 11 million).

Social payments totalled US$ 15 million, up 50% year-on-year. The increase was mostly attributable to financing of social and infrastructure development projects at Kyzyl and the start of a social development programme at Kapan.

During 2017, the Group had released US$ 6 million of accrued penalties and interest due to settlements with tax authorities at Kapan and paid US$ 6 million in relation to royalty provisions identified as of 31 December 2016. There were no other significant changes in tax provisions. For more information refer to Note 12 of the condensed consolidated financial statements.

TOTAL CASH COSTS

Total cash costs per gold equivalent ounce [2]		**Cash cost per GE ounce, US$ /oz**			**Gold equivalent sold, Koz** (silver for Dukat)		
Segment	**Operation**	**2017**	**2016**	**Change, %**	**2017**	**2016**	**Change, %**
Khabarovsk	Okhotsk	702	648	+8%	111	122	-9%
	Svetloye	313	419	-25%	107	23	+360%
	Albazino/Amursk	676	529	+28%	277	234	+18%
	Total Khabarovsk	**603**	**710**	**-15%**	**496**	**380**	**+31%**
Magadan	Dukat (SE oz) [3]	8.2	6.4	+28%	25,415	30,771	-17%
	Omolon	652	503	+30%	211	168	+26%
	Mayskoye	1,040	1,011	+3%	124	114	+8%
	Total Magadan	**726**	**581**	**+25%**	**654**	**683**	**-4%**
Ural	Voro	383	322	+19%	123	125	-2%
Kazakhstan	Varvara	701	780	-10%	123	82	+50%
Armenia	Kapan	871	900	-3%	55	27	+104%
Total Group		**658**	**570**	**+15%**	**1,456**	**1,301**	**+12%**

In 2017, total cash costs per gold equivalent ounce sold ("TCC") were US$ 658/GE oz, up 15% year-on-year. The continuing appreciation of the Russian Rouble against the US dollar had a negative impact on cost levels reported in US dollars, which was partially offset by the robust operating performance at Varvara (Komar), Svetloye and Kapan.

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

Reconciliation of TCC and AISC movements	**TCC, US$ / oz**	**Change, %**	**AISC, US$ / oz**	**Change, %**
Cost per gold equivalent ounce – 2016	**570**		**776**	
USD rate change	77	14%	108	14%
Domestic inflation	13	2%	18	2%
Change in average grade processed by mines	8	1%	8	1%
Change in sales structure	7	1%	7	1%
Au/Ag ratio change	3	1%	3	0%
Mining tax change - Au&Ag price	1	0%	1	0%
Other	(21)	-4%	(27)	-4%
Cost per gold equivalent ounce – 2017	**658**	**15%**	**893**	**15%**

[1] NM – not meaningful.
[2] 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.
[3] Dukat's total cash cost per gold equivalent was US$ 646/GE oz (2016: US$ 494/GE oz) and was included in the Group TCC calculation.

Total cash cost by operation:

- Dukat's total cash cost per silver equivalent ounce sold ("SE oz") increased by 28% year-on-year to US$ 8.2/SE oz. In addition to Russian Rouble appreciation, the cost increase is attributable to the planned silver grade decline at the Dukat and Lunnoye underground mines.
- At Voro, TCC increased by 19% year-on-year to US$ 383/GE oz, which is largely attributable to a stronger Russian Rouble. At the same time, the heap leach facility and CIP plant continued to deliver a stable performance in line with the mine plan.
- At Okhotsk, TCC was US$ 702/GE oz, an 8% increase year-on-year, which is below the Russian Rouble appreciation during the year that was offset by third-party ore with better metallurgical properties that was introduced to the feed at the Khakanja plant in 2017.
- Svetloye was the lowest cost operation in 2017, with TCC of US$ 313/GE oz, 25% lower than in 2016 as it ramped up to full capacity and achieved positive mine-to-model grade reconciliations.
- At Varvara, TCC was US$ 701/GE oz, declining by 10% year-on-year. The decrease mainly stemmed from significantly improved head grades at the leaching circuit enabled by the quick ramp-up in ore railed from Komar that is displacing lower grade ore from Varvara.
- At Omolon, TCC amounted to US$ 652/GE oz, a 30% increase year-on-year, driven by strengthening of the Russian Rouble. The costs in 2H 2016 were also positively impacted by processing high-grade ore from Oroch.
- At Albazino/Amursk, TCC was US$ 676/GE oz, up 28% compared to 2016. The cost increase was mostly attributable to a 7-week maintenance and retrofit shutdown in May including an additional 15-day maintenance shutdown in Q4, as well as processing of higher cost third-party concentrate.
- Total cash costs at Mayskoye were US$ 1,040/GE oz, a 3% increase year-on-year and below the Russian Rouble appreciation, as the underground operation ramped up and the production profile was supported by the crown pillar open pit project.
- Kapan's total cash costs were US$ 871/GE oz, improved by 3% year-on year thanks to the operational and financial turnaround and the ongoing improvement measures to debottleneck the underground mine, while there were purchases of higher cost third-party material in order to utilise available capacity at the processing plant.

Analysis of 2H 2017 versus 1H 2017 performance:

Total cash costs per gold equivalent ounce		**Cash cost per GE ounce, US$ /oz**			**Gold equivalent sold, Koz** (silver for Dukat, Koz)		
Segment	**Operation**	**2H 2017**	**1H 2017**	**Change, %**	**2H 2017**	**1H 2017**	**Change, %**
Khabarovsk	Okhotsk	637	892	-29%	84	28	+203%
	Svetloye	267	520	-49%	87	19	+349%
	Albazino/Amursk	689	656	+5%	170	107	+60%
	Total Khabarovsk	**568**	**681**	**-17%**	**342**	**154**	**+123%**
Magadan	Dukat	8.1	8.3	-3%	12,816	12,598	+2%
	Omolon	626	683	-8%	113	98	+14%
	Mayskoye	1,021	1,330	-23%	116	8	NM
	Total Magadan	**759**	**675**	**+12%**	**385**	**270**	**+43%**
Ural	Voro	379	387	-2%	62	61	+1%
Kazakhstan	Varvara	663	758	-12%	74	49	+52%
Armenia	Kapan	904	795	+14%	38	17	+130%
Total Group		**659**	**656**	**+0%**	**917**	**551**	**+66%**

In 2H 2017, total cash costs remained almost flat compared to 1H 2017 at US$ 659/GE oz. The performance was driven by contribution of high-cost operations at Kapan and processing of third-party concentrate at Amursk POX as well as sales from Mayskoye with higher than Group-average cost levels. This was to a significant extent offset by strong operational delivery at Okhotsk, Svetloye and Varvara. During 2H 2017, the Russian Rouble remained stable against the US Dollar (average rate of 58.7 RUB/USD in 2H 2017 compared to 58.0 RUB/USD in 1H 2017) and did not have any further negative effect on cost performance.

Total cash cost by operation:

- At Dukat and Voro, total cash costs remained almost unchanged half-on-half on the back of stable operating performances during the period.
- At Okhotsk, TCC was US$ 637/GE oz and decreased by 29% half-on-half as the seasonally higher share of Avlayakan ore was shipped to Okhotsk and processed in the second half of the year.
- Svetloye heap leach operation enjoyed positive mine-to-model grade reconciliation resulting in a notable decrease of TCC by 49% half-on-half to US$ 267/GE oz.
- Varvara experienced positive input of processing high-grade ore railed from Komar, resulting in TCC of US$ 663/GE oz, a 12% decrease half-on-half.
- At Omolon, cash costs decreased by 8% compared to 1H 2017 to US$ 626/GE oz on the back of improved gold grades and recovery levels at the Kubaka processing plant as the share of higher-grade ore from the Tsokol and Birkachan underground mines increased.
- At Albazino/Amursk, TCC was US$ 689/ GE oz, up 5% half-on-half due to larger volumes of high-cost third-party concentrate processed at Amursk POX during 2H 2017.
- There were no meaningful sales at Mayskoye during 1H 2017, hence the total cash costs for the period are considered unrepresentative of the underlying performance. TCC for 2H 2017 comprised US$ 1,021/GE oz.
- Decline of gold and silver grades and lower recoveries at Kapan due to purchases of third-party material resulted in TCC increasing by 14% to US$ 904/GE oz half-on-half. These purchases, however, allowed the project to utilise available capacity at the processing plant and increase total production and profits.

ALL-IN CASH COSTS

	Total, US$m			US$ /GE oz		
	2017	**2016**	**Change, %**	**2017**	**2016**	**Change, %**
Total cash costs	**955**	**738**	**+29%**	**658**	**570**	**+15%**
SG&A and other operating expenses not included in TCC	112	98	+14%	77	76	+2%
Capital expenditure excluding new projects	141	120	+18%	97	93	+5%
Exploration expenditure (capital and current)	87	47	+85%	60	36	+65%
All-in sustaining cash costs[1]	**1,295**	**1,004**	**+29%**	**893**	**776**	**+15%**
Finance cost	63	63	-	43	49	-11%
Capitalised interest	8	5	+60%	6	4	+43%
Income tax expense	89	169	-47%	61	131	-53%
After-tax All-in cash costs	**1,455**	**1,241**	**+17%**	**1,003**	**959**	**+5%**
Development capital	170	121	+40%	117	94	+25%
SG&A and other expenses for development assets	20	14	+43%	14	11	+27%
All-in costs	**1,645**	**1,376**	**+20%**	**1,134**	**1,063**	**+7%**

All-in sustaining cash costs amounted to US$ 893/GE oz in 2017 and increased by 15% year-on-year, driven mostly by the increase in total cash costs as a result of continued Russian Rouble strengthening, as well as increased exploration spending across the portfolio.

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

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

All-in sustaining cash cost by segment/operation, US$ /GE oz

Segment	Operation	2017	2016	Change, %
Khabarovsk	Okhotsk	869	750	+16%
	Svetloye	426	752	-43%
	Albazino/Amursk	846	684	+24%
	Total Khabarovsk	**760**	**710**	**+7%**
Magadan	Dukat	10.4	8.0	+30%
	Omolon	858	675	+27%
	Mayskoye	1,236	1,242	-1%
	Total Magadan	**914**	**734**	**+25%**
Ural	Voro	532	419	+27%
Kazakhstan	Varvara	952	975	-2%
Armenia	Kapan	1,292	1,264	+2%
Total		**893**	**776**	**+15%**

All-in sustaining cash costs followed total cash cost dynamics - driven by the exchange rate - and increased year-on-year across all operating mines, except for Svetloye and Mayskoye where strong operating performances outweighed the effect of other factors resulting in decreased AISC.

ADJUSTED EBITDA AND EBITDA MARGIN[1]

Reconciliation of Adjusted EBITDA *(US$m)*	2017	2016	Change, %
Profit for the year	354	395	-10%
Finance cost (net)	59	60	-2%
Income tax expense	89	169	-47%
Depreciation and depletion	214	155	+38%
EBITDA	**716**	**779**	**-8%**
Write-down of metal inventory to net realisable value	16	21	-24%
Write-down of non-metal inventory to net realisable value	3	6	-50%
Share based compensation	10	7	+43%
Net foreign exchange losses/(gain)	10	(65)	NM
Change in fair value of contingent consideration liability	(2)	22	NM
Rehabilitation costs	-	1	-100%
Additional mining taxes, VAT, penalties and accrued interest	(8)	(12)	-33%
Adjusted EBITDA	**745**	**759**	**-2%**

[1] Adjusted EBITDA is a key measure of the Company's operating performance and cash generation capacity (excluding impact of financing, depreciation and tax) and a key industry benchmark allowing to perform peer comparison. Adjusted EBITDA also excludes the impact of certain accounting adjustments (mainly non-cash items) that can mask underlying changes in core operating performance.

The Company defines Adjusted EBITDA (a non-IFRS measure) as profit for the period adjusted for depreciation and amortisation, write-downs and reversals of inventory to net realisable value, share-based compensation expenses, rehabilitation expenses, bad debt allowance, foreign exchange gains or losses, changes in fair value of contingent consideration, finance income, finance costs, income tax expense and other tax exposures accrued within other operating expenses. Adjusted EBITDA margin is Adjusted EBITDA divided by revenue.

Adjusted EBITDA by segment/operation (US$m)

Segment	Operation	2017	2016	Change, %
Magadan	Dukat	180	283	-36%
	Omolon	120	116	+3%
	Mayskoye	20	13	+54%
	Total Magadan	**320**	**412**	-22%
Khabarovsk	Albazino/Amursk	157	167	-6%
	Svetloye	101	18	+461%
	Okhotsk	58	71	-18%
	Total Khabarovsk	**316**	**256**	+23%
Ural	Voro	97	113	-14%
Kazakhstan	Varvara	68	36	+89%
	Kyzyl	(13)	(8)	+63%
	Total Kazakhstan	**55**	**28**	**+96**
Armenia	Kapan	20	6	+233%
Corporate and other and intersegment operations		(63)	(56)	+13%
Total		**745**	**759**	**-2%**

In 2017, Adjusted EBITDA was US$ 745 million, down 2% year-on-year, resulting in an Adjusted EBITDA margin of 41%. The decrease was mainly driven by a 15% increase in TCC, which was to a large extent offset by 13% growth in GE production. At Omolon, Svetloye, Varvara, Mayskoye and Kapan, Adjusted EBITDA increased on the back of a strong operating performance, offsetting the negative impact of an appreciating Russian Rouble. Across other operating mines, Adjusted EBITDA declined year-on-year.

OTHER INCOME STATEMENT ITEMS

Polymetal recorded a net foreign exchange loss in 2017 of US$ 10 million compared to a gain of US$ 65 million in 2016. These unrealised non-cash forex gains and losses recorded in both periods are mainly comprised of the revaluation of US Dollar denominated borrowings of Russian operating companies where the functional currency is the Russian Rouble. The Group's average gross debt during 2017 was US$ 1,417 million, mostly denominated in US Dollars, while the RUB/USD exchange rate decreased from 60.7 RUB/USD as at 31 December 2016 to 57.6 RUB/USD as at 31 December 2017.

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.

Income tax expense for 2017 was US$ 89 million compared to US$ 169 million in 2016. The decrease was mainly attributable to the effect of regional tax incentives applied by operations in the Russian Far East, most notably Svetloye, Dukat and Omolon. For details refer to Note 13 of the condensed consolidated financial statements.

NET EARNINGS, EARNINGS PER SHARE AND DIVIDENDS

The Group recorded a net income of US$ 354 million in 2017 versus US$ 395 million in 2016. Underlying net earnings (excluding after-tax impact of write-down of metal inventory to net realisable value, foreign exchange gains/losses and change in fair value of contingent consideration liability) were US$ 376 million, compared to US$ 382 million in 2016.

Reconciliation of underlying net earnings[1] *(US$m)*	**2017**	**2016**	**Change, %**
Profit for the financial year	354	395	-10%
Write-down of metal inventory to net realisable value	16	21	-24%
Tax effect on write-down of metal inventory to net realisable value	(3)	(4)	-24%
Foreign exchange loss/(gain)	10	(65)	NM
Tax effect on foreign exchange loss/(gain)	2	14	-84%
Change in fair value of contingent consideration liability	(2)	22	NM
Tax effect on change in fair value of contingent consideration	(1)	-	NM
Underlying net earnings	**376**	**382**	**-2%**

Basic earnings per share were US$ 0.82 per share compared to US$ 0.93 per share in 2016. Underlying basic EPS[2] was US$ 0.88 per share, compared to US$ 0.90 per share in 2016.

In accordance with the Company's revised dividend policy, the Board is proposing to pay a final dividend of US$ 0.30 per share (giving a total expected dividend of US$ 129 million) representing 50% of the Group's underlying net earnings for the period. During 2017, Polymetal paid a total of US$ 138 million in dividends, representing final dividends for FY 2016 and interim dividends for the 1H 2017.

CAPITAL EXPENDITURE[3]

(US$m)	**2017**	**2016**	**Change, %**
Kyzyl	116	86	+34%
Albazino/Amursk	62	34	+82%
Dukat	28	27	+4%
Kapan	24	13	+85%
Varvara	19	6	+217%
Mayskoye	18	19	-5%
Omolon	12	11	+9%
Svetloye	9	15	-40%
Okhotsk	3	2	+50%
Voro	3	3	-
Corporate and other	3	7	-57%
Exploration	58	37	+56%
Capitalised stripping	28	10	+169%
Total	**383**	**271**	**+41%**

In 2017, total capital expenditure was US$ 383[4] million, up 41% year-on-year mainly due to investments in construction and pre-stripping at Kyzyl and increased brownfield exploration spending across the operating assets portfolio. Capital expenditure excluding capitalised stripping costs was US$ 355 million in 2017 (2016: US$ 261 million).

The major capital expenditure items in 2017 were as follows:

- At all operating mines except for Albazino/Amursk, Kapan and Varvara, capital expenditures declined or remained almost unchanged year-on-year beyond the effect of Russian Rouble appreciation, and were mainly represented by routine mining fleet upgrades/replacements and maintenance expenditure at processing facilities;
- Capital expenditure at Albazino/Amursk was US$ 62 million, almost a two-fold increase year-on-year, mostly related to the POX debottlenecking project in the amount of US$ 40 million during 2017 (planned to reach full expanded capacity in the second half of 2018), underground engineering and other technical re-equipment, as well as construction of the second tailings storage.
- US$ 24 million was invested at Kapan, mostly related to purchases of underground mining equipment and near-mine exploration, including drilling at Lichkvaz, as well as a number of initiatives to improve safety and reduce

[1] Underlying net earnings represent net profit for the year excluding the impact of key items that can mask underlying changes in core performance.
[2] Underlying basic EPS are calculated based on underlying net earnings.
[3] On a cash basis.
[4] On accrual basis, capital expenditure was US$ 432 million in 2017 (2016: US$ 288 million).

environmental footprint of operations (centralized mine ventilation, tailings storage facility upgrade, water treatment and recycling facilities).

- At Varvara, the increased capital expenditure is mainly related to debottlenecking of the railway station for cargo acceptance and purchases of railway carriages to allow transportation of larger volumes of ores from Komar and third parties, technical re-equipment and reconstruction of the tailing storage.
- At Kyzyl, capital expenditure in 2017 comprised US$ 116 million, mainly representing the main concentrator building, ore-preparation complex (the crusher, conveyor gallery and apron feeder), tailings storage facility, electric shovels, mechanical and repair shop and purchases of mining machinery, as well as capitalised pre-stripping of US$ 31 million.
- The Company invests in standalone exploration projects. Capital expenditures for exploration in 2017 was US$ 58 million compared to US$ 37 million in 2016.
- Capitalised stripping costs totalled US$ 28 million in 2017 (2016: US$ 10 million) and are attributable to operations with stripping ratios exceeding their life of mine (“LOM”) averages during the period, including most importantly Albazino (US$ 9 million), Varvara (US$ 6 million) and Omolon (US$ 6 million).

CASH FLOWS

(US$m)	**2017**	**2016**	**Change, %**
Operating cash flows before changes in working capital	601	557	+8%
Changes in working capital	(68)	(27)	+152%
Total operating cash flows	**533**	**530**	**+1%**
Capital expenditure	(383)	(271)	+41%
Acquisition costs in business combinations and investments in associates and joint ventures	(87)	(128)	-32%
Other	(7)	(2)	+250%
Investing cash flows	**(477)**	**(401)**	**+19%**
Financing cash flows			
Net increase in borrowings	76	26	+192%
Dividends paid	(138)	(158)	-13%
Contingent consideration payment	(5)	(2)	+150%
Total financing cash flows	**(67)**	**(134)**	**-50%**
Net decrease/increase in cash and cash equivalents	**(11)**	**(5)**	**+120%**
Cash and cash equivalents at the beginning of the year	48	52	-8%
Effect of foreign exchange rate changes on cash and cash equivalents	(1)	1	NM
Cash and cash equivalents at the end of the year	**36**	**48**	**-25%**

Total operating cash flows in 2017 remained stable compared to the prior year. Operating cash flows before changes in working capital grew by 8% year-on-year to US$ 601 million mainly as a result of a decrease in cash tax payments. Net operating cash flows were US$ 533 million, compared to US$ 530 million in 2016. This was also affected by an increase in working capital in 2017 of US$ 68 million.

Total cash and cash equivalents decreased by 25% compared to 2016 and comprised US$ 36 million, with the following items affecting the cash position of the Group:

- Operating cash flows of US$ 533 million;
- Investment cash outflows totalled US$ 477 million, up 19% year-on-year and mainly represented by capital expenditure (up 41% year-on-year to US$ 383 million), cash investments in new assets (namely, Nezhda US$ 20 million, Prognoz US$ 5 million, Kapan US$ 5 million) and loans advanced on capital expenditure at growth projects (Nezhda and Prognoz totalling US$ 52 million);
- Payment of regular dividends for 2016 and 1H 2017 amounting to US$ 138 million; and

- The net increase in borrowings of US$ 76 million.

BALANCE SHEET, LIQUIDITY AND FUNDING

Net debt	31-Dec-17	31-Dec-16	Change, %
Short-term debt and current portion of long-term debt	26	98	-73%
Long-term debt	1,430	1,280	+12%
Gross debt	**1,456**	**1,378**	**+6%**
Less: cash and cash equivalents	36	48	-25%
Net debt	**1,420**	**1,330**	**+7%**
Adjusted EBITDA	**745**	**759**	-2%
Net debt / Adjusted EBITDA	**1.91**	**1.75**	+9%

The Group's net debt increased to US$ 1,420 million as of 31 December 2017, representing a Net debt / Adjusted EBITDA ratio of 1.91x.

The proportion of long-term borrowings comprised 98% as at 31 December 2017 (93% as at 31 December 2016). In addition, as at 31 December 2017 the Group had US$ 1.4 billion (31 December 2016: US$ 1.0 billion) of available undrawn facilities, of which US$ 1.3 billion is committed from a wide range of lenders that maintain its operational flexibility in the current environment.

The average cost of debt remained low at 3.96% in 2017 (2016: 4.33%), supported by low base interest rates and the ability to negotiate competitive margins given the solid financial position of the Company and its excellent credit history. The Group is confident in its ability to repay its existing borrowings as they fall due.

2018 OUTLOOK

While we recognise that our financial performance remains contingent on commodity prices and the Rouble/Dollar exchange rate dynamic which has a significant effect on the Group's operating costs, Polymetal expects to deliver a robust financial and operating performance in our first year of production from Kyzyl:

- The Company reconfirms its production guidance for 2018 and 2019 of 1.55 Moz and 1.7 Moz of gold equivalent, respectively.
- TCC in 2018 are expected to be in the range of US$ 650-700/ GE oz while AISC are expected to average US$ 875-925/ GE oz on the back of anticipated rising domestic diesel prices and expected strengthening of the Russian Rouble.
- The capital expenditure in 2018 is expected to be slightly lower compared to 2017 at roughly US$ 400 million. Significant investments will be directed towards completion of the Kyzyl and POX debottlenecking projects. The Company also plans to advance feasibility studies for Nezhda and POX-2 projects. Exploration spending is expected to stay elevated as Polymetal will continue its aggressive drilling campaign at the Prognoz silver project.
- As a result, the Company expects to continue to deliver positive free cash flow and prioritise dividends in our capital allocation process in 2018.

PRINCIPAL RISKS AND UNCERTAINTIES

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

The principal risks and uncertainties of the Group are listed below:

- Market risk;
- Production risks;
- Construction and development risk;
- Tax risks;
- Exploration risks;
- Health and safety risk;
- Environmental risks;
- Legal risk;
- Political risk;
- Currency risk;
- Liquidity risk;
- Interest rate risk.

A detailed explanation of these risks and uncertainties can be found on pages 66 to 69 of the 2016 annual report which is available at www.polymetalinternational.com. Further updates will be presented in the full annual financial report for 2017.

GOING CONCERN

In assessing its going concern status, the Group has taken account of its financial position, anticipated future trading performance, its borrowings and other available credit facilities, and its forecast compliance with covenants on those borrowings and its capital expenditure commitments and plans. As at 31 December 2017, the Group held US$ 36 million of cash and had net debt of US$ 1,420 million, with US$ 1,361 million of additional undrawn facilities of which US$ 1,266 million are considered committed. Debt of US$ 26 million is due for payment within one year. The Group's cash generation and liquidity remains strong and the Group believes it will be able to operate within existing facilities, but could secure additional financing if and when needed.

The Board is satisfied that the Group's forecasts and projections, having taken account of reasonably possible changes in trading performance, show that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of this report and that it is appropriate to adopt the going concern basis in preparing the condensed consolidated financial statements for the year ended 31 December 2017.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted for use in the European Union (IFRS). The financial statements are required by law to be properly prepared in accordance with the Companies (Jersey) Law 1991. International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'.

In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, the Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue in operation and meet its liabilities as they fall due over the reasonably reliable lookout period of three years.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK and Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the strategic report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board,

Bobby Godsell

Chairman of the Board of Directors

Vitaly Nesis

Group Chief Executive Officer

9 March 2018

POLYMETAL INTERNATIONAL PLC

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Revenue	4	1,815	1,583
Cost of sales	5	(1,106)	(846)
Gross profit		**709**	**737**
General, administrative and selling expenses	9	(158)	(120)
Other operating expenses, net	10	(44)	(36)
Share of profit of associates and joint ventures	16	3	-
Operating profit		**510**	**581**
Foreign exchange (loss)/gain, net		(10)	65
Change in fair value of contingent consideration liability	21	2	(22)
Finance income		4	3
Finance costs	12	(63)	(63)
Profit before income tax		**443**	**564**
Income tax expense	13	(89)	(169)
Profit for the financial period		**354**	**395**
Profit for the financial period attributable to:			
Equity shareholders of the Parent		354	395
		354	**395**
Earnings per share (US$)			
Basic	22	0.82	0.93
Diluted	22	0.81	0.93

POLYMETAL INTERNATIONAL PLC

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Profit for the period	354	395
Items that may be reclassified to profit and loss		
Exchange differences on translating foreign operations	113	280
Currency exchange differences on intercompany loans forming net investment in foreign operations, net of income tax	(23)	(56)
Total comprehensive income for the period	**444**	**619**
Total comprehensive income for period attributable to:		
Equity shareholders of the Parent	444	619
	444	**619**

POLYMETAL INTERNATIONAL PLC

CONDENSED CONSOLIDATED BALANCE SHEET

Assets	Notes	31 December 2017 US$m	31 December 2016 US$m
Property, plant and equipment	15	2,054	1,805
Goodwill		18	17
Investments in associates and joint ventures	16	96	25
Non-current loans and receivables		15	10
Deferred tax asset	13	61	38
Non-current inventories	17	123	113
Total non-current assets		**2,367**	**2,008**
Current inventories	17	514	493
VAT receivable		96	61
Trade receivables and other financial instruments	18	71	70
Prepayments to suppliers		38	31
Income tax prepaid		6	18
Cash and cash equivalents		36	48
Total current assets		**761**	**721**
Total assets		**3,128**	**2,729**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities		(135)	(133)
Current borrowings	19	(26)	(98)
Income tax payable		(10)	(8)
Other taxes payable		(38)	(34)
Current portion of contingent consideration liability	21	(5)	(14)
Total current liabilities		**(214)**	**(287)**
Non-current borrowings	19	(1,430)	(1,280)
Contingent consideration liability	21	(57)	(62)
Deferred tax liability	13	(77)	(78)
Environmental obligations		(39)	(37)
Other non-current liabilities		(4)	(4)
Total non-current liabilities		**(1,607)**	**(1,461)**
Total liabilities		**(1,821)**	**(1,748)**
NET ASSETS		**1,307**	**981**
Stated capital account	22	2,031	2,010
Share based compensation reserve		21	12
Translation reserve		(1,151)	(1,241)
Retained earnings		406	200
Total equity		**1,307**	**981**

Notes on pages 32 to 57 form part of these financial statements. These financial statements are approved and authorised for issue by the Board of Directors on 9 March 2018 and signed on its behalf by:

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

POLYMETAL INTERNATIONAL PLC

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Net cash generated by operating activities	24	**533**	**530**
Cash flows from investing activities			
Purchases of property, plant and equipment	15	(383)	(271)
Acquisitions of joint ventures and associate	16	(16)	(21)
Loans forming part of the net investment in joint ventures	16	(52)	-
Nezhda call option premium paid	16	(12)	-
Acquisitions of subsidiaries*	2	(7)	(107)
Loans advanced		(18)	(4)
Receipt of repayment of loans provided		11	2
Net cash used in investing activities		**(477)**	**(401)**
Cash flows from financing activities			
Borrowings obtained	19	3,108	1,436
Repayments of borrowings	19	(3,032)	(1,410)
Dividends paid	14	(138)	(158)
Contingent consideration paid	21	(5)	(2)
Net cash used in financing activities		**(67)**	**(134)**
Net decrease in cash and cash equivalents		(11)	(5)
Cash and cash equivalents at the beginning of the period		48	52
Effect of foreign exchange rate changes on cash and cash equivalents		(1)	1
Net cash generated by financing activities		**36**	**48**

**Includes US$5 million outstanding as of 31 December 2016, paid during year ended 31 December 2017 for Kapan acquisition*

POLYMETAL INTERNATIONAL PLC

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Number of shares outstanding (unaudited)	Stated capital account	Share based compensation reserve	Translation reserve	Retained earnings	Total equity attributable to the parent	Total equity
Balance at 1 January 2016		**424,650,138**	**1,969**	**6**	**(1,465)**	**(23)**	**487**	**487**
Profit for the financial year		-	-	-	-	395	395	395
Other comprehensive income, net of income tax		-	-	-	224	-	224	224
Share based compensation		-	-	7	-	-	7	7
Shares allotted to employees		110,850	1	(1)			-	-
Issue of shares to acquire non-controlling interest	22	898,875	14	-	-	(14)	-	-
Issue of shares in exchange for asset acquisitions	2	1,120,690	11	-	-	-	11	11
Issue of shares for business acquisition	2	1,481,785	15	-	-	-	15	15
Dividends	14	-	-	-	-	(158)	(158)	(158)
Balance at 31 December 2016		**428,262,338**	**2,010**	**12**	**(1,241)**	**200**	**981**	**981**
Profit for the financial year		-	-	-	-	354	354	354
Other comprehensive income, net of income tax		-	-	-	90	-	90	90
Share based compensation		-	-	10	-	-	10	10
Shares allotted to employees		144,219	1	(1)	-	-	-	-
Issue of shares to acquire non-controlling interest	22	893,575	10	-	-	(10)	-	-
Issue of shares for contingent consideration		815,348	10	-	-	-	10	10
Dividends	14	-	-	-	-	(138)	(138)	(138)
Balance at 31 December 2017		**430,115,480**	**2,031**	**21**	**(1,151)**	**406**	**1,307**	**1,307**

1. GENERAL

Corporate information

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

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

The Financial statements for the year ended 31 December 2017 included in this announcement were authorised for issue in accordance with a resolution of the Board of Directors on 9 March 2018.

The preliminary results for the year ended 31 December 2017 have been extracted from audited accounts which have not been delivered to the Jersey Registrar of companies. The Financial statements included in this announcement do not constitute statutory accounts for the year ended 31 December 2017 or 31 December 2016. The financial information for the year ended 31 December 2016 is extracted from the statutory accounts from that year. The report of the auditors on the statutory accounts for both 2017 and 2016 was unqualified.

Significant subsidiaries

As at 31 December 2017 the Company held the following significant mining and production subsidiaries:

Name of subsidiary	Deposits and production facilities	Segment	Country of incorporation	Effective interest held, % 31 December 2017	Effective interest held, % 31 December 2016
Gold of Northern Urals CJSC	Vorontsovskoye	Ural	Russia	100	100
Okhotskaya Mining and Exploration Company LLC	Avlayakan Khakanja plant	Khabarovsk	Russia	100	100
Svetloye LLC	Svetloye	Khabarovsk	Russia	100	100
Magadan Silver JSC	Dukat Lunnoe Arylakh Goltsovoye	Magadan	Russia	100	100
Mayskoye Gold Mining Company LLC	Mayskoye	Magadan	Russia	100	100
Omolon Gold Mining Company LLC	Birkachan Tsokol Dalneye Sopka Kvartsevaya Olcha	Magadan	Russia	100	100
Albazino Resources Ltd	Albazino	Khabarovsk	Russia	100	100
Amur Hydrometallurgical Plant LLC	AGMK Plant	Khabarovsk	Russia	100	100
Varvarinskoye JSC	Varvarinskoye	Kazakhstan	Kazakhstan	100	100
Bakyrchik Mining Venture LLC	Bakyrchik	Kazakhstan	Kazakhstan	100	100
Inter Gold Capital LLC	Bolshevik	Kazakhstan	Kazakhstan	100	100
Komarovskoye Mining Company LLC	Komarovskoye	Kazakhstan	Kazakhstan	100	100
Kapan MPC CJSC	Kapan	Armenia	Armenia	100	100

Going concern

In assessing its going concern status, the Group has taken account of its financial position, anticipated future trading performance, its borrowings and other available credit facilities, and its forecast compliance with covenants on those borrowings and its capital expenditure commitments and plans. As at 31 December 2017, the Group held US$ 36 million of cash and had net debt of US$ 1,420 million, with US$ 1,361 million of additional undrawn facilities of which US$ 1,266 million are considered committed. Debt of US$ 26 million is due for payment within one year. The Group's cash generation and liquidity remains strong and the Group believes it will be able to operate within existing facilities, but could secure additional financing if and when needed.

The Board is satisfied that the Group's forecasts and projections, having taken account of reasonably possible changes in trading performance, show that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of this report and that it is appropriate to adopt the going concern basis in preparing the condensed consolidated financial statements for the year ended 31 December 2017.

Basis of presentation

The accounting policies applied in these condensed financial statements for the year ended 31 December 2017 are consistent with those of the Financial Statements for the year ended 31 December 2016, as described in these Financial Statements, with the exception of standards, amendments and interpretations effective in 2017 and other presentational changes.

Amended accounting standards adopted by the Group

The following amendments to IFRSs became mandatory effective during the year ended 31 December 2017. The amendments generally require full retrospective application, with some amendments requiring prospective application.

- Amendments to IAS 7 *Disclosure Initiative;*
- Amendments to IAS *7 Recognition of Deferred Tax Assets for Unrealised Losses*;
- Amendments to IFRS 12 included in Annual Improvements to IFRS Standards 2014-2016 Cycle.

The Group has determined these amendments do not have significant impact on its condensed consolidated financial statements.

New accounting standards issued but not yet effective

IFRS 15 *Revenue from Contracts with Customers*. In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”), which covers principles that an entity shall apply to report information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods beginning on or after 1 January 2018, with earlier application permitted. The Group has determined the impact of IFRS 15 on its consolidated financial statements with the primary focus being understanding those sales contracts where the timing and amount of revenue recognised could differ under IFRS 15, which may occur for example if contracts with customers incorporate performance obligations not currently recognised separately, or where such contracts incorporate variable consideration.

The Group’s revenue is primarily derived from commodity sales, for which the point of recognition is dependent on the contract sales terms, known as the international commercial terms (Incoterms). As the transfer of risks and rewards generally coincides with the transfer of control at a point in time under incoterms, the timing and amount of revenue recognised by the Group for the sale of commodities is not materially affected.

For the Incoterms Cost, Insurance and Freight (CIF) and Cost and Freight (CFR) the seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination. Consequently, the freight service on export commodity contracts with CIF/CFR incoterms represents a separate performance obligation as defined under the new standard, and a portion of the revenue earned under these contracts, representing the obligation to perform the freight service, is deferred and recognised over time as this obligation is fulfilled, along with the associated costs.

The impact of applying the change during the year ended 31 December 2017 would be to reduce revenue and operating costs respectively by US$ 9 million with no impact on profit. There would be no effect on current assets and current liabilities as at 31 December 2017.

The Group plans to use the modified approach, so the cumulative effect of initially applying IFRS 15 will be recognised as an adjustment to the opening balance of retained earnings as of 1 January 2018.

IFRS 9 *Financial instruments*. In July 2014, the IASB issued the final version of IFRS 9 *Financial instruments* (“IFRS 9”). This standard is effective for annual periods beginning on or after 1 January 2018, and permits early adoption. IFRS 9 provides a revised model for recognition, measurement and impairment of financial instruments. IFRS 9 also includes a substantially reformed approach to hedge accounting. The Group has determined the impact of IFRS 9 on its consolidated financial statements with the primary focus being on the application of the “expected credit loss” model under which an entity calculates the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring.

The impacts of adopting IFRS 9 on the Group results for the year ended 31 December 2017 are as follows:

- Impairment: The impact of the introduction of an ‘expected credit loss’ model for the assessment of impairment of financial assets held under amortised cost would be to increase the Group’s operating costs by US$ 4 million and decrease the Group’s profit before tax by US$ 4 million for the year ended 31 December 2017, and to reduce current assets by US$ 4 million at 31 December 2017.

- Classification and measurement: The measurement and accounting treatment of the Group's financial assets is unchanged on application of the new standard.
- Hedge accounting: no impact as the Group does not elect to use hedge accounting.

As these effects are considered immaterial to the Group, the Group has elected not to restate prior period on adoption of the new standard in 2018.

IFRS 16 *Leases.* IFRS 16 replaces the following standards and interpretations: IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*. The new standard provides a single lessee accounting model for the recognition, measurement, presentation and disclosure of leases. IFRS 16 applies to all leases including subleases and requires lessees to recognise assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset has a low value. Lessors continue to classify leases as operating or finance. Application of the standard is mandatory for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. The Group is in the process of determining the impact of IFRS 16 on its consolidated financial statements.

Amendments to IFRS *10 Consolidated Financial Statements and IAS 28 Joint Ventures*: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture remove an inconsistency between the two standards on the accounting treatment for gains and losses arising on the sale or contribution of assets by an investor to its associate or joint venture. Following the amendment, such gains and losses may only be recognised to the extent of the unrelated investor's interest, except where the transaction involves assets that constitute a business. In December 2015, the IASB has postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method accounting. The Group doesn't expect it to have a material impact on its consolidated financial statements.

The following standards and interpretations were in issue but not yet effective as of reporting date and are not applicable or have no effect to the Group:

- Amendments to IAS 40 *Investment Property*, effective for annual period beginning on or after 1 January 2018;
- Amendments to IAS 1 *First-time Adoption of International Financial Reporting Standards*, effective for annual period beginning on or after 1 January 2018;
- Amendments to IFRS 2 *Share-based payments,* effective for annual period beginning on or after 1 January 2018;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*, effective for annual period beginning on or after 1 January 2018;
- IFRIC 23 *Uncertainty over Income Tax Treatment*, effective for annual period beginning on or after 1 January 2019.

2. ACQUISITIONS

(a) Year ended 31 December 2017

Primorskaya GGK LLC

In May 2017 Polymetal purchased a 100% interest in Primorskaya GGK LLC, a company holding several licences for the silver-gold properties located in the Primorskiy region of Russia, from an unrelated party for a cash consideration of US$ 2 million.

The company does not meet the definition of a business pursuant to IFRS 3 and thus it was accounted for as an acquisition of a group of assets. The Group has purchased mineral rights of US$ 2 million.

(b) Year ended 31 December 2016

Kapan

In March 2016 Polymetal entered into binding agreements with Dundee Precious Metals Inc (Dundee) for the acquisition of CJSC Dundee Precious Metals Kapan ("DPMK"), the holding company for the Kapan Gold Mine ("Kapan") in the Republic of Armenia.

On 28 April 2016 the Group acquired 100 per cent of the shares of DPMK.

The asset comprises a fully mechanised underground mine and a conventional 750 ktpa flotation concentrator and various infrastructure facilities. The mine produces gold, copper, silver and zinc concentrates sold to international markets.

Kapan meets the definition of a business pursuant to IFRS 3 and thus was accounted for at fair value using the acquisition method.

Consideration transferred

The total consideration for the shares at completion comprised US$ 38 million consisting of US$ 14 million payable in cash (including post-closing working capital adjustment amounting to US$ 5 million) and US$ 15 million paid through the issue of 1,481,785 new ordinary shares of the Company. In addition, Dundee receives a 2% NSR (Net Smelter Return) royalty on the future production from the Kapan Gold Mine capped at US$ 25 million.

The fair value of the 1,481,785 ordinary shares issued as part of the consideration paid for Kapan was determined based on spot price as of acquisition date, being US$ 10.28, and amounts to US$ 15 million.

The net smelter return royalty described above meets the definition of contingent consideration. The fair value of the contingent consideration was determined based on the life-of-mine model of the Kapan mine by discounting projected cash flows to the acquisition date. The following metal price assumptions, consistent with the assumptions adopted for the long-term planning at the time of acquisition, were used for the fair value calculation: Au – US$ 1,250/oz, Ag – US$ 17/oz, Cu – US$ 4,500/tonne, Zinc – US$ 1,800/tonne, real post-tax discount rate of 9.04%. At the acquisition date, the estimated fair value of the contingent consideration amounted to US$ 9 million.

Assets acquired and liabilities recognised at the date of acquisition

As of date of finalisation of the interim consolidated financial statements for the period ended 30 June 2016 the fair value of the assets acquired and liabilities recognised at the date of acquisition was provisionally accounted for, as well as the amount of the post-closing working capital adjustment. A post-closing working capital adjustment of US$ 5 million was outstanding as of 31 December 2016 and was included in account payable. The amount was paid during the year ended 31 December 2017.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed and its reconciliation to the provisionally accounting are set out in the table below:

	Provisional accounting US$m	Fair value adjustments US$m	Final accounting US$m
Assets acquired and liabilities recognised at the date of acquisition			
Cash and cash equivalents	1	-	1
Mineral rights	17	(17)	-
Property, plant and equipment	4	17	21
Inventories	11	5	16
Account receivable	12	-	12
Accounts payable and accrued liabilities	(8)	-	(8)
Taxes payable	(12)	-	(12)
Environmental obligations	(1)	-	(1)
Deferred taxes	9	-	9
Net assets acquired	**33**	**5**	**38**
Consideration transferred			
Cash	9	5	14
Fair value of shares issued	15	-	15
Contingent consideration	9	-	9
Total consideration	**33**	**5**	**38**
Net cash outflow on acquisition	**8**	**-**	**8**
Cash consideration payable as of 31 December 2016	**-**	**-**	**5**

No significant financial assets were acquired in business combination. The fair value of the accounts receivable approximates to its carrying value.

Komarovskoye

On 4 April 2016 Polymetal entered into a binding agreement with Kazzinc LTD, a subsidiary of Glencore International plc, for the acquisition of Orion Minerals LLC, the holding company for the Komarovskoye Gold Deposit ("Komarovskoye") in the Republic of Kazakhstan.

The asset comprises an active open pit mine and a 500 ktpa heap leach facility with grid power available on site. Polymetal aims to mine, deliver by rail and process at Varvara up to 2 Mtpa of ore with potential to increase Varvara's annual production at lower cash costs.

The acquisition of the Komarovskoye was completed on 1 August 2016, following receipt of all required regulatory approvals.

Management considers that the control over the Komarovskoye was obtained on the date of the deal completion.

Komarovskoye meets the definition of a business pursuant to IFRS 3 thus it was accounted for at fair value using the acquisition method.

The total consideration for Komarovskoye was US$ 100 million payable in cash. In addition, a deferred consideration contingent upon future production levels and gold price performance, will be paid to Kazzinc LTD. The royalty is calculated on a quarterly basis, based on contained gold in ore mined per relevant quarter and is payable at gold prices above US$ 1,250 per ounce. The royalty is capped at a total consideration of US$ 80 million.

Consideration transferred

Deferred consideration described above meets definition of the contingent consideration. The fair value of the contingent consideration was determined based on the life-of-mine model of the Komarovskoye mine and calculated using Monte Carlo modelling. Projected cash flows were discounted to the acquisition date at a discount rate of 9.04%. Gold price volatility was assessed at 18.08%, average gold price for one quarter to the valuation date was 1,291 USD/ounce. As at acquisition date the estimated contingent consideration amounts to US$ 20 million.

Assets acquired and liabilities recognised at the date of acquisition

As at 31 December 2016, purchase price allocation for the acquisition of Komarovskoye was not completed and mineral rights and environmental obligations were accounted for on a provisional basis. The Group completed the purchase price allocation review during the year ended 31 December 2017 and made no adjustments to the provisional calculation.

The management believes that this business acquisition does not give rise to goodwill and excess of consideration over identifiable net asset assets of the acquiree should be fully attributed the mineral rights. The amount recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

	US$m
Assets acquired and liabilities recognised at the date of acquisition	
Cash and cash equivalents	1
Property, plant & equipment	140
Inventories	7
Accounts receivable	1
Accounts payable and accrued liabilities	(2)
Environmental obligations	(1)
Deferred income taxes	(25)
Other liabilities	(1)
Net assets acquired	**120**
Consideration transferred	
Cash	100
Contingent consideration	20
Total consideration	**120**
Net cash out flow on acquisition	**99**

No significant financial assets were acquired in business combination. No significant acquisition-related costs were incurred.

Saum Mining Company LLC

On 2 December 2016 Polymetal International plc acquired an 80% stake in Saum Mining Company LLC, a licence holder for the Saum polymetallic deposit ("Saum"). Polymetal issued 1,120,690 new Company shares ("Consideration shares"), representing 0.26% of Polymetal's total increased share capital in connection with the acquisition of an 80% stake in Saum from an unrelated party. The total transaction value is approximately US$ 10.7 million.

The Saum licence covers an area of 34.2 km2 in Russia's Sverdlovsk region in the Ural Mountains and is located and approximately 240 km from Polymetal's Voro processing plant. Polymetal plans to prepare an Ore Reserves estimate in Q4 2017. Further drilling is planned on the property in 2017 and 2018.

Saum does not meet the definition of a business pursuant to IFRS 3, as it represents acquisition of mining license through a non-operating corporate entity, and thus it is accounted for as an acquisition of a group of assets. The Group purchased mineral rights of US$ 10 million and other current assets of US$ 1 million.

3. SEGMENT INFORMATION

During the year ended 31 December 2017 management has reviewed the segmental presentation of financial information it requires to assess performance and allocate resources. It now considers a more geographic-focused reporting format based on the location of operating activities to be more meaningful from a management and forecasting perspective, as well as aligned to the management structure, reporting and practices.

The Group has identified five reportable segments:

- Magadan (Omolon Gold Mining Company LLC, Magadan Silver JSC, Mayskoye Gold Mining Company LLC);
- Ural (Gold of Northern Urals CJSC);
- Khabarovsk (Albazino Resources Ltd, Amur Hydrometallurgical Plant LLC; Okhotskaya Mining and Exploration Company LLC; Svetloye LLC);
- Kazakhstan (Varvarinskoye JSC; Komarovskoye Mining Company LLC; Bakyrchik Mining Venture LLC, Inter Gold Capital LLC);
- Armenia (Kapan MPC CJSC, Lichkvaz CJSC).

Reportable segments are determined based on the Group's internal management reports, which 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 based in the Russian Federation, Kazakhstan and Armenia.

The measure which management and the Chief Operating Decision Maker (the CODM) use to evaluate the performance of the Group is segment Adjusted EBITDA, which is defined as profit for the period adjusted for depreciation and amortisation, write-downs and reversals of inventory to net realisable value, share-based compensation expenses, rehabilitation expenses, bad debt allowance, 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 tax exposure accrued within other operating expenses. The accounting policies of the reportable segments are consistent with those of the Group's accounting policies under IFRS.

Revenue shown as corporate and other comprises, principally, intersegment revenue relating to the supply of inventories, spare parts and fixed assets, and rendering management services to the Group's production entities. Intersegment revenue is recognised based on costs incurred plus a fixed margin basis. External revenue shown within corporate and other represents revenue from services provided to third parties by the Group's non-mining subsidiaries.

Business segment current assets and liabilities, other than current inventory, are not reviewed by the CODM and therefore are not disclosed in these condensed consolidated financial statements. The segment adjusted EBITDA reconciles to the profit before income tax as follows:

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

Period ended 31 December 2017 (US$m)	MAGADAN	KHABAROVSK	URAL	KAZAKHSTAN	ARMENIA	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	810	630	155	154	66	1,815	-	-	1,815
Intersegment revenue	-	14	1	6	-	21	218	(239)	-
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	437	301	43	83	39	903	141	(167)	**877**
Cost of sales	540	371	56	114	51	1,132	141	(167)	1,106
Depreciation included in Cost of sales	(94)	(65)	(13)	(29)	(9)	(210)	-	-	(210)
Write-down of metal inventory to net realisable value	(12)	(3)	-	(1)	-	(16)	-	-	(16)
Write-down of non-metal inventory to net realisable value	3	(2)	-	(1)	(3)	(3)	-	-	(3)
General, administrative and selling expenses, excluding depreciation, amortization and share based compensation	29	18	5	13	5	70	89	(15)	**144**
General, administrative and selling expenses	53	35	12	17	5	122	102	(66)	158
Intercompany management services	(23)	(16)	(7)	(3)	-	(49)	(2)	51	-
Depreciation included in SGA	(1)	(1)	-	(1)	-	(3)	(1)	-	(4)
Share based compensation	-	-	-	-	-	-	(10)	-	(10)
Other operating expenses excluding additional tax charges	24	10	11	9	2 -	56	6	(10)	52
Other operating expenses	21	11	9	9	(4)	46	8	(10)	44
Additional mining taxes and VAT exposures, penalties and accrued interest	3	(1)	2	-	6	10	(2)	-	8
Share of income of associates and joint ventures						-	3	-	3
Adjusted EBITDA	**320**	**315**	**97**	**55**	**20**	**807**	**(15)**	**(47)**	**745**
Depreciation expense	95	66	13	30	9	213	1	-	214
Rehabilitation expenses	-	-	-	-	-	-	-	-	-
Write-down of non-metal inventory to net realisable value	(3)	2	-	1	3	3	-	-	3
Write-down of metal inventory to net realisable value	12	3	-	1	-	16	-	-	16
Share-based compensation	-	-	-	-	-	-	10	-	10
Additional mining taxes and VAT exposures, penalties and accrued interest	(3)	1	(2)	-	(6)	(10)	2	-	(8)
Operating profit / (loss)	**219**	**243**	**86**	**23**	**14**	**585**	**(28)**	**(47)**	**510**
Net foreign exchange gains									**(10)**
Change in fair value of contingent consideration liability									**2**
Finance income									**4**
Finance costs									**(63)**
Profit before tax									**443**
Income tax expense									**(89)**
Profit for the financial period									**354**
Current metal inventories	130	125	42	30	6	333	-	(5)	328
Current non-metal inventories	99	48	6	21	4	178	17	(9)	186
Non-current segment assets:									
Property, plant and equipment, net	469	443	46	892	66	1,916	138	-	2,054
Goodwill	18	-	-	-	-	18	-	-	18
Non-current inventory	86	13	2	23	1	125	-	(2)	123
Investments in associates	-	-	-	-	-	-	96	-	96
Total segment assets	**802**	**629**	**96**	**966**	**77**	**2,570**	**251**	**(16)**	**2,805**
Additions to non-current assets:	-	-	-	-	-	-	-	-	-
Property, plant and equipment	106	114	9	165	24	418	13	-	431
Acquisition of group of assets	-	-	-	-	-	-	2	-	2

Period ended 31 December 2016 (US$m)	MAGADAN	KHABAROVSK	URAL	KAZAKHSTAN	ARMENIA	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	823	473	157	101	29	1 583	-	-	**1 583**
Intersegment revenue	-	6	-	-	-	6	196	(202)	**-**
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	362	203	36	61	19	681	134	(149)	**666**
Cost of sales	461	258	47	72	23	861	134	(149)	**846**
Write-down of metal inventory to net realisable value	(16)	(5)	-	-	-	(21)	-	-	**(21)**
Depreciation included in cost of sales	(79)	(47)	(11)	(11)	(4)	(152)	-	-	**(152)**
Write-down of non-metal inventory to net realisable value	(3)	(3)	-	-	-	(6)	-	-	**(6)**
Rehabilitation expenses	(1)	-	-	-	-	(1)	-	-	**(1)**
General, administrative and selling expenses, excluding depreciation, amortization and share based compensation	23	14	4	9	3	53	69	(12)	**110**
General, administrative and selling expenses	41	27	10	11	3	92	79	(51)	**120**
Intercompany management services	(18)	(12)	(6)	(1)	-	(37)	(2)	39	**-**
Depreciation included in SGA	-	(1)	-	(1)	-	(2)	(1)	-	**(3)**
Share based compensation	-	-	-	-	-	-	(7)	-	**(7)**
Other operating expenses excluding additional tax charges	26 -	6	4	3	1 -	40	10	(2)	**48**
Other operating expenses	11	6	5	3	3	28	10	(2)	**36**
Bad debt allowance	-	-	-	-	-	-	-	-	**-**
Additional mining taxes and VAT exposures, penalties and accrued interest	15	-	(1)	-	(2)	12	-	-	**12**
Share of income of associates and joint ventures	-	-	-	-	-	-	-	-	**-**
Adjusted EBITDA	**412**	**256**	**113**	**28**	**6**	815	**(17)**	**(39)**	**759**
Depreciation expense	79	48	11	12	4	154	1	-	**155**
Rehabilitation expenses	1	-	-	-	-	1	-	-	**1**
Write-down of non-metal inventory to net realisable value	3	3	-	-	-	6	-	-	**6**
Write-down of metal inventory to net realisable value	16	5	-	-	-	21	-	-	**21**
Share-based compensation	-	-	-	-	-	-	7	-	**7**
Bad debt allowance	-	-	-	-	-	-	-	-	**-**
Additional mining taxes and VAT exposures, penalties and accrued interest	(15)	-	1	-	2	(12)	-	-	**(12)**
Operating profit / (loss)	**328**	**200**	**101**	**16**	**-**	**645**	**(25)**	**(39)**	**581**
Net foreign exchange gains									65
Change in fair value of contingent consideration liability									(22)
Finance income									3
Finance costs									(63)
Profit before tax									**564**
Income tax expense									(169)
Profit for the financial period									**395**
Current metal inventories	130	105	38	43	6	322	-	(7)	**315**
Current non-metal inventories	86	50	5	16	7	164	23	(9)	**178**
Non-current segment assets:									
Property, plant and equipment, net	436	377	49	773	50	1 685	144	(24)	**1 805**
Goodwill	17	-	-	-	-	17	-	-	**17**
Non-current inventory	94	13	2	4	1	114	-	(1)	**113**
Investments in associates	-	-	-	-	-	-	25	-	**25**
Total segment assets	**763**	**545**	**94**	**836**	**64**	**2 302**	**192**	**(41)**	**2 453**
Additions to non-current assets:									
Property, plant and equipment	78	73	7	108	13	279	9	-	**288**
Acquisition of group of assets	-	-	-	140	21	161	10	-	**171**

4. REVENUE

Revenue analysed by geographical regions of customers is presented below:

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Sales within the Russian Federation	1,090	899
Sales to Kazakhstan	301	295
Sales to Europe	224	205
Sales to East Asia	200	184
Total	**1,815**	**1,583**

Included in revenues for the year ended 31 December 2017 are revenues which arose from sales of the Group's largest customers, those share in revenue exceeds 10% of the total, amounting to US$ 610 million, US$ 200 million, US$ 167 and US$ 136 million, respectively (2016: US$ 416 million, US$ 281 million and US$ 206 million, respectively). Presented below is an analysis of revenue from gold, silver, zinc and copper sales:

	Year ended 31 December 2017				Year ended 31 December 2016			
	Thousand ounces/ tonnes shipped	Thousand ounces/ tonnes payable	Average price (US Dollar per troy ounce/tonne payable)	US$m	Thousand ounces/ tonnes (unaudited) shipped	Thousand ounces/ tonnes (unaudited) payable	Average price (US Dollar per troy ounce/tonne payable) (unaudited)	US$m
Gold (thousand ounces)	1,105	1,090	1,247	1,359	882	880	1,216	1,070
Silver (thousand ounces)	26,888	26,469	16.1	426	31,099	30,666	16.3	500
Copper (tonnes)	2,717	2,573	6,607	17	1,689	1,634	4,896	8
Zinc (tonnes)	5,466	4,679	2,779	13	3,246	2,800	1,786	5
Total				**1,815**				**1,583**

5. COST OF SALES

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Cash operating costs		
On-mine costs (Note 6)	414	320
Smelting costs (Note 7)	316	259
Purchase of ore and concentrates from third parties	54	27
Purchase of ore from related parties (Note 23)	38	11
Mining tax	88	82
Total cash operating costs	**910**	**699**
Depreciation and depletion of operating assets (Note 8)	193	162
Rehabilitation expenses	-	1
Total costs of production	**1,103**	**862**
Increase in metal inventories	(26)	(51)
Write-down of metal inventories to net realisable value (Note 17)	16	21
Write-down of non-metal inventories to net realisable value (Note 17)	3	6
Idle capacities and abnormal production costs	10	8
Total	**1,106**	**846**

Mining tax includes royalties payable in Russian Federation, Kazakhstan and Armenia. Mining tax in Russian Federation and Kazakhstan is calculated based on the value of the precious metals extracted in the period. This value is usually determined based on the realised selling price of precious metals or, in case if there were no sales during the period, cost of production of metals extracted (Russian Federation) or the average market price (Kazakhstan) during the period. The royalty payable in Armenia is calculated as a percentage of actual sales during the reporting period.

Mining tax in respect of the metal inventories produced or sold during the year is recognised within cost of sales, while the additional mining tax accruals in respect of various disputes with tax authorities are recognised within other expenses (see Note 10).

Idle capacities and abnormal production costs were expensed as incurred and relate to idle capacities when processing plants are stopped for general maintenance.

6. ON-MINE COSTS

	Year ended	
	31 December 2017	31 December 2016
	US$m	US$m
Services	192	139
Labour	118	97
Consumables and spare parts	101	79
Other expenses	3	5
Total (Note 5)	**414**	**320**

7. SMELTING COSTS

	Year ended	
	31 December 2017	31 December 2016
	US$m	US$m
Consumables and spare parts	132	114
Services	116	93
Labour	65	50
Other expenses	3	2
Total (Note 5)	**316**	**259**

8. DEPLETION AND DEPRECIATION OF OPERATING ASSETS

	Year ended	
	31 December 2017	31 December 2016
	US$m	US$m
On-mine	137	117
Smelting	56	45
Total (Note 5)	**193**	**162**

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

9. GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

	Year ended	
	31 December 2017	31 December 2016
	US$m	US$m
Labour	116	87
Services	11	10
Share based compensation	10	7
Depreciation	4	3
Other	17	13
Total	**158**	**120**

10. OTHER OPERATING EXPENSES, NET

	Year ended	
	31 December 2017	31 December 2016
	US$m	US$m
Additional mining taxes and VAT exposures, penalties and accrued interest, net	(8)	(12)
Exploration expenses	18	10
Social payments	15	10
Provision for investment in Special Economic Zone	12	14
Taxes, other than income tax	11	11
Housing and communal services	4	4
Loss on disposal of property, plant and equipment	1	1
Change in estimate of environmental obligations	(4)	(5)
Other expenses	(5)	3
Total	**44**	**36**

From 1 January 2017 Omolon Gold Mining Company LLC and Magadan Silver JSC are entitled to the decreased statutory income tax rate of 17% (2016: 18%) for the operations held in the Special Economic Zone of the Russian Far East, as well as decreased mining tax rate (paying at 60% of the standard mining tax rates). In return for obtaining this tax relief the members of the regional free economic zone are obliged to invest 50% of their tax savings each year in the Special Economic Zone Development Programme, amounting to US$ 12 million in the reporting year (2016: US$ 14 million).

Additional mining taxes, VAT, penalties and accrued interest have been accrued in respect of various disputes with the Russian and Armenian tax authorities.

Total provision for additional property taxes, mining taxes and VAT exposures, penalties and accrued interest as of 31 December 2017 is US$ 7 million (2016: 31 December 2016: US$ 14 million). During the year ended 31 December 2017 the Group has paid US$ 6 million related to royalty provisions identified as of 31 December 2016 and released US$ 6 million of accrued penalties and interest due to settlement with tax authorities at Kapan. There were no other individually significant movement in tax provisions.

During the year ended 31 December 2016 following the favourable court decisions the Group has recognised the reversal of the previously recognised and paid additional mining tax charge at Magadan Silver JSC amounting to US$ 14 million. There were no other individually significant movement in tax provisions during the year ended 31 December 2016.

Exploration expenses include write downs of US$ 2 million (2016: US$ 1 million) recognised within Exploration and Development assets (Note 15). Operating cash flow spent on exploration activities amounts to US$ 16 million (2016: US$ 11 million).

11. EMPLOYEE COSTS

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Wages and salaries	275	215
Social security costs	78	51
Share-based compensation	10	7
Total payroll costs	**363**	**273**
Reconciliation:		
(Less): employee costs capitalised	(40)	(26)
Add/(Less): employee costs absorbed into unsold metal inventory balances	12	(5)
Employee costs included in operating costs	**335**	**242**

The weighted average number of employees during the year ended 31 December 2017 and year ended 31 December 2016 was:

	Year ended 31 December 2017	Year ended 31 December 2016
Magadan	3,554	3,564
Khabarovsk	2,529	2,619
Kazakhstan	1,634	1,517
Armenia	1,007	770
Ural	810	878
Corporate and other	1,419	1,465
Total	**10,953**	**10,813**

Compensation of key management personnel is disclosed within Note 23.

12. FINANCE COSTS

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Interest expense on borrowings	57	58
Unwinding of discount on environmental obligations	3	4
Unwinding of discount on contingent considerations	3	1
Total	**63**	**63**

Interest expense on borrowings excludes borrowing costs capitalised in the cost of qualifying assets of US$ 8 million and US$ 5 million during the years ended 31 December 2017 and 2016, respectively. These amounts were calculated based on the Group's general borrowing pool and by applying an effective interest rate of 3.96% and 4.33%, respectively, to cumulative expenditure on such assets.

13. INCOME TAX

The amount of income tax expense for the years ended 31 December 2017 and 31 December 2016 recognised in profit and loss is as follows:

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Current income taxes	111	139
Deferred income taxes	(22)	30
Total	**89**	**169**

A reconciliation between the reported amounts of income tax expense attributable to income before income tax is as follows:

	Year ended	
	31 December 2017	31 December 2016
	US$m	US$m
Profit before income tax	**443**	**564**
Theoretical income tax expense at the tax rate of 20%	89	113
Effect of Special Economic Zone and Regional Investment project decreased tax rates	(25)	(10)
Effect of different tax rates of subsidiaries operating in other jurisdictions	5	6
Current year losses not recognized and losses previously recognised written-off	9	7
Non-deductible interest expense	5	14
Effect of dissolution of the subsidiary	-	25
Other non-taxable income and non-deductible expenses	6	14
Total income tax expense	**89**	**169**

The actual tax expense differs from the amount which would have been determined by applying the statutory rate of 20% for the Russian Federation, Kazakhstan and Armenia to profit before income tax as a result of the application of relevant jurisdictional tax regulations, which disallow certain deductions which are included in the determination of accounting profit. These deductions include share-based payment expenses, social related expenditures and other non-production costs, certain general and administrative expenses, financing expenses, foreign exchange related and other costs.

As from 1 January 2017 Omolon Gold Mining Company LLC and Magadan Silver JSC are entitled to the decreased statutory income tax rate of 17% for the operations held in the Special Economic Zone of the Russian Far East (2016: 18%), the rate of 17% was used in calculation of income tax provision and deferred tax positions for those entities. From 1 January 2017 Svetloye LLC has received tax relief as Regional Investment Project and is entitled to the statutory income tax rate of 0% up to 2021.

In the normal course of business, the Group is subject to examination by the tax authorities throughout the Russian Federation, Kazakhstan and Armenia. Of the large operating companies of the Group, the tax authorities have audited Okhotskaya Mining and Exploration Company LLC up to 2014, Omolon Gold Mining Company LLC up to 2013, Gold of Northern Urals CJSC and Magadan Silver JSC up to 2012, Mayskoye Gold Mining Company LLC up to 2010, and Varvarinskoye JSC for the period up to 2010. According to Russian, Kazakhstan and Armenian tax legislation, previously completed audits do not fully preclude subsequent claims relating to the audited period.

Tax exposures recognised in income tax

During the year ended 31 December 2017 and the year ended 31 December 2016 no individual significant exposures were identified as probable and provided for. Management has identified a total exposure (covering taxes and related interest and penalties) of approximately US$ 5 million in respect of uncertain tax positions (31 December 2016: US$ 4 million) which relate to income tax.

Income tax amounts included in other comprehensive income

An analysis of tax by individual item presented in the condensed consolidates statement of comprehensive income is presented below:

	Year ended	
	31 December 2017	31 December 2016
	US$m	US$m
Net foreign exchange gains/(losses) on net investment in foreign operation		
Current tax expense	(2)	(6)
Deferred tax expense	(3)	(1)
Total income tax recognised in other comprehensive income	**(5)**	**(7)**

Current and deferred tax assets recognised within other comprehensive income relates to the tax losses originated by foreign currency exchange losses, allowable for tax purposes and generated by monetary items that forms part of the intragroup net investment in the foreign operation. These foreign currency exchange losses are recognised in the condensed consolidated financial statements within foreign currency translation reserve.

Deferred taxation

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the reporting period.

	Environmental obligation	Inventories	Property, plant, and equipment and other non-current assets	Trade and other payables	Tax losses	Long-term loans and payables	Intercompany loans	Other current assets	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 1 January 2016	**6**	**(14)**	**(127)**	**6**	**130**	**2**	**-**	**4**	**7**
Charge to income statement	(1)	6	7	1	(37)	-	(6)	-	**(30)**
Acquisition (Note 2)	-	1	(21)	2	2	-	-	-	**(16)**
Recognised in other comprehensive income	-	-	-	-	1	-	-	-	**1**
Exchange differences	2	(3)	(12)	1	9	-	-	1	**(2)**
At 31 December 2016	**7**	**(10)**	**(153)**	**10**	**105**	**2**	**(6)**	**5**	**(40)**
Charge to income statement	-	12	(3)	(2)	18	(1)	(1)	(1)	**22**
Recognised in other comprehensive income	-	-	-	-	-	-	3	-	**3**
Exchange differences	-	(1)	(3)	-	3	-	-	-	**(1)**
At 31 December 2017	**7**	**1**	**(159)**	**8**	**126**	**1**	**(4)**	**4**	**(16)**

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following analysis shows deferred tax balances presented for financial reporting purposes:

	Year ended	
	31 December 2017	**31 December 2016**
	US$m	**US$m**
Deferred tax liabilities	(77)	(78)
Deferred tax assets	61	38
	(16)	**(40)**

The Group believes that recoverability of the recognised deferred tax asset (DTA) of US$ 126 million at 31 December 2017 is more likely than not based upon expectations of future taxable income in the Russian Federation and Kazakhstan and available tax planning strategies.

Effective from 1 January 2017 there are changes introduced to the Russian Federation tax law regarding loss carryforwards. Loss carryforwards will be limited to 50% of taxable profit in tax years 2017 through 2020. From 2021 the limitation will expire and it will be possible to fully utilise loss carryforwards against the corporate tax base in a given year. In addition to the above, the 10-year carryforward period for losses is eliminated, meaning that losses incurred from 2007 can be carried forward for an indefinite period until fully utilised.

Losses incurred in certain taxable entities in recent years have created a history of losses as of 31 December 2017. The Group has concluded that there is sufficient evidence to overcome the recent history of losses based on forecasts of sufficient taxable income in the carry-forward period.

Tax losses carried forward represent amounts available for offset against future taxable income generated by Mayskoye Gold Mining Company LLC, Varvarinskoye JSC and Bakyrchik Mining Venture LLC. Each legal entity within the Group represents a separate tax-paying component for income tax purposes. The tax losses of one entity cannot be used to reduce taxable income of other entities of the Group. Tax losses carried forward of US$ 448 million (2016: US$ 435 million) recognised in Varvarinskoye JSC and Bakyrchik Mining Venture LLC are available during the period up to 2026, with the most significant portion expiring in 2025.

The Group's estimate of future taxable income is based on established proven and probable reserves which can be economically developed. The related detailed mine plans and forecasts provide sufficient supporting evidence that the Group will generate taxable earnings to be able to fully realise its net DTA even under various stressed scenarios. The amount of the DTA considered realisable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced due to delays in production start dates, decreases in ore reserve estimates, increases in environmental obligations, or reductions in precious metal prices.

No deferred tax asset has been recognised in respect of US$ 90 million (2016: US$ 96 million) as it is not considered probable that there will be future taxable profits against which the losses can be utilised. No deferred tax was recognised in relation to Svetloye tax losses, accumulated by 1 January 2016, were the entity has received tax relief as Regional Investment Project and is entitled to the statutory income tax rate of 0% up to 2021, thus will not be able to utilise accumulated losses. Included in unrecognised tax losses are losses of US$ 30 million that mainly expire in

2025. Other losses may be carried forward indefinitely in accordance with enacted changes to Russian Federation legislation described above.

The deferred tax liabilities for taxes that would be payable on the unremitted earnings of certain of the Group subsidiaries have not been recognised as the Group has determined that the undistributed profit of its subsidiaries will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognised, amount to US$ 2,737 million (2016: US$ 2,147 million).

14. DIVIDENDS

Dividends recognised during the years ended 31 December 2017 and 31 December 2016 are detailed in the below:

			Dividends		
	cents per share	**US$m**	**deducted from the equity during the period**	**proposed in relation to the period**	**Paid in**
Final dividend 2015	13	56	May 2016	2015	May 2016
Interim dividend 2016	9	38	September 2016	2016	September 2016
Special dividend 2016	15	64	December 2016	2016	December 2016
Final dividend 2016	18	78	March 2017	2016	May 2017
Interim dividend 2017	14	60	September 2017	2017	September 2017
Final dividend 2017	30	129	n/a	2017	n/a
Total dividends for the year ended 31 December 2016			**158**	**180**	**158**
Total dividends for the year ended 31 December 2017			**138**	**189**	**138**

15. PROPERTY, PLANT AND EQUIPMENT

	Development assets	**Exploration assets**	**Mining assets**	**Non-mining assets**	**Capital construction in-progress**	**Total**
	US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Cost						
Balance at 31 December 2015	**518**	**98**	**1,174**	**44**	**104**	**1,938**
Additions	39	26	143	7	73	288
Transfers	(28)	-	73	(2)	(43)	-
Change in decommissioning liabilities	-	-	(3)	-	-	(3)
Acquisitions (Note 2)	-	10	152	9	-	171
Disposals and write-offs including fully depleted mines	-	(1)	(23)	(2)	(1)	(27)
Translation to presentation currency	35	7	234	9	17	302
Balance at 31 December 2016	**564**	**140**	**1,750**	**65**	**150**	**2,669**
Additions	77	35	141	4	174	431
Transfers	4	(29)	89	(9)	(55)	-
Change in decommissioning liabilities	-	-	-	-	3	3
Acquisitions (Note 2)	-	2	-	-	-	2
Disposals and write-offs including fully depleted mines	-	(2)	(32)	(1)	(1)	(36)
Translation to presentation currency	10	4	76	2	5	97
Balance at 31 December 2017	**655**	**150**	**2,024**	**61**	**276**	**3,166**

	Development assets	**Exploration assets**	**Mining assets**	**Non-mining assets**	**Capital construction in-progress**	**Total**
	US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Accumulated depreciation, amortisation	-	**-**	**(560)**	**(18)**	**-**	**(578)**
Charge for the period	-	-	(182)	(5)	-	(187)
Disposals and write-offs including fully depleted mines	-	-	18	1	-	19

Translation to presentation currency	-	-	(115)	(3)	-	(118)
Balance at 31 December 2016	**-**	**-**	**(839)**	**(25)**	**-**	**(864)**
Charge for the period	-	-	(227)	(5)	-	(232)
Disposals and write-offs including fully depleted mines	-	-	28	-	-	28
Translation to presentation currency	-	-	(43)	(1)	-	(44)
Balance at 31 December 2017	**-**	**-**	**(1,081)**	**(31)**	**-**	**(1,112)**
Net book value						
31 December 2016	**564**	**140**	**911**	**40**	**150**	**1,805**
31 December 2017	**655**	**150**	**943**	**30**	**276**	**2,054**

Mining assets, exploration and development assets at 31 December 2017 included mineral rights with net book value which amounted to US$ 735 million (31 December 2016: US$ 756 million) and capitalised stripping costs with net book value of US$ 50 million (31 December 2016: US$ 32 million). Mineral rights of the Group comprise assets acquired upon acquisition of subsidiaries and asset acquisitions.

No property, plant and equipment was pledged as collateral at 31 December 2017 or at 31 December 2016.

16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31 December 2017		31 December 2016	
	Voting power %	Carrying Value US$m	Voting power %	Carrying Value US$m
Interests in associates and joint ventures				
JSC South-Verkhoyansk Mining Company (Nezhda)	17.66	28	17.66	21
GRK Amikan	42.65	7	42.65	2
Prognoz Serebro LLC	5	5	n/a	-
Proeks LLC	30	2	24.9	2
Aktogai Mys LLC	50	2	25	-
Total		**44**		**25**
Loans forming part of the net investment in joint ventures				
JSC South-Verkhoyansk Mining Company (Nezhda)		39		-
Prognoz Serebro LLC		13		-
		52		**0**
Total investments in associates and joint ventures		**96**		**25**

JSC South-Verkhoyansk Mining Company

In December 2015 Polymetal International plc entered into a joint arrangement, under which Polymetal participates in advancing the development of the Nezhdaninskoye gold deposit (Nezhda) in Yakutia, Russia. On 19 January 2016 Polymetal obtained a 15.3% interest in the joint venture entity holding the 100% of the Company for the total cash consideration of US$ 18 million. It was determined that the arrangement meets definition of a joint arrangement as per IFRS 11 *Joint Arrangements*, as joint control of two investors was established. As the arrangement is structured thorough the separate vehicle and the investors have rights for their share in net assets of the joint arrangement, it was concluded that joint arrangement meets definition of the joint venture and should be accounted for using equity method of accounting.

In November 2016 Polymetal increased its share in JSC South-Verkhoyansk Mining Company (Nezhda) to 17.66% for cash consideration of US$ 3 million.

In July 2017 Polymetal has agreed to acquire an additional 7% in the JSC South-Verkhoyansk Mining Company (Nezhda) for a cash consideration of US$ 8 million, from its joint venture partner, Ivan Kulakov. Simultaneously, Polymetal has acquired an option to buy out the remaining 75.3% in Nezhda (the “Call option”). The Call Option premium comprised US$ 12 million (Note 18) in cash payable upfront and is exercisable based on the following terms:

- Following the preparation of the initial JORC-compliant ore reserve estimate for the open-pittable reserves, Polymetal will have the option to acquire the remaining stake for US$ 100 per ounce of attributable gold reserves (equivalent to US$ 75.3/oz multiplied by total reserve ounces). The total consideration shall not be less than US$ 105 million and not more than US$ 180 million. US$ 10 million of the consideration will be paid in cash, and the remaining amount will be paid in the Polymetal's shares;

- The Call Option is exercisable between 1 February and 1 June 2018 entirely at Polymetal's discretion;
- Should Polymetal decide not to proceed with the exercise of the Call Option, Polymetal will have a put option to sell its 24.7% stake to Mr. Kulakov's investment vehicle, Pallavicino Holdings Ltd, an unrelated party, at a notional cost of EUR 1 thousand;
- As of the reporting date, the completion of the sale and purchase of the additional 7% share in the JV and exercise of the Call Option are subject to approval by the Russian Federal Government's Commission on Foreign Investments into Companies of Strategic Importance. The exercise of the Call Option is also subject to approval by the Russian Federal Antimonopoly Service.

The Group has determined that the increase in shareholding does not represent a significant change in circumstances that indicate a change in joint control and Nezhda continues to meet the definition of a joint venture. Cash consideration of US$ 8 million paid for the additional stake is accounted for as part of the net investment in the joint venture. The Group has a legal right to recovery of this $8 million in the event that the associated transaction does not receive the required approvals. The Group has performed a fair value valuation of the Call Option at origination date and as of 31 December 2017 (Note 21) and has determined that its fair value approximates to its cost of US$ 12 million (Note 18).

The directors are confident that the necessary approvals will be received before the option expires, and also believe that they will be able to extend the option by taking other mitigating actions if required. However, there remains a risk that the Group will not be able to exercise the option, in which case the management will reassess the recoverability of the investment which could lead to a material impairment charge.

Prognoz Serebro LLC

In January 2017 the Group entered into an agreement with Polar Acquisition Ltd (PAL), under which Polymetal will participate in the development of the Prognoz silver deposit in Yakutia, Russia ("Prognoz"). Under the agreement, Polymetal acquired a 5% interest in Prognoz for US$ 5 million (including US$ 2 million of related expenses) in cash through the purchase of 10% of Polar Silver Resources' share capital, the entity holding a 50% interest in Prognoz, with the remaining 50% owned by a group of private investors. The arrangement allows Polymetal to acquire from PAL their remaining 45% interest in Prognoz for a consideration based on the JORC compliant reserves estimate upon completion of the technical study. The Group has determined that Prognoz constitutes a joint venture under IFRS 11 *Joint Arrangements* and therefore the investment was accounted for using the equity method.

GRK Amikan

GRK Amikan is a production company which holds 100% interest in Veduga gold deposit in the Krasnoyarsk region of the Russian Federation. During the year ended 31 December 2017 the Group has purchased ore from GRK Amikan for the total amount of US$ 35 million (2016: US$ 11 million) (Note 23) and eliminated unrealised profit on inventories not yet processed against its share of net profit in GRK Amikan.

Aktogai Mys LLC

In June 2015 Polymetal purchased a 25% stake in the company Aktogai Mys LLC that owns Dolinnoye exploration licence in Kazakhstan Republic (including part of intracompany loan) from the unrelated party. At the same time Polymetal has also entered into an agreement to finance, organize and ensure execution of exploration activities: to obtain permission and approvals for drilling from competent authorities, to perform no more than 20 km of exploration drilling, technical research as well as JORC feasibility study in exchange for a right to increase its share in the project up to 50% after the completion of these tasks.

By 2017 the earn-in conditions have been satisfied by extensive exploration and the preparation of a JORC-compliant reserve estimate for the property. In June 2017 the earn-in arrangement between Polymetal and its partner was completed and Polymetal has acquired an additional 25% interest in the Aktogai Mys LLC for a net consideration of US$ 1 million. In September 2017 Polymetal contributed US$ 2 million to Aktogai Mys charter capital.

The Group has determined that Aktogai Mys LLC continues to constitute a joint venture under IFRS 11 *Joint Arrangements* and the investment is accounted for using the equity method.

During the year ended 31 December 2017 the Group has purchased ore from Aktogai Mys LLC for the total amount of US$ 3 million (2016: nil) (Note 23) and eliminated unrealised profit on inventories not yet processed against its share of net profit in Aktogai Mys LLC.

Proeks LLC

In November 2015 the Group acquire a 24.9% share in a diamond exploration project located in North-West of Russian Federation for the cash consideration of a US$ 2 million. During the year ended 31 December 2017 the Group has increased its share in Proeks LLC to 30% for the consideration of US$ 1 million. The Group determined that it has significant influence in the entity and the investment is accounted for using the equity method.

Prognoz Serebro LLC, Aktogai Mys LLC and Proeks LLC do not represent equity method investments that are individually material.

The following table summarises the aggregate financial position and the Group's share of net profit/(losses) of the investments:

	Nezhda	Amikan	Non-significant investments	Total	Total
	31 December 2017	31 December 2017	31 December 2017	31 December 2017	31 December 2016
	US$m	US$m	US$m	US$m	US$m
Non-current assets	77	40	46	163	99
Current assets	18	41	15	74	59
Non-current liabilities	(45)	(39)	(63)	(147)	(87)
Current liabilities	(6)	(3)	(6)	(15)	(9)
Net assets	44	39	(8)	75	62
Revenue	-	36	3	39	41
(Loss)/ profit for financial period	(5)	11	(3)	3	10
Group's share in investment net income/(loss) less prior year unrecognised losses	(1)	5	(1)	3	2
Share of profit recognised for the year less inventories unrealised profit eliminations	(1)	6	(2)	3	-

17. INVENTORIES

	Year ended	
	31 December 2017	31 December 2016
	US$m	US$m
Inventories expected to be recovered after twelve months		
Ore stock piles	86	80
Consumables and spare parts	37	33
Total non-current inventories	**123**	**113**
Inventories expected to be recovered in the next twelve months		
Copper, gold and silver concentrate	103	95
Ore stock piles	144	157
Work in-process	57	42
Doré	13	12
Refined metals	2	3
Metal for refining	9	6
Total metal inventories	328	315
Consumables and spare parts	186	178
Total	**514**	**493**

Write-downs of metal inventories to net realisable value

The Group recognised the following (write-downs)/reversals to net realisable value of its metal inventories:

	Year ended 31 December 2017				Year ended 31 December 2016
	Khabarovsk	Magadan	Kazakhstan	Total operating segments	Total operating segments
	US$m	US$m	US$m	US$m	US$m
Ore stock piles	(3)	(11)	(1)	**(15)**	(14)
Ore in heap leach piles	-	(3)	-	**(3)**	(5)
Copper, gold and silver concentrate	-	2	-	**2**	(2)
Total	(3)	(12)	(1)	**(16)**	**(21)**

The key assumptions used as at 31 December 2017 in determining net realisable value of inventories (including the commodity price assumptions for long-term stockpiles) were consistent with those used in the goodwill impairment review. For short-term metal inventories applicable forward prices as of 31 December 2017 were used.

During the year ended 31 December 2017 the Group provided for obsolete consumables and spare parts inventory in the amount of US$ 3 million (year ended 31 December 2016: write-down of US$ 6 million).

The amount of inventories held at net realisable value at 31 December 2017 is US$ 60 million (31 December 2016: US$ 45 million).

18. TRADE RECIEVABLES AND OTHER FINANCIAL INSTRUMENTS

	Year ended	
	31 December 2017	31 December 2016
	US$m	US$m
Receivables from provisional copper, gold and silver concentrate sales	26	35
Other receivables	15	25
Accounts receivable from related parties (Note 23)	8	-
Less: Allowance for doubtful debts	(2)	(3)
Total trade and other receivables	**47**	**57**
Call option related to the Nezhda acquisition (Note 16)	12	-
Short-term loans provided to related parties (Note 23)	7	7
Short-term loans provided to third parties	5	6
Total other short-term financial instruments	**24**	**13**
Total	**71**	**70**

The average credit period on sales of copper, gold and silver concentrate at 31 December 2017 was 20 days (2016: 20 days). No interest is charged on trade receivables. The Group's allowance for doubtful debt relates to its non-trade receivables. There are no trade receivables either past due or impaired as at 31 December 2017 (31 December 2016: US$ nil).

19. BORROWINGS

Borrowings at amortised cost:

		Actual interest rate at		31 December 2017			31 December 2016		
	Type of rate	31 Dec 2017	31 Dec 2016	Current	Non-current	Total	Current	Non-current	Total
				US$m	US$m	US$m	US$m	US$m	US$m
Secured loans from third parties									
U.S. Dollar denominated	floating		3.85%	-	-	-	98	638	736
U.S. Dollar denominated	fixed	4.10%	4.10%	-	436	436	-	61	61
Total				**-**	**436**	**436**	**98**	**699**	**797**
Unsecured loans from third parties									
U.S. Dollar denominated	floating	3.73%	3.96%	-	834	834	-	500	500
U.S. Dollar denominated	fixed	6.17%	7.50%	26	152	178	-	78	78
Euro denominated	fixed	2.85%	2.85%	-	8	8	-	3	3
Total				**26**	**994**	**1,020**	**-**	**581**	**581**
				26	**1,430**	**1,456**	**98**	**1,280**	**1,378**

Bank loans

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

Movements in borrowings are reconciled as follows:

	1 January	Borrowings obtained	Repayments of borrowings	Net foreign exchange losses	Exchange differences on translating foreign operations	Arrangement fee amortisation	31 December
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Year ended 31 December 2016	1,350	1,436	(1,410)	(108)	108	2	1,378
Year ended 31 December 2017	1,378	3,108	(3,033)	(14)	14	3	1,456

At 31 December 2017, the Group had undrawn borrowing facilities of US$ 1,361 million (31 December 2016: US$ 998 million). The Group complied with its debt covenants throughout 2017 and 2016.

The table below summarises maturities of borrowings:

	Year ended	
	31 December 2017	31 December 2016
	US$m	US$m
Year ended, 31 December 2017	-	98
31 December 2018	26	632
31 December 2019	105	538
31 December 2020	248	110
31 December 2021	513	-
31 December 2022	414	-
31 December 2023	100	-
31 December 2024	50	-
Total	**1,456**	**1,378**

20. COMMITMENTS AND CONTINGENCIES

Commitments

Capital commitments

The Group's budgeted capital expenditure commitments as at 31 December 2017 amounted to US$ 46 million (2016: US$ 64 million).

Social and infrastructure commitments

During the year ended 31 December 2016 the Group signed a memorandum with East-Kazakhstan Oblast Administration (local Kazakhstan government), where the Group (namely its subsidiaries Bakyrchik Mining Venture LLC and Inter Gold Capital LLC) agrees to participate in financing of certain social and infrastructure development project of the region. During the year ended 31 December 2017 the Group paid US$ 2 million (2016: US$ 2 million) under this programme and the total social expense commitment as at 31 December 2017 amounts to US$ 28 million, payable in the future periods as follows:

	31 December 2017
	US$m
Within one year	2
From one to five years	22
Thereafter	4
Total	**28**

Forward sale commitments

The Group has certain physical gold and silver forward sale commitments which are priced at the prevailing market price, calculated with reference to the LBMA or LME gold price, which are accounted for as executed as the Group expects to and has historically physically delivered into these contracts.

Operating leases: Group as a lessee

During the year ended 31 December 2017 the Group recognised US$ 7 million as operating lease expenses (2016: US$ 5 million).

The land in the Russian Federation and Kazakhstan on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through to 2058.

Future minimum lease payments due under non-cancellable operating lease agreements at the end of the period were as follows:

	31 December 2017 US$m	31 December 2016 US$m
Within one year	3	2
From one to five years	5	3
Thereafter	4	2
Total	**12**	**7**

Contingencies

Operating environment

Emerging markets such as Russia and Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia and Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transaction and activity of the companies of the Group may be challenged by the relevant regional and federal authorities and as a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

During 2017 and 2016 the Group has been involved in a number of litigations in Russia, Kazakhstan and Armenia. Management has identified a total exposure (covering taxes and related interest and penalties) of US$ 7 million in respect of contingent liabilities (2016: US$ 13 million), including US$ 5 million related to income tax (2016: US$ 4 million).

21. FAIR VALUE ACCOUNTING

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as follows:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2017 and 31 December 2016, the Group held the following financial instruments:

	31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	US$m	**US$m**	**US$m**	**US$m**
Receivables from provisional copper, gold and silver concentrate sales	-	26		**26**
Nezhda option	-	-	12	**12**
Contingent consideration liability	-	-	(62)	**(62)**
	-	**26**	**(50)**	**(24)**

	31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
	US$m	**US$m**	**US$m**	**US$m**
Receivables from provisional copper, gold and silver concentrate sales	-	35	-	**35**
Contingent consideration liability	-	-	(76)	**(76)**
	-	**35**	**(76)**	**(41)**

During the reporting periods, there were no transfers between Level 1 and Level 2.

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables and short-term debt recorded at amortised cost approximate to their fair values because of the short maturities of these instruments. The estimated fair value of the Group's debt, calculated using the market interest rate available to the Group as at 31 December 2017, is US$ 1,233 million, and the carrying value as at 31 December 2017 is US$ 1,456 million (see Note 19). Carrying values of the other long-term loans provided to related parties as at 31 December 2017 and 31 December 2016 approximated to their fair values.

Receivables from provisional copper, gold and silver concentrate sales

The fair value of receivables arising from copper, gold and silver concentrate sales contracts that contain provisional pricing mechanisms is determined using the appropriate quoted forward price from the exchange that is the principal active market for the particular metal. As such, these receivables are classified within Level 2 of the fair value hierarchy.

Contingent consideration liabilities

The table below sets forth a summary of changes in the fair value of the Group's Level 3 financial liabilities for the year ended 31 December 2017:

	31 December 2017							31 December 2016
	Omolon	**Kyzyl**	**Primorskoye**	**Lichkvaz**	**Kapan**	**Komar**	**Total**	**Total**
	US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Opening balance	15	19	8	7	9	18	76	26
Additions	-	-	-	-		-	-	29
Change in fair value, included in profit or loss	(1)	(7)	2	(5)	2	7	(2)	22
Unwinding of discount (Note 12)	1	-	-	1	1	-	3	1
Settlement though issue of shares (Note 17)	-	-	(10)	-	-	-	(10)	-
Cash settlement	(4)	-	-	-	(1)	-	(5)	(2)
Total contingent consideration	11	12	-	3	11	25	62	76
less current portion of contingent consideration liability	(4)	-	-	-	(1)	-	(5)	(14)
	7	12	-	3	10	25	57	62

Omolon

In 2008, the Group recorded a contingent consideration liability related to the acquisition of 98.1% of the shares in JSC Omolon Gold Mining Company LLC (Omolon). The fair value of the contingent consideration liability was determined using a valuation model which simulates expected production of gold and silver at the Kubaka mine and future gold and silver prices to estimate future revenues of Omolon. This liability is revalued at each reporting date based on 2% of the life-of-mine revenues with the resulting gain or loss recognised in the condensed consolidated income statement. The liability recognised as at 31 December 2017 was US$ 11 million, including current portion of US$ 4 million.

Kyzyl

During the year ended 31 December 2014 the Group completed the acquisition of the Kyzyl gold project in Kazakhstan. The fair value of the related contingent consideration liability was estimated using the Monte Carlo model. The liability was revalued at the 31 December 2017 using the same method with updated inputs as of reporting date and amounts to US$ 12 million (2016: US$ 19 million).

Primorskoye

During the year ended 31 December 2015 the Group recorded a contingent consideration liability related to the acquisition of 100% interest in Primorskoye. Deferred conditional cash consideration, which is determined as the highest of US$ 13,333 per tonne of contained silver equivalent (translating into US$ 0.415 per silver equivalent ounce) based on the audited reserves estimate of the deposit, and US$ 8 million, was revalued at 31 December 2016 at US$ 8 million. Following the determination of the mineral resource estimate at March 2017, the deferred consideration was calculated at US$ 9.7 million and settled by 815,348 newly issued Polymetal International shares (Note 22).

Lichkvaz

During the year ended 31 December 2015 the Group completed the acquisition of Lichkvaz CJSC (Lichkvaz), the company owning the Lichkvaz exploration licence in Armenia (Note 2). The fair value of the related contingent consideration liability is calculated using a valuation model which simulates expected production of metals and future gold, silver and copper prices to estimate future value of the metals in the actually extracted ore. The liability recognised at 31 December 2017 was US$ 3 million.

Kapan

During the year ended 31 December 2016 the Group completed the acquisition of DPMK, the company owning the Kapan mine and processing plant in Armenia (Note 2). The seller is entitled to receive a 2% NSR (Net Smelter Return) royalty on future production from the Kapan Gold Mine capped at US$ 25 million. At the 31 December 2017, the fair value of the contingent consideration was estimated at US$ 11 million, including current portion of US$ 1 million.

Komar

On 1 August 2016 the Group completed the acquisition of Orion Minerals LLP, the holding company for the Komarovskoye Gold Deposit ("Komar") in the Republic of Kazakhstan (Note 2). The seller is entitled to the contingent consideration that was determined based on the LOM model of the Komarovskoye mine and calculated using Monte Carlo modelling. At the 31 December 2017, the fair value of the contingent consideration was estimated at US$ 25 million (2016: US$ 18 million), with increase due to growth in ore reserves and change in mine plan.

Assumptions used in the valuation of the Omolon, Kapan and Lichkvaz are consistent with those used in goodwill impairment test, such as long-term metal prices and discount rates. Estimated production volumes are based on life of mine plans and are approved by management as part of the long-term planning process.

Monte-Carlo modelling for Kyzyl and Komarovskoye contingent consideration liabilities was performed with following inputs:

- Gold price volatility: 16.19% - 19.58% (2016: 16.23% - 18.23%)
- Share price volatility: 40.5% (2016: 41.9%)
- Constant correlation between gold and share price: 86% (2016: 90%)
- Dividend yield: 2%.

Nezhda Call Option

The Group has valued the Nezhda Call Option (Note 16) using the Black-Scholes option valuation model, with share price volatility assumption approximating to 30%. Exercise price of the option was assessed based on the project NPV, calculated using Nezhda JORC ore reserves and mineral resources available and gold price and discount rates consistent with assumptions used for the goodwill impairment testing. The fair value of the option approximates to its cost of US$ 12 million as of 31 December 2017.

The Directors consider that a reasonably possible change in a valuation assumption would not have a material impact on the financial statements for contingent considerations payable.

Commodity forward contracts

The Group enters into forward contracts for the physical delivery of metals which will be priced according to the prevailing London Bullion Market Association or London Metal Exchange index. The Group's policy is not to enter into fixed priced contracts. The forward sales contracts qualify for the normal purchase/sales or "own use" exemption for accounting purposes and are outside the scope of IAS 39 *Financial Instruments: Recognition and Measurement.*

22. STATED CAPITAL ACCOUNT AND RETAINED EARNINGS

As at 31 December 2017, the Company's issued share capital consisted of 430,115,480 ordinary shares (2016: 428,262,338 ordinary shares) of no par value, each carrying one vote. The Company does not hold any shares in treasury (2016: none). The ordinary shares reflect 100% of the total issued share capital of the Company.

The movements in the Stated Capital account in the year were as follows:

	Stated capital account no. of shares	Stated capital account US$m
Balance at 31 December 2015	**424,650,138**	**1,969**
Issue of shares in accordance with Deferred Share Awards plan	110,850	1
Issue of shares for Kapan (Note 2)	1,481,785	15
Issue of shares to acquire an additional 25% interest in Tarutin	898,875	14
Issue of shares for Saum Mining Company LLC (Note 2)	1,120,690	11
Balance at 31 December 2016	**428,262,338**	**2,010**
Issue of shares for Tarutin	893,575	10
Issue of shares for Primorskoye contingent consideration (Note 21)	815,348	10
Issue of shares in accordance with Deferred Share Awards plan	144,219	1
Balance at 31 December 2017	**430,115,480**	**2,031**

In January 2017 the Group increased its interest in Vostochny Basis LLC (holder of the licence for the Tarutinskoye copper deposit (Tarutin) by 25% (from 75% to 100%). The Group purchased the additional 25% from an unrelated party for a consideration of US$ 10 million, payable through the issue of 893,575 new Polymetal International plc shares. The Group has previously determined that Vostochny Basis LLC meets the definition of a subsidiary and therefore it was consolidated from the date of the 25% share acquisition. The increase in interest in Tarutin was recognised as an acquisition of the non-controlling interest and recognised interest within equity. As of 31 December 2017 and during the years ended 31 December 2017 and 31 December 2016 Tarutin did not give rise to a significant non-controlling interest to be presented within equity, income statement and statement of comprehensive income.

Reserves available for distribution to shareholders are based on the available cash in the Company under Jersey law. As Russian, Kazakh and Armenian legislation identifies the basis of distribution of the dividends as accumulated profit, the ability to distribute cash up to the Company from the Russian, Kazakh and Armenian operating companies will be based on the statutory historical information of each stand-alone entity. Statutory financial statements in the Russian Federation are prepared in accordance with Russian accounting standards which differs from IFRS, while Kazakhstan and Armenia have adopted IFRS from 1 January 2006 and 1 January 2011, respectively. 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 in accordance with statutory financial statements.

Weighted average number of shares: Diluted earnings per share

Both basic and diluted 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:

	Year ended 31 December 2017	Year ended 31 December 2016
Weighted average number of outstanding common shares	429,880,907	426,135,182
Dilutive effect of share appreciation plan	5,830,775	259,452
Weighted average number of outstanding common shares after dilution	**435,711,682**	**426,394,634**

There were no adjustments required to earnings for the purposes of calculating the diluted earnings per share during the year ended 31 December 2017 the current financial year (year ended 31 December 2016: nil).

At 31 December 2017 the outstanding LTIP awards issued under 2014-2017 tranches represent dilutive potential ordinary shares with respect to earnings per share from continuing operations as these are in the money as of reporting date (31 December 2016: all tranches represent anti-dilutive potential ordinary shares as these were out of money).

The awards issued under management bonus deferral award plan are dilutive as of 31 December 2017 and 31 December 2016 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.

23. RELATED PARTIES

	Year ended	
	31 December 2017	31 December 2016
	US$m	US$m
Transactions with related parties		
Purchases of ore from equity method investments (Note 16)	38	11
Other sales recognised in other operating expenses, net	12	2

	Year ended	
	31 December 2017	31 December 2016
	US$m	US$m
Balances outstanding as of end of reporting period		
Loans accounted for as a part of net investment in joint venture	52	-
Short-term loans provided to equity method investments	8	7
Long-term loans provided to equity method investments	6	1
Accounts receivable from equity method investments	8	-
Interest receivable from equity method investments	2	1
Accounts payable to equity method investments	7	(4)
	83	**5**

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.

During the year ended the Group has purchased ore from its associate GRK Amikan (Note 16) for the amount of US$ 35 million (2016: US$ 11 million) and its joint venture Aktogai Mys for the amount of US$ 3 million (2016: nil). Other sales recognised within other operating expenses are mainly represented by sales of machinery and equipment.

Carrying values of other long-term loans provided to related parties as at 31 December 2017 and 31 December 2016 approximate their fair values.

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

The remuneration of directors and other members of key management personnel during the periods was as follows:

	Year ended	
	31 December 2017	31 December 2016
	US$m	US$m
Share-based payments	2	2
Short-term benefits of board members	2	2
Short-term employee benefits	2	1

24. NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Profit before tax		443	564
Adjustments for:			
Depreciation and depletion recognised in the statement of comprehensive income		214	155
Write-down of exploration assets and construction in progress	15	3	2
Write-down of metal inventories to net realisable value	17	16	21
Write-down of non-metal inventories to net realisable value	17	3	6
Additional mining taxes and VAT exposures, penalties and accrued interest, net		(8)	(12)
Provision for investment in Special Economic Zone		12	14
Share-based compensation	9	10	7
Finance costs	12	63	63
Finance income		(4)	(3)
Loss on disposal of property, plant and equipment	10	1	1
Rehabilitation expenses		-	1
Change in contingent consideration liability	21	(2)	22
Share of loss of associates and joint ventures	16	(3)	-
Foreign exchange gain		10	(65)
Change in estimate of environmental obligations		(4)	(5)
Other non-cash expenses		4	1
Movements in working capital			
Increase in inventories		(35)	(50)
(Increase)/Decrease in VAT receivable		(31)	14
(Increase)/Decrease in trade and other receivables		14	(4)
(Increase)/Decrease in prepayments to suppliers		(6)	2
(Decrease)/Increase in trade and other payables		(20)	17
Increase/(Decrease) in other taxes payable		10	(6)
Cash generated from operations		**690**	**745**
Interest paid		(63)	(61)
Interest received		1	1
Income tax paid		(95)	(155)
Net cash generated by operating activities		**533**	**530**

Significant non-cash transactions during the year ended 31 December 2017 represent the issuance of shares to settle Primorskoye contingent consideration of US$ 10 million and the issuance of shares to acquire Tarutin non-controlling interest of US$ 10 million (2016: the issuance of shares amounting to US$ 40 million in respect of the business combinations, the acquisition of assets and acquisition of non-controlling interest).

Cash flows related to exploration amounted to US$ 33 million for the year ended 31 December 2017 (2016: US$ 56 million). During the year ended 31 December 2017, the capital expenditure, related to the new projects, increasing the operating capacity amounts to US$ 173 million (2016: US$ 121 million).

25. SUBSEQUENT EVENTS

In February 2018 the Group has entered into a legally binding agreement to increase its stake in the Prognoz Serebro LLC (Note 10) from 5% to 50% through the acquisition of a further 45% ownership in the asset from Polar Acquisition Limited (PAL) for a total consideration of US$ 72 million to be paid in Polymetal shares. 90% of the consideration shares will be subject to a lock-up period of 180 days. Additionally Polymetal commits to pay PAL a net smelter return ("NSR") royalty of between 2 and 4% (pro rated by the 45% stake being acquired), which will be dependent on the applicable statutory mineral extraction tax rate at the time when the asset enters commercial production. The royalty agreement is subject to an agreed cap. The transaction is expected to close in first quarter 2018, subject to receipt of the required regulatory approvals.

ALTERNATIVE PERFORMANCE MEASURES

Introduction

The financial performance reported by the Group contains certain Alternative Performance Measures (APMs) disclosed to compliment measures that are defined or specified under International Financial Reporting Standards (IFRS). APMs should be considered in addition to, and not as a substitute for, measures of financial performance, financial position or cash flows reported in accordance with IFRS.

The Company believes that these measures, together with measures determined in accordance with IFRS, provide the readers with valuable information and an improved understanding of the underlying performance of the business.

APMs are not uniformly defined by all companies, including those in the Group's industry. Therefore, the APMs used by the Group may not be comparable to similar measures and disclosures made by other companies.

Purpose

APMs used by the Group represent financial KPIs for clarifying the true financial performance of the Company and measuring it against strategic objectives, given the following background:

- Widely used by the investor and analyst community in mining sector and, together with IFRS measures, APMs provide a holistic view of the Company;
- Applied by investors to assess earnings quality, facilitate period to period trend analysis and forecasting of future earnings, understand performance through eyes of management;
- Highlight key value drivers within the business that may not be obvious in the financial statements;
- Ensure comparability of information between reporting periods and operating segments by adjusting for uncontrollable or one-off factors which impact upon IFRS measures;
- Used internally by management to assess financial performance of the Group and its operating segments;
- Used in the Group's dividend policy;
- Certain APMs are used in setting directors and management remuneration.

APMs and justification for their use

Group APM	Closest equivalent IFRS measure	Adjustments made to IFRS measure	Rationale for adjustments
Underlying net earnings	• Profit/(loss) for the financial period attributable to equity shareholders of the Company	• Write-down of metal inventory to net realisable value (post-tax) • Foreign exchange (gain)/loss (post-tax) • Change in fair value of contingent consideration liability (post-tax)	• Exclude the impact of key significant one-off non-recurring items and significant non-cash items (other than depreciation) that can mask underlying changes in core performance.
Adjusted EBITDA	• Profit/(loss) before income tax	• Finance cost (net) • Depreciation and depletion • Write-down of metal and non-metal inventory to net realisable value • Share based compensation • Bad debt allowance • Net foreign exchange losses	• Exclude the impact of certain non-cash element, either recurring or non-recurring, that can mask underlying changes in core operating performance, to be a proxy for operating cash flow generation.

		• Change in fair value of contingent consideration liability • Rehabilitation costs • Additional mining taxes, VAT, penalties and accrued interest	
Net debt	• Net total of current and non-current borrowings • cash and cash equivalents	• n/a	• Measures the Group's net indebtedness that provides an indicator of the overall balance sheet strength. • Used by creditors in bank covenants.
Net debt/EBITDA ratio	• No equivalent	• n/a	• Used by creditors, credit rating agencies and other stakeholders.
Free cash flow	• Cash flows from operating activity less free cash flow from investing activities	• Less cash flows used in investing activities, excluding acquisition costs in business combinations and investments in associates and joint ventures	• Reflect cash generating from operations after meeting existing capital expenditure commitments. • Measures the success of the Company in turning profit into cash through the strong management of working capital and capital expenditure.
Total cash costs (TCC)	• Total cash operating costs • General, administrative & selling expenses	• Depreciation expense • Rehabilitation expenses Write-down of • inventory to net realisable value • Intersegment unrealized profit elimination • Idle capacities and abnormal production costs • Exclude Corporate and Other segment and development assets	• Calculated according to common mining industry practice using the provisions of Gold Institute Production Cost Standard. • Give a picture of a Company's current ability to extract its resources at a reasonable cost and generate earnings and cash flows for use in investing and other activities.
All-in sustaining cash costs (AISC)	• Total cash operating costs • General, administrative & selling expenses	• AISC is based on total cash costs, and adds items relevant to sustaining production.	• Include the components identified in World Gold Council's Guidance Note on Non-GAAP Metrics – All-In Sustaining Costs and All-In Costs (June 2013), which is a non-IFRS financial measure. • Provide investors with better visibility into the true cost of production.