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Polymetal International plc

Preliminary results for the year ended 31 December 2018

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 2018.

"2018 was a year of strong operating and financial results, including solid cost performance and smooth ramp-up of Kyzyl", said Vitaly Nesis, Group CEO of Polymetal, commenting on the results. "We have also advanced our long-term development pipeline, continued to generate free cash flows and pay substantial dividends".

FINANCIAL HIGHLIGHTS

- In 2018, revenue increased by 4% over 2017 to US$ 1,882 million, primarily driven by gold equivalent (GE) production growth of 9%. Gold sales were 1,198 Koz, up 10% year-on-year, while silver sales were down 3% to 25.7 Moz, in line with production volume dynamics. Average realised prices largely tracked market dynamics.
- Group Total cash costs[1] (TCC) for the full year were US$ 649/GE oz, down 1% year-on-year and just below the bottom of the range of the Group's initial cost guidance of US$ 650-700/GE oz. All-in sustaining cash costs[1] (AISC) amounted to US$ 861/GE oz, also below the lower end of the Group's cost guidance of US$ 875-925/GE oz, a decrease of 4% year-on-year.
- Adjusted EBITDA[1] increased by 5% over 2017 to US$ 780 million, mostly driven by higher production volumes and stable cost performance. The Adjusted EBITDA margin was at 41.4% (2017: 41.0%).
- Net earnings[2] were US$ 355 million (2017: US$ 354 million), with basic EPS of US$ 0.78 per share (2017: US$ 0.82 per share). Underlying net earnings[1] increased by 19% to US$ 447 million driven by EBITDA growth and lower depreciation and income tax expenses.
- Capital expenditure was US$ 344 million[3], down 10% compared to 2017. With the addition of loans that were extended to Nezhda and Prognoz before consolidation of these assets, capital expenditure comprised US$ 395 million, below the original guidance of US$ 400 million. The Group has successfully completed and launched the Kyzyl project ahead of the original schedule with cumulative project capex of US$ 319 million, below the original budget of US$ 325 million.
- Net debt[1] increased to US$ 1,520 million during the period (31 December 2017: US$ 1,420 million), representing a Net debt/Adjusted EBITDA ratio of 1.95x (2017: 1.91x). Despite investments in the Amursk POX debottlenecking and Kyzyl projects over the course of 2018 as well as start-up working capital at Kyzyl, the Company continued to generate meaningful free cash flow[1] that amounted to US$ 176 million (2017: US$ 143 million), while maintaining stable net cash operating inflow of US$ 513 million (2017: US$ 533 million).
- A final dividend of US$ 0.31 per share (approx. US$ 146 million) representing 50% of the Group's underlying net earnings for 2H 2018 has been proposed by the Board in accordance with the dividend policy while complying with the hard ceiling of Net debt/Adjusted EBITDA ratio below 2.5x. This will bring the total dividend declared for FY 2018 to US$ 223 million (2017: US$ 196 million), or US$ 0.48 per share (2017: US$ 0.44 per share).

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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.

OPERATING HIGHLIGHTS

- Polymetal delivered a robust operational performance in 2018: annual GE production of 1,562 Koz was up 9% year-on-year exceeding our original production guidance of 1,550 Koz, on the back of the full ramp-up at Kyzyl, as well as a strong performance at Albazino/Amursk and Svetloye.
- Full year gold production totalled 1,216 Koz, a 13% increase year-on-year. Gold sales generally followed production dynamics. Silver production was down 6% to 25.3 Moz compared to 2017.
- Polymetal regrettably reported one fatal accident at Kapan underground mine in 2018. While full year safety statistics demonstrated a meaningful improvement year-on-year, we are yet to achieve our principal goal of zero fatalities at all operations. The Company has implemented additional safety measures aimed at mitigating the risks associated with air quality and efficiency of ventilation in underground mines.
- The Company reiterates its current production guidance of 1.55 Moz and 1.6 Moz of GE for 2019 and 2020, respectively. Traditionally, production in both years will be weighted towards 2H due to seasonality.
- TCC in 2019 is expected to be in the range of US$ 600-650/ GE oz while AISC is expected to average US$ 800-850/ GE oz, with the decrease to be driven by the fully ramped-up Kyzyl operation and the disposal of higher cost Kapan and Okhotsk mines. The cost guidance is contingent on the Rouble/Dollar exchange rate and Brent oil price.

FINANCIAL HIGHLIGHTS[1]	**2018**	**2017**	**Change, %**
Revenue, US$m	1,882	1,815	+4%
Total cash cost, US$ /GE oz	649	658	-1%
All-in sustaining cash cost, US$ /GE oz	861	893	-4%
Adjusted EBITDA, US$m	780	745	+5%
Average realised gold price, US$ /oz	1,226	1,247	-2%
Average realised silver price, US$ /oz	14.8	16.1	-8%
Net earnings, US$m	355	354	+0%
Underlying net earnings, US$m	447	376	+19%
Return on Assets, %	17%	18%	-1%
Return on Equity (underlying), %	16%	16%	-
Basic EPS, US$ /share	0.78	0.82	-5%
Underlying EPS, US$ /share	1.00	0.88	+14%
Dividend declared during the period, US$ /share[2]	0.47	0.32	+47%
Dividend proposed for the period, US$ /share[3]	0.48	0.44	+9%
Net debt, US$m	1,520	1,420	+7%
Net debt/Adjusted EBITDA	1.95	1.91	+2%
Net operating cash flow, US$m	513	533	-4%
Capital expenditure, US$m	344	383	-10%
Free cash flow[4], US$m	176	143	+23%

[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 2018: final dividend for FY 2017 declared in May 2018 and interim dividend for the 1H 2018 declared in September 2018.
FY 2017: final dividend for FY 2016 declared in May 2017 and interim dividend for the 1H 2017 declared in September 2017.
[3] FY 2018: interim and final dividend for FY2018. FY 2017: interim and final dividend for FY2017.
[4] Net cash generated by operating activities less net cash used in investing activities excluding acquisitions of joint venture and associate, loans forming part of net investment in joint ventures and proceeds from disposal of subsidiaries.

CONFERENCE CALL AND WEBCAST

Polymetal will hold a conference call and webcast on 11 March 2019 at 11:00 London time (14:00 Moscow time), where senior management will discuss the results.

To participate in the call, please dial:

8 800 500 98 63 access code 48861556# (free from Russia), or
44 203 009 24 76 (free from the UK), or
1 646 502 51 26 (free from the US), or
follow the link: http://polymetal110319-live.audio-webcast.com/.

Please be prepared to introduce yourself to the moderator.

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 418835942#, from 14:30 Moscow time Monday, 11 March, till 14:30 Moscow time Monday, 18 March, 2019.

A webcast replay will be available on Polymetal's website (www.polymetalinternational.com) and at http://polymetal110319-live.audio-webcast.com.

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CHAIRMAN’S STATEMENT

This year marks the end of my term of office as the Chair of Polymetal. The Group CEO gives a full report on the Company's performance in 2018 in his statement overleaf, so I would like to take this opportunity to reflect on the longer period since Polymetal moved its primary listing to the London Stock Exchange, and I became Chair.

The years since 2011 have seen significant market headwinds for gold mining companies and for Russian companies listed in London. Polymetal responded proactively to these difficult macroeconomic situations. Firstly, in achieving operational excellence: the Company has consistently met its production and cost guidance. Even when gold prices remained low, it continued to generate a strong free cash flow.

Secondly, the Company has chosen to focus on innovative technology in general and new metallurgical recovery processes. Polymetal built the first pressure oxidation (POX) recovery plant in Russia, which it has operated effectively since commissioning. Further expansion of the Amursk POX plant with the second POX line was approved by the Board in February 2019.

Like all mining companies, Polymetal faces the challenge of replacing reserves, and preferably growing production and future ounces; both of which it has done successfully. The Kyzyl mine in Kazakhstan was the major new growth project over the last eight years; this was designed, built and came into production on time and within budget.

At the same time, the Company has maintained strict financial discipline, evidenced particularly in its consistent cost performance and rigorous capital allocation. This has also enabled Polymetal to reward its shareholders with significant dividends through a clearly defined dividend policy.

Building a sustainable business

A further response to tough markets has been Polymetal's determination to meet the highest standards of corporate governance and the refreshed Board will continue to play an important role in this. Polymetal has worked hard to achieve both clarity and integrity in its financial reporting and to allay any shareholder concerns about corporate governance and executive remuneration practices.

The Company has also invested significant resources in its stewardship of the physical and social environments in which it operates and setting up best practice sustainability policies and procedures. These efforts have been recognised by the inclusion of Polymetal in the Dow Jones Sustainability Index and FTSE4Good Index, as well as the reduction in interest rates on our sustainability-linked corporate loan.

Clearly, more than 11,000 employees of this Company are central to its success today and in the future. The Board in particular engaged with Polymetal’s Young Leaders programme, which identifies a promising pool of young talent within the Company. Polymetal invests in their training and their continuing career development. The Company is also committed to investing in the development of all its employees. In 2018 we provided more than 20,000 training sessions for our employees.

There have been areas of disappointment during this time. Without a doubt the biggest failure has been the persistence of serious and fatal accidents. Although progress is being made in enhancing all aspects of employee safety, continued effort and vigilance will be needed.

A bright future for Polymetal

Both governance and shareholder expectations will continue to shape this Company's performance. Transparency, fairness and embracing diversity will be expected of Polymetal in all the jurisdictions in which it operates. Ever-higher standards of environmental stewardship will be a challenge for all businesses. And, for all mining companies, the challenge to attract the brightest and the best of the next generation of employees will also continue.

It has been a privilege for me to be part of the Polymetal team since 2011. I am proud of the performance of the entire Polymetal team, inspirationally led by Vitaly Nesis. The Board now has a good mixture of institutional memory and fresh eyes. I am particularly delighted that the Board has found Ian Cockerill, a most distinguished and very experienced mining leader to take over as Chair.

I can see no reason why Polymetal's next decade should not be even more successful than the last one.

Bobby Godsell
Chairman

GROUP CEO STATEMENT

At the 2019 AGM, we will formally say goodbye to Bobby Godsell, the Chairman of the Board since 2011. Bobby's strong support and wise leadership have helped shape the values and the strategy of the Company he is now leaving. On behalf of the executive management and all our employees, I would like to say thank you and wish him well for the future. Bobby's imprint on Polymetal will undoubtedly be felt long after he leaves the Company.

A year of achievement

Without a doubt, the most significant highlight of 2018 was the successful launch and ramp-up of our newest mine in Kazakhstan, Kyzyl. Polymetal's decision to develop one the world's largest and highest-grade gold deposits had its numerous sceptics given the failure of previous owners to move the project forward. Many investors and analysts questioned the wisdom of spending US$ 620 million on the acquisition of Kyzyl in 2014, at the time of a painful slump in gold prices. Now, Polymetal's creative approach and relentless focus on execution ensured that fateful step is fully corroborated. Kyzyl delivered 96 Koz of payable production in 2018, a significant beat on the original 2014 guidance of 80 koz. Already within its first half-year of launch, Kyzyl made a substantial contribution to 2018 production of 1.56 Moz and was the key driver behind gold equivalent production growth of 9%.

In a well-coordinated development, the debottlenecking expansion at the Amursk POX (pressure oxidation) facility concluded equally well. Increased POX capacity enables higher gold recoveries from concentrate and reduces downstream processing costs, thus improving the downstream processing economics at Kyzyl and broadening the scope for the profitable treatment of third-party feedstocks.

This underpinned the robust financial results for the year with EBITDA of US$ 780 million (5% over prior year) and AISC down by 4% to US$ 861/oz, and enabled us to deliver a net profit of US$ 355 million. Despite investment in new development projects, capital spending at the Amursk POX expansion and completion of Kyzyl project, Polymetal generated a healthy free cash flow, totalling US$176 million. This has allowed us to declare a substantial dividend totalling US$ 223 million for 2018, maintaining a sector leading dividend yield.

A year of sharpened focus

After the successful start-up at Kyzyl, we found ourselves in a good position to advance our long-term development pipeline. The Company a maintains narrow focus on large, long-lived, high-grade deposits. The development of these assets will ensure free cash flow and dividend growth and thus deliver superior shareholder returns.

We increased our stake in Nezhda to 100% and completed the feasibility study, more than doubling its reserves to 4.4 Moz. This, together with the receipt of final government clearance, sealed the Board's decision to proceed with the construction of Polymetal's next mine. Nezhda is expected to generate a 29% IRR and increase the average life-of-mine of Polymetal's production profile from 13 to 16 years. We also acquired 100% stake in Prognoz, the largest undeveloped primary silver deposit in Eurasia with an initial silver equivalent resource estimate of 256 Moz. The results of the feasibility study will be available by the end of 2020. In addition, we completed the feasibility study for the POX-2 project and gained Board approval to proceed with construction in February 2019. POX-2 has light environmental footprint and will generate minimal air and water pollution. This facility will ensure Polymetal is well prepared for the significant tightening of environmental regulations across the globe, particularly in China.

Alongside our decision to concentrate on developing long-life high-grade operations, we resolved to dispose of small short-lived and high-cost operations. The reduction in asset base will enable us to reduce our leverage and allow tighter management's focus on core operations and projects. Over the last twelve months, we have already negotiated and closed four transactions. The sale of our stake in Dolinnoye and disposal of Kapan, Okhotsk and Svetlobor have collectively generated US$ 108 million of proceeds that will be used to reduce debt.

2018 witnessed several significant exploration successes which helped grow our reserve base by 17% without diluting the average grade. Very large reserve additions at Nezhda and Mayskoye demonstrate the huge potential of resource-to-reserve conversion of these world-class ore bodies. A significant resource upgrade at Prognoz highlighted the potential of this deposit to be a key part of the next leg of Polymetal's growth trajectory.

A year of sustainability

With strong operating and financial achievements, Polymetal remains firmly committed to operating its business in a sustainable manner and, in that respect, 2018 was a year of important milestones. These included a sizable reduction in injury frequency rates; installation of first renewable energy sources at our remote sites in the Russian Far East; and establishment of best practice human rights and climate change policies.

These efforts were recognised by various international rating agencies. Polymetal became the first company in the former Soviet Union to join the prestigious Dow Jones Sustainability Index and was ranked 1st among 47 mining companies worldwide in the Sustainalytics rating. This is already creating tangible benefits for the business; most notably the maximum available reduction in the interest rate on our sustainability-linked loan.

A year ahead

In 2019, we will focus on achieving a robust operating performance, with Kyzyl delivering its first full year of production with approximately 300 Koz of gold and a sustained contribution from our other operating mines. Production is forecast to remain flat at 1.55 Moz (due to the effect of asset disposals).

Management's priorities will include safety and relentless cost control. Key areas of operational improvement involve several projects utilizing digital technologies. Another important area where we expect significant results is reserve replacement and enhancement. We will continue our exploration efforts both through near-mine and green-field exploration campaigns.

Production growth will resume in 2020 with the goal of 1.85 Moz of gold equivalent in 2023 following the launch of Nezhda and POX-2. Nezhda and POX-2 will move into active construction stage. We will also start the disposal process for development-stage non-core assets with the ambitious target of generating more than US$100 million in proceeds in 2019-2020.

2018 was a year of reflection as we celebrated our 20th anniversary. It was also a year when we successfully completed some of our most ambitious projects. We set in motion plans to continue on a path of long-term growth for the business, which will in turn ensure substantial financial returns for our shareholders over the coming years. I would like to say thank you to all our employees for the hard work and commitment that has helped create the Company we are today. I look forward to achieving more together in the future.

Vitaly Nesis
Group CEO

OPERATING REVIEW

Another year of solid performance

In 2018, Polymetal maintained a track record of robust operational delivery. Annual gold equivalent production of 1,562 Koz was up 9% year-on-year, exceeding our original production guidance for the seventh year in a row. The strong finish to the year was driven by the successful execution and very smooth ramp-up at Kyzyl and the POX debottlenecking project. Kyzyl delivered a total of 96 Koz of gold following its launch in June, well above the original 80 Koz guidance, and made a substantial contribution to Group-wide FY 2018 production. The expansion at the Amursk POX facility enabled us to increase POX capacity by 30%to process low-carbon concentrate from Kyzyl in-house.

Gold production totalled 1,216 Koz, a 13% increase year-on-year. Silver production was down 6% to 25.3 Moz, due to the planned grade decline at the Dukat and Lunnoye underground mines.

Gold sales were 1,198 Koz, up 10% year-on-year, while silver sales were down 3% year-on-year at 25.7 Moz, generally in line with production dynamics and volumes.

Key operating highlights

	2018	2017	Change
Stripping, Mt	126.7	114.0	+11%
Underground development, km	130.0	115.4	+13%
Ore mined, Kt	**14.0**	**12.6**	**+11%**
Open-pit	9.3	8.2	+13%
Underground	4.7	4.3	+7%
Ore processed, Kt	**15.2**	**13.0**	+16%
Average grade in ore processed (gold equivalent, g/t)	**3.9**	**3.9**	-
Production			
Gold, Koz	1,216	1,075	+13%
Silver, Moz	25.3	26.8	-6%
Copper, Kt	3.9	2.7	+43%
Zinc, Kt	5.4	4.8	+13%
Gold equivalent, Koz[1]	**1,562**	**1,433**	**+9%**
Sales			
Gold, Koz	1,198	1,090	+10%
Silver, Moz	25.7	26.5	-3%
Copper, Kt	3.3	2.6	+30%
Zinc, Kt	5.6	4.7	+19%
Gold equivalent, Koz[2]	**1,535**	**1,456**	**+5%**
Average headcount	12,720	10,953	+16%
Health and safety			
Fatalities	1	2	-50%
LTIFR	0.09	0.15	-40%

Analysis of production results

Mining

Stripping volumes in 2018 grew by 11% to 126.7 Mt of rock moved, driven mostly by stripping at Kyzyl. Waste stripping started at the new Riverside pit at Varvara (first ore expected in Q2 2019) and the new Ekaterina-2 open pit (ore mining is expected to commence in Q4 2019).

Underground development increased by a further 13% to 130 km (2017: 115.4 km), with increased capacity at Mayskoye as the new mine level (400 m below surface) is prepared for the start of stoping in Q1 2019, as well as underground development for new brownfield extensions at Dukat (Nachalniy-2 and Lunnoye) and Albazino (Ekaterina-2 underground mine).

Ore mined increased by 11% year-on-year to 14 Mt (2017: 12.6 Mt), mainly driven by commencement of open-pit mining at Kyzyl.

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[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 16% to 15.2 Mt (2017: 13.0 Mt), mainly on the back of the ramp-up at Kyzyl, as well as higher volumes of ore stacked for heap leaching at Omolon and Svetloye.

At Amursk POX, the debottlenecking project was successfully completed with all new sections now operating at full capacity.

The average gold equivalent grade in ore processed remained flat year-on-year at 3.9 g/t, slightly above the average reserve grade of 3.8 g/t. As expected, there were planned grade declines at the mature Dukat underground mine; at the Kubaka mill (Omolon) driven by the increased share of lower grade ore from the Sopka open pit; and minor scheduled grade declines at Svetloye. However the decline was offset by the ramp-up of Kyzyl in the second half of the year, as well as a marked improvement in mine-to-model grade reconciliations at Albazino and Mayskoye, which pushed the average grade up to 4.5 g/t in the fourth quarter.

Production and sales

In 2018, Polymetal continued to deliver solid production results, producing 1.56 Moz of gold equivalent, up 9% year-on-year. Key drivers behind this performance were the newly launched Kyzyl operation, Komar (Varvara hub), Svetloye and Albazino-Amursk.

At Kyzyl, full-year gold production came in at 96 Koz of gold, making a significant contribution to the Group’s strong results. The outperformance is mainly attributable to the softer nature of the rock, as well as the presence of small high-grade ore pods. Albazino/Amursk hub achieved record gold production of 308 Koz, up 15% year-on-year on the back of higher processing volumes. GE production at Varvara totalled 142 Koz, an increase of 9% year-on-year. This was primarily driven by growing processing volumes as Komar mining and ore railing capacity continues to improve. Svetloye also delivered a solid set of results on the back of higher stacking volumes that offset minor grade declines.

At Okhotsk, GE production was down 7% year-on-year. The decrease is primarily due to declining grades as the Khakanja mill mainly processed remaining stockpiles. Okhotsk operations were sold in December 2018. At Kapan, GE production was up 3% year-on-year at 51 Koz. Kapan was subsequently sold in January 2019.

Metal sales in 2018 were 1,535 Koz of gold equivalent, up 5% compared to 2017, 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), Mayskoye (refractory gold) and Kyzyl (double refractory gold) to offtakers. 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. At Kyzyl, offtake agreements for all 2019 concentrate production were successfully secured despite a noticeable tightening of markets in China.

Gold equivalent production by mine (Koz)

	2018	2017	Change
Kyzyl	96	-	NA
Dukat	306	322	-5%
Albazino-Amursk	308	269	+15%
Omolon	195	202	-4%
Mayskoye	117	124	-6%
Varvara	142	130	+9%
Voro	107	120	-10%
Svetloye	136	106	+28%
Okhotsk	104	111	-7%
Kapan	51	50	+3%
TOTAL	1,562	1,433	+9%

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 Kazakhstan.

Our key exploration objectives in 2018

- Brownfield exploration projects in close proximity to the Company’s producing assets in the Magadan, Sverdlovsk and Khabarovsk regions, notably: Albazino (with focus on preparing open-pittable reserves at the Farida and

Ekaterina zones), Mayskoye (29.5 km of exploration drilling), Varvara (mostly focused on the Elevator property), Voro (exploration activities at Pescherny and Saum), and Dukat (the south-western flank of ore zone 9);

- Updated mineral resources estimate and achieve resource-to-reserve conversion at Nezhda to include the southern flank of ore zone 1 and smaller mineralised zones;
- Completion of audited JORC-compliant resource estimate for Prognoz largest ore zones, Main and Swamp;
- Continuing step-out and in-fill drilling at Kyzyl (41 drill holes totaling 7.3 km) with a goal to prepare an updated Ore Reserve estimate in 2019.

Key 2018 achievements

In 2018, Polymetal succeeded in extending the life-of-mine at producing assets and continued to invest in the next leg of our growth. Exploration activities were carried out on 51 licensed properties with 350 km of drilling completed in the course of 2018. The total capital expenditure on exploration was US$ 51 million, down 12% compared to 2017.

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

- An updated JORC-compliant ore reserve and mineral resource estimate at Nezhda: mineral resources (inclusive of ore reserves) comprise of 12.4 Moz of GE with an average GE grade of 4.5 g/t, a 1.6 Moz increase compared with the previous estimate. The estimate of proved and probable ore reserves increased by 2.4 Moz of GE and now contains 38 Mt at an average grade of 3.6 g/t GE for 4.4 Moz of GE contained;
- An updated JORC-compliant Mineral Resource estimate at Prognoz: silver equivalent contained totaled 256 Moz at 789 g/t;
- Significant ore reserves increase of 777 Koz of gold (+55%) at Mayskoye. The updated ore reserve estimate comprises 10 Mt of ore at 6.9 g/t containing 2.2 Moz of gold. Additional mineral resources are estimated at 2.8 Moz of gold with an average grade of 11.4 g/t;
- An increase of Voro's mineral resources by 19% to 1.2 Moz GE, primarily driven by additions from the Saum and Pescherniy properties;
- A 33% increase in additional mineral resources at Albazino, adding 403 Koz of gold;
- At Komar (Varvara hub), additional Mineral Resources increased by 225 Koz of GE;
- Resources additions at other mature mines: Omolon (Olcha - 39 Koz of GE, Nevenrekan - 62 Koz of GE), Svetloye (86 Koz of gold), as well as reserve additions of 37 Koz of GE at Lunnoye (Dukat hub);

2019 targets

In 2019, Polymetal will continue to invest in both near-mine and green-field exploration projects. One key area of focus will be the implementation of new exploration techniques including airborne geophysics and 2-D seismics. The Company is also evaluating the benefits of investing in junior explorers through strategic cooperation agreements.

The key objectives are as follows:

- Complete a full revaluation of Ore Reserves and Mineral Resources at Kyzyl based on actual operating statistics and additional exploration results
- Achieve upgrade of inferred resources into higher categories and/or resource-to-reserve conversion at the following properties:
    - Saum and Pescherny at Voro
    - Levoberezhny at Svetloye
    - Perevalnoye and Lunnoye deep horizons at Dukat
    - Elevator at Varvara
    - Flanks and smaller ore bodies at Nezhda
    - Eastern extension of Bakyrchik at Kyzyl
- Prepare updated Mineral Resource estimates at Prognoz and Viksha
- Prepare an updated Ore Reserve and Mineral Resource estimate at Veduga

Exploration areas and volumes (mine site exploration excluded)	Drilling, km	
	2018	**2017**
Brownfield		
Kyzyl	**7.3**	**8.3**
Albazino	**46.6**	**30.2**
Mayskoye	**29.5**	**33.4**
Varvara	**53.2**	**108.5**
Varvara	-	35.6
Komar	15.9	59.3
Elevator	15.5	12.1
Other	21.8	1.5
Voro	**30.8**	**11.0**
Voro flanks	12.5	3.1
Tamunier	-	1.0
Pescherniy	18.3	6.8
Dukat hub	**27.6**	**28.8**
Dukat flanks	8.5	15.8
Lunnoye flanks	4.7	2.3
Primorskoye	8.6	6.9
Terem	0.7	3.8
Perevalnoye	5.1	-
Omolon hub	**21.3**	**18.4**
Olcha	4.5	2.6
Yolochka	-	6.7
Irbychan	6.0	4.7
Nevenrekan	5.2	4.4
Other	5.6	-
Svetloye	**5.9**	**17.2**
Svetloye	2.2	2.0
Levoberezhny	3.7	15.2
Okhotsk (sold December 2018)	**15.9**	**30.8**
Subtotal	**238.3**	**286.7**
Greenfield		
Yakutia	**85.7**	**70.9**
Nezhda	25.9	33.7
Prognoz	59.8	37.3
Karelia (Viksha)	**14.7**	**39.6**
Urals	**11.4**	**22.9**
Other	**-**	**0.8**
Subtotal	**111.9**	**134.2**
Total	**350.2**	**420.9**

Reserves and resources

In 2018, Group Ore Reserves increased by 15% year-on-year and are now estimated at 24.0 Moz of gold equivalent (GE). The main drivers were the successful resource-to-reserve conversion at Mayskoye and the completion of a revised estimate at Nezhda following the Company's consolidation of 100% ownership in the property. Gold reserves were up 21% at 22.3 Moz, while silver reserves decreased 15% to 135 Moz. The share of gold in Ore Reserves increased to 93%.

Mineral Resources (in addition to Ore Reserves) grew 44% year-on-year to 26.3 Moz of GE on the back of an initial Mineral Resource estimate at Prognoz and Bolshevik (Kyzyl), as well as the revised estimate at Nezhda. The share of gold in Mineral Resources stands at 80%, silver at 17%.

The average grade in Ore Reserves remained largely unchanged over the previous year at 3.8 g/t of GE and remains one of the highest in the sector. The average grade in Mineral Resources increased 8% to 5.1 g/t of GE on the back of high-grade additions at Nezhda and Prognoz.

In 2019 we will continue to focus on extending the life-of-mine at producing assets.

Ore Reserves and Mineral Resources summary[1][2]

	1 January 2019	1 January 2018	Change
Ore Reserves (Proved + Probable), gold equivalent Moz	**24.0**	**20.9**	**+15%**
Gold, Moz	22.3	18.4	+21%
Silver, Moz	135.0	158.0	-15%
Copper, Kt	49.1	81.6	-40%
Zinc, Kt	18.1	85.8	-79%
Average reserve grade, g/t	**3.8**	**3.9**	**-2%**
Ore Reserves per share, GE oz/per share	0.05	0.05	+6%
Mineral Resources (Measured + Indicated + Inferred), gold equivalent Moz	**26.3**	**18.2**	**+44%**
Gold, Moz	21.0	15.7	+34%
Silver, Moz	354.9	109.1	+225%
Copper, Kt	73.6	147.9	-50%
Zinc, Kt	42.6	221.8	-81%
Lead, Kt	197.8	-	+100%
Average resource grade, g/t	**5.1**	**4.7**	**+8%**

Ore Reserves reconciliation, GE Moz[3]

Ore Reserves, 01.01.2018	**20.9**	
Metals to gold equivalent conversion price ratio change[3]	(0.1)	
Depletion	(1.8)	
Revaluation	+1.9	
Change in ownership (continuing operations)	+3.7	
Ore Reserves, 01.01.2019	**24.5**	
Operations classified as discounted after the reporting date (Kapan mine sold in January 2019)	(0.5)	
Ore Reserves from continuing operations	**24.0**	
Net change	**+3.2**	**+15%**

Outlook for 2019

In 2019, we are expecting a consistently strong operating performance, with Kyzyl delivering its first full year of production with approximately 300 Koz of gold and a sustained contribution from our other operating mines. In addition to Kyzyl, we expect grade-driven production increases at Omolon and Varvara while production at Dukat and Voro will continue to gradually decline on the back of planned depletion of higher-grade ore sources. Our production guidance is set at 1.55 Moz and 1.6 Moz of GE for 2019 and 2020, respectively. Traditionally, production in both years will be weighted towards the second half of the year due to seasonality.

We will also focus on operational improvement and digital technologies: at Voro and Albazino we will deploy big data analytical techniques to increase plant throughput/recovery. More ambitiously, at Birkachan and Mayskoye underground mines the establishment of real-time digital control of equipment units should improve availability and reduce ventilation costs.

The Company will continue brownfield and greenfield exploration efforts. Increased use of airborne geophysics and seismic analysis should enable discovery of mineralisationwith no direct outcrop.

[1] Ore Reserves and Mineral Resources from continuing operations (Kapan mine sold in January 2019 classified as a discontinued operation as at 1 January 2019).

[2] Mineral Resources are additional to Ore Reserves. 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. Discrepancies in calculations are due to rounding.

[3] Discrepancies in calculations are due to rounding

In the meantime, we will focus on advancing our long-term project pipeline. At Nezhda we plan to complete the construction of the concentrator building by year-end, while at POX-2 the goal is to sign contracts for all major equipment, including the autoclave, the oxygen plant, and the water treatment facility. We will continue to advance Prognoz and Viksha concentrating on additional drilling, detailed metallurgical testing, and permitting activities.

Last but not least, safety will remain a top priority for Polymetal and we reaffirm our commitment to further improvements across health and safety metrics to achieve our zero harm target in relation to our employees, as well as our suppliers and contractors.

FINANCIAL REVIEW

MARKET SUMMARY

Precious metals

Traditionally, the fate of the commodity prices for gold and silver has been largely determined by the movements in the US Dollar and Federal Reserve rates, and geopolitical issues. And this year proved no different as 2018 continued to be challenging for the precious metals market.

At the beginning of the year, the gold price trended higher, reaching highs of US$1,360/oz in January. However, on the back of traditionally lower seasonal demand in Q2 and a stronger US Dollar, it slumped to a yearly low of US$1,176/oz by September, following the escalation of a major trade dispute between the US and China. As the trade dispute softened, the gold price rebounded and ended the year at US$ 1,282/oz, slightly lower than at the end of 2017. The average LBMA gold price for the period was US$ 1,269/oz, up 1% year-on-year.

Annual gold demand, on the other hand, posted a 4% gain over 2017 and reached 4,345[1] tonnes. The upward trend was primarily driven by a handful of central banks that added 651[1] tonnes to gold reserves in 2018. Annual inflows into gold-backed ETFs slowed on the back of material outflows from US funds and were down 67%[1] year-on-year. Bar and coin demand rose 4% over 2017 and was boosted by lower gold prices in the second half of the year and increased volatility in equity markets. Technology demand saw marginal growth, mostly due to a strong demand for consumer electronics and ongoing electrification in the automotive sector. Jewellery demand remained relatively flat over the previous year and still weak in a historical context.

In 2018, silver largely followed gold dynamics, reaching peak levels in January when it hit US$ 17.5/oz. In September it declined to its lowest price in more than two years, under US$14/oz, setting a record low silver-to-gold price ratio. Silver ended the year slightly below 2017 levels at US$ 15.5/oz.

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 and Kazakh Tenge. As a result, changes in exchange rates affect its financial results and performance.

In 2018, the oil market experienced its worst annual loss since 2015. Brent crude oil ended the year down 19% at US$ 53.8 per barrel. On the back of oil price movements and continued geopolitical tensions, as well as foreign currency purchases by the Russian Central Bank and the Ministry of Finance, the Russian Rouble weakened by 7% year-on-year from 58.3 RUB/USD average rate in 2017 to 62.7 RUB/USD in 2018. The spot rate as at 31 December 2018 decreased by 21% to 69.5 RUB/USD compared to 31 December 2017. This had a positive impact on the mining sector, resulting in lower Dollar value of Rouble-denominated operating costs and higher margins.

The economics of Kazakh gold mining were also supported by the moderate movements of the Kazakh Tenge that tends to generally follow oil and the Russian Rouble (6% weaker against the US Dollar year-on-year, from 326 KZT/USD average rate in 2017 to 345 KZT/USD in 2018).

[1] Gold Demand Trends Full Year 2018 published by World Gold Council

REVENUE

		2018	2017	Change, %
Sales volumes				
Gold	Koz	1,198	1,090	+10%
Silver	Moz	25.7	26.5	-3%
Copper	Kt	3.3	2.57	+30%
Zinc	Kt	5.6	4.68	+20%
Gold equivalent sold[1]	**Koz**	**1,535**	**1,456**	**+5%**

Sales by metal *(US$m unless otherwise stated)*		2018	2017	Change, %	Volume variance, US$m	Price variance, US$m
Gold		**1,468**	**1,359**	+8%	**134**	**(25)**
Average realised price	*US$ /oz*	1,226	1,247	-2%		
Average LBMA price	*US$ /oz*	1,269	1,258	+1%		
Share of revenues	*%*	78%	75%			
Silver		**380**	**426**	**-11%**	**(13)**	**(33)**
Average realised price	*US$ /oz*	14.8	16.1	-8%		
Average LBMA price	*US$ /oz*	15.7	17.0	-8%		
Share of revenues	*%*	20%	23%			
Other metals		**34**	**30**	+13%		
Share of revenues	*%*	2%	2%			
Total revenue		**1,882**	**1,815**	**+4%**	**99**	**(32)**

In 2018, revenues grew by 4% year-on-year to US$ 1,882 million, primarily driven by a 5% increase of gold equivalent volume sold. The average realised gold price was largely unchanged compared to the prior year, while the average realised silver price moved lower by 8% compared to the prior period in line with market dynamics. Gold sales volume increased by 10%, while silver sales volume decreased by 3% year-on-year, both broadly following production volumes.

The average realised price of gold was US$ 1,226/oz in 2018, down 2% from US$ 1,247/oz in 2017, and slightly below the average market price of US$ 1,269/oz. The average realised silver price was US$ 14.8/oz, down 8% year-on-year and 6% below the average market price of US$ 15.7/oz as larger volumes of Polymetal's sales were recorded in 2H 2018 when the silver market prices were lower.

The share of gold sales as a percentage of total revenue increased from 75% in 2017 to 78% in 2018, driven by sales volume movements.

[1] Based on actual realised prices

Analysis by segment/operation		Revenue, *US$m*			Gold equivalent sold, *Koz (silver equivalent for Dukat, Moz)*		
Segment	**Operation**	**2018**	**2017**	**Change, %**	**2018**	**2017**	**Change, %**
Magadan	Dukat	379	405	-6%	25.7	25.4	+1%
	Omolon	231	266	-13%	182	211	-14%
	Mayskoye	115	139	-17%	112	124	-9%
	Total Magadan	**725**	**810**	**-10%**	**604**	**654**	**-8%**
Khabarovsk	Albazino/Amursk	406	350	+16%	318	277	+15%
	Svetloye	169	138	+22%	136	107	+27%
	Okhotsk[1]	115	142	-19%	93	111	-17%
	Total Khabarovsk	**690**	**630**	**+10%**	**546**	**496**	**+10%**
Kazakhstan	Varvara	178	154	+16%	141	123	+15%
	Kyzyl	94	-	NA	85	-	NA
	Total Kazakhstan	**272**	**154**	+77%	**226**	**123**	**+83%**
Ural	Voro	134	155	-14%	107	123	-13%
Armenia	Kapan[2]	61	66	-8%	52	55	-5%
Total revenue		**1,882**	**1,815**	**+4%**	**1,535**	**1,456**	**+5%**

Sales at all operating mines were broadly in line with planned production dynamics. Following its launch in June and a smooth ramp-up, Kyzyl delivered total gold production and sales of 96 Koz and 85 Koz respectively, above the original 80 Koz guidance.

COST OF SALES

Cost of sales *(US$m)*	**2018**	**2017**	**Change, %**
On-mine costs	482	414	+16%
Smelting costs	349	316	+10%
Purchase of ore and concentrates from third and related parties	100	92	+9%
Mining tax	97	88	+10%
Total cash operating costs	**1,028**	**910**	**+13%**
Depreciation and depletion of operating assets	228	193	+18%
Rehabilitation expenses	1	-	NA
Total costs of production	**1,257**	**1,103**	**+14%**
Increase in metal inventories	(187)	(26)	+619%
Write-down of metal inventories to net realisable value	21	16	+31%
Total change in metal inventories	**(166)**	**(10)**	**+1560%**
Write-down of non-metal inventories to net realisable value	2	3	-33%
Idle capacities and abnormal production costs	3	10	-70%
Total cost of sales	**1,096**	**1,106**	**-1%**

Cash operating cost structure	**2018, US$m**	**2018, % of total**	**2017, US$m**	**2017, % of total**
Services	340	33%	308	34%
Consumables and spare parts	280	27%	233	26%
Labour	203	20%	183	20%
Purchase of ore and concentrates from third and related parties	100	10%	92	10%
Mining tax	97	9%	88	10%
Other expenses	8	1%	6	1%
Total	**1,028**	**100%**	**910**	**100%**

[1] Sold in 4Q 2018
[2] Sold in 1Q 2019

The total cost of sales remained largely unchanged compared to prior year at US$ 1,096 million, reflecting the positive impact from the Russian Rouble depreciating by 7% over 2017,which offset volume-based increase in production and sales (9% and 5% year-on-year in gold equivalent terms, respectively).

The cost of services was up 10% year-on-year, in line with production growth. The cost of consumables and spare parts increased by 20% compared to 2017, caused mostly by the increase in gold equivalent production volume and domestic diesel prices.

The total cost of labour within cash operating costs in 2018 was US$ 203 million, an 11% increase over 2017, mainly stemming from full hiring and start-up of Kyzyl, production growth and annual salary increases (tracking domestic CPI inflation).

Mining tax increased by 10% year-on-year to US$ 97 million, in line with the production volume increase of 9%.

Depreciation and depletion was US$ 228 million, up 18% year-on-year, of which US$ 45 million is included within the increase in metal inventories. The increase is mostly attributable to newly launched Kyzyl with a relatively high book value of fixed assets.

In 2018, a net metal inventory increase of US$ 187 million was recorded (excluding write-downs to net realisable value) mainly represented by gold concentrate produced but not yet sold at Mayskoye and Kyzyl, and ore stockpiles at Omolon (heap leach ore at Birkachan) and Kyzyl. With the streamlining of railway logistics and the completion of the debottlenecking project at the POX plant, the Company expects meaningful declines in concentrate stockpiles levels both at Mayskoye and Kyzyl in 2019. The Group recognised US$ 21 million write-down to net realisable value of its metal inventories.

GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

(US$m)	**2018**	**2017**	**Change, %**
Labour	127	116	+9%
Services	16	11	+45%
Share based compensation	12	10	+20%
Depreciation	3	4	-25%
Other	17	17	-
Total	**175**	**158**	**+11%**

General, administrative and selling expenses increased by 11% year-on-year from US$ 158 million in 2017 to US$ 175 million in 2018, mostly driven by the increased headcount with the launch of Kyzyl and consolidation of Nezhda and Prognoz, as well as regular salary reviews.

OTHER OPERATING EXPENSES

(US$m)	**2018**	**2017**	**Change, %**
Lichkvaz exploration expenses and mineral rights write-off	24	-	NA
Social payments	16	15	+7%
Exploration expenses	13	18	-28%
Taxes, other than income tax	13	11	+18%
Provision for investment in Special economic zone	11	12	-8%
Housing and communal services	4	4	-
Loss on disposal of property, plant and equipment	(1)	1	-200%
Change in estimate of environmental obligations	(1)	(4)	-75%
Additional mining taxes and VAT exposures, penalties and accrued interest, net	(1)	(8)	-88%
Other expenses	(3)	(5)	-40%
Total	**75**	**44**	**+70%**

Other operating expenses increased to US$ 75 million in 2018 compared to US$ 44 million in 2017.

In 2018, following the binding agreement for sale of Kapan, the Group fully has written down the carrying value of the Lichkvaz development project, giving rise to a charge of US$ 24 million. This was previously accounted for as part of the Armenian Segment and was developed as an additional source of feed for the Kapan processing plant. The Company plans to sell Lichkvaz in the near future. For more information refer to Note 13 of the condensed consolidated financial statements.

TOTAL CASH COSTS

Total cash costs per gold equivalent ounce [1]		Cash cost per GE ounce, US$ /oz			Gold equivalent sold, Koz (silver for Dukat)		
Segment	**Operation**	**2018**	**2017**	**Change, %**	**2018**	**2017**	**Change, %**
Khabarovsk	Svetloye	301	313	-4%	136	107	+27%
	Albazino/Amursk	670	676	-1%	318	277	+15%
	Okhotsk[2]	746	702	+6%	93	111	-17%
	Total Khabarovsk	**592**	**603**	**-2%**	**546**	**496**	**+10%**
Magadan	Dukat (SE oz) [3]	8.5	8.2	+4%	25.7	25.4	+1%
	Omolon	647	652	-1%	182	211	-14%
	Mayskoye	829	1,040	-20%	112	124	-9%
	Total Magadan	**715**	**726**	**-1%**	**604**	**654**	**-8%**
Ural	Voro	391	383	+2%	107	123	-13%
Kazakhstan	Varvara	688	701	-2%	141	123	+15%
	Kyzyl	554	NA	NA	85	NA	NA
	Total Kazakhstan	**638**	**701**	**-9%**	**226**	**123**	**+83%**
Armenia	Kapan[4]	987	871	+13%	52	55	-5%
Total Group		**649**	**658**	**-1%**	**1,535**	**1,456**	**+5%**

In 2018, total cash costs per gold equivalent ounce sold ("TCC") were US$ 649/GE oz, down 1% year-on-year. The depreciation of the Russian Rouble against the US dollar, combined with robust operating results (notably, improved performance at Mayskoye and the launch of Kyzyl) had a positive impact on cost levels, offsetting domestic inflation.

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 – 2017	**658**		**893**	
Change in sales structure	(42)	-6%	(42)	-5%
USD rate change	(41)	-6%	(57)	-6%
Mining tax change - Au&Ag price	(4)	-1%	(4)	0%
Domestic inflation	25	4%	31	3%
Change in average grade processed by mines	22	3%	22	2%
Au/Ag ratio change	10	2%	10	1%
Other	22	3%	9	1%
Cost per gold equivalent ounce – 2018	**649**	**5%**	**861**	**1%**

Total cash cost by operation:

- Svetloye was the lowest cost operation in 2018, with TCC of US$ 301/GE oz, 4% lower than in 2017,delivering a solid set of operating results on the back of higher ore stacking volumes that offset minor grade declines.
- At Albazino/Amursk, TCC were US$ 670/GE oz, down 1% compared to 2017. The cost performance was mostly attributable to Rouble depreciation which offset higher cost of additional feed from third party material processed at the Amursk POX.
- Dukat's total cash cost per silver equivalent ounce sold ("SE oz") increased by 4% year-on-year to US$ 8.5/SE oz. The cost increase is attributable to the planned silver grade decline at the Dukat and Lunnoye underground mines compared to prior periods.

[1] Total cash costs comprise cost of sales of the operating assets (adjusted for depreciation expense, rehabilitation expenses and write-down of metal and non-metal 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. For more information refer to the "Alternative performance measures" section below.
[2] Sold in 4Q 2018.
[3] Dukat's total cash cost per gold equivalent was US$ 722/GE oz (2017: US$ 646/GE oz) and was included in the Group TCC calculation.
[4] Sold in 1Q 2019.

- At Omolon, TCC amounted to US$ 647/GE oz, a 1% decrease year-on-year, driven by depreciation of the Russian Rouble which offset planned grade declines at the Kubaka mill.
- Total cash costs at Mayskoye were US$ 829/GE oz, a 20% decrease year-on-year, as oxide ore processing through the combined float-leach circuit delivered solid full-year results with a significant improvement over the previous year.
- At Voro, TCC were US$ 391/GE oz, almost unchanged year-on-year. The heap leach facility and CIP plant continued to deliver a stable performance in line with the mine plan despite gradual shift to stockpile processing and related grade declines.
- Kyzyl's total cash costs were at US$ 554/GE oz, well below Group's average and in line with expectations. Given the impact from inevitably elevated costs levels during ramp-up in Q2-Q3 2018, costs at Kyzyl are expected to significantly decline in 2019 as the mine delivers first full year of production.
- At Varvara, TCC were US$ 688/GE oz, decreasing by 2% year-on-year, on the back of the Kazakh Tenge depreciation which offset the impact from processing additional feed from higher cost third-party ore.
- At Okhotsk, TCC were US$ 746/GE oz, a 6% increase year-on-year, following completion of processing of third-party ore with better metallurgical properties that was introduced to the feed at the Khakanja plant in 2H 2017. Okhotsk operations were disposed in 4Q 2018.
- Kapan's total cash costs increased by 13% year-on-year to US$ 987/GE oz, on the back of lower recoveries and grade declines as the plant was treating third-party purchased ore while the underground mine experienced limitations in access to higher-grade zones following the fatal accident in Q1 2018. Kapan has been disposed in Q1 2019.

Analysis of 2H 2018 versus 1H 2018 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 2018**	**1H 2018**	**Change, %**	**2H 2018**	**1H 2018**	**Change, %**
Khabarovsk	Svetloye	265	368	-28%	89	47	+87%
	Albazino/Amursk	645	694	-7%	155	163	-5%
	Okhotsk[1]	688	918	-25%	68	25	+178%
	Total Khabarovsk	**546**	**652**	-16%	**312**	**234**	+33%
Magadan	Dukat	8.5	8.6	-2%	13.4	12.3	+9%
	Omolon	601	713	-16%	107	75	+43%
	Mayskoye	787	NA	NA	112	-	NA
	Total Magadan	**709**	**743**	-5%	**381**	**223**	+70%
Ural	Voro	369	412	-10%	53	54	-3%
Kazakhstan	Varvara	659	718	-8%	76	65	+17%
	Kyzyl	554	NA	NA	85	-	NA
	Total Kazakhstan	**602**	**718**	-16%	**161**	**65**	+147%
Armenia	Kapan[2]	1,042	919	+13%	28	24	+21%
Total Group		**629**	**683**	**-8%**	**934**	**601**	**+55%**

In 2H 2018, total cash costs were 8% lower compared to 1H 2018 at US$ 629/GE oz. The performance was driven by strong operational delivery at all operating mines, the impact from first sales from Kyzyl, combined with continuing Rouble depreciation during 2H 2018 (average rate of 66.0 RUB/USD in 2H 2018 compared to 59.3 RUB/USD in 1H 2018).

Total cash cost by operation:

- Albazino/Amursk, Dukat and Varvara demonstrated stable operating performances during the period, while total cash costs were mostly affected by Rouble depreciation and decreased marginally half-on-half.

[1] Disposed in 4Q 2018.
[2] Disposed in 1Q 2019.

- Svetloye heap leach operation had a notable decrease of TCC by 28% half-on-half to US$ 265/GE oz on the back of seasonally higher production volumes.
- At Omolon, cash costs decreased by 16% compared to 1H 2018 to US$ 601/GE oz driven by ramp-up to full capacity at the Birkachan heap leach after resuming operation in 2Q 2018.
- There were no meaningful sales at Mayskoye during 1H 2018 hence the total cash costs for the period are considered unrepresentative of the underlying performance. TCC for 2H 2018 comprised US$ 787/GE oz.
- Voro experienced positive input of Rouble depreciation combined with higher volumes of heap leach stacking, resulting in TCC of US$ 369/GE oz, a 10% decrease half-on-half.
- At Okhotsk, TCC were US$ 688/GE oz and decreased by 25% half-on-half driven by processing of higher-grade material in the second half of the year.
- Decline of gold and silver grades and lower recoveries at Kapan due to purchases of third-party material resulted in TCC increasing by 13% to US$ 1,042/GE oz half-on-half.

ALL-IN CASH COSTS[1]

	Total, US$m			US$ /GE oz		
	2018	**2017**	**Change, %**	**2018**	**2017**	**Change, %**
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value (Note 6 of condensed Financial statements)	**925**	**904**	**+2%**	**605**	**623**	**-3%**
adjusted for:						
Idle capacities	(3)	(9)	-63%	(2)	(7)	-65%
Intersegment cost of sales	(21)	(10)	+105%	(14)	(7)	+94%
Inter-segment realised profit on metal inventory	(13)	(17)	-24%	(8)	(12)	-28%
Treatment charges deductions reclassification to cost of sales	33	24	+42%	22	16	+34%
SGA expenses, excluding depreciation, amortization and share based compensation (Note 6 of condensed financial statements)	77	70	+9%	50	49	+3%
adjusted for:						
Kyzyl pre-commercial production SGA expenses	(6)	(7)	-17%	(4)	(5)	-21%
Total cash costs	**992**	**955**	**+4%**	**649**	**658**	**-1%**
SGA and other operating expenses not included in TCC	124	112	+11%	81	77	+5%
Capital expenditure excluding new projects	128	141	-9%	84	97	-14%
Exploration expenditure (capital and current)	72	87	-17%	47	60	-21%
All-in sustaining cash costs[1]	**1,316**	**1,295**	**+2%**	**861**	**893**	**-4%**
Finance cost	71	63	+13%	46	43	+7%
Capitalised interest	11	8	+38%	7	6	+30%
Income tax expense	71	89	-20%	46	61	-24%
After-tax All-in cash costs	**1,469**	**1,455**	**+1%**	**961**	**1,003**	**-4%**
Development capital	146	170	-14%	95	117	-19%
SGA and other expenses for development assets	18	20	-10%	12	14	-15%
All-in costs	**1,633**	**1,645**	**-1%**	**1,068**	**1,134**	**-6%**

All-in sustaining cash costs amounted to US$ 861/GE oz in 2018 and decreased by 4% year-on-year, driven mostly by continued Russian Rouble depreciation, and the structural impact from higher production at lower cost mines.

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). For more information refer to the "Alternative performance measures" section below.

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

Segment	Operation	2018	2017	Change, %
Khabarovsk	Svetloye	425	426	-0%
	Albazino/Amursk	800	846	-5%
	Okhotsk[1]	846	869	-3%
	Total Khabarovsk	**715**	**760**	**-6%**
Magadan	Dukat (SE oz)	10.3	10.4	-1%
	Omolon	816	858	-5%
	Mayskoye	970	1,236	-21%
	Total Magadan	**869**	**914**	**-5%**
Ural	Voro	477	532	-10%
Kazakhstan	Varvara	940	952	-1%
	Kyzyl	829	NA	NA
	Total Kazakhstan	**899**	**952**	-6%
Armenia	Kapan[2]	1,131	1,292	-12%
Total		**861**	**893**	**-4%**

All-in sustaining cash costs followed total cash cost dynamics - driven by the exchange rate - and decreased year-on-year across all operating mines.

[1] Disposed in 4Q 2018.
[2] Disposed in 1Q 2019.

ADJUSTED EBITDA AND EBITDA MARGIN[1]

Reconciliation of Adjusted EBITDA *(US$m)*	**2018**	**2017**	**Change, %**
Profit for the financial period	355	354	+0%
Finance costs (net)[2]	63	59	+7%
Income tax expense	71	89	-20%
Depreciation and depletion	186	214	-13%
EBITDA	**675**	**716**	**-6%**
Loss on disposal of subsidiaries, net	54	-	NM
Foreign exchange loss, net	40	10	+300%
Lichkvaz exploration expenses and mineral rights write-off	24	-	NM
Write-down of metal inventory to net realisable value	21	16	+31%
Share based compensation	12	10	+20%
Write-down of non-metal inventory to net realisable value	2	3	-33%
Rehabilitation costs	1	-	NM
Change in fair value of contingent consideration liability	(7)	(2)	+250%
Revaluation of initial share in business combination	(41)	-	NM
Additional tax charges/fines/penalties	(1)	(8)	-88%
Adjusted EBITDA	**780**	**745**	**+5%**

Adjusted EBITDA by segment/operation (US$m)

Segment	**Operation**	**2018**	**2017**	**Change, %**
Magadan	Dukat	137	180	-24%
	Omolon	106	120	-12%
	Mayskoye	35	20	+75%
	Total Magadan	**278**	**320**	-13%
Khabarovsk	Albazino/Amursk	184	157	+17%
	Svetloye	124	101	+23%
	Okhotsk[3]	51	58	-12%
	Total Khabarovsk	**359**	**316**	+14%
Ural	Voro	88	97	-9%
Kazakhstan	Varvara	77	68	+13%
	Kyzyl	54	(13)	NA
	Total Kazakhstan	**131**	**55**	**+138%**
Armenia	Kapan[4]	11	20	-45%
Corporate and other and intersegment operations		(87)	(63)	+38%
Total		**780**	**745**	**+5%**

In 2018, Adjusted EBITDA was US$ 780 million, 5% higher year-on-year, with an Adjusted EBITDA margin of 41%, reflecting a 5% increase in sales volumes. At Mayskoye, Albazino/Amursk, Svetloye, Varvara and Kyzyl, Adjusted EBITDA increased on the back of a robust operating performance. At Dukat and Omolon, the decrease was mainly driven by decline in GE sales (down 4% and 14%, respectively). At Kapan and Okhotsk, Adjusted EBITDA decreased

[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 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, gains and losses on disposal or revaluation of investments in subsidiaries, joint ventures and associates, 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.
2 Net of finance income
[3] Disposed in 4Q 2018.
[4] Disposed in 1Q 2019.

on the back of higher total cash costs (up 13% and 6%, respectively) and lower sales at both operations (down 5% and 17%, respectively).

OTHER INCOME STATEMENT ITEMS

Polymetal recorded a net foreign exchange loss in 2018 of US$ 40 million compared to a US$ 10 million loss in 2017. These unrealised non-cash forex 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 2018 was US$ 1,678 million, mostly denominated in US Dollars, while the RUB/USD exchange rate increased from 57.6 RUB/USD as at 31 December 2017 to 69.5 RUB/USD as at 31 December 2018. 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.

In November 2018, the Group completed its acquisition of the remaining 82.3% stake in the Nezhda gold property. In October 2018, the Group also increased its stake in the Amikan gold deposit to 74.3% through the acquisition of an additional 31.7% stake. The Group remeasured its previously recognised interests in these businesses at the acquisition date fair value and recognised the resulting total gain of US$ 41 million in the income statement. For more information refer to Note 4 of the condensed consolidated financial statements.

In December 2018 the Group disposed of its Khakanja operations (Okhotskaya Mining and Exploration Company LLC), with a total loss on disposal of US$ 63 million recognised in the income statement (including US$ 19 million related to reclassification of cumulative exchange differences on revaluation of investment in subsidiary from translation reserve to profit and loss). In November 2018 the Group sold its 100% interest in the Svetlobor platinum exploration project resulting in a total gain on disposal of US$ 5 million. During 2018 the Group also disposed of its minor subsidiary Kirankan and joint venture Aktogai Mys LLC (Dolinnoye), with a total gain on disposal of US$ 3 million. For more information refer to Note 4 of the condensed consolidated financial statements. Net result on assets disposal in 2018 was a US$ 54 million loss.

NET EARNINGS, EARNINGS PER SHARE AND DIVIDENDS

The Group recorded a net income of US$ 355 million in 2018 (2017: US$ 354 million). Underlying net earnings attributable to the shareholders of the parent were US$ 447 million, compared to US$ 376 million in 2017:

Reconciliation of underlying net earnings[1] *(US$m)*	**2018**	**2017**	**Change, %**
Profit for the financial period attributable to the shareholders of the Parent	354	354	-
Write-down of metal inventory to net realisable value	21	16	+31%
Tax effect on write-down of metal inventory to net realisable value	(4)	(3)	+40%
Foreign exchange (gain)/loss	40	10	+300%
Tax effect on foreign exchange (gain)/loss	7	2	+271%
Change in fair value of contingent consideration liability	(7)	(2)	+250%
Tax effect on change in fair value of contingent consideration	(1)	(1)	+45%
Lichkvaz exploration expenses and mineral rights write-off	24	-	NM
Revaluation of initial share in business combination	(41)	-	NM
Loss on disposal of subsidiaries	54	-	NM
Underlying net earnings attributable to the shareholders of the Parent	**447**	**376**	**+19%**

Basic earnings per share were US$ 0.78 per share compared to US$ 0.82 per share in 2017 and were affected by one-off items, including gains/losses on acquisition and disposal of subsidiaries and write-down of Lichkvaz. Underlying basic EPS[2] was US$ 1.00 per share, compared to US$ 0.88 per share in 2017, driven by robust financial performance from continuing operations.

[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.

In accordance with the Company's revised dividend policy, the Board has proposed to pay a final dividend of US$ 0.31 per share (giving a total expected dividend of US$ 146 million) representing 50% of the Group's underlying net earnings for the period. During 2018, Polymetal paid a total of US$ 213 million in dividends, representing final dividends for FY 2017 and interim dividends for the 1H 2018.

CAPITAL EXPENDITURE[1]

(US$m)	**2018**	**2017**	**Change, %**
Albazino/Amursk	74	62	+19%
Kyzyl	54	116	-53%
Varvara	38	19	+100%
Dukat	16	28	-43%
Omolon	13	12	+8%
Mayskoye	11	18	-39%
Svetloye	7	9	-22%
Kapan	7	24	-71%
Okhotsk	3	3	-
Voro	1	3	-67%
Corporate and other	15	3	+400%
Exploration	51	58	-12%
Capitalised stripping	54	28	+93%
Total	**344**	**383**	**-10%**

In 2018, total capital expenditure was US$ 344[2] million, down 10% year-on-year mainly on the back of completion of Kyzyl construction. Capital expenditure excluding capitalised stripping costs was US$ 290 million in 2018 (2017: US$ 355 million).

The major capital expenditure items in 2018 were as follows:

- Across all operating mines, except for Albazino/Amursk and Varvara, capital expenditure declined or remained almost unchanged year-on-year and was mainly represented by routine mining fleet upgrades/replacements and maintenance expenditure at processing facilities;
- Capital expenditure at Albazino/Amursk was US$ 74 million, an increase of 19% year-on-year, mostly related to the POX debottlenecking project (reached full expanded capacity in 2H of 2018) and the expenditures related to the feasibility study for the POX-2 project in the total amount of US$ 44 million during 2018. Debottlenecking capex was mainly represented by the installation of new pipes and valves, oxygen station equipment and new filter presses for tailings and gypsum sediment.
- At Varvara, the increased capital expenditure is mainly related to reconstruction of the tailings storage facility, upgrade of mining fleet at Komar and further investments in debottlenecking of the railway haulage line between Komar and Varvara, which resulted in total amount of ore mined and transported from Komar increasing to 2.6 million tonnes, up 35% year-on-year.
- At Kyzyl, capital expenditure in 2018 comprised US$ 54 million, mainly representing the finalisation of key equipment installations (notably, concentrator equipment, the crusher unit and the assay lab) and infrastructure. The processing plant has been launched in June 2018, one month ahead of schedule.
- The Company continues to invest in standalone exploration projects. Capital expenditure for exploration in 2018 was US$ 51 million compared to US$ 58 million in 2017.
- Capitalised stripping costs totalled US$ 54 million in 2018 (2017: US$ 28 million) and are attributable to operations with stripping ratios exceeding their life of mine ("LOM") averages during the period, including in particular Kyzyl (US$ 29 million), Albazino (US$ 9 million) and Omolon (US$ 7 million).

[1] On a cash basis.
[2] On accrual basis, capital expenditure was US$ 377 million in 2018 (2017: US$ 432 million).

- The Company extended loans on capital expenditure to Nezhda and Prognoz before the consolidation of these assets, totalling US$ 46 million and US$ 5 million, respectively. At Nezhda, capital expenditure was mainly related to purchases of equipment and construction of two new dormitories, administrative building, auxiliary infrastructure and warm warehouse. At Prognoz, the capital expenditure related to exploration activity and construction of a laboratory.

CASH FLOWS

(US$m)	**2018**	**2017**	**Change, %**
Operating cash flows before changes in working capital	614	601	+2%
Changes in working capital	(101)	(68)	+49%
Total operating cash flows	**513**	**533**	**-4%**
Capital expenditure	(344)	(383)	-10%
Acquisition costs in business combinations and investments in associates and joint ventures	(57)	(87)	-34%
Disposals cash proceeds	15	-	NM
Other	7	(7)	NM
Investing cash flows	**(379)**	**(477)**	**-21%**
Financing cash flows			
Net increase in borrowings	443	76	+483%
Dividends paid	(213)	(138)	+54%
Contingent consideration payment	(6)	(5)	+20%
Total financing cash flows	**224**	**(67)**	**-434%**
Net decrease/increase in cash and cash equivalents	**358**	**(11)**	**-3355%**
Cash and cash equivalents at the beginning of the year	36	48	-25%
Effect of foreign exchange rate changes on cash and cash equivalents	(15)	(1)	+1400%
Cash and cash equivalents at the end of the year	**379**	**36**	**+953%**

Total operating cash flows in 2018 were stable compared to the prior year. Operating cash flows before changes in working capital grew by 2% year-on-year to US$ 614 million. Net operating cash flows were US$ 513 million, compared to US$ 533 million in 2017. This was also affected by an increase in working capital in 2018 of US$ 101 million (2017: US$ 68 million), mainly represented by concentrate produced at Mayskoye and Kyzyl, and ore stockpiled at Omolon which was partially offset by advances received for gold bullion sales as of the year-end.

Total cash and cash equivalents increased significantly year-on-year and comprised US$ 379 million, with the following items affecting the cash position of the Group:

- Operating cash flows of US$ 513 million;
- Investment cash outflows totalled US$ 379 million, down 21% year-on-year and mainly represented by capital expenditure (down 10% year-on-year to US$ 344 million) and loans forming part of net investment in joint ventures (Nezhda and Prognoz) of US$ 51 million;
- Payment of regular dividends for 2017 and 1H 2018 amounting to US$ 213 million; and
- The net increase in borrowings of US$ 443 million.

BALANCE SHEET, LIQUIDITY AND FUNDING

Net debt	**31-Dec-18**	**31-Dec-17**	**Change, %**
Short-term debt and current portion of long-term debt	117	26	+350%
Long-term debt	1,782	1,430	+25%
Gross debt	**1,899**	**1,456**	**+30%**
Less: cash and cash equivalents	379	36	+953%
Net debt	**1,520**	**1,420**	**+7%**
Adjusted EBITDA	**780**	**745**	+5%
Net debt / Adjusted EBITDA	**1.95**	**1.91**	+2%

The Group's net debt increased to US$ 1,520 million as of 31 December 2018, representing a Net debt / Adjusted EBITDA ratio of 1.95x.

The proportion of long-term borrowings comprised 94% as at 31 December 2018 (98% as at 31 December 2017). In addition, as at 31 December 2018 the Group had US$ 1.1 billion (31 December 2017: US$ 1.4 billion) of available undrawn facilities, of which US$ 1.07 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 4.19% in 2018 (2017: 3.96%) despite a notable growth in base interest rates, due to the Company's ability to negotiate competitive margins given with its solid financial position excellent credit history. The Group is confident in its ability to repay its existing borrowings as they fall due.

2019 OUTLOOK

While we recognise that our financial performance remains contingent on commodity prices and exchange rate dynamics 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 full production from Kyzyl:

- The Company reiterates its current production guidance of 1.55 Moz and 1.6 Moz of GE for 2019 and 2020, respectively. Traditionally, production in both years will be weighted towards 2H due to seasonality.
- TCC in 2019 is expected to be in the range of US$ 600-650/ GE oz while AISC is expected to average US$ 800-850/ GE oz. The anticipated decrease in costs will primarily be driven by the increasing share of low-cost production from Kyzyl, as well as the disposal of high-cost Kapan and Okhotsk. The cost guidance is contingent on the Rouble/Dollar exchange rate and Brent oil price.
- Capital expenditure in 2019 is expected to be approximately US$ 380 million, in line with the previous guidance. Nezhda and POX-2 will consume roughly half of the capex budget with the second half assigned to maintenance capital, capitalised stripping and exploration.
- As a result, the Company expects to continue to deliver positive free cash flow and prioritise regular dividends in our capital allocation process in 2019.

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.

As a result of the latest round of sanctions imposed by the US on certain Russian companies and individuals during 2018, the Group believes that the level of political risk has increased from medium to high. Sanctions imposed during 2014–2018 have not had any direct influence on the Group's operations. However, there is a risk that further sanctions, if imposed, could impact the Group's ability to operate in Russia, including cost and availability of funding.

A detailed explanation of these risks and uncertainties can be found on pages 73 to 76 of the 2017 annual report which is available at www.polymetalinternational.com. Further updates will be presented in the full annual financial report for 2018.

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 2018, the Group held US$ 379 million of cash and had net debt of US$ 1,520 million, with US$ 1,119 million of additional undrawn facilities of which US$ 1,069 million are considered committed. Debt of US$ 117 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 2018.

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

8 March 2019

POLYMETAL INTERNATIONAL PLC

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2018			Year ended 31 December 2017		
		Continuing operations	Discontinued operations[1]	Total Group	Continuing operations	Discontinued operations	Total Group
		US$m	US$m	US$m	US$m	US$m	US$m
Revenue	5	1,706	176	1,882	1,607	208	1,815
Cost of sales	6	(971)	(125)	(1,096)	(966)	(140)	(1,106)
Gross profit		**735**	**51**	**786**	**641**	**68**	**709**
General, administrative and selling expenses	10	(164)	(11)	(175)	(149)	(9)	(158)
Other operating expenses, net	11	(47)	(28)	(75)	(44)	-	(44)
Share of (loss)/profit of associates and joint ventures	17	(1)	-	(1)	3	-	3
Operating profit		**523**	**12**	**535**	**451**	**59**	**510**
Foreign exchange loss, net		(37)	(3)	(40)	(10)	-	(10)
Revaluation of initial share on business combination	2	41	-	41	-	-	-
Loss on disposal of subsidiaries, net	2	(54)	-	(54)	-	-	-
Change in fair value of contingent consideration liability	23	7	-	7	2	-	2
Finance income		8	-	8	4	-	4
Finance costs	13	(71)	-	(71)	(63)	-	(63)
Profit before income tax		**417**	**9**	**426**	**384**	**59**	**443**
Income tax expense	14	(65)	(6)	(71)	(80)	(9)	(89)
Profit for the financial period		**352**	**3**	**355**	**304**	**50**	**354**
Profit for the financial period attributable to:							
Equity shareholders of the Parent		352	2	354	304	50	354
Non-contolling interest		-	1	1	-	-	
		352	**2**	**354**	**304**	**50**	**354**
Earnings per share (US$)							
Basic	24	0.79	0.00	0.79	0.71	0.11	0.82
Diluted	24	0.79	0.00	0.79	0.70	0.11	0.81

[1] *Refer to Note 3 Assets held for sale and discontinued operations*

POLYMETAL INTERNATIONAL PLC

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2018 US$m	Year ended 31 December 2017 US$m
Profit for the period[1]	355	354
Items that may be reclassified to profit and loss		
Exchange differences on translating foreign operations	(485)	113
Currency exchange differences on intercompany loans forming net investment in foreign operations, net of income tax	17	(23)
Currency exchange differences recycled to income statement on disposal of foreign operation	19	-
Total comprehensive (loss)/income for the period	**(94)**	**444**
Total comprehensive (loss)/income for the period attributable to:		
Equity shareholders of the Parent	(95)	444
Non-controlling interest	1	-
	(94)	**444**

[1] *Profit for the period includes US$ 3 million of profits relating to discontinued operations and a loss of US$ 63 million arising on the disposal of such operations, amounting to a net loss of US$ 60 million*

POLYMETAL INTERNATIONAL PLC

CONDENSED CONSOLIDATED BALANCE SHEET

Assets	Note	31 December 2018 US$m	31 December 2017 US$m
Property, plant and equipment	16	2,426	2,054
Goodwill		15	18
Investments in associates and joint ventures	17	2	96
Non-current loans and receivables		6	15
Deferred tax asset	14	73	61
Non-current inventories	18	95	123
Total non-current assets		**2,617**	**2,367**
Assets held for sale	3	74	-
Current inventories	18	537	514
VAT receivable		95	96
Trade receivables and other financial instruments	19	81	71
Prepayments to suppliers		44	38
Income tax prepaid		8	6
Cash and cash equivalents	20	379	36
Total current assets		**1,218**	**761**
Total assets		**3,835**	**3,128**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities		(146)	(135)
Prepayments received	5	(100)	-
Current borrowings	21	(117)	(26)
Income tax payable		(8)	(10)
Other taxes payable		(37)	(38)
Current portion of contingent consideration liability	23	(5)	(5)
Liabilities associated with assets classified as held for sale	3	(8)	-
Total current liabilities		**(421)**	**(214)**
Non-current borrowings	21	(1,782)	(1,430)
Contingent consideration liability	23	(49)	(57)
Deferred tax liability	14	(152)	(77)
Environmental obligations		(32)	(39)
Other non-current liabilities		(2)	(4)
Total non-current liabilities		**(2,017)**	**(1,607)**
Total liabilities		**(2,438)**	**(1,821)**
NET ASSETS		**1,397**	**1,307**
Stated capital account	24	2,414	2,031
Share-based compensation reserve		24	21
Translation reserve		(1,599)	(1,151)
Retained earnings		540	406
Shareholders' equity		**1,379**	**1,307**
Non-controlling interest	2	18	-
Total equity		**1,397**	**1,307**

Notes on pages 34 to 65 form part of these financial statements. These financial statements are approved and authorised for issue by the Board of Directors on 8 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

	Note	Year ended 31 December 2018 US$m	Year ended 31 December 2017 US$m
Net cash generated by operating activities	26	**513**	**533**
Cash flows from investing activities			
Purchases of property, plant and equipment	16	(344)	(383)
Acquisitions of joint venture and associate	17	-	(16)
Loans forming part of net investment in joint ventures	17	(51)	(52)
Call option related to the Nezhda acquisition paid	2	-	(12)
Net cash outflow on acquisitions	2	(6)	(7)
Proceeds from disposal of subsidiaries	2	15	
Loans advanced		(28)	(18)
Receipt of repayment of loans provided		35	11
Net cash used in investing activities		**(379)**	**(477)**
Cash flows from financing activities			
Borrowings obtained	21	1,697	3,108
Repayments of borrowings	21	(1,254)	(3,032)
Dividends paid	15	(213)	(138)
Contingent consideration liabilities paid	23	(6)	(5)
Net cash from/(used in) financing activities		**224**	**(67)**
Net increase/(decrease) in cash and cash equivalents		358	(11)
Cash and cash equivalents at the beginning of the period	20	36	48
Effect of foreign exchange rate changes on cash and cash equivalents		(15)	(1)
Cash and cash equivalents at the end of the financial year		**379**	**36**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Number of shares outstanding (unaudited)	Stated capital account	Share-based compensation reserve	Translation reserve	Retained earnings	Total equity attributable to the parent	Non-controlling interest	Total equity
		number of shares	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Balance at 1 January 2017		**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	24	893,575	10	-	-	(10)	-	-	-
Issue of shares for contingent consideration liabilities	23	815,348	10	-	-	-	10	-	10
Dividends	15	-	-	-	-	(138)	(138)	-	(138)
Balance at 31 December 2017		**430,115,480**	**2,031**	**21**	**(1,151)**	**406**	**1,307**	**-**	**1,307**
Profit for the financial year		-	-	-	-	353	353	2	355
Other comprehensive loss, net of income tax		-	-	-	(448)	-	(448)	(1)	(449)
Share-based compensation		-	-	12	-	-	12	-	12
Shares allotted to employees		1,001,365	9	(9)	-	-	-	-	-
Issue of shares for business combinations	2	36,402,296	358	-	-	-	358	17	375
Issue of shares for contingent consideration liabilities	23	1,015,113	10	-	-	-	10	-	10
Issue of shares to acquire non-controlling interest	24	834,055	6	-	-	(6)	-	-	-
Dividends	15	-	-	-	-	(213)	(213)	-	(213)
Balance at 31 December 2018		**469,368,309**	**2,414**	**24**	**(1,599)**	**540**	**1,379**	**18**	**1,397**

1. GENERAL

Corporate information

Polymetal Group (the Group) is a leading gold and silver mining group with operations in Russia and Kazakhstan.

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 2018 included in this announcement were authorised for issue in accordance with a resolution of the Board of Directors on 8 March 2019.

The preliminary results for the year ended 31 December 2018 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 2018 or 31 December 2017. The financial information for the year ended 31 December 2017 is extracted from the statutory accounts from that year. The report of the auditors on the statutory accounts for both 2018 and 2017 was unqualified.

Significant subsidiaries

As at 31 December 2018 the Company held the following significant mining and production subsidiaries:

				Effective interest held, %	
Name of subsidiary	**Deposits and production facilities**	**Segment**	**Country of incorporation**	**31 December 2018**	**31 December 2017**
Gold of Northern Urals CJSC	Vorontsovskoye	Ural	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
Komarovskoye Mining Company LLC	Komarovskoye	Kazakhstan	Kazakhstan	100	100
South-Verkhoyansk Mining Company JSC	Nezhda	Yakutia	Russia	100	17.66
Prognoz Silver LLC	Prognoz	Yakutia	Russia	100	5

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 2018, the Group (excluding assets held for sale) held US$ 379 million of cash and had net debt of US$ 1,520 million, with US$ 1,119 million of additional undrawn facilities of which US$ 1,069 million are considered committed. Debt of US$ 117 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 2018.

Functional and presentation currency

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. For all Russian entities the functional currency is the Russian Rouble (RUB). The functional currency of the Group's entities located and operating in Kazakhstan (Varvarinskoye JSC, Bakyrchik Mining Venture LLC, Inter Gold Capital LLC, Komarovskoye Mining Company LLC) is the Kazakh Tenge (KZT). The functional currency of the Group's entity located and operating in Armenia (Kapan MPC CJSC) is the Armenian Dram (AMD). The functional currency of the parent company Polymetal International plc and its intermediate holding companies is U.S. Dollar.

The Group translates its income and expenses in presentation currency on a monthly basis. During the years ended 31 December 2018 and 31 December 2017 exchange rates used in the preparation of the condensed consolidated financial statements were as follows:

	Russian Rouble/U.S. Dollar	Kazakh Tenge/U.S. Dollar	Armenian Dram/U.S. Dollar
31 December 2018			
Year ended	69.47	384.20	483.75
Average	62.68	344.76	483.03
Maximum monthly rate	67.66	372.41	486.30
Minimum monthly rate	56.79	320.70	480.45
31 December 2017			
Year ended	57.60	332.33	484.10
Average	58.35	326.02	482.71
Maximum monthly rate	59.96	338.78	486.51
Minimum monthly rate	56.43	312.48	478.25

Basis of presentation

The Group's annual condensed consolidated financial statements for the year ended 31 December 2018 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value as of end of the reporting period and share-based payments which are recognised at fair value as of measurement date.

The following accounting policies have been applied in preparing the condensed consolidated financial statements for the year ended 31 December 2018.

New standards adopted by the Company and changes in accounting policies

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. This standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. IFRS 15 uses a control-based approach to recognise revenue which is a change from the risk and reward approach under the IAS 18. The standard requires entities to apportion revenue earned from contracts to individual performance obligations, on a relative standalone selling price basis.

The Group has adopted IFRS 15 effective 1 January 2018 applying the modified retrospective approach. Under the modified retrospective approach, the Group recognises transition adjustments, if any, in retained earnings on the date of initial application (1 January 2018), without restating the financial statements on a retrospective basis.

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 shipping services do not represent the Group's core activity and are fully outsourced, so these are presented within other operating income and expenses. For the period ended 31 December 2018 the revenues attributed to the shipping services amounted to US$ 9 million. Under IFRS 15, there is no impact on the amounts recognised in the condensed consolidated income statement and balance sheet, nor is there any change in the timing of revenue recognition.

The impact of applying the change during the year ended 31 December 2017 was to reduce both revenue and cost of sales by US$ 9 million with no impact on profit, as well as assets and liabilities 31 December 2017. Accordingly, there were no transition adjustments to the opening retained earnings and the information presented for 2017 has not been restated.

During the year ended 31 December 2018 the Group has entered into prepaid bullion sales arrangements, which are settled solely through bullion shipments and are priced based in the spot London Bullion Market Association (LBMA) price, prevailing of the date of the respective shipment. The arrangements fall under IFRS 15 *Revenue from Contracts with Customers* and advances received represent contract liabilities, which are presented on the face of the balance sheet as prepayments received. As of 31 December 2018 the contract liabilities amount to US$ 100 million (31 December 2017: nil).

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. 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 impacts of adopting IFRS 9 on the Group retained earnings at 1 January 2018 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, except for the trade receivables from provisional copper, gold and silver concentrate sales, which are classified and measured at fair value through profit and loss (FVTPL) under new Standard, rather than at amortised cost with embedded derivative, separated from the host contract and measured at fair value. The classification of these receivables as FVTPL does not change on raising of the final invoice.
- Hedge accounting: no impact as the Group does not elect to use hedge accounting.

As these effects are considered immaterial, the Group has concluded that no adjustments were required to its opening retained earnings and there were no significant changes to its measurement of financial instruments for the comparative period as a result of the adoption of IFRS 9.

The adoption of the expected credit loss impairment model had no impact on the Group's financial statements as of 31 December 2018.

Amended accounting standards adopted by the Group

The following amendments to IFRSs became mandatory effective during the year ended 31 December 2018. The amendments generally require full retrospective application, with some amendments requiring prospective application.

- Amendments to IAS 40 *Investment Property*, effective for annual period beginning on or after 1 January 2018;
- Amendments to IFRS 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;
- Amendments to IFRS 4 *Insurance Contracts* – Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*, effective for annual period beginning on or after 1 January 2018.

The Group has determined these amendments do not have significant impact on its condensed consolidated financial statements or are not applicable to the Group.

New accounting standards issued but not yet effective

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 has decided to adopt the cumulative catch-up transition approach and so the cumulative effect of transition to IFRS 16 will be recognised in retained earnings with no restatement of the comparative period. The principal impact of IFRS 16 will be the change of lessee's accounting treatment for the contracts which are currently classified as operating leases. Such lease agreements will give rise to the recognition of a right of use asset within property, plant and equipment and a related liability for future lease payments.

Total impact of IFRS 16 on the Group's balance sheet is expected to be the recognition of right-of-use assets and respective lease liabilities. The Group has determined that surface lease arrangements with municipal government for the purposes of mining and exploration activities fall out of the IFRS 16 scope. Based on the analysis of the existing lease agreements, the right of use asset will principally relate to the leased office buildings and the expected impact approximates US$ 28 million.

In the Group's Statement of profit and loss depreciation of right-of-use assets and interest expense on the lease liabilities will be recognised instead of operating lease expenses under IAS 17. The impact of the standard following adoption is expected to approximate to US$ 1 million decrease in underlying earnings and profit before tax.

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 IFRS 10 *Consolidated Financial Statements* and IAS 28 *Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture,* effective for annual period beginning on or after 1 January 2019.
- IFRIC 23 *Uncertainty over Income Tax Treatment*, effective for annual period beginning on or after 1 January 2019.
- IFRS 17 *Insurance Contracts,* effective for annual period beginning on or after 1 January 2021 with earlier application is permitted.
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation,* effective for annual period beginning on or after 1 January 2019. Earlier application is permitted.
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures,* effective for annual period beginning on or after 1 January 2019. Earlier application is permitted.
- Annual Improvements to IFRS Standards 2015–2017 Cycle: Amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*. All the amendments are effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.
- Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement*, effective for annual period beginning on or after 1 January 2019.
- Definition of a Business – Amendments to IFRS 3 *Business Combinations*, effective for annual periods beginning on or after 1 January 2020.
- Definition of Material – Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, effective for annual periods beginning on or after 1 January 2020.

2. ACQUISITIONS AND DISPOSALS

(a) Year ended 31 December 2018

Prognoz silver property acquisition

In January 2017 the Group entered into an agreement with Polar Acquisition Ltd (PAL), under which Polymetal would 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' LLC share capital (a subsidiary of PAL), the entity holding a 50% interest in Prognoz, with the remaining 50% owned by a private investor. The arrangement allowed 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. As of acquisition date and as of 31 December 2017 the Group had determined that Prognoz constituted a joint venture under IFRS 11 *Joint Arrangements* and therefore the investment was accounted for using the equity method. In January 2018 Polymetal agreed with PAL to accelerate the exercise of the option in order to acquire the remaining 45% ownership stake PAL had in Prognoz at a fixed price.

In April 2018 the Group completed the acquisition of Prognoz through two consecutive deals. On 13 April 2018 the Group completed the acquisition of the 45% stake from PAL for consideration paid through the issue of 6,307,000 Polymetal new ordinary shares and on 23 April 2018 acquired the remaining 50% a stake from the private investor for consideration paid by issuing 14,152,668 new ordinary shares of the Company.

As a result of the transactions, Polymetal now consolidates its 100% stake in the Prognoz.

In addition to the consideration paid to PAL for the 45% stake Polymetal also committed to pay PAL a net smelter return (“NSR”) royalty of between 2 and 4% (pro rated for 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.

In addition to the consideration paid to the private investor for the 50% stake Polymetal also committed to pay a NSR royalty in the range of 0.5% to 2.5%, pro rated for the 50% stake which was acquired and capped at US$ 40 million. The royalty will be only payable if silver price is US$ 19/oz or higher, with the actual royalty rate within the range determined on a progressive scale dependent on silver price.

The Group has determined that it obtained control over Prognoz as of 23 April 2018.

Prognoz is the largest undeveloped primary silver deposit in Eurasia with JORC-compliant Indicated and Inferred Resources, estimated by Micon in 2009 of 292 Moz at 586 g/t silver. In October 2018 the Group prepared the updated resource estimate of 256 Moz at 789 g/t silver equivalent with an increased share of resources within the Indicated category.

As the Prognoz operations represent an integrated set of activities with a focus on exploration, it was determined that it meets the definition of a business pursuant to IFRS 3 and that it should be fair value accounted for using the acquisition method.

Consideration transferred

The fair value of the newly issued 6,307,000 ordinary shares issued as part of the consideration paid for Prognoz to PAL was determined based on the spot price at the acquisition date, being US$ 9.63, and it was valued at US$ 61 million.

The fair value of the newly issued 14,152,668 ordinary shares issued as part of the consideration paid for Prognoz to the private investor was determined based on the spot price at the acquisition date, being US$ 9.83, and it was valued at US$ 139 million, with US$ 24 million allocated to the acquired shareholders’ loan.

The NSR royalties described above meet definition of contingent consideration and are accounted for at their fair value at the acquisition date as the set out below.

The fair value of the NSR payable to PAL was determined using a valuation model based on expected silver production and forecast silver prices. The royalty agreement is subject to a cap that increases progressively with the silver price.

Based on the internal forecast, benchmarked against the external sources of information, the Group applied the long-term silver price assumption of US$ 15 per ounce, resulting in the NSR cap of US$ 100 million, a higher cap of $250 million could apply under more beneficial price assumtpions. At the acquisition date, the fair value of the contingent consideration was estimated at US$ 9 million.

The fair value of the NSR payable to the private investor was similarly determined using a valuation model based on the expected production of silver at the silver prices as above and was calculated using Monte Carlo modelling. At the acquisition date, the fair value of the contingent consideration was estimated at US$ 5 million. The fair value of the NSR payable to PAL was determined using a valuation model which simulates expected production silver and the silver prices to estimate Prognoz future revenues. The royalty agreement is subject to an agreed cap that increases progressively with the silver price.

The key assumptions used in the contingent consideration calculations are set out below:

Silver price volatility	31.69%
Silver price as of acquisition date/long-term real price per ounce	US$ 16.94/US$ 15
Discount rate	9%

Assets acquired and liabilities recognised at the date of acquisition

In finalising the allocation of the purchase price for the Prognoz transaction as shown above, the Group has refined the valuation of the Group's pre-existing interest in Prognoz, which determines any gain or loss arising when control was obtained. The preliminary purchase price allocation based this valuation on the weighted average cost of the Group's total investment in Prognoz, but the Group has now completed a full valuation of the pre-existing interest on a stand-alone basis. As a result the gain on obtaining control has reduced from an initial US$ 24 million gain to nil. Other refinements have been made to the initial purchase price allocation as set out below, with the most significant effect being on the valuation of Property, plant and equipment.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed and its reconciliation to the provisional accounting, reported in the interim consolidated financial statements for the period ended 30 June 2018, are set out in the table below:

Assets acquired and liabilities recognised at the date of acquisition

	Provisional amounts previously reported US$m	Adjustments US$m	Adjusted amounts US$m
Property, plant and equipment	321	(31)	290
Other current assets	2	-	2
Borrowings	(47)	5	(42)
Deferred tax liabilities	(57)	7	(50)
Fair value of the net assets acquired	**219**	**(19)**	**200**
Consideration transferred			
Fair value of shares issued to PAL for 45%	61	-	61
Contingent consideration payable to PAL	9	-	9
Consideration for 45% share in JV	**70**	**-**	**70**
Fair value of shares issued for 50% share	139	-	139
Contingent consideration payable	5	-	5
Less consideration allocated to the Shareholders' loan	(24)	-	(24)
Total consideration for 50% share	**120**	**-**	**120**
Initial 50% investment in JV as of acquisition date	5	5	10
Revaluation of 50% achieved by 13 April 2018	24	(24)	-
Total consideration	**219**	**(19)**	**200**

No significant financial assets were acquired in business combination.

Impact of the acquisition on the result of Group

The impact of Prognoz on the Group's financial result was not significant because Prognoz had not generated any revenue or expenses during the period from 23 April 2018 to 31 December 2018.

Nezhda gold property acquisition

In December 2015 the Group 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 JSC South-Verkhoyansk Mining Company, a licence holder for Nezhda, for the total cash consideration of US$ 18 million. It was determined that the arrangement met definition of a joint arrangement as per IFRS 11 *Joint Arrangements*, as joint control of two investors was established. As the arrangement was structured through a separate vehicle and the investors had rights over their share in net assets of the joint arrangement, it was concluded that the joint arrangement meets the definition of a joint venture and should be accounted for using the equity method of accounting.

In November 2016 Polymetal increased its share in Nezhda to 17.7% for cash consideration of US$ 3 million.

In July 2017, Polymetal agreed to acquire an additional 7% in JSC South-Verkhoyansk Mining Company (Nezhda) for a cash consideration of US$ 8 million, from its joint venture partner, Ivan Kulakov. Simultaneously, Polymetal acquired an option to buy out the remaining 75.3% in Nezhda (the "Call Option"). The Call Option premium amounted to US$ 12 million.

In April 2018, Polymetal served a Call option exercise notice to acquire the remaining 75.3% stake for consideration of US$ 144 million, payable in cash and Polymetal shares.

The completion of the sale and purchase of the additional 7% share in the JV and exercise of the Call Option were subject to approval by the Russian Federal Government's Commission on Foreign Investments into Companies of Strategic Importance. The exercise of the Call Option was also subject to approval by the Russian Federal Antimonopoly Service.

In November 2018, Polymetal received all necessary regulatory approvals and completed the acquisition of the remaining 82.3% stake in Nezhda from entities owned by Ivan Kulakov in two separate transactions:

- 7% was acquired for US$ 8 million in cash as part of the shareholder agreement signed in July 2017;
- 75.3% was acquired for US$ 146 million, of which US$ 10 million was payable in cash and US$ 136 million was payable in 13,486,579 newly issued Polymetal shares that represent 2.9% of Polymetal's increased share capital.

The Group has determined that it obtained control over the Nezhda gold property on 26 November 2018.

As Nezhda operations represent an integrated set of activities with a focus on exploration, it was determined that it meets the definition of a business pursuant to IFRS 3 and that it should be fair value accounted for using the acquisition method.

Consideration transferred

The fair value of the 13,486,579 ordinary shares issued as part of the consideration paid was determined based on the spot price at the acquisition date, being US$ 10.07, and it was valued at US$ 136 million. The fair value of the Call Option described above represents part of the consideration transferred and comprised US$ 11 million as of acquisition date. The change in the fair value of the Call Option of US$ 1 million was recognised in the condensed consolidated income statement.

As the Group obtained control over the Nezhda gold property, which was previously considered a joint venture operation that constituted a business, the Group's previously recongised share of the business subject to joint control was remeasured in accordance with IFRS 3. The remeasurement resulted in a fair value gain of US$ 20 million as of the acquision date, and was recognised in the income statement.

Assets acquired and liabilities recognised at the date of acquisition

During the year ended 31 December 2018 the Group finalised the purchase price allocation for Nezhda. The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

Assets acquired and liabilities recognised at the date of acquisition

	US$m
Property, plant and equipment	322
Inventories	3
Other current assets	10
Accounts payable and accrued liabilities	(10)
Environmental obligations	(1)
Borrowings	(78)
Deferred tax liabilities	(38)
Fair value of the net assets acquired	**208**
Consideration transferred	
Fair value of shares issued	136
Cash consideration paid	10
Call option premium paid	12
Call option fair value adjustment	(1)
Initial investment in JV as of acquisition date	31
Revaluation of initial share on business combination	20
Total consideration	**208**
Cash outflow in acquisition	**22**

Impact of the acquisition on the result of group

The impact of Nezhda on the Group's financial result was not significant given the close proximity between the acquisition date and the year ended 31 December 2018. Nezhda had not generated any revenue in this period.

Amikan acquisition

Following the acquisition of an additional 31.7% stake in October 2018, the Group increased its overall ownership in the Veduga gold deposit to 74.3%. Veduga is a high-grade refractory gold deposit with reserves of 1.4 Moz of gold at 4.8 g/t and additional mineral resources of 0.4 Moz at 4.9 g/t. The licence holder for the property is Amikan LLC ("Amikan").

Polymetal has been a partial owner of the property since 2006 with the original 50% stake acquired through the JV with AngloGoldAshanti and subsequently diluted by external equity financing. From 2012 the Group's equity ownership was 42.65% and it exercised significant influence over the property. The investment was accounted for using the equity method of accounting. In 2012-2018 2,882 kt of ore with the average grade of 3.84 g/t containing 356 koz of gold was extracted from the open-pit mine at Veduga. Historically ore was sold to multiple processing plants including Varvara.

As Amikan operations represent an integrated set of activities with a focus on mining and extraction of precious metals, it was determined that it meets the definition of a business pursuant to IFRS 3 and that it should be fair value accounted for using the acquisition method.

Consideration transferred

The total consideration comprised US$ 21.5 million, payable by issuing 2,456,049 Polymetal new ordinary shares. The number of issued shares has been determined by dividing US$ 19.7 million by US$ 8.036, the spot price of ordinary shares of the Company on the Main Market of the London Stock Exchange as at market close on 10 October 2018 in US dollars. The fair value of the consideration transferred was determined based on the 12 October 2018 closing share spot price of 8.78 USD.

As the Group obtained control over the Amikan gold property, which was previously considered a joint venture operation that constituted a business, the Group's previously recongised share of the business subject to joint control was remeasured in accordance with IFRS 3. The remeasurement resulted in a fair value gain of US$ 21 million as of the acquisition date, and was recognised in the income statement.

The non-controlling interest (25.69% ownership interest in Amikan) recognised at the acquisition date was measured as the proportionate share in the recognised amounts of the acquiree's identifiable net assets and amounted to US$ 17 million.

Assets acquired and liabilities recognised at the date of acquisition

At the date of finalisation of these condensed consolidated financial statements, the calculation of environmental obligation and the valuation of property, plant and equipment have not been finalised and they have therefore only been provisionally determined based on the management best estimate.

The provisional amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

Assets acquired and liabilities recognised at the date of acquisition (preliminary)	**US$m**
Property, plant and equipment	101
Inventories	5
Cash and cash equivalents	4
Other current assets	(1)
Environmental obligations	(1)
Borrowings	(26)
Deferred tax liability	(14)
Fair value of the net assets acquired	**68**
Consideration transferred	
Fair value of shares issued	22
Initial investment in JV as of acquisition date	8
Revaluation of initial share on business combination	21
Non-controlling interest at fair value	17
Total consideration	**68**
Cash and cash equivalents acquired	**4**

Impact of the acquisition on the result of group

Amikan contributed US$ 5 million to the Group's profit for the year after control was consolidated by the Group following the acquisition of an additional 31.7% stake in October 2018. During the year ended 31 December 2018 all revenue recongised by Amikan originated from intercompany sales to Varvara.

Tarutin asset swap

In April 2018, Polymetal reached an agreement with the Russian Copper Company ("RCC") for an all-share exchange of Polymetal's Tarutin property in Russia for 85% of RCC's East Tarutin property in Kazakhstan. As a result of the transaction, Polymetal received 85% of Tarutinskoye LLP, the licence holder for the copper-gold East Tarutin deposit located in Kazakhstan. In return, Polymetal transferred 100% of Vostochny Basis LLC, the licence holder for the copper-gold Tarutin deposit located in the Russian Federation. The transaction represents an asset swap and does not entail any additional payments or deferred considerations.

East Tarutin is a copper-gold deposit located in proximity to the Varvara processing plant and is expected to source the ore for further processing at the Varvara hub.

The acquired company does not meet the definition of a business pursuant to IFRS 3 and the transaction represents the acquisition of the mineral rights through a non-operating corporate entity and does not give rise to goodwill or a gain. Based on IFRS 3 guidance the carrying amount of the assets given up represent the cost of the investment in East Tarutin (Kazakhstan). As a result the Group has purchased mineral rights of US$ 3 million.

Khakanja disposal

In December 2018 the Group disposed of its Khakanja operations (Okhotskaya Mining and Exploration Company LLC), which comprise the 600 Ktpa processing plant, related infrastructure at the Khakanja mine, and old stockpiles at Khakanja, Avlayakan and Ozernoye deposits with current ore reserves of approximately 0.1 Moz of GE, as well as exploration properties of Kundumi and Mevachan. The total consideration for Khakanja comprised US$ 5 million was received in cash. Further, debt of US $25 million was transferred with the business at the point of disposal." Simultaneously the Group disposed of its Okhotskiy port assets, which were previously accounted for as a part of Khakanja operations, for a consideration of US$ 2 million paid in cash. The disposal of Khakanja operations was effected as part a strategy of selling smaller short-lived assets.
The net assets of the disposed subsidiary at date of disposal were as follows:

	US$m
Property, plant and equipment	19
Inventories	40
Other current assets (net)	21
Environmental obligations	(4)
Borrowings	(25)
Fair value of the net assets disposed	**51**
Cash consideration received	7
Loss on disposal	**(44)**
Cumulative exchange differences in foreign operation recycled from translation reserve	(19)
Total loss on disposal	**(63)**

Svetlobor disposal

In November 2018 the Group sold its 100% interest in the Svetlobor platinum exploration project to a group of unrelated private Russian buyers for US$ 5.5 million in cash. Svetlobor's net assets were not significant and a gain on disposal of US$ 5 million was recorded.

Other minor disposals

During the year ended 31 December 2018 the Group disposed of its minor subsidiary Kirankan, with a total loss on disposal of US$ 2 million.

The Group also disposed of its interest in the joint venture Aktogai Mys LLC, which held the Dolinnoye exploration licence in Kazakhstan, with a total gain on disposal of US$ 5 million (Note 17).

(b) 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 did not meet the definition of a business pursuant to IFRS 3 and the transaction was thus accounted for as an acquisition of a group of assets. Assets purchased as part of this transaction represent mineral rights held at cost of US$ 2 million.

3. ASSETS HELD FOR SALE AND DISCONTINED OPERATIONS

In December 2018 the Group disposed of its Khakanja operations (Note 2). Khakanja was identified as a separate cash generating unit and a separate major line of business, included in the Khabarovsk segment, and therefore it meet the definition of a discontinued operation in accordance with IFRS 5 *Assets held for sales and discontinued operations*.

In October 2018 the Group entered into a legally binding agreement to sell 100% of its stake in the Kapan MPC CJSC. The total consideration payable for Kapan amounted to US$ 55 million, subject to working capital adjustments. The sale was completed in January 2019 (Note 27). Kapan was identified as the major part of the Armenia cash generating unit and the Armenia operating segment, and therefore it met the definition of a discontinued operation and an asset held for sale in accordance with IFRS 5 *Assets held for sales and discontinued operations*. The proceeds from the Kapan disposal are expected to approximate to the carrying amount of the related net assets and accordingly no impairment loss has been recognised following the classification of these operations as held for sale.

The major classes of assets and liabilities held by Kapan which comprise operations classified as held for sale as of 31 December 2018 are as follows:

	US$m
Property, plant and equipment	40
Deferred tax assets	7
Inventories	16
Cash and cash equivalents	3
Other current assets	8
Total assets classified as held for sale	74
Accounts payable and accrued liabilities	(8)
Total liabilities associated with assets classified as held for sale	(8)
Net assets of disposal groups	**66**
Intercompany balances, net	(12)
Net assets of disposal groups including intercompany balances	**54**

The results of Khakanja operations and Kapan are shown as discontinued operations in the condensed consolidated income statement and condensed consolidated statement of cash flows:

	Year ended 31 December 2018			**Year ended 31 December 2017**		
	Kapan	**Khakanja**	**Total**	**Kapan**	**Khakanja**	**Total**
	US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Revenue	61	115	**176**	66	142	**208**
Expenses, net	(81)	(86)	**(167)**	(51)	(98)	**(149)**
Profit before income tax	**(20)**	**29**	**9**	**15**	**44**	**59**
			-			
Attributable income tax expense	(2)	(4)	**(6)**	(1)	(8)	**(9)**
Profit for the financial period	**(22)**	**25**	**3**	**14**	**36**	**50**
Loss on disposal of discontinued operations	-	(63)	**(63)**	-	-	-
Attributable tax expense	-	-	**-**	-	-	-
Net loss attributable to discontinued operations (attributable to equity shareholders of the Parent)	**(22)**	**(38)**	**(60)**	**14**	**36**	**50**
Net cash generated by/(used in)						

Operating activities	5	15	**20**	17	51	**68**
Investing activities	(10)	(8)	**(18)**	(24)	(16)	**(40)**
Financing activities	-	25	**25**	-	-	**-**

As Okhotskaya Mining Company LLC and Kapan MPC CJSC did not meet the criteria for classification as a discontinued operation or assets held for sale as at 31 December 2017 it has not been re-presented as such in the statement of financial position. The comparative income statement has been re-presented to show the discontinued operations separately from continuing operation for the respective period.

4. SEGMENT INFORMATION

The Group has identified four 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, Svetloye LLC);
- Kazakhstan (Varvarinskoye JSC, Komarovskoye Mining Company LLC, Bakyrchik Mining Venture LLC, Inter Gold Capital LLC).

As the Group entered into an agreement to dispose of its Kapan operations during the year (Note 3) which are the core part of the Armenia segment, the entire Armenia segment is disclosed as discontinued operations.

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.

Nezha and Prognoz (Note 2) are reported within Corporate and other as being development stage entities, as well as GKR Amikan (Note 2) as this operations is currently insignificant to the Group.

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, rehabilitation expenses, gains or losses arising on acquisition or disposal of subsidiaries, foreign exchange gains or losses, changes in the fair value of contingent consideration, finance income, finance costs, income tax expenses and 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 2018 (US$m)	MAGADAN	KHABAROVSK	URAL	KAZAKHSTAN	Total continuing segments	Total discontinued operations	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	725	575	134	272	1,706	176	-	-	1,882
Intersegment revenue	-	1	1	12	14	10	234	(258)	-
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	392	252	38	130	812	110	145	(178)	**889**
Cost of sales	487	305	47	168	1,007	122	145	(178)	1,096
Depreciation included in Cost of sales	(71)	(53)	(9)	(37)	(170)	(13)	-	-	(183)
Write-down of metal inventory to net realisable value	(21)	-	-	-	(21)	-	-	-	(21)
Write-down of non-metal inventory to net realisable value	(2)	-	-	(1)	(3)	1	-	-	(2)
Rehabilitation expenses	(1)	-	-	-	(1)	-	-	-	(1)
General, administrative and selling expenses, excluding depreciation, amortization and share-based compensation	32	15	4	15	66	11	97	(14)	**160**
General, administrative and selling expenses	56	28	12	20	116	15	114	(70)	175
Intercompany management services	(24)	(13)	(8)	(4)	(49)	(4)	(3)	56	-
Depreciation included in SGA	-	-	-	(1)	(1)	-	(2)	-	(3)
Share-based compensation	-	-	-	-	-	-	(12)	-	(12)
Other operating expenses excluding additional tax charges	23	8	5	8	44	3	5	-	52
Other operating expenses	23	8	5	8	44	28	3	-	75
Lichkvaz exploration expenses and mineral rights write-off	-	-	-	-	-	(24)	-	-	(24)
Additional tax chargers/fines/penalties	-	-	-	-	-	(1)	2	-	1
Share of income of associates and joint ventures	-	-	-	-	-	-	(1)	-	(1)
Adjusted EBITDA	**278**	**301**	**88**	**131**	**798**	**62**	**(14)**	**(66)**	**780**
Depreciation expense	71	53	9	38	171	13	2	-	186
Rehabilitation expenses	1	-	-	-	1	-	-	-	1
Lichkvaz exploration expenses and mineral rights write-off	-	-	-	-	-	24	-	-	24
Write-down of non-metal inventory to net realisable value	2	-	-	1	3	(1)	-	-	2
Write-down of metal inventory to net realisable value	21	-	-	-	21	-	-	-	21
Share-based compensation	-	-	-	-	-	-	12	-	12
Additional tax chargers/fines/penalties	-	-	-	-	-	1	(2)	-	(1)
Operating profit/(loss)	**183**	**248**	**79**	**92**	**602**	**25**	**(26)**	**(66)**	**535**
Net foreign exchange gains									**(40)**
Revaluation of initial share in Prognoz									**41**
Loss on disposal of subsidiaries									**(54)**
Change in fair value of contingent consideration liability									**7**
Finance income									**8**
Finance costs									**(71)**
Profit before tax									**426**
Income tax expense									**(71)**
Profit for the financial period									**355**
Current metal inventories	194	92	33	57	376	-	3	(11)	368
Current non-metal inventories	99	36	5	22	162	-	14	(7)	169
Non-current segment assets:									
Property, plant and equipment, net	364	387	20	823	1,594	3	829	-	2,426
Goodwill	15	-	-	-	15	-	-	-	15
Non-current inventory	65	8	2	22	97	-	-	(2)	95
Investments in associates	-	-	-	-	-	-	2	-	2
Total segment assets	**737**	**523**	**60**	**924**	**2,244**	**3**	**848**	**(20)**	**3,075**
Additions to non-current assets:									
Property, plant and equipment	74	101	5	134	314	15	48	-	377
Acquisition of subsidiaries	-	-	-	-	-	-	716	-	716

Period ended 31 December 2017 (US$m)	MAGADAN	KHABAROVSK	URAL	KAZAKHSTAN	Total continuing operations	Total discontinued operations	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	810	487	156	154	1,607	208	-	-	1,815
Intersegment revenue	-	13	1	6	20	1	218	(239)	-
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	437	224	43	83	787	114	141	(167)	**875**
Cost of sales	540	282	56	114	992	140	141	(167)	1,106
Depreciation included in Cost of sales	(94)	(56)	(13)	(29)	(192)	(18)	-	-	(210)
Write-down of metal inventory to net realisable value	(12)	-	-	(1)	(13)	(4)	-	-	(17)
Write-down of non-metal inventory to net realisable value	3	(2)	-	(1)	-	(4)	-	-	(4)
General, administrative and selling expenses, excluding depreciation, amortization and share-based compensation	29	15	5	13	62	9	89	(15)	**145**
General, administrative and selling expenses	53	26	12	17	108	14	102	(66)	158
Intercompany management services	(23)	(11)	(7)	(3)	(44)	(5)	(2)	51	-
Depreciation included in SGA	(1)	-	-	(1)	(2)	-	(1)	-	(3)
Share-based compensation	-	-	-	-	-	-	(10)	-	(10)
Other operating expenses excluding additional tax charges	24	6	11	9	50	6	6	(10)	52
Other operating expenses	21	7	9	9	46	-	8	(10)	44
Additional tax chargers/fines/penalties	3	(1)	2	-	4	6	(2)	-	8
Share of income of associates and joint ventures					-		3	-	3
Adjusted EBITDA	**320**	**255**	**98**	**55**	**728**	**80**	**(15)**	**(47)**	**746**
Depreciation expense	95	56	13	30	194	18	1	-	213
Write-down of non-metal inventory to net realisable value	(3)	2	-	1	-	4	-	-	4
Write-down of metal inventory to net realisable value	12	-	-	1	13	4	-	-	17
Share-based compensation	-	-	-	-	-	-	10	-	10
Additional tax chargers/fines/penalties	(3)	1	(2)	-	(4)	(6)	2	-	(8)
Operating profit/(loss)	**219**	**196**	**87**	**23**	**525**	**60**	**(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	105	42	30	307	26	-	(5)	328
Current non-metal inventories	99	39	6	21	165	13	17	(9)	186
Non-current segment assets:	-	-	-	-	-	-	-	-	-
Property, plant and equipment, net	469	411	46	892	1,818	98	138	-	2,054
Goodwill	18	-	-	-	18	-	-	-	18
Non-current inventory	86	9	2	23	120	5	-	(2)	123
Investments in associates	-	-	-	-	-	-	96	-	96
Total segment assets	**802**	**564**	**96**	**966**	**2,428**	**142**	**251**	**(16)**	**2,805**
Additions to non-current assets:	-	-	-	-	-	-	-	-	-
Property, plant and equipment	106	100	9	165	380	38	13	-	431
Acquisition of group of assets	-	-	-	-	-	-	2	-	2

5. REVENUE

Continuing operations

	Year ended 31 December 2018				Year ended 31 December 2017			
	Koz/t shipped (unaudited)	Koz/t payable (unaudited)	Average price (US$ per Oz/t payable) (unaudited)	US$m	Koz/t shipped (unaudited)	Koz/t payable (unaudited)	Average price (US$ per Oz/t payable) (unaudited)	US$m
Continuing operations								
Gold (Koz)	1,120	1,096	1,227	1,345	982	969	1,245	1,207
Silver (Koz)	24,110	23,735	14.8	351	24,748	24,397	16.0	391
Copper (t)	1,932	1,827	5,474	10	1,350	1,282	7,019	9
Total				**1,706**				**1,607**

Total continuing and discontinued operations

	Year ended 31 December 2018				Year ended 31 December 2017			
	Koz/t shipped (unaudited)	Koz/t payable (unaudited)	Average price (US$ per Oz/t payable) (unaudited)	US$m	Koz/t shipped (unaudited)	Koz/t payable (unaudited)	Average price (US$ per Oz/t payable) (unaudited)	US$m
Gold (Koz)	1,224	1,198	1,226	1,468	1,105	1,090	1,247	1,359
Silver (Koz)	26,118	25,675	14.8	380	26,888	26,469	16.1	426
Copper (t)	3,542	3,348	5,675	19	2,717	2,573	6,607	17
Zinc (t)	6,625	5,625	2,667	15	5,466	4,679	2,779	13
Total				**1,882**				**1,815**

Geographical analysis of Revenue by destination is presented below:

	Continuing operations		Total continuing and discontinued operations	
	Year ended		Year ended	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	US$m	US$m	US$m	US$m
Continuing operations				
Sales within the Russian Federation	1 038	948	1 153	1 090
Sales to Kazakhstan	338	301	338	301
Sales to East Asia	245	183	263	200
Sales to Europe	85	175	128	224
Total	**1,706**	**1,607**	**1,882**	**1,815**

Included in revenues for the year ended 31 December 2018 are revenues which arose from the sales to the Group's largest customers, whose contribution to the Group's revenue exceeded 10% of the total revenue. In 2018 revenues from such customers amounted to US$ 490 million, US$ 228 million, US$ 203 million and US$ 173 million respectively (2017: US$ 610 million, US$ 200 million, US$ 167 and US$ 136 million, respectively).

During the year ended 31 December 2018 the Group has entered into prepaid bullion sales arrangements, which are settled solely through bullion shipments and are priced based on the spot London Bullion Market Association (LBMA) price, prevailing of the date of the respective shipment. The arrangements fall under IFRS 15 *Revenue from Contracts with Customers* and respective advances received represent contract liabilities, which are presented on the face of the balance sheet as prepayments received. As of 31 December 2018 prepayments received amount to US$ 100 million (31 December 2017: nil).

Presented below is an analysis per revenue streams:

	Magadan	Khabarovsk	Ural	Kazakhstan	Discontinued operations	TOTAL
	US$m	US$m	US$m	US$m	US$m	US$m
Year ended 31 December 2018						
Bullions	362	563	134	-	115	1,174
Concentrate and dore	363	12	-	272	61	708
	725	**575**	**134**	**272**	**176**	**1,882**
Year ended 31 December 2017						
Bullions	397	485	155	-	142	1,179
Concentrate and dore	413	3	-	154	66	636
	810	**488**	**155**	**154**	**208**	**1,815**

6. COST OF SALES

	Continuing operations		Total continuing and discontinued operations	
	Year ended		Year ended	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	US$m	US$m	US$m	US$m
Cash operating costs				
On-mine costs (Note 7)	417	363	482	414
Smelting costs (Note 8)	314	277	349	316
Purchase of ore and concentrates from third parties	66	43	78	54
Purchase of ore from related parties (Note 25)	22	38	22	38
Mining tax	87	74	97	88
Total cash operating costs	**906**	**795**	**1,028**	**910**
Depreciation and depletion of operating assets (Note 9)	210	179	228	193
Rehabilitation expenses	1	-	1	-
Total costs of production	**1,117**	**974**	**1,257**	**1,103**
Increase in metal inventories	(174)	(29)	(187)	(26)
Write-down of metal inventories to net realisable value (Note 18)	21	12	21	16
Write-down of non-metal inventories to net realisable value (Note 18)	4	(1)	2	3
Idle capacities and abnormal production costs	3	10	3	10
Total	**971**	**966**	**1,096**	**1,106**

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 reporting 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 operating expenses (see Note 11).

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

7. ON-MINE COSTS

	Continuing operations		Total continuing and discontinued operations	
	Year ended		Year ended	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	US$m	US$m	US$m	US$m
Services	185	165	222	192
Labour	122	107	133	118
Consumables and spare parts	107	89	121	101
Other expenses	3	2	6	3
Total (Note 6)	**417**	**363**	**482**	**414**

8. SMELTING COSTS

	Continuing operations		Total continuing and discontinued operations	
	Year ended		Year ended	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	US$m	US$m	US$m	US$m
Consumables and spare parts	143	115	159	132
Services	109	107	118	116
Labour	60	53	70	65
Other expenses	2	2	2	3
Total (Note 6)	**314**	**277**	**349**	**316**

9. DEPLETION AND DEPRECIATION OF OPERATING ASSETS

	Continuing operations		Total continuing and discontinued operations	
	Year ended		Year ended	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	US$m	US$m	US$m	US$m
Continuing operations				
On-mine	154	128	169	137
Smelting	56	51	59	56
Total (Note 6)	**210**	**179**	**228**	**193**

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 4), also excludes amounts absorbed into unsold metal inventory balances.

10. GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

	Continuing operations		Total continuing and discontinued operations	
	Year ended		Year ended	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	US$m	US$m	US$m	US$m
Labour	120	110	127	116
Services	14	10	16	11
Share-based compensation	12	10	12	10
Depreciation	3	4	3	4
Other	15	15	17	17
Total	**164**	**149**	**175**	**158**

11. OTHER OPERATING EXPENSES, NET

	Continuing operations		Total continuing and discontinued operations	
	Year ended		Year ended	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	US$m	US$m	US$m	US$m
Lichkvaz exploration expenses and mineral rights write-off	-	-	24	-
Additional tax charges/fines/penalties	(2)	(2)	(1)	(8)
Exploration expenses	12	15	13	18
Social payments	14	12	16	15
Provision for investment in Special economic zone	11	12	11	12
Taxes, other than income tax	13	11	13	11
Housing and communal services	4	4	4	4
Loss on disposal of property, plant and equipment	-	1	(1)	1
Change in estimate of environmental obligations	(1)	(4)	(1)	(4)
Other expenses	(4)	(5)	(3)	(5)
Total	**47**	**44**	**75**	**44**

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, 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$ 11 million in the reporting year (2017: US$ 12 million).

During the year ended 31 December 2018 the Group concluded that the Lichkvaz project, previously accounted for as part of Armenia segment and regarded as a source of ore for Kapan (Note 3), is not economically viable. As a result, the Lichkvaz development asset was fully impaired (Note 16). No other exploration and development assets was written off during the year ended 31 December 2018 (2017: US$ 2 million).

Operating cash flow spent on exploration activities amounts to US$ 12 million (2017: US$ 16 million).

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

12. EMPLOYEE COSTS

	Continuing operations		Total continuing and discontinued operations	
	Year ended		Year ended	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	US$m	US$m	US$m	US$m
Wages and salaries	278	249	303	275
Social security costs	68	73	72	78
Share-based compensation	12	10	12	10
Total employee costs	**358**	**332**	**387**	**363**
Reconcilation:				
Less: employee costs capitalised	(35)	(38)	(37)	(40)
Less: employee costs absorbed into unsold metal inventory balances	(30)	9	(32)	12
Employee costs included in cost of sales	**293**	**303**	**318**	**335**

The weighted average number of employees during the year ended 31 December 2018 and year ended 31 December 2017 was:

	Year ended	
	31 December 2018	31 December 2017
Magadan	4,048	3,554
Khabarovsk	2,807	2,529
Kazakhstan	2,163	1,634
Armenia	953	1,007
Ural	809	810
Corporate and other	1,941	1,419
Total	**12,720**	**10,953**
Less discontinued operations	1,539	1,647
Total continuing operations	**11,181**	**9,306**

Compensation of key management personnel is disclosed within Note 25.

13. FINANCE COSTS

	Year ended	
	31 December 2018	31 December 2017
	US$m	US$m
Interest expense on borrowings	67	57
Unwinding of discount on environmental obligations	3	3
Unwinding of discount on contingent consideration liabilities	1	3
Total	**71**	**63**

No significant amount of finance cost related to the discontinued operations.

During the years ended 31 December 2018 interest expense on borrowings does not include borrowing costs capitalised in the cost of qualifying assets of US$ 11 million (2017: US$ 8 million). These amounts were calculated based on the Group's general borrowing pool and by applying an effective interest rate of 4.19% (2017: 3.96%) to cumulative expenditure on such assets.

14. INCOME TAX

The amount of income tax expense for the years ended 31 December 2018 and 31 December 2017 recognised in profit and loss is as follows:

	Continuing operations		Total continuing and discontinued operations	
	31 December 2018		Year ended	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	US$m	US$m	US$m	US$m
Continuing operations				
Current income taxes	101	101	108	111
Deferred income taxes	(36)	(21)	(37)	(22)
Total	**65**	**80**	**71**	**89**

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

	Year ended	
	31 December 2018	31 December 2017
	US$m	US$m
Profit before income tax	**426**	**443**
Theoretical income tax expense at the tax rate of 20%	85	89
Effect of Special Economic Zone and Regional Investment project decreased tax rates	(27)	(25)
Effect of different tax rates of subsidiaries operating in other jurisdictions	17	5

Revaluation of initial share on business combination	(8)	-
Current year losses not recognised and losses previously recognised written-off	1	3
Non-deductible interest expense	5	5
Cumulative exchange differences in foreign operation recycled from translation reserve	3	-
Other non-taxable income and non-deductible expenses	(5)	12
Total income tax expense	**71**	**89**

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, 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 2018 and the year ended 31 December 2017 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$ 46 million in respect of uncertain tax positions (31 December 2017: US$ 5 million) which relate to income tax.

Income tax amounts included in other comprehensive income

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

	Year ended	
	31 December 2018	31 December 2017
	US$m	US$m
Net foreign exchange losses on net investment in foreign operation		
Current tax expense	(1)	(2)
Deferred tax expense	(1)	(3)
Total income tax recognised in other comprehensive income	**(2)**	**(5)**

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.

	Year ended	
	31 December 2018	31 December 2017
	US$m	US$m
Deferred tax liabilities	(152)	(77)
Deferred tax assets	73	61

(79)	(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:

	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 2017	**7**	**(10)**	**(153)**	**10**	**105**	**2**	**(6)**	**5**	**(40)**
Charge to income statement	-	12	(3)	(2)	18	(1)	(1)	(1)	**22**
Recognised in other comprehesive income	-	-	-	-	-	-	3	-	**3**
Exchange differences	-	(1)	(3)	-	3	-	-	-	**(1)**
At 31 December 2017	**7**	**1**	**(159)**	**8**	**126**	**1**	**(4)**	**4**	**(16)**
Charge to income statement	-	(6)	(5)	(3)	46	-	1	4	**37**
Acquisitions (Note 2)	-	2	(124)	-	20	-	(2)	2	**(102)**
Disposals (Note 2)	-	2	1	-	(2)	-	-	-	**1**
Reclassified as held for sale (Note 3)	-	(2)	(2)	-	-	-	-	(3)	**(7)**
Recognised in other comprehesive income	-	-	-	-	-	-	(1)	-	**(1)**
Exchange differences	(1)	-	34	(1)	(23)	-	1	(1)	**9**
At 31 December 2018	**6**	**(3)**	**(255)**	**4**	**167**	**1**	**(5)**	**6**	**(79)**

The Group believes that recoverability of the recognised deferred tax asset (DTA) of US$ 167 million at 31 December 2018, which is related to the tax losses carried forward, is more likely than not based upon expectations of future taxable income in the Russian Federation and Kazakhstan.

Effective from 1 January 2017 changes were 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 2018. 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 predominantly 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.

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$ 86 million (2017: US$ 90 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, where 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$ 4 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$ 2,459 million (2017: US$ 2,737 million).

15. DIVIDENDS

Dividends recognised during the years ended 31 December 2018 and 31 December 2017 are detailed in the below:

	cents per share	US$m	Dividends deducted from the equity during the period	Dividends proposed in relation to the period	Paid in
Final dividend 2016	18	78	2017	2016	May 2017
Interim dividend 2017	14	60	2017	2017	September 2017
Final dividend 2017	30	136	2018	2017	May 2018
Interim dividend 2018	17	77	2018	2018	September 2018
Final dividend 2018	31	146	n/a	2018	n/a
Total dividends for the year ended 31 December 2017			**138**	**196**	**138**
Total dividends for the year ended 31 December 2018			**213**	**223**	**213**

16. PROPERTY, PLANT AND EQUIPMENT

	Development assets US$m	Exploration assets US$m	Mining assets US$m	Non-mining assets US$m	Capital construction in-progress US$m	Total US$m
Cost						
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 environmental obligations	-	-	-	-	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**
Additions	34	45	162	6	130	377
Transfers	(453)	(54)	724	1	(218)	-
Reclassified as held for sale (Note 3)	-	-	(47)	(2)	(12)	(61)
Change in environmental obligations	-	-	2	-	(3)	(1)
Acquisitions (Note 2)	297	291	109	-	19	716
Eliminated on disposal of subsidiary	(4)	(13)	(61)	(2)	(3)	(83)
Disposals and write-offs including fully depleted mines	(24)	-	(140)	(4)	-	(168)
Translation to presentation currency	(39)	(54)	(417)	(10)	(39)	(559)
Balance at 31 December 2018	**466**	**365**	**2,356**	**50**	**150**	**3,387**

	Development assets US$m	Exploration assets US$m	Mining assets US$m	Non-mining assets US$m	Capital construction in-progress US$m	Total US$m
Accumulated depreciation, amortisation						
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)**
Charge for the period	-	-	(254)	(5)	-	(259)
Reclassified as held for sale (Note 3)	-	-	20	1	-	21
Eliminated on disposal of subsidiary	-	-	56	2	-	58
Disposals and write-offs including fully depleted mines	-	-	135	1	-	136
Translation to presentation currency	-	-	190	5	-	195
Balance at 31 December 2018	**-**	**-**	**(934)**	**(27)**	**-**	**(961)**
Net book value						
31 December 2017	**655**	**150**	**943**	**30**	**276**	**2,054**
31 December 2018	**466**	**365**	**1,422**	**23**	**150**	**2,426**

Mining assets, exploration and development assets at 31 December 2018 included mineral rights with net book value which amounted to US$ 1,216 million (31 December 2017: US$ 735 million) and capitalised stripping costs with net book value of US$ 76 million (31 December 2017: US$ 50 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 2018 or at 31 December 2017.

17. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31 December 2018		31 December 2017	
	Voting power %	Carrying Value US$m	Voting power %	Carrying Value US$m
Interests in associates and joint ventures				
Proeks LLC	30	2	30	2
South-Verkhoyansk Mining Company JSC (Nezhda)	100	-	17.66	28
GRK Amikan	100	-	42.65	7
Prognoz Serebro LLC	100	-	5	5
Aktogai Mys LLC	-	-	50	2
Total		**2**		**44**
Loans forming part of net investment in joint ventures				
JSC South-Verkhoyansk Mining Company (Nezhda)		-		39
Prognoz Serebro LLC		-		13
		-		**52**
Total investments in associates and joint ventures		**2**		**96**

Prognoz Serebro LLC (Prognoz), South-Verkhoyansk Mining Company JSC (Nezhda) and GRK Amikan LLC were consolidated for the first time during the year ended 31 December 2018 (Note 2).

Aktogai Mys LLC

In June 2015 Polymetal purchased a 25% stake in the company Aktogai Mys LLC (Aktogai) that owns Dolinnoye exploration licence in Kazakhstan Republic (including part of intracompany loan) from an unrelated party. In June 2017 Polymetal had acquired an additional 25% interest in the Aktogai for a net consideration of US$ 1 million. The Group determined that Aktogai continues to constitute a joint venture under IFRS 11 *Joint Arrangements* and the investment was accounted for using the equity method since June 2015.

During the year ended 31 December 2018 Polymetal disposed of its entire interest in Aktogai for the total consideration of US$ 17 million, adjusted for the repayment of the outstanding loans, advanced to Aktogai, amounting to US$ 10 million. The total gain on disposal of Aktogai amounts to US$ 5 million.

Proeks LLC

In November 2015 the Group acquired 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.

	Nezhda	Amikan	Total	Total
	31 December 2018	31 December 2018	31 December 2018	31 December 2017
	US$m	US$m	US$m	US$m
Group's share in investment net income/(loss)	(2)	2	-	3
Share of profit recognised for the year less inventories unrealised profit eliminations	(2)	1	(1)	3

18. INVENTORIES

	Year ended 31 December 2018 US$m	Year ended 31 December 2017 US$m
Inventories expected to be recovered after twelve months		
Ore stock piles	68	86
Consumables and spare parts	27	37
Total non-current inventories	**95**	**123**
Inventories expected to be recovered in the next twelve months		
Copper, gold and silver concentrate	116	103
Ore stock piles	174	144
Work in-process	55	57
Doré	14	13
Metal for refining	9	9
Refined metals	1	2
Total metal inventories	**369**	**328**
Consumables and spare parts	168	186
Total	**537**	**514**

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 2018		Year ended 31 December 2017
	Magadan	Total operating segments	Total operating segments
	US$m	US$m	US$m
Ore stock piles	(9)	**(9)**	(15)
Ore in heap leach piles	(9)	**(9)**	(3)
Copper, gold and silver concentrate	(3)	**(3)**	2
Total	(21)	**(21)**	**(16)**

The key assumptions used as at 31 December 2018 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 2018 were used.

During the year ended 31 December 2018 the Group provided for obsolete consumables and spare parts inventory in the amount of US$ 2 million (year ended 31 December 2017: write-down of US$ 3 million).

The amount of inventories held at net realisable value at 31 December 2018 is US$ 99 million (31 December 2017: US$ 60 million).

19. TRADE RECEIVABLES AND OTHER FINANCIAL INSTRUMENTS

	Year ended 31 December 2018 US$m	Year ended 31 December 2017 US$m
Receivables from provisional copper, gold and silver concentrate sales	60	26
Other receivables	22	15
Accounts receivable from related parties (Note 25)	-	8
Less: Allowance for doubtful debts	(3)	(2)
Total trade and other receivables	**79**	**47**
Call option related to the Nezhda acquisition (Note 2)	-	12
Short-term loans provided to related parties (Note 25)	-	7
Short-term loans provided to third parties	2	5
Total other short-term financial instruments	**2**	**24**
Total	**81**	**71**

The average credit period on sales of copper, gold and silver concentrate at 31 December 2018 was 22 days (2017: 20 days). No interest is charged on trade receivables. The Group's doubtful debt relates to its non-trade receivables, which are fully impaired.

20. CASH AND CASH EQUIVALENTS

		Year ended	
		31 December 2018	31 December 2017
		US$m	US$m
Bank deposits	-USD	361	11
	- other currencies	7	-
Current bank accounts	- USD	1	2
	- other currencies	10	23
Total		**379**	**36**

Bank deposits as at 31 December 2018 are mainly presented by the USD deposits, bearing an average interest rate of 3% per annum with average maturity at inception of 29 days, and KZT demand deposits bearing an interest rate of 5% (2017: 9% per annum for KZT demand deposits).

21. BORROWINGS

Borrowings at amortised cost:

		Actual interest rate at		31 December 2018			31 December 2017		
	Type of rate	31 Dec 2018	31 Dec 2017	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	fixed	4.00%	4.10%	64	372	436	-	436	436
Total				**64**	**372**	**436**	**-**	**436**	**436**
Unsecured loans from third parties									
U.S. Dollar denominated	floating	4.35%	3.73%	11	940	951	-	834	834
U.S. Dollar denominated	fixed	4.56%	6.17%	34	470	504	26	152	178
Euro denominated	fixed	2.85%	2.85%	8	-	8	-	8	8
Total				**53**	**1,410**	**1,463**	**26**	**994**	**1,020**
				117	**1,782**	**1,899**	**26**	**1,430**	**1,456**

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	Borrowings acquired	Borrowings disposed	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$m	US$m	US$m
Year ended 31 December 2017	1,378	3,108	(3,033)	-	-	(14)	14	3	1,456
Year ended 31 December 2018	1,456	1,697	(1,254)	26	(25)	(110)	110	(1)	1,899

At 31 December 2018, the Group had undrawn borrowing facilities of US$ 1,119 million (31 December 2017: US$ 1,361 million), of which US$ 1,069 million are considered committed (31 December 2017: US$1,266). The Group complied with its debt covenants throughout 2018 and 2017.

The table below summarises maturities of borrowings:

		Year ended	
		31 December 2018	31 December 2017
		US$m	US$m
Year ended,	31 December 2019	117	26
	31 December 2020	263	105
	31 December 2021	500	248
	31 December 2022	446	513
	31 December 2023	469	414
	31 December 2024	104	100
	31 December 2025	-	50
Total		**1,899**	**1,456**

22. COMMITMENTS AND CONTINGENCIES

Commitments

Capital commitments

The Group’s budgeted capital expenditure commitments as at 31 December 2018 amounted to US$ 87 million (2017: US$ 46 million).

Social and infrastructure commitments

In accordance with a memorandum with East-Kazakhstan Oblast Administration (local Kazakhstan government) the Group participates in financing of certain social and infrastructure development project of the region. During the year ended 31 December 2018 the Group paid US$ 2 million (2017: US$ 2 million) under this programme and the total social expense commitment as at 31 December 2018 amounts to US$ 26 million (2017: US$ 28 million), payable in the future periods as follows:

	31 December 2018	31 December 2017
	US$m	US$m
Within one year	2	2
From one to five years	20	22
Thereafter	4	4
Total	**26**	**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 2018 the Group recognised US$ 7 million as operating lease expenses (2017: US$ 7 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 2018	31 December 2017
	US$m	US$m
Within one year	3	3
From one to five years	7	5
Thereafter	2	4
Total	**12**	**12**

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.

As a result of the latest round of sanctions imposed by the US on certain Russian companies and individuals during 2018, the Group believes that the level of political risk has increased from medium to high. Sanctions imposed during 2014–2018 have not had any direct influence on the Group's operations. However, there is a risk that further sanctions, if imposed, could impact the Group's ability to operate in Russia, including cost and availability of funding.

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 2018 and 2017 the Group has been involved in certain litigation in Russia, Kazakhstan and Armenia. Management has identified a total exposure (covering taxes and related interest and penalties) of US$ 47 million in respect of contingent liabilities (2017: US$ 7 million), including US$ 46 million related to income tax (2017: US$ 5 million).

23. 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 2018 and 31 December 2017, the Group held the following financial instruments:

	31 December 2018			
	Level 1	Level 2	Level 3	Total
	US$m	US$m	US$m	US$m
Receivables from provisional copper, gold and silver concentrate sales	-	60	-	**60**
Contingent consideration liability	-	-	(54)	**(54)**
	-	**60**	**(54)**	**6**

	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**
Call option related to the Nezhda acquisition (Note 2)	-	-	12	**12**
Contingent consideration liability	-	-	(62)	**(62)**
	-	**26**	**(50)**	**(24)**

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 2018, is US$ 1,660 million, and the carrying value as at 31 December 2018 is US$ 1,899 million (see Note 21).

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 out a summary of changes in the fair value of the Group's Level 3 financial liabilities for the year ended 31 December 2018:

	31 December 2018							31 December 2017
	Omolon	Kyzyl	Lichkvaz	Kapan	Komar	Prognoz	Total	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Opening balance	11	12	3	11	25	-	62	76
Additions (Note 2)	-	-	-	-	-	14	14	-
Change in fair value, included in profit or loss	2	(2)	(3)	(2)	(2)	-	(7)	(2)
Unwinding of discount (Note 13)	1	-	-	-	-	-	1	3
Settlement though issue of shares (Note 24)	-	(10)	-	-	-	-	(10)	(10)
Cash settlement	(3)	-	-	(1)	(2)	-	(6)	(5)
Total contingent consideration	11	-	-	8	21	14	54	62
Less current portion of contingent consideration liability	(4)	-	-	(1)	-	-	(5)	(5)
	7	-	-	7	21	14	49	57

Omolon

In 2008, the Group recorded a contingent consideration liability related to the acquisition of 98.1% of the shares in 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 2018 is US$ 11 million, including current portion of US$ 4 million.

Kyzyl

During the year ended 31 December 2014 the Group completed the acquisition of Altynalmas Gold Ltd, the holding company for the Kyzyl gold project in Kazakhstan. The fair value of the related contingent consideration liability was estimated using the Monte Carlo model. In May 2018 it was settled by 1,015,113 newly issued Polymetal International shares.

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. The fair value of the related contingent consideration liability was 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. During the year ended 31 December 2018 the Group has concluded that the Lichkvaz project is not economically viable and wrote off the related development assets and released the related the contingent liability.

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. 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 2018, the fair value of the contingent consideration was estimated at US$ 8 million, including current portion of US$ 1 million. In January 2019, following the sale of Kapan property (Notes 3 and 27), the Group has agreed with DPMK, to terminate the royalty owed to DPM via a buyout for a cash consideration of US$ 6 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. 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, assuming gold price volatility of 16.68% (2017: 17.02%). At the 31 December 2018, the fair value of the contingent consideration was estimated at US$ 21 million.

Prognoz

During the year ended 31 December 2018 the Group completed acquisition of Prognoz silver property (Note 2). The fair value of the related contingent consideration liabilities was estimated at US$ 14 million. The valuation method and applicable assumptions are described in Note 2. There were no significant changes to the fair value as of 31 December 2018.

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.

24. STATED CAPITAL ACCOUNT AND RETAINED EARNINGS

As at 31 December 2018, the Company's issued share capital consisted of 469,368,309 ordinary shares (2017: 430,115,480 ordinary shares) of no par value, each carrying one vote. The Company does not hold any shares in treasury (2017: 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 number of shares	Stated capital account US$m
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	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**
Share issue for Prognoz	20,459,668	200
Share issue for Kyzyl deferred consideration	1,015,113	10
Share issue for Amikan	2,456,049	22
Share issue for Nezhda	13,486,579	136
Share issue for Saum	834,055	6
Issue of shares in accordance with DSA and LTIP plans	1,001,365	9
Balance at 31 December 2018	**469,368,309**	**2,414**

In September 2018 the Group increased its interest in Saum Mining Company LLC (the licence holder for the Saum polymetallic deposit with resources of 435 Koz of gold equivalent at 9.7 g/t holder of the licence by 20% (from 80% to 100%). The Group purchased the additional 20% from an unrelated party for a consideration of US$ 6 million, payable through the issue of 834,055 new Polymetal International plc shares. The Group has previously determined that Saum meets the definition of a subsidiary and therefore it was consolidated from the date of the 80% share acquisition. The increase in interest in Saum was recognised as an acquisition of the non-controlling interest and recognised interest within equity. As of acquisition date and during the years ended 31 December 2018 and 31 December 2017 Saum 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. Also, 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. However, the Group has unremitted accumulated retained earnings of approximately US$ 2.5 billion (2017: US$ 2.7 billion), which if remitted without restrictions would fund the Group's anticipated dividends for a number of years, after allowing for related tax payments.

As of 31 December 2018 the Group subsidiaries' reserves available for distribution based on local accounting standards amount to US$ 2,459 million (2017: US$ 2,737 million).

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 2018	**31 December 2017**
Weighted average number of outstanding common shares	449,016,966	429,880,907
Dilutive effect of share appreciation plan	1,497,087	5,830,775
Weighted average number of outstanding common shares after dilution	**450,514,052**	**435,711,682**

There were no adjustments required to earnings for the purposes of calculating the diluted earnings per share during the year ended 31 December 2018 (year ended 31 December 2018: nil).

At 31 December 2018 the outstanding LTIP awards issued under 2015-2016 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 2017: the outstanding LTIP awards issued under 2014-2017 tranches represent dilutive potential ordinary shares).

The awards issued under management bonus deferral award plan are dilutive as of 31 December 2018 and 31 December 2017 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.

25. RELATED PARTIES

Related parties are considered to include shareholders, affiliates, associates, joint ventures and entities under common ownership and control with the Group and members of key management personnel.

During the year ended 31 December 2018 the Group for the first time consolidated its interest in its joint ventures Prognoz and Nezhda and the associate GRK Amikan (Notes 2 and 17).

The transactions with the related parties are presented by purchases of ore from GRK Amikan and sales of machinery and equipment to Nezhda and Prognoz up to the dates, when control was achieved.

The loans outstanding as of 31 December 2017 were represented by loans advanced to Nezhda, Prognoz, consolidated by 31 December 2018, and Aktogai Mys LLC, which was disposed of during the year ended 31 December 2018 (Note 17).

Details of transactions between the Group and other related parties are disclosed below:

	Year ended	
	31 December 2018	**31 December 2017**
	US$m	**US$m**
Transactions with related parties		
Purchases of ore from equity method investments	22	38
Other sales recognised in other operating expenses, net	15	12

	Year ended	
	31 December 2018	**31 December 2017**
	US$m	**US$m**
Balances outstanding as of the end of the reporting period		
Loans accounted for as a part of net investment in joint venture	-	52
Short-term loans provided to equity method investments	-	8
Long-term loans provided to equity method investments	-	6
Accounts receivable from equity method investments	-	8
Interest receivable from equity method investments	-	2
Accounts payable to equity method investments	-	7
	-	**83**

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

	Year ended 31 December 2018 US$m	Year ended 31 December 2017 US$m
Share-based payments	3	2
Short-term benefits of board members	2	2
Short-term employee benefits	3	2
	8	**6**

As of 31 December 2018 the share of non-controlling interest in Amikan GRK (Note 2) amounting to the US$ 5 million was held by a related party.

26. NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2018 US$m	Year ended 31 December 2017 US$m
Profit before tax		426	443
Adjustments for:			
Depreciation and depletion recognised in the statement of comprehensive income		186	214
Write-down of exploration assets and construction in progress	16	24	3
Write-down of metal inventories to net realisable value	18	21	16
Write-down of non-metal inventories to net realisable value	18	2	3
Additional tax chargers/fines/penalties		(2)	(8)
Provision for investment in Special economic zone		11	12
Share-based compensation	10	12	10
Finance costs	13	71	63
Finance income		(8)	(4)
Loss on disposal of property, plant and equipment	11	-	1
Rehabilitation expenses		1	-
Change in contingent consideration liabilities	23	(7)	(2)
Share of loss of associates and joint ventures	17	1	(3)
Foreign exchange gain		40	10
Change in estimate of environmental obligations		(1)	(4)
Loss on disposal of subsidiaries, net		54	-
Revaluation of initial share on business combination		(41)	-
Other non-cash expenses		6	4
Movements in working capital			
Increase in inventories		(150)	(35)
(Increase)/Decrease in VAT receivable		(19)	(31)
(Increase)/Decrease in trade and other receivables		(24)	14
(Increase)/Decrease in prepayments to suppliers		(34)	(6)
(Decrease)/Increase in trade and other payables		123	(20)
Increase/(Decrease) in other taxes payable		3	10
Cash generated from operations		**695**	**690**
Interest paid		(74)	(63)
Interest received		4	1
Income tax paid		(112)	(95)
Net cash generated by operating activities		**513**	**533**

Significant non-cash transactions during the year ended 31 December 2018 represent the issuance of 38,251,464 shares for several business combinations and other transactions (Note 24) (2017: 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).

Cash flows related to exploration amounted to US$ 43 million for the year ended 31 December 2018 (2017: US$ 33 million). During the year ended 31 December 2017, the capital expenditure related to the new projects, increasing the operating capacity amounts to US$ 146 million (2017: US$ 173 million).

27. SUBSEQUENT EVENTS

On 30 January 2018 the Group completed the previously announced sale of Kapan to Chaarat Gold Holdings Limited.

The total consideration payable for Kapan is US$ 55 million, subject to post-closing working capital adjustments. Of the total consideration, US$ 10 million was settled in Chaarat's 2021 Convertible Notes. The remaining US$ 45 million is payable in cash, of which US$ 5 million was received by Polymetal in November 2018 as an advance payment and US$ 40 million were received on 1 February 2019 following the execution of certain settlement procedures associated with Chaarat's syndicated acquisition financing facility.

Simultaneously, with the completion of the sale, Polymetal has agreed with Dundee Precious Metals ("DPM"), the previous owners of the asset, to terminate the royalty owed to DPM via a buyout for a cash consideration of US$ 5.5 million.

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) • Write-down of development and exploration assets (post-tax) • Foreign exchange (gain)/loss (post-tax) • Change in fair value of contingent consideration liability (post-tax) • Gains/losses on acquisition, revaluation and disposals of interests in subsidiaries, associates and joint ventures (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.
Underlying return on equity	• No equivalent	• Underlying net earnings (as defined above) • Average equity at the beginning and the end of reporting year, adjusted for translation reserve	• The most important metric for evaluating a company's profitability • Measures the efficiency with which a company generates income using the funds that shareholders have invested.
Return on assets	• No equivalent	• Underlying net earnings (as defined above) before interest and tax • Average total assets at the beginning and the end of reporting year	• A financial ratio that shows the percentage of profit a company earns in relation to its overall resources.
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 • Write-down of development and exploration assets (post-tax) • Share based compensation • Bad debt allowance • Net foreign exchange losses • Change in fair value of contingent consideration liability • Rehabilitation costs • Additional mining taxes, VAT, penalties and accrued interest • Gains/losses on acquisition, revaluation and disposals of interests in subsidiaries, associates and joint ventures (post-tax)	• 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.
Net debt	• Net total of current and	• NA	• Measures the Group's net indebtedness that provides an

Group APM	Closest equivalent IFRS measure	Adjustments made to IFRS measure	Rationale for adjustments
	non-current borrowings • cash and cash equivalents		indicator of the overall balance sheet strength. • Used by creditors in bank covenants.
Net debt/EBITDA ratio	• No equivalent	• NA	• Used by creditors, credit rating agencies and other stakeholders.
Free cash flow	• Cash flows from operating activity less 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 such as other operating expenses, corporate level SG&A, and capital expenditures and exploration at existing operations (excluding growth capital)	• 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.