ANNUAL REPORT 2016

POLYMETAL INTERNATIONAL PLC

IMPLEMENTING A COMPELLING GROWTH STRATEGY

ABOUT US

POLYMETAL IS A PRECIOUS METALS MINING GROUP WITH A STRONG TRACK RECORD OF CONSISTENT OPERATING PERFORMANCE AND DELIVERING ON NEW PROJECTS.

OUR ROBUST OPERATING AND FINANCIAL RESULTS REFLECT THE SUCCESS OF OUR STRATEGY FOCUSED ON GROWTH AND DELIVERING VALUE TO OUR STAKEHOLDERS.

FRONT COVER IMAGE

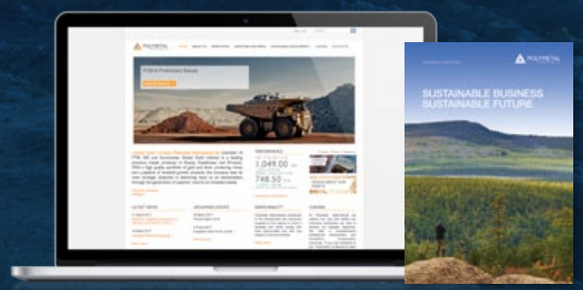
Kyzyl, Kazakhstan
We have made considerable progress at Kyzyl, our flagship project, which is on track to go into production in late 2018, ramping up to full capacity in 2019. One of the highest grade and largest untapped gold deposits in the Former Soviet Union, with a long mine life and low-capital intensity, it is set to become the main source of medium-term growth for Polymetal and will create significant returns for our shareholders.

FIND OUT MORE ON OUR WEBSITE

www.polymetalinternational.com

SEE OUR SUSTAINABILITY REPORT

www.polymetalinternational.com/sustainable-development



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CHAIRMAN'S STATEMENT

POLYMETAL CONTINUED TO DELIVER ON ITS STRATEGY OF BUILDING THE LONG-TERM FUTURE OF THE COMPANY, WHILE GENERATING SIGNIFICANT FREE CASH FLOW AND CREATING VALUE FOR ITS STAKEHOLDERS.

NET PROFIT

US$395 million

(2015: US$221 million)

DIVIDEND YIELD (5-YEAR AVERAGE)

4.1%

Dear fellow stakeholders

I am pleased to report on Polymetal's robust financial performance and consistent operational delivery throughout the year. In 2016, Adjusted EBITDA grew by 15% to US$759 million, and underlying net earnings increased by 31% to US$382 million. In the meantime, the Company delivered strong free cash flows and paid its shareholders significant dividends.

By the middle of 2016, there was an air of optimism and hope that the down-cycle in the precious metals market was finally at an end. However, this turned out to be short-lived as the unexpected results of the US elections had a strong impact on markets and asset types across the globe towards the year-end.

Unpredictable geopolitical developments continued to drive high volatility in all of Polymetal's key markets: directly in the gold and silver markets, where we sell our product, and in the oil market, a key component of our cost base, but also indirectly through the exchange rates in Russia and Kazakhstan which are closely linked to oil.

However, more recently, we have begun to see an improvement in the development of macroeconomic conditions, with exchange rates stabilising and inflation going down. There has also been a certain relaxation in cross-border tensions, which has led to increased investor interest in Russian assets, alongside significantly better cost and availability of debt funding.

Despite ongoing global and local challenges, Polymetal continued to deliver on its strategy in the reporting year. We further expanded our operations into Armenia, adding another geologically and economically attractive asset to our portfolio within the Former Soviet Union, which we view as our home market. I am also pleased to say that this was among several important steps made towards building the long-term future of the Company.

PERFORMANCE IN 2016

Sadly, there were four fatalities at our operations during 2016. While this is fewer than in 2015, it is still four more than it should be. I send my personal condolences to the families affected and the assurance that the Board and executive management are placing ever-greater focus on this matter, determined to achieve a major improvement in the health and safety of our employees in 2017 and beyond.

Our production performance across the portfolio was solid, allowing us to meet our production guidance for the fifth year in a row, notwithstanding the increased production target set in May following the acquisitions in Armenia and Kazakhstan. Delivering on our promises has become a distinguishing feature of Polymetal in the sector.

We are fully on track with the construction of Kyzyl, our flagship development project. We also acquired new assets during the year: Kapan and Komar through M&A activities and Nezhda through a joint venture. At the same time, our strong operating performance and low costs enabled us both to finance these projects and to generate a meaningful free cash flow of US$257 million during 2016 (2015: US$263 million). This in turn allowed us to sustain a sector-leading dividend yield and provide cash returns to our shareholders through regular and special dividends while maintaining a strong balance sheet.

Our Group Chief Executive, Vitaly Nesis, expands on this and other activities in his detailed report on Polymetal's operating performance on the following pages.

DIVIDENDS DELIVER VALUE

Polymetal continues to maintain a track record of substantial dividends payments and delivering meaningful cash returns to its shareholders. The Company has consistently implemented its dividend policy, re-affirming our commitment to capital allocation discipline and value distribution, while retaining the flexibility to invest in attractive projects. In 2016, dividend pay-outs totalled US$158 million and the dividend yield over the last five years has averaged 4.1%. The Board proposes a final dividend for 2016 of US$0.18 per share, subject to approval at the Annual General Meeting (AGM), in May 2017.

This was underpinned by a healthy free cash flow generation in both 2016 and 2015, which remains a key differentiator for Polymetal. We remain fully committed to translating this into cash returns for our investors.

THE YEAR AHEAD

Given Polymetal's track record, I am confident that the strength of our operating performance will enable us to deliver on our production plans for 2017 and make good progress with our project pipeline for the ambitious future growth of the Company.

At all of our operating mines, particularly given the increased proportion of underground mining, there will be a greater focus on health and safety issues. The dedicated Safety and Sustainability Committee, formed in 2015, has already started a broader review of safety and other environmental, social and governance (ESG) matters. These challenges, faced by every company in our sector, are a priority and the Board will ensure that they are addressed effectively.

On a strategic level, we will concentrate our efforts on progressing with the construction of Kyzyl within the approved budget and timeline. We will also continue to explore other strategic opportunities within the Former Soviet Union, such as the recently formed joint venture for the development of the Nezhda deposit.

The Board remains committed to ensuring prudent liquidity management and a sound approach to leverage while maintaining cash returns to our shareholders in the continuing complex macroeconomic environment.

As Chairman of the Polymetal Board, I commend the dedication and skills of the management and employees of the Company and their contribution to the outstanding success of the business during 2016. With their continued support, we look forward to another year of delivering consistent growth and value creation.

Bobby Godsell
Chairman

14 March 2017

ATTRACTIVE INVESTMENT OPPORTUNITY

Within its sector, Polymetal is a remarkable example of a company that is both able to acquire and explore attractive investment opportunities, and deliver on them. Our set of strategic competitive strengths is unparalleled: selective mining, processing refractory ores, trading precious metals concentrates and an in-depth knowledge of the precious metals mining space in the Former Soviet Union. Together, these allow us to select individually attractive assets – whether large, high grade, synergistic or a suitable combination – and then leverage these strengths for future growth.

We have ambitious growth plans, projecting 40% production growth by 2020 combined with strong cash flow generation from existing mines, which should allow us to pay dividends to shareholders throughout the cycle. This is backed by our strong track record of meeting, and often exceeding, our operating and cost guidance, as well as the excellence of our project execution.

We have a portfolio of high-grade assets generating free cash flow through the cycle. We employ a processing hub strategy to ensure high returns on invested capital and reduce execution risks.

We continue to invest in greenfield exploration and review opportunistic M&A ideas with a focus on reserve quality or low-capital intensity.

We are committed to capital discipline and provide a substantial dividend yield while maintaining a strong balance sheet.

GROUP CHIEF EXECUTIVE'S REVIEW

EFFICIENTLY RUN, PROFITABLE OPERATIONS PROVIDE US WITH THE OPPORTUNITY TO INVEST IN VALUE-ACCRETIVE ASSETS THROUGHOUT THE CYCLE AND LEVERAGE POLYMETAL'S CORE COMPETENCIES FOR FUTURE GROWTH.

ADJUSTED EBITDA

US$759 million

(2015: US$658 million)

GOLD EQUIVALENT PRODUCTION

1.27 Moz

(6% 5-year average annual growth)

ON TRACK WITH DELIVERING AMBITIOUS GROWTH PLANS

While the macro environment for our business once again remained volatile and unpredictable, Polymetal reports solid operating and financial results for the year. We also made significant progress on advancing our key strategic goals.

We have always focused on delivering superior returns from our carefully selected and efficiently run high-quality assets, and this remained our priority throughout the year. Polymetal's strategic growth plans were reinforced in May 2016 with two new acquisitions, and despite unexpected political outcomes and ensuing fluctuations in the commodity markets, we remain on track.

GENERATING LONG-TERM VALUE

Our portfolio of high-grade, low-capital-intensity assets ensures both profitable operations and sustainable cash returns throughout the cycle. This ability to generate a healthy cash flow today enables us to finance the pipeline of future projects that drive our ambitious growth plans. At the same time, we are also able to maintain a sound capital structure and pay out significant dividends.

We are on track with the construction of our flagship project, Kyzyl. It is one of the highest grade and largest untapped gold deposits in the Former Soviet Union which will go into production in late 2018, and will then be ramped up to full capacity in 2019.

In the meantime, we are continuously on the lookout for attractive and synergistic growth options. In this reporting year, we have acquired Kapan, our first operating mine in Armenia, and Komar in Kazakhstan. Both are value-accretive and we are already turning the operations around; in the case of Komar, immediately creating additional high-grade feedstock source for our existing Varvara mine. We are also working on the development of our joint venture at Nezhda.

We invest substantial amounts towards in-house exploration (both brownfield and greenfield), with the dual purpose of extending the life-of-mine at existing operations and finding new resources for future standalone growth projects. Our maiden platinum group metals (PGM) resource at the Viksha project in Karelia is a prime example of this, with positive results from our initial exploration and a further feasibility study planned.

KEY HIGHLIGHTS IN 2016

Polymetal reports another year of strong operational delivery. Gold equivalent (GE) production for the year comprised 1.27 Moz, in line with the increased GE production guidance for 2016. This was achieved due to the robust operating performance at key mines such as Dukat, Albazino and Omolon, as well as input from Kapan (acquired in April 2016) and Svetloye – Okhotsk hub (launched one year ahead of its original schedule).

We have addressed geotechnical issues at Mayskoye and ramped up underground mining during the year, while also achieving higher grade levels. We have also improved the profitability of Varvara by adding Komar to the feedstock.

The effect of currency devaluations in Russia and Kazakhstan improved our operating profitability, despite depressed gold and silver prices. Our all-in sustaining cash costs (AISC) of US$776/GE oz remain at low levels that allow us to generate a healthy free cash flow margin, driven not only by devaluation but also by our careful choice of high-grade assets (which have an average reserve grade of 3.8 g/t GE, and an average grade processed during 2016 of 4.0 g/t).

Free cash flow generation remains the distinguishing feature of Polymetal. On the back of robust cash flow generation for the year, the Company paid out US$158 million in regular and special dividends to shareholders, while maintaining stable net debt and also financing the construction of Kyzyl out of free cash flow.

INVESTING IN FURTHER GROWTH

In the reporting year, we have made significant progress towards achieving our growth plans of 1.8 Moz of GE production by 2020.

We are pleased with the progress at Kyzyl. Having completed all regulatory approvals and permitting processes, we started construction of the processing plant and commenced pre-stripping.

The Board has also approved the Amursk POX expansion project, which will enable us to divert 50% of the concentrate produced at Kyzyl for in-house processing rather than offtake. This will significantly improve the economics of the project, through better recovery and the cost of treatment. The project will be completed in 2018, in line with the start-up of Kyzyl.

Our new assets at Kapan and Komar both started generating positive free cash flow shortly after acquisition and offer further growth potential. At Kapan, we plan to eliminate bottlenecks at the existing mine and add feedstock from our other Armenian mine, Lichkvaz. Komar is a bolt-on acquisition to Varvara, offering up to 1.2 Mtpa of ore, accessible by rail and with a grade that is twice as high as that of the main Varvara mine.

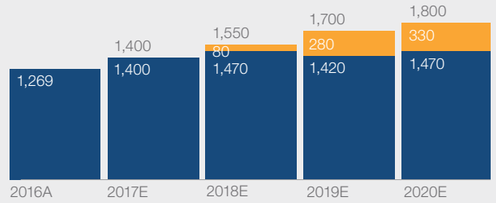
Our joint venture at Nezhda is another example of a potentially long-lived asset leveraging our core competencies. During the year, we performed an extensive exploration campaign and are now much more confident about proceeding with Stage 2 of the development, which is expected to bring us to commercial production within four years.

CREATING A SUSTAINABLE FUTURE

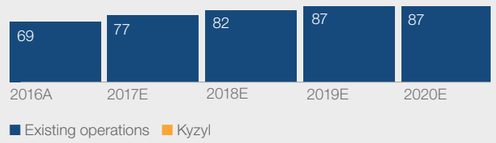
The health and safety record for the year is, unfortunately, the largest area of concern for the Company. We are greatly saddened by the four fatalities at our sites during 2016 and remain committed to our aim of achieving zero fatalities. Management at all levels continues to take steps aimed at radically improving our safety performance. While we have seen improvement in the underground safety record, breaches in other areas of our operations have demonstrated a significant need to reinforce the safety culture and tighten up procedures across all functions.

ROBUST GROWTH PROFILE

GOLD PRODUCTION[1]
(Koz of GE)



SHARE OF GOLD IN PRODUCTION[1]
(%)



Source: Company information.
[1]GE at 80:1 Ag oz/Au oz and 1:5 Cu mt/Au oz conversion ratios.

Investment in our people, local communities and the surrounding environment are also key to the commercial success of the business. We continue to provide support for the well-being of our employees and communities, particularly given the current macroeconomic environment. Polymetal is committed to equal opportunities, the development of our staff and to making a positive impact on the remote areas and communities where we operate.

I would like to thank our employees and partners for all their hard work in 2016. Together, I am confident that we will achieve even more in 2017 towards reaching our mission of sustainable value creation.

Vitaly Nesis
Group CEO

14 March 2017

AT A GLANCE

Polymetal International plc is a leading precious metals mining group operating in Russia, Kazakhstan and Armenia. Listed on the London Stock Exchange, Polymetal has a portfolio of eight producing gold and silver mines and an impressive pipeline of future growth projects. It is a major employer in the regions where it operates.

KEY FINANCIAL FIGURES[1]

REVENUE
US$1,583 million
(2015: US$1,441 million)

TOTAL CASH COST
US$570/GE oz
(2015: US$538/GE oz)

ADJUSTED EBITDA
US$759 million
(2015: US$658 million)

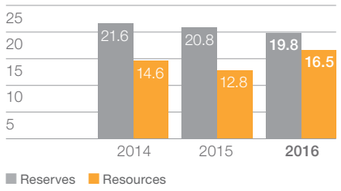
ALL-IN SUSTAINING CASH COST
US$776/GE oz
(2015: US$733/GE oz)

FREE CASH FLOW
US$257 million
(2015: US$263 million)

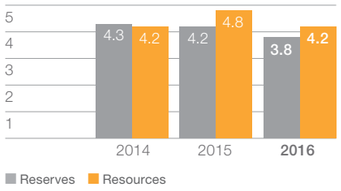
NET PROFIT
US$395 million
(2015: US$221 million)

RESERVES AND RESOURCES[2]

RESERVES AND RESOURCES (Moz)

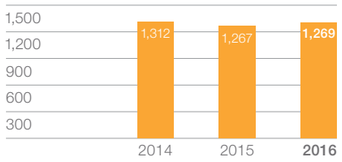


AVERAGE RESERVE/RESOURCE GRADES (GE g/t)



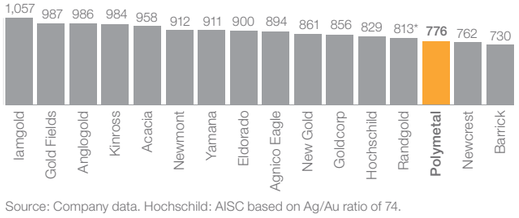
PRODUCTION

PRODUCTION (GE Koz)



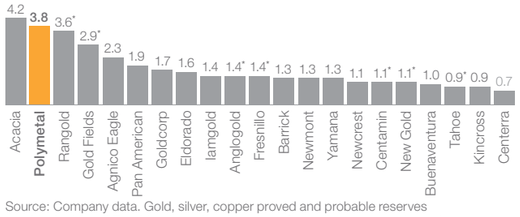
PROFILE AMONG PEERS

ALL-IN SUSTAINING CASH COSTS (US$/GE oz)



Source: Company data. Hochschild: AISC based on Ag/Au ratio of 74.
*Randgold: BMO calculation based on FY2016 results

AVERAGE RESERVE GRADE (g/t/GE)



Source: Company data. Gold, silver, copper proved and probable reserves as of 01.01.2017. GE at 80:1 Ag oz/Au oz and 1:5 Cu mt/Au oz conversion ratios.
*Proved and probable reserves as of 01.01.2016.

[1] Please see definitions in the Financial Review on pages 57-59.
[2] Mineral Resources and Ore Reserves are estimated in accordance with the JORC Code (2012). Mineral Resources are additional to Ore Reserves.

OPERATING ASSETS

1 DUKAT HUB
Operating mines: Dukat, Lunnoye, Goltsovoye, Arylakh
Key exploration project: Perevalnoye, Primorskoye
Processing: 1.6 Mtpa Dukat concentrator and 400 Ktpa Lunnoye Merrill-Crowe plant

2 OMOLON HUB
Operating mines: Birkachan, Sopka, Tsokol, Oroch, Olcha
Development projects: Burgali
Key exploration project: Yolochka, Irbychan, Nevenrekan
Processing: 850 Ktpa Kubaka CIP and Merrill-Crowe plant

3 AMURSK HUB
Processing: 500 tpd Amursk POX plant

4 ALBAZINO
Operating mines: Albazino
Processing: 1.6 Mtpa concentrator

5 MAYSKOYE
Operating mines: Mayskoye
Processing: 850 Ktpa concentrator

6 OKHOTSK HUB
Operating mines: Avlayakan, Ozerny, Svetloye
Key exploration project: Kirankan, Khotorchan, Kundumi, Levoberezhny
Processing: 600 Ktpa Merrill-Crowe plant and Svetloye 1 Mtpa Heap Leach plant

7 VORO
Operating mine: Voro
Key exploration project: North Kaluga, Saum, Tamunier
Processing: 950 Ktpa CIP and 900 Ktpa HL

8 VARVARA
Operating mines: Varvara, Komar
Key exploration project: Tarutin
Processing: 4.2 Mtpa Float + Leach

9 KAPAN
Operating mine: Kapan
Development project: Lichkvaz
Processing: Fully mechanised underground mine with current capacity of approximately 400 Ktpa. Conventional 750 Ktpa flotation concentrator and various infrastructure facilities.

DEVELOPMENT PROJECTS

10 KYZYL
Large high-grade gold project in North-Eastern Kazakhstan
Reserves: 7.3 Moz at 7.7 g/t Au (JORC)
Resources: 3.1 Moz at 6.8 g/t Au (JORC)
Mining: Open-pit followed by underground
Processing: Flotation + POX/concentrate offtake
First production: H2 2018
Life of mine: 22 years

EXPLORATION

11 VIKSHA
9.5 Moz of platinum equivalent (PE)

12 NEZHDA
Joint venture with Polyus Gold

13 PROGNOZ[1]
Largest undeveloped primary silver deposit in Russia

[1] 5% acquired in January 2017, with an option to increase stake to 50% in 2019.

BUSINESS MODEL

Our business model achieves positive outcomes for our stakeholders: the strength of our capitals, how we manage our assets and the differentiators that make us successful.

OUR CAPITAL

FINANCIAL
Strong balance sheet and a large portfolio of available undrawn credit facilities; access to international equity markets and use of shares as acquisition currency.

INTELLECTUAL
Investment in skills and expertise; mastering leading technologies in refractory gold processing (POX); selective mining; development of know-how.

BUSINESS
Key competencies in refractory gold concentrate trading; sustainable relationships with suppliers and contractors.

HUMAN
Attracting and retaining high-potential employees across Russia and Kazakhstan; nurturing young leaders to manage further growth.

SOCIAL
Mitigating the impact of our activities to justify social licence to operate; fostering and maintaining good relations with local governments and communities.

NATURAL
Unparalleled portfolio of high-grade reserves ensuring robust cost and operating performance through the cycle; water, energy and fuel to run our operations.

MINING CYCLE

Our investment in the skills and expertise that support key competencies, backed by strong financial discipline, ensures a robust performance throughout the cycle.

EXPLORATION
We replenish reserves through active brownfield and greenfield exploration, and have a robust evaluation system to select high-quality assets for further development.

DEVELOPMENT
We have a track record of delivery on time and within budget, including growth projects in challenging locations without access to infrastructure.

MINING ORE
We have a strong skill set in selective open-pit and underground mining, incorporating global best practices and robust grade and dilution control.

PROCESSING
We employ both conventional (such as flotation or heap leaching) and leading processing technologies (such as POX) that maximise recoveries at our plants.

LOGISTICS/ TRANSPORTING ORE
In the remote regions of our operation, we have acquired vital skills for inbound logistics of consumables and outbound transportation of ores and concentrates to make the best use of our hub strategy.

SELLING
We sell gold and silver bars, mainly to Russian and Kazakhstan banks, and precious metals concentrates to offtakers throughout the global market.

MINING CLOSURE AND REHABILITATION
We manage the end-of-mine life responsibly, employing environmental best practice and a duty of care to local communities during the closure/ rehabilitation process.

WHAT MAKES US DIFFERENT

INVESTING IN EXPLORATION
Investment in both greenfield and near-mine exploration provides us with a cost-effective increase in our reserve base and, along with successful acquisitions, is the key source of our long-term growth.

HUB-BASED SYSTEM
Our centralised hub-based system handles ores from different sources, achieving economies of scale by minimising processing and logistics costs, as well as reducing capital spending per ounce. This facilitates production at otherwise uneconomical medium- and small-sized near-plant deposits.

FOCUS ON HIGH-GRADE ASSETS
Return on investment in the precious metals industry is reliant on grades and mining conditions. We achieve better returns and lower risks from our project portfolio by setting appropriate thresholds on head grades and largely focusing on open-pit mines.

STRONG CAPITAL DISCIPLINE
We engender a strong focus on capital discipline throughout the business; maximising risk-adjusted return on capital is our priority in all investment decisions. We do not retain excess cash and return free cash flow to shareholders through substantial dividend payments while retaining a safe leverage level.

EXEMPLARY GOVERNANCE AND RESPONSIBILITY
We believe that good corporate governance is key to the ongoing success of the business and value creation for our shareholders. We are compliant with all regulatory requirements and are recognised as sustainability leaders in the countries in which we operate, adopting best practice in nurturing relationships with all our stakeholders in government, industry and the communities.

OPERATIONAL EXCELLENCE
We pride ourselves on our operational excellence and delivering on our promises to shareholders. Despite difficult trading conditions, we meet our production guidance for the fifth consecutive year.

VALUE CREATION FOR STAKEHOLDERS

SHAREHOLDERS
We deliver on our promises while providing a sustainable dividend stream and future growth through quality assets.

OTHER CAPITAL PROVIDERS
We have an excellent credit history and strong partnerships within financial markets.

EMPLOYEES
We provide remuneration that is above the regional average and comfortable working conditions, along with career development opportunities.

COMMUNITIES
We invest in our local communities, providing employment opportunities and improving infrastructure, and engage with them to achieve their support for the projects that we undertake.

GOVERNMENT
We contribute to the national wealth and are a significant tax payer in the regions of operation, supporting local governments' social projects.

SUPPLIERS
We provide fair terms and are developing long-term partnerships, while ensuring suppliers' integrity and Environmental, Social And Governance (ESG) compliance.

MARKET CHALLENGES AND OPPORTUNITIES
Our business model allows us to invest in high-quality assets at attractive valuations during the low point of the commodities cycle; these in turn ensure sustainable free cash flow generation even at depressed commodity price levels.

READ MORE ON PAGES 10-11

STRATEGY
A robust business model is supported by flexible strategies, which enable us to respond effectively to both market opportunities and challenges.

READ MORE ON PAGES 11-19

RISK MANAGEMENT
An efficient risk management system is designed to minimise potential threats to achieving our strategic objectives.

READ MORE ON PAGES 64-69

GOVERNANCE
Through effective leadership and management we adhere to the highest of ethical standards that shape our business model and strategic approach.

READ MORE ON PAGES 70-103

MARKET REVIEW

2016 was an unusually volatile year for the precious metals sector, yet gold and silver prices recovered some of their 2015 losses. Significantly, for the first time in years, global gold and silver output decreased year-on-year; believed by many to mark the start of a multi-year downtrend, driven by depletion of quality reserves and decreased investment in new capacity.

GOLD

Following three consecutive years of annual price declines, gold became one of the best performing assets in 2016, rising 8% and amassing significant inflows through physical-backed gold ETFs, driven by unpredictable macroeconomic events, most notably Brexit and the outcome of the US elections. As a result, gold ended the year at US$1,159/oz versus US$1,062/oz in 2015, averaging US$1,250/oz for the year and recording a year-high of US$1,366/oz in the third quarter.

Gold demand grew 2% year-on-year to reach a multi-year high of 4,308 tonnes, largely driven by ETFs. However, physical demand for gold reached a seven-year low, due to a significant decrease in jewellery demand, notably in India (curbed by the demonetisation of large banknotes and high gold prices), and a sharp decline in official sector purchases on the back of US Federal Reserve pressures.

2017 is expected to be a crucial year for gold, amidst rising economic and political uncertainty. Yet, economic growth and inflation in the US could be key to Federal Reserve decisions on potential rate increases.

SILVER

During 2016, silver price dynamics largely followed gold, apart from the second half of the year where gold fell more sharply. Silver finished the year strongly, averaging US$17.11 (up 9% year-on-year) and recording a year-high of US$20.7/oz in August, post Brexit. However, with the US rate hike in December, silver closed at US$16.24.

MINE PRODUCTION AROUND THE WORLD

After peaking in 2015, year-on-year gold mine production remained virtually unchanged in 2016 for the first time since 2008. Many believe this marks the start of a sustained downtrend in gold mine output. Set to continue in 2017, this is mainly driven by delays and thinning of project pipelines, on the back of lower gold prices, and wider project development challenges across the sector. The biggest precious metals producing countries in 2016 were China, Russia and Australia.

OUR OPERATING ENVIRONMENT

In Russia, the hard rock mining industry is the second-largest sector after oil and gas. However, despite the country's vast resource potential, it remains largely underexplored with a lack of investment in the sector, mainly due to low gold prices and limited availability of foreign debt and equity investments stemming from international sanctions introduced in 2014.

Economically, 2016 was a better year for Russia with a modest recovery in the oil price and strengthening of the Rouble by roughly 10%. However, this trend could have a negative impact on the sector, through cost increases in US Dollar terms.

Although Kazakhstan and Armenia have a significantly smaller share in global gold mine production, both have an impressively strong growth profile, partially attributable to a better investment climate and government incentives. The economics of Kazakh gold mining was supported by the devaluation of the Kazakh Tenge, while the Armenian Dram was the most stable currency in the region.

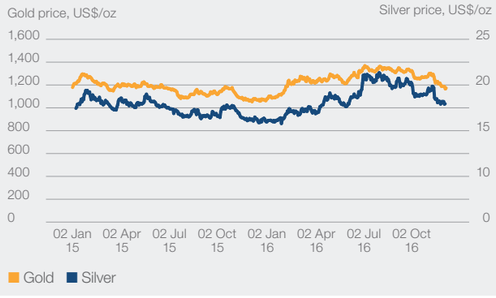
HOW WE RESPOND TO THESE TRENDS

We utilise our experience in mine performance optimisation and the pursuit of high-grade and high-optionality assets in order to ensure robust economics even at current commodity prices. Our performance in 2016 reaffirms the success of our approach, marked by robust free cash flow generation, a strong balance sheet and several strategic acquisitions.

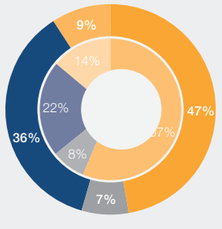
To limit our exposure to risk, in the process of project approval, our stress tests are carried out with a 20% discount to spot gold and silver prices, ensuring that our operations can be sustained even under volatile market conditions. We also review the prices used for our reserve-and-resource estimates on a regular basis to reflect market fluctuations.

To learn more about our market risk management process, please see page 66.

PRECIOUS METAL MARKET SUMMARY



GOLD DEMAND BY CATEGORY IN 2016
(Tonnes)



2016	
Jewellery	2,042
Technology	323
Investment	1,561
Central bank net purchases	384
2015	
Jewellery	2,389
Technology	332
Investment	919
Central bank net purchases	577

Source: Metals Focus; World Gold Council

OUR STRATEGY

KEY GOALS – COMBINING GROWTH AND DIVIDENDS

1 PAY SIGNIFICANT AND SUSTAINABLE DIVIDENDS THROUGH THE CYCLE

Polymetal already stands out in the mining sector for its dividend policy and track record of substantial dividend payments. We want to continue delivering meaningful cash returns to our shareholders at any stage of the commodity cycle and our investment cycle through a combination of regular and special dividends.

2 CONTINUE TO GROW OUR BUSINESS WITHOUT DILUTING ITS QUALITY

At the same time, we also want to grow production and, hence, free cash flow, through the addition of new high-grade, value-accretive assets.

MARKET TRENDS

- Global pricing, while still volatile, showed signs of recovery.
- Demand for gold fell to a seven-year low, largely due to the decrease in jewellery demand and a decline in official sector purchases.
- Year-on-year gold mine production was virtually unchanged and this is likely to continue in 2017, possibly marking the start of a sustained downward trend.
- The economic situation in Russia improved during 2016 with oil prices recovering and a strengthened Rouble but increased costs in US Dollar terms could have a negative impact. Kazakh gold mining is supported by the devaluation of the Kazakh tenge, while the Armenian dram is stable.

STRATEGIC OBJECTIVES	PERFORMANCE
DELIVER ROBUST OPERATING AND FINANCIAL PERFORMANCE AT EXISTING MINES THROUGH COST CONTROL AND RESERVE REPLACEMENT	• 1.27 Moz GE produced in 2016, 6% average annual increase over five years • Free cash flow of US$257 million • Successful Svetloye launch • Additional mineral resources: 3.7 GE Moz
DELIVER MEDIUM-TERM GROWTH THROUGH BUILDING AND RAMPING UP KYZYL	• 100% permitting milestone completed • Processing plant construction completed • Start of open-pit mining in May 2016 • Approval and commencement of Amursk POX de-bottlenecking project
BUILD AND ADVANCE LONG-TERM GROWTH PIPELINE THROUGH OPPORTUNISTIC M&A AND GREENFIELD EXPLORATION	• Acquisition of Kapan (Armenia) • Acquisition of Komar (Varvara hub, Kazakhstan) • Nezhda (Yakutia, Russia) • Establishment of maiden PGM resource at Viksha (Karelia, Russia) • Acquisition of interest in Prognoz in early 2017 (Yakutia, Russia)
MAINTAIN HIGH STANDARDS OF CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT	• Full compliance with the provisions of UK Corporate Governance Code • Inclusion in sustainability indices FTSE4Good, Vigeo, STOXX • ESIA for Kyzyl completed • Became signatories to the International Cyanide Management Code

SEE MORE ABOUT OUR STRATEGY ON PAGES 12-19

OUR STRATEGY

DELIVER ROBUST OPERATING AND FINANCIAL PERFORMANCE AT EXISTING MINES THROUGH COST CONTROL AND RESERVE REPLACEMENT

By focusing on full-capacity utilisation and robust cost performance of our operating mines, we are driving continued operating improvement. At the same time, we aim to extend our life-of-mine by continuous investment in near-mine brownfield exploration and bolt-on acquisitions. This will allow us to generate free cash flow sustainably and translate it into significant dividends.

TARGETS FOR 2017

- Annual production of 1.4 Moz GE
- Total cash costs of US$600-650/GE oz (at current exchange rates and oil price levels)
- Achieve full capacity at newly acquired Komar and recently launched Svetloye mines
- First gold from open-pit crown pillar project at Mayskoye
- Progress de-bottlenecking at Kapan

PERFORMANCE

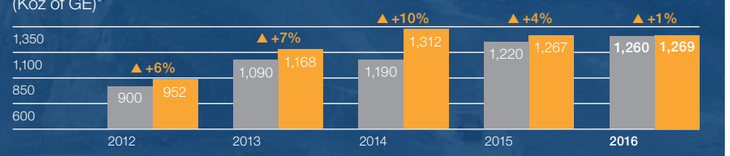
SOLID OPERATING PERFORMANCE...

With total gold equivalent (GE) production for the year of 1,269 Koz, in 2016 we have maintained our track record of solid operational delivery, meeting our increased production guidance of 1.26 Moz GE. While the production was flat compared with the prior year (in line with our expectations), during 2016 we have made considerable progress on our long-term growth plans: we launched Svetloye, which is expected to contribute to increased production at Okhotsk hub next year, and successfully integrated the newly acquired Kapan and Komar operations, which are both on track to deliver further growth and improved cost performance in 2017. As a consequence, we are on course to deliver further growth in 2017 and 2018, with production of 1.40 Moz and 1.55 Moz GE, respectively. Significantly, our performance in 2016 marks the fifth consecutive year in which Polymetal has met its production guidance.

...TRANSLATED INTO LOW COST AND ROBUST CASH GENERATION

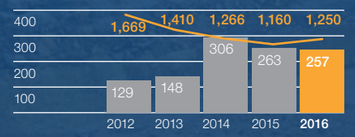
With high-quality assets and a solid production profile at existing mines, supported by the continuing effect of currency devaluations in both Russia and Kazakhstan, Polymetal remains one of the lowest-cost producers globally. Our all-in sustaining cash costs (AISC) of US$776/oz GE are in the lower quartile of the global cash-cost curve. All our mines generated positive free cash flow in 2016, and are expected to do so going forward, even at current commodity price levels. Our internal free cash flow generation helped us to maintain substantial regular and special dividends while financing both construction at Kyzyl and new acquisitions.

ANNUAL PRODUCTION
(Koz of GE)*



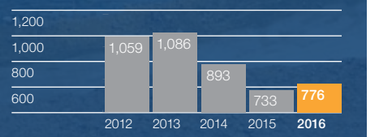
Guidance Actual *Based on 80:1 Ag/Au ratio.
Company historical gold equivalent guidance also recalculated using 80:1 Ag/Au conversion ratio.

FREE CASH FLOW
(US$)



Gold price, US$/oz
Source: Free cash flow (pre-M&A).

ALL-IN SUSTAINING CASH COST
(US$/GE oz)



RISKS

- Production
- Health and safety
- Market
- Exploration

READ MORE ON PAGES 64-69

RELATED KPIS FOR EXECUTIVE MANAGEMENT

Annual bonus:

- Achieving production budget (Group CEO and below)
- Total cash costs (Group CEO and below)
- Health and safety (Group CEO and below)
- Resource growth (Chief Geologist and below)

READ MORE ON PAGES 86-99

Image: Albazino open-pit mine.

OUR STRATEGY

DELIVER MEDIUM-TERM GROWTH THROUGH BUILDING AND RAMPING UP KYZYL

The Kyzyl project is a major medium-term growth driver for Polymetal, with average production of 320 Koz per annum from 2019. We are aiming to deliver the first gold at Kyzyl in Q3 2018. In 2016-2017, we will enter the active construction phase and will continue marketing concentrate.

TARGETS FOR 2017

- Advance full-scale processing plant construction, commence major equipment installation
- Continue stripping activities
- Advance POX expansion project

PERFORMANCE

Kyzyl remains one of the best development-stage gold projects in the world, and is now the main source of medium-term growth for Polymetal. With its large high-grade reserves, long mine life and low-capital intensity, it is set to create significant shareholder returns even at current commodity price levels. Although the ore is refractory and the previous owners were unable to bring Kyzyl into production, it offers a perfect fit with Polymetal's core competencies: project development from scratch, open-pit mining, treating refractory materials in-house (through Amursk POX plant) and trading concentrates with offtakers.

Since formal approval of the construction decision in 2016, Polymetal has made considerable progress on project development. Construction activities are in line with the project schedule. Permitting is 100% complete. Open-pit mining was started in May 2016 and mining activities are now entirely focused on drill-and-blast pre-stripping. Kyzyl remains on track to produce its first concentrate in Q3 2018.

AMURSK POX EXPANSION PROJECT

Approval and commencement of expansion at the Amursk POX plant was another important milestone of 2016 for Kyzyl. The project targets an increase in POX capacity, which will enable Polymetal to retain approximately 50% of Kyzyl concentrate for in-house treatment, as opposed to a third-party offtake. This is expected to improve effective gold recovery from concentrate, as well as bring down processing and transportation costs. Key additions to the equipment will comprise a second oxygen plant, an autoclave discharge thickener, separate filters for thickener underflow and upgrades for heat recovery and water treatment. We plan to ramp up the de-bottlenecked POX plant to full expanded capacity in the second half of 2018, in time to take first feed from the Kyzyl concentrator.

LARGE

7.3 Moz

Gold reserves (including 2.8 Moz open pit)

LONG LIFE-OF-MINE

22 years

(first 10 years open pit)

HIGH-GRADE

7.7 g/t

(6.7 g/t in the open pit)

LOW CAPITAL INTENSITY

US$377m

Capital expenditure (open pit + flotation + Amursk POX expansion)

EXCELLENT EXPLORATION UPSIDE

3.1 Moz

of additional resources at 6.8 g/t + Bolshevik satellite deposit with further mineralised potential

RISKS

- Market
- Construction and development risk

READ MORE ON PAGES 64-69

RELATED KPIS FOR EXECUTIVE MANAGEMENT

- Annual bonus – project delivery on time and budget (Group CEO and below)
- LTIP – TSR above peers, which can only be generated by delivering sustainable growth through projects such as Kyzyl

READ MORE ON PAGES 86-99

Image: Mining activities at Kyzyl.

OUR STRATEGY

BUILD AND ADVANCE LONG-TERM GROWTH PIPELINE THROUGH OPPORTUNISTIC M&A AND GREENFIELD EXPLORATION

While generating free cash flow from existing operations, we want to secure high-quality sources of long-term growth through our own greenfield exploration programme and opportunistic M&A. We are actively looking at targets within the Former Soviet Union, where we can create value with our core competencies. In 2016, we made significant progress on both fronts.

TARGETS FOR 2017

- Complete in-fill drilling and resource estimate at Nezhda
- Integrate Kapan mine in Armenia
- Pursue further targets in the Former Soviet Union
- Resource estimates at Viksha, Lichkvaz

PERFORMANCE

KAPAN (ARMENIA)

- Fully mechanised underground mine with current capacity of approximately 400 Ktpa
- Conventional 750 Ktpa flotation concentrator and various infrastructure facilities
- Synergy with our Lichkvaz deposit through the processing hub approach, utilising excess capacity at the Kapan concentrator

Next steps

- De-bottleneck underground mine and improve concentrate utilisation:
- 650 Ktpa by 2H 2017
- 900 Ktpa by 2H 2018 (including feed from Lichkvaz)
- Streamline the cost structure, leveraging Polymetal's experience in mechanised narrow-vein

READ MORE ON PAGE 37

KOMAR

Excellent strategic fit for Varvara operation:

- Medium-size operating gold asset: JORC reserves 0.9 Moz of gold at 1.8 g/t
- Open pit, simple and well-understood metallurgy (CIL)
- Direct rail link (187km)
- Limited initial capital expenditure: <US$5 million
- Excellent exploration upside (resources are estimated only to the depth of 280m, while mineralisation is traced to the depth of 450m)
- Polymetal aims to mine, deliver by rail and process at Varvara up to 1.2 Mtpa of higher-grade ore with potential to increase Varvara's annual production by approximately 70 Koz at lower cash costs

READ MORE ON PAGES 24, 35

NEZHDA

- Polymetal is earning 50% by spending US$90 million on development
  - positive exploration results in 2016 confirming initial estimates of mineralisation
- Substantial high-grade reserve: 20 Moz of gold at 5.1 g/t (non-JORC compliant)
- Mining method: open-pit followed by underground
- Low capital intensity and excellent fit with Polymetal's core capabilities: processing via flotation followed by concentrate offtake
- First JORC-compliant reserve statement in Q3 2017 and development decision in Q3 2018

READ MORE ON PAGE 40

PROGNOZ

5% acquired in January 2017, with an option to increase stake to 50% in 2019

- Largest undeveloped primary silver deposit in Russia
- Mineral resources: 292 Moz at 586 g/t silver, 3% lead
- Additional mineralised potential: 7.9-18.1 Mt of ore at 469 g/t silver for 119-273 Moz of silver contained
- Potential for relatively low-capital and fast-development approach based on open-pit mining and conventional processing

READ MORE ON PAGES 24, 25

VIKSHA

One of the largest open-pittable PGM resources in the world:

- JORC-compliant mineral resources 9.5 Moz PE
- Favourable geology conditions: near-surface 'reef' shaped mineralisation with contiguous ore bodies of considerable width is amenable to low-cost mechanised bulk open-pit mining
- Favourable mineralogy and uncontaminated ore (without nickel): allows for conventional flotation processing, producing bulk copper-PGM sulphide concentrate that can be processed through PGM refineries or copper smelters resolution
- Well-developed region with excellent infrastructure and abundant qualified workforce

READ MORE ON PAGE 24, 40

RISKS

- Exploration risk
  - Construction and development risk
  - Production risk
- Political risk

READ MORE ON PAGES 64-69

RELATED KPIS FOR EXECUTIVE MANAGEMENT

- LTIP – TSR above peers, which can be generated by value-accretive deals creating shareholder value

READ MORE ON PAGES 86-99

Image: Kapan mine.

OUR STRATEGY

MAINTAIN HIGH STANDARDS OF CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT

Maintaining a high standard of corporate governance and sustainable development gives us both a licence to operate and the much-needed trust of all our stakeholders. While we perform well on most environmental, social and governance (ESG) metrics, health and safety at our operations remains a key priority.

TARGETS FOR 2017

- Improvement in safety performance
- Continued compliance with global and local best practices in ESG
- Continuously upgrading our technologies and approach to environmental protection
- Audit of the supply chain

PERFORMANCE

CORPORATE GOVERNANCE

We strongly believe that maintaining high corporate governance standards is essential in creating sustainable shareholder value. It ensures strategic leadership, a robust internal control system and the strong alignment of management with the interests of our stakeholders.

Polymetal takes pride in the fact that, since our original listing in 2007 and subsequent relisting on London's Main Market, we have adhered to the highest standards of corporate governance. Under the leadership of a reputable, experienced and diverse Board, we have been able to achieve superior shareholder returns and create a Company where continuous improvement and strategic agility is deeply engrained in the corporate culture.

SUSTAINABLE DEVELOPMENT

Our vision at Polymetal is to continue to build a thriving and responsible mining business. We want to ensure that: safety is prioritised for everyone; we are minimising our environmental footprint; we have a positive impact on the local communities where we operate; we continue to engage stakeholders – whether they are investors, NGOs, or government; we improve and grow our business.

ADHERING TO GLOBAL AND LOCAL STANDARDS IN ESG

At Polymetal, we passionately believe that business, particularly the extraction industries, has a responsibility to protect the environment and contribute to the development of local communities. Our Safety and Sustainability Committee monitors the Group's social, ethical, environmental and safety performance, and oversees all sustainable development issues on behalf of the Board.

Our sustainability strategy is designed to meet the principles of the UN Global Compact, an international standard which Polymetal first signed up to in 2009. We implement best practice and are proud to be included in the FTSE4Good and STOXX ESG Leaders indices as recognition of our continuing efforts to enhance sustainability, social responsibility and good governance.

STAFF TURNOVER RATE

6%

(2015: 8%)

LTIFR

0.19

(2015: 0.22)

42%

OF QUALIFIED STAFF ARE FEMALE

(2015: 44%)

STANDARDS WE ADHERE TO AND INDICES WE ARE INCLUDED IN

RISKS

- Health and safety risk
- Environmental risk
- Legal risk
- Political risk

READ MORE ON PAGES 64-69

REMUNERATION

- Annual bonus (CEO and below) – 25% weight on H&S performance + additional penalty factor applied to the remaining part of the bonus for any fatalities

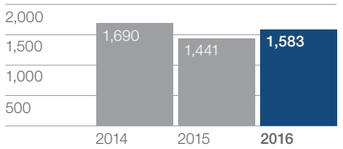
READ MORE ON PAGES 86-99

Image: Amursk IMN (Indigenous Minorities of the North) festival.

KEY PERFORMANCE INDICATORS

FINANCIAL KPIS

REVENUE (US$m) +10%

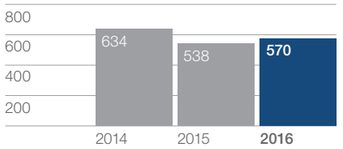


Top-line indicator, heavily depends on commodity prices but also driven by delivery of production volumes.

In 2016, revenue grew by 10% year-on-year driven by an 8% increase in the average realised gold price and an 11% increase in the average silver price. Gold and silver sales volumes both broadly followed the production dynamics.

Relevance to strategy 1

TOTAL CASH COST[1] (US$/GE oz) +6%

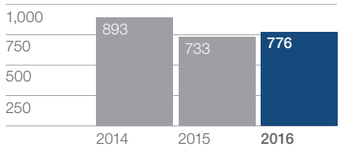


High-grade, full capacity utilisation and continued operating improvement, as well as foreign exchange rates and oil price are the key drivers of total cash costs (TCC) per ounce.

TCC were up 6% year-on-year and within original guidance of US$ 550-575/GE oz. The planned grade decline at some mature operations combined with domestic inflation in Russia had a moderate negative impact on cost levels. This was largely offset by the robust operating performance at Voro, Varvara and Omolon.

Relevance to strategy 1

ALL-IN SUSTAINING CASH COST[1] (US$/GE oz) +6%

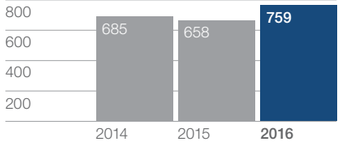


Our focus on high grade and low capital intensity ensures a low level of all-in sustaining cash costs (AISC).

AISC were up 6% year-on-year, driven mostly by an increase in TCC during the period and Russian Rouble appreciation against the US Dollar in the second half of the year.

Relevance to strategy 1

ADJUSTED EBITDA[1] (US$m) +15%

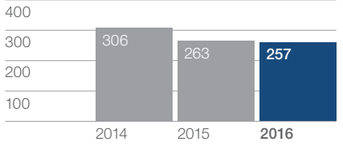


Adjusted EBITDA is a key measure of the Company's operating performance and cash generation capacity (excluding impact of financing, depreciation and tax) and a key industry benchmark allowing to perform peer comparison.

In 2016, Adjusted EBITDA increased by 15% year-on-year, resulting in an Adjusted EBITDA margin of 48%. The increase was mainly driven by growth in the average realised gold and silver prices, which was partially offset by a 6% increase in TCC.

Relevance to strategy 1

FREE CASH FLOW[1] (US$m) -2%

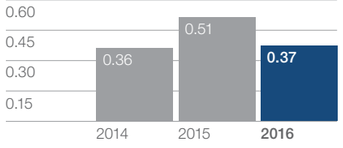


A key indicator in any business. Generating a healthy free cash flow enables us to provide significant cash returns for shareholders.

The Company continued to deliver a strong operating performance, driving solid cash flow. In 2016, Polymetal generated significant pre-acquisition free cash flow, which amounted to US$257 million.

Relevance to strategy 1

DIVIDENDS DECLARED (US$/share) -27%

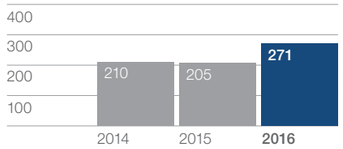


Our aim is to deliver substantial dividends to our shareholders at all stages of both the commodity cycle and our investment cycle.

During 2016, Polymetal paid a total of US$158 million in dividends, representing final dividends for FY 2015, interim dividends for the 1H 2016 and special dividends for 2016 paid on the back of strong free cash flow generation and a comfortable leverage level.

Relevance to strategy 1

CAPITAL EXPENDITURE (US$m) +32%

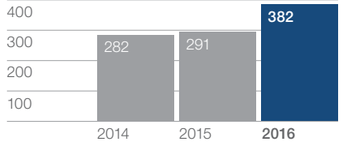


Our rigorous approach to all investment decisions ensures tight controls on capital expenditure, boosting return on invested capital for shareholders and sustainable development for the business.

Capital expenditure increased by 32% to US$271 million. It was below the reduced guidance of US$310 million, due to favourable exchange rates early in 2016.

Relevance to strategy 2

UNDERLYING NET INCOME[1] (US$m) +31%



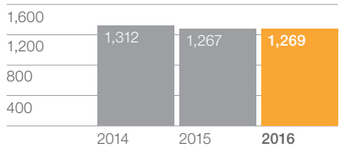
Underlying net income is a comprehensive benchmark of our core profitability excluding foreign exchange gains/losses and impairments.

Underlying net earnings (adjusted for the after-tax amount of write-down of metal inventory to net realisable value, foreign exchange gains/losses and change in fair value of contingent consideration liability) were US$382 million, an increase of 31% compared with 2015.

Relevance to strategy 1

OPERATING KPIS

GOLD EQUIVALENT PRODUCTION (Koz) 0%

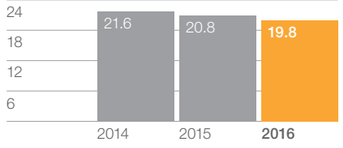


Annual targets for gold equivalent production are an indicator to the market of our confidence in our operating performance – and one that we regularly exceed.

Compared with 2015, annual gold equivalent production remained largely flat at 1,269 Koz, meeting our increased production guidance for the fifth consecutive year.

Relevance to strategy 1

ORE RESERVES (Moz) -5%



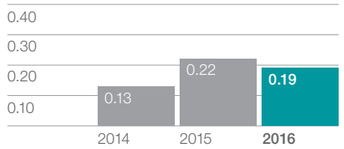
Both extending mine life through near-mine exploration and new discoveries from greenfield exploration contribute to the Company's long-term growth prospects.

Year-on-year ore reserves were 19.8 Moz, a 5% reduction, which was due mainly to mining depletion and a downgrade at Varvara, which were partially offset by reserve additions from the new acquisition at Komar, Dolinnoye and an upgrade at Svetloye.

Relevance to strategy

SUSTAINABILITY KPIS

LOST TIME INJURY FREQUENCY RATE (LTIFR) -14%

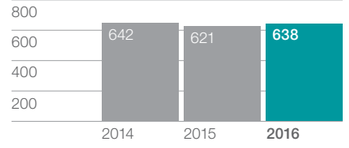


Significant efforts continue to be made in ensuring workplace safety and reducing LTIFR.

Despite the tragic loss of four our employees in workplace accidents in 2016, the number of overall fatalities reduced by 1.5 times year-on-year, our LTIFR decreased by 14% compared with 2015 and we reduced the level of the most significant risks that cause injuries by 50%.

Relevance to strategy 2

GHG EMISSIONS INTENSITY (CO_2 equivalent tonnes per 10 Kt of ore processed) +3%



GHG emission intensity is the average emission rate of greenhouse gases relative to our ore mining and processing activity.

The increase in the intensity of greenhouse gas (GHG) emissions (+3%) is associated with the increase in fuel-intensive production processes production (+6%), mining (+6%), stripping (+25%) and underground development (+26%) in our newly launched mines, Svetloye, Komar and Kapan. However, there is a 6% reduction in GHG emissions intensity at our mature mines as a result of our energy and cost efficiency programme.

Relevance to strategy 2

KPI linked to executive remuneration.

[1] TCC, AISC, FCF, Adjusted EBITDA, Underlying net income – the definition and calculation of non-IFRS measures are explained in the Financial review, pages 52-63.

IN 2016, POLYMETAL MAINTAINED ITS TRACK RECORD OF ROBUST OPERATIONAL DELIVERY.

IN 2017, WE WILL CONTINUE TO FOCUS ON SUSTAINING OPERATING PERFORMANCE, MOVING KYZYL TOWARDS COMPLETION, AND ADVANCING OUR LONG-TERM PROJECT PIPELINE.

Vitaly Savchenko
Chief Operating Officer

STRONG OPERATING TRACK RECORD

In 2016, Polymetal maintained a track record of robust operational delivery. Annual gold equivalent production was essentially flat compared with the previous year at 1.27 Moz, meeting our increased production guidance for the fifth consecutive year. While there was some planned grade decline at mature operations, this was more than compensated for by a solid performance at Amursk POX, the successful commencement of Svetloye heap-leach operations, that will ensure sustained production levels at the Okhotsk hub during the next year, and contributions from newly acquired Komar (Varvara) and Kapan, both of which are on track to strengthen our production profile, lower the costs and provide substantial incremental cash flows.

Gold production was 890 Koz, a 3% year-on-year increase, mainly driven by increased throughput and improved recoveries at the Amursk POX plant. At the same time, silver production decreased by 9% to 29.2 Moz, because of the normalisation of the grade profile at Dukat underground mine and a planned silver production decline at Omolon due to the change in the Omolon hub's ore feedstock mix in order to provide ores with higher gold and lower silver grades. 1.5 Kt of copper were produced at our Varvara and Kapan mines.

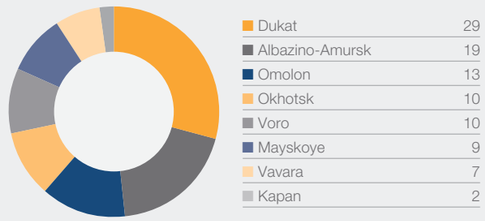
Gold sales were 880 Koz, up 2% year-on-year, while silver sales were down 2% year-on-year at 30.7 Moz, generally in line with production dynamics and volume.

KEY OPERATING HIGHLIGHTS

	2016	2015	Change[1]
Stripping, Mt	**81.8**	65.3	+25%
Underground development, km	**92.2**	73.1	+26%
Ore mined, Kt	**13,380**	12,679	+6%
Open-pit	**9,506**	9,626	-1%
Underground	**3,874**	3,053	+27%
Ore processed, Kt	**11,417**	10,821	+6%
Average grade in ore processed (gold equivalent, g/t)	**4.0**	4.2	-5%
Production			
Gold, Koz	**890**	861	+3%
Silver, Moz	**29.2**	32.1	-9%
Copper, Kt	**1.5**	0.8	+88%
Zinc, Kt	**2.9**	–	NA
Gold equivalent, Koz[2]	**1,269**	**1,267**	**+0%**
Sales			
Gold, Koz	**880**	864	+2%
Silver, Moz	**30.7**	31.2	-2%
Copper, Kt	**1.6**	1.5	+10%
Zinc, Kt	**2.8**	–	NA
Gold equivalent, Koz[3]	**1,301**	**1,278**	+2%
Headcount[4]	**10,812**	**9,292**	**+16%**
Safety			
– LTIFR[5]	**0.19**	0.22	-14%
– Fatalities	**4**	6	-33%

[1] % changes can be different from zero even when absolute numbers are unchanged because of rounding. Likewise, for the same reason, % changes can be equal to zero when absolute numbers differ. This note applies to all tables in this release.
[2] Based on 1:80 Ag/Au, 5:1 Cu/Au and 2:1 Zn/Au conversion ratios.
[3] Based on actual realised prices.
[4] Average for the period.
[5] LTIFR is lost time injury frequency rate per 200,000 hours worked.

GOLD EQUIVALENT PRODUCTION BY MINE IN 2016
(%)



GOLD EQUIVALENT PRODUCTION BY MINE IN 2016
(KOZ)

	2016	2015	Change
Dukat	**369**	393	-6%
Albazino/Amursk	**244**	220	+11%
Omolon	**170**	188	-10%
Okhotsk	**131**	114	+15%
Voro	**129**	141	-9%
Mayskoye	**116**	138	-16%
Varvara	**85**	72	+17%
Kapan	**26**	–	NA
Total	**1,269**	1,267	+0%

ANALYSIS OF PRODUCTION RESULTS

MINING

Stripping volumes in 2016 grew by 25% to 81.8 Mt of rock moved, driven by the removal of historic waste stockpiles at Kyzyl, which is now complete with mining activities entirely focused on drill-and-blast pre-stripping.

Underground development increased by a further 26% to more than 92 km (2015: 73 km). This included the contribution of mining activity from newly acquired Kapan, increased volumes at Mayskoye, where the new mining method (sublevel open stoping with backfill) is driving progress, and underground development continued pace at Birkachan and Tsokol (Omolon hub) and Albazino.

Birkachan open-pit operations were completed, with personnel transferred to Olcha. Underground development at Olcha is ramping up. At Mayskoye, drill-and-blast activities were started at the open pit (the newly launched crown pillar project) following the completion of the overburden removal.

Ore mined increased by 6% year-on-year to 13.4 Mt (2015: 12.7 Mt), mainly as a result of accelerated mining at Svetloye, increased volumes at Oroch to match processing capacity of Kubaka plant and open-pit mining commencing at Olcha.

PROCESSING

Ore processed increased by 6% to 11.4 Mt (2015: 10.8 Mt). The increase was mainly driven by the launch of the Svetloye heap leach at Okhotsk operations, one year ahead of the original schedule.

As expected, the average gold equivalent grade in ore processed decreased slightly from 4.2 g/t to 4.0 g/t, with the decline mostly coming from mature operations: normalisation of the grade profile at the Dukat underground mine that had produced exceptionally high grades in 2015, as well as a planned grade decline at the maturing Goltsovoye mine; a lower silver average grade due to the change in feedstock mix at the Omolon's Kubaka plant; a scheduled slight decline in average grades at Okhotsk; and higher levels of dilution that led to grade declines in the ore processed at Mayskoye. However the ramp-up of our new mines – in particular Svetloye and Kapan – in the second half of the year, as well as a marked improvement in mine-to-model grade reconciliations at Tsokol (Omolon), pushed the grade up to 4.4 g/t in the fourth quarter.

PRODUCTION AND SALES DYNAMICS

For the fifth consecutive year we have met our production guidance, achieving 1.27 Moz of gold equivalent production in 2016. Albazino/Amursk, Okhotsk, Varvara and Kapan were the key contributors to this robust performance. At Mayskoye, the grade-driven decline in gold production in 2016 is expected to be reversed next year with the launch of the crown pillar project, which will increase the production volumes from the open pit. Scheduled average silver grade declines led to modest production decreases at Dukat and Omolon by 6% and 10%, respectively. In 2016, gold production at Voro decreased by 9%, driven by the planned downsizing of the heap leach operation, which caused a 36% decrease in gold production at the circuit.

Metal sales in 2016 were 1,301 Koz of gold equivalent, almost flat compared with 2015. Sales volumes slightly exceeded production for the full year.

While most of the sales are comprised of refined metals, we continue to sell concentrates from Dukat (gold/silver), Varvara (gold/copper), Kapan (gold/copper and gold/zinc) and Mayskoye (refractory gold) to offtakers in Kazakhstan, Japan, Bulgaria, Belgium and China. Offtake allows us to maximise our margins and achieve an optimal combination of transportation costs and treatment charges/recoveries. This is one of our core competencies and it will be leveraged further in our approach to the development of the Kyzyl project.

EXPLORATION

Sustained investment in greenfield and near-mine exploration provides us with a cost-effective increase in our reserve base and is one of the key core pillars of our strategy. We have a robust evaluation system to select high-quality assets for further development. Both extending mine life through brownfield exploration and new discoveries from greenfield exploration contribute to the Company's long-term growth prospects. Our exploration activities are focused on five regions in Russia – Khabarovsk, Magadan, Karelia, Yakutia and Urals – as well as on Kazakhstan and Armenia.

Nine new licences were obtained during 2016, bringing the total number to 86, and covering a total area of more than 7,800 km^2. Of these, 47 licences currently involve active exploration activities.

Our key exploration objectives in 2016 included:

- brownfield exploration aimed at extending the life-of-mine at existing operations: Dukat, Omolon, Voro, Albazino and Okhotsk hub;
- an extensive exploration campaign at Nezhda JV to obtain additional confirmation of the geology and metallurgy of the deposit;
- detailed in-fill and step-out exploration drilling at the flanks of the newly acquired Komar (Varvara hub);
- licence renewal and a maiden JORC mineral resource estimate for the Viksha project; and
- pursuing new greenfield exploration targets through the acquisition of new licences in key regions, including Karelia (for PGMs) and Urals;

Exploration drilling volumes increased by 40% year-on-year to 324 km, as Polymetal expanded its scope of exploration to include newly acquired assets and joint ventures. The total capital expenditure on exploration was US$45 million and remained almost flat compared with 2015.

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

- an initial mineral resource estimate for the PGM Viksha project in Karelia, which comprises 9.5 Moz of palladium equivalent (PE), and makes Viksha one of the largest open-pittable PGM resources in the world;
- an initial underground mineral resources estimate at Lichkvaz of 0.6 Moz of gold equivalent; and
- an initial reserve-and-resource estimate at Komar of 873 Koz of gold and 517 Koz of gold, respectively.

In 2017, Polymetal will continue to invest in exploration with the aim of expanding the pace and scope of drilling, as well as prospect evaluation. The key objectives are as follows:

- to achieve resource-to-reserve conversions and resource upgrades at our brownfield projects with particular focus on shorter life-of-mine assets. At Omolon the focus will be on Irbychan and Yolochka; at Voro – on Saum and Tamunier; at Okhotsk – on Levoberezhny, Gyrbykan, and Maimakan-Kundumi; at Dukat – on Primorskoye;
- to initiate a comprehensive exploration campaign at the deeper levels of Dukat with the goal of extending the scope of the resource estimates at least 300 meters below current underground workings;
- to produce an initial JORC reserve and resource estimate at Nezhda JV's Zone 1 and continue drilling on smaller, potentially mineralised zones;
- to complete at least 25 km of diamond drilling at the Prognoz silver deposit;
- to publish a JORC-compliant reserve estimate and a combined life-of-mine plan for Kapan and Lichkvaz;
- to complete a step-out drilling campaign at Komar and update the reserve and resource estimates for the deposit; and
- to continue step-out and deep-level drilling at Kyzyl.

RESERVES AND RESOURCES

In 2016, ore reserves decreased by 5% to 19.8 GE Moz mainly due to mining depletion and a downgrade at Varvara which were partially offset by reserve additions from the new acquisition at Komar, Dolinnoye and an upgrade at Svetloye. As a result, gold reserves remained almost unchanged at 17.6 Moz; while silver reserves decreased by 21% to 163 Moz; and copper reserves decreased by 23% to 65.4 thousand tonnes.

During 2016, Polymetal significantly strengthened the resource base of its operating mines and successfully advanced our long-term growth strategy. Mineral Resources (additional to Ore Reserves) increased by 29% to 16.5 GE Moz, mainly driven by the acquisitions of Kapan and Komar and initial mineral resources estimates at Levoberezhny and Lichkvaz.

Mineral Resources (inclusive of Ore Reserves) at gold equivalent grew by 5% to 36.4 Moz.

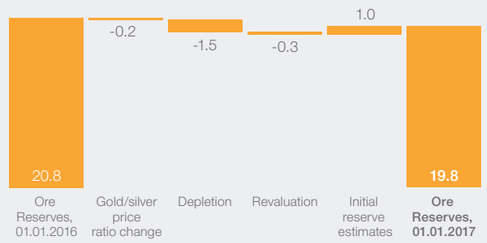
The average grade in ore reserves decreased by 8% to 3.8 g/t GE mainly due to additions from Komar. The average grade for mineral resources decreased by 11% to 4.2 g/t GE, mainly as a result of additions from Kapan.

ORE RESERVES AND MINERAL RESOURCES SUMMARY[1]

	1 January 2017	1 January 2016	Change
Ore Reserves (Proved + Probable), gold equivalent Moz	**19.8**	**20.8**	**-5%**
Gold, Moz	17.6	17.7	-1%
Silver, Moz	163.0	207.2	-21%
Copper, Kt	65.4	85.4	-23%
Mineral Resources (Measured + Indicated + Inferred), gold equivalent Moz	**16.5**	**12.8**	**+29%**
Gold, Moz	14.4	11.3	+28%
Silver, Moz	87.5	48.6	+80%
Copper, Kt	206.7	132.0	+57%

[1] Mineral Resources are additional to Ore Reserves. Mineral Resources and Ore Reserves of Lead and Zinc are not presented due to the immateriality and are not included in the calculation of the gold equivalent. PGM Mineral Resources are presented separately and are not included in the calculation of the gold equivalent. Differences are due to rounding.

ORE RESERVES RECONCILIATION
(GE Moz)



OUTLOOK FOR 2017

In 2017, we will continue to focus on sustaining robust operating performance, moving Kyzyl towards completion, and advancing our long-term project pipeline.

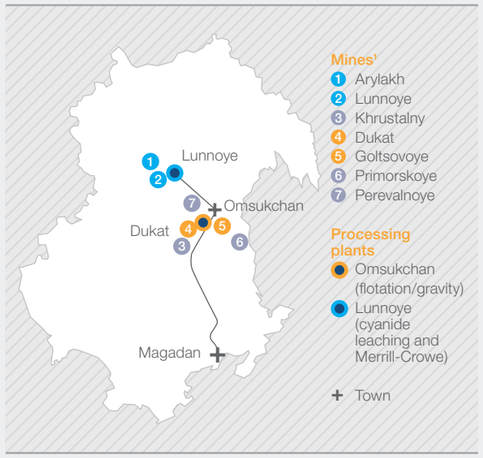
Management will firmly concentrate its efforts on the next milestone at Kyzyl where mining volumes are expected to nearly double in 2017, and external infrastructure (access road, electricity, water) is now mostly in place with the focus shifting towards site infrastructure. Key construction activities in 2017 will include completion and commission accommodation camps, boiler stations, utility facilities (sewage treatment plants and pumping stations), external power supply facilities. In 4Q 2017, we plan to complete tailings construction and start ore mining activities. We are confident in our development approach, with low capital intensity and degree of operational risk during the construction and ramp-up period.

We will also focus on the new projects that will drive our growth beyond the launch of Kyzyl. This includes project development at Nezhda, exploration drilling at Prognoz (the largest undeveloped silver deposit in Russia), ramping-up of the POX de-bottlenecking project (planned to reach fully expanded capacity in the second half of 2018) and continued operational turnaround at the Kapan mine in Armenia.

The Company reconfirms its production guidance for 2017 and 2018 of 1.40 Moz and 1.55 Moz of gold equivalent, respectively. Traditionally, production in both years will be skewed towards the second half of the year. The increase in production in 2017 will be driven by Varvara (Komar), Okhotsk (Svetloye), Omolon and Kapan. This should offset the grade declines at Dukat and Voro.

Employee health and safety remains an absolute priority for Polymetal as it strives to eliminate future accidents at all of its operations. In 2017, we will introduce a Critical Risks Management System, which will complement our existing safety measures and will help us reduce the risk of injuries in our business.

DUKAT



Location: Magadan Region, Russia

Managing director: Mikhail Egorov

Employees: 1,897

Mining: underground

Processing: 1.8 Mtpa flotation (Omsukchan), 425 Ktpa Merrill-Crowe (Lunnoye)

Production start date: 2000

Life of mine: 2023 (Lunnoye), 2023 (Dukat)

[1] Processing plants and the mines feeding them are marked in the same colour. Exploration and development projects are marked in grey.

1st WORLD PRIMARY SILVER MINE[2]	2.3 Mt ORE PROCESSED (+6%)
25.4 Moz 2016 SILVER PRODUCTION	US$6.4 SE oz TOTAL CASH COST (2015: US$6.4 SE OZ)

Despite the mature stage of operations and a moderate scheduled decrease in production on the back of normalisation of average grades after an exceptional 2015, Dukat has demonstrated stable operating and financial results in 2016 and continues to be the major contributor to EBITDA and free cash flow. The hub has produced 25.4 Moz, delivering on our targets in terms of silver production.

CORNERSTONE SILVER ASSET WITH STABLE CASH COSTS

MINING

The annual amount of ore mined at the Dukat hub remained almost flat year-on-year at 2.3 Mt, while underground development decreased 3% year-on-year due to mining works at deep wells and flank areas.

At Dukat, the volume of ore mined remained at a record level, virtually unchanged from the previous year at 1,661 Kt. Underground development grew by 1% to 35.1 km. Equipment maintenance was enhanced by setting up heated underground garages for equipment storage, fueling drilling-and-blasting machines at the face and improving the fuel consumption and emissions from load-haul-dump machines. Blast design was improved with additional assurance control of blasting works.

At Goltsovoye, year-on-year, mining volumes decreased by 9% to 183 Kt and underground development by 19%, mainly due to mining works at deep levels and flank areas. Average silver grade decreased by 24% to 370 g/t in accordance with the mine plan.

At the Lunnoye mine, the amount of ore mined grew by 13% while average grades decreased by 5% for gold and increased by 15% for silver. Underground works were further advanced in ore zone 7. At Arylakh, the total ore mined decreased by 27% year-on-year due to the redistribution of volumes to high-grade ore zone 7 at Lunnoye. Average silver grade decreased by 12%.

PROCESSING AND PRODUCTION

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

The Omsukchan concentrator set a new throughput record of 1,938 Kt, up 7% year-on-year, while maintaining stable recoveries (86.2% and 85.4% for gold and silver, respectively) on the back of a continuous improvement in the ore quality control system, based on geological and process mapping, and against a backdrop of increased variability and lower grade feedstock. Average grades decreased by 12% for gold to 0.6 g/t and by 18% for silver to 372 g/t. The plant continued processing low-grade stockpiles from Dukat and introduced carbonaceous Lunnoye zone 9 ore into the feed. Gold and silver production decreased by 4% and 11%, respectively, to 31.6 Koz of gold and 19.8 Moz of silver.

[2] According to World Silver Survey 2016 by the Silver Institute.

The Lunnoye plant delivered a strong set of results: ore processed grew by 5% year-on-year to 435 Kt, with stable grades slightly improving by 1% for gold and 3% for silver. Average recoveries were strong at 91.9% for gold and 91.6% for silver. Annual gold and silver production increased by 8% and 12%, respectively, on the back of higher-grade free-milling ore from zone 7.

RESOURCES AND EXPLORATION

17 km have been drilled at the near flanks of the Dukat property at the Khrustalny, Mglystiy and Smeliy ore zones. Following on from last year's exploration, additional ore bodies have been traced to the north at Khrustalny. In 2017, we plan to carry out prospecting activities at the deeper levels of Dukat to confirm the presence of a second horizon of mineralisation and other targets around the Dukat hub area.

At the Primorskoye property (250 km from the Omsukchan concentrator), 11 km of exploration drilling was carried out in ore zones 1 and 3, along with detailed metallurgical and geomechanical studies. A bonanza section with anomalous high grade content was identified (17.9 g/t for gold, 4700 g/t for silver), holding more than 60% of all resources of ore zone 1. Mineral resource estimate comprised 311 Koz GE at 19.6 g/t GE. In 2017, we plan to continue drilling in order to expand the resources and produce a JORC-compliant reserve estimate for the property in 2018.

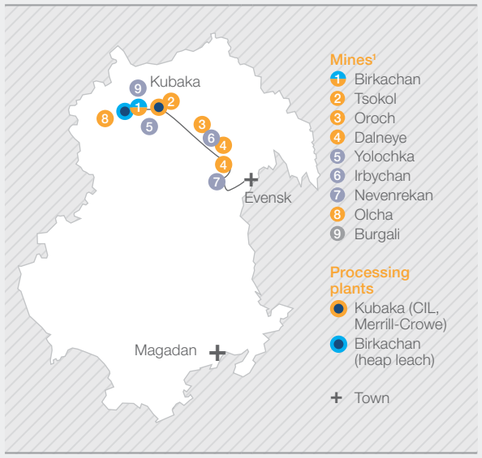
PRIORITIES FOR 2017

At Dukat, we expect a moderate decrease of underground development with increased processing of historic ore stockpiles to match the capacity of the processing plant. Planned grade erosion will continue at the Dukat concentrator as Goltsovoye will start to wind down and more feed will come from Lunnoye. This is expected to translate into lower silver and gold production. In order to control the quality of concentrate produced from Goltsovoye and Dukat ore, we plan to complete the installation of an additional hydroseparator at the Omsukchan concentrator.

In line with the increased processing capacity at Omsukchan plant, we plan to increase underground mining at Arylakh and Lunnoye. At the Lunnoye mine, we will commence underground development at ore zones 5 and 7. We expect to maintain strong gold and silver recoveries and increase throughput at the Lunnoye CIP to a record level of 450 kt, with average grades normalised, resulting in a slight decrease in production.

MULTIPLE FEED, FLEXIBLE PROCESSING AND COST CONTROL

OMOLON



Location: Magadan Region, Russia

Managing director: Vladimir Bloshkin

Employees: 725

Mining: open-pit/underground

Processing: 850 Ktpa CIP/ Merrill-Crowe (Kubaka)

Production start date: 2010

Life of mine: 2024

[1] Processing plants and the mines feeding them are marked in the same colour. Exploration and development projects are marked in grey.

170 Koz GE PRODUCTION (-10%)	US$503 GE oz TOTAL CASH COSTS (-10%)
	56% ADJUSTED EBITDA MARGIN (2015: 50%)

OMOLON CONTINUED

At our Omolon operations, gold equivalent production decreased by 10% year-on-year to 170 Kt, driven by a change in feedstock mix to provide ores with higher gold and lower silver content; consequently resulting in a 41% decline in silver production while gold production remained flat, year-on-year. Adjusted EBITDA increased to US$117 million on the back of a 10% decline in total cash costs.

MINING

In 2016, the total ore mined increased by 12% to 2,233 Kt, driven mainly by increased volumes at Oroch to match the processing capacity of Kubaka plant and open-pit mining commencing at Olcha. Underground development more than doubled to 6.3 km due to an active shift to underground at Birkachan and Tsokol.

At Birkachan, ore mined grew by 23% to 961 Kt. Open-pit activities are now complete, with personnel transferred to Olcha where the open-pit mine exceeded expectations in terms of tonnage and productivity with a total of 232 Kt of ore mined. Underground development at Olcha is currently underway and open-pit mining is expected to wind down in Q2 of 2017.

At Tsokol, underground development continued with 103 Kt of ore mined and markedly positive grade reconciliations in 2016.

At Oroch, open-pit mining comprised 936 Kt, up 134% year-on-year, and is now approaching full depletion. Workers and equipment will be transferred to Sopka, where brownfield exploration identified attractive opportunities to resume open-pit mining.

PROCESSING

Throughput at the Kubaka mill remained stable, with 840 Kt of ore processed during 2016 (up 1% year-on-year). Recoveries for both gold and silver decreased slightly to 92.2% and 85.5% respectively. Average grades processed increased by 5% for gold to 5.9 g/t and decreased by 40% for silver to 90 g/t, due to a change in feedstock mix and a large share of lower silver grade ore from Dalneye, processed at the Merrill-Crowe circuit. As a result, gold production at Kubaka remained stable at 144 Koz, while silver production was down 41% to 2.1 Moz.

There was no ore stacking and processing of accumulated stockpiles at the Birkachan heap leach; however, the process is expected to resume in 2017.

RESOURCES AND EXPLORATION

At Omolon, we continued to work on a number of brownfield targets close to the Kubaka plant in order to extend the life of the mine.

A resource estimate at the Central, Northern and Eastern zones of the Irbychan deposit (veinlet-disseminated mineralisation type) has been completed, with the feasibility study being prepared. We plan to issue an initial reserve estimate in 2017 with the goal to start open-pit mining at the property in 2H 2019.

At Yolochka (veined and veinlet-disseminated ore bodies of low-sulphide gold-silver formation), as a result of infill drilling (6 km), new rich ore zones were discovered on the western flank. Core drilling will continue in 2017 with an aim to expand the resource base and prepare for the reserve and resource estimate in 2017.

At Nevenrekan, 8 km of drilling was completed at ore zone 2, as well as zones 1 and 5. In ore zone 1, high-grade ore sections were discovered, which, with further exploration, are expected to increase the resource base of the property. Drilling will continue in 2017 with a goal to upgrade resources into higher categories and prepare for the reserve estimate in 2018.

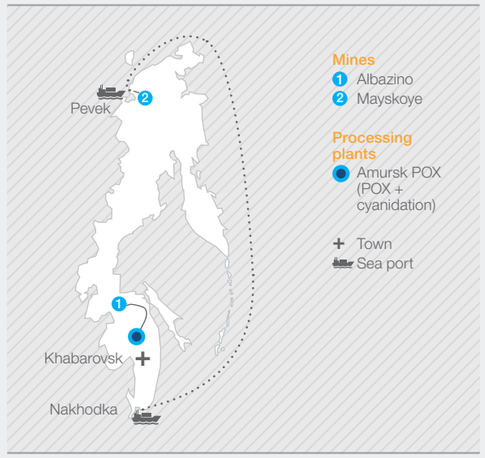
PRIORITIES FOR 2017

At Birkachan, open-pit mining in 2017 is not planned because there are sufficient historic ore stockpiles, while underground mining will be ramped up at both Birkachan and Tsokol. The completion of open-pit ore mining at Olcha is scheduled in Q2 2017. The total amount of ore trucked by winter road to the Kubaka mill is expected to increase to 540 Kt and support the overall grade level in ore processed.

In 2017, there should be a noticeable increase in production at Omolon on the back of higher grades from underground mining and from the Olcha open pit. The resumption of the Birkachan heap leach project is also planned with significant production to start in 2018.

Optimisation of the operating parameters of the electrolytic baths is planned for 2017 to enhance throughput at the Kubaka plant.

AMURSK POX



Location: Khabarovsk Territory, Russia

Processing: 500 tpd POX + cyanidation

Managing director: Vadim Kipot

Production start date: 2011

Employees: 370

273 Koz TOTAL GOLD PRODUCTION (+5%)	166 Kt CONCENTRATE PROCESSED (0%)
94.5% POX RECOVERY (+1%)	

The Amursk POX expansion project commenced in 2016 will strengthen Polymetal's commercial position on the concentrates market vis-à-vis offtakers and provide more development options for refractory gold projects in the Company's portfolio, including Kyzyl.

2016 HIGHLIGHTS

In 2016, the Amursk POX plant worked steadily at the design parameters. The concentrate processed remained stable at 166 Kt, while total gold production amounted to 273 Koz of gold equivalent (up 5% year-on-year) thanks to the optimal processing of feedstock mix.

Concentrate processed from Albazino grew to 149 Kt (up 4% year-on-year), while the average gold grade was almost unchanged year-on-year at 52.1 g/t. Concentrate processed from Mayskoye decreased by 25% to 17 Kt, due to the processing of third-party concentrate to supplement the internal feed. The average grade was at 55.2 g/t (down by 5% year-on-year). Recoveries from both Albazino and Mayskoye concentrate exceeded the design levels at 94.5% and 94.4% respectively.

AMURSK POX STAGE 3 EXPANSION

Approval and commencement of Stage 3 expansion at the Amursk POX plant was important milestone in 2016. The increase in POX capacity will enable Polymetal to retain approximately 50% of the Kyzyl concentrate for in-house treatment, as opposed to a third-party offtake, and is expected to improve effective gold recovery from concentrate, as well as bring down processing and transportation costs. The key additions to the equipment will comprise a second oxygen plant, an autoclave discharge thickener, separate filters for thickener underflow and upgrades for heat recovery and water treatment. The POX de-bottlenecking project is progressing on schedule with all major equipment contracted and required earthworks underway. Polymetal plans to ramp up the de-bottlenecked POX plant to its full expanded capacity in the second half of 2018, in time to take feed from the Kyzyl concentrator.

PRIORITIES FOR 2017

In 2017, all concentrate from Albazino will be processed at the POX. The volume of Mayskoye concentrate processed through the POX will decrease, as the POX facility is expected to process more third-party feed. As part of the POX Stage 3 project, we also plan to transport activated carbon from Mayskoye for elution and gold smelting. We are targeting increased gold recoveries at 96%.

STRATEGIC OPPORTUNITIES IN POX CAPACITY EXPANSION

ALBAZINO

Location: Khabarovsk Territory, Russia

Managing director: Alexei Sharabarin

Employees: 988

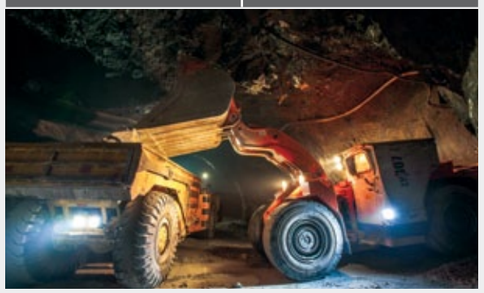
Mining: open-pit/underground

Processing: 1.6 Mtpa flotation

Production start date: 2009

Life of mine: 2031

267 Kt ORE MINED FROM UNDERGROUND (2015: 49 KT)	149 Kt CONCENTRATE PROCESSED AT THE AMURSK POX (+4%)
244 Koz TOTAL GOLD PRODUCTION (+11%)	US$529 GE oz TOTAL CASH COSTS (+12%)



In 2016, Albazino produced 244 Koz of gold, an 11% increase from the previous year, driven by increased throughput at the Amursk POX plant and improved recoveries. The gold in concentrate produced remained flat year-on-year at 234 Koz.

UNDERGROUND DEVELOPMENT AND SOLID PERFORMANCE

MINING

The amount of ore mined increased 4% year-on-year to 1,599 Kt, which partially compensated for a reduction in average grade mined, down 11% to 4.7 g/t and closer to average reserve grade. In 2016, underground mine productivity and dilution control continued to improve from 2015 levels with a substantial increase in underground ore mined at 267 Kt. As a result, the total ore mined increased by 18% to 1,866 Kt. Optimisation of blast design has been implemented, enabling an efficiency increase and improving blasting results.

PROCESSING

Ore processed grew by 3% year-on-year to 1,654 Kt, while average grades processed declined by 3% to 5.0 g/t in line with the mine plan grade profile. Gold recoveries at the Albazino concentrator remained stable at 87% while concentrate yield was 8%.

136 Kt of concentrate with an average grade of 53.3 g/t were produced, remaining flat year-on-year. The concentrate was fully processed at the Amursk POX plant. The total gold production for 2016 was 244 Koz, an 11% increase from the previous year, driven by increased throughput and improved recoveries at the Amursk POX plant.

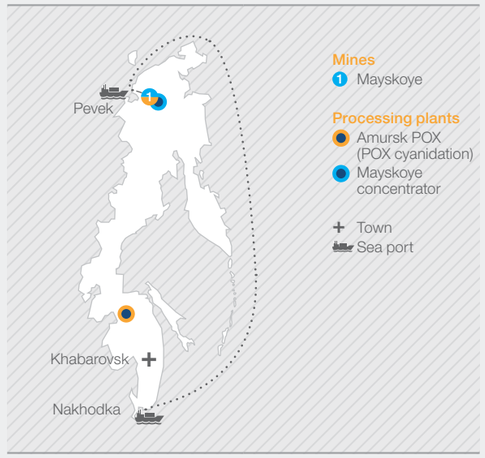
EXPLORATION AND DEVELOPMENT

We continued our brownfield exploration programme at Albazino in 2016. Exploration drilling at the Farida and Ekaterina 1 and 2 ore zones was mainly focused on the deposit to prepare ore bodies for open-pit mining. The Company continues to work on outlining ore bodies and on upgrading resource categories. In 2017, we will continue exploration works within the license area in order to establish new prospective ore bodies.

PRIORITIES FOR 2017

We expect a stable production profile at Albazino in 2017 with an increased contribution from the underground mine. In 2017, as previously, all concentrate from Albazino will be processed at the Amursk POX plant. We plan to enhance the design of the SAG mill liners, enabling increased hourly average throughput.

MAYSKOYE



Location: Chukotka, Russia

Managing director: Evgeniy Tsybin

Employees: 977

Mining: open-pit/underground

Processing: 850 Ktpa flotation, offtake/Amursk POX

Production start date: 2011

Life of mine: 2034 (based on Reserves & Resources)

6.9 g/t AVERAGE RESERVE GRADE	761 Kt ORE PROCESSED (+11%)
94.4% POX RECOVERY (2015: 94.0%)	116 Koz TOTAL GOLD PRODUCTION (-16%)

NEW MINING METHODS FOR SAFER PRODUCTION

In 2016, Mayskoye produced 116 Koz of gold, a slight decrease compared with 138 Koz in 2015. The production was split between the in-house POX processing (29 Koz) and concentrate offtake to China, which amounted to 87 Koz. The focus remains on achieving rapid backfill to ensure lower dilution from secondary stopes and enable reduced primary stope length. We have also commenced development of the open-pit project, which will include bringing oxidised ore from the crown pillar of the deposit into production starting from 2017.

MINING

The new mining method (sublevel open stoping with backfill) continues to make good progress. The amount of ore mined grew 16% to 730 Kt from the previous year and this drove higher processing volumes.

The average grade mined was 5.3 g/t (compared with 6.4 g/t in 2015) due to the instability of hanging walls and higher levels of dilution. In 2016, we put in place measures to achieve rapid backfill and ensure lower dilution from secondary stopes: developed the optimal stopes area and consolidating stowing mix; put in place control over the stability of drill drift; enhanced efficiency of drilling and blasting parameters.

The Company has initiated a project to extract crown pillars at zones 1 and 2 by open-pit mining and drill-and-blasting activities started following the completion of the overburden removal. The open pit will mine oxide and transitional ores that will be processed through the retrofitted processing plant. The upgrades include cyanide leaching tanks and tailings detox.

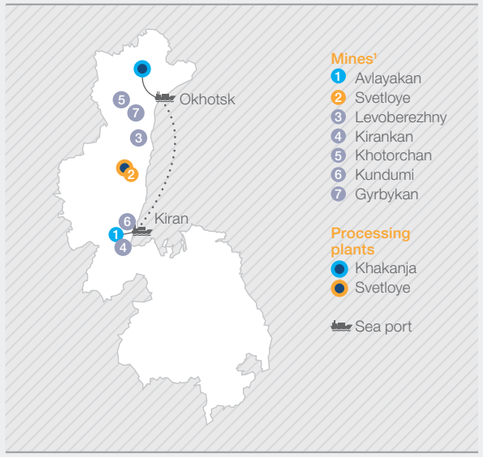
PROCESSING

In 2016, ore processed grew by 11% year-on-year to 761 Kt with an average gold grade of 5.3 g/t (2015: 6.7 g/t). The processing plant achieved higher recoveries (87.7% compared with 85.9% in 2015) on the back of the selective processing of variable-quality feedstocks and re-agent selection. The gold in concentrate produced decreased by 10% year-on-year and comprised 114 Koz, reflecting the lower quality of ore mined. Total gold production at Mayskoye decreased by 16% to 116 Koz, compared with the previous year, driven by decline of the average grade. Majority of the volume of concentrate was sold to China. In 2016, a concentrate decarbonisation section in the flowsheet was started and the trial lot of 412 tonnes of decarbonised concentrate was processed at the Amursk POX plant.

PRIORITIES FOR 2017

First ore from the open-pit mine is expected in Q2 2017 and the leaching circuit should start processing ore in Q3 2017. The crown pillar project is planned to drive materially higher production at Mayskoye in the next year on the back of higher grades in the open-pit mine. Activated carbon will be transported to Amursk for elution and gold smelting. All refractory concentrate produced at Mayskoye will be sold to offtakers in China.

OKHOTSK



Location: Khabarovsk Territory, Russia

Managing director: Konstantin Lemanov

Employees: 1,182 (including Svetloye)

Mining: open-pit/underground

Processing: 600 Ktpa CIL and Merrill Crowe circuits, 1,000 Ktpa HL circuit at Svetloye

Production start date: 2003

Life of mine: 2024

[1] Processing plants and the mines feeding them are marked in the same colour. Exploration and development projects are marked in grey.

115 Koz GOLD PRODUCTION (+15%)	1.3 Moz SILVER PRODUCTION (+13%)
+81% ADJUSTED EBITDA GROWTH	1,055 Kt TOTAL ORE PROCESSED (INCLUDING HEAP LEACH) (+67%)

The commissioning of Svetloye in August 2016, one year ahead of the original schedule, was an important milestone in our medium-term growth plans. Svetloye is currently running at 100% of design capacity and is set to become the key driver for sustaining production levels at the Okhotsk hub in the long term.

FURTHER EXTENDING LIFE OF MINE

MINING

The annual amount of ore mined at the Okhotsk hub increased almost four-fold in 2016 to 1,476 Kt, thanks to the successful commencement of Svetloye operations.

Avlayakan underground mine operated at design capacity and produced 141 Kt of ore in 2016, up 23% compared with 2015, with an average grade in ore mined of 15.9 g/t gold and 141 g/t silver. At Svetloye, which became the major source of ore for processing in 2016, 1,336 Kt of ore were mined with gold grade in ore stacked of 3.6 g/t. Svetloye is a seasonal operation, so was shut down for the winter and will resume operations in Q2 2017.

PROCESSING AND PRODUCTION

At Khakanja CIP plant, processing volumes remained flat at 627 Kt, with feed mainly drawn from Khakanja and Ozerny low-grade ore stockpiles on-site as well as from the newly mined Avlayakan ore. At Khakanja, gold equivalent production during 2016 decreased by 6% in accordance with expectations, as the historic resources are being depleted. The amount of ore stacked at Svetloye was 428 Kt and production at the heap leach amounted to 23 Koz. As a result, total annual gold and silver production grew by 15% and 13% respectively over 2015, due to additional production from Svetloye.

RESERVES, RESOURCES AND EXPLORATION

Polymetal will continue exploration at areas adjacent to the Khakanja plant with the goal to expand its mine life. Further exploration potential is associated with Khotorchan and Gyrbykan (180 km from the Khakanja mill), where new ore intercepts have been identified. The anticipated mineral potential for the properties is estimated at 100-200 Koz of gold at average grades of 10-15 g/t. In 2017, prospecting and evaluation activities are set to continue.

At Maimakan-Kundumi (a new property approx. 30 km from Avlayakan), as a result of 2.5 km of prospecting drilling, 3 ore bodies containing high-grade gold and silver mineralisation were identified. An initial mineral resource estimate for the property has been prepared and comprises 106 Koz of GE at an average grade of 13.7 g/t GE with further mineral potential estimated at 100-500 Koz of gold at an average grade of 6-15 g/t. In 2017, prospecting and evaluation activities will continue with 13 km of planned drilling.

At Svetloye, advanced exploration activities yielded an increase in reserves for the second consecutive year, adding 157 Koz of GE through positive mine-to-model reconciliation and additional step-out drilling. Evaluation activities at Levoberezhny (35 km from Svetloye) yielded positive results, confirming its future prospects. An initial mineral resource estimate at the property comprises 378 Koz of GE at 4.2 g/t GE. Further metallurgical testing and exploration activities are set to continue in 2017 with a goal to gain approval on the feasibility study and prepare an ore reserve estimate.

PRIORITIES FOR 2017

In 2017, production is expected to be higher on the back of the first full year of leaching at Svetloye, where the processing volume at the leaching circuit is expected to achieve design capacity of 1,000 Ktpa. Avlayakan underground mine is expected to gradually wind down by Q2 2018, followed by lower quality of ore mined and processing of historic low-grade stockpiles.

Production at the Khakanja plant in the longer term depends on a positive feasibility assessment and development of new ore sources. We plan to further develop Kundumi, Kirankan (both in the vicinity of Avlayakan), and Khotorchan. This should add at least two more years to Khakanja's life-of-mine.

At Svetloye, we plan construction of a precipitate drying section at Merrill-Crowe. We will also focus our efforts on ensuring safe operation and optimisation of production activity: implementation of integrated security systems, installing a stationary breaker on the receiving bunker at the ore preparation complex.

VORO

Location: Sverdlovsk Region, Russia

Managing director: Boris Balykov

Employees: 874

Mining: open-pit

Processing: 950 Ktpa CIP circuit, 1,000 Ktpa HL with CIC

Production start date: 2000 (Voro heap leach), 2005 (Voro CIP)

Life of mine: 2027

127 Koz GOLD PRODUCTION (-9%)	US$322 GE oz TOTAL CASH COST (-4%)
1,001 Kt ORE PROCESSED AT CIP (+8%)	72% ADJUSTED EBITDA MARGIN (2015: 71%)

EXCELLENT COST PROFILE AND SUSTAINING PERFORMANCE

VORO CONTINUED

Despite the mature stage of operations and a moderate scheduled decrease in production (mainly due to the depletion of heap leach ore), Voro demonstrated an excellent operating and financial performance, making a significant contribution to free cash flow.

MINING

Mining is currently focused on primary ore and is carried out in the central area of the Northern Voro pit, as well as at the western and northern parts of the Southern Voro pit. The heap leaching operation is nearing completion, which will result in a slight decline in gold production from the next year.

In 2016, total volumes of ore mined at Voro decreased by 25% to 1.31 Mt, due to a 33% and 23% decrease in oxidised and primary ore, respectively, as the mine approaches its maturity stage. However average grades were up 12% and 22% year-on-year, respectively.

Significant efforts were made to optimise the mining process: reducing the running time of dump trucks and pit machinery, modernisation of the pit-sump system.

PROCESSING AND PRODUCTION

In 2016, the CIP plant delivered record throughput of 1,001 Kt of ore processed, an 8% increase compared with 2015, and produced 110 Koz of gold, almost flat year-on-year. The average grades and gold recoveries were stable.

Total gold production at Voro decreased by 9% year-on-year to 127 Koz. The decline was driven by the planned downsizing of the heap leach operation, causing a 36% decrease in gold production at the circuit. A technical solution was implemented to control coal fines and accumulation for further realisation (previously stored in coal tailings).

RESOURCES AND EXPLORATION

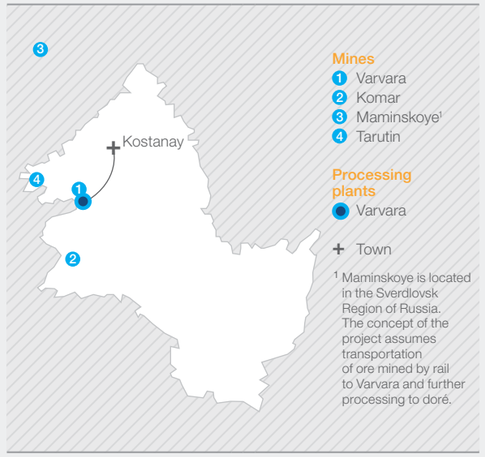
Our near-mine exploration programme continues and is focused on the Alapaevsk and North-Ural projects. 6 km of drilling has been completed at Tamunier, identifying 38 ore intercepts that meet the project targets. The traced mineralisation along strike is between 120 m to 800 m with the thickness varying between 0.5 m – 9.6 m, explored at a depth of 30-320 m. The average grade traced through the ore bodies varies from 1.02-23.0 g/t. In 2017, drilling aimed at outlining ore bodies will continue. A reserve estimate is expected in 2017.

We also performed 4 km of core drilling at the newly acquired Saum deposit VMS-style mineralisation (230 km from Voro plant) and explored the gold-copper mineralisation zone. We plan to perform metallurgical studies and near-deposit geophysics in 2017.

PRIORITIES FOR 2017

In 2017, production at the heap leach facility is expected to decline on the back of weaker grades as well as lower throughput. At the CIP plant, stable processing volumes combined with a slight decrease in grade is expected.

VARVARA



Location: North-western Kazakhstan

Managing director: Konstantin Lemanov

Employees: 1,129 (including Komar)

Mining: open-pit

Processing: leaching for gold ore (3.0 Mtpa)/flotation for copper ore (1.0 Mtpa)

Production start date: 2007

Life of mine: 2029

US$780 GE oz TOTAL CASH COST (-5%)	3,119 Kt TOTAL ORE PROCESSED (-10%)
85 Koz GE PRODUCTION (+17%)	

STRENGTHENING PRODUCTION PROFILE

The acquisition of the Komar deposit, a naturally close fit for Varvara hub, is expected to strengthen the production profile, lower costs and provide substantial incremental cash flows at Varvara in the near term.

MINING

In 2016, mining volumes decreased by 21% to 3,203 Kt, in accordance with the mine plan, while we experienced a slight increase in grades. Immediately after we completed the acquisition of Komar, we were able to restart open-pit mining with some of the mining fleet moved from Varvara. After catching up with the historic stripping backlog, Komar is now operating at 100% of its planned capacity. This contributed 383 Kt of ore mined and railed to the Varvara leaching circuit during five months in 2016.

At Varvara, we have performed pilot optimisation of blasting parameters and implemented an optimal drilling grid of blast holes.

PROCESSING AND PRODUCTION

In 2016, Varvara delivered 80 Koz of gold, an 18% increase year-on-year, driven by improved grades and recovery levels at the leaching circuit on the back of processing ore railed from Komar. Copper production remained almost flat year-on-year at 839 tonnes.

At the leaching circuit, 2,748 Kt was processed in 2016 (down 13% year-on-year) while the flotation circuit processed 372 Kt (up 18% year-on-year as copper production was only resumed in Q2 2015).

In 2016, we completed the reconstruction of a railway station at Varvara and installation of a stacker to optimise ore delivery from the station to the concentrator.

RESOURCES AND EXPLORATION

Exploration activities at Tarutin (150 km from Varvara plant) have been finalised. The feasibility study for the property has been completed and the deposit has now a clear path to production as another component of the hub strategy at Varvara.

Additional exploration drilling totalling 7 km was conducted at the North-Eastern and Northern areas of the Dolinnoye deposit within the optimised pit outline that was established based on exploration results from 2015. An initial reserve and resource estimate was prepared by CSA Global based on Polymetal's share in the deposit, amounting to 101 Koz of GE at 2.4 g/t GE in reserves and 247 Koz of GE at of 2.5 g/t GE in resources.

At the newly acquired Komar (187 km from Varvara plant), detailed in-fill and step-out exploration drilling (45 km) at the flanks of the deposit have been finished, leading to initial reserve and resource estimate in 2016. As at 1 January 2017 ore reserves and mineral resources comprise 873 Koz of gold at 1.8 g/t and 517 Koz of gold at 2.2 g/t, respectively. Additional prospecting activities aimed at the discovery of new ore bodies and the expansion of the resource base around the property are set to continue in 2017.

PRIORITIES FOR 2017

The Komar open-pit mine is expected to deliver up to 1.2 Mt of higher-grade ore to the Varvara plant in 2017. This should mean a significant increase in production at Varvara in 2017 (by approximately 70 Koz) at lower cash costs. Grade levels and ore tonnage are expected to improve once mining catches up with the historic stripping backlog.

Part of the mining fleet from Varvara will be transferred to Komar. We also plan to perform project design amendments to the tailing operation.

KYZYL

Location: Oskemen region, Kazakhstan

Managing director: Yuri Ovchinnikov

Employees: 511

Processing: Kyzyl flotation plant (1.8 Mtpa) – under construction

Production start date: 2018

Life of mine: 2039

7.3 Moz GOLD RESERVES	7.7 g/t AVERAGE RESERVE GRADE
22 years ESTIMATED LIFE OF MINE (BAKYRCHIK)	33% IRR (UPGRADED FROM FEASIBILITY STUDY WITH AMURSK POX EXPANSION)

Kyzyl remains one of the best development-stage gold projects in the world, and is now the main source of medium-term growth for Polymetal. With its large high-grade reserves, long mine life and low-capital intensity, it is set to create significant shareholder returns – even at current commodity price levels. Kyzyl remains on track to produce its first concentrate in Q3 2018.

ON TRACK TO LAUNCH IN 2018

MINING

At Kyzyl, open-pit mining was started in May 2016 and the removal of historic waste stockpiles is now complete. Mining activities are now entirely focused on drill-and-blast pre-stripping. Stripping volumes are expected to nearly double in 2017.

DEVELOPMENT

After formal approval of the construction decision, in 2016 Polymetal made considerable progress on project development, which is in line with the project schedule. We have fully completed the permitting stage of the project. Engineering and design are expected to be finalised in Q1 2017.

The construction of the processing plant has been completed, with the bridge cranes in place. Pouring foundations for processing equipment has commenced. First deliveries of processing equipment (thickener, dryers, screens) are now on site. External infrastructure (road, electricity, water) is mostly in place with the focus now shifting towards site infrastructure.

Commencement of the Stage 3 expansion at the Amursk POX plant will enable Polymetal to retain approximately 50% of Kyzyl concentrate for in-house treatment at the POX facility as opposed to a third-party offtake, bringing down processing and transportation costs. POX processing is expected to improve effective gold recovery from concentrate by 3-4 percentage points as well as to bring down processing and transportation costs by US$150-250 per tonne of concentrate.

EXPLORATION

At Bakyrchik, we performed 6 km of core drilling at ore zones Promezhutochny and Gluboky Log and traced 57 ore intercepts of 2.4-24.2 g/t gold grades, with high-quality ore bodies at 24 drill holes. In 2017, the works will continue (8 km drilling planned).

At Bolshevik, a satellite deposit to the main Bakyrchik deposit at the Kyzyl project, we completed a drilling-and-sampling assessment and began preparing the feasibility study. Bolshevik is set to become a significant contributor of ore feedstock to Kyzyl, once the main Bakyrchik deposit shifts to underground mining, after its first nine years of operation.

PRIORITIES FOR 2017

In 2017, we plan to advance full-scale processing plant construction and commence major equipment installation: complete and commission accommodation camps, boiler stations, utility facilities (sewage treatment plants and pumping stations), external power supply facilities. In Q4 2017 we plan to complete the tailings construction and start ore mining activities.

We also plan to complete the feasibility study for the Bolshevik deposit with an initial resource estimate in 2017.

KAPAN

Location: Kapan province, Armenia

Managing director: Dmitry Ushkov

Employees: 1,053

Mining: underground

Processing: 750 Ktpa flotation concentration followed by offtake

3.6 GE g/t MINERAL RESOURCES AVERAGE GRADE	293 Kt ORE PROCESSED
26 Koz GE PRODUCTION	2,510 Koz GE RESOURCES

We believe that opportunistic acquisitions such as Kapan, in a jurisdiction that we know well, is the right way to create shareholder value at the current point in the cycle.

With a low acquisition price and significant potential for operational turnaround and implementation of a hub-based strategy, Kapan represents an excellent entry point into a geologically attractive and politically stable region. Integration activities and modifications to Kapan operating practices are ongoing, and we are implementing best practices from other underground operations in our portfolio.

MINING

At Kapan underground mine, the amount of ore mined was 287 Kt following the acquisition on 28 April 2016. Average gold grade was 2.0 g/t, silver was 41 g/t. In 2H 2016, daily mining capacity was increased from initial 900 tpd to 1,300 tpd.

PROCESSING AND PRODUCTION

Since the acquisition date, ore processed was 293 Kt, and total production at Kapan amounted to 26 Koz of gold equivalent. Recoveries were 82.4% for gold and 81.5% for silver.

Improvement measures are proceeding as planned and on schedule. They include integration activities and modifications to operating practices, with changes to the motivation system and productivity gap analysis. Polymetal is using teams comprised of local and seconded employees in order to advance best practices at Kapan from other underground operations in the Company's portfolio.

EXPLORATION

At Kapan, a revised JORC-compliant resource estimate was prepared by Polymetal and as at 1 January 2017 mineral resources comprise 1,928 Koz of GE (excludes zinc) at an average GE grade of 4.0 g/t.

An initial resource estimate for Lichkvaz (70 km from Kapan plant) prepared by CSA Global Pty Ltd. comprises 582 Koz of GE at 4.2 g/t GE. 24 km of further in-fill and step-out drilling aimed at identifying and delineating ore bodies has been completed in 2016 with a goal to establish an additional resources upgrade of existing resources into a higher category.

Polymetal plans to conduct additional drilling in 2017 to produce a JORC-compliant ore reserve estimate and combined life-of-mine plan for Lichkvaz and Kapan in Q3 2017.

PRIORITIES FOR 2017

In 2017, production should see a significant increase on the back of higher throughput and a full-year contribution from the asset. We plan to achieve operating synergies with our Lichkvaz deposit through the processing-hub approach, utilising excess capacity at the Kapan concentrator.

The other next step is de-bottlenecking the underground mine and improving plant utilisation to 650 Ktpa by 2H 2017, combined with streamlining the cost structure and leveraging Polymetal's experience in mechanised narrow-vein.

We plan to expand the ore stockpile and introduce a dispatcher system at the underground mine. Load-haul-dump equipment will be delivered to the Kapan mine to support the significant increase of exploration and development drilling volumes in order to improve the geological interpretation of the site and planning accuracy.

OUR FIRST ARMENIAN OPERATION

EXPLORATION

Sustained greenfield and brownfield exploration programmes are key to our long-term growth, alongside the cost-effective drive to increase our resource base through the development of next-generation assets.

To optimise our portfolio of exploration projects, we focus on areas adjacent to our processing or potential hubs (brownfield), and on assets with the potential to become sizeable, standalone operations (greenfield). The advancement of all exploration projects is subject to rigorous review through pre-determined project stages, which are linked to our estimate of the resource potential and its economic prospects.

Drilling volumes increased by 40% year-on-year to 324 km, mainly as a result of additional drilling volumes at the new deposits, most notably Komar, Nezhda and Lichkvaz. We obtained nine new licences during 2016, bringing the total number to 86, of which 47 currently involve active exploration activities. Our key targets for 2016 were:

- exploration and initial reserve and resource estimate at key greenfield gold assets: Lichkvaz (Armenia) and Dolinnoye (Kazakhstan);
- exploration campaign at Nezhda to prepare the deposit for a Stage 2 entry decision; and
- continued exploration for platinum group metals (PGM) deposits in the Karelia and Ekaterinburg regions in order to establish new hard-rock PGM resources sufficient for a standalone mining operation.

In 2017, we plan to advance our new projects and expand our exploration activities into new prospective areas, finalise the initial open-pittable reserve and resource estimate for Nezhda and the JORC-compliant reserve estimate for a combined life-of-mine plan for Lichkvaz and Kapan.

DRILLING VOLUME

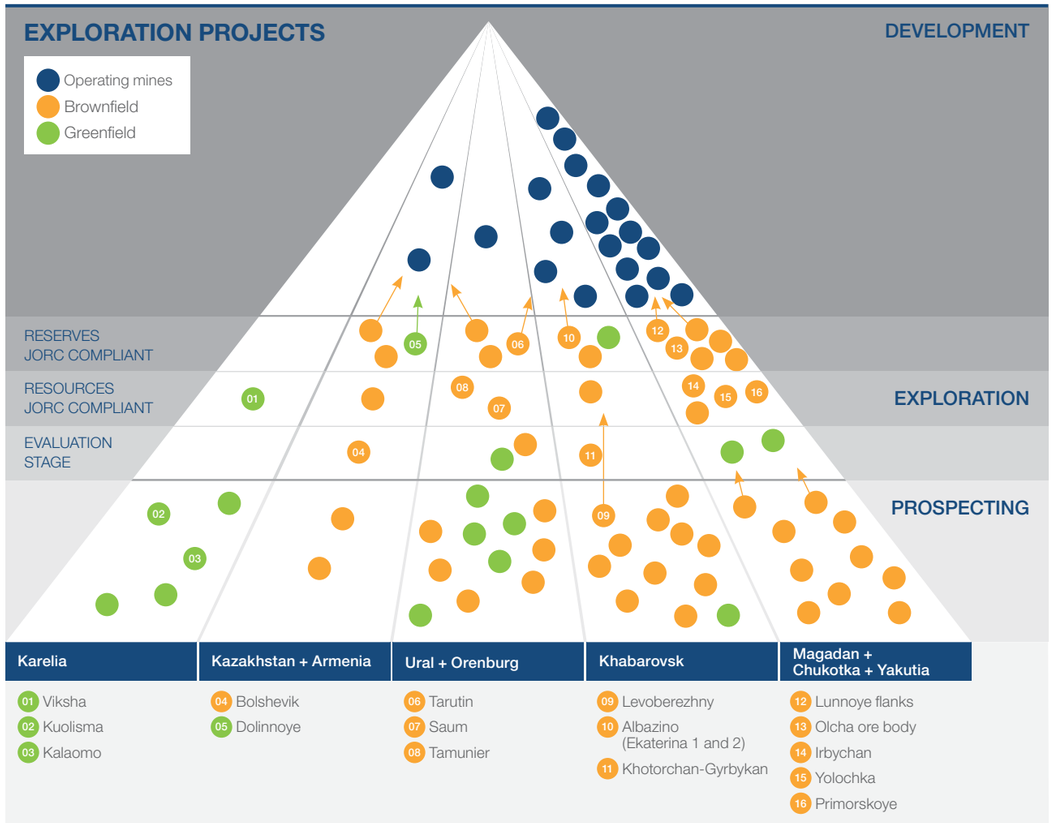
324 km

(+40%)

INITIAL RESOURCE ESTIMATES

1.4 GE Moz

9.5 PE Moz



EXPLORATION AREAS AND VOLUMES (MINE SITE EXPLORATION EXCLUDED)[1]

	Drilling, km	
	2016	2015
BROWNFIELD		
Voro	**13.7**	**17.5**
– North Kaluga	–	5.2
– Voro flanks	1.9	3.1
– Tamunier	6.2	6.9
– Other	5.6	2.3
Varvara	**75.8**	**62.1**
– Varvara	23.6	32.3
– Tarutin	0.9	5.5
– Dolinnoye	6.7	24.3
– Komar	44.6	–
Dukat hub	**51.3**	**38.2**
– Dukat flanks	17.2	19.6
– Lunnoye flanks	13.8	–
– Primorskoye	11.0	5.0
– Perevalnoye	–	10.0
– Terem	4.7	1.5
– Other	4.5	2.1
Albazino	**27.9**	**16.0**
Okhotsk hub	**28.2**	**11.9**
– Khotorchan/Gyrbykan	7.0	2.8
– Svetloye	0.6	3.6
– Kirankan	1.6	2.3
– Maimakan-Kundumi	2.5	–
– Levoberezhny	8.3	0.2
– Other	8.2	3.0
Omolon hub	**32.8**	**16.3**
– Olcha	–	0.7
– Oroch	1.7	–
– Burgali	–	1.6
– Yolochka	5.9	4.7
– Irbychan	11.6	5.7
– Nevenrekan	8.4	–
– Other	5.1	3.6
Kyzyl project	**10.5**	**45.6**
– Bakyrchik	5.7	36.1
– Bolshevik	4.9	9.5
Subtotal	**240.1**	**207.6**

	Drilling, km	
	2016	2015
GREENFIELD		
Urals	**6.2**	**8.3**
– Svetlobor (PGM)	0.1	2.4
– Urals regional	6.1	5.9
North-West	**12.8**	**–**
– Karelian PGM (inc. Viksha)	10.0	–
– Other	2.9	–
Nezhda	**39.4**	**0.7**
– Nezhda	39.4	0.7
Armenia	**25.2**	**15.8**
– Lichkvaz	24.0	15.8
– Other	1.2	–
Subtotal	**83.6**	**24.1**
Total	**323.7**	**231.7**

[1] Discrepancies in calculations are due to rounding.

KEY GREENFIELD PROJECTS

NEZHDA (JV WITH POLYUS GOLD)

Nezhda is the fourth largest gold deposit in Russia by GKZ (statutory) reserves and has potential for sizeable open-pittable reserves followed by underground operations. During the year, Polymetal performed an extensive exploration campaign at Nezhda and is now much more confident about proceeding with Stage 2 of the development, which will lead to commercial production within four years.

Diamond drilling totalling 39 km was carried out at ore Zone 1 of the Nezhda property in 2016. 141 ore intercepts have been traced in the southeast part of ore Zone 1 with an average thickness of 5.3 m, and average grades from 2.3 g/t to 74.5 g/t for gold and 1.7 g/t to 54.6 g/t for silver. At the northwestern part of ore zone 1, 121 ore intercepts have been identified with an average thickness of 20.9 m, and grades from 1.1 g/t to 18.7 g/t for gold and 1.4 to 49.6 g/t for silver. Metallurgical testing was performed, generating positive results, both in terms of low concentrate yield and attractive recovery levels into flotation and gravitation concentrates. In 2017, further exploration of ore Zone 1 and adjacent areas is planned to expand open-pittable resources. We also plan to perform geomechanical and mining method studies.

KARELIAN PGM

The exploration licence for the Viksha project has been successfully converted into a mining licence, effective from 18 July 2016. An initial mineral resource estimate for the PGM Viksha project in Karelia comprised 9.5 Moz of PE, making Viksha one of the largest open-pittable PGM resources in the world. The depth of the open-pit is 150 m below surface with an average thickness of 7 m. In 2017, we will proceed with further exploration programme. A feasibility study for an ore reserve estimate is planned for Q3 2019.

Prospecting drilling activities at the Kuolisma property, a new ore licence area, totalled 9 km, as a result of which platinum and palladium mineralisation zones were identified.

Viksha

Nezhda

Exploration activities

SUSTAINABILITY

OPERATING SUSTAINABLY HAS BECOME PART OF POLYMETAL'S DNA BUT, NEVERTHELESS, IT IS HEARTENING TO GAIN EXTERNAL RECOGNITION. WE HAVE ONCE AGAIN BEEN LISTED ON BOTH FTSE4GOOD AND EURONEXT VIGEO 70 INDICES AND, FOR THE FIRST TIME, WE HAVE BEEN INCLUDED IN THE STOXX GLOBAL ESG LEADERS INDEX.

The establishment of the Safety and Sustainability Committee in late 2015 was an important validation of Polymetal's commitment to the people we employ, the communities we work with and the environment in which we operate. As a thriving business, we recognise that sustainability needs to be at the heart of our investment policies and are mindful of future outcomes for all our stakeholders.

The health and safety of our employees and partners is paramount and has been a substantial focus for the Committee since its inception. We have begun an ongoing review of the risk and H&S procedures at all our operations. While we have introduced major changes to the risk management systems and seen an improvement in the underground safety record, sadly there were four fatalities at our sites during 2016. Management at all levels has been tasked with further reinforcing the safety culture in order to radically improve our record. We continue to monitor this very closely and zero fatalities is our absolute aim.

Elsewhere, I am pleased to report that we have made good progress. During the year both our Occupational Health and Safety Management System (OHSMS) and our Environmental Management System (EMS) received re-certification of our compliance with international standards. We have begun external audits of our tailing dams to ensure meticulous management of toxic waste and help us maintain our long-standing track record of no environmental incidents. We also became signatories to the International Cyanide Management Code.

Protecting local habitats that have been with us for hundreds of years is a priority as we grow the business. We carry out environmental and social impact assessments and implement best practice in the design and construction of new mines, such as our flagship project Kyzyl. The same is also true of our respect for the resident communities where we operate. We are already engaging in dialogue with local groups in Kapan, our new project in Armenia, to build trust, co-operation and an understanding of the needs of the community.

Operating sustainably has become part of Polymetal's DNA but, nevertheless, it is heartening to gain external recognition for the activities that we have undertaken in support of this. We have once again been listed on both FTSE4Good and Euronext Vigeo 70 indices and, for the first time, we have also been included in the STOXX Global ESG Leaders Index.

The Safety and Sustainability Committee, along with the whole Board, is working hard to continuously improve Polymetal's environmental, social and governance performance. Together with the participation of all our stakeholders – investors, employees, communities and business partners – we can create value responsibly.

Leonard Homeniuk
Chair, Safety and Sustainability Committee

SEE OUR SUSTAINABILITY REPORT 2016

www.polymetalinternational.com/sustainable-development

This section of our Annual Report presents an overview of Polymetal's sustainability approach and performance in 2016. We have also published a full Sustainability Report 2016, which provides more detailed coverage.

This and copies of our previous reports are available on our website, along with regular updates about our sustainability activities during the year.

2016 SUSTAINABILITY HIGHLIGHTS

OUR APPROACH

We are committed to delivering sustainable value for all our stakeholders – our people, investors and the local communities where we operate. Our approach to sustainability is based on regular consultation with stakeholders, identifying material issues, rigorous risk management, and complying with international standards and best practice. Our sustainability programme prioritises protecting the environment, valuing our employees, ensuring their health and safety, supporting local communities and creating economic value.

Our sustainability strategy is designed to meet the principles of the UN Global Compact, a voluntary international standard which Polymetal first signed up to back in 2009. We comply with the Ten Principles relating to human rights, labour, environment and anti-corruption.

Our corporate values of dialogue, compliance, ethical conduct, fairness, stewardship and effectiveness help to inform our sustainability policies. These policies are agreed by central management and implemented Group-wide. And through regular monitoring and auditing, we benchmark our performance against the most up-to-date regulatory requirements.

DELIVERING ECONOMIC SUSTAINABILITY

A strong financial performance also helps improve local economies and livelihoods in the communities where we operate. As well as delivering value to our stakeholders, we have a positive impact on the economic development of these regions. We help to improve lives through our investment in local communities, facilities and infrastructure.

But our economic impact is so much more. We contribute to regional economic progress by paying national and local taxes. When we develop our operations, by investing in upgrades and improvements, we employ many local people and, wherever possible, we buy from local or regional suppliers. This helps to further boost local economies, as well as minimise the impact of supply transportation on the environment.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

We want our sustainability initiatives to address the issues most relevant to our stakeholders. To identify the stakeholders on whom we have the biggest impact, we conduct stakeholder mapping exercises. Once we have identified these core groups, we engage with them and record all issues and concerns they raise in order to inform our decision-making process. We also conduct an in-depth materiality analysis to identify the key 'Aspects' we need to tackle in our sustainability initiatives and reports.

2016 AWARDS

- Viksha PGM was awarded Best Exploration Project at MINEX
- Polymetal was named Employer of the Year by Superjob.ru
- Named Philanthropist of the Year in Khabarovsk region (Far East of Russia) by Russian Ministry of Culture
- Albazino won Best Pension Insurance Company Award in All-Russia Contest
- Varvara obtained a 3-year Certificate of Credibility (compliance with labour law) from Kazakhstan Government
- Kubaka land reclamation was named Best Project by People Investor

Through our materiality analysis and stakeholder engagement processes, we have identified six core sustainability focus areas:

- improving health and safety for our employees and contractors
- maintaining positive working relationships with local government, NGOs and the communities where we operate
- attracting and retaining more high-quality people, creating an even better place to work
- continuously upgrading our technologies and approach to environmental protection
- enhancing transparency in our communications with suppliers, subcontractors and partners
- further developing water and energy efficiency programmes.

SUSTAINABILITY LEADERSHIP

Ultimate responsibility for sustainability lies with our Board of Directors. Our Group CEO, Vitaly Nesis, oversees all management decisions and processes, and sustainability performance reviews take place at Board meetings several times a year. The Board approves sustainability strategy initiatives and has final sign off on our sustainability reports.

In 2015, we established our Safety and Sustainability Committee to provide support to the Board by monitoring the Group's safety record, sustainability performance and ethical conduct. The Committee measures the impact of our initiatives, and helps our Audit and Risk Committee to identify, manage and mitigate sustainability risks.

The Remuneration Committee has aligned the remuneration of the Group CEO, all senior management and key employees with corporate strategy and it includes a simple and clearly defined KPI-component, encompassing health and safety as well as operating metrics.

OUR PERFORMANCE

SUSTAINABILITY GOALS	2016 OUTCOMES
Governance	
Ensure high standards of corporate governance and sustainable development	• Adopted new Human Rights Policy and Carbon Management Policy • Included in STOXX Global ESG Leaders Index and re-affirmed as a FTSE4Good and Euronext Vigeo member
Environment	
Reduce our environmental footprint	• Underwent ISO 14001 re-certification audit and obtained a compliance certificate for our EMS for three years • Included biodiversity conservation and restoration in our corporate Environmental Policy and Environmental Management System • Became signatories to the International Cyanide Management Code – another step in implementing international best practice across all areas of sustainable development
Employees	
Embed robust safety procedures and safeguard employee well-being	• Strengthened safety procedures, especially those aiming to reduce the risk level in our underground mines • Continued Group re-certification of safety in compliance with OHSAS 18001 • Continued developing measures and incentives for better safety performance • Continued implementing safety monitoring and control software • Further involved contractors in risk management and health and safety control procedures
Build a motivated, loyal and capable workforce	• Staff turnover rate decreased from 8% to 6% • Upgraded training initiatives, procedures and courses; invested US$866,000 in professional training and, as a result, 82% of our employees received development training • Signed collective bargaining agreements at our new operations: Bakyrchik (Kazakhstan), Kapan (Armenia), Svetloye (Okhotsk hub), Komar (Kazakhstan) and extended them at existing operations (Mayskoye, Okhotsk, Voro) • Upgraded our social benefits package: treatment in health resorts is now available for all employees; the budget for employee financial aid in 2017 was doubled
Social	
Maintain strong links and relationships in the regions where we operate	• We continue to work closely with local communities under 25 active cooperation agreements, currently in place • Invested US$5.1 million in social support and territorial development programmes; provided assistance to 51 entities (schools, kindergartens, health centres, sports and cultural facilities) • Supported and promoted charity campaigns aimed at helping vulnerable groups; provided targeted assistance to over 1,000 people • Started dialogue with the Kapan community (Armenia) in order to implement grievance mechanisms for local people and our employees
Economic	
Ensure financial stability and shareholder returns	• Generated a healthy free cash flow of US$257 million; coupled with a strong balance sheet this translated into cash returns for our investors
Pursue further growth opportunities	• Began gold production at Svetloye – the key driver for sustaining production levels at our Okhotsk hub • Acquired Komar gold deposit, an easily accessible ore feed for Varvara • Acquired Kapan mine, close to our Lichkvaz deposit, to strengthen our operating platform in Armenia
Maintain excellent working relationships with suppliers	• Worked with large, global manufacturers who operate to the highest international standards on services, employment, quality and environment • Worked with local, reliable suppliers – around 50% of our supplier purchases come from the regions where we operate in Russia and Kazakhstan (approximately 30% in Armenia)

PROTECTING THE ENVIRONMENT

Through innovation and continuous improvement, we aim to achieve greater efficiencies across our business and minimise the impact of our operations, putting environmental sustainability at the heart of everything we do.

As with all mining companies, our work involves a number of environmental risks. To manage these, our Group-wide Environmental Management System (EMS) focuses on driving resource and energy efficiency across the business. This includes using modern, efficient equipment and technologies, preventing pollution and engaging employees on environmental issues. We currently follow international standard ISO 14001 (2004) and, in 2017, plan to upgrade our EMS to comply with the 2015 version of the standard and certify it in 2018.

In our contractual agreements with suppliers, we insist on compliance with all applicable laws and regulations, with our EMS and with all requirements around issues like packaging, noise, pollution and emergency preparedness.

WATER MANAGEMENT

Whether for industrial use, drinking or irrigation, water management is essential to our business and to our host communities. However, as a result of demographic and climate changes, concerns have increased about the long-term availability, quality and security of access to water. Water management is not just a technical debate around levels of abstraction and quantitative data – it is an issue that our stakeholders feel passionate about.

Our sites are located in low water stress areas and the major water issue is not its scarcity but its excess. We strive to increase efficiencies in the use of water by maximising water recycling and reuse within mining operations. In 2016, we recycled over 84% of process water.

REDUCING OUR MATERIALS AND WASTE

We are firmly committed to the responsible management of waste materials. In our production processes, we use large quantities of ore and energy to produce products such as doré bars, zinc precipitate, and flotation and gravity concentrates. Overburden and tailings are the most significant waste streams associated with our operations, accounting for more than 99% of the total volume.

Our audit teams carry out regular internal checks and assess our compliance with national and regional standards, and government agencies conduct regular environmental performance spot-checks at our facilities. We now operate eight tailings dams, and in 2016 there were no significant or major environmental accidents involving tailings facilities at our operations.

CYANIDE AND HAZARDOUS WASTE MANAGEMENT

Our production methods involve several harmful consumables. Among these, the largest is cyanide, which generates hazardous waste during the recovery of gold from the ore we process. We are rigorous in our handling, management and monitoring of cyanide due to its hazardous potential.

In 2016, we became signatories to the International Cyanide Management Code followed by a certification of Amursk POX. At Polymetal, we used 8.8 thousand tonnes of cyanide in 2016.

INCREASING ENERGY EFFICIENCY AND CARBON MANAGEMENT

The wide geographical spread and remote location of our facilities, along with extreme weather and limited grid power, make us dependent on diesel fuel as an energy source. Along with the gas we procure from third-party suppliers, diesel accounts for the bulk of our total direct energy consumption – primarily for heating, powering equipment and vehicles.

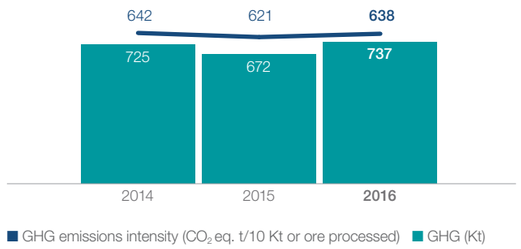
WATER
(thousand of cubic meters)

We are committed to enhancing energy efficiency – it makes business sense and is better for the environment. In 2016 we decreased energy intensity for 6% as a result of our efforts. In 2016, we continued to refurbish our main power infrastructure and install new equipment to help improve our operational efficiencies. For example, we reduced consumption of natural gas by 11% compared to 2015. We are continuously assessing options for sourcing energy from alternative and renewable sources. In 2017, we will conduct a feasibility assessment into the use of solar and wind energy at our remote sites.

LOWERING OUR GREENHOUSE GAS (GHG) EMISSIONS

Electricity and heat from our diesel generators, as well as our mining transport, produce the majority of our GHG emissions. The burning of natural gas and coal and the use of landfill also contribute to our GHG footprint. We measure and monitor our CO_2 emissions using established international methodology. In order to minimise future emissions, we will continue to ensure that our vehicles and mining equipment are modern and compliant with European quality standards, and feature the most up-to-date technology. The Carbon Management Policy can be found on our website.

GHG EMISSIONS



PROTECTING BIODIVERSITY

We are committed to treading lightly in the regions where we operate and work hard to minimise our impact on local biodiversity. To this end, as a matter of policy we do not operate in or adjacent to protected or vulnerable areas. We also respect, and will not encroach upon, land that

has particular value – natural, historical or cultural – for Indigenous Minorities of the North (IMN). Due to the extreme northern location of most of our sites, where the surrounding territory is low in conservational value, there are no significant biodiversity impacts linked to our operations.

In 2016, we included a biodiversity conservation commitment in our corporate Environment Policy and biodiversity management procedures in our EMS. We have evaluated the status of biodiversity and our impact on it at our production sites as well as neighbouring areas. We have also developed programmes on biodiversity management and monitoring. In addition, we insist that all site staff, including contractors, take part in environmental, health and safety awareness training to ensure that they understand their responsibilities to protect local fauna and flora. We also engage in comprehensive land rehabilitation once we have finished working in a particular area, focusing on the reparation of any environmental damage that our operations may have caused.

PLANNING FOR MINE CLOSURES

As all sites will eventually deplete their mineral resource and ore reserves, it is essential that we plan responsibly for the end of each mine's operational life. Our long-term remediation obligations include fulfilling decommissioning and restoration liabilities and covering suspension or abandonment costs in compliance with national regulations and legislation. As a priority, we relocate workers to our other mines.

WASTE
(Mt)

PRIORITISING HEALTH AND SAFETY

We strive for a 'zero harm' culture, in which every employee takes personal responsibility for their own safety as well as that of their colleagues. We continually promote excellent safety behaviours to ensure all our people and contractors work in a safe environment. And we are not complacent – this is an ongoing journey of constant training, improvement and re-evaluation.

Despite our best efforts on training, creating safety management systems and complying with stringent international standards and regulations, accidents unfortunately can happen. In recent years, we have been faced with larger volumes of underground mining operations in more challenging geomechanical conditions. However, we are encouraged that we have been able to maintain our Lost Time Injury Frequency Rate (LTIFR), despite an increase in personnel, underground operations and operations intensity.

While we had modest improvement in 2016, the loss of four lives during the year is a tragic result, which we view as an area of major concern.

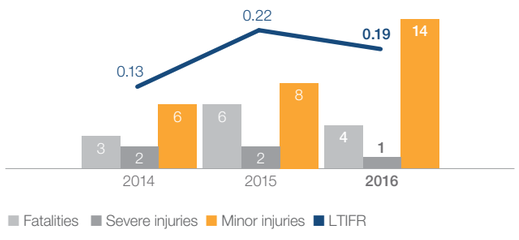
CORPORATE GOVERNANCE, REGULATION AND STANDARDS

We comply fully with H&S legislation wherever we operate, and strive to meet all relevant international requirements. In 2016, we worked hard to ensure that our compliance with external certification OHSAS 18001 was reaffirmed for our Occupational Health and Safety Management System (OHSMS). Following the update of our Health and Safety Policy in 2014, (available at www.polymetalinternational.com), we have continued to communicate this to our employees and stakeholders through information boards, our internal newspaper, and weekly Safety Day meetings. All facilities across our operations are also fully insured.

ASSESSING OUR RISKS

Our Health and Safety (H&S) system guides us in detecting, assessing and mitigating risks, safeguarding employee health and workplace safety, and making sure equipment, buildings and other structures are used safely. It also ensures that supervision measures are carefully controlled, and that we conduct internal audits effectively.

HEALTH AND SAFETY PERFORMANCE



Each year, we identify and assess risks across the Group and create risk maps for all our working processes and locations. We then develop detailed programmes to help us reduce these risks. We follow a Shift Risk Assessment (SRA) model to raise employee awareness of workplace dangers, manage risks promptly, and control the accuracy of our risk assessments. We implement SRA most rigorously in hazardous operational areas, for example automobile transport, mines, and plant and power supply.

IDENTIFYING RISK MANAGEMENT FOCUS AREAS

We recognise the risks associated with each of our sites – in Russia, Kazakhstan and Armenia, 93 individual units across our production facilities, plants and mines have been classified as 'hazardous'. That is why our primary focus is on reducing the level of the most significant risks at our 12 underground operations.

We carry out an annual qualitative hazardous risk assessment, and inform employees of the results through a range of communications channels. We have increased the number of critical risks (from five in 2015, seven in 2016 to ten in 2017). And we have identified the greatest hazards at our sites as falling rock, road transportation accidents and working at heights. Other hazards include maintenance works, trapping, blows, fires and electricity.

In 2016, we updated our OHSMS. For example, we re-allocated responsibilities for actions and outcomes, checked equipment and our mining fleet from a safety perspective, and changed incentive systems to reduce risks and avoid safety being sacrificed for achieving production targets.

We are now implementing our new Critical Risks Management (CRM) system. Our old system looked at three types of general organisational measures aimed at safety improvements, but we now focus on critical risks. For 2017, we identified risks as being extreme (20%), high (23%), average (30%) and low (27%).

WORKPLACE ACCIDENTS

We are deeply saddened that in 2016 we lost four colleagues in tragic workplace accidents. Two were caused by falling rock at our Dukat and Albazino underground mines (on April 14 and June 30 respectively). Another colleague died at our Varvara mine on 6 October as a result of thermal injury, and one driver passed away at Svetloye mine on 8 October as a result of a road accident. There were also 15 non-fatal accidents in total across the Group. Of these, one was severe and 14 were minor. This causes us considerable concern.

Any fatality, accident or injury within our operations is wholly unacceptable, and we offer our sincere condolences to the families and friends of the deceased. We pay tribute to their dedication and hard work, and are of course covering related costs and delivering ongoing financial support to their families. In 2017, we will re-double our efforts to return to our previous record of zero fatalities across all our operations.

While we are encouraged that the overall number of fatalities has reduced by 1.5 times year-on-year, and that our LTIFR decreased by 14% compared to 2015, we will continue to dedicate significant resources and implement additional measures to do all we can to safeguard our employees from future injury.

ANALYSIS AND RESPONSE

To help us understand any weaknesses in our safety performance, we always investigate and analyse all workplace accidents. We apply the '5 Whys?' principle to internal investigations, which we undertake in addition to investigations by state authorities. This process involves evaluating all possible health and safety risks – from technological and technical liabilities to employees' psychological and emotional influences.

After thorough research and analysis, we draw comprehensive conclusions and implement measures to help prevent re-occurrence. We inform all employees and contractors of our findings and incorporate new measures into our Company safety action plan. In addition, we implement all recommendations by state authorities.

HEALTH AND SAFETY PERFORMANCE

COMPANY STATISTICS

	2016	2015	2014
Accidents	**19**	16	11
– of which fatal	**4**	6	3
Incidents	**3**	0	1
Occurrences	**46**	36	25
LTIFR[1]	**0.19**	0.22	0.13

CONTRACTOR STATISTICS

	2016	2015	2014
Total accidents	**12**	4	9
– of which fatal	**3**	3	1
Incidents	**0**	0	0
Occurrences	**50**	16	13
LTIFR[1]	**0.37**	0.12	0.25

Definition of health and safety terms

Accident: an unfortunate event that occurs in the course of work, on the way to or from work, or in a Company vehicle, which leads to mental or physical harm.
Incident: an event that gives rise to an accident, or has the potential to lead to an accident (for example, an unexpected explosion and/or the release of dangerous substances).
Occurrence: a failure, near miss or dangerous event.
LTIFR: Lost Time Injury Frequency Rate per 200,000 hours worked.

OUR NEW SAFETY MEASURES

In 2016, we implemented several new measures to further improve safety. We ran a pilot on a new mining method, which involves choosing optimum parameters, increasing the number of backfill systems (rock support), and means no workers are required to enter the stope. We provided training to our underground machine operators on remote control operating, which enables them to work safely in hazardous areas. We also mechanised ancillary underground processes by implementing special-purpose machinery and new materials (timbering, blasting).

We fully implemented SRA in hazardous production facilities, and automated data collection, processing, and control procedures. We engaged internal and external coaches to train our staff on safe and responsible behaviour in hazardous production facilities. And we installed our new positioning system in our underground mines to more accurately track our underground workers.

THE IMPORTANCE OF EMPLOYEE ENGAGEMENT AND TRAINING

Training and engaging employees is critical to establishing safe practices. Our human resources team has created an HR management system that defines procedures for recruiting and assigning employees with specific skills, and providing training to develop skills. We also clarify competence requirements for each relevant job description. Our heads of business units identify training needs, and we train specialists in occupational health and industrial, electric and fire safety. We also provide refresher and special-purpose training.

In 2016, 10,837 employees (100% of all our workers) attended safety courses; 9,100 (84% of total headcount) underwent mandatory training; 1,069 (10%) received risk management and safety behaviour training; while 668 (6%) were trained on safety culture.

To engage and motivate employees further, we run contests to improve safety, and we reward departments that achieve zero occurrences and incidents. We also publish our 'safety barometer' in our corporate newspaper, and on information desks and portals.

OCCUPATIONAL DISEASES

There were four cases of occupational diseases and health difficulties recorded in 2016 (two of silicosis, one of hearing loss and one of neuropathy of the forearm). All of the employees had been involved in underground mining with over 20 years' experience working in hazardous conditions. Because of the Company's relatively short history (19 years) and relatively young personnel, 2016 is the first year we have recorded any occupational diseases. With aging employees and in response to these cases, we have now revised our social package, adding a health resort treatment option, and aim to expand this further in 2017-2018.

INCREASING FUTURE SAFETY

Our key objectives for 2017 and beyond focus on a number of areas: using our CRM system and expanding the number of identified risks; continuing safety training for all employees through our newly trained coaches; improving and implementing hazards signage at our new mines to prevent employees entering dangerous areas; installing speed controls in all our vehicles and those of our contractors; decreasing manual working in underground mines by replacement mechanised equipment; updating our OHSMS particularly in relation to promoting safety leadership through allocation of responsibilities and KPIs.

VALUING OUR PEOPLE

ATTRACTING AND RETAINING TOP TALENT

We work to create a fair and inclusive environment to attract the best people and keep them inspired to stay. By developing our employees' skills and enhancing their leadership capabilities, we increase their motivation and create our leaders of the future.

We pay competitive salaries that benchmark well within the industry, and offer equal terms of recruitment and employment. By rewarding good performance and prioritising health and safety, our people know they are supported, listened to and looked after.

In return, we expect all employees to sign up to our Company Code of Conduct and to contribute to sustainable value creation. This is underpinned by a range of policies, covering equality, professional development, appraisal, training, resources and skills, organisational design, productivity, and motivation and reward. By ensuring our employees comply with our policies on these issues, and by listening and responding to their concerns, our Company culture is based on mutual understanding, respect and trust.

ANTI-CORRUPTION

We work hard to raise awareness of bribery and corruption and its potential impact on our business. Across the Group, we have implemented a variety of measures to help prevent corruption and fraud among our employees, contractors and suppliers. During the year the instances of corruption identified within our business were limited to minor fraud. None of them had a material impact on our operations or financial position.

HEADCOUNT AND TURNOVER

At 31 December 2016, we employed 11,261 people (2015: 9,238) across the Group's research, development, design, exploration, production, logistics and management activities. This increase in headcount is the result of our acquisition of Kapan in Armenia and Komar in Kazakhstan, and project works getting underway at our Kyzyl and Svetloye sites. The majority of our people work on a 'fly-in/fly-out' basis rather than permanent relocations, because of the demanding nature of the work and our remote site locations.

Over the last six years, we have been steadily reducing our average employee turnover rate (including fly-in/fly-out operations) and, in 2016, the rate was just 6%, compared with 20% in 2011. This achievement is partly attributable to a difficult macroeconomic environment, but also to our efforts to promote internal employee mobility, training and development, and favourable working conditions.

EQUAL OPPORTUNITIES AND DIVERSITY

We are committed to equal opportunities and terms of employment. We recruit people on merit and do not discriminate on any grounds, including gender, race, skin colour, religion, nationality, social origin and political opinions. In 2016, no reported cases of discrimination were made within the Group.

Our industry is known for being traditionally male dominant due to the physical requirements and nature of mining; nevertheless, we actively promote the inclusion of women in our workforce and leadership teams. In 2016, women occupied 22% of our senior management roles, compared with 23% in 2015, and represented 42% of our qualified personnel. Women make up 22% of our Board and 21% of our total workforce.

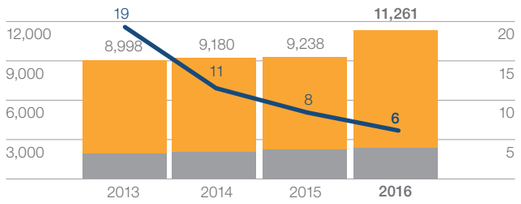
INVESTMENT IN TRAINING AND DEVELOPMENT

We invest in Group-wide training and development to build our workforce's skills, ensuring that we meet our long-term Company objectives and provide opportunities for our employees to progress in their careers. This includes our Talent Pool to help develop the next generation of skilled managers. In 2016 we invested US$866,000 in professional training – 28% more than in 2015.

REGULATED AND FAIR EMPLOYEE RELATIONS

We have an excellent track record in regulating employee relations based on equality, consideration of mutual interests, strict compliance with local social and labour regulations and constructive dialogue between partners on all social and labour issues. We support our employees' rights to freedom of association and collective agreements. In 2016, 88% of all our employees worldwide and 100% of personnel at our operating sites in Russia, Armenia and Kazakhstan were covered by collective bargaining agreements.

HEADCOUNT[1] AND TURNOVER



[1]As of December 31

SUPPORTING LOCAL COMMUNITIES

We believe that as our business grows, so does our responsibility to the local communities where we operate. We want communities to see us as a positive addition, and to recognise us as a responsive Company that is genuinely concerned with their wellbeing.

Each of our sites and facilities provides employment opportunities for local people. As well as paying regional taxes, we invest in local communities – funding education, health, culture and infrastructure. We also work to minimise any negative impact of our business on society, aiming to incorporate local community requests at all stages of planning and development.

We have implemented our Community Engagement System (CES) across all our operations, which helps us to manage local investments and keep track of our regular community interactions, and allows local people to communicate directly with us. As a result of our ongoing community engagement, at the end of 2016 we had a total of 25 community co-operation agreements in place, covering most of the areas where we operate.

WE COMPLY WITH INTERNATIONAL STANDARDS

We follow international standards and conventions on community relations, such as the UN Declaration on the Rights of Indigenous Peoples and the UN Global Impact. Our in-house standards and policies are in line with international best practice and we have developed new Community Engagement Standards, which will be implemented Group-wide by 2018.

HUMAN RIGHTS

In 2016, we adopted our new Human Rights Policy, and will start to implement this throughout 2017. We take a zero-tolerance approach to slavery and human trafficking, and commit to respecting human rights and preserving the cultural heritage of the indigenous communities in the areas where we operate.

OUR COMMITMENT TO SOCIAL INVESTMENT

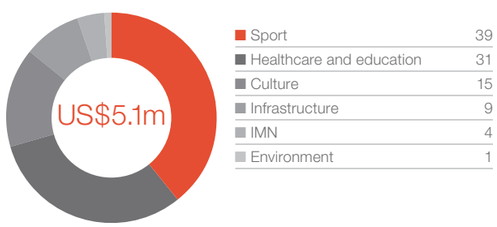
In 2016, we invested more than US$5 million in local communities. Over the past five years, our investment has reached a total of US$25 million, focusing on projects involving healthcare and education, infrastructure, sport and lifestyle, culture and creative potential, Indigenous Minorities of the North (IMN) and environmental protection.

We also make 'in-kind' donations, which In 2016 included humanitarian aid to reindeer herders; delivery of food and medicine to remote communities and IMN; and construction and maintenance of roads in remote areas.

RESPONDING TO COMMUNITY NEEDS

We review annual community investments and targets to ensure they deliver meaningful change for communities. We also discuss community needs and decide investment priorities with local stakeholders. We communicate about our activities through our Community Engagement System (CES), and encourage local stakeholders to give us their feedback. Local communities in remote areas are important, and we regularly organise field trips and face-to-face consultations with them. In 2016, we received 270 enquiries from local communities, mostly relating to employment opportunities, development plans, impacts on quality of life, and requests for support for cultural, sporting and environmental initiatives. During the year, we held 32 meetings, public gatherings and hearings for local community members and indigenous people. We also organised 15 site visits for members of the public and community representatives.

SOCIAL INVESTMENTS IN 2016
(%)



FINANCIAL REVIEW

I AM PLEASED TO REPORT ROBUST EARNINGS FOR THE YEAR ON THE BACK OF STRONG OPERATING PERFORMANCE.

Maxim Nazimok
Chief Financial Officer

- 2016 **revenue increased 10%** over 2015 and totalling US$1,583 million. Average realised gold and silver prices increased by 8% and 11%, respectively. Gold sales were 880 Koz, up 2% year-on-year, while silver sales were 30.7 Moz, down 2% year-on-year, in line with production volume dynamics.
- **Group Total cash costs[1] ('TCC') were US$570/gold equivalent ounce ('GE oz')**, up 6% from 2015 levels and within our original guidance of US$550-575/GE oz.
- **All-in sustaining cash costs ('AISC') amounted to US$776/GE oz**, up 6% year-on-year, slightly above the guidance range of US$700-750/GE oz and driven mostly by an increase in TCC during the period and the appreciation of the Russian Rouble against the US Dollar in the second half of the year.
- **Adjusted EBITDA[1] was US$759 million, an increase of 15%** year-on-year, on the back of higher commodity prices and stable production. The Adjusted EBITDA margin was 48% compared with 46% in 2015.
- **Net earnings[2] were US$395 million** versus US$221 million in 2015, reflecting an increase in EBITDA and the impact of foreign exchange gains driven by the strengthening of the Russian Rouble. **Underlying net earnings** (adjusted for the after-tax amount of write-down of metal inventory to net realisable value, foreign exchange gains/losses and change in fair value of contingent consideration liability) **were US$382 million** (2015: US$291 million), up 31% year-on-year.
- **Capital expenditure was US$271 million[3]**, up 32% compared with 2015 but below the reduced guidance of US$310 million, due to favourable exchange rate dynamics at the beginning of the year. The Group is on track with the construction of Kyzyl and the POX debottlenecking project.
- In the course of 2016, the Company continued to generate **significant pre-acquisition free cash flow[1]**, which amounted to **US$257 million** (2015: US$263 million). Net debt of US$1,330 million as at 31 December 2016 remained broadly unchanged over the previous year bringing the **Net debt/Adjusted EBITDA** ratio at 31 December 2016 down to **1.75x** versus 1.97x as at 31 December 2015.
- **A final dividend of US$0.18 per share (approximately US$77 million)** representing 30% of the Group's underlying net earnings for 2H 2016 is being proposed by the Board in accordance with the current dividend policy. This will bring the total dividend declared for the period to US$179 million.

[1] The definition and calculation of non-IFRS measures used in this report, including Adjusted EBITDA, Total cash costs, All-in sustaining cash costs, Underlying net earnings, Net debt, Free cash flow and the related ratios, are explained further in this section.
[2] Profit for the financial period.
[3] On a cash basis.

MARKET SUMMARY

Please see the Market overview on pages 10-11.

FOREIGN EXCHANGE

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

2016 was a better year for the Russian economy with a modest recovery of oil price and strengthening of the Russian Rouble in the second half of 2016. However, this trend could have a negative impact on the sector, through cost increases in US Dollar terms. Following the oil price dynamics, from 1 January to 31 December 2016 the Russian Rouble appreciated against the US Dollar by 17% from 72.9 RUB/US$ to 60.7 RUB/US$, while the average rate weakened by 10% year-on-year from 60.9 RUB/US$ in 2015 to 67.1 RUB/US$ in 2016. However, following oil prices exceeding US$50 per barrel the Rouble started strengthening in the second half of 2016: average rate for 2H 2016 was 63.9 RUB/US$, up 1% year-on-year, and 9% half-on-half.

The lower average Russian Rouble exchange rate in 2016 compared with 2015 had a positive effect on the Dollar value of the Group's Rouble-denominated operating costs and Adjusted EBITDA. At the same time, the moderate strengthening of the spot Russian Rouble exchange rate during 2H 2016 had a positive impact on the Group's net earnings due to the retranslation of US Dollar debt.

The economics of Kazakh operations was supported by the devaluation of the Kazakh Tenge. While the Tenge exchange rate remained almost unchanged during 2016 compared with 1 January 2016, the average rate was 54% weaker year-on-year, from 222 KZT/US$ in 2015 to 342 KZT/US$ in 2016, following a major devaluation in August 2015. The Armenian Dram was the most stable currency in the region, with an average exchange rate of 480 AMD/US$ in 2016.

FINANCIAL HIGHLIGHTS[1]

	2016	2015	Change
Revenue, US$m	**1,583**	1,441	+10%
Total cash cost, US$/GE oz	**570**	538	+6%
All-in sustaining cash cost, US$/GE oz	**776**	733	+6%
Adjusted EBITDA, US$m	**759**	658	+15%
Average realised gold price, US$/oz	**1,216**	1,127	+8%
Average realised silver price, US$/oz	**16.3**	14.7	+11%
Net earnings, US$m	**395**	221	+79%
Underlying net earnings, US$m	**382**	291	+31%
Return on Assets, %	**26%**	17%	+9%
Return on Equity (underlying), %	**18%**	16%	+2%
Underlying EPS, US$/share	**0.90**	0.70	+28%
Dividend declared during the period, US$/share[2]	**0.37**	0.51	-27%
Dividend proposed for the period, US$/share[3]	**0.42**	0.51	-18%
Net debt, US$m	**1,330**	1,298	+2%
Net debt/Adjusted EBITDA	**1.75**	1.97	-11%
Net operating cash flow, US$m	**530**	490	+8%
Capital expenditure, US$m	**271**	205	+32%
Free cash flow[4], US$m	**257**	263	-2%

[1] Totals may not correspond with 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 section.
[2] FY 2016: final dividend for FY 2015 declared in May 2016, interim dividend for the 1H 2016 declared in September 2016, and special dividend declared in December 2016. FY 2015: final dividend for FY 2014 declared in May 2015, interim dividend for the 1H 2015 declared in September 2015, and special dividend declared in December 2015.
[3] FY 2016: final dividend, interim and special dividend for FY2016. FY 2015: final dividend, interim and special dividend for FY2015.
[4] Net cash flows from operating activities less cash flows used in investing activities excluding acquisition costs in business combinations and investments in associates and joint ventures.

OPERATING HIGHLIGHTS

See pages 22-25.

REVENUE

SALES VOLUMES

		2016	2015	Change
Gold	Koz	880	864	+2%
Silver	Moz	30.7	31.2	-2%
Copper	Kt	1.6	1.5	+10%
Zinc	Kt	2.8	–	N/A
Gold equivalent sold[1]	**Koz**	**1,301**	**1,278**	**+2%**

[1] Based on actual realised prices.

SALES BY METAL

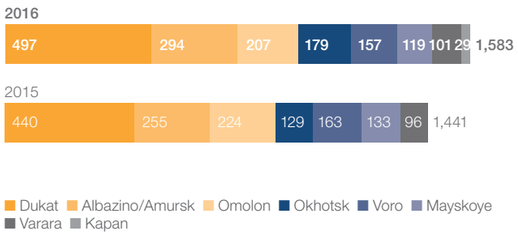
(US$m unless otherwise stated)		2016	2015	Change	Volume variance, US$m	Price variance, US$m
Gold		**1,070**	**974**	**+10%**	**18**	**78**
Average realised price	US$/oz	1,216	1,127	+8%		
Average LBMA closing price	US$/oz	1,250	1,160	+8%		
Share of revenues	%	68%	68%			
Silver		**500**	**460**	**+9%**	**-8**	**48**
Average realised price	US$/oz	16.3	14.7	+11%		
Average LBMA closing price	US$/oz	17.1	15.7	+9%		
Share of revenues	%	32%	32%			
Other metals		**13**	**7**	**+86%**		
Share of revenues	%	1%	0%	+0%		
Total revenue		**1,583**	**1,441**	**+10%**	**26**	**116**

In 2016, revenue grew by 10% year-on-year to US$1,583 million driven by an 8% increase in the average realised gold price and an 11% increase in the average silver price. Gold sales volumes increased by 2%, while silver sales volumes decreased by 2% year-on-year, both broadly following the production dynamics.

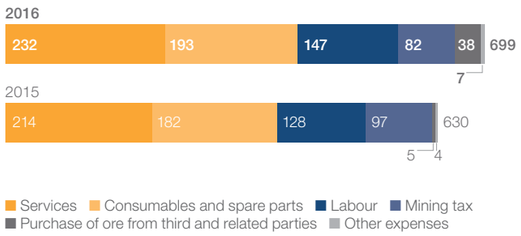
The average realised price of gold was US$1,216/oz in 2016, up 8% from US$1,127/oz in 2015, and slightly below the average market price of US$1,250/oz. The average realised silver price was US$16.3/oz, up 11% year-on-year, and 5% below the average market price of US$17.1/oz due to the larger share of sales recorded in the first half of the year when market prices were lower.

The share of gold sales as a percentage of total revenue was 68% and remained flat compared with 2015.

REVENUE BY SEGMENT
(US$m)



CASH OPERATING COST STRUCTURE
(US$m)



ANALYSIS BY SEGMENT

	Revenue, US$m			Gold equivalent sold, Koz (silver equivalent for Dukat, Moz)		
	2016	2015	Change	2016	2015	Change
Dukat	497	440	+13%	30,771	30,103	+2%
Albazino/Amursk	294	255	+15%	234	220	+7%
Omolon	207	224	-7%	168	193	-13%
Okhotsk	179	129	+38%	145	112	+30%
Voro	157	163	-4%	125	141	-11%
Mayskoye	119	133	-11%	114	136	-17%
Varvara	101	96	+5%	82	84	-2%
Kapan	29	–	N/A	27	–	N/A
Total revenue	**1,583**	**1,441**	**+10%**	**1,301**	**1,278**	**+2%**

Sales at all operating mines, except for Dukat and Varvara, followed the planned production dynamics during the period. Dukat experienced a gold equivalent production decline of 6%, while physical sales volumes increased by 2% year-on-year as a result of the concentrate de-stockpiling. At Varvara, sales partially lagged production mainly due to increased inventories of concentrate as of the year-end.

COST OF SALES

	2016 US$m	2015 US$m	Change
On-mine costs	320	267	+20%
Smelting costs	259	261	-1%
Purchase of ore from third and related parties	38	5	+660%
Mining tax	82	97	-15%
Total cash operating costs	**699**	**630**	**+11%**
Depreciation and depletion of operating assets	162	154	+5%
Rehabilitation expenses	1	(2)	NM
Total costs of production	**862**	**782**	**+10%**
Increase in metal inventories	(51)	(27)	+89%
Write-down of metal inventories to net realisable value	21	13	+62%
Write-down of non-metal inventories to net realisable value	6	5	+20%
Total change in inventories	**(24)**	**(9)**	**+167%**
Idle capacities and abnormal production costs	8	6	+33%
Total cost of sales	**846**	**779**	**+9%**

CASH OPERATING COST STRUCTURE

	2016		2015	
	US$m	% of total	US$m	% of total
Services	232	33%	214	34%
Consumables and spare parts	193	28%	182	29%
Labour	147	21%	128	20%
Mining tax	82	12%	97	15%
Purchase of ore from third & related parties	38	5%	5	1%
Other expenses	7	1%	4	1%
Total cash operating costs	**699**	**100%**	**630**	**100%**

Total cost of sales increased by 9% in 2016 to US$846 million, mainly on the back of domestic inflation in Russia (5.4%) and an increase in purchases of third party ore and concentrate, as well as the negative effect of Russian Rouble appreciation that influenced the seasonally higher share of production and sales volumes in the second half of the year.

Compared with 2015, the cost of services and the cost of consumables and spare parts increased by 8% and 6%, respectively, driven mainly by Russian domestic inflation.

The total cost of labour within cash operating costs in 2016 was US$147 million, a 15% increase, mainly stemming from the annual salary increase (tracking Russian CPI inflation) and additional labour costs at the new Kapan, Komar and Svetloye operations.

Mining tax decreased by 15% year-on-year to US$82 million while production volumes remain flat, mainly driven by Omolon and Dukat obtaining tax relief as members of the regional free economic zone starting from 1 January 2016 (paying 60% of standard mining tax rates).

Depreciation and depletion was US$162 million, up 5% year-on-year.

In 2016 a net metal inventory increase of US$51 million was recorded (excluding write-downs to net realisable value), mainly represented by Varvara (ore stockpiled at Komar and concentrate produced but not yet sold), and ore stockpiles at Omolon (heap leach ore at Birkachan). In the second half of the year, the Company successfully progressed with scheduled stockpile reductions, with total gold equivalent sales exceeding production by 32 Koz. De-stockpiling was mainly driven by concentrate shipments from Mayskoye.

GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

	2016 US$m	2015 US$m	Change
Labour	87	88	-1%
Services	10	14	-29%
Depreciation	3	5	-40%
Share based compensation	7	4	+75%
Other	13	16	-19%
Total	**120**	**127**	**-6%**

General, administrative and selling expenses decreased by 6% year-on-year from US$127 in 2015 million to US$120 million in 2016 mainly due to the Rouble and Tenge devaluation compared with prior period.

OTHER OPERATING EXPENSES

	2016 US$m	2015 US$m	Change
Provision for investment in Special economic zone	14	–	N/A
Taxes, other than income tax	11	12	-8%
Exploration expenses	10	24	-58%
Social payments	10	8	+25%
Housing and communal services	4	4	0%
Loss on disposal of property, plant and equipment	1	1	0%
Allowance for doubtful debt	–	7	-100%
Additional mining taxes, VAT, penalties and accrued interest	(12)	(4)	+200%
Change in estimate of environmental obligations	(5)	(4)	+25%
Other expenses	3	3	0%
Total	**36**	**51**	**-29%**

Other operating expenses decreased by 29% from US$51 million in 2015 to US$36 million in 2016. Exploration expenses written off during the period decreased by 58% to US$10 million. Cash-based exploration expenses in 2016 were US$11 million (2015: US$13 million).

Mining taxes, VAT, penalties and accrued interest have been accrued in respect of various disputes with the Russian and Armenian tax authorities. In 2016, following favourable court decisions the Group reimbursed previously paid mining tax at Magadan Silver in the amount of US$14 million and released several smaller provisions relating to mining tax in other Russian entities of the Group.

The provisions for investment in Special economic zones are attributable to Omolon and Dukat operations which are entitled to the decreased statutory income tax rate of 18% and decreased mining taxes (paying 60% of the standard rate). In return, they are obliged to invest 50% of their tax savings towards the Special economic zone Development Programme. For more information refer to Note 12 of the consolidated financial statements.

TOTAL CASH COSTS

	Cash cost per GE ounce, US$/oz			Gold equivalent sold, Koz (silver for Dukat)		
Total cash costs per gold equivalent ounce[1]	**2016**	2015	Change	**2016**	2015	Change
Dukat (SE oz)[2]	6.4	6.4	+0%	30,771	30,103	+2%
Voro	322	336	-4%	125	141	-11%
Okhotsk	612	573	+7%	145	112	+30%
Varvara	780	818	-5%	82	84	-2%
Omolon	503	555	-10%	168	193	-13%
Albazino	529	460	+15%	234	220	+7%
Mayskoye	1,011	752	+34%	114	136	-17%
Kapan	900	–	N/A	27	–	N/A
Total	**570**	**538**	**+6%**	**1,301**	**1,278**	**+2%**

[1] TCC comprise cost of sales of the operating assets (adjusted for depreciation expense, rehabilitation expenses and write-down of inventory to net realisable value and certain other adjustments) and general, administrative and selling expenses of the operating assets. Gold equivalent sales volume is calculated based on average realised metal prices in the relevant period. TCC per gold equivalent ounce sold is calculated as TCC divided by total gold equivalent unit ounces sold.

[2] Dukat's TCC per gold equivalent was US$494/GE oz (2015: US$496/GE oz) and was included in the Group TCC calculation.

In 2016, total cash costs per gold equivalent ounce sold were US$570/GE oz, up 6% year-on-year. The planned grade decline at some mature operations combined with domestic inflation in Russia had a moderate negative impact on cost levels. This was largely offset by a robust operating performance at Voro, Varvara and Omolon supported by Russian Rouble and Tenge depreciation year-on-year.

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

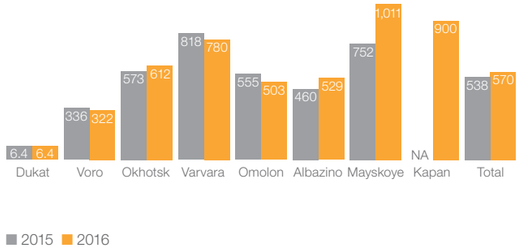
RECONCILIATION OF TCC AND AISC MOVEMENTS

	TCC		AISC	
	US$/oz	Change	US$/oz	Change
Cost per gold equivalent ounce – 2015	**538**		**733**	
Change in average grade processed by mine	39	7%	39	5%
Domestic inflation	25	5%	35	5%
Mining tax change – Au&Ag price	8	1%	8	1%
US$ rate change	(35)	-7%	(49)	-7%
Change in sales structure	(6)	-1%	(6)	-1%
Other	1	0%	16	2%
Cost per gold equivalent ounce – 2016	**570**	**+6%**	**776**	**+6%**

Total cash cost by mine:

- **Dukat's** Total cash cost per silver equivalent ounce remained flat year-on-year at US$6.4/oz. This stable performance was achieved on the back of continuing improvement in throughput at the Omsukchan concentrator, mitigating the effect of normalisation of the grade profile at the Dukat underground mine.
- **Voro** continues to be our lowest cost operation at US$322/GE oz, with cash costs decreasing by a further 4% compared with 2015. Processing at the CIP plant delivered record throughput offsetting the impact of the planned decline in gold production at the heap leach facility, which has higher cash cost levels.

TOTAL CASH COSTS BY MINE
(US$/GE oz)



- At **Okhotsk**, TCC was US$612/GE oz, a 7% increase year-on-year reflecting the scheduled decline in average gold and silver grade processed. This performance includes Svetloye which in 2017, will contribute to lower cash cost for the hub as the operation ramps up to full capacity.
- At **Varvara**, TCC was US$780/GE oz, declining by 5% year-on-year. The decrease mainly stemmed from improved grades and recovery levels at the leaching circuit on the back of processing ore railed from Komar, supported by Tenge devaluation against the US Dollar.
- At **Omolon**, TCC amounted to US$503/GE oz, a 10% decrease year-on-year, driven by the devaluation of the Russian Rouble and lower mining tax rates.
- At **Albazino/Amursk**, TCC was US$529/GE oz, up 15% compared with 2015. The cost increase was driven by ore from the new underground mine at the Olga zone having higher initial costs and lower grade profile.
- Total cash costs at **Mayskoye** were US$1,011/GE oz, a 34% increase year-on-year, driven by a decline of the average grade processed and the introduction of a new mining method (sublevel open stoping with backfill). The costs are expected to normalise over the course of 2017 as the underground operation ramps up and the production profile is supported by the crown pillar open pit project.
- **Kapan's** TCC were US$900/GE. The historically low underground mining productivity and consequent low utilisation of the processing plant, as the key drivers of high cost levels, represent significant potential for operational and financial turnaround (already visible in half-on-half year dynamics), which was the strategic rationale behind the acquisition.

ALL-IN CASH COSTS

	Total, US$m			US$/GE oz		
	2016	2015	Change	2016	2015	Change
Total cash costs	**738**	**683**	**+8%**	**570**	**538**	**+6%**
SG&A and other operating expenses not included in TCC	98	89	+11%	76	70	+9%
Capital expenditure excluding new projects	120	104	+16%	93	82	+13%
Exploration expenditure (capital and current)	47	54	-13%	36	43	-15%
All-in sustaining cash costs[1]	**1,004**	**930**	**+8%**	**776**	**733**	**+6%**
Finance cost	68	85	-20%	53	67	-21%
Income tax expense	169	55	+207%	131	43	+201%
After-tax All-in cash costs	**1,241**	**1,070**	**+16%**	**959**	**843**	**+14%**
Development capital	121	66	+83%	94	52	+80%
SG&A and other expenses for development assets	14	35	-61%	11	28	-62%
All-in costs	**1,376**	**1,171**	**+17%**	**1,063**	**923**	**+15%**

[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) used for calculation of Adjusted EBITDA.

In 2016, all-in sustaining cash costs amounted to US$776/GE oz, a 6% increase year-on-year, reflecting the increase in total cash costs and per ounce sustaining capital expenditure as we have been ramping up Svetloye operation (Okhotsk) and undertook increased underground development volumes at Mayskoye due to a change in the mining method (both factors expected to normalise in 2017).

ALL-IN SUSTAINING CASH COST BY MINE

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

	2016 US$/GE oz	2015 US$/GE oz	Change
Dukat (SE oz)	8.0	7.8	+3%
Voro	419	391	+7%
Okhotsk	752	621	+21%
Varvara	975	1,092	-11%
Omolon	675	732	-8%
Albazino	684	667	+3%
Mayskoye	1,242	935	+33%
Kapan	1,264	–	N/A
Total	**776**	**733**	**+6%**

IMPAIRMENT OF METAL INVENTORIES

	2016 US$m	2015 US$m
Metal inventories	(21)	(13)
Total impairment (charges)/reversals	**(21)**	**(13)**

The net write-down of metal inventories in the amount of US$21 million recognised in 2016 is mainly related to the low-grade ore at mature deposits of Okhotsk operations and the low grade ore stockpiled for the heap leaching at Birkachan.

ADJUSTED EBITDA AND EBITDA MARGIN[1]

RECONCILIATION OF ADJUSTED EBITDA

	2016 US$m	2015 US$m	Change
Profit for the year	395	221	+79%
Finance cost (net)	60	76	-21%
Income tax expense	169	55	+207%
Depreciation and depletion	155	156	-1%
EBITDA[2]	**779**	**508**	**+53%**
Write-down of metal inventory to net realisable value	21	13	+62%
Write-down of non-metal inventory to net realisable value	6	5	+20%
Share based compensation	7	4	+75%
Bad debt allowance	–	7	-100%
Net foreign exchange (gain)/losses	(65)	133	NM
Change in fair value of contingent consideration liability	22	(4)	NM
Rehabilitation costs	1	(2)	NM
Additional mining taxes, VAT, penalties and accrued interest	(12)	(4)	+173%
Adjusted EBITDA	**759**	**658**	**+15%**

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

[2] The Company defines Adjusted EBITDA (a non-IFRS measure) as profit for the period adjusted for depreciation and amortisation, write-downs and reversals of inventory to net realisable value, share-based compensation expenses, rehabilitation expenses, bad debt allowance, gains and losses on acquisitions and disposals of subsidiaries, 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. The figures presented above have been rounded and accordingly may not sum to the total shown.

ADJUSTED EBITDA BY SEGMENT

	2016 US$m	2015 US$m	Change
Dukat	283	239	+18%
Albazino/Amursk	167	153	+9%
Omolon	116	111	+4%
Voro	113	115	-2%
Okhotsk operations	89	49	+81%
Varvara	36	25	+43%
Mayskoye	13	34	-62%
Kapan	6	–	N/A
Kyzyl	(8)	(14)	-44%
Corporate and other intersegment operations	(56)	(55)	+3%
Total	**759**	**658**	**+15%**

In 2016, Adjusted EBITDA was US$759 million, 15% higher year-on-year, resulting in an Adjusted EBITDA margin of 48%. The increase was mainly driven by an 8% growth in the average realised gold price and an 11% growth in the average realised silver price, which was partially offset by a 6% increase in TCC. Adjusted EBITDA increased, or remained almost unchanged across all operating mines, except for Mayskoye where implementation of the new mining method had a temporary negative effect on cost profile.

OTHER INCOME STATEMENT ITEMS

In 2016, Polymetal recorded a net foreign exchange gain of US$65 million compared with a loss of US$133 million in 2015. These unrealised non-cash forex gains and losses in both periods represent the revaluation of the US Dollar denominated borrowings of Russian operating companies, the functional currency of which is the Russian Rouble. The Group's average gross debt during 2016 was US$1,364 million, mostly denominated in US Dollars, while the RUB/US$ exchange rate decreased from 72.9 RUB/US$ as at 31 December 2015 to 60.7 RUB/US$ as at 31 December 2016.

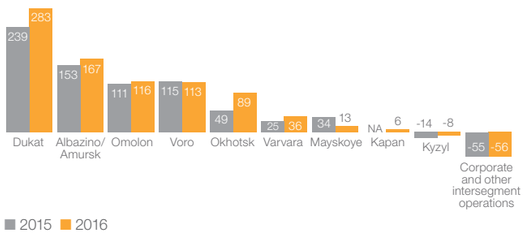
The Company does not use any hedging instruments for managing foreign exchange risk, other than a natural hedge arising from the fact that the majority of the Group's revenue is denominated or calculated in US Dollars. Though income statement volatility may arise in the financial reporting, Polymetal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

Income tax expense for 2016 was US$169 million compared with US$55 million in 2015. The increase was mainly attributable to an increase in net income, combined with the effect of non-deductible exchange gains and losses incurred in 2015 due to the differences in local and functional currencies. No such exchange gains and losses were incurred in 2016 due to reduced exchange rate fluctuations. For details refer to Note 16 of the consolidated financial statements.

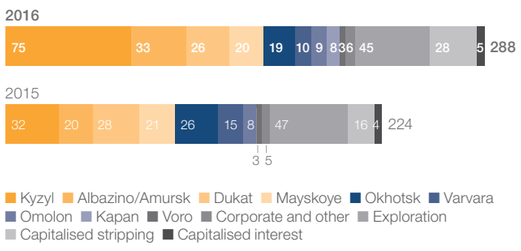
NET EARNINGS, EARNINGS PER SHARE AND DIVIDENDS

The Group recorded a net income of US$395 million in 2016 versus US$221 million in 2015. The underlying net earnings (excluding after-tax impact of write-down of metal inventory to net realisable value, foreign exchange gains/losses and change in fair value of contingent consideration liability) were US$382 million, compared with US$291 million in 2015.

ADJUSTED EBITDA BY SEGMENT
(US$m)



CAPITAL EXPENDITURE
(US$m)



RECONCILIATION OF UNDERLYING NET EARNINGS[1]

	2016 US$m	2015 US$m	Change
Profit for the financial year	395	221	+79%
Write-down of metal inventory to net realisable value	21	13	+62%
Tax effect on write-down of metal inventory to net realisable value	(4)	(3)	+62%
Foreign exchange (gain)/loss	(65)	133	NM
Tax effect on foreign exchange (gain)/loss	14	(69)	NM
Change in fair value of contingent consideration liability	22	(4)	NM
Tax effect on change in fair value of contingent consideration	(0)	–	N/A
Underlying net earnings	**382**	**291**	**+31%**

Basic earnings per share were US$0.93 per share compared with US$0.52 per share in 2015. Underlying basic EPS[2] was US$0.90 per share, compared with US$0.70 per share in 2015.

In accordance with the Company's dividend policy, the Board is proposing to pay a final dividend of US$0.18 per share (giving a total expected dividend of US$77 million) representing 30% of the Group's underlying net earnings for the period. During 2016, Polymetal paid a total of US$158 million in dividends, representing final dividends for FY 2015, interim dividends for the 1H 2016 and special dividends for 2016 paid on the back of strong free cash flow generation.

CAPITAL EXPENDITURE[3]

	2016 US$m	2015 US$m	Change
Kyzyl	75	32	+136%
Amursk/Albazino	33	20	+71%
Dukat	26	28	-5%
Mayskoye	20	21	-6%
Okhotsk operations	19	26	-28%
Varvara	10	15	-35%
Omolon	9	8	+20%
Kapan	8	–	N/A
Voro	3	3	0%
Corporate and other	6	5	+18%
Exploration	45	47	-4%
Capitalised stripping	28	16	+76%
Capitalised interest	5	4	+36%
	288	**224**	**+29%**

In 2016, total capital expenditure increased by 29% to US$288 million compared with the prior period, mainly driven by active construction at Kyzyl. Capital expenditure excluding stripping costs was US$260 million in 2016 (2015: US$209 million).

[1] Underlying net earnings represent net profit for the year excluding the impact of key items that can mask underlying changes in core performance.
[2] Underlying basic EPS are calculated based on underlying net earnings.
[3] Total capital expenditure includes amounts payable at the end of the period. On a cash basis, capital expenditure was US$271 million in 2016 (2015: US$205 million).

The major capital expenditure items in 2016 were:

- Across all mature open-pit mines, except for Albazino, capital expenditures remained almost unchanged or decreased year-on-year and were mainly represented by mining fleet upgrades/replacements and maintenance expenditure at the processing facilities.
- US$33 million was invested at Albazino/Amursk, mostly related to the POX debottlenecking project (planned to reach full expanded capacity in the second half of 2018) and commencement of underground development at the Olga zone.
- At Kyzyl, Polymetal started full-scale construction in Q2 2016 and capital expenditure in 2016 comprised US$75 million representing mainly by construction costs of the processing plant building, the bridge cranes, foundations for processing equipment, first deliveries of processing equipment (thickener, dryers, screens) and external infrastructure (road, electricity, water). An additional US$16 million of pre-stripping costs were capitalised (included in capital stripping line).
- The Company continues to invest in standalone exploration projects. Capital expenditure on exploration in 2016 was US$45 million compared with US$47 million in 2015. The exploration programme was focused, in addition to near-mine properties, mostly on Kyzyl, Svetloye, Olcha and PGM assets.
- Capitalised stripping costs totalled US$28 million in 2016 (2015: US$16 million) and are attributable to operations with stripping ratios exceeding their life of mine ('LOM') averages during the period, including most importantly Kyzyl, Varvara, Voro and Albazino. The increase is mainly related to the beginning of stripping campaign at Kyzyl.
- Total capital expenditure in 2016 includes US$5 million of capitalised interest (2015: US$4 million) mainly related to small-scale growth projects.

CASH FLOWS

	2016 US$m	2015 US$m	Change
Operating cash flows before changes in working capital	557	505	+10%
Changes in working capital	(27)	(14)	+93%
Total operating cash flows	**530**	**491**	**+8%**
Capital expenditure	(271)	(205)	+32%
Acquisition costs in business combinations and investments in associates and joint ventures	(128)	(7)	NM
Kyzyl put option settlement	–	(68)	-100%
Other	(2)	(20)	-90%
Investing cash flows	**(401)**	**(300)**	**+34%**
Financing cash flows			
Net increase in borrowings	26	27	-4%
Dividends paid	(158)	(300)	-47%
Contingent consideration payment	(2)	(1)	+100%
Total financing cash flows	**(134)**	**(274)**	**-51%**
Net decrease/increase in cash and cash equivalents	**(5)**	**(83)**	**-94%**
Cash and cash equivalents at the beginning of the year	52	157	-67%
Effect of foreign exchange rate changes on cash and cash equivalents	1	(22)	-105%
Cash and cash equivalents at the end of the year	**48**	**52**	**-8%**

Operating cash flows in 2016 strengthened compared with the prior period. Operating cash flows before changes in working capital grew by 10% year-on-year to US$557 million as a result of an increase in Adjusted EBITDA. Net operating cash flows were US$530 million, compared with US$491 million in 2015. This was also slightly affected by an increase in working capital in 2016 of US$27 million.

Total cash and cash equivalents decreased by 8% compared with 2015 and comprised US$48 million, with the following items affecting the cash position of the Group:

- Operating cash flows of US$530 million;
- Investment cash outflows totalled US$401 million, up 34% year-on-year and mainly represented by capital expenditure (up 32% year-on-year to US$271 million), cash investments in the Nezhda joint-venture (US$21 million), and the acquisition of Komar (US$100 million) and Kapan (US$9 million);
- Payment of regular and special dividends for 2015 and 1H 2016 amounting to US$158 million; and
- The net increase in borrowings of US$26 million.

BALANCE SHEET, LIQUIDITY AND FUNDING

	31 Dec 16 US$m	31 Dec 15 US$m	Change
Short-term debt and current portion of long-term debt	98	287	-66%
Long-term debt	1,280	1,063	+20%
Gross debt	**1,378**	**1,350**	**+2%**
Less: cash and cash equivalents	48	52	-8%
Net debt	**1,330**	**1,298**	**+2%**
Adjusted EBITDA	**759**	**658**	**+15%**
Net debt/Adjusted EBITDA	**1.75**	**1.97**	**-11%**

The Group aims to maintain a comfortable liquidity and funding profile in the current volatile market environment.

The Group's net debt increased slightly to US$1,330 million as of 31 December 2016, while the key leverage ratio of Net debt/Adjusted EBITDA (over the last 12 months) ratio decreased to 1.75x compared with 1.97x as of the beginning of the year.

The proportion of long-term borrowings comprised 93% as at 31 December 2016 (79% as at 31 December 2015).

In addition, as at 31 December 2016 the Group had US$1.0 billion (31 December 2015: US$1.2 billion) of available undrawn facilities, of which US$0.9 billion is committed, from a wide range of lenders. This ensures that Polymetal maintains its operational flexibility in the current environment.

The average cost of debt remained low at 4.33% in 2016 (2015: 4.06%), despite moderate growth in base rates as the Group was able to negotiate competitive margins given the solid financial position of the Company and Polymetal's excellent credit history. The Group is confident in its ability to repay its existing borrowings as they fall due.

2017 OUTLOOK

While we recognise that our financial performance is dependent on the RUB/US$ exchange rate, inflation in Russia, and oil price dynamics, Polymetal expects to deliver a resilient financial performance at current price levels which will be driven by the following factors:

- The Company reconfirms its production guidance for 2017 and 2018 of 1.40 Moz and 1.55 Moz of gold equivalent, respectively.
- In 2017, Polymetal expects total cash costs of US$600-650/GE oz and all-in sustaining cash costs of US$775-825/GE oz on the back of rising domestic diesel prices and continuing strengthening of the Russian Rouble.
- The capital expenditure guidance for 2017 is US$370 million, an increase of US$30 million compared with the previous guidance. Additional investments will be directed towards the new project pipeline including Nezhda, Prognoz, and Viksha.
- As a result, the Company expects to continue to generate meaningful free cash flow with the capacity to make further dividend payments in 2017.

RISK AND RISK MANAGEMENT

Effective risk management is critical to the long-term sustainability and success of the precious metals mining business with its significant exposure to macroeconomic cycles and geopolitical challenges.

At Polymetal, we have developed a robust culture of risk management, which we believe is paramount to delivering sustainable value to our stakeholders. As the global and local markets, in which we operate, continue to be volatile in many ways – commodity prices, exchange rates, macroeconomic stability, climatic conditions – the Board continues to place significant focus on risk management, including both risk identification and response.

RISK MANAGEMENT SYSTEM

Polymetal's risk management systems and processes are designed to minimise the potential threats to achieving our strategic objectives.

Internal control and risk management systems are continuously reviewed to incorporate global best practices and add value to our business.

The risk management process includes the following stages:

- identification and documentation of risks;
- qualitative and quantitative assessment of each risk;
- development and implementation of risk mitigation/ control strategies;
- monitoring, reporting and reviewing risks; and
- establishment and enhancement of effective internal control procedures.

The Audit and Risk Committee of the Board sets the agenda for the risk management policies and procedures of the Group and is responsible for reviewing their effectiveness. Its duties include the review of:

- policies and processes to identify and assess principal business risks and to manage their impact on the Company and the Group;
- regular assurance reports from management, internal audit, external audit and others on matters related to risk and control;
- periodic 'deep dives' into significant risk areas; and
- the timeliness of and reporting on the effectiveness of corrective actions taken by management.

RISK IDENTIFICATION

Risk awareness is embedded within the Group and is grounded in our strong ethical values and pro-active corporate culture. Our risk management philosophy is cascaded top down from the Company's Board of Directors and runs through all our management, employee and connected stakeholder activities – from developing strategy to day-to-day operations.

Risk management is one of the key functions of the Audit and Risk Committee. Principal risks are identified by the Board based on a detailed understanding of the Company, its markets and the legal, social, political, economic, technological, environmental and cultural environments in which we operate. Our risk identification system considers not only single, mutually exclusive risks, but also multiple linked and correlated risks.

RISK MANAGEMENT PROCESS

Our policy is to identify and assess risks at the earliest possible stage and to implement an appropriate risk response and internal controls in advance. Our risk management procedures are designed to delegate the responsibility for risk identification while avoiding gaps and duplications. Risk identification requirements are also taken into account in the design of accounting and documentation systems in order to be able to identify and process information on potential risk triggers.

The Audit and Risk Committee has approved risk KPIs for all principal risks and monitors these KPIs on a quarterly basis. Risk matrices and assurance maps are used to record, prioritise and track each risk through the risk management process. These are reviewed regularly by the Audit and Risk Committee.

RISK ASSESSMENT

Once identified, potential risk factors are assessed to consider the quantitative and qualitative impact that they might have on the business and the likelihood of the event (see table below). Together these create a risk profile.

RISK RESPONSE

When the appropriate ranking has been identified, a response to each risk is formulated and implemented. Management assesses the effects of a risk's likelihood and impact, as well as the costs and benefits of possible mitigating actions. A response is then determined and implemented to bring the risk within acceptable tolerance levels.

MONITORING AND REPORTING

Ongoing monitoring processes are embedded in Polymetal's business operations. These track the effective application of internal control and risk management policies and procedures, including internal audit and specific management reviews. Risk matrices and assurance maps are used to re-evaluate and adjust controls in response to changes in the Company's objectives, its business and the external environment.

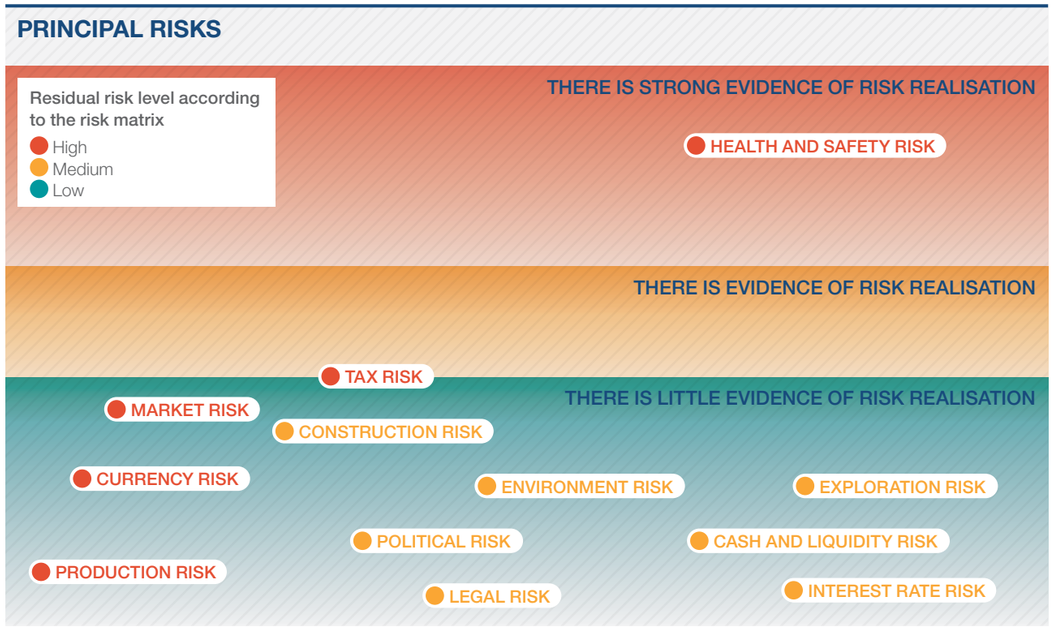
Management is responsible for the implementation of effective follow-up procedures to ensure appropriate actions occur in response to changes in risk and control assessments.

RISK MATRIX

CONSEQUENCE					
LOSS TYPE	INSIGNIFICANT	MINOR	MODERATE	MAJOR	CATASTROPHIC
Harm to people	Slight injury or health effects – first aid/ minor medical treatment level	Minor injury or health effects – restricted work or minor lost workday case	Major injury or health effects – major lost workday case/ permanent disability	Permanent total disabilities, single fatality	Multiple fatalities
Environmental impact	Minimal environmental harm	Material environmental harm	Serious environmental harm	Major environmental harm	Extreme environmental harm
Business disruption/asset damage & other consequential loss	Less than 1% Adjusted EBITDA	1-5% Adjusted EBITDA	5-10% Adjusted EBITDA	10-20% Adjusted EBITDA	More than 20% Adjusted EBITDA
Legal and regulatory	Low level legal issue	Minor legal issue; non-compliance and breaches of the law	Serious breach of law; investigation/ report to authority, prosecution and/or moderate penalty possible	Major breach of the law; prosecution and penalties applied	Very considerable penalties and jail term
Impact on reputation	Slight impact – public awareness may exist but no public concern	Limited impact – local public concern	Considerable impact – regional public concern	National impact – national public concern	International impact – international public concern

LIKELIHOOD				
RARE	UNLIKELY	POSSIBLE	LIKELY	ALMOST CERTAIN
The unwanted event has never been known to occur in the business; or is highly unlikely that it could occur in the next 20 years	The unwanted event has happened in the business at some time; or could happen within 20 years	The unwanted event could well have occurred in the business at some point within 10 years and may re-occur within 10 years	The unwanted event has occurred infrequently; occurs less than once a year and is likely to re-occur within 5 years	The unwanted event has occurred frequently: occurs one or more times per year and is likely to re-occur within one year

OUR PRINCIPAL RISKS



RISK DESCRIPTION AND POTENTIAL EFFECT	RISK RESPONSE	RISK LEVEL 2016	RISK LEVEL 2015
1 Market risk			
Gold and silver price volatility may result in material and adverse movements in the Company's operating results, revenues and cash flows.	The Company has developed and implemented procedures to ensure consistent cash flow generation at operating mines, including: • redistribution of ore feedstock between deposits within a hub to achieve better margins due to better grade profile, better logistics or less expensive mining methods; • deferring the start of production while continuing ore stacking to achieve better cost profiles due to positive effects of scale; • managing the volume of third-party ore purchases; • staffing level review and hiring freeze; and • asset-level cost-cutting. Reserve and resource prices, as well as cut-off grades, are reviewed at least annually to conservatively reflect the prevailing commodity price levels. Short-, medium-, and long-term life-of-mine plans are adjusted as appropriate. Stress testing for these conservative price assumptions is performed to ensure resilience of the operating mines in a stress scenario and continued value creation. Contingency action plans have been developed to address performance in a stress scenario. While the precious metals prices remain volatile, the measures taken by the Company ensured that each operating mine remained cash flow positive. The Company will continue with this approach. Currently the Group does not hedge its commodity price exposure since its strategy is to offer stakeholders full exposure to the potential upside of gold and silver pricing.	●	●

RISK DESCRIPTION AND POTENTIAL EFFECT	RISK RESPONSE	RISK LEVEL 2016	RISK LEVEL 2015
2 Production risks			
The risk of failure to meet the planned production programme. Failure to meet production targets may adversely affect operating performance and the financial results of the Group. The key sources of risk may include: • inability to achieve volume, grade or recovery assumed in life-of-mine plans; • failure of supply chains to procure complex logistics to remote locations; • failure to retain key employees or to recruit new staff; and • failure of contractors to meet required performance standards.	**Inability to achieve volume, grade or recovery assumed in life-of-mine plans** Annual, quarterly and monthly production budgeting and subsequent monthly control against budget is designed to mitigate the risk. The effectiveness and efficiency of the production process is ensured by the Group's engineering team senior management. An approved production programme includes increased volume of operational prospecting works, such as in-fill drilling and grade control sampling. To mitigate the risk, the Group invests considerable amounts in ore quality assessment procedures and seeks to control ore quality by formation of ore stacks with the required characteristics. **Failure of supply chains to procure complex logistics to remote locations** The Group has implemented and constantly improves the supply chain system to closely link the production demand of resources with inventory levels, optimise the number of order placements and ensure the in-time inventory and equipment delivery to production sites. **Failure to retain key employees or to recruit new staff** A working conditions improvement programme is in place. Remuneration policies are designed to incentivise, motivate and retain key employees. There is an increased focus on health and safety – refer to pages 48-49 of this report. There is an active promotion of a positive corporate culture within the Group. **Failure of contractors to meet required performance standards** The contractors' performance control system is designed, implemented and applied.	●	●
3 Construction and development risk			
Inability to achieve target return on capital for large investment projects, such as building new mines and processing facilities or extension/refurbishment of existing operating mines, due to delay in commissioning or capital expenditure overruns. This may have a negative impact on the Group's financial performance and cash flows.	The Company applies global best practices in project management. The Group's technical personnel are in charge of the project's capital expenditure, including project support, supply chain management and permitting process. A significant share of projects is developed by the in-house engineering company, Polymetal Engineering, that has vast experience and a successful track record of design and ramp up of mines and processing facilities. We are continuously improving our construction risk management systems and employ leading world-class consultants in applicable areas.	●	●
4 Tax risks			
Due to frequent changes in tax legislation in Russia, Kazakhstan and Armenia, lack of established practices in tax law means that additional costs such as taxes or penalties may occur. The taxation risk level correlates with the legal and political risks levels.	The Group's policy is to comply fully with the requirements of the applicable tax laws, providing adequate controls over tax accounting and tax reporting. Nevertheless, the ongoing changes to Russian, Kazakh and Armenian tax legislation, and evolving practice of application of these laws in courts, could lead to tax disputes and potential additional tax liabilities. The Group regularly evaluates its tax positions and makes sure they are adequately reflected in the consolidated financial statements. To date, the Group is not aware of any significant outstanding tax claims, which could lead to additional taxes accrued in the future (except for amounts already booked or disclosed in the Group's financial statements).	●	●
5 Exploration risks			
Exploration and development are time- and capital-intensive activities and may involve high degrees of risk but are necessary for the future growth of the business. Failure to discover new reserves of sufficient magnitude could adversely affect the Company's future performance.	Risk and uncertainty are inherent for exploration and development activities. The Group invests considerable amounts in key exploration projects to obtain sufficient information about the quantity and quality of new reserves and to estimate expected cash flows. The Group's Chief Geologist and engineering teams have a strong track record of successful greenfield and brownfield exploration, leading to the subsequent development of exploration fields into commercial production.	●	●

RISK DESCRIPTION AND POTENTIAL EFFECT	RISK RESPONSE	RISK LEVEL 2016	RISK LEVEL 2015
6 Health and safety risk			
The Group operates potentially hazardous sites such as open-pits, underground mines, exploration sites, processing facilities and explosive storage facilities. The operation of these sites exposes our personnel to a variety of health and safety risks.	A control system covering occupational and industrial safety in the Company is in place, including risk assessment of individual work places and the use of safety equipment for the protection of personnel. The Company has reinforced the need for individual responsibility for personal safety and risk awareness, and developed additional security measures to ensure strict compliance with safety requirements by employees. The Group's general approach to this risk is determined by the Group's Health and Safety Policy, which serves as the basis for the Occupational Health and Safety Management System (OHSMS). The Group adopts the industry's global best practices in managing these risks and ensuring safe working conditions for our employees. Our OHSMS ensures compliance with international, national and local regulatory requirements and is based on modern standards. It is also certified in accordance with the OHSAS 18001. However, in 2016 we sadly report four fatalities on our sites, which are mainly related to increased volumes of underground mining in complex geotechnical conditions. Polymetal places great value in its workers' health and safety, and given the increased frequency of injuries and fatalities for the second consecutive year, the risk level has been increased and assessed as 'high'. In response, the Group has tightened up safety procedures across all its operating mines and implemented additional measures to ensure proper enforcement of these stricter safety standards. We have intensified training programmes, with a particular focus on high-risk functions, and implemented a number of other measures, including a change of underground mining methods at certain sites. We are continuing to conduct a detailed review of the source of injuries and are further improving the shift risk assessment system, as well as conducting an external audit of our health and safety system.	●	●
7 Environmental risk			
Major pollution arising from operations include: deforestation, air and water pollution, land contamination. Potential impacts include fines and penalties, statutory liability for environmental redemption and other financial consequences that might be significant.	The Company operates a certified environmental management system which meets international standards and is audited for compliance. The Company has implemented a number of initiatives to monitor and limit the impact of its operations on the environment, including external expert assessment of pollution generated and adopting industry best practices for corporate and mine level policies and procedures.	●	●
8 Legal risk			
Operating in developing countries, such as Russia, Kazakhstan and Armenia, involves the risk that changes in tax and other legislation may occur from time to time. The most sensitive areas are regulation of foreign investments, private property, environmental protection and taxation. In recent years, the governments of Russia and Kazakhstan have become more consistent regarding the introduction of new regulations and taxes, demonstrating an awareness of investment climate issues. However, in the application of existing legislation requiring interpretation, courts often uphold the more assertive position of the tax authorities, which does not always coincide with the Company's position. As a result of changes in laws and regulations, certain types of transactions and technologies may become unavailable to the Group or the costs of compliance may be increased.	Polymetal has a successful track record of operating in Russian and Kazakh jurisdictions, having developed its own expertise in corporate, tax, licensing and other legal areas. Following the commencement of business activity in Armenia, the Group established a regional office in Yerevan that employs experts with sufficient competence in Armenian legislation. Corporate and operating management teams are responsible for meeting the legal requirements in their operating activities. Head office and on-site legal teams guarantee appropriate controls over compliance issues. The Group's policy is to ensure strict legal compliance in all jurisdictions where Group companies operate. The Group's financial and legal teams monitor current legislation and proposed changes, and incorporate these into the practice, involving leading external experts where appropriate.	●	●

RISK DESCRIPTION AND POTENTIAL EFFECT	RISK RESPONSE	RISK LEVEL 2016	RISK LEVEL 2015
9 Political risk			
Operating in Russia, Kazakhstan and Armenia involves some risk of political instability, which may include changes in government, negative policy shifts and civil unrest. Financial and economic sanctions imposed in 2014 by the United States and the European Union on certain businesses and individuals in Russia have increased political tensions and increased economic instability; there is a risk that further sanctions could impact the Group's ability to operate in Russia. Russia's complex relations with the United States and European Union, as well as its involvement in conflicts in the Middle East, may potentially present a risk to Group's operations. In addition, there is a risk that due to the deterioration of macroeconomic situation, governments in Russia, Kazakhstan and Armenia may consider imposing currency controls and limitations on capital flows. These factors are not expected to affect the Group's operating performance, yet may have a negative on the ability of the Group to secure external financing. These factors may have an adverse effect on the Group's market value and operating environment.	The Group actively monitors political developments on an ongoing basis. We aim to maintain open working relationships with local authorities in the countries where we operate. Sanctions imposed on Russian individuals and businesses in 2014-2016 have not currently had any direct influence on the Group's operations. However, at the same time, to a limited extent they have affected both the macroeconomic situation in Russia and interest rates for borrowings.	●	●
10 Currency risk			
The risk arises from Company's receipts from metal sales and foreign currency denominated debt, as well as the foreign currency denominated cost of imported capital goods and consumables.	Natural hedging is used to reduce the risk exposure: revenue is matched with US Dollar-denominated debt. Flexible budgeting is used to monitor the effect of exchange rate fluctuations on the Group's financial results. The Group has determined critical exchange rates levels for its operations and is monitoring risk against these levels. During 2016 there was moderate volatility of the Russian Rouble and Kazakh Tenge exchange rates against foreign currencies. The Company believes that critical devaluation of these currencies is unlikely. The Armenian Dram was the most stable currency in the region during 2016.	●	●
11 Liquidity risk			
The inability to raise sufficient funds to meet current operating or ongoing financial needs or to develop new projects and growth. Inadequate cash management in terms of cash flow forecast, available resources and future requirements.	The Group's treasury function is responsible for ensuring that there are sufficient funds in place, including loan facilities, cash flow from operating activities and cash on hand to meet short-term business requirements. Long-term credit lines and borrowings are used to finance new projects and organic growth. The Group ensures that significant undrawn committed facilities are in place to cover any funding gaps.	●	●
12 Interest rate risk			
The Group is exposed to the interest rate risk as the significant part of the Group's debt portfolio is US Dollar-denominated floating rate borrowings.	Based on analysis of the current economic situation, the Group prefers to mainly accept the risk of floating interest rate rather than hedge it or borrow at fixed rates. The Group monitors the recent trends for any increase in base rates by the US Federal Reserve following the election results in the United States. The interest rate levels have not yet changed significantly. However, the Group does not rule out the possibility of fixing the interest rate on its borrowings in the future should assessment of the ongoing economic situation suggest this would reduce the risk level. Due to the financial sanctions imposed against some Russian banking institutions in 2014, the overall level of interest rates in Russia has increased. Considering this, the Group has assessed the risk level as medium.	●	●

BOARD OF DIRECTORS

BOBBY GODSELL
CHAIRMAN OF THE BOARD OF DIRECTORS

N

Appointed 29 September 2011.

Previous experience Chairman of Business Leadership South Africa, President of the South African Chamber of Mines, Chairman of Eskom, Chief Executive of AngloGold Ashanti, Director of African Barrick Gold and Solar Capital, Chair of the Board of Optimum Coal Holdings, acquired by Glencore plc. Director of Platmin Limited, Member of the South African National Planning Commission.

Qualifications BA from the University of Natal and MA from the University of Cape Town.

Other roles Co-Chairman of the South African Millennium Labour Council. Non-executive Director of the South African Industrial Development Corporation.

CHRISTINE COIGNARD
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

R A N

Appointed 01 July 2014.

Previous experience 28 years' experience in the banking industry and advisory services world-wide, gained banking experience at Royal Bank of Canada, Société Générale and Citi; International Consultant for the Apogee Gold Fund based in Boston; project manager for Interros in Russia; Director of investments and financing for Norilsk Nickel; Managing Director at HCF International Advisers.

Qualifications Business degree from EMLYON, France, and MBA from the Schulich School of Business, Toronto, Canada.

Other roles Managing Director and Founding partner of Coignard & Haas GmbH.

VITALY NESIS
GROUP CHIEF EXECUTIVE OFFICER

S

Appointed 29 September 2011.

Previous experience JSC Polymetal's Chief Executive from 2003, Member of its Board, 2004–2012. CEO of Vostsibugol, 2002–2003. Strategic Development Director at the Ulyanovsk Automobile Plant in 2000. Head of the Investment Planning Department at SUAL-Holding, 2001-2002. McKinsey in Moscow,1999-2000. Merrill Lynch in New York, 1997-1999.

Qualifications BA in Economics from Yale University; MA in Mining Economics from St. Petersburg Mining Institute.

MARINA GRÖNBERG
NON-EXECUTIVE DIRECTOR

S

Appointed 29 September 2011.

Previous experience Board member of JSC Polymetal, 2008-2012. Various positions in banks and private equity firms.

Qualifications Degrees in Economics and Finance, and in Law from Moscow State Law Academy and in Applied Mathematics from Moscow State University.

Other roles Board member of Waterstones (UK), Hachette-Atticus, MIG Credit, Marenco Swiss Helicopters, PIK Group and Nexwafe GmbH; Managing Director of Lynwood (Schweiz); member of the Board of A&NN Investments, Lynwood Investments and Vitalbond; Member of the Supervisory Board of Tallano Technologie (France); Chairman of Alpha Trust Investment committee; President of the Charity Fund named after Nadezhda Brezhneva.

JEAN-PASCAL DUVIEUSART
NON-EXECUTIVE DIRECTOR

Appointed 29 September 2011.

Previous experience Managing Partner for Central Europe and the CIS at McKinsey; joined McKinsey in 1992 and worked in Brussels, New York and Central Europe before becoming Managing Partner in Prague. Advised to banks, insurers and industrial companies in Russia and Central Europe. Former Executive Director of Nomos Bank.

Qualifications MBA from the University of Chicago; Master's degree in Commercial Engineering, Catholic University of Louvain, Belgium.

Other roles Shareholder of PPF Group N.V. since 2010. Board member of Home Credit B.V., the Anglo-American School of Moscow and Charity foundation Foodbank Rus. Member of the European Regional Business Council of the World Economic Forum Davos.

KONSTANTIN YANAKOV
NON-EXECUTIVE DIRECTOR

Appointed 29 September 2011.

Previous experience Member of JSC Polymetal's Board of Directors, 2008-2012 and member of its Audit Committee. Various positions at MDM Bank. CFO of JSC Polymetal until 2004. Member of the Board at Piraeus Bank, Inbank, Greek Organisation of Football Prognostics (OPAP S.A.) and Tiscali S.p.A.

Qualifications MBA from the London Business School; PhD in Economics from the Russian State University of Management; degree in Global Economics from the Government of Russia's Finance Academy.

Other roles Deputy Director General in charge of Finance at CJSC ICT, Director of ICT Holding Ltd, member of the Board at O1 Properties Limited, member of the Supervisory Board of Rigensis Bank, and member of the Board of the non-state pension fund 'Future'.

RUSSELL SKIRROW
INDEPENDENT NON-EXECUTIVE DIRECTOR

A S

Appointed 29 September 2011.

Previous experience Board member of JSC Polymetal, 2008–2012. Total of 36 years' experience working in the global mining industry and investment banking, including ten years at Merrill Lynch in London as Head of Global Metals, Mining & Steel Research and subsequently as Global Chairman of the Metals/Mining investment banking team, and during the 1980s and early 1990s in Gold Fields Ltd (South Africa) and Western Mining Corporation in Australia, and the USA. Chairman of Dampier Gold Ltd 2010-2013.

Qualifications BSc with Honours in Geology from Durham University and a PhD from the Royal School of Mines, Imperial College, London. Member of the Institute of Materials, Minerals & Mining with Chartered Engineer status and Fellow of the Financial Services Institute of Australasia.

Key

- Committee Chair
- A Audit and Risk Committee
- N Nomination Committee
- R Remuneration Committee
- S Safety and Sustainability Committee

JONATHAN BEST
INDEPENDENT NON-EXECUTIVE DIRECTOR

A R

Appointed 29 September 2011.

Previous experience Over 35 years' experience in the mining industry. Board member of JSC Polymetal, 2006-2012; Chairman of the Audit Committee of Gulf Industrials; Chairman of Sentula Mining and Bauba Platinum, and member of their nomination and remuneration committees; Chairman of GoldStone Resources; Interim CEO of Trans-Siberian Gold in 2006; CFO and Executive Director of AngloGold Ashanti.

Qualifications MBA from the University of the Witwatersrand, Johannesburg, Chartered Management Accountant (ACMA), Associate of the Chartered Institute of Secretaries and Administrators.

Other roles Non-executive Director of AngloGold Ashanti Holdings plc and Chairman of its Audit Committee; Non-executive Director and Chairman of the Audit Committee of Metair Investments.

LEONARD HOMENIUK
INDEPENDENT NON-EXECUTIVE DIRECTOR

S N R

Appointed 29 September 2011.

Previous experience Board member of JSC Polymetal, 2010-2012. President, CEO and member of the Board of Directors of Centerra Gold, 2004-2008. Chair, President and Chief Executive Officer of Polygon Gold Inc., 2011-2014. Held executive positions with Centerra Gold, Kumtor Gold and Cameco Corporation.

Qualifications MSc from the University of Manitoba. Member of the Ontario Society of Professional Engineers, the Canadian Institute of Mining and Metallurgy and the Prospectors and Developers Association of Canada. Honorary Professor at the Kyrgyz Mining Institute.

Other roles Director of Trade Ideas LLC.

SENIOR MANAGEMENT

VITALY SAVCHENKO
CHIEF OPERATING OFFICER

Appointed 2009.

Experience Director of the Production Department, 2007-2009, senior production and technical positions since 2004. Chief underground mine engineer at Priargunskoye Mining and Chemical Company as well as various managing positions at the mine, 1994-2003. Recipient of second and third-category Miner's Glory Medal.

Qualifications Degree with Honours in underground mineral mining engineering, Kyrgyz Mining Institute; MBA from the UK's Open University Business School.

SERGEY TRUSHIN
DEPUTY CEO, MINERAL RESOURCES

Appointed 2010.

Experience Chief Geologist at the Khabarovsk Exploration Company, 2008-2010. Chief Geologist at Albazino Resources 2006-2008 and various positions at Albazino Resources since 1998. Geologist with Dalnevostochnie Resources, 1991. Geologist with the Production Geological Association 'Dalgeology' and the Nizhne-Amursk exploration expedition in the preceding six years.

Qualifications Degree in Geological Surveying and Mining Engineering Exploration from the Novocherkassk State Polytechnic Institute.

PAVEL DANILIN
DEPUTY CEO, STRATEGIC DEVELOPMENT

Appointed 2009.

Experience Previous roles in Polymetal: Director of Corporate Finance and Investor Relations, Head of Corporate Finance. Head of Corporate Finance at CJSC ICT, 2002 and 2003. Deputy Head of Currency Department and Head of Financial Resources Department at the Kaliningrad branch of Bank Petrocommerce, 1998-2001.

Qualifications MBA from the University of California at Berkeley, Haas School of Business. Degree in Economics and Management, Kaliningrad State Technical University.

ROMAN SHESTAKOV
DEPUTY CEO, PROJECT DEVELOPMENT AND CONSTRUCTION

Appointed 2009.

Experience Chief Engineer at Gold of Northern Urals, 2007-2009; pit superintendent 2006-2007. Mine superintendent at the Okhotsk Mining and Exploration Company, 2004-2005. Mining engineer in the Production and Technical Department of JSC Polymetal Management in the preceding two years.

Qualifications Honours degree in Open-pit Mining from the Mining Department of the St. Petersburg State Mining Institute. MBA from the UK's Open University Business School.

MAXIM NAZIMOK
CHIEF FINANCIAL OFFICER

Appointed 2017.

Experience Previous roles in Polymetal: Chief Financial Controller, 2011-2015, and Finance Director of Polymetal, 2015-2016. Deputy Chief Financial Officer at Nomos Bank in 2011-2012, Director of Business Planning and Analysis since 2009. Head of Management and IFRS Reporting at MDM Bank, 2008-2009. Various financial positions at PriceWaterhouseCoopers, 2003-2008.

Qualifications BA in Economics from St. Petersburg State University; graduated with distinction from the Executive MBA-Global Programme at London Business School and Columbia Business School. Fellow member of ACCA.

VALERY TSYPLAKOV
MANAGING DIRECTOR, POLYMETAL ENGINEERING

Appointed 2004.

Experience Previous roles in Polymetal: Deputy General Director for Mineral Resources, Design and Technology and senior roles in the Production and Technology and Technological Research Departments, 2000-2004. Department Head at the Soviet Union Research Institute of Aeronautical Automation and, prior to this, a quest scientist at Aarhus University's Physics Institute (Denmark). Research Fellow in the Plasma Physics Department of the Moscow Physics and Engineering Institute. Professional Member of the Institute of Materials, Minerals & Mining (London).

Qualifications Degree in Experimental Nuclear Physics, the Moscow Physics and Engineering Institute. PhD in Physics and Mathematics.

IGOR KAPSHUK
CHIEF LEGAL OFFICER

Appointed 2015.

Experience Previously worked in Polymetal as Head of the Legal Department from 2005 and Deputy Head from 2003. Deputy General Counsel, Head of the Department for Legal Matters and Head of Claims Department at the branch of Siberia Energy Coal Company and at Vostsibugol (Irkutsk), 2001-2003. Legal advisor for Pharmasintez, 1999-2001. Legal advisor and acting Head of the Legal Department at the Irkutsk Tea-Packing Factory, 1997-1998. Legal adviser at an insurance company (Irkutsk), 1994-1997.

Qualifications Degree from the Law School of Irkutsk State University.

CORPORATE GOVERNANCE

TOGETHER WITH OUR SENIOR MANAGEMENT TEAM, WE ARE COMMITTED TO OBSERVING WORLD-CLASS ETHICAL STANDARDS AND RESPONSIBLE BEHAVIOUR ACROSS EVERY ASPECT OF OUR OPERATIONS AS WE TAKE THE BUSINESS FORWARD.

Dear Shareholders

During 2016, delivering value to our shareholders remained our paramount priority and we were able to fulfil our commitment by generating free cash flow and translating it into meaningful dividends. Because of our adherence to a strict capital discipline, we did this while maintaining a comfortable leverage level. This achievement is all the more significant given the continuing volatility in our markets and the uncertainty caused by a number of unexpected political outcomes worldwide.

We remained focused on our strategy and made considerable progress on all our major pledges:

- We want to pay a significant and sustainable dividend throughout the cycle – we are continuing to generate free cash flow and translate this into an industry-leading dividend through a combination of regular and special dividends.
- We want to grow our business without diluting its quality – we maintained production at existing mines, began production on several brownfield projects, including Svetloye.
- We will control costs and add high-quality reserve ounces at operating mines – we again delivered one of the lowest all-in sustaining cash costs (AISC) among our peers while maintaining flat production and making progress on our ambitious growth plan for the next four years.
- We want to deliver medium-term growth through building and ramping up Kyzyl, one of the best development-stage gold projects in the world – this is on track for production to start in 2018 and with lower costs than previously predicted due to the expansion at Amursk POX.
- We will opportunistically pursue M&A targets and greenfield exploration with high optionality – this year we completed a number of value-accretive deals, acquiring Kapan and Komar, establishing a greenfield PGM resource at Viksha and investing in Nezhda JV.

We operate an extensive investor relations programme that enables investors and analysts to gain a better understanding of our strategy and operations through regular presentations, webcasts and opportunities to engage in discussions with our senior team. Communicating openly with all our stakeholders about major plans within the business is core to both developing good relationships and creating value for Polymetal. In 2016, we also met with shareholders on remuneration matters and initiated an ongoing dialogue about corporate social responsibility.

Sadly, our safety record for the year was once again a major area of concern, with four fatalities at the Company's sites. Our Safety and Sustainability Committee, established in 2015, has been working hard to implement major improvements in our risk management procedures. The Committee met four times in 2016 and continues to address this situation. While we see certain improvements in underground mining, much needs to be done to achieve our goal of zero fatalities.

In addition to being included in FTSE4Good Global Index and FTSE4Good Europe Index last year, we were also included in the STOXX Global ESG Leaders Index for 2016. This external recognition of Polymetal's commitment to good environmental, social and governance practices is greatly valued by the Company. More details are available in our Sustainability Report 2016.

The ability of the business to compete successfully in its marketplace relies on effective and strategic leadership. As part of this, we pursue a rigorous approach to succession planning to ensure we retain the right combination of skills and experience and that leadership at all levels is aligned with our corporate strategy. Our Young Leaders Programme provides tailored training for the next generation of senior managers and is an invaluable source of talent for the Company.

Our stakeholders look to Polymetal to build and shape a successful future for the business. The Board has been entrusted with promoting and enforcing good corporate governance for the Company. Together with our senior management team, we are committed to promoting a healthy corporate culture and observing world-class ethical standards and responsible behaviour across every aspect of our operations as we take the business forward.

Bobby Godsell
Chairman

STATEMENT OF COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

The Directors are committed to maintaining high standards of corporate governance. As a premium UK-listed company, during the year ended 31 December 2016, Polymetal International was required to comply with the UK Corporate Governance Code (the UK Code) – published in September 2014 and available through the UK Financial Reporting Council's website – or, where the provisions of the UK Code have not been complied with, to provide appropriate explanations. During 2016, the Company was in compliance with all provisions of the UK Code.

As well as complying with the UK Code, the Company has complied with all applicable regulations of the Moscow Stock Exchange and Russian securities laws since its shares were admitted for secondary trading on the Moscow Exchange.

ROLE AND STRUCTURE OF THE BOARD

The Company's Board comprises the non-executive Chairman, one executive Director and seven non-executive Directors. Excluding the Chairman, four members of the Board are independent non-executive Directors. The graphic opposite shows the structure of the Board and its Committees, along with the status of each Director.

The independent non-executive Directors are those determined by the Board to be independent in character and judgement and to be free from relationships or circumstances which may affect or could appear to affect their judgement. The role of the independent Directors on the Board is to challenge the strategy and scrutinise the performance of management in meeting agreed goals and objectives, to monitor the reporting of the Company's performance, to review the integrity of financial information and ensure that the Company's internal financial controls and system of risk management are robust and defensible. They are responsible for determining the appropriate level of remuneration for the Group Chief Executive (Group CEO) and have a primary role in appointing and, when necessary, removing him.

Directors' interests are disclosed in annual declarations and the Company Secretary is notified promptly of any changes to those interests. Before each Board meeting, independent non-executive Directors reconfirm their independence and all Directors disclose whether they hold any interests in any matters to be reviewed at the Board meeting.

Non-independent non-executive Directors include Mr Yanakov (who is a representative of Powerboom Investments Limited); Ms Grönberg (who is a representative of Vitalbond Limited and Lynwood Capital Management Fund Limited) and Mr Duvieusart (who is a representative of PPF Group). Mr Nesis is the brother of the beneficial owner of Powerboom Investments Limited. Save for the potential conflicts inherent in these relationships, there are no potential conflicts of interest between the duties owed by the Directors or senior management to the Company and their private interests or other duties. The Company's corporate governance framework safeguards against any conflict of interest, including disclosure by directors of their interest at each board meeting, complete independence of the Audit Committee and disclosure of any related party transactions in the financial statements.

The Board has determined Jonathan Best, Christine Coignard, Leonard Homeniuk and Russell Skirrow to be independent non-executive Directors. Bobby Godsell met the independence criteria on appointment.

Jonathan Best has been on the Board of the Company since September 2011 and on the Board of JSC Polymetal since December 2006, and his re-appointment is subject to particularly rigorous review. The Board believes that Mr Best continues to display all of the qualities of independence pursuant to the criteria set out in the Code.

BOARD OF DIRECTORS

Chairman
Bobby Godsell (N)

Group CEO
Vitaly Nesis (S)

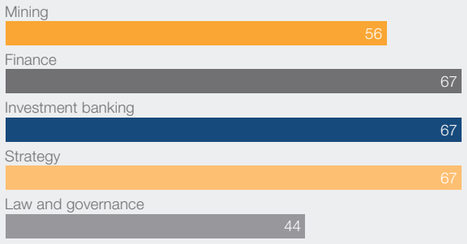
Non-executive Directors
Konstantin Yanakov
Jean-Pascal Duvieusart
Marina Grönberg (S)

Independent non-executive Directors
Christine Coignard (A R N)
Russell Skirrow (A S)
Jonathan Best (A R)
Leonard Homeniuk (R N S)

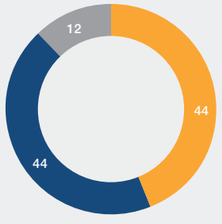
COMMITTEES

- (A) Audit and Risk Committee
- (R) Remuneration Committee
- (N) Nomination Committee
- (S) Safety and Sustainability Committee

BOARD SKILLS
(%)

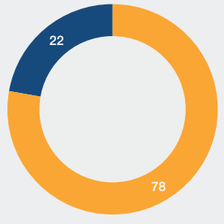


BOARD INDEPENDENCE
(%)



Independent Directors	4
Non-independent Directors	4
Chairman	1

BOARD DIVERSITY
(%)



Men	7
Women	2

The Company considers that the Board and its Committees have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. All Directors have access to the advice and services of the Company Secretary, and are able to take independent professional advice, if necessary, at the Company's expense.

BOARD MEETINGS

In 2016, the Board met seven times and had additional training sessions and informal discussions. Further business was approved by written resolution on one further occasion and by a Board Committee on six occasions (three by way of a written resolution). One additional matter was agreed by the whole Board and formally approved by way of a conference call between Messrs Godsell and Nesis on behalf of the Board.

The Board is responsible for:

- defining the commercial strategy and long-term objectives of the Group;
- approving annual operating and capital expenditure budgets and any material changes to them;
- overseeing the Group's operations, ensuring competent and prudent management, sound planning, a strong system of internal control, and compliance with all statutory and regulatory obligations;
- reviewing the performance of the Group in the light of its business strategy, objectives, business plans and budgets and ensuring that any necessary corrective action is taken;
- approving any material extension of the Group's activities into new businesses or geographic areas and any decision to cease to operate all or any material part of the Group's business
- ensuring a mutual understanding of objectives and maintaining constructive dialogue with shareholders; and
- promoting healthy corporate culture.

The schedule of matters reserved to the Board is reviewed at least annually.

ROLES OF THE CHAIRMAN, GROUP CEO AND SENIOR INDEPENDENT DIRECTOR

The Board has approved the division of responsibilities between the Chairman and the Group CEO and the role of the Senior Independent Director (SID).

CHAIRMAN

The Chairman reports to the Board and is responsible for the leadership and overall effectiveness of the Board and for setting the Board's agenda.

His responsibilities include:

- effective running of the Board;
- ensuring that there is appropriate delegation of authority from the Board to executive management;
- promoting a culture of openness and debate by facilitating the effective contribution of non-executive Directors in particular and ensuring constructive relations between executive and non-executive Directors;
- encouraging active engagement by all members of the Board and ensuring that the Directors receive accurate, timely and clear information; and
- ensuring that the views of the shareholders are communicated to the Board as a whole.

Mr Godsell is able to commit sufficient time to his role as non-executive Chairman of Polymetal International and the Board believes that other commitments do not adversely affect his contribution to the Company. Mr Godsell's other significant commitment is a non-executive directorship in the South African Industrial Development Corporation. He is also the Co-Chairman of the South African Millennium Labour Council.

GROUP CEO

The Group CEO exercises his role through his executive and/or Director positions in the Group sub-holding companies. He reports to the Chairman and the Board directly and upholds the Group's responsibilities to its shareholders, customers, employees and other stakeholders. He is responsible for the management of the Group and for developing the Group's business strategy, objectives, budget and forecasts, and overseeing their successful implementation, once approved by the Board.

The Board interacts with management on a regular basis. Directors invite senior managers to attend relevant parts of Board and Committee meetings to report on agenda items and participate in discussion.

The Group CEO's responsibilities include:

- developing and proposing Group strategy, including communicating annual plans and commercial objectives to the Board;
- upholding the Group's responsibilities to its shareholders, customers, employees and other stakeholders;
- identifying and executing strategic opportunities;
- reviewing the operational performance and strategic direction of the Group;
- making recommendations on remuneration policies, executive remuneration and terms of employment for senior employees;
- ensuring that the development needs of senior management are identified and met;
- ensuring effective succession planning; and
- ensuring effective communication with shareholders and that appropriate, timely and accurate information is disclosed to the market, with issues escalated promptly to management and the Board.

SENIOR INDEPENDENT DIRECTOR (SID)

Christine Coignard serves as a SID of Polymetal. Ms Coignard is available to major shareholders in order to listen to their views and help develop a balanced understanding of their issues and concerns. She also acts as an intermediary for the other Directors if necessary.

In 2016, Ms Coignard attended a series of one-on-one meetings with institutional shareholders and investors, arranged as part of the Company's roadshow, and the investor events organised by the Company's brokers. The Board is regularly updated on shareholders' opinions following meetings with the Directors and management.

Separate meetings are held between the non-executive Directors without the Chairman or the Group CEO being present; between non-executive Directors without the Chairman, led by the SID, to appraise his performance annually and on such other occasions as appropriate; and between the independent non-executive Directors without the other non-executive Directors being present. This includes both formal and informal meetings.

CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING

The Board uses the Annual General Meeting (AGM) to communicate with investors and to encourage their participation. To ensure the Company's shareholders have time to consider our Annual Report and Notice of AGM and lodge their proxy votes in good time, all meeting materials are made available more than 20 working days prior to the AGM. Separate resolutions are proposed on each substantially separate subject and all resolutions are put to a poll. The Company also offers shareholders the option to abstain.

Shareholders who are not able to attend the AGM are encouraged to submit proxy votes either electronically or in paper format. At the Company's 2016 AGM, we received votes representing approximately 83% of our issued share capital. The Company did not have a significant percentage of shareholders voting against any resolution.

The results of the proxy vote are presented at the meeting, with the final results announced via the London Stock Exchange and available on the website.

In addition, our AGM provides a valuable opportunity for shareholders to meet with and put questions to the Directors in person. The 2016 AGM was attended by the majority of Directors, including the Chairs of the Audit and Risk, Remuneration and Nomination Committees. The 2017 AGM of the Company will be held in London to enable easier participation of shareholders in the meeting.

The primary means of communication with the majority of our shareholders, who have not requested paper copies of our documentation, is through our corporate website: www.polymetalinternational.com.

NOMINATION COMMITTEE

The Nomination Committee is chaired by Mr Godsell and its other members are Mr Homeniuk and Ms Coignard. The Committee has responsibility for making recommendations to the Board on the composition of the Board and its Committees, including appointments of additional and replacement Directors.

The Committee:

- leads the process for Board appointments and makes recommendations to the Board;
- regularly reviews the Board structure, size and composition (including skills, knowledge, independence, experience and diversity) and makes recommendations to the Board about any changes that the Committee considers necessary;
- considers plans and makes recommendations to the Board for orderly succession to the Board and to senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board and to ensure progressive refreshing of the Board, taking into account the challenges and opportunities facing the Company;
- keeps under review the leadership needs of the Group, both executive and non-executive, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace;

BOARD COMPOSITION

Board member	Appointed	Executive	Non-executive	Independent	Audit and Risk Committee	Remuneration Committee	Nomination Committee	Safety and Sustainability Committee
Bobby Godsell	29 September 2011		✓				Chair	
Vitaly Nesis	29 September 2011	✓						Member
Jonathan Best	29 September 2011		✓	✓	Chair	Member		
Russell Skirrow	29 September 2011		✓	✓	Member			Member
Leonard Homeniuk	29 September 2011		✓	✓		Member	Member	Chair
Konstantin Yanakov	29 September 2011		✓					
Marina Grönberg	29 September 2011		✓					Member
Jean-Pascal Duvieusart	29 September 2011		✓					
Christine Coignard	1 July 2014		✓	✓	Member	Chair	Member	

BOARD AND COMMITTEE MEETING ATTENDANCE

	Board meetings[1] (seven)	Audit and Risk Committee meetings[2] (five)	Remuneration Committee meetings[3] (four)	Nomination Committee meetings (two)	Safety and Sustainability Committee[4] (four)
Bobby Godsell	all	NA	NA	all	NA
Vitaly Nesis	all	NA	NA	NA	all
Jonathan Best	all	all	all	NA	NA
Russell Skirrow	all	all	NA	NA	all
Leonard Homeniuk	all	NA	all	all	all
Konstantin Yanakov	all	NA	NA	NA	NA
Marina Grönberg	all	NA	NA	NA	all
Jean-Pascal Duvieusart	all	NA	NA	NA	NA
Christine Coignard	all	all	all	all	NA

[1] Further business was approved by written resolution on one occasion; by a Board Committee on six occasions (three by way of a written resolution). One additional matter was agreed by the whole Board and formally approved by way of a conference call between Messrs Godsell and Nesis on behalf of the Board.
[2] Further business conducted by the Audit and Risk Committee was approved by written resolution on five further occasions.
[3] Further business conducted by the Remuneration Committee was approved by written resolution on three further occasions.
[4] Further business conducted by the Safety and Sustainability Committee was approved by written resolution on one further occasion.

- evaluates the balance of skills, knowledge, experience, independence and diversity of the Board before any appointment is made by the Board, and in the light of this evaluation prepares a description of the role and capabilities required for a particular appointment and the expected time commitment; and
- reviews the results of the Board's performance evaluation process that relates to the composition of the Board and whether non-executive Directors are spending enough time in discharging their duties.

There were two formal meetings and one informal discussion of the Nomination Committee in 2016. At its meetings, the Committee:

- continued discussing succession planning in the Company, both at executive and non-executive level, including formalised CEO succession planning;
- continued to review the skills and experience of the Board, age and term limits of Directors, and concept of independence; reviewed legal considerations; reviewed the composition of the Board and its Committees; made recommendations to the Board about the re-election of all Directors at the AGM 2016;
- arranged the Company's second externally facilitated Board and Committee evaluation and discussion by the Board afterwards;
- reviewed HR reports (including headcount, costs, diversity, professional development and Young Leaders Programme information);
- reviewed Code of Conduct and Committee terms of reference; and
- approved working plan for the next year.

The Nomination Committee acknowledges that a deep and rigorous approach to succession planning is vital for the Company's continuing success and ensures that leadership is fully aligned to corporate strategy, both at Board and senior management levels.

The Young Leaders Programme is now fully established and will continue in 2017; this programme helps evaluate the talent pool for the Group and tailors training for the future senior management needs of the Group. As part of this programme, meetings take place between young leaders and Board members so that the Board has a chance to challenge the leaders and debate with them and the leaders can ask questions and interact directly with the Board. 40% of the programme participants in 2016 were women. An employee satisfaction survey was undertaken among the participants of the Young Leaders Programme, as well as a poll on how the Company can expand the skills of young leaders. Training opportunities for all of the Group's employees continue to be monitored. Employee feedback systems and grievance handling procedures operate at all the Group companies.

The Board welcomes diversity at all levels; it believes that the right way to approach diversity is by putting competence first and seeking the right qualities for each and every appointment. Diversity becomes a distinct advantage with such an approach and is in line with the Company's objective of promoting women at all levels of the Group. The Company facilitates promotion of women within its offices and operations, including hiring women in positions traditionally held by men. In 2016, the proportion of women working in the Group slightly decreased as a result of the recent acquisitions to 21% (2015: 23%). Women represent 22% of Board members (2015: 22%), 22% of senior management positions (2015: 23%); and 42% of qualified employees (2015: 44%).

Regular monitoring of compliance in relation to the Diversity Policy is undertaken by the HR department, which also ensures that our internal procedures are implemented through all Group companies.

No instances of discrimination towards the Group's employees have been reported. All candidates and employees have equal opportunities regardless of gender, age, race, nationality, language, origin, wealth, residence, religion and other beliefs, social membership or other personal circumstances. The Company's Code of Conduct and Policy on Staff and Management Diversity outline the principles and approach to diversity and prohibit any discrimination. The Group is also in full compliance with all local legislation in the countries where it operates that prohibits any discrimination in payment and promotion.

Full terms of reference of the Nomination Committee are available on the Company's website: www.polymetalinternational.com.

The Board considers that the composition of the Board and the Nomination Committee complies with the requirements of the UK Code.

BOARD EVALUATION

The first externally facilitated Board evaluation took place in 2013. In accordance with corporate governance best practices, Polymetal carried out an externally facilitated Board evaluation in 2016. Fidelio Partners, an independent Board Development and Executive Search consultancy, conducted the evaluation. The purpose of the evaluation was an in-depth review of Board effectiveness. The evaluation covered a number of aspects relating to the work of the Board and also provided suggestions and recommendations to further enhance Board effectiveness.

Following an initial briefing with the Chairman and Senior Independent Director, Fidelio designed an agenda as the basis for one-on-one interviews with each Board member; each interview was an in-depth conversation typically lasting 60-90 minutes. Fidelio also interviewed the Company Secretary.

Each conversation was based on an agenda comprising key aspects of Board effectiveness including: how the Board adds value; Board composition; key responsibilities and duties; Board dynamic and communication; accountability and risk; strategy; quality of decision-making; quality of information provided; Board Committees; relationship with the Executive Committee; engagement with shareholders; engagement with stakeholders; the role of the Chairman; the role of the SID; and Board learning. In addition to the interviews, as part of the evaluation process, Fidelio reviewed the following material: previous internal and external Board evaluation papers; feedback from investors, proxy advisors and sell-side analysts; feedback from senior management; and Board papers and minutes relating to the Board meeting which coincided with the evaluation.

Based on interviews with Board members and the review of the material above, Fidelio concluded that the Polymetal Board is aware of its duties and takes them seriously; it demonstrates a strong commitment to good governance, as well as an appetite to observe best practice. The Board recognised the importance of the UK Code. The Chairman was considered to be skilled and effective in leading the Board and Board meetings; Board Directors were recognised as well prepared; and there was a general trend of improved reporting to the Board.

Fidelio highlighted six themes arising from the Board evaluation including Board interaction, Committee processes, external engagement and ongoing learning. These themes were forward-looking and provided a focal point for the Board as it considers greater Board effectiveness; recommendations and suggestions for the Board's consideration were provided. Fidelio facilitated a discussion with all Board members summarising the evaluation and focusing on the themes for enhancing Board effectiveness. The Board discussed and will continue to discuss the evaluation and its findings in individual Committees and also at subsequent Board meetings. Fidelio will follow up in 12 months' time, providing an opportunity to review how Board effectiveness is being enhanced on the basis of the 2016 external Board evaluation.

Fidelio's relationship with Polymetal focused only on Board effectiveness; Fidelio has not provided recruitment, search or other advisory services to Polymetal.

RE-ELECTION POLICIES

In accordance with the UK Code, all Directors are subject to annual re-election. Full terms and conditions of the appointment of non-executive Directors are available for inspection at the Company's registered office.

The Directors' biographical details are set out on pages 70-71. Following their performance evaluations, the Board and Chairman consider that each of the Directors standing for re-election will continue to be an effective contributor to the Group's success and demonstrate commitment to his or her role. A performance evaluation of the Chairman was conducted by the Board in 2016, and the Board believes that the Chairman continues to be effective and to demonstrate commitment to his role.

INDUCTION

Upon appointment, Directors receive a full induction, including information about the Company; an outline of the role of a Director and a summary of his or her responsibilities and ongoing obligations under legislation, regulation and best practice; and a copy of the Market Abuse Regulation compliance manual. Directors also receive the Company's guidelines on matters reserved to the Board, terms of reference of the Board Committees and other governing documents of the Company. Directors and Chairs of the Board Committees regularly receive updates on changes to corporate governance and regulatory requirements and other changes affecting the Company. The Board is kept informed of relevant developments in the Company by way of monthly management reports, including comprehensive information on operating and financial performance, and the progress of capital projects.

BOARD SITE VISITS

Annual site visits greatly improve the Board's understanding of Polymetal's operations and organisation, and contribute to the Board's evaluation of the Group's business plan and strategy. On a three-day visit to the Company's operations in the Northern Urals during 2016, the Board of Directors gained valuable first-hand insights into local management, challenges and opportunities. They met with key mine executives and employees, and were given a detailed tour of production facilities at the Voro mine and of the exploration project at North Kaluga. During 2015, the Board visited a high-grade refractory gold deposit, Mayskoye, located in the Russian Far East.

Board visit to Voro

AUDIT AND RISK COMMITTEE REPORT

AGAINST THE BACKDROP OF VOLATILE MARKETS AND POLITICAL DEVELOPMENTS, PROTECTING THE COMPANY'S EXPOSURE TO RISK REMAINS FUNDAMENTAL AND THE COMMITTEE INCREASED ITS FOCUS ON RISK ANALYSIS DURING THIS YEAR'S MEETINGS.

Dear Shareholders

The market in which Polymetal operates remained extremely volatile during 2016 and was noticeably impacted by the unexpected outcomes of certain global events. The UK's decision to leave the EU and the election of Donald Trump as the next US president have created market volatility and uncertainty for businesses worldwide, along with some unexpected impacts on commodities prices.

As such, it is vital that the risk management process and the procedures required to minimise any potential impacts are alert and adequate, and the Audit and Risk Committee has a key role in reinforcing this. Against the backdrop of volatile markets and political developments, protecting the Company's exposure to risk remains fundamental and the Committee increased its focus on risk analysis during this year's meetings.

This would not have been possible without the first-class work carried out by the internal audit and risk function throughout the year. They have made it their goal to raise the awareness and understanding of risk levels across the Company by focusing on the principle risks and their impacts on the business.

In 2016, in accordance with the requirement of the UK Code, we produced our longer-term viability statement for the 2015 financial statements. This provides shareholders with a better and more in-depth assessment of the solvency and liquidity of the business over an extended period of time. This year we revised and updated the statement and, I believe, it also triggered a number of important discussions at Committee and Board level regarding the approach to risk management and capital structure, resulting in more rigorous consideration when material capital allocation decisions are being made. Polymetal has been fully compliant with this process and able to demonstrate the strength of its disciplined financial planning in ensuring long-term stability for the Company.

The finance team has also contributed greatly to our ability to police the principal risks to the business. The high quality of financial reporting and implementation of internal controls, particularly for those relating to financial, tax and market risk, have been produced in an increasingly efficient manner while also reducing the reporting cycle for the year by two weeks. Both the Audit and Risk Committee and the Board are pleased with the progress that has been made.

The Audit and Risk Committee is a fully independent body, consisting only of independent non-executive Directors with relevant skills and experience in financial reporting and risk management.

In 2016, the Audit and Risk Committee met five times with further business conducted by the Committee and approved by written resolution on five additional occasions.

The Audit and Risk Committee dealt with the following matters:

- reviewed and recommended for approval financial and risk information included in the Annual Report 2015;
- reviewed and recommended for approval Polymetal's results for the six months to 30 June 2016;
- reviewed requirements for the longer-term viability statement and supervised preparation of such statement for the Company for 2016;
- discussed and approved the Committee work plan;
- supervised compliance with the Company's anti-bribery and corruption policy;
- approved significant transactions;
- reviewed the Group's internal audit plan and monitored the effectiveness of internal audit;
- approved the terms of external audit engagement, including the engagement letter issued at the start of each audit and the scope of the audit;
- reviewed the Group's external audit plan and recommended for approval the interim and year-end audit fees;
- reviewed the actual external audit fee in 2016 compared with the authorised amount;
- reviewed the independence and effectiveness of the external auditor; reviewed non-audit work performed by the auditors;
- recommended the re-appointment of Deloitte LLP as external auditor;
- reviewed the critical risks and exposures of the Group, including significant judgements, impairments and tax risks;
- performed an in-depth analysis of some of the Company's main risks, including treasury risks and cyber-security;
- reviewed the capability of the Group's finance team;
- performed an internal assessment of the Committee's effectiveness; and
- reviewed corporate governance changes and planned for continued compliance in 2017.

We have actively encouraged a commitment to discipline right across the business, which is very much in keeping with Polymetal's overall approach to governance. As such, we believe that we have in place systems and processes that are both resilient and support the Committee in dealing effectively with the challenges of an unpredictable market environment and ever-changing legislation. Our Committee continues to focus on ensuring the consistent quality of reporting, internal control and risk management processes that, in turn, warrant the objectivity and transparency of the Company's financial statements.

Jonathan Best
Chair, Audit and Risk Committee

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee is chaired by Mr Best and its other members are Mr Skirrow and Ms Coignard, all independent non-executive Directors. The Directors consider that Mr Best has recent and relevant financial experience (refer to page 71 for details of Mr Best's experience). Additionally, the other members of the Committee have a wide range of financial and other relevant experience.

The responsibilities of the Audit and Risk Committee comprise:

- monitoring the integrity of the Group's consolidated financial statements and reviewing its annual and interim financial statements, including, but not limited to the consistency of and any changes to, accounting and treasury policies across the Company and the Group; the methods used to account for significant or unusual transactions; the reasonableness of significant estimates and judgements, taking into account the views of the external auditor; and the clarity and completeness of disclosure in the consolidated financial statements;
- considering and making recommendations to the Board, in relation to the appointment, re-appointment, resignation or removal of the Group's external auditor, for consideration by the shareholders at the AGM;
- overseeing the Group's relationship with its external auditor and reviewing the effectiveness of the external audit process, taking into account relevant UK professional and regulatory requirements; the Committee meets with the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- reviewing the independence and objectivity of the external auditor and the appropriateness of the provision of any non-audit services by the external auditor, taking into account relevant ethical guidance;
- reviewing the effectiveness of the Group's system of internal controls and risk management systems;
- monitoring and reviewing the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system;
- reviewing the Group's policies and procedures for preventing and detecting fraud, the systems and controls in place for preventing bribery, and its policies for ensuring that the Group complies with relevant regulatory and legal requirements; and
- approving significant transactions.

Full terms of reference of the Audit and Risk Committee are available on the Company's website: www.polymetalinternational.com.

Ultimate responsibility for reviewing and approving the interim and annual financial statements remains with the Board.

The Committee gives due consideration to applicable laws and regulations, the provisions of the UK Code and the requirements of the Listing Rules.

The Audit and Risk Committee monitors the Company's relationship with its external auditor relating to the provision of non-audit services to ensure that auditor objectivity and independence are safeguarded. This is achieved by disclosure of the extent and nature of non-audit services (see Note 14) to the consolidated financial statements) and the prohibition of selected services being provided by the external auditor.

The policy governing the provision of non-audit services by the external auditor approved by the Committee defines permitted audit and non-audit services. Pre-approval thresholds are in place for the provision of non-audit services by the external auditor, being: pre-approval by the Chief Financial Officer (CFO) of JSC Polymetal if the services are provided to a Russian, Kazakh or Armenian business entity of the Group, and by the Director of the Cyprus office of Polymetal International plc if the services are provided to other Group companies if below US$5,000; by the Chair of the Audit and Risk Committee if between US$5,000 and US$20,000; or by the Audit and Risk Committee if above US$20,000.

Above a certain threshold, if it is determined that the external auditor has no obvious competitive advantage in the performance of proposed non-audit services, then the provider of those services must be chosen by way of a competitive tender. Certain types of non-audit work may be undertaken by the auditor without prior referral to the Audit and Risk Committee up to a cumulative annual value of US$100,000. Any further non-audit work is subject to approval by the Audit and Risk Committee in further tranches of US$100,000. In the event that the cumulative value of non-audit fees exceeds US$500,000 in any given year, separate approval by the Audit and Risk Committee is required explaining why there is no threat to independence.

A copy of the Policy on Independence and the Provision of Non-Audit Services is available on the Company's website: www.polymetalinternational.com.

The Audit and Risk Committee has considered information pertaining to the balance between fees for audit and non-audit work for the Group in 2016, and concluded that the nature and extent of non-audit services provided do not present a threat to the external auditor's objectivity or independence. For 2017, the Committee has considered a voluntary adoption of changes to non-audit services in accordance with the EU Audit Directive and Revised Ethical Standard 2016. The details of amended Non-audit Services Policy will be provided in the Annual Report for 2017.

REVIEW OF THE EFFECTIVENESS OF THE EXTERNAL AUDIT PROCESS AND AUDIT QUALITY

The Audit and Risk Committee has adopted a formal framework in its review of the effectiveness of the external audit process and audit quality which focuses on the following areas:

- the audit partners, with particular focus on the lead audit engagement partner. 2016 was the first full year that the Company had worked with the new audit partner, following the previous partner being rotated off in 2015;
- the audit team;
- planning and scope of the audit and identification of areas of audit risk;
- execution of the audit;
- the role of management in an effective audit process;
- communications by the auditor with the Audit and Risk Committee, and how the auditor supports the work of the Audit and Risk Committee;
- how the audit contributes insights and adds value; and
- the independence and objectivity of the audit firm and the quality of the formal audit report to shareholders.

An auditor assessment is completed annually by each member of the Audit and Risk Committee and by the CFO. Feedback is also sought from the Group CEO, other members of the finance team, divisional management and the head of internal audit.

The assessment tool adopted is comprehensive and includes detailed questions which are completed by way of a formal questionnaire every three years, while the key areas are reviewed every year. The feedback from this process is considered by the Audit and Risk Committee, and is provided both to the auditor and to management. Action plans arising are also reviewed by the Committee.

The effectiveness of management in the external audit process is assessed principally in relation to the timely identification and resolution of areas of accounting judgement, the quality and timeliness of papers analysing those judgements, management's approach to the value of the independent audit, the booking of audit adjustments arising (if any) and the timely provision of draft public documents for review by the auditor and the Audit and Risk Committee.

Every three years, the Audit and Risk Committee requests that a partner, independent of the audit engagement team, discusses the quality of the external audit process with the Audit and Risk Committee Chair and the CFO using this evaluation framework. The most recent comprehensive audit quality evaluation was performed in March 2017.

FOCUS DURING 2016

During this year, the Audit and Risk Committee focused on:

- evaluating the recoverability of goodwill and operating and development assets. The Committee examined the potential indicators of impairment (or impairment reversal, where appropriate) for each of the cash-generating units (CGU) and the life-of-mine financial models used for assessing the fair value less costs to sell of the individual cash-generating units tested for impairment. The Committee examined and challenged the commodity price, discount rate and exchange rate assumptions used by management in its impairment tests;
- evaluating the existence and recoverability of metal inventories. The Committee examined the price assumptions used by management as well as unit costs and other internal assumptions used in determining the net realisable value of unfinished goods within metal inventories (ore and concentrate stockpiles);
- evaluating the recoverability of exploration and development assets. The Committee evaluated management's approach to determine whether the existing exploration and development assets are likely to generate future economic benefits and whether any indicators of impairment had been identified;
- review of tax exposures. The Committee evaluated management's assessment of various tax risks and appropriateness of provisions made in the financial statements, where applicable;
- review of accounting for acquisitions of Kapan and Komar made during the year and the relevant purchase price allocation;
- internal controls and the risk of misstatement: the Committee reviewed reporting from internal audit in respect of its audit plan and discussed all significant findings;
- reviewing the treasury policy and authorities of various management levels as part of the annual 'deep dive' exercise;
- review of the capital structure decisions and dividend policy; and
- reviewing the longer-term viability statement.

The Chair of the Audit and Risk Committee makes himself available to major institutional shareholders annually to discuss the Company's annual reporting to shareholders as part of the Company's investor days. He is also available for one-on-one meetings with key shareholders at their request.

The re-appointment of Deloitte LLP as the Group's external auditor is reviewed annually by the Audit and Risk Committee. Deloitte LLP was appointed auditor in 2011, with Deloitte CIS having been auditor of JSC Polymetal since the last tendering process in 2007. The Group has a policy of tendering the external audit at least every ten years. The Committee's assessment of the external auditor's performance and independence underpins its recommendation to the Board to propose to shareholders the re-appointment of Deloitte LLP as auditor until the conclusion of the AGM in 2018. Resolutions to authorise the Board to re-appoint and determine the auditor's remuneration will be proposed at the AGM on 16 May 2017.

We intend to tender our external audit in 2020 for the 2021 audit, which will coincide with the completion of the five-year term of our current audit partner. At that point Deloitte LLP will also have been our auditor for 10 years, following our listing on the London Stock Exchange. It is our intention that Deloitte will be invited to participate in this tender process, along with other appropriately qualified international audit firms. The Company is in compliance with the provisions of The Statutory Audit Services for Large Companies Market Investigation Order 2014.

The Board considers that the Audit and Risk Committee complies with the requirements of the UK Code and Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

INTERNAL CONTROL AND RISK MANAGEMENT

The Company aims to ensure that all its activities are adequately controlled to mitigate risk and support the achievement of its objectives while avoiding the creation of excessive bureaucracy. The system of internal controls is designed to manage rather than completely eliminate risk and to achieve the Company's business objectives whilst bringing residual risk to an acceptable level, but can only provide reasonable and not absolute assurance against material misstatement or loss.

In conducting its annual review of the effectiveness of risk management and internal control (including financial, operating and compliance controls), the Board considers the key findings from the ongoing monitoring and reporting processes, management assertions and independent assurance reports.

The Board also takes account of material changes and trends in the risk profile and considers whether the control system, including reporting, adequately supports the Board in achieving its risk management objectives.

During the course of the year, the Board considered the Group's responsiveness to changes within its business environment. The Board is satisfied that there is an ongoing process, which has been operational during the year, and up to the date of approval of the Annual Report, for identifying, evaluating and managing the significant risks faced by the Group.

INTERNAL AUDIT

The internal audit function supports this aim by providing the Directors, through the Audit and Risk Committee, with an objective evaluation of the Company's and the Group's governance framework. The internal audit function also aims to raise levels of understanding and awareness of risk and control throughout the Group.

The head of internal audit reports to the Group CEO and, through the Audit and Risk Committee, to the Board of Directors. Where relevant, the internal audit function will additionally report its findings to members of the Group's executive management.

The internal audit function's annual work plan is designed to focus on matters arising from the operational risk matrix and is approved by the Audit and Risk Committee in advance.

The internal audit function uses an annual self-certification process, which requires managers throughout the Group to personally confirm the testing of internal controls and compliance with Group policies within their business or function and the steps taken to address actual or potential issues that are identified. In addition to self-certification, the internal audit function performs external certification, the most recent of which took place in February 2016.

Management provides a timely response to issues raised by internal audit. Where possible, the issues are resolved within one reporting period.

INTERNAL CONTROL FRAMEWORK AND ACTIVITIES

The management structure of the Group and internal policies and procedures are aimed at maintaining a robust control framework within the Group which will result in the achievement of strategic objectives within the set risk tolerance levels.

This framework includes:

- an appropriate tone set from the top (Board level), aimed at building the appropriate control environment;
- a proper risk identification and management system (for more detail please refer to pages 64-69);
- a strict division of responsibilities and adequate delegation of authority;
- specific control activities implemented at all levels of the Group; and
- a periodic review of the effectiveness of internal controls.

The governance framework reflects the specific structure and management of the Group, where authority and control are delegated by the Board to different levels, from top management to the managers of the Group's operating entities and then downward to business and project managers as appropriate.

Within this framework, authority is delegated within clearly prescribed limits and decisions are escalated where either project size or risk profile require a higher level of authority.

In addition to controls operating in specific areas (production, exploration, construction, procurement), the control framework also includes a set of common procedures for financial accounting, reporting and budgeting – see details on the next page.

The Board confirms that the actions it considers necessary have been or are being taken to remedy any failings or weaknesses in the Group's system of internal controls. This has involved considering the matters reported to it and developing plans and programmes that it considers are reasonable in the circumstances. Based on the results of the review of risk management and internal control activities undertaken by the Board and the Audit and Risk Committee, the Board considers that the risk management and internal control systems are in accordance with the relevant principles and provisions of the UK Code and other applicable guidance.

FINANCIAL REPORTING SYSTEMS

The quality of financial accounting and reporting is ensured through a set of control procedures in the following areas: accounting methodology, preliminary review of new transactions, documentation, accounting techniques and financial closing procedures. Accounting policies are developed centrally for each of the Group's subsidiaries and are adapted for the specifics of each entity and Group-wide policies. Employees responsible for accounting and reporting functions have powers to review upcoming transactions and propose adjustments, where necessary, to ensure proper accounting and tax treatments. The use of a centralised Enterprise Resource Planning (ERP) system in all major Group companies ensures unification of the business and accounting processes. The Group implements a multi-level set of controls over financial and accounting data recorded in the system. These controls involve the accounting department of each subsidiary, senior management of the subsidiary and controls at the relevant headquarters level. In addition, the accounting and reporting data are regularly audited by internal and external auditors.

PROCEDURES FOR APPROVAL OF CAPITAL AND CURRENT EXPENDITURES

The Group prepares annual operating and capital expenditure budgets based on its current and strategic goals and objectives. In addition to periodic control of actual versus budgeted financial performance, a procedure of ongoing control and authorisation of expenses is in place. The current system of pre-approval of significant transactions, along with accounting procedures in the ERP system, achieves a level of control over the amount and appropriateness of expenses.

TREASURY OPERATIONS

The Group operates a centralised treasury function, which is responsible for payments on behalf of all operating subsidiaries of the Group. Use of such a centralised system achieves the best level of control over the payments function without compromising the speed and reliability of payments.

All transactions with banks on accounts maintenance, deposits and borrowings and foreign currency transactions are also performed at relevant headquarters level in compliance with the treasury policy approved by the Board.

CONTROLS OVER IT SYSTEMS USED IN FINANCIAL ACCOUNTING AND REPORTING

The Group uses a 1C:Enterprise 8 ERP system for the automation of everyday enterprise activities. These include various business tasks of the economic and management functions, such as management accounting, business accounting, HR management, supplier relationship management (SRM) and material requirements planning (MRP). The Group also uses the ERP system for budgeting, accounting, HR record-keeping and payroll, supply chain management, operational reporting and procurement.

The Group operates an IT management framework based on COBIT (Control Objectives for Information and Related Technology), which provides a complete set of high-level requirements to be considered for effective control of each IT process.

UK BRIBERY ACT 2010

The Company and its Directors are committed to ensuring adherence to the highest legal and ethical standards. This is reflected in every aspect of the way the Group operates. Bribery is a criminal offence in the countries in which the Group operates. Corrupt acts expose the Group and its employees to the risk of prosecution, fines and imprisonment, as well as endangering the Company's reputation. The Group has a Code of Conduct in place, which refers to its Anti-Bribery and Corruption Policy.

The policy extends across all of the Group's business dealings in all countries and territories in which the Group operates and applies to Directors, managers and all employees of the Group, as well as relevant business partners and other relevant individuals and entities.

The Board attaches the utmost importance to this policy and applies a zero-tolerance approach to acts of bribery and corruption by any of the Group's employees or by business partners working on the Group's behalf. The policy prohibits the payment, offer or authorisation of bribes, the receipt or acceptance of a bribe, or the payment, offer or promise to pay any facilitating payments. Any breach of this policy is regarded as a serious matter by the Company and is likely to result in disciplinary action.

As part of implementation of internal procedures to comply with the UK Bribery Act, the Group has a formalised whistle-blowing policy which defines the processes in place for staff to communicate, in confidence, concerns about possible improprieties, unethical or illegal activities and ensures that arrangements are in place for the independent investigation of such matters.

The Company affirms that it has not denied any personnel access to the Audit and Risk Committee and that it has provided protection to whistle-blowers from adverse personnel action.

The Code of Conduct, Anti-Bribery and Corruption Policy and the Whistle-Blowing Policy are available on the Company's website: www.polymetalinternational.com.

Jonathan Best
Chair, Audit and Risk Committee

IN OUR REMUNERATION POLICY WE ARE AIMING AT FULL COMPLIANCE WITH REGULATORY AND MARKET REQUIREMENTS IN OUR COUNTRIES OF OPERATION INCLUDING THE LONDON STOCK EXCHANGE PREMIUM LISTING, AS WELL AS CURRENT INTERNATIONAL BEST PRACTICE.

Dear Shareholders

On behalf of the Board, I am pleased to present the Remuneration Committee's Policy and Report for 2016 which provides context and rationale for our changes to senior executives' remuneration.

Over the past year, the Remuneration Committee reassessed the existing Remuneration Policy ahead of putting it to a new binding shareholder vote at the 2017 Annual General Meeting (AGM). The Committee reviewed all aspects of the existing policy and its implementation while taking into account relevant regulatory frameworks, generally accepted best market practice and recent developments impacting remuneration matters in the UK and in our countries of operation. Our aim was to ensure remuneration remains aligned with our key corporate goals and shareholders' expectations and that it motivates and compensates senior management fairly for their contribution to the business.

The Committee and the Board concluded that it is in the interest of the Company and of all its stakeholders, including shareholders, to keep the Remuneration Policy largely unchanged as it remains fully aligned with the Company's strategy, commercial objectives and culture including our strong focus on creating sustainable shareholder value.

The only significant change to report is the strategic decision to increase what was a structurally low base salary for our senior management team, which has remained stable since our 2011 London IPO. The low level, aggravated by the recent Rouble depreciation, is no longer competitive, both in the CIS and internationally. Furthermore, it is not in line with the current scope of the senior executive role at Polymetal and does not take into consideration the outstanding performance of the team and of the Company.

In 2016, Polymetal maintained its track record of solid operational delivery, meeting our increased production guidance for the fifth consecutive year. We have made considerable progress on our long-term growth plans with the launch of Svetloye, successful integration of the newly acquired Kapan and Komar operations, and advancing the joint venture on Nezhda. Over the past couple of years, the management team has been able to further consolidate and improve the performance of existing assets and increase the resource base through brownfield exploration and acquisitions. This has led to good free cash flow generation as reflected in significant dividends paid to our shareholders. As at year end, Polymetal had delivered a 4.1% dividend yield on a five-year average basis.

In addition, the Company has met increasingly demanding best practice requirements of London Main Board listed companies in terms of reporting as well as environmental, social and governance (ESG) matters. Some 70 separate KPI metrics are included in the variable part of the remuneration of our people best placed to make a difference in these areas. Polymetal is now part of the FTSE4Good and STOXX Global ESG Leaders indices.

Our senior management team is composed of highly talented and committed professionals who have collectively and individually delivered an outstanding operating and financial performance under complex and difficult market conditions. We aim to further ensure the cohesion and retention of the team as well as individual succession when required. Our objective is to be in a position to offer competitive remuneration packages while keeping bonus targets stretched and Performance Share Plan (PSP) vesting tied to leading absolute and relative Total Shareholder Return (TSR) performance.

Shareholders' approval is requested for the revised Remuneration Policy.

REMUNERATION PRINCIPLES AND STRATEGY

The existing Company's Remuneration Policy was introduced following approval by a shareholders' binding vote at the 2014 AGM with 99.77% of votes cast in favour and with the policy to be in force for three years. It will now be put to a new binding vote at the 2017 AGM.

Our Remuneration Policy has its foundations in the Company's strategy. From an industry perspective we aim to develop and operate in a safe and sustainable manner across high grade mines in selected geographies within the CIS, and from the financial perspective, we want to generate free cash flows to be in a position to pay substantial and sustainable dividends. In practice this translates into stringent cost control practices as well as strict capital and project management discipline throughout the Group.

It is also aligned with our employment policy that calls for responsible behaviour and personal accountability, as well as a commitment to best practice in all matters and at all levels of the organisation. Our general approach is to motivate and compensate employees fairly and competitively for their contribution to the business and to promote an open, positive and co-operative attitude in the workplace.

In our Remuneration Policy we are aiming at full compliance with regulatory and market requirements in our countries of operation including the London Stock Exchange premium listing, as well as current international best practice.

In making remuneration decisions, the Committee considers both the performance of the Company and the current environment surrounding executive pay, where there is a clear expectation of shareholder alignment and appropriate pay for performance.

REMUNERATION STRUCTURE

Alignment with our corporate strategy is taken into consideration in all components of our remuneration structure which is based on a healthy balance between fixed and variable pay, use of KPIs tailored to key strategic objectives as updated on an annual basis, as well as strict PSP vesting conditions.

The remuneration of Mr Nesis, Group CEO and the only executive Director on the Board, and of all senior management and key employees includes a simple and clearly defined KPI-component, derived from top-level goals and adjusted for individual responsibilities and performance, encompassing operating metrics that our management can influence.

Following several fatalities at our mines, we introduced a new bonus calculation system for senior managers and mine management that has much more focus on health and safety KPIs. This reflects the zero tolerance of fatalities at our operations by both the Board and senior management.

Senior management interests are aligned with those of our shareholders and the Company's long-term objectives. 50% of bonuses awarded each year to the Group CEO and the senior management team are deferred into shares in the Company through the Deferred Share Award (DSA), which is released in equal instalments over three years. The Performance Share Plan provides an additional focus for key employees of the Group on delivering superior Total Shareholder Return. The first normal vest under the PSP will take place no earlier than April 2018, provided that vesting criteria are met.

In terms of pension, the Company provides the same pension contribution to all its employees including all senior management, corresponding to contributions to the mandatory pension fund of its countries of operations as required by law.

CONTEXT TO THE COMMITTEE'S DECISIONS ON THE REMUNERATION POLICY

The Russian economic environment has been through a period of volatility since the Company's listing in October 2011. There has been a rapid devaluation of the Russian Rouble since 2014 (cumulatively the US$/RUB exchange rate declined by 56% during 2011-2016 while the average annual rate of inflation was 8.1% per annum). This has resulted in a material reduction in the US Dollar value of Rouble-denominated packages offered to our top management, while the industry trends (worldwide and in the CIS) have been a flat or increasing base pay in US Dollar terms. Consequentially, the packages offered by Polymetal are now significantly lower than in comparable companies, including both UK and Russian-listed sector peers, with the base salaries of the Group CEO and senior management well below that of the rest of the market (at c. 20% below lower quartile).

With the Russian mining sector recovering, we expect there to be increased competition for mining personnel – starting with senior management with a proven operating track record. At senior levels, although not at the average employee level, our compensation packages compare poorly with international peers. This is mirrored by Russian gold mining peers of similar and even smaller size.

In an increasingly complex geopolitical environment, the Company faces growing strategic, operational and financial challenges. This in turn places a greater burden on our senior management in terms of broadened scope and responsibility as the Company grows internally and expands internationally, and we are mindful that their remuneration packages need to reflect this.

KEY COMMITTEE DECISIONS

During 2016, we thoroughly reviewed our Remuneration Policy against our strategy, market adjustments and, in the light of ongoing regulatory requirements, best corporate governance practice and investors' views. We benchmarked our Directors' and senior executives' total remuneration structure and quantum against representative peer groups, and considered the growing complexities within the business and senior management roles. We also obtained advice in respect of the compliance of our remuneration structure, corporate governance relating to remuneration and the adequacy of existing terms of reference in relation to best practices.

After careful consideration, the Committee arrived at the following conclusions concerning the structure of the Remuneration Policy:

- The general structure of the Directors' remuneration policy has successfully achieved our top corporate goals as set out above.
- The drivers of variable pay (KPIs) are stretching, well aligned with the Company's strategic objectives and cascade throughout the organisation in a way which ensures our employees pay is aligned to Polymetal's performance and to the wider policy principles.
- The policy is consistent with UK market and governance good practice including, but not limited to, in the following aspects:
  - Performance-related pay makes up a significant proportion of the remuneration package, with an appropriate balance between reward for short-and long-term performance;
  - 50% of the bonus is deferred into shares over a period of three years and clawback and malus provisions apply to the unvested awards (DSA plan);
  - A vesting period of four years under the Performance Share Plan, over which clawback and malus conditions apply to the unvested awards, with an additional post-vest holding period of one year ensures that management focus on the long-term interest of the Company and of its stakeholders;
  - The executive Director owns a shareholding equal to 7,848% of his base salary, far exceeding minimum shareholding requirements;
  - Stringent PSP vesting conditions based on above median relative TSR with an underpin based on positive absolute shareholder return, are therefore fully aligned with shareholder value creation; and
  - Meaningful weight of sustainability metrics in the KPIs, with the CEO's component purposefully focused on health and safety.

Following these conclusions and in view of the development of the Company and context outlined above, we believe that the current base salary levels for top management pose a significant risk to the Company's ability to retain key personnel and, consequently, to the sustainability of its business model and strong performance.

Based on the above, the Committee proposes, as a change to policy, to increase the Group CEO's salary (in Roubles) by 25% in 2017, effective from 1 April 2017, and by up to 10 percentage points above the Russian domestic inflation rate in both 2018 and 2019 (currently forecasted at 4-6% p.a.). The Committee will carefully review whether these increases remain appropriate in 2018 and 2019 based on the market conditions, exchange rates and the Company's results or other relevant considerations, and suspend them if they are not justified.

This cumulative increase for the three years would result in a Group CEO base salary of US$561,000 in 2019 (based on the average exchange rate over the period 60 RUB/US$). This resulting salary level will still be below the current median of UK-listed peers (assuming no increase amongst peers) and will represent 2.8% annualised increase compared with his 2012 base salary in US Dollars. It is also worth noting that, since 2011, the average employee compensation increase for the general workforce has been equivalent to 14% p.a. in Rouble terms, compared with an average base salary increase in Rouble terms of 7% p.a. for the Group CEO.

Non-executive Director fees are reviewed, but not necessarily increased, on an annual basis. Any increase in non-executive Directors' fees will normally be in line with UK inflation and market levels for similar roles in UK listed entities, except where a change in the scope of the role occurs. Current fee levels are set out in the Annual Report on Remuneration.

CORPORATE GOVERNANCE AND APPROACH TO DISCLOSURE

As a FTSE 250 company listed on the London Stock Exchange, we comply with the strictest of corporate governance requirements. We remain committed to full adherence to all regulatory requirements and best practice as reflected in our remuneration policy, decisions, disclosure practices and requests for shareholders' votes.

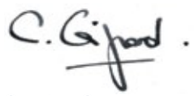
Following a request by many institutional investors and governance bodies, we are disclosing this year's retrospective incentive targets when reporting the Group CEO's remuneration. This helps provide a clearer picture of the relationship between the Company's performance and executive remuneration.

In line with our active engagement in a dialogue with our shareholders and with proxy advisers, we undertook an extensive consultation exercise regarding proposed changes to the application of our Remuneration Policy described above, ahead of the 2017 AGM vote.

MOVING FORWARD

The Board and the Remuneration Committee are unanimous in proposing continuity in the Remuneration Policy and structure and in addressing a significant gap in roles' scope and peers' remuneration in the quantum of pay. We believe that this is in the best interest of shareholders and that this measure will continue both to motivate and retain the executive team, whose quality is well supported by the historic track record of delivering on rolling-out a sustainable business model and generating superior shareholder returns.

On behalf of the Committee and of the Board, I continue to welcome feedback from shareholders and look forward to receiving your support at the AGM.



Christine Coignard
Chair, Remuneration Committee

DIRECTORS' REMUNERATION POLICY

1. SUMMARY TABLE

The Committee will be requesting shareholder approval of the following Remuneration Policy at the AGM on 16 May 2017 to cover a period of three years. The Policy will apply from the date of approval. No changes to the previous policy have been made, other than where indicated.

ELEMENT AND PURPOSE/LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS USED AND PERIOD APPLICABLE
Executive Director – Group CEO			
Base salary To attract and retain high-calibre executives.	The Committee reviews base salary on an annual basis, taking into account general economic and market conditions, underlying Group performance, the level of increases made across the Group as a whole, the remuneration of executives in similar positions in FTSE and global mining peers, and individual performance when setting base salary for the following year.	As a change to policy, the CEO's salary will be increased (in Roubles) by 25% in 2017, effective from 1 April 2017, and by up to 10 percentage points above the Russian domestic inflation rate in both 2018 and 2019 (currently forecasted at 4-6% p.a.). The Committee will carefully review whether these increases remain appropriate in 2018 and 2019 based on the market conditions, exchange rates and the Company's results or other relevant considerations, and suspend them if they are not justified. The annual base salary for the reporting year and the current year is set out in the Annual Report on Remuneration. See notes to the Policy table below for a rationale for this change.	Not applicable.
Benefits	The Group does not provide any benefits for its Group CEO.	Not applicable.	Not applicable.
Annual bonus To focus on achieving annual performance goals, which are based on the Group's KPIs and strategy.	The annual bonus result is determined by the Committee after the year end, based on performance against defined targets. Annual bonuses are paid three months after the end of the financial year to which they relate. 50% of the annual bonus earned is paid in cash and the remaining 50% is compulsorily deferred into shares, which are released annually to the employee over the next three years in equal instalments through the Deferred Share Awards plan (DSA). No clawback is applied to the cash part of the annual bonus as this provision would contradict the labour law of the Russian Federation. Details of the DSA are set out on the next page.	Maximum bonus opportunity – 125% of base salary. Target bonus opportunity – 100% of base salary. Threshold – nil annual bonus for threshold performance.	The annual bonus is earned on the basis of the achievement of a mix of financial and non-financial measures. For 2016, performance metrics and associated weightings for each were: • production (25%); • total cash costs (25%); • completion of new projects on time and within budget (25%); and • health and safety (25%). There is an additional penalty factor for fatal/severe cases for up to 50% of the annual bonus earned for non-safety related KPIs. The Committee has discretion to vary the list and weighting performance metrics over the life of this Remuneration Policy. In addition, the Committee has discretion to vary performance metrics part-way through a performance year if there is a significant event which causes the Committee to believe that the original performance metrics are no longer appropriate. Performance is measured over the financial year.

ELEMENT AND PURPOSE/LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS USED AND PERIOD APPLICABLE
Long-Term Incentive Plan (LTIP)			
Deferred Share Awards plan (DSA) Deferral to encourage retention and alignment with shareholders.	50% of the annual bonus earned is paid in cash and the remaining 50% is compulsorily deferred into shares, which are released annually to the employee over the next three years in equal instalments. Clawback and malus provisions apply for the unvested portion of the DSA; the Remuneration Committee may, at any time up to and including vesting, reduce the number of shares that vest, should it consider that a material misstatement, misconduct and/or a failure of risk management occurs. Dividend equivalents will be received on vested shares, reflecting the value of dividends which have been paid during the period from the grant date to the vesting date.	Not applicable.	Entitlement to this deferred component is subject to continued employment over the deferral period. In normal circumstances, DSAs will continue until the normal time of vesting upon cessation of employment due to death, injury, ill-health, disability, redundancy, retirement, or any other circumstance which the Committee determines (Good Leaver Circumstances). Alternatively, the Board may determine that DSAs will vest immediately. In both circumstances there would be no pro-rating of the DSAs for the time from the award date until cessation of employment or for performance. No performance conditions apply to the DSA shares as they have been subject to fulfilment of annual KPIs.
Performance Share Plan (PSP) To provide long-term alignment with shareholders' interests by delivering sustainable above-market shareholder returns.	Under the PSP, annual rolling conditional share awards are made with a four-year vesting period and an additional mandatory holding period of one year following vesting. Stretching performance targets reward participants for delivering positive absolute and superior relative TSR performance against global peers over the performance period. Clawback and malus provisions apply for the unvested portion of the PSP, whereby the Remuneration Committee may, at any time up to and including vesting, reduce the number of shares that vest, should it consider that a material misstatement, misconduct, and/or a failure of risk management occur. Retesting of the performance conditions in future years is not allowed under any circumstances. First grant under the PSP was made in April 2014. First normal vesting in April 2018, subject to performance conditions being met.	Maximum grant permitted under the plan rules is 200% of salary. Default grant level is expected to be 150% of base salary. Threshold vesting is equivalent to 20% of the award. Dividend equivalents will be received on vested shares, reflecting the value of dividends which have been paid during the period from the grant date to the vesting date.	Vesting is based on relative TSR, measured against the constituents of the FTSE Gold Mines Index and also on the Company's absolute TSR. Peers are ranked and the Company's position determines vesting: • 0% vests for below median performance; • 20% vests at median performance; • 100% vests at top decile performance and above; and • no award will vest if absolute TSR is negative, regardless of relative performance. Vesting occurs on a linear line basis between median and top decile performance. The Committee may substitute, vary or waive the performance targets if an event occurs which causes the Committee to consider that the target is no longer appropriate. The Committee has discretion to vary the proportion of awards that vest to ensure that the outcomes are fair and appropriate and reflect the underlying financial performance of the Group.

ELEMENT AND PURPOSE/LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS USED AND PERIOD APPLICABLE
Pension To provide funding for retirement.	The Group does not fund any pension contributions or retirement benefits, except contributions to the mandatory pension fund of the Russian Federation, as required by Russian law. The Group pays defined contributions to the mandatory pension fund. This permits retiring employees to receive a defined monthly pension for life from the statutory pension fund.	Does not exceed the mandatory contribution made to the pension fund of the Russian Federation. Currently 10% of total pay.	Not applicable.
Minimum shareholding requirements To strengthen alignment between interests of executive Directors and those of shareholders.	The Group CEO is required to build a minimum shareholding over a five-year period. Unvested shares under the PSP or DSA are not taken into account when calculating progress towards the minimum shareholding requirements. For the purposes of determining whether the requirements have been met, share price is measured at the end of each financial year. Post vesting and tax, all shares acquired under PSP and DSA awards must be retained until the shareholding requirement is met.	500% of base salary for the Group CEO.	Not applicable.
Non-executive Directors			
Fees for non-executive Directors To attract and retain high-calibre non-executive Directors.	The fees of independent non-executive Directors are set by reference to those paid by other FTSE peer companies. Fees are set to reflect the responsibilities and time spent by non-executive Directors on the affairs of the Company. No fees are paid to non-independent non-executive Directors. Non-executive Directors are not eligible to receive benefits and do not participate in incentive or pension plans. The following fees are paid in addition to the non-executive Director base fee: • Committee chairmanship fee; • Committee membership fee; and • Board, Committee and General Shareholder Meeting attendance fee. The Remuneration Committee determines the framework and broad policy for the remuneration of the Chairman. The remuneration of non-executive Directors is a matter for the Chairman of the Board and the executive members of the Board, i.e. the Group CEO. Directors do not participate in discussions relating to their own fees.	Fees are reviewed, but not necessarily increased, on an annual basis. Any increase in non-executive Directors' fees will normally be in line with UK inflation and market levels for similar roles in UK-listed companies, except where a change in the scope of the role occurs. Current fee levels are set out in the Annual Report on Remuneration.	Not applicable.

2. REMUNERATION POLICY FOR OTHER EMPLOYEES

The remuneration policy for the other members of the executive team and broader management team of the Group is consistent in both structure and KPIs with the policy in respect of the Group CEO. While the value of remuneration will vary throughout the Group, depending upon the individual's role, criticality to the business and level of responsibility, the remuneration of all senior executives consists of a base salary, an annual bonus and participation in the LTIP (the PSP and DSA).

Employees up to three levels below the Board (approximately 300 employees throughout the Group) participate in the PSP at the discretion of the Remuneration Committee. The PSP policy default grant level is 150% of base salary for the Group CEO, 100% for Executive Committee members and 50-100% for employees at the level below the Executive Committee.

Shareholding requirements are also set below Board level. The DSA operations mirror the arrangement set out for executive Directors in the policy table, where 50% of the annual bonus is compulsorily deferred into shares and released annually to employees over a period of three years.

Remuneration Policy for the wider group of employees is aimed at aligning pay with the achievement of targeted results for each employee. The Company's policy on fair pay provides for the payment of additional remuneration for employees living in difficult climatic locations and the delivery of appropriate levels of pay for different levels of work. The bonus component of remuneration for mid-level management and operational staff is measured based on the achievement of production targets, increasing output, the level of justified cost savings and health and safety records. In terms of pension arrangements, the Company applies a consistent approach for the Group CEO and other employees and adheres to the mandatory pension contributions required under applicable laws.

Salaries are considered for annual increases based on the Company's performance results, inflation rates and the competitive level of salaries versus the wider market.

3. NOTES TO THE POLICY TABLE

PERFORMANCE MEASURES AND TARGETS

The Committee selected the performance conditions indicated in the policy table because they are central to the Company's overall strategy, and include the key metrics used under the annual bonus and LTIP by the Group CEO to oversee the operation of the business.

Performance targets for all of our incentive plans are reviewed annually and, where appropriate, are typically set at a level that is in line with the Company's forecasts.

CHANGES TO REMUNERATION POLICY FOR 2017 COMPARED WITH THE POLICY PUT TO BINDING VOTE IN 2014

Design element	Changes made during the year
Base salary	On the back of Russian volatile economic environment and a rapid devaluation of the Russian rouble since 2014 (cumulatively the exchange rate declined by 56% during 2011-2016 while average annual inflation was 8.1% p.a.) there is a material reduction in the dollar value of rouble-denominated packages offered to the Group CEO in US Dollar terms. On an after-tax basis, the Group CEO's salary is approximately 20% below the level of the lower quartile of its UK-listed peers. The current base salary levels for top management pose a significant risk to the Company's ability to retain key personnel and, consequently, to the sustainability of its business model and strong performance. With the Russian mining sector recovering, we expect increased competition for mining personnel, starting with senior management with a proven operating track record. Based on the above, the Committee proposes, as a change to existing policy, to increase the Group CEO's salary (in Roubles) by 25% in 2017, effective from 1 April 2017 and by up to 10 percentage points above the Russian domestic inflation rate in both 2018 and 2019 (currently forecasted at 4-6% p.a.). The Committee will carefully review whether these increases remain appropriate in 2018 and 2019 based on the market conditions, exchange rates and the Company's results or other relevant considerations, and suspend them if they are not justified.
Annual bonus	No changes made.
LTIP (DSA and PSP)	No changes made. 50% of annual bonus deferred into shares as required by the DSA. Grants of options were made under the PSP plan in April 2014, 2015 and 2016. A new tranche of options is expected to be granted in April 2017 in ordinary course.
Non-executive Directors	Any increase in non-executive Directors' fees will normally be in line with UK inflation and market levels for similar roles in UK-listed entities, except where a change in the scope of the role occurs. Current fee levels are set out in the Annual Report on Remuneration.

THE LTIP

Following shareholder approval at the AGM in June 2013, a long-term incentive programme (the LTIP) was put in place. Some minor amendments to the change of control provisions for the LTIP were approved by shareholders at the AGM in May 2014.

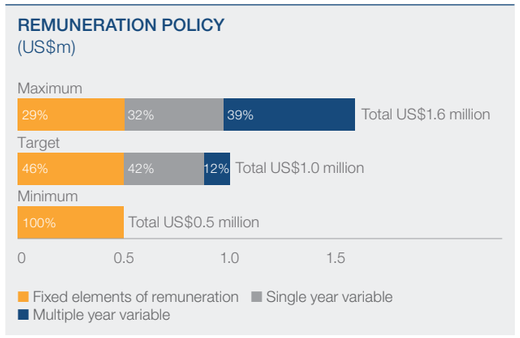
The key terms of the LTIP are described in the Remuneration Policy table above.

The Board believes that the LTIP ensures continued alignment of the executive team's performance with shareholder interests and rewards superior long-term performance and the creation of sustainable shareholder value. The Board also believes that the LTIP is in line with UK best practice and follows fully the provisions of the UK Corporate Governance Code and other relevant guidelines, while also containing features which are superior to common practice in the UK – such as a positive TSR underpin for vesting of the PSP.

4. ILLUSTRATION OF APPLICATION OF REMUNERATION POLICY

The composition and structure of the remuneration package for the Group CEO under three performance scenarios (Maximum performance, Target performance and Minimum performance) is set out in the chart below.

This chart shows that the proportion of remuneration delivered through short-term and long-term incentive schemes is in line with our remuneration policy and changes significantly across the three performance scenarios. As such, the package promotes the achievement of both short-term and long-term performance targets and drives the alignment of the Group CEO's interests with the interests of shareholders.



Note: Scenario values are translated at the exchange rate of RUB/US$60.

The scenarios are defined as follows:

	Minimum	Target	Maximum
Fixed elements	Base salary and pension	Not applicable	Not applicable
Single year variable	Performance against quantitative KPIs is below budget by more than 10%. Non-achievement of qualitative or non-financial KPIs. 0% payout.	Performance against quantitative KPIs is at budgeted levels. Full achievement of non-financial KPIs. 100% of base salary payout (80% of maximum opportunity). Includes DSA awards.	Performance against quantitative KPIs is above budgeted levels. Full achievement of non-financial KPIs. 125% of base salary payout (100% of maximum opportunity). Includes DSA awards.
Multiple year variable	Share price performance is below the median of FTSE Gold Mines Index constituents. No shares vest.	Scenario is based on 150% policy awards. Share price performance is at median of FTSE Gold Mines Index constituents. Shares equivalent to 30% of base salary vest under the PSP (20% of total shares available).	Share price performance is in the top decile of FTSE Gold Mines Index constituents. Shares equivalent to 150% of base salary vest under the PSP (100% of total shares available).

No allowance has been made for share price appreciation or for the payment of dividend equivalents. Non-executive Directors do not receive performance-related pay. Their fees are disclosed in the Remuneration Policy table on page 88.

5. APPROACH TO RECRUITMENT REMUNERATION

The Committee's approach to recruitment remuneration is to pay a competitive overall package as appropriate to attract and motivate the right talent for the role. If an executive is promoted to the Board from within the Company, any pre-existing awards or benefits that were made available to him or her prior to becoming a Director (and not in anticipation of an imminent promotion to the Board) will be retained and allowed to vest or be provided under the original terms.

The following table sets out the various components which would be considered for inclusion in the remuneration package for the appointment of an executive Director. Any new Director's remuneration package would include the same elements, be set at a level consistent with the scope of the role (at a level not exceeding that of the Group CEO as set out in the Remuneration Policy table) and be subject to the same constraints as those of existing Directors performing similar roles, as shown below.

Area	Policy and operation
Base salary and benefits	The base salary level will be set by taking into account the experience of the individual and the salaries paid in comparable companies. Depending on the circumstances of any particular appointment, the Committee may choose to set the base salary below market median and increase the amount paid over a period of time to achieve alignment with market levels for the role (with reference to the experience and performance of the individual), subject to the Company's ability to pay. In line with the remuneration policy, as set out in the Directors' Remuneration Policy table, no benefits will be provided to recruited Directors.
Pension	Pension contributions will be limited to the mandatory contributions required by Cypriot/Russian/Kazakh or any other applicable law, as set out in the Directors' Remuneration Policy table.
Annual bonus	The executive Director will be eligible to participate in the annual bonus scheme as set out in the Directors' Remuneration Policy table. The maximum annual opportunity is 125% of base salary. 50% of any bonus is deferred into shares under the DSA, as set out in the Directors' Remuneration Policy table.
Long-term incentives	The executive Director will be eligible to participate in the LTIP (PSP) at the Remuneration Committee's discretion in line with the details set out in the Directors' Remuneration Policy table. The maximum annual grant permitted under the scheme rules is 200% of base salary and the normal grant level is up to 150% of base salary. Performance measures would apply, as set out in the Remuneration Policy table.
Replacement awards	The Committee will seek to structure any replacement awards so that overall they are no more generous in terms of quantum or timing than the awards to be forfeited as a consequence of the individual joining the Company. In determining the quantum and structure of any replacement awards, the Committee will seek to replicate the fair value and, as far as practicable, the timing, form and performance requirements of the forfeited remuneration. The maximum value of replacement awards is capped at 50% of the individual's base salary, and at least 50% of any replacement award should be delivered in the Company's shares.
Other	Should relocation of a newly recruited executive Director be required, reasonable costs associated with this relocation will be met by the Company. Such relocation support may include, but not be limited, to payment of legal fees, removal costs, temporary accommodation/hotel costs, a contribution to stamp duty and replacement of non-transferable household items. In addition, and in appropriate circumstances, the Committee may grant additional support in relation to the payment of school fees and the provision of tax advice. The Company will reimburse the executive Director for all reasonable expenses which he/she may incur while carrying out executive duties.

6. POLICY ON PAYMENT FOR LOSS OF OFFICE

The Committee's approach when considering payments in the event of termination is to take into account individual circumstances, including the reason for termination, contractual obligations of both parties and applicable share plan and pension scheme rules (including any relevant performance conditions).

Vitaly Nesis is an Executive Director of Polymetal International plc and CEO of JSC Polymetal, a 100% subsidiary of the Group incorporated in Russia. Further details are set out in the current Directors' service contracts section on page 93.

The table below summarises the key elements of the executive Director policy on payment for loss of office.

Area	Policy and operation	
Notice period	Polymetal International 6 months from Company 6 months from Director	JSC Polymetal With immediate effect from Company 1 month from Director
Compensation for loss of office in service contracts	No entitlement in respect of directorship of Polymetal International. Up to three times average monthly salary in respect of directorship of JSC Polymetal in accordance with provisions of the labour law of the Russian Federation.	
Treatment of annual bonus awards	Where an executive Director's employment is terminated after the end of the performance year, but before the payment of the annual bonus is made, the executive may be eligible for an annual bonus award for that performance year subject to an assessment based on performance achieved over the period. No award will be made in the event of gross misconduct. Where an executive Director's employment is terminated during a performance year, a pro-rated annual bonus award for the period worked in that performance year may be payable, subject to an assessment based on performance achieved over the period.	
Treatment of unvested Deferred Share Awards (DSAs) under plan rules	In normal circumstances, DSAs will continue until the normal time of vesting upon cessation of employment in Good Leaver Circumstances. Alternatively, the Board may determine that DSAs will vest immediately. In both circumstances there would be no pro-rating of the DSAs for time from the award date until cessation of employment or for performance.	
Treatment of unvested Performance Share Plan (PSP) awards under plan rules	Any outstanding award will lapse at cessation of employment with the Group, unless the cessation is due to Good Leaver Circumstances, in which case the award will usually vest as normal in accordance with the terms of the award. Alternatively, the Committee may determine that the award will vest immediately. The Committee will determine the proportion of the award that will vest, taking into account (where relevant) the extent to which the performance conditions have been met or are likely to be met at the end of the performance period, and any other factors the Committee may consider relevant.	
Exercise of discretion	Any discretion available in determining the treatment of incentives upon termination of employment is intended only to be relied upon to provide flexibility in unusual circumstances. The Committee's determination will take into account the particular circumstances of the Director's departure and the recent performance of the Group.	
Corporate event	In relation to PSP awards, in the event that the Company's shares cease to trade on the London Stock Exchange or any other recognised stock exchange (Delisting) or the Directors of the Company pass a resolution to the effect that Delisting is imminent or where the Board determines that a 'significant event' has occurred, which may be a demerger, winding-up or compulsory acquisition of the Company, or any other event as determined by the Board, at the discretion of the Board and, where applicable, with the consent of the acquiring company, PSP awards will not vest but will be exchanged for new PSP awards. In the event that the PSP awards are exchanged for new PSP awards: • the award date of the new PSP award shall be deemed to be the same as the award date of the original PSP award; • the new PSP award will be in respect of shares in a company determined by the Board which may include any acquiring company; • the new PSP award must be equivalent to the PSP award and will vest at the same time and in the same manner as the PSP award; and • where relevant, either the vesting of the new PSP award must be subject to any performance conditions which are, so far as possible, equivalent to any conditions applying to the PSP award, or no performance conditions will apply but the value of shares comprised in the new PSP award shall be the value of the number of shares which would have vested under the PSP award if they had not been exchanged for new PSP awards. DSAs shall vest immediately and shall not be pro-rated for time or performance if any of the events referred to above occur.	

7. CURRENT DIRECTORS' SERVICE CONTRACTS

GROUP CEO

The table below highlights key elements of the service contract of the Group CEO with JSC Polymetal, the Russian holding company of the Group where he holds the CEO position:

Date of contract	1 September 2013
Expiry of term	31 August 2018
Payment in lieu of notice	None
Pension	None, except for defined contributions to the mandatory pension fund of the Russian Federation

Following the expiry of the previous five-year employment contract, on 23 August 2013, JSC Polymetal, a 100% indirect subsidiary of the Company incorporated in Russia, entered into an employment contract with Mr Nesis as its Chief Executive Officer (CEO). The contract became effective on 1 September 2013. The contract was entered into for a period of five years and expires on 31 August 2018. Under the terms of the contract, the CEO undertakes to perform general management of JSC Polymetal and arrange for its commercial, economic, social and other activities with a view to providing for JSC Polymetal's further development. The employment contract does not contain any specific grounds for early termination. The contract can be terminated at any time on one month's notice by Mr Nesis and with immediate effect by JSC Polymetal in accordance with Russian labour and civil law. This could result in compensation of three average monthly salaries.

Mr Nesis entered into an appointment letter (as amended) with the Company in relation to his appointment as a Director. This appointment took effect on 29 September 2011 and was conditional on admission of shares to trading on the London Stock Exchange; Mr Nesis is subject to annual re-election. Mr Nesis does not receive any fees in respect of his appointment as a Director of Polymetal International plc but is entitled to reimbursement of his reasonable expenses incurred in relation to carrying out his duties as a Director. The appointment of Mr Nesis as a Director may be terminated at any time in accordance with the Articles of Association. Mr Nesis can terminate his appointment as a Director on six months' notice. He is not entitled to receive any compensation in respect of his role as Director on termination of this appointment.

The full terms and conditions of appointment are available for inspection at the Company's registered office in Jersey and its office in Cyprus.

NON-EXECUTIVE DIRECTORS

Non-executive Directors do not have service contracts. Rather, the terms of their appointment are set out in letters of appointment. The appointment of each of the non-executive Directors took effect from admission until the next AGM of the Company, subject to annual re-election. The appointment of any non-executive Director may be terminated at any time in accordance with the Articles of Association. The appointment of each non-executive Director may be terminated by either party on one month's notice. A non-executive Director is not entitled to receive any compensation on termination of his or her appointment. Each non-executive Director is subject to confidentiality restrictions without limitation in time.

The full terms and conditions of appointment of all of the Directors are available for inspection at the Company's registered office in Jersey and its office in Cyprus.

Dates of contract or appointment for non-executive Directors are set out in the table below:

Director	Date of contract or appointment	Notice period
Bobby Godsell	29 September 2011	1 month
Konstantin Yanakov	29 September 2011	1 month
Jean-Pascal Duvieusart	29 September 2011	1 month
Marina Grönberg	29 September 2011	1 month
Jonathan Best	29 September 2011	1 month
Russell Skirrow	29 September 2011	1 month
Leonard Homeniuk	29 September 2011	1 month
Christine Coignard	1 July 2014	1 month

8. STATEMENT OF CONSIDERATION OF SHAREHOLDER VIEWS

The Company will be requesting shareholder approval of its Remuneration Policy at the AGM on 16 May 2017 to cover a period of three years. The policy will apply from the date of approval. The previous policy was approved in 2014 and received 99.8% of votes in favour. The Directors' annual Remuneration Report was put to an advisory shareholder vote at the 2016 AGM of the Company and received 99.82% support. The Committee regularly consults with the Company's major shareholders, and seeks their feedback on the executive Director Remuneration Policy.

In November 2016, Polymetal circulated proposed limited one-off changes to its Remuneration Policy in respect of the executive Director base salary to its major shareholders and had some follow-up communication regarding this matter.

9. STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

In determining salary increases for the Group CEO, the Committee takes into account a range of factors, including overall base salary increases awarded to the wider employee population during the year. Since 2011, the average employee compensation increase of the general workforce has been equivalent to 14% per annum in Rouble terms, compared to an average base salary increase in Rouble terms of 7% per annum for the Group CEO. We are firmly committed to acknowledging and rewarding employees' hard work and achievements. To help us attract and retain the best candidates, we offer competitive salaries and benefits which exceed regional averages in our areas of operation.

The Committee consulted with the selected focus group of employees on the appropriateness of the Group CEO's pay arrangements and overall response was that Group CEO's payment structure was effective for the achievement of Company's objectives.

ANNUAL REPORT ON REMUNERATION

APPLICATION OF REMUNERATION POLICY IN 2016

1. SINGLE TOTAL FIGURE OF REMUNERATION (AUDITED INFORMATION) – US$

No discretion has been used in respect of non-executive and executive Directors' remuneration throughout the reporting period.

The table below sets out 2016 remuneration for the Group CEO. The Group CEO's remuneration is denominated in Russian Roubles and converted to US Dollars for presentation purposes. The approach to exchange rates and Russian Rouble remuneration equivalent is set out in footnote 2 to this table.

	Base salary		Taxable benefits		Annual bonus		Performance Share Plan ('PSP')		Pension		Total	
	2016	2015	**2016**	2015	**2016**[1]	2015	**2016**	2015	**2016**	2015	**2016**	2015
	303,289	351,694	**–**	–	**152,329**	122,005	**–**	–	**40,792**	37,965	**496,410**	511,664

[1] 50% of the bonus received in 2016 will be deferred into 7,909 shares on 15 March 2017 at GBP8.26 (RUB 648) per share (using average price for the 90-day period ending 31 December 2016). In line with policy disclosed on pages 86-87, deferred shares will be released in equal tranches over a period of three years in March 2018, March 2019 and March 2020 and are not subject to further performance conditions.

[2] The amounts are translated at the average rates of the Russian Rouble to the US Dollar for 2015 and 2016, respectively.

[3] No PSP awards vested or exercised in the year.

Details of total fees paid to non-executive Directors and the Chairman during 2016 and 2015 are set out in the table below:

	Total fees (US$)	
	2016	2015
Bobby Godsell	**388,666**	433,018
Jonathan Best	**226,709**	257,049
Russell Skirrow	**199,827**	210,150
Leonard Homeniuk	**191,650**	215,455
Christine Coignard	**232,515**	252,015
Konstantin Yanakov	**–**	–
Marina Grönberg	**–**	–
Jean-Pascal Duvieusart	**–**	–
Total non-executive fees	**1,239,367**	1,367,687

Note: The amounts for 2016 and 2015 are translated at average GBP/US$ exchange rates.

2. SINGLE TOTAL FIGURE OF REMUNERATION – ADDITIONAL INFORMATION (AUDITED)

ANNUAL BONUS TARGETS AND OUTCOMES

The targets for annual bonus measures and performance against these targets are set out below:

Measures	Weight	Threshold	Target	Maximum	2016 Outcome	Achievement
Achieving production budget, Koz	25%	1,125	1,250	1,312	1,260	27%
Total cash cost per ounce of gold equivalent produced, US$ million	25%	638	580	551	563	32%
Completion of new projects on time and within budget	25%	1 point	10 points	10 points	9.8 points	25%
Health and safety	25%	Nil fatalities; reduction of LTIFR by 10% y-o-y	Nil fatalities; reduction of LTIFR by 10% y-o-y	NA	4 fatalities	0%
Penalty factor for fatal/severe cases	Up to 50% of bonus earned for non-safety related KPIs (up to 37.5% of total bonus)	NA	NA	NA	4 fatalities	-33.5%
Total	**100%**					**50.2%**

Penalty factor for fatal/severe cases is up to 50% of the annual bonus. This resulted in the Group CEO receiving a bonus of 40% of maximum opportunity for the year (which constitutes 50% of his base salary or US$152,329).

DEFERRED SHARE AWARDS PLAN

In accordance with the DSA, part of the award of shares under the DSA, which were granted in March 2014 and March 2015, vested on 31 March 2016 and were transferred to the Group CEO. In addition, further to the bonus approval for the year ended 31 December 2016, the Group CEO will receive on 15 March 2017 a deferred bonus award in shares under the terms of the DSA as per the schedule below. Share awards will vest annually over the next three years in equal instalments (in March 2018, 2019 and 2020). Under the terms of the DSA, dividend equivalents will be received on vested shares reflecting the value of the dividends, which have been paid during the period from the grant date to the vesting date. Dividend equivalents will also be paid as shares.

Name	Position	Year of grant	Number of deferred DSA shares granted	Number of DSA shares vested in 2016	Additional DSA share awards for dividend equivalents	Total number of DSA shares vested	Outstanding DSA shares
Vitaly Nesis	Director	2014	30,081	10,027	418	20,472	10,027
		2015	22,178	7,393	1,268	8,661	14,785
		2016	**6,656**	**–**	**–**	**–**	**6,656**
		Total	**58,915**	**17,420**	**1,686**	**29,133**	**31,468**

PERFORMANCE SHARE PLAN

Under the PSP, a conditional award of 48,507 ordinary shares with no par value was made to Mr Nesis in 2016, making the total number of options outstanding under the PSP 188,838. It is exercisable following respective four-year vesting periods, subject to performance measures determined by Polymetal. For this award, vesting is based on relative TSR, measured against the constituents of the FTSE Gold Mines Index and also on the Company's absolute TSR. Peers are ranked and the Company's position determines vesting (0% vests for below median performance; 20% vests at median performance; 100% vests at top decile performance and above). No award will vest if absolute TSR is negative, regardless of relative performance.

Name	Position	Year of grant/ Year of vesting	Number of PSP share awards granted	Number of PSP shares vested in 2016	Total number of PSP shares vested	Outstanding shares under PSP grant
Vitaly Nesis	Director	2014/2018	74,165	–	–	74,165
		2015/2019	66,166	–	–	66,166
		2016/2020	**48,507**	**–**	**–**	**48,507**
Total number of options outstanding under the PSP			**188,838**	**–**	**–**	**188,838**

OTHER SCHEME INTERESTS AWARDED DURING THE FINANCIAL YEAR

No other share awards were made to the Group CEO in 2016.

3. TOTAL PENSION ENTITLEMENTS

Save for the Group's defined contributions to the mandatory pension fund of the Russian Federation during the financial year ended 31 December 2016, no amounts were set aside or accrued by the Group to provide pension, retirement or other benefits to the Directors and senior management.

4. LOSS OF OFFICE PAYMENTS OR PAYMENTS TO PAST DIRECTORS

No loss of office payments or payments to past Directors were made in the year under review.

5. DIRECTORS' SHAREHOLDINGS

The Group CEO is required to retain a shareholding equal to five times his base salary, i.e. 199,367 shares.

For the purposes of determining whether the requirements have been met, share price is measured at the end of each financial year. Shares are valued for these purposes at the year-end price of US$10.52 per share at 31 December 2016 translated at the closing exchange rate of the US Dollar to the Russian Rouble as at 31 December 2016.

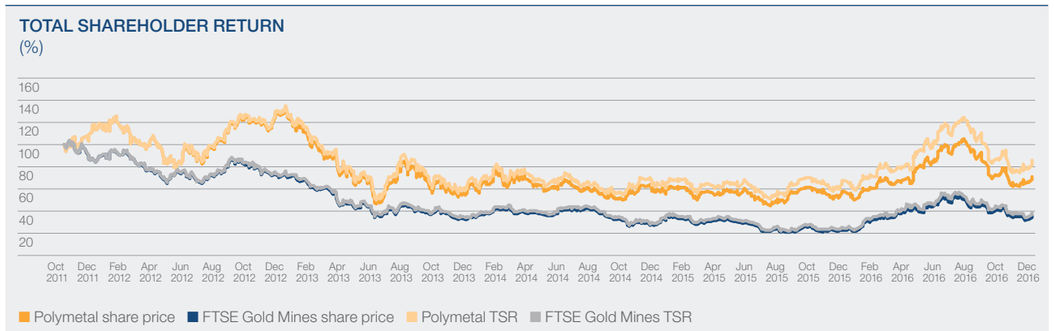
Shares that count towards shareholding requirements include unfettered shares. The table below sets out the number of shares held, or potentially held, by Directors. For details of outstanding conditional share awards held by the Group CEO at 31 December 2016 refer to page 95.

		Shares held		Options held			
Director	Shareholding requirement (% of salary)	Owned outright	Subject to performance conditions	Vested but unexercised	Exercised in year	Current shareholding (% salary)	Guideline met
Vitaly Nesis	500%	3,129,133	–	–	–	7,848%	yes
Leonard Homeniuk[1]	–	64,000	–	–	–	–	NA
Bobby Godsell	–	2,000	–	–	–	–	NA
Marina Grönberg[2]	–	16,000	–	–	–	–	NA

[1] Shares are held by a Person Closely Associated with Mr Homeniuk.
[2] Shares are held by a Persons Closely Associated with Ms Grönberg.

6. PERFORMANCE GRAPH AND TABLE

The graph below illustrates the Company's TSR performance relative to the constituents of the FTSE 250 Index (excluding investment companies), of which the Company is a constituent, from the date of the Company's listing on the London Stock Exchange in October 2011. To provide context to the Company's performance in its specific sector of operation, we also provide an illustration of the Company's TSR relative to the constituents of the FTSE Gold Mines Index.



7. GROUP CEO'S PAY IN LAST FIVE YEARS

US$	2016	2015	2014	2013	2012
Group CEO total remuneration	496,411	511,665	907,790	1,081,572	1,037,413
Annual bonus – % of maximum	40%	33%	90%	88%	90%
PSP award – % of maximum	–	–	–	–	–

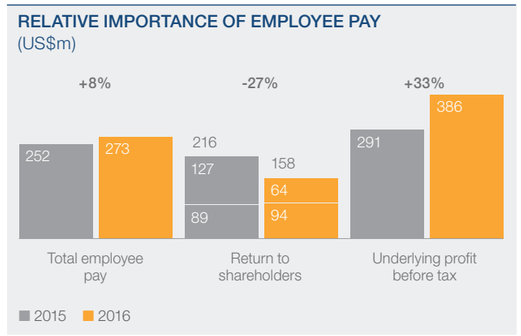
8. PERCENTAGE CHANGE IN GROUP CEO'S REMUNERATION

Excluding the value of long-term incentives, the percentage change in total remuneration for the Group CEO was a 3% decrease from US$511,665 in 2015 to US$496,411 in 2016 mainly due to the devaluation of the Russian Rouble against the US Dollar. The average percentage change in total remuneration for all employees in the year was a 7% decrease mainly driven by devaluation.

To ensure the comparability of this figure, and to minimise distortions, the all-employee remuneration figure is on the basis of full-time permanent employees.

9. RELATIVE IMPORTANCE OF SPEND ON PAY

The chart below shows how employee remuneration costs compare with profit before tax and distributions made to shareholders in 2016 and 2015.



IMPLEMENTATION OF REMUNERATION POLICY IN THE FOLLOWING FINANCIAL YEAR

In 2017, the Committee intends to implement the executive and non-executive Director remuneration policy as follows:

GROUP CEO

BASE SALARY

As a one-off change to the operation of the policy following careful consideration by the Committee, the Group CEO's salary will be increased (in Roubles) by a total of 25% in 2017. Base salary for the Group CEO for 2016 and 2017 is set out below:

	2017 salary[1]	2016 salary[1]	% change
	RUB25,443,600	RUB20,354,880	+25%
Group CEO	US$424,060	US$297,436	+43%

[1] Base salary for 2017 is translated at the budgeted exchange rate of Rouble to US Dollar for 2017. Base salary for 2016 is translated at the closing exchange rate of Rouble to US Dollar stated by the Central Bank of the Russian Federation as at 28 March 2016.

Cumulatively the US$/RUB exchange rate declined by 56% during 2011-2016 while average annual inflation was 8.1% p.a. resulting in Group CEO's package being significantly lower than in comparable companies[2]. Based on the above, the Committee proposed, as a one-off change to the operation of the policy, to increase the base salary by 25% in 2017. The increase to the Group CEO will also be in line with the similar raises awarded to other members of the senior executive team.

[2] Based on the results of benchmarking commissioned by the Committee in July 2016 and performed by its remuneration consultants, PricewaterhouseCoopers LLP.

PENSION AND BENEFITS

No pension or benefits plans are in place for 2017, except for the defined pension contributions to the mandatory pension fund of the Russian Federation.

ANNUAL BONUS

The prospective targets for annual bonus measures are considered commercially sensitive by the Board, particularly in the gold mining industry, because of the sensitivity of information that their disclosure may provide to the Company's competitors, given that these are largely based outside the UK and hence are not subject to the same reporting requirements as the Company. Targets and outcomes will be disclosed retrospectively at the end of the performance year.

LONG-TERM INCENTIVE PLAN (DEFERRED SHARE AWARDS PLAN AND PERFORMANCE SHARE PLAN)

DEFERRED SHARE AWARDS PLAN

The Committee intends to defer annual bonus awards earned for the 2017 performance period in line with policy.

PERFORMANCE SHARE PLAN

The Committee intends to make an award under the PSP to the Group CEO in 2017, in line with the policy disclosed on page 87.

Vesting is based on relative TSR measured against the constituents of the FTSE Gold Mines Index and on the Company's absolute TSR. Peers are ranked and the Company's position determines vesting:

	TSR vs. FTSE Gold Miners	Payout
Below threshold	Below median performance	0%
Threshold	Median performance	20%
Maximum	Upper decile performance	100%

Straight-line vesting will occur between median and upper decile performance. No award will vest for performance below median, or if the Company's absolute TSR performance is negative, regardless of relative performance.

NON-EXECUTIVE DIRECTORS

The policy for determining non-executive Directors' fees will be unchanged from 2016. Fee rates for 2016 and 2017 are set out below:

Role	2017 fees US$	2016 fees US$
Non-executive Chairman	**370,400**	370,400
Senior Independent Director	**No additional fee**	No additional fee
Independent non-executive Director basic fee	**148,160**	148,160
Additional fees		
Audit and Risk Committee Chairman	**44,448**	44,448
Chairman of other Committees	**22,224**	22,224
Committee membership fee (not payable to the Committee Chair)	**14,816**	14,816
Board and Committee meeting attendance fee	**4,445 per meeting**	4,445 per meeting

Note: Non-executive Director fees are denominated in British Pounds Sterling and for presentation purposes the figures are translated to US Dollars at the exchange rate of British Pound to the US Dollar as at 31 December 2016.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three independent non-executive Directors who have no personal financial interest, other than as a shareholder (where applicable), in the matters to be decided.

The membership of the Remuneration Committee is shown in the table below.

Name	Role
Christine Coignard	Chair
Leonard Homeniuk	Member
Jonathan Best	Member

The principal functions of the Remuneration Committee under its terms of reference are:

- to make recommendations to the Board on the Group's policy on the remuneration of executive management;
- to determine, within agreed terms of reference, the remuneration of the Chairman and specific remuneration packages for each of the Executive Director, the Company Secretary and members of senior management, including pension rights and any compensation payments;
- to formulate suitable performance criteria for the performance-based pay of executive management;
- to review and oversee all aspects of any executive share scheme operated by or to be established by the Company; and
- to oversee and advise the Board on any major changes in employee benefit structures throughout the Company or the Group.

The full terms of reference of the Remuneration Committee can be found in the Corporate governance section on the Company's website: www.polymetalinternational.com.

CONSIDERATION BY THE DIRECTORS OF MATTERS RELATING TO DIRECTORS' REMUNERATION

In 2016, the Remuneration Committee had four meetings. Further business conducted by the Committee was approved by written resolutions on three occasions. The following key areas were covered:

- KPI structure review with particular focus on the choice and applicability of a sustainability KPI;
- review of KPIs for 2016;
- approval of annual bonus and share deferral under the DSA;
- approval of PSP grant (including target levels and results of the previous grants);
- review approach to change in circumstances of PSP participants;
- comprehensive remuneration policy review ahead of the binding shareholder vote in 2017, including:
  - LTIP overview and discussion as to the necessity of a review;
  - benchmarking: senior executives' remuneration and independent non-executive Directors' fees;
  - review mechanics of salary increase proposal/salary levels for the executive group;
- terms of reference review;
- annual reimbursement policy review;
- annual remuneration report review;
- review peers' disclosure of targets in remuneration reports; target KPI disclosure;
- review of regulatory changes and development of the Directors' remuneration reporting; and
- monitoring of market practice and changes in investors' expectations.

The Board considers that the composition and work of the Remuneration Committee complies with the requirements of the UK Corporate Governance Code.

STATEMENT OF VOTING AT AGM

At the AGM held on 17 May 2016, votes for the Remuneration report and Remuneration policy were as follows:

Votes for	Votes against	Withheld
352,917,805 (99.82%)	629,658 (0.18%)	17,698

At the AGM held on 21 May 2014, votes for the Remuneration policy were as follows:

Votes for	Votes against	Withheld
238,263,983 (99.77%)	540,821 (0.23%)	0

ADVISORS

PricewaterhouseCoopers LLP (PwC) provided Polymetal with information and support in relation to benchmarking, the review of the Company's remuneration policy, and shareholder consultation, in order to aid the Committee in their discussions. PwC is a member of the Remuneration Consultants' Group (RCG) and a signatory of the RCG Voluntary Code of Practice, and incorporates the principles of the Voluntary Code of Practice into its engagement. No other services were provided by PwC during 2016 other than external assurance services for the Company's Sustainability report and tax advisory. Fees paid to PwC in relation to remuneration services provided to the Committee in 2016 totalled US$13,875 (no fees in 2015), with fees quoted in advance and based on the level of complexity of the work undertaken. The Committee reviews the objectivity and independence of the advice it receives from PwC at a private meeting held on an annual basis.

PwC was selected in 2013 after submitting a proposal to management to carry out benchmarking, as part of a competitive process, the results of which were presented to the Remuneration Committee for approval.

During its work in 2016, the Committee was also aided by the Group CEO, and senior finance and human resources executives of the Company.

APPROVAL

This report was approved by the Board of Directors and signed on its behalf by

Christine Coignard
Chair, Remuneration Committee

DIRECTORS' REPORT

The Directors submit the Annual Report of Polymetal International plc together with the audited financial statements of Polymetal International plc for the year ended 31 December 2016.

CORPORATE GOVERNANCE

Refer to pages 72 to 77 for a description of the Group's corporate governance structure and policies.

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 2016, the Group held US$48 million of cash and had net debt of US$1,330 million. At 31 December 2016 the Group has undrawn facilities of US$998 million, of which US$873 million were considered committed.

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 consolidated financial statements for the year ended 31 December 2016.

LONGER-TERM VIABILITY STATEMENT

Based on key drivers and measures of success used within the business, the Board assessed the prospects of the Group, taking account of potential impact of the principal risks to the Group's business model and ability to deliver its strategy, including solvency and liquidity risks during the reasonably reliable lookout period.

LOOKOUT PERIOD

The period over which the Board considers it possible to form a reasonable expectation as to the Group's longer-term viability, based on the stress testing and scenario planning process employed by the Group, is the three-year period to December 2019. This is within the Group's existing medium-term forecasting performed on the annual basis and covering strategic and investment medium-term planning. The Board is confident that routine operational risks are being effectively monitored and managed within the three-year lookout period and corporate scenario planning is focusing primarily on plausible changing external factors with a reasonable degree of confidence whilst still providing an appropriate longer term outlook.

PRINCIPAL RISKS

The Board has continued to place great emphasis on risk management in 2016, taking into account material external economic and geopolitical challenges and considering the Group's responsiveness to changes within its business environment. The detailed assessment of principal risks and uncertainties facing the Group is set out on pages 64-69 of this Annual Report.

The corporate planning process is underpinned by life-of-mine plans and stress scenario testing. The stress tests are designed to evaluate the resilience of the Group to the potential impact of principal risks and the availability and effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk and internal control systems, as discussed on 64-65 and 81, were taken into account.

KEY ASSUMPTIONS

The key assumptions underpinning the Board's assessment include gold and silver prices, production volumes, foreign exchange rates and the ability to roll forward borrowing facilities as they fall due in the ordinary course of business.

In making these forecasts, full consideration has also been given to all other principal risks to the business. These risks have been considered in our stress testing where appropriate, or are considered to be either immaterial or too remote to affect our viability over a three-year period.

LIQUIDITY AND SOLVENCY

The sources of funding available to the Group are set out in Note 24 to the consolidated financial statements. Our base case projections demonstrate that the Group should be able to operate within the currently available debt facilities and comply with all related covenants during the lookout period, assuming necessary roll-overs and limited additional debt based on the historically successful ability of the Group to raise finance. Our stress testing focuses in particular on significant adverse changes in market prices of gold and silver or foreign exchange rates and demonstrates that under reasonably possible downside gold and silver price and exchange rate assumptions, only limited mitigating action is required to maintain liquidity and covenant compliance, including the refinancing of existing facilities as they mature.

EXPECTATIONS

The Board confirms that taking into account the Group's current position and based upon the robust assessment of the principal risks facing the Group and stress testing-based assessment of the Group's prospects, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2019.

FINANCIAL AND BUSINESS REPORTING

The Board believes that the disclosures set out in the Strategic Report on pages 2 to 69 of this Annual Report provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

DIRECTORS

The Directors, their status and Board Committee memberships are set out on pages 70 to 75 of the Report.

APPOINTMENT AND REPLACEMENT OF DIRECTORS

The Board may appoint a person who is willing to act as a Director, either to fill a vacancy or as an additional Director and, in either case, whether or not for a fixed term. Irrespective of the terms of his or her appointment, a Director so appointed shall hold office only until the next AGM. If not re-appointed at such AGM, he or she shall vacate office at its conclusion.

The Company may, by ordinary resolution, remove any Director from office (notwithstanding any provision of the Company's Articles or of any agreement between the Company and such Director, but without prejudice to any claim that he or she may have for damages for breach of any such agreement). No special notice needs to be given of any resolution to remove a Director and no Director proposed to be removed has any special right to protest against his or her removal. The Company may, by ordinary resolution, appoint another person in place of a Director removed from office.

DIRECTORS' INTERESTS

Information on Directors' interests in shares of the Company is set out in the Remuneration Report on page 94.

DIRECTORS' INDEMNITIES

To the extent permitted by the Companies (Jersey) Law 1991, the Company has indemnified every Director and other officer of the Company (other than any person (whether an officer or not) engaged by the Company as auditor) out of the assets of the Company against any liability incurred by him or her for negligence, default, breach of duty, breach of trust or otherwise in relation to the affairs of the Company. This provision does not affect any indemnity to which a Director or officer is otherwise entitled.

POLITICAL DONATIONS

The Company may not make a political donation to a political party or other political organisation, or to an independent election candidate, or incur any political expenditure, unless such donation or expenditure is authorised by an ordinary resolution of shareholders passed before the donation is made or the expenditure incurred. No such donations were made in 2016 (2015: none).

CAPITAL STRUCTURE

The structure of the Company's share capital is detailed in Note 30 to the financial statements. There are no specific restrictions on the size of a holding or on the transfer of shares, which are both regulated by the Articles of the Company and applicable legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or on voting rights.

The Articles of the Company can be altered by a special resolution of the Company. A resolution is a special resolution when it is passed by three-quarters of the members who (being entitled to do so) vote in person, or by proxy, at a General Meeting of the Company. Pursuant to the Company's Articles, the Directors have the power to allot Equity Securities (as defined in the Articles).

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as commercial contracts, bank loan agreements and employees' share plans. None of these is considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid. Substantial shareholdings in the Company are disclosed on page 179.

Details of employee option schemes are set out in the Remuneration Report on page 87. There were no acquisitions of the Company's own shares in 2016.

As at 31 December 2016, the Group and its subsidiaries held no treasury shares (31 December 2015: no shares).

As at 31 December 2016, the Company had shareholders' authority to purchase up to 42,475,167 of its own ordinary shares.

At the AGM of the Company held in 2016, the power to allot Equity Securities was renewed up to an aggregate number of 141,583,891 ordinary shares, provided that the Directors' power in respect of such an amount may only be used in connection with a pre-emptive issue (as defined in the Articles).

The Directors are further empowered pursuant to Article 12.4 of the Company's Articles to allot Equity Securities for cash as if Article 13 of the Articles (Pre-emptive rights) did not apply and for the purposes of paragraph (b) of Article 12.4 of the Articles, the Non Pre-emptive Shares (as defined in the Articles) are an aggregate number of up to 42,475,167 ordinary shares.

The authorities above will, unless previously revoked or varied, expire at the conclusion of the Company's next AGM (or, if earlier, at the close of business on the date which is 15 months after the date of the resolution which granted them, being 17 August 2017).

Pursuant to Article 57 of the Companies (Jersey) Law 1991, the Company is authorised to make market purchases of ordinary shares of the Company, provided that:

- the maximum number of ordinary shares to be purchased is 42,475,167 ordinary shares;
- the minimum price (excluding expenses) which may be paid for each ordinary share is 1 penny;
- the maximum price (excluding expenses) which may be paid for each ordinary share is the higher of:
  a. an amount equal to 105% of the average of the middle market quotations of an ordinary share in the Company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; and
  b. an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System;
- pursuant to Article 58A of the Companies (Jersey) Law 1991, the Company may hold as treasury shares any ordinary shares purchased pursuant to the authority conferred in this resolution.

This authority will expire at the conclusion of the Company's next AGM or 18 months from the date of the passing of this resolution, being 17 November 2017 (whichever is earlier).

Approval of share issues, consideration for which does not exceed US$15 million, is delegated to any Director holding any executive office.

As of 14 March 2017 the total issued share capital of the Company comprises 429,971,261 ordinary shares of no par value, each carrying one vote. During the year, 3,612,200 ordinary shares in the Company were issued as follows: 110,850 shares in accordance with the Long-Term Incentive Plan (the LTIP); 1,481,785 shares as consideration payment for the acquisition of the Kapan Gold Mine in Armenia; 898,875 shares for additional 25% stake in Tarutin deposit; and 1,120,690 for the controlling interest in Saum property.

DIVIDENDS

The Group's profit for the year ended 31 December 2016 attributable to equity holders of the Company was US$395 million (2015: US$221 million). Underlying net earnings (adjusted for the after-tax amount of impairment charges, foreign exchange gains/losses and change in fair value of contingent consideration liability) in 2016 were US$282 million (2015: US$291 million). In August 2016, the Company declared an interim dividend of US$0.09 per share (2015: US$0.08 per share), which was paid in September 2016. The Directors have proposed the payment of a final dividend of US$0.18 per share (2015: US$0.13 per share).

ANNUAL GENERAL MEETING

The AGM of shareholders of the Company will take place on Tuesday 16 May 2017 at 10.30 am (BST) at etc. venues Monument, 8 Eastcheap, London EC3M 1AE.

AUDITORS

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the Director has taken all steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint it will be proposed at the forthcoming AGM. The Audit and Risk Committee reviews both the level of the audit fee and the level and nature of non-audit fees as part of its review of the adequacy and objectivity of the audit process.

Having taken all matters considered by the Board and brought to the attention of the Board during the year into account, we are satisfied that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

Bobby Godsell
Chairman

14 March 2017

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

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

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

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

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

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

By order of the Board,

Bobby Godsell
Chairman

Vitaly Nesis
Group CEO

14 March 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF POLYMETAL INTERNATIONAL PLC

OPINION ON FINANCIAL STATEMENTS OF POLYMETAL INTERNATIONAL PLC

In our opinion:

- **the financial statements give a true and fair view of the state of the Group's affairs as at 31st December 2016 and of its profit for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and**
- **have been properly prepared in accordance with the Companies (Jersey) Law, 1991.**

The financial statements that we have audited comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Balance Sheet;
- the Consolidated Statement of Cash Flows;
- the Consolidated Statement of Changes in Equity;
- the Significant accounting policies; and
- the related Notes 1 to 34.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

SUMMARY OF OUR AUDIT APPROACH

Key risks	The key risks that we identified in the current year were: • Recoverability of operating and development assets and goodwill • Recoverability of exploration and evaluation assets • Valuation and existence of metal inventories • Accounting for and valuation of acquisitions Within this report, any new risks are identified with ⌃ and any risks which are the same as the prior year identified with ».
Materiality	The materiality that we used in the current year was US$21 million, which was determined on the basis of 4% of Profit before tax, adjusted for net foreign exchange gains and losses.
Scoping	Our audit scope focused primarily on nine key reportable segments (Voro, Okhotsk, Dukat, Omolon, Varvara, Amursk/Albazino, Mayskoye, Kyzyl and Armenia) and the corporate entities such that 100% of revenue (2015: 100%) and 97% of total assets (2015: 97%) were subject to a full scope audit, which is consistent with last year's approach.
Significant changes in our approach	The Group completed two acquisitions in the year (Kapan and Komar) and the accounting for these involves management judgement and has been included as a new key risk in the current year.

GOING CONCERN AND THE DIRECTORS' ASSESSMENT OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE GROUP.

We have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within Note 1 to the financial statements and the directors' statement on the longer-term viability of the Group, contained within the Directors' report on page 100. We are required to state whether we have anything material to add or draw attention to in relation to: • the Directors' confirmation on page 100 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures on pages 66-69 that describe those risks and explain how they are being managed or mitigated; • the Directors' statement in Note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and • the Directors' explanation on page 100 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We confirm that we have nothing material to add or draw attention to in respect of these matters. We agree with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.
Independence We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Company and we have fulfilled our other ethical responsibilities in accordance with those standards.	We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Recoverability of operating and development assets and goodwill

(Notes 18 and 19 and Page 80 of the Audit and Risk Committee Report) »

Risk description	As a consequence of continued volatility in gold and silver prices, foreign exchange rates and the political and economic uncertainties in Russia, the assessment of recoverability of the operating and development assets (carried at US$1,625 million) and goodwill (carried at US$17 million) remains a key judgment. Management has assessed whether any indicators of impairment, or impairment reversal, existed at its nine cash generating units ('CGUs') (as set out in Note 5) and development projects. Where goodwill is allocated to that CGU (at Dukat and Mayskoye), management performed formal impairment testing as at 31 December 2016 to assess whether the recoverable amount of the CGU exceeds its net book value.
How the scope of our audit responded to the risk	We challenged management's assessments as to whether indicators of impairment (or impairment reversal) exist for the Group's CGUs and development projects through critical assessment of developments in the wider economic environment and the performance of each of the CGUs in the year and through meetings with local and Group operational management. Where such indicators were identified, and for the CGUs with goodwill allocated to them, we obtained the valuation models used to determine the recoverable amount of those CGUs. We challenged the assumptions underpinning the models, including the discount rate used, the expected commodity prices, capital and operating expenditure forecasts, production profiles and foreign exchange rates. This was achieved by comparison to third party documentation, the review of reserves and resources reports, consultation with Deloitte specialists (to assess critically the discount rate applied), discussions with operational management and sensitivity analyses. We assessed whether assumptions had been determined and applied consistently across the Group. We assessed management's ability to forecast accurately by comparing their 2016 forecasts to 2016 actual financial results.
Key observations	No impairments or impairment reversals were identified in the current year.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF POLYMETAL INTERNATIONAL PLC CONTINUED

Recoverability of exploration and evaluation assets (Notes 3 and 18 and Page 80 of the Audit and Risk Committee Report)	
Risk description	At 31 December 2016, the Group held US$140 million in respect of exploration and evaluation (E&E assets). Recoverability is dependent on the expected future success of exploration activities. E&E expenditure is capitalised once it has been determined that the mineral property can be developed economically. The evaluation of each asset's future prospects requires significant judgement.
How the scope of our audit responded to the risk	We reviewed and challenged management's assumptions used in assessing the recoverability of the Group's exploration and evaluation assets. We assessed the recoverability of assets by meeting with operational management to discuss material E&E assets, reviewing drilling and other testing results in the year and confirming future development plans. We reviewed licence conditions to ensure there were no breaches of key terms. We reviewed Board-approved budgets for 2017 to check that specific exploration project spend was committed and we performed detailed testing to assess the validity of costs capitalised in the year.
Key observations	No additional impairments of E&E assets were identified from the work performed.

Valuation and Existence metal inventories (Note 21 and Page 80 of the Audit and Risk Committee Report)	
Risk description	At 31 December 2016 the Group held US$395 million in respect of metal inventories on the Balance Sheet. Management's determination of the contained metal levels in ore stockpiles and work in progress involves the use of sampling techniques and related valuation models. The assessment of the recoverability of metal inventories requires judgement both in the calculation of expected costs to process and refine ore stock piles to produce concentrate or doré for sale, and in estimating future prices to be realised on sale.
How the scope of our audit responded to the risk	We tested the existence of metal inventories through attending inventory counts performed by management's experts and assessing the controls surrounding measuring the net realisable value of the inventory at a sample of operating locations and performing roll forward testing from the count dates through to year end by testing management's metal inventory models. We assessed management's experts' methodology, expertise and objectivity. We tested the recoverability of metal inventories through the recalculation of projected net realisable values based on expected commodity prices (which were consistent with prices used in the Group's property, plant and equipment and goodwill impairment calculations) and costs to complete. We also performed substantive analytical procedures on management's inventory costing calculations. We tested inventories for obsolescence by reviewing management's strategic mine plans and assessing whether there is appropriate provisioning in place, in particular where stockpiles are no longer expected to be used.
Key observations	No additional write-downs of metal inventories were identified from the work performed.

Accounting for and valuation of acquisitions (Note 4 and Page 80 of the Audit and Risk Committee Report)	
Risk description	The appropriate accounting treatment of acquisitions which have completed during 2016 (Kapan in Armenia for US$38 million and Komar in Kazakhstan for US$120 million) is a key judgement, specifically in respect of determining whether each of the acquisitions is a business combination or an asset acquisition, and estimating the fair value of the contingent consideration. The key judgements and inputs to determination of the fair value of the deferred contingent consideration include expected commodity prices, production profiles and the discount rates applied.
How the scope of our audit responded to the risk	We challenged management's assessment of whether the acquisitions meet the definition of a business under IFRS 3 Business combinations. We challenged management's key assumptions underpinning the contingent consideration liability models through critical assessment of key inputs within the model. On Komar, we involved our internal valuation specialists to test the output of the Monte-Carlo model used.
Key observations	We are satisfied that both acquisitions had been accounted for appropriately. We found that the assumptions used by management in the valuation of the deferred contingent consideration were reasonable.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	US$21 million (2015: US$16 million).
Basis for determining materiality	4% (2014: 4%) of Profit before tax, adjusted for net foreign exchange gains and losses.
Rationale for the benchmark applied	Pre-tax profit is adjusted to exclude net foreign exchange gain and losses recognised which would, if included, significantly distort materiality year on year. In our professional judgement, we believe that the use of an adjusted profit measure is appropriate as the amounts which have been excluded from the Group's profit before tax which would otherwise distort the level of materiality determined and are not reflective of the Group's trading activity.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of US$420,000 (2015: US$320,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls and assessing the risks of material misstatement across the Group. Our audit scope focused primarily on nine key reportable segments (Voro, Okhotsk, Dukat, Omolon, Varvara, Amursk/Albazino, Mayskoye, Kyzyl and Armenia) and the corporate entities such that 100% of revenue (2015: 100%) and 97% of total assets (2015: 97%) were subject to a full scope audit, which is consistent with last year's approach.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement in the aggregated financial information of the remaining components not subject to audit.

The group audit team was involved in the work of the component auditors at all stages of the audit process. The signing partner and senior members of the Group engagement team visited the head office in St. Petersburg on multiple occasions in the year and continued to follow a programme of regular planned visits to the Group's other business units. The Group audit team directed and reviewed in detail the work performed on significant risks by the component auditors.

Our audit work was executed at levels of materiality applicable to each individual component, which were between US$10.5 million and US$18.9 million (2015: US$8.0 million and US$10.4 million).

GROUP REVENUE
(%)

TOTAL ASSETS
(%)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF POLYMETAL INTERNATIONAL PLC CONTINUED

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records	
Under the Companies (Jersey) Law, 1991 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • proper accounting records have not been kept by the parent Company, or proper returns adequate for our audit have not been received from branches not visited by us; or • the financial statements are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.
Corporate Governance Statement	
Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code.	We have nothing to report arising from our review.
Our duty to read other information in the Annual Report	
Under International Standards on Auditing (UK and Ireland), we are required to report to you if in our opinion information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit and Risk Committee which we consider should have been disclosed.	We confirm that we have not identified any such inconsistencies or misleading statements.

OTHER MATTER

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the UK Companies Act 2006 as if that Act had applied to the Company.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

James Leigh
FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Recognised Auditor
London, UK

14 March 2017

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2016 US$m	31 December 2015 US$m
Revenue	6	1,583	1,441
Cost of sales	7	(846)	(779)
Gross profit		**737**	**662**
General, administrative and selling expenses	11	(120)	(127)
Other operating expenses	12	(36)	(51)
Share of loss of associates and joint ventures	20	–	(4)
Operating profit		**581**	**480**
Gain on disposal of subsidiary	4	–	1
Net foreign exchange gains/(losses)		65	(133)
Change in fair value of contingent consideration liability	28	(22)	4
Finance income		3	5
Finance costs	15	(63)	(81)
Profit before income tax		**564**	**276**
Income tax expense	16	(169)	(55)
Profit for the financial year		**395**	**221**
Profit for the year attributable to:			
Equity shareholders of the Parent		395	221
		395	**221**

		Year ended 31 December 2016 US$	31 December 2015 US$
Profit per share			
Basic	30	0.93	0.52
Diluted	30	0.93	0.52

	Year ended 31 December 2016 cents per share	31 December 2015 cents per share	31 December 2016 US$m	31 December 2015 US$m
Final dividend proposed in relation to the year (Note 17)	18	13	77	56
Interim dividend (Note 17)	9	8	38	34
Special dividend (Note 17)	15	30	64	127
			179	217

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended	
	31 December 2016 US$m	31 December 2015 US$m
Profit for the financial year	**395**	**221**
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	280	(582)
Currency exchange differences on intercompany loans forming part of net investment in foreign operations, net of income tax	(56)	(58)
Total comprehensive income/(loss) for the financial year	**619**	**(419)**

	Year ended	
	31 December 2016 US$m	31 December 2015 US$m
Total comprehensive income/(loss) for the financial year attributable to:		
Equity Shareholders of the Parent	619	(419)
	619	**(419)**

CONSOLIDATED BALANCE SHEET

	Notes	**31 December 2016 US$m**	31 December 2015 US$m
Assets			
Property, plant and equipment	18	1,805	1,360
Goodwill	19	17	14
Investments in associates and joint ventures	20	25	2
Non-current loans and receivables		10	13
Deferred tax asset	16	38	57
Non-current inventories	21	113	99
Total non-current assets		**2,008**	**1,545**
Current inventories	21	493	353
Current VAT receivable		61	60
Trade and other receivables	22	70	39
Prepayments to suppliers		31	25
Income tax prepaid		18	8
Cash and cash equivalents	23	48	52
Total current assets		**721**	**537**
Total assets		**2,729**	**2,082**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	26	(133)	(77)
Current borrowings	24	(98)	(287)
Income tax payable		(8)	(22)
Other taxes payable		(34)	(32)
Current portion of contingent consideration liability	28	(14)	(2)
Total current liabilities		**(287)**	**(420)**
Non-current borrowings	24	(1,280)	(1,063)
Contingent consideration liability	28	(62)	(24)
Deferred tax liability	16	(78)	(50)
Environmental obligations	25	(37)	(33)
Other non-current liabilities		(4)	(5)
Total non-current liabilities		**(1,461)**	**(1,175)**
Total liabilities		**(1,748)**	**(1,595)**
NET ASSETS		**981**	**487**
Stated capital account	30	2,010	1,969
Share-based compensation reserve	31	12	6
Translation reserve		(1,241)	(1,465)
Retained earnings/(accumulated loss)		200	(23)
Total equity		**981**	**487**

Notes on pages 114 to 157 form part of these financial statements. These financial statements are approved and authorised for issue by the Board of Directors on 14 March 2017 and signed on its behalf by:

Vitaly Nesis
Group Chief Executive

Bobby Godsell
Chairman of the Board of Directors

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2016 US$m	Year ended 31 December 2015 US$m
Net cash generated by operating activities	33	530	491
Cash flows from investing activities			
Purchases of property, plant and equipment	18	(271)	(205)
Net cash outflow on business combinations	4	(107)	–
Acquisition of JV	20	(21)	(7)
Kyzyl put option exercise	4	–	(68)
Loans advanced, net		(2)	(22)
Other investing activities		–	2
Net cash used in investing activities		**(401)**	**(300)**
Cash flows from financing activities			
Borrowings obtained	24	1,436	723
Repayments of borrowings	24	(1,410)	(696)
Dividends paid	17	(158)	(300)
Contingent consideration payment	28	(2)	(1)
Net cash used in by financing activities		**(134)**	**(274)**
Net decrease in cash and cash equivalents		(5)	(83)
Cash and cash equivalents at the beginning of the financial year	23	52	157
Effect of foreign exchange rate changes on cash and cash equivalents		1	(22)
Cash and cash equivalents at the end of the financial year	23	**48**	**52**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Number of Polymetal International shares outstanding	Stated capital account	Share-based compensation reserve	Translation reserve	Share purchase obligation	Retained earnings	Total equity
Balance at 1 January 2015		**420,819,943**	**1,939**	**2**	**(825)**	**(219)**	**(29)**	**868**
Profit for the financial year		–	–	–	–	–	221	221
Other comprehensive income, net of income tax		–	–	–	(640)	–	–	(640)
Share based compensation	31	–	–	4	–	–	–	4
Shares allotted to employees	31	36,089	–	–	–	–	–	–
Issue of shares to acquire non-controlling interest	30	1,746,692	13	–	–	–	(13)	–
Issue of shares in exchange for asset acquisitions	4	1,618,154	13	–	–	–	–	13
Issue of shares to acquire share in joint venture	4	429,260	4	–	–	–	–	4
Share purchase obligation exercise	4	–	–	–	–	219	14	233
Dividends	17	–	–	–	–	–	(216)	(216)
Balance at 31 December 2015		**424,650,138**	**1,969**	**6**	**(1,465)**	**–**	**(23)**	**487**
Profit for the financial year		–	–	–	–	–	395	395
Other comprehensive income, net of income tax		–	–	–	224	–	–	224
Share based compensation	31	–	–	7	–	–	–	7
Shares allotted to employees	31	110,850	1	(1)	–	–	–	–
Issue of shares to acquire non-controlling interest	30	898,875	14	–	–	–	(14)	–
Issue of shares in exchange for asset acquisitions	4	1,120,690	11	–	–	–	–	11
Issue of shares for business acquisition	4	1,481,785	15	–	–	–	–	15
Dividends	17	–	–	–	–	–	(158)	(158)
Balance at 31 December 2016		**428,262,338**	**2,010**	**12**	**(1,241)**	**–**	**200**	**981**

1. GENERAL

CORPORATE INFORMATION

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

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

SIGNIFICANT SUBSIDIARIES

As at 31 December 2016 the Company held the following significant mining and production subsidiaries:

			Effective interest held, %	
Name of subsidiary	Deposits	Country of incorporation	**31 December 2016**	31 December 2015
JSC Gold of Northern Urals	Voro	Russia	100	100
LLC Okhotskaya Mining and Exploration Company	Avlayakan	Russia	100	100
Svetloye LLC	Svetloye	Russia	100	100
JSC Magadan Silver	Dukat	Russia	100	100
	Lunnoye			
	Arylakh			
	Goltsovoye			
Mayskoye Gold Mining Company LLC	Mayskoye	Russia	100	100
Omolon Gold Mining Company LLC	Birkachan	Russia	100	100
	Tsokol			
	Dalneye			
	Oroch			
	Sopka Kvartsevaya			
	Olcha			
Albazino Resources Ltd	Albazino	Russia	100	100
Amur Hydrometallurgical Plant LLC	N/A	Russia	100	100
JSC Varvarinskoye	Varvara	Kazakhstan	100	100
Bakyrchik Mining Venture LLP	Bakyrchik	Kazakhstan	100	100
JSC Inter Gold Capital	Bolshevik	Kazakhstan	100	100
JSC Komarovskoye Mining Company	Komar	Kazakhstan	100	–
Kapan MPC CJSC	Kapan	Armenia	100	–

GOING CONCERN

In assessing its going concern status, the Group has taken account of its financial position, anticipated future trading performance, its borrowings and other available credit facilities, and its forecast compliance with covenants on those borrowings and its capital expenditure commitments and plans. As at 31 December 2016, the Group held US$48 million of cash and had net debt of US$1,330 million. It has undrawn facilities of US$998 million, of which US$873 million are considered committed.

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 without material uncertainty and that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2016.

While assessing the Group's longer-term viability, the Board confirms that taking into account the Group's current position and based upon the robust assessment of the principal risks facing the Group and stress-testing based assessment of Group's prospects, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2019. Please refer to Longer-term viability statement on page 100 of this Annual Report.

BASIS OF PRESENTATION

The Group's annual consolidated financial statements for the year ended 31 December 2016 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 consolidated financial statements for the year ended 31 December 2016.

AMENDED ACCOUNTING STANDARDS ADOPTED BY THE ENTITY

The following new accounting pronouncements which became effective in the current reporting period:

Amendments to IFRS 11 *Accounting for Acquisitions of Interest in Joint Operations*. The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 *Business Combination* and state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint venture. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations. Entities should apply the amendments prospectively to acquisitions of interest in joint operations occurring from the beginning of annual periods beginning on or after 1 January 2016. The Group has determined that amendments to IFRS 11 do not impact its consolidated financial statements as it does not have any arrangements considered joint operations.

Amendments to IAS 1 *Presentation of Financial Statements*: Disclosure. Initiative provides guidance on the use of judgement in presenting financial statement information, including: the application of materiality; order of notes; use of subtotals; accounting policy referencing and disaggregation of financial and non-financial information. Amendments are effective for annual periods beginning on or after 1 January 2016. The Group has determined that amendments to IAS 1 do not impact its consolidated financial statements.

NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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 January 1, 2018, and permits early adoption. IFRS 9 provides a revised model for recognition, measurement and impairment of financial instruments. IFRS 9 also includes a substantially reformed approach to hedge accounting. The Group is in the process of determining the impact of IFRS 9 on its consolidated financial statements and does not expect it to have a material impact on its consolidated financial statements.

IFRS 16 *Leases.* This standard is effective for annual periods beginning on or after January 1, 2019, and permits early adoption. 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. The Group is in the process of determining the impact of IFRS 16 on its consolidated financial statements and does not expect it to have a material impact on its consolidated financial statements.

Amendments to IFRS 10 *Consolidated Financial Statements and IAS 28 Joint Ventures*: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture remove an inconsistency between the two standards on the accounting treatment for gains and losses arising on the sale or contribution of assets by an investor to its associate or joint venture. Following the amendment, such gains and losses may only be recognised to the extent of the unrelated investor's interest, except where the transaction involves assets that constitute a business. The Group does not expect it to have a material impact on its consolidated financial statements.

Amendments to IFRS 2 *Share based payment: Classification and Measurement of Share-Based Payment transactions*. On 20 June 2016, the International Accounting Standards Board (IASB) published final amendments to IFRS 2 that clarify the classification and measurement of share-based payment transactions. IASB has now added guidance on accounting for cash-settled share-based payment transactions that include a performance condition, classification of share-based payment transactions with net settlement features and accounting for modifications of share-based payment transactions from cash-settled to equity-settled. Amendments are effective for annual periods beginning on or after 1 January 2018. The Group is in the process of determining the impact of amendments to IFRS 2 on its consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

SUBSIDIARIES

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group balances, transactions and any unrealised profits or losses arising from intra-group transactions are eliminated on consolidation.

Changes to the Group's ownership interests that do not result in a loss of control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Group's interests and non-controlling interests are adjusted to reflect the change in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on the disposal is calculated as the difference between 1) the aggregated fair value of the consideration received and the fair value of any retained interest and 2) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and non-controlling interests.

BUSINESS COMBINATIONS

IFRS 3 *Business Combinations* applies to a transaction or other event that meets the definition of a business combination. When acquiring new entities or assets, the Group applies judgement to assess whether the assets acquired and liabilities assumed constitute an integrated set of activities, whether the integrated set is capable of being conducted and managed as a business by a market participant, and thus whether the transaction constitutes a business combination, using the guidance provided in the standard. Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the consolidated income statement as incurred. Transaction costs incurred in connection with the business combination are expensed. Provisional fair values are finalised within 12 months of the acquisition date.

Where applicable, the consideration for the acquisition may include an asset or liability resulting from a contingent consideration arrangement. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Subsequent changes in such fair values are adjusted against the cost of acquisition retrospectively with the corresponding adjustment against goodwill where they qualify as measurement period adjustments. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed at the acquisition date. The measurement period may not exceed one year from the effective date of the acquisition. The subsequent accounting for contingent consideration that does not qualify for as a measurement period adjustment is based on how the contingent consideration is classified. Contingent consideration that is classified as equity is not subsequently remeasured. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IAS 39 *Financial Instruments Recognition and Measurement* with the corresponding amount being recognised in profit or loss.

The identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in the consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in equity are reclassified to profit or loss, where such treatment would be appropriate if that interest was disposed of.

GOODWILL AND GOODWILL IMPAIRMENT

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the consolidated income statement as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable goodwill is included in the determination of the profit or loss on disposal.

ACQUISITION OF MINING LICENCES

The acquisition of mining licences is often effected through a non-operating corporate entity. As these entities do not represent a business, it is considered that the transactions do not meet the definition of a business combination and, accordingly, the transaction is accounted for as the acquisition of an asset. The net assets acquired are accounted for at cost. Where asset acquisition is achieved in stages net assets acquired are accounted for sum of cost of the original interest acquired and the cost of additional interest acquired.

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint arrangement. Significant influence constitutes the power to participate in the financial and operating policy decisions of the investee but does not extend to a control or joint control over the enactment of those policies. The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting.

A joint arrangement is defined as an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

A joint operation is a joint arrangement in which the parties that share joint control have rights to the assets, and obligations for the liabilities, relating to the arrangement. This includes situations where the parties benefit from the joint activity through a share of the output, rather than by receiving a share of the results of trading. In relation to its interest in a joint operation, the Group recognises: its share of assets and liabilities; revenue from the sale of its share of the output and its share of any revenue generated from the sale of the output by the joint operation; and its share of expenses.

A joint venture is a joint arrangement in which the parties that share joint control have rights to the net assets of the arrangement and is accounted for using the equity accounting method.

When entering in a new joint arrangement, the Group applies judgement to assess whether the parties that have joint control over the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement (joint operation) or rights to the net assets of the arrangement (joint venture), using the guidance provided in the standard. When a joint arrangement has been structured through a separate vehicle, consideration has been given to the legal form of the separate vehicle, the terms of the contractual arrangement and, when relevant, other facts and circumstances.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

EQUITY METHOD OF ACCOUNTING

Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the investee. When the Group's share of the losses of an associate or a joint venture exceeds the Group's interest in that entity, the Group ceases to recognise its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an investee at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investments. Where an indicator of impairment exists or the carrying value of the asset contains goodwill with an indefinite useful life, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* (IAS 36) as a single cash generating unit through the comparison of its recoverable amount (the higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36.

When a Group entity transacts with its investees, profits and losses resulting from the transactions with the investee are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or the joint venture that are not related to the Group.

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 (JSC Varvarinskoye, Bakyrchik Mining Venture LLP, JSC Inter Gold Capital, JSC Komarovskoye Mining Company) 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 has chosen to present its consolidated financial statements in U.S. Dollars (US$), as management believes it is a more convenient presentation currency for international users of the consolidated financial statements of the Group as it is a common presentation currency in the mining industry. The translation of the financial statements of the Group entities from their functional currencies to the presentation currency is performed as follows:

- all assets and liabilities are translated at closing exchange rates at each reporting period end date;
- all income and expenses are translated at the average exchange rates for the periods presented, except for significant transactions that are translated at rates on the date of such transactions;
- resulting exchange differences are recognised in other comprehensive income and presented as movements relating to the effect of translation to the Group's presentation currency within the Translation reserve in equity; and
- in the consolidated statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated using exchange rates prevalent at those respective dates. All cash flows in the period are translated at the average exchange rates for the periods presented, except for significant transactions that are translated at rates on the date of transaction.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated income statement. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated income statement.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

Exchange rates used in the preparation of the consolidated financial statements were as follows:

	Russian Rouble/U.S. Dollar	Kazakh Tenge/ U.S. Dollar	Armenian Dram/U.S. Dollar
31 December 2015			
Year end	72.9	339	484
Average for:			
January	61.9	184	475
February	64.7	185	478
March	60.3	185	478
April	52.9	186	474
May	50.6	186	480
June	54.5	186	475
July	57.1	187	477
August	65.2	207	480
September	66.8	258	481
October	63.1	275	473
November	65.0	303	480
December	69.7	323	483
31 December 2016			
Year end	60.7	333	484
Average for:			
January	76.3	362	486
February	77.2	359	494
March	70.5	345	487
April	66.7	337	481
May	65.7	333	478
June	65.3	337	478
July	64.3	341	477
August	64.9	344	475
September	64.6	339	474
October	62.7	332	475
November	64.4	339	478
December	62.2	334	483

The Russian Rouble, Kazakh Tenge and Armenian Dram are not freely convertible currencies outside the Russian Federation, Kazakhstan and Armenia, accordingly, any translation of Russian Rouble, Kazakh Tenge and Armenian Dram denominated assets and liabilities into U.S. Dollar for the purpose of the presentation of consolidated financial statements does not imply that the Group could or will in the future realise or settle in U.S. Dollars the translated values of these assets and liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

FOREIGN CURRENCY TRANSACTIONS

Transactions in currencies other than an entity's functional currencies (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the consolidated income statement. Exchange differences generated by monetary items that forms part of the intragroup net investment in the foreign operation are recognised in the consolidated financial statements within foreign currency translation reserve.

PROPERTY, PLANT AND EQUIPMENT

MINING ASSETS

Mining assets include the cost of acquiring and developing mining assets and mineral rights. Mining assets are depreciated to their residual values using the unit-of-production method based on proven and probable ore reserves according to the JORC Code, which is the basis on which the Group's mine plans are prepared. Changes in proven and probable reserves are dealt with prospectively. Depreciation is charged on new mining ventures from the date that the mining asset is capable of commercial production (Note 5). In respect of those mining assets whose useful lives are expected to be less than the life of the mine, depreciation over the period of the asset's useful life is applied.

Mineral rights for the assets under development are included within Exploration and development. When a production phase is started, mineral rights are transferred into Mining assets and are depreciated as described below.

CAPITAL CONSTRUCTION-IN-PROGRESS

Capital construction-in-progress assets are measured at cost less any recognised impairment. Depreciation commences when the assets are ready for their intended use.

EXPLORATION AND DEVELOPMENT ASSETS

Mineral exploration and evaluation costs, including geophysical, topographical, geological and similar types of costs, are capitalised into exploration assets if management concludes that future economic benefits are likely to be realised based on current internal assessment of exploration results and identified mineral resources.

Exploration and evaluation expenditures are transferred to development assets when commercially-viable reserves are identified, so that the entity first establishes proved and probable reserves in accordance with JORC Code and respective mining plan and model are prepared and approved. At the time of reclassification exploration and evaluation assets are assessed for impairment based on the economic models prepared.

The costs to remove any overburden and other waste materials to initially expose the ore body, referred to as stripping costs, are capitalised as a part of mining assets when these costs are incurred.

NON-MINING ASSETS

Non-mining assets are depreciated to their residual values on a straight-line basis over their estimated useful lives. When parts of an item of property, plant and equipment are considered to have different useful lives, they are accounted for and depreciated separately. Depreciation methods, residual values and estimated useful lives are reviewed at least annually.

Estimated useful lives are as set out below:

- Machinery and equipment 5-20 years
- Transportation and other assets 3-10 years

Assets held under finance leases are depreciated over the shorter of the lease term and the estimated useful lives of the assets.

Gains or losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the asset's carrying amount at the date. The gain or loss arising is recognised in the consolidated income statement.

STRIPPING COSTS

During the production phase of a mine when the benefit from the stripping activity is the improved access to a component of the ore body in future periods, the stripping costs in excess of the average ore to waste ratio for the life of mine of that component are recognised as a non-current asset. After initial recognition, the stripping activity asset is depreciated on a systematic basis (unit-of-production method) over the expected useful life of the identified component of the ore body made accessible as a result of the stripping activity.

ESTIMATED ORE RESERVES

Estimated proven and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits. The Group's reserves are estimated in accordance with JORC Code.

LEASES

OPERATING LEASES

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

An impairment review of property, plant and equipment is carried out when there is an indication that those assets have suffered an impairment loss. If any such indication exists, the carrying amount of the asset is compared to the estimated recoverable amount of the asset in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. The carrying amounts of all the cash-generating units are assessed against their recoverable amounts determined based on a fair value less costs to sell calculation. Fair value is based on the application of the Discounted Cash Flow Method (DCF) using post-tax cash flows. The DCF method is attributable to the development of proved and probable reserves and certain resources where a relevant resource-to-reserve conversion ratio can be reasonably applied.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods. Impairment loss may be subsequently reversed if there has been a significant change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

A reversal of an impairment loss is recognised in the consolidated income statement immediately.

INVENTORIES

METAL INVENTORIES

Inventories including refined metals, metals in concentrate and in process, doré and ore stockpiles are stated at the lower of production cost or net realisable value. Production cost is determined as the sum of the applicable expenditures incurred directly or indirectly in bringing inventories to their existing condition and location. Work in-process, metal concentrate, and doré and refined metal are valued at the average total production costs at each asset's relevant stage of production (i.e. the costs are allocated proportionally to unified metal where unified metal is calculated based on prevailing market metal prices). Ore stockpiles are valued at the average cost of mining that ore. Where ore stockpiles and work in-process are not expected to be processed within 12 months, those inventories are classified as non-current.

Net realisable value represents the estimated selling price for that product based on forward metal prices for inventories which are expected to be realised within 12 months, and the flat long-term metal prices non-current inventories, less estimated costs to complete production and selling costs.

CONSUMABLES AND SPARE PARTS

Consumables and spare parts are stated at the lower of cost or net realisable value. Cost is determined on the weighted average moving cost. The portion of consumables and spare parts not reasonably expected to be used within one year is classified as a long-term asset in the Group's consolidated balance sheet. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

FINANCIAL INSTRUMENTS DESIGNATED AS FAIR VALUE THROUGH PROFIT AND LOSS (FVTPL)

A financial instrument other than a financial instrument held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial instrument forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial instruments at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in Note 28.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

EFFECTIVE INTEREST RATE METHOD

The effective interest rate method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

FINANCIAL ASSETS

Non-derivative financial assets are classified into the following specified categories: FVTPL, available for sale (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. No financial instruments have been classified as available for sale and FVTPL.

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is determined by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

DERECOGNITION OF FINANCIAL ASSETS

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

FINANCIAL LIABILITIES

OTHER FINANCIAL LIABILITIES

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest rate method.

DERECOGNITION OF FINANCIAL LIABILITIES

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated income statement.

EMBEDDED DERIVATIVES

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the hybrid contracts are not measured at FVTPL. Further details of derivative financial instruments are disclosed in Note 28.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or fewer, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

ENVIRONMENTAL OBLIGATIONS

An obligation to incur environmental restoration, rehabilitation and decommissioning costs arises when disturbance is caused by the development or ongoing production of mining assets. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value using a risk-free rate applicable to the future cash flows, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are recognised in the consolidated income statement over the life of the operation, through the depreciation of the asset in the cost of sales line and the unwinding of the discount on the provision in the finance costs line. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and recognised in the consolidated income statement as extraction progresses.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work (that result from changes in the estimated timing or amount of the cash flow or a change in the discount rate), are added to or deducted from the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the consolidated income statement.

The provision for closure cost obligations is remeasured at the end of each reporting period for changes in estimates and circumstances. Changes in estimates and circumstances include changes in legal or regulatory requirements, increased obligations arising from additional mining and exploration activities, changes to cost estimates and changes to the risk free interest rate.

EMPLOYEE BENEFIT OBLIGATIONS

Remuneration paid to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period. The Group pays mandatory contributions to the state social funds, including the Pension Fund of the Russian Federation and Kazakhstan, which are expensed as incurred.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the laws of countries where the Group operates.

CURRENT TAX

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

DEFERRED TAX

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised in the consolidated income statement, except when they relate to items that are recognised in the consolidated statement of comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in consolidated statement of comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

UNCERTAIN TAX POSITIONS

Provision for uncertain tax positions is recognised within current tax when management determines that it is probable that a payment will be made to the tax authority. For such tax positions the amount of the probable ultimate settlement with the related tax authority is recorded. When the uncertain tax position gives rise to a contingent tax liability for which no provision is recognised, the Group discloses tax-related contingent liabilities and contingent assets in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

REVENUE RECOGNITION

Revenue is derived principally from the sale of gold and silver bullions and copper, gold and silver concentrate and is measured at the fair value of consideration received or receivable, after deducting discounts.

Revenue from the sale of gold and silver bullion and sale of copper, gold and silver concentrate is recognised when the risks and rewards of ownership are transferred to the buyer, the Group retains neither a continuing degree of involvement nor control over the goods sold, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue from the sale of gold and silver bullion represents the invoiced value of metal shipped to the buyer, net of value added tax (VAT).

SALE OF GOLD AND SILVER BULLION

The Group processes doré produced in the Russian Federation (at Dukat, Okhotsk operations, Voro, Omolon, and Amursk/Albazino) into London Good Delivery Bars prior to sale. This final stage of processing is carried out on a toll-treatment basis at four state-owned refineries. The Group sells gold and silver bullion to banks through long-term agreements. The sales price, as determined in the agreement, may be variable based upon the London Bullion Market Association (LBMA) spot or fixed price, however the Group does not enter into fixed price contracts. For domestic sales, title passes from the Group to the purchaser at the refinery gate with revenue recognised at that point. For export sales, once the gold and/or silver bars have been approved for export by Russian customs, they are then transported to the vault of the purchaser, which is typically located in London. Title passes and revenue is recognised at the point when the gold and/or silver bars are received by the purchaser.

SALES OF COPPER, ZINC, GOLD AND SILVER CONCENTRATE

The Group sells copper, zinc, gold and silver concentrate under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. Concentrate sales are initially recorded based on forward prices for the expected date of final settlement. Revenue is recorded at the time of shipment, which is also when risks and rewards pass to the buyer. Revenue is calculated based on the copper, gold and silver content in the concentrate and using the forward London Bullion Market Association (LBMA) or London Metal Exchange (LME) price to the estimated final pricing date, adjusted for the specific terms of the relevant agreement. Until final settlement occurs, adjustments to revenue are made to take into account the changes in metal quantities upon receipt of new information and assay. Revenue is presented net of refining and treatment charges which are subtracted in calculating the amount to be invoiced.

The Group's sales of copper, zinc, gold and silver concentrate are based on a provisional price and as such, contain an embedded derivative that is required to be separated from the host contract for accounting purposes. The host contract is the receivable from the sale of the concentrate at the forward exchange price at the time of sale. The embedded derivative, which does not qualify for hedge accounting, is measured at FVTPL with changes in its fair value recognised within revenue in the consolidated income statement for each period prior to the final settlement.

SHARE-BASED COMPENSATION

The Group applies IFRS 2 *Share-based Payments* to account for share-based compensation. IFRS 2 requires companies to recognise compensation costs for share-based payments to employees based on the grant-date fair value of the award.

The fair value of the awards granted under Performance Share Plan (as defined in the Remuneration report) is estimated using a Monte-Carlo model valuation (see Note 31).

Awards which are granted under Deferred Share Awards plan and are released over a period of three years, are measured at share price at a grant date and are prorated across periods to the different vest dates (see Note 31).

The fair value of the awards granted is recognised as a general, administrative and selling expense over the vesting period with a corresponding increase in the share-based compensation reserve. Upon the exercise of the awards the amounts recognised within the share-based compensation reserve are transferred to stated capital account.

EARNINGS PER SHARE

Earnings per share calculations are based on the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated using the treasury stock method, whereby the proceeds from the potential exercise of dilutive stock options with exercise prices that are below the average market price of the underlying shares are assumed to be used in purchasing the Company's common shares at their average market price for the period.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the course of preparing financial statements, management necessarily makes judgements and estimates that can have a significant impact on the financial statements. The determination of estimates requires judgements which are based on historical experience, current and expected economic conditions, and all other available information.

The most significant areas requiring the use of management judgements and estimates relate to:

- Accounting for acquisitions;
- Impairment of operating and development assets;
- Recoverability of exploration and evaluation assets;
- Taxation;
- Assessment of fair value;
- Ore reserves; and
- Valuation of stockpiles and work in-process.

CRITICAL ACCOUNTING JUDGEMENTS

ACCOUNTING FOR ACQUISITIONS

To determine the appropriate accounting approach to be followed for an acquisition transaction, the Group applies judgement to assess whether the acquisition is of a business, and therefore within scope of IFRS 3 Business Combinations, or is of a group of assets that do not constitute a business and is therefore outside scope of IFRS 3. In making this determination, management evaluates the inputs, processes and outputs of the asset or entity acquired. Judgement is used to determine whether an integrated set of activities and assets is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. Major acquisitions in the year included Kapan and Komar (Note 4). They have been assessed as business combinations under IFRS 3 and have thus been accounted for at their fair values.

Under IFRS 11 *Joint Arrangements*, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements (Note 2). When entering in a new joint arrangement, the Group applies judgement to assess whether the parties that have joint control over the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement (joint operation) or rights to the net assets of the arrangement (joint venture), using the guidance provided in the standard. When a joint arrangement has been structured through a separate vehicle, consideration is given to the legal form of the separate vehicle, the terms of the contractual arrangement and, when relevant, other facts and circumstances. In 2015 Polymetal entered into a joint arrangement with OJSC Polyus Gold in advancing the development of the Nezhda gold deposit in Yakutia, Russia (Note 20). The arrangement was structured through a separate vehicle with each party entitled to its share of the net assets and thus was accounted for as a joint venture.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

IMPAIRMENT OF OPERATING AND DEVELOPMENT ASSETS

Mining operations require significant technical and financial resources to operate and as such their value may be sensitive to a range of characteristics unique to each asset. Key sources of estimation uncertainty can include ore reserve estimates and cash flow projections, both of which are discussed separately below under 'Assessment of fair value'.

Entities are required to conduct impairment tests where there is an indication of impairment of an asset or a 'cash-generating unit', where an asset does not generate cash inflows that are largely independent of those from other assets. For goodwill, an annual impairment test is required.

Operating and economic assumptions, which could affect the valuation of assets using discounted cash flows, are updated regularly as part of the Group's planning and forecasting processes. Judgement is required to determine whether any economic or operating assumptions represent significant changes in the service potential of an asset or CGU. Discounted cash flow models are prepared on the basis of such assumptions to determine whether there are any indicators of impairment or impairment reversal.

In addition, indicators for impairment reversal must be assessed for assets (other than goodwill) previously impaired. Any change to operational plans or assumptions, economic parameters, or the passage of time, could result in an impairment reversal, or further impairment, if an indicator is identified.

In making the assessment for impairment, assets that do not generate independent cash inflows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash inflows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value-in-use calculation. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets. Refer to Note 19 for further information.

RECOVERABILITY OF EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets include mineral rights and exploration and evaluation costs, including geophysical, topographical, geological and similar types of costs.

Exploration and evaluation costs are capitalised if management concludes that future economic benefits are likely to be realised and determines that economically viable extraction operation can be established as a result of exploration activities and internal assessment of mineral resources.

A high degree of confidence that the Group will determine the sufficient probability of future benefits viable requires a significant degree of judgment and assessment of all relevant factors such as the nature and objective of the project; the project's current stage and the extent of exploration and evaluation that has been performed; project timeline; current estimates of the project's net present value, including sensitivity analyses for the key assumptions; and the main risks of the project.

KEY SOURCES OF ESTIMATION UNCERTAINTY

ASSESSMENT OF FAIR VALUE

The assessment of fair value is subjective as it is based on the use of different valuation assumptions. Polymetal principally use the assessment of fair value in accounting for cash flow projections for impairment testing, financial instruments and in accounting for net assets acquired and liabilities assumed in business combinations.

CASH FLOW PROJECTIONS FOR IMPAIRMENT TESTING

Expected future cash flows used in discounted cash flow models are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including ore reserves, together with economic factors such as commodity prices, exchange rates, discount rates and estimates of production costs and future capital expenditure.

- Ore reserves – Recoverable reserves and resources are based on the proven and probable reserves and resources in existence. Reserves and resources are incorporated in projected cash flows, based on ore reserve statements and exploration and evaluation work undertaken by appropriately qualified persons.
- Commodity prices – Commodity prices are based on latest internal forecasts, benchmarked against external sources of information. Polymetal currently use a flat real long-term gold and silver price of US$1,200 per ounce (2015: US$1,100) and US$16 per ounce (2015: US$14), respectively.
- Foreign exchange rates – Foreign exchange rates are based on latest internal forecasts, benchmarked with external sources of information for relevant countries of operation. Management have analysed RUB/US$ rate movements for the year ended 31 December 2016. RUB/$US exchange rate is estimated at 60 RUB/$US (2015: RUB/$US 72).
- Discount rates – The Group used a post-tax real discount rate of 9.0% (2015: 9.0%). Cash flow projections used in fair value less costs of disposal impairment models are discounted based on this rate. Specific risks, such as asset and country risks, may result in adjustments to the rate.
- Operating costs, capital expenditure and other operating factors – Cost assumptions incorporate management experience and expectations, as well as the nature and location of the operation and the risks associated there with. Underlying input cost assumptions are consistent with related output price assumptions. Other operating factors, such as the timelines of granting licences and permits are based on management's best estimate of the outcome of uncertain future events at the balance sheet date.

NET ASSETS ACQUIRED AND LIABILITIES ASSUMED IN BUSINESS COMBINATIONS

In accordance with the Group's policy, the Group allocates the cost of the acquired entity to the assets acquired and liabilities assumed based on their fair values as estimated on the date of acquisition. Any difference between the cost of the acquired entity and the fair value of the assets acquired and liabilities assumed is recorded as goodwill. The Group exercises significant judgement in the process of identifying tangible and intangible assets and liabilities, valuing these assets and liabilities, and estimating their remaining useful lives. The valuation of these assets and liabilities is based on assumptions and criteria that, in some cases, include management's estimates of discounted future cash flows.

If actual results are not consistent with estimates and assumptions considered, the Group may have to adjust its estimates of the fair values of assets and liabilities recognised and the goodwill balance during the measurement period. Such a re-measurement could have an impact on the amounts reported in the consolidated income statement in current and future periods.

The Group's acquisitions classified as business combinations are disclosed in Note 4.

ORE RESERVES

An ore reserve estimate is an estimate of the amount of product that can be economically and legally extracted from the Group's properties. Ore reserve estimates are used by the Group in the calculation of: depletion of mining assets using the units-of-production method; impairment charges and in forecasting the timing of the payment of decommissioning and land restoration costs. Also, for the purpose of impairment review and the assessment of the timing of the payment of decommissioning and land restoration costs, management may take into account mineral resources in addition to ore reserves where there is a high degree of confidence that such resources will be extracted.

In order to calculate ore reserves, estimates and assumptions are required about geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices, discount rates and exchange rates. Estimating the quantity and/or grade of ore reserves requires the size, shape and depth of ore bodies to be determined by analysing geological data such as the logging and assaying of drill samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Ore reserve estimates may change from period to period as additional geological data becomes available during the course of operations or if there are changes in any of the aforementioned assumptions. Such changes in estimated reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- asset carrying values due to changes in estimated future cash flows;
- depletion charged in the consolidated income statement where such charges are determined by using the units-of-production method;
- provisions for decommissioning and land restoration costs where changes in estimated reserves affect expectations about the timing of the payment of such costs;
- carrying value of deferred tax assets and liabilities where changes in estimated reserves affect the carrying value of the relevant assets and liabilities; and
- contingent consideration liabilities where these are determined by the future production levels.

TAXATION

The Group is subject to income tax and mining taxes in the Russian Federation, Kazakhstan and Armenia. There is a level of judgement required in determining the tax due when dealing with different domestic tax legislations. Where, based on management judgement, there is a probable liability for additional tax, a provision is recorded. During the year ended 31 December 2016 Polymetal identified a total exposure of approximately US$13 million in respect of contingent liabilities for income and mining taxes (Note 27). Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and mining tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised (Note 16). There is an application of judgement in assessing the amount, timing and probability of future taxable profits and repatriation of retained earnings. These factors affect the determination of the appropriate rates of tax to apply and the recoverability of deferred tax assets. These judgements are influenced, inter alia, by factors such as estimates of future production, commodity lines, operating costs, future capital expenditure and dividend policies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

VALUATION OF STOCKPILES AND WORK IN-PROCESS

In determining mine operating costs recognised in the consolidated income statement, the Group's management uses survey and assay techniques to estimate quantities of ore stacked on leach pads and in process and the recoverable gold and silver in this material to determine the average costs of finished goods sold during the period.

The assessment of the recoverability of metal inventories requires judgement both in terms of calculating expected costs to process and refine ore stock piles to produce concentrate or doré for sale, and in terms of estimating future prices to be realised on sale (Note 21). Changes in these estimates can result in a change in mine operating costs of future periods and carrying amounts of inventories.

The key assumptions used in determining the net realisable value of inventories at 31 December 2016 are consistent with those used for goodwill impairment testing.

4. ACQUISITIONS AND DISPOSALS

(A) YEAR ENDED 31 DECEMBER 2016

KAPAN

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

The asset comprises a fully mechanised underground mine with a current capacity of approximately 400 ktpa, a conventional 750 ktpa flotation concentrator and various infrastructure facilities. The mine produces gold, copper, silver and zinc concentrates sold to international markets.

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

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

CONSIDERATION TRANSFERRED

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

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

The net smelter return royalty described above meets the definition of contingent consideration. The fair value of the contingent consideration was determined based on the life-of-mine model of the Kapan mine by discounting projected cash flows to the acquisition date. The following metal price assumptions, consistent with the assumptions adopted for the long-term planning at the time of acquisition, were used for the fair value calculation: Au – US$1,250/oz, Ag – US$17/oz, Cu – US$4,500/tonne, Zinc – US$1,800/tonne, real post-tax discount rate of 9.04%. At the acquisition date, the estimated fair value of the contingent consideration amounted to US$9 million. As of 31 December 2016 contingent consideration approximates to US$9 million (Note 28).

ASSETS ACQUIRED AND LIABILITIES RECOGNISED AT THE DATE OF ACQUISITION

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

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

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

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

IMPACT OF THE ACQUISITION ON THE RESULT OF THE GROUP

Kapan contributed US$2 million to the Group's profit for the period between the date of acquisition and the reporting date. Revenue for the period amounts to US$29 million.

If the Kapan acquisition had been completed on the first day of the financial year, the revenue of the Group would have been US$1,588 million, and the profit for the period would have been US$391 million.

KOMAR

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

The asset comprises an active open pit mine and a 500 Ktpa heap leach facility with grid power available on site. Polymetal aims to mine, deliver by rail and process at Varvara up to 1 Mtpa of ore with potential to increase Varvara's annual production by approximately 70 Koz at lower cash costs.

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

Management considers that the control over Komar was obtained on the date of the deal completion. Komar meets the definition of a business pursuant to IFRS 3 thus it was accounted for at fair value using the acquisition method.

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

CONSIDERATION TRANSFERRED

Deferred consideration described above meets definition of the contingent consideration. The fair value of the contingent consideration was determined based on the life-of-mine model of the Komar mine and calculated using Monte-Carlo modelling. Projected cash flows were discounted to the acquisition date at a discount rate of 9.04%. Gold price volatility was assessed at 18.08%, average gold price for one quarter to the valuation date was 1,291 US$/ounce. As at acquisition date the estimated contingent consideration amounts to US$20 million. As of 31 December 2016 contingent consideration approximates to US$18 million (Note 28).

ASSETS ACQUIRED AND LIABILITIES RECOGNISED AT THE DATE OF ACQUISITION

At the date of finalisation of these consolidated financial statements, the calculation of environmental obligations and the calculation of deferred taxes had not been finalised and they have therefore only been provisionally determined based on the directors' best estimate.

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

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

No significant financial assets were acquired in business combination.

IMPACT OF THE ACQUISITION ON THE RESULT OF GROUP

No significant acquisition-related costs were incurred.

Komar contributed US$1 million to the Group's profit for the period between the date of acquisition and the balance sheet date. Revenue for the period amounts to US$1 million, which excludes revenue from ore sales to JSC Varvariskoye amounting to US$10 million since the acquisition date and US$17 million for the year ended 31 December 2016.

4. ACQUISITIONS AND DISPOSALS CONTINUED

If Komar acquisition had been completed on the first day of the financial year, the revenue of the Group would have been US$1,583 million, and the profit for the period would have been US$395 million.

SAUM MINING COMPANY LLC

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

The Saum licence covers an area of 34.2 km^2 in Russia's Sverdlovsk region in the Ural Mountains and is located and approximately 240 km from Polymetal's Voro processing plant. Polymetal plans to prepare an Ore Reserves estimate in Q4 2017. Further drilling is planned on the property in 2017 and 2018.

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

(B) YEAR ENDED 31 DECEMBER 2015

BUSINESS COMBINATIONS AND ASSET ACQUISITIONS

KYZYL PURCHASE PRICE ALLOCATION

On 4 September 2014 the Group acquired 100 per cent of the share capital of Altynalmas Gold Ltd (AAG), the holding company for the Kyzyl gold project in Kazakhstan.

The adjusted fair values of the identifiable assets and liabilities of Kyzyl as at the date of acquisition are presented in the following table:

	Provisional amount previously reported US$m	Adjustments US$m	Adjusted amounts US$m
Assets acquired and liabilities recognised at the date of acquisition			
Cash and cash equivalents	4	–	4
Mineral rights	854	(56)	798
Property, plant and equipment	6	–	6
Other assets	2	(1)	1
Environmental obligations	(16)	9	(7)
Contingent liabilities	(6)	–	(6)
Deferred tax liability	(166)	48	(118)
Other liabilities	(2)	–	(2)
Net assets acquired	**676**	**–**	**676**

SETTLEMENT OF THE KYZYL PUT OPTION

In accordance with Kyzyl acquisition terms, the Seller (Sumeru Gold B.V.) was entitled to a put option giving it a right to require Polymetal to acquire or procure acquirers for the consideration shares, described below, by notice to Polymetal during the one month period immediately following the first anniversary of completion at a price per consideration share equal to US$9.57027. On completion Polymetal recognised the repurchase obligation at the net present value of maximum repayment of US$300 million, which approximated to US$273 million, with a corresponding decrease in equity. At the same time the Group recognised the seller put option fair value in amount of US$55 million within consideration transferred with corresponding increase in equity.

The put option had an exercise period from 4 September to 4 October 2015.

In September 2015 the Group agreed to the following settlement mechanism for the put option:

- Polymetal settled the full contractual put option liability to the Seller and delivered a cash payment in the amount of US$300 million;
- Simultaneously, Polymetal transferred the right to receive consideration shares to Otkritie Investments Cyprus Limited in exchange for a cash consideration of US$232 million. The cash consideration payable by Otkritie to Polymetal represented the average closing price of the Polymetal shares for the agreed quotation period being one month ended five business days before the date of signing the assignment agreement, which was US$7.41 per share, multiplied by the number of Consideration Shares.

As a result the net amount of US$68 million was paid by Polymetal and the consideration shares remained in issue. On the put option being exercised, both the liability of US$300 million and the corresponding balance in equity of US$219 million were derecognised. After the cash payment has been taken into account, the balancing figure of US$14 million was recognised within retained earnings.

PRIMORSKOYE

In July 2015 Polymetal purchased a 100% interest in Primorskoye LLC, the company holding the licence for the Primorskoye silver-gold property located in the Magadan region of Russia from Decamor Investments Limited. The consideration for the acquisition comprised the initial consideration of US$4 million payable by issuing 533,301 new Polymetal International plc shares and the deferred conditional cash consideration payable in February 2017. The deferred consideration will be determined as the higher of US$13,333 per tonne of contained silver equivalent (translating into US$0.415 per silver equivalent ounce) based on the audited reserves estimate of the deposit, and US$8 million.

Primorskoye did not meet the definition of a business pursuant to IFRS 3, as it represents acquisition of mining license though a non-operating corporate entity, and thus it was accounted for as an acquisition of a group of assets. The Group purchased mineral rights of US$11 million.

LV GOLD MINING

In April 2015 the Group purchased a 25% stake in CJSC LV Gold Mining, the company owning the Lichkvaz exploration licence in Armenia (including related shareholder loans). The consideration comprised 429,260 shares equal to US$4 million. Polymetal has also entered into an 'earn-in' agreement for financing of exploration, technical research and a JORC feasibility study in exchange for a right to increase its share in the project up to 50% after the completion of these tasks. The arrangements constituted a joint venture and the investment was accounted for using the equity method at cost of US$4 million as of 30 June 2015.

On 11 November 2015, Polymetal signed an agreement to purchase the remaining 75% of LV Gold mining shares. The purchase price comprised 1,047,756 Polymetal International plc shares and a deferred consideration in an amount equal to 2% of value of precious metals in the ore extracted from the Lichkvaz deposit in the future during the life of mine. Under the contract the seller has also assigned to Polymetal an intercompany loan receivable of US$0.3 million in exchange for additional 37,097 Polymetal International plc shares. Total consideration payable in shares was valued at US$9 million and the contingent consideration was valued at US$5 million.

LV Gold Mining did not meet the definition of a business pursuant to IFRS 3, as it represents acquisition of mining license though a non-operating corporate entity, thus it was accounted for as an acquisition of a group of assets. The acquisition was achieved in stages and accounted for at cost which was the total of the cost of the original 25% interest and of the additional 75% interest. The Group purchased mineral rights of US$20 million.

DISPOSAL OF SUBSIDIARY

KHAKANDJINSKOYE LLC

On 26 October 2015 the Group sold its subsidiary Khakandjinskoye LLC, which held the Khakanja licence, for the cash consideration of US$0.5 million to an unrelated party. Total net assets disposed of amounted to US$(0.7) million, resulting in a gain on disposal of subsidiary amounting to US$1.2 million.

5. SEGMENT INFORMATION

The Group has nine reportable segments:

- Voro (CJSC Gold of Northern Urals);
- Okhotsk operations (LLC Okhotskaya Mining and Exploration Company; Svetloye LLC);
- Dukat (JSC Magadan Silver)
- Omolon (Omolon Gold Mining Company LLC);
- Varvara (JSC Varvarinskoye; JSC Komarovskoye Mining Company);
- Amursk/Albazino (Albazino Resources Ltd, Amur Hydrometallurgical Plant LLC);
- Mayskoye (Mayskoye Gold Mining Company LLC);
- Kyzyl (Bakyrchik Mining Venture LLP, Inter Gold Capital LLP); and
- Armenia ('Kapan MPC' CJSC, 'LV Gold Mining' CJSC).

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

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

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 consolidated financial statements. The segment adjusted EBITDA reconciles to the profit before income tax as shown on the next page.

5. SEGMENT INFORMATION CONTINUED

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

	Voro	Okhotsk	Dukat	Omolon	Varvara	Amursk/ Albazino	Armenia	Mayskoye	Kyzyl	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Period ended 31 December 2016 (US$m)													
Revenue from external customers	157	179	497	207	101	294	29	119	–	1,583	–	–	1,583
Intersegment revenue	–	–	–	–	–	6	–	–	–	6	196	(202)	–
Cost of sales, excluding depreciation, depletion and write-down of inventories to net realisable value	36	82	188	78	61	121	19	96	–	681	134	(149)	666
Cost of sales	47	98	224	112	72	160	23	125	–	861	134	(149)	846
Write-down of metal inventories to net realisable value	–	(5)	1	(14)	–	–	–	(3)	–	(21)	–	–	(21)
Depreciation included in cost of sales	(11)	(10)	(37)	(20)	(11)	(37)	(4)	(22)	–	(152)	–	–	(152)
Write-down of non-metal inventories to net realisable value	–	(1)	–	1	–	(2)	–	(4)	–	(6)	–	–	(6)
Rehabilitation expenses	–	–	–	(1)	–	–	–	–	–	(1)	–	–	(1)
General, administrative and selling expenses, excluding depreciation, amortisation and share based compensation	4	7	10	7	4	7	3	6	5	53	69	(12)	110
General, administrative and selling expenses	10	13	16	13	5	14	3	12	6	92	79	(51)	120
Intercompany management services	(6)	(5)	(6)	(6)	(1)	(7)	–	(6)	–	(37)	(2)	39	–
Depreciation included in SGA	–	(1)	–	–	–	–	–	–	(1)	(2)	(1)	–	(3)
Share based compensation	–	–	–	–	–	–	–	–	–	–	(7)	–	(7)
Other operating expenses excluding additional tax charges	4	1	16	6	–	5	1	4	3	40	10	(2)	48
Other operating expenses	5	1	2	6	–	5	3	3	3	28	10	(2)	36
Bad debt allowance	–	–	–	–	–	–	–	–	–	–	–	–	–
Additional mining taxes and VAT exposures, penalties and accrued interest	(1)	–	14	–	–	–	(2)	1	–	12	–	–	12
Share of income of associates and joint ventures	–	–	–	–	–	–	–	–	–	–	–	–	–
Adjusted EBITDA	**113**	**89**	**283**	**116**	**36**	**167**	**6**	**13**	**(8)**	**815**	**(17)**	**(39)**	**759**
Depreciation expense	11	11	37	20	11	37	4	22	1	154	1	–	155
Rehabilitation expenses	–	–	–	1	–	–	–	–	–	1	–	–	1
Write-down of non-metal inventories to net realisable value	–	1	–	(1)	–	2	–	4	–	6	–	–	6
Write-down of metal inventories to net realisable value	–	5	(1)	14	–	–	–	3	–	21	–	–	21
Share-based compensation	–	–	–	–	–	–	–	–	–	–	7	–	7
Bad debt allowance	–	–	–	–	–	–	–	–	–	–	–	–	–
Additional mining taxes and VAT exposures, penalties and accrued interest	1	–	(14)	–	–	–	2	(1)	–	(12)	–	–	(12)
Operating profit/(loss)	**101**	**72**	**261**	**82**	**25**	**128**	**–**	**(15)**	**(9)**	**645**	**(25)**	**(39)**	**581**
Net foreign exchange gains													65
Change in fair value of contingent consideration liability													(22)
Finance income													3
Finance costs													(63)
Profit before tax													**564**
Income tax expense													(169)
Profit for the financial period													**395**
Current metal inventories	38	43	52	49	43	62	6	29	–	322	–	(7)	315
Current non-metal inventories	5	32	28	30	13	18	7	28	3	164	23	(9)	178
Non-current segment assets:													
Property, plant and equipment, net	49	96	182	92	217	281	50	162	556	1,685	144	(24)	1,805
Goodwill	–	–	5	–	–	–	–	12	–	17	–	–	17
Non-current inventories	2	7	8	78	4	6	1	8	–	114	–	(1)	113
Investments in associates and joint ventures	–	–	–	–	–	–	–	–	–	–	25	–	25
Total segment assets	**94**	**178**	**275**	**249**	**277**	**367**	**64**	**239**	**559**	**2,302**	**192**	**(41)**	**2,453**
Additions to non-current assets:													
Property, plant and equipment	7	32	33	23	16	41	13	22	92	279	9	–	288
Acquisitions	–	–	–	–	140	–	21	–	–	161	10	–	171

	Voro	Okhotsk	Dukat	Omolon	Varvara	Amursk/ Albazino	Mayskoye	Kyzyl	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
For the year ended 31 December 2015 (US$m)												
Revenue from external customers	163	129	441	224	96	255	133	–	1,441	–	–	1,441
Intersegment revenue	1	–	–	1	–	9	–	–	11	212	(223)	–
Cost of sales, excluding depreciation, depletion and write-down of inventories to net realisable value	43	59	184	101	64	97	88	–	636	158	(182)	612
Cost of sales	54	70	222	135	86	128	108	–	803	158	(182)	779
Write-down of metal inventories to net realisable value	–	1	–	(6)	(8)	–	–	–	(13)	–	–	(13)
Depreciation included in cost of sales	(12)	(11)	(38)	(24)	(14)	(31)	(21)	–	(151)	–	–	(151)
Write-down of non-metal inventories to net realisable value	–	(1)	(1)	(4)	–	–	1	–	(5)	–	–	(5)
Rehabilitation expenses	1	–	1	–	–	–	–	–	2	–	–	2
General, administrative and selling expenses, excluding depreciation, amortization and share based compensation	5	20	8	7	5	7	7	7	66	64	(12)	118
General, administrative and selling expenses	11	26	15	12	6	12	11	8	101	71	(45)	127
Intercompany management services	(6)	(4)	(6)	(5)	(1)	(5)	(4)	–	(31)	(2)	33	–
Depreciation included in SGA	–	(2)	(1)	–	–	–	–	(1)	(4)	(1)	–	(5)
Share based compensation	–	–	–	–	–	–	–	–	–	(4)	–	(4)
Other operating expenses excluding additional tax charges	1	2	9	5	2	8	4	7	38	(6)	16	48
Other operating expenses	2	2	4	10	2	8	5	7	40	(5)	16	51
Bad debt allowance	(1)	–	–	(5)	–	–	–	–	(6)	(1)	–	(7)
Additional mining taxes and VAT exposures, penalties and accrued interest	–	–	5	–	–	–	(1)	–	4	–	–	4
Share of income of associates and joint ventures	–	–	–	–	–	–	–	–	–	(4)	–	(4)
Adjusted EBITDA	**115**	**48**	**240**	**112**	**25**	**152**	**34**	**(14)**	**712**	**(8)**	**(45)**	**659**
Depreciation expense	12	13	39	24	14	31	21	1	155	1	–	156
Rehabilitation expenses	(1)	–	(1)	–	–	–	–	–	(2)	–	–	(2)
Write-down of non-metal inventories to net realisable value	–	1	1	4	–	–	(1)	–	5	–	–	5
Write-down of metal inventories to net realisable value	–	(1)	–	6	8	–	–	–	13	–	–	13
Share-based compensation	–	–	–	–	–	–	–	–	–	4	–	4
Bad debt allowance	1	–	–	5	–	–	–	–	6	1	–	7
Additional mining taxes and VAT exposures, penalties and accrued interest	–	–	(5)	–	–	–	1	–	(4)	–	–	(4)
Operating profit / (loss)	**103**	**35**	**206**	**73**	**3**	**121**	**13**	**(15)**	**539**	**(14)**	**(45)**	**480**
Net foreign exchange losses												(133)
Gain on disposal of subsidiary												1
Change in fair value of contingent consideration liability												4
Finance income												5
Finance costs												(81)
Profit before tax												**276**
Income tax expense												(55)
Profit for the financial period												**221**
Current metal inventories	28	31	50	28	21	38	28	–	224	–	(2)	222
Current non-metal inventories	4	25	20	24	10	13	26	1	123	15	(7)	131
Non-current segment assets:												
Property, plant and equipment, net	46	61	169	70	68	241	136	460	1,251	127	(18)	1,360
Goodwill	–	–	4	–	–	–	10	–	14	–	–	14
Non-current inventories	1	13	6	64	4	6	7	–	101	–	(2)	99
Investments in associates and joint ventures	–	–	–	–	–	–	–	–		2	–	2
Total segment assets	**79**	**130**	**249**	**186**	**103**	**298**	**207**	**461**	**1,713**	**144**	**(29)**	**1,828**
Additions to non-current assets:												
Property, plant and equipment	7	36	33	28	20	38	21	32	215	10	–	225
Acquisition of group of assets	–	–	11	–	–	–	–	–	11	20	–	31

6. REVENUE

Revenue analysed by geographical regions of customers is presented below:

	Year ended	
	31 December 2016 US$m	31 December 2015 US$m
Sales within the Russian Federation	899	1,052
Sales to Kazakhstan	295	217
Sales to Europe	205	33
Sales to East Asia	184	139
Total	**1,583**	**1,441**

Included in revenues for the year ended 31 December 2016 are revenues which arose from sales to three of the Group's largest customers amounting to US$416 million, US$281 million and US$206 million, respectively (2015: US$501 million, US$185 million and US$162 million, respectively). Presented below is an analysis of revenue from gold, silver, zinc and copper sales:

	Year ended 31 December 2016				Year ended 31 December 2015			
	Thousand ounces/ tonnes (unaudited) shipped	**Thousand ounces/ tonnes (unaudited) payable**	**Average price (U.S. Dollar per troy ounce/ tonne payable) (unaudited)**	**US$m**	Thousand ounces/ tonnes (unaudited) shipped	Thousand ounces/ tonnes (unaudited) payable	Average price (U.S. Dollar per troy ounce/ tonne payable) (unaudited)	US$m
Gold (thousand ounces)	882	880	1,216	1,070	875	864	1,127	974
Silver (thousand ounces)	31,099	30,666	16.30	500	31,494	31,190	14.75	460
Copper (tonnes)	1,689	1,634	4,896	8	1,578	1,488	4,704	7
Zinc (tonnes)	3,246	2,800	1,786	5	–	–	–	–
Total				1,583				1,441

7. COST OF SALES

	Year ended	
	31 December 2016 US$m	31 December 2015 US$m
Cash operating costs		
On-mine costs (Note 8)	320	267
Smelting costs (Note 9)	259	261
Purchase of ore and semi-finished goods from third parties	27	5
Purchase of ore from related parties (Note 32)	11	–
Mining tax	82	97
Total cash operating costs	**699**	**630**
Depreciation and depletion of operating assets (Note 10)	162	154
Rehabilitation expenses (Note 25)	1	(2)
Total costs of production	**862**	**782**
Increase in metal inventories	(51)	(27)
Write-down of metal inventories to net realisable value (Note 21)	21	13
Write-down of non-metal inventories to net realisable value (Note 21)	6	5
Idle capacities and abnormal production costs	8	6
Total	**846**	**779**

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

Mining tax in respect of the metal inventories produced or sold during the year is recognised within cost of sales, while the additional mining tax accruals in respect of various disputes with tax authorities are recognised within other expenses (see Note 12).

Idle capacities and abnormal production costs were expensed as incurred and relate to Mayskoye where the processing plant was stopped from November 2015 to February 2016 while underground mining was ramping up due to the redevelopment of underground workings using a new mining method and idle capacities when processing plants are stopped for general maintenance.

8. ON-MINE COSTS

	Year ended	
	31 December 2016 US$m	31 December 2015 US$m
Services	139	120
Labour	97	78
Consumables and spare parts	79	67
Other expenses	5	2
Total (Note 7)	**320**	**267**

9. SMELTING COSTS

	Year ended	
	31 December 2016 US$m	31 December 2015 US$m
Consumables and spare parts	114	115
Services	93	94
Labour	50	50
Other expenses	2	2
Total (Note 7)	**259**	**261**

10. DEPLETION AND DEPRECIATION OF OPERATING ASSETS

	Year ended	
	31 December 2016 US$m	31 December 2015 US$m
On-Mine	117	104
Smelting	45	50
Total (Note 7)	**162**	**154**

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

11. GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

	Year ended	
	31 December 2016 US$m	31 December 2015 US$m
Labour	87	88
Services	10	14
Share based compensation	7	4
Depreciation	3	5
Other	13	16
Total	**120**	**127**

12. OTHER OPERATING EXPENSES, NET

	Year ended	
	31 December 2016 US$m	31 December 2015 US$m
Provision for investment in Special Economic Zone	14	–
Taxes, other than income tax	11	12
Exploration expenses	10	24
Social payments	10	8
Reversal of additional mining taxes, VAT, penalties and accrued interest	(12)	(4)
Bad debt allowance	–	7
Housing and communal services	4	4
Loss on disposal of property, plant and equipment	1	1
Change in estimate of environmental obligations (Note 25)	(5)	(4)
Other expenses	3	3
Total	**36**	**51**

From 1 January 2016 Omolon Gold Mining Company LLC and JSC Magadan Silver are entitled to the decreased statutory Income tax rate of 18% for the operations held in the Special Economic zone of the Russian Far East, as well as decreased mining tax rate (paying 60% of 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 to the Special economic zone Development Programme, amounting to US$14 million in the reporting year.

Mining taxes, VAT, penalties and accrued interest have been accrued in respect of various disputes with the Russian and Armenian tax authorities. During the year ended 31 December 2016 following the favourable court decisions the Group has recognised the reversal of the previously recognised and paid additional mining tax charge at Magadan Silver amounting to US$14 million.

During the year ended 31 December 2015 the Group partially released several mining tax provisions at Magadan Silver following the completion of the tax audits.

Total provision for tax exposures, penalties and accrued interest as of 31 December 2016 is US$14 million (2015: US$3.5 million), which includes US$11 million of mining tax exposures (including interest and penalties), which were identified and recognised at Kapan mine purchase price allocation (Note 4). As of 31 December total provision at Kapan amounts to US$13 million, which includes US$2 million of interest and penalties accrued from acquisition to the reporting date.

Exploration expenses include write downs of US$1 million (2015: US$8 million) recognised within Exploration and Development assets (Note 18). Operating cash flow spent on exploration activities amounts to US$11 million (2015: US$13 million).

13. EMPLOYEE COSTS

	Year ended	
	31 December 2016 US$m	31 December 2015 US$m
Wages and salaries	215	199
Social security costs	51	49
Share based compensation	7	4
Total payroll costs	**273**	**252**
Reconciliation:		
Less: employee costs capitalised	(26)	(25)
Less: employee costs absorbed into unsold metal inventory balances	(5)	(4)
Employee costs included in operating costs	**242**	**223**

The weighted average number of employees during the year ended 31 December 2016 and year ended 31 December 2015 was:

	Year ended	
	31 December 2016 Number	31 December 2015 Number
Dukat	1,910	1,856
Amursk/Albazino	1,356	1,286
Okhotsk operations	1,263	1,140
Varvara	1,111	789
Mayskoye	895	828
Voro	878	924
Armenia	770	–
Omolon	759	752
Kyzyl	406	414
Corporate and other	1,465	1,303
Total	**10,813**	**9,292**

Compensation of key management personnel is disclosed within Note 32.

14. AUDITOR'S REMUNERATION

	Year ended	
	31 December 2016 US$m	31 December 2015 US$m
Fees payable to the auditor and their associates for the audit of the Company's Annual Report		
United Kingdom	0.30	0.31
Overseas	0.75	0.68
Total audit fees	**1.05**	**0.99**
Audit-related assurance services – half year review	0.39	0.40
Total audit and half-year review fees	**1.44**	**1.39**
Other services	0.03	0.03
Total non-audit fees	**0.03**	**0.03**
Total fees	**1.47**	**1.42**

15. FINANCE COSTS

	Year ended	
	31 December 2016 US$m	31 December 2015 US$m
Interest expense on borrowings	59	52
Unwinding discount on repurchase obligation (Note 4)	–	24
Unwinding of discount on environmental obligations (Note 25)	4	5
Total	**63**	**81**

Interest expense on borrowings excludes borrowing costs capitalised in the cost of qualifying assets of US$5 million and US$4 million during the years ended 31 December 2016 and 2015, respectively. These amounts were calculated based on the Group's general borrowing pool and by applying an effective interest rate of 4.33% and 4.06%, respectively, to cumulative expenditure on such assets.

16. INCOME TAX

The amount of income tax expense for the years ended 31 December 2016 and 31 December 2015 recognised in profit and loss is as follows:

	Year ended	
	31 December 2016 US$m	31 December 2015 US$m
Current income taxes	139	103
Deferred taxes	30	(48)
Total	**169**	**55**

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

	Year ended	
	31 December 2016 US$m	31 December 2015 US$m
Profit before income tax	564	276
Statutory income tax expense at the tax rate of 20%	113	55
Effect of dissolution of subsidiary	25	–
Non-deductible interest expense	14	11
Current year losses not recognised and losses previously recognised written-off	7	6
Effect of Special Economic Zone decreased tax rate	(2)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2)	4
Non-taxable net foreign exchange gains	1	(45)
Other non-taxable income and non-deductible expenses	13	24
Total income tax expense	**169**	**55**

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 2016 Omolon Gold Mining Company LLC and JSC Magadan Silver are entitled to the decreased statutory income tax rate of 18% for the operations held in the Special Economic zone of the Russian Far East (Note 12), the rate of 18% was used in calculation of income tax provision and deferred tax positions for those entities.

For several entities, the tax calculation is prepared in local currencies that differ from the functional currency of the entity. In the year ended 31 December 2015 this resulted in exchange gains and losses excluded from tax computations in the local currency that gave rise to significant permanent differences. During the year ended 31 December 2016 no such exchange gains and losses were incurred due to reduced exchange rate fluctuations. Effect of dissolution of subsidiary represents accumulated tax losses written off in a subsidiary, which was dissolved during the year ended 31 December 2016.

In the normal course of business, the Group is subject to examination by tax authorities throughout the Russian Federation and Kazakhstan. Of the large operating companies of the Group, the tax authorities have audited LLC Okhotskaya Mining and Exploration Company CJSC up to 2014, Omolon Gold Mining Company LLC up to 2013, CJSC Gold of Northern Urals and CJSC Magadan Silver up to 2012, Mayskoye Gold Mining Company LLC up to 2010, and JSC Varvarinskoye 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 2016 and the year ended 31 December 2015 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$4 million in respect of uncertain tax positions (31 December 2015: US$16 million) which relate to income tax.

INCOME TAX AMOUNTS INCLUDED IN OTHER COMPREHENSIVE INCOME

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

	Year ended	
	31 December 2016 US$m	31 December 2015 US$m
Net foreign exchange losses on net investment in foreign operation		
Current tax (benefit)/expense	(6)	3
Deferred tax (benefit)	(1)	(14)
Total income tax recognised in other comprehensive income	**(7)**	**(11)**

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 consolidated financial statements within foreign currency translation reserve.

DEFERRED TAXATION

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

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

	Environmental obligation US$m	Inventories US$m	Property, plant, and equipment and other non-current assets US$m	Trade and other payables US$m	Tax losses US$m	Long-term loans and payables US$m	Intercompany loans US$m	Other US$m	Total US$m
At 1 January 2015	**9**	**(16)**	**(212)**	**7**	**110**	**2**	**–**	**5**	**(95)**
Charge to income statement	–	(2)	(1)	1	50	–	–	–	48
Recognised in other comprehensive income	–	–	–	–	14	–	–	–	14
Exchange differences	(3)	4	86	(2)	(44)	–	–	(1)	40
At 31 December 2015	**6**	**(14)**	**(127)**	**6**	**130**	**2**	**–**	**4**	**7**
Charge to income statement	(1)	6	7	1	(37)	–	(6)	–	(30)
Acquisition (Note 4)	–	1	(21)	2	2	–	–	–	(16)
Recognised in other comprehensive income	–	–	–	–	1	–	–	–	1
Exchange differences	2	(3)	(12)	1	9	–	–	1	(2)
At 31 December 2016	**7**	**(10)**	**(153)**	**10**	**105**	**2**	**(6)**	**5**	**(40)**

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

	Year ended	
	31 December 2016 US$m	31 December 2015 US$m
Deferred tax liabilities	(78)	(50)
Deferred tax assets	38	57
	(40)	**7**

Tax losses carried forward represent amounts available for offset against future taxable income generated by ZK Mayskoye LLC, JSC Varvarinskoye, Bakyrchik Mining Venture LLP and CJSC Kapan MPC during the period up to 2026. 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 believes that recoverability of the recognised deferred tax asset (DTA) of US$105 million at 31 December 2016 is more likely than not based upon expectations of future taxable income in the Russian Federation and Kazakhstan and available tax planning strategies.

Losses incurred in certain taxable entities in recent years have created a history of losses as of 31 December 2016. 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.

16. INCOME TAX CONTINUED

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 carryforward 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.

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

The Group's tax losses carried forward are allocated to the future periods as follows:

	31 December 2016 US$m	31 December 2015 US$m
Year ended 31 December 2016	–	3
31 December 2017	–	4
31 December 2018	–	11
31 December 2019	10	18
31 December 2020	9	17
31 December 2021	16	24
31 December 2022	20	37
31 December 2023	18	64
31 December 2024	73	97
31 December 2025	361	373
31 December 2026	18	–
Total loss carried forward for tax purposes	**525**	**648**

No deferred tax asset has been recognised in respect of remaining US$96 million (2015: US$54 million) as it is not considered probable that there will be future taxable profits against which the losses can be utilised. Increase in 2016 is related to the Svetloye tax losses, accumulated by 1 January 2016, were the entity has received tax relief as Regional Investment Project and is entitled to the statutory income tax rate of 0% up to 2021, thus will not be able to utilise accumulated losses. Included in unrecognised tax losses are losses of US$30 million that mainly expires 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$2,147 million (2015: US$1,318 million).

17. DIVIDENDS

Dividends recognised during the years ended 31 December 2016 and 31 December 2015 are detailed in the below:

	Dividends				
	Cents per share	US$m	Approved and deducted from the equity in	Proposed in relation to the year	Paid in
Special dividend 2014	20	84	December 2014	2014	January 2015
Final dividend 2014	13	55	May 2015	2014	May 2015
Interim dividend 2015	8	34	September 2015	2015	September 2015
Special dividend 2015	30	127	December 2015	2015	December 2015
Final dividend 2015	13	56	May 2016	2015	May 2016
Interim dividend 2016	9	38	September 2016	2016	September 2016
Special dividend 2016	15	64	December 2016	2016	December 2016
Final dividend 2016	18	77	N/A	2016	N/A
Total dividends for the year ended 31 December 2015			**216**	**217**	**300**
Total dividends for the year ended 31 December 2016			**158**	**179**	**158**

18. 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 1 January 2015	**902**	**117**	**1,564**	**58**	**79**	**2,720**
Additions	41	11	76	5	92	225
Transfers	(58)	–	101	(3)	(40)	–
Change in decommissioning liabilities	–	–	4	–	–	4
Acquisition of group of assets (Note 4)	–	30	–	1	–	31
Disposals and write-offs incl. fully depleted mines	(2)	(6)	(160)	(2)	(1)	(171)
Translation to presentation currency	(365)	(54)	(411)	(15)	(26)	(871)
Balance at 31 December 2015	**518**	**98**	**1,174**	**44**	**104**	**1,938**
Additions	39	26	143	7	73	288
Transfers	(28)	–	73	(2)	(43)	–
Change in decommissioning liabilities	–	–	(3)		–	(3)
Acquisitions (Note 4)	–	10	152	9	–	171
Disposals and write-offs incl. fully depleted mines	–	(1)	(23)	(2)	(1)	(27)
Translation to presentation currency	35	7	234	9	17	302
Balance at 31 December 2016	**564**	**140**	**1,750**	**65**	**150**	**2,669**
Accumulated depreciation, amortisation and impairment						
Balance at 1 January 2015	–	–	(735)	(20)	–	(755)
Charge for the period	–	–	(173)	(4)	–	(177)
Disposals and write-offs	–	–	153	1	–	154
Transfers	–	–	(1)	1	–	–
Translation to presentation currency	–	–	196	4	–	200
Balance at 31 December 2015	**–**	**–**	**(560)**	**(18)**	**–**	**(578)**
Charge for the period	–	–	(182)	(5)	–	(187)
Disposals and write-offs incl fully depleted mines	–	–	18	1	–	19
Translation to presentation currency	–	–	(115)	(3)	–	(118)
Balance at 31 December 2016	**–**	**–**	**(839)**	**(25)**	**–**	**(864)**
Net book value						
1 January 2015	**902**	**117**	**829**	**38**	**79**	**1,965**
31 December 2015	**518**	**98**	**614**	**26**	**104**	**1,360**
31 December 2016	**564**	**140**	**911**	**40**	**150**	**1,805**

Mining assets, exploration and development assets at 31 December 2016 included mineral rights with net book value which amounted to US$756 million (31 December 2015: US$582 million) and capitalised stripping costs with net book value of US$32 million (31 December 2015: US$33 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 2016 or at 31 December 2015.

19. GOODWILL

	31 December 2016 US$m	31 December 2015 US$m
Cost and Accumulated impairment losses		
At 1 January	**14**	**18**
Translation effect	3	(4)
At 31 December	**17**	**14**

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

	31 December 2016 US$m	31 December 2015 US$m
Mayskoye	12	10
Dukat	5	4
Total	**17**	**14**

The carrying amount of goodwill is reviewed annually to determine whether it is in excess of its recoverable amount. The recoverable amount of the cash-generating unit is determined based on a fair value less costs to sell calculation. Fair value is based on the application of the Discounted Cash Flow Method (DCF) using post-tax cash flows. The DCF method is attributable to the development of proved and probable reserves.

The DCF method used is based on proved and probable reserves and uses the following key assumptions:

- production volumes;
- commodity prices;
- proved and probable reserves;
- production costs;
- Rouble exchange rates; and
- discount rates.

Recoverable reserves and resources are based on the proven and probable reserves and resources in existence at the end of the year. Estimated production volumes are based on detailed life of mine plans and take into account development plans for the mines approved by management as part of the long-term planning process.

The key assumptions used as at 31 December 2016 by the Group were as follows:

COMMODITY PRICES
Commodity prices are based on latest internal forecasts, benchmarked against external sources of information. In the impairment tests performed, the flat real long-term gold and silver of US$1,200 per ounce (2015: US$1,100), US$16 per ounce (2015: US$14), respectively.

DISCOUNT RATE
The Group used a post-tax real discount rate of 9.0% (2015: 9.0%).

PRODUCTION COSTS
Production costs are based on management's best estimates over the life of the mine, and reflect past experience.

ROUBLE EXCHANGE RATES
Management have analysed RUB/US$ rate movements for the year ended 31 December 2016. For the purposes of the impairment test, RUB/$US exchange rate is estimated at 60 RUB/$US (2015: RUB/$US 72).

SENSITIVITY ANALYSIS
For Dukat and Mayskoye management has performed an analysis as to whether a reasonably possible adverse change to any of the key assumptions would lead to impairment.

The following scenarios were considered as reasonably possible and were used for this sensitivity analysis:

- 10% simultaneous decrease in gold and silver prices over the life of mine;
- 10% decrease in Rouble exchange rates;
- 10% increase in operating expenses over the life of mine; and
- 0.5% increase in the discount rate applied.

Each of the sensitivities above has been determined by assuming that the relevant key assumption moves in isolation, and without regard to potential mine plan changes and other management decisions which would be taken to respond to adverse changes in existing management projections. An adverse change in a key assumption described above would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating units, except for Mayskoye CGU, where a 10% decrease in gold and silver prices or a 10% strengthening of Rouble against US Dollar would cause the carrying amount to exceed the recoverable amount by US$36 million and US$20 million, respectively.

20. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31 December 2016		31 December 2015	
	Voting power %	Carrying value US$m	Voting power %	Carrying value US$m
Nezhda	17.66	21	NA	–
GRK Amilkan	42.65	2	42.65	–
Aktogai Mys LLC	25	–	25	–
Proeks LLC	24.9	2	24.9	2
Total		**25**		**2**

JSC SOUTH-VERKHOYANSK MINING COMPANY
In December 2015 Polymetal International plc entered into a joint arrangement with OJSC Polyus Gold, under which Polymetal will participate in advancing the development of the Nezhdaninskoye gold deposit (Nezhda) in Yakutia, Russia. The arrangement allows Polymetal to acquire up to 50% in the joint venture entity holding 100% of JSC South-Verkhoyansk Mining Company ('SVMC') through an earn-in mechanism. SVMC, which was a 100% subsidiary of Polyus Gold as of 31 December 2015, holds the mining and exploration license for the Nezhda as well as certain infrastructure adjacent to the deposit.

On 19 January 2016 Polymetal obtained a 15.3% interest in the joint venture entity holding 100% of the Company for the total cash consideration of US$18 million.

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

The arrangement is structured through a separate vehicle and constitutes a joint venture under IFRS 11 *Joint arrangements* and the investment is accounted for using the equity method.

As of 31 December 2016 the entity did not hold any significant cash balances and did not record any significant amounts of revenue, depreciation and amortisation, interest income and expenses, income tax.

GRK AMIKAN
GRK Amikan is a production company which holds 100% interest in Veduga gold deposit in the Krasnoyarsk region of the Russian Federation. During the year ended 31 December 2016 the Group has purchased ore from GRK Amikan for the total amount of US$11 million (2015: nil) (Note 32) and eliminated unrealised profit on inventories not yet processed against its share of net profit in GRK Amikan.

AKTOGAI MYS LLC
In June 2015 the Group signed an agreement to purchase 25% stake in the Aktogai Mys LLC, company owning the Dolinnoye exploration licence in Kazakhstan (including related shareholder loans). Polymetal has also entered into an 'earn-in' agreement for financing of exploration and technical research and may increase its share in the project up to 50% after the completion of these tasks. The arrangements constitute a joint venture and the investment is accounted for using the equity method.

The Group's share of losses of Aktogai Mys LLC exceeded its interest in the joint venture due to foreign currency exchange losses recognised by Aktogai Mys LLC, therefore the carrying amount of the investment was written down to nil. Total accumulated unrecognised Group's share of loss as of 31 December 2016 is nil (2015: US$1 million).

20. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES CONTINUED

PROEKS LLC

In November 2015 the Group acquired 24.9% share in a diamond exploration project located in North-West of Russian Federation for the cash consideration of US$2 million. The Group determined that it has significant influence in the entity and the investment is accounted for using the equity method.

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

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

	Nezhda	Non-significant investments	Total	Total
	31 December 2016 US$m	**31 December 2016 US$m**	**31 December 2016 US$m**	31 December 2015 US$m
Non-current assets	48	51	99	54
Current assets	9	50	59	18
Non-current liabilities	(7)	(80)	(87)	(79)
Current liabilities	(1)	(8)	(9)	(3)
Equity	(49)	(13)	(62)	10
Revenue	–	41	41	17
Net income/(loss)	(2)	12	10	(24)
Group's share in investment net income/(loss)less prior year unrecognised losses	–	2	2	(8)
Share of profit recognised for the year less inventories unrealised profit eliminations	–	–	–	(4)
Unrecognised share of losses for the year	–	–	–	(4)

21. INVENTORIES

	31 December 2016 US$m	31 December 2015 US$m
Inventories expected to be recovered after twelve months		
Consumables and spare parts	33	26
Ore stock piles	80	69
Work in-process	–	4
Total non-current inventories	**113**	**99**
Inventories expected to be recovered in the next twelve months		
Ore stock piles	157	97
Copper, gold and silver concentrate	95	74
Work in-process	42	30
Metal for refinery	6	14
Refined metals	3	–
Doré	12	7
Total metal inventories	**315**	**222**
Consumables and spare parts	178	131
Total	**493**	**353**

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 2016					Year ended 31 December 2015
	Okhotsk operations US$m	**Dukat US$m**	**Omolon US$m**	Mayskoye US$m	Total operating segments US$m	Total operating segments US$m
Ore stock piles	(5)	1	(9)	(1)	(14)	(7)
Ore in heap leach piles	–	–	(5)	–	(5)	(6)
Copper, gold and silver concentrate	–	–	–	(2)	(2)	–
Total	**(5)**	**1**	**(14)**	**(3)**	**(21)**	**(13)**

The key assumptions used as at 31 December 2016 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 (Note 19). For short-term metal inventories applicable forward prices as of 31 December 2016 were used.

During the year ended 31 December 2016 the Group provided for obsolete consumables and spare parts inventory in the amount of US$6 million (year ended 31 December 2015: write-down of US$5 million).

The amount of inventories held at net realisable value at 31 December 2016 is US$45 million (31 December 2015: US$26 million).

22. TRADE AND OTHER RECEIVABLES

	31 December 2016 US$m	31 December 2015 US$m
Receivables from provisional copper, gold and silver concentrate sales	35	12
Other trade receivables	3	–
Non-trade receivables	22	15
Short-term loans provided to related parties	7	–
Short-term loans provided to third parties	6	15
Total trade and other receivables	**73**	**42**
Less: Allowance for doubtful debts	(3)	(3)
Total	**70**	**39**

The average credit period on sales of copper, gold and silver concentrate at 31 December 2016 was 20 days (2015: 21 days). No interest is charged on trade receivables. The Group's allowance for doubtful debt relates to its non-trade receivables. There are no trade receivables either past due or impaired as at 31 December 2016 (31 December 2015: US$ nil).

23. CASH AND CASH EQUIVALENTS

		31 December 2016 US$m	31 December 2015 US$m
Bank deposits	– U.S. dollar	31	21
Current bank accounts	– RUB	8	3
	– foreign currencies	9	28
Total		**48**	**52**

Bank deposits as at 31 December 2016 bear an interest rate of 0.3%-6% per annum for US Dollar denominated deposits and 16% for KZT deposits (2015: 0.3%-5.56% per annum for US Dollar deposits) with an average maturity at inception of 15 days (2015: 23 days) with US$14 million being demand deposits.

24. BORROWINGS

Borrowings at amortised cost:

	Actual interest rate at 31 December			31 December 2016			31 December 2015		
	Type of rate	2016	2015	Current US$m	Non-current US$m	Total US$m	Current US$m	Non-current US$m	Total
Secured loans from third parties									
U.S. Dollar denominated	floating	3.85%	4.00%	98	638	736	263	584	847
U.S. Dollar denominated	fixed	4.10%	NA	–	61	61	–	–	–
Total				**98**	**699**	**797**	**263**	**584**	**847**
Unsecured Loans from third parties									
U.S. Dollar denominated	floating	3.96%	3.34%	–	500	500	24	406	430
U.S. Dollar denominated	fixed	7.50%	7.50%	–	78	78	–	73	73
EUR denominated	fixed	2.85%	NA	–	3	3	–	–	–
Total				**–**	**581**	**581**	**24**	**479**	**503**
				98	**1,280**	**1,378**	**287**	**1,063**	**1,350**

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 for the year ended 31 December 2016 are reconciled as follows:

1 January 2016 US$m	Borrowings obtained US$m	Repayments of borrowings US$m	Net foreign exchange losses US$m	Translation to presentation currency US$m	Arrangement fee amortisation US$m	31 December 2016 US$m
1,350	1,436	(1,410)	108	(108)	2	1,378

At 31 December 2016, the Group had undrawn borrowing facilities of US$998 million (31 December 2015: US$1,196 million). The Group complied with its debt covenants throughout 2016 and 2015.

The table below summarises maturities of borrowings:

	31 December 2016 US$m	31 December 2015 US$m
Year ended, 31 December 2016	–	287
31 December 2017	98	157
31 December 2018	632	669
31 December 2019	538	221
31 December 2020	110	16
Total	**1,378**	**1,350**

25. ENVIRONMENTAL OBLIGATIONS

Environmental obligations include decommissioning and land restoration costs and are recognised on the basis of existing project business plans as follows:

	31 December 2016 US$m	31 December 2015 US$m
Opening balance	**33**	**46**
Changes in estimates for the year:		
Change in estimate of environmental obligations	(5)	(4)
Decommissioning liabilities recognised as increase in PPE	(3)	4
Rehabilitation liabilities	1	(2)
Effect of unwinding of discount	4	5
Acquired in business combinations	2	–
Amounts paid in the year	–	(1)
Disposal of subsidiary (Note 4)	–	(1)
Translation effect	5	(14)
Closing balance	**37**	**33**

The principal assumptions are related to Russian Rouble, Kazakh Tenge and Armenian Dram projected cash flows. The assumptions used for the estimation of environmental obligations were as follows:

	2016	2015
Discount rates	7.1%-14.67%	7.1%-12.5%
Inflation rates	(0.45%)-8.5%	4.0%-8.7%
Expected mine closure dates	1-34 years	1-26 years

The Group does not hold any assets that are legally restricted for purposes of settling environmental obligations.

26. TRADE PAYABLES AND ACCRUED LIABILITIES

	31 December 2016 US$m	31 December 2015 US$m
Trade payables	51	37
Accrued liabilities	36	26
Labour liabilities	12	8
Provision for investment in Special Economic Zone (Note 12)	14	–
Consideration payable to Dundee (Note 4)	5	–
Account payable to related parties	4	–
Advances received	3	2
Other payables	8	4
Total	**133**	**77**

In 2016, the average credit period for payables was 31 Days (2015: 29 days). There was no interest charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payment schedules to ensure that all amounts payable are settled within the credit period.

27. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

CAPITAL COMMITMENTS

The Group's budgeted capital expenditure commitments as at 31 December 2016 amounted to US$64 million (2015: US$18 million).

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

	31 December 2016 US$m
Within one year	2
From one to five years	20
Thereafter	9
Total	**31**

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 2016 the Group recognised US$5 million as operating lease expenses (2015: US$6 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 2016 US$m	31 December 2015 US$m
Due within one year	2	1
From one to five years	3	2
Thereafter	2	1
Total	**7**	**4**

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.

Because Russia and Kazakhstan produce and export large volumes of oil and gas, their economies are particularly sensitive to the price of oil and gas on the global market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate. On 20 August 2015, the Government and the National Bank of Kazakhstan announced a transition to a new monetary policy based on free floating Tenge exchange rate, and cancelled the currency corridor. In 2015 and in the first quarter of 2016 Tenge depreciated significantly against major foreign currencies.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies.

In the first quarter of 2015 two international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of these economic developments on future operations and financial position of the Group has not been material.

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 2016 and 2015 the Group has been involved in a number of litigations in Russia, Kazakhstan and Armenia. Management has identified a total exposure (covering taxes and related interest and penalties) of US$13 million in respect of contingent liabilities (2015: US$46 million), including US$4 million related to income tax (2015: US$16 million).

28. 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 2016 and 31 December 2015, the Group held the following financial instruments:

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

	31 December 2015 US$m			
	Level 1	Level 2	Level 3	Total
Receivables from provisional copper, gold and silver concentrate sales	–	12	–	**12**
Contingent consideration liability	–	–	(26)	**(26)**
	–	**12**	**(26)**	**(14)**

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 2016, is US$1,269 million, and the carrying value as at 31 December 2016 is US$1,378 million (see Note 24). Carrying values of the other long-term loans provided to related parties as at 31 December 2016 and 31 December 2015 approximated to their fair values.

RECEIVABLES FROM PROVISIONAL COPPER, GOLD AND SILVER CONCENTRATE SALES

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

28. FAIR VALUE ACCOUNTING

CONTINGENT CONSIDERATION LIABILITIES

The table below sets forth a summary of changes in the fair value of the Group's Level 3 financial liabilities for the year ended 31 December 2016:

	31 December 2016							31 December 2015
	Omolon US$m	Kyzyl US$m	Primorskoye US$m	Lichkvaz US$m	Kapan US$m	Komar US$m	Total US$m	US$m
Opening balance	13	–	7	6	–	–	26	19
Additions (Note 4)	–	–	–	–	9	20	29	12
Change in fair value, included in profit or loss	4	19	–	1	–	(2)	22	(4)
Unwind of discount	–	–	1	–	–	–	1	–
Settlement	(2)	–	–	–	–	–	(2)	(1)
Total contingent consideration	**15**	**19**	**8**	**7**	**9**	**18**	**76**	**26**
Less current portion of contingent consideration liability	(5)	–	(8)	–	(1)	–	(14)	(2)
	10	**19**	**–**	**7**	**8**	**18**	**62**	**24**

In 2008, the Group recorded a contingent consideration liability related to the acquisition of 98.1% of the shares in JSC Omolon Gold Mining Company (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 consolidated income statement. The liability recognised as at 31 December 2016 was US$15 million, including current portion of US$5 million.

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. The liability was revalued at the 31 December 2016 using the same method with updated inputs as of reporting date and amounts to US$19 million (2015: nil), having increased due to lower volatility assumption input.

During the year ended 31 December 2015 the Group the recorded a contingent consideration liability related to the acquisition of 100% interest in Primorskoye (Note 4). Deferred conditional cash consideration, which will be determined as the highest of US$13,333 per tonne of contained silver equivalent (translating into US$0.415 per silver equivalent ounce) based on the audited reserves estimate of the deposit, and US$8 million, was revalued at 31 December 2016 at US$8 million.

In March 2017 it was agreed to determine Primorskoye deferred consideration based on the mineral resource estimate and, therefore, as of 1 March 2017 the deferred consideration equals to US$9.7 million, which is US$13,333 per tonne of contained silver equivalent in Measured and Indicated Mineral Resources (or US$0.415 per silver equivalent ounce). In accordance with the updated agreement, the deferred consideration will be payable by 815,348 newly issued Polymetal International shares.

During the year ended 31 December 2015 the Group completed the acquisition of LV Gold Mining (Lichkvaz), the company owning the Lichkvaz exploration licence in Armenia (Note 4). The fair value of the related contingent consideration liability is calculated using a valuation model which simulates expected production of metals and future gold, silver and copper prices to estimate future value of the metals in the actually extracted ore. The liability recognised at 31 December 2016 was US$7 million.

During the year ended 31 December 2016 the Group completed the acquisition of DPMK, the company owning the Kapan mine and processing plant in Armenia (Note 4). 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 2016, the fair value of the contingent consideration was estimated at US$8 million, including current portion of US$1 million.

On 1 August 2016 the Group completed the acquisition of Orion Minerals LLP, the holding company for the Komarovskoye Gold Deposit (Komar) in the Republic of Kazakhstan (Note 4). The seller is entitled to the contingent consideration that was determined based on the LOM model of the Komar mine and calculated using Monte-Carlo modelling. At the 31 December 2016, the fair value of the contingent consideration was estimated at US$18 million.

Assumptions used in the valuation of the Omolon, Kapan and Lichkvaz are consistent with those used in goodwill impairment test (Note 19), such as long-term metal prices and discount rates. Estimated production volumes are based on life of mine plans and are approved by management as part of the long-term planning process.

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

- Gold price volatility: 16.23%-18.23%
- Share price volatility: 41.9%
- Constant correlation between gold and share price: 90%
- Dividend yield: 2%.

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

COMMODITY FORWARD CONTRACTS

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

29. RISK MANAGEMENT ACTIVITIES

CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy is to provide value to stakeholders by maintaining an optimal short-term amd long-term capital structure, reducing cost of capital, and to safeguard the ability to support the operating requirements on an ongoing basis, continuing the exploration and development activities.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 24 offset by cash and bank balances as detailed in Note 23 and equity of the Group comprising the Stated Capital account, reserves and retained earnings as detailed in Note 30.

The Group's committed borrowings are subject to certain financial covenants. Compliance with covenants is reviewed on a semi-annual basis and the Group's Board is satisfied with forecast compliance with covenants on those borrowings.

The Group's Board reviews the capital structure of the Group on a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

MAJOR CATEGORIES OF FINANCIAL INSTRUMENTS

The Group's principal financial liabilities comprise borrowings, derivatives, trade and other payables. The Group has various financial assets such as accounts receivable, loans advanced and cash and cash equivalents.

	31 December 2016 US$m	31 December 2015 US$m
Financial assets		
Financial assets at FVTPL		
Receivables from provisional copper, gold and silver concentrate sales	35	12
Loans and receivables, including cash and cash equivalents		
Cash and cash equivalents	48	52
Trade, non-trade and other receivables	35	27
Non-current loans and receivables	10	13
Total financial assets	**128**	**104**
Financial liabilities		
Financial liabilities at FVTPL		
Contingent consideration liability	76	26
Financial liabilities at amortised cost		
Borrowings	1,378	1,350
Trade and other payables	82	41
Total financial liabilities	**1,536**	**1,417**

Trade and other payables exclude employee benefits and social security.

The main risks arising from the Group's financial instruments are foreign currency and commodity price risk, interest rate, credit and liquidity risks.

At the end of the reporting period, there are no significant concentrations of credit risk for receivables designated at FVTPL. The carrying amount reflected above represents the Group's maximum exposure to credit risk for such receivables.

29. RISK MANAGEMENT ACTIVITIES CONTINUED

DERIVATIVE FINANCIAL INSTRUMENTS

Presented below is a summary of the Group's derivative contracts recorded on the consolidated balance sheet at fair value.

	Consolidated balance sheet location	**31 December 2016 US$m**	31 December 2015 US$m
Receivable from provisional copper, gold and silver concentrate sales	Accounts receivable	**35**	12

	Location of gain (loss) recorded in profit or loss	**31 December 2016 US$m**	31 December 2015 US$m
Receivable from provisional copper, gold and silver concentrate sales	Revenue	**(7)**	(6)

FOREIGN CURRENCY AND COMMODITY PRICE RISK

In the normal course of business the Group enters into transactions for the sale of its commodities, denominated in U.S. Dollars. In addition, the Group has assets and liabilities in a number of different currencies (primarily Russian Rouble and Kazakh Tenge). As a result, the Group is subject to transaction and translation exposure from fluctuations in foreign currency exchange rates.

The Group does not currently use derivative instruments to hedge its exposure to foreign currency risk.

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than functional currencies of the individual Group entities at 31 December 2016 and 31 December 2015 were as follows:

	Assets		Liabilities	
	31 December 2016 US$m	31 December 2015 US$m	**31 December 2016 US$m**	31 December 2015 US$m
U.S. Dollar	52	55	540	597
Euro	–	–	5	2
GBP	7	–	–	–
Total	**59**	**55**	**545**	**599**

U.S. Dollar denominated assets and liabilities disclosed above exclude balances outstanding held in Polymetal International plc and its intermediate holding companies, where functional currency is United States Dollar (US$) as described in Note 2.

Currency risk is monitored on a monthly basis by performing a sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level.

The table below details the Group's sensitivity to changes in exchange rates by 10% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items denominated in respective currencies at the reporting dates.

	31 December 2016 US$m	31 December 2015 US$m
Profit or loss (RUB to U.S. Dollar)	(41)	(49)
Profit or loss (KZT to U.S. Dollar)	(7)	(4)

PROVISIONALLY PRICED SALES

Under a long-established practice prevalent in the industry, copper, gold and silver concentrate sales are provisionally priced at the time of shipment. The provisional prices are finalised in a contractually specified future period (generally one to three months) primarily based on quoted LBMA or LME prices. Sales subject to final pricing are generally settled in a subsequent month. The forward price is a major determinant of recorded revenue.

INTEREST RATE RISK

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group does not currently hedge its exposure to interest rate risk.

The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk section of this note.

For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole period. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2016 would have decreased/increased by US$13 million (2015: US$11 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has increased during the current period mainly due to the increase in variable rate debt instruments.

CREDIT RISK

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. The Group's financial instruments that are potentially exposed to concentration of credit risk consist primarily of cash and cash equivalents and loans and receivables.

Accounts receivable are regularly monitored and assessed and where necessary an adequate level of provision is maintained. Trade accounts receivable at 31 December 2016 and 31 December 2015 are represented by provisional copper, gold and silver concentrate sales transactions. A significant portion of the Group's trade accounts receivable is due from reputable export trading companies. With regard to other loans and receivables the procedures of accepting a new customer include checks by a security department and responsible on-site management for business reputation, licences and certification, creditworthiness and liquidity. Generally, the Group does not require any collateral to be pledged in connection with its investments in the above financial instruments. Credit limits for the Group as a whole are not set up.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The major financial assets at the balance sheet date other than trade accounts receivable presented in Note 23 are cash and cash equivalents at 31 December 2016 of US$48 million (2015: US$52 million).

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to settle its liabilities as they fall due.

The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting, cash forecasting processes and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

The following tables detail the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2016:

	Less than 3 months	3-12 months	1-5 years	More than 5 years	**31 December 2016 US$m** **Total**	31 December 2015 US$m Total
Borrowings	22	139	1,345	–	1,506	1,644
Accounts payable and accrued expenses	67	15	–	–	82	41
Contingent consideration (Note 28)	9	5	53	10	77	37
Total	**98**	**159**	**1,398**	**10**	**1,665**	**1,722**

30. STATED CAPITAL ACCOUNT AND RETAINED EARNINGS

As at 31 December 2016, the Company's issued share capital consisted of 428,262,338 ordinary shares (2015: 424,650,138 ordinary shares) of no par value, each carrying one vote. The Company does not hold any shares in treasury (2015: none). The ordinary shares reflect 100% of the total issued share capital of the Company.

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

	Stated capital account, no. of shares	Stated capital account, US$m
Balance at 1 January 2015	**420,819,943**	**1,939**
Issue of shares to acquire non-controlling interest in Tarutin	1,746,692	13
Issue of shares in accordance with Deferred Share Awards plan (Note 31)	36,089	–
Issue of shares for LV Gold Mining CJSC (Note 4)	1,514,113	13
Issue of shares for Primorskoye (Note 4)	533,301	4
Balance at 31 December 2015	**424,650,138**	**1,969**
Issue of shares in accordance with Deferred Share Awards plan	110,850	1
Issue of shares for Kapan (Note 4)	1,481,785	15
Issue of shares to acquire an additional 25% interest in Tarutin	898,875	14
Issue of shares for Saum Mining Company LLC (Note 4)	1,120,690	11
Balance at 31 December 2016	**428,262,338**	**2,010**

On 18 August 2016, the Group increased its interest in LLC Vostochny Basis (holder of the licence for the Tarutinskoye copper deposit (Tarutin) from 50% to 75%. The Group has purchased an additional 25% from the unrelated party for a consideration of US$14 million, payable through 898,875 newly issued Polymetal International plc shares. The Group has previously determined that LLC Vostochny Basis meets the definition of a subsidiary and it was consolidated from the date of the 25% share acquisition. The increase in interest in Tarutin was recognised as an acquisition of the non-controlling interest and recognised within equity. As of 31 December 2016 and during the year ended 31 December 2016 Tarutin does not give rise to a significant non-controlling interest to be presented within equity, income statement and statement of comprehensive income.

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

WEIGHTED AVERAGE NUMBER OF SHARES: DILUTED EARNINGS PER SHARE

Both basic and diluted earnings per share were calculated by dividing profit for the year attributable to equity holders of the parent by the weighted average number of outstanding common shares before/after dilution respectively. The calculation of the weighted average number of outstanding common shares after dilution is as follows:

	Year ended	
	31 December 2016	31 December 2015
Weighted average number of outstanding common shares	426,135,182	422,958,680
Dilutive effect of share appreciation plan	259,452	290,522
Weighted average number of outstanding common shares after dilution	**426,394,634**	**423,249,202**

There were no adjustments required to earnings for the purposes of calculating the diluted earnings per share in the current interim period (year ended 31 December 2015: nil).

At 31 December 2016 and 31 December 2015 the outstanding LTIP awards issued under 2014, 2015 and 2016 tranches represent anti-dilutive potential ordinary shares with respect to earnings per share from continuing operations as these are out the money as of reporting date.

The awards issued under management bonus deferral award plan are dilutive as of 31 December 2016 and 31 December 2015 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.

31. SHARE-BASED PAYMENTS

For the year ended 31 December 2016, share-based compensation in the amount of US$7 million including US$1 million of management bonus deferral award (2015: US$3 million and US$1 million, respectively) was recognised in general, administrative and selling expenses in the consolidated income statement (Note 11).

As at 31 December 2016 the Group has three portions amounting to US$3, US$6, US$7 million of unrecognised share-based compensation expense related to non-vested equity-settled stock appreciated rights with expected amortisation period of 1.2, 2.2 and 3.2 years, respectively.

As at 31 December 2015 the Group has two portions amounting to US$4 and US$6 million of unrecognised share-based compensation expense related to non-vested equity-settled stock appreciated rights with expected amortisation period of 2.2 and 3.2 years, respectively.

During the year ended 31 December 2015 36,089 shares under management bonus plan deferral award were released and issued in accordance with the plan.

No further disclosures are provided on a grounds of materiality.

32. 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.

As of 31 December 2016 outstanding balances owed to or from related parties composed of long-term loans provided to equity method investments of US$1 million (2015: US$6 million) and short-term loans of US$7 million and interest receivable in respect of these loans of US$1 million (2015: US$1 million).

During the year ended the Group has purchased ore from its associate GRK Amikan (Note 20) for the total amount of US$11 million (2015: nil) and accounts payable amounting US$4 million are outstanding as of 31 December 2016 (2015: nil).

No significant transactions with related parties took place during the year ended 31 December 2015.

Carrying values of other long-term loans provided to related parties as at 31 December 2016 and 31 December 2015 approximate their fair values.

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

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

	Year ended	
	31 December 2016 US$m	31 December 2015 US$m
Share-based payments	2	1
Short-term benefits of board members	2	2
Short-term employee benefits	1	2

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2016 US$m	Year ended 31 December 2015 US$m
Profit before tax		564	276
Adjustments for:			
Depreciation and depletion, recognised in income statement		155	156
Additional mining taxes, penalties and accrued interest	12	(12)	(4)
Provision for investment in Special Economic Zone	12	14	–
Write-down of exploration assets and construction in progress	18	2	9
Write-down non-metal inventory to net realisable value	21	6	5
Write-down of metal inventory to net realisable value	21	21	13
Change in estimate of environmental obligations		(5)	(4)
Share-based compensation	11, 31	7	4
Finance costs	15	63	81
Finance income		(3)	(5)
Loss on disposal and write-down of assets	12	1	1
Change in contingent consideration liability	28	22	(4)
Change in allowance for doubtful debts	12	–	7
Rehabilitation expenses		1	(2)
Loss from equity method investments	20	–	4
Foreign exchange loss		(65)	133
Gain on disposal of subsidiary		–	(1)
Other non-cash expenses		1	5
Movements in working capital			
Increase in inventories before impairment		(50)	(26)
Decrease /(Increase) in VAT receivable		14	(23)
(Increase)/Decrease in trade and other receivables		(4)	19
Decrease/(Increase in prepayments) to suppliers		2	(13)
Increase in trade and other payables		17	22
(Increase)/Decrease in other taxes payable		(6)	7
Cash generated from operations		**745**	**660**
Interest paid		(61)	(52)
Interest received		1	3
Income tax paid		(155)	(120)
Net cash generated by operating activities		**530**	**491**

Non-cash transactions during the year ended 31 December 2016 represent the issuance of shares amounting to US$40 million in respect of the business combinations, the acquisition of assets and acquisition of non-controlling interest (2015: the issuance of shares amounting to US $17 million in respect of the acquisition of stake in joint venture and the acquisition of assets).

Cash flows related to exploration and development amounted to US$56 million for the year ended 31 December 2016 (2015: US$41 million). During the year ended 31 December 2016 capital expenditure, related to new projects, amounts to US$121 million (2015: US$66 million).

34. SUBSEQUENT EVENTS

In January 2017 the Group has increased its interest in LLC Vostochny Basis (holder of the licence for the Tarutinskoye copper deposit (Tarutin) from 75% to 100%. The Group purchased the additional 25% from an unrelated party for a consideration of US$10 million, payable through the issue of 893,575 new Polymetal International plc shares. The Group has previously determined that LLC Vostochny Basis meets the definition of a subsidiary and consolidated Vostochny Basis LLC as of the reporting date. Increase in ownership in Tarutin will be recognised as an acquisition of non-controlling interest and recognised within equity. A reserve estimate for the deposit is expected in Q3 2017, with mining planned to commence in 2018 with the goal to deliver and process up to 300 Kt of ore at Varvara in order to produce 4-5 Kt of copper per annum in 2018-2020.

In January 2017 the Group has entered into an agreement with Polar Silver Resources Ltd, under which Polymetal will participate in the development of the Prognoz silver deposit in Yakutia, Russia ('Prognoz'). The arrangement will allow Polymetal to acquire up to 50% indirect interest in Prognoz. Under the agreement, Polymetal will acquire a 5% indirect interest in Prognoz for US$3 million in cash through the purchase of 10% of Polar's share capital. Polar currently indirectly holds a 50% interest in Prognoz, with the remaining 50% owned by a group of private investors. Polymetal will have an obligation to undertake 25 km of diamond drilling, and complete a technical study resulting in an externally audited JORC-compliant reserves estimate for the property before 31 March 2019. Total capital expenditures required to perform the drilling and complete the technical study are expected at US$10 million per annum during FY 2017-2019.

In March 2017 the deferred consideration for the acquisition of the Primorskoye property was finalised. Under the deal terms, the deferred consideration is based on the reserve estimate and paid in cash. However, the parties agreed for the deferred consideration to be based on the mineral resource estimate and paid in Polymetal International shares. Therefore, the deferred consideration is equal to US$9.7 million, which is US$13,333 per tonne of contained silver equivalent in Measured and Indicated Mineral Resources (or US$0.415 per silver equivalent ounce). The deferred consideration is payable by 815,348 newly issued Company shares representing 0.19% of Polymetal's total increased share capital.

OPERATIONAL STATISTICS

DUKAT

	Dukat			Goltsovoye			Lunnoye + Arylakh			Total		
MINING	**2016**	2015	Change %	**2016**	2015	Change %	**2016**	2015	Change %	**2016**	2015	Change %
Stripping, Kt	**–**	–	NA	–	–	NA	**–**	–	NA	**–**	–	NA
Underground development, m	**35,066**	34,573	1%	**6,010**	7,391	-19%	**5,249**	5,624	-7%	**46,325**	47,588	-3%
Ore mined, Kt	**1,661**	1,656	0%	**183**	201	-9%	**435**	401	8%	**2,278**	2,257	1%
Metal in ore mined (grades), g/t												
gold	**0.7**	0.7	-8%	**–**	–	NA	**1.5**	1.6	-2%	**0.8**	0.8	-3%
silver	**378**	443	-15%	**370**	486	-24%	**434**	417	4%	**388**	442	-12%

	Omsukchan concentrator			Lunnoye processing plant			Total		
PRODUCTION	**2016**	2015	Change %	**2016**	2015	Change %	**2016**	2015	Change %
Ore processed, Kt	**1,938**	1,817	7%	**435**	416	5%	**2,374**	2,233	6%
Metal in ore processed (grades), g/t									
gold	**0.6**	0.7	-12%	**1.5**	1.5	1%	**0.8**	0.8	-8%
silver	**372**	452	-18%	**436**	422	3%	**384**	446	-14%
Recoveries									
gold	**86.2%**	85.3%	1%	**91.9%**	90.5%	2%			
silver	**85.4%**	85.7%	0%	**91.6%**	89.3%	3%			
Production									
gold, Koz	**32**	33	-4%	**20**	18	8%	**51**	51	0%
silver, Moz	**19.8**	22.3	-11%	**5.6**	5.0	12%	**25.4**	27.4	-7%
Gold equivalent, Koz	**279**	312	-11%	**90**	81	11%	**369**	393	-6%
Total cash cost, US$/SE oz							**6.4**	6.4	0%
All-in sustaining cash costs, US$/SE oz							**8.0**	7.8	3%
Adjusted EBITDA, US$m							**283**	239	18%

ALBAZINO

MINING	**2016**	2015	Change %
Stripping, Kt	**18,078**	17,307	4%
Underground development, m	**5,838**	5,030	16%
Ore mined, Kt	**1,866**	1,583	18%
Open-pit	**1,599**	1,533	4%
Underground	**267**	49	441%
Gold grade in ore mined, g/t	**4.8**	5.2	-8%
Open-pit	**4.7**	5.2	-11%
Underground	**5.2**	3.6	44%

PRODUCTION	**2016**	2015	Change %
Ore processed, Kt	**1,654**	1,607	3%
Gold grade in ore processed, g/t	**5.0**	5.2	-3%
Recoveries to concentrate	**87.2%**	86.9%	0%
Concentrate produced, Kt	**136**	136	0%
Gold grade in concentrate produced, g/t	**53.3**	53.3	0%
Gold in concentrate, Koz	**234**	233	0%
Concentrate sold, Kt	**–**	–	NA
Saleable gold in concentrate sold to off-takers, Koz	**–**	–	NA
Amursk POX			
Concentrate processed, Kt	**149**	143	4%
Gold grade in concentrate processed, g/t	**52.1**	52.3	0%
Recoveries	**94.5%**	94.0%	1%
Gold production at Amursk POX, Koz	**244**	220	11%
Total gold equivalent production, Koz	**244**	220	11%
Total cash cost, US$/GE oz	**529**	460	15%
All-in sustaining cash costs, US$/GE oz	**684**	667	3%
Adjusted EBITDA, US$m	**167**	153	9%

MAYSKOYE

MINING	2016	2015	Change %
Stripping, Kt	**50**	–	NA
Underground development, m	**19,523**	13,828	41%
Ore mined, Kt	**730**	628	16%
Gold grade in ore mined, g/t	**5.3**	6.4	-17%

PRODUCTION	2016	2015	Change %
Ore processed, Kt	**761**	683	11%
Gold grade in ore processed, g/t	**5.3**	6.7	-21%
Recoveries to concentrate	**87.7%**	85.9%	2%
Concentrate produced, Kt	**71**	68	4%
Gold grade in concentrate produced, g/t	**50.2**	57.9	-13%
Gold in concentrate, Koz	**114**	126	-10%
Concentrate sold, Kt	**60**	52	14%
Saleable gold in concentrate sold to off-takers, Koz	**87**	98	-11%
Amursk POX			
Concentrate processed, Kt	**17**	22	-25%
Gold grade in concentrate processed, g/t	**55.2**	57.9	-5%
Recoveries	**94.4%**	94.0%	0%
Gold production at Amursk POX, Koz	**28.9**	40.2	-28%
Total gold equivalent production, Koz	**116**	138	-16%
Total cash cost, US$/GE oz	**1011**	752	34%
All-in sustaining cash costs, US$/GE oz	**1242**	935	33%
Adjusted EBITDA, US$m	**13**	34	-62%

AMURSK POX

	Albazino			Mayskoye			Total		
PRODUCTION	2016	2015	Change %	2016	2015	Change %	2016	2015	Change %
Concentrate processed, Kt	**149**	143	4%	**17**	22	-25%	**166**	165	0%
Gold grade in concentrate processed, g/t	**52.1**	52.3	0%	**55.2**	57.9	-5%	**52.5**	53.1	-1%
Recoveries	**94.5%**	94.0%	1%	**94.4%**	94.0%	0%			
Total gold equivalent production, Koz	**244**	220	11%	**29**	40	-28%	**273**	260	5%

OMOLON

	Birkachan			Tsokol			Dalneye			Oroch			Olcha			Total		
MINING	2016	2015	Change %	2016	2015	Change %	2016	2015	Change %	2016	2015	Change %	2016	2015	Change %	2016	2015	Change %
Stripping, Kt	**2,548**	2,021	26%	**–**	396	-100%	**–**	1,042	-100%	**4,552**	4,213	**8%**	**1,088**	–	**NA**	**8,188**	7,673	7%
Underground development, m	**2,286**	1,254	82%	**3,934**	1,533	157%	**–**	–	NA	**–**	–	NA	**125**	**–**	**NA**	**6,345**	2,787	128%
Ore mined, Kt	**961**	780	23%	**103**	179	-42%	**–**	635	-100%	**936**	400	134%	**232**	–	**NA**	**2,233**	1,994	12%
Metal in ore mined (grades), g/t																		
gold	**2.0**	1.7	15%	**12.7**	3.9	225%	**–**	2.9	-100%	**2.9**	3.1	-9%	**6.0**	–	**NA**	**3.3**	2.6	27%
silver	**8**	4	94%	**–**	–	NA	**–**	57	-100%	**134**	132	2%	**17**	**–**	**NA**	**61**	46	33%

PRODUCTION	2016	2015	Change %
Ore processed, Kt	**840**	835	1%
Metal in ore processed (grades), g/t			
gold	**5.9**	5.6	5%
silver	**90**	151	-40%
Recoveries			
gold	**92.2%**	95.0%	-3%
silver	**85.5%**	86.8%	-2%
Production			
gold, Koz	**144**	144	0%
silver, Moz	**2.1**	3.5	-41%
Total gold equivalent (incl. Birkachan heap leach), Koz	**170**	188	-10%
Total cash cost, US$/GE oz	**503**	555	-10%
All-in sustaining cash costs, US$/GE oz	**675**	732	-8%
Adjusted EBITDA, US$m	**116**	111	4%

VORO

MINING	2016	2015	Change %
Stripping, Kt	**10,490**	10,202	3%
Ore mined, Kt	**1,308**	1,750	-25%
oxidised	**260**	386	-33%
primary	**1,048**	1,364	-23%
Gold grade in ore mined, g/t			
oxidised	**1.9**	1.7	12%
primary	**4.0**	3.3	22%

	Voro CIP			Voro heap leach			Total		
PRODUCTION	2016	2015	Change %	2016	2015	Change %	2016	2015	Change %
Ore processed, Kt	**1,001**	924	8%	**319**	450	-29%	**1,321**	1,374	-4%
Metal in ore processed (grades), g/t									
gold	**4.2**	4.2	1%	**1.6**	1.8	-11%	**3.6**	3.4	5%
Recoveries									
gold	**78.3%**	78.5%	0%	**73.3%**	74.8%	-2%			
Production									
gold, Koz	**110**	112	-2%	**17**	27	-36%	**127**	139	-9%
silver, Moz	**0.1**	0.1	15%	**0.01**	0.03	-73%	**0.1**	0.1	-7%
Gold equivalent, Koz	**111**	113	-2%	**17**	27	-37%	**129**	141	-9%
Total cash cost, US$/GE oz							**322**	336	-4%
All-in sustaining cash costs, US$/GE oz							**419**	391	7%
Adjusted EBITDA, US$m							**113**	115	-2%

VARVARA

	Varvara			Komar			Total		
MINING	2016	2015	Change %	2016	2015	Change %	2016	2015	Change %
Stripping, Kt	**18,646**	28,583	-35%	**2,939**	–	NA	**21,584**	28,583	-24%
Ore mined, Kt	**2,820**	4,068	-31%	**383**	–	NA	**3,203**	4,068	-21%
float ore	**156**	142	10%	**–**	–	–	**156**	142	10%
leach ore	**2,664**	3,926	-32%	**383**	–	NA	**3,047**	3,926	-22%
Metal in ore mined (grades)									
gold, g/t – float ore	**1.1**	0.9	29%	**–**	–	–	**1.1**	0.9	29%
gold, g/t – leach ore	**0.8**	0.7	17%	**1.5**	–	NA	**0.9**	0.7	28%
copper, % (float ore)	**0.4%**	0.3%	41%	**–**	–	–	**0.4%**	0.3%	41%

VARVARA CONTINUED

	Varvara – flotation			Varvara – leaching			Total		
PRODUCTION	2016	2015	Change %	2016	2015	Change %	2016	2015	Change %
Ore processed, Kt	**372**	315	18%	**2,748**	3,142	-13%	**3,119**	3,457	-10%
Metal in ore processed (grades)									
gold, g/t	**1.8**	1.1	55%	**1.0**	0.8	16%	**1.1**	0.9	23%
copper, %	**0.3%**	0.4%	-12%	**–**	–	NA	**0.04%**	0.03%	15%
Recoveries									
gold	**65.8%**	45.2%	46%	**79.7%**	75.6%	5%			
copper	**72.5%**	71.8%	1%	**–**	–	NA			
Production									
gold, Koz	**10**	4	141%	**70**	64	10%	**80**	68	18%
copper, t	**839**	827	1%	**–**	–	NA	**839**	827	1%
Gold equivalent, Koz	**14**	8	72%	**70**	64	10%	**85**	72	17%
Total cash cost, US$/GE oz							**780**	818	-5%
All-in sustaining cash costs, US$/GE oz							**975**	1,092	-11%
Adjusted EBITDA, US$m							**36**	25	43%

OKHOTSK

	Khakanja			Ozerny			Avlayakan			Svetloye			Total		
MINING	2016	2015	Change %	2016	2015	Change %	2016	2015	Change %	2016	2015	Change %	2016	2015	Change %
Stripping, Kt	**–**	1,478	-100%	**–**	42	-100%	**–**	–	NA	**972**	60	1531%	972	1,580	-38%
Underground development, m	**–**	–	NA	**–**	–	NA	**4,637**	3,846	21%	**–**	**–**	NA	4,637	3,846	21%
Ore mined, Kt	**–**	180	-100%	**–**	105	-100%	**141**	114	23%	**1,336**	–	NA	1,476	399	270%
Metal in ore mined (grades), g/t															
gold	**–**	2.3	-100%	**–**	4.9	-100%	**15.9**	11.0	45%	**2.6**	–	NA	3.9	5.5	-29%
silver	**–**	123	-100%	**–**	7	-100%	**141**	171	-18%	**–**	**–**	NA	13	106	-87%

	CIP			Svetloye heap leach			Total		
PRODUCTION	2016	2015	Change %	2016	2015	Change %	2016	2015	Change %
Ore processed, Kt	**627**	631	-1%	**428**	–	NA	**1,055**	631	67%
Metal in ore processed (grades), g/t									
gold	**4.8**	5.2	-8%	**3.6**	–	NA	**4.3**	5.2	-17%
silver	**85**	81	5%	**–**	–	NA	**51**	81	-37%
Recoveries									
gold	**95.7%**	94.9%	1%	**80.8%**	–	NA			
silver	**78.9%**	72.0%	10%	**–**	–	NA			
Production									
gold, Koz	**92**	100	-8%	**23**	–	NA	**115**	100	15%
silver, Moz	**1.3**	1.2	13%	**–**	–	NA	**1.3**	1.2	13%
Gold equivalent, Koz	**108**	114	-6%	**23**	–	NA	**131**	114	15%
Total cash cost, US$/GE oz							**612**	573	7%
All-in sustaining cash costs, US$/GE oz							**752**	621	21%
Adjusted EBITDA, US$m							**89**	49	81%

KAPAN

MINING	2016	2015	Change %
Stripping, Kt	–	–	NA
Underground development, m	9,493	–	NA
Ore mined, Kt	287	–	NA
Metal in ore mined (grades)			
gold, g/t	2.0	–	NA
silver, g/t	41	–	NA
copper, %	0.28%	–	NA
zinc, %	1.42%	–	NA

PRODUCTION	2016	2015	Change %
Ore processed, Kt	293	–	NA
Metal in ore processed (grades)			
gold, g/t	2.0	–	NA
silver, g/t	40	–	NA
copper, %	0.26%	–	NA
zinc, %	1.38%	–	NA
Recoveries			
gold	82.4%	–	NA
silver	81.5%	–	NA
copper	90.6%	–	NA
zinc	89.4%	–	NA
Production			
gold, Koz	14	–	NA
silver, Moz	0.3	–	NA
copper, t	615	–	NA
zinc, t	2,888	–	NA
Gold equivalent, Koz	**26**	**–**	**NA**
Total cash cost, US$/GE oz	900	–	NA
All-in sustaining cash costs, US$/GE oz	1,264	–	NA
Adjusted EBITDA, US$m	6	–	NA

MINERAL RESOURCES AND ORE RESERVES AS AT 1 JANUARY 2017[1]

	Tonnage	Grade	Content
	Mt	GE, g/t	GE, Moz
MINERAL RESOURCES			
Measured	8.0	1.9	0.5
Indicated	34.6	3.4	3.8
Measured + Indicated	**42.7**	**3.1**	**4.3**
Inferred	78.2	4.9	12.2
Measured + Indicated + Inferred	**120.9**	**4.2**	**16.5**
ORE RESERVES			
Proved	61.5	2.6	5.2
Probable	98.9	4.6	14.6
Proved + Probable	**160.5**	**3.8**	**19.8**

[1] Mineral Resources are additional to Ore Reserves. Mineral Resources and Ore Reserves of Lead and Zinc are not included in the calculation of the gold equivalent. PGM Mineral Resources are presented separately and are not included in the calculation of the gold equivalent. Differences are due to rounding.

ORE RESERVES AS AT 1 JANUARY 2017[1]

	Tonnage	Grade				Content			
	Kt	Au, g/t	Ag, g/t	Cu, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	GE, Koz
PROVED									
Standalone mines									
Albazino	2,660	3.9	–	–	3.9	336	–	–	336
Mayskoye	3,530	6.9	–	–	6.9	783	–	–	783
Dukat hub	**7,870**				**4.3**	**189**	**74,565**	**–**	**1,091**
Dukat	5,100	0.5	280	–	3.9	89	45,892	–	635
Lunnoye	2,060	1.4	283	–	4.9	90	18,725	–	321
Goltsovoye	260	–	434	–	5.6	–	3,723	–	48
Arylakh	450	0.7	424	–	5.9	10	6,225	–	87
Varvara hub	**20,310**				**1.2**	**753**	**–**	**11.2**	**807**
Varvara[3]	13,470	0.9	–	0.41	1.0	385	–	11.2	438
Komar[4]	2,030	1.1	–	–	1.1	74	–	–	74
Maminskoye[5]	4,810	1.9	–	–	1.9	295	–	–	295
Omolon hub	**10,450**				**2.7**	**771**	**12,378**	**–**	**911**
Birkachan	4,940	1.8	6	–	1.9	289	882	–	299
Sopka Kvartsevaya	2,780	1.4	64	–	2.1	129	5,696	–	190
Oroch	810	3.7	163	–	5.9	96	4,198	–	151
Olcha	190	8.0	21	–	8.2	46	124	–	48
Dalneye[8]	1,120	1.9	28	–	2.2	70	1,018	–	78
Tsokol Kubaka	230	6.4	12	–	6.6	46	86	–	47
Burgali[9]	380	7.9	31	–	8.2	95	375	–	98
Voro hub	**9,000**				**1.7**	**484**	**863**	**–**	**491**
Voro	9,000	1.7	3	–	1.7	484	863	–	491
Okhotsk hub	**5,970**				**3.2**	**589**	**3,287**	**–**	**617**
Svetloye	4,870	2.8	4	–	2.9	446	586	–	447
Avlayakan	230	14.8	122	–	16.2	108	886	–	118
Ozerny[11]	290	1.8	28	–	2.0	17	258	–	19
Khakanja[12]	580	1.0	83	–	1.8	18	1,556	–	34
Development and exploration projects									
Veduga[14]	170	2.6	–	–	2.6	14	–	–	14
Kutyn[15]	1,580	3.3	–	–	3.3	169	–	–	169
Total Proved	**61,540**				**2.6**	**4,089**	**91,094**	**11.2**	**5,221**

ORE RESERVES AS AT 1 JANUARY 2017[1] CONTINUED

	Tonnage	Grade				Content			
	Kt	Au, g/t	Ag, g/t	Cu, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	GE, Koz
PROBABLE									
Standalone mines									
Albazino	12,280	4.3	–	–	4.3	1,696	–	–	1,696
Mayskoye	2,940	6.9	–	–	6.9	646	–	–	646
Dukat hub	**5,680**				**5.3**	**140**	**67,822**	**–**	**963**
Dukat	3,980	0.7	394	–	5.4	90	50,384	–	690
Lunnoye	910	1.4	276	–	4.8	42	8,117	–	143
Goltsovoye	200	–	363	–	4.7	–	2,315	–	30
Arylakh	240	1.0	276	–	4.4	8	2,147	–	34
Perevalnoye[2]	350	–	428	–	5.9	–	4,860	–	67
Varvara hub	**37,230**				**1.8**	**1,928**	**269**	**35.4**	**2,114**
Varvara[3]	12,400	1.0	–	0.52	1.3	408	–	24.6	526
Komar[4]	12,970	1.9	–	–	1.9	799	–	–	799
Maminskoye[5]	9,890	1.9	–	–	1.9	618	–	–	618
Tarutin[6]	660	0.1	13	1.62	3.3	2	269	10.8	70
Dolinnoye[7]	1,310	2.4	–	–	2.4	101	–	–	101
Omolon hub	**1,950**				**8.9**	**529**	**2,159**	**–**	**555**
Birkachan	970	9.8	36	–	10.3	305	1,101	–	318
Sopka Kvartsevaya	120	4.0	137	–	5.8	16	545	–	23
Oroch	10	2.5	178	–	4.8	1	78	–	2
Olcha	230	9.1	22	–	9.4	66	163	–	68
Tsokol Kubaka	460	8.0	9	–	8.1	117	128	–	119
Burgali[9]	160	4.7	28	–	5.0	24	144	–	25
Voro hub	**1,840**				**6.3**	**267**	**1,267**	**18.9**	**370**
Voro	1,520	4.1	4	–	4.1	197	211	–	199
North Kaluga[10]	320	6.7	101	5.81	16.4	70	1,056	18.9	171
Okhotsk hub	**2,590**				**3.1**	**256**	**368**	**–**	**258**
Svetloye	2,510	2.8	3	–	2.8	227	240	–	228
Avlayakan	80	11.2	50	–	11.8	29	129	–	30
Development and exploration projects									
Kyzyl project (Bakyrchik)[13]	29,150	7.7	–	–	7.7	7,254	–	–	7,254
Veduga[14]	3,200	5.2	–	–	5.2	535	–	–	535
Kutyn[15]	2,070	3.3	–	–	3.3	217	–	–	217
Total Probable	**98,930**				**4.6**	**13,469**	**71,887**	**54.3**	**14,608**

ORE RESERVES AS AT 1 JANUARY 2017[1] CONTINUED

	Tonnage	Grade				Content			
	Kt	Au, g/t	Ag, g/t	Cu, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	GE, Koz
PROVED + PROBABLE									
Standalone mines									
Albazino	14,940	4.2	–	–	4.2	2,032	–	–	2,032
Mayskoye	6,470	6.9	–	–	6.9	1,429	–	–	1,429
Dukat hub	**13,550**				**4.7**	**329**	**142,388**	**–**	**2,054**
Dukat	9,080	0.6	330	–	4.5	178	96,276	–	1,325
Lunnoye	2,970	1.4	281	–	4.8	132	26,843	–	464
Goltsovoye	460	–	404	–	5.2	–	6,038	–	77
Arylakh	690	0.8	373	–	5.4	18	8,372	–	122
Perevalnoye[2]	350	–	428	–	5.9	–	4,860	–	67
Varvara hub	**57,540**				**1.6**	**2,681**	**269**	**46.6**	**2,921**
Varvara[3]	25,870	1.0	–	0.48	1.2	792	–	35.8	964
Komar[4]	15,000	1.8	–	–	1.8	873	–	–	873
Maminskoye[5]	14,700	1.9	–	–	1.9	913	–	–	913
Tarutin[6]	660	0.1	13	1.62	3.3	2	269	10.8	70
Dolinnoye[7]	1,310	2.4	–	–	2.4	101	–	–	101
Omolon hub	**12,400**				**3.7**	**1,300**	**14,537**	**–**	**1,466**
Birkachan	5,910	3.1	10	–	3.2	594	1,983	–	617
Sopka Kvartsevaya	2,900	1.5	67	–	2.3	145	6,242	–	213
Oroch	820	3.7	163	–	5.8	97	4,276	–	154
Olcha	420	8.6	22	–	8.8	113	286	–	116
Dalneye[8]	1,120	1.9	28	–	2.2	70	1,018	–	78
Tsokol Kubaka	690	7.5	10	–	7.6	164	214	–	166
Burgali[9]	540	7.0	30	–	7.2	119	519	–	123
Voro hub	**10,840**				**2.5**	**751**	**2,131**	**18.9**	**861**
Voro	10,520	2.0	3	–	2.0	681	1,075	–	690
North Kaluga[10]	320	6.7	101	5.81	16.4	70	1,056	18.9	171
Okhotsk hub	**8,560**				**3.2**	**845**	**3,655**	**–**	**876**
Svetloye	7,380	2.8	3	–	2.8	674	826	–	675
Avlayakan	310	13.8	103	–	15.0	137	1,015	–	148
Ozerny[11]	290	1.8	28	–	2.0	17	258	–	19
Khakanja[12]	580	1.0	83	–	1.8	18	1,556	–	34
Development and exploration projects									
Kyzyl project (Bakyrchik)[13]	29,150	7.7	–	–	7.7	7,254	–	–	7,254
Veduga[14]	3,370	5.0	–	–	5.0	549	–	–	549
Kutyn[15]	3,650	3.3	–	–	3.3	386	–	–	386
Total Proved + Probable	**160,470**				**3.8**	**17,558**	**162,980**	**65.4**	**19,829**

1 Ore reserves are reported in accordance with the JORC Code (2012). Discrepancies in calculations are due to rounding.
2 Initial estimate prepared by Polymetal as at 01.01.2016. Price: Ag = US$15/oz, Pb = US$1,700/t. Revised estimate was not performed due to lack of material changes.
3 Cu grade in Ore Reserves only represents average grade of float feed. Ore reserves of float feed: 2.7 Mt Proved and 4.7 Mt Probable.
4 Initial estimate prepared by Polymetal as at 01.07.2016. Price: Au = US$1,100/oz. Revised estimate as at 01.01.2017.
5 Estimate prepared by Polymetal as at 01.01.2014. Price: Au = US$1,300/oz. Revised estimate was not performed due to lack of material changes.
6 Initial estimate prepared by Polymetal as at 01.01.2016. Price: Au = US$1,100/oz, Cu = US$5,000/t. Revised estimate was not performed due to lack of material changes. Ore Reserves are presented in accordance with the Company's ownership equal to 75%.
7 Initial estimate prepared by CSA as at 28.07.2016. Price: Au = US$1,100/oz. Revised estimate prepared by Polymetal as at 01.01.2017 (only stoping). Ore Reserves are presented in accordance with the Company's ownership equal to 25%.
8 Stockpiled Ore Reserves.
9 Initial estimate prepared by Polymetal as at 01.01.2016. Price: Au = US$1,100/oz, Ag = US$15/oz. Revised estimate was not performed due to lack of material changes.
10 Initial estimate prepared by Polymetal as at 01.07.2014. Price: Au = US$1,300/oz, Ag = US$20/oz, Cu = US$7,000/t, Zn = US$1,700/t. Revised estimate was not performed due to lack of material changes.
11 Stockpiled Ore Reserves.
12 Stockpiled Ore Reserves.
13 Estimate prepared by RPA Inc. as at 01.01.2015. Price: Au = US$1,200/oz. Revised estimate was not performed due to lack of material changes.
14 Initial estimate prepared by Snowden as at 01.01.2014. Price: Au = US$1,300/oz. Revised estimate prepared by Polymetal as at 01.01.2017 (only stoping without Au price change). Ore reserves are presented in accordance with the Company's ownership equal to 42.65%.
15 Initial estimate prepared by Snowden as at 01.01.2015. Price: Au = US$1,300/oz (only Ore Reserves estimate for heap leach). Revised estimate was not performed due to lack of material changes.

MINERAL RESOURCES AS AT 1 JANUARY 2017[1]

	Tonnage	Grade				Content			
	Kt	Au, g/t	Ag, g/t	Cu, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	GE, Koz
MEASURED									
Standalone mines									
Albazino	30	4.3	–	–	4.3	5	–	–	5
Dukat hub	**100**				**13.8**	**–**	**3,310**	**–**	**42**
Goltsovoye	100	–	1,075	–	13.8	–	3,310	–	42
Varvara hub	**6,860**				**1.4**	**198**	**–**	**21.1**	**299**
Varvara[4]	5,880	0.8	–	0.40	1.3	154	–	21.1	255
Maminskoye[6]	980	1.4	–	–	1.4	44	–	–	44
Omolon hub	**230**				**4.6**	**22**	**1,055**	**–**	**34**
Sopka Kvartsevaya	200	2.7	136	–	4.3	17	856	–	27
Oroch	30	4.9	198	–	7.5	5	199	–	8
Voro hub	**80**				**2.1**	**6**	**11**	**–**	**6**
Voro	80	2.1	4	–	2.1	6	11	–	6
Development and exploration projects									
Kutyn[22]	740	4.1	–	–	4.1	97	–	–	97
Total Measured	**8,040**				**1.9**	**327**	**4,375**	**21.1**	**483**
INDICATED									
Standalone mines									
Albazino	2,220	5.1	–	–	5.1	361	–	–	361
Dukat hub	**510**				**19.4**	**62**	**19,887**	**–**	**317**
Goltsovoye	40	–	1,025	–	13.1	–	1,277	–	16
Primorskoye[3]	470	4.2	1,238	–	20.0	62	18,610	–	301
Varvara hub	**18,310**				**1.6**	**772**	**90**	**33.5**	**941**
Varvara[4]	12,630	1.1	–	0.57	1.4	447	–	27.8	581
Komar[5]	3,540	2.1	–	–	2.1	238	–	–	238
Maminskoye[6]	1,150	1.5	–	–	1.5	55	–	–	55
Tarutin[7]	450	0.1	6	1.25	2.5	1	90	5.7	37
Dolinnoye[8]	540	1.8	–	–	1.8	31	–	–	31
Omolon hub	**600**				**9.8**	**121**	**5,671**	**–**	**189**
Sopka Kvartsevaya	110	4.4	161	–	6.3	16	589	–	23
Oroch	180	3.5	314	–	7.7	21	1,840	–	45
Irbychan[10]	240	8.9	189	–	11.3	68	1,439	–	86
Nevenrekan[12]	70	7.1	784	–	15.1	16	1,803	–	35
Voro hub	**1,690**				**5.6**	**196**	**1,984**	**16.1**	**305**
Voro	30	1.9	5	–	2.0	2	4	–	2
Tamunier[13]	870	4.6	23	–	4.8	130	655	–	133
Saum[14]	790	2.5	52	2.04	6.7	65	1,325	16.1	171
Armenia	**6,480**				**4.1**	**640**	**7,545**	**26.6**	**858**
Kapan[18]	3,650	3.1	52	0.52	4.5	361	6,079	18.9	522
Lichkvaz[19]	2,830	3.1	16	0.27	3.7	279	1,466	7.7	336
Development and exploration projects									
Kyzyl project (Bakyrchik)[20]	2,740	6.2	–	–	6.2	545	–	–	545
Kutyn[22]	2,070	4.2	–	–	4.2	279	–	–	279
Total Indicated	**34,620**				**3.4**	**2,977**	**35,178**	**76.3**	**3,796**

MINERAL RESOURCES AS AT 1 JANUARY 2017[1] CONTINUED

	Tonnage	Grade				Content			
	Kt	Au, g/t	Ag, g/t	Cu, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	GE, Koz
MEASURED + INDICATED									
Standalone mines									
Albazino	2,250	5.1	–	–	5.1	366	–	–	366
Dukat hub	**610**				**18.4**	**62**	**23,197**	**–**	**360**
Goltsovoye	140	–	1,060	–	13.6	–	4,587	–	59
Primorskoye[3]	470	4.2	1,238	–	20.0	62	18,610	–	301
Varvara hub	**25,170**				**1.5**	**970**	**90**	**54.6**	**1,241**
Varvara[4]	18,510	1.0	–	0.48	1.4	601	–	48.9	836
Komar[5]	3,540	2.1	–	–	2.1	238	–	–	238
Maminskoye[6]	2,130	1.4	–	–	1.4	99	–	–	99
Tarutin[7]	450	0.1	6	1.25	2.5	1	90	5.7	37
Dolinnoye[8]	540	1.8	–	–	1.8	31	–	–	31
Omolon hub	**830**				**8.4**	**143**	**6,726**	**–**	**223**
Sopka Kvartsevaya	310	3.3	145	–	5.0	33	1,445	–	50
Oroch	210	3.7	297	–	7.6	26	2,039	–	52
Irbychan[10]	240	8.9	189	–	11.3	68	1,439	–	86
Nevenrekan[12]	70	7.1	784	–	15.1	16	1,803	–	35
Voro hub	**1,770**				**5.5**	**202**	**1,995**	**16.1**	**311**
Voro	110	2.1	4	–	2.1	7	14	–	7
Tamunier[13]	870	4.6	23	–	4.8	130	655	–	133
Saum[14]	790	2.5	52	2.04	6.7	65	1,325	16.1	171
Armenia	**6,480**				**4.1**	**640**	**7,545**	**26.6**	**858**
Kapan[18]	3,650	3.1	52	0.52	4.5	361	6,079	18.9	522
Lichkvaz[19]	2,830	3.1	16	0.27	3.7	279	1,466	7.7	336
Development and exploration projects									
Kyzyl project (Bakyrchik)[20]	2,740	6.2	–	–	6.2	545	–	–	545
Kutyn[22]	2,810	4.2	–	–	4.2	376	–	–	376
Total Measured + Indicated	**42,660**				**3.1**	**3,304**	**39,553**	**97.3**	**4,279**

MINERAL RESOURCES AS AT 1 JANUARY 2017[1] CONTINUED

	Tonnage	Grade				Content			
	Kt	Au, g/t	Ag, g/t	Cu, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	GE, Koz
INFERRED									
Standalone mines									
Albazino	7,610	5.3	–	–	5.3	1,300	–	–	1,300
Mayskoye	8,450	11.9	–	–	11.9	3,239	–	–	3,239
Dukat hub	**900**				**9.9**	**44**	**19,835**	**–**	**286**
Dukat	450	1.9	833	–	11.8	27	11,933	–	169
Lunnoye	230	1.8	346	–	6.0	13	2,629	–	46
Goltsovoye	80	–	940	–	12.1	–	2,484	–	32
Arylakh	90	0.9	639	–	8.7	2	1,782	–	24
Perevalnoye[2]	20	–	564	–	7.7	–	379	–	5
Primorskoye[3]	30	1.8	787	–	11.8	1	629	–	9
Varvara hub	**26,230**				**1.7**	**1,223**	**125**	**43.3**	**1,439**
Varvara[4]	19,720	1.1	–	0.61	1.4	726	–	37.4	906
Komar[5]	3,670	2.4	–	–	2.4	279	–	–	279
Tarutin[7]	350	0.1	11	1.71	3.5	1	125	5.9	39
Dolinnoye[8]	2,490	2.7	–	–	2.7	216	–	–	216
Omolon hub	**920**				**12.1**	**271**	**7,510**	**–**	**359**
Sopka Kvartsevaya	50	2.3	98	–	3.7	4	150	–	5
Oroch	210	6.2	509	–	12.9	42	3,489	–	88
Olcha	160	10.0	44	–	10.5	53	236	–	56
Tsokol Kubaka	70	9.3	17	–	9.5	22	40	–	22
Burgali[9]	50	11.9	15	–	12.0	21	26	–	21
Irbychan[10]	20	19.3	265	–	22.6	10	141	–	12
Yolochka[11]	240	11.1	10	–	11.2	85	73	–	86
Nevenrekan[12]	120	8.6	861	–	17.3	33	3,355	–	68
Voro hub	**3,930**				**4.0**	**490**	**1,096**	**1.0**	**502**
Tamunier[13]	3,880	3.9	8	–	3.9	488	1,041	–	493
Saum[14]	50	1.4	33	1.82	4.9	2	55	1.0	8
Okhotsk hub	**3,202**				**5.2**	**518**	**1,477**	**–**	**534**
Avlayakan	20	32.7	133	–	34.3	19	77	–	20
Levoberezhny[15]	2,800	4.0	13	–	4.2	365	1,208	–	378
Kirankan[16]	142	6.5	8	–	6.7	30	39	–	30
Maimakan-Kundumi[17]	240	13.5	20	–	13.7	105	154	–	106
Armenia	**12,860**				**4.0**	**1,128**	**17,845**	**65.2**	**1,651**
Kapan[18]	11,390	2.6	47	0.50	3.8	934	17,253	57.0	1,406
Lichkvaz[19]	1,470	4.1	13	0.55	5.2	194	622	8.2	245
Development and exploration projects									
Kyzyl project (Bakyrchik)[20]	11,420	7.0	–	–	7.0	2,562	–	–	2,562
Veduga[21]	580	4.1	–	–	4.1	77	–	–	77
Kutyn[22]	2,110	4.0	–	–	4.0	273	–	–	273
Total Inferred	**78,212**				**4.9**	**11,124**	**47,918**	**109.4**	**12,221**

MINERAL RESOURCES AS AT 1 JANUARY 2017[1] CONTINUED

	Tonnage	Grade				Content			
	Kt	Au, g/t	Ag, g/t	Cu, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	GE, Koz
MEASURED + INDICATED + INFERRED									
Standalone mines									
Albazino	9,860	5.3	–	–	5.3	1,665	–	–	1,665
Mayskoye	8,450	11.9	–	–	11.9	3,239	–	–	3,239
Dukat hub	**1,510**				**13.3**	**106**	**43,032**	**–**	**645**
Dukat	450	1.9	833	–	11.8	27	11,933	–	169
Lunnoye	230	1.8	346	–	6.0	13	2,629	–	46
Goltsovoye	220	–	1,015	–	13.0	–	7,071	–	91
Arylakh	90	0.9	639	–	8.7	2	1,782	–	24
Perevalnoye[2]	20	–	564	–	7.7	–	379	–	5
Primorskoye[3]	500	4.0	1,216	–	19.6	64	19,239	–	311
Varvara hub	**51,400**				**1.6**	**2,193**	**215**	**97.8**	**2,680**
Varvara[4]	38,230	1.1	–	0.53	1.4	1,327	–	86.2	1,742
Komar[5]	7,210	2.2	–	–	2.2	517	–	–	517
Maminskoye[6]	2,130	1.4	–	–	1.4	99	–	–	99
Tarutin[7]	800	0.1	8	1.45	2.9	3	215	11.6	76
Dolinnoye[8]	3,030	2.5	–	–	2.5	247	–	–	247
Omolon hub	**1,750**				**10.3**	**414**	**14,235**	**–**	**582**
Sopka Kvartsevaya	360	3.2	139	–	4.8	37	1,595	–	55
Oroch	420	4.9	403	–	10.2	68	5,528	–	141
Olcha	160	10.0	44	–	10.5	53	236	–	56
Tsokol Kubaka	70	9.3	17	–	9.5	22	40	–	22
Burgali[9]	50	11.9	15	–	12.0	21	26	–	21
Irbychan[10]	260	9.6	194	–	12.0	78	1,580	–	98
Yolochka[11]	240	11.1	10	–	11.2	85	73	–	86
Nevenrekan[12]	190	8.0	832	–	16.5	50	5,157	–	102
Voro hub	**5,700**				**4.4**	**692**	**3,091**	**17.1**	**812**
Voro	110	2.1	4	–	2.1	7	14	–	7
Tamunier[13]	4,750	4.0	11	–	4.1	618	1,696	–	626
Saum[14]	840	2.5	51	2.03	6.6	67	1,380	17.1	179

MINERAL RESOURCES AS AT 1 JANUARY 2017[1] CONTINUED

	Tonnage	Grade				Content			
	Kt	Au, g/t	Ag, g/t	Cu, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	GE, Koz
Okhotsk hub	**3,202**				**5.2**	**518**	**1,477**	**–**	**534**
Avlayakan	20	32.7	133	–	34.3	19	77	–	20
Levoberezhny[15]	2,800	4.0	13	–	4.2	365	1,208	–	378
Kirankan[16]	142	6.5	8	–	6.7	30	39	–	30
Maimakan-Kundumi[17]	240	13.5	20	–	13.7	105	154	–	106
Armenia	**19,340**				**4.0**	**1,769**	**25,422**	**91.8**	**2,510**
Kapan[18]	15,040	2.7	48	0.50	4.0	1,295	23,333	75.9	1,928
Lichkvaz[19]	4,300	3.4	15	0.37	4.2	474	2,089	15.9	582
Development and exploration projects									
Kyzyl project (Bakyrchik)[20]	14,160	6.8	–	–	6.8	3,107	–	–	3,107
Veduga[21]	580	4.1	–	–	4.1	77	–	–	77
Kutyn[22]	4,920	4.1	–	–	4.1	649	–	–	649
Total Measured + Indicated + Inferred	**120,872**				**4.2**	**14,429**	**87,472**	**206.7**	**16,501**

1 Mineral Resources are reported in accordance with the JORC Code (2012). Mineral Resources are additional to Ore Reserves. Discrepancies in calculations are due to rounding.
2 Initial estimate prepared by Polymetal as at 01.01.2016. Price: Ag = US$15/oz, Pb = US$1,700/t. Revised estimate was not performed due to lack of material changes.
3 Estimate prepared by CSA Global Pty Ltd as at 01.01.2017. Price: Au = US$1,250/oz, Ag = US$16 /oz.
4 Cu estimate is listed for fresh ore and powder ore that has high Cu grade (total Mineral Resources for fresh ore and powder ore with high Cu grade of 10.5 and 5.7 Mt of ore respectively).
5 Initial estimate prepared by Polymetal as at 01.07.2016. Price: Au = US$1,100/oz. Revised estimate as at 01.01.2017.
6 Estimate prepared by Polymetal as at 01.01.2014. Price: Au = US$1,300/oz. Revised estimate was not performed due to lack of material changes.
7 Initial estimate prepared by Polymetal as at 01.01.2016. Price: Au= US$1,100/oz, Ag = US$15/oz, Cu = US$5,000/t. Revised estimate was not performed due to lack of material changes. Mineral Resources are presented in accordance with the Company's ownership equal to 75%.
8 Initial estimate prepared by CSA as at 28.07.2016. Price: Au= US$1,100/oz. Revised estimate prepared by Polymetal as at 01.01.2017 (only stoping). Mineral Resources are presented in accordance with the Company's ownership equal to 25%.
9 Estimate prepared by Polymetal as at 01.01.2016. Price: Au = US$1,100/oz, Ag = US$15/oz. Revised estimate was not performed due to lack of material changes.
10 Initial estimate prepared by Polymetal as at 01.01.2016. Price: Au = US$1,100/oz, Ag = US$15/oz. Revised estimate was not performed due to lack of material changes.
11 Initial estimate prepared by Polymetal as at 01.01.2016. Price: Au = US$1,100/oz, Ag = US$15/oz. Revised estimate was not performed due to lack of material changes.
12 Initial estimate prepared by Polymetal as at 01.01.2016. Price: Au = US$1,100/oz, Ag = US$15/oz. Revised estimate was not performed due to lack of material changes.
13 Estimate prepared by Polymetal as at 01.01.2016. Price: Au = US$1,100/oz, Ag = US$15/oz. Revised estimate was not performed due to lack of material changes.
14 Initial estimate prepared by Polymetal as at 01.01.2017. Mineral Resources are presented in accordance with the Company's ownership equal to 80%.
15 Initial estimate prepared by Polymetal as at 01.01.2017.
16 Estimate prepared by Snowden as at 01.07.2011. Price: Au = US$1,150/oz, Ag = US$18.5/oz. Revised estimate was not performed due to lack of material changes.
17 Initial estimate prepared by Polymetal as at 01.01.2017.
18 Initial estimate prepared by CSA as at 31.12.2014. Price: Au= US$1,300/oz, Ag = US$20/oz, Cu = US$6,600/t, Zn = US$2,200/t. Revised estimate prepared by Polymetal as at 01.01.2017 (only stoping). Zinc in the amount of 263 kt is not included in GE calculation.
19 Initial estimate prepared by CSA as at 01.01.2016. Price: Au= US$1,100/oz, Ag = US$15/oz, Cu = US$5,000/t. Revised estimate was not performed due to lack of material changes.
20 Estimate prepared by RPA Inc. as at 01.01.2015. Price: Au = US$1,200/oz. Revised estimate was not performed due to lack of material changes.
21 Initial estimate prepared by Snowden as at 01.01.2014. Price: Au= US$1,300/oz. Revised estimate prepared by Polymetal as at 01.01.2017. Mineral Resources are presented in accordance with the Company's ownership equal to 42.65%.
22 Initial estimate for open pit prepared by Snowden, for underground by CSA Global Pty Ltd as at 01.01.2015. Price: Au = US$1,300/oz. Revised estimate was not performed due to lack of material changes.

PGM MINERAL RESOURCES AS AT 1 JANUARY 2017[1]

	Tonnage	Grade					Content				
	Mt	Pd, g/t	Pt, g/t	Au, g/t	Cu, %	PdEq(2), g/t	Pd, Moz	Pt, Moz	Au, Moz	Cu, Kt	PdEq, Moz
INDICATED											
Viksha project[3]											
Viksha	27	0.6	0.2	0.1	0.10	1.4	0.5	0.1	0.1	29.6	1.3
Kenti	–	–	–	–	–	–	–	–	–	–	–
Shargi	–	–	–	–	–	–	–	–	–	–	–
Total Indicated	**27**	**0.6**	**0.2**	**0.1**	**0.10**	**1.4**	**0.5**	**0.1**	**0.1**	**29.6**	**1.3**
INFERRED											
Viksha project[3]											
Viksha	52	0.6	0.2	0.1	0.09	1.3	1.0	0.3	0.2	49.5	2.3
Kenti	98	0.6	0.2	0.1	0.11	1.3	1.9	0.6	0.4	109.6	4.3
Shargi	36	0.6	0.2	0.1	0.08	1.3	0.7	0.2	0.1	31.7	1.5
Total Inferred	**186**	**0.6**	**0.2**	**0.1**	**0.10**	**1.3**	**3.6**	**1.1**	**0.7**	**190.8**	**8.1**
INDICATED + INFERRED											
Viksha project[3]											
Viksha	79	0.6	0.2	0.1	0.10	1.4	1.5	0.4	0.3	79.1	3.6
Kenti	98	0.6	0.2	0.1	0.11	1.3	1.9	0.6	0.4	109.6	4.3
Shargi	36	0.6	0.2	0.1	0.08	1.3	0.7	0.2	0.1	31.7	1.5
Total Indicated + Inferred	**213**	**0.6**	**0.2**	**0.1**	**0.10**	**1.3**	**4.2**	**1.4**	**0.9**	**220.6**	**9.5**

[1] Mineral Resources are reported in accordance with the JORC Code (2012). Mineral Resources are additional to Ore Reserves. Discrepancies in calculations are due to rounding.
[2] PdEq is calculated using the following formula: PdEq = Pd(g/t) + Pt(g/t) *1.57 + Au(g/t) * 1.61 + Cu(%) * 2.33.
[3] Initial estimate prepared by AMC Consultants as at 01.03.2015 using COG (PdEq) = 0.5 g/t/. Revised estimate was not performed due to lack of material changes.

This estimate was prepared by employees of JSC Polymetal Management Company and JSC Polymetal Engineering, subsidiaries of the Company, led by Mr Valery Tsyplakov, who assumes overall responsibility for the Mineral Resources and Ore Reserves Report.

Mr Tsyplakov is the employed full-time as the Managing Director of JSC Polymetal Engineering and has more than 16 years' experience in gold, silver and polymetallic mining. He is a Member of the Institute of Materials, Minerals & Mining (MIMMM), London, and a Competent Person under the JORC Code.

Listed below are other Competent Persons employed by the Company that are responsible for relevant research on which the Mineral Resources and Ore Reserves estimate is based:

- Geology and Mineral Resources – Roman Govorukha, Head of Geologic Modelling and Monitoring Department, MIMMM, with 16 years' relevant experience;
- Mining and Ore Reserves – Igor Epshteyn, Head of Mining Process Department, MIMMM, with 35 years' relevant experience;
- Concentration and Metals – Igor Agapov, Deputy Director of Science and Technology, MIMMM, with 19 years' relevant experience;
- Environmental issues – Tatiana Kuleshova, Director for Ecology, MIMMM, with 26 years' relevant experience.

All the above mentioned Competent Persons have sufficient experience that is relevant to the style of mineralisation and types of deposits under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (JORC Code).

All Competent Persons have given their consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

Metals prices used in estimating Mineral Resources and Ore Reserves are listed below (unless otherwise indicated in the footnotes):
Au = US$1,200/oz; Ag = US$16.0/oz; Cu = US$4,500/t;

Gold equivalent data is based on 'Conversion ratios of metals into gold equivalent' provided on page 175. Lead and zinc Ore Reserves and Mineral resources have not been assessed due to immateriality and are not included in the calculation of the gold equivalent.

REPORTING OF METAL EQUIVALENTS

GOLD EQUIVALENT CONVERSION RATIO

AuEq = Me/k

where Me is the evaluated metal content (silver g/t, copper %),

where k is the silver to gold equivalent conversion rate that is calculated considering the difference in metals value issuing the following formula:

for silver: k = ((Au price/31.1035 – (Au price /31.1035 – treatment charge Au)*(Royalty Au)/100 – (treatment charge Au))*(recovery Au)/((Ag price/31.1035 – (Ag price/31.1035 – treatment charge Ag)*(Royalty Ag)/100 – (treatment charge Ag))*(recovery Ag)),

for copper (%): k = 100*((Au price/31.1035-treatment charge Au)*(1-royalty Au%/recovery Au%)*(recovery Au%))/((Cu price-treatment charge Cu)*(1-royalty Cu%/recovery Cu%)*(recovery Cu%)),

where Royalty is the mineral extraction tax at applicable rate, recovery – the life-of-mine expected recovery of the respective metal in the processing technology applied.

Silver/gold equivalent and copper/gold equivalent conversion ratios

		k	
Deposit	Ore processing technology	Ag	Cu
Dukat	Conventional flotation	84	
Lunnoye	Cyanidation + Merrill Crowe process	81	
Goltsovoye	Conventional flotation	78	
Arylakh	Cyanidation + Merrill Crowe process	81	
Perevalnoye	Conventional flotation	73	
Primorskoye	Conventional flotation	78	
Varvara	Powder ore with high copper content[1]		0.67
	Primary ore with high copper content – conventional flotation		0.67
Tarutin	Primary ore – conventional flotation	94	0.53
	Oxidised ore – conventional flotation	94	0.53
Birkachan	Cyanidation carbon-in-pulp	81	
	Heap leaching + carbon-in-colon	106	
Sopka Kvartsevaya	Cyanidation + Merrill Crowe process	76	
	Heap leaching + Merrill Crowe process	110	
Oroch	Cyanidation + Merrill Crowe process	76	
Olcha	Cyanidation + Merrill Crowe process	86	
Dalneye	Cyanidation + Merrill Crowe process	99	
	Heap leaching + Merrill Crowe process	130	
Tsokol Kubaka	Cyanidation carbon-in-pulp	92	
Burgali	Cyanidation + Merrill Crowe process	115	
Irbychan	Cyanidation + Merrill Crowe process	80	
Yolochka	Cyanidation carbon-in-pulp	91	
Nevenrekan	Cyanidation + Merrill Crowe process	98	
Voro	Heap leaching + Merrill Crowe process	233	
	Cyanidation carbon-in-pulp	117	
North Kaluga	Conventional flotation	91	0.68
Tamunier	Conventional flotation	199	
Saum	Conventional flotation	67	0.60
Svetloye	Heap leaching + Merrill Crowe process	639	
Avlayakan	Cyanidation + Merrill Crowe process	86	
Ozerny	Cyanidation + Merrill Crowe process	107	
Khakanja	Cyanidation + Merrill Crowe process	102	
Levoberezhny	Cyanidation carbon-in-pulp	88	
Kirankan[2]	Cyanidation + Merrill Crowe process	60	
Maimakan-Kundumi	Cyanidation + Merrill Crowe process	86	
Kapan	Conventional flotation	82	0.70
Lichkvaz	Conventional flotation	100	0.59

[1] This type of ore is currently not being processed, it is stockpiled and reflected only in Mineral Resources.
[2] Silver to gold equivalent conversion ratios were not recalculated to deposits that were evaluated in 2011-2012.

GLOSSARY

ABBREVIATIONS AND UNITS OF MEASUREMENT

AGM	Annual General Meeting
CIS	Commonwealth of Independent States
GE	gold equivalent
IMN	Indigenous Minorities of the North
JORC	Australasian Joint Ore Reserves Committee
JSC	joint stock company
LBMA	London Bullion Market Association
LTIP	Long-Term Incentive Programme
NA	not applicable
NM	not meaningful
PE	platinum equivalent
PGM	platinum group metal
POX	pressure oxidation
SE	silver equivalent

g/t	gram per tonne
GJ	gigajoules
km	kilometres
Koz	thousand ounces
Kt	thousand tonnes
Ktpa	thousand tonnes per annum
m	metres
Moz	million ounces
Mt	million tonnes
Mtpa	million tonnes per annum
MWh	megawatt hour
Oz or oz	troy ounce (31.1035 g)
pp	percentage points
t	tonne (1,000 kg)
tpd	tonnes per day

TECHNICAL TERMS

Assay	a chemical test performed on a sample of any material to determine the amount of valuable metals contained in the sample
Ag	silver
Au	gold
Carbon-in-leach or CIL	a technological operation in which slurry containing gold and silver is leached by cyanide in the presence of activated carbon. Gold is absorbed onto activated carbon in parallel with leaching
Carbon-in-pulp or CIP	a technological operation in which slurry containing gold and silver is leached by cyanide initially without and subsequently in the presence of activated carbon. Gold absorption onto carbon starts only after preliminary leaching
Concentrate	a semi-finished product of mineral processing (flotation or gravity separation) containing significantly more value per unit of weight than ore and subject to further processing for the production of metals or other substances in final useful form
Cu	copper
Cut-off grade	the minimum grade at which mineralised material can be economically mined and processed (used in the calculation of ore reserves)
Cyanide leaching	leaching with cyanide as the leaching agent
Dilution	the share (percentage) of material below the cut-off grade that is extracted together and irretrievably mixed with ore during mining. All other things being equal, higher dilution leads to lower grade in ore mined
Doré	one of the traditional end-products of a gold/silver mine; an alloy containing 90% in sum of gold and silver as well as 10% of impurities
Exploration	activity ultimately aimed at discovery of ore reserves for exploitation. Consists of sample collection and analysis, including reconnaissance, geophysical and geochemical surveys, trenching, drilling, etc
Flotation	a technological operation in which ore-bearing minerals are separated from gangue minerals in the slurry based on variance in the interaction of different minerals with water. Particles of valuable concentrate are carried upwards with froth and collected for further processing
Grade	the relative amount of metal in ore, expressed as grams per tonne for precious metals and as a percentage for most other metals
Head grade	the grade of ore coming into a processing plant
Heap leach	a technological operation in which crushed material is laid on a sloping, impervious pad where it is leached by cyanide solution to dissolve gold and/or silver. Metals are subsequently recovered from pregnant leach solution by CIC or the Merrill-Crowe process
Indicated resource	that part of a resource for which tonnage, grade and content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed
Inferred resource	that part of a resource for which tonnage, grade and content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability
In-fill drilling	a conventional method of detailed exploration on an already defined resource or reserve, consisting of drilling on a denser grid to allow more precise estimation of ore bodyparameters and location
Leaching	the process of dissolving mineral values from solid into liquid phase of slurry
Measured resource	that part of a resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity
Merrill-Crowe process	a technological operation for extraction of gold and/or silver after cyanide leaching. In the first step slurry containing gold and/or silver is separated into liquid and solid phases by washing the solids off in countercurrent decantation thickeners. In the second step pregnant leach solution (liquid phase of slurry) is filtered to remove impurities and deaerated. Finally, gold and silver are deposited onto the solid bed of claylike material where they replace zinc particles which pass into a solution. Merrill-Crowe is preferentially used for silver-rich ores
Mill	a mineral processing plant
Mineralisation	a rock containing valuable components, not necessarily in the quantities sufficient for economically justifiable extraction. Consists of ore minerals and gangue
Open-pittable	amenable for economically feasible mining by open-pit methods
Open-pit mine	a mine that is entirely on the surface. Also referred to as open-cut or open-cast mine
Ore	the part of mineralisation that can be mined and processed profitably
Ore body	a spatially compact and geometrically connected location of ore
Ore mined	ore extracted from the ground for further processing
Ore processed	ore subjected to treatment in a mineral processing plant
Ore stacked	the ore stacked for heap leach operations
Oxidised ore	ore in which both ore minerals and gangue are fully or partially oxidised thus impacting its physical and chemical properties and influencing the choice of a processing technology
POX or pressure oxidation	a technological operation in which slurry is subjected to high pressure and high temperature in an autoclave with the goal to destroy sulphide particles enveloping gold particles and make slurry amenable to cyanide leaching
Precipitate	the semi-finished product of mineral processing by Merrill-Crowe process, normally containing very high concentrations of silver and/or gold
Primary ore	unoxidised ore
Probable reserves	the economically mineable part of an indicated (and in some cases measured) resource, which has a lower level of confidence than proved reserves but is of sufficient quality to serve as the basis for a decision on the development of the deposit
Production	the amount of pure precious metals, measured in thousands of ounces for gold, millions of ounces for silver and tonnes for copper, produced following processing
Proved reserves	the economically mineable part of a measured resource, which represents the highest confidence category of reserve estimate. The style of mineralisation or other factors could mean that proved reserves are not achievable in some deposits

Pt	platinum
Reclamation	the restoration of a site after mining or exploration activity is completed
Recovery or recovery rate	the percentage of valuable metal in the ore that is recovered by metallurgical treatment in the final or semi-finished product
Refractory	a characteristic of gold-bearing ore denoting impossibility of recovering gold from it by conventional cyanide leaching
Reserves	the economically mineable part of a measured and/or indicated mineral resource. It takes into account mining dilution and losses. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Reserves are subdivided in order of increasing confidence into probable reserves and proved reserves
Resources	a concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of resources are known, estimated or interpreted from specific geological evidence and knowledge. Resources are sub-divided in order of increasing geological confidence, into inferred, indicated and measured categories
SAG mill	a semi-autogenous grinding mill, generally used as a primary or first stage grinding solution
Step-out exploration drilling	holes drilled to intersect a mineralisation horizon or structure along strike or down dip
Stope	a large underground excavation entirely within an ore body, a unit of ore extraction
Stripping	the mining of waste in an open-pit mine
Tailings	part of the original feed of a mineral processing plant that is considered devoid of value after processing
Underground development	excavation which is carried out to access ore and prepare it for extraction (mining)
Waste	barren rock that must be mined and removed to access ore in a mine

SHAREHOLDER INFORMATION

As at 14 March 2016, the Company's issued share capital consisted of 429,971,261 ordinary shares of no par value. The Company does not hold any ordinary shares in treasury. The ordinary shares reflect 100% of the total issued share capital of the Company.

SUBSTANTIAL SHAREHOLDINGS AS AT 14 MARCH 2016

In accordance with the FCA's Disclosure and Transparency Rules (DTR 5), as at 14 March 2016 the Company received notification of the following material interests in voting rights over the Company's issued ordinary share capital (including qualifying financial instruments):

		Number of shares	Percentage of issued share capital (%)
Powerboom Investments Limited	Mr Alexander Nesis	114,777,802	26.69
Fodina B.V.	Mr Petr Kellner	55,171,289	12.83
Otkritie Holding JSC	–	30,088,377	7.00
Vitalbond Limited	Mr Alexander Mamut	28,115,959	6.54
MBC Development Limited	Mr Alexander Mosionzhik	17,000,000	3.95
Lynwood Capital Management Fund Limited	Mr Nikolay Mamut, Mr Pyotr Mamut, Miss Esfir Mamut	15,130,782	3.52

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NOTES

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