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 43,011,266 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 16 November 2018 (whichever is earlier).

Approval of share issues, consideration for which does not exceed US$25 million, is delegated to any Director holding any executive office.

As of 9 March 2018, the total issued share capital of the Company comprises 430,115,480 ordinary shares of no par value, each carrying one vote. During the year, 1,853,142 ordinary shares in the Company were issued as follows: 893,575 shares for additional 25% stake in Tarutin deposit; 815,348 shares as payment for a deferred consideration for the acquisition of the Primorskoye property, 144,219 shares in accordance with the Long-Term Incentive Plan.

Dividends

The Group's profit for the year ended 31 December 2017 attributable to equity holders of the Company was US$354 million (2016: US$395 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 2017 were US$376 million (2016: US$382 million). In August 2017, the Company declared an interim dividend of US$0.14 per share (2016: US$0.09 per share), which was paid in September 2017. The Directors have proposed the payment of a final dividend of US$0.30 per share (2016: US$0.18 per share).

Annual General Meeting

The AGM of shareholders of the Company will take place on Wednesday 25 April 2018 at 11 am (BST) to be held at etc. venues Monument, 8 Eastcheap, London, EC3M 1AE, UK.

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

9 March 2018

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

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

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

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

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

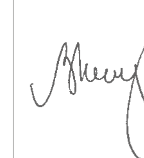
Responsibility statement

We confirm that to the best of our knowledge:

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

By order of the Board,

Bobby Godsell
Chairman of the Board of Directors



Vitaly Nesis
Group Chief Executive Officer

9 March 2018

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion the financial statements:

- **give a true and fair view of the state of the Group's affairs as at 31 December 2017 and of the Group's 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 as issued by the International Accounting Standards Board (IASB); and**
- **have been properly prepared in accordance with Companies (Jersey) Law, 1991.**

We have audited the financial statements of Polymetal International PLC and its subsidiaries (the Group) which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated balance sheet;
- the consolidated statement of cash flows;
- the consolidated changes in equity; 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 and as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Recoverability of exploration and evaluation assets • Recoverability of ore stock piles and heap leach work in progress
Materiality	The materiality that we used for the Group financial statements was US$22 million (2016: US$21 million) which was determined on the basis of adjusted profit before tax.
Scoping	All reportable segments were subject to a full scope audit with the exception of the Armenian component where specific procedures were performed. This represents a change from 2016 where the Armenian component was subject to a full scope audit.
Significant changes in our approach	The recoverability of operating and development assets and goodwill is no longer considered a significant risk due to sustained stable operational performance of the assets and reduced volatility in gold, silver and copper prices. Accounting for acquisitions is also no longer considered a significant risk as the acquisitions to which it related, being Kapan in Armenia for $38m and Komarovskoye in Kazakhstan for US$120 million, were made in the prior year.

Conclusions relating to going concern, principal risks and viability statement

Going concern We have reviewed 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's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.	We confirm that we have nothing material to report, add or draw attention to in respect of these matters.
Principal risks and viability statement Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: • the Disclosures on pages 68-74 that describe the principal risks and explain how they are being managed or mitigated; • the Directors' confirmation on page 112 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; or • the Directors' explanation on page 112 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 are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

Recoverability of exploration and evaluation assets

Key audit matter description	At 31 December 2017, the Group held US$150 million in respect of exploration and evaluation (E&E) assets. Recoverability of E&E assets is dependent on the expected future success of exploration activities. E&E 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 an assessment of exploration results and identified mineral resources. The evaluation of each asset's future prospects requires significant judgement. According to *IFRS 6 Exploration* for and evaluation of mineral resources, the potential indicators of impairment include: management's plans to discontinue the exploration activities, lack of further substantial exploration expenditure planned, expiry of exploration licences in the period or in the nearest future, or existence of other data indicating the expenditure capitalised is not recoverable. The group's accounting policy relating to E&E assets is set out on page 131 of the annual report, along with the disclosure note on page 151, and the Audit Committee's consideration of the risk on page 89.
How the scope of our audit responded to the key audit matter	We have reviewed and challenged management's assumptions used in assessing the recoverability of the Group's E&E assets, the most significant being the Bolshevik asset in the Kazakhstan segment. We have reviewed the Board minutes to ensure there are no plans to discontinue exploration activities and reviewed the Board-approved budget for 2018 to check that specific exploration project spend was identified where relevant. We have 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 have reviewed licence conditions to ensure there were no breaches of key terms, and no licences have expired or expire in the near term. We have performed detailed testing to assess the validity of costs capitalised in the year.
Key observations	No impairments of E&E assets were identified from the work performed.

Recoverability of ore stock piles and heap leach work in progress

Key audit matter description	At 31 December 2017 the Group held US$265 million in respect of ore stockpiles and heap leach work in progress. The write-downs of these metal inventories in the year ended 31 December 2017 were US$18 million. The assessment of the recoverability of ore stockpiles and heap leach work in progress requires management judgement in the determination of expected quantities of metal to be recovered, costs to process into concentrate or Doré for sale, and in estimating future revenue to be realised on sale. The Group's accounting policy relating to valuation of inventory is set out on page 132 of the annual report, along with the disclosure note on page 155, and the Audit Committee's consideration of the risk on page 89.
How the scope of our audit responded to the key audit matter	We have attended inventory counts performed by management's experts, performed roll forward testing from the count dates through to year end by testing management's metal inventory models and assessed management's experts' methodology, expertise and objectivity. To challenge management's recoverability assessment, we have analysed the metal inventory balances to identify adverse changes in costs per unit, and reviewed the production reports specifically focusing on unusual variances in grades of ore extracted, stockpiled and processed, achieved recoveries and technical losses in comparison to prior periods and approved life of mine plans. Where a recoverability risk has been identified, we have recalculated the projected net realisable values based on expected commodity prices, technological recoveries and costs to complete. We challenged management's assumptions against the achieved technological recoveries, actual processing costs in the year and the approved life of mine plans. We have also performed substantive analytical procedures on management's inventory costing calculations.
Key observations	No additional write-downs of ore stockpiles and heap leach work in progress were identified from the work performed.

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:

Group materiality	US$22 million (2016: US$21 million)
Basis for determining materiality	We used adjusted profit before tax as a key benchmark, supported by a range of other relevant financial metrics, for determining the Group's materiality. This approach is consistent with our 2016 audit and has given a materiality figure which represents 4.9% of the adjusted profit before tax figure (2016: 4%).
Rationale for the benchmark applied	The profit before tax is adjusted to exclude net foreign exchange gains and losses which could, if included, distort materiality year on year. The use of this metric is consistent with our 2016 audit and has been chosen on the basis that the adjusted profit before tax is a key benchmark for management and investors to appraise the group's performance. The adjustment for US$10 million net foreign exchange loss (2016: US$65 million net foreign exchange gain) is not significant in 2017.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of US$1.1m (2016: US$0.42m) for the group, 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

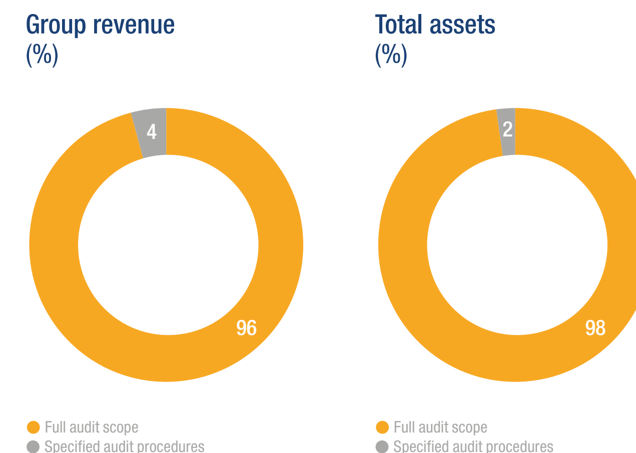
The group holds various mining assets in Russia, Kazakhstan and Armenia. Our audit scope focused primarily on nine identified components (Voro, Okhotsk, Dukat, Omolon, Varvara, Amursk-Albazino, Mayskoye, Kyzyl and another single component comprising the support function corporate entities) such that 96% of revenue (2016: 100%) and 98% of assets (2016: 97%) were subject to a full scope audit.

In addition to above, we have performed specific procedures on the Armenian component that consisted of specified procedures on recoverability of E&E assets and on provisionally priced sales, and reviews of all other balances.

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 regularly in the year and continued to follow a programme of regular planned visits to the Group's other business units which included a site visit to the Kyzyl mine in Kazakhstan in October 2017. The Group audit team directed and reviewed in detail the work on significant risks performed by the component auditors.

Our audit work was executed at levels of materiality applicable to each individual component, which were between US$8.8 million and US$19.8 million (2016: US$10.5 million and US$18.9 million)



Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that: • *Fair, balanced and understandable* – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or • *Audit and Risk Committee reporting* – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or • *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.	We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Opinion on other matter prescribed by our engagement letter

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.

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.

James Leigh, FCA
For and on behalf of Deloitte LLP

Recognized Auditor
London
9 March 2018

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Revenue	6	1,815	1,583
Cost of sales	7	(1,106)	(846)
Gross profit		**709**	**737**
General, administrative and selling expenses	11	(158)	(120)
Other operating expenses, net	12	(44)	(36)
Share of profit of associates and joint ventures	20	3	–
Operating profit		**510**	**581**
Foreign exchange (loss)/gain, net		(10)	65
Change in fair value of contingent consideration liability	28	2	(22)
Finance income		4	3
Finance costs	15	(63)	(63)
Profit before income tax		**443**	**564**
Income tax expense	16	(89)	(169)
Profit for the financial period		**354**	**395**
Profit for the financial period attributable to:			
Equity shareholders of the Parent		354	395
		354	**395**
Earnings per share (US$)			
Basic	30	0.82	0.93
Diluted	30	0.81	0.93

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

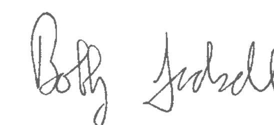
	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Profit for the period	**354**	**395**
Items that may be reclassified to profit and losss		
Exchange differences on translating foreign operations	113	280
Currency exchange differences on intercompany loans forming net investment in foreign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

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2017 US$m	31 December 2016 US$m
Assets			
Property, plant and equipment	18	2,054	1,805
Goodwill	19	18	17
Investments in associates and joint ventures	20	96	25
Non-current loans and receivables		15	10
Deferred tax asset	16	61	38
Non-current inventories	21	123	113
Total non-current assets		**2,367**	**2,008**
Current inventories	21	514	493
VAT receivable		96	61
Trade receivables and other financial instruments	22	71	70
Prepayments to suppliers		38	31
Income tax prepaid		6	18
Cash and cash equivalents	23	36	48
Total current assets		**761**	**721**
Total assets		**3,128**	**2,729**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	26	(135)	(133)
Current borrowings	24	(26)	(98)
Income tax payable		(10)	(8)
Other taxes payable		(38)	(34)
Current portion of contingent consideration liability	28	(5)	(14)
Total current liabilities		**(214)**	**(287)**
Non-current borrowings	24	(1,430)	(1,280)
Contingent consideration liability	28	(57)	(62)
Deferred tax liability	16	(77)	(78)
Environmental obligations	25	(39)	(37)
Other non-current liabilities		(4)	(4)
Total non-current liabilities		**(1,607)**	**(1,461)**
Total liabilities		**(1,821)**	**(1,748)**
NET ASSETS		**1,307**	**981**
Stated capital account	30	2,031	2,010
Share based compensation reserve	31	21	12
Translation reserve		(1,151)	(1,241)
Retained earnings		406	200
Total equity		**1,307**	**981**

Notes on pages 126 to 167 form part of these financial statements. These financial statements are approved and authorised for issue by the Board of Directors on 9 March 2018 and signed on its behalf by:

Vitaly Nesis
Group Chief Executive



Bobby Godsell
Chairman of the Board of Directors

STRATEGIC REPORT | GOVERNANCE | FINANCIAL STATEMENTS | APPENDICES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Net cash generated by operating activities	33	**533**	**530**
Cash flows from investing activities			
Purchases of property, plant and equipment	18	(383)	(271)
Acquisitions of joint ventures and associate	20	(16)	(21)
Loans forming part of the net investment in joint ventures	20	(52)	–
Nezhda call option premium paid	20	(12)	–
Acquisitions of subsidiaries*	4	(7)	(107)
Loans advanced		(18)	(4)
Receipt of repayment of loans provided		11	2
Net cash used in investing activities		**(477)**	**(401)**
Cash flows from financing activities			
Borrowings obtained	24	3,108	1,436
Repayments of borrowings	24	(3,032)	(1,410)
Dividends paid	17	(138)	(158)
Contingent consideration paid	28	(5)	(2)
Net cash used in financing activities		**(67)**	**(134)**
Net decrease in cash and cash equivalents		(11)	(5)
Cash and cash equivalents at the beginning of the period	23	48	52
Effect of foreign exchange rate changes on cash and cash equivalents		(1)	1
Cash and cash equivalents at the end of the financial year		**36**	**48**

* Includes US$5 million outstanding as of 31 December 2016 (Note 26), paid during the year ended 31 December 2017 for Kapan acquisition.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Number of shares outstanding (unaudited)	Stated capital account	Share based compensation reserve	Translation reserve	Retained earnings	Total equity attributable to the parent	Total equity
Balance at 1 January 2016		**424,650,138**	**1,969**	**6**	**(1,465)**	**(23)**	**487**	**487**
Profit for the financial year		–	–	–	–	395	395	395
Other comprehensive income, net of income tax		–	–	–	224	–	224	224
Share based compensation	31	–	–	7	–	–	7	7
Shares alloted to emploees	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	11
Issue of shares for business acquisition	4	1,481,785	15	–	–	–	15	15
Dividends	17	–	–	–	–	(158)	(158)	(158)
Balance at 31 December 2016		**428,262,338**	**2,010**	**12**	**(1,241)**	**200**	**981**	**981**
Profit for the financial year		–	–	–	–	354	354	354
Other comprehensive income, net of income tax		–	–	–	90	–	90	90
Share based compensation	31	–	–	10	–	–	10	10
Shares allotted to employees	31	144,219	1	(1)	–	–	–	–
Issue of shares to acquire non-controlling interest	30	893,575	10	–	–	(10)	–	–
Issue of shares for contingent consideration		815,348	10	–	–	–	10	10
Dividends	17	–	–	–	–	(138)	(138)	(138)
Balance at 31 December 2017		**430,115,480**	**2,031**	**21**	**(1,151)**	**406**	**1,307**	**1,307**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2017 the Company held the following significant mining and production subsidiaries:

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

Going concern

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

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

Basis of presentation

The Group's annual consolidated financial statements for the year ended 31 December 2017 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 2017.

Amended accounting standards adopted by the Group

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

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

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

New accounting standards issued but not yet effective

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

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

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

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

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

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

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

- Impairment: The impact of the introduction of an 'expected credit loss' model for the assessment of impairment of financial assets held under amortised cost would be to increase the Group's operating costs by US$4 million and decrease the Group's profit before tax by US$4 million for the year ended 31 December 2017, and to reduce current assets by US$4 million at 31 December 2017.
- Classification and measurement: The measurement and accounting treatment of the Group's financial assets is unchanged on application of the new standard.
- Hedge accounting: no impact as the Group does not elect to use hedge accounting.

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

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

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

1. GENERAL CONTINUED

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidations

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.

Equity method of accounting

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 jont 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 (Varvarinskoye JSC, Bakyrchik Mining Venture LLC, Inter Gold Capital LLC, Komarovskoye Mining Company LLC) is the Kazakh Tenge (KZT). The functional currency of the Group's entity located and operating in Amenia (Kapan MPC CJSC) is the Armenian Dram (AMD). The functional currency of the parent company Polymetal International plc and its intermediate holding companies is US Dollars.

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.

The Group translates its income and expenses in presentation currency on a monthly basis. During the years ended 31 December 2017 and 31 December 2016 exchange rates used in the preparation of the consolidated financial statements were as follows:

	Russian Rouble/ US Dollar	Kazakh Tenge/ US Dollar	Armenian Dram/ US Dollar
31 December 2017			
Year ended	57.60	332.33	484.10
Average	58.35	326.02	482.71
Maximum monthly rate	59.96	338.78	486.51
Minimum monthly rate	56.43	312.48	478.25
31 December 2016			
Year ended	60.66	333.29	483.94
Average	67.07	341.81	480.49
Maximum monthly rate	77.23	361.53	493.83
Minimum monthly rate	62.20	332.19	474.10

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 US 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 US Dollars the translated values of these assets and liabilities.

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. 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 reclassisfication 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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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, 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

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

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, zinc, 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.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 the financial statements, management necessarily makes judgements and estimates that can have a significant impact on those financial statements. The determination of estimates requires judgements which are based on historical experience, current and expected economic conditions, and all other available information.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in the future periods affected. The judgements involving a higher degree of estimation or complexity are set out below.

Critical accounting judgements

The following are the critical judgements, apart from those involving estimation (which are dealt with separately below), made in the process of applying the Group's accounting policies during the year that have the most significant effect on the amounts recognised in the financial statements.

Accounting for joint arrangements

When the Group enters into arrangements with other parties for the joint ownership of particular assets or developments, it must assess whether the arrangements constitute control, joint operations or a joint venture based on the rights and obligations of the parties to the joint arrangements (Note 2 sets out the related accounting policies).

As at 31 December 2016, the Group held a 17.66% interest in JSC South-Verkhoyansk Mining Company (Nezhda) with a carrying value of US$21 million (see note 20 to the financial statements). At that time, the Group considered its associated rights and obligations, and concluded that it jointly controlled Nezhda.

In July 2017 Polymetal entered into an agreement to acquire an additional 7% in Nezhda for a cash consideration of US$8 million, from its joint venture partner. At the same time, the Group acquired an option to buy out the remaining 75.3% in Nezhda, which is exercisable between 1 February and 1 June 2018 at the Group's discretion, with the option cost being US$12 million. The completion of the purchase of the additional 7% share in the JV and exercise of the option are subject to various Governmental approvals as noted below. The Group has determined that until it is able to complete these transactions, it remains in joint control over Nezhda, and accordingly the classification of the arrangements continue to meet the definition of a joint venture as per IFRS *Joint arrangements*.

Assessment of indicators of impairment of operating and development assets

The Group is required to conduct an impairment test where there is an indication of impairment of an asset or a cash-generating unit. For goodwill, an annual impairment test is required. Judgement is required in the assessment of whether indicators or impairment (or its reversal) exist.

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. Significant judgement is required to determine whether any economic or operating assumptions represent significant changes in the economic value 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 indicators, assets that do not generate independent cash inflows are allocated to an appropriate cash-generating unit. Management necessarily applies 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.

According to IFRS 6 *Exploration for and evaluation of mineral resources*, the potential indicators of impairment include: management's plans to discontinue the exploration activities, lack of further substantial exploration expenditure planned, expiry of exploration licences in the period or in the nearest future, or existence of other data indicating the expenditure capitalised is not recoverable. At the end of each reporting period, management assesses whether such indicators exist for the exploration and evaluation assets capitalised, which requires significant judgement.

As of 31 December 2017 total exploration and evaluation costs capitalised amount to US$176 million (2016: US$140 million) with the most significant asset of US$60 million (2016: US$60 million) attributable to the Kyzyl project flanks and satellite deposit Bolshevik.

The Group also has a significant interest in the Nezhda joint venture amounting to US$67 million (see Note 20) as noted above. The completion of the purchase of an additional 7% share in the JV and exercise of the option over the remaining equity are subject to approval by the Russian Federal Government's Commission on Foreign Investments into Companies of Strategic Importance. The exercise of the option is also subject to approval by the Russian Federal Antimonopoly Service. The Group has taken the judgement that it is likely that these approvals will be provided, but is also confident that it will be able to enter into revised arrangements or take alternative mitigating action if required to ensure that it can complete the acquisition of the Nezhda project. However, there remains a risk that the Group will not be able to exercise the option, in which case the management will reassess the recoverability of the investment which could lead to a material impairment charge.

Key sources of estimation uncertainty

The following are the sources of estimation uncertainty that carry the most significant risk of material effect on next year's accounts, being items where actual outcomes in the next 12 months could vary significantly from the estimates made in determining the reported amount of an asset or liability.

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 and mineral resources – 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 (see below). Mineral resources, adjusted by certain conversion ratio, are included where management has a high degree of confidence in their economic extraction, despite additional evaluation still being required prior to meeting the required confidence to convert to ore reserves.
- 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 (2016: US$1,200) and US$16 per ounce (2016: US$16), respectively.
- Foreign exchange rates - Foreign exchange rates are based on latest internal forecasts, benchmarked with external sources of information for relevant countries of operation. Management have analysed RUB/US$ rate movements for the year ended 31 December 2017. RUB/US$ exchange rate is estimated at 60 RUB/US$ (2016: 60 RUB/US$).
- Discount rates – The Group used a post-tax real discount rate of 9.0% (2016: 9.0%). Cash flow projections used in fair value less costs of disposal impairment models are discounted based on this 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.

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.

Ore reserves are subject to the annual re-estimation (please refer to the Reserves and Resources section of the Annual Report).

Based on the ore reserves estimate as of 1 January 2018, the depreciation charge for the year ended 31 December 2017 would decrease by US$15 million.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

Recoverability of deferred tax assets

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.

Deferred tax assets arising from tax losses carried forward recognised as of 31 December 2017 amount to US$126 million (2016: US$105 million). Tax losses carried forward represent amounts available for offset against future taxable income generated by ZK Mayskoye LLC (Russian Federation), JSC Varvarinskoye and Bakyrchik Mining LLC (Kazakhstan). 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. Gross tax losses carried forward of US$448 million (2016: US$435 million), for which a deferred tax asset is recognised in JSC Varvarinskoye and Bakyrchik Mining Venture LLC are available during the period up to 2026, with the most significant portion expiring in 2025 (Note 16). The remaining gross tax losses have an indefinite life.

Recoverability of stockpiles and work in-process

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). The Group uses survey and assay techniques to estimate quantities of the ore stockpiled and ore stacked in heap leach pads, as well as the recoverable metal in the this material and work in-process. The amount of the recoverable metals, that will be available for sale, is determined based on technological recoveries, which are established for each deposit and extraction technology. Changes in these estimates can result in a change in mine operating costs of future periods and carrying amounts of inventories.

During the year ended 31 December 2017 the Group provided for net realisable value of metal inventories in the amount of US$16 million (year ended 31 December 2016: write-down of US$21 million).

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

The key assumptions used in determining the net realisable value of inventories at 31 December 2017 are consistent with those used for goodwill impairment testing.

Valuation of contingent consideration payable

The Group has recorded contingent consideration liabilities of US$62 million as at 31 December 2017 (2016: $76 million) related to various acquisitions made, as set out in Note 28 to the financial statements. Various estimates must be made when determining the value of contingent consideration to be recognised at each balance sheet date. The assumptions made are consistent with those made for impairment testing purposes (see above), and additional assumptions are included in Note 28. Significant changes in assumptions could cause an increase, or reduction, in the amount of contingent consideration payable, with a resulting charge or credit in the Group income statement.

4. ACQUISITIONS

(a) Year ended 31 December 2017

Primorskaya GGK LLC

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

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

(b) Year ended 31 December 2016

Kapan

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

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

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

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

Consideration transferred

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

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

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

Assets acquired and liabilities recognised at the date of acquisition

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

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

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

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

Komarovskoye

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

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

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

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

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

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

4. ACQUISITIONS CONTINUED

Consideration transferred

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

Assets acquired and liabilities recognised at the date of acquisition

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

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

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

No significant financial assets were acquired in business combination.

No significant acquisition-related costs were incurred.

Saum Mining Company LLC

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

The Saum licence covers an area of 34.2 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.

5. SEGMENT INFORMATION

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

The Group has identified five reportable segments:

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

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

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

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

Business segment current assets and liabilities, other than current inventory, are not reviewed by the CODM and therefore are not disclosed in these 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:

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

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

6. REVENUE

Revenue analysed by geographical regions of customers is presented below:

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

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

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

7. COST OF SALES

	Year ended 31 December 2017 US$m	31 December 2016 US$m
Cash operating costs		
On-mine costs (Note 8)	414	320
Smelting costs (Note 9)	316	259
Purchase of ore and concentrates from third parties	54	27
Purchase of ore from related parties (Note 32)	38	11
Mining tax	88	82
Total cash operating costs	**910**	**699**
Depreciation and depletion of operating assets (Note 10)	193	162
Rehabilitation expenses	–	1
Total costs of production	**1,103**	**862**
Increase in metal inventories	(26)	(51)
Write-down of metal inventories to net realisable value (Note 21)	16	21
Write-down of non-metal inventories to net realisable value (Note 21)	3	6
Idle capacities and abnormal production costs	10	8
Total	**1,106**	**846**

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

Mining tax in respect of the metal inventories produced or sold during the year is recognised within cost of sales, while the additional mining tax accruals in respect of various disputes with tax authorities are recognised within other expenses (see Note 12).

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

8. ON-MINE COSTS

	Year ended 31 December 2017 US$m	31 December 2016 US$m
Services	192	139
Labour	118	97
Consumables and spare parts	101	79
Other expenses	3	5
Total (Note 7)	**414**	**320**

9. SMELTING COSTS

	Year ended 31 December 2017 US$m	31 December 2016 US$m
Consumables and spare parts	132	114
Services	116	93
Labour	65	50
Other expenses	3	2
Total (Note 7)	**316**	**259**

10. DEPLETION AND DEPRECIATION OF OPERATING ASSETS

	Year ended 31 December 2017 US$m	31 December 2016 US$m
On-mine	137	117
Smelting	56	45
Total (Note 7)	**193**	**162**

Depreciation of operating assets excludes depreciation relating to non-operating assets (included in general, administrative and selling expenses) and depreciation related to assets employed in development projects where the charge is capitalised. Depreciation expense, which is excluded from the Group's calculation of Adjusted EBITDA (see Note 5), also excludes amounts absorbed into unsold metal inventory balances.

11. GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

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

12. OTHER OPERATING EXPENSES, NET

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

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

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

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

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

Exploration expenses include write downs of US$2 million (2016: US$1 million) recognised within Exploration and Development assets (Note 18). Operating cash flow spent on exploration activities amounts to US$16 million (2016: US$11 million).

13. EMPLOYEE COSTS

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

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

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

Compensation of key management personnel is disclosed within Note 32.

14. AUDITOR'S REMUNERATION

	Year ended	
	31 December 2017 US$m	31 December 2016 US$m
Fees payable to the auditor and their associates for the audit of the Company's Annual Report		
United Kingdom	0.35	0.30
Overseas	0.76	0.75
Auidt of the Company's subsidiaries	0.05	–
Total audit fees	**1.16**	**1.05**
Audit-related assurance services – half year review	0.43	0.39
Total audit and half-year review fees	**1.59**	**1.44**
Other services	0.01	0.03
Total non-audit fees	**0.01**	**0.03**
Total fees	**1.60**	**1.47**
Non-audit fees as % of audit and half-year review fees	**1%**	**2%**

15. FINANCE COSTS

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

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

16. INCOME TAX

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

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

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

	Year ended 31 December 2017 US$m	31 December 2016 US$m
Profit before income tax	443	564
Theoretical income tax expense at the tax rate of 20%	89	113
Effect of Special Economic Zone and Regional Investment project decreased tax rates	(25)	(10)
Effect of different tax rates of subsidiaries operating in other jurisdictions	5	6
Current year losses not recognized and losses previously recognised written-off	3	7
Non-deductible interest expense	5	14
Effect of dissolution of the subsidiary	–	25
Other non-taxable income and non-deductible expenses	12	14
Total income tax expense	**89**	**169**

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

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

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

Tax exposures recognised in income tax

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

Income tax amounts included in other comprehensive income

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

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

Current and deferred tax assets recognised within other comprehensive income relates to the tax losses originated by foreign currency exchange losses, allowable for tax purposes and generated by monetary items that forms part of the intragroup net investment in the foreign operation. These foreign currency exchange losses are recognised in the 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$m	Other current assets US$m	Total US$m
At 1 January 2016	6	(14)	(127)	6	130	2	–	4	7
Charge to income statement	(1)	6	7	1	(37)	–	(6)	–	(30)
Acquisition (Note 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)**
Charge to income statement	–	12	(3)	(2)	18	(1)	(1)	(1)	22
Recognised in other comprehensive income	–	–	–	–	–	–	3	–	3
Exchange differences	–	(1)	(3)	–	3	–	–	–	(1)
At 31 December 2017	**7**	**1**	**(159)**	**8**	**126**	**1**	**(4)**	**4**	**(16)**

16. INCOME TAX CONTINUED

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

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

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

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

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

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

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

No deferred tax asset has been recognised in respect of US$90 million (2016: US$96 million) as it is not considered probable that there will be future taxable profits against which the losses can be utilised. No deferred tax was recognised in relation to Svetloye tax losses, accumulated by 1 January 2016, were the entity has received tax relief as Regional Investment Project and is entitled to the statutory income tax rate of 0% up to 2021, thus will not be able to utilise accumulated losses. Included in unrecognised tax losses are losses of US$30 million that mainly expire in 2025. Other losses may be carried forward indefinitely in accordance with enacted changes to Russian Federation legislation described above.

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

17. DIVIDENDS

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

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

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 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 including fully depleted mines	–	(1)	(23)	(2)	(1)	(27)
Translation to presentation currency	35	7	234	9	17	302
Balance at 31 December 2016	**564**	**140**	**1,750**	**65**	**150**	**2,669**
Additions	77	35	141	4	174	431
Transfers	4	(29)	89	(9)	(55)	–
Change in decommissioning liabilities	–	–	–	–	3	3
Acquisitions (Note 4)	–	2	–	–	–	2
Disposals and write-offs including fully depleted mines	–	(2)	(32)	(1)	(1)	(36)
Translation to presentation currency	10	4	76	2	5	97
Balance at 31 December 2017	**655**	**150**	**2,024**	**61**	**276**	**3,166**
Accumulated depreciation, amortisation						
Balance at 31 December 2015	–	–	(560)	(18)	–	(578)
Charge for the period	–	–	(182)	(5)	–	(187)
Disposals and write-offs including fully depleted mines	–	–	18	1	–	19
Translation to presentation currency	–	–	(115)	(3)	–	(118)
Balance at 31 December 2016	–	–	(839)	(25)	–	(864)
Charge for the period	–	–	(227)	(5)	–	(232)
Disposals and write-offs including fully depleted mines	–	–	28	–	–	28
Translation to presentation currency	–	–	(43)	(1)	–	(44)
Balance at 31 December 2017	**–**	**–**	**(1,081)**	**(31)**	**–**	**(1,112)**
Net book value						
31 December 2016	**564**	**140**	**911**	**40**	**150**	**1,805**
31 December 2017	**655**	**150**	**943**	**30**	**276**	**2,054**

18. PROPERTY, PLANT AND EQUIPMENT CONTINUED

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

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

19. GOODWILL

	Year ended	
	31 December 2017 US$m	31 December 2016 US$m
Cost and accumulated impairment losses		
At 1 January	**17**	**14**
Translation effect	1	3
At 31 December	**18**	**17**

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

	Year ended	
	31 December 2017 US$m	31 December 2016 US$m
Mayskoye	13	12
Dukat	5	5
Total	**18**	**17**

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 2017 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 (2016: US$1,200), US$16 per ounce (2016: US$16), respectively.

Discount rate

The Group used a post-tax real discount rate of 9.0% (2016: 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 2017. For the purposes of the impairment test, RUB/US$ exchange rate is estimated at 60 RUB/US$ (2016: 60 RUB/US$).

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 would cause the carrying amount to exceed the recoverable amount by US$41 million.

20. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

JSC South-Verkhoyansk Mining Company

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

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

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20. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES CONTINUED

In July 2017 Polymetal has agreed to acquire an additional 7% in the JSC South-Verkhoyansk Mining Company (Nezhda) for a cash consideration of US$8 million, from its joint venture partner, Ivan Kulakov. Simultaneously, Polymetal has acquired an option to buy out the remaining 75.3% in Nezhda (the Call Option). The Call Option premium comprises US$12 million (Note 22) in cash payable upfront and is exercisable based on the following terms:

- Following the preparation of the initial JORC-compliant ore reserve estimate for the open-pittable reserves, Polymetal will have the option to acquire the remaining stake for US$100 per ounce of attributable gold reserves (equivalent to US$75.3/oz multiplied by total reserve ounces). The total consideration shall not be less than US$105 million and not more than US$180 million. US$10 million of the consideration will be paid in cash and the remaining amount will be paid in the Polymetal's shares.
- The Call Option is exercisable between 1 February and 1 June 2018 entirely at Polymetal's discretion.
- Should Polymetal decide not to proceed with the exercise of the Call Option, Polymetal will have a put option to sell its 24.7% stake to Mr. Kulakov's investment vehicle, Pallavicino Holdings Ltd, an unrelated party, at a notional cost of EUR1,000.
- As of the reporting date, the completion of the sale and purchase of the additional 7% share in the JV and exercise of the Call Option are subject to approval by the Russian Federal Government's Commission on Foreign Investments into Companies of Strategic Importance. The exercise of the Call Option is also subject to approval by the Russian Federal Antimonopoly Service.

The Group has determined that the increase in shareholding does not represent a significant change in circumstances that indicate a change in joint control and Nezhda continues to meet the definition of a joint venture. Cash consideration of US$8 million paid for the additional stake is accounted for as part of the net investment in the joint venture. The Group has a legal right to recovery of this US$8 million in the event that the associated transaction does not receive the required approvals. The Group has performed a fair value valuation of the Call Option at origination date and, as of 31 December 2017 (Note 28), has determined that its fair value approximates to its cost of US$12 million (see Note 22).

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

Prognoz Serebro LLC

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

GRK Amikan

GRK Amikan is a production company which holds 100% interest in Veduga gold deposit in the Krasnoyarsk region of the Russian Federation. During the year ended 31 December 2017 the Group purchased ore from GRK Amikan for the total amount of US$35 million (2016: US$11 million) (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 Polymetal purchased a 25% stake in the company Aktogai Mys LLC, which owns the Dolinnoye exploration licence in Kazakhstan Republic (including part of an intracompany loan) from the unrelated party. At the same time Polymetal also entered into an agreement to finance, organise and ensure the execution of exploration activities: to obtain permission and approvals for drilling from competent authorities, to perform no more than 20 km of exploration drilling; and to undertake technical research as well as 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.

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

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

During the year ended 31 December 2017 the Group purchased ore from Aktogai Mys LLC for the total amount of US$3 million (2016: nil) (Note 32) and eliminated unrealised profit on inventories not yet processed against its share of net profit in Aktogai Mys LLC.

Proeks LLC

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

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

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

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

21. INVENTORIES

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

21. INVENTORIES CONTINUED

Write-downs of metal inventories to net realisable value

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

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

The key assumptions used as at 31 December 2017 in determining net realisable value of inventories (including the commodity price assumptions for long-term stockpiles) were consistent with those used in the goodwill impairment review (Note 19). For short-term metal inventories applicable forward prices as of 31 December 2017 were used.

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

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

22. TRADE RECEIVABLES AND OTHER FINANCIAL INSTRUMENTS

	Year ended	
	31 December 2017 US$m	31 December 2016 US$m
Receivables from provisional copper, gold and silver concentrate sales	26	35
Other receivables	15	25
Accounts receivable from related parties (Note 32)	8	–
Less: Allowance for doubtful debts	(2)	(3)
Total trade and other receivables	**47**	**57**
Call Option related to the Nezhda acquisition (Note 20)	12	–
Short-term loans provided to related parties (Note 32)	7	7
Short-term loans provided to third parties	5	6
Total other short-term financial instruments	**24**	**13**
Total	**71**	**70**

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

23. CASH AND CASH EQUIVALENTS

		Year ended	
		31 December 2017 US$m	31 December 2016 US$m
Bank deposits	– foreign currencies	11	31
Current bank accounts	– RUB	2	8
	– foreign currencies	23	9
Total		**36**	**48**

Bank deposits as at 31 December 2017 bear an interest rate 9% for Kazakh Tenge (KZT) deposits (2016: 0.3%-6% per annum for US Dollar deposits; 16% per annum for KZT deposits), total amount being demand deposits as of 31 December 2017 (2016: with an average maturity at inception 15 days with US$14 million being demand deposits).

24. BORROWINGS

Borrowings at amortised cost:

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

Bank loans

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

Movements in borrowings are reconciled as follows:

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

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

The table below summarises maturities of borrowings:

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

25. ENVIRONMENTAL OBLIGATIONS

Environmental obligations include decommissioning and land restoration costs and are recognised on the basis of existing project business plans as follows:

	Year ended	
	31 December 2017 US$m	31 December 2016 US$m
Opening balance	**37**	**33**
Changes in estimates for the year:		
Change in estimate of environmental obligations	(4)	(5)
Decommissioning liabilities recognised in Propety, plant and equipment (Note 18)	3	(3)
Rehabilitation liabilities	–	1
Effect of unwinding of discount	3	4
Acquired in business combinations	–	2
Translation effect	–	5
Closing balance	**39**	**37**

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:

	2017	2016
Discount rates	7.23%-14.67%	7.1%-12.77%
Inflation rates	1.57%-8.5%	(0.45%)-8.5%
Expected mine closure dates	1-34 years	1-34 years

The Group does not hold any assets that are legally restricted for purposes of settling environmental obligations.

26. TRADE PAYABLES AND ACCRUED LIABILITIES

	Year ended	
	31 December 2017 US$m	31 December 2016 US$m
Trade payables	62	51
Accrued liabilities	40	36
Labour liabilities	14	12
Provision for investment in Special Economic Zone (Note 12)	10	14
Account payable to related parties	6	4
Other payables	3	8
Consideration payable to Dundee (Note 4)	–	5
Advances received	–	3
Total	**135**	**133**

In 2017, the average credit period for payables was 25 days (2016: 31 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 2017 amounted to US$46 million (2016: US$64 million).

Social and infrastructure commitments

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

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

Forward sale commitments

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

Operating leases: Group as a lessee

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

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

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

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

Contingencies

Operating environment

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

Taxation

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

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

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

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

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

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

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

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables and short-term debt recorded at amortised cost approximate to their fair values because of the short maturities of these instruments. The estimated fair value of the Group's debt, calculated using the market interest rate available to the Group as at 31 December 2017, is US$1,233 million, and the carrying value as at 31 December 2017 is US$1,456 million (see Note 24). Carrying values of the other long-term loans provided to related parties as at 31 December 2017 and 31 December 2016 approximated to their fair values.

Receivables from provisional copper, gold and silver concentrate sales

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

Contingent consideration liabilities

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

	31 December 2017							31 December 2016
	Omolon US$m	**Kyzyl US$m**	**Primorskoye US$m**	**Lichkvaz US$m**	**Kapan US$m**	**Komar US$m**	**Total US$m**	Total US$m
Opening balance	15	19	8	7	9	18	76	26
Additions	–	–	–	–	•	–	–	29
Change in fair value, included in profit or loss	(1)	(7)	2	(5)	2	7	(2)	22
Unwinding of discount (Note 15)	1	–	–	1	1	–	3	1
Settlement though issue of shares (Note 21)	–	–	(10)	–	–	–	(10)	–
Cash settlement	(4)	–	–	–	(1)	–	(5)	(2)
Total contigent consideration	**11**	**12**	**–**	**3**	**11**	**25**	**62**	**76**
Less current portion of contingent consideration liability	(4)	–	–	–	(1)	–	(5)	(14)
	7	**12**	**–**	**3**	**10**	**25**	**57**	**62**

Omolon

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

Kyzyl

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

Primorskoye

During the year ended 31 December 2015 the Group recorded a contingent consideration liability related to the acquisition of 100% interest in Primorskoye. Deferred conditional cash consideration, which is determined as the highest of US$13,333 per tonne of contained silver equivalent (translating into US$0.415 per silver equivalent ounce) based on the audited reserves estimate of the deposit, and US$8 million, was revalued at 31 December 2016 at US$8 million. Following the determination of the mineral resource estimate at March 2017, the deferred consideration was calculated at US$9.7 million and settled by 815,348 newly issued Polymetal International shares (Note 30).

Lichkvaz

During the year ended 31 December 2015 the Group completed the acquisition of Lichkvaz CJSC (Lichkvaz), the company owning the Lichkvaz exploration licence in Armenia (Note 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 2017 was US$3 million.

Kapan

During the year ended 31 December 2016 the Group completed the acquisition of DPMK, the company owning the Kapan mine and processing plant in Armenia (Note 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 2017, the fair value of the contingent consideration was estimated at US$11 million, including current portion of US$1 million.

Komar

On 1 August 2016 the Group completed the acquisition of Orion Minerals LLP, the holding company for the Komarovskoye Gold Deposit (Komar) in the Republic of Kazakhstan (Note 4). The seller is entitled to the contingent consideration that was determined based on the LOM model of the Komarovskoye mine and calculated using Monte Carlo modelling. At the 31 December 2017, the fair value of the contingent consideration was estimated at US$25 million (2016: US$18 million), with an increase due to the growth in ore reserves and change in the mine plan.

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 Komarovskoye contingent consideration liabilities was performed with following inputs:

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

Nezhda Call Option

The Group has valued the Nezhda Call Option (Note 20) using the Black-Scholes option valuation model, with share price volatility assumption approximating to 30%. Exercise price of the option was assessed based on the project NPV, calculated using Nezhda JORC ore reserves and mineral resources available and gold price and discount rates consistent with assumptions used for the goodwill impairment testing (Note 19). The fair value of the option approximates to its cost of US$12 million as of 31 December 2017.

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

Commodity forward contracts

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

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 and 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.

	Year ended	
	31 December 2017 US$m	31 December 2016 US$m
Financial assets		
Financial assets at FVTPL		
Receivables from provisional copper, gold and silver concentrate sales	26	35
Call Option related to the Nezhda acquisition (Note 20)	12	–
Loans and receivables, including cash and cash equivalents		
Cash and cash equivalents	36	48
Trade and other receivables	33	35
Non-current loans and receivables	15	10
Total financial assets	**122**	**128**
Financial liabilities		
Financial liabilities at FVTPL		
Contingent consideration liability	62	76
Financial liabilities at amortised cost		
Borrowings	1,456	1,378
Trade and other payables	81	82
Total financial liabilities	**1,599**	**1,536**

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.

Derivative financial instruments

Presented below is a summary of the Group's derivative contracts recorded on the consolidated balance sheet at fair value.

		Year ended	
	Consolidated balance sheet location	**31 December 2017 US$m**	31 December 2016 US$m
Receivable from provisional copper, gold and silver concentrate sales	Accounts receivable	**26**	35

		Year ended	
	Location of gain (loss) recorded in profit or loss	**31 December 2017 US$m**	31 December 2016 US$m
Receivable from provisional copper, gold and silver concentrate sales	Revenue	**2**	(7)

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 US 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 2017 and 31 December 2016 were as follows:

	Assets		Liabilities	
	31 December 2017 US$m	31 December 2016 US$m	**31 December 2017 US$m**	31 December 2016 US$m
US Dollar	53	52	400	540
Euro	2	–	11	5
GBP	–	7	–	–
Total	**55**	**59**	**411**	**545**

US Dollar denominated assets and liabilities disclosed above exclude balances outstanding held in Polymetal International plc and its intermediate holding companies, where the functional currency is US 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.

	Year ended	
	31 December 2017 US$m	31 December 2016 US$m
Profit or loss (RUB to US Dollar)	(15)	(41)
Profit or loss (KZT to US Dollar)	(20)	(7)

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 2017 would have decreased/increased by US$9 million (2016: US$13 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 2017 and 31 December 2016 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.

29. RISK MANAGEMENT ACTIVITIES CONTINUED

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 2017 of US$36 million (2016: US$48 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 2017:

					31 December 2017 US$m	31 December 2016 US$m
	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total	Total
Borrowings	16	71	1,427	155	1,669	1,506
Accounts payable and accrued expenses	63	18	–	–	81	82
Contigent consideration (Note 28)	2	4	28	41	75	77
Total	**81**	**93**	**1,455**	**196**	**1,825**	**1,665**

30. STATED CAPITAL ACCOUNT AND RETAINED EARNINGS

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

The movements in the stated capital account in the year were as follows:

	Stated capital account no. of shares	Stated capital account US$m
Balance at 31 December 2015	**424,650,138**	**1,969**
Issue of shares in accordance with Deferred Share Awards plan	110,850	1
Issue of shares for Kapan (Note 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**
Issue of shares for Tarutin	893,575	10
Issue of shares for Primorskoye contingent consideration (Note 28)	815,348	10
Issue of shares in accordance with Deferred Share Awards plan	144,219	1
Balance at 31 December 2017	**430,115,480**	**2,031**

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

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

Weighted average number of shares: Diluted earnings per share

Both basic and diluted earnings per share were calculated by dividing profit for the year attributable to equity holders of the parent by the weighted average number of outstanding common shares before/after dilution respectively. The calculation of the weighted average number of outstanding common shares after dilution is as follows:

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

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

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

The awards issued under management bonus deferral award plan are dilutive as of 31 December 2017 and 31 December 2016 being contingently issued shares and are included in the calculation of diluted EPS based on the weighted average number of shares that would be issuable if the end of the reporting period were the end of the contingency period.

31. SHARE-BASED PAYMENTS

For the year ended 31 December 2017, share-based compensation in the amount of US$10 million including US$1 million of management bonus deferral award (2016: US$7 million and US$1 million, respectively) was recognised in general, administrative and selling expenses in the consolidated income statement (Note 11). As of reporting date the unrecognised share-based compensation expense related to non-vested equity-settled stock appreciated rights is detailed as follows:

	31 December 2017			31 December 2016	
	Number of option granted shares	Expected amortisation period years	Unrecognised share-based compensation expense US$m	Expected amortisation period years	Unrecognised share-based compensation expense US$m
Tranche 2014	2,567,977	0.3	1	1.3	3
Tranche 2015	2,636,366	1.3	3	2.3	6
Tranche 2016	2,039,787	2.3	6	3.3	7
Tranche 2017	2,070,002	3.3	12	n/a	–
			22		16

During the year ended 31 December 2017 144,219 shares under management bonus plan deferral award were released and issued in accordance with the plan (2016: 110,850). The assumptions used in the calculation and fair value of one award, calculated based on those assumptions, are set in the table below:

	Tranche 2014	Tranche 2015	Tranche 2016	Tranche 2017
Risk free rate	1.60%	1.17%	1.11%	1.60%
Expected volatility	46.14%	43.70%	42.05%	41.65%
Constant correlation	34.49%	30.86%	32.32%	34.49%
Expected life, years	4	4	4	4
Share price at the date of grant (US$)	13.3	8.2	10.3	13.3
Fair value of one award (US$)	3.2	4.6	4.6	6.9

32. RELATED PARTIES

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Transactions with related parties		
Purchases of ore from equity method investments (Note 20)	38	11
Other sales recognised in other operating expenses, net	12	2

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

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

During the year ended the Group purchased ore from its associate GRK Amikan (Note 20) for the amount of US$35 million (2016: US$11 million) and its joint venture Aktogai Mys for the amount of US$3 million (2016: nil). Other sales recognised within other operating expenses are mainly represented by sales of machinery and equipment.

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

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

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

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

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Profit before tax		443	564
Adjustments for:			
Depreciation and depletion recognised in the statement of comprehensive income		214	155
Write-down of exploration assets and construction in progress	18	3	2
Write-down of metal inventories to net realisable value	21	16	21
Write-down of non-metal inventories to net realisable value	21	3	6
Additional mining taxes and VAT exposures, penalties and accrued interest, net	12	(8)	(12)
Provision for investment in Special Econonic Zone	12	12	14
Share-based compensation	11, 31	10	7
Finance costs	15	63	63
Finance income		(4)	(3)
Loss on disposal of property, plant and equipment	12	1	1
Rehabilitation expenses		–	1
Change in contingent consideration liability	28	(2)	22
Share of profit of associates and joint ventures	20	(3)	–
Foreign exchange (loss)/gain, net		10	(65)
Change in estimate of environmental obligations		(4)	(5)
Other non-cash expenses		4	1
Movements in working capital			
Increase in inventories		(35)	(50)
(Decrease)/ Increase in VAT receivable		(31)	14
(Increase)/Decrease in trade and other receivables		14	(4)
(Increase)/Decrease in prepayments to suppliers		(6)	2
(Decrease)/Increase in trade and other payables		(20)	17
Increase/(Decrease) in other taxes payable		10	(6)
Cash generated from operations		**690**	**745**
Interest paid		(63)	(61)
Interest received		1	1
Income tax paid		(95)	(155)
Net cash generated by operating activities		**533**	**530**

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

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

34. SUBSEQUENT EVENTS

In February 2018 the Group entered into a legally binding agreement to increase its stake in the Prognoz Serebro LLC (Note 12) from 5% to 50% through the acquisition of a further 45% ownership in the asset from Polar Acquisition Limited (PAL) for a total consideration of US$72 million to be paid in Polymetal shares. 90% of the consideration shares will be subject to a lock–up period of 180 days. Additionally Polymetal commits to pay PAL a net smelter return royalty of between 2% and 4% (pro rated by the 45% stake being acquired), which will be dependent on the applicable statutory mineral extraction tax rate at the time when the asset enters commercial production. The royalty agreement is subject to an agreed cap. The transaction is expected to close in first quarter 2018, subject to receipt of the required regulatory approvals.

ALTERNATIVE PERFORMANCE MEASURES

Introduction

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

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

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

Purpose

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

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

APMs and justification for their use

Group APM	Closest equivalent IFRS measure	Adjustments made to IFRS measure	Rationale for adjustments
Underlying net earnings	Profit/(loss) for the financial period attributable to equity shareholders of the Company	• Write-down of metal inventory to net realisable value (post-tax) • Foreign exchange (gain)/loss (post-tax) • Change in fair value of contingent consideration liability (post-tax)	• Exclude the impact of key significant one-off non-recurring items and significant non-cash items (other than depreciation) that can mask underlying changes in core performance
Adjusted EBITDA	Profit/(loss) before income tax	• Finance cost (net) • Depreciation and depletion • Write-down of metal and non-metal inventory to net realisable value • Share based compensation • Bad debt allowance • Net foreign exchange losses • Change in fair value of contingent consideration liability • Rehabilitation costs • Additional mining taxes, VAT, penalties and accrued interest	• Exclude the impact of certain non-cash element, either recurring or non-recurring, that can mask underlying changes in core operating performance, to be a proxy for operating cash flow generation
Net debt	• Net total of current and non-current borrowings • Cash and cash equivalents	n/a	
Net debt/ EBITDA ratio	No equivalent	n/a	• Measures the Group's net indebtedness that provides an indicator of the overall balance sheet strength • Used by creditors in bank covenants
Free cash flow	Cash flows from operating activity less free cash flow from investing activities	Less cash flows used in investing activities, excluding acquisition costs in business combinations and investments in associates and joint ventures	• Reflect cash generating from operations after meeting existing capital expenditure commitments • Measures the success of the Company in turning profit into cash through the strong management of working capital and capital expenditure
Total cash costs (TCC)	• Total cash operating costs • General, administrative & selling expenses	• Depreciation expense • Rehabilitation expenses Write-down of inventory to net realisable value • Intersegment unrealised profit elimination • Idle capacities and abnormal production costs • Exclude Corporate and Other segment and development assets	• Calculated according to common mining industry practice using the provisions of Gold Institute Production Cost Standard. • Give a picture of a Company's current ability to extract its resources at a reasonable cost and generate earnings and cash flows for use in investing and other activities
All-in sustaining cash costs (AISC)	• Total cash operating costs • General, administrative & selling expenses	• AISC is based on total cash costs, and adds items relevant to sustaining production.	• Include the components identified in World Gold Council's Guidance Note on Non GAAP Metrics – All In Sustaining Costs and All In Costs (June 2013), which is a non IFRS financial measure • Provide investors with better visibility into the true cost of production