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Polymetal International plc

Preliminary results for the year ended 31 December 2016

Polymetal International plc (LSE, MOEX: POLY, ADR: AUCOY) (together with its subsidiaries – "Polymetal", the "Company", or the "Group") is pleased to announce the Group's preliminary results for the year ended 31 December 2016.

FINANCIAL HIGHLIGHTS

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

OPERATING HIGHLIGHTS

- Polymetal delivered a strong performance in 2016, producing 1.27 Moz of gold equivalent which is slightly above the production guidance of 1.26 Moz. A strong finish to the year was driven by a solid performance at Omolon and our new operations - Svetloye (Okhotsk hub), Komar (Varvara) and Kapan.
- Gold production was 890 Koz, up 3% year-on-year, while silver production decreased 9% to 29.2 Moz compared to 2015. Gold sales generally followed production dynamics.

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[1] The definition and calculation of non-IFRS measures used in this report, including Adjusted EBITDA, Total cash costs, All-in sustaining cash costs, Underlying net earnings, Net debt, Free cash flow and the related ratios, are explained in the "Financial Review" section below.

[2] Profit for the financial period.

[3] On a cash basis.

- While the total number of fatalities for the year decreased to four compared to six in 2015, Polymetal remains committed to the implementation of additional measures in order to fully eliminate fatalities at all of its operations. A Critical Risks Management system will be introduced in 2017 that will complement existing safety measures and help reduce the risk of injuries across the business.
- The Company reconfirms its production guidance for 2017 and 2018 of 1.40 Moz and 1.55 Moz of gold equivalent, respectively. Traditionally, production in both years will be skewed towards the H2.
- TCC for 2017 are expected to be in the range of US$ 600-650/GE oz and AISC at US$ 775-825/GE oz, 10% and 3% above 2016 levels, respectively. The increase is due to rising domestic diesel prices and the strengthening of the Russian Rouble on the back of rising global oil prices.

"I am delighted to report robust earnings for the year on the back of a strong operating performance", said Vitaly Nesis, Group CEO of Polymetal, commenting on the results. "Delivering solid free cash flows and dividends reaffirms the strength of our strategy and allows us to advance our long-term project pipeline while sustaining cash returns to our shareholders".

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

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

[2] FY 2016: final dividend for FY 2015 declared in May 2016, interim dividend for the 1H 2016 declared in September 2016, and special dividend declared in December 2016.
FY 2015: final dividend for FY 2014 declared in May 2015, interim dividend for the 1H 2015 declared in September 2015, and special dividend declared in December 2015.

[3] FY 2016: final dividend, interim and special dividend for FY2016.
FY 2015: final dividend, interim and special dividend for FY2015.

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

PRESENTATION AND WEBCAST

Polymetal will hold a conference call and webcast on Wednesday, March 15, 2017 at 9:30 am London time (12:30 pm Moscow time).

To participate in the call, please dial:
8 10 800 249 020 44 (free from Russia), or
0808 109 0700 (free from the UK), or
+1 866 966 5335 (free from the US), or
+44 (0) 20 3003 2666 (Standard International Access),

or follow the link: http://webcast.instinctif.tv/795-1028-17991/en.

Please be prepared to introduce yourself to the moderator or register.

Webcast replay will be available on Polymetal's website (www.polymetalinternational.com) and at http://webcast.instinctif.tv/795-1028-17991/en. A recording of the call will be available immediately after the call at +44 (0) 20 8196 1480 (from within the UK), 1 866 583 1035 (USA Toll Free) and +7 (8) 495 249 9840 (from within Russia), access code 8525867#, from 15:30 Moscow time Wednesday, March 15, till 15:30 Moscow time Wednesday, March 22, 2017.

Enquiries

Media		Investor Relations	
FTI Consulting Leonid Fink Jenny Payne	+44 20 3727 1000	**Polymetal** Maxim Nazimok Evgenia Onuschenko Maryana Nesis	ir@polymetalinternational.com +7 812 313 5964 (Russia) +44 20 7016 9503 (UK)
Joint Corporate Brokers			
Morgan Stanley Sam McLennan Richard Brown	+44 20 7425 8000	**RBC Europe Limited** Tristan Lovegrove Marcus Jackson	+44 20 7653 4000
Panmure Gordon Adam James Tom Salvesen	+44 20 7886 2500		

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TABLE OF CONTENTS

CHAIRMAN'S STATEMENT

Operating sustainably in a volatile market

Dear fellow stakeholders

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

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

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

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

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

Performance in 2016

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

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

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

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

Dividends deliver value

Polymetal continues to maintain a track record of substantial dividend payments and delivering meaningful cash returns to our shareholders. The Company has consistently followed its dividend policy, reaffirming our commitment to capital allocation discipline and value distribution, while retaining flexibility to invest in attractive projects.In 2016, dividend payouts totaled US$ 158 million and the dividend yield over the last 5 years has averaged 4.1%. The Board proposes a final dividend for 2016 of US$ 0.18 per share subject to approval at the AGM, in May 2017.

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

The year ahead

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

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

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

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

Attractive investment opportunity

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

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

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

Bobby Godsell
Chairman

GROUP CEO STATEMENT

On track with delivering ambitious growth plans

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

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

Generating long-term value

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

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

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

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

Key highlights in 2016

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

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

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

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

Investing in further growth

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

We are pleased with the progress at Kyzyl, having completed all regulatory approvals and permitting processes, we started construction of the processing plant and commenced pre-stripping. The Board has also approved the Amursk POX expansion project, which will enable us to divert 50% of the concentrate produced at Kyzyl for in-house processing rather than offtake. This will significantly improve the economics of the project through better recovery and the cost of treatment. The project will be completed in 2018, in line with the start-up of Kyzyl.

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

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

Creating a sustainable future

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

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

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

Vitaly Nesis
Group CEO

OPERATING REVIEW

Strong operating track record

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

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

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

Key operating highlights

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

Analysis of production results

Mining

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

[1] % changes can be different from zero even when absolute numbers are unchanged because of rounding. Likewise, % changes can be equal to zero when absolute numbers differ due to the same reason. This note applies to all tables in this release.

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

[3] Based on actual realised prices

Underground development increased by a further 26% to more than 92 km (2015: 73.1 km). This included the contribution of mining activity at newly acquired Kapan, increased volumes at Mayskoye where the new mining method (sublevel open stoping with backfill) continues to make good progress, and continued underground development at an active pace at Birkachan and Tsokol (Omolon hub) and Albazino.

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

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

Processing

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

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

Production and sales dynamics

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

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

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

Gold equivalent production by mine (Koz)

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

Exploration

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

9 new licences were obtained over the course of 2016, bringing the total number to 86, covering a total area of more than 7,800 km^2. 47 licences currently involve active exploration activities.

Our key exploration objectives in 2016 included:

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

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

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

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

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

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

Reserves and resources

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

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

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

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

Ore Reserves and Mineral Resources summary[1]

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

Ore Reserves reconciliation, GE Moz

Ore Reserves, 01.01.2016	Gold/silver price ratio change	Depletion	Revaluation	Initial reserve estimates	Ore Reserves, 01.01.2017
20.8	-0.2	-1.5	-0.3	1.0	19.8

Outlook for 2017

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

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

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

The Company reconfirms its production guidance for 2017 and 2018 of 1.40 Moz and 1.55 Moz of gold equivalent, respectively. Traditionally, production in both years will be skewed towards the H2. The increase in production in 2017 will be driven by Varvara (Komar), Okhotsk (Svetloye), Omolon, and Kapan. This should offset the grade declines at Dukat and Voro.

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

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

FINANCIAL REVIEW

MARKET SUMMARY

Precious metals

2016 was a volatile year for the precious metals market, yet gold and silver prices recovered some of their 2015 losses. Importantly, for the first time in years, global gold and silver output decreased year-on-year; believed by many to mark the start of a multi-year downtrend, driven by depletion of quality reserves worldwide and decreased investment in new capacity. Following three consecutive years of annual price declines, gold became one of the best performing assets in 2016, rising 8% and amassing significant inflows through physical-backed gold ETFs, driven by unpredictable macroeconomic events, most notably Brexit and the outcome of the US elections. Gold demand grew 2% year-on-year to reach a multi-year high of 4,308 tonnes, largely driven by ETFs. However, physical demand for gold reached a seven-year low, due to a significant decrease in jewellery demand, notably in India (curbed by the demonetisation of large banknotes and high gold prices), and a sharp decline in official sector purchases on the back of US Federal Reserve pressures.

As a result, gold ended the year at US$ 1,159/oz versus US$ 1,062/oz in 2015, recording a year-high of US$ 1,366/oz in the third quarter. The average price increased by 8% year-on-year – from US$ 1,160/oz to US$ 1,250/oz. During 2016, silver price dynamics largely followed gold, apart from the second half of the year where gold fell more sharply. Silver finished the year strongly, averaging US$ 17.1/oz (up 9% year-on-year) and recording a year-high of US$ 20.7/oz in August, post Brexit. However, with the US rate hike in December, silver closed at US$ 16.2/oz. The average gold/silver price ratio in 2016 was 73:1 versus 74:1 in 2015.

Foreign exchange

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

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

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

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

OPERATING RESULTS

	Year ended 31 December,		**Change, %**
	2016	**2015**	
Waste mined, Mt	81.8	65.3	+25%
Underground development, km	92.2	73.1	+26%
Ore mined, Kt	**13,380**	**12,679**	**+6%**
Open-pit	9,506	9,626	-1%
Underground	3,874	3,053	+27%
Ore processed, Kt	**11,417**	**10,821**	**+6%**
Average grade processed, GE g/t	4.0	4.2	-5%
Production			
Gold, Koz	890	861	+3%
Silver, Moz	29.2	32.1	-9%
Copper, Kt	1.5	0.8	+88%

Zinc, Kt	2.9	-	N/A
Gold equivalent, Koz[1]	**1,269**	**1,267**	**+0%**
Sales			
Gold, Koz	880	864	+2%
Silver, Moz	30.7	31.2	-2%
Copper, Kt	1.6	1.5	+10%
Zinc, Kt	2.8	-	N/A
Gold equivalent, Koz[2]	**1,301**	**1,278**	**+2%**
Headcount[3]	10,812	9,292	+16%
Safety			
LTIFR[4]	0.19	0.22	-14%
Fatalities	4	6	-33%

REVENUE

		2016	2015	Change, %
Sales volumes				
Gold	Koz	880	864	+2%
Silver	Moz	30.7	31.2	-2%
Copper	Kt	1.6	1.49	+10%
Zinc	Kt	2.8	-	N/A
Gold equivalent sold[5]	**Koz**	**1,301**	**1,278**	**+2%**

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

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

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

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

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

[2] Based on actual realised prices.

[3] Average for the period

[4] LTIFR is lost time injury frequency rate per 200,000 hours worked

[5] Based on actual realised prices

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

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

COST OF SALES

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

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

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

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

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

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

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

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

GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

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

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

OTHER OPERATING EXPENSES

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

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

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

The provisions for investment in Special economic zones is attributable to Omolon and Dukat operations which are entitled to the decreased statutory income tax rate of 18% and decreased mining taxes (paying 60% of standard rate). In return, they are obliged to invest 50% of their tax savings towards the Special economic zone Development Programme. For more information refer to Note 10 of the condensed consolidated financial statements.

TOTAL CASH COSTS

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

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

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

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

Total cash cost by mine:

- Dukat's total cash cost per silver equivalent ounce remained flat year-on-year at US$ 6.4/oz. This stable performance was achieved on the back of continuing improvement in throughput at the Omsukchan concentrator, mitigating the effect of normalisation of the grade profile at the Dukat underground mine.
- Voro continues to be our lowest cost operation at US$ 322/GE, with cash costs decreasing by a further 4% compared to 2015. Processing at the CIP plant delivered record throughput, offsetting the impact of the planned decline in gold production at the heap leach facility, which has higher cash cost levels.
- At Okhotsk, TCC was US$ 612/GE oz, a 7% increase year-on-year reflecting the scheduled decline in average gold and silver grade processed. This performance includes Svetloye which in 2017, will contribute to lower cash cost for the hub as the operation ramps up to full capacity.
- At Varvara, TCC was US$ 780/GE oz, declining by 5% year-on-year. The decrease mainly stemmed from improved grades and recovery levels at the leaching circuit on the back of processing ore railed from Komarovskoye, supported by Tenge devaluation against the US Dollar.

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

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

- At Omolon, TCC amounted to US$ 503/GE oz, a 10% decrease year-on-year, driven by the devaluation of the Russian Rouble and lower mining tax rates.
- At Albazino/Amursk, TCC was US$ 529/GE oz, up 15% compared to 2015. The cost increase was driven by ore from the new underground mine at the Olga zone having higher initial costs and lower grade profile.
- Total cash costs at Mayskoye were US$ 1,011/GE oz, a 34% increase year-on-year, driven by a decline of the average grade processed and the introduction of a new mining method (sublevel open stoping with backfill). The costs are expected to normalise over the course of 2017 as the underground operation ramps up, and the production profile is supported by the crown pillar open pit project.
- Kapan's total cash costs were US$ 900/GE. The historically low underground mining productivity and consequent low utilisation of the processing plant as the key drivers of high cost levels, represent significant potential for operational and financial turnaround (already visible in half-on-half year dynamics), which was the strategic rationale behind the acquisition.

Analysis of 2H 2016 versus 1H 2016 performance:

Total cash costs per gold equivalent ounce	**Cash cost per GE ounce, US$ /oz**			**Gold equivalent sold, Koz** (silver for Dukat, Moz)		
	2H 2016	**1H 2016**	**Change, %**	**2H 2016**	**1H 2016**	**Change, %**
Dukat (SE oz)	6.9	5.8	+20%	16,942	13,829	+23%
Voro	340	301	+13%	69	56	+22%
Okhotsk	606	624	-3%	104	41	+152%
Varvara	726	909	-20%	58	24	+138%
Omolon	444	610	-27%	108	60	+81%
Albazino	581	468	+24%	126	108	+17%
Mayskoye	1,063	740	+44%	96	18	+420%
Kapan	865	1,186	-27%	24	3	+720%
Total	**604**	**514**	**+17%**	**817**	**484**	**+69%**

In 2H 2016, total cash costs increased by 17% compared to 1H 2016 driven by a strengthening Russian Rouble during the second half of 2016, which was to a signinificant extent offset by strong operational delivery at Okhotsk, Varvara, Omolon and Kapan.

Total cash cost by mine:

- At Dukat, Voro, Albazino and Mayskoye, the appreciation of the Russian Rouble during 2H 2016 outweighed the negligible effect of other operating factors that resulted in increased total cash costs half-on-half.
- At Okhotsk, TCC was US$ 606/GE oz and decreased by 3% half-on-half, following the seasonal switch to processing of the higher grade ore shipped from Avlayakan in the second half of the year.
- Varvara experienced positive input of processing high-grade ore railed from Komarovskoye, resulting in TCC of US$ 726/GE oz, 20% decrease half-on-half.
- At Omolon, cash costs decreased by 27% compared to 1H 2016 to US$ 444/GE oz switch to processing high-grade ore from Tsokol underground.
- The improvement measures and modifications to operating practices at Kapan resulted in TCC decreasing by 27% to US$ 865/GE oz half-on-half.

ALL-IN CASH COSTS

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

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

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

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

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

IMPAIRMENT OF METAL INVENTORIES

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

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

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

ADJUSTED EBITDA AND EBITDA MARGIN[1]

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

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

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

OTHER INCOME STATEMENT ITEMS

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

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

[2] The Company defines Adjusted EBITDA (a non-IFRS measure) as profit for the period adjusted for depreciation and amortisation, write-downs and reversals of inventory to net realisable value, share-based compensation expenses, rehabilitation expenses, bad debt allowance, gains and losses on acquisitions and disposals of subsidiaries, foreign exchange gains or losses, changes in fair value of contingent consideration, finance income, finance costs, income tax expense and other tax exposures accrued within other operating expenses. Adjusted EBITDA margin is Adjusted EBITDA divided by revenue. The figures presented above have been rounded and accordingly may not sum to the total shown.

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

Income tax expense for 2016 was US$ 169 million compared to US$ 55 million in 2015. The increase was mainly attributable to an increase in net income, combined with the effect of non-deductible exchange gains and losses incurred in 2015 due to the differences in local and functional currencies. No such exchange gains and losses were incurred in 2016 due to reduced exchange rate fluctuations. For details refer to Note 13 of the condensed consolidated financial statements.

NET EARNINGS, EARNINGS PER SHARE AND DIVIDENDS

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

Reconciliation of underlying net earnings[1] *(US$m)*	**2016**	**2015**	**Change, %**
Profit for the financial year	395	221	+79%
Write-down of metal inventory to net realisable value	21	13	+62%
Tax effect on write-down of metal inventory to net realisable value	(4)	(3)	+62%
Foreign exchange (gain)/loss	(65)	133	NM
Tax effect on foreign exchange (gain)/loss	14	(69)	NM
Change in fair value of contingent consideration liability	22	(4)	NM
Tax effect on change in fair value of contingent consideration	(0)	-	N/A
Underlying net earnings	**382**	**291**	**+31%**

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

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

CAPITAL EXPENDITURE[3]

(US$m)	**2016**	**2015**	**Change, %**
Kyzyl	75	32	+136%
Amursk/Albazino	33	20	+71%
Dukat	26	28	-5%
Mayskoye	20	21	-6%
Okhotsk operations	19	26	-28%
Varvara	10	15	-35%
Omolon	9	8	+20%
Kapan	8	-	N/A
Voro	3	3	0%
Corporate and other	6	5	+18%

[1] Underlying net earnings represent net profit for the year excluding the impact of key items that can mask underlying changes in core performance.

[2] Underlying basic EPS are calculated based on underlying net earnings.

[3] Total capital expenditure includes amounts payable at the end of the period. On a cash basis, capital expenditure was US$ 271 million in 2016 (2015: US$ 205 million).

Exploration	45	47	-4%
Capitalised stripping	28	16	+76%
Capitalised interest	5	4	+36%
	288	**224**	**+29%**

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

The major capital expenditure items in 2016 were:

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

CASH FLOWS

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

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

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

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

BALANCE SHEET, LIQUIDITY AND FUNDING

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

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

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

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

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

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

2017 OUTLOOK

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

A detailed explanation of these risks and uncertainties can be found on pages 66 to 69 of the 2015 annual report which is available at www.polymetalinternational.com. Further updates will be presented in the full annual financial report for 2016.

GOING CONCERN AND LONGER-TERM VIABILITY STATEMENT

In assessing its going concern status, the Group has taken account of its financial position, anticipated future trading performance, its borrowings and other available credit facilities, and its forecast compliance with covenants on those borrowings and its capital expenditure commitments and plans. As at 31 December 2016, the Group held US$ 48 million of cash and had net debt of US$ 1,330 million, with US$ 998 million of additional undrawn facilities of which US$ 873 million are considered committed. Debt of US$ 98 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, assuming necessary rollovers, but could secure additional financing if and when needed.

The Board is satisfied that the Group's forecasts and projections, having taken account of reasonably possible changes in trading performance, show that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of this report and that it is appropriate to adopt the going concern basis in preparing the condensed consolidated financial statements for the year ended 31 December 2016.

Based on key drivers and measures of success used within the business, the Board assessed the prospects of the Group, taking account of potential impact of the principal risks to the Group's business model and ability to deliver its strategy, including solvency and liquidity risks during the reasonably reliable lookout period of three years. The Board confirms that taking into account the Group's current position and based upon the robust assessment of the principal risks facing the Group and stress-testing based assessment of Group's prospects, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2019.

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

14 March 2017

POLYMETAL INTERNATIONAL PLC

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2016 US$m	Year ended 31 December 2015 US$m
Revenue	4	1,583	1,441
Cost of sales	5	(846)	(779)
Gross profit		**737**	**662**
General, administrative and selling expenses	9	(120)	(127)
Other operating expenses	10	(36)	(51)
Share of loss of associates and joint ventures	16	-	(4)
Operating profit		**581**	**480**
Gain on disposal of subsidiary	2	-	1
Net foreign exchange gains/(losses)		65	(133)
Change in fair value of contingent consideration liability	22	(22)	4
Finance income		3	5
Finance costs	12	(63)	(81)
Profit before income tax		**564**	**276**
Income tax expense	13	(169)	(55)
Profit for the financial year		**395**	**221**
Profit for the year attributable to:			
Equity shareholders of the Parent		395	221
		395	**221**

	Notes	Year ended 31 December 2016 US$	Year ended 31 December 2015 US$
Profit per share			
Basic	30	0.93	0.52
Diluted	30	0.93	0.52

	Year ended 31 December 2016 Cents per share	Year ended 31 December 2015 Cents per share	Year ended 31 December 2016 US$m	Year ended 31 December 2015 US$m
Final dividend proposed in relation to the year (Note 14)	18	13	77	56
Interim dividend (Note 14)	9	8	38	34
Special dividend (Note 14)	15	30	64	127
			179	**217**

POLYMETAL INTERNATIONAL PLC

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2016 US$m	Year ended 31 December 2015 US$m
Profit for the financial year	395	221
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	280	(582)
Currency exchange differences on intercompany loans forming part of net investment in foreign operations, net of income tax	(56)	(58)
Total comprehensive income/(loss) for the financial year	**619**	**(419)**

	Year ended 31 December 2016 US$m	Year ended 31 December 2015 US$m
Total comprehensive income/(loss) for the financial year attributable to:		
Equity Shareholders of the Parent	619	(419)
	619	**(419)**

POLYMETAL INTERNATIONAL PLC

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	31 December 2016 US$m	31 December 2015 US$m
Assets			
Property, plant and equipment	15	1,805	1,360
Goodwill		17	14
Investments in associates and joint ventures	16	25	2
Non-current loans and receivables		10	13
Deferred tax asset	13	38	57
Non-current inventories	17	113	99
Total non-current assets		**2,008**	**1,545**
Current inventories	17	493	353
Current VAT receivable		61	60
Trade and other receivables		70	39
Prepayments to suppliers		31	25
Income tax prepaid		18	8
Cash and cash equivalents		48	52
Total current assets		**721**	**537**
Total assets		**2,729**	**2,082**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities		(133)	(77)
Current borrowings	18	(98)	(287)
Income tax payable		(8)	(22)
Other taxes payable		(34)	(32)
Current portion of contingent consideration liability	22	(14)	(2)
Total current liabilities		**(287)**	**(420)**
Non-current borrowings	18	(1,280)	(1,063)
Contingent consideration liability	22	(62)	(24)
Deferred tax liability	13	(78)	(50)
Environmental obligations		(37)	(33)
Other non-current liabilities		(4)	(5)
Total non-current liabilities		**(1,461)**	**(1,175)**
Total liabilities		**(1,748)**	**(1,595)**
NET ASSETS		**981**	**487**
Stated capital account	20	2,010	1,969
Share-based compensation reserve		12	6
Translation reserve		(1,241)	(1,465)
Retained earnings /(accumulated loss)		200	(23)
Total equity		**981**	**487**

Notes on pages 32 to 60 form part of these financial statements. These financial statements are approved and authorised for issue by the Board of Directors on 14 March 2017 and signed on its behalf by:

Vitaly Nesis
Group Chief Executive

Bobby Godsell
Chairman of the Board of Directors

POLYMETAL INTERNATIONAL PLC

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
		US$m	**US$m**
Net cash generated by operating activities	23	530	491
Cash flows from investing activities			
Purchases of property, plant and equipment	15	(271)	(205)
Net cash outflow on business combinations	2	(107)	-
Acquisition of JV	16	(21)	(7)
Kyzyl put option exercise	2	-	(68)
Loans advanced, net		(2)	(22)
Other investing activities		-	2
Net cash used in investing activities		**(401)**	**(300)**
Cash flows from financing activities			
Borrowings obtained	18	1,436	723
Repayments of borrowings	18	(1,410)	(696)
Dividends paid	14	(158)	(300)
Contingent consideration payment	22	(2)	(1)
Net cash used in by financing activities		**(134)**	**(274)**
Net decrease in cash and cash equivalents		(5)	(83)
Cash and cash equivalents at the beginning of the financial year		52	157
Effect of foreign exchange rate changes on cash and cash equivalents		1	(22)
Cash and cash equivalents at the end of the financial year		**48**	**52**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Number of Polymetal International shares outstanding	Stated capital account	Share-based compensation reserve	Translation reserve	Share purchase obligation	Retained earnings	Total equity
Balance at 1 January 2015		**420,819,943**	**1,939**	**2**	**(825)**	**(219)**	**(29)**	**868**
Profit for the financial year							221	221
Other comprehensive income, net of income tax		-	-	-	(640)	-	-	(640)
Share based compensation		-	-	4	-	-	-	4
Shares alloted to employees		36,089	-	-	-	-	-	-
Issue of shares to acquire non-controlling interest	20	1,746,692	13	-	-	-	(13)	-
Issue of shares in exchange for asset acquisitions	2	1,618,154	13	-	-	-	-	13
Issue of shares to acquire share in joint venture	2	429,260	4	-	-	-	-	4
Share purchase obligation exercise	2	-	-	-	-	219	14	233
Dividends	14	-	-	-	-	-	(216)	(216)
Balance at 31 December 2015		**424,650,138**	**1,969**	**6**	**(1,465)**	**-**	**(23)**	**487**
Profit for the financial year							395	395
Other comprehensive income, net of income tax		-	-	-	224	-	-	224
Share based compensation		-	-	7	-	-	-	7
Shares alloted to employees		110,850	1	(1)	-	-	-	-
Issue of shares to acquire non-controlling interest	20	898,875	14	-	-	-	(14)	-
Issue of shares in exchange for asset acquisitions	2	1,120,690	11	-	-	-	-	11
Issue of shares for business acquisition	2	1,481,785	15	-	-	-	-	15
Dividends	14	-	-	-	-	-	(158)	(158)
Balance at 31 December 2016		**428,262,338**	**2,010**	**12**	**(1,241)**	**-**	**200**	**981**

1. GENERAL

Corporate information

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

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

Significant subsidiaries

At 31 December 2016 the Company held the following significant mining and production subsidiaries:

			Effective interest held, %	
Name of subsidiary	**Deposits**	**Country of incorporation**	**31 December 2016**	**31 December 2015**
JSC Gold of Northern Urals	Vorontsovskoye	Russia	100	100
LLC Okhotskaya Mining and Exploration Company	Avlayakan	Russia	100	100
Svetloye LLC	Svetloye	Russia	100	100
JSC Magadan Silver	Dukat Lunnoe Arylakh Goltsovoye	Russia	100	100
Mayskoye Gold Mining Company LLC	Mayskoye	Russia	100	100
Omolon Gold Mining Company LLC	Birkachan Tsokol Dalneye Oroch Sopka Kvartsevaya Olcha	Russia	100	100
Albazino Resources Ltd	Albazino	Russia	100	100
Amur Hydrometallurgical Plant LLC	N/A	Russia	100	100
JSC Varvarinskoye	Varvarinskoye	Kazakhstan	100	100
Bakyrchik Mining Venture LLP	Bakyrchik	Kazakhstan	100	100
JSC Inter Gold Capital	Bolshevik	Kazakhstan	100	100
JSC Komarovskoye Mining Company	Komarovskoye	Kazakhstan	100	-
Kapan MPC CJSC	Kapan	Armenia	100	-

Going concern

In assessing its going concern status, the Group has taken account of its financial position, anticipated future trading performance, its borrowings and other available credit facilities, and its forecast compliance with covenants on those borrowings and its capital expenditure commitments and plans. As at 31 December 2016, the Group held US$ 48 million of cash and had net debt of US$ 1,330 million. It has undrawn facilities of US$ 998 million, of which US$ 873 million are considered committed.

The Board is satisfied that the Group's forecasts and projections, having taken account of reasonably possible changes in trading performance, show that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of this report without material uncertainty and that it is appropriate to adopt the going concern basis in preparing the condensed consolidated financial statements for the year ended 31 December 2016.

While assessing the Group's longer-term viability, the Board confirms that taking into account the Group's current position and based upon the robust assessment of the principal risks facing the Group and stress-testing based assessment of Group's prospects, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2019.

Basis of presentation

The Group's annual condensed consolidated financial statements for the year ended 31 December 2016 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value as of end of the reporting period and share-based payments which are recognised at fair value as of measurement date.

The following accounting policies have been applied in preparing the condensed consolidated financial statements for the year ended 31 December 2016.

Amended accounting standards adopted by the entity

The following new accounting pronouncements which became effective in the current reporting period:

Amendments to IFRS 11 *Accounting for Acquisitions of Interest in Joint Operations.* The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 *Business Combination* and state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint venture. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations. Entities should apply the amendments prospectively to acquisitions of interest in joint operations occurring from the beginning of annual periods beginning on no after 1 January 2016. The Group has determined that amendments to IFRS 11 do not impact its consolidated financial statements as it does not have any arrangements considered joint operations.

Amendments to IAS 1 *Presentation of Financial Statements: Disclosure*. Initiative provides guidance on the use of judgement in presenting financial statement information, including: the application of materiality; order of notes; use of subtotals; accounting policy referencing and disaggregation of financial and non-financial information. Amendments are effective for annual periods beginning on or after 1 January 2016. The Group has determined that amendments to IAS 1 do not impact its consolidated financial statements.

New accounting standards issued but not yet effective

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

IFRS 9 *Financial instruments.* In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments" ("IFRS 9"). This standard is effective for annual periods beginning on or after January 1, 2018, and permits early adoption. IFRS 9 provides a revised model for recognition, measurement and impairment of financial instruments. IFRS 9 also includes a substantially reformed approach to hedge accounting. The Group is in the process of determining the impact of IFRS 9 on its consolidated financial statements and does not expect it to have a material impact on its consolidated financial statements.

IFRS 16 *Leases.* This standard is effective for annual periods beginning on or after January 1, 2019, and permits early adoption. IFRS 16 replaces the following standards and interpretations: IAS 17 Leases and IFRIC 4 *Determining whether an Arrangement contains a Lease*. The new standard provides a single lessee accounting model for the recognition, measurement, presentation and disclosure of leases. IFRS 16 applies to all leases including subleases and requires lessees to recognise assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset has a low value. Lessors continue to classify leases as operating or finance. The Group is in the process of determining the impact of IFRS 16 on its consolidated financial statements and does not expect it to have a material impact on its consolidated financial statements.

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

Amendments to IFRS 2 *Share based payment: Classification and Measurement of Share-Based Payment transactions*. On 20 June 2016, the International Accounting Standards Board (IASB) published final amendments to IFRS 2 that clarify the classification and measurement of share-based payment transactions. IASB has now added guidance on accounting for cash-settled share-based payment transactions that include a performance condition, classification of share-based payment transactions with net settlement features and accounting for modifications of share-based payment transactions from cash-settled to equity-settled. Amendments are effective for annual periods beginning on or after 1 January 2018. The Group is in the process of determining the impact of amendments to IFRS 2 on its consolidated financial statements.

2. ACQUISITIONS AND DISPOSALS

(a) Year ended 31 December 2016

Kapan

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

The asset comprises a fully mechanised underground mine with a current capacity of approximately 400 ktpa, a conventional 750 ktpa flotation concentrator and various infrastructure facilities. The mine produces gold, copper, silver and zinc concentrates sold to international markets.

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

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

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

The fair value of the 1,481,785 ordinary shares issued as part of the consideration paid for Kapan was determined based on spot price as of acquisition date, being US$ 10.28, and amounts to US$ 15 million.
The net smelter return royalty described above meets the definition of contingent consideration. The fair value of the contingent consideration was determined based on the life-of-mine model of the Kapan mine by discounting projected cash flows to the acquisition date. The following metal price assumptions, consistent with the assumptions adopted for the long-term planning at the time of acquisition, were used for the fair value calculation: Au – US$ 1,250/oz, Ag – US$ 17/oz, Cu – US$ 4,500/tonne, Zinc – US$ 1,800/tonne, real post-tax discount rate of 9.04%. At the acquisition date, the estimated fair value of the contingent consideration amounted to US$ 9 million. As of 31 December 2016 contingent consideration approximates to US$ 9 million (Note 22).

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

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

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

Fair value of shares issued	15	-	15
Contingent consideration	9	-	9
Total consideration	**33**	**5**	**38**
Net cash 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.

Impact of the acquisition on the result of the Group
Kapan contributed US$ 2 million to the Group's profit for the period between the date of acquisition and the reporting date. Revenue for the period amounts to US$ 29 million.
If the Kapan acquisition had been completed on the first day of the financial year, the revenue of the Group would have been US$ 1,588 million, and the profit for the period would have been US$ 391 million.

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 LL, 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 1 Mtpa of ore with potential to increase Varvara's annual production by approximately 70 Koz 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 is US$ 100 million payable in cash. In addition, a deferred consideration contingent upon future production levels and gold price performance, will be paid to Kazzinc LTD. The royalty is calculated on a quarterly basis, based on contained gold in ore mined per relevant quarter and is payable at gold prices above US$ 1,250 per ounce.The royalty is capped at a total consideration of US$ 80 million.

Consideration transferred
Deferred consideration described above meets definition of the contingent consideration. The fair value of the contingent consideration was determined based on the life-of-mine model of the 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 per ounce. As at acquisition date the estimated contingent consideration amounts to US$ 20 million. As of 31 December 2016 contingent consideration approximates to US$ 18 million (Note 22).

Assets acquired and liabilities recognised at the date of acquisition
At the date of finalisation of these condensed consolidated financial statements, the calculation of environmental obligations and the calculation of deferred taxes had not been finalised and they have therefore only been provisionally determined based on the directors' best estimate.

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

	US$m
Assets acquired and liabilities recognised at the date of acquisition	
Cash and cash equivalents	1
Property, plant & equipment	140
Inventories	7
Accounts receivable	1
Accounts payable and accrued liabilities	(2)
Environmental obligations	(1)
Deferred income taxes	(25)
Other 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.

Impact of the acquisition on the result of group
No significant acquisition-related costs were incurred.
Komarovskoye contributed US$ 1 million to the Group's profit for the period between the date of acquisition and the balance sheet date. Revenue for the period amounts to US$ 1 million, which excludes revenue from ore sales to JSC Varvariskoye amouting to US$ 10 million since the acquision date and US$ 17 million for the year ended 31 December 2016.

If Komarovskoye acquisition had been completed on the first day of the financial year, the revenue of the Group would have been US$ 1,583 million, and the profit for the period would have been US$ 395 million.

Saum Mining Company LLC

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

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

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

(b) Year ended 31 December 2015

Business combinations and asset acquisitions

Kyzyl purchase price allocation

On 4 September 2014 the Group acquired 100 per cent of the share capital of Altynalmas Gold Ltd (AAG), the holding company for the Kyzyl gold project in Kazakhstan.

The adjusted fair values of the identifiable assets and liabilities of Kyzyl as at the date of acquisition are presented in the following table:

	Provisional amount previously reported US$m	Adjustments US$m	Adjusted amounts US$m
Assets acquired and liabilities recognised at the date of acquisition			
Cash and cash equivalents	4	-	4
Mineral rights	854	(56)	798
Property, plant and equipment	6	-	6
Other assets	2	(1)	1
Environmental obligations	(16)	9	(7)
Contigent liablities	(6)	-	(6)
Deferred tax liability	(166)	48	(118)
Other liablities	(2)	-	(2)
Net assets acquired	**676**	**-**	**676**

Settlement of the Kyzyl put option

In accordance with Kyzyl acquisition terms, the Seller (Sumeru Gold B.V.) was entitled to a put option giving it a right to require Polymetal to acquire or procure acquirers for the consideration shares, described below, by notice to Polymetal during the one month period immediately following the first anniversary of completion at a price per consideration share equal to US$ 9.57027. On completion Polymetal recognised the repurchase obligation at the net present value of maximum repayment of US$ 300 million, which approximated to US$ 273 million, with a corresponding decrease in equity. At the same time the Group recognised the seller put option fair value in amount of US$ 55 million within consideration transferred with corresponding increase in equity.

The put option had an exercise period from 4 September to 4 October 2015.

In September 2015 the Group agreed to the following settlement mechanism for the put option:

- Polymetal settled the full contractual put option liability to the Seller and delivered a cash payment in the amount of US$ 300 million;
- Simultaneously, Polymetal transferred the right to receive consideration shares to Otkritie Investments Cyprus Limited in exchange for a cash consideration of US$ 232 million. The cash consideration payable by Otkritie to Polymetal represented the average closing price of the Polymetal shares for the agreed quotation period being one month ended five business days before the date of signing the assignment agreement, which was US$ 7.41 per share, multiplied by the number of Consideration Shares.

As a result the net amount of US$ 68 million was paid by Polymetal and the consideration shares remained in issue. On the put option being exercised, both the liability of US$ 300 million and the corresponding balance in equity of US$ 219 million were derecognised. After the cash payment has been taken into account, the balancing figure of US$ 14 million was recognised within retained earnings.

Primorskoye

In July 2015 Polymetal purchased a 100% interest in Primorskoye LLC, the company holding the licence for the Primorskoye silver-gold property located in the Magadan region of Russia from Decamor Investments Limited. The consideration for the acquisition comprised the initial consideration of US$ 4 million payable by issuing 533,301 new Polymetal International plc shares and the deferred conditional cash consideration payable in February 2017. The deferred consideration will be determined as the higher of US$ 13,333 per tonne of contained silver equivalent (translating into US$ 0.415 per silver equivalent ounce) based on the audited reserves estimate of the deposit, and US$ 8 million.

Primorskoye did not meet the definition of a business pursuant to IFRS 3, as it represents acquisition of mining license though a non-operating corporate entity, and thus it was accounted for as an acquisition of a group of assets. The Group purchased mineral rights of US$ 11 million.

LV Gold Mining

In April 2015 the Group purchased a 25% stake in CJSC LV Gold Mining, the company owning the Lichkvaz exploration licence in Armenia (including related shareholder loans). The consideration comprised 429,260 shares equal to US$ 4 million. Polymetal has also entered into an “earn-in” agreement for financing of exploration, technical research and a JORC feasibility study in exchange for a right to increase its share in the project up to 50% after the completion of these tasks. The arrangements constituted a joint venture and the investment was accounted for using the equity method at cost of US$ 4 million as of 30 June 2015.

On 11 November 2015, Polymetal signed an agreement to purchase the remaining 75% of LV Gold mining shares. The purchase price comprised 1,047,756 Polymetal International plc shares and a deferred consideration in an amount equal to 2% of value of precious metals in the ore extracted from the Lichkvaz deposit in the future during the life of mine. Under the contract the seller has also assigned to Polymetal an intercompany loan receivable of US$ 0.3 million in exchange for additional 37,097 Polymetal International plc shares. Total consideration payable in shares was valued at US$ 9 million and the contingent consideration was valued at US$ 5 million.

LV Gold Mining did not meet the definition of a business pursuant to IFRS 3, as it represents acquisition of mining license though a non-operating corporate entity, thus it was accounted for as an acquisition of a group of assets. The acquisition was achieved in stages and accounted for at cost which was the total of the cost of the original 25% interest and of the additional 75% interest. The Group purchased mineral rights of US$ 20 million.

Disposal of subsidiary

Khakandjinskoye LLC

On 26 October 2015 the Group sold its subsidiary Khakandjinskoye LLC, which held the Khakanja licence, for the cash consideration of US$ 0.5 million to an unrelated party. Total net assets disposed of amounted to US$ (0.7) million, resulting in a gain on disposal of subsidiary amounting to US$ 1.2 million.

3. SEGMENT INFORMATION

The Group has nine reportable segments:

- Voro (CJSC Gold of Northern Urals);
- Okhotsk operations (LLC Okhotskaya Mining and Exploration Company; Svetloye LLC);
- Dukat (JSC Magadan Silver);
- Omolon (Omolon Gold Mining Company LLC);
- Varvara (JSC Varvarinskoye; JSC Komarovskoye Mining Company);
- Amursk-Albazino (Albazino Resources Ltd, Amur Hydrometallurgical Plant LLC);
- Mayskoye (Mayskoye Gold Mining Company LLC);
- Kyzyl (Bakyrchik Mining Venture LLP, Inter Gold Capital LLP); and
- Armenia ("Kapan MPC" CJSC, "LV Gold Mining" CJSC).

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

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

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

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

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

Period ended 31 December 2016 (US$m)	Voro	Okhotsk	Dukat	Omolon	Varvara	Amursk-Albazino	Armenia	Mayskoye	Kyzyl	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	157	179	497	207	101	294	29	119	-	1,583	-	-	1,583
Intersegment revenue	-	-	-	-	-	6	-	-	-	6	196	(202)	-
Cost of sales, excluding depreciation, depletion and write-down of inventories to net realisable value	36	82	188	78	61	121	19	96	-	681	134	(149)	**666**
Cost of sales	47	98	224	112	72	160	23	125	-	861	134	(149)	846
Write-down of metal inventories to net realisable value	-	(5)	1	(14)	-	-	-	(3)	-	(21)	-	-	(21)
Depreciation included in cost of sales	(11)	(10)	(37)	(20)	(11)	(37)	(4)	(22)	-	(152)	-	-	(152)
Write-down of non-metal inventories to net realisable value	-	(1)	-	1	-	(2)	-	(4)	-	(6)	-	-	(6)
Rehabilitation expenses	-	-	-	(1)	-	-	-	-	-	(1)	-	-	(1)
General, administrative and selling expenses, excluding depreciation, amortization and share based compensation	4	7	10	7	4	7	3	6	5	53	69	(12)	**110**
General, administrative and selling expenses	10	13	16	13	5	14	3	12	6	92	79	(51)	120
Intercompany management services	(6)	(5)	(6)	(6)	(1)	(7)	-	(6)	-	(37)	(2)	39	-
Depreciation included in SGA	-	(1)	-	-	-	-	-	-	(1)	(2)	(1)	-	(3)
Share based compensation	-	-	-	-	-	-	-	-	-	-	(7)	-	(7)
Other operating expenses excluding additional tax charges	4	1	16	6	-	5	1	4	3	40	10	(2)	48
Other operating expenses	5	1	2	6	-	5	3	3	3	28	10	(2)	36
Bad debt allowance	-	-	-	-	-	-	-	-	-	-	-	-	-
Additional mining taxes and VAT exposures, penalties and accrued interest	(1)	-	14	-	-	-	(2)	1	-	12	-	-	12
Share of income of associates and joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted EBITDA	**113**	**89**	**283**	**116**	**36**	**167**	**6**	**13**	**(8)**	**815**	**(17)**	**(39)**	**759**
Depreciation expense	11	11	37	20	11	37	4	22	1	154	1	-	**155**
Rehabilitation expenses	-	-	-	1	-	-	-	-	-	1	-	-	**1**
Write-down of non-metal inventories to net realisable value	-	1	-	(1)	-	2	-	4	-	6	-	-	**6**
Write-down of metal inventories to net realisable value	-	5	(1)	14	-	-	-	3	-	21	-	-	**21**
Share-based compensation	-	-	-	-	-	-	-	-	-	-	7	-	**7**
Bad debt allowance	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Additional mining taxes and VAT exposures, penalties and accured interest	1	-	(14)	-	-	-	2	(1)	-	(12)	-	-	**(12)**
Operating profit / (loss)	**101**	**72**	**261**	**82**	**25**	**128**	**-**	**(15)**	**(9)**	**645**	**(25)**	**(39)**	**581**
Net foreign exchange gains													**65**
Change in fair value of contingent consideration liability													**(22)**
Finance income													**3**
Finance costs													**(63)**
Profit before tax													**564**
Income tax expense													**(169)**
Profit for the financial period													**395**
Current metal inventories	38	43	52	49	43	62	6	29	-	**322**	-	(7)	**315**
Current non-metal inventories	5	32	28	30	13	18	7	28	3	**164**	23	(9)	**178**
Non-current segment assets:													
Property, plant and equipment, net	49	96	182	92	217	281	50	162	556	**1,685**	144	(24)	**1,805**
Goodwill	-	-	5	-	-	-	-	12	-	**17**	-	-	**17**
Non-current inventories	2	7	8	78	4	6	1	8	-	**114**	-	(1)	**113**
Investments in associates and joint ventures	-	-	-	-	-	-	-	-	-	**-**	25	-	**25**
Total segment assets	**94**	**178**	**275**	**249**	**277**	**367**	**64**	**239**	**559**	**2,302**	**192**	**(41)**	**2,453**
Additions to non-current assets:													
Property, plant and equipment	7	32	33	23	16	41	13	22	92	**279**	9	-	**288**
Acquisitions	-	-	-	-	140	-	21	-	-	**161**	10	-	**171**

For the year ended 31 December 2015 (US$m)	Voro	Okhotsk	Dukat	Omolon	Varvara	Amursk-Albazino	Mayskoye	Kyzyl	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	163	129	441	224	96	255	133	-	1,441	-	-	1,441
Intersegment revenue	1	-	-	1	-	9	-	-	11	212	(223)	-
Cost of sales, excluding depreciation, depletion and write-down of inventories to net realisable value	43	59	184	101	64	97	88	-	636	158	(182)	**612**
Cost of sales	54	70	222	135	86	128	108	-	803	158	(182)	779
Write-down of metal inventories to net realisable value	-	1	-	(6)	(8)	-	-	-	(13)	-	-	(13)
Depreciation included in cost of sales	(12)	(11)	(38)	(24)	(14)	(31)	(21)	-	(151)	-	-	(151)
Write-down of non-metal inventories to net realisable value	-	(1)	(1)	(4)	-	-	1	-	(5)	-	-	(5)
Rehabilitation expenses	1	-	1	-	-	-	-	-	2	-	-	2
General, administrative and selling expenses, excluding depreciation, amortization and share based compensation	5	20	8	7	5	7	7	7	66	64	(12)	**118**
General, administrative and selling expenses	11	26	15	12	6	12	11	8	101	71	(45)	127
Intercompany management services	(6)	(4)	(6)	(5)	(1)	(5)	(4)	-	(31)	(2)	33	-
Depreciation included in SGA	-	(2)	(1)	-	-	-	-	(1)	(4)	(1)	-	(5)
Share based compensation	-	-	-	-	-	-	-	-	-	(4)	-	(4)
Other operating expenses excluding additional tax charges	1	2	9	5	2	8	4	7	38	(6)	16	**48**
Other operating expenses	2	2	4	10	2	8	5	7	40	(5)	16	51
Bad debt allowance	(1)	-	-	(5)	-	-	-	-	(6)	(1)	-	(7)
Additional mining taxes and VAT exposures, penalties and accrued interest	-	-	5	-	-	-	(1)	-	4	-	-	4
Share of income of associates and joint ventures	-	-	-	-	-	-	-	-	-	(4)	-	(4)
Adjusted EBITDA	**115**	**48**	**240**	**112**	**25**	**152**	**34**	**(14)**	**712**	**(8)**	**(45)**	**659**
Depreciation expense	12	13	39	24	14	31	21	1	155	1	-	**156**
Rehabilitation expenses	(1)	-	(1)	-	-	-	-	-	(2)	-	-	**(2)**
Write-down of non-metal inventories to net realisable value	-	1	1	4	-	-	(1)	-	5	-	-	**5**
Write-down of metal inventories to net realisable value	-	(1)	-	6	8	-	-	-	13	-	-	**13**
Share-based compensation	-	-	-	-	-	-	-	-	-	4	-	**4**
Bad debt allowance	1	-	-	5	-	-	-	-	6	1	-	**7**
Additional mining taxes and VAT exposures, penalties and accured interest	-	-	(5)	-	-	-	1	-	(4)	-	-	**(4)**
Operating profit / (loss)	**103**	**35**	**206**	**73**	**3**	**121**	**13**	**(15)**	**539**	**(14)**	**(45)**	**480**
Net foreign exchange losses												**(133)**
Gain on disposal of subsidiary												**1**
Change in fair value of contingent consideration liability												**4**
Finance income												**5**
Finance costs												**(81)**
Profit before tax												**276**
Income tax expense												**(55)**
Profit for the financial period												**221**
Current metal inventories	28	31	50	28	21	38	28	-	224	-	(2)	**222**
Current non-metal inventories	4	25	20	24	10	13	26	1	123	15	(7)	**131**
Non-current segment assets:												
Property, plant and equipment, net	46	61	169	70	68	241	136	460	1,251	127	(18)	**1,360**
Goodwill	-	-	4	-	-	-	10	-	14	-	-	**14**
Non-current inventories	1	13	6	64	4	6	7	-	101	-	(2)	**99**
Investments in associates and joint ventures	-	-	-	-	-	-	-	-	-	2	-	**2**
Total segment assets	**79**	**130**	**249**	**186**	**103**	**298**	**207**	**461**	**1,713**	**144**	**(29)**	**1,828**
Additions to non-current assets:												
Property, plant and equipment	7	36	33	28	20	38	21	32	215	10	-	**225**
Acquisition of group of assets	-	-	11	-	-	-	-	-	11	20	-	**31**

4. REVENUE

Revenue analysed by geographical regions of customers is presented below:

	Year ended	
	31 December 2016	31 December 2015
	US$m	US$m
Sales within the Russian Federation	899	1,052
Sales to Kazakhstan	295	217
Sales to Europe	205	33
Sales to East Asia	184	139
Total	**1,583**	**1,441**

Included in revenues for the year ended 31 December 2016 are revenues which arose from sales to three of the Group's largest customers amounting to US$ 416 million, US$ 281 million and US$ 206 million, respectively (2015: $501 million, US$ 185 million and US$ 162 million, respectively). Presented below is an analysis of revenue from gold, silver, zinc and copper sales:

	Year ended 31 December 2016				Year ended 31 December 2015			
	Thousand ounces/ tonnes (unaudited) shipped	Thousand ounces/ tonnes (unaudited) payable	Average price (U.S. Dollar per troy ounce/tonne payable) (unaudited)	US$m	Thousand ounces/ tonnes (unaudited) shipped	Thousand ounces/ tonnes (unaudited) payable	Average price (U.S. Dollar per troy ounce/tonne payable) (unaudited)	US$m
Gold (thousand ounces)	882	880	1,216	1,070	875	864	1,127	974
Silver (thousand ounces)	31,099	30,666	16.30	500	31,494	31,190	14.75	460
Copper (tonnes)	1,689	1,634	4,896	8	1,578	1,488	4,704	7
Zinc (tonnes)	3,246	2,800	1,786	5	-	-	-	-
Total				**1,583**				**1,441**

5. COST OF SALES

	Year ended	
	31 December 2016	31 December 2015
	US$m	US$m
Cash operating costs		
On-mine costs (Note 6)	320	267
Smelting costs (Note 7)	259	261
Purchase of ore and semifinished goods from third parties	27	5
Purchase of ore from related parties (Note 21)	11	-
Mining tax	82	97
Total cash operating costs	**699**	**630**
Depreciation and depletion of operating assets (Note 8)	162	154
Rehabilitation expenses	1	(2)
Total costs of production	**862**	**782**
Increase in metal inventories	(51)	(27)
Write-down of metal inventories to net realisable value (Note 17)	21	13
Write-down of non-metal inventories to net realisable value (Note 17)	6	5
Idle capacities and abnormal production costs	8	6
Total	**846**	**779**

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

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

Idle capacities and abnormal production costs were expensed as incurred and relate to Mayskoye where the processing plant was stopped from November 2015 to February 2016 while underground mining was ramping up due to the redevelopment of underground workings using a new mining method and idle capacities when processing plants are stopped for general maintenance.

6. ON-MINE COSTS

	Year ended	
	31 December 2016	**31 December 2015**
	US$m	**US$m**
Services	139	120
Labour	97	78
Consumables and spare parts	79	67
Other expenses	5	2
Total (Note 5)	**320**	**267**

7. SMELTING COSTS

	Year ended	
	31 December 2016	**31 December 2015**
	US$m	**US$m**
Consumables and spare parts	114	115
Services	93	94
Labour	50	50
Other expenses	2	2
Total (Note 5)	**259**	**261**

8. DEPLETION AND DEPRECIATION OF OPERATING ASSETS

	Year ended	
	31 December 2016	**31 December 2015**
	US$m	**US$m**
On-Mine	117	104
Smelting	45	50
Total (Note 5)	**162**	**154**

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

9. GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

	Year ended	
	31 December 2016	**31 December 2015**
	US$m	**US$m**
Labour	87	88
Services	10	14
Share based compensation	7	4
Depreciation	3	5
Other	13	16
Total	**120**	**127**

10. OTHER OPERATING EXPENSES, NET

	Year ended	
	31 December 2016	31 December 2015
	US$m	US$m
Provision for investment in Special Economic Zone	14	-
Taxes, other than income tax	11	12
Exploration expenses	10	24
Social payments	10	8
Reversal of additional mining taxes, VAT, penalties and accrued interest	(12)	(4)
Bad debt allowance	-	7
Housing and communal services	4	4
Loss on disposal of property, plant and equipment	1	1
Change in estimate of environmental obligations	(5)	(4)
Other expenses	3	3
Total	**36**	**51**

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

Mining taxes, VAT, penalties and accrued interest have been accrued in respect of various disputes with the Russian and Armenian tax authorities. During the year ended 31 December 2016 following the favourable court decisions the Group has recognised the reversal of the previously recognised and paid additional mining tax charge at Magadan Silver amounting to US$ 14 million.

During the year ended 31 December 2015 the Group partially released several mining tax provisions at Magadan Silver following the completion of the tax audits.

Total provision for tax exposures, penalties and accrued interest as of 31 December 2016 is US$ 14 million (2015: US$ 3.5 million), which includes US$ 11 million of mining tax exposures (including interest and penalties), which were identified and recognised at Kapan mine purchase price allocation (Note 2). As of 31 December total provision at Kapan amounts to US$ 13 million, which includes US$ 2 million of interest and penalties accrued from acquisition to the reporting date.

Exploration expenses include write downs of US$ 1 million (2015: US$ 8 million) recognised within Exploration and Development assets (Note 15). Operating cash flow spent on exploration activities amounts to US$ 11 million (2015: US$ 13 million).

11. EMPLOYEE COSTS

	Year ended	
	31 December 2016	31 December 2015
	US$m	US$m
Wages and salaries	215	199
Social security costs	51	49
Share based compensation	7	4
Total payroll costs	**273**	**252**
Reconciliation:		
Less: employee costs capitalised	(26)	(25)
Less: employee costs absorbed into unsold metal inventory balances	(5)	(4)
Employee costs included in operating costs	**242**	**223**

The weighted average number of employees during the year ended 31 December 2016 and year ended 31 December 2015 was:

	Year ended	
	31 December 2016	31 December 2015
	Number	Number
Dukat	1,910	1,856
Amursk-Albazino	1,356	1,286

Okhotsk operations	1,263	1,140
Varvara	1,111	789
Mayskoye	895	828
Voro	878	924
Armenia	770	-
Omolon	759	752
Kyzyl	406	414
Corporate and other	1,465	1,303
Total	**10,813**	**9,292**

Compensation of key management personnel is disclosed within Note 21.

12. FINANCE COSTS

	Year ended	
	31 December 2016	31 December 2015
	US$m	US$m
Interest expense on borrowings	59	52
Unwinding discount on repurchase obligation (Note 2)	-	24
Unwinding of discount on environmental obligations	4	5
Total	**63**	**81**

Interest expense on borrowings excludes borrowing costs capitalised in the cost of qualifying assets of US$ 5 million and US$ 4 million during the years ended 31 December 2016 and 2015, respectively. These amounts were calculated based on the Group's general borrowing pool and by applying an effective interest rate of 4.33% and 4.06%, respectively, to cumulative expenditure on such assets.

13. INCOME TAX

The amount of income tax expense for the years ended 31 December 2016 and 31 December 2015 recognised in profit and loss is as follows:

	Year ended	
	31 December 2016	31 December 2015
	US$m	US$m
Current income taxes	139	103
Deferred taxes	30	(48)
Total	**169**	**55**

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

	Year ended	
	31 December 2016	31 December 2015
	US$m	US$m
Profit before income tax	564	**276**
Statutory income tax expense at the tax rate of 20%	113	55
Effect of dissolution of subsidiary	25	-
Non-deductible interest expense	14	11
Current year losses not recognised and losses previously recognised written-off	7	6
Effect of Special Economic Zone decreased tax rate	(2)	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2)	4
Non taxable net foreign exchange gains	1	(45)
Other non-taxable income and non-deductible expenses	13	24
Total income tax expense	**169**	**55**

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

As from 1 January 2016 Omolon Gold Mining Company LLC and JSC Magadan Silver are entitled to the decreased statutory income tax rate of 18% for the operations held in the Special Economic zone of the Russian Far East (Note 10), the rate of 18% was used in calculation of income tax provision and deferred tax positions for those entities.

For several entities, the tax calculation is prepared in local currencies that differ from the functional currency of the entity. In the year ended 31 December 2015 this resulted in exchange gains and losses excluded from tax computations in the local currency that gave rise to significant permanent differences. During the year ended 31 December 2016 no such exchange gains and losses were incurred due to reduced exchange rate fluctuations. Effect of dissolution of subsidiary represents accumulated tax losses written off in a subsidiary, which was dissolved during the year ended 31 December 2016.

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

Tax exposures recognised in income tax

During the year ended 31 December 2016 and the year ended 31 December 2015 no individual significant exposures were indentified as probable and provided for. Management has identified a total exposure (covering taxes and related interest and penalties) of approximately US$ 4 million in respect of uncertain tax positions (31 December 2015: US$ 16 million) which relate to income tax.

Income tax amounts included in other comprehensive income

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

	Year ended 31 December 2016	Year ended 31 December 2015
	US$m	**US$m**
Net foreign exchange losses on net investment in foreign operation		
Current tax (benefit)/expense	(6)	3
Deferred tax (benefit)	(1)	(14)
Total income tax recognised in other comprehensive income	**(7)**	**(11)**

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

Deferred taxation

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

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

	Environmental obligation US$m	Inventories US$m	Property, plant, and equipment and other non-current assets US$m	Trade and other payables US$m	Tax Losses US$m	Long-term loans and payables US$m	Intercompany loans US$m	Other US$m	Total US$m
At 1 January 2015	**9**	**(16)**	**(212)**	**7**	**110**	**2**	**-**	**5**	**(95)**
Charge to income statement	-	(2)	(1)	1	50	-	-	-	**48**
Recognised in other comprehesive income	-	-	-	-	14	-	-	-	**14**
Exchange differences	(3)	4	86	(2)	(44)	-	-	(1)	**40**
At 31 December 2015	**6**	**(14)**	**(127)**	**6**	**130**	**2**	**-**	**4**	**7**
Charge to income statement	(1)	6	7	1	(37)	-	(6)	-	**(30)**
Acquisition (Note 2)	-	1	(21)	2	2	-	-	-	**(16)**
Recognised in other comprehesive income	-	-	-	-	1	-	-	-	**1**

Exchange differences	2	(3)	(12)	1	9	-	-	1	**(2)**
At 31 December 2016	**7**	**(10)**	**(153)**	**10**	**105**	**2**	**(6)**	**5**	**(40)**

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

	Year ended	
	31 December 2016	**31 December 2015**
	US$m	**US$m**
Deferred tax liabilities	(78)	(50)
Deferred tax assets	38	57
	(40)	**7**

Tax losses carried forward represent amounts available for offset against future taxable income generated by ZK Mayskoye LLC, JSC Varvarinskoye, Bakyrchik Mining Venture LLP and CJSC Kapan MPC during the period up to 2026. Each legal entity within the Group represents a separate tax-paying component for income tax purposes. The tax losses of one entity cannot be used to reduce taxable income of other entities of the Group.

The Group believes that recoverability of the recognised deferred tax asset (DTA) of US$ 105 million at 31 December 2016 is more likely than not based upon expectations of future taxable income in the Russian Federation and Kazakhstan.

Losses incurred in certain taxable entities in recent years have created a history of losses as of 31 December 2016. The Group has concluded that there is sufficient evidence to overcome the recent history of losses based on forecasts of sufficient taxable income in the carry-forward period.

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.

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

The Group's tax losses carried forward are allocated to the future periods as follows:

	31 December 2016	**31 December 2015**
	US$m	**US$m**
Year ended 31 December 2016	-	3
31 December 2017	-	4
31 December 2018	-	11
31 December 2019	10	18
31 December 2020	9	17
31 December 2021	16	24
31 December 2022	20	37
31 December 2023	18	64
31 December 2024	73	97
31 December 2025	361	373
31 December 2026	18	-
Total loss carried forward for tax purposes	**525**	**648**

No deferred tax asset has been recognised in respect of remaining US$ 96 million (2015: US$ 54 million) as it is not considered probable that there will be future taxable profits against which the losses can be utilised. Increase in 2016 is related to the Svetloye tax losses, accumulated by 1 January 2016, were the entity has received tax relief as Regional Investment Project and is entitled to the statutory income tax rate of 0% up to 2021, thus will not be able to utilise accumulated losses. Included in unrecognized tax losses are losses of US$ 30 million that mainly expires in 2025. Other losses may be carried forward indefinitely in accordance with enacted changes to Russian Federation legislation described above.

The deferred tax liabilities for taxes that would be payable on the unremitted earnings of certain of the Group subsidiaries have not been recognised as the Group has determined that the undistributed profit of its subsidiaries will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognised, amount to US$ 2,147 million (2015: US$ 1,318 million).

14. DIVIDENDS

Dividends recognised during the years ended 31 December 2016 and 31 December 2015 are detailed in the below:

	cents per share	US$m	Dividends approved and deducted from the equity in	proposed in relation to the year	Paid in
Special dividend 2014	20	84	December 2014	2014	January 2015
Final dividend 2014	13	55	May 2015	2014	May 2015
Interim dividend 2015	8	34	September 2015	2015	September 2015
Special dividend 2015	30	127	December 2015	2015	December 2015
Final dividend 2015	13	56	May 2016	2015	May 2016
Interim dividend 2016	9	38	September 2016	2016	September 2016
Special dividend 2016	15	64	December 2016	2016	December 2016
Final dividend 2016	18	77	N/A	2016	N/A
Total dividends for the year ended 31 December 2015			**216**	**217**	**300**
Total dividends for the year ended 31 December 2016			**158**	**179**	**158**

15. PROPERTY, PLANT AND EQUIPMENT

	Development assets	Exploration assets	Mining assets	Non-mining assets	Capital construction in-progress	Total
	US$m	US$m	US$m	US$m	US$m	US$m
Cost						
Balance at 1 January 2015	**902**	**117**	**1,564**	**58**	**79**	**2,720**
Additions	41	11	76	5	92	225
Transfers	(58)	-	101	(3)	(40)	-
Change in decommissioning liabilities	-	-	4	-	-	4
Acquisition of group of assets (Note 2)	-	30	-	1	-	31
Disposals and write-offs incl fully depleted mines	(2)	(6)	(160)	(2)	(1)	(171)
Translation to presentation currency	(365)	(54)	(411)	(15)	(26)	(871)
Balance at 31 December 2015	**518**	**98**	**1,174**	**44**	**104**	**1,938**
Additions	39	26	143	7	73	288
Transfers	(28)	-	73	(2)	(43)	-
Change in decommissioning liabilities	-	-	(3)		-	(3)
Acquisitions (Note 2)	-	10	152	9	-	171
Disposals and write-offs incl fully depleted mines	-	(1)	(23)	(2)	(1)	(27)
Translation to presentation currency	35	7	234	9	17	302
Balance at 31 December 2016	**564**	**140**	**1,750**	**65**	**150**	**2,669**

Accumulated depreciation, amortisation and impairment	Development assets	Exploration assets	Mining assets	Non-mining assets	Capital construction in-progress	Total
		US$m	US$m	US$m	US$m	US$m
Balance at 1 January 2015	**-**	**-**	**(735)**	**(20)**	**-**	**(755)**
Charge for the period	-	-	(173)	(4)	-	(177)
Disposals and write-offs	-	-	153	1	-	154
Transfers	-	-	(1)	1	-	-
Translation to presentation currency	-	-	196	4	-	200
Balance at 31 December 2015	**-**	**-**	**(560)**	**(18)**	**-**	**(578)**
Charge for the period	-	-	(182)	(5)	-	(187)
Disposals and write-offs incl fully depleted mines	-	-	18	1	-	19
Translation to presentation currency	-	-	(115)	(3)	-	(118)
Balance at 31 December 2016	**-**	**-**	**(839)**	**(25)**	**-**	**(864)**
Net book value						
1 January 2015	**902**	**117**	**829**	**38**	**79**	**1,965**
31 December 2015	**518**	**98**	**614**	**26**	**104**	**1,360**
31 December 2016	**564**	**140**	**911**	**40**	**150**	**1,805**

Mining assets, exploration and development assets at 31 December 2016 included mineral rights with net book value which amounted to US$ 756 million (31 December 2015: US$ 582 million) and capitalised stripping costs with net book value of US$ 32 million (31 December 2015: US$ 33 million). Mineral rights of the Group comprise assets acquired upon acquisition of subsidiaries and asset acquisitions.

No property, plant and equipment was pledged as collateral at 31 December 2016 or at 31 December 2015.

16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31 December 2016		31 December 2015	
	Voting power %	Carrying Value US$m	Voting power %	Carrying Value US$m
Nezhda	17.66	21	n/a	-
GRK Amilkan	42.65	2	42.65	-
Aktogai Mys LLC	25	-	25	-
Proeks LLC	24.9	2	24.9	2
Total		**25**		**2**

JSC South-Verkhoyansk Mining Company

In December 2015 Polymetal International plc entered into a joint arrangement with OJSC Polyus Gold, under which Polymetal will participate in advancing the development of the Nezhdaninskoye gold deposit (Nezhda) in Yakutia, Russia. The arrangement allows Polymetal to acquire up to 50% in the joint venture entity holding 100% of JSC South-Verkhoyansk Mining Company ("SVMC") through an earn-in mechanism. SVMC, which was a 100% subsidiary of Polyus Gold as of 31 December 2015, holds the mining and exploration license for the Nezhda as well as certain infrastructure adjacent to the deposit.

On 19 January 2016 Polymetal obtained a 15.3% interest in the joint venture entity holding 100% of the Company for the total cash consideration of US$ 18 million.

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

The arrangement is structured through a separate vehicle and constitutes a joint venture under IFRS 11 *Joint Arrangements* and the investment is accounted for using the equity method.

As of 31 December 2016 the entity did not hold any significant cash balances and did not record any signicant amounts of revenue or expenses, depreciation and amortisation, interest income and expenses, income tax.

GRK Amikan

GRK Amikan is a production company which holds 100% interest in Veduga gold deposit in the Krasnoyarsk region of the Russian Federation. During the year ended 31 December 2016 the Group has purchased ore from GRK Amikan for the total amount of US$ 11 million (2015: nil) (Note 21) and eliminated unrealised profit on inventories not yet processed against its share of net profit in GRK Amikan.

Aktogai Mys LLC

In June 2015 the Group signed an agreement to purchase 25% stake in the Aktogai Mys LLC, the company owning the Dolinnoye exploration licence in Kazakhstan (including related shareholder loans). Polymetal has also entered into an "earn-in" agreement for financing of exploration and technical research and may increase its share in the project up to 50% after the completion of these tasks. The arrangements constitute a joint venture and the investment is accounted for using the equity method.

The Group's share of losses of Aktogai Mys LLC exceeded its interest in the joint venture due to foreign currency exchange losses recognised by Aktogai Mys LLC, therefore the carrying amount of the investment was written down to nil. Total accumulated unrecognized Group's share of loss as of 31 December 2016 is nil (2015: US$ 1 million).

Proeks LLC

In November 2015 the Group acquire a 24.9% share in a diamond exploration project located in Noth-West of Russian Federation for the cash consideration of a US$ 2 million. The Group determined that it has significant influence in the entity and the investment is accounted for using the equity method.

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

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

	Nezhda	Non-significant investments	Total	Total
	31 December 2016	31 December 2016	31 December 2016	31 December 2015
	US$m	US$m	US$m	US$m
Non-current assets	48	51	99	54
Current assets	9	50	59	18
Non-current liabilities	(7)	(80)	(87)	(79)
Current liabilities	(1)	(8)	(9)	(3)
Equity	(49)	(13)	(62)	10
Revenue	-	41	41	17
Net income/ (loss)	(2)	12	10	(24)
Group's share in investment net income/(loss)less prior year unrecognised losses	-	2	2	(8)
Share of profit recognised for the year less inventories unrealised profit eliminations	-	-	-	(4)
Unrecognised share of losses for the year	-	-	-	(4)

17. INVENTORIES

	31 December 2016	31 December 2015
	US$m	US$m
Inventories expected to be recovered after twelve months		
Consumables and spare parts	33	26
Ore stock piles	80	69
Work in-process	-	4
Total non-current inventories	**113**	**99**
Inventories expected to be recovered in the next twelve months		
Ore stock piles	157	97
Copper, gold and silver concentrate	95	74
Work in-process	42	30
Metal for refinery	6	14
Refined metals	3	-
Dore	12	7
Total metal inventories	**315**	**222**
Consumables and spare parts	178	131
Total	**493**	**353**

Write-downs of metal inventories to net realisable value

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

	Year ended 31 December 2016					Year ended 31 December 2015
	Okhotsk operations	Dukat	Omolon	Mayskoye	Total operating segments	Total operating segments
	US$m	US$m	US$m	US$m	US$m	US$m
Ore stock piles	(5)	1	(9)	(1)	(14)	(7)
Ore in heap leach piles	-	-	(5)	-	(5)	(6)

Copper, gold and silver concentrate	-	-	-	(2)	(2)	-
Total	**(5)**	**1**	**(14)**	**(3)**	**(21)**	**(13)**

The key assumptions used as at 31 December 2016 in determining net realisable value of inventories (including the commodity price assumptions for long-term stockpiles) were consistent with those used in the goodwill impairment review. For short-term metal inventories applicable forward prices as of 31 December 2016 were used.

During the year ended 31 December 2016 the Group provided for obsolete consumables and spare parts inventory in the amount of US$ 6 million (year ended 31 December 2015: write-down of US$ 5 million).

The amount of inventories held at net realisable value at 31 December 2016 is US$ 45 million (31 December 2015: US$ 26 million).

18. BORROWINGS

Borrowings at amortised cost:

	Actual interest rate at 31 December			31 December 2016			31 December 2015		
	Type of rate	2016	2015	Current	Non-current	Total	Current	Non-current	Total
				US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Secured loans from third parties									
U.S. Dollar denominated	floating	3.85%	4.00%	98	638	736	263	584	847
U.S. Dollar denominated	fixed	4.10%	n/a	-	61	61	-	-	-
Total				**98**	**699**	**797**	**263**	**584**	**847**
Unsecured Loans from third parties									
U.S. Dollar denominated	floating	3.96%	3.34%	-	500	500	24	406	430
U.S. Dollar denominated	fixed	7.50%	7.50%	-	78	78	-	73	73
EUR denominated	fixed	2.85%	n/a	-	3	3	-	-	-
Total				**-**	**581**	**581**	**24**	**479**	**503**
				98	**1,280**	**1,378**	**287**	**1,063**	**1,350**

Bank loans

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

Movements in borrowings for the year ended 31 December 2016 are reconciled as follows:

1 January 2016	Borrowings obtained	Repayments of borrowings	Net foreign exchange losses	Translation to presentation currency	Arrangement fee amortisation	31 December 2016
US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
1,350	1,436	(1,410)	108	(108)	2	1,378

At 31 December 2016, the Group had undrawn borrowing facilities of US$ 998 million (31 December 2015: US$ 1,196 million). The Group complied with its debt covenants throughout 2016 and 2015.

The table below summarises maturities of borrowings:

	31 December 2016	**31 December 2015**
	US$m	**US$m**
Year ended, 31 December 2016	-	287
31 December 2017	98	157
31 December 2018	632	669
31 December 2019	538	221
31 December 2020	110	16
Total	**1,378**	**1,350**

19. COMMITMENTS AND CONTINGENCIES

Commitments

Capital commitments

The Group's budgeted capital expenditure commitments as at 31 December 2016 amounted to US$ 64 million (2015: US$ 18 million).

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

	31 December 2016
	US$m
Within one year	2
From one to five years	20
Thereafter	9
Total	**31**

Forward sale commitments

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

Operating leases: Group as a lessee

During the year ended 31 December 2016 the Group recognised US$ 5 million as operating lease expenses (2015: US$ 6 million).

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

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

	31 December 2016	31 December 2015
	US$m	US$m
Due within one year	2	1
From one to five years	3	2
Thereafter	2	1
Total	**7**	**4**

Contingencies

Operating environment

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

Because Russia and Kazakhstan produce and export large volumes of oil and gas, their economies are particularly sensitive to the price of oil and gas on the global market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate. On 20 August 2015, the Government and the National Bank of Kazakhstan announced a transition to a new monetary policy based on free floating Tenge exchange rate, and cancelled the currency corridor. In 2015 and in the first quarter of 2016 Tenge depreciated significantly against major foreign currencies.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies.

In the first quarter of 2015 two international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of these economic developments on future operations and financial position of the Group has not been material.

Taxation

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

During 2016 and 2015 the Group has been involved in a number of litigations in Russia, Kazakhstan and Armenia. Management has identified a total exposure (covering taxes and related interest and penalties) of US$ 13 million in respect of contingent liabilities (2015: US$ 46 million), including US$ 4 million related to income tax (2015: US$ 16).

20. STATED CAPITAL ACCOUNT AND RETAINED EARNINGS

As at 31 December 2016, the Company's issued share capital consisted of 428,262,338 ordinary shares (2015: 424,650,138 ordinary shares) of no par value, each carrying one vote. The Company does not hold any shares in treasury (2015: none). The ordinary shares reflect 100% of the total issued share capital of the Company.

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

	Stated capital account, no. of shares	Stated capital account, US$m
Balance at 1 January 2015	**420,819,943**	**1,939**
Issue of shares to acquire non-controlling interest in Tarutin	1,746,692	13
Issue of shares in accordance with Deferred Share Awards plan	36,089	-
Issue of shares for LV Gold Mining CJSC (Note 2)	1,514,113	13
Issue of shares for Primorskoye (Note 2)	533,301	4
Balance at 31 December 2015	**424,650,138**	**1,969**
Issue of shares in accordance with Deferred Share Awards plan	110,850	1
Issue of shares for Kapan (Note 2)	1,481,785	15
Issue of shares to acquire an additional 25% interest in Tarutin	898,875	14
Issue of shares for Saum Mining Company LLC (Note 2)	1,120,690	11
Balance at 31 December 2016	**428,262,338**	**2,010**

On 18 August 2016, the Group increased its interest in LLC Vostochny Basis (holder of the licence for the Tarutinskoye copper deposit (Tarutin) from 50% to 75%. The Group has purchased an additional 25% from the unrelated party for a consideration of US$ 14 million, payable through 898, 875 newly issued Polymetal International plc shares. The Group has previously determined that LLC Vostochny Basis meets the definition of a subsidiary and it was consolidated from the date of the 25% share acquisition. The increasse in interest in Tarutin was recognised as an acquisition of the non-controlling interest and recognised within equity. As of 31 December 2016 and during the year ended 31 December 2016 Tarutin does not give rise to a significant non-controlling interest to be presented within equity, income statement and statement of comprehensive income.

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

Weighted average number of shares: Diluted earnings per share

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

	Year ended 31 December 2016	Year ended 31 December 2015
Weighted average number of outstanding common shares	426,135,182	422,958,680
Dilutive effect of share appreciation plan	259,452	290,522
Weighted average number of outstanding common shares after dilution	**426,394,634**	**423,249,202**

There were no adjustments required to earnings for the purposes of calculating the diluted earnings per share in the current interim period (year ended 31 December 2015: nil).

At 31 December 2016 and 31 December 2015 the outstanding LTIP awards issued under 2014, 2015 and 2016 tranches represent anti-dilutive potential ordinary shares with respect to earnings per share from continuing operations as these are out the money as of reporting date.

The awards issued under management bonus deferral award plan are dilutive as of 31 December 2016 and 31 December 2015 being contingently issued shares and are included in the calculation of diluted EPS based on the weighted average number of shares that would be issuable if the end of the reporting period were the end of the contingency period.

21. RELATED PARTIES

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

As of 31 December 2016 outstanding balances owed to or from related parties compised of long-term loans provided to equity method investments of US$ 1 million (2015: US$ 6 million) and short-term loans of US$ 7 million and interest receivable in respect of these loans of US$ 1 million (2015: US$ 1 million).

During the year ended the Group has purchased ore from its associate GRK Amikan (Note 16) for the total amount of US$ 11 million (2015: nil) and accounts payable amounting US$ 4 million are outstanding as of 31 December 2016 (2015: nil).

No significant transactions with related parties took place during the year ended 31 December 2015.

Carrying values of other long-term loans provided to related parties as at 31 December 2016 and 31 December 2015 approximate their fair values.

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

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

	Year ended	
	31 December 2016	31 December 2015
	US$m	US$m
Share-based payments	2	1
Short-term benefits of board members	2	2
Short-term employee benefits	2	2

22. FAIR VALUE ACCOUNTING

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

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

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

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

At 31 December 2016 and 31 December 2015, the Group held the following financial instruments:

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

	31 December 2015 US$m			
	Level 1	Level 2	Level 3	Total
Receivables from provisional copper, gold and silver concentrate sales	-	12	-	**12**
Contingent consideration liability	-	-	(26)	**(26)**
	-	**12**	**(26)**	**(14)**

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

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables and short-term debt recorded at amortised cost approximate to their fair values because of the short maturities of these instruments. The estimated fair value of the Group's debt, calculated using the market interest rate available to the Group as at 31 December 2016, is US$ 1,269 million, and the carrying value as at 31 December 2016 is US$ 1,378 million (see Note 18). Carrying values of the other long-term loans provided to related parties as at 31 December 2016 and 31 December 2015 approximated to their fair values.

Receivables from provisional copper, gold and silver concentrate sales

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

Contingent consideration liabilities

The table below sets forth a summary of changes in the fair value of the Group's Level 3 financial liabilities for the year ended 31 December 2016:

	31 December 2016							
	Omolon	Kyzyl	Primorskoye	Lichkvaz	Kapan	Komarovskoye	Total	31 December 2015
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Opening balance	13	-	7	6	-	-	26	19
Additions (Note 2)	-	-	-	-	9	20	29	12
Change in fair value, included in profit or loss	4	19	-	1	-	(2)	22	(4)
Unwind of discount	-	-	1	-	-	-	1	-
Settlement	(2)	-	-	-	-	-	(2)	(1)
Total contigent consideration	**15**	**19**	**8**	**7**	**9**	**18**	**76**	**26**
less current portion of contingent consideration liability	(5)	-	(8)	-	(1)	-	(14)	(2)
	10	**19**	**-**	**7**	**8**	**18**	**62**	**24**

In 2008, the Group recorded a contingent consideration liability related to the acquisition of 98.1% of the shares in JSC Omolon Gold Mining Company (Omolon). The fair value of the contingent consideration liability was determined using a valuation model which simulates expected production of gold and silver at the Kubaka mine and future gold and silver prices to estimate future revenues of Omolon. This liability is revalued at each reporting date based on 2% of the life-of-mine revenues with the resulting gain or loss recognised in the consolidated income statement. The liability recognised at 31 December 2016 was US$ 15 million, including current portion of US$ 5 million.

During the year ended 31 December 2014 the Group completed the acquisition of Altynalmas Gold Ltd, the holding company for the Kyzyl gold project in Kazakhstan. The fair value of the related contingent consideration liability was estimated using the Monte Carlo model. The liability was revalued at the 31 December 2016 using the same method with updated inputs as of reporting date and amounts to US$ 19 million (2015: nil), having increased due to lower volatility assumption input.

During the year ended 31 December 2015 the Group the recorded a contingent consideration liability related to the acquisition of 100% interest in Primorskoye (Note 2). Deferred conditional cash consideration, which will be determined as the highest of US$ 13,333 per tonne of contained silver equivalent (translating into US$ 0.415 per silver equivalent ounce) based on the audited reserves estimate of the deposit, and US$ 8 million, was revalued at 31 December 2016 at US$ 8 million.

In March 2017 it was agreed to determine Primorskoye deferred consideration based on the mineral resource estimate and, therefore, as of 1 March 2017 the deferred consideration equals to US$ 9.7 million, which is US$ 13,333 per tonne of contained silver equivalent in Measured and Indicated Mineral Resources (or US$ 0.415 per silver equivalent ounce). In accordance with the updated agreement, the deferred consideration will be payable by 815,348 newly issued Polymetal International shares.

During the year ended 31 December 2015 the Group completed the acquisition of LV Gold Mining (Lichkvaz), the company owning the Lichkvaz exploration licence in Armenia (Note 2). The fair value of the related contingent consideration liability is calculated using a valuation model which simulates expected production of metals and future gold, silver and copper prices to estimate future value of the metals in the actually extracted ore. The liability recognised at 31 December 2016 was US$ 7 million.

During the year ended 31 December 2016 the Group completed the acquisition of DPMK, the company owning the Kapan mine and processing plant in Armenia (Note 2). The seller is entitled to receive a 2% NSR (Net Smelter Return) royalty on future production from the Kapan Gold Mine capped at US$ 25 million. At the 31 December 2016, the fair value of the contingent consideration was estimated at US$ 8 million, including current portion of US$ 1 million.

On 1 August 2016 the Group completed the acquisition of Orion Minerals LLP, the holding company for the Komarovskoye Gold Deposit (“Komarovskoye”) in the Republic of Kazakhstan (Note 2). The seller is entitled to the contingent consideration that was determined based on the LOM model of the Komarovskoye mine and calculated using Monte Carlo modelling. At the 31 December 2016, the fair value of the contingent consideration was estimated at US$ 18 million.

Assumptions used in the valuation of the Omolon, Kapan and Lichkvaz are consistent with those used in goodwill impairment test, 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 liabilitities was performed with following inputs:

- Gold price volatility: 16.23% - 18.23%
- Share price volatility: 41.9%
- Constant correlation between gold and share price: 90%
- Dividend yield: 2%.

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

Commodity forward contracts

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

23. NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2016 US$m	Year ended 31 December 2015 US$m
Profit before tax		564	276
Adjustments for:			
Depreciation and depletion, recognised in income statement		155	156
Additional mining taxes, penalties and accrued interest	10	(12)	(4)
Provision for investment in Special Economic Zone	10	14	-
Write-down of exploration assets and construction in progress	15	2	9
Write-down non-metal inventory to net realisable value	17	6	5
Write-down of metal inventory to net realisable value	17	21	13
Change in estimate of environmental obligations		(5)	(4)

Share-based compensation	9	7	4
Finance costs	12	63	81
Finance income		(3)	(5)
Loss on disposal and write-down of assets	10	1	1
Change in contingent consideration liability	22	22	(4)
Change in allowance for doubtful debts	10	-	7
Rehabilitaion expenses		1	(2)
Loss from equity method investments	16	-	4
Foreign exchange loss		(65)	133
Gain on disposal of subsidiary		-	(1)
Other non-cash expenses		1	5
Movements in working capital			
Increase in inventories before impairment		(50)	(26)
Decrease /(Increase) in VAT receivable		14	(23)
(Increase)/Decrease in trade and other receivables		(4)	19
Decrease/(Increase in prepayments) to suppliers		2	(13)
Increasein trade and other payables		17	22
(increase)/Decrease in other taxes payable		(6)	7
Cash generated from operations		**745**	**660**
Interest paid		(61)	(52)
Interest received		1	3
Income tax paid		(155)	(120)
Net cash generated by operating activities		**530**	**491**

Non-cash transactions during the year ended 31 December 2016 represent the issuance of shares amounting to US$ 40 million in respect of the business combinations, the acquisition of assets and acquisition of non-controlling interest (2015: the issuance of shares amounting to US$ 17 million in respect of the acquisition of stake in joint venture and the acquisition of assets).

Cash flows related to exploration amounted to US$ 56 million for the year ended 31 December 2016 (2015: US$ 41 million). During the year ended 31 December 2016 capital expenditure, related to new projects, amounts to US$ 121 million (2015: US$ 66 million).

24. SUBSEQUENT EVENTS

In January 2017 the Group increased its interest in LLC Vostochny Basis (holder of the licence for the Tarutinskoye copper deposit (Tarutin) from 75% to 100%. The Group purchased the additional 25% from an unrelated party for a consideration of US$ 10 million, payable through the issue of 893,575 new Polymetal International plc shares. The Group has previously determined that LLC Vostochny Basis meets the definition of a subsidiary and consolidated Vostochny Basis LLC as of the reporting date. The increase in ownership in Tarutin will be recognised as an acquisition of non-controlling interest and recognised within equity. A reserve estimate for the deposit is expected in Q3 2017, with mining planned to commence in 2018 with the goal to deliver and process up to 300Kt of ore at Varvara in order to produce 4-5 Kt of copper per annum in 2018-2020.

In January 2017 the Group entered into an agreement with Polar Silver Resources Ltd, under which Polymetal will participate in the development of the Prognoz silver deposit in Yakutia, Russia (“Prognoz”). The arrangement will allow Polymetal to acquire up to 50% indirect interest in Prognoz. Under the agreement, Polymetal will acquire a 5% indirect interest in Prognoz for US$ 3 million in cash through the purchase of 10% of Polar’s share capital. Polar currently indirectly holds a 50% interest in Prognoz, with the remaining 50% owned by a group of private investors. Polymetal will have an obligation to undertake 25 km of diamond drilling, and complete a technical study resulting in an externally audited JORC-compliant reserves estimate for the property before 31 March 2019. Total capital expenditures required to perform the drilling and complete the technical study are expected at US$ 10 million per annum during FY 2017-2019.

In March 2017 the deferred consideration for the acquisition of the Primorskoye property was finalised. Under the deal terms, the deferred consideration is based on the reserve estimate and paid in cash. However, the parties agreed for the deferred consideration to be based on the mineral resource estimate and paid in Polymetal International shares. Therefore, the deferred consideration is equal to US$ 9.7 million, which is US$ 13,333 per tonne of contained silver equivalent in Measured and Indicated Mineral Resources (or US$ 0.415 per silver equivalent ounce). The deferred consideration is payable by 815,348 newly issued Company shares representing 0.19% of Polymetal’s total increased share capital.