POLYMETAL
INTERNATIONAL PLC

Delivering today

BUILDING FOR THE FUTURE

Polymetal International plc
Annual Report 2018

POLYMETAL IS A

leading

INTERNATIONAL PRECIOUS METALS GROUP…

CULTURE Page 02

VALUE Page 06

RESPONSIBILITY Page 10

STRATEGY Page 04

FUTURE Page 08

2nd largest
GOLD PRODUCER IN RUSSIA

3 major
DEVELOPMENT PROJECTS

9 operations
IN RUSSIA AND KAZAKHSTAN

1st
PRESSURE OXIDATION PLANT IN FSU

FTSE 250
CONSTITUENT

...WITH A STRONG culture OF DELIVERY...

A proven track record of mining precious metals for over 20 years

We pride ourselves on keeping our promises to shareholders and delivering on our dividend policy. Despite global and local challenges, we deliver stable and reliable growth and have beaten our production guidance for the seventh consecutive year. This achievement would not have been possible without both the commitment and endeavours of our employees.

CULTURE Page 107
OPERATING REVIEW Pages 30–51
EMPLOYEES Page 59

"We are working hard to create an open culture and supportive working environment that will encourage thinking outside the box, taking responsibility for our innovative decisions – and delivering on them. These pillars drive our success and allow us to maintain high standards of business conduct."

Bobby Godsell, Board Chair

82%

EMPLOYEE JOB SATISFACTION SCORE*

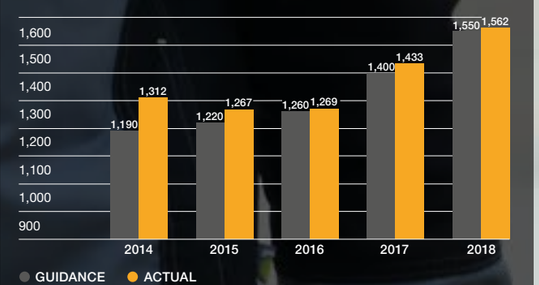
* 2017 data. Employee satisfaction survey is conducted every two years.

-40%

REDUCTION IN LTIFR

ROBUST PERFORMANCE

Our operating results speak for themselves – annual production of 1.56 Moz of gold equivalent exceeded the original guidance for the seventh year in a row through a consistently robust operating performance at existing operations and new projects.



"Polymetal's success is based on a proven strategy and business model. In line with our strategic priorities, we have made significant progress this year with record production results, the smooth launch of Kyzyl and major decisions on the growth pipeline and asset-base streamlining."

Vitaly Nesis, Group CEO

...COMMITTED TO A CLEAR

strategy...

Strategy that delivers growth and value

Our ability to deliver value to shareholders whilst building the long-term future of the Company and maintaining production growth is the best evidence that our strategy works.

STRATEGY
Pages 24–25

7.2 Moz GE

ORE RESERVES AT KYZYL
7.8 g/t average grade

330 Koz

AVERAGE PRODUCTION AT KYZYL
for open-pit

LAUNCH OF KYZYL

Without a doubt, the most significant highlight of the year was the long-awaited and successful ramp-up of one of the world's largest and high-grade gold assets – Kyzyl – ahead of time and below budget. Kyzyl has delivered a total of 96 Koz of gold production since its launch in June, well above the original 80 Koz guidance. 2019 will be the mine's first full-year of operation at full capacity and its targeted production of more than 300 Koz will contribute substantially to the Company's net income and cash flow.

OPERATING REVIEW
Pages 36–37

…FOCUSING ON OPERATIONAL EXCELLENCE AND value CREATION…

Delivering robust financial performance
Another strong operating performance underpinned the solid financial results for the year, which translated into value creation for all our stakeholders.

FINANCIAL REVIEW
Pages 62–75

"I am pleased to report robust profit for the year of $355 million. Polymetal continued to generate positive free cash flow and deliver meaningful dividends to our shareholders while maintaining comfortable level of leverage and advancing our growth projects."

Maxim Nazimok, Chief Financial Officer

1.56 Moz
GE PRODUCTION
+9%

$780m
ADJUSTED EBITDA
2017: $745m

$223m
PROPOSED DIVIDEND FOR THE YEAR
2017: $196m

ENSURING A SUSTAINABLE FUTURE FOR ALL OUR STAKEHOLDERS

While focusing on our ambitious plans, we remain committed to global best practices in sustainable development throughout our operations and these help to create value across our entire stakeholder universe. In 2018, dividends of $213 million were paid out and a final dividend of $146 million has been proposed. We invested in our local communities, providing employment opportunities and improving infrastructure, with total investments in social projects of $10 million during 2018. We also contributed to the national wealth of our countries of operation and paid $181 million in taxes.

BUSINESS MODEL
Pages 20–21

...DEVELOPING A SUSTAINABLE future...

Building long-term growth

Alongside our strategic focus on selecting high-grade, long-lived assets, building on our expertise in refractory gold processing and continued investment in exploration, our key investment priorities include the development of sustainable and efficient growth sources for the Company, its employees and stakeholders.

OPERATING REVIEW
Pages 30–35

3.2 GE Moz
NET INCREASE IN RESERVES
+15% y-o-y

8.1 GE Moz
NET INCREASE IN RESOURCES
+44% y-o-y

"Following Board approval, we are commencing construction of the Nezhda and POX-2 projects. POX expansion has strategic importance for Polymetal and will allow us to gain a unique competitive advantage in refractory gold processing."

Roman Shestakov, Deputy CEO, Project Development and Construction

FOCUS ON NEZHDA

In November 2018, following the receipt of all necessary regulatory approvals, Polymetal completed the acquisition of the remaining 82.3% stake in Nezhda, a long-life, high-grade asset with robust economics. Construction will commence in Q1 2019 with first production expected in Q4 2021 and a full ramp-up by Q2 2022. With a mine life until 2045 and 12.4 Moz of resources (including 4.4 Moz in reserves), Nezhda has significantly expanded the reserve base and increased the Group's life of mine.

OPERATING REVIEW
Pages 50–51

POX-2 TO GAIN GLOBALLY COMPETITIVE TECHNICAL CAPABILITY AND DE-RISK SALES

POX-2 project will give Polymetal a significant competitive advantage and optionality to retain all concentrate in-house, rather than selling to offtakers. This will de-risk sales and allow us to process additional third-party feed. The project will also have a positive environmental, social and economic impact. The operation is expected to be commissioned in Q3 and fully ramped up by the end of 2023.

OPERATING REVIEW
Pages 42–43

...BY OPERATING responsibly THROUGHOUT THE BUSINESS.

Adhering to the highest standards.
High standards of sustainable development and corporate governance are central to Polymetal's strategy and culture, and are essential to creating long-term shareholder value. In addition to reinforcing strategic leadership and internal controls, they help us achieve our goals of safer working conditions, responsible environmental management and observing the interests of all our stakeholders.

SUSTAINABILITY
Pages 52–61

5.8%
STAFF TURNOVER RATE
2017: 5.4%

0
MAJOR ENVIRONMENTAL INCIDENTS

0.09
LTIFR
-40%

$10m
COMMUNITY INVESTMENT
2017: $12m

"We take a responsible approach to all areas of our work: engaging all our stakeholder groups, minimising risks and monitoring our policies, practices and performance to ensure sustainable value creation."

Daria Goncharova,
Chief Sustainability Officer

FOCUS ON GOVERNANCE

Corporate governance at Polymetal is one of its key strengths. With a diverse and reputable Board, we aim to follow best practice standards for UK Premium-listed entities. During the ongoing Board succession programme, three new independent non-executive Directors were appointed and have proved to be sound additions to the Board during 2018. A new Board Chair will be put forward for election at the 2019 AGM.

GOVERNANCE
Pages 90–95

FOCUS ON SUSTAINABILITY

Our commitment to sustainability and strong ESG practices has gained us widespread recognition from leading sustainability agencies. In 2018, Polymetal became the first Russian company to join the Dow Jones Sustainability Index. Polymetal has also been classified as a leader in the diversified metals sector by independent ESG research and ratings firm, Sustainalytics.

SUSTAINABILITY
Pages 52–61

At a glance

Polymetal International plc is a leading precious metals mining group, operating in Russia and Kazakhstan. The Company has listings on the London and Moscow stock exchanges and is a member of the FTSE 250 and FTSE Gold Mines indices. Polymetal has a portfolio of nine gold and silver mines as well as an impressive pipeline of growth projects. A major employer in the region, Polymetal strives to be a sustainable and responsible company.

Polymetal today

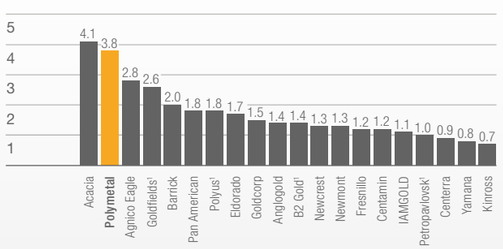
2nd largest
gold producer in Russia and 16th in the world

3 major
development projects

1 POX facility
first in Former Soviet Union

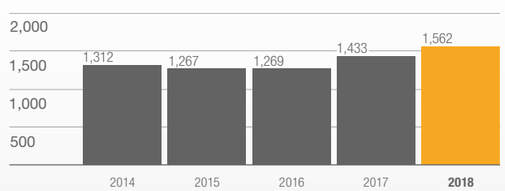
9 operations
across 2 countries

AVERAGE RESERVE GRADE
(2P RESERVES), GE G/T

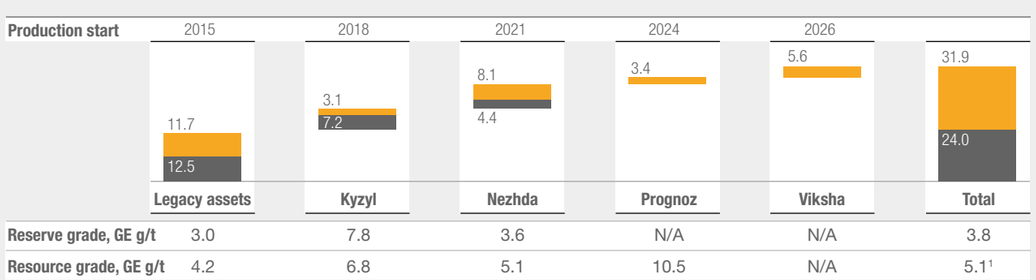


1 Company data as at 01.01.2018.
Source: Company data. Gold, silver, copper proved and probable reserves as at 01.01.2019.

PROVEN TRACK RECORD
ANNUAL PRODUCTION BASED ON 80:1 AG/AU RATIO (GE KOZ)



Focus on high grade and lower cost assets



1 Without Viksha.

Key financial figures

Revenue
$1,882m
(2017: $1,815 million)

Total cash cost
$649/GE oz
(2017: $658/GE oz)

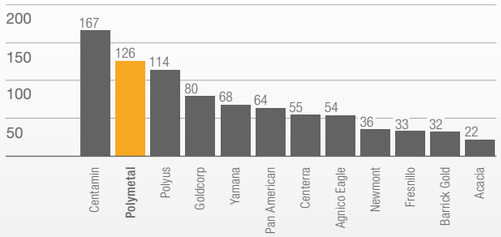
Adjusted EBITDA
$780m
(2017: $745 million)

All-in sustaining cash cost
$861/GE oz
(2017: $893/GE oz)

Free cash flow
$176m
(2017: $143 million)

Net profit
$355m
(2017: $354 million)

DIVIDEND PER PRODUCTION
($/OZ)



Sustainability

Dow Jones Sustainability Indexes
1st and only Russian member
Industry Mover award

FTSE4Good
4.4/5.0 in total ESG score
94th ESG percentile
5/5 in Governance, Anti-corruption, Risk management and Labour Standards

SUSTAINALYTICS
Leader in industry
1st among 47 mining companies
1st sustainability-linked loan in CIS

MSCI 2019 Constituent MSCI ESG Leaders Indexes
ESG rating BBB

STOXX
Member of index since 2016

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Where we operate

Our operations are in Russia and Kazakhstan. We have nine operational gold and silver mines, as well as three major development projects and further growth opportunities, which are often located in remote regions. We're investing in sustainability across all our existing operations and new developments.

Operating mine
Development projects
Further growth opportunities

Competence centre
City/town
Sea port

1 Kyzyl

Operating mines: Bakyrchik
Key exploration projects: Bakyrchik flanks, Bolshevik
Processing: 1.8 Mtpa flotation + POX/ concentrate off-take

96 Koz GE production	**7.2 Moz** Reserves (GE)
$54m Adjusted EBITDA	**$829** AISC ($/GE oz)

2 Varvara

Operating mines: Varvara, Komar
Key exploration project: East Tarutin, Komar flanks (Elevator, South area)
Processing: 3.0 Mtpa leaching for gold ore, 1.0 Mtpa flotation for copper ore

142 Koz GE production	**2.8 Moz** Reserves (GE)
$77m Adjusted EBITDA	**$940** AISC ($/GE oz)

3 Voro

Operating mines: Voro
Key exploration project: Saum, Tamunier, Pescherny, Galkinskoye, Krasnoturinsky
Processing: 950 Ktpa CIP and 1 Mtpa heap leach

107 Koz GE production	**0.7 Moz** Reserves (GE)
$88m Adjusted EBITDA	**$477** AISC ($/GE oz)

4 Mayskoye

Operating mines: Mayskoye
Processing: 850 Ktpa leach & flotation + POX/concentrate off-take

117 Koz GE production	**2.2 Moz** Reserves (GE)
$35m Adjusted EBITDA	**$970** AISC ($/GE oz)

5 Omolon

Operating mines: Birkachan, Sopka, Tsokol, Olcha
Key exploration projects: Burgali, Yolochka, Irbychan, Nevenrekan
Processing: 850 Ktpa CIP/Merrill-Crowe (Kubaka), 1 Mtpa heap leach (Birkachan)

195 Koz GE production	**1.1 Moz** Reserves (GE)
106m Adjusted EBITDA	**$816** AISC ($/GE oz)

6 Dukat

Operating mines: Dukat, Lunnoye, Goltsovoye
Key exploration projects: Primorskoye, Terem, Perevalnoye, Dukat flanks, Lunnoye.
Processing: 2.0 Mtpa flotation (Omsukchan) + 450 Ktpa Merrill-Crowe (Lunnoye)/ concentrate off-take

306 Koz GE production	**1.4 Moz** Reserves (GE)
$137m Adjusted EBITDA	**$10.3** AISC ($/SE oz)

7 Svetloye

Operating mines: Svetloye
Key exploration projects: Levoberezhny
Processing: 1.4 Mtpa heap leach

136 Koz GE production	**0.4 Moz** Reserves (GE)
$124m Adjusted EBITDA	**$425** AISC ($/GE oz)

8 Albazino

Operating mines: Albazino
Key exploration projects: Albazino flanks, Urkachik, Syransk area
Processing: 1.6 Mtpa flotation + POX

308 Koz GE production	**2.3 Moz** Reserves (GE)
$184m Adjusted EBITDA	**$800** AISC ($/GE oz)

9 Amursk POX hub

Feed: Albazino, Mayskoye, Kyzyl, third-party concentrate
Processing: concentrate POX + cyanidation

322 Koz Hub GE production	**96.7%** POX recovery

10 Nezhda

Russia's 4th largest gold deposit
Mining: open-pit + underground
Processing: gravity/flotation + POX/ concentrate off-take

4.4 Moz Reserves (SE)	**8.1 Moz** Resources (GE)
155 Koz Gold production[1]	**$700** AISC[1] ($/GE oz)

1 Expected.

11 Prognoz

Largest undeveloped primary silver deposit in Russia
Mining: open-pit + underground

256 Moz Resources (SE)

12 Viksha

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

9.5 Moz Resources (PE)

Board Chair's statement

The years since 2011 have seen significant market headwinds for gold mining companies and Polymetal has responded positively to these difficult macroeconomic situations.

Highlights

3.2 Moz
INCREASE OF ORE RESERVES
Year-on-year

$223m
PROPOSED DIVIDEND FOR THE YEAR
2017: $196m

15.2 Mt
ORE PROCESSED
+16%

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

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

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

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

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

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

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

> "Polymetal has worked hard to achieve both clarity and integrity in its financial reporting and to ensure full transparency of corporate governance and executive remuneration practices.

Clearly, more than 12,000 employees of this Company are central to its success today and in the future. The Board in particular engaged with Polymetal's Young Leaders Programme, which identifies a promising pool of young talent within the Company. Polymetal invests in their training and their continuing career development. The Company is also committed to investing in the development of all its employees. In 2018, we provided more than 20,000 training sessions for our employees.

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

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

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

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

Bobby Godsell, Board Chair

Our investor proposition

High-grade long-life assets
Reserve quality and low capital intensity are fundamental and enable us to generate free cash flow through the cycle and maximise the return on investment, while reducing project development risks. We will continue to improve the underlying business by streamlining our asset portfolio and focusing on large, high-grade, low-cost projects to deliver superior returns.

Technology leadership
Polymetal's focus on its particular strategic and competitive strengths – in selective mining, processing refractory ores and trading precious metal concentrates – has established a company with the enviable position of being able to both acquire or explore attractive investment opportunities in our region of the world, and to deliver on them.

Stable dividend income
Through our commitment to capital discipline and a robust dividend policy, we are able to deliver a sector-leading dividend yield and superior shareholder returns.

Investing for a sustainable future
We work to minimise adverse environmental and social impacts at all the stages of our operations while maximising social and local benefits for communities and employees. We want to make mining more sustainable by deploying 'green' technologies, such as pressure oxidation (POX), and improving energy and material efficiency.

Group CEO's statement

2018 was of a year of reflection, as we celebrated our 20th anniversary. It was also a year when we successfully completed some of our most ambitious projects.

Highlights

1.56 Moz
GE PRODUCTION
+9%

$780m
ADJUSTED EBITDA[1]
2017: $745m

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

A year of achievement

Without a doubt, the most significant highlight of 2018 was the successful launch and ramp-up of our newest mine in Kazakhstan, Kyzyl. Polymetal's decision to develop one of the world's largest and highest-grade gold deposits had numerous sceptics, given the failure of the previous owners to move the project forward. Many investors and analysts questioned the wisdom of spending $620 million to acquire Kyzyl in 2014, at a time when there was a painful slump in gold prices. However, Polymetal's creative approach and uncompromising focus on implementing this project has been fully corroborated. Kyzyl delivered 96 Koz of payable production in 2018, significantly beating the original 2014 guidance of 80 Koz. Within its first half-year since launching, Kyzyl made a substantial contribution to 2018 production of 1.56 Moz and was the key driver behind our gold equivalent (GE) production growth of 9%.

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

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

1 The definition and calculation of non-IFRS measures, including Adjusted EBITDA, Total cash costs, All-in cash costs, Underlying net earnings, Net debt, and the related ratios are defined in the Alternative Performance Measures section on page 190.

> "Following the success of the Kyzyl launch, we are now in a good position to progress our long-term development pipeline, retaining our narrow focus on large, long-lived, high-grade deposits.

A year of sharpened focus

Following the success of the Kyzyl launch, we are now in a good position to advance our long-term development pipeline, retaining our narrow focus on large, long-lived, high-grade deposits. The development of these assets will ensure free cash flow and dividend growth, resulting in superior shareholder returns.

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

Alongside our development plans, we resolved to dispose of small, short-lived and high-cost operations. This will enable us to reduce our leverage and allow management to focus more closely on core operations and projects. Over the last 12 months, we have already negotiated and closed four transactions. The sale of our stake in Dolinnoye and disposals of Kapan, Okhotsk and Svetlobor have collectively generated $108 million of proceeds that will be used to reduce debt.

During 2018 we had several significant exploration successes that helped grow our reserve base by 17%, without diluting the average grade. Namely, large reserve additions at Nezhda and Mayskoye plus a significant resource upgrade at Prognoz.

A year of sustainability

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

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

A year ahead

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

Management's priorities will include safety, cost control and operational improvement utilising new digital technologies. We also expect to achieve considerable results with reserve replacement and enhancement, and through both near-mine and greenfield exploration campaigns.

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

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

Vitaly Nesis, Group CEO

Our business model

Our strong financial discipline underpins our holistic approach to building a sustainable future for all our stakeholders: investing in the skills and expertise that support our key competencies while delivering throughout the cycle.

Our capitals

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

HUMAN
12,140 employees; attracting and retaining high-potential employees across Russia and Kazakhstan nurturing young leaders to manage further growth.

NATURAL
Portfolio of high-grade reserves; water, energy and fuel to run our operations.

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

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

SOCIAL AND RELATIONSHIP
Constructive relationships with local governments and communities; transparent and productive dialogue with stakeholders.

What makes us different

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

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

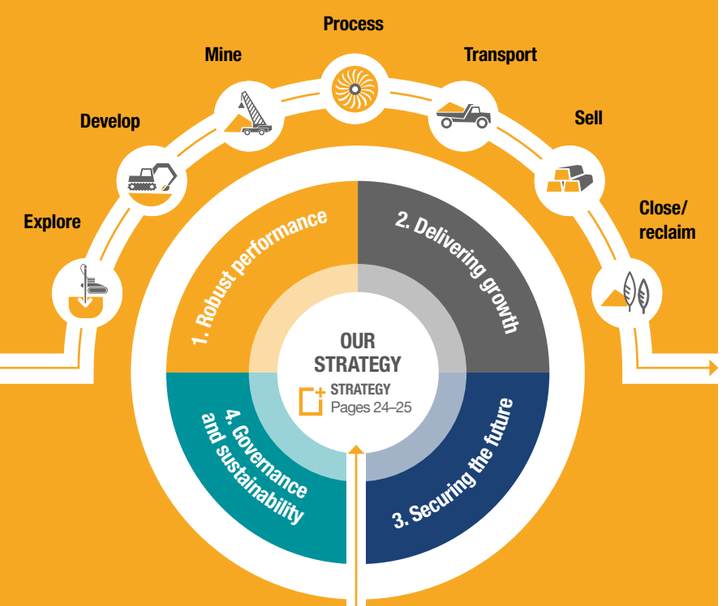
STRONG CAPITAL DISCIPLINE
We engender a strong focus on capital discipline throughout the business; maximising risk-adjusted return on capital is our priority in all investment decisions. We do not retain excess cash and return free cash flow to shareholders through substantial dividend payments while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

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

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

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

What we do



Market trends and opportunities
Our investments in attractively priced high-quality assets enable us to generate a consistently sustainable free cash flow and deliver returns for our shareholders.

MARKET REVIEW
Pages 22–23

Risk management
We have in place a robust risk management system, which is designed to mitigate potential risks to the sustainability and success of the business.

RISK MANAGEMENT
Pages 76–83

Governance
We are committed to maintaining world-class ethical standards and behaviour across every aspect of our business.

GOVERNANCE
Pages 90–95

Creating value for…

SHAREHOLDERS
We deliver a sustainable dividend stream.
$223m
proposed for 2018

EMPLOYEES
We provide competitive remuneration, which is above the regional average, and comfortable working conditions, as well as motivating career development opportunities.
$1.5m
invested in professional training

LOCAL COMMUNITIES
We invest in our local communities, providing employment opportunities and improving infrastructure, and engage with them to achieve their support for the projects that we undertake.
$10m +
invested in social projects

OTHER CAPITAL PROVIDERS
We have an excellent credit history and strong partnerships within financial markets.
4.19%
average cost of debt in 2018

SUPPLIERS
We provide fair terms and have established long-term and mutually beneficial partnerships, while ensuring suppliers' integrity and ESG compliance.
3,000 +
potential contractors audited for ethical principles and anti-corruption policies

STATE AUTHORITIES
We contribute to the national wealth and are a significant tax payer in the regions of operation, supporting local government's social projects.
$181m
taxes paid

Market review

Gold and silver commodity prices are largely determined by movements in the US Dollar and Federal Reserve rates, and geopolitical issues. This year proved no different, and 2018 continued to be a challenging time for the precious metals market.

The US Federal Reserve tightened its monetary policy further, hiking interest rates four times. The US economy accelerated, while inflation remained subdued. These factors fuelled a positive sentiment among equity investors, pushing up the price of many asset classes and depressing that of precious metals. This held until the second half of 2018 when the geopolitical landscape was shaken up by an escalating trade dispute between the US and China.

Gold

After becoming one of the best performing assets in 2017 and posting its biggest annual gain since 2010, gold had a rather tumultuous year during the course of 2018. At the beginning of the year, the gold price trended higher, reaching highs of $1,360/oz in January. However, on the back of traditionally lower seasonal demand in Q2 and a stronger US Dollar, it slumped to a yearly low of $1,176/oz by September, following the escalation of a major trade dispute by the US and China that saw the gold price fall by more than 10% in a single day. Contrary to the conventional wisdom that gold is a safe-haven asset when geopolitical uncertainty increases, a potential global trade war would have impacted trading volumes; thereby decreasing the circulation of the US Dollar and impacting its supply, making the currency more valuable as a result. As the trade dispute softened, the gold price rebounded and ended the year at $1,282/oz, slightly lower than at the end of 2017.

Annual gold demand, on the other hand, posted a 4% gain over 2017 and reached 4,345 tonnes. The upward trend was primarily driven by a handful of central banks that added 651 tonnes to gold reserves in 2018, the highest on record since the US Dollar floated in 1971. The largest buyer was Russia, adding 274 tonnes to its reserves, with Turkey and Kazakhstan each adding approximately 50 tonnes. Annual inflows into gold-backed ETFs slowed on the back of material outflows from US funds and were down 67%[1] year-on-year, totalling 69 tonnes. Bar and coin demand rose 4% over 2017 and was boosted by lower gold prices in the second half of the year and increased volatility in equity markets. Technology demand saw marginal growth, mostly due to a strong demand for consumer electronics and ongoing electrification in the automotive sector. Jewellery demand remained relatively flat over the previous year and still weak in a historical context.

Mine output rose marginally over the previous year from 4,447 tonnes to 4,490 tonnes as many of the producing nations were constrained by structural changes. In China, environmental regulations have had a material impact on production with a decline of 9% year-on-year. In Indonesia, annual output plunged more than 20% due to grade declines at some of the country's biggest operations.

Silver

In 2018, silver largely followed gold dynamics, reaching peak levels in January when it hit $17.5/oz. In September it declined to its lowest price in more than two years, under $14/oz, setting a record low silver-to-gold price ratio. Silver ended the year slightly below 2017 levels at $15.5/oz. The lacklustre performance was primarily driven by low interest from investors on the back of stronger performances from equities and a decline in physical demand, mostly driven by a lower demand for bars and coins (particularly in the US during the first half of the year), declining for the third consecutive year.

ETF holdings also influenced silver price dynamics, posting a decrease over 2017.

Platinum group metals

As for other precious metals, platinum group metals (PGMs) also had a rather volatile year. In addition to a rising US Dollar, platinum took a hit on the back of lacklustre demand for diesel-powered cars, where the metal is mostly used. As a result, platinum dipped more than 10% year-on-year. Palladium, on the other hand, delivered a robust performance on the back of an increase in demand due to a global shift from diesel to gasoline and hybrid vehicles. It climbed more than 15% during 2018, surpassing most other precious metals (including gold) to become the most expensive precious metal, with a year-end price of $1,263/oz.

Mine production around the world

Year-on-year mine production recorded a marginal increase to 3,347 tonnes in 2018. At a global level, environmental concerns and a crackdown on illegal mining affected mine output during the year. Of equal significance is the broader issue of the reduction in project development pipelines since 2013, as a consequence of lower gold prices and wider project development challenges across the sector. The league table of the biggest gold mining countries in 2018 remains unchanged: China, Russia and Australia.

Our operating environment

The hard rock mining industry in Russia comes second in size after oil and gas. Despite the country's vast resource potential in precious metals, it remains largely underexplored with a lack of investment in the sector, mainly due to low gold prices and the limited availability of foreign debt and equity investments.

In 2018, the oil market experienced its worst annual loss since 2015. Crude oil ended the year down 19% at $53.8 per barrel. Stock markets plummeted, demand forecasts softened and geopolitical frustrations caused the market to switch from concerns about a shortage of oil in the middle of the year to fears of a renewed crude glut.

On the back of oil price movements and continued geopolitical tensions, as well as foreign currency purchases by the Russian Central Bank and the Ministry of Finance, the Russian Rouble also weakened by 7% year-on-year from 58.3 RUB/USD average rate in 2017 to 62.7 RUB/USD in 2018. This had a positive impact on the mining sector, resulting in a lower Dollar value for Rouble-denominated operating costs and higher margins.

Although Kazakhstan has a significantly smaller share in global gold mine production, it has a strong growth profile, attributable to a good climate for foreign investment in the sector and supportive government incentives. The economics of Kazakh gold mining were also supported by the moderate movements of the Kazakh Tenge that tends to generally follow oil and the Russian Rouble (6% weaker against the US Dollar year-on-year).

How we respond to these trends

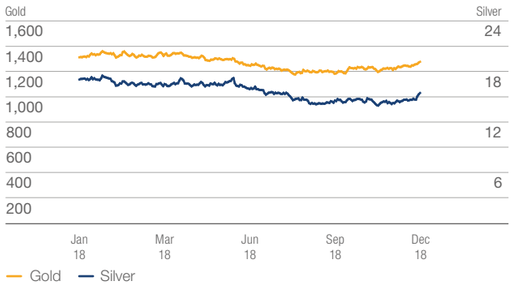
We are utilising our experience in mine performance optimisation and the pursuit of high-grade and high-optionality assets in order to ensure resilient economics against the backdrop of commodity price and foreign exchange volatility. Our strong performance in 2018, in part due to the successful start-up of our Kyzyl flagship operation with cash costs of $554/oz, record production of 1,562 Koz of GE and robust financials, re-affirms the success of our approach and sets us on the right track to deliver on our long-term strategy.

In order to limit our exposure to risk, in the process of project approval, we continue to stress test all projects with a 20% discount to spot prices and a 10% increase in operating costs, ensuring that our operations can be sustained even under volatile market conditions. Similarly, we continue to review the prices used for our reserve and resource statement on a regular basis to reflect market fluctuations.

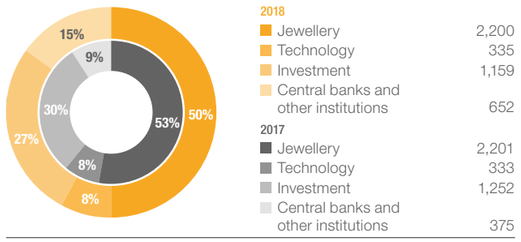
To learn more about our market risk management process, please see page 76.

1 Gold Demand Trends Full Year 2018 published by World Gold Council.

PRECIOUS METALS MARKET SUMMARY
(PRICE, $/OZ)



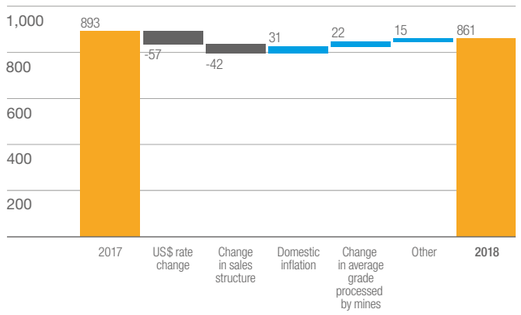
GOLD DEMAND BY CATEGORY IN 2018 AND 2017
(TONNES)



Source: Metals Focus; World Gold Council

CURRENCY AND OIL PRICE

RECONCILIATION OF AISC MOVEMENTS
($/GE OZ)



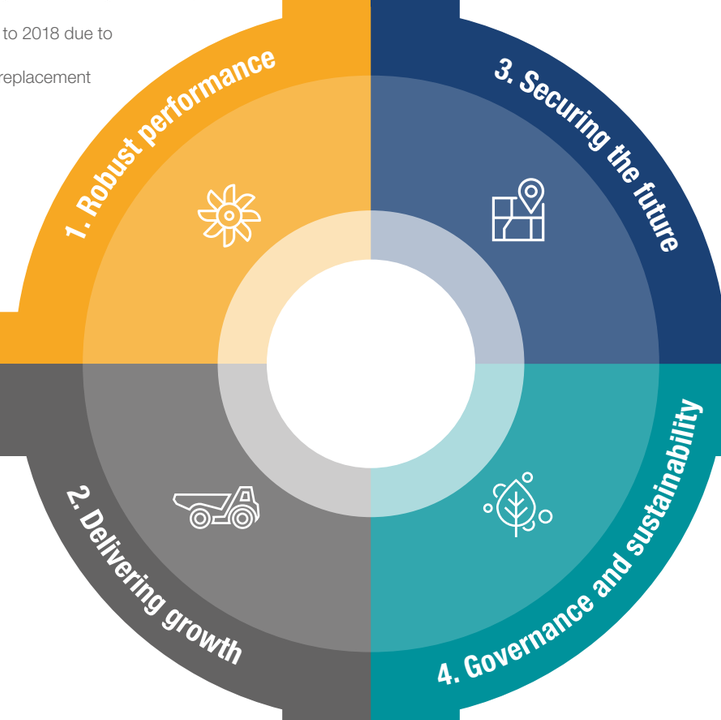
Our strategy

KEY GOALS

- **PAY SIGNIFICANT AND SUSTAINABLE DIVIDENDS THROUGH THE CYCLE**
- **CONTINUE TO GROW OUR BUSINESS WITHOUT DILUTING ITS QUALITY**

See how we link our remuneration to performance

REMUNERATION REPORT
Pages 111 and 122



Ensure robust operating and financial performance at existing mines

Focus on full-capacity utilisation and robust cost performance of our operating mines by driving continued operating improvement. Continuously extend their life-of-mine by investing in near-mine exploration. This will allow us to generate free cash flow and translate it into significant dividends

Performance in 2018

- **1.56 Moz** GE produced in 2018, **up 9%** year-on-year and above original guidance
- Adjusted EBITDA of **$780 million**, **up 5%** compared with 2017, driven by higher production volumes and stable cost performance
- Free cash flow of **$176 million**
- Excellent exploration results at existing mines, notably Mayskoye, with a sizeable **increase in reserves of 15%**
- **Disposal** of high-cost short-lived operations (Kapan and Okhotsk)

Targets for 2019

- 1.55 Moz GE production
- Operational improvement, including from digital technologies at Voro, Albazino, Omolon and Mayskoye
- TCC of $600–650/oz, 7% lower compared to 2018 due to impact of Kyzyl
- Continuing exploration efforts and reserves replacement through near-mine exploration campaigns

Risks

- Production risk
- Tax risk
- Market risk
- Currency risk
- Liquidity risk
- Interest rate risk

Build and advance long-term growth pipeline

While delivering free cash flow, we want to secure high-quality sources of long-term growth through our own greenfield exploration programme. We are actively looking at targets within the politically stable Former Soviet Union where we can create value with our core competencies.

Performance in 2018

- Consolidation of 100% interest in Nezhda
- Completion of the feasibility study at Nezhda, more than doubling the **reserves to 4.4 Moz**
- Acquisition of 100% ownership in Prognoz, with an initial silver equivalent **resource estimate of 256 Moz**
- Feasibility study and Board approval for the POX-2 project

Targets for 2019

- Nezhda: construction of the concentrator building
- POX-2: contracts for all major equipment, including the autoclave, the oxygen plant, and the water treatment facility
- Advancing Prognoz and Viksha: additional drilling, detailed metallurgical testing, and permitting activities

Risks

- Exploration risk
- Construction and development risks
- Market risk

Deliver medium-term growth through ramping up Kyzyl

The Kyzyl project is a major medium-term growth driver for Polymetal, with an average annual production of 300 Koz. We are expecting Kyzyl to deliver its first full year low-cost production in 2019.

Performance in 2018

Kyzyl:

- Successful **launch in June 2018**, ahead of schedule and within budget
- Delivering **96 Koz** of payable production in 2018, a beat on the original guidance of 80 Koz
- **Offtake agreements** in place for all concentrate production for 2019

Amursk:

- Successful **completion** of debottlenecking project with all new sections now operating at full capacity
- Processing of low-carbon Kyzyl concentrate with **design recovery of 96%**

Targets for 2019

- The first full-year of production at Kyzyl
- Construction of the 2nd stage of tailing dam
- Further exploration of identified ore bodies and upgrade in reserves

Risks

- Market risk
- Production risk
- Exploration risk

Maintain high standards of corporate governance and sustainable development

Maintaining high standards of corporate governance and sustainable development gives us a license to operate and the much-needed trust of all stakeholders. Health and safety at our operations is a key priority.

Performance in 2018

- Full compliance with the provisions of the UK Corporate Governance Code
- The first Russian company to join the Dow Jones Sustainability Index
- Leader in the metals sector by Sustainalytics
- The highest score for Anti-Corruption, Corporate Governance, Risk Management and Labour Standards by FTSE4Good
- One fatality at our mines
- Appointment of three new independent non-executive Directors

Targets for 2019

- Ultimate goal of zero fatalities at all operations
- Implementation of climate management system
- Continued compliance with global and local best practices

Risks

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

Capital allocation

Our prime responsibility is to build long-term value per share. Adherence to strong capital discipline is the foundation of our strategy.

Our prime responsibility is to build long-term value per share. Adherence to strong capital discipline is the foundation of our strategy: in careful project selection with a preference for high-grade and low-capital-intensity; in value-accretive acquisitions, in significant investments in brownfield and greenfield exploration; as well as in rigid cost control.

This strategy helps Polymetal to combine a high return on investment with strong growth while generating a sizeable amount of free cash flow.

Capital allocation principles

Our capital allocation principles are clearly prioritised.

1. **Pay significant sustainable dividends.**
2. **Ensure a strong balance sheet.**
3. **Deliver meaningful value-accretive growth through internally generated funds.**
4. **Any excess cash will either be invested for profitable growth or considered for additional returns to shareholders.**

Regular dividend is a shareholder's right

We believe that a regular dividend is a shareholder's right and comes before growth spending.

Polymetal has been very consistent with its strategy of prioritising dividends in the capital allocation process. From free cash flow for 2012–2018 totalling $1.45 billion, Polymetal returned $1.41 billion by paying out regular dividends in each year since the IPO and significant special dividends in four years out of six. This represents an average of 156 Dollars per each ounce of gold produced and provides tangible returns to shareholders with a sector-leading dividend yield of 4% over the five-year period and 5% in 2018.

We have a strong commitment to substantial and sustainable regular dividends with a well-established dividend policy of paying 50% of underlying net earnings (net earnings adjusted for non-cash foreign gains/losses and impairment charges) each half year, subject to a hard ceiling of a Net debt/Adjusted EBITDA ratio below 2.5x.

At the end of each financial year, the Board considers the payment of a special dividend, based, among other factors, on the Company's available free cash flow (post regular dividends), the Company's leverage, market outlook, forward-looking financial projections and growth opportunities.

We believe that a regular payout, combined with a firm leverage ceiling, represents a predictable and transparent capital structure. In line with the policy, the Board proposed a final dividend of 50% of second-half underlying earnings, equal to $0.31 per share, bringing the total dividends proposed for the 2018 full year to $0.48 per share.

Target Net debt/EBITDA of 1.5x

Our near-term objective is to reduce net debt to ensure the Group's Net debt/Adjusted EBITDA ratio is no more than 1.5x.

Net debt as at 31 December 2018 was $1.52 billion, resulting in a Net debt/Adjusted EBITDA ratio of 1.95x (2017: 1.91x). The Company continued to generate significant free cash flow that amounted to $176 million (2017: $143 million) while maintaining stable net cash operating inflow of $513 million (2017: $533 million).

Our decision to improve the balance sheet will be supported mainly by further production growth driven by the first full year of operation at full design capacity at Kyzyl in 2019. In addition, an expected decrease in the cash cost and improved margins will enhance our free cash flow. We also aim to streamline our asset portfolio by disposing of some non-core exploration projects and any excess cash will be used to reduce debt.

High capital expenditure hurdle rate

We impose strong capital discipline on all investment decisions across the business:

- We apply high IRR hurdle rates (12% real unlevered at a $1,200/oz gold price).
- Our strong preference is with high-grade, low-cost and low-capital-intensity projects with high development optionality.
- We minimise our capital costs by employing a centralised hub-based system that handles ores from different high-grade sources.
- We preserve our focus by streamlining high-cost and short-lived assets.

Our success is a direct outcome of our capital control discipline and reflection of our fundamentals:

- We have delivered robust returns on capital (17% 3-year ROIC) while providing an exceptional growth rate in the mining sector, increasing production twofold from 0.7 Moz of GE in 2011 to 1.56 Moz of GE in 2018 (12% CAGR rate).
- We have generated free cash flow in each year since our IPO in 2011.

In 2019, Polymetal will start construction of two growth projects: Nezhda (29% base case IRR) and POX-2 (14% base case IRR). Nezhda is a very large (12.4 Moz of resources) and high-grade (4.5 g/t) asset, which will start contributing to dividends per share by 2022. POX-2 will fully de-risk our business model by eliminating dependence on concentrate off-take markets.

This will result in the incremental production of approximately 30–35 Koz of gold per year from the same amount of feedstock and will, on average, lower TCC by $100–150/oz per ounce for 500 Koz of annual gold production.

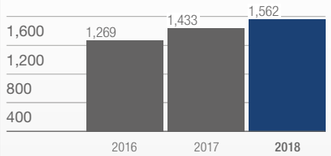
Key performance indicators

Link to strategy:

1 Deliver robust operating and financial performance
2 Deliver medium-term growth
3 Build and advance long-term growth pipeline
4 Maintain high standards of governance and sustainable development
* KPI linked to executive remuneration

Operating KPIs

GOLD EQUIVALENT PRODUCTION[1] +9%
(Koz)

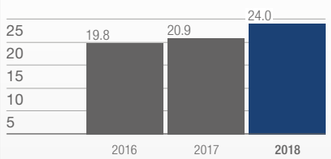


Annual target for gold equivalent (GE) production is an indicator to the market of our confidence in delivering stable and reliable growth.

In 2018, annual GE production of 1,562 Koz, a 9% increase year-on-year, exceeded the original guidance for the seventh year in a row.

RELEVANCE TO STRATEGY 1 *

ORE RESERVES +15%
(Moz)



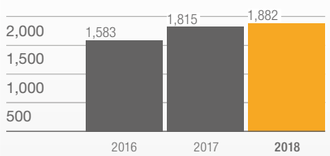
Extending mine life through near-mine exploration and new discoveries from greenfield exploration both contribute to the Company's long-term growth prospects.

In 2018, the Company increased its ore reserves by 15% to 24.0 Moz of GE as a result of a successful resource-to-reserve conversion at Mayskoye and the completion of a revised estimate at Nezhda.

RELEVANCE TO STRATEGY 3

Financial KPIs

REVENUE +4%
($m)

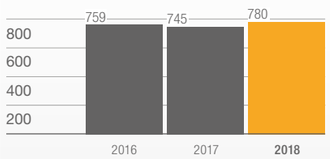


Top-line indicator, heavily dependent on commodity prices but also driven by the delivery of production volumes.

In 2018, revenue increased by 4% over 2017 to $1,882 million, primarily driven by GE production growth of 9%. Gold and silver sales were both broadly in line with production volume dynamics.

RELEVANCE TO STRATEGY 1

ADJUSTED EBITDA[1] +5%
($m)

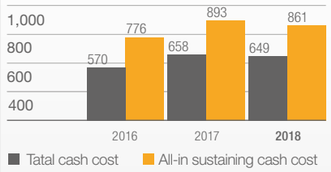


Adjusted EBITDA provides an indicator of our ability to generate operating cash flows from the current business.

Adjusted EBITDA was $780 million, up 5% compared with 2017, mostly driven by higher production volumes and stable cost performance. The Adjusted EBITDA margin was at 41.4% (2017: 41.0%).

RELEVANCE TO STRATEGY 1

TOTAL CASH COST[1] -1%
ALL-IN SUSTAINING CASH COST[1] -4%
($/GE oz)

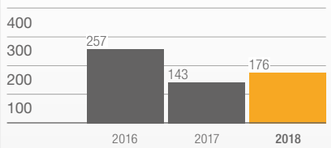


High-grade, full capacity utilisation and continued operational improvement, as well as foreign exchange rates and oil price are the key drivers behind total cash cost (TCC) per ounce.

TCC was $649/GE oz, down 1% year-on-year and just below the bottom of the range of its initial cost guidance of $650–700/GE oz. AISC was $861/GE oz, below the lower end of cost guidance of $875–925/GE oz, a decrease of 4% year-on-year.

RELEVANCE TO STRATEGY 1 *

FREE CASH FLOW[1] +23%
($m)

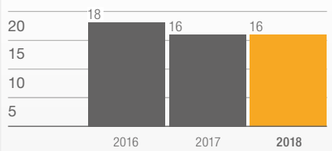


A key indicator in any business; generating a healthy free cash flow enables us to provide significant cash returns for shareholders.

Despite investments in the Amursk POX debottlenecking and Kyzyl projects in 2018 as well as start-up working capital at Kyzyl, we continued to generate meaningful free cash flow amounted to $176 million.

RELEVANCE TO STRATEGY 1

UNDERLYING RETURN ON EQUITY[1] +0%
(ROE) (%)

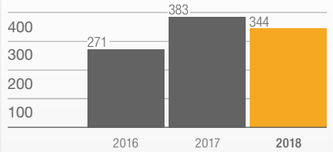


Return on equity (ROE) is one of the most important metrics for evaluating a company's profitability and measures the efficiency with which a company generates income using the funds that shareholders have invested.

In 2018, ROE (based on underlying net earnings and average equity adjusted for translation reserve) was 16% (2017: 16%), and remains one of the highest in the sector.

RELEVANCE TO STRATEGY 1

CAPITAL EXPENDITURE -10%
($m)

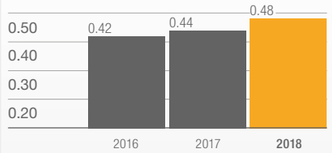


Our rigorous approach to all investment decisions ensures tight controls on capital expenditure, boosting the return on capital invested for shareholders and the sustainable development for the business.

Capital expenditure was $344 million, down 10% compared with 2017. With the addition of loans extended to Nezhda and Prognoz, capital expenditure comprised $395 million, below the original guidance of $400 million.

RELEVANCE TO STRATEGY 2 *

DIVIDENDS DECLARED FOR THE YEAR +9%
($/SHARE)

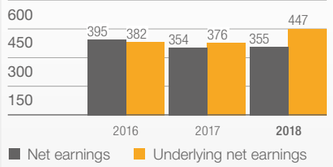


Our aim is to deliver meaningful dividends to our shareholders at all stages of both the commodity cycle and our investment cycle.

In 2018, dividends of $213 million ($0.47 per share) were paid out. A final dividend of $146 million ($0.31 per share) has been proposed, bringing the total dividend declared for the period to $223 million.

RELEVANCE TO STRATEGY 1

NET EARNINGS +0%
UNDERLYING NET EARNINGS[1] +19%
($m)



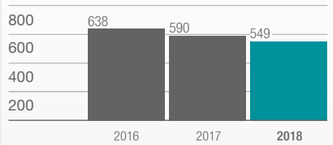
Underlying net income is a comprehensive benchmark of our core profitability, excluding foreign exchange gains/losses, impairments and one-off non-recurring items.

Underlying net earnings increased by 19% to $447 million driven by EBITDA growth, lower depreciation and income tax expenses.

RELEVANCE TO STRATEGY 1

Sustainability KPIs

GHG EMISSIONS INTENSITY -7%
(CO_2 EQUIVALENT TONNES PER 10Kt OF ORE PROCESSED)

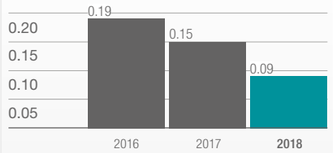


Reducing GHG emissions: we are taking steps to build a truly sustainable economy by measuring and disclosing our environmental impact.

Acting on climate change and building our future, we recognise our responsibility to manage our carbon footprint and minimise our CO_2 emissions. This year part of our energy needs were met through clean-energy sources and, together with our energy efficiency programmes, it resulted in a decrease of 7% in GHG intensity.

RELEVANCE TO STRATEGY 4

LOST TIME INJURY FREQUENCY RATE -40%
(LTIFR)



An improvement in the health and safety of employees at our operations is a key priority with a goal of zero fatalities.

Sadly, the Company did not reach its zero-fatalities target in 2018, with a life lost at Kapan mine during the year. Nevertheless, Polymetal notes a visible improvement in its overall health and safety performance, with a 40% reduction in LTIFR compared with 2017.

RELEVANCE TO STRATEGY 4 *

1 The definition and calculation of non-IFRS measures, including Adjusted EBITDA, Total cash costs, All-in cash costs, Underlying net earnings, Net debt, and the related ratios are defined in the Alternative Performance Measures section on pages 190–191.

Operating review

The strong finish to the year was driven by the successful execution and very smooth ramp-up of Kyzyl and the POX debottlenecking project.

1,216 Koz
GOLD PRODUCTION

25.3 Moz
SILVER PRODUCTION

Key operating highlights

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

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

> **Annual gold equivalent production of 1,562 Koz was up 9% year-on-year, exceeding our original production guidance for the seventh year in a row.**
>
> **Vitaly Savchenko,** Chief Operating Officer

Another year of solid performance

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

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

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

Analysis of production results

Mining

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

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

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

Processing

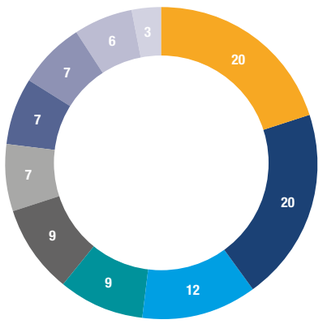
Ore processed increased by 16% to 15.2 Mt (2017: 13.0 Mt), mainly on the back of the ramp-up of Kyzyl, as well as higher volumes of ore stacked for heap leaching at Omolon and Svetloye.

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

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

GOLD EQUIVALENT PRODUCTION BY MINE IN 2018

(%)



	12 months ended 31 December 2018	2017	Change, %
Albazino-Amursk	308	269	+15%
Dukat	306	322	-5%
Omolon	195	202	-4%
Varvara	142	130	+9%
Svetloye	136	106	+28%
Mayskoye	117	124	-6%
Voro	107	120	-10%
Okhotsk	104	111	-7%
Kyzyl	96	–	NM
Kapan	51	50	+3%
TOTAL	1,562	1,433	+9%

Operating review continued

Production and sales

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

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

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

Metal sales in 2018 were 1,535 Koz of gold equivalent, up 5% compared with 2017, broadly following production dynamics. While most of the sales are comprised of refined metals, we continue to sell concentrates from Dukat (gold/silver), Varvara (gold/copper), Mayskoye (refractory gold) and Kyzyl (double refractory gold) to offtakers. Offtake allows us to maximise our margins and achieve an optimal combination of transportation costs and treatment charges/recoveries, this being one of our core competencies. At Kyzyl, offtake agreements for all 2019 concentrate production were successfully secured despite a noticeable tightening of markets in China.

Exploration

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

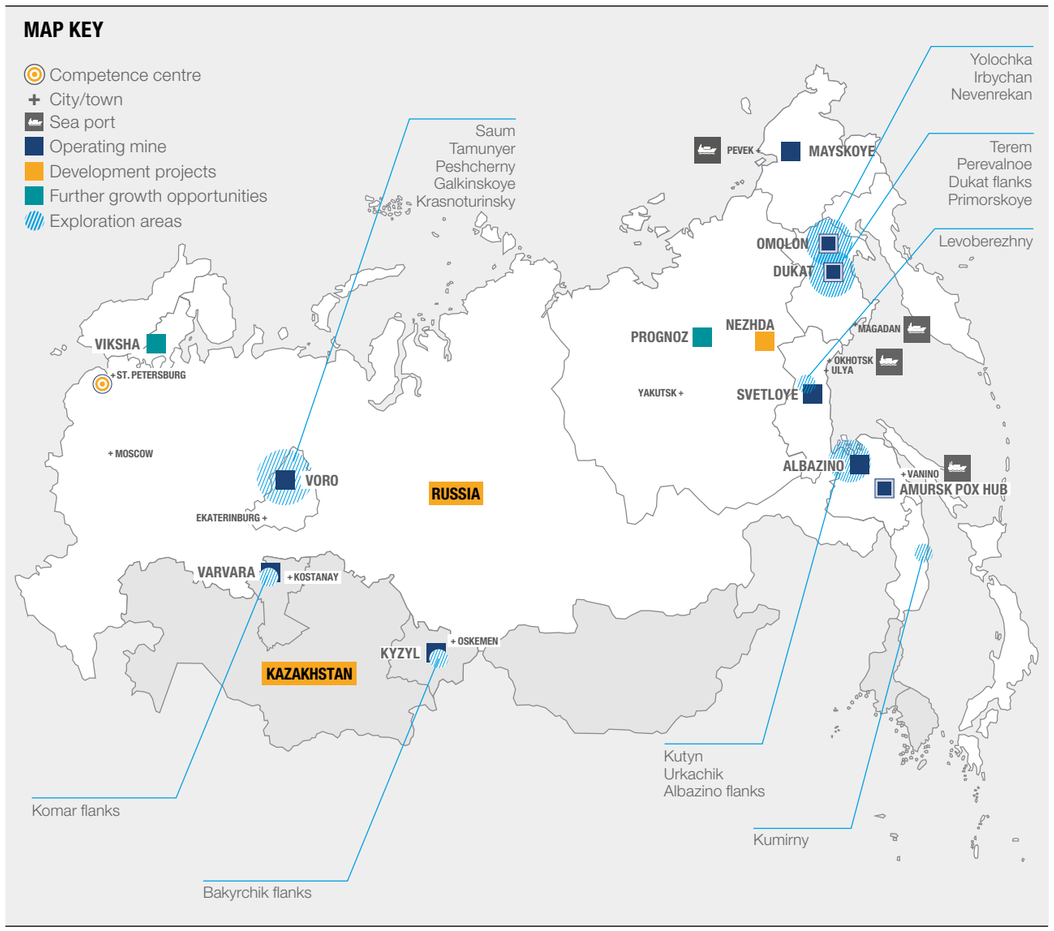
Our key exploration objectives in 2018

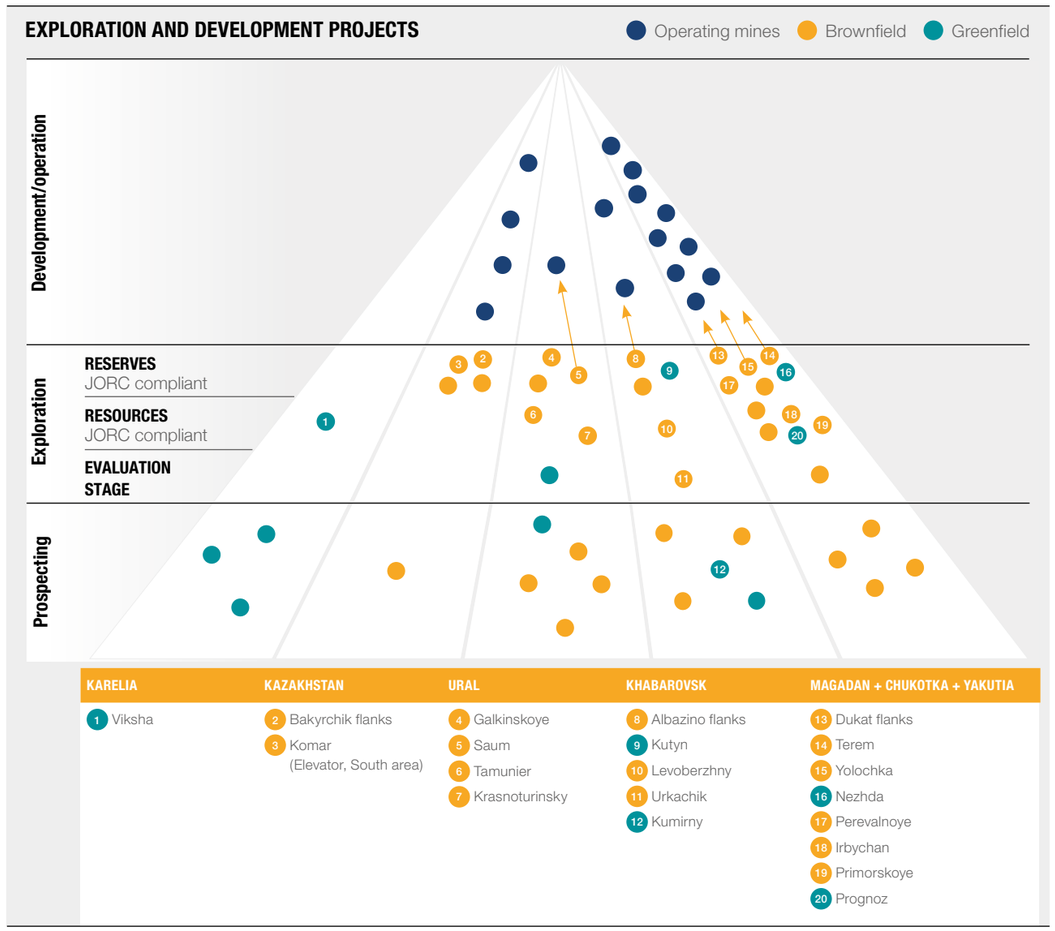
- Brownfield exploration projects in close proximity to the Company's producing assets in the Magadan, Sverdlovsk and Khabarovsk regions, notably: Albazino (with focus on preparing open-pittable reserves at the Farida and Ekaterina zones), Mayskoye (29.5 km of exploration drilling), Varvara (mostly focused on the Elevator property), Voro (exploration activities at Pescherny and Saum), and Dukat (the south-western flank of ore zone 9)
- Updated mineral resources estimate and achieve resource-to-reserve conversion at Nezhda to include the southern flank of ore zone 1 and smaller mineralised zones
- Completion of audited JORC-compliant resource estimate for Prognoz largest ore zones, Main and Swamp
- Continuing step-out and in-fill drilling at Kyzyl (41 drill holes totalling 7.3 km) with a goal to prepare an updated Ore Reserve estimate in 2019.

Key 2018 achievements

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

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





Operating review continued

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

2019 targets

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

The key objectives are as follows:

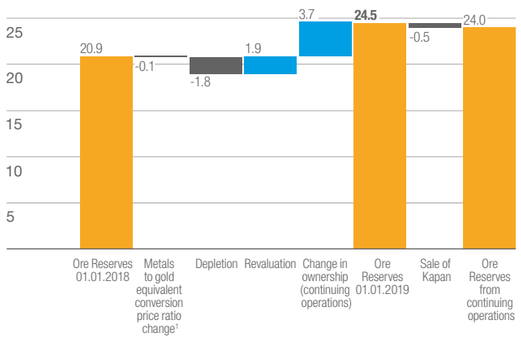
- Complete a full revaluation of ore reserves and mineral resources at Kyzyl based on actual operating statistics and additional exploration results.
- Achieve an upgrade of inferred resources into higher categories and/or resource-to-reserve conversion at the following properties:
  - Saum and Pescherny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

Exploration areas and volumes (mine site exploration excluded)

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

ORE RESERVES RECONCILIATION[1]

(GE MOZ)



1 Discrepancies in calculations are due to rounding.

Ore Reserves and Mineral Resources summary[1,2]

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

1 Ore Reserves and Mineral Resources from continuing operations (Kapan mine sold in January 2019 classified as a discontinued operation as at 1 January 2019).
2 Mineral Resources are additional to Ore Reserves. Ore Reserves of lead are not presented due to the immateriality and are not included in the calculation of the gold equivalent. PGM Mineral Resources are presented separately and are not included in the calculation of the gold equivalent. Discrepancies in calculations are due to rounding.

Reserves and Resources

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

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

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

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

Outlook for 2019

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

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

The Company will continue brownfield and greenfield exploration efforts. Increased use of airborne geophysics and seismic analysis should assist with the discovery of mineralisation with no direct outcrop.

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

Finally, safety remains a top priority for Polymetal. We re-affirm our commitment to further improvements across health and safety metrics in order to achieve our zero-harm target in relation to our employees, as well as our suppliers and contractors.

Vitaly Savchenko, Chief Operating Officer

Operating review

Operating assets

KYZYL

Successful launch of our flagship operating asset

96 Koz
PAYABLE PRODUCTION

$554/GE oz
TOTAL CASH COST

7.2 Moz
GOLD RESERVES

22 years
ESTIMATED LIFE-OF-MINE

Location: East Kazakhstan Region, Kazakhstan
Managing director: Kenbeyil Isaev
Employees: 1,139
Mining: Open-pit (~12 years) followed by underground

Processing: 1.8 Mtpa flotation + POX / concentrate offtake
Production start date: 2018
Life of mine: 2039

Mines
1 Bakyrchik
2 Bolshevik

Exploration
3 Bakyrchik flanks

Processing plant
Kyzyl plant
Town

In 2018, we successfully launched the largest development project in the Company's history, ahead of time and below budget. In its first half-year since the launch, Kyzyl has already made a substantial contribution to Polymetal's robust operating results.

Mining

At Kyzyl, stripping volumes increased significantly to 60.9 Mt, compared with 48.5 Mt in 2017. Mining activities reached full design capacity with 1,249 Kt of ore mined during the year.

Processing and production

Following the completion of all construction and commissioning activities, Kyzyl successfully produced first gold concentrate in June 2018. Polymetal achieved the start-up of the concentrator one quarter ahead of the original schedule, announced in 2014, and one month earlier than the January 2018 updated plan.

Kyzyl delivered a robust performance in 2018, exceeding the initial plan on grade, throughput and production. Full-year gold production came in at 96 Koz of gold, significantly beating the original 2014 guidance of 80 Koz, while gold in concentrate amounted to 134 Koz. The outperformance is mainly attributable to the softer nature of the rock, as well as the presence of small high-grade ore pods.

Ore processed was 914 Kt, with average gold grade in ore processed at 5.7 g/t. Concentrate of 56 Kt with an average grade of 75 g/t was produced. Payable gold shipped comprised 89 Koz. Amursk POX successfully processed 2 Kt of low-carbon concentrate from Kyzyl, achieving recovery of 96%, with 7 Koz of gold produced.

The new railway spur was successfully commissioned in October 2018, with the pace of railway shipments now running at full capacity.

Offtake agreements for all concentrate production in 2019 have been successfully secured, despite a noticeable tightening of markets in China.

Exploration

At Bolshevik (7 km from the concentrator), the Company completed an initial mineral resource estimate comprising 704 Koz of gold with an average grade of 3.4 g/t.

At Bakyrchik, exploration activities in 2018 were carried out with a goal to prepare an updated ore reserve estimate in 2019. Exploration drilling at the Promezhutochny and Gluboky Log ore zones (41 drill holes totalling 7.3 km) resulted in an increase in mineral resources according to the sum of the Inferred and Indicated categories.

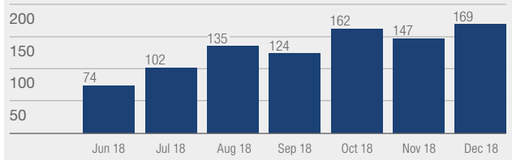
PRIORITIES FOR 2019

- Kyzyl delivering its first full year of production with approximately 300 Koz of gold
- Construction of the second stage of the tailing dam
- Update of ore reserves and mineral resources estimates based on results of additional exploration works

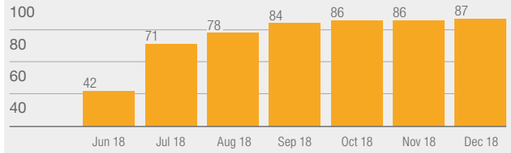
EXCEEDED INITIAL EXPECTATIONS

	Initial PFS (2015)	Actual (Q4 2018)
Start of production	Q3 2018	25-Jun-18
Grade	5.9 g/t	6.3 g/t
Throughput	1.8 Mtpa	1.8 Mtpa
Recovery to concentrate	84–91%	86%
KZT/$ rate	180 KZT/$	320 KZT/$
Start-up capital expenditure	$325m	$319m
2018 payable production	77 Koz	96 Koz

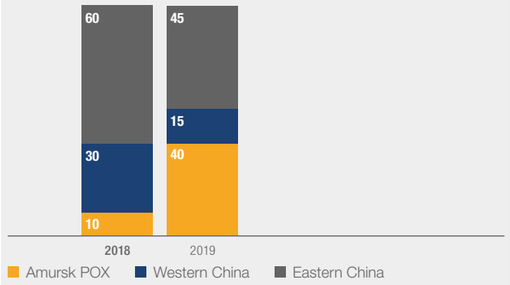
ORE PROCESSED
(Kt)



AU RECOVERY
(%)



GOLD-IN-CONCENTRATE
(%)



CONCENTRATE OFFTAKE

Railway
Western route: railway to Alashankou station (West China)
Eastern route: railway to Vladivostok, by sea to East China

Sea port

DUKAT

Sustaining performance at Russia's largest primary silver mine

1st
LARGEST PRIMARY SILVER MINE IN THE WORLD[2]

2.46 Mt
ORE PROCESSED (+1%)

20.8 Moz
2018 SILVER PRODUCTION

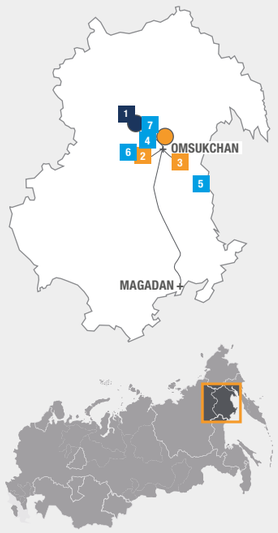
$8.5/SE oz
TOTAL CASH COST (2017: $8.2/SE OZ)

Location: Magadan Region, Russia
Managing director: Mikhail Egorov
Employees: 1,922
Mining: Underground
Processing: 2.0 Mtpa flotation (Omsukchan) + 450 Ktpa Merrill-Crowe (Lunnoye)/ concentrate offtake
Production start date: 2000
Life of mine: 2024 (Lunnoye), 2026 (Dukat)

Mines[1]
1 Lunnoye
2 Dukat
3 Goltsovoye

Exploration
4 Perevalnoye
5 Primorskoye
6 Dukat flanks
7 Terem

Processing plants
Lunnoye (cyanide leaching and Merrill-Crowe)
Omsukchan (flotation/gravity)
Town



1 Processing plants and the mines feeding them are marked in the same colour.

In 2018, Dukat hub produced 20.8 Moz of silver, delivering according to the plan. Despite planned grade declines at the underground mine, Dukat continues to be one of the largest contributors to the Group's EBITDA and free cash flow.

Mining

Underground mines at Dukat, Goltsovoye and Lunnoye continued to operate at full capacity, and the amount of ore mined at the Dukat hub was flat year-on-year at 2.4 Mt. The underground development increased by 10% year-on-year to 60 km.

At Dukat, for the fourth consecutive year, the volume of ore mined remained virtually unchanged at a record level of 1,660 Kt. Underground development increased by 5% to 36 km. Average silver grade decreased by 10% to 274 g/t in accordance with the mine plan.

At Goltsovoye, mining volumes were in line with prior year's level at 193 Kt, while underground development decreased by 2%. Goltsovoye mine is approaching the end of its economic life with underground development expected to cease in Q3 2019 and ore mining to end in early 2020. Average silver grade decreased by 12% to 321 g/t.

At Lunnoye, the amount of ore mined was relatively flat at 568 Kt. Underground development increased by 31% to 13.5 km. Lower silver grade of 284 g/t, a 15% decrease compared with the prior period, is mostly attributable to the depletion of the high-grade areas in zone 7.

At Perevalnoye, positive exploration results led to a significant increase in average ore body widths and reserve tonnage. This prompted a reconsideration of the previously proposed underground mining method. As a result, the start of stoping has been delayed to Q4 2019.

Processing and production

Full-year silver production at the Dukat hub was 8% lower year-on-year at 20.8 Moz, on the back of planned moderate grade declines at the underground mine.

In 2018, Omsukchan concentrator processed a record volume of 1,995 Kt of ore, while maintaining stable recoveries for both gold and silver of 86.7% and 88.2%, respectively. This was on the back of continuous improvement in the ore quality control system, based on geological and process mapping. Average gold grade processed increased by 24% to 0.5 g/t, while average silver grade decreased by 7% to 297 g/t. Gold production increased by 22% to 29.5 Koz, while silver production decreased by 7% to 16.4 Moz.

A new thickener was commissioned at the Omsukchan concentrator, enabling the production of a separate product (flash flotation concentrate) with low silica and high metal content, which will result in improved payability for lead, zinc and copper.

2 Based on published results of peer group.

At Lunnoye, processing volumes remained flat at 463 Kt. Average gold grade increased by 7% to 1.3, while average silver grade was down by 7% to 327 g/t. Average gold and silver recoveries were down by 6% and 2%, respectively. Gold production was flat at 16.7 Koz, while silver production decreased by 9% year-on-year to 4.4 Moz, mainly due to the change in grade profile and lower recoveries.

Exploration and reserves

At Lunnoye, depletion was partially offset by reserve additions of 37 Koz of GE, which was mainly driven by positive exploration results at the south-western flank of ore zone 9.

In 2019, Polymetal plans to complete the assessment of Perevalnoye and prepare an updated mineral resource and ore reserve estimate for the property. Prospecting at the Dukat flanks and deeper levels of Lunnoye is set to continue. The Company also plans to complete an aerogeophysical survey at the Dukat ore field and its flanks over a total area of approximately 1,000 km².

PRIORITIES FOR 2019

- Start of stoping at Perevalnoye
- Optimisation programme aimed at improving of concentrate quality
- The upgrade of the tailing dams at both Dukat and Lunnoye

OMOLON

Flexible processing and cost control

195 Koz
GE PRODUCTION (-4%)

$647/GE oz
TOTAL CASH COSTS/GE OZ (2017: $652/GE OZ)

2.3 Moz
2018 SILVER PRODUCTION (+14%)

$106m
ADJUSTED EBITDA (2017: $120M)

In 2018, Omolon delivered stable financial and operating results, with GE production of 195 Koz, a slight decrease compared with 2017 on the back of planned grade declines at the Kubaka mill.

Mining

In 2018, the total ore mined increased by 47% year-on-year to 1,014 Kt on the back of accelerated mining at Sopka.

Mining activities at the Birkachan underground mine ramped up with the volume of ore mined up 25% year-on-year to 143 Kt. Average gold grade increased by 28% to 9.7 g/t. A trial run of an underground digital fleet management system commenced at Birkachan. The system enables the analysis of operating data from trucks, loaders and drill rigs in real time.

At Sopka, the volume of ore mined increased by 140% to 627 Kt. The open-pit mine life at Sopka has been extended to the second half of 2019 as step-out drilling identified incremental high-quality mineralisation that extends into the pit walls.

At Tsokol, the underground development decreased by 7% year-on-year with 152 Kt of ore mined and a 29% decrease in the average gold grade to 7.3 g/t. The mine is winding down ahead of expected pillar removal operations during 2019–2020.

At Olcha, total mining volumes increased by 11% to 92 Kt, while underground development was up 36% year-on-year. The average gold grade increased significantly to 9.7 g/t, up 74% year-on-year.

Operating review
Operating assets continued

>> OMOLON CONTINUED

Location: Magadan Region, Russia

Managing director: Samat Kozhakaev

Employees: 1,106

Mining: Open-pit/ underground

Processing: 850 Ktpa CIP/Merrill-Crowe (Kubaka), 1 Mtpa heap leach (Birkachan)

Production start date: 2010

Life of mine: 2024

Mines[1]
- 1 Birkachan
- 2 Tsokol
- 3 Oroch
- 4 Sopka
- 5 Olcha

Exploration
- 6 Nevenrekan
- 7 Irbychan
- 8 Yolochka
- 9 Burgali

Processing plants
- Kubaka (CIL and Merrill-Crowe)
- Birkachan (heap leach)
- Town

1 Processing plants and the mines feeding them are marked in the same colour.

Processing
Gold production at Omolon was 166 Koz, down 6% over 2017 as a result of grade declines at the Kubaka mill which were partially offset by the ramp-up to full capacity at the Birkachan heap leach.

The volume of ore processed at Kubaka mill was stable at 862 Kt. Gold and silver recoveries increased by 1% and 3% to 95.5% and 86.4%, respectively. Average silver grade was up 9% to 98 g/t, while average gold grade decreased by 15% to 5.7 g/t. The grade dynamics are largely driven by the increased share of lower grade ore from the Sopka open-pit as the Tsokol underground mine is winding down.

Birkachan heap leach was ramped up to full capacity. Gold production at Birkachan heap leach increased almost three-fold to 12.9 Koz. The total volume of ore stacked increased to 997 Kt, up 117% year-on-year.

Exploration and resources
At Olcha, mineral resources (including ore reserves) increased by 39 Koz of GE as a result of the 2018 exploration campaign.

At Nevenrekan, 62 Koz of GE were added to mineral resources, with the updated estimate now comprising 164 Koz of GE with an average grade of 12.4 g/t. In 2019, the Company plans to complete the delineation of ore body 1 and further prospecting activities aimed at identifying ore bodies under basalt.

In 2019, Polymetal also plans to complete prospecting activities at the south-western flank of the Tsokol property and prepare Yolochka for the start of open-pit mining.

PRIORITIES FOR 2019

- Advancing life-of-mine extension options
- Start of open-pit mining at Yolochka satellite deposit (80 km from the Kubaka mill)
- Initial reserves estimates at Irbychan and Yolochka in the first half of 2019

AMURSK POX HUB

Leveraging our core technical capabilities and creating substantial value with POX-2

322 Koz
TOTAL GOLD PRODUCTION THROUGH POX (+15%)

96.7%
POX RECOVERY

176 Kt
CONCENTRATE PROCESSED (+10%)

Location: Khabarovsk Territory, Russia

Managing director: Vadim Kipot

Employees: 471

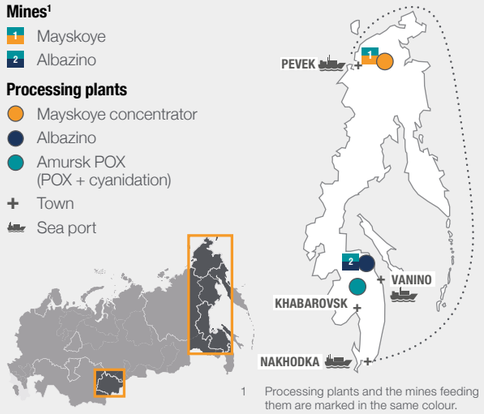
Feed: Albazino, Mayskoye, Kyzyl, third-party concentrate

Processing: Concentrate POX + cyanidation

Production start date: 2012

Mines[1]
- 1 Mayskoye
- 2 Albazino

Processing plants
- Mayskoye concentrator
- Albazino
- Amursk POX (POX + cyanidation)
- Town
- Sea port



1 Processing plants and the mines feeding them are marked in the same colour.

At Amursk POX, the debottlenecking project was successfully completed with all new sections now operating at full capacity after a very short two-week ramp-up in October 2018. Increased POX capacity improves the economics at Kyzyl and broadens the scope for the profitable treatment of third-party feedstocks.

2018 highlights
In 2018, the Amursk POX plant achieved record operating results. The volume of concentrate processed increased by 10% to 176 Kt, while total gold production amounted to 322 Koz, up 15% year-on-year, thanks to successful and timely completion of the debottlenecking project.

The volume of Albazino concentrate processed was up 7% to 147 Kt. The average grade in concentrate was 56.9 g/t, down 2% year-on-year. Concentrate processed from Mayskoye decreased by 26% to 5 Kt as the capacity was taken up by higher-grade and higher-margin third-party material (23 Kt of purchased feedstock processed, up 43% year-on-year). Recoveries from both Albazino and Mayskoye concentrate exceeded the design level at 96.7% and 96.1%, respectively.

2 Kt of low-carbon Kyzyl concentrate were introduced to the feed during the last quarter after debottlenecking, achieving recovery of 96%, in line with design parameters.

Amursk POX debottlenecking project
The debottlenecking project was successfully completed and launched in Q4 2018. Increased POX capacity enables higher gold recoveries from concentrate and reduces downstream processing costs, thus improving the economics at Kyzyl and broadening the scope for the profitable treatment of third-party feedstock.

Debottlenecking construction activities were mainly represented by the construction of a second oxygen station, as well as new desorption section and control filtration, modernisation of the autoclave oxidation section and new filter presses for tailings and gypsum sediment.

In early 2019, the Board approved the POX-2 project on the basis of the recently completed feasibility study and authorised the start of construction (for more details, see page 42).

PRIORITIES FOR 2019

POX-1
- Processing all of Kyzyl low carbon and available third-party concentrate

POX-2
- Start of detailed engineering and construction in Q2 2019
- Main equipment contracting
- Development of project documentation for infrastructure

AMURSK POX-2

POX-2 leverages our core technical capabilities and is expected to generate significant economic benefits as all refractory concentrates will be retained for in-house processing as opposed to selling to third-party offtakers. The project will ensure strategic security of downstream processing against the backdrop of tightening environmental regulation in China, and create capacity for treatment of third-party refractory concentrates.

POX-2 also fits well with our sustainable development strategy. The environmental footprint of the Company's value chain will shrink drastically on the back of substantial reductions in air pollution, water usage and solid toxic waste due to the change in the downstream processing technology (POX instead of roasting), zero-water discharge and dry storage of process tailings.

The operation is expected to be commissioned in Q3 2023 and fully ramped up by the end of that year.

STRATEGIC IMPORTANCE

- Unlock value of Polymetal's substantial refractory reserve base (77%) by de-risking asset base
- Significant long-term economic benefits to in-house processing vs offtake
- Strategic security of downstream processing on the back of current state initiative to potentially ban export of concentrates and a tightening Chinese market
- Positive environmental, social and economical impact

OPPORTUNITIES

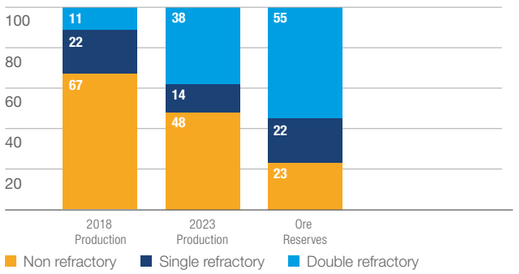
- Globally competitive technical capability
- New assets with refractory reserves
- Third-party feedstock
- Use of hydromet competence in other commodities

Project overview

POX-2 WILL UNLOCK THE VALUE OF REFRACTORY RESERVES

OUR ORE TYPES

- 55% of our reserves are double refractory (~14 Moz of GE).
- In five years, almost 40% of annual gold equivalent production will be double refractory.



TECHNOLOGY

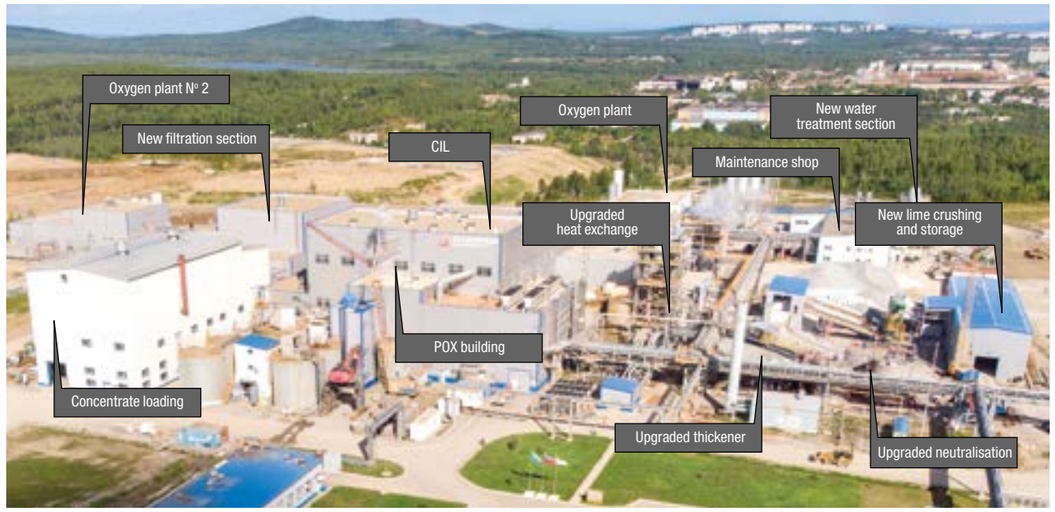
POX-2 is designed for processing double refractory concentrates, which contain micron gold particles encapsulated in sulphides (pyrites and arsenic pyrites) together with high concentrations of organic carbon. High carbon content drives high sorption activity (preg-robbing) and dictates the use of high-temperature (240˚C) pressure oxidation compared with medium-temperature (200˚C) oxidation utilised at the existing Amursk POX facility.

Pressure oxidation (POX) was selected as the most feasible processing technology for double refractory ores. It is able to achieve gold recoveries of 96% by utilising high temperatures, elevated pressure and oxygen to recover encapsulated gold, while conventional cyanidation methods would result in sub-optimal recovery rates of 20–40%.

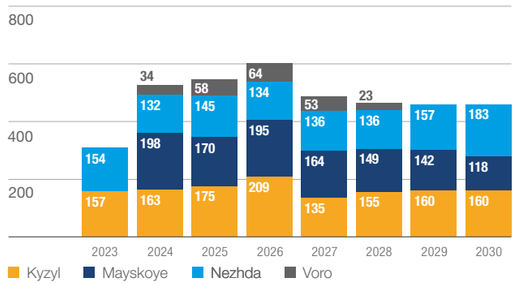
KEY TECHNICAL PARAMETERS

PARAMETERS	POX 1	POX 2
Main targets for oxidation	Gold-bearing sulphide minerals	Gold-bearing sulphide minerals + organic carbon
Operational temperature, ˚C	200	240
Pressure, bar	21.7	43.4
Length of ramp-up period		6 months
Concentrate capacity		~ 250–300 Ktpa
Life-of-mine gold production		9.0 Moz

AMURSK POX DEBOTTLENECKING PROJECT – SITE LAYOUT



GOLD PRODUCTION



FEASIBILITY STUDY HIGHLIGHTS

- A total of 4.3 Mt of concentrate containing 9.3 Moz of gold to be processed from Kyzyl, Nezhda, Mayskoye, and Voro over a period of 23 years
- Initial capital expenditure of $431 million fully funded with the Group's operating cash flow
- 4.5 years construction period

- Generation of a post-tax IRR of 14% and NPV of $112 million
- Starting from 2024:
  - +$80–100 million to free cash flow ($0.2 per share)
  - +$100–110 million to EBITDA

KEY PROJECT MILESTONES

	2019	2020	2021	2022	2023
Q1		Receipt of all permits		Completion of main equipment installation	
Q2	Start of detailed engineering and construction				
Q3		Delivery of the autoclave on-site	Completion of civil construction works	Completion of external infrastructure	End of commissioning and first production
Q4				Mechanical completion and start of commissioning activities	**Full ramp-up**

ALBAZINO

High-grade profile and robust performance

308 Koz
TOTAL GOLD PRODUCTION (+15%)

$184m
ADJUSTED EBITDA (+17%)

170 Kt
CONCENTRATE PROCESSED AT THE AMURSK POX (+11%)

$800/GE oz
AISC/GE OZ (-5%)

Location: Khabarovsk Territory, Russia
Managing director: Alexey Sharabarin
Employees: 1,122
Mining: Open-pit/ underground

Processing: 1.6 Mtpa flotation + POX
Production start date: 2009
Life of mine: 2035

1 Processing plants and the mines feeding them are marked in the same colour.

In 2018, Albazino continued to demonstrate excellent operating results and achieved a new production record of 308 Koz of gold, up 15% year-on-year.

Mining

At Albazino, underground mine productivity continued to improve as a result of the full transition to a partially cemented waste backfill. The new mining method had a positive impact on grades that offset slightly lower recovery levels, impacted by near-surface, partially oxidised ore from Ekaterina-1. The underground development extended by 19% year-on-year, and the volume of ore mined from underground increased by 27% to 405 Kt, or 23% of total ore mined. Underground development started at the new Ekaterina-2 underground mine. Ore mining is expected to commence in Q4 2019.

The amount of ore mined from the open-pit decreased 9% year-on-year to 1,379 Kt. As a result, the total amount of ore mined remained almost flat year-on-year at 1,784 Kt. Waste stripping started at the new Ekaterina-2 open-pit.

Processing

Ore processed remained unchanged at its 2017 level of 1,724 Kt, above nameplate capacity, with average grades processed of 5.3 g/t (up 8% year-on-year). Gold recoveries at the Albazino concentrator were 85.7%, while concentrate yield was 8%.

2018 production was up 15% to a record 308 Koz of gold on the back of higher processing volumes. Concentrate of 143 Kt with an average grade of 54.5 g/t was produced, up 2% year-on-year. All concentrate was processed at the Amursk POX plant.

In 2018, the second tailing dam was commissioned.

Exploration and resources

In 2018, exploration activities were focused on preparing open-pittable reserves at the Farida and Ekaterina 1 and 2 ore zones for mining. Drilling volumes increased 54% year-on-year, totalling 46.6 km.

A 33% increase in additional mineral resources was achieved at Albazino, adding 403 Koz of gold. Total mineral resources now comprise 1.6 Moz of GE with an average grade of 4.6 g/t.

In 2019, the Company plans to carry out prospecting and evaluation activities at the Syransk and Urkachik properties.

PRIORITIES FOR 2019

- Acceleration of satellite open-pit development (Farida)
- Commencement of ore mining at the new Ekaterina-2 underground mine
- Operational improvement through utilising digital technologies (big data analytical techniques to increase plant throughput/recovery)
- Enhancing the design of the SAG mill liners, further increasing throughput

MAYSKOYE

High-grade refractory gold mine with excellent exploration results

117 Koz
TOTAL GOLD PRODUCTION (-6%)

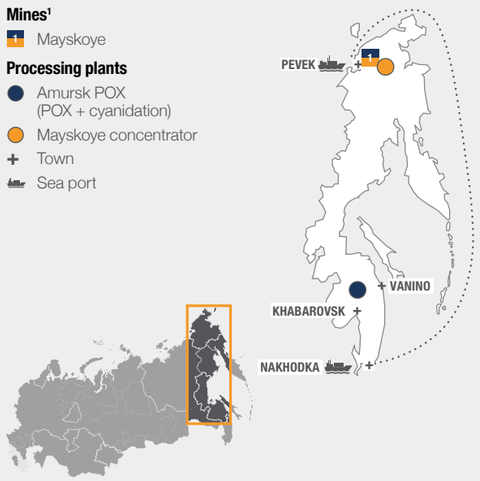
861 Kt
ORE PROCESSED INCL. LEACHING (+21%)

7.1 g/t
AVERAGE GOLD GRADE (+21%)

$829/oz
TOTAL CASH COST/GE OZ (-20%)

Location: Chukotka, Russia
Managing director: Erbol Rakhimov
Employees: 1,044
Mining: Open-pit/ underground

Processing: 850 Ktpa leach & flotation + POX/concentrate offtake
Production start date: 2013
Life of mine: 2037



1 Processing plants and the mines feeding them are marked in the same colour.

In 2018, Mayskoye produced 117 Koz of gold, a slight decrease compared with 124 Koz in 2017. Oxide ore processing through the combined float-leach circuit delivered solid full-year results with a significant improvement over the previous year contributing to a decline in the level of material costs and subsequent release of working capital.

Mining

In 2018, the volume of ore mined increased by 7% to 1,005 Kt, as open-pit mining continued to ramp up and contributed 372 Kt. The average grade mined was stable at 6.4 g/t.

Underground development at Mayskoye continued to increase as the new mine level (400 m below surface) is prepared for the start of stoping in Q1 2019.

Processing

In 2018, sulphide ore processed at the flotation circuit was down 22% year-on-year to 491 Kt, following a decrease in underground mining volumes, with an average gold grade of 5.5 g/t (2017: 5.4 g/t). The recoveries decreased slightly to 86.6% (2017: 87.7%).

The shift of oxide ore processing to the combined float-leach circuit in Q2 2018 delivered solid full-year results. The volume of ore processed grew more than four-fold year-on-year to 370 Kt. Recoveries were in line with metallurgical test work at 69% (2017: 46.9%).

The gold in concentrate produced increased by 24% year-on-year and comprised 120 Koz, reflecting the higher volumes of ore processed at the circuit.

Total payable gold production at Mayskoye decreased by 6% to 117 Koz, with 19 Koz of gold in concentrate stockpiled for shipments to offtakers. In 2018, most of Mayskoye concentrate was sold to China.

Exploration and reserves

In 2018, exploration at Mayskoye added 777 Koz of gold to reserves with a successful resource-to-reserve conversion extending its life-of-mine by five years. The updated ore reserve estimate now comprises 10 Mt of ore at 6.9 g/t containing 2.2 Moz of gold. This represents a 49% increase in tonnage, a 5% improvement in grade and a 55% jump in gold contained.

As at 1 January 2019, additional mineral resources at Mayskoye are estimated at 2.8 Moz of gold with an average grade of 11.4 g/t.

PRIORITIES FOR 2019

- Delineating ore bodies and further resource growth
- Establishment of real-time remote digital control of equipment units
- Maintaining safety, productivity and grade control underground
- Recommencement of oxide ore treatment in Q2 2019

Operating review
Operating assets continued

SVETLOYE

Sustainably solid results and lowest cash costs

1,378 Kt
TOTAL ORE PROCESSED (+31%)

$124m
ADJUSTED EBITDA (+23%)

135 Koz
GE PRODUCTION (+28%)

$301/GE oz
TOTAL CASH COSTS (-4%)

Location: Khabarovsk Territory, Russia
Managing director: Vasilina Tarabarova
Employees: 607
Mining: Open-pit
Processing: 1.4 Mtpa heap leach
Production start date: 2016
Life of mine: 2022

Mines
1 Svetloye
Exploration
2 Levoberezhny
Processing plants
Svetloye
Town
Sea port

In its second full year of operation, Svetloye continued to contribute significantly to Polymetal's performance and hit new records, both in volumes of ore stacked and gold produced.

Mining
In 2018, total ore mined at Svetloye increased by 6% to 1,317 Kt, while average gold grade grew by 2% to 3.8 g/t.

Processing and production
In terms of production, Svetloye delivered a solid set of results on the back of higher stacking volumes, which offset minor grade declines in ore stacked. The amount of ore stacked was 1,378 Kt, an increase of 31%. Gold production jumped 28% to 135 Koz and assured Svetloye's excellent cash-cost performance with total cash cost (TCC) of $301/oz and AISC of $425/oz.

In 2018, debottlenecking of the heap leach stacking capacity at Svetloye was performed, including modernisation of the aspiration system in the ore preparation complex, the commissioning of the drying section and launch of all-year round leaching of the heap leaching pads, using a heated solution.

We re-affirmed our commitment to sustainable development implementing two green-energy pilot projects at Svetloye that otherwise relies on diesel gensets. We were the first mining company in Russia to install a solar power plant, with a capacity of 1 MW to supply the Svetloye main production site, as well as a 100 kW wind turbine at Unchi seaport, the local supply hub for Svetloye. As a result, we expect to generate 1,500 kWh of environmentally friendly electricity each year, resulting in a 640 tonne reduction in GHG emissions annually.

Exploration and resources
At Svetloye, an increase in additional mineral resources was achieved, adding 86 Koz of gold. In 2019, the Company plans to undertake additional prospecting drilling and trenching at the flanks of the Svetloye deposit.

At Levoberezhny (35 km from Svetloye), the results of in-fill drilling confirmed the continuity of mineralisation and the viability of using heap-leaching to recover gold.

Successful step-out drilling at the Emy pit and positive metallurgical test work of the material from the nearby Levoberezhny property indicate potential to extend the life-of-mine of Svetloye by approximately four years to 2028.

PRIORITIES FOR 2019

- Start of mining at Emy open-pit
- Implementation of a portable analyser for on-line analysis of metallometric samples during exploration works
- Implementation of the bypass line

VORO

Sustained cash-flow generation and focus on life-of-mine extension through exploration

106 Koz
GOLD PRODUCTION (-10%)

$391/GE oz
TOTAL CASH COST (2017: $383/GE OZ)

1,003 Kt
ORE PROCESSED AT CIP (2017: 1,002 KT)

66%
ADJUSTED EBITDA MARGIN (2017: 63%)

Location: Sverdlovsk Region, Russia
Managing director: Boris Balykov
Employees: 764
Mining: Open-pit
Processing: 950 Ktpa CIP and 1 Mtpa heap leach
Production start date: 2000 (HL), 2005 (CIP)
Life of mine: 2028 (CIP)

Mines
1 Voro
Exploration
2 Pescherny
3 Saum
4 Galkinskoye
5 Tamunyer
6 Krasnoturinsky
Processing plant
Voro
Town

Voro demonstrated a stable operating and financial performance, making a significant contribution to free cash flow, despite the mature stage of operations.

Mining
Mining at Voro continues to decline as the open-pit nears depletion in Q3 2019. Open-pit mining at the southern flank of Voro has been finished.

In 2018, the total volume of ore mined was 26% lower year-on-year at 1,150 Kt. Average gold grades for primary and oxidised ore were 3.5 g/t and 3.2 g/t, respectively.

Processing and production
Total gold production at Voro decreased by 10% year-on-year to 106,4 Koz, largely driven by lower ore grades processed at the CIP facility and smaller contributions from the heap leach operation, which shifted to residual leaching. Voro continues to deliver a stable performance in line with the mine plan.

In 2018, the CIP plant delivered throughput of 1,003 Kt of ore processed, which remained relatively unchanged over the previous year, and produced 99 Koz of gold, down 3% year-on-year. The average gold grade in ore processed was 3.9 g/t, a 4% decrease from 2017. 2018 was the last year of heap leaching at Voro operations.

Resources and exploration
In 2018, the Company increased Voro's mineral resources by 19% to 1.2 Moz GE. This will allow for an extension of Voro's life-of-mine and halt the production decline.

At Pescherny (30 km from the CIP plant), exploration activities drove a 12% increase in mineral resources, which now comprise 505 Koz of gold with an average grade of 7.7 g/t. In 2019, the Company plans to complete 10 km of drilling with the goal of upgrading open-pit and underground resources to the Indicated category.

At Saum, the Company achieved a two-fold increase in mineral resources, adding 400 Koz of GE with an average grade of 9.8 g/t. In 2019, efforts will focus on 0.8 km of in-fill drilling of conductivity anomalies and the completion of geophysical surveys aimed at the discovery of new ore bodies.

At the Voro open-pit, exploration was mostly focused on the assessment of mineralisation below the ultimate pit floor at the northern flanks of the property. As a result, new ore bodies were discovered and known ore bodies were traced.

PRIORITIES FOR 2019

- Decision on underground mining perspective at Voro
- Operational improvement by deploying big data analytical techniques to increase plant throughput
- Addition of a flotation circuit to the existing CIP plant to allow processing of polymetallic ores
- Complete initial reserve estimate for Saum in Q1 2019

Operating review
Operating assets continued

VARVARA

Excellent performance with increased capacity at Komar

142 Koz
GE PRODUCTION (+9%)

3,642 Kt
TOTAL ORE PROCESSED (+11%)

$77m
ADJUSTED EBITDA (+13%)

Location: Kostanay Region, Kazakhstan
Managing director: Igor Nikolishin
Employees: 1,223
Mining: Open-pit
Processing: 3.0 Mtpa leaching for gold ore, 1.0 Mtpa flotation for copper ore
Production start date: 2007 (operated by Polymetal from 2009)
Life of mine: 2032

Mines
1 Varvara
2 Komar
3 Maminskoye
4 Tarutin

Exploration
5 Komar (Elevator, South area)

Processing plant
● Varvara
✚ Town

In 2018, Varvara hub delivered a record GE production of 142 Koz, up 9% year-on-year, driven by increased ore mining and railing capacity at Komar.

Mining
Total mining volumes decreased slightly by 3% (to 3,138 Kt). The average grades in both float and leach ore were 1.2 g/t, up 26% and 27%, respectively. At Komar, the average grade was 1.4 g/t, down 9% year-on-year.

Waste stripping started at the new Riverside pit at Varvara with the first ore expected in Q2 2019.

Processing and production
GE production grew by 9% to 142 Koz. This was primarily driven by growing processing volumes as the Komar railing capacity continued to improve. Debottlenecking of the railway haulage process between Komar and Varvara resulted in an increase in the total amount of ore mined and transported from Komar to 2.6 million tonnes, up 35% year-on-year.

The total ore processed increased by 11% to 3,642 Kt. At the flotation circuit the volume processed grew by 58% to 456 Kt, while at leaching circuit this was up 7% to 3,079 Kt.

Gold recoveries at the leaching circuit continued to improve due to the detailed geometallurgical mapping of Komar ore and the introduction of a flexible reagent addition earlier in the year. Copper flotation recoveries increased significantly as less oxidised ore from lower levels of the central pit were substituted for material from the north-eastern pit.

Exploration and resources
Exploration efforts at the Varvara hub in 2018 were mostly focused on the Elevator property. The Company completed 31 km of core drilling and the delineation of gold ore bodies at the northern and southern flanks.

At Komar, additional mineral resources increased by 225 Koz of GE on the back of lower stripping and mining costs, and consequently, expansion of the open-pit.

At the East Tarutin gold-copper deposit, the Company intends to restart exploration activities with the goal to complete a JORC-compliant ore reserve estimate in the first half of 2020. This will require more than 32 km of drilling at the property in 2019.

PRIORITIES FOR 2019

- Improve productivity and cut haulage costs by commissioning a main-line locomotive for railing Komar ore in Q1 2019
- Resume exploration at East Tarutin and complete a JORC-compliant ore reserve estimate in the first half of 2020
- Continued active presence in the market for third-party ore

Operating review
Development projects

PROGNOZ

Strengthening our long-term growth pipeline

Republic of Sakha (Yakutia), Russia
LOCATION

Open-pit (5–8 years), followed by underground
MINING

256 Moz of SE at 789 g/t
RESOURCES

1H 2020
RESERVE ESTIMATE

PRIORITIES FOR 2019

- 24.3 km of diamond drilling to upgrade the existing inferred resources
- 15.7 km of diamond drilling to establish new resources on extensions of the Main and Swamp zones as well as at Lucky, Spring, Faraway and Sunny veins
- Geotechnical studies and comprehensive analysis of potential construction sites

In April 2018, Polymetal completed the acquisition of Prognoz silver property, the largest undeveloped primary silver deposit in Eurasia. Prognoz is a unique silver asset in terms of size and grade. In time, it will supplant Polymetal's Dukat as one of the leading silver mines in the world.

It fits well with Polymetal's strategy with a very large resource, outstanding exploration upside and conventional sulphide composition of mineralisation with no deleterious elements, ensuring relatively simple processing options.

Development
In 2018, Polymetal announced the JORC mineral resource estimate for the Prognoz silver deposit. The new estimate incorporates data from 532 additional diamond drill holes (71.2 km) completed by Polymetal during 2017–2018.

Compared with the previous mineral resource estimate, completed by Micon in 2009, Polymetal added lead and used higher cut-off grades together with conservative extrapolation parameters to ensure a more robust and reliable estimate. As a result, the new estimate has the following key characteristics:

- Silver equivalent contained totalled 256 Moz at 789 g/t.
- Pure silver contained decreased by 19% from 293 Moz to 237 Moz.
- Average silver grade increased by 25% from 586 g/t to 731 g/t.
- Average vein width increased by 15% from 1.9 m to 2.2 m.
- The share of open-pit resources comprises 46%.
- The share of resources within the Indicated category increased from 50% to 61%.
- The share of resources in two largest veins (Main and Swamp) increased from 73% to 80%.

In 2019, Polymetal plans to complete the following work:

- 24.3 km of diamond drilling to upgrade the existing inferred resources to indicated category. Based on historic experience, management expects at least 80% conversion rate.
- 15.7 km of diamond drilling to establish new resources on extensions of Main and Swamp zones along the strike as well as at Lucky, Spring, Faraway and Sunny veins. Polymetal expects to add at least 60 Moz of contained silver after completing this campaign.
- Advanced metallurgical testing and detailed geometallurgical mapping of all indicated resources to establish the preferred processing route and tailings storage method. The most likely flowsheet will include both cyanidation and conventional sulphide flotation.
- Geotechnical studies to establish the basic design criteria for open-pit optimisation and the selection of an underground mining system.
- Comprehensive analysis of potential construction sites and sources of water and construction aggregates.

These activities are necessary to complete the pre-feasibility study and estimate JORC-compliant ore reserves at Prognoz. The results from this are expected in the first half of 2020.

Operating review
Development projects continued

NEZHDA

A world-class long-life gold deposit with robust economics

Republic of Sakha (Yakutia), Russia
LOCATION

25 years (19 years of conventional open-pit mining 2019–2037, 17 years of underground mining 2029–2045)
MINING

4.4 Moz of GE at 3.6 g/t (JORC)
RESERVES

8.1 Moz of GE at 5.1 g/t (JORC)
ADDITIONAL RESOURCES

Q4 2021
COMMISSIONING AND FIRST PRODUCTION

PRIORITIES FOR 2019

- Completion of construction of the concentrator building by the year-end
- Development of project documentation and submission for statutory environmental review
- First ore mined in Q3 2019
- Proceeding with a further exploration programme (25 km) to increase ore reserves

In November 2018, Polymetal completed the acquisition of Nezhda gold property. The deposit is composed of large mineralised zones, representing areas of intense brecciation comprised of crushed and sheared, hydrothermally altered, sedimentary rocks that have been variably enriched in quartz.

Nezhda is a long-life, high-grade asset with robust economics. The project is capital light and will contribute to dividends per share in 2022.

Development

In 2018, Polymetal completed the feasibility study for the Nezhda project, based on the updated ore reserve estimate reported in accordance with the JORC Code. The Board has approved the start of project construction.

Mineral resources (inclusive of ore reserves) comprised of 12.4 Moz of GE with an average GE grade of 4.5 g/t, a 1.6 Moz increase compared with the previous estimate.

The estimate of proved and probable ore reserves increased by 2.4 Moz of GE to 38 Mt, at an average grade of 3.6 g/t GE per 4.4 Moz of GE contained. Open-pit reserves increased by 55% from 2.0 Moz to 3.1 Moz; open-pit reserves now comprise 70% of total reserves.

The feasibility study envisioned 25 years of production from 2021 to 2045. The life-of-mine plan includes 19 years of conventional open-pit mining from 2019 to 2037, and 17 years of production from underground ore from 2029 to 2045. This is based on a conventional 1.8 Mtpa flotation concentrator with a gravity concentration circuit. Combined recovery to concentrate of 85% is supported by extensive external and in-house metallurgical testing. Gravity gold concentrate will be processed at the existing Amursk POX facility, while flotation concentrates will be sold to third parties. Average annual production is expected at 180 Koz during the first full three years of operation and 155 Koz of payable gold during the first full 15 years of operation.

The feasibility study has confirmed Nezhda's low-capital intensity and robust project economics. First production is planned for Q4 2021 with full ramp-up by Q2 2022.

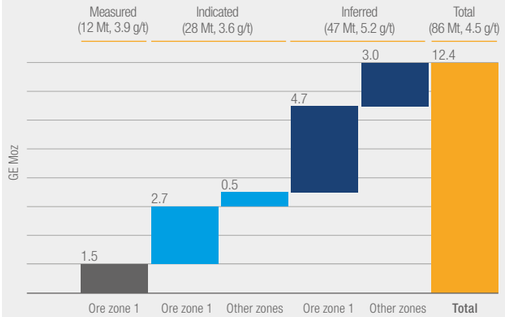
Construction activities have commenced and are currently focused on auxiliary infrastructure, including the fuel depot, explosives depot, process and potable water boreholes, as well as the warm warehouse. Earthworks for the processing plant have also started while the Company has completed the construction of two new dormitories and an administrative building.

Mining activities in the wintertime are limited to the construction of the pit access road, which requires a significant amount of overburden removal.

Construction of the concentrator building is due to complete by the end of 2019.

NEZHDA INFRASTRUCTURE UPGRADE IN 2017–18

MINERAL RESOURCE STRUCTURE BY ORE ZONE



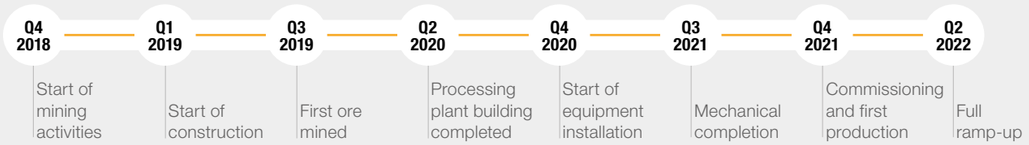
FEASIBILITY STUDY HIGHLIGHTS

KEY OPERATING RESULTS	
Reserves	4.4 Moz of GE @ 3.6 g/t
Life-of-mine	25 years
Average annual production	155 Koz (180 Koz in first 3 years)
Life-of-mine production	3.5 Moz GE

KEY FINANCIAL RESULTS	
Life-of-mine TCC	$620–670/oz[1]
Life-of-mine AISC	$700–750/oz[1]
Start-up capital expenditure	$234 million
Net present value (10%)	$302 million
IRR	29%

1 Open pit

KEY PROJECT MILESTONES



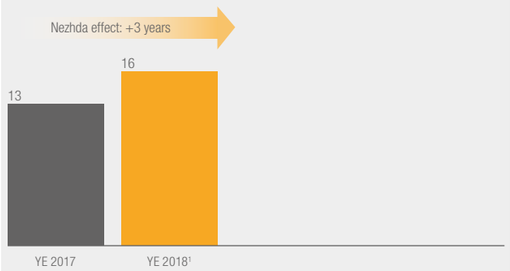
UPDATED ORE RESERVE ESTIMATE

Compared with the previous Ore Reserve estimate as at 1 July 2017:

- GE contained more than doubled to 4.4 Moz
- Open-pit reserves increased by 55% from 2 Moz to 3.1Moz
- +1.3 Moz of underground reserves
- Average GE grade decreased by 10% from 4.0 g/t to 3.6 g/t
- The share of open-pit reserves is 70%

- 25 years of production from 2021–2045
- 19 years open-pit starting 2019 and 17 years underground mining starting in 2029

FOCUSING ON LIFE-OF-MINE



1 Proforma for Nezhda, Kapan and Okhotsk.

Sustainability

2018 was a year in which we achieved a great deal across every area of sustainability, creating value for all stakeholders. As a result of integrating this approach throughout our business, we qualified for the maximum interest rate reduction on our first sustainability-linked loan.

0
MAJOR ENVIRONMENTAL INCIDENTS

-7%
GHG EMISSIONS INTENSITY

Safety is an absolute priority and we're committed to achieving a zero-incident work environment. In 2018, we upgraded from the OHSAS 18001 to ISO 45001 standard and saw a 40% reduction in our year-on-year LTIFR, with zero injuries in Q4. However, we regret to report a fatality in 2018.

Looking after our employees is important if we wish to attract – and retain – the best people. We also believe businesses do best when employees are diverse. In 2018, 20% of our employees were female and we appointed our first female mine managing director at Svetloye. We continued to focus on employee training, providing an average of 49 hours of training per employee.

In addition to our existing Code of Conduct, Supplier Code of Conduct and Human Rights Policy, we're further developing a suppliers' due diligence process. We also published our first public statement in compliance with the UK Modern Slavery Act. Next we will implement a supply chain risk assessment procedure and expand our engagement with our partners on ESG issues.

On energy and climate change, we've launched pilot solar and wind energy projects, and are exploring other ways to minimise our carbon footprint. We decreased our GHG emissions intensity by 7% and implemented an Energy Management System.

Building strong and trusted relationships with our local stakeholders through proactive engagement is central to our business success. We contributed to local communities and economies in all regions of operation by sourcing from local suppliers, social and infrastructure investments, and providing local employment.

We also contribute to national economies and welcome fiscal transparency. In 2018, we published our second report on payments to governments, required by UK regulations. We also support the EITI standard in Kazakhstan.

We are strengthening our business through sustainability innovation, often leading the way in our industry. I am pleased to present here our achievements in 2018 and plans for 2019.

Daria Goncharova, Chief Sustainability Officer

> We are strengthening our business through sustainability innovation, often leading the way in our industry. I am pleased to present here our achievements in 2018.

Sustainability highlights

1st
IN RUSSIA TO ENTER DJSI

Dow Jones Sustainability Indexes

INDUSTRY MOVER AWARD

SAM Sustainability Award Industry mover 2019

1st
IN CIS TO SIGN SUSTAINABILITY LINKED LOAN

SUSTAINALYTICS

- **Embedded sustainability in our supply chain**
- **Audited 2 mines and supply chains against Cyanide Code standards**

Human rights training and first Modern Slavery Statement

Improved H&S risk management and decreased LTIFR by 40%

Signed partnership agreement with Yakutia region with intention to employ locals

Launched pilot projects on solar and wind energy resources

Sustainability continued

Our approach

We believe responsible and efficient mining can be a force for good and take a long-term view (50+ years) of both the environmental and social impacts of our activities. Our strategy of focusing on high-grade deposits in specific geographies minimises our environmental footprint and at the same time enables us to gain a better understanding of the needs and priorities of local communities. It also reinforces our belief that sharing the economic benefits of mining fairly between stakeholders is essential if we are to retain the social licence to operate.

We are deeply committed to sustainability and continuous improvement, which translates into safer working conditions for people, responsible environmental management, support for our local communities and growing economic value for our stakeholders. Our sustainability strategy is designed to meet the principles of the UN Global Compact, to which we signed up voluntarily in 2009. We comply with the Ten Principles relating to the environment, labour, human rights and anti-corruption, and participate in the UN National Network Russia. Alongside our corporate values of dialogue, compliance, ethical conduct, fairness, stewardship and effectiveness, the Ten Principles help inform our sustainability policies.

Sustainability focus

The United Nations established its Sustainable Development Goals (SDGs) in 2016 as part of its aim to tackle the world's biggest challenges. The UN calls upon every part of society – governments, organisations, businesses and citizens – to help achieve its 17 goals and 169 targets by 2030.

We have aligned our sustainability focus to the following SDGs: promoting sustainable economic growth, productive employment, lifelong learning opportunities, safe and resilient communities, protection and restoration of terrestrial ecosystems, inclusivity and access to justice. All of which are helping us build a business that is effective, accountable and, above all, sustainable.

Stakeholders and materiality

Stakeholder engagement is a key aspect of sustainability reporting. We report most material topics according to GRI Standards. As part of this, we identify the social, economic and environmental issues that our stakeholders care most about. We also analyse industry and societal trends, investor and ESG analyst requests, peer companies, community grievances, risks identified and issues reported to our Board. Ten issues of high priority were identified through our most recent poll, with economic efficiency and safety of most concern. The table on pages 54 and 55 outlines all top ten material issues of high priority, how each issue fits into our sustainability priorities, and our progress in 2018.

Minimising risk

We use our risk management system to help us minimise risks across the business, achieve our strategic objectives and create sustainable value for our stakeholders. We have identified the potential risks that relate to achieving the SDGs and incorporated them into our risk management system. There are 73 targets that are relevant to our own business and to which we can contribute. We have evaluated our impact on these target areas, and are working to maximise our positive impacts and minimise any negatives.

Our robust risk management framework takes into account sustainability, ensuring that risks are appropriately identified, assessed against tolerance levels and managed Group-wide.

Our risk management is supported by a bottom-up approach and reviewed from the top-down. This ensures all employees are engaged in the process, while our Board and executive management ensure alignment with our Company strategy.

Our sustainability focus areas

Our strategic focus areas are aligned with stakeholders' expectations and the UN's Sustainable Development Goals, reflecting Polymetal's commitment to their aims.

1. **Improving health and safety for our employees and contractors**
2. **Maintaining positive working relationships with local government, NGOs and the communities where we operate**
3. **Attracting and retaining more high-quality people, creating an even better place to work**
4. **Continuously upgrading our technologies and approach to environmental protection**
5. **Enhancing transparency in our communications with suppliers, contractors and partners**
6. **Further developing water and energy efficiency programmes**

Non-financial information statement

The following information is provided in compliance with the new Non-Financial Reporting Directive requirements. The table below sets out where relevant information can be found in this Annual Report. More detailed information is available in our Sustainability Report or on the Company's website www.polymetalinternational.com.

REPORTING REQUIREMENT	POLICY AND STANDARDS	RELEVANT INFORMATION
Business model		• Business model, page 20–21 • Strategy, pages 24–25
Universal matters	• Code of Conduct • UN Global Compact • EBRD Environmental and Social Policy • Cyanide Code	• Employees, page 59 • Code of Conduct – Company's website • Our approach, page 54 • EBRD loan, Sustainability Report, page 58
Environmental matters	• Environmental Policy • Carbon Management Policy • Tailings and Hydraulic Facilities Management Policy • Energy Policy • Acid rock drainage management standard • ISO 14001 • ISO 15001	• Environment, page 60; Sustainability report, pages 46–55 • Environmental risk, page 80; Sustainability Report, page 24
Employees	• Employment and labour standard • Health and Safety Policy • Policy on Staff and Management Diversity • ILO, national labour codes • ISO 45001 • OHSAS 18001 • Human Resources Management Policy • Standard Regulation on Social Conditions and Service Quality Control • Collective agreements • Recruitment standard	• Employees, page 59; Sustainability report, pages 38–45 • Health and safety, page 58; Sustainability Report, pages 32–37 • Diversity and equal opportunities, page 59; Sustainability Report, pages 40, 43 • Human capital development, page 59; Sustainability Report, pages 40–42 • Health and safety risk management, page 58, 80; Sustainability Report, pages 24 and 33 • Corporate culture, pages 2 and 107; Sustainability Report, page 21
Human rights	• UNDHR • Human Rights Policy • Modern Slavery Statement • Supplier Code of Conduct	• Human rights, page 61; Sustainability Report, page 57
Social matters	• Community Engagement Policy • Political and Charitable Donations Policy	• Community engagement, page 61; Sustainability Report, page 57 • Our commitment to social investment, page 61; Sustainability Report, page 58
Anti-corruption and anti-bribery	• Anti-Bribery and Corruption Policy • Supplier Code of Conduct • Procurement Policy and Guidelines • Gifts and Entertainment Policy • Policy on Use of Agents, Representatives, Intermediaries and Contractors' Due Diligence • Whistleblower Policy • Policy on Disciplinary Action against Employees for Violations of Internal Anti-Bribery and Corruption Documents of the Company	• Anti-corruption, page 57; Sustainability Report, page 62
Principal risks and impact from business activity	• Risks Policy	• Risks and risk management, pages 76–83; Sustainability Report, page 24
Non-financial key performance indicators		• Our performance, pages 56–57 • Sustainability highlights, page 53 • Key performance indicators, page 29

Sustainability continued

Our performance

Ten issues of high priority were identified through our most recent survey. We report on high and medium priority issues, and partially report on low priority issues in accordance with reporting requirements and audience expectations.

The following table outlines our top ten material issues of high priority, how each issue fits into our sustainability priorities, and our progress in 2018.

MATERIAL ASPECTS	SUSTAINABILITY PRIORITIES	PROGRESS IN 2018	READ MORE
Economic efficiency	• Support local and national economies through tax transparency, hiring local employees and using local suppliers	• $181m taxes paid • 49% of local suppliers in Russia and 87% in Kazakhstan • 3,000 suppliers audited	SUSTAINABILITY REPORT 2018 Page 61
Health and safety	• Zero fatalities • Continuous 10% LTIFR reduction compared to previous periods	• 1 fatality • -40% LTIFR	ANNUAL REPORT Page 58 SUSTAINABILITY REPORT 2018 Page 33
Local communities	• No community conflicts • Good relationships • Support local populations	• Zero conflicts • 153 letters of gratitude	ANNUAL REPORT Page 61 SUSTAINABILITY REPORT 2018 Page 59, 61
Compliance	• Full compliance and zero penalties	• $4,323 in fines for 10 minor cases of environmental non-compliance	SUSTAINABILITY REPORT 2018 Page 47
People	• Low turnover rate • Equality and diversity	• 5.8% employee turnover • Zero reportable strikes and lockouts	ANNUAL REPORT Page 59 SUSTAINABILITY REPORT 2018 Page 39

MATERIAL ASPECTS	SUSTAINABILITY PRIORITIES	PROGRESS IN 2018	READ MORE
Water	• Reduce water consumption and water discharge by at least 1%	• 54% reduction in fresh water withdrawal compared to 2016 • 9% reduction in water disposal compared to 2016 • 83% of water reused/recycled	SUSTAINABILITY REPORT 2018 Page 48
Environmental management	• No major or catastrophic environmental incidents • Reuse at least 20% of annual volumes of overburden/waste rock • Reduce direct impacts on biodiversity	• Zero environmental incidents • 27% of waste reused at sites included in target scope (16% of waste reused across all production sites including our newly launched Kyzyl mine, which has large volumes of stripping and therefore waste produced) • 12 programmes on biodiversity	SUSTAINABILITY REPORT 2018 Page 47
Energy efficiency	• Decrease GHG emissions by at least 1%	• 7% reduction in GHG emissions intensity	ANNUAL REPORT Page 60 SUSTAINABILITY REPORT 2018 Page 52
Suppliers and partners	• Ongoing engagement with partners and interested stakeholders on responsible supply chain	• All suppliers are obliged to sign Suppliers Code of Conduct as part of new contracts • Suppliers' grievance mechanism is available online	SUSTAINABILITY REPORT 2018 Page 61
Anti-corruption	• Zero corruption and fraud cases	• 5,000 people trained • Prevented damage of $596,000	SUSTAINABILITY REPORT 2018 Page 26, 62

Sustainability continued

Health and safety

Safety in our industry is an absolute priority. To ensure people's safety, there are three central pillars to our approach: leadership, where we saw a step-change improvement through our safety communication programme in 2018; culture, where we aim to create a 'zero-harm' mindset and promote responsible behaviour to ensure a safer working environment; and, at the heart of this, risk management. All are essential to maintaining our industry-leading record.

We comply fully with health and safety (H&S) legislation wherever we operate and endeavour to meet all relevant international requirements. We communicate our Health and Safety Policy to our employees and stakeholders. Each year, we undergo independent certification for our Occupational Health and Safety Management System (OHSMS). In 2018, we switched from OHSAS 18001 standard to ISO 45001.

Risk and safety management

Each year, we identify and assess H&S risks across the Group and create risk maps for all our working processes and locations. Using our Critical Risks Management (CRM) system, we develop H&S safety plans to reduce the impact of all critical risks. For each risk, our frontline team members must ensure that controls are in place before starting a job. By following a shift-by-shift risk assessment (SBS) model, we raise employee awareness of workplace dangers, manage risks promptly and control the accuracy of our risk assessments. A safety hotline, introduced in 2018, enables employees to provide early warnings of potential hazards.

Whenever there is a workplace accident, we undertake an investigation in order to understand any weaknesses in our safety procedures. We draw on our conclusions to implement measures to help prevent re-occurrence. We inform all employees and contractors, and incorporate new measures into our H&S action plan. This new system has reduced injury risk and we hope will prevent accidents in the future.

Health and safety performance in 2018

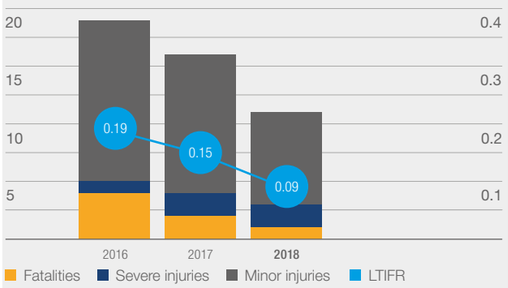
Despite more employees working in challenging underground conditions and an increase in production sites, it is encouraging that our Lost Time Injury Frequency Rate (LTIFR) decreased to 0.09 in 2018 (2107: 0.15). The level of risks exposure also decreased, showing that our safety efforts are having a positive impact. Our CRM system also detected an increase in near-miss occurrences; again demonstrating that our employees are getting better at recognising potentially hazardous situations.

We are deeply saddened by the loss of one colleague, Arthur Martirosyan, due to gas poisoning at our Kapan underground mine. In response, we have reviewed our internal safety guidelines and procedures for working in confined spaces and provided more gas analysers for people and equipment working in our underground mines.

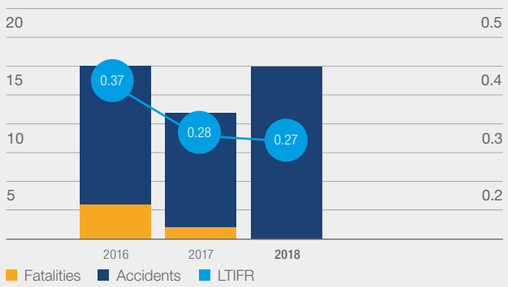
During the year, there were also 10 other accidents across the Group. These have fallen from 14 in 2017 and 15 in 2016. In addition, our contractors had 16 accidents (all mild in severity). Three cases of occupational diseases were recorded at the Dukat mine: two cases of silicosis and one of hearing loss. The employees concerned had worked in hazardous underground mining conditions for some 20 years.

In 2018, our employees and contractors attended refresher safety courses and those involved in dangerous works underwent mandatory safety training. We will implement additional measures and resources to do all that we can to prevent future accidents and achieve our zero-harm goal.

HEALTH AND SAFETY PERFORMANCE
GROUP



CONTRACTORS



Employees

We want to attract the best people. So we strive to create a fair and inclusive environment, pay competitive salaries that benchmark well within the industry, offer equal terms of employment and reward performance. We believe that businesses do best when they reflect the diverse nature of society, and we prohibit discrimination on any basis.

We are committed to the principles of the UN's Global Compact and International Labor. Our employees must comply with our Corporate Code of Conduct. The Code offers guidance on ethical behaviour towards all stakeholders and covers equality, health and safety, government and community relations, environmental protection, transparency, competition and data protection.

Diversity and equal opportunities

We are committed to equal opportunities and terms of employment, and recruit people based on merit. We do not discriminate on any grounds, including gender, race, skin colour, religion, nationality, social origin or political opinions. We also fully comply with international and government policies on employing people with disabilities.

Mining has traditionally employed a predominantly male workforce. We actively promote the inclusion of women across the business and have set ourselves a range of diversity targets. In 2018, women represented 20% of our total workforce: 22% of our management roles and 22% of our Board.

We ensure equality in pay and provide equal levels of remuneration at positions with the same competence requirements for both male and female employees. Within the Group, the difference in remuneration ratio for men and women is 1.32.

Headcount and turnover

In 2018, we employed 12,140 people compared with 11,553 in 2017. 93% of our personnel are employed with permanent contracts. The majority of our people work on a 'fly-in/fly-out' basis, because of the demanding nature of the work and remote location of our sites.

It is also important to ensure our employees are motivated and committed. So it is pleasing to report that our average employee turnover rate has remained low for the last three years: 5.8% in 2018; 5.4% in 2017; 5.5% in 2016.

Human capital development

Group-wide training and development are critical to improving skills, keeping employees motivated and ensuring the future success of the Company. We go beyond mandatory compliance and induction training. All new employees are appraised and a personal training programme agreed, including general operational and technical training. In 2018, the average training hours per employee were 51 and 49 for female and male employees, respectively. We also offer personal development programmes, which enable our employees to progress in the Company. Overall in 2018, we invested $1.5 million in professional training.

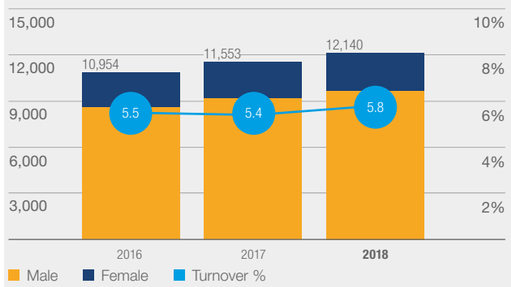
Labour practice

We ensure that employees are fairly compensated based on merit. Our salaries are competitive, we offer benefits that exceed regional averages in our areas of operation and our long-term incentives programme is linked to relative share price performance.

We also provide social support to our employees and aim to provide them with good social and living conditions. This not only impacts our work environment, but supports our people's health and wellbeing, and improves productivity and employee motivation.

We have an excellent track record in regulating employee relations based on equality, consideration of mutual interests, strict compliance with local social and labour regulations and constructive dialogue between partners on all social and labour issues. We also protect our employees' rights to freedom of association and collective agreements.

HEADCOUNT AND TURNOVER



Sustainability continued

Environment

Our Group-wide Environmental Management System (EMS) helps us to identify environmental risks and opportunities, driving resource and energy efficiency across the business. All our production sites are certified for compliance with ISO 14001 and we also comply with all relevant state legislation.

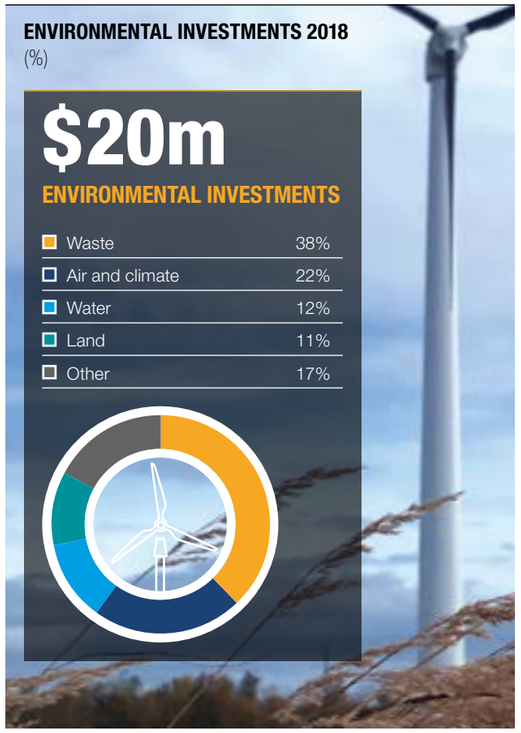
Water

We use water for industrial use, drinking and irrigation, and focus strongly on efficient water management. We take water quality and security seriously. We are in partnership with local governments and stakeholders to protect water security in the communities where we operate, often providing water and infrastructure through our operations.

Energy and carbon management

In 2018, we started to develop our Climate Management System, which comprises: greenhouse gas (GHG) management, climate-related risks and opportunities assessment, and carbon footprint management. We plan to implement the new system in 2019.

To run our operations, we use electricity (purchased and self-generated), diesel fuel, natural gas and coal (used for heating industrial and service facilities). Diesel is used for electricity generation, transportation and processing, and accounts for 46% of our total energy consumption. In total, we consumed 6,153 TJ across all our sites (2017: 7,010 TJ). Decreasing the amount of energy used in our operations while increasing our use of renewable energy is a key focus.



Waste

The mining industry generates significant quantities of mineral waste. We are committed to responsibly managing our waste materials. In 2018, we developed a corporate tailing storage facilities management system, which allows us to enhance control, prevent accidents and prepare emergency response plans. Thus, we eliminate the causes of dam failure (such as poor management and readiness for heavy rainfall), which increase the probability of accidents. We now operate nine tailings dams and in 2018 there were no significant or major environmental accidents involving tailings facilities at our operations.

The dry stack tailings management system at our Amursk POX has significantly improved safety, eliminating the risk of dam failure and tailings runout. We are switching to dry storage at Omolon and will use them at our future operations at Nezhda, Prognoz and POX-2, reducing Polymetal's tailings footprint.

During the year, we mined 14 Mt of ore and 127 Mt of waste, processed 15.2 Mt of ore and generated 139 Mt of waste. (While this is an increase compared with 2017, when we generated 128 Mt of waste, the volume of our mining has increased).

Cyanide

Our operations involve several hazardous consumables, the largest of which is cyanide. Having signed up to the International Cyanide Management Code, we conducted audits in 2018 to check compliance with standards set by the Code. We tested compliance at our Amursk POX plant and Voro mine, including our supply chains by sea, rail and road, and expect to receive certification in the first half of 2019.

Mine closures, land rehabilitation and biodiversity

We work hard to minimise our impact on local biodiversity and are committed to treading lightly in the regions where we operate. We do not operate in or adjacent to protected or vulnerable areas nor on lands that have particular value for Indigenous Minorities of the North (IMN). We ensure land decommissioning and restoration after mine depletion. Our long-term remediation obligations include fulfilling decommissioning and restoration liabilities, and covering suspension or abandonment costs in compliance with national regulations and legislation. We carry out all necessary environmental rehabilitation. We will implement our new Corporate Mine Closure Standard in 2019.

Socio-economic development

Our operations have a major positive impact on the economy. We contribute to regional sustainable economic progress by paying national and local taxes, employing local people wherever possible, finding local or regional suppliers to buy from as well as local service providers, and facilitating the development of auxiliary industries. This helps improve standards of living for residents and further boosts local economies.

Human rights

Back in 2016, we adopted our policy on human rights and updated it in 2018. Together with our Indigenous Minorities Engagement Standard, this sets out our commitment to respecting human rights and preserving the cultural heritage of the indigenous communities where we operate. We also issued a Modern Slavery Statement and will update it annually. We are pleased to report no cases of human rights violations connected with Polymetal's employees and contractors. In 2019, we will assess human rights risks at all our sites.

Community engagement

Our dedicated teams maintain an efficient Community Engagement System (CES) at all our sites and throughout all projects. Each time we invest in a new mining site, we develop long-term strategies and engage with local communities, institutions, authorities and organisations to ensure we deliver maximum value to local people. We maintain a feedback system, including grievance procedures.

Feedback from local communities is important to us and we continually seek to improve our CES to enhance opportunities for open dialogue. In 2018, we received 608 enquiries from local communities, mostly relating to financial support and employment. We also held 50 meetings, site visits and public gatherings (2017: 37), including 16 hearings for local community members and indigenous people.

Our commitment to social investment

We invest in local communities, implementing our social investment programme to improve living standards for local people and facilitate regional economic development. In 2018, we provided more than $10 million for social support. Over the past five years, our investment exceeded $30 million. We particularly focus on sport and healthy lifestyle, healthcare and education, infrastructure, culture and IMN. We also made charitable donations worth $601,000 last year.

In addition to financial contributions, we make 'in-kind' donations, including humanitarian aid to reindeer herders, remote communities and indigenous minorities, with donations of food, fuel and medicines; and construction and maintenance of roads in remote areas.

Assessing our impact

Designated departments at each of our operations regularly collect data relating to our social projects. They conduct community polls, organise focus groups and hold annual performance review meetings with stakeholders to evaluate our impact. This helps us respond flexibly to changing situations, adjust investments and eliminate any possibility of funds being inappropriately diverted.

In 2018, we conducted community polls in 17 districts, involving 802 people, and we received 150 letters of gratitude from community groups. Our assessments showed several positive impacts and no adverse impacts from our operations.

Positive impacts include tax payments to the state and local authorities – $181 million in 2018 (2017: $188 million), support for infrastructure and auxiliary industries, regional population increases due to industrial growth, local employment opportunities and ecological projects. Social investments and community support are a major element of this. In 2018, we continued to construct, upgrade and equip community institutions. These include kindergartens, schools, health centres, sport and culture centres and infrastructure facilities in host communities in new and remote areas.

Financial review

2018 was a year of strong financial results, delivering $355 million of net earnings. While advancing the long-term development pipeline and ramping up Kyzyl, we continued to generate cash returns to our shareholders. A final dividend of $0.31 per share has been proposed by the Board, bringing the total dividend declared for 2018 to $0.48 per share.

$1,882m
REVENUE

$176m
FREE CASH FLOW

Financial highlights

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

"I am delighted to report strong financial achievements in 2018, including better-than-expected cost performance, driven by the smooth ramp-up of Kyzyl. We continued to generate free cash flows and pay substantial dividends.

Maxim Nazimok, Chief Financial Officer

Key figures[4]

	2018	2017	Change, %
Revenue, $m	**1,882**	1,815	+4%
Total cash cost, $/GE oz	**649**	658	-1%
All-in cash cost, $/GE oz	**861**	893	-4%
Adjusted EBITDA, $m	**780**	745	+5%
Average realised gold price, $/oz	**1,226**	1,247	-2%
Average realised silver price, $/oz	**14.8**	16.1	-8%
Net earnings, $m	**355**	354	+0%
Underlying net earnings, $m	**447**	376	+19%
Return on assets, %	**17%**	18%	-1%
Return on equity (underlying), %	**16%**	16%	–
Basic EPS, $/share	**0.78**	0.82	-5%
Underlying basic EPS, $/share	**1.00**	0.88	+14%
Dividend declared during the period, $/share[5]	**0.47**	0.32	+47%
Dividend proposed for the period, $/share[6]	**0.48**	0.44	+9%
Net debt, $m	**1,520**	1,420	+7%
Net debt/Adjusted EBITDA	**1.95**	1.91	+2%
Net operating cash flow, $m	**513**	533	-4%
Capex, $m	**344**	383	-10%
Free cash flow before acquisitions[7], $m	**176**	143	+23%

Market summary

Precious metals

Please see the Market overview on pages 22–23.

1 The financial performance reported by the Group contains certain Alternative Performance Measures (APMs) disclosed to compliment measures that are defined or specified under International Financial Reporting Standards (IFRS). For more information on the APMs used by the Group, including justification for their use, please refer to the 'Alternative performance measures' section below. The definition and calculation of non-IFRS APMs used in this report, including Adjusted EBITDA, Total cash costs, All-in sustaining cash costs, Underlying net earnings, Net debt and Free cash flow are explained further in the Financial Review section.
2 Profit for the financial period.
3 On a cash basis, representing cash outflow on purchases of property, plant and equipment in the statement of consolidated cash flows.
4 Totals may not correspond to the sum of the separate figures due to rounding. Percentage changes can be different from zero even when absolute amounts are unchanged because of rounding. Likewise, percentage changes can be equal to zero when absolute amounts differ due to the same reason. This note applies to all tables in this section.
5 FY 2018: final dividend for FY 2017 declared in May 2018 and interim dividend for the 1H 2018 declared in September 2018. FY 2017: final dividend for FY 2016 declared in May 2017 and interim dividend for the 1H 2017 declared in September 2017.
6 FY 2018: interim and final dividend for FY2018. FY 2017: interim and final dividend for FY2017.
7 Net cash generated by operating activities less net cash used in investing activities excluding acquisitions of joint venture and associate, loans forming part of net investment in joint ventures and proceeds from disposal of subsidiaries.

Financial review continued

Foreign exchange

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

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

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

Revenue analysis

Sales volumes

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

1 Based on actual realised prices.

Sales by (metal)

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

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

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

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

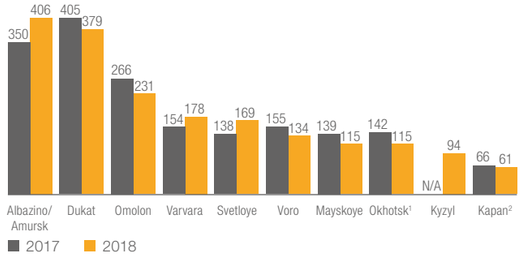
Revenue by operation

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

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

REVENUE BY OPERATION
($m)

TOTAL
$1,882m
$1,815m



1 Sold in Q4 2018.
2 Sold in Q1 2019.

Financial review continued

Cost of sales

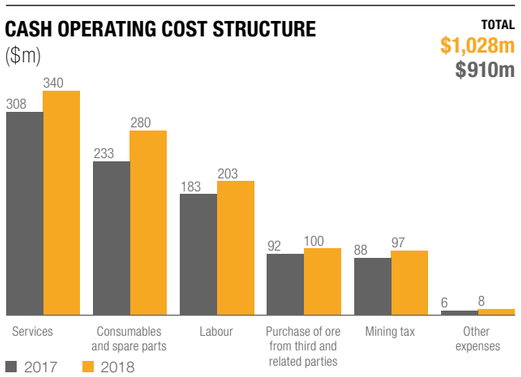
	2018 $m	2017 $m	Change, %
On-mine costs	482	414	+16%
Smelting costs	349	316	+10%
Purchase of ore and concentrates from third and related parties	100	92	+9%
Mining tax	97	88	+10%
Total cash operating costs	**1,028**	**910**	**+13%**
Depreciation and depletion of operating assets	228	193	+18%
Rehabilitation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

Cash operating cost structure

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

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

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



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

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

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

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

Selling, general and administrative expenses (SGA)

	2018 $m	2017 $m	Change, %
Labour	127	116	+9%
Services	16	11	+45%
Share-based compensation	12	10	+20%
Depreciation	3	4	-25%
Other	17	17	–
Total	**175**	**158**	**+11%**
Total labour	342	309	+11%

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

Other expenses

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

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

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

Financial review continued

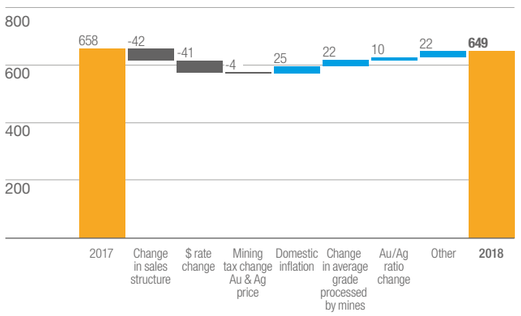
Total cash costs per gold equivalent ounce
Year-on-year

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

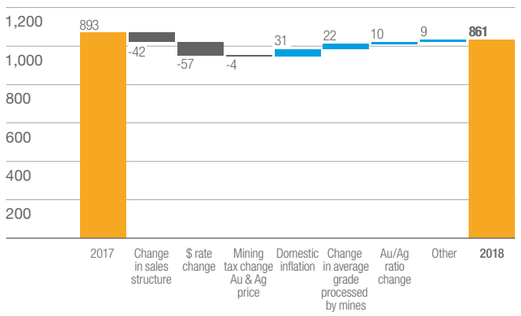
In 2018, total cash costs per gold equivalent ounce sold (TCC) were $649/GE oz, down 1% year-on-year. The depreciation of the Russian Rouble against the US Dollar, combined with robust operating results (notably, improved performance at Mayskoye and the launch of Kyzyl) had a positive impact on cost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

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

RECONCILIATION OF TCC MOVEMENTS
($/GE OZ)



RECONCILIATION OF AISC MOVEMENTS
($/GE OZ)



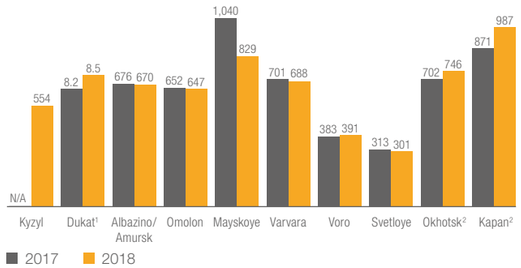
1 Total cash costs comprise cost of sales of the operating assets (adjusted for depreciation expense, rehabilitation expenses and write-down of metal and non-metal inventory to net realisable value and certain other adjustments) and general, administrative and selling expenses of the operating assets. Gold equivalent sales volume is calculated based on average realised metal prices in the relevant period. Total cash cost per gold equivalent ounce sold is calculated as Total cash costs divided by total gold equivalent unit ounces sold. For more information refer to the 'Alternative performance measures' section below.
2 Sold in Q4 2018.
3 Dukat's total cash cost per gold equivalent was $722/GE oz (2017: $646/GE oz) and was included in the Group TCC calculation.
4 Sold in Q1 2019.

Total cash cost by operation:

- Svetloye was the lowest cost operation in 2018, with TCC of $301/GE oz, 4% lower than in 2017, delivering a solid set of operating results on the back of higher ore stacking volumes that offset minor grade declines.
- At Albazino/Amursk, TCC was $670/GE oz, down 1% compared with 2017. The cost performance was mostly attributable to Rouble depreciation, which offset the higher cost of additional feed from third-party material processed at the Amursk POX.
- Dukat's TCC per silver equivalent ounce sold (SE oz) increased by 4% year-on-year to $8.5/SE oz. The cost increase is attributable to the planned silver grade decline at the Dukat and Lunnoye underground mines compared with prior periods.
- At Omolon, TCC amounted to $647/GE oz, a 1% decrease year-on-year, driven by depreciation of the Russian Rouble, which offset planned grade declines at the Kubaka mill.
- TCC at Mayskoye was $829/GE oz, a 20% decrease year-on-year, as oxide ore processing through the combined float-leach circuit delivered solid full-year results with a significant improvement over the previous year.
- At Voro, TCC was $391/GE oz, almost unchanged year-on-year. The heap-leach facility and CIP plant continued to deliver a stable performance in line with the mine plan despite a gradual shift to stockpile processing and related grade declines.
- Kyzyl's total cash costs were at $554/GE oz, well below Group's average and in line with expectations. Given the impact from the inevitably elevated costs levels during ramp-up during Q2 and Q3 2018, costs at Kyzyl are expected to decline significantly in 2019 as the mine delivers its first full year of production.
- At Varvara, TCC was $688/GE oz, decreasing by 2% year-on-year, on the back of the Kazakh Tenge depreciation which offset the impact from processing additional feed from higher cost third-party ore.
- At Okhotsk, TCC was $746/GE oz, a 6% increase year-on-year, following the completion of processing of third-party ore with better metallurgical properties, which was introduced to the feed at the Khakanja plant in the second half of 2017. Okhotsk operations were disposed of in Q4 2018.
- Kapan's TCC increased by 13% year-on-year to $987/GE oz, on the back of lower recoveries and grade declines as the plant was treating third-party purchased ore while the underground mine experienced limited access to higher-grade zones following the fatal accident in Q1 2018. Kapan was disposed of in Q1 2019.

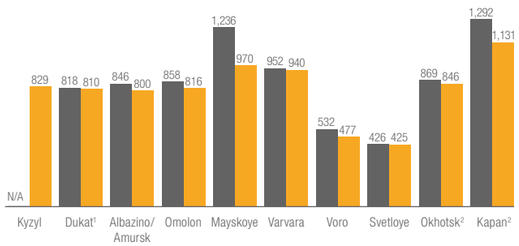
TOTAL CASH COSTS BY OPERATION
($/GE OZ)

TOTAL
$649/GE OZ
$658/GE OZ



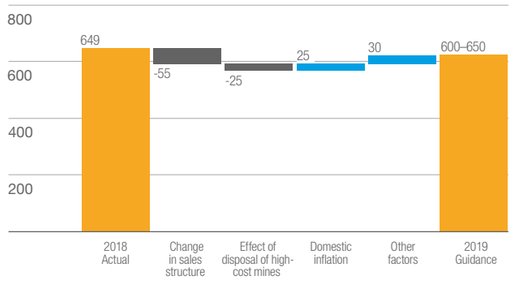
ALL-IN SUSTAINING CASH COSTS BY OPERATIONS ($/GE OZ)

TOTAL
$861/GE OZ
$893/GE OZ



1 Silver equivalent oz for Dukat.
2 Kapan sold in Q1 2019, Okhotsk sold in Q4 2018.

RECONCILIATION OF TCC – ACTUAL 2018 TO GUIDANCE 2019
($/GE OZ)



Financial review continued

All-in cash costs

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

All-in sustaining cash costs[1] amounted to $861/GE oz in 2018 and decreased by 4% year-on-year, driven mostly by continued Russian Rouble depreciation and the structural impact from higher production at lower cost mines.

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

All-in sustaining cash cost per ounce

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

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

1 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 SGA), 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 capital expenditure (Development capital), but including all exploration expenditure (both expensed and capitalised in the period) and minor brownfield expansions). For more information refer to the 'Alternative performance measures' section below.
2 Disposed in Q4 2018.
3 Disposed in Q1 2019.

Adjusted EBITDA and EBITDA margin[1]

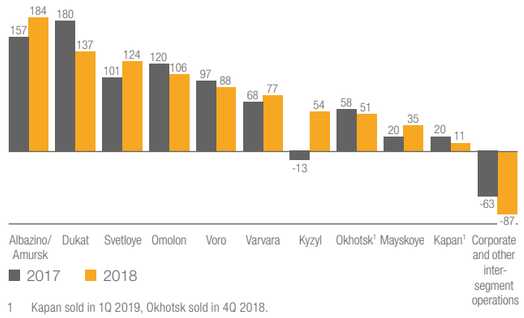
Reconciliation of EBITDA

	2018 $m	2017 $m	Change, %
Profit for the financial period	355	354	+0%
Finance costs (net)[2]	63	59	+7%
Income tax expense	71	89	-20%
Depreciation and depletion	186	214	-13%
EBITDA	**675**	**716**	**-6%**
Loss on disposal of subsidiaries, net	54	–	NM
Foreign exchange losses, net	40	10	+300%
Lichkvaz exploration expenses and mineral rights write-off	24	–	NM
Write-down of metal inventory to net realisable value	21	16	+31%
Share-based compensation	12	10	+20%
Write-down of non-metal inventory to net realisable value	2	3	-33%
Rehabilitation costs	1	–	NM
Change in fair value of contingent consideration liability	(7)	(2)	+250%
Revaluation of initial share in business combination	(41)	–	NM
Additional tax charges/fines/penalties	(1)	(8)	-88%
Adjusted EBITDA	**780**	**745**	**+5%**
Adjusted EBITDA margin	**41.4%**	**41.0%**	**+0.4%**

In 2018, Adjusted EBITDA was $780 million, 5% higher year-on-year, with an Adjusted EBITDA margin of 41%, reflecting a 5% increase in sales volumes. At Mayskoye, Albazino/Amursk, Svetloye, Varvara and Kyzyl, Adjusted EBITDA increased on the back of a robust operating performance. At Dukat and Omolon, the decrease was mainly driven by decline in GE sales (down 4% and 14%, respectively). At Kapan and Okhotsk, Adjusted EBITDA decreased on the back of higher total cash costs (up 13% and 6%, respectively) and lower sales at both operations (down 5% and 17%, respectively).

ADJUSTED EBITDA BY OPERATION
($m)

TOTAL
$780m
$745m



1 Kapan sold in 1Q 2019, Okhotsk sold in 4Q 2018.

1 Adjusted EBITDA is a key measure of the Company's operating performance and cash generation capacity (excluding impact of financing, depreciation and tax) and a key industry benchmark allowing peer comparison. Adjusted EBITDA also excludes the impact of certain accounting adjustments (mainly non-cash items) that can mask underlying changes in core operating performance.
The Company defines Adjusted EBITDA (a non-IFRS measure) as profit for the period adjusted for depreciation and amortisation, write-downs and reversals of inventory to net realisable value, share-based compensation expenses, gains and losses on disposal or revaluation of investments in subsidiaries, joint ventures and associates, rehabilitation expenses, bad debt allowance, foreign exchange gains or losses, changes in fair value of contingent consideration, finance income, finance costs, income tax expense and other tax exposures accrued within other operating expenses. Adjusted EBITDA margin is Adjusted EBITDA divided by revenue.
2 Net of finance income.

Financial review continued

Adjusted EBITDA by operation

		2018 $m	2017 $m	Change, %
Magadan	Dukat	137	180	-24%
	Omolon	106	120	-12%
	Mayskoye	35	20	+75%
	Total Magadan	**278**	**320**	**-13%**
Khabarovsk	Albazino/Amursk	184	157	+17%
	Svetloye	124	101	+23%
	Okhotsk[1]	51	58	-12%
	Total Khabarovsk	**359**	**316**	**+14%**
Ural	Voro	88	97	-9%
Kazakhstan	Varvara	77	68	+13%
	Kyzyl	54	(13)	-515%
	Total Kazakhstan	**131**	**55**	**+138%**
Armenia	Kapan[2]	11	20	-45%
Corporate and other and intersegment operations		(87)	(63)	+38%
Total		**780**	**745**	**+5%**

Other income statement items

Polymetal recorded a net foreign exchange loss in 2018 of $40 million compared to a $10 million loss in 2017. These unrealised non-cash foreign exchange losses recorded in both periods are mainly comprised of the revaluation of US Dollar denominated borrowings of Russian operating companies, where the functional currency is the Russian Rouble. The Group's average gross debt during 2018 was $1,678 million, mostly denominated in US Dollars, while the RUB/$ exchange rate increased from 57.6 RUB/$ as at 31 December 2017 to 69.5 RUB/$ as at 31 December 2018. The Company does not use any hedging instruments for managing foreign exchange risk, other than a natural hedge arising from the fact that the majority of the Group's revenue is denominated or calculated in US Dollars.

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

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

Net earnings, earnings per share and dividends

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

1 Sold in Q4 2018.
2 Sold in Q1 2019.

Underlying net earnings[1]

	2018 $m	2017 $m	Change, %
Profit for the financial period attributable to the shareholders of the Parent	354	354	–
Write-down of metal inventory to net realisable value	21	16	+31%
Tax effect on write-down of metal inventory to net realisable value	(4)	(3)	+40%
Foreign exchange (gain)/loss	40	10	+300%
Tax effect on foreign exchange (gain)/loss	7	2	+271%
Change in fair value of contingent consideration liability	(7)	(2)	+250%
Tax effect on change in fair value of contingent consideration	(1)	(1)	+25%
Lichkvaz exploration expenses and mineral rights write-off	24	–	NM
Revaluation of initial share in Prognoz	(41)	–	NM
Loss on disposal of subsidiaries	54	–	NM
Underlying net earnings attributable to the shareholders of the Parent	**447**	**376**	**+19%**

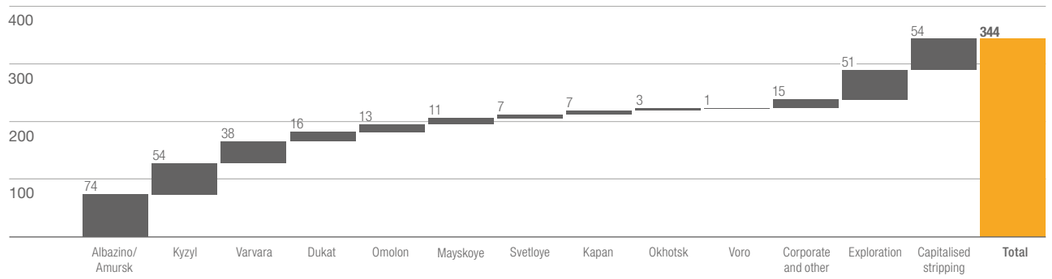
Basic earnings per share were $0.78 per share compared with $0.82 per share in 2017 and were affected by one-off items, including gains/losses on acquisition and disposal of subsidiaries and write-down of Lichkvaz. Underlying basic EPS[2] was $1.00 per share, compared with $0.88 per share in 2017, driven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

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

Capital expenditure[3]

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

CAPITAL EXPENDITURE
($m)



1 Underlying net earnings represent net profit for the year excluding the impact of key items that can mask underlying changes in core performance.
2 Underlying basic EPS are calculated based on underlying net earnings.
3 On a cash basis.

Financial review continued

In 2018, total capital expenditure was $344[1] million, down 10% year-on-year mainly on the back of completion of Kyzyl construction. Capital expenditure excluding capitalised stripping costs was $290 million in 2018 (2017: $355 million). The major capital expenditure items in 2018 were as follows:

- Across all operating mines, except for Albazino/Amursk and Varvara, capital expenditure declined or remained almost unchanged year-on-year and was mainly represented by routine mining fleet upgrades/replacements and maintenance expenditure at processing facilities.
- Capital expenditure at Albazino/Amursk was $74 million, an increase of 19% year-on-year, mostly related to the POX debottlenecking project (which reached full expanded capacity in the second half of 2018) and expenditures related to the feasibility study for the POX-2 project in the total amount of $44 million during 2018. Debottlenecking capital expenditure was mainly represented by the installation of new pipes and valves, oxygen station equipment and new filter presses for tailings and gypsum sediment.
- At Varvara, the increased capital expenditure was mainly related to reconstruction of the tailings storage facility, upgrade of the mining fleet at Komar and further investments in debottlenecking the railway haulage line between Komar and Varvara, which resulted in the total amount of ore mined and transported from Komar increasing to 2.6 million tonnes, up 35% year-on-year.
- At Kyzyl, capital expenditure in 2018 comprised $54 million, mainly representing the finalisation of key equipment installations (notably, concentrator equipment, the crusher unit and the assay lab) and infrastructure. The processing plant was launched in June 2018, one month ahead of schedule.
- The Company continues to invest in standalone exploration projects. Capital expenditure for exploration in 2018 was $51 million compared with $58 million in 2017.
- Capitalised stripping costs totalled $54 million in 2018 (2017: $28 million) and are attributable to operations with stripping ratios exceeding their life-of-mine averages during the period, including in particular Kyzyl ($29 million), Albazino ($9 million) and Omolon ($7 million).
- The Company extended loans on capital expenditure to Nezhda and Prognoz before the consolidation of these assets, totalling $46 million and $5 million, respectively. At Nezhda, capital expenditure was mainly related to purchases of equipment and the construction of two new dormitories, an administrative building, auxiliary infrastructure and a warm warehouse. At Prognoz, the capital expenditure related to exploration activity and construction of a laboratory.

Cash flow analysis

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

1 On accrual basis, capital expenditure was $377 million in 2018 (2017: $432 million).

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

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

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

Liquidity and funding

	2018 $m	2017 $m	2018/2017, %
Short-term debt and current portion of long-term debt	117	26	+350%
Long-term debt	1,782	1,430	+25%
Gross debt	**1,899**	**1,456**	**+30%**
Less: cash and cash equivalents	379	36	+953%
Net debt	**1,520**	**1,420**	**+7%**
Adjusted EBITDA	**780**	**745**	**+5%**
Net debt/adjusted EBITDA	**1.95**	**1.91**	**+2%**

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

The proportion of long-term borrowings comprised 94% as at 31 December 2018 (98% as at 31 December 2017). In addition, as at 31 December 2018, the Group had $1.1 billion (31 December 2017: $1.4 billion) of available undrawn facilities, of which $1.07 billion is committed from a wide range of lenders that maintain its operational flexibility in the current environment.

The average cost of debt remained low at 4.19% in 2018 (2017: 3.96%) despite a notable growth in base interest rates, due to the Company's ability to negotiate competitive margins given its solid financial position and excellent credit history. The Group is confident in its ability to repay its existing borrowings as they fall due.

2019 outlook

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

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

Maxim Nazimok, Chief Financial Officer

Risk and risk management

Rigorous risk management is essential to the achievement of our strategic objectives and sustainable value creation, and is a key element of our business model.

Companies in the mining sector are challenged with managing a rapidly changing risk landscape, including market volatility, resource nationalism, widespread macroeconomic changes, geopolitical crises and environmental risks. Rigorous risk management is essential to the achievement of our strategic objectives and sustainable value creation, and is a key element of our business model. We are committed to minimising risks to all our stakeholders through accurate and timely risk identification and effective mitigation activities. Any compliance breaches could potentially have a huge impact on the business, and necessitates that all legal and regulatory obligations are fully embedded into the core strategy and planning process of the Group.

Risk management framework

At Polymetal, we maintain a robust and sustainability-conscious risk management framework, which ensures that risks are properly identified, assessed against tolerance levels and appropriately managed across the Group. Our risk management system is designed to minimise the potential threats to achieving our strategic objectives. The process is underpinned by a bottom-up approach and examined from a top-down perspective, ensuring adequate involvement of the Board and executive management, and alignment with the Company's strategy.

The global and local markets, in which we operate, remain volatile with shifting commodity prices and exchange rates, macroeconomic instability and unpredictable climatic conditions. The Board is responsible for carrying out a thorough assessment of the principal risks facing the Company, including those threatening stakeholders, values, the business model, operations, social and environmental issues, future performance, solvency or liquidity.

Risk awareness is embedded within the Group and is grounded in our strong ethical values and pro-active corporate culture. Our risk management philosophy is cascaded top down from the Company's Board of Directors and runs through all our management, employee and connected stakeholder activities – from developing strategy to day-to-day operations, as shown on the chart on page 77. The principal risks identified during the process form the Group's principal risk profile, which is reviewed and approved by the Audit and Risk Committee three times a year. The potential impact of principal risks, and the availability and effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks, are carefully considered during the annual assessment of the future prospects and long-term viability of the Group. Further details about our approach to assessing long-term viability can be found on page 128.

Risk management and internal control systems are continuously enhanced in accordance with the COSO ERM framework and are adjusted for any changes to the UK Corporate Governance Code. They are also regularly reviewed to incorporate global best practice and add value to our business.

Risk appetite

The risk appetite of the Group is considered in relation to the principal risks and their impact on the ability to meet its strategic objectives. The Board assesses the Group risk appetite, which is set to balance opportunities for business development and growth in principal areas, whilst maintaining reputation and high levels of stakeholder satisfaction. Within the context of risk management, the Board communicates the principal risks appetite and tolerance through the Group strategy planning process.

RISK GOVERNANCE FRAMEWORK

TOP DOWN / BOTTOM UP

LEVEL	FUNCTION	AREAS OF FOCUS
THE BOARD	Governance and oversight at corporate level	• Set the tone on risk management culture • Maintain sound and effective risk management and internal control systems • Define risk appetite and approve risk management policies, guidelines and processes • Responsible for principal risks identification and ongoing monitoring of the Company's risk exposure to ensure that material matters are managed in alignment with strategic objectives
THE BOARD COMMITTEES	Assistance to the Board by reviewing and monitoring of key risks and procedures	• On behalf of the Board, the Audit and Risk Committee reviews the effectiveness of the risk management process and develops and oversees implementation of risk management strategies. • The Safety and Sustainability Committee measures the impact of the Company's initiatives and helps the Audit and Risk Committee manage sustainability risks • Further information on the Board and its Committees is given in the Governance section on pages 89 to 93
INTERNAL AUDIT FUNCTION	Support the Audit and Risk Committee in evaluating the Group's risk profile and internal controls implemented by management	• Define and monitor the risk management process and mitigation tools and actions • Plan and execute assurance activities to ensure there are policies and procedures in place to support the effectiveness of the Group's internal control system • Prepare regular risk and internal control reports for approval by the Audit and Risk Committee and maintain the Risk Assurance Map • Perform risk analysis on growth projects, detailing the specific conditions and risks faced by the new project
OPERATIONAL MANAGERS	Operating risk management across mining operations and exploration	• Risk awareness embedded into day-to-day operations • Risks identification and assessment performed across business operations on the everyday basis • Implementation of risk mitigation programmes and operational monitoring of internal controls

OUR APPROACH TO RISK

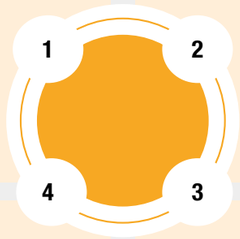
RISK IDENTIFICATION AND DOCUMENTATION

Our policy is to identify and assess risks at the earliest possible stage and to implement an appropriate risk response and internal controls in advance. Our risk management procedures are designed to delegate the responsibility for risk identification while avoiding gaps and duplications, and are embedded into accounting and documentation systems to identify information on potential risk triggers. Polymetal's risk identification system considers not only single, mutually exclusive risks, but also multiple linked and correlated risks.

RISK ASSESSMENT

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

Risk matrices and assurance maps are used to record, prioritise and track each risk through the risk management process.



DEVELOPMENT AND IMPLEMENTATION OF RISK MITIGATION STRATEGIES

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

A response is then determined and implemented to bring the risk within acceptable tolerance levels.

MONITORING AND REPORTING

Ongoing monitoring processes are embedded in Polymetal's business operations. Risk matrices and assurance maps are used to re-evaluate and adjust controls in response to changes in the Company's objectives, its business and the external environment.

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

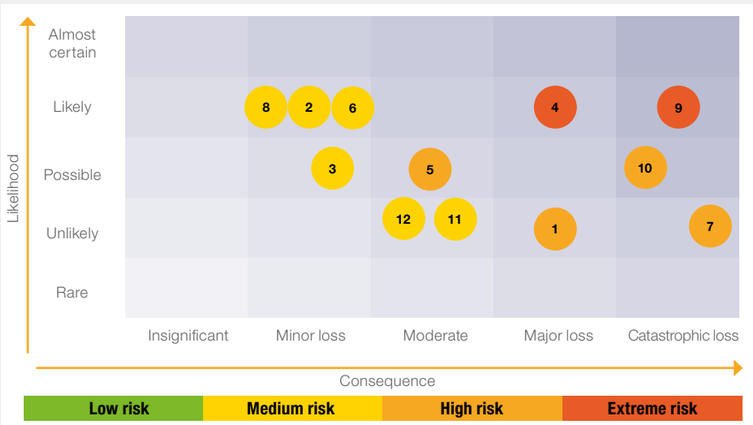
CONSEQUENCE

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

LIKELIHOOD

RARE	UNLIKELY	POSSIBLE	LIKELY	ALMOST CERTAIN
Never occurred or is highly unlikely to occur in the next 20 years	Occurred several times or could happen within 20 years	Occurred at some point within 10 years and may re-occur within 10 years	Occurred infrequently: less than once a year and is likely to re-occur within 5 years	Occurred frequently: one or more times per year and is likely to re-occur within one year

RATING OF PRINCIPAL RISKS LEVEL



Operational risks
1 Production risks
2 Construction and development risks*
3 Exploration risk

Sustainability risks
4 Health and safety risk
5 Environment risk

Political and social risks
6 Legal risk
7 Political risk
8 Tax risk

Financial risks
9 Market risk*
10 Currency risk*
11 Liquidity risk*
12 Interest rate risk

* This risk was considered as part of the viability assessment as detailed on page 128.

Risk and risk management
Principal risks

The Group's principal risks and related mitigation strategies are set out below. Principal business risks are identified by the Board based on a detailed understanding of the Company, its markets and the legal, social, political, economic, technological, environmental and cultural environments in which we operate, and robust assessment of the likelihood of occurrence and potential consequences of risk event. For the current reporting period, we validated the continued importance of our 12 principal risks and our risk profile remains stable relative to last year.

Link to strategy:

1 Deliver robust operating and financial performance
2 Deliver medium-term growth
3 Build and advance long-term growth pipeline
4 Maintain high standards of governance and sustainable development

No change since 2017 | Medium risk | High risk | Extreme risk

RISK DESCRIPTION AND POTENTIAL EFFECT	RISK RESPONSE/MITIGATION ACTIONS

Operational risks

1. Production risks

Link to strategy: 1

The risk of failure to meet the planned production programme. Failure to meet production targets may adversely affect operating performance and the financial results of the Group. The key sources of risk may include:

- Inability to achieve volume, grade or recovery assumed in life-of-mine plans
- Failure of supply chains to procure complex logistics to remote locations
- Failure to retain key employees or to recruit new staff
- Failure of contractors to meet required performance standards

- Inability to achieve volume, grade or recovery assumed in life-of-mine plans

Annual, quarterly and monthly production budgeting and subsequent monthly control against budget is designed to mitigate the risk. The effectiveness and efficiency of the production process is ensured by the senior management of the Group's engineering team. An approved production programme includes an increased volume of operational prospecting works, such as in-fill drilling and grade control sampling. To mitigate the risk, the Group invests considerable amounts in ore quality assessment procedures and seeks to control ore quality by separate stockpiling of ore with the required characteristics.

- Failure of supply chains to procure complex logistics to remote locations

The Group has implemented and constantly improves the supply chain system to closely link the production demand of resources with inventory levels, optimise the number of order placements and ensure the in-time inventory and equipment delivery to production sites.

- Failure to retain key employees or to recruit new staff

Remuneration policies are designed to incentivise, motivate and retain key employees. There is an increased focus on health and safety – refer to page 58 of this Report. There is an active promotion of a positive corporate culture within the Group.

- Failure of contractors to meet required performance standards

The contractors' performance control system is designed, implemented and applied.

Risk level: | **Risk exposure trend:** 2018

2. Construction and development risks

Link to strategy: 2 3

Inability to achieve target return on capital for large investment projects, such as building new mines and processing facilities or extension/refurbishment of existing operating mines, due to delay in commissioning or capital expenditure overruns. This may have a negative impact on the Group's financial performance and cash flows.

The Company applies global best practices in project management. The Group's technical personnel are in charge of the project's capital expenditure, including project support, supply chain management and permitting process. A significant share of projects is developed by the in-house engineering company, Polymetal Engineering, which has vast experience and a successful track record of design and ramp up of mines and processing facilities. We are continuously improving our construction risk management systems and employ leading world-class consultants in applicable areas.

Risk level: | **Risk exposure trend:** 2018

Risk and risk management
Principal risks continued

RISK DESCRIPTION AND POTENTIAL EFFECT	RISK RESPONSE/MITIGATION ACTIONS

3. Exploration risk

Link to strategy: 3

Exploration and development are time and capital-intensive activities and may involve high degrees of risk but are necessary for the future growth of the business. Failure to discover new reserves of sufficient magnitude could adversely affect the Company's future performance.

Risk and uncertainty are inherent for exploration and development activities.

The Group invests considerable amounts in key exploration projects to obtain sufficient information about the quantity and quality of new reserves and to estimate expected cash flows.

The Group's Chief Geologist and engineering teams have a strong track record of successful greenfield and brownfield exploration, leading to the subsequent development of exploration fields into commercial production.

Risk level: **Risk exposure trend:** 2018

Sustainability risks

4. Health and safety risk

Link to strategy: 4

The Group operates potentially hazardous sites such as open-pit and, underground mines, exploration sites, processing facilities and explosive storage facilities. The operation of these sites exposes our employees to a variety of health and safety risks.

A control system covering occupational and industrial safety in the Company is in place, including risk assessment of individual work places and the use of safety equipment for the protection of employees.

The Company has reinforced the need for individual responsibility for personal safety and risk awareness, and developed additional security measures to ensure strict compliance with safety requirements by employees.

The Group's general approach to this risk is determined by the Group's Health and Safety Policy, which serves as the basis for the Occupational Health and Safety Management System (OHSMS). The Group follows industry's global best practices in managing these risks and ensuring safe working conditions for our employees. Our OHSMS ensures compliance with international, national and local regulatory requirements and is based on modern standards. It is also certified in accordance with OHSAS 18001.

The Group has strong safety procedures across all its operating mines and has implemented additional measures to ensure proper enforcement of these stricter safety standards. We have intensified training programmes, with a particular focus on high-risk functions, and implemented a number of other measures, including a change in underground mining methods at certain sites. We are continuing to conduct a detailed review of the source of injuries and are further improving the shift risk assessment system, as well as conducting an external audit of our health and safety system.

Risk level: **Risk exposure trend:** 2018

5. Environment risk

Link to strategy: 4

Major pollution arising from operations include: air and water pollution, land contamination. Potential impacts include fines and penalties, statutory liability for environmental redemption and other financial consequences that might be significant.

The Company operates a certified environmental management system that meets international standards and is audited for compliance.

The Company has implemented a number of initiatives to monitor and limit the impact of its operations on the environment, including external expert assessment of the pollution generated and adopting industry best practice for corporate and mine level policies and procedures.

The Company has designed and is in the process of implementing a climate risk management system in order to ensure the sustainable development of the Company, compliance with legal requirements and investors' expectations. This includes the management of greenhouse gases in accordance with the GHG Protocol and ISO 14064; managing climate change risks in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and managing the carbon footprint of products. The implementation of the climate risk management system is due to be completed by the end of the first half of 2019. In 2018, we also developed a corporate Tailings Storage Facilities Management system, which allows us to enhance control, prevent accidents and prepare emergency response plans. For details refer to page 60.

Risk level: **Risk exposure trend:** 2018

RISK DESCRIPTION AND POTENTIAL EFFECT	RISK RESPONSE/MITIGATION ACTIONS

Political and social risks

6. Legal risk

Link to strategy: 4

Operating in developing countries, such as Russia and Kazakhstan, involves the risk that changes in tax and other legislation may occur from time to time.

The most sensitive areas are regulation of foreign investments, private property, environmental protection and taxation.

In recent years, the governments of Russia and Kazakhstan have become more consistent regarding the introduction of new regulations and taxes, demonstrating an awareness of investment climate issues. However, in the application of existing legislation requiring interpretation, courts often uphold the more assertive position of the tax authorities, which does not always coincide with the Company's position.

As a result of changes in laws and regulations, certain types of transactions and technologies may become unavailable to the Group or the costs of compliance may be increased.

Polymetal has a successful track record of operating in Russian and Kazakh jurisdictions, having developed its own expertise in corporate, tax, licensing and other legal areas.

Corporate and operating management teams are responsible for meeting the legal requirements in their operating activities. Head office and on-site legal teams guarantee appropriate controls over compliance issues.

The Group's policy is to ensure strict legal compliance in all jurisdictions where Group companies operate. The Group's financial and legal teams monitor current legislation and proposed changes, and incorporate these into the practice, involving leading external experts where appropriate.

Risk level: **Risk exposure trend:** 2018

7. Political risk

Link to strategy: 4

Operating in Russia and Kazakhstan involves some risk of political instability, which may include changes in government, negative policy shifts and civil unrest.

Financial and economic sanctions imposed in 2014–2018 by the United States and the European Union on certain businesses and individuals in Russia increased political tensions and economic instability; there is a risk that further sanctions could impact the Group's ability to operate in Russia.

Russia's complex relations with the United States and European Union, as well as its involvement in conflicts in the Middle East, may potentially present a risk to Group's operations.

In addition, there is a risk that due to the deterioration of the macroeconomic situation, governments in Russia and Kazakhstan may consider imposing currency controls and limitations on capital flows.

These factors are not expected to affect the Group's operating performance, yet may have a negative impact on the ability of the Group to secure external financing.

These factors may have an adverse effect on the Group's market value and operating environment.

The Group actively monitors political developments on an ongoing basis. We aim to maintain open working relationships with local authorities in the countries where we operate.

Sanctions imposed on Russian individuals and businesses in 2014–2018 have not currently had any direct influence on the Group's operations. None of the Group's large shareholders is included in the US and EU lists of sanctioned individuals, legal entities or bodies. However, at the same time, to a limited extent sanctions have affected both the macroeconomic situation in Russia and interest rates for borrowings.

The Company has designed and implemented a Sanctions Monitoring Policy, aimed at preventing violations of any applicable sanctions regime in the Group's operations.

Risk level: **Risk exposure trend:** 2018

Risk and risk management
Principal risks continued

RISK DESCRIPTION AND POTENTIAL EFFECT	RISK RESPONSE/MITIGATION ACTIONS

8. Tax risk

Link to strategy: 1

Due to frequent changes in tax legislation in Russia and Kazakhstan, lack of established practices in tax law means that additional costs such as taxes or penalties may occur. The taxation risk level correlates with the legal and political risks levels.

Multinational companies will continue to be subject to considerable public scrutiny across the world within the Base Erosion and Profit Shifting (BEPS) action plan.

The Group's policy is to comply fully with the requirements of applicable tax laws, providing adequate controls over tax accounting and tax reporting.

Nevertheless, the ongoing changes to Russian and Kazakh tax legislation, and evolving practice of the application of these laws in courts, could lead to tax disputes and potential additional tax liabilities.

The Group regularly evaluates its tax positions to ensure they are adequately reflected in the consolidated financial statements. To date, the Group is not aware of any significant outstanding tax claims, which could lead to additional taxes accrued in the future (except for amounts already booked or disclosed in the Group's financial statements).

The Group is continuously monitoring its tax strategies and tax structures to comply with the new landscape created by BEPS without suffering unwarranted disruptions in business operations or incurring excessive costs.

Risk level: **Risk exposure trend:** 2018

Financial risks

9. Market risk

Link to strategy: 1 2 3

Gold and silver price volatility may result in material and adverse movements in the Company's operating results, revenues and cash flows.

The Company has developed and to, the extent necessary, implemented procedures to ensure consistent cash flow generation at operating mines, including:

- Redistribution of ore feedstock between deposits within a hub to achieve higher margins due to better grade profile, better logistics or less expensive mining methods
- Deferring the start of production while continuing ore stacking to achieve better cost profiles due to positive effects of scale
- Managing the volume of third-party ore purchases
- Staffing level review and hiring freeze
- Asset-level cost-cutting

Reserve and resource prices, as well as cut-off grades, are reviewed at least annually to conservatively reflect the prevailing commodity price levels. Short-, medium- and long-term life-of-mine plans are adjusted as appropriate.

Stress testing for these conservative price assumptions is performed to ensure the resilience of operating mines in a stress scenario and continued value creation. Contingency action plans have been developed to address performance in a stress scenario.

While the price of precious metals remains volatile, the measures taken by the Company ensure that each operating mine remains cash-flow positive. The Company will continue with this approach.

Currently, the Group does not hedge its commodity price exposure since its strategy is to offer stakeholders full exposure to the potential upside of gold and silver pricing.

Risk level: **Risk exposure trend:** 2018

10. Currency risk

Link to strategy: 1

The risk arises from Company's receipts from metal sales and foreign currency denominated debt, as well as the foreign currency denominated cost of imported capital goods and consumables.

Natural hedging is used to reduce the risk exposure: revenue is matched with US Dollar-denominated debt.

Flexible budgeting is used to monitor the effect of exchange rate fluctuations on the Group's financial results. The Group has determined critical exchange rates levels for its operations and is monitoring risk against these levels.

During 2018, there was moderate volatility of the Russian Rouble and Kazakh Tenge exchange rates against foreign currencies. The Company believes that material re-appreciation of these currencies is unlikely.

Risk level: **Risk exposure trend:** 2018

RISK DESCRIPTION AND POTENTIAL EFFECT	RISK RESPONSE/MITIGATION ACTIONS

11. Liquidity risk

Link to strategy: 1

The inability to raise sufficient funds to meet current operating or ongoing financial needs or to develop new projects and growth.

Inadequate cash management in terms of cash flow forecast, available resources and future requirements.

The Group's treasury function is responsible for ensuring that there are sufficient funds in place, including loan facilities, cash flow from operating activities and cash on hand to meet short-term business requirements. Long-term credit lines and borrowings are used to finance new projects and organic growth.

The Group ensures that significant undrawn committed facilities are in place to cover any funding gaps.

Risk level: **Risk exposure trend:** 2018

12. Interest rate risk

Link to strategy: 1

The Group is exposed to the interest rate risk as the significant part of the Group's debt portfolio is US Dollar-denominated floating rate borrowings.

The Group monitors recent trends for any increase in base rates by the US Federal Reserve since the election results in the United States. Although market interest rates continued to increase during the past 12 months, the magnitude of risk remains low due to the comfortable leverage position of the Group and the low share of interest costs in total expenditures.

Management proactively locked interest rates on significant parts of the loan portfolio (currently 49%) in anticipation of market rate rises. Current and future negotiations with banks for potential financing deals include assessment of their fixed versus floating rates and stress testing against various market rate dynamics.

Risk level: **Risk exposure trend:** 2018

Emerging risks

In addition to the currently identified risks, the Company has a process of identifying and addressing emerging risks. Emerging risks are defined as circumstances or trends that could significantly impact the Company's financial strength, competitive position or reputation within the next five years and have a long-term impact for several years. Emerging risks can be very difficult to quantify given the potentially unknown and far-reaching impacts on industry and external environment in general. Emerging risks are particularly important in the context of the Company's strategic planning. Accordingly, we identify the critical assumptions in strategic plans that could be impacted by these emerging risks.

Current emerging risks

- **Resource nationalism.** An attempt by states to assert greater control over natural resources in their territory through mandates on global extractive industries by the limitation of concentrate exports and/or mining super-profit tax. Historically, both Russia and Kazakhstan have maintained a safe and predictable investment climate for the mining industry. However, globally, resource nationalism is on the increase within the mining sector. The Company actively engages with government and local authorities in its regions of operation in order to monitor and address any potential issues.
- **Tightening environmental regulations in China and related market transformation.** The Chinese government's efforts to introduce regulatory measures to help overcome environmental challenges and ecological degradation could have wide-ranging ramifications for mining and mineral processing worldwide. The Company is currently evaluating the POX expansion project, which is aimed at reducing its dependence on Chinese off-takers.
- **Cyber security risk.** In the changing technological landscape of the mining industry, the Company's increased adoption of digital technologies has resulted in expanding the Company's digital footprint and associated cyber threat profile. The Group operates an IT management framework based on Control Objectives for Information and Related Technology (COBIT), which provides a complete set of high-level requirements to be considered for effective control of each IT process. The Group closely monitors developments in cyber-security threats and the management of cyber and information governance processes. At the beginning of 2018, an external cyber risk evaluation was carried out, which revealed no critical weaknesses of the control system and procedures. The external audit was carried out by an independent cyber-security consultant, Jet Infosystems. No other services were provided by Jet Infosystems. The Company does not consider cyber risk to be a principal risk for the Group.

Board of Directors

1. BOBBY GODSELL
BOARD CHAIR

Appointed: 29 September 2011.

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

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

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

2. OLLIE OLIVEIRA
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed: 25 April 2018.

Previous experience: Founder and Managing Partner of Greengrove capital LLP. Independent Non-executive Director of Dominion Diamond Corporation and Chairman of its Audit Committee, 2013–2015. Head of Corporate Finance, Director of Diamond Trading Company (DTC) and Member of DTC and De Beers Executive Committees, 1997–2008, Executive Director, Strategy and Business Development in De Beers holding company, 2001–2008. Finance Manager, Corporate and International Finance in Anglo American Corporation of South Africa Ltd, 1989–1997, Group Finance Director of Press Corporation Ltd, 1980–1989, Touche Ross (now Deloitte), 1974–1980.

Qualifications: Bachelor of Commerce from University of KwaZulu-Natal. Fellow of Institute of Chartered Management Accountants (UK). Member of South African Institute of Chartered Accountants.

Other roles: Non-executive Director (2011 to present) and Senior Independent Director (2016 to present) in Antofagasta; Chairman of its Project and Audit and Risk Committees.

N A R

3. VITALY NESIS
GROUP CHIEF EXECUTIVE OFFICER

Appointed: 29 September 2011.

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

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

Other roles: Chief Executive of JSC Polymetal since 2003.

S

4. JONATHAN BEST
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed: 29 September 2011.

Previous experience: Over 35 years' experience in the mining industry. Non-executive Director of AngloGold Ashanti Holdings plc and Chairman of its Audit Committee (1994–2018). Board member of JSC Polymetal, 2006–2012. Chairman of the Audit Committee of Gulf Industrials. Chairman of Sentula Mining and Bauba Platinum and member of their Nomination and Remuneration Committees. Chairman of GoldStone Resources. Interim CEO of Trans-Siberian Gold in 2006. CFO and Executive Director of AngloGold Ashanti.

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

Other roles: Non-executive Director and Chairman of the Audit Committee of Metair Investments.

A R

5. TRACEY KERR
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed: 1 January 2018.

Previous experience: 30 years' experience in the international mining industry. Held the role of Group Head of Exploration with Anglo American Plc, 2011–2015. Before joining Anglo American in 2011 she held technical and exploration management roles with Vale and BHP Billiton, based in Australia, UK, Canada and Brazil.

Qualifications: MSc in Economic Geology from University of Tasmania. Diploma in Company Direction from the Institute of Directors, UK.

Other roles: Group Head of Safety and Sustainable Development in Anglo American plc.

S N

6. CHRISTINE COIGNARD
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed: 1 July 2014.

Previous experience: 30 years' experience in the banking industry and advisory services world-wide, gained in banking at the Royal Bank of Canada, Société Générale and Citi. International Consultant for the Apogee Gold Fund based in Boston. Project Manager for Interros in Russia. Director of investments and financing for Norilsk Nickel. Managing Director at HCF International Advisers.

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

Other roles: Managing Director and Founding Partner of Coignard & Haas GmbH. Independent Director at Eramet and member of its Audit, Risks and Ethics Committee and Strategy and Corporate Social Responsibility Committee.

R A

7. GIACOMO BAIZINI
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed: 1 January 2018.

Previous experience: EVRAZ plc Group CFO in 2009–2014 and various positions in operations planning and business development since joining the Group in 2005. Prior to joining EVRAZ, Mr. Baizini was a management consultant with McKinsey & Co in their Milan and Tokyo offices.

Qualifications: Summer MBA from the Kellogg Graduate School of Management. MA Hons in Physics from the University of Oxford. Diploma of Industrial Engineering from the Japan Management Association.

Other roles: General Manager of EVRAZ Group SA.

A N R

8. JEAN-PASCAL DUVIEUSART
NON-EXECUTIVE DIRECTOR

Appointed: 29 September 2011.

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

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

Other roles: Shareholder of PPF Group NV since 2010. Board member of Home Credit BV, the Anglo-American School of Moscow. Member of the European Regional Business Council of the World Economic Forum Davos.

S

9. KONSTANTIN YANAKOV
NON-EXECUTIVE DIRECTOR

Appointed: 29 September 2011.

Previous experience: Member of JSC Polymetal's Board of Directors, 2008–2012 and member of its Audit Committee. Various positions at MDM Bank. CFO of JSC Polymetal until 2004. Member of the Board at Piraeus Bank, Inbank, Greek Organisation of Football Prognostics (OPAP SA), and Tiscali SpA. Member of the Supervisory Board of Rigensis Bank.

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

Other roles: Deputy Director General in charge of Finance at CJSC ICT. Director of ICT Holding Ltd.

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

Senior management

1. VITALY NESIS
GROUP CHIEF OPERATING OFFICER

See biography on page 84.

2. VITALY SAVCHENKO
CHIEF OPERATING OFFICER

Appointed: 2009.

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

Qualifications: Degree with Honours in Underground Mineral Mining engineering, Kyrgyz Mining Institute; MBA from the UK's Open University Business School.

3. SERGEY TRUSHIN
DEPUTY CEO, MINERAL RESOURCES

Appointed: 2010.

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

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

4. PAVEL DANILIN
DEPUTY CEO, STRATEGIC DEVELOPMENT

Appointed: 2009.

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

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

5 ROMAN SHESTAKOV
DEPUTY CEO, PROJECT DEVELOPMENT AND CONSTRUCTION

Appointed: 2009.

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

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

6. MAXIM NAZIMOK
CHIEF FINANCIAL OFFICER

Appointed: 2017.

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

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

7. VALERY TSYPLAKOV
MANAGING DIRECTOR, POLYMETAL ENGINEERING

Appointed: 2004.

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

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

8. IGOR KAPSHUK
CHIEF LEGAL OFFICER

Appointed: 2015.

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

Qualifications: Degree from the Law School of Irkutsk State University.

9. TANIA TCHEDAEVA
COMPANY SECRETARY

Appointed: 2011.

Experience: Company Secretary at Orsu Metals Corporation, 2008–2011. Various positions in Oriel Resources plc, 2004–2008.

Qualifications: MSc in Finance from London Business School, 2008. Ms Tchedaeva is a Fellow of ICSA: The Governance Institute and has a degree in Translation and Interpretation from Moscow State Linguistic University.

10. EUGENIA ONUSCHENKO
DIRECTOR, CORPORATE FINANCE

Appointed: 2009.

Experience: Previously, Head of Polymetal's Bank Financing Department. Between 2004 and 2007 worked for Ernst & Young in transaction advisory services.

Qualifications: Graduated from St. Petersburg State University of Economics and Finance in 2006 with a degree in Innovation and Investment Management. She also holds a Bachelor's degree in Economics and Management from Grenoble University Pierre-Mendes, France.

11. DARIA GONCHAROVA
CHIEF SUSTAINABILITY OFFICER

Appointed: 2015.

Experience: Joined Polymetal in 2010 in the corporate finance and investor relations team. Prior to this, held a business development role at GiproShakht Severstal from 2008 to 2009.

Qualifications: Graduate of St. Peterburg's Russian Presidential Academy of National Economy and Public Administration, and holds a Master's in Green Management, Energy and Corporate Social Responsibility from Bocconi University, Milan.

12. EVGENY VRUBLEVSKIY
DIRECTOR OF PMTL HOLDING LTD, HEAD OF TREASURY

Appointed: 2015.

Experience: Director of PMTL Holding Ltd and Head of Treasury since 2015. Treasury Manager at UFG Asset Management, 2014–2015. Treasury Manager at Inteco Group, 2012–2014. Head of Settlements at UniCredit Securities, 2008–2012. Various positions with Uralsib Capital in Moscow, 2005–2008

Qualifications: BA in Management from Moscow State Mining University. MA in Economics from Witte University Moscow. Holds Certified Treasury Professional (CTP) designation awarded by the Association for Financial Professionals (AFP). Holds Advanced Certificate from Cyprus Securities and Exchange Commission.

Board Chair's letter

> Corporate governance at Polymetal is its strength, acknowledged by the investor community, the Company's employees and other stakeholders.
>
> **Bobby Godsell,** Board Chair

Dear Shareholders

As previously announced, I am stepping down as Chair of Polymetal at the 2019 AGM, shortly before completing a full nine-year tenure in the post. I am proud to be leaving the Company in good shape for the new Chair to take it forward to new strengths. I wish Ian Cockerill the very best for the future.

Succession

In 2017, we launched our succession programme. I am delighted to report that this resulted in the appointment of three new independent non-executive Directors, who have proved to be a sound addition to the Board during 2018. Their inputs at both the Board and Committee level have been invaluable. Ollie Oliviera has already made his mark as an effective Senior Independent non-executive Director (SID) in his meetings with shareholders on environmental, social and governance (ESG) matters and in taking over my role as Chair of the Nomination Committee in order to lead the Company through the succession process to find my replacement. Tracey Kerr is proving a strong Chair of the Safety and Sustainability Committee, while Giacomo Baizini is to succeed Jonathan Best as the Chair of the Audit and Risk Committee having now served on the Committee for a full reporting cycle.

I would also like to pay tribute to Jonathan Best, who will also be leaving Polymetal shortly before completing his nine-year term in office. Johnathan has been an extremely supportive and knowledgeable member of the Board, and I know will be greatly missed. I am also particularly grateful for his leadership as the Chair of the Audit and Risk Committee, his great dedication, committed efforts and exceptionally valuable contribution to Polymetal's transformation into a company with the highest standards of financial reporting, as well as the support he provided over the years. I wish him all the best for the future.

This year we also saw the departure of Marina Grönberg, a non-executive Director, who has also been with the Board since the IPO. Her work in helping to establish the Safety and Sustainability Committee, and shape its structure for the years to come, has made a real difference. On behalf of Polymetal, I would like to thank Ms Grönberg for her commitment and input during her time with the Company and wish her well in all her future endeavours.

Corporate governance

The new UK Code was introduced in 2018 and is applicable from 1 January 2019. The Company is already working within the spirit of the new UK Code and took steps to ensure continued compliance ahead of this date. This included revising the terms of reference for the Board and all Board Committees as well as setting out comprehensive work plans for 2019.

The Board has an established history of taking stakeholders' views into account when making business decisions.

In 2018, in line with the new UK Code's requirement to consider the interests of key stakeholders in the Board discussion and decision-making process, we have also increased the focus on building and maintaining successful engagement mechanisms with a wide range of stakeholders. As part of this, the Board had an in-depth discussion about ways of defining and communicating with stakeholders with participants in Polymetal's Young Leaders Programme – the talent pool for developing future senior management. In another session, members of the Board and Young Leaders debated how best to promote a culture of integrity and openness within the Company. (More information about this can be found in the section on stakeholder engagement and culture on pages 94–95, 107.)

Employee engagement

Employee engagement has long been an area of strength for companies within the mining industry or for those with a unionised workforce, and for Polymetal this is no different. Our employees are a key stakeholder group and active communications with them are vital for us to have a successful and sustainable business. The Company's executive management already has an effective means of engagement with its employees through a number of channels. There are direct lines to the Group CEO and departmental heads. Employee satisfaction surveys are conducted on a regular basis with corporate media used to disseminate the results and a summary provided to the Nomination Committee. During the year, we committed to further strengthening this through the introduction of a workforce engagement system in 2019. This will give more prominence to straight-line reporting of issues through a single point of contact, along with greater involvement from the Board of Directors, and will provide employees with a constructive feedback system.

Corporate governance at Polymetal is its strength, acknowledged by the investor community, the Company's employees and other stakeholders, and I am pleased to have helped embed the highest of international standards and best practice within the business framework. I know that this will continue to be a key component in helping to drive the success of the Company in the future.

Bobby Godsell, Board Chair

Governance framework

THE BOARD

Nomination Committee
The Nomination Committee ensures a balance of skills, knowledge, independence, experience and diversity on the Board and its Committees.

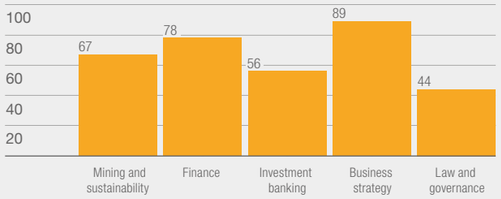
Audit and Risk Committee
The Audit and Risk Committee helps the Board to monitor the integrity of the Group's financial statements; reviews the effectiveness of the Group's system of internal controls and risk management systems.

Safety and Sustainability Committee
The Safety and Sustainability Committee monitors the Group's social, ethical, environmental and safety performance, and oversees all sustainable development issues on behalf of the Board.

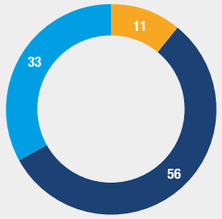
Remuneration Committee
The Remuneration Committee is responsible for the Group Remuneration Policy, and for setting pay levels and bonuses for senior management and employee benefit structures.

GROUP CEO
The Group CEO takes ultimate responsibility for delivering on strategy and operating performance.

BOARD SKILLS
(%)

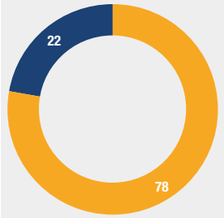


BOARD INDEPENDENCE
(%)



Board Chair
Independent Directors
Non-independent Directors

BOARD DIVERSITY
(%)



Men
Women

STATEMENT OF COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

The Directors are committed to maintaining high standards of corporate governance. As a premium UK-listed company, during the year ended 31 December 2018, Polymetal International was required to comply with the UK Corporate Governance Code (the UK Code) – published in April 2016 and available through the UK Financial Reporting Council's website – or, where the provisions of the UK Code have not been complied with, to provide appropriate explanations. During 2018, the Company was in compliance with all provisions of the UK Code.

In line with the new UK Corporate Governance Code (the new UK Code) that took effect from 1 January 2019, the Board and its Audit and Risk, Nomination and Remuneration Committees' terms of reference were updated to reflect best practice. The updated terms of reference as well as the terms applicable during 2018 for all Board Committees can be found in the Corporate Governance section on the Company's website: www.polymetalinternational.com. The schedule of matters reserved to the Board and its Committees is reviewed at least annually.

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

Corporate governance

Role and structure of the Board

As of the date of this report, the Company's Board comprises the non-executive Chair, one executive Director and seven non-executive Directors. Excluding the Chair, five members of the Board are independent non-executive Directors. The graphic opposite shows the current structure of the Board and its Committees along with the status of each Director.

The Company's corporate governance framework safeguards against any conflict of interest, including the complete independence of the Audit and Risk, Nomination and Remuneration Committees and disclosure of any related party transactions in the financial statements, as well as preventing any individual from having unfettered powers of decision. Directors' interests are disclosed in annual declarations and the Company Secretary is notified promptly of any changes to those interests. Before each Board meeting, independent non-executive Directors reconfirm their independence and all Directors disclose whether they hold any interests in any matters to be reviewed at the Board meeting.

The Board has determined Jonathan Best, Christine Coignard, Ollie Oliveira, Tracey Kerr and Giacomo Baizini to be independent non-executive Directors. Bobby Godsell met the independence criteria on appointment.

Jonathan Best has been on the Board of the Company since September 2011 and on the Board of JSC Polymetal since December 2006. The Board believes that, during the reporting period, Mr Best continued to display all of the qualities of independence pursuant to the criteria set out in the UK Code. Mr Best will not be offering himself for re-election at the 2019 AGM.

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

Board succession

In 2017, the Company started its Board succession programme in order to further enhance the Board's core skills in finance, mining and institutional investor engagement while adhering to best practice in corporate governance, including having a majority of independent Directors. Polymetal appointed Spencer Stuart, an international search firm, to assist with the phased refresh of its Board. No other services were provided by Spencer Stuart. Three new Directors, Tracey Kerr, Giacomo Baizini and Ollie Oliveira, were appointed and three existing Directors, Russell Skirrow, Len Homeniuk and Marina Grönberg, stepped down from the Board in 2018. In addition, in the summer of 2018, to ensure an orderly succession, the Board started the search for a non-executive Chair to succeed Bobby Godsell as the Chair of the Company prior to him approaching his full nine-year term on Polymetal's Board. At the 2019 AGM Mr Best will not be offering himself for re-election by the shareholders and Mr Baizini will become the Chair of the Audit and Risk Committee having served on it for the full financial reporting cycle.

Re-election policies

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

The Directors' biographical details are set out on pages 84–85. Following their performance evaluations, the Board and the Chair consider that each of the Directors standing for election or re-election will continue to be an effective contributor to the Group's success and demonstrates commitment to their role.

Induction

To provide a thorough induction to new Board members, they are granted access to the induction database with information about the Company, its current Board and Committee members, sector market update, Board and Committees terms of reference, corporate documents and Group policies. All Directors have electronic access to materials of all previous Board and Committee meetings, minutes, Group policies, results of the Board and Committees evaluation, D&O insurance policy, AGM results, as well as the Company's annual, interim financial and quarterly production results and sustainability reports. They are updated on the corporate governance rules and practices including those related to their role as non-executive Directors. As part of the induction process new Directors familiarised themselves with the Board and Committee meetings and site visits arrangements, along with existing remuneration and compensation procedures, Board and Committee meetings schedules and external training options for the next year.

In addition to the database, induction meetings are arranged, where new Directors are able to discuss appropriate issues with fellow Directors and Committee members, the Group CEO and executive team.

Directors and Chairs of the Board Committees regularly receive updates on changes to corporate governance and regulatory requirements and other changes affecting the Company. The Board is kept informed of relevant developments in the Company by way of monthly management reports, including comprehensive information on operating and financial performance, and the progress of capital projects.

Roles of the Chair, Group CEO and Senior Independent Director

The Board has approved the division of responsibilities between the Chair and the Group CEO and defined the role of the Senior Independent Director.

CHAIR
Bobby Godsell

The Chair reports to the Board and is responsible for the leadership and overall effectiveness of the Board and for setting the Board's agenda. Mr Godsell has been able to commit sufficient time to his role as non-executive Chair of Polymetal International and the Board believes that other commitments did not adversely affect his contribution to the Company. As part of the Chair succession programme, Ian Cockerill will be standing for election as a Director of the Company at the AGM 2019. Mr Cockerill will be able to commit sufficient time to his role as non-executive Chair.

Chair's responsibilities include:

- Effective running of the Board
- Ensuring that there is appropriate delegation of authority to executive management
- Promoting a culture of openness and debate between the executive and non-executive Directors
- Ensuring that the Directors receive accurate, timely and clear information
- Ensuring that the views of the shareholders are communicated to the Board as a whole.

GROUP CEO
Vitaly Nesis S

The Group CEO exercises his role through his executive and/or Director positions in the Group sub-holding companies. He reports to the Chair and the Board directly and upholds the Group's responsibilities to its shareholders, customers, employees and other stakeholders.

The Group CEO's responsibilities include:

- Developing Group strategy, including communicating annual plans and commercial objectives to the Board
- Identifying and executing strategic opportunities
- Reviewing the operational performance and strategic direction of the Group
- Making recommendations on remuneration policies, terms of employment and effective succession planning for senior employees
- Ensuring effective communication with shareholders and that appropriate, timely and accurate information is disclosed to the market, with issues escalated promptly to the Board.

INDEPENDENT NON-EXECUTIVE DIRECTORS
Jonathan Best A R
Christine Coignard R A
Tracey Kerr S N
Giacomo Baizini A N R

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

NON-EXECUTIVE DIRECTORS
Konstantin Yanakov
Jean-Pascal Duvieusart S

Non-independent non-executive Directors include Mr Yanakov (who is a representative of Powerboom Investments Limited); and Mr Duvieusart (who is a representative of PPF Group). Mr Nesis is the brother of the beneficial owner of Powerboom Investments Limited. Save for the potential conflicts inherent in these relationships, there are no potential conflicts of interest between the duties owed by the Directors or senior management to the Company and their private interests or other duties.

SENIOR INDEPENDENT DIRECTOR
Ollie Oliveira N A R

In 2018, Mr Oliveira was appointed Senior Independent Director (SID). He attended a series of one-on-one meetings with institutional shareholders and investors, arranged as part of the Company's roadshow, and the investor events organised by the Company's brokers. The Board is regularly updated on shareholders' opinions following meetings with the Directors and management.

SID's responsibilities include:

- Being available to major shareholders in order to listen to their views and help develop a balanced understanding of their issues and concerns
- Acting as an intermediary for the other Directors if necessary.

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

Corporate governance continued

Board responsibilities

Strategy. Define the commercial strategy and long-term objectives of the Group.

Expenditure. Approve annual operating and capital expenditure budgets and any material changes to them.

Governance. Oversee the Group's operations, ensuring competent and prudent management, sound planning, a strong system of internal control and compliance with all statutory and regulatory obligations.

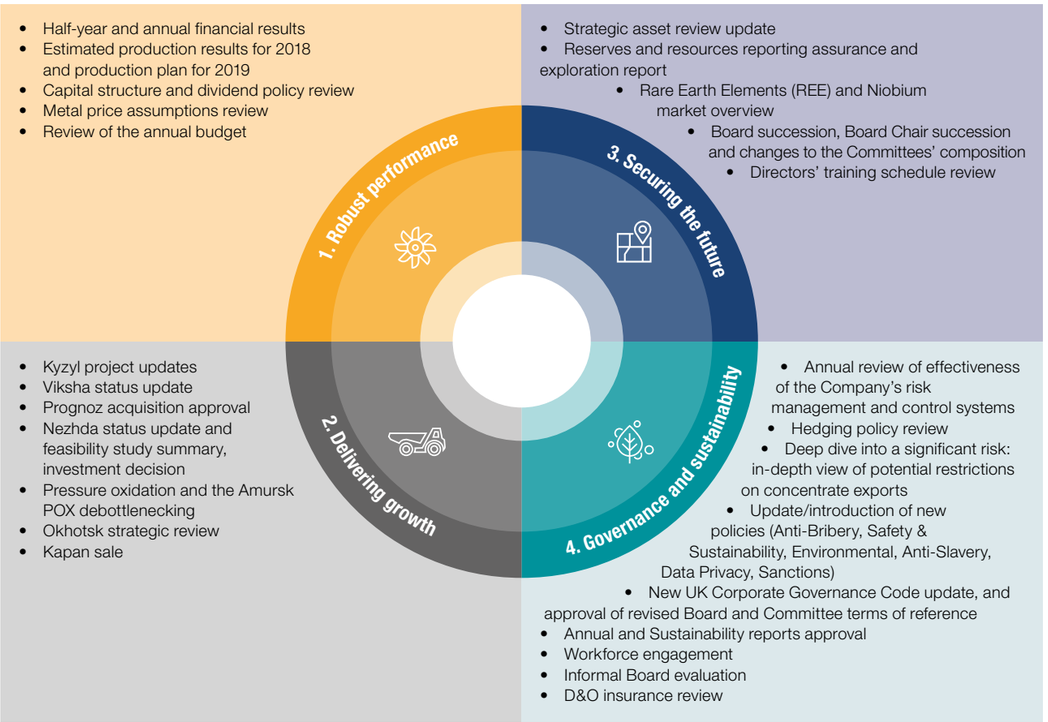
Performance. Review the performance of the Group in the light of its business strategy, objectives, business plans and budgets, and ensure that any necessary corrective action is taken.

Extension of Group activities. Approve any material extension of the Group's activities into new businesses or geographic areas and any decision to cease to operate all or any material part of the Group's business.

Stakeholder communications. Ensure a mutual understanding of objectives and maintaining a constructive dialogue with all stakeholders and promote a healthy corporate culture.

BOARD DISCUSSIONS

The following Board discussions, linked to the Company's overall strategy, took place in 2018:



BOARD MEETING ATTENDANCE

In 2018, the Board met eight times and had additional training sessions and informal discussions.

Board member	Board meetings
Bobby Godsell	8/8
Vitaly Nesis	8/8
Jonathan Best	8/8
Christine Coignard	8/8
Tracey Kerr	8/8
Ollie Oliveira[1]	5/5
Jean-Pascal Duvieusart	5/8

Board member continued	Board meetings
Giacomo Baizini	8/8
Konstantin Yanakov	7/8
Russell Skirrow[2]	3/3
Leonard Homeniuk[2]	3/3
Marina Grönberg[3]	6/6

Further business was approved by a Board Committee on five occasions (by way of a conference call between Messrs Godsell and Best) and by written resolution on three additional occasions.

1 Director from 25 April 2018.
2 Director until 25 April 2018.
3 Director until 22 October 2018.

Board evaluation

In accordance with corporate governance requirements, the next externally facilitated evaluation will take place over the course of 2019. Most recently, Polymetal carried out an externally facilitated Board evaluation in 2016. Fidelio Partners, an independent Board Development and Executive Search consultancy, conducted the evaluation. Fidelio's relationship with Polymetal focused only on Board effectiveness; Fidelio has not provided recruitment, search or other advisory services to Polymetal.

The purpose of the evaluation was an in-depth review of Board effectiveness. The evaluation covered a number of aspects relating to the work of the Board and also provided suggestions and recommendations to further enhance Board effectiveness. Based on interviews with Board members and the review of various materials, Fidelio concluded that the Polymetal Board is aware of its duties, it demonstrates a strong commitment to good governance and best practice. The Board recognised the importance of the UK Code. The Chair was considered to be skilled and effective in leading the Board and Board meetings; Board Directors were recognised as well prepared; and there was a general trend of improved reporting to the Board.

Fidelio highlighted several themes arising from the Board evaluation, the most important noted in the table below. These themes were forward-looking and provided a focal point for the Board as it considers greater Board effectiveness; recommendations and suggestions for the Board were provided. Fidelio facilitated a discussion with all Board members summarising the evaluation and focusing on the themes for enhancing Board effectiveness. The Board discussed the evaluation and its findings in individual Committees and also at subsequent Board meetings.

In 2018, the Board continued to take steps to implement key recommendations from the external evaluation conducted by Fidelio in 2016. These are set out below. The Board and Committees conducted an informal internal evaluation in 2018. Separate meetings were held between non-executive Directors, including without the Chair or the Group CEO being present, to appraise individual directors' performance and the work of the Board as a whole. This included both formal and informal meetings.

AREAS FOR BOARD FOCUS	NEXT STEPS FOR DISCUSSION	ACTIONS IN 2018
Polymetal's distinctive position – implications for the Board The Company operates in the emerging markets of the Former Soviet Union with strong shareholder base in Europe and London premium listing.	More cohesive understanding of Board engagement and rounded understanding of views of all shareholders. Given Polymetal's London listing, the Board recognised that not having a UK/London based Board Member was a disadvantage. This addition to the Board could provide a greater awareness of how the investment community is thinking and also connectivity to key governance debates taking place in the UK.	As part of succession planning, the following members joined the Board: Mr Baizini: He has experience working in both Western and Eastern companies and is fluent in Russian. Ms Kerr: She is London-based and has 30 years' experience in the international mining industry, including safety and sustainability. Mr Oliveira: He has over 16 years of experience in engaging with London-based institutional investors, including in the role of senior independent director of a large mining company. Ian Cockerill will be offering himself for election at the upcoming AGM of the Company. Mr Cockerill has an outstanding record in mining and corporate governance at all levels and will be taking the role of Board Chair pursuant to his election. Directors are regularly updated on investor feedback from the roadshows by the Group CEO and senior management.
The challenge of succession Recognised pressure for forthcoming Board refreshment, and importantly that Polymetal's strong Group CEO would be difficult to replace.	The Nomination Committee has a good grasp of the views of institutional shareholders and proxy advisors, particularly ahead of Board refreshment. Skills review required today and experience that would be needed going forward. Considering Board refreshment and creating succession pipeline. The strength of the Group CEO is seen as a major asset for Polymetal and this is recognised by investors and by the Board as a whole.	The Board and senior management actively engaged with the shareholders on Board succession. Comprehensive Directors' skills review was performed by the Nomination Committee, which included individual interviews with Directors. While there is no imminent Group CEO retention risk, the Board recognises its responsibility to investors to ensure structured succession planning.
Safety first Aim to achieve zero fatalities.	The Board has clear concerns regarding fatalities and monitors the investigation process as well as the follow up safety measures. Ensure clear communication between the Board and Safety and Sustainability Committee with focus on milestones and key initiatives.	The Safety and Sustainability Committee continues to oversee and support the work of the executive team in reducing fatalities through establishing safety culture. An annual plan for the Committee's work has been drawn up in accordance with its terms of reference, internal processes and the relevant market practice. Ms Kerr became the Chair of the Safety and Sustainability Committee, bringing a wealth of relevant experience to the role.

Corporate governance continued

Stakeholder engagement

Shareholders

We have a proactive relationship with our shareholders and the investment community:

- At the Annual General Meeting (AGM) the Board communicates directly with shareholders about the business and they, in return, have an opportunity to meet and pose questions to the Directors, attending the AGM.
- The AGM is held in London to facilitate easier participation by shareholders.
- The Annual Report and Notice of the AGM are made available – in printed form and on our website – at least 20 working days before the AGM to ensure that shareholders have time to consider them in detail.
- The AGM voting results are reported via the London Stock Exchange and on our website.
- The Board, the Group CEO and Group CFO have regular communications with the investment community.
- We hold Investor Days twice a year with feedback from major shareholders and analysts shared with the Board to ensure that they have a good understanding of issues and views.

Employees

The success of our business depends upon the expertise, dedication and skill of our people:

- The Group employs approximately 12,000 people working at its operations, on exploration and development projects and at the Group's corporate offices.
- We hire the most talented staff and focus on engagement, increasing diversity and equal opportunities for women, decreasing labour turnover, and facilitating training and career development.
- We also work hard to provide a safe working environment, competitive wages and social packages, comfortable living conditions and career progression.
- The Group maintains constructive, transparent and thoughtful relationships to ensure the retention of its employees, avoid labour disputes and contribute to operational excellence.
- Our commitment to integrity and compliance is set out in the Group's Code of Conduct and through Group policies and standards, including Whistleblowing, Anti-Bribery and Corruption, Staff and Management Diversity and Human Rights, all of which are available on our website.

Suppliers and contractors

- We build stable, long-term relationships with our suppliers and contractors, enabling us to achieve fair and mutually beneficial terms of contract and uninterrupted supply.
- In collaboration with our contract partners, we work to ensure integrity and compliance with environmental and safety standards across the Polymetal supply chain.
- Our procurement and supply chain practices comply with Polymetal's Supplier Code of Conduct, our policies on the use of agents, representatives, intermediaries and contractors' due diligence, and Polymetal's Modern Slavery Act transparency, all of which are available on our website.

Government and industry authorities

- Governments and industry authorities set the framework within which the Group is required to operate.
- Polymetal contributes to the national wealth and is a significant tax payer in the regions of operation, supporting local governments' social projects.
- We maintain constructive relations with the national and local governments under whose jurisdictions we operate.
- We abide by all laws and regulations that apply to our business, and we enter into open and transparent dialogue with industry authorities, particularly on issues relating to improvements in mining legislation.

Communities and NGOs

- The future of our operations depend on committed and sustained collaboration with local communities and NGOs; we depend on them for our licence to operate in specific localities and regions.
- We invest in and respect the rights of local and indigenous communities, providing employment opportunities and improving infrastructures, and engaging with them to ensure their support.
- We have implemented our Community Engagement Standards and Social investments and Donations Policy at all our operations.

The Young Leaders Programme

Our Young Leaders Programme is now well established and ongoing. This programme helps to evaluate the talent pool and tailors training for the future senior management needs of the Group. Within the programme, regular meetings take place between Young Leaders and Board members, which enable the Board to challenge and debate with the Young Leaders, who in return have an opportunity to ask questions and interact directly with the Board.

In 2018, as part of a s.172 Companies Act 2006 debate, the Board and the Young Leaders discussed ways of ensuring a better understanding of the views of the Company's key stakeholders when taking strategic decisions, how best to build an effective and mutually beneficial dialogue and improve engagement for future effectiveness. Implementation work will be ongoing throughout 2019.

Board site visits

Annual site visits greatly improve the Board's understanding of Polymetal's operations and organisation, and are an invaluable contribution to the Board's evaluation of the Group's business plan and strategy.

They also provide the Board with an opportunity to talk with local senior management and employees about their experience of working for Polymetal.

On a three-day visit to the Company's operations in Kazakhstan during 2018, the Board of Directors gained first-hand insights into the work of the local management, challenges and opportunities they are facing. They met with key mine executives and employees, and were given a detailed tour of production facilities at the Kyzyl project.

Since the IPO, the Directors have visited all the Company's key operations.

Audit and Risk Committee report

"Polymetal's risk management philosophy is inextricably linked to all strategic and operational aspects of the business.

Jonathan Best, Chair of the Audit and Risk Committee

Audit and Risk Committee meeting attendance

Board member	Meetings
Jonathan Best (Chair)	6/7
Giacomo Baizini	7/7
Christine Coignard	7/7
Ollie Oliveira[1]	5/5
Russell Skirrow[2]	2/2

1 Member from 25 April 2018.
2 Member until 25 April 2018.

The Audit and Risk Committee is a fully independent body, consisting only of independent non-executive Directors with relevant skills and experience in financial reporting and risk management. The Committee is chaired by Mr Best and its other members are Messrs Baizini and Oliveira, and Ms Coignard. Mr Skirrow served on the Committee prior to the AGM on 25 April 2018, but did not offer himself up for re-election. Mr Best will not be offering himself for re-election at the 2019 AGM. It is proposed that Mr Baizini will become the Committee Chair from 23 April 2019, having served on the Committee for the full reporting cycle.

The Board considers that the composition and work of the Audit and Risk Committee comply with the requirements of the UK Code.

Key responsibilities

INTEGRITY OF FINANCIAL STATEMENTS	INTERNAL CONTROLS AND RISK MANAGEMENT	EXTERNAL AUDITOR	POLICIES AND PROCEDURES
• Monitoring the integrity of the Group's consolidated financial statements • Reviewing financial statements, including the consistency of accounting policies across the Group, the methods used to account for significant transactions, the reasonableness of significant estimates and judgements and the clarity and completeness of disclosure	• Reviewing the effectiveness of the Group's system of internal controls and risk management and ensuring shareholders' interests are properly protected • Monitoring and reviewing the effectiveness of the Group's internal audit function	• Making recommendations to the Board, on the appointment or removal of the Group's external auditor • Reviewing the effectiveness of the external audit process • Reviewing the independence and objectivity of the external auditor and the appropriateness of the provision of any non-audit services	• Reviewing the Group's policies and procedures for preventing and detecting bribery and fraud, the systems and controls in place to ensure that the Group complies with relevant regulatory and legal requirements

Focus during 2018

• Reviewed and recommended for approval financial and risk information included in the Annual Report • Reviewed and recommended for approval Polymetal's results for the six months to 30 June 2018 • Supervised preparation of the longer-term viability statement for the Company for 2018 • Reviewed the accounting for acquisitions to ensure that disclosures made in the Annual Report were appropriate and clear	• Reviewed the critical risks and exposures, including significant judgements, findings, impairments and tax risks • Reviewed reporting from internal audit on key controls and approved internal audit plan • Performed an in-depth review of two of the subsidiaries (Gold of Northern Urals and Svetloye) and one of the functions (treasury controls) • Reviewed external cyber risk evaluation • Monitored the effectiveness of internal audit function	• Approved the terms of external audit engagement (including the scope) and the Group's external audit plan • Reviewed the actual external audit fee in 2018 compared with the authorised amount • Reviewed the independence and effectiveness of the external auditor • Recommended the re-appointment of Deloitte LLP as external auditor • Discussed approach to the auditor tender	• Supervised compliance with the Company's anti-bribery and corruption, whistleblowing, treasury and other policies and procedures • Performed internal assessment of the Committee's effectiveness and adopted an action plan • Reviewed the Committee's terms of reference in line with the new UK Code • Approved the revised risk management policy. • Reviewed the work plan for 2019

Dear Shareholders

Shifting economies and volatile markets with significant swings in exchange rate and commodity prices often shape the unpredictable environment in which Polymetal operates. Compliance with new regulatory and accounting frameworks bring different challenges. Across the business, the robust internal controls and sound risk management processes that we have in place ensure that the Company is able to successfully deal with ever-changing circumstances.

The Audit and Risk Committee's roles include both the safeguarding of the quality of the Company's financial reporting to its shareholders and ensuring that the business mitigates its exposure to risk. The integrity of our financial statements is fundamental in upholding the principles of corporate governance to which Polymetal is committed and this can only be accomplished through a disciplined approach and a focus on consistently improving quality at every level of the organisation.

Safeguarding the business

Polymetal's risk management philosophy is inextricably linked to all strategic and operational aspects of the business and the Company is committed to minimising risks to its stakeholders. Risk levels are analysed annually by the Board and monitored by the Audit and Risk Committee at regular intervals throughout the year. As part of our remit from the Board, we have a specific role in the review of the internal controls and risk management processes. The Committee oversees the implementation of effective risk management measures and encourages a continuous dialogue with management about the risks to the business, as well as ensuring that information about key risks is both transparent and readily available to them. This is further enhanced by the good work carried out by the internal audit and risk functions to make sure that our employees at all levels are both risk aware and fully conversant with the potential impacts on the Company.

The Audit and Risk Committee is a fully independent body and its constituent members are all independent non-executive Directors, who have the appropriate skills and experience of financial reporting and risk management. This, and an in-depth knowledge of the Polymetal's business and culture, allows us to uphold the integrity of the Company's governance. Our stewardship role has the strong support of Polymetal's Chair, Group CEO, Chief Financial Officer, the lead external audit partner and members of senior management. This and a high level of mutual respect on both sides enables us to address and deal effectively with any issues should they arise.

During the year, the Committee held seven meetings, both in person and by way of a conference call. In addition to the Group CFO, Group senior management attended these meetings, including the heads of the internal audit, legal, financial reporting and IT departments, to provide in-depth analysis in their areas of expertise. I and my fellow Committee members attended meetings with the head of internal audit and the external audit partner without management present, with the Group CFO and other senior management and the audit partner. There is also communication with the Group CEO and CFO when necessary on various matters regarding the financial management of the Company.

Performance evaluation development

The Board and the Audit and Risk Committee completed a three-year evaluation cycle in 2018. Following the assessment of the Committee's performance during the Board external evaluation in 2016, no threats to the effectiveness of the Committee were identified. At the same time, fellow Directors reported a high level of satisfaction with the Audit Committee. In 2017, the Committee carried out a comprehensive self-evaluation of its performance and followed up with appropriate actions in 2018, including a Committee renewal programme, additional management reporting, internal audit department staffing review and a more in-depth understanding of the scope of external audit. Ongoing issues have been included in the 2019 Committee work plan.

Self-evaluation performed in 2018 was forward-looking and, in particular, reviewed the steps to be undertaken to ensure compliance with the new UK Corporate Governance Code. The Committee's terms of reference were revised as part of the process. Better communication between the Audit and Risk Committee and the Board was noted, ensuring the Board's enhanced role in the overview of risk. Reporting regulations continue to change at a pace. At Polymetal, we see this as an opportunity to improve our processes and systems and to evolve as a business.

Looking forward

This is a sad time for me since I will not be offering myself for re-election at the Polymetal 2019 AGM and will be leaving the Company. I have served on the Board since the IPO in 2011 but the time has come to step down from my roles as a non-executive Director and Chair of the Audit and Risk Committee. Polymetal, as part of its succession planning in 2018, appointed several very capable non-executive Directors, with Messrs Baizini and Oliveira strengthening the Audit and Risk Committee. Giacomo Baizini has served on the Board for the full annual reporting cycle and it is proposed that he will succeed me as the Chair of the Audit and Risk Committee. His strong financial background and experience in our industry and of the Russian market will be a real asset to the Committee, and his fluency in Russian will enhance the communication with the Company's financial team.

2019 is also a year when the Company will be tendering its audit for the first time in line with the regulations of The Statutory Audit Services for Large Companies Market Investigation Order 2014. This is a demanding, but very important process to ensure that our stakeholders continue to receive a fair, balanced and understandable assessment of the Company's financial position and prospects.

Jonathan Best
Chair, Audit and Risk Committee

Audit and Risk Committee report continued

Integrity of financial statements

Fair, balanced and understandable

To ensure that the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy, the Board and the Audit and Risk Committee applies the following robust process:

- Members of all Board Committees receive the relevant draft sections of the Annual Report at least two months prior to final approval by the Board to ensure that the key messages and information disclosed are aligned with the Company's strategy and performance, and are consistent with their understanding of the Company's business.
- The Audit and Risk Committee holds a conference call at least four weeks before final approval of the Annual Report by the Board to review the critical accounting judgements disclosed in the notes to the financial statements and to discuss any significant issues related to the financial statements. The Committee takes into account the conclusions and observations made by the external auditor over key judgements.
- All Directors receive a full draft of the Annual Report and financial statements at least three weeks prior to final approval by the Board to ensure consistency of disclosure of the Company's established purpose, values and strategy.
- The Committee reviews the disclosure of Alternative Performance Measures (APMs) used in accordance with the European Securities and Markets Authority (ESMA) guidelines to ensure appropriate prominence of AMPs and IFRS measures and their presentation throughout the Annual Report. A guide to APMs can be found in the 'Alternative Performance Measures' section.
- The Committee reviews the final Annual Report and financial statements and recommends them to the Board for approval.
- Any changes proposed by the Directors based on their knowledge, discussions, management papers or other interactions with management are considered in the final version of Annual Report.
- The preliminary financial statements are approved by the Board for release to the London Stock Exchange to ensure timely disclosure of financial information.
- The Annual Report is approved by the Board for publication on the Company's website and circulation to its shareholders.

Significant issues related to the financial statements

The Committee assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. During the year, the Committee has focused in particular on the key issues and areas of judgement listed below as being business-sensitive. The Committee has also reviewed detailed external auditor reports outlining audit work performed and any issues identified in respect of key judgements (see the independent auditor's report on pages 133–139).

SIGNIFICANT ISSUES ADDRESSED BY THE COMMITTEE	ACTIONS TAKEN
Significant corporate transactions	The Committee reviewed the accounting for acquisitions made by the Group in the year, with particular focus on the allocation of the purchase price to the acquired assets and liabilities, the valuation of any contingent consideration payable, and any gains recognised on obtaining control in a previously jointly controlled investment. The Committee challenged the key judgements made by management in these areas, and concluded that these were made appropriately and consistently. The Committee also reviewed the disposals made by the Group during, and shortly after, the year. In all cases the Committee concluded that the disclosures made in the Annual Report and Accounts were appropriate and clear. See pages 158–163.
Recoverability of metal inventories	The Committee examined the price assumptions used by management as well as unit costs, treatment charges and other internal assumptions used in determining the net realisable value of unfinished goods within metal inventories (ore and concentrate stockpiles). The Committee is satisfied that appropriate write-down of metal inventories to net realisable value has been recognised in the current financial year. See Note 22 on page 177.
Recoverability of exploration and evaluation assets	The Committee examined management analysis of recoverability of exploration and evaluation assets and assessed management's approach to determine whether the existing exploration and evaluation assets are likely to generate future economic benefits and whether any indicators of impairment had been identified. This review did not indicate any concerns with the carrying value of the Group's exploration and evaluation assets as at 31 December 2018. See Note 19 on page 175.
Tax exposures	The Committee received updates on the status and progress of tax audits and evaluated management's assessment of various tax risks and appropriateness of provisions made in the financial statements, where applicable. The review did not identify any concerns with respect to the Group's tax compliance and relevant disclosure in the financial statements. See Note 13 on page 170 and Note 17 on pages 172–174.
Longer-term viability statement	The Committee exercised oversight of the viability statement development process, including assessment of the Group's prospects made by management, the time horizon over which the assessment is made, basis of preparation and the results of risk scenario analysis. The Committee concluded that the scenarios analysis, time horizon and assumptions used are severe and feasible, and well aligned with the Group's budgeting and strategy process. See pages 128–129.

Internal controls and risk management

Risk management

Risk management is the responsibility of the Board and is integral to the achievement of the Group's strategic objectives. The Board considered the Group's management responsiveness to changes within its business environment. The Board is satisfied that there is an ongoing process, which was operational during the year and up to the date of approval of the Annual Report, for identifying, evaluating and managing the principal risks faced by the Group, as described on page 77.

The Board also takes account of material changes and trends in the risk profile, including robust assessment of the Company's emerging risks, and considers whether the control system, including reporting, adequately supports the Board in achieving its risk management objectives. In 2018, the Audit and Risk Committee performed a comprehensive review of the Group's Risk Management Policy and Process. The procedures outlined in the policy determine that the risk management processes are embedded in all Polymetal's systems and processes, ensuring that the Company's responses to risk remain current and dynamic. Details of the Group's risk management framework and risk governance are provided on pages 76–77.

The Group enforces a responsible business culture throughout all Group entities to mitigate principle risks and to keep residual risk at an acceptable level. The Audit and Risk Committee assists the Board with its assessment of the Group's principal risks and its review of the effectiveness of the risk management process. The Committee reviews reports on the status of Group-level risk profiles and controls that are in place during its meetings throughout the year.

The Company aims to ensure that all the components of its risk management system are embedded into day-to-day operations so that all principal risks are identified and managed on a timely and accurate basis. The process for identification and assessment of principal risks combines a top-down and bottom-up approach.

Audit and Risk Committee report continued

The Group has implemented enterprise and operational policies and controls to manage risks that may affect achievement of the Group's strategic objectives. Transaction-level internal controls are designed to enhance the value of operational-level objectives and accountability of new projects and initiatives.

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

Internal audit

The internal audit function supports the Board, through the Audit and Risk Committee, with the objective of evaluating the Company's and the Group's governance framework. The internal audit function also aims to raise levels of understanding and awareness of risk and control throughout the Group.

Internal auditors maintain organisational independence from the Group management by reporting to the Audit and Risk Committee on substantive matters and to the Group CEO for administrative purposes; the internal audit function additionally reports its findings to the members of the Group's executive management. Any potential conflicts of interest should be disclosed by the internal auditors as they arise; internal auditors are not allowed to audit areas where they have held operational roles in the previous 12 months.

The internal audit function's annual work plan is approved by the Audit and Risk Committee. It is based on a risk tolerance evaluation that ensures the achievement of the Group's operating objectives and focuses on the principal risks the of Group's risk profile. The head of the internal audit function reports to the Board through the Audit and Risk Committee. The KPIs of the head of the internal audit function are completion of work in accordance with the approved plan, quality of audits and the number of follow-up audits, where agreed recommendations have been implemented.

In addition to the Audit and Risk Committee assessment, the internal audit function uses an annual self-certification process, which requires managers throughout the Group to personally confirm the testing of internal controls and compliance with Group policies within their business or function, as well as the steps taken to address actual or potential issues that are identified. The internal audit function also performs periodic external certification, the most recent of which took place in February 2016; it was confirmed that independence and objectivity of the Group's internal audit function is in compliance with international standards for internal audit. External certification of the internal audit function started at the end of 2018 with the results presented to the Audit and Risk Committee in March 2019.

Management provides a timely response to issues raised by internal audit. Where possible, the issues are resolved within one reporting period. The results of self-certification as well as management response thereto are provided to the Committee along with other reports on the internal audit activities.

Internal control framework and activities

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

This framework includes:

- An appropriate tone set from the top (Board level), aimed at building the appropriate control environment and ethical climate
- Management support of a comprehensive risk management system (for more detail refer to pages 76–77)
- Strong segregation of duties including internal controls over sensitive transactions
- Specific control activities implemented at all levels of the Group
- A periodic review of the effectiveness of internal controls.

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

Within this framework, authority is delegated with clearly prescribed limits and decisions are escalated where either project size or risk profile require a higher level of authority. In addition to controls operating at transaction level (production, exploration, construction, procurement), the control framework also includes a set of general procedures for transaction approval, financial accounting, reporting and budgeting.

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

External auditor

External auditor appointment

The re-appointment of Deloitte LLP as the Group's external auditor is reviewed annually by the Audit and Risk Committee. Deloitte LLP was appointed auditor in 2011, with Deloitte CIS having been auditor of JSC Polymetal since the last tendering process in 2007. The Group has a policy of tendering the external audit at least every ten years. The Committee's assessment of the external auditor's performance and independence underpins its recommendation to the Board to propose to shareholders the re-appointment of Deloitte LLP as auditor until the conclusion of the AGM in 2020. Resolutions to authorise the Board to re-appoint and determine the auditor's remuneration will be proposed at the AGM on 23 April 2019.

Audit tender

We intend to tender our external audit in 2019 for the 2020 audit, which will coincide with the completion of the five-year term of our current audit partner. At that point, Deloitte LLP will have been our auditor for 10 years, following our listing on the London Stock Exchange. It is our intention that Deloitte will be invited to participate in this tendering process, along with other appropriately qualified international audit firms. The Company is in compliance with the provisions of The Statutory Audit Services for Large Companies Market Investigation Order 2014.

Non-audit services by the external auditors

The Audit and Risk Committee monitors the Company's relationship with its external auditor relating to the provision of non-audit services to ensure that auditor objectivity and independence are safeguarded. This is achieved by disclosure of the extent and nature of non-audit services (see Note 15 to the consolidated financial statements) and the prohibition of selected services being provided by the external auditor.

Following the introduction of new EU Audit legislation and changes to the UK Ethical Standard, which introduced new restrictions and prohibitions on non-audit services to Public Interest Entities incorporated in the European Economic Area (EEA PIEs), the Audit Committee has chosen to voluntarily apply the new requirements as if Polymetal was a EEA PIE. The policy governing the provision of non-audit services by the external auditor approved by the Committee defines permitted audit and non-audit services.

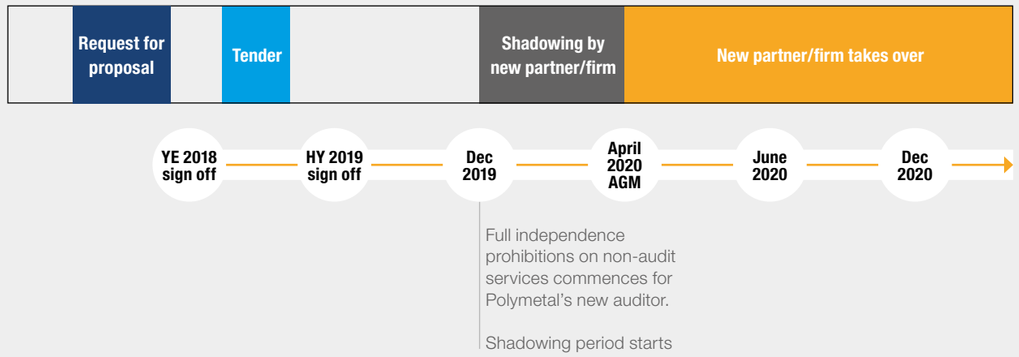
Pre-approval thresholds are in place for the provision of non-audit services by the external auditor, being: pre-approval by the Chief Financial Officers of Russian, Kazakh or Armenian business entities respectively, and by the Director of the Cyprus office of Polymetal International plc if the services are provided to other Group companies if below $5,000; by the Chair of the Audit and Risk Committee if between $5,000 and $20,000; and by the Audit and Risk Committee if above $20,000.

Certain permitted types of non-audit work may be undertaken by the auditor without prior referral to the Audit and Risk Committee up to a cumulative annual value of $100,000. Any further non-audit work is subject to approval by the Audit and Risk Committee in further tranches of $100,000. In the event that the cumulative value of non-audit fees exceeds $500,000 in any given year, separate approval by the Audit and Risk Committee is required explaining why there is no threat to independence.

In 2018, non-audit fees were $0.54 million of which $0.46 million were incurred for audit-related assurance services for the Group's half-year review. Non-audit fees represented 48% of the 2018 audit fee (2017: 38%). Non-audit fees excluding audit-related services amounted to $0.08 million, or 5% (2017: 1%) of total fees for audit and audit-related services.

The Audit and Risk Committee has considered information pertaining to the balance between fees for audit and non-audit work for the Group in 2018, and concluded that the nature and extent of non-audit services provided do not present a threat to the external auditor's objectivity or independence.

POLYMETAL AUDIT TENDER
Tendering process 2019



Audit and Risk Committee report continued

Auditor independence

The auditors are required each year to confirm in writing to the Committee that they have complied with the independence rules of their profession and regulations governing independence, and that they have complied with the requirements of the Company's policy on provision of non-audit services. The external auditor is required to maintain appropriate records to provide reasonable assurance that its independence from the Company is not impaired.

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

Review of the effectiveness of the external audit process and audit quality

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

- The audit partners, with particular focus on the lead audit engagement partner. The Company has been working with the existing audit partner since 2015
- The audit team
- Planning and scope of the audit and identification of areas of audit risk
- Execution of the audit
- The role of management in an effective audit process
- Communications by the auditor with the Audit and Risk Committee, and how the auditor supports the work of the Audit and Risk Committee
- How the audit contributes insights and adds value
- The independence and objectivity of the audit firm and the quality of the formal audit report to shareholders.

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

The assessment tool adopted is comprehensive and includes detailed questions which are completed by way of a formal questionnaire every three years, while the key areas are reviewed every year. The feedback from this process is considered by the Audit and Risk Committee, and is provided both to the auditor and to management. Action plans arising are also reviewed by the Committee. The most recent comprehensive audit quality evaluation was performed in March 2019.

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

Policies and procedures

Evaluation

Following the assessment of the Committee's performance during the Board external evaluation in 2016, no threats to the effectiveness of the Committee were identified. At the same time, fellow Directors reported a high level of satisfaction with the Audit and Risk Committee.

In 2017, the Committee carried out a comprehensive self-evaluation of its performance. The members of the Committee, CFO, external audit partner and head of internal audit completed a thorough assessment questionnaire on the work of the Audit and Risk Committee and other related issues, including external audit and the quality, experience and expertise of the internal audit function. Based on the assessment results, the areas that needed attention were aggregated and followed up by appropriate actions in 2018, including a Committee renewal programme, additional management reporting, internal audit department staffing review and a more in-depth understanding of the scope of external audit. Outstanding issues have been included in the 2019 Committee work plan.

The following evaluation was performed in 2018:

- March 2018 – external auditor effectiveness assessment
- August 2018 – internal and external auditors meeting without the management present
- December 2018 – Committee self-evaluation.

Self-evaluation performed in 2018 was forward-looking. The Committee reflected on its work over the year and discussed steps to be undertaken to ensure compliance with the new UK Code; the Committee's terms of reference were reviewed as part of the process. One of the areas identified for improvement was better communication between the Audit and Risk Committee and the Board on risks to ensure that the thorough work at Committee level is reflected in the Board's discussions, with the Board taking an enhanced role in the risk oversight.

UK Bribery Act 2010

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

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

As part of implementation of internal procedures to comply with the UK Bribery Act, the Group has a formalised Whistle-Blowing Policy which defines the processes in place for staff to communicate, in confidence, concerns about possible improprieties, unethical or illegal activities and ensures that arrangements are in place for the independent investigation of such matters. The management reports to the Committee twice a year on any instances of corruption or unethical conduct within the Group. Further information on due diligence processes implemented by the Company in pursuance of those policies is available in the Safety and Sustainability Report. The Company affirms that it has not denied any personnel access to the Audit and Risk Committee and that it has provided protection to whistle-blowers from adverse personnel action.

All policies and procedures on prevention of bribery and corruption are annually reviewed by the Audit and Risk Committee for any changes required to be recommended to the Board. The management reports to the Committee on the implementation of policies and procedures within the Group's operations.

The Code of Conduct, Anti-Bribery and Corruption and Whistle-Blowing Policies are available on the Company's website.

The principles and provisions

In the reporting period, all members of the Committee had financial experience and competence relevant to the sector in which the Company is operating; Messrs Best, Baizini and Oliveira have competence in accounting (detailed information on the experience, skills and qualifications of all Committee members can be found on pages 84–85). Ms Coignard is Chair and Messrs Best and Baizini are members of the Remuneration Committee, which ensures continuity between the workings of both Committees.

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

Ultimate responsibility for reviewing and approving the interim and annual financial statements remains with the Board. The Board considers that the Audit and Risk Committee complies with the provisions of the UK Code, FRC Guidance on Audit Committees and Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

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

Nomination Committee report

"Formalised and structured succession planning is vital for the Company's continuing success.

Ollie Oliveira, Chair of the Nomination Committee

Nomination Committee composition and meeting attendance

Board member	Meetings
Ollie Oliveira (Chair)[1]	5/5
Tracey Kerr	6/6
Giacomo Baizini[2]	1/1
Bobby Godsell[3]	1/1
Christine Coignard[4]	4/4
Leonard Homeniuk[5]	1/1

1 Member from 25 April 2018 and Chair from 27 June 2018
2 Member from 16 October 2018
3 Chair until 27 June 2018
4 Member until 16 October 2018
5 Member until 25 April 2018

The Nomination Committee comprises three independent non-executive Directors who have no personal financial interest in the matters to be decided, other than as a shareholder (where applicable). The Committee is chaired by Mr Oliveira and its other members are Ms Kerr and Mr Baizini. Mr Godsell chaired the Committee prior to the start of the Chair-succession programme in June 2018; Mr Baizini replaced Ms Coignard as a Committee member on 16 October 2018.

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

Key responsibilities

BOARD STRUCTURE REVIEW AND EVALUATION	LEADERSHIP AND CONFLICT OF INTERESTS	DIVERSITY AND GOVERNANCE
• Leads a formal, rigorous and transparent process for Board appointments • Regularly reviews the Board structure, size and composition and makes recommendations to the Board about any changes • Makes recommendations to the Board about the Directors' re-appointment at the end of their term of office • Reviews the results of the Board performance evaluation that relate to the composition of the Board and individual Directors	• Keeps under review both executive and non-executive leadership needs of the Group • Requires Directors and proposed appointees to the Board to disclose any conflict of interest or significant commitments, with an indication of the time involved • Requires Directors to apply for approval before undertaking additional external appointments	• Leads on diversity and provides a statement of the Board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy and progress on achieving objectives • Focuses on the Company's approach to succession and planning, and how both support developing a diverse pipeline • Reviews the Company's gender balance within the Group leadership team

Focus during 2018

• Continued with the independent non-executive Director succession programme and led the search for the new Board Chair • Continued to review the skills and experience of the Board, age and term limits of Directors, concept of independence; reviewed the composition of the Board and its Committees • Reviewed results of interviews with all Directors and considered what skills would be required for new independent non-executive Director appointments • Supervised the tailored induction process • Made recommendations to the Board about re-election of Directors at the AGM	• Continued succession discussion at executive level, including formalised Group CEO succession planning • Considered the top-down approach to retention of senior employees • Discussed the externally facilitated Board evaluation plan for 2019 • Discussed the personal development plan for the top management team and Young Leaders • Reviewed the report on the Young Leaders Programme participants' development and inclusion in the Performance Share Plan (PSP)	• Reviewed HR reports, including headcount, costs, diversity, professional development, employment culture, approach to the learning process and training benchmarking information • Discussed diversity highlights and pathway to better top-management gendered diversity • Reviewed Diversity Policy implementation, including equality audit • Reviewed the market practice in terms of responsibilities of the Board Committees • Reviewed the Committee's terms of reference in line with the new UK Code • Reviewed the work plan for 2019

Dear Shareholders

We have been privileged to have had Bobby Godsell as our Board Chair since the Company's IPO in 2011. Working closely with the Board and our Group CEO, Bobby has led initiatives to develop Polymetal's record of good governance, deliver on forecasts and promises, enhance shareholder returns, focus on improved safety and environmental practices, and on improving relationships with all stakeholders. It is particularly fitting that Bobby steps down at a time when Polymetal has reported yet another year of record production and excellent financial results, and has a pipeline of growth projects with outstanding prospects for additional value creation.

Shortly after my appointment as Senior Independent Director (SID) at the 2018 AGM, I was given the task by the Board of undertaking a structured search process for a new non-executive Board Chair. To facilitate this process, Bobby resigned as Chair of the Nomination Committee and I was appointed in his stead. At the end of this process, it was the Board's pleasure to announce that Ian Cockerill had accepted the position of Board Chair Elect, to be voted upon at the 2019 AGM. Ian has an outstanding record in mining and corporate governance at both executive and non-executive levels, and came from a prestigious shortlist of candidates, all of whom would have done justice to the position. We trust that our shareholders will extend an enthusiastic welcome to Mr Cockerill at the 2019 AGM.

Each year the Board and all its Committees conduct informal internal reviews of their work and these were carried out in 2018. Since 2013, we have undertaken an externally facilitated Board evaluation every three years. The most recent in 2016 was conducted by Fidelio Partners, an independent Board Development and Executive Search consultancy, with an in-depth review of Board effectiveness. The principal recommendations from Fidelio's findings have been implemented. The next evaluation will take place during 2019 and we look forward to participating in this independently managed process.

I have also informally interviewed my colleagues and sent out a questionnaire in order to review the performance of our existing Board Chair. This should prove very useful during the induction programme of the new Board Chair.

As SID, I have participated in open communications with shareholders, often accompanied by the Chair of the Safety and Sustainability Committee, to ensure that we have a good independent understanding of the non-operating issues that concern shareholders and other stakeholders.

Formalised and structured succession planning is vital for the Company's continuing success and ensures that leadership is aligned to corporate strategy, both at Board and senior management levels. Polymetal announced the launch of its Board of Directors succession programme in June 2017. The Board and its Committees will continue to pursue the mission of improving governance to the highest possible levels. The Nomination Committee will focus on ensuring that the Board has the required diversity and world-class skills in finance, mining, governance and stakeholder engagement. The composition of the Board is fully compliant with the existing UK Code and will remain so under the new UK Code.

Ollie Oliveira
Senior Independent Director, Chair, Nomination Committee

Diversity and gender pay

Polymetal is committed to the principles of non-discrimination, inclusion and diversity for both the Board and its workforce. All candidates and employees have equal opportunities regardless of gender, age, race, nationality, language, origin, wealth, residence, religion and other beliefs, social or other personal circumstances. The Company's Code of Conduct and Policy on Staff and Management Diversity outline the principles and approach to diversity and prohibit any discrimination. Regular monitoring of compliance is undertaken by the HR department, which ensures that our internal procedures are implemented through all Group companies. No instances of discrimination were reported in 2018. The Group is in full compliance with all local legislation in the countries where it operates that prohibit any discrimination in payment and promotion.

Board diversity is addressed as part of the Board succession programme, including considering candidates with little or no previous Board experience in public companies for appointment as non-executive Directors. Spencer Stuart, an international search firm, have signed up to the voluntary Code of Conduct on gender diversity and best practice. The lead partner on the assignment is female.

The Nomination and Remuneration Committees undertook an in-depth review of the gender pay gap during 2018. It concluded that, while there is no gender pay gap for the same positions, the gender imbalance of the mining industry in general impacts the gender pay ratio in Polymetal, which in 2018 was 1.32 (2017: 1.27). We believe that increasing female representation will benefit the Group and we actively endorse female participation in Polymetal's management. This year several women were promoted to senior management levels: managing director, head of gold processing plant, deputy HR director.

In 2018, the overall proportion of women working in the Group slightly decreased: 20% (2017: 21%). The Company facilitates promotion of women, including hiring women in positions traditionally held by men. The Nomination Committee closely monitors the efforts of management in increasing diversity, paying special attention to more recent acquisitions in areas with a traditional male workforce.

	Male		Female	
Employee gender parity	**2018**	2017	**2018**	2017
Directors	**78%**	88%	**22%**	22%
All employees, of which:	**80%**	79%	**20%**	21%
Managers	**77%**	77%	**23%**	23%
Employees with vocational training or higher education	**60%**	60%	**40%**	40%
Workers	**88%**	88%	**12%**	12%

We acknowledge that reducing the gender imbalance, and with it the gender pay gap, is a long-term goal and we will continue to focus on inclusivity and diversity in order to enable our employees to fulfil their full potential.

Safety and Sustainability Committee report

"The safety, health and well-being of our employees is paramount to Polymetal and is at the core of how we operate our business.

Tracey Kerr, Chair of the Safety and Sustainability Committee

Safety and Sustainability Committee meeting attendance

Board member	Meetings
Tracey Kerr (Chair)[1]	3/3
Vitaly Nesis	3/3
Jean-Pascal Duvieusart[2]	1/1
Marina Grönberg[3]	2/2
Len Homeniuk[4]	2/2
Russell Skirrow[5]	2/2

1 Chair from 25 April 2018.
2 Member from 15 October 2018.
3 Member until 22 October 2018.
4 Chair until 25 April 2018.
5 Member until 25 April 2018.

The Safety and Sustainability Committee comprises three Directors. The Committee is chaired by Ms Kerr and its other members are Messrs Nesis and Duvieusart.

Mr Homeniuk chaired the Committee prior to the 2018 AGM but did not offer himself for re-election. Mr Duvieusart replaced Ms Grönberg as a Committee member when she stepped down from the Board in October 2018.

Key responsibilities

SAFETY	SUSTAINABILITY	ETHICAL CONDUCT
• Receives reports from management on significant safety, health and sustainability issues • Oversees management's interaction with regulatory authorities on safety, health and sustainability matters • Reviews and monitors the safety, health and sustainability performance of the Group • Considers whether an independent audit of processes is appropriate and reviews audit results and findings on health, safety and sustainability, the action plans pursuant to the findings and the result of investigations into significant events	• Oversees the Company's overall approach to sustainability, including the establishment and periodical review of the safety, health and sustainability strategy and policies • Receives regular updates from management regarding: compliance with safety, health and environmental legislation and internal targets commitment to the principles of the International Council on Mining and Metals and the UN Global Compact regarding sustainable development and the policies and systems in place to monitor such compliance	• Ensures that the Company consistently exhibits and promotes ethical, transparent and responsible behaviour, engages with key stakeholders and communities; contributes, to the development and growth of healthy and sustainable communities • Monitors the effectiveness of the safety, health and sustainability policies, systems, risk management, programmes and processes in place • Liaises with the Audit and Risk Committee and internal audit function, oversees the implementation of the safety, health and sustainability risk management and internal control procedures • Reviews the benchmarking of the policies, systems and monitoring processes

Focus during 2018

• Deep-dive analysis of risks: rock fall, transport and flame burns • Safety performance analysis of incidents and risk assessment; safety plan implementation • Health and safety report for 2018 and team work plan for 2019 • Critical Risk Management System focus in 2019 and safety plan • Review of Kapan fatality	• Review of Sustainability Report for 2017 • Sustainability strategy and gap analysis, progress and plans review • Analysis of priority projects for 2019–2020 and key focus areas	• Review of the Company's first Anti-Slavery Statement and recommendation for the Board approval • Review of the Tailings Management and Health and Safety Policies and recommendation for Board approval • Review of the implementation report on Human Rights and Carbon Policies • Review of the Committee's performance and its terms of reference • Review of the work plan for 2019

Dear Shareholders
The safety, health and well-being of our employees is paramount to Polymetal and is at the core of how we operate our business. Our prime objective is to have no fatalities. However, regrettably, I have to report one fatality at our Kaplan mine in Armenia and I offer my sincere condolences to the family, friends and colleagues of Mr Martirosyan. Whilst we have made great strides with implementing processes and procedures to safeguard the workplace, it is crucial that we continue to reinforce a stronger safety ethos across our sites. We have made some progress over the last year with a significant decrease in the frequency of injuries and the level of exposure to risk; our employees are getting better at recognising and reporting conditions and situations that could potentially lead to serious incidents. But we still have to do more because one fatality in our workforce is one too many.

We have made significant headway with a number of environmental, social and governance (ESG) projects in line with our commitment to sustainability and continual improvement. I am pleased to confirm that we have had Board sign-off on policies for Energy Management, Climate Change and Human Rights – and work is already underway on the systems needed to support these. We have installed our first renewable energy source at one of our remote sites and are keen to see the efficiencies this brings. Recognition of the progress that we've made has been very heartening and we were particularly proud to be the first company in the Former Soviet Union to join the Dow Jones Sustainability Index. Another first was our win at Cannes, where Polymetal's film 'Just a Job' picked up a silver award in the HR category of the Corporate Media & TV Awards 2018. More information about all our ESG achievements during the year can be found in the Sustainability section of this Annual Report.

We have a comprehensive work plan for 2019, which includes a strategic approach to safety and sustainability as well as in-depth reviews of certain areas. We will be reviewing the implementation of our new policies on Human Rights, Carbon and Modern Slavery. To coincide with the release of the Company's quarterly operation results, the Safety and Sustainability Committee will also receive quarterly updates on health and safety and sustainability performance, including a review of performance and incidents. We will be evaluating plans put forward by the internal audit function on risk management and internal control procedures to ensure better compliance with our safety, health and sustainability strategies and policies.

With my fellow Committee members, I am looking forward to undertaking these duties on behalf of the Company and its stakeholders.

Tracey Kerr
Chair, Safety and Sustainability Committee

Corporate culture

Polymetal's culture is firmly aligned with its strategy and recognised and supported by the Board. All Directors are expected to act with integrity, lead by example and promote the desired culture.

The success of Polymetal is entirely down to its people. Our robust performance is based on each employee taking pride in their work and responsibility for their actions, understanding their individual impact on the business and being open to new challenges.

Growth through innovation
We deliver growth using a range of strategies and innovative solutions. By thinking creatively, we are able to explore future opportunities for expanding our operations that are often overlooked by other companies. We are not afraid of turning challenging situations to our advantage in order to progress towards our goals. In 2018, 114 innovative solutions were proposed by employees from 12 subsidiaries, of which 82 were implemented and 16 are being considered.

A learning company
We secure our future by encouraging continuous learning and self-development among all our employees. Our culture of continuous learning with Group-wide training and development opportunities is critical to improving skills, motivating employees and ensuring the ongoing success of the Company. As part of the cycled-learning process, we provide professional and managerial education through our corporate training network, digital training hubs and training centres. Given our vast geography, we have also developed advanced distance-learning systems to complement the work of our training centres and on-site training facilities. Innovative methods are widely used to train our Talent Pool and target groups for key positions throughout the Company. In 2018, we provided 20,158 training sessions to our employees (2017: 14,974), an investment of $1.5 million by the Company.

A shared corporate culture
Sustainability and safety are our licence to operate. Responsibility at all levels of the Company are key to ensuring strong governance and ethics: from the Board of Directors to the Group as a whole, down to individual subsidiaries and to the employees. Accountability at all levels from the Board down is seen as central to embedding a shared corporate culture within Polymetal and employees have a vital role to play in reinforcing corporate values, both at work and in their everyday lives.

Monitoring the impact of any corporate culture is challenging. At Polymetal, we are proud that employees value working for the Company: our employee turnover rate is low at 5.8% (2017: 5.4%) and, in an employee survey, 82% (2017: 82%) said they were satisfied with working for Polymetal. In 2018, the rate of absenteeism was 0.012.

Our corporate culture is pivotal to delivering the long-term success of the Company and the Board recognises that our employees are central to this process.

Remuneration Committee report

"Our primary goal is to create value for all our stakeholders by targeting operational excellence and best practice in a long-term sustainable manner.

Christine Coignard, Chair of the Remuneration Committee

Remuneration Committee meeting attendance

Board member	Meetings
Christine Coignard (Chair)	3/3
Giacomo Baizini	3/3
Jonathan Best	3/3
Ollie Oliveira[1]	1/1
Leonard Homeniuk[2]	2/2

1 Member from 25 April 2018
2 Member until 25 April 2018

Further business conducted by the Committee was approved by written resolution on two further occasions.

The Remuneration Committee comprises four independent non-executive Directors who have no personal financial interest in the matters to be decided, other than as a shareholder (where applicable). The Committee is chaired by Ms Coignard and its other members are Messrs Oliveira, Baizini and Best. Mr Homeniuk served on the Committee prior to the AGM on 25 April 2018, but did not put himself forward for re-election.

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

Key responsibilities

REMUNERATION POLICY	REMUNERATION OF EXECUTIVE MANAGEMENT	GOVERNANCE AND EMPLOYEE BENEFIT STRUCTURES
• Determining, within agreed terms of reference, the remuneration of the Chair and specific remuneration packages for the executive Director, the Company Secretary and members of senior management, including any pension rights and compensation payments	• Making recommendations to the Board on the Group's policy on the remuneration of executive management • Formulating suitable performance criteria for the performance-based pay of executive management • Reviewing and overseeing all aspects of any executive share scheme operated by or to be established by the Company	• Having a duty of care to keep abreast of published guidelines or recommendations regarding the remuneration of directors of listed companies and formation and operation of share schemes • Considering and making recommendations to the Board concerning disclosure of details of remuneration packages and structures, in addition to those required by law or regulations • Reviewing and advising the Board on any major changes in employee benefit structures throughout the Company or the Group

Focus during 2018

• Annual review of the Board Chair's fee • Approval of bonuses and deferred shares issued to the Group CEO and senior management. Confirmation that there was no malus • Renewal of the employment contract between JSC Polymetal and Mr Nesis for a further period of five years	• Top-management salary review; KPIs for 2018 • Gender pay update (jointly with the Nomination Committee) • Performance Share Plan (PSP) update and scheme analysis • Approval of PSP grant for 2018 • Approval of the PSP vesting (award of 2014 grant)	• Final approval of the Remuneration Report for 2017 • Regulatory and governance update: impact on regulatory disclosure requirements • Review of stakeholders' engagement needed ahead of 2018 AGM • Review of the Committee's terms of reference in line with the new UK Code. • Review of the work plan for 2019

Dear Shareholders

We would like to thank you for your continued support for the Company's Remuneration Policy and Remuneration Report, both of which comply with the latest corporate governance requirements. In line with what is clearly of increasing interest to many of you, in this letter we focus on underlying business matters, our workforce, values, culture and remuneration highlights, with more detailed information given in the Remuneration Report below.

Our primary goal is to create value for all our stakeholders by targeting operational excellence and best practice in a long-term sustainable manner. In order to achieve our objectives, it is imperative that we are able to hire, motivate and retain the best people who are aware of our need to remain competitive globally and also respectful of our values, including our responsibilities to the communities in which we operate.

Our Remuneration Policy is built upon remuneration principles and structures that are applied consistently throughout the organisation. For our executive Director and management team, we provide a competitive package with a base salary that is complemented by individual and collective incentives based on operating, financial and sustainability metrics. For key personnel, both management and key specialists, we provide performance share incentives that vest on the basis of absolute and relative total shareholder return (TSR).

Underlying business, workforce, culture and values

Hiring, retaining and motivating the right talent is a significant challenge for our industry. A successful mining operation requires a highly skilled workforce with a range of specialist qualifications, which are both scarce and in demand. Today we employ over 12,000 people, with mines and offices that cover 7 time zones in five countries. Our mines and processing facilities are built in remote regions, which experience extreme weather conditions, local skills shortages and mostly require fly-in, fly-out arrangements.

Many in our senior management team hold degrees from highly respected Russian and international universities. We have a good mix of generations complementing each other well throughout the organisation. We promote gender diversity both at management level and, to the extent possible at an operational level, subject to local labour regulations. We have a highly dedicated and loyal workforce, as evidenced by our low staff turnover (5.8% in 2018), which we believe indicates that we have found the right balance between strict discipline and operating values. Our values, starting with mutual respect, are consistently applied throughout the Company. We have a rather young workforce with an average age of 39; one that is eager to learn and to whom we offer plenty of opportunities to train and develop individual and collective skills. We trust that one day our Young Leaders will take the Company further forward.

Remuneration highlights

In 2018, we have implemented our Remuneration Policy as anticipated, without the need to exercise discretion. This policy remains in force in 2019.

The total 2018 remuneration of Mr Nesis, Group CEO and only executive Director, comprised $1,024,523. As a result of the strong performance of the Company and achieving set KPIs (as disclosed on page 122), an annual bonus of $254,069, representing 61% of base salary and 49% of maximum opportunity, was awarded to the Group CEO in respect of 2018.

Given the favourable economic environment in Russia throughout 2018, with a moderate level of domestic inflation, the Committee decided that there would be no additional increase to the Group CEO's salary in excess of inflation rate (4%), which is in line with the average increase for the rest of our workforce. The revised Group CEO base salary of $427,818 per annum is still towards the lower end of market practice.

In 2018, more than 250 key employees benefited from the first Performance Share Plan (PSP) awards granted in 2014. During the four-year period since grant to vesting, Polymetal achieved a positive absolute TSR of 22.5% and significantly outperformed the negative median TSR (-4.1%) of the FTSE Gold Mines Index constituents. This resulted in the PSP vesting at 39.1% of maximum. The shares awarded are subject to a mandatory one-year holding period following vesting. This was confirmation that PSP rewards our key people when the Company performs well and above its peer group in terms of long-term TSR. In 2018, the number of PSP participants increased to 409 and we trust that this serves to further motivate and retain all our PSP participants.

A thorough review of the new UK Code, which is applicable to us from 1 January 2019 onwards, indicates that our current Remuneration Policy is already well aligned with its requirements, necessitating only minor adjustments in terms of disclosure, reporting methodology and decision-making documentation.

Moving forward

2019 will be a busy year for the Committee as we finalise the work necessary to meet the requirements of the new regulations, as well as meeting best practice governance expectations from our shareholders. We will also review and adjust as necessary our existing Remuneration Policy after undertaking a consultation process with our largest shareholders in Q4 of 2019. We will submit our next three-year policy for your vote at the 2020 AGM.

Whilst we are not required to disclose our gender pay gap under UK regulations (given that we have fewer than 250 employees in the UK), on the basis of extensive analytical work already done and together with the Nomination Committee, we will support the current positive momentum taking place in diversity and gender pay matters. We support the move to transparency of remuneration levels across the wider workforce and have, therefore, chosen to voluntarily publish our Group CEO pay ratio in the report this year.

As part of our expanded employee engagement programme, we also plan to broaden the scope of our consultation with employees on remuneration matters. We will undertake the annual review our Committee's own performance, particularly in the light of major changes to our terms of reference.

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

C. Coignard

Christine Coignard
Chair, Remuneration Committee

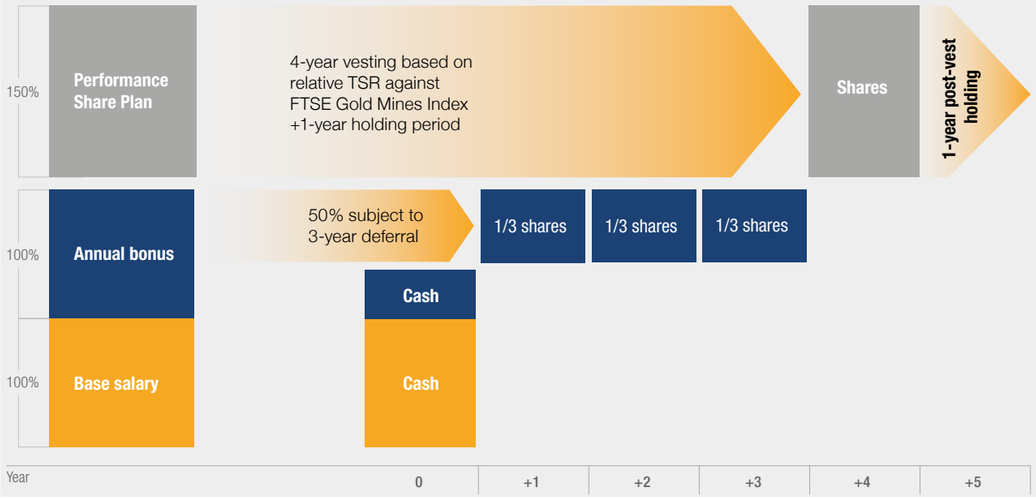
Remuneration Committee report

Remuneration at a glance

The overview below summarises our Remuneration Policy, the alignment of the remuneration framework with our corporate strategy, the drivers of fixed and variable pay, and the actual payments to the Group CEO for 2018.

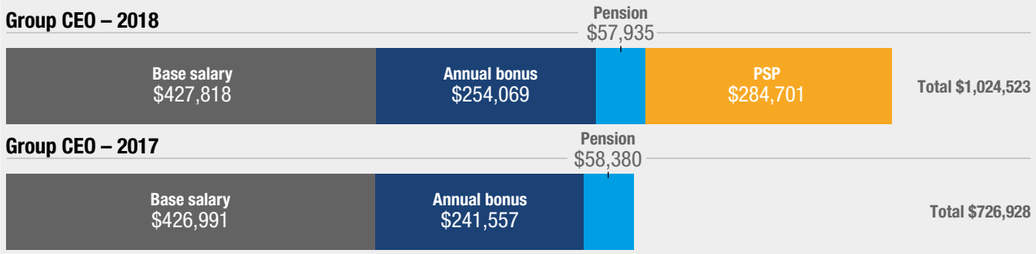
OUR REMUNERATION POLICY

TARGET, % OF BASE SALARY



SINGLE TOTAL FIGURE OF REMUNERATION

The graph below sets out total remuneration for the Group CEO for 2018. Further details are provided on page 121.



VARIABLE PAY OUTCOMES

Annual bonus payment made in respect of performance for the year comprised 61% of base salary, or $254,069. Further details on the performance measures, targets and actual outcomes are provided on page 122.

MEASURE (KPIS)	LINK TO STRATEGY	WEIGHT	ACHIEVEMENT IN 2018 (% OF BASE SALARY)
Achieving production budget, Koz	1	25%	29%
Total cash cost per ounce of gold equivalent produced, $	1, 2	25%	24%
Completion of new projects on time and within budget	3	25%	23%
Health and safety	4	25%	0%
Total achievement before penalty factor		100%	76%
Penalty factor for fatal/severe cases		Up to 50% of bonus earned for non-safety related KPIs (10% for each fatality/two severe cases) – up to 37.5% of total bonus	-15% (-20% of actual bonus earned)
Total			**61%**

PSP VESTING AND SHARE PRICE PERFORMANCE

During the first four-year performance period ending 22 April 2018 for the PSP awards made in 2014, Polymetal achieved a positive absolute TSR of 22.5% and significantly outperformed a negative median TSR of 4.1% of the FTSE Gold Mines Index constituents. Further details on PSP vesting are provided on page 123.

AWARDS
2014 PSP grant

COMPARATOR
FTSE Gold Mines Index

COMPARATOR RANKING
18/44

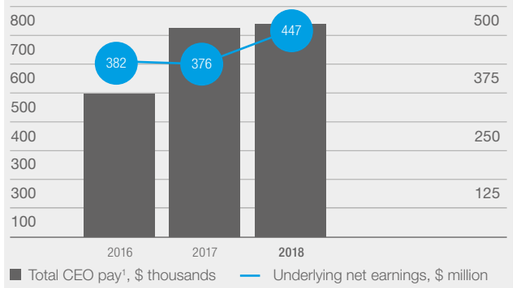
TOTAL VESTING
39.10%

MAXIMUM PERFORMANCE LEVEL (UPPER DECILE TSR GROWTH)
154.30%

THRESHOLD PERFORMANCE LEVEL (MEDIAN TSR GROWTH)
-4.10%

POLYMETAL PERFORMANCE (TSR GROWTH)
22.50%

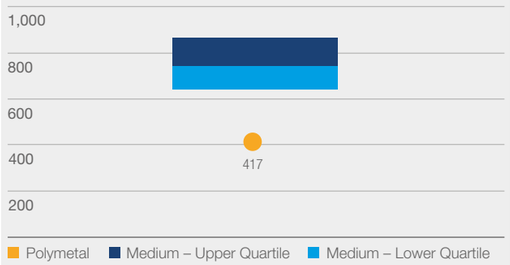
GROUP CEO PAY VS POLYMETAL PERFORMANCE



1 Excluding PSP shares award in 2018.

2019 PROPOSED GROUP CEO BASE SALARY VS MARKET BENCHMARK[1]

($ THOUSANDS)



1 Benchmarking performed by PwC in 2016.

Remuneration Committee report

Directors' Remuneration Policy

Summary table

The Company received shareholder approval of the following Remuneration Policy at the AGM on 16 May 2017. The policy covers a period of three years from the date of approval – up to May 2020.

ELEMENT AND PURPOSE/LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS USED AND PERIOD APPLICABLE
Executive Director – Group CEO			
Base salary To attract and retain high-calibre executives.	The Committee reviews the base salary on an annual basis and when setting base salary for the following year, takes into account general economic and market conditions, underlying Group performance, the level of increases made across the Group as a whole, the remuneration of executives in similar positions in FTSE and global mining peers, and individual performance.	In accordance with the policy, the Group CEO's salary increased (in Roubles) by 25% from 1 April 2017, and may increase by up to 10 percentage points above the Russian domestic inflation rate in 2018 and 2019. In 2018, following careful consideration by the Committee, the Group CEO's salary was increased (in Roubles) by a total of 2.5% in line with the rest of the workforce. The Committee also reviewed whether an increase in excess of 2.5% was appropriate, however, considering the favourable economic environment in Russia and reasonably stable RUB/$ exchange rate throughout 2017, no additional increase was recommended. The Committee reviewed whether the increase above inflation remained appropriate in 2019, but on the same basis as in 2018 approved 4% increase in line with inflation and the rest of the workforce effective 1 April 2019. The annual base salary for the reporting year and the current year is set out in the Annual Report on Remuneration and on page 126.	Not applicable.
Pension To provide funding for retirement.	The Group does not fund any pension contributions or retirement benefits, except contributions to the mandatory pension fund of the Russian Federation, as required by Russian law. The Group pays defined contributions to the mandatory pension fund. This permits retiring employees to receive a defined monthly pension for life from the statutory pension fund.	Pension contribution does not exceed the mandatory contribution made to the pension fund of the Russian Federation and currently comprises 10% of total pay.	Not applicable.
Benefits	The Group does not provide any benefits for its Group CEO.	Not applicable.	Not applicable.
Annual bonus To focus on achieving annual performance goals, which are based on the Group's KPIs and strategy.	The annual bonus result is determined by the Committee after the year end, based on performance against defined targets. Annual bonuses are paid three months after the end of the financial year to which they relate. 50% of the annual bonus earned is paid in cash and the remaining 50% is compulsorily deferred into shares, which are released annually to the employee over the next three years in equal instalments through the Deferred Share Awards (DSA) plan. No clawback is applied to the cash part of the annual bonus, as this provision would contradict the labour law of the Russian Federation. Details of the DSA are set out below.	Maximum bonus opportunity – 125% of base salary with the following weightings: • Production (25%) – 150% maximum • Total cash cost[1] (25%) – 150% maximum • Completion of new projects on time and within budget (25%) – 100% maximum • Health and safety (25%) – 100% maximum. Target bonus opportunity – 100% of base salary. Threshold – nil annual bonus for threshold performance.	The annual bonus is earned based on the achievement of a mix of financial and non-financial measures. For 2018, performance metrics (as described in details on page 122) and associated weightings for each were: • Production (25%) – 37.5% of base salary maximum • Total cash costs[1] (25%) – 37.5% of base salary maximum • Completion of new projects on time and within budget (25%) – 25% of base salary maximum • Health and safety (25%) – 25% of base salary maximum. There is an additional penalty factor for fatal/severe cases for up to 50% of the annual bonus earned for non-safety-related KPIs. The Committee has discretion to vary the list and weighting performance metrics over the life of this Remuneration Policy. In addition, the Committee has discretion to vary performance metrics part-way through year if there is a significant event which causes the Committee to believe that the original performance metrics are no longer appropriate. No discretion was applied in 2018.
Long-Term Incentive Plan (LTIP)			
Deferred Share Awards plan (DSA) Deferral to encourage retention and alignment with shareholders' interests.	50% of the annual bonus earned is paid in cash and the remaining 50% is compulsorily deferred into shares, which are released annually to the employee over the next three years in equal instalments. Clawback and malus provisions apply for the unvested portion of the DSA; the Remuneration Committee may, at any time up to and including vesting, reduce the number of shares that vest, should it consider that a material misstatement, misconduct and/or a failure of risk management occurs. Dividend equivalents will be received on vested shares, reflecting the value of dividends which have been paid during the period from the grant date to the vesting date.	Not applicable.	Entitlement to this deferred component is subject to continued employment over the deferral period. In normal circumstances, DSAs will continue until the normal time of vesting upon cessation of employment due to death, injury, ill-health, disability, redundancy, retirement, or any other circumstance which the Committee determines (Good Leaver Circumstances). Alternatively, the Board may determine that DSAs will vest immediately. In both circumstances there would be no pro-rating of the DSAs for the time from the award date until cessation of employment or for performance. No performance conditions apply to the DSA shares as they have been subject to fulfilment of annual KPIs.

1 As defined on page 68.

Remuneration Committee report
Directors' Remuneration Policy continued

ELEMENT AND PURPOSE/LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS USED AND PERIOD APPLICABLE
Performance Share Plan (PSP) To provide long-term alignment with shareholders' interests by delivering sustainable above-market shareholder returns.	Under the PSP, annual rolling conditional share awards are made with a four-year vesting period and an additional mandatory holding period of one year following vesting. Stretching performance targets reward participants for delivering positive absolute and superior relative TSR performance against global peers over the performance period. Clawback and malus provisions apply for the unvested portion of the PSP, whereby the Remuneration Committee may, at any time up to and including vesting, reduce the number of shares that vest, should it consider that a material misstatement, misconduct, and/or a failure of risk management occur. Retesting of the performance conditions in future years is not allowed under any circumstances. First grant under the PSP was made in April 2014 with first vesting in April 2018, as performance conditions have been met.	Maximum grant permitted under the plan rules is 200% of salary per annum. Default grant level is expected to be 150% of base salary. Dividend equivalents will be received on vested shares, reflecting the value of dividends, which have been paid during the period from the grant date to the vesting date.	Vesting is based on relative TSR, measured against the constituents of the FTSE Gold Mines Index and also on the Company's absolute TSR. Peers are ranked and the Company's position determines vesting: • 0% vests for below median performance • 20% vests at median performance • 100% vests at top decile performance and above. Vesting occurs on a linear line basis between median and top decile performance. No award will vest if absolute TSR is negative, regardless of relative performance. The Committee may substitute, vary or waive the performance targets if an event occurs which causes the Committee to consider that the target is no longer appropriate. The Committee has discretion to vary the proportion of awards that vest to ensure that the outcomes are fair and appropriate and reflect the underlying financial performance of the Group.
Minimum shareholding requirements To strengthen alignment between interests of the executive Director and those of shareholders.	The Group CEO is required to build a minimum shareholding over a four-year period. Unvested shares under the PSP or DSA are not taken into account when calculating progress towards the minimum shareholding requirements. For the purposes of determining whether the requirements have been met, the share price is measured at the end of each financial year. Post vesting and tax, all shares acquired under PSP and DSA awards must be retained until the shareholding requirement is met.	500% of base salary for the Group CEO.	Not applicable.

ELEMENT AND PURPOSE/LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS USED AND PERIOD APPLICABLE
Non-executive Directors			
Fees for non-executive Directors To attract and retain high-calibre non-executive Directors.	The fees of independent non-executive Directors are set by reference to those paid by other FTSE peer companies. Fees are set to reflect the responsibilities and time spent by non-executive Directors on the affairs of the Company. No fees are paid to non-independent, non-executive Directors. Non-executive Directors are not eligible to receive benefits and do not participate in incentive or pension plans. The following fees are paid in addition to the non-executive Director base fee: Committee Chair's fee; Committee membership fee; and Board, Committee and General Shareholder Meeting attendance fee. The Remuneration Committee determines the framework and broad policy for the remuneration of the Board Chair. The remuneration of non-executive Directors is a matter for the Board Chair and the executive members of the Board, i.e. the Group CEO. Directors do not participate in discussions relating to their own fees.	Fees are reviewed, but not necessarily increased on an annual basis. Any increase in non-executive Directors' fees will normally be in line with UK inflation and market levels for similar roles in UK-listed companies, except where a change in the scope of the role occurs. Current fee levels are set out in the Annual Report on Remuneration.	Not applicable.

Remuneration Committee report
Directors' Remuneration Policy continued

Adherence to best practise

The Remuneration Policy is consistent with UK market and governance best practice including, but not limited to, the following:

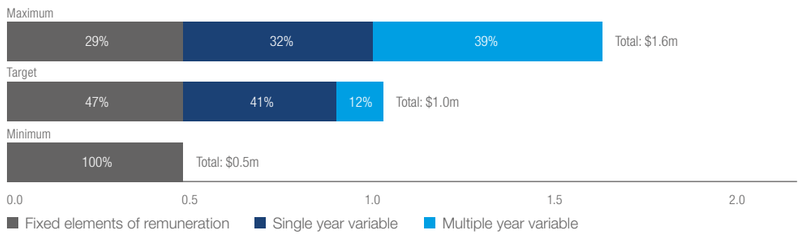
- The drivers of variable pay (KPIs) are stretching, well aligned with the Company's strategic objectives and cascade throughout the organisation in a way that ensures our employees' pay is aligned to Polymetal's performance and to the wider principles of the policy.
- Performance targets for all incentive plans are reviewed annually and, where appropriate, are typically set at a level that is in line with the Company's forecasts.
- Performance-related pay makes up a significant proportion of the remuneration package (41% and 32% of total remuneration for target and maximum performance scenarios, respectively), with an appropriate balance between reward for short- and long-term performance.
- Senior management interests are aligned with those of our shareholders and the Company's long-term objectives. 50% of the bonuses awarded each year to the Group CEO and the senior management team are deferred into shares in the Company through the Deferred Share Award plan (DSA) over a period of three years and malus provisions apply to the unvested awards.
- The Performance Share Plan (PSP) provides an additional focus for key employees of the Group on delivering superior Total Shareholder Return (TSR). Stringent PSP vesting conditions, based on above median relative TSR and underpinned by positive absolute shareholder returns, are therefore fully aligned with sustainable shareholder-value creation.
- A vesting period of four years under the PSP, over which malus conditions apply to the unvested awards, with an additional post-vest holding period of one year (resulting in a total term of five years) ensures that management focus on the long-term interests of the Company and of its stakeholders.
- The Group CEO owns a shareholding equal to 8,697%, of his base salary, far exceeding minimum shareholding requirements of 500% of base salary.
- The management KPIs include significant weighting towards sustainability metrics, with the Group CEO's component purposefully focused on health and safety.

Illustration of application of the Remuneration Policy

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

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

APPLICATION OF REMUNERATION POLICY



Note:
Scenario values are translated at the budgeted exchange rate of 65 RUB/$.

The scenarios are defined as follows:

	MINIMUM	TARGET	MAXIMUM
Fixed elements	**Base salary and pension**	**Base salary and pension**	**Base salary and pension**
Single year variable	Performance against quantitative KPIs is below budget by more than 10%. Non-achievement of qualitative or non-financial KPIs. 0% pay-out.	Performance against quantitative KPIs is at budgeted levels. Full achievement of non-financial KPIs. 100% of base salary pay-out (80% of maximum opportunity). Includes DSA awards.	Performance against quantitative KPIs is above budgeted levels. Full achievement of non-financial KPIs. 125% of base salary pay-out (100% of maximum opportunity). Includes DSA awards.
Multiple year variable	Share price performance is below the median of FTSE Gold Mines Index constituents. No shares vest.	Scenario is based on 150% policy awards. Share price performance is at median of FTSE Gold Mines Index constituents. Shares equivalent to 30% of base salary vest under the PSP (20% of total shares available).	Share price performance is in the top decile of FTSE Gold Mines Index constituents. Shares equivalent to 150% of base salary vest under the PSP (100% of total shares available).

No allowance has been made for share price appreciation or for the payment of dividend equivalents.

Approach to recruitment remuneration

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

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

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

Remuneration Committee report
Directors' Remuneration Policy continued

Policy on payment for loss of office

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

Vitaly Nesis is an executive Director of Polymetal International plc and Group CEO of JSC Polymetal, a 100% subsidiary of the Group, incorporated in Russia. Further details are set out in the current Directors' service contracts section on page 120.

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

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

Statement of consideration of shareholders' views

The Company received shareholder approval of its Remuneration Policy at the AGM on 25 May 2017 to cover a period of three years with 294,388,477 (99.10%) votes in favour, 2,675,792 (0.90%) votes against and 335,724 votes withheld. The policy applies from the date of approval. The Directors' annual Remuneration Report was put to an advisory shareholder vote at the 2018 AGM of the Company and received 314,075,328 (98.86%) votes in favour, 3,610,998 (1.14%) votes against and 98,174 votes withheld. The Committee regularly consults with the Company's major shareholders, and sought their feedback on the revised Remuneration Policy.

Remuneration Policy for other employees

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

The KPI structure for all our senior managers and key employees is tailored for individual responsibilities and performance. To reflect the aim of zero fatalities, the bonus calculation system for the Group CEO, some senior managers and mine management has a major focus on health and safety KPIs, adjusting bonus outcomes on all KPIs in the case of fatalities. We aim to ensure the corporate cohesiveness of the team as well as to support individual success and development.

Shareholding requirements are also set below the Board level. Operation of the DSA programme for the most senior employees mirrors the executive Director's arrangement set out for in the policy table, where 50% of the annual bonus is deferred into shares and released annually to the employees over a period of three years.

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

Salaries are considered for annual increases based on the Company's performance results, inflation rates and the competitive level of salaries versus the wider market. Employees up to three levels below the Board (approximately 650 employees throughout the Group) are eligible to participate in the PSP at the discretion of the Remuneration Committee. In 2018, 409 employees were awarded the PSP. The PSP policy default grant level is 150% of base salary for the Group CEO, 100% for Executive Committee members and 50–100% for employees at the level below the Executive Committee.

Top-down approach to remuneration structure within the Group

Employee level	Number of employees	Maximum bonus percentage of salary	Proportion of bonus deferred into shares (DSA)	Normal LTIP award grant
Group CEO	1	125%	50%	150%[1]
Executive Committee	7	100%	50%	100%
Mine managing directors and top executives	16	100%	50%	100%
Senior managers and key personnel	652	30–60%	N/A	50–100%[2]
Other employees	11,464	10–30%	N/A	N/A

1 The maximum annual grant permitted under the scheme rules is 200% of base salary.
2 PSP participants from the pool of senior managers and key personnel are recommended by the Company and approved by the Board. Being granted options in one year does not necessarily mean they will be granted the following year.

Statement of consideration of employment conditions elsewhere in the Group

In determining salary increases for the Group CEO, the Committee takes into account a range of factors, including overall base salary increases awarded to the wider employee population during the year.

Polymetal is firmly committed to acknowledging and rewarding employees' hard work and achievements. To help us attract and retain the best candidates, we offer a competitive remuneration package and benefits, which exceed regional averages in our areas of operation. We also aim to provide a pleasant and effective working environment as well as training or further education and other opportunities for our employees.

In 2019, an average 4% increase in compensation was made for the general workforce, in line with Russian inflation. The Committee also carefully reviewed whether an increase to the Group CEO in excess of 4% was appropriate in accordance with the policy (see page 112), however, considering the favourable economic environment in Russia, no additional increase to the Group CEO was recommended.

Remuneration Committee report

Application of Remuneration Policy in 2018

Current Directors' service contracts

Group CEO

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

Date of contract	1 September 2018
Expiry of term	31 August 2023
Payment in lieu of notice	None
Pension	None, except for defined contributions to the mandatory pension fund of the Russian Federation

At expiration of the previous five-year employment contract, on 31 August 2018, JSC Polymetal, a 100% indirect subsidiary of the Company incorporated in Russia, entered into an employment contract with Mr Nesis as its Group Chief Executive Officer (Group CEO). The contract was renewed on the same terms for a further period of five years.

Under the terms of the contract, the Group CEO undertakes to perform general management of JSC Polymetal and arrange for its commercial, economic, social and other activities with a view to providing for JSC Polymetal's further development. The employment contract does not contain any specific grounds for early termination. The contract can be terminated at any time on one month's notice by Mr Nesis and with immediate effect by JSC Polymetal in accordance with Russian labour and civil law. This could result in compensation of three average monthly salaries.

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

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

Non-executive Directors

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

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

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

Director	Date of contract or appointment	Notice period
Bobby Godsell	29 September 2011	1 month
Konstantin Yanakov	29 September 2011	1 month
Jean-Pascal Duvieusart	29 September 2011	1 month
Jonathan Best	29 September 2011	1 month
Christine Coignard	1 July 2014	1 month
Tracey Kerr	1 January 2018	1 month
Giacomo Baizini	1 January 2018	1 month
Ollie Oliveira	25 April 2018	1 month

Single total figure of remuneration (audited information)

Summary

The Remuneration Policy approved by shareholders in 2017 included a three-year planned increase for the base salary of the Group CEO and senior management team, after their remuneration had fallen significantly below peer benchmark as their salaries are denominated in Russian Roubles. The policy stated that the CEO's salary would be increased (in Roubles) by up to 10 percentage points above the Russian domestic inflation rate in 2017–2019, subject to a Committee review based on market conditions, exchange rates, the Company results or other considerations. As per the policy, the Committee carefully reviewed whether this increase remained appropriate for 2019. Given the favourable economic environment in Russia throughout 2018, with a moderate level of domestic inflation, the Committee decided that there would be no additional increase to the Group CEO's salary in excess of the inflation rate. The approved salary increase will be 4%, which is in line with Russian inflation and the average increase for the rest of our workforce. The revised Group CEO base salary of $417,277 per annum (using 65 RUB/US$ exchange rate) is still below the peer group median[4]. Hence, the only year of enhanced salary increase to the CEO under the policy was 2017.

The tables below set out the total 2018 remuneration for the Group CEO. As a result of the strong performance of the Company and achieving the set KPIs (other than for health and safety performance), the Group CEO received a bonus of 49% of maximum opportunity for the year (which constitutes 61% of his base salary or $254,069), with 50% of bonus deferred into shares vesting over a period of next three years under the terms of the DSA.

No discretion has been used in respect of non-executive and executive Directors' remuneration throughout the reporting period. The Group CEO is the only executive member of the Board.

Group CEO

The table below sets out 2018 remuneration for the Group CEO.

The Group CEO's remuneration is denominated in Russian Roubles and converted to US Dollars for presentation purposes. The approach to exchange rates and Russian Rouble remuneration equivalent is set out in footnote 1 to this table.

Base salary		Taxable benefits		Annual bonus		Performance Share Plan (PSP)[3]		Pension		Group CEO total remuneration	
2018	2017	**2018**	2017	**2018**[2]	2017	**2018**	2017	**2018**	2017	**2018**	2017
427,818	426,991	–	–	254,069	241,557	284,701	–	57,935	58,380	1,024,523	726,928

1 The amounts are translated at the average rates of the Russian Rouble to the US Dollar for 2018 and 2017, respectively.
2 50% of the bonus received in 2018 will be deferred into 12,369 shares on 15 March 2019 at $9.66 (RUB 644) per share (using average price for the 90-day period ending 31 December 2018). In line with the policy disclosed on page 113, deferred shares will be released in equal tranches over a period of three years in March 2020, March 2021 and March 2022 and are not subject to further performance conditions.
3 In 2018, further to the vesting of the PSP awards made in 2014, 28,992 shares were issued to Mr Nesis. Further details on PSP vesting are provided on page 123. No PSP awards. These shares are subject to a mandatory one-year holding period following vesting. No PSP awards vested or exercised in 2017.
4 Based on AON' 2018 Report on FTSE 250 Directors' Remuneration.

Non-executive Directors

Details of total fees paid to non-executive Directors and the Board Chair during 2018 and 2017 are set out in the table below:

	Total fees[1] ($)	
	2018	2017
Bobby Godsell	366,260	374,203
Ollie Oliveira	139,898	–
Jonathan Best	218,708	222,057
Christine Coignard	220,727	223,271
Tracey Kerr	195,930	–
Giacomo Baizini	206,835	–
Russell Skirrow	74,783	196,370
Leonard Homeniuk	64,642	180,648
Konstantin Yanakov	–	–
Marina Grönberg	–	–
Jean-Pascal Duvieusart	–	–
Total non-executive fees	**1,487,782**	1,196,549

1 The amounts for 2018 and 2017 are translated at average GBP/$ exchange rates.

Non-executive Directors do not receive performance-related pay.

Remuneration Committee report
Application of Remuneration Policy in 2018 continued

Single total figure of remuneration – Additional information (audited information)

Annual bonus targets and outcomes

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

Measures	Weight	Threshold	Target	Maximum	2018 Outcome	Achievement
Achieving production budget, Koz	25%	1,397	1,552	1,630	1,579	29%
Total cash cost per ounce of gold equivalent produced, $/oz	25%	712	649	615	649	24%
Completion of new projects on time and within budget	25%	1 point	10 points	10 points	9.0 points	23%
Health and safety	25%	Nil fatalities; reduction of LTIFR by 10% year-on-year	Nil fatalities; reduction of LTIFR by 10% year-on-year	N/A	1 fatality and 2 severe cases	0%
Total achievement before penalty factor	100%					76%
Penalty factor for fatal/severe cases	Up to 50% of bonus earned for non-safety related KPIs (10% for each fatality/ two severe cases) – up to 37.5% of total bonus	N/A	N/A	N/A	1 fatality and 2 severe cases	-15%
Final achievement for the year, % of base salary	100%					61%

Penalty factor for fatal/severe cases is up to 50% of the annual bonus earned for non-safety related KPIs. This resulted in the Group CEO receiving a bonus of 49% of maximum opportunity for the year (which constitutes 61% of his base salary or $254,069).

Deferred Share Awards Plan

In accordance with the policy, part of the award of deferred shares under the DSA, which were granted in March 2015, March 2016 and March 2017, vested on 15 March 2018 and were transferred to the Group CEO, totalling 13,360 shares (including additional share awards for dividend equivalents).

In addition, further to the bonus approval for the year ended 31 December 2018, the Group CEO will receive on 19 March 2019 a deferred bonus award in shares under the terms of the DSA. Share awards will vest annually over the next three years in equal instalments (in March 2020, 2021 and 2022). Under the terms of the DSA, dividend equivalents will be received on vested shares reflecting the value of the dividends, which have been paid during the period from the grant date to the vesting date. Dividend equivalents will also be paid as shares.

The current number of outstanding deferred shares under DSA (following 10,261 deferred shares granted in 2018) is represented as follows:

Name	Position	Year of grant	Number of deferred DSA shares granted	Number of DSA shares vested in 2018	Additional share awards for dividend equivalents	Total number of shares vested under DSA grant	Outstanding shares under DSA grant
Vitaly Nesis	Group CEO	2015	22,178	7,393	913	23,091	–
		2016	6,656	2,219	131	4,569	2,218
		2017	7,909	2,636	69	2,705	5,273
		2018	10,261	–	–	–	10,261
		Total	**47,004**	**12,248**	**1,113**	**30,365**	**17,752**

Performance Share Plan

PSP award made in 2018

Under the PSP, a conditional award of 55,570 ordinary shares with no par value was made to Mr Nesis in 2018. It is exercisable following respective four-year vesting periods, subject to performance measures determined by Polymetal. For this award, vesting is based on relative TSR, measured against the constituents of the FTSE Gold Mines Index and also on the Company's absolute TSR. Peers are ranked and the Company's position determines vesting (0% vests for below median performance; 20% vests at median performance; 100% vests at top decile performance and above). No award will vest if absolute TSR is negative, regardless of relative performance.

Recipient	Award	Performance period	Shares granted	Market share price on grant date, $	Notional value in case of 100% vesting, $
Group CEO	PSP grant 2018	March 2018-March 2022	55,570	10.9	605,713

PSP award vested in 2018

PSP awards vest based on relative TSR, measured over four years against the constituents of the FTSE Gold Mines Index and also on the Company's absolute TSR. During the first four-year performance period ending 22 April 2018 for the PSP awards made in 2014, Polymetal achieved a positive absolute TSR of 22.5% and significantly outperformed a negative median TSR of 4.1% of the FTSE Gold Mines Index constituents. Accordingly, the 2014 performance share awards have partially vested at 39.1% of the total awards granted. Additional share awards for the dividend equivalent during the four-year performance period were also paid. Further to the vesting of the PSP awards made in 2014, 28,992 shares vested to Mr Nesis. These shares are subject to a mandatory one-year holding period following vesting.

Recipient	Vesting award	Vesting date	Shares vested	Market share price on vesting date, $	Face value, $
Group CEO	PSP grant 2014	3-May-18	28,992	9.82	284,701

The value of PSP vested and awarded to the Group CEO in respect of 2014 PSP grant is included in the single total figure table on page 121.

Summary of PSP share options outstanding as of 8 March 2019

Name	Position	Year of grant/ Year of vesting	Number of PSP share awards granted	PSP awards release in 2018	Number of PSP shares vested (see below)	Outstanding shares under PSP grant
Vitaly Nesis	Group CEO	2014/2018	74,165	74,165	28,992	–
		2015/2019	66,166	–	–	66,166
		2016/2020	48,507	–	–	48,507
		2017/2021	47,249	–	–	47,249
		2018/2022	55,570	–	–	55,570
Total number of share options outstanding under the PSP			291,657	–	–	217,492

Other scheme interests awarded during the financial year

No other share awards were made to the Group CEO in 2018.

Total pension entitlements

Save for the Group's defined contributions to the mandatory pension fund of the Russian Federation during the financial year ended 31 December 2018, no amounts were set aside or accrued by the Group to provide pension, retirement or other benefits to the Directors and senior management.

Loss of office payments or payments to past directors

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

Remuneration Committee report
Application of Remuneration Policy in 2018 continued

Directors' shareholdings
The Group CEO is required to retain a shareholding equal to five times his base salary, i.e. 186,449 shares.

For the purposes of determining whether the requirements have been met, the share price is measured at the end of each financial year. Shares are valued for these purposes at the year-end price of $10.47 per share at 31 December 2018 translated at the closing exchange rate of the US Dollar to the Russian Rouble as at 31 December 2018.

Shares that count towards shareholding requirements include unrestricted shares. The table below sets out the number of shares held, or potentially held, by Directors. For details of outstanding conditional share awards held by the Group CEO at 31 December 2018, refer to page 123.

		Shares held		Options held			
Director	Shareholding requirement (% of salary)	Owned outright	Subject to performance conditions	Vested but unexercised	Exercised in year	Current shareholding (%salary)	Guideline met
Vitaly Nesis	500%	3,243,061	–	–	–	8,697%	yes
Bobby Godsell	–	2,000	–	–	–	–	N/A
Christine Coignard[1]		5,500	–	–	–	–	N/A
Ollie Oliveira[2]		3,000	–	–	–	–	N/A
Leonard Homeniuk[3]	–	64,000	–	–	–	–	N/A
Marina Grönberg[4]	–	50,389	–	–	–	–	N/A

1 Shares are held by a person closely associated with Ms Coignard.
2 Shares are held by a person closely associated with Mr Oliveira.
3 Shares are held by a person closely associated with Mr Homeniuk at the date of his resignation as a Director on 25 April 2018.
4 Shares are held by Ms Grönberg and a person closely associated with her at the date of her resignation as a Director on 22 October 2018.
Person closely associated as defined in Article 3(1)(26) of the Market Abuse Regulation (MAR).

Performance graph
To provide context to the Company's performance in its specific sector of operation, the graph below illustrates the Company's TSR performance relative to the constituents of the FTSE Gold Mines Index, from the date of the Company's listing on the London Stock Exchange in October 2011.

TOTAL SHAREHOLDER RETURN
(%)

Group CEO's pay in the last five years

	2018	2017	2016	2015	2014
Group CEO total remuneration ($)	**1,024,523**	726,928	496,411	511,665	907,790
Annual bonus – % of maximum	**49%**	44%	40%	33%	90%
PSP award – % of maximum	**44%**	–	–	–	–

Percentage change in Group CEO's remuneration
Excluding the value of long-term incentives, the percentage change in the $ total remuneration for the Group CEO was a 2% increase from $726,928 in 2017 to $739,822 in 2018 following 2.5% base salary increase in Rouble terms effective from 1 April 2018. The average percentage change in total remuneration for all employees in US Dollar terms in the same year was a 7% increase.

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

Group CEO to employees pay ratio
The UK regulations on CEO pay ratio disclosure does not apply to Polymetal as the Group has less than 250 UK employees, but we support the move to transparency of remuneration levels across the wider workforce and we have therefore chosen to voluntarily publish our median CEO pay ratio. The use of a pay ratio, and how it moves over time, is intended to help the stakeholders to make a balanced evaluation of how pay arrangements are delivered across the whole employee population.

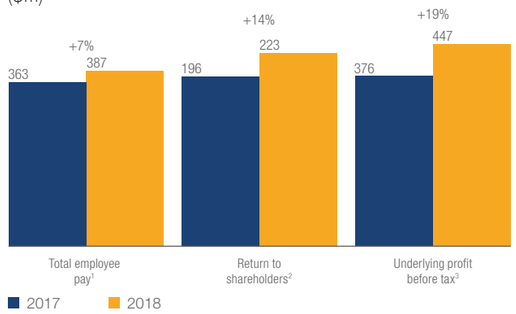
The Group CEO remuneration is calculated on the same basis as the single total figure of remuneration table. Employee pay data was determined for the first nine months of 2018 with a projected calculation of the salary component of pay and benefits for the full financial year. The ratio could range depending on the level of performance against the measures under the PSP. The Committee will continue to take factors such as internal relativities and ratios into account when considering executive pay.

The table provides pay ratio of the Group CEO's total remuneration to average remuneration for Group employees.

	2018
Group CEO single total figure of remuneration ($)	**1,024,523**
Average Group employee remuneration ($)	**27,856**
Group CEO pay to Group average employee ratio	**37:1**
Median Group employee remuneration ($)	**21,752**
Group CEO pay to Group median employee ratio	**47:1**

Relative importance of spend on pay
The chart below shows how employee remuneration costs compare with profit before tax and distributions made to shareholders in 2018 and 2017.

RELATIVE IMPORTANCE OF EMPLOYEE PAY
($m)



1 Note 14 of consolidated financial statements.
2 Dividends proposed for the period, Note 18 of consolidated financial statements.
3 Refer to the Alternative Performance Measures section.

Remuneration Committee report

Implementation of the Remuneration Policy in 2019

In 2019, the Committee intends to implement the Remuneration Policy for executive and non-executive Directors as follows:

Group CEO

Base salary

In accordance with the policy and following careful consideration by the Committee, the Group CEO's salary will be increased (in Roubles) by a total of 4% in 2019 in line with the rest of the workforce. Base salary for the Group CEO for 2018 and 2019 is set out below:

	2019 salary	**2018 salary**	% change
Group CEO	RUB 27,123,000	RUB 26,079,690	4.0%
	$417,277	$434,662	-4.0%

Base salary for 2019 is translated at the budgeted exchange rate of Rouble to US Dollar for 2019.

Pension and benefits

No pension or benefits plans are in place for 2019, except for the defined pension contributions to the mandatory pension fund of the Russian Federation.

Annual bonus

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

Long-term Incentive Plan (Deferred Share Awards Plan and Performance Share Plan)

Deferred Share Awards Plan

The Committee intends to defer annual bonus awards earned for the 2019 performance period in line with policy disclosed on page 113.

Performance Share Plan

The Committee intends to make an award under the PSP to the Group CEO in 2019, in line with the policy disclosed on page 114. Vesting is based on relative TSR measured against the constituents of the FTSE Gold Mines Index and on the Company's absolute TSR. Peers are ranked and the Company's position determines vesting:

	TSR v FTSE Gold Miners	Pay-out
Below threshold	Below median performance	0%
Threshold	Median performance	20%
Maximum	Upper decile performance	100%

Straight-line vesting will occur between median and upper decile performance. No award will vest for performance below median, or if the Company's absolute TSR performance is negative, regardless of relative performance.

Non-executive Directors

There was no change to the non-executive Directors' fees in 2018. Fee rates for 2018 and 2019 are set out below:

Role	**2019 fees ($)**	**2018 fees ($)**
Non-executive Board Chair	317,700	337,125
Senior Independent Director	No additional fee	No additional fee
Independent non-executive Director basic fee	127,080	134,850
Additional fees		
Audit and Risk Committee Chair	38,124	40,455
Chair of other Committees	19,062	20,228
Committee membership fee (not payable to the Committee Chair)	12,708	13,485
Board and Committee meeting attendance fee	3,812 per meeting	4,046 per meeting

Note:
Non-executive Director fees are denominated in British Pounds Sterling and for presentation purposes the figures are translated to US Dollars at the exchange rate of British Pound to the US Dollar as at 31 December 2018.

Advisors

PricewaterhouseCoopers LLP (PwC) provided Polymetal with information and support in relation to the general remuneration matters and implementation of the Company's remuneration policy. PwC is a member of the Remuneration Consultants' Group (RCG) and a signatory of the RCG Voluntary Code of Practice, and incorporates the principles of the Voluntary Code of Practice into its engagement. No other services were provided by PwC during 2018 other than external assurance services for the Company's Sustainability report and tax advisory. Fees paid to PwC in relation to remuneration services provided to the Committee in 2018 totalled $9,463 (2017: $16,654), with fees quoted in advance and based on the level of complexity of the work undertaken.

PwC was selected in 2013, after submitting a proposal to management, to carry out benchmarking as part of a competitive process, the results of which were presented to the Remuneration Committee for approval.

During its work in 2018, the Committee was aided by the Group CEO, and senior finance and human resources executives of the Company.

Approval

This report was approved by the Board of Directors and signed on its behalf by

Christine Coignard
Chair, Remuneration Committee

Directors' report

The Directors submit the Annual Report of Polymetal International plc together with the audited financial statements of Polymetal International plc for the year ended 31 December 2018.

Corporate governance
Refer to pages 89–92 for a description of the Group's corporate governance structure and policies.

Going concern
In assessing its going concern status, the Group has taken account of its financial position, anticipated future trading performance, its borrowings and other available credit facilities, and its forecast compliance with covenants on those borrowings and its capital expenditure commitments and plans. As at 31 December 2018, the Group held $379 million of cash and had net debt of $1,520 million, with $1,119 million of additional undrawn facilities of which $1,069 million are considered committed. Debt of $117 million is due for payment within one year. The Group's cash generation and liquidity remains strong and the Group believes it will be able to operate within existing facilities, but could secure additional financing if and when needed.

The Board is satisfied that the Group's forecasts and projections, having taken account of reasonably possible changes in trading performance, show that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of this report and that it is appropriate to adopt the going concern basis in preparing the condensed consolidated financial statements for the year ended 31 December 2018.

Viability statement
Based on key drivers and measures of success used within the business, the Board has assessed the prospects of the Group, taking account 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.

Assessment of prospects
Management has considered the Group's long term prospects aligned to the sustainability of the business model (detailed on pages 20–21) and covering a period of the average of Polymetal's life-of-mine of 16 years, primarily with reference to the results of the Board-approved strategy (detailed on pages 24–25). Management has also considered the Group's current strong financial position, including the level of cash at 31 December 2018 and the Group's historic ability to generate free cash flow and raise and refinance debt as required. The strategic planning process is undertaken annually, and includes analyses of Polymetal's current position, growth projects pipeline, cash flow, investment decisions and returns to shareholders. Accordingly, the Board believes the prospects for the Group in the long run remain good.

Viability lookout period
The period over which the Board considers it possible to form a reasonable expectation as to the Group's viability, based on the stress testing and scenario planning process employed by the Group, is the three-year period to December 2021. This is within the Group's routine medium-term forecasting, performed on the annual basis, and covering strategic and investment planning. The Board is confident that routine operational risks are being monitored and managed effectively within this three-year lookout period, and the Group's scenario planning is focused primarily on plausible changes in external factors, providing a reasonable degree of confidence whilst still providing an appropriate longer term outlook.

Principal risks
The Board has continued to place appropriate emphasis on risk management in 2018, taking into account material external economic and geopolitical challenges and considering the Group's responsiveness to changes within its business environment. The detailed assessment of the principal risks and uncertainties facing the Group is set out on pages 78–83 of this Annual Report.

The corporate planning process is underpinned by detailed life-of-mine plans, and overlaid with scenario stress testing. The stress tests are designed to evaluate the resilience of the Group to the potential impact of principal risks and the availability and effectiveness of the mitigating actions that could be taken to avoid or reduce the impact of the underlying risks. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk and internal control systems, as discussed on 99–100, are taken into account.

Key assumptions
The key assumptions underpinning the Board's assessment of longer-term viability include gold and silver prices, production volumes, foreign exchange rates and the ability to roll forward borrowing facilities as they fall due in the ordinary course of business. These assumptions are consistent with those used for business planning purposes, and also for the assessment of impairment indicators and the recoverability of ore stockpiles and heap leach work in progress.

Assessment of viability
In order to assess the resilience of the Group to threats to its viability posed by principal risks in severe but plausible scenarios, the model was subjected to stress analysis together with an assessment of potential mitigating actions.

The four most significant risks in terms of their potential financial impact are modelled together as a single stress scenario, to understand their combined financial impact. These cover risks associated with market, currency, liquidity and construction, as set out below. The remaining principal risks are considered to be either immaterial or too remote to affect our viability over a three-year period.

The resulting impact on key metrics was considered with particular focus on solvency measures including debt headroom and covenants.

Liquidity and solvency
The Group is considered to be viable if its financial covenants are maintained within prescribed limits, and if there is available debt headroom to fund operations.

The sources of funding available to the Group are set out in Note 25 to the consolidated financial statements. Our base case projections demonstrate that the Group should be able to operate within the currently available debt facilities and comply with all related covenants during the lookout period. The committed undrawn facilities of $1,069 million noted above have an average period of maturity of four years.

Our stress testing focuses in particular on significant adverse changes in market prices of gold and silver or foreign exchange rates and overrun capital expenditure on POX-2 project, and demonstrates that under reasonably possible downside assumptions, only limited mitigating actions are required to maintain liquidity and covenant compliance, including the refinancing of existing facilities as they mature.

There is no change in the Group's stated dividend policy during the lookout period both in base and stress scenarios, but dividends are assumed to be linked to profits and therefore would reduce if profits reduce.

Expectations
The Board confirms that taking into account the Group's current position and based upon the robust assessment of the principal risks facing the Group and related stress testing, together with available mitigating actions, 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 2021.

Financial and business reporting
The Board believes that the disclosures set out in the Strategic Report on pages 1 to 83 of this Annual Report provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Directors
The Directors, their status and Board Committee memberships are set out on pages 84 to 85 of the Report.

Appointment and replacement of Directors
The Board may appoint a person who is willing to act as a Director, either to fill a vacancy or as an additional Director and, in either case, whether or not for a fixed term. Irrespective of the terms of his or her appointment, a Director so appointed shall hold office only until the next AGM. If not re-appointed at such AGM, they shall vacate office at its conclusion.

The Company may, by ordinary resolution, remove any Director from office (notwithstanding any provision of the Company's Articles or of any agreement between the Company and such Director, but without prejudice to any claim that they may have for damages for breach of any such agreement). No special notice needs to be given of any resolution to remove a Director and no Director proposed to be removed has any special right to protest against his or her removal. The Company may, by ordinary resolution, appoint another person in place of a Director removed from office.

Directors' interests
Information on Directors' interests in shares of the Company is set out in the Remuneration Report on page 124.

Directors' indemnities
To the extent permitted by the Companies (Jersey) Law 1991, the Company has indemnified every Director and other officer of the Company (other than any person (whether an officer or not) engaged by the Company as auditor) out of the assets of the Company against any liability incurred by them for negligence, default, breach of duty, breach of trust or otherwise in relation to the affairs of the Company. This provision does not affect any indemnity to which a Director or officer is otherwise entitled.

Political donations
The Company may not make a political donation to a political party or other political organisation, or to an independent election candidate, or incur any political expenditure, unless such donation or expenditure is authorised by an ordinary resolution of shareholders passed before the donation is made or the expenditure incurred. No such donations were made in 2018 (2017: none).

Capital structure
The structure of the Company's share capital is detailed in Note 31 to the financial statements. There are no specific restrictions on the size of a holding or on the transfer of shares, which are both regulated by the Articles of the Company and applicable legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or on voting rights.

The Articles of the Company can be altered by a special resolution of the Company. A resolution is a special resolution when it is passed by three-quarters of the members who (being entitled to do so) vote in person, or by proxy, at a General Meeting of the Company. Pursuant to the Company's Articles, the Directors have the power to allot Equity Securities (as defined in the Articles).

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as commercial contracts, bank loan agreements and employees' share plans. None of these is considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid. Substantial shareholdings in the Company are disclosed on page 207.

Details of employee option schemes are set out in the Remuneration Report on page 119. There were no acquisitions of the Company's own shares in 2018.

As at 31 December 2018, the Group and its subsidiaries held no treasury shares (31 December 2017: no shares).

As at 31 December 2018, the Company had shareholders' authority to purchase up to 43,026,404 of its own ordinary shares.

At the AGM of the Company held in 2018, the power to allot Equity Securities was renewed up to an aggregate number of 143,421,347 ordinary shares, provided that the Directors' power in respect of such an amount may only be used in connection with a pre-emptive issue (as defined in the Articles).

The Directors are further empowered pursuant to Article 12.4 of the Company's Articles to allot Equity Securities for cash as if Article 13 of the Articles (Pre-emptive rights) did not apply and for the purposes of paragraph (b) of Article 12.4 of the Articles, the Non Pre-emptive Shares (as defined in the Articles) are an aggregate number of up to 43,026,404 ordinary shares.

The authorities above will, unless previously revoked or varied, expire at the conclusion of the Company's next AGM (or, if earlier, at the close of business on the date which is 15 months after the date of the resolution which granted them, being 25 July 2019).

Pursuant to Article 57 of the Companies (Jersey) Law 1991, the Company is authorised to make market purchases of ordinary shares of the Company, provided that:

- The maximum number of ordinary shares to be purchased is 43,026,404 ordinary shares
- The minimum price (excluding expenses) which may be paid for each ordinary share is 1 penny
- The maximum price (excluding expenses) which may be paid for each ordinary share is the higher of:
  - an amount equal to 105% of the average of the middle market quotations of an ordinary share in the Company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased
  - an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System
- Pursuant to Article 58A of the Companies (Jersey) Law 1991, the Company may hold as treasury shares any ordinary shares purchased pursuant to the authority conferred in this resolution.

This authority will expire at the conclusion of the Company's next AGM or 18 months from the date of the passing of this resolution, being 25 October 2019 (whichever is earlier).

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

As of 8 March 2019, the total issued share capital of the Company comprises 469,368,309 ordinary shares of no par value, each carrying one vote. During the year, 39,252,829 ordinary shares in the Company were issued as follows: 6,307,000 and 14,152,668 shares for the acquisition of Prognoz silver property, 1,015,113 shares for the termination of the deferred conditional consideration related to the Kyzyl acquisition, 834,055 shares for consolidation of 100% interest in Saum property, 2,456,049 shares for the increase of the stake in the Veduga gold deposit 13,486,579 shares for consolidation of 100% interest in Nezhda project and 148,561, 848,857 and 3,947 shares in accordance with the Long-Term Incentive Plan.

Dividends

The Group's profit for the year ended 31 December 2018 attributable to equity holders of the Company was $354 million (2017: $354 million). Underlying net earnings (for details refer to the Financial review section) in 2018 were $447 million (2017: $376 million). In August 2018, the Company declared an interim dividend of $0.17 per share (2017: $0.14 per share), which was paid in September 2018.

The Directors have proposed the payment of a final dividend of $0.31 per share (2017: $0.30 per share).

Annual General Meeting

The AGM of shareholders of the Company will take place on Tuesday 23 April 2019 at 10:30 am (BST) to be held at the Institute of Directors 116 Pall Mall, St. James's, London SW1Y 4AE, UK.

Auditors

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware
- The Director has taken all steps that they ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint it will be proposed at the forthcoming AGM. The Audit and Risk Committee reviews both the level of the audit fee and the level and nature of non-audit fees as part of its review of the adequacy and objectivity of the audit process.

Having taken all matters considered by the Board and brought to the attention of the Board during the year into account, we are satisfied that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

Bobby Godsell, Board Chair
8 March 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, Board Chair

Vitaly Nesis, Group CEO
8 March 2019

Financial statements

Contents

Independent auditor's report to the members of Polymetal International plc

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Polymetal International plc ('the Group'):

- **give a true and fair view of the state of the Group's affairs as at 31 December 2018 and of the Group's profit for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as issued by the International Accounting Standards Board (IASB);**
- **have been properly prepared in accordance with Companies (Jersey) Law, 1991.**

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated balance sheet;
- the consolidated statement of cash flows;
- the consolidated statement of changes in equity; and
- the related notes 1 to 35.

The financial reporting framework that has been applied in their preparation is the applicable law and IFRSs as adopted by the European Union and as issued by the IASB.

Basis for opinion

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

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

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Recoverability of exploration and evaluation assets • Recoverability of ore stock piles and heap leach work in progress • Accounting for corporate transactions
Materiality	The materiality that we used for the Group financial statements was US$21 million (2017: US$22 million) which was determined on the basis of adjusted profit before tax. We have adjusted profit before tax for net foreign exchanges losses of US$40 million, the revaluation gain on the initial share on business combination of US$41 million and the net loss on disposal of subsidiaries of US$54 million (2017: US$10 million net foreign exchange loss).
Scoping	Our scoping identified 12 components – • Svetloye, Dukat, Omolon, Albazino, Voro and Kyzyl were subject to a full scope audit • Focussed procedures were performed at Varvara, Amursk, Mayskoye and the Corporate component • Analytical review procedures were performed at Okhotsk and Armenia. This scoping represents a change from our 2017 audit where all components were subject to a full scope audit other than the Armenian component where focussed procedures were performed. In 2018, a number of balances across all components were tested centrally, as the business activities, processes and controls related to these balances are centralised in the Group's head office.
Significant changes in our approach	Following the acquisitions of Prognoz, Nezhda and Amikan in the year and the related judgements associated with accounting for these transactions, we have added identified a key audit matter in respect of accounting for corporate transactions. As noted above, we have also revised our scoping in 2018 with more testing performed centrally and fewer full scope audits at the component level.

Independent auditor's report to the members of Polymetal International plc continued

Conclusions relating to going concern, principal risks and viability statement

Going concern We have reviewed the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of the relevant political and economic environments including the UK's pending withdrawal from the European Union, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment. We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**
Principal risks and viability statement Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: • the disclosures on pages 79–83 that describe the principal risks and explain how they are being managed or mitigated; • the directors' confirmation on page 128 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or • the directors' explanation on pages 128–129 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

Key audit matters

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of exploration and evaluation assets Refer to the Audit Committee report on page 99 and the disclosure in Note 19 on page 175.	
Key audit matter description	At 31 December 2018, the Group held exploration and evaluation (E&E) assets of US$365 million (2017: US$150 million). Recoverability of E&E assets is dependent on the expected future success of exploration activities. E&E costs, including geophysical, topographical, geological and similar types of costs, are capitalised into exploration assets if management concludes that future economic benefits are likely to be realised based on an assessment of exploration results and identified mineral resources. The evaluation of each asset's future prospects requires significant judgement. Under *IFRS 6 Exploration for and evaluation of mineral resources*, potential indicators of impairment include management's plans to discontinue the exploration activities, lack of further substantial exploration expenditure planned, expiry of exploration licences in the period or in the nearest future, or existence of other data indicating the expenditure capitalised is not recoverable.
How the scope of our audit responded to the key audit matter	We have reviewed and challenged management's assumptions used in the assessment of the recoverability of the Group's E&E assets, the most significant being the newly acquired Prognoz asset. We have also evaluated the design and implementation of management's relevant controls relating to the recoverability of E&E assets. We have reviewed the Board minutes to check that there are no plans to discontinue exploration activities and reviewed the Board-approved budget for 2019 to check that specific exploration project spend was identified, where relevant. We have assessed the recoverability of assets by meeting with operational management to discuss material E&E assets, reviewing drilling and other testing results in the year and confirming future development plans. Where relevant, we have also reviewed models to support the net present value of E&E assets. We have reviewed licence conditions to check that there were no breaches of key terms, and no licences have expired or expire in the near term. We have performed detailed testing to assess the validity of costs capitalised in the year.
Key observations	No additional impairments of E&E assets were identified from the work performed.
Recoverability of ore stock piles and heap leach work in progress Refer to the Audit Committee report on page 99 and the disclosure in Note 22 on page 177.	
Key audit matter description	At 31 December 2018 the Group held US$264 million (2017: US$265 million) in respect of ore stockpiles and heap leach work in progress. The net write-down of these metal inventories in the year ended 31 December 2018 was US$21 million (2017: US$16 million). The assessment of the recoverability of ore stockpiles and heap leach work in progress requires management judgement in the determination of expected quantities of metal to be recovered, costs to process into concentrate or doré for sale, and in estimating future revenue to be realised on sale. As the nature of other types of metal inventories (concentrate, gold in circuit and doré) is such that their processing is substantially complete, there is less uncertainty surrounding the estimation of their net realisable value. Due to the level of judgement involved, and opportunity for management manipulation associated with these inventories, we determined that there was a fraud risk associated with the recoverability of ore stockpile and heap leach work in progress.
How the scope of our audit responded to the key audit matter	We have attended inventory counts performed by management's experts, performed roll forward testing from the count dates through to year end by testing management's metal inventory models, and assessed management's experts' methodology, expertise and objectivity. In addition, we evaluated the design and implementation and tested the operating effectiveness of relevant controls relating to management's stock count process. To challenge management's recoverability assessment, we have analysed the metal inventory balances to identify adverse changes in costs per unit, and reviewed the production reports specifically focusing on unusual variances in grades of ore extracted, stockpiled and processed, achieved recoveries and technical losses in comparison to prior periods and approved life of mine plans. Where a recoverability risk has been identified, we have recalculated the estimated net realisable values based on expected commodity prices, technological recoveries and costs to complete. We challenged management's assumptions against the achieved technological recoveries, actual processing costs in the year and the approved life of mine plans. We have also performed substantive analytical procedures on management's inventory costing calculations.
Key observations	No additional write-downs of ore stockpiles and heap leach work in progress were identified from the work performed.

Independent auditor's report to the members of Polymetal International plc continued

Corporate transactions Refer to the Audit Committee report on page 99 and the disclosures in Note 4 on pages 158 to 163.	
Key audit matter description	During the year ended 31 December 2018, the Group has completed a number of acquisitions resulting in it obtaining control of the mining operations at Prognoz (for a total consideration of US$200 million), Nezhda (for a total consideration of US$208 million) and Amikan (for a total consideration of US$68 million). The accounting for these acquisitions involves a number of key judgements, specifically in respect of determining if each of the acquisitions is a business combination or an asset acquisition, calculating the purchase price allocation (PPA) to the identifiable assets and liabilities of the business acquired, the gain arising on revaluation of pre-existing stake and (specifically in relation to Prognoz) estimating the fair value of the contingent consideration. We note that the PPA in respect of the Amikan acquisition is still a preliminary assessment, whereas Prognoz and Nezhda have now been finalised.
How the scope of our audit responded to the key audit matter	We challenged management's assessment of whether the acquisitions meet the definition of a business under IFRS 3 Business combinations through assessment of the acquiree's business activities, employees, other inputs, processes and outputs. For each transaction we have reviewed the purchase agreement. We have challenged management's calculation of the PPA, including, where applicable, the net present value (NPV) model and life of mine plan prepared by management to support the valuation of the mineral rights recognised, and gains arising on revaluation of the Group's pre-existing interest in the acquired businesses. We also evaluated the design and implementation of relevant controls relating to the acquisition process. We challenged the assumptions made by management in relation to the NPV models, including the discount rate used, the commodity prices, capital expenditure and operating cost forecasts, forecast tax cash flows and the expected production profiles, by comparison to recent analyst forecast commodity price and foreign exchange data, reference to third party documentation where available, consultation with operational management and consideration of sensitivity analyses. We also reviewed the inputs used for consistency across all transactions and asset impairment testing under IAS 36. We reviewed whether the life of mine plans used in the NPV models are based on the most up-to-date Ore Reserve and Mineral Resource reports prepared by management's experts. We evaluated the consistency of the key assumptions used in the preparation of those reports with the assumptions used in the valuation models and assessed the competence, experience and objectivity of management's experts. Specifically in respect of the Prognoz contingent consideration, we involved Deloitte valuation specialists to test the integrity and output of the valuation model used. We have also checked that the inputs to the model are consistent with those tested in the NPV models or can be reconciled to third party documentation.
Key observations	We are satisfied that all three acquisitions (including the gains on the revaluation of the pre-existing interests, where appropriate) have been accounted for appropriately. The assumptions used in management's models are reasonable and have been determined and applied on a consistent basis, where relevant, across the Group. We also found that the assumptions and methodology used by management in the valuation of the deferred contingent consideration were reasonable.

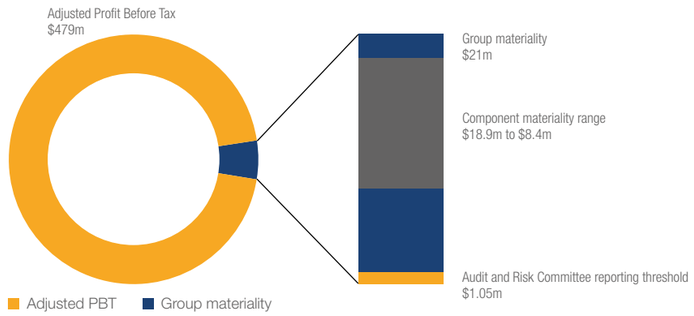
Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	US$21 million (2017: US$22 million)
Basis for determining materiality	We used the Group's adjusted profit before tax as a key benchmark, supported by a range of other relevant financial metrics, to determine the Group's materiality. This approach is consistent with our 2017 audit and the selected materiality figure represents 4.4% of the adjusted profit before tax figure (2017: 4.9%) and 1.5% of net assets (2017: 1.7%).
Rationale for the benchmark applied	The use of this metric is consistent with our 2017 audit and has been chosen on the basis that the adjusted profit before tax is a key benchmark for management and investors to appraise the Group's performance. We have adjusted profit before tax for net foreign exchanges losses of US$40 million, the revaluation gain on the initial share on business combination of US$41 million and the net loss on disposal of subsidiaries of US$54 million (2017: US$10 million net foreign exchange loss).

ADJUSTED PROFIT BEFORE TAX



We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of US$1.05 million (2017: US$1.1 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

The Group holds various mining assets in Russia, Kazakhstan and Armenia. Our scoping identified 12 components (Svetloye, Dukat, Omolon, Albazino, Voro, Kyzyl, Varvara, Amursk, Mayskoye, Okhotsk, Armenia, together with a single component comprising the support function corporate entities).

Our 2018 scoping differentiated between balances which, following increased centralisation and standardisation of the Group's processes and controls, could be tested centrally, and those which needed to be tested at the local component level. For balances which were tested centrally, we have performed substantive audit procedures on all components.

We determined the scope of the procedures to be performed at each component on the balances not tested centrally. We have performed full scope audits at Svetloye, Dukat, Omolon, Albazino, Voro and Kyzyl with focused procedures on specific risks performed at Varvara, Amursk, Mayskoye and the Corporate component, and an analytical review of the Okhotsk and Armenian components. This represents a change from our 2017 scoping where all component were subject to a full scope audit with the exception of the Armenian component, where focussed procedures were performed.

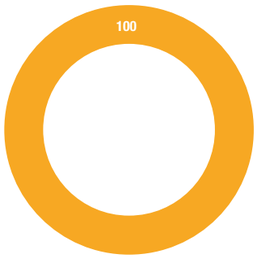
The Group audit team was involved in the work of the component auditors at all stages of the audit process. The signing partner and senior members of the Group engagement team visited the head office in St. Petersburg regularly throughout the year and during the final audit in 2019. The signing partner also visited the Amursk component in the year (2017: the signing partner visited Kyzyl).

Our audit work was executed at levels of materiality applicable to each individual component, which were between US$8.4 million and US$18.9m (2017: US$8.8 million and US$19.8 million).

Independent auditor's report to the members of Polymetal International plc continued

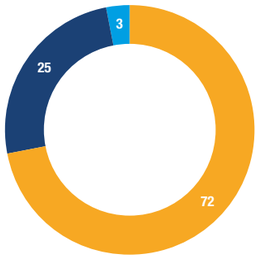
Below we have illustrated the coverage of certain key balances by testing performed centrally, full scope audit, focussed procedures and analytical review procedures.

REVENUE
%



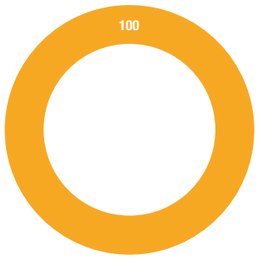
Centrally tested

METAL INVENTORIES
%



Full scope audit
Focussed procedures
Analytical review procedures

E&E ASSETS
%



Centrally tested

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinion on other matter prescribed by our engagement letter

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the UK Companies Act 2006 as if that Act had applied to the company.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
Under the Companies (Jersey) Law, 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

James Leigh FCA
For and on behalf of Deloitte LLP

Recognized Auditor
London
8 March 2019

Consolidated financial statements

Consolidated income statement

	Note	Year ended 31 December 2018 Continuing operations $m	Discontinued operations[1] $m	Total Group $m	Year ended 31 December 2017 Continuing operations $m	Discontinued operations[1] $m	Total Group $m
Revenue	7	1,706	176	1,882	1,607	208	1,815
Cost of sales	8	(971)	(125)	(1,096)	(966)	(140)	(1,106)
Gross profit		**735**	**51**	**786**	**641**	**68**	**709**
General, administrative and selling expenses	12	(164)	(11)	(175)	(149)	(9)	(158)
Other operating expenses, net	13	(47)	(28)	(75)	(44)	–	(44)
Share of (loss)/profit of associates and joint ventures	21	(1)	–	(1)	3	–	3
Operating profit		**523**	**12**	**535**	**451**	**59**	**510**
Foreign exchange loss, net		(37)	(3)	(40)	(10)	–	(10)
Revaluation of initial share on business combination	4	41	–	41	–	–	–
Loss on disposal of subsidiaries, net	4	(54)	–	(54)	–	–	–
Change in fair value of contingent consideration liability	29	7	–	7	2	–	2
Finance income		8	–	8	4	–	4
Finance costs	16	(71)	–	(71)	(63)	–	(63)
Profit before income tax		**417**	**9**	**426**	**384**	**59**	**443**
Income tax expense	17	(65)	(6)	(71)	(80)	(9)	(89)
Profit for the financial period		**352**	**3**	**355**	**304**	**50**	**354**
Profit for the financial period attributable to:							
Equity shareholders of the Parent		352	2	354	304	50	354
Non-controlling interest		–	1	1	–	–	–
		352	**2**	**354**	**304**	**50**	**354**
Earnings per share ($)							
Basic	31	0.79	0.00	0.79	0.71	0.11	0.82
Diluted	31	0.79	0.00	0.79	0.70	0.11	0.81

Consolidated statement of comprehensive income

	Year ended 31 December 2018 $m	Year ended 31 December 2017 $m
Profit for the period[2]	355	354
Items that may be reclassified to profit and loss		
Exchange differences on translating foreign operations	(485)	113
Currency exchange differences on intercompany loans forming net investment in foreign operations, net of income tax	17	(23)
Currency exchange differences recycled to income statement on disposal of foreign operation	19	–
Total comprehensive (loss)/income for the period	**(94)**	**444**
Total comprehensive (loss)/income for the period attributable to:		
Equity shareholders of the Parent	(95)	444
Non-controlling interest	1	–
	(94)	**444**

1 Refer to Note 5 Assets held for sale and discontinued operations.
2 Profit for the period includes $3 million of profits relating to discontinued operations and a loss of $63 million arising on the disposal of such operations, amounting to a net loss of $60 million.

Consolidated balance sheet

	Note	31 December 2018 $m	31 December 2017 $m
Assets			
Property, plant and equipment	19	2,426	2,054
Goodwill	20	15	18
Investments in associates and joint ventures	21	2	96
Non-current loans and receivables		6	15
Deferred tax asset	17	73	61
Non-current inventories	22	95	123
Total non-current assets		**2,617**	**2,367**
Assets held for sale	5	74	–
Current inventories	22	537	514
VAT receivable		95	96
Trade receivables and other financial instruments	23	81	71
Prepayments to suppliers		44	38
Income tax prepaid		8	6
Cash and cash equivalents	24	379	36
Total current assets		**1,218**	**761**
Total assets		**3,835**	**3,128**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	27	(146)	(135)
Prepayments received	7	(100)	–
Current borrowings	25	(117)	(26)
Income tax payable		(8)	(10)
Other taxes payable		(37)	(38)
Current portion of contingent consideration liability	29	(5)	(5)
Liabilities associated with assets classified as held for sale	5	(8)	–
Total current liabilities		**(421)**	**(214)**
Non-current borrowings	25	(1,782)	(1,430)
Contingent consideration liability	29	(49)	(57)
Deferred tax liability	17	(152)	(77)
Environmental obligations	26	(32)	(39)
Other non-current liabilities		(2)	(4)
Total non-current liabilities		**(2,017)**	**(1,607)**
Total liabilities		**(2,438)**	**(1,821)**
NET ASSETS		**1,397**	**1,307**
Stated capital account	31	2,414	2,031
Share-based compensation reserve	32	24	21
Translation reserve		(1,599)	(1,151)
Retained earnings		540	406
Shareholders' equity		**1,379**	**1,307**
Non-controlling interest	4	18	–
Total equity		**1,397**	**1,307**

Notes on pages 144 to 189 form part of these financial statements. These financial statements are approved and authorised for issue by the Board of Directors on 8 March 2019 and signed on its behalf by:

Vitaly Nesis
Group CEO

Bobby Godsell
Chair of the Board of Directors

Consolidated financial statements continued

Consolidated statement of cash flows

	Note	Year ended 31 December 2018 $m	Year ended 31 December 2017 $m
Net cash generated by operating activities	34	**513**	**533**
Cash flows from investing activities			
Purchases of property, plant and equipment	19	(344)	(383)
Acquisitions of joint venture and associate	21	–	(16)
Loans forming part of net investment in joint ventures	21	(51)	(52)
Call option related to the Nezhda acquisition paid	4	–	(12)
Net cash outflow on acquisitions	4	(6)	(7)
Proceeds from disposal of subsidiaries	4	15	
Loans advanced		(28)	(18)
Receipt of repayment of loans provided		35	11
Net cash used in investing activities		**(379)**	**(477)**
Cash flows from financing activities			
Borrowings obtained	25	1,697	3,108
Repayments of borrowings	25	(1,254)	(3,032)
Dividends paid	18	(213)	(138)
Contingent consideration liabilities paid	29	(6)	(5)
Net cash from/(used in) financing activities		**224**	**(67)**
Net increase/(decrease) in cash and cash equivalents		358	(11)
Cash and cash equivalents at the beginning of the period	24	36	48
Effect of foreign exchange rate changes on cash and cash equivalents		(15)	(1)
Cash and cash equivalents at the end of the financial year		**379**	**36**

Consolidated statement of changes in equity

	Note	Number of shares outstanding (unaudited)	Stated capital account $m	Share-based compensation reserve $m	Translation reserve $m	Retained earnings $m	Total equity attributable to the parent $m	Non-controlling interest $m	Total equity $m
Balance at 1 January 2017		**428,262,338**	**2,010**	**12**	**(1,241)**	**200**	**981**	**–**	**981**
Profit for the financial year		–	–	–	–	354	354	–	354
Other comprehensive income, net of income tax		–	–	–	90	–	90	–	90
Share-based compensation	32	–	–	10	–	–	10	–	10
Shares allotted to employees	32	144,219	1	(1)	–	–	–	–	–
Issue of shares to acquire non-controlling interest	31	893,575	10	–	–	(10)	–	–	–
Issue of shares for contingent consideration liabilities	29	815,348	10	–	–	–	10	–	10
Dividends	17	–	–	–	–	(138)	(138)	–	(138)
Balance at 31 December 2017		**430,115,480**	**2,031**	**21**	**(1,151)**	**406**	**1,307**	**–**	**1,307**
Profit for the financial year		–	–	–	–	353	353	2	355
Other comprehensive loss, net of income tax		–	–	–	(448)	–	(448)	(1)	(449)
Share-based compensation	32	–	–	12	–	–	12	–	12
Shares allotted to employees	32	1,001,365	9	(9)	–	–	–	–	–
Issue of shares for business combinations	4	36,402,296	358	–	–	–	358	17	375
Issue of shares for contingent consideration liabilities	29	1,015,113	10	–	–	–	10	–	10
Issue of shares to acquire non-controlling interest	31	834,055	6	–	–	(6)	–	–	–
Dividends	18	–	–	–	–	(213)	(213)	–	(213)
Balance at 31 December 2018		**469,368,309**	**2,414**	**24**	**(1,599)**	**540**	**1,379**	**18**	**1,397**

Notes to the consolidated financial statements

1. General

Corporate information

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

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

Significant subsidiaries

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

				Effective interest held, %	
Name of subsidiary	Deposits and production facilities	Segment	Country of incorporation	**31 December 2018**	31 December 2017
Gold of Northern Urals CJSC	Vorontsovskoye	Ural	Russia	100	100
Svetloye LLC	Svetloye	Khabarovsk	Russia	100	100
Magadan Silver JSC	Dukat Lunnoye Arylakh Goltsovoye	Magadan	Russia	100	100
Mayskoye Gold Mining Company LLC	Mayskoye	Magadan	Russia	100	100
Omolon Gold Mining Company LLC	Birkachan Tsokol Dalneye Sopka Kvartsevaya Olcha	Magadan	Russia	100	100
Albazino Resources Ltd	Albazino	Khabarovsk	Russia	100	100
Amur Hydrometallurgical Plant LLC	AGMK Plant	Khabarovsk	Russia	100	100
Varvarinskoye JSC	Varvarinskoye	Kazakhstan	Kazakhstan	100	100
Bakyrchik Mining Venture LLC	Bakyrchik	Kazakhstan	Kazakhstan	100	100
Komarovskoye Mining Company LLC	Komarovskoye	Kazakhstan	Kazakhstan	100	100
South-Verkhoyansk Mining Company JSC	Nezhda	Yakutia	Russia	100	17.66
Prognoz Silver LLC	Prognoz	Yakutia	Russia	100	5

Going concern

In assessing its going concern status, the Group has taken account of its financial position, anticipated future trading performance, its borrowings and other available credit facilities, and its forecast compliance with covenants on those borrowings and its capital expenditure commitments and plans. As at 31 December 2018, the Group (excluding assets held for sale) held $379 million of cash and had net debt of $1,520 million, with $1,119 million of additional undrawn facilities of which $1,069 million are considered committed. Debt of $117 million is due for payment within one year. The Group's cash generation and liquidity remains strong and the Group believes it will be able to operate within existing facilities, but could secure additional financing if and when needed.

The Board is satisfied that the Group's forecasts and projections, having taken account of reasonably possible changes in trading performance, show that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of this report and that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2018.

Basis of presentation

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

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

New standards adopted by the Company and changes in accounting policies

IFRS 15 *Revenue from Contracts with Customers*. In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ('IFRS 15'), which covers principles that an entity shall apply to report information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. This standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. IFRS 15 uses a control-based approach to recognise revenue which is a change from the risk and reward approach under the IAS 18. The standard requires entities to apportion revenue earned from contracts to individual performance obligations, on a relative standalone selling price basis.

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

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

For the Incoterms Cost, Insurance and Freight (CIF) and Cost and Freight (CFR) the seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination. Consequently, the freight service on export commodity contracts with CIF/CFR incoterms represents a separate performance obligation as defined under the new standard, and a portion of the revenue earned under these contracts, representing the obligation to perform the freight service, is deferred and recognised over time as this obligation is fulfilled, along with the associated costs. The shipping services do not represent the Group's core activity and are fully outsourced, so these are presented within other operating income and expenses. For the period ended 31 December 2018 the revenues attributed to the shipping services amounted to $9 million. Under IFRS 15, there is no impact on the amounts recognised in the consolidated income statement and balance sheet, nor is there any change in the timing of revenue recognition.

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

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

IFRS 9 *Financial instruments*. In July 2014, the IASB issued the final version of IFRS 9 *Financial instruments* ('IFRS 9'). This standard is effective for annual periods beginning on or after 1 January 2018. IFRS 9 provides a revised model for recognition, measurement and impairment of financial instruments. IFRS 9 also includes a substantially reformed approach to hedge accounting.

The impacts of adopting IFRS 9 on the Group retained earnings at 1 January 2018 are as follows:

- Impairment: The impact of the introduction of an 'expected credit loss' model for the assessment of impairment of financial assets held under amortised cost would be to increase the Group's operating costs by $4 million and decrease the Group's profit before tax by $4 million for the year ended 31 December 2017, and to reduce current assets by $4 million at 31 December 2017.
- Classification and measurement: The measurement and accounting treatment of the Group's financial assets is unchanged on application of the new standard, except for the trade receivables from provisional copper, gold and silver concentrate sales, which are classified and measured at fair value through profit and loss (FVTPL) under new Standard, rather than at amortised cost with embedded derivative, separated from the host contract and measured at fair value. The classification of these receivables as FVTPL does not change on raising of the final invoice.
- Hedge accounting: no impact as the Group does not elect to use hedge accounting.

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

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

Notes to the Consolidated financial statements continued

1. General continued

Amended accounting standards adopted by the Group

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

- Amendments to IAS 40 *Investment Property*, effective for annual periods beginning on or after 1 January 2018;
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, effective for annual periods beginning on or after 1 January 2018;
- Amendments to IFRS 2 *Share-based payments*, effective for annual periods beginning on or after 1 January 2018;
- Amendments to IFRS 4 *Insurance Contracts* – Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*;
- IFRIC 22 Foreign *Currency Transactions and Advance Consideration*, effective for annual periods beginning on or after 1 January 2018.

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

New accounting standards issued but not yet effective

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

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

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

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

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

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

2. Significant accounting policies

Basis of consolidations

Subsidiaries

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group balances, transactions and any unrealised profits or losses arising from intra-group transactions are eliminated on consolidation.

Changes to the Group's ownership interests that do not result in a loss of control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Group's interests and non-controlling interests are adjusted to reflect the change in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on the disposal is calculated as the difference between 1) the aggregated fair value of the consideration received and the fair value of any retained interest and 2) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and non-controlling interests.

Business combinations

IFRS 3 *Business Combinations* applies to a transaction or other event that meets the definition of a business combination. When acquiring new entities or assets, the Group applies judgement to assess whether the assets acquired and liabilities assumed constitute an integrated set of activities, whether the integrated set is capable of being conducted and managed as a business by a market participant, and thus whether the transaction constitutes a business combination, using the guidance provided in the standard. Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the consolidated income statement as incurred. Transaction costs incurred in connection with the business combination are expensed. Provisional fair values are finalised within 12 months of the acquisition date.

Where applicable, the consideration for the acquisition may include an asset or liability resulting from a contingent consideration arrangement. Contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Subsequent changes in such fair values are adjusted against the cost of acquisition retrospectively with the corresponding adjustment against goodwill where they qualify as measurement period adjustments. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed at the acquisition date. The measurement period may not exceed one year from the effective date of the acquisition. The subsequent accounting for contingent consideration that does not qualify as a measurement period adjustment is based on how the contingent consideration is classified. Contingent consideration that is classified as equity is not subsequently remeasured. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or *IFRS 9 Financial Instruments* with the corresponding amount being recognised in profit or loss.

The identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in the consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in equity are reclassified to profit or loss, where such treatment would be appropriate if that interest was disposed of.

Notes to the Consolidated financial statements continued

2. Significant accounting policies continued

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Goodwill and goodwill impairment

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the consolidated income statement as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable goodwill is included in the determination of the profit or loss on disposal.

Acquisition of mining licences

The acquisition of mining licences is often effected through a non-operating corporate entity. As these entities do not represent a business, it is considered that the transactions do not meet the definition of a business combination and, accordingly, the transaction is accounted for as the acquisition of an asset. The net assets acquired are accounted for at cost. Where asset acquisition is achieved in stages net assets acquired are accounted for sum of cost of the original interest acquired and the cost of additional interest acquired.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint arrangement. Significant influence constitutes the power to participate in the financial and operating policy decisions of the investee but does not extend to a control or joint control over the enactment of those policies. The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting.

A joint arrangement is defined as an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

A joint operation is a joint arrangement in which the parties that share joint control have rights to the assets, and obligations for the liabilities, relating to the arrangement. This includes situations where the parties benefit from the joint activity through a share of the output, rather than by receiving a share of the results of trading. In relation to its interest in a joint operation, the Group recognises: its share of assets and liabilities; revenue from the sale of its share of the output and its share of any revenue generated from the sale of the output by the joint operation; and its share of expenses.

A joint venture is a joint arrangement in which the parties that share joint control have rights to the net assets of the arrangement and is accounted for using the equity accounting method.

When entering in a new joint arrangement, the Group applies judgement to assess whether the parties that have joint control over the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement (joint operation) or rights to the net assets of the arrangement (joint venture), using the guidance provided in the standard. When a joint arrangement has been structured through a separate vehicle, consideration has been given to the legal form of the separate vehicle, the terms of the contractual arrangement and, when relevant, other facts and circumstances.

Equity method of accounting

Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the investee. When the Group's share of the losses of an associate or a joint venture exceeds the Group's interest in that entity, the Group ceases to recognise its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an investee at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 36 *Impairment of Assets* (IAS 36) are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investments. Where an indicator of impairment exists or the carrying value of the asset contains goodwill with an indefinite useful life, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single cash-generating unit through the comparison of its recoverable amount (the higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36.

When a Group entity transacts with its investees, profits and losses resulting from the transactions with the investee are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or the joint venture that are not related to the Group.

Functional and presentation currency

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

The Group has chosen to present its consolidated financial statements in US Dollars ($), as management believes it is a more convenient presentation currency for international users of the consolidated financial statements of the Group as it is a common presentation currency in the mining industry. The translation of the financial statements of the Group entities from their functional currencies to the presentation currency is performed as follows:

- all assets and liabilities are translated at closing exchange rates at each reporting period end date;
- all income and expenses are translated at the average exchange rates for the periods presented, except for significant transactions that are translated at rates on the date of such transactions;
- resulting exchange differences are recognised in other comprehensive income and presented as movements relating to the effect of translation to the Group's presentation currency within the Translation reserve in equity; and
- in the consolidated statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated using exchange rates prevalent at those respective dates. All cash flows in the period are translated at the average exchange rates for the periods presented, except for significant transactions that are translated at rates on the date of transaction.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in the consolidated income statement. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated income statement.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

Notes to the Consolidated financial statements continued

2. Significant accounting policies continued

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

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

The Russian Rouble, Kazakh Tenge and Armenian Dram are not freely convertible currencies outside the Russian Federation, Kazakhstan and Armenia, accordingly, any translation of Russian Rouble, Kazakh Tenge and Armenian Dram denominated assets and liabilities into US Dollar for the purpose of the presentation of consolidated financial statements does not imply that the Group could or will in the future realise or settle in US Dollars the translated values of these assets and liabilities.

Foreign currency transactions

Transactions in currencies other than an entity's functional currencies (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the consolidated income statement. Exchange differences generated by monetary items that form part of the intragroup net investment in the foreign operation are recognised in the consolidated financial statements within foreign currency translation reserve.

Property, plant and equipment

Mining assets

Mining assets include the cost of acquiring and developing mining assets and mineral rights. Mining assets are depreciated to their residual values using the unit-of-production method based on proven and probable ore reserves according to the JORC Code, which is the basis on which the Group's mine plans are prepared. Changes in proven and probable reserves are dealt with prospectively. Depreciation is charged on new mining ventures from the date that the mining asset is capable of commercial production. In respect of those mining assets whose useful lives are expected to be less than the life of the mine, depreciation over the period of the asset's useful life is applied.

Mineral rights for the assets under development are included within Exploration and development. When a production phase is started, mineral rights are transferred into Mining assets and are depreciated as described below.

Capital construction-in-progress

Capital construction-in-progress assets are measured at cost less any recognised impairment. Depreciation commences when the assets are ready for their intended use.

Exploration and development assets

Mineral exploration and evaluation costs, including geophysical, topographical, geological and similar types of costs, are capitalised into exploration assets if management concludes that future economic benefits are likely to be realised based on current internal assessment of exploration results and identified mineral resources.

Exploration and evaluation expenditures are transferred to development assets when commercially-viable reserves are identified, so that the entity first establishes proved and probable reserves in accordance with JORC Code and respective mining plan and model are prepared and approved. At the time of reclassification exploration and evaluation assets are assessed for impairment based on the economic models prepared.

The costs to remove any overburden and other waste materials to initially expose the ore body, referred to as stripping costs, are capitalised as a part of mining assets when these costs are incurred.

Non-mining assets

Non-mining assets are depreciated to their residual values on a straight-line basis over their estimated useful lives. When parts of an item of property, plant and equipment are considered to have different useful lives, they are accounted for and depreciated separately. Depreciation methods, residual values and estimated useful lives are reviewed at least annually.

Estimated useful lives are as set out below:

- Machinery and equipment 5–20 years
- Transportation and other assets 3–10 years

Assets held under finance leases are depreciated over the shorter of the lease term and the estimated useful lives of the assets.

Gains or losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the asset's carrying amount at the date. The gain or loss arising is recognised in the consolidated income statement.

Stripping costs

During the production phase of a mine when the benefit from the stripping activity is the improved access to a component of the ore body in future periods, the stripping costs in excess of the average ore to waste ratio for the life of mine of that component are recognised as a non-current asset. After initial recognition, the stripping activity asset is depreciated on a systematic basis (unit-of-production method) over the expected useful life of the identified component of the ore body made accessible as a result of the stripping activity.

Estimated ore reserves

Estimated proven and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits. The Group's reserves are estimated in accordance with the JORC Code.

Leases

Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Impairment of property, plant and equipment

An impairment review of property, plant and equipment is carried out when there is an indication that those assets have suffered an impairment loss or there are impairment reversal indicators. If any such indication exists, the carrying amount of the asset is compared to the estimated recoverable amount of the asset in order to determine the extent of the impairment loss or its reversal (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. The carrying amounts of all the cash-generating units are assessed against their recoverable amounts determined based on a fair value less costs to sell calculation. Fair value is based on the application of the Discounted Cash Flow Method (DCF) using post-tax cash flows. The DCF method is attributable to the development of proved and probable reserves and certain resources where a relevant resource-to-reserve conversion ratio can be reasonably applied.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods. Impairment loss may be subsequently reversed if there has been a significant change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

A reversal of an impairment loss is recognised in the consolidated income statement immediately.

Inventories

Metal inventories

Inventories including refined metals, metals in concentrate and in process, doré and ore stockpiles are stated at the lower of production cost or net realisable value. Production cost is determined as the sum of the applicable expenditures incurred directly or indirectly in bringing inventories to their existing condition and location. Work in-process, metal concentrate, doré and refined metal are valued at the average total production costs at each asset's relevant stage of production (i.e. the costs are allocated proportionally to unified metal where unified metal is calculated based on prevailing market metal prices). Ore stockpiles are valued at the average cost of mining that ore. Where ore stockpiles and work in-process are not expected to be processed within 12 months, those inventories are classified as non-current.

Notes to the Consolidated financial statements continued

2. Significant accounting policies continued

Net realisable value represents the estimated selling price for that product based on forward metal prices for inventories which are expected to be realised within 12 months, and the flat long-term metal prices for non-current inventories, less estimated costs to complete production and selling costs.

Consumables and spare parts

Consumables and spare parts are stated at the lower of cost or net realisable value. Cost is determined on the weighted average moving cost. The portion of consumables and spare parts not reasonably expected to be used within one year is classified as a long-term asset in the Group's consolidated balance sheet. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

Trade receivables without provisional pricing that do not have a significant financing component (determined in accordance with IFRS 15 *Revenue from Contracts with Customers*) are not initially measured at fair value, rather they are initially measured at their transaction price.

Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified as either financial assets at amortised cost, at fair value through other comprehensive income (FVTOCI) or at fair value through profit or loss (FVTPL) depending upon the business model for managing the financial assets and the nature of the contractual cash flow characteristics of the financial asset.

Trade receivables without provisional pricing that do not contain provisional price features, loans and other receivables are held to collect the contractual cash flows and therefore are carried at amortised cost adjusted for any loss allowance. The loss allowance is calculated in accordance with the impairment of financial assets policy described below.

Trade receivables arising from sales of gold, silver, copper and zinc concentrates with provisional pricing features are exposed to future movements in market prices and have contractual cash flow characteristics that are not solely payments of principal and interest and are therefore measured at fair value through profit or loss and do not fall under the expected credit losses mode described below.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost, trade and other receivables and contract assets, except for trade accounts receivable with provisional pricing. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and other receivable. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

All financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest rate method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated income statement.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or fewer, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Environmental obligations

An obligation to incur environmental restoration, rehabilitation and decommissioning costs arises when disturbance is caused by the development or ongoing production of mining assets. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value using a risk-free rate applicable to the future cash flows, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are recognised in the consolidated income statement over the life of the operation, through the depreciation of the asset in the cost of sales line and the unwinding of the discount on the provision in the finance costs line. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and recognised in the consolidated income statement as extraction progresses.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work (that result from changes in the estimated timing or amount of the cash flow or a change in the discount rate), are added to or deducted from the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the consolidated income statement.

Notes to the Consolidated financial statements continued

2. Significant accounting policies continued

The provision for closure cost obligations is remeasured at the end of each reporting period for changes in estimates and circumstances. Changes in estimates and circumstances include changes in legal or regulatory requirements, increased obligations arising from additional mining and exploration activities, changes to cost estimates and changes to the risk free interest rate.

Employee benefit obligations

Remuneration paid to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period. The Group pays mandatory contributions to the state social funds, including the Pension Fund of the Russian Federation and Kazakhstan, which are expensed as incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the laws of countries where the Group operates.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax

Current and deferred tax is recognised in the consolidated income statement, except when it relates to items that are recognised in the consolidated statement of comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in consolidated statement of comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Uncertain tax positions

Provision for uncertain tax positions is recognised within current tax when management determines that it is probable that a payment will be made to the tax authority. For such tax positions the amount of the probable ultimate settlement with the related tax authority is recorded. When the uncertain tax position gives rise to a contingent tax liability for which no provision is recognised, the Group discloses tax-related contingent liabilities and contingent assets in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Revenue recognition

The Group has two major streams: the sale of gold and silver bullions and sale of copper, gold and silver concentrate. Revenue is measured at the fair value of consideration to which an entity expects to be entitled in a contract with a customer in exchange for transferring promised goods, excluding amounts collected on behalf of third parties, such as value added tax (VAT). The Group recognises revenue when it transfers control of a product or service to a customer.

Sale of gold and silver bullion

The Group processes doré produced in the Russian Federation into London Good Delivery Bars prior to sale. This final stage of processing is carried out on a toll-treatment basis at four state-owned refineries. The Group sells gold and silver bullion to banks through long-term agreements. The sales price, as determined in the agreement, may be variable based upon the London Bullion Market Association (LBMA) spot or fixed price, however the Group does not enter into fixed price contracts. For domestic sales, control and title passes from the Group to the purchaser at the refinery gate with revenue recognised at that point. For export sales, once the gold and/or silver bars have been approved for export by Russian customs, they are then transported to the vault of the purchaser. Control and title passes and revenue is recognised at the point when the gold and/or silver bars are received by the purchaser.

Sales of copper, zinc, gold and silver concentrate

The Group sells copper, gold and silver concentrate underpricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. Concentrate sales are initially recorded based on forward prices for the expected date of final settlement. Revenue is recorded at the time of shipment, when control passes to the buyer. Revenue is calculated based on the copper, gold and silver content in the concentrate and using the forward London Bullion Market Association (LBMA) or London Metal Exchange (LME) price to the estimated final pricing date, adjusted for the specific terms of the relevant agreement. Revenue is presented net of refining and treatment charges which are subtracted in calculating the amount to be invoiced.

Share-based compensation

The Group applies IFRS 2 *Share-based Payments* to account for share-based compensation. IFRS 2 requires companies to recognise compensation costs for share-based payments to employees based on the grant-date fair value of the award.

The fair value of the awards granted under the Performance Share Plan (PSP) (as defined in the Remuneration report) is estimated using a Monte Carlo model valuation (see Note 32).

Awards which are granted under Deferred Share Awards (DSA) plan and are released over a period of three years, are measured at share price at a grant date and are prorated across periods to the different vest dates (see Note 32).

The fair value of the awards granted is recognised as a general, administrative and selling expense over the vesting period with a corresponding increase in the share-based compensation reserve. Upon the exercise of the awards the amounts recognised within the share-based compensation reserve are transferred to the stated capital account.

Earnings per share

Earnings per share calculations are based on the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated using the treasury stock method, whereby the proceeds from the potential exercise of dilutive stock options with exercise prices that are below the average market price of the underlying shares are assumed to be used in purchasing the Company's common shares at their average market price for the period.

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical accounting judgements

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

Accounting for acquisitions

To determine the appropriate accounting approach to be followed for an acquisition transaction, the Group applies judgement to assess whether the acquisition is of a business, and therefore within scope of IFRS 3 *Business Combinations*, or is of a group of assets that do not constitute a business and is therefore outside scope of IFRS 3. In making this determination, management evaluates the inputs, processes and outputs of the asset or entity acquired. Judgement is used to determine whether an integrated set of activities and assets is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. Major acquisitions in the year included Prognoz, Nezhda and Amikan (Note 4). They have been assessed as business combinations under IFRS 3 and have thus been accounted for at their fair values.

Notes to the Consolidated financial statements continued

3. Critical accounting judgements and key sources of estimation uncertainty continued

When accounting for acquisitions that represent business combinations, the Group applies judgement to determine the fair value of the identifiable assets acquired and the liabilities assumed at the acquisition date.

The consideration paid is considered to be the primary indicator of the fair value of the assets acquired (primarily mineral rights) and liabilities assumed, although the fair value of mineral rights is also supported by the Discounted Cash Flow Method (DCF) models prepared as described in the 'Key sources of estimation uncertainty' section below.

The Prognoz, Nezhda and Amikan acquisitions were all achieved in stages. Judgement is used to determine when control was obtained and the basis of fair value remeasurement of the Group's previously held interests in the acquired entities at that date (including consideration of any control premium paid), and the resulting gain or loss is recognised in the consolidated income statement.

Assessment of indicators of impairment or its reversal of operating and development assets

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

Operating and economic assumptions, which could affect the valuation of assets using discounted cash flows (DCF), are updated regularly as part of the Group's planning and forecasting processes. Significant judgement is required to determine whether any economic or operating assumptions represent significant changes in the economic value of an asset or CGU. Discounted cash flow models are prepared on the basis of such assumptions to determine whether there are any indicators of impairment or impairment reversal.

In making the assessment for impairment indicators, assets that do not generate independent cash inflows are allocated to an appropriate cash-generating unit. Management necessarily applies judgement in allocating assets that do not generate independent cash inflows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value-in-use calculation. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets. Refer to Note 20 for further information.

Recoverability of exploration and evaluation assets

Exploration and evaluation assets include mineral rights and exploration and evaluation costs, including geophysical, topographical, geological and similar types of costs. Exploration and evaluation costs are capitalised if management concludes that future economic benefits are likely to be realised and determines that economically viable extraction operation can be established as a result of exploration activities and internal assessment of mineral resources.

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

As of 31 December 2018 total exploration and evaluation costs capitalised amount to $365 million (2017: $150 million) with the most significant asset of $290 million attributable to the Prognoz silver property acquired during the year ended 31 December 2018.

Key sources of estimation uncertainty

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

Cash flow projections for fair value accounting and impairment testing

Expected future cash flows used in DCF models are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including ore reserves, together with economic factors such as commodity prices, exchange rates, discount rates and estimates of production costs and future capital expenditure.

- Ore reserves and mineral resources – Recoverable reserves and resources are based on the proven and probable reserves and resources in existence. Reserves and resources are incorporated in projected cash flows based on ore reserve statements and exploration and evaluation work undertaken by appropriately qualified persons (see below). Mineral resources, adjusted by certain conversion ratios, are included where management has a high degree of confidence in their economic extraction, despite additional evaluation still being required prior to meeting the required confidence to convert to ore reserves.
- Commodity prices – Commodity prices are based on latest internal forecasts, benchmarked against external sources of information. Polymetal currently uses a flat real long-term gold and silver price of $1,200 per ounce (2017: $1,200) and $15 per ounce (2017: $16), respectively.
- Foreign exchange rates – Foreign exchange rates are based on latest internal forecasts, benchmarked with external sources of information for relevant countries of operation. Management have analysed RUB/US$ rate movements for the year ended 31 December 2018. RUB/US$ exchange rate is estimated at 65 RUB/US$ (2017: RUB/US$60).
- Discount rates – The Group used a post-tax real discount rate of 9.0% (2017: 9.0%). Cash flow projections used in fair value less costs of disposal impairment models are discounted based on this rate.
- Operating costs, capital expenditure and other operating factors – Cost assumptions incorporate management experience and expectations, as well as the nature and location of the operation and the risks associated therewith. Underlying input cost assumptions are consistent with related output price assumptions. Other operating factors, such as the timelines of granting licences and permits are based on management's best estimate of the outcome of uncertain future events at the balance sheet date.

No impairment for property, plant and equipment was recognised during the year ended 31 December 2018 as no indicators of impairment were identified. The sensitivities for goodwill impairment testing are disclosed in Note 20, and in the absence of indicators for impairment, these are not extended to impairment testing more generally. The sensitivity of items held at fair value is not material.

Ore reserves

An ore reserve estimate is an estimate of the amount of product that can be economically and legally extracted from the Group's properties. Ore reserve estimates are used by the Group in the calculation of: depletion of mining assets using the units-of-production method; impairment charges and in forecasting the timing of the payment of decommissioning and land restoration costs. Also, for the purpose of impairment review and the assessment of the timing of the payment of decommissioning and land restoration costs, management may take into account mineral resources in addition to ore reserves where there is a high degree of confidence that such resources will be extracted.

In order to calculate ore reserves, estimates and assumptions are required about geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices, discount rates and exchange rates. Estimating the quantity and/or grade of ore reserves requires the size, shape and depth of ore bodies to be determined by analysing geological data such as the logging and assaying of drill samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Ore reserve estimates may change from period to period as additional geological data becomes available during the course of operations or if there are changes in any of the aforementioned assumptions. Such changes in estimated reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- asset carrying values due to changes in estimated future cash flows;
- depletion charged in the consolidated income statement where such charges are determined by using the units-of-production method;
- provisions for decommissioning and land restoration costs where changes in estimated reserves affect expectations about the timing of the payment of such costs;
- carrying value of deferred tax assets and liabilities where changes in estimated reserves affect the carrying value of the relevant assets and liabilities; and
- contingent consideration liabilities where these are determined by the future production levels.

Ore reserves are subject to annual reestimation (please refer to the Reserves and Resources section of the Annual Report). Based on the ore reserves estimate as of 1 January 2019, the depreciation charge for the year ended 31 December 2018 would decrease by $20 million (2017: decrease by $15 million based on the ore reserves estimate as of 1 January 2018).

Recoverability of deferred tax assets

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised (Note 17). There is an application of judgement in assessing the amount, timing and probability of future taxable profits and repatriation of retained earnings. These factors affect the determination of the appropriate rates of tax to apply and the recoverability of deferred tax assets. These judgements are influenced, inter alia, by factors such as estimates of future production, commodity lines, operating costs, future capital expenditure and dividend policies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

Deferred tax assets arising from tax losses carried forward recognised as of 31 December 2018 amount to $167 million (2017: $126 million). Tax losses carried forward represent amounts available for offset against future taxable income generated by Mayskoye Gold Mining Company LLC, JSC South-Verkhoyansk Mining Company and JSC Polymetal Management (Russian Federation), JSC Varvarinskoye and Bakyrchik Mining Venture LLC (Kazakhstan). Each legal entity within the Group represents a separate tax-paying component for income tax purposes. The tax losses of one entity cannot be used to reduce taxable income of other entities of the Group. Gross tax losses carried forward of $495 million (2017: $448 million), for which a deferred tax asset is recognised in JSC Varvarinskoye and Bakyrchik Mining Venture LLP are available during the period up to 2028, with the most significant portion expiring in 2025 and 2028 (Note 17). The remaining gross tax losses have an indefinite life. It is not practical to show the likely impact on the deferred tax balances of changes in corporate parameters because of number of legal entities with tax losses available and the different tax attributes applicable to each entity.

Notes to the Consolidated financial statements continued

3. Critical accounting judgements and key sources of estimation uncertainty continued

Recoverability of stockpiles and work in-process

The assessment of the recoverability of metal inventories requires judgement both in terms of calculating expected costs to process and refine ore stock piles to produce concentrate or doré for sale, and in terms of estimating future prices to be realised on sale (Note 22). The Group uses survey and assay techniques to estimate quantities of the ore stockpiled and ore stacked in heap leach pads, as well as the recoverable metal in this material and work in-process. The amount of the recoverable metals, that will be available for sale, is determined based on technological recoveries, which are established for each deposit and extraction technology. Changes in these estimates can result in a change in mine operating costs of future periods and carrying amounts of inventories.

During the year ended 31 December 2018 the Group provided for net realisable value of metal inventories in the amount of $21 million (year ended 31 December 2017: write-down of $16 million).

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

The key assumptions used in determining the net realisable value of inventories at 31 December 2018 are consistent with those used for goodwill impairment testing.

Valuation of contingent consideration payable

The Group has recorded contingent consideration liabilities of $54 million as at 31 December 2018 (2017: $62 million) related to various acquisitions made, as set out in Note 29 to the financial statements. Various estimates must be made when determining the value of contingent consideration to be recognised at each balance sheet date. The assumptions made are consistent with those made for impairment testing purposes (see above), and additional assumptions are included in Note 29. Significant changes in assumptions could cause an increase, or reduction, in the amount of contingent consideration payable, with a resulting charge or credit in the consolidated income statement.

4. Acquisitions and disposals

(a) Year ended 31 December 2018

Prognoz silver property acquisition

In January 2017 the Group entered into an agreement with Polar Acquisition Ltd (PAL), under which Polymetal would participate in the development of the Prognoz silver deposit in Yakutia, Russia ('Prognoz'). Under the agreement, Polymetal acquired a 5% interest in Prognoz for $5 million (including $2 million of related expenses) in cash through the purchase of 10% of Polar Silver Resources' LLC share capital (a subsidiary of PAL), the entity holding a 50% interest in Prognoz, with the remaining 50% owned by a private investor. The arrangement allowed Polymetal to acquire from PAL their remaining 45% interest in Prognoz for a consideration based on the JORC compliant reserves estimate upon completion of the technical study. As of acquisition date and as of 31 December 2017 the Group had determined that Prognoz constituted a joint venture under IFRS 11 *Joint Arrangements* and therefore the investment was accounted for using the equity method. In January 2018 Polymetal agreed with PAL to accelerate the exercise of the option in order to acquire the remaining 45% ownership stake PAL had in Prognoz at a fixed price.

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

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

In addition to the consideration paid to PAL for the 45% stake Polymetal also committed to pay PAL a net smelter return ('NSR') royalty of between 2% and 4% (prorated for the 45% stake being acquired), which will be dependent on the applicable statutory mineral extraction tax rate at the time when the asset enters commercial production.

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

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

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

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

Consideration transferred

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

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

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

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

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

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

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

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

Assets acquired and liabilities recognised at the date of acquisition

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

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

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

No significant financial assets were acquired in business combination.

Notes to the Consolidated financial statements continued

4. Acquisitions and disposals continued

Impact of the acquisition on the result of Group

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

Nezhda gold property acquisition

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

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

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

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

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

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

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

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

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

Consideration transferred

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

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

Assets acquired and liabilities recognised at the date of acquisition

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

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

Impact of the acquisition on the result of the Group

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

Amikan acquisition

Following the acquisition of an additional 31.7% stake in October 2018, the Group increased its overall ownership in the Veduga gold deposit to 74.3%. Veduga is a high-grade refractory gold deposit with reserves of 1.4 Moz of gold at 4.8 g/t and additional mineral resources of 0.4 Moz at 4.9 g/t. The licence holder for the property is Amikan LLC ('Amikan').

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

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

Consideration transferred

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

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

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

Notes to the Consolidated financial statements continued

4. Acquisitions and disposals continued

Assets acquired and liabilities recognised at the date of acquisition

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

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

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

Impact of the acquisition on the result of the Group

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

Tarutin asset swap

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

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

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

Khakanja disposal

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

The net assets of the disposed subsidiary at date of disposal were as follows:

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

Svetlobor disposal

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

Other minor disposals

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

The Group also disposed of its interest in the joint venture Aktogai Mys LLC, which held the Dolinnoye exploration licence in Kazakhstan, with a total gain on disposal of $5 million (Note 21).

(b) Year ended 31 December 2017

Primorskaya GGK LLC

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

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

5. Assets held for sale and discontinued operations

In December 2018 the Group disposed of its Khakanja operations (Note 4). Khakanja was identified as a separate cash-generating unit and a separate major line of business, included in the Khabarovsk segment, and therefore it meet the definition of a discontinued operation in accordance with IFRS 5 *Assets held for sales and discontinued operations*.

In October 2018 the Group entered into a legally binding agreement to sell 100% of its stake in the Kapan MPC CJSC. The total consideration payable for Kapan amounted to $55 million, subject to working capital adjustments. The sale was completed in January 2019 (Note 35). Kapan was identified as the major part of the Armenia cash-generating unit and the Armenia operating segment, and therefore it met the definition of a discontinued operation and an asset held for sale in accordance with IFRS 5 *Assets held for sales and discontinued operations*. The proceeds from the Kapan disposal are expected to approximate to the carrying amount of the related net assets and accordingly no impairment loss has been recognised following the classification of these operations as held for sale.

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

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

Notes to the Consolidated financial statements continued

5. Assets held for sale and discontinued operations continued

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

	Year ended 31 December 2018			Year ended 31 December 2017		
	Kapan $m	**Khakanja $m**	**Total $m**	Kapan $m	Khakanja $m	Total $m
Revenue	61	115	**176**	66	142	**208**
Expenses, net	(81)	(86)	**(167)**	(51)	(98)	**(149)**
Profit before income tax	**(20)**	**29**	**9**	**15**	**44**	**59**
Attributable income tax expense	(2)	(4)	**(6)**	(1)	(8)	**(9)**
Profit for the financial period	**(22)**	**25**	**3**	**14**	**36**	**50**
Loss on disposal of discontinued operations	–	(63)	**(63)**	–	–	**–**
Attributable tax expense	–	–	**–**	–	–	**–**
Net loss attributable to discontinued operations (attributable to equity shareholders of the Parent)	**(22)**	**(38)**	**(60)**	**14**	**36**	**50**
Net cash generated by/(used in)						
Operating activities	5	15	**20**	17	51	**68**
Investing activities	(10)	(8)	**(18)**	(24)	(16)	**(40)**
Financing activities	–	25	**25**	–	–	**–**

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

6. Segment information

The Group has identified four reportable segments:

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

As the Group entered into an agreement to dispose of its Kapan operations during the year (Note 5) which are the core part of the Armenia segment, the entire Armenia segment is disclosed as discontinued operations.

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

Nezhda and Prognoz (Note 4) are reported within Corporate and other as being development stage entities, as well as GKR Amikan (Note 4) as this operation is currently insignificant to the Group.

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

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

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

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

Period ended 31 December 2018 ($m)	Magadan	Khabarovsk	Ural	Kazakhstan	Total continuing segments	Total discontinued operations	Corporate and other	Intersegment operations and balances	**Total**
Revenue from external customers	725	575	134	272	1,706	176	–	–	1,882
Intersegment revenue	–	1	1	12	14	10	234	(258)	–
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	392	252	38	130	812	110	145	(178)	889
Cost of sales	487	305	47	168	1,007	122	145	(178)	1,096
Depreciation included in Cost of sales	(71)	(53)	(9)	(37)	(170)	(13)	–	–	(183)
Write-down of metal inventory to net realisable value	(21)	–	–	–	(21)	–	–	–	(21)
Write-down of non-metal inventory to net realisable value	(2)	–	–	(1)	(3)	1	–	–	(2)
Rehabilitation expenses	(1)	–	–	–	(1)	–	–	–	(1)
General, administrative and selling expenses, excluding depreciation, amortisation and share-based compensation	32	15	4	15	66	11	97	(14)	160
General, administrative and selling expenses	56	28	12	20	116	15	114	(70)	175
Intercompany management services	(24)	(13)	(8)	(4)	(49)	(4)	(3)	56	–
Depreciation included in SGA	–	–	–	(1)	(1)	–	(2)	–	(3)
Share-based compensation	–	–	–	–	–	–	(12)	–	(12)
Other operating expenses excluding additional tax charges	23	8	5	8	44	3	5	–	52
Other operating expenses	23	8	5	8	44	28	3	–	75
Lichkvaz exploration expenses and mineral rights write-off	–	–	–	–	–	(24)	–	–	(24)
Additional tax chargers/fines/penalties	–	–	–	–	–	(1)	2	–	1
Share of income of associates and joint ventures	–	–	–	–	–	–	(1)	–	(1)
Adjusted EBITDA	**278**	**301**	**88**	**131**	**798**	**62**	**(14)**	**(66)**	**780**
Depreciation expense	71	53	9	38	171	13	2	–	186
Rehabilitation expenses	1	–	–	–	1	–	–	–	1
Lichkvaz exploration expenses and mineral rights write-off	–	–	–	–	–	24	–	–	24
Write-down of non-metal inventory to net realisable value	2	–	–	1	3	(1)	–	–	2
Write-down of metal inventory to net realisable value	21	–	–	–	21	–	–	–	21
Share-based compensation	–	–	–	–	–	–	12	–	12
Additional tax chargers/fines/penalties	–	–	–	–	–	1	(2)	–	(1)
Operating profit/(loss)	**183**	**248**	**79**	**92**	**602**	**25**	**(26)**	**(66)**	**535**
Net foreign exchange gains									(40)
Revaluation of initial share in Prognoz									41
Loss on disposal of subsidiaries									(54)
Change in fair value of contingent consideration liability									7
Finance income									8
Finance costs									(71)
Profit before tax									**426**
Income tax expense									(71)
Profit for the financial period									**355**
Current metal inventories	194	92	33	57	376	–	3	(11)	368
Current non-metal inventories	99	36	5	22	162	–	14	(7)	169
Non-current segment assets:									
Property, plant and equipment, net	364	387	20	823	1,594	3	829	–	2,426
Goodwill	15	–	–	–	15	–	–	–	15
Non-current inventory	65	8	2	22	97	–	–	(2)	95
Investments in associates	–	–	–	–	–	–	2	–	2
Total segment assets	**737**	**523**	**60**	**924**	**2,244**	**3**	**848**	**(20)**	**3,075**
Additions to non-current assets:									
Property, plant and equipment	74	101	5	134	314	15	48	–	377
Acquisition of subsidiaries	–	–	–	–	–	–	716	–	716

Notes to the Consolidated financial statements continued

6. Segment information continued

Period ended 31 December 2017 ($m)	Magadan	Khabarovsk	Ural	Kazakhstan	Total continuing operations	Total discontinued operations	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	810	487	156	154	1,607	208	–	–	1,815
Intersegment revenue	–	13	1	6	20	1	218	(239)	–
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	437	224	43	83	787	114	141	(167)	875
Cost of sales	540	282	56	114	992	140	141	(167)	1,106
Depreciation included in Cost of sales	(94)	(56)	(13)	(29)	(192)	(18)	–	–	(210)
Write-down of metal inventory to net realisable value	(12)	–	–	(1)	(13)	(4)	–	–	(17)
Write-down of non-metal inventory to net realisable value	3	(2)	–	(1)	–	(4)	–	–	(4)
General, administrative and selling expenses, excluding depreciation, amortisation and share-based compensation	29	15	5	13	62	9	89	(15)	145
General, administrative and selling expenses	53	26	12	17	108	14	102	(66)	158
Intercompany management services	(23)	(11)	(7)	(3)	(44)	(5)	(2)	51	–
Depreciation included in SGA	(1)	–	–	(1)	(2)	–	(1)	–	(3)
Share-based compensation	–	–	–	–	–	–	(10)	–	(10)
Other operating expenses excluding additional tax charges	24	6	11	9	50	6	6	(10)	52
Other operating expenses	21	7	9	9	46	–	8	(10)	44
Additional tax chargers/fines/penalties	3	(1)	2	–	4	6	(2)	–	8
Share of income of associates and joint ventures	–	–	–	–	–	–	3	–	3
Adjusted EBITDA	**320**	**255**	**98**	**55**	**728**	**80**	**(15)**	**(47)**	**746**
Depreciation expense	95	56	13	30	194	18	1	–	213
Write-down of non-metal inventory to net realisable value	(3)	2	–	1	–	4	–	–	4
Write-down of metal inventory to net realisable value	12	–	–	1	13	4	–	–	17
Share-based compensation	–	–	–	–	–	–	10	–	10
Additional tax chargers/fines/penalties	(3)	1	(2)	–	(4)	(6)	2	–	(8)
Operating profit/(loss)	**219**	**196**	**87**	**23**	**525**	**60**	**(28)**	**(47)**	**510**
Net foreign exchange gains									(10)
Change in fair value of contingent consideration liability									2
Finance income									4
Finance costs									(63)
Profit before tax									**443**
Income tax expense									(89)
Profit for the financial period									**354**
Current metal inventories	130	105	42	30	307	26	–	(5)	328
Current non-metal inventories	99	39	6	21	165	13	17	(9)	186
Non-current segment assets:	–	–	–	–	–	–	–	–	–
Property, plant and equipment, net	469	411	46	892	1,818	98	138	–	2,054
Goodwill	18	–	–	–	18	–	–	–	18
Non-current inventory	86	9	2	23	120	5	–	(2)	123
Investments in associates	–	–	–	–	–	–	96	–	96
Total segment assets	**802**	**564**	**96**	**966**	**2,428**	**142**	**251**	**(16)**	**2,805**
Additions to non-current assets:	–	–	–	–	–	–	–	–	–
Property, plant and equipment	106	100	9	165	380	38	13	–	431
Acquisition of group of assets	–	–	–	–	–	–	2	–	2

7. Revenue

Continuing operations

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

Total continuing and discontinued operations

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

Geographical analysis of revenue by destination is presented below:

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

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

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

Notes to the Consolidated financial statements continued

7. Revenue continued

Presented below is an analysis per revenue streams:

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

8. Cost of sales

	Continuing operations Year ended		Total continuing and discontinued operations Year ended	
	31 December 2018 $m	31 December 2017 $m	**31 December 2018 $m**	31 December 2017 $m
Cash operating costs				
On-mine costs (Note 9)	417	363	482	414
Smelting costs (Note 10)	314	277	349	316
Purchase of ore and concentrates from third parties	66	43	78	54
Purchase of ore from related parties (Note 33)	22	38	22	38
Mining tax	87	74	97	88
Total cash operating costs	**906**	**795**	**1,028**	**910**
Depreciation and depletion of operating assets (Note 11)	210	179	228	193
Rehabilitation expenses	1	–	1	–
Total costs of production	**1,117**	**974**	**1,257**	**1,103**
Increase in metal inventories	(174)	(29)	(187)	(26)
Write-down of metal inventories to net realisable value (Note 22)	21	12	21	16
Write-down of non-metal inventories to net realisable value (Note 22)	4	(1)	2	3
Idle capacities and abnormal production costs	3	10	3	10
Total	**971**	**966**	**1,096**	**1,106**

Mining tax includes royalties payable in the Russian Federation, Kazakhstan and Armenia. Mining tax in the 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 the case where there were no sales during the period, cost of production of metals extracted (Russian Federation) or the average market price (Kazakhstan) during the reporting period. The royalty payable in Armenia is calculated as a percentage of actual sales during the reporting period.

Mining tax in respect of the metal inventories produced or sold during the year is recognised within cost of sales, while the additional mining tax accruals in respect of various disputes with tax authorities are recognised within other operating expenses (see Note 13).

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

9. On-mine costs

	Continuing operations Year ended		Total continuing and discontinued operations Year ended	
	31 December 2018 $m	31 December 2017 $m	**31 December 2018 $m**	31 December 2017 $m
Services	185	165	222	192
Labour	122	107	133	118
Consumables and spare parts	107	89	121	101
Other expenses	3	2	6	3
Total (Note 8)	**417**	**363**	**482**	**414**

10. Smelting costs

	Continuing operations Year ended		Total continuing and discontinued operations Year ended	
	31 December 2018 $m	31 December 2017 $m	**31 December 2018 $m**	31 December 2017 $m
Consumables and spare parts	143	115	159	132
Services	109	107	118	116
Labour	60	53	70	65
Other expenses	2	2	2	3
Total (Note 8)	**314**	**277**	**349**	**316**

11. Depletion and depreciation of operating assets

	Continuing operations Year ended		Total continuing and discontinued operations Year ended	
	31 December 2018 $m	31 December 2017 $m	**31 December 2018 $m**	31 December 2017 $m
On-mine	154	128	169	137
Smelting	56	51	59	56
Total (Note 8)	**210**	**179**	**228**	**193**

Depreciation of operating assets excludes depreciation relating to non-operating assets (included in general, administrative and selling expenses) and depreciation related to assets employed in development projects where the charge is capitalised. Depreciation expense, which is excluded from the Group's calculation of Adjusted EBITDA (see Note 6), also excludes amounts absorbed into unsold metal inventory balances.

12. General, administrative and selling expenses

	Continuing operations Year ended		Total continuing and discontinued operations Year ended	
	31 December 2018 $m	31 December 2017 $m	**31 December 2018 $m**	31 December 2017 $m
Labour	120	110	127	116
Services	14	10	16	11
Share-based compensation (Note 32)	12	10	12	10
Depreciation	3	4	3	4
Other	15	15	17	17
Total	**164**	**149**	**175**	**158**

Notes to the Consolidated financial statements continued

13. Other operating expenses, net

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

From 1 January 2017 Omolon Gold Mining Company LLC and Magadan Silver JSC are entitled to the decreased statutory income tax rate of 17% for the operations held in the Special Economic Zone of the Russian Far East, as well a decreased mining tax rate (payable at 60% of the standard mining tax rates). In return for obtaining this tax relief the members of the regional free economic zone are obliged to invest 50% of their tax savings each year in the Special Economic Zone Development Programme, amounting to $11 million in the reporting year (2017: $12 million).

During the year ended 31 December 2018 the Group concluded that the Lichkvaz project, previously accounted for as part of the Armenia segment and regarded as a source of ore for Kapan (Note 5), is not economically viable. As a result, the Lichkvaz development asset was fully impaired (Note 19). No other exploration and development assets were written off during the year ended 31 December 2018 (2017: $2 million).

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

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

14. Employee costs

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

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

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

Compensation of key management personnel is disclosed within Note 33.

15. Auditor's remuneration

	Year ended	
	31 December 2018 $m	31 December 2017 $m
Fees payable to the auditor and their associates for the audit of the Company's Annual Report		
United Kingdom	0.36	0.35
Overseas	0.72	0.76
Audit of the Company's subsidiaries	0.05	0.05
Total audit fees	**1.13**	**1.16**
Audit-related assurance services – half year review	0.46	0.43
Total audit and half-year review fees	**1.59**	**1.59**
Other services	0.08	0.01
Total non-audit fees	0.08	0.01
Total fees	**1.67**	**1.60**
Non-audit fees as % of audit and half-year review fees	**5%**	**1%**

16. Finance costs

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

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

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

Notes to the Consolidated financial statements continued

17. Income tax

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

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

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

	Year ended	
	31 December 2018 $m	31 December 2017 $m
Profit before income tax	**426**	**443**
Theoretical income tax expense at the tax rate of 20%	85	89
Effect of Special Economic Zone and Regional Investment project decreased tax rates	(27)	(25)
Effect of different tax rates of subsidiaries operating in other jurisdictions	17	5
Revaluation of initial share on business combination	(8)	–
Current year losses not recognised and losses previously recognised written-off	1	3
Non-deductible interest expense	5	5
Cumulative exchange differences in foreign operation recycled from translation reserve	3	–
Other non-taxable income and non-deductible expenses	(5)	12
Total income tax expense	**71**	**89**

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

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

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

Tax exposures recognised in income tax

During the year ended 31 December 2018 and the year ended 31 December 2017 no individual significant exposures were identified as probable and provided for. Management has identified a total exposure (covering taxes and related interest and penalties) of approximately $46 million in respect of uncertain tax positions (31 December 2017: $5 million) which relate to income tax.

Income tax amounts included in other comprehensive income

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

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

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

Deferred taxation

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

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

	Year ended	
	31 December 2018 $m	31 December 2017 $m
Deferred tax liabilities	(152)	(77)
Deferred tax assets	73	61
	(79)	**(16)**

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

	Environmental obligation $m	Inventories $m	Property, plant, and equipment and other non-current assets $m	Trade and other payables $m	Tax losses $m	Long-term loans and payables $m	Intercompany loans $m	Other current assets $m	Total $m
At 1 January 2017	**7**	**(10)**	**(153)**	**10**	**105**	**2**	**(6)**	**5**	**(40)**
Charge to income statement	–	12	(3)	(2)	18	(1)	(1)	(1)	22
Recognised in other comprehensive income	–	–	–	–	–	–	3	–	3
Exchange differences	–	(1)	(3)	–	3	–	–	–	(1)
At 31 December 2017	**7**	**1**	**(159)**	**8**	**126**	**1**	**(4)**	**4**	**(16)**
Charge to income statement	–	(6)	(5)	(3)	46	–	1	4	37
Acquisitions (Note 4)	–	2	(124)	–	20	–	(2)	2	(102)
Disposals (Note 4)	–	2	1	–	(2)	–	–	–	1
Reclassified as held for sale (Note 5)	–	(2)	(2)	–	–	–	–	(3)	(7)
Recognised in other comprehensive income	–	–	–	–	–	–	(1)	–	(1)
Exchange differences	(1)	–	34	(1)	(23)	–	1	(1)	9
At 31 December 2018	**6**	**(3)**	**(255)**	**4**	**167**	**1**	**(5)**	**6**	**(79)**

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

Notes to the Consolidated financial statements continued

17. Income tax continued

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

Losses incurred in certain taxable entities in recent years have created a history of losses as of 31 December 2018. The Group has concluded that there is sufficient evidence to overcome the recent history of losses based on forecasts of sufficient taxable income in the carry-forward period.

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

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

No deferred tax asset has been recognised in respect of $86 million (2017: $90 million) as it is not considered probable that there will be future taxable profits against which the losses can be utilised. No deferred tax was recognised in relation to Svetloye tax losses, accumulated by 1 January 2016, where the entity has received tax relief as a Regional Investment Project and is entitled to the statutory income tax rate of 0% up to 2021, thus will not be able to utilise accumulated losses. Included in unrecognised tax losses are losses of $4 million that mainly expire in 2025. Other losses may be carried forward indefinitely in accordance with enacted changes to Russian Federation legislation described above.

The deferred tax liabilities for taxes that would be payable on the unremitted earnings of certain of the Group subsidiaries have not been recognised as the Group has determined that the undistributed profit of its subsidiaries will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognised, amount to $2,459 million (2017: $2,737 million).

18. Dividends

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

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

19. Property, plant and equipment

	Development assets $m	Exploration assets $m	Mining assets $m	Non-mining assets $m	Capital construction in-progress $m	Total $m
Cost						
Balance at 31 December 2016	**564**	**140**	**1,750**	**65**	**150**	**2,669**
Additions	77	35	141	4	174	431
Transfers	4	(29)	89	(9)	(55)	–
Change in environmental obligations	–	–	–	–	3	3
Acquisitions (Note 4)	–	2	–	–	–	2
Disposals and write-offs including fully depleted mines	–	(2)	(32)	(1)	(1)	(36)
Translation to presentation currency	10	4	76	2	5	97
Balance at 31 December 2017	**655**	**150**	**2,024**	**61**	**276**	**3,166**
Additions	34	45	162	6	130	377
Transfers	(453)	(54)	724	1	(218)	–
Reclassified as held for sale (Note 5)	–	–	(47)	(2)	(12)	(61)
Change in environmental obligations	–	–	2	–	(3)	(1)
Acquisitions (Note 4)	297	291	109	–	19	716
Eliminated on disposal of subsidiary	(4)	(13)	(61)	(2)	(3)	(83)
Disposals and write-offs including fully depleted mines	(24)	–	(140)	(4)	–	(168)
Translation to presentation currency	(39)	(54)	(417)	(10)	(39)	(559)
Balance at 31 December 2018	**466**	**365**	**2,356**	**50**	**150**	**3,387**

	Development assets $m	Exploration assets $m	Mining assets $m	Non-mining assets $m	Capital construction in-progress $m	Total $m
Accumulated depreciation, amortisation						
Balance at 31 December 2016	–	–	(839)	(25)	–	(864)
Charge for the period	–	–	(227)	(5)	–	(232)
Disposals and write-offs including fully depleted mines	–	–	28	–	–	28
Translation to presentation currency	–	–	(43)	(1)	–	(44)
Balance at 31 December 2017	**–**	**–**	**(1,081)**	**(31)**	**–**	**(1,112)**
Charge for the period	–	–	(254)	(5)	–	(259)
Reclassified as held for sale (Note 5)	–	–	20	1	–	21
Eliminated on disposal of subsidiary	–	–	56	2	–	58
Disposals and write-offs including fully depleted mines	–	–	135	1	–	136
Translation to presentation currency	–	–	190	5	–	195
Balance at 31 December 2018	**–**	**–**	**(934)**	**(27)**	**–**	**(961)**
Net book value						
31 December 2017	**655**	**150**	**943**	**30**	**276**	**2,054**
31 December 2018	**466**	**365**	**1,422**	**23**	**150**	**2,426**

Mining assets, exploration and development assets at 31 December 2018 included mineral rights with net book value which amounted to $1,216 million (31 December 2017: $735 million) and capitalised stripping costs with net book value of $76 million (31 December 2017: $50 million). Mineral rights of the Group comprise assets acquired upon acquisition of subsidiaries and asset acquisitions.

No property, plant and equipment was pledged as collateral at 31 December 2018 or at 31 December 2017.

Notes to the Consolidated financial statements continued

20. Goodwill

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

	Year ended	
	31 December 2018 $m	31 December 2017 $m
Cost and Accumulated impairment losses		
At 1 January	**18**	**17**
Translation effect	(3)	1
At 31 December	**15**	**18**
Mayskoye	11	13
Dukat	4	5
Total	**15**	**18**

The carrying amount of goodwill is reviewed annually to determine whether it is in excess of its recoverable amount. The recoverable amount of the cash-generating unit is determined based on a fair value less costs to sell calculation. Fair value is based on the application of the Discounted Cash Flow Method (DCF) using post-tax cash flows. The DCF method is attributable to the development of proved and probable reserves. The impairment testing procedure and related assumptions are described in detail in the 'Key sources of estimation uncertainty' section above.

Sensitivity analysis

For Dukat and Mayskoye, management has performed an analysis as to whether a reasonably possible adverse change to any of the key assumptions would lead to impairment.

The following scenarios were considered as reasonably possible and were used for this sensitivity analysis:

- 10% simultaneous decrease in gold and silver prices over the life of mine;
- 10% revaluation in Rouble exchange rates;
- 10% increase in operating expenses over the life of mine; and
- 0.5% increase in the discount rate applied.

Each of the sensitivities above has been determined by assuming that the relevant key assumption moves in isolation, and without regard to potential mine plan changes and other management decisions which would be taken to respond to adverse changes in existing management projections. The scenario of the gold price decreasing by 10% would cause the carrying amount to exceed the aggregate recoverable amount of Mayskoye by $9 million. No other scenarios would result in impairment.

21. Investments in associates and joint ventures

	31 December 2018		31 December 2017	
	Voting power %	**Carrying value $m**	Voting power %	Carrying value $m
Interests in associates and joint ventures				
Proeks LLC	30	2	30	2
South-Verkhoyansk Mining Company JSC (Nezhda)	100	–	17.66	28
GRK Amikan	74.3	–	42.65	7
Prognoz Serebro LLC	100	–	5	5
Aktogai Mys LLC	–	–	50	2
Total		**2**		**44**
Loans forming part of net investment in joint ventures				
JSC South-Verkhoyansk Mining Company (Nezhda)		–		39
Prognoz Serebro LLC		–		13
		–		52
Total investments in associates and joint ventures		**2**		**96**

Prognoz Serebro LLC (Prognoz), South-Verkhoyansk Mining Company JSC (Nezhda) and GRK Amikan LLC were consolidated for the first time during the year ended 31 December 2018 (Note 4).

Aktogai Mys LLC

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

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

Proeks LLC

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

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

22. Inventories

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

Write-downs of metal inventories to net realisable value

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

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

Notes to the Consolidated financial statements continued

22. Inventories continued

The key assumptions used as at 31 December 2018 in determining net realisable value of inventories (including the commodity price assumptions for long-term stockpiles) were consistent with those used in the goodwill impairment review (Note 20). For short-term metal inventories applicable forward prices as of 31 December 2018 were used.

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

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

23. Trade receivables and other financial instruments

	Year ended	
	31 December 2018 $m	31 December 2017 $m
Receivables from provisional copper, gold and silver concentrate sales	60	26
Other receivables	22	15
Accounts receivable from related parties (Note 33)	–	8
Less: Allowance for doubtful debts	(3)	(2)
Total trade and other receivables	**79**	**47**
Call option related to the Nezhda acquisition (Note 4)	–	12
Short-term loans provided to related parties (Note 33)	–	7
Short-term loans provided to third parties	2	5
Total other short-term financial instruments	**2**	**24**
Total	**81**	**71**

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

24. Cash and cash equivalents

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

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

25. Borrowings

Borrowings at amortised cost:

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

Bank loans

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

Movements in borrowings are reconciled as follows:

	1 January $m	Borrowings obtained $m	Repayments of borrowings $m	Borrowings acquired $m	Borrowings disposed $m	Net foreign exchange losses $m	Exchange differences on translating foreign operations $m	Arrangement fee amortisation $m	31 December $m
Year ended 31 December 2017	1,378	3,108	(3,033)	–	–	(14)	14	3	1,456
Year ended 31 December 2018	1,456	1,697	(1,254)	26	(25)	(110)	110	(1)	1,899

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

The table below summarises maturities of borrowings:

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

Notes to the Consolidated financial statements continued

26. Environmental obligations

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

	31 December 2018 $m	31 December 2017 $m
Opening balance	**39**	**37**
Changes in estimates for the year:		
Change in estimate of environmental obligations (Note 13)	(1)	(4)
Decommissioning liabilities recognised as increase in Property plant and equipment (Note 19)	(1)	3
Rehabilitation expenses	1	–
Effect of unwinding of discount	3	3
Reclassified to discontinued operations	(1)	
Acquired in business combinations (Note 4)	2	–
Disposal of subsidiary (Note 4)	(4)	–
Translation effect	(6)	–
Closing balance	**32**	**39**

The principal assumptions are related to Russian Rouble, Kazakh Tenge and Armenian Dram projected cash flows. The assumptions used for the estimation of environmental obligations were as follows:

	2018	2017
Discount rates	7.23%–10.68%	7.23%–14.67%
Inflation rates	2–4.6%	1.57%–8.5%
Expected mine closure dates	1–34 years	1–34 years

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

27. Trade payables and accrued liabilities

	Year ended	
	31 December 2018 $m	31 December 2017 $m
Trade payables	72	62
Accrued liabilities	39	40
Labour liabilities	12	14
Provision for investment in Special Economic Zone (Note 13)	11	10
Account payable to related parties	–	6
Other payables	12	3
Total	**146**	**135**

In 2018, the average credit period for payables was 28 days (2017: 25 days). There was no interest charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payment schedules to ensure that all amounts payable are settled within the credit period.

28. Commitments and contingencies

Commitments

Capital commitments

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

Social and infrastructure commitments

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

	31 December 2018 $m	31 December 2017 $m
Within one year	2	2
From one to five years	20	22
Thereafter	4	4
Total	**26**	**28**

Forward sale commitments

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

Operating leases: Group as a lessee

During the year ended 31 December 2018 the Group recognised $7 million as operating lease expenses (2017: $7 million).

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

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

	31 December 2018 $m	31 December 2017 $m
Within one year	3	3
From one to five years	7	5
Thereafter	2	4
Total	**12**	**12**

Contingencies

Operating environment

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

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

Taxation

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

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

Notes to the Consolidated financial statements continued

29. Fair value accounting

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

	31 December 2017			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Receivables from provisional copper, gold and silver concentrate sales	–	26	–	**26**
Call option related to the Nezhda acquisition (Note 4)	–	–	12	**12**
Contingent consideration liability	–	–	(62)	**(62)**
	–	**26**	**(50)**	**(24)**

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

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables and short-term debt recorded at amortised cost approximate to their fair values because of the short maturities of these instruments. The estimated fair value of the Group's debt, calculated using the market interest rate available to the Group as at 31 December 2018, is $1,660 million, and the carrying value as at 31 December 2018 is $1,899 million (see Note 25).

Receivables from provisional copper, gold and silver concentrate sales

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

Contingent consideration liabilities

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

	31 December 2018							31 December 2017
	Omolon $m	**Kyzyl $m**	**Lichkvaz $m**	**Kapan $m**	**Komar $m**	**Prognoz $m**	**Total $m**	Total $m
Opening balance	11	12	3	11	25	–	62	76
Additions (Note 4)	–	–	–	–	–	14	14	–
Change in fair value, included in profit or loss	2	(2)	(3)	(2)	(2)	–	(7)	(2)
Unwinding of discount (Note 16)	1	–	–	–	–	–	1	3
Settlement through issue of shares (Note 31)	–	(10)	–	–	–	–	(10)	(10)
Cash settlement	(3)	–	–	(1)	(2)	–	(6)	(5)
Total contingent consideration	**11**	**–**	**–**	**8**	**21**	**14**	**54**	**62**
Less current portion of contingent consideration liability	(4)	–	–	(1)	–	–	(5)	(5)
	7	**–**	**–**	**7**	**21**	**14**	**49**	**57**

Omolon

In 2008, the Group recorded a contingent consideration liability related to the acquisition of 98.1% of the shares in Omolon Gold Mining Company LLC (Omolon). The fair value of the contingent consideration liability was determined using a valuation model which simulates expected production of gold and silver at the Kubaka mine and future gold and silver prices to estimate the future revenues of Omolon. This liability is revalued at each reporting date based on 2% of the life-of-mine revenues with the resulting gain or loss recognised in the consolidated income statement. The liability recognised as at 31 December 2018 is $11 million, including current portion of $4 million.

Kyzyl

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

Lichkvaz

During the year ended 31 December 2015 the Group completed the acquisition of Lichkvaz CJSC (Lichkvaz), the company owning the Lichkvaz exploration licence in Armenia. The fair value of the related contingent consideration liability was calculated using a valuation model which simulates expected production of metals and future gold, silver and copper prices to estimate future value of the metals in the actually extracted ore. During the year ended 31 December 2018 the Group concluded that the Lichkvaz project is not economically viable and wrote off the related development assets and released the related contingent liability.

Kapan

During the year ended 31 December 2016 the Group completed the acquisition of DPMK, the company owning the Kapan mine and processing plant in Armenia. The seller is entitled to receive a 2% NSR (Net Smelter Return) royalty on future production from the Kapan Gold Mine capped at $25 million. At the 31 December 2018, the fair value of the contingent consideration was estimated at $8 million, including a current portion of $1 million. In January 2019, following the sale of Kapan property (Notes 5 and 35), the Group has agreed with DPMK, to terminate the royalty owed to DPM via a buyout for a cash consideration of $6 million.

Komar

On 1 August 2016 the Group completed the acquisition of Orion Minerals LLP, the holding company for the Komarovskoye Gold Deposit ('Komar') in the Republic of Kazakhstan. The seller is entitled to the contingent consideration that was determined based on the LOM model of the Komarovskoye mine and calculated using Monte Carlo modelling, assuming gold price volatility of 16.68% (2017: 17.02%). At 31 December 2018, the fair value of the contingent consideration was estimated at $21 million.

Prognoz

During the year ended 31 December 2018 the Group completed the acquisition of Prognoz silver property (Note 4). The fair value of the related contingent consideration liabilities was estimated at $14 million. The valuation method and applicable assumptions are described in Note 4. There were no significant changes to the fair value as of 31 December 2018.

Assumptions used in the valuation of Omolon, Kapan and Lichkvaz are consistent with those used in goodwill impairment tests (Note 20), 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.

30. Risk management activities

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy is to provide value to stakeholders by maintaining an optimal short-term and long-term capital structure, reducing cost of capital, and to safeguard the ability to support the operating requirements on an ongoing basis, continuing the exploration and development activities.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 25 offset by cash and cash equivalents and bank balances as detailed in Note 24) and equity of the Group comprising the Stated Capital account, reserves and retained earnings.

The Group's committed borrowings are subject to certain financial covenants. Compliance with covenants is reviewed on a semi-annual basis and the Group's Board is satisfied with forecast compliance with covenants on those borrowings.

The Group's Board reviews the capital structure of the Group on a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

Notes to the Consolidated financial statements continued

30. Risk management activities continued

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, derivatives, trade and other payables. The Group has various financial assets such as accounts receivable, loans advanced and cash and cash equivalents.

	Year ended	
	31 December 2018 $m	31 December 2017 $m
Financial assets		
Financial assets at FVTPL		
Receivables from provisional copper, gold and silver concentrate sales (Note 23)	60	26
Call option related to the Nezhda acquisition (Note 4)	–	12
Financial assets at amortised cost		
Cash and cash equivalents (Note 24)	379	36
Trade and other receivables (Note 23)	21	33
Non-current loans and receivables (Note 23)	6	15
Total financial assets	**466**	**122**
Financial liabilities		
Financial liabilities at FVTPL		
Contingent consideration liability (Note 29)	54	62
Financial liabilities at amortised cost		
Borrowings (Note 25)	1,899	1,456
Trade and other payables (Note 27)	87	81
Total financial liabilities	**2,040**	**1,599**

Trade and other payables exclude employee benefits and social security.

The main risks arising from the Group's financial instruments are foreign currency and commodity price risk, interest rate, credit and liquidity risks.

At the end of the reporting period, there are no significant concentrations of credit risk for receivables designated at FVTPL. The carrying amount reflected above represents the Group's maximum exposure to credit risk for such receivables.

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

		Year ended	
	Consolidated balance sheet location	**31 December 2018 $m**	31 December 2017 $m
Receivable from provisional copper, gold and silver concentrate sales	Accounts receivable	60	26

		Year ended	
	Location of gain/(loss) recorded in profit or loss	**31 December 2018 $m**	31 December 2017 $m
Receivable from provisional copper, gold and silver concentrate sales	Revenue	5	2

Foreign currency and commodity price risk

In the normal course of business the Group enters into transactions for the sale of its commodities, denominated in US Dollars. In addition, the Group has assets and liabilities in a number of different currencies (primarily Russian Rouble and Kazakh Tenge). As a result, the Group is subject to transaction and translation exposure from fluctuations in foreign currency exchange rates.

The Group does not currently use derivative instruments to hedge its exposure to foreign currency risk.

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than functional currencies of the individual Group entities at 31 December 2018 and 31 December 2017 were as follows:

	Assets		Liabilities	
	31 December 2018 $m	31 December 2017 $m	**31 December 2018 $m**	31 December 2017 $m
US Dollar	356	53	792	400
Euro	–	2	9	11
Total	**356**	**55**	**801**	**411**

US dollar denominated assets and liabilities disclosed above exclude balances outstanding held in Polymetal International plc and its intermediate holding companies, where the functional currency is the US dollar ($) as described in Note 2.

Currency risk is monitored on a monthly basis by performing a sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level.

The table below details the Group's sensitivity to changes in exchange rates by 10% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items denominated in respective currencies at the reporting dates.

	Year ended	
	31 December 2018 $m	31 December 2017 $m
Profit or loss (RUB to US Dollar)	(24)	(15)
Profit or loss (KZT to US Dollar)	(20)	(20)

Provisionally priced sales

Under a long-established practice prevalent in the industry, copper, gold and silver concentrate sales are provisionally priced at the time of shipment. The provisional prices are finalised in a contractually specified future period (generally one to three months) primarily based on quoted LBMA or LME prices. Sales subject to final pricing are generally settled in a subsequent month. The forward price is a major determinant of recorded revenue.

Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group does not currently hedge its exposure to interest rate risk.

The Group's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk section of this note.

For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole period. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2018 would have decreased/increased by $7 million (2017: $9 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has increased during the current period mainly due to the increase in variable rate debt instruments.

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. The Group's financial instruments that are potentially exposed to concentration of credit risk consist primarily of cash and cash equivalents and loans and receivables.

Trade accounts receivable at 31 December 2018 and 31 December 2017 are represented by provisional copper, gold and silver concentrate sales transactions. A significant portion of the Group's trade accounts receivable is due from reputable export trading companies. With regard to other loans and receivables the procedures of accepting a new customer include checks by a security department and responsible on-site management for business reputation, licences and certification, creditworthiness and liquidity. Generally, the Group does not require any collateral to be pledged in connection with its investments in the above financial instruments. Credit limits for the Group as a whole are not set up.

Notes to the Consolidated financial statements continued

30. Risk management activities continued

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The major financial assets at the balance sheet date other than trade accounts receivable presented in Note 24 are cash and cash equivalents at 31 December 2018 of $379 million (2017: $36 million).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities as they fall due.

The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting, cash forecasting processes and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

The following table details the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2018:

	Less than 3 months	3–12 months	1–5 years	More than 5 years	**31 December 2018 $m Total**	31 December 2017 $m Total
Borrowings	34	169	1,866	107	2,176	1,669
Accounts payable and accrued expenses	64	23	–	–	87	81
Contingent consideration liabilities (Note 29)	2	6	26	34	68	75
Total	**100**	**198**	**1,892**	**141**	**2,331**	**1,825**

31. Stated capital account and retained earnings

As at 31 December 2018, the Company's issued share capital consisted of 469,368,309 ordinary shares (2017: 430,115,480 ordinary shares) of no par value, each carrying one vote. The Company does not hold any shares in treasury (2017: none). The ordinary shares reflect 100% of the total issued share capital of the Company.

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

	Stated capital account number of shares	Stated capital account $m
Balance at 31 December 2016	**428,262,338**	**2,010**
Issue of shares for Tarutin	893,575	10
Issue of shares for Primorskoye contingent consideration	815,348	10
Issue of shares in accordance with Deferred Share Awards plan	144,219	1
Balance at 31 December 2017	**430,115,480**	**2,031**
Share issue for Prognoz	20,459,668	200
Share issue for Kyzyl deferred consideration	1,015,113	10
Share issue for Amikan	2,456,049	22
Share issue for Nezhda	13,486,579	136
Share issue for Saum	834,055	6
Issue of shares in accordance with DSA and LTIP plans	1,001,365	9
Balance at 31 December 2018	**469,368,309**	**2,414**

In September 2018 the Group increased its interest in Saum Mining Company LLC (the licence holder for the Saum polymetallic deposit with resources of 435 Koz of gold equivalent at 9.7 g/t by 20% (from 80% to 100%). The Group purchased the additional 20% from an unrelated party for a consideration of $6 million, payable through the issue of 834,055 new Polymetal International plc shares. The Group has previously determined that Saum meets the definition of a subsidiary and therefore it was consolidated from the date of the 80% share acquisition. The increase in interest in Saum was recognised as an acquisition of the non-controlling interest and recognised as an interest within equity. As of the acquisition date and during the years ended 31 December 2018 and 31 December 2017 Saum did not give rise to a significant non-controlling interest to be presented within equity, income statement and statement of comprehensive income.

Reserves available for distribution to shareholders are based on the available cash in the Company under Jersey law. As Russian, Kazakh and Armenian legislation identifies the basis of distribution of the dividends as accumulated profit, the ability to distribute cash up to the Company from the Russian, Kazakh and Armenian operating companies will be based on the statutory historical information of each stand-alone entity. Statutory financial statements in the Russian Federation are prepared in accordance with Russian accounting standards which differ from IFRS, while Kazakhstan and Armenia have adopted IFRS from 1 January 2006 and 1 January 2011, respectively. Also, current legislation and other statutory regulations dealing with distribution rights are open to legal interpretation; consequently, actual distributable reserves may differ from the amount of accumulated profit in accordance with statutory financial statements. However, the Group has unremitted accumulated retained earnings of approximately $2.5 billion (2017: $2.7 billion), which if remitted without restrictions would fund the Group's anticipated dividends for a number of years, after allowing for related tax payments.

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

Weighted average number of shares: Diluted earnings per share

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

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

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

At 31 December 2018 the outstanding LTIP awards issued under 2015–2016 tranches represent dilutive potential ordinary shares with respect to earnings per share from continuing operations as these are in the money as of reporting date (31 December 2017: the outstanding LTIP awards issued under 2014–2017 tranches represent dilutive potential ordinary shares).

The awards issued under management bonus deferral award plan are dilutive as of 31 December 2018 and 31 December 2017 being contingently issued shares and are included in the calculation of diluted EPS based on the weighted average number of shares that would be issuable if the end of the reporting period were the end of the contingency period.

32. Share-based payments

For the year ended 31 December 2018, share-based compensation in the amount of $12 million including $1 million of management bonus deferral award (2017: $10 million and $1 million, respectively) was recognised in general, administrative and selling expenses in the consolidated income statement (Note 12). As of reporting date the unrecognised share-based compensation expense related to non-vested equity-settled stock appreciated rights is detailed as follows:

	31 December 2018			31 December 2017	
	Number of option granted shares	**Expected amortisation period years**	**Unrecognised share-based compensation expense $m**	Expected amortisation period years	Unrecognised share-based compensation expense $m
Tranche 2014	2,567,977	–	–	0.3	1
Tranche 2015	2,636,366	0.3	1	1.3	3
Tranche 2016	2,039,787	1.3	3	2.3	6
Tranche 2017	2,070,002	2.3	8	3.3	12
Tranche 2018	2,549,754	3.3	9	N/A	N/A
			21		**22**

Notes to the Consolidated financial statements continued

32. Share-based payments continued

During the year ended 31 December 2018 a total amount of 1,001,365 shares were released and issued in accordance with the management bonus plan deferral award and the long-term incentive plan (2017: 144,219 shares under the management bonus plan deferral award were released and issued in accordance with the plan 110,850). The assumptions used in the calculation and fair value of one award, calculated based on those assumptions, are set out in the table below:

	Tranche 2014	Tranche 2015	Tranche 2016	Tranche 2017	Tranche 2018
Risk free rate	1.60%	1.17%	1.11%	1.60%	2.49%
Expected volatility	46.14%	43.70%	42.05%	41.65%	34.03%
Constant correlation	34.49%	30.86%	32.32%	34.49%	33.70%
Expected life, years	4	4	4	4	4
Share price at the date of grant (USD)	13.3	8.2	10.3	13.3	10.2
Fair value of one award (USD)	3.2	3.8	4.6	6.9	4.0

Dividend yield is not incorporated into the calculation of the fair value of the awards, as dividend equivalents will be received on vested shares, reflecting the value of dividends, which have been paid during the period from the grant date to the vesting date.

33. Related parties

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

During the year ended 31 December 2018 the Group has for the first time consolidated its interest in its joint ventures Prognoz and Nezhda and the associate GRK Amikan (Notes 4 and 21).

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

The loans outstanding as of 31 December 2017 were represented by loans advanced to Nezhda and Prognoz, consolidated by 31 December 2018, and Aktogai Mys LLC, which was disposed of during the year ended 31 December 2018 (Note 21).

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

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

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

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

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

As of 31 December 2018 the share of non-controlling interest in Amikan GRK (Note 4) amounting to the $5 million was held by a related party.

34. Notes to the consolidated statement of cash flows

	Note	Year ended **31 December 2018 $m**	31 December 2017 $m
Profit before tax		426	443
Adjustments for:			
Depreciation and depletion recognised in the statement of comprehensive income		186	214
Write-down of exploration assets and construction in progress	19	24	3
Write-down of metal inventories to net realisable value	22	21	16
Write-down of non-metal inventories to net realisable value	22	2	3
Additional tax chargers/fines/penalties		(2)	(8)
Provision for investment in Special Economic Zone		11	12
Share-based compensation	12, 32	12	10
Finance costs	16	71	63
Finance income		(8)	(4)
Loss on disposal of property, plant and equipment	13	–	1
Rehabilitation expenses		1	–
Change in contingent consideration liabilities	29	(7)	(2)
Share of loss of associates and joint ventures	21	1	(3)
Foreign exchange gain		40	10
Change in estimate of environmental obligations		(1)	(4)
Loss on disposal of subsidiaries, net		54	–
Revaluation of initial share on business combination		(41)	–
Other non-cash expenses		6	4
Movements in working capital			
Increase in inventories		(150)	(35)
Increase in VAT receivable		(19)	(31)
(Increase)/Decrease in trade and other receivables		(24)	14
Increase in prepayments to suppliers		(34)	(6)
Increase/(Decrease) in trade and other payables		123	(20)
Increase in other taxes payable		3	10
Cash generated from operations		**695**	**690**
Interest paid		(74)	(63)
Interest received		4	1
Income tax paid		(112)	(95)
Net cash generated by operating activities		**513**	**533**

Significant non-cash transactions during the year ended 31 December 2018 represent the issuance of 38,251,464 shares for several business combinations and other transactions (Note 31) (2017: the issuance of shares to settle the Primorskoye contingent consideration of $10 million and the issuance of shares to acquire Tarutin non-controlling interest of $10 million).

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

35. Subsequent events

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

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

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

Alternative performance measures

Introduction

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

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

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

Purpose

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

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

APMs and justification for their use

Group APM	Closest equivalent IFRS measure	Adjustments made to IFRS measure	Rationale for adjustments
Underlying net earnings	• Profit/(loss) for the financial period attributable to equity shareholders of the Company	• Write-down of metal inventory to net realisable value (post-tax) • Write-down of development and exploration assets (post-tax) • Foreign exchange (gain)/loss (post-tax) • Change in fair value of contingent consideration liability (post-tax) • Gains/losses on acquisition, revaluation and disposals of interests in subsidiaries, associates and joint ventures (post-tax)	• Exclude the impact of key significant one-off non-recurring items and significant non-cash items (other than depreciation) that can mask underlying changes in core performance
Underlying return on equity	• No equivalent	• Underlying net earnings (as defined above) • Average equity at the beginning and the end of reporting year, adjusted for translation reserve	• The most important metric for evaluating a company's profitability. • Measures the efficiency with which a company generates income using the funds that shareholders have invested
Return on assets	• No equivalent	• Underlying net earnings (as defined above) before interest and tax • Average total assets at the beginning and the end of reporting year	• A financial ratio that shows the percentage of profit a company earns in relation to its overall resources
Adjusted EBITDA	• Profit/(loss) before income tax	• Finance cost (net) • Depreciation and depletion • Write-down of metal and non-metal inventory to net realisable value • Write-down of development and exploration assets (post-tax) • Share-based compensation • Bad debt allowance • Net foreign exchange losses • Change in fair value of contingent consideration liability • Rehabilitation costs • Additional mining taxes, VAT, penalties and accrued interest • Gains/losses on acquisition, revaluation and disposals of interests in subsidiaries, associates and joint ventures (post-tax)	• Exclude the impact of certain non-cash element, either recurring or non-recurring, that can mask underlying changes in core operating performance, to be a proxy for operating cash flow generation
Net debt	• Net total of current and non-current borrowings • cash and cash equivalents	• Not applicable	• Measures the Group's net indebtedness that provides an indicator of the overall balance sheet strength • Used by creditors in bank covenants
Net debt/ EBITDA ratio	• No equivalent	• Not applicable	• Used by creditors, credit rating agencies and other stakeholders
Free cash flow	• Cash flows from operating activity less cash flow from investing activities	• Less cash flows used in investing activities, excluding acquisition costs in business combinations and investments in associates and joint ventures	• Reflect cash generating from operations after meeting existing capital expenditure commitments • Measures the success of the Company in turning profit into cash through the strong management of working capital and capital expenditure
Total cash costs (TCC)	• Total cash operating costs • General, administrative and selling expenses	• Depreciation expense • Rehabilitation expenses • Write-down of inventory to net realisable value • Intersegment unrealised profit elimination • Idle capacities and abnormal production costs • Exclude Corporate and Other segment and development assets	• Calculated according to common mining industry practice using the provisions of Gold Institute Production Cost Standard • Give a picture of a Company's current ability to extract its resources at a reasonable cost and generate earnings and cash flows for use in investing and other activities
All-in sustaining cash costs (AISC)	• Total cash operating costs • General, administrative and selling expenses	• AISC is based on total cash costs, and adds items relevant to sustaining production such as other operating expenses, corporate level SGA, and capital expenditures and exploration at existing operations (excluding growth capital)	• Include the components identified in World Gold Council's Guidance Note on Non-GAAP Metrics – All-In Sustaining Costs and All-In Costs (June 2013), which is a non-IFRS financial measure • Provide investors with better visibility into the true cost of production

Reserves and Resources

Ore Reserves as at 1 January 2019[1]

	Tonnage	Grade					Content				
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	GE, Koz
Proved											
Standalone mines	**7,350**					**4.5**	**1,063**	**–**	**–**	**–**	**1,063**
Albazino	5,460	3.8	–	–	–	3.8	667	–	–	–	667
Mayskoye	1,560	6.7	–	–	–	6.7	338	–	–	–	338
Kyzyl project (Bakyrchik)[2]	330	5.5	–	–	–	5.5	58	–	–	–	58
Dukat hub	**6,600**					**3.5**	**130**	**52,772**	**–**	**–**	**740**
Dukat	4,960	0.4	240	–	–	3.1	72	38,190	–	–	491
Lunnoye	1,370	1.2	267	–	–	4.7	54	11,721	–	–	205
Goltsovoye	40	–	374	–	–	4.7	–	542	–	–	7
Arylakh	230	0.6	326	–	–	4.6	4	2,319	–	–	36
Varvara hub	**19,710**					**1.4**	**791**	**–**	**12.7**	**–**	**858**
Varvara[3]	11,640	0.9	–	0.49	–	1.1	354	–	12.7	–	421
Komar	3,260	1.4	–	–	–	1.4	142	–	–	–	142
Maminskoye[4]	4,810	1.9	–	–	–	1.9	295	–	–	–	295
Omolon hub	**8,300**					**2.7**	**634**	**9,154**	**–**	**–**	**721**
Birkachan	3,210	2.2	6	–	–	2.3	226	659	–	–	233
Sopka Kvartsevaya	3,170	1.2	57	–	–	1.8	128	5,842	–	–	182
Oroch[5]	250	3.7	155	–	–	5.3	29	1,229	–	–	42
Olcha	200	9.9	19	–	–	10.1	62	120	–	–	63
Dalneye[6]	860	1.9	32	–	–	2.1	52	879	–	–	58
Tsokol Kubaka	230	5.9	7	–	–	6.0	44	49	–	–	44
Burgali[7]	380	7.9	31	–	–	8.2	95	375	–	–	98
Voro hub	**9,450**					**1.6**	**491**	**891**	**–**	**–**	**500**
Voro	9,450	1.6	3	–	–	1.6	491	891	–	–	500
Svetloye hub	**1,930**					**2.5**	**157**	**229**	**–**	**–**	**157**
Svetloye	1,930	2.5	4	–	–	2.5	157	229	–	–	157
Development and exploration projects	**13,630**					**3.8**	**1,573**	**7,603**	**–**	**–**	**1,653**
Nezhda[9]	11,730	3.6	20	–	–	3.9	1,372	7,603	–	–	1,452
Veduga[10]	320	3.1	–	–	–	3.1	32	–	–	–	32
Kutyn[11]	1,580	3.3	–	–	–	3.3	169	–	–	–	169
Total Proved	66,970					**2.6**	**4,838**	**70,649**	**12.7**	**–**	**5,690**
Kapan (discontinued)[13]	50	1.6	30	0.34	1.17	3.2	2	44	0.2	0.5	5
Total Proved (including discontinued operations)	**67,020**					**2.6**	**4,841**	**70,693**	**12.9**	**0.5**	**5,695**

	Tonnage	Grade					Content				
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	GE, Koz
Probable											
Standalone mines	**47,680**					**6.9**	**10,556**	**–**	**–**	**–**	**10,556**
Albazino	11,000	4.5	–	–	–	4.5	1,604	–	–	–	1,604
Mayskoye	8,340	6.9	–	–	–	6.9	1,843	–	–	–	1,843
Kyzyl project (Bakyrchik)[2]	28,340	7.8	–	–	–	7.8	7,109	–	–	–	7,109
Dukat hub	**5,560**					**3.9**	**131**	**49,735**	**–**	**–**	**702**
Dukat	4,050	0.5	290	–	–	3.7	68	37,724	–	–	483
Lunnoye	1,030	1.8	234	–	–	4.8	60	7,715	–	–	159
Goltsovoye	120	–	329	–	–	4.1	–	1,269	–	–	17
Arylakh	100	0.9	306	–	–	4.6	3	972	–	–	16
Perevalnoye	260	–	247	–	–	3.3	–	2,056	–	–	27
Varvara hub	**34,360**					**1.8**	**1,888**	**–**	**14.8**	**–**	**1,966**
Varvara[3]	5,980	1.2	–	0.64	–	1.6	237	–	14.8	–	315
Komar	18,490	1.7	–	–	–	1.7	1,033	–	–	–	1,033
Maminskoye[4]	9,890	1.9	–	–	–	1.9	618	–	–	–	618
Omolon hub	**1,560**					**8.3**	**400**	**1,540**	**–**	**–**	**416**
Birkachan	1,020	8.7	25	–	–	9.0	284	824	–	–	292
Sopka Kvartsevaya	90	4.3	137	–	–	5.8	12	383	–	–	16
Olcha	180	9.5	25	–	–	9.8	55	147	–	–	57
Tsokol Kubaka	110	6.9	12	–	–	7.0	25	42	–	–	25
Burgali[7]	160	4.7	28	–	–	5.0	24	144	–	–	25
Voro hub	**330**					**16.9**	**71**	**1,057**	**18.9**	**18.1**	**180**
Voro	10	3.6	4	–	–	3.6	1	1	–	–	1
North Kaluga[8]	320	6.7	101	5.81	5.58	17.1	70	1,056	18.9	18.1	179
Svetloye hub	**3,290**					**2.6**	**278**	**364**	**–**	**–**	**278**
Svetloye	3,290	2.6	3	–	–	2.6	278	364	–	–	278
Development and exploration projects	**35,420**					**3.7**	**4,119**	**11,692**	**2.8**	**–**	**4,256**
Nezhda[9]	26,290	3.4	13	–	–	3.5	2,844	10,981	–	–	2,960
Veduga[10]	6,030	4.9	–	–	–	4.9	950	–	–	–	950
Kutyn[11]	2,070	3.3	–	–	–	3.3	217	–	–	–	217
Lichkvaz[12]	1,030	3.3	21	0.27	–	3.9	108	711	2.8	–	129
Total Probable	**128,200**					**4.5**	**17,443**	**64,387**	**36.4**	**18.1**	**18,354**
Kapan[13]	3,420	2.1	41	0.45	1.73	4.4	236	4,554	15.5	59.1	486
Total Probable (including discontinued operations)	**131,620**					**4.5**	**17,679**	**68,941**	**51.8**	**77.2**	**18,839**

Reserves and Resources continued

Ore Reserves as at 1 January 2019[1] continued

	Tonnage	Grade					Content				
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	GE, Koz
Proved + Probable											
Standalone mines	**55,030**					**6.6**	**11,619**	**–**	**–**	**–**	**11,619**
Albazino	16,460	4.3	–	–	–	4.3	2,271	–	–	–	2,271
Mayskoye	9,900	6.9	–	–	–	6.9	2,181	–	–	–	2,181
Kyzyl project (Bakyrchik)[2]	28,670	7.8	–	–	–	7.8	7,167	–	–	–	7,167
Dukat hub	**12,160**					**3.7**	**261**	**102,507**	**–**	**–**	**1,442**
Dukat	9,010	0.5	262	–	–	3.4	140	75,914	–	–	974
Lunnoye	2,400	1.5	253	–	–	4.7	114	19,436	–	–	364
Goltsovoye	160	–	341	–	–	4.3	–	1,810	–	–	24
Arylakh	330	0.7	320	–	–	4.6	7	3,291	–	–	53
Perevalnoye	260	–	247	–	–	3.3	–	2,056	–	–	27
Varvara hub	**54,070**					**1.6**	**2,679**	**–**	**27.5**	**–**	**2,823**
Varvara[3]	17,620	1.0	–	0.56	–	1.3	591	–	27.5	–	736
Komar	21,750	1.7	–	–	–	1.7	1,175	–	–	–	1,175
Maminskoye[4]	14,700	1.9	–	–	–	1.9	913	–	–	–	913
Omolon hub	**9,860**					**3.6**	**1,034**	**10,693**	**–**	**–**	**1,136**
Birkachan	4,230	3.8	11	–	–	3.9	509	1,483	–	–	525
Sopka Kvartsevaya	3,260	1.3	59	–	–	1.9	140	6,225	–	–	199
Oroch[5]	250	3.7	155	–	–	5.3	29	1,229	–	–	42
Olcha	380	9.7	22	–	–	10.0	117	267	–	–	120
Dalneye[6]	860	1.9	32	–	–	2.1	52	879	–	–	58
Tsokol Kubaka	340	6.2	8	–	–	6.3	69	91	–	–	70
Burgali[7]	540	7.0	30	–	–	7.2	119	519	–	–	123
Voro hub	**9,780**					**2.2**	**562**	**1,948**	**18.9**	**18.1**	**679**
Voro	9,460	1.6	3	–	–	1.6	492	892	–	–	501
North Kaluga[8]	320	6.7	101	5.81	5.58	17.1	70	1,056	18.9	18.1	179
Svetloye hub	**5,220**	**2.6**	**4**			**2.6**	**435**	**593**	**–**	**–**	**435**
Svetloye	5,220	2.6	4	–	–	2.6	435	593	–	–	435
Development and exploration projects	**49,050**					**3.7**	**5,692**	**19,295**	**2.8**	**–**	**5,909**
Nezhda[9]	38,020	3.4	15	–	–	3.6	4,216	18,585	–	–	4,412
Veduga[10]	6,350	4.8	–	–	–	4.8	982	–	–	–	982
Kutyn[11]	3,650	3.3	–	–	–	3.3	386	–	–	–	386
Lichkvaz[12]	1,030	3.3	21	0.27	–	3.9	108	711	2.8	–	129
Total Proved + Probable	**195,170**					**3.8**	**22,281**	**135,036**	**49.1**	**18.1**	**24,044**
Kapan[13]	3,470	2.1	41	0.45	1.72	4.4	238	4,597	15.6	59.6	490
Total Proved + Probable (including discontinued operations)	**198,640**					**3.8**	**22,520**	**139,634**	**64.7**	**77.8**	**24,534**

1 Ore Reserves in accordance with the JORC Code (2012). Discrepancies in calculations are due to rounding.
2 Previous estimate prepared by RPA Inc. as at 01.01.2015. Price: Au = $1,200/oz. Revised estimate was prepared by Polymetal as at 01.01.2019 (accounts only for depletion).
3 Cu grade in Ore Reserves only represents average grade in flotation feed. Ore Reserves for flotation: 2.6 Mt Proved and 2.3 Mt Probable.
4 Estimate prepared by Polymetal as at 01.01.2014. Price: Au = $1,300/oz. Revised estimate was not performed due to lack of material changes.
5 Stockpiled Ore Reserves.
6 Stockpiled Ore Reserves.
7 Estimate prepared by Polymetal as at 01.01.2016. Price: Au = $1,100/oz and Ag = $15/oz. Revised estimate was not performed due to lack of material changes.
8 Initial estimate prepared by Polymetal as at 01.07.2014. Price: Au = $1,300/oz, Ag = $20/oz, Cu = $7,000/t and Zn = $1,700/t. Revised estimate was not performed due to lack of material changes.
9 Initial estimate prepared by CSA as at 01.04.2018. Price: Au = $1,200/oz and Ag = $16/oz. Revised estimate was not performed due to lack of material changes.
10 Ore Reserves are presented in accordance with the Company's ownership equal to 74.3%.
11 Initial estimate prepared by Snowden as at 01.01.2015. Price: Au = $1,300/oz. Only Ore Reserves estimate for Heap Leach. Revised estimate was not performed due to lack of material changes.
12 Initial estimate prepared by Polymetal as at 01.01.2018. Price: Au = $1,200/oz, Ag = $16/oz, Cu = $5,500/t. Revised estimate was prepared by Polymetal as at 01.01.2019 (accounts only for depletion).
13 Asset sold in January 2019. Initial estimate prepared by Polymetal as at 01.01.2018. Price: Au = $1,200/oz, Ag = $16/oz, Cu = $5,500/t and Zn = $2,200/t. Revised estimate was prepared by Polymetal as at 01.01.2019 (accounts only for depletion).

Mineral Resources as at 1 January 2019[1]

	Tonnage	Grade						Content					
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	Pb, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	Pb, Kt	GE, Koz
Measured													
Standalone mines	**4,410**						**5.3**	**751**	**–**	**–**	**–**	**–**	**751**
Albazino	2,990	2.1	–	–	–	–	2.1	206	–	–	–	–	206
Mayskoye	1,220	13.0	–	–	–	–	13.0	512	–	–	–	–	512
Kyzyl project (Bakyrchik)[2]	200	5.1	–	–	–	–	5.1	33	–	–	–	–	33
Dukat hub	**1,380**						**7.2**	**57**	**21,833**	**–**	**–**	**–**	**320**
Dukat	680	0.9	496	–	–	–	6.4	20	10,898	–	–	–	140
Lunnoye	550	2.0	416	–	–	–	7.3	35	7,464	–	–	–	131
Goltsovoye	80	–	980	–	–	–	13.1	–	2,470	–	–		33
Arylakh	70	0.9	459	–	–	–	7.3	2	1,000	–	–	–	16
Varvara hub	**11,480**						**1.1**	**292**	**–**	**23.9**	**–**	**–**	**418**
Varvara[4]	10,400	0.7	–	0.40	–	–	1.1	240	–	23.9	–	–	366
Komar	100	2.5	–	–	–	–	2.5	8	–	–	–	–	8
Maminskoye[5]	980	1.4	–	–	–	–	1.4	44	–	–	–	–	44
Omolon hub	**1,020**						**3.1**	**92**	**1,067**	**–**	**–**	**–**	**103**
Birkachan	20	17.0	53	–	–	–	17.5	10	31	–	–	–	10
Oroch[6]	480	1.2	51	–	–	–	1.7	19	795	–	–	–	27
Olcha	170	5.0	16	–	–	–	5.2	29	93	–	–	–	30
Dalneye[7]	220	1.1	16	–	–	–	1.2	8	112	–	–	–	8
Tsokol Kubaka	130	6.6	9	–	–	–	6.7	28	36	–	–	–	28
Voro hub	**260**						**2.8**	**22**	**40**	**–**	**–**	**–**	**23**
Voro	260	2.7	5	–	–	–	2.8	22	40	–	–	–	23
Svetloye hub	**50**						**3.1**	**5**	**6**	**–**	**–**	**–**	**5**
Svetloye	50	3.1	4	–	–	–	3.1	5	6	–	–	–	5
Development and exploration projects	**1,640**						**3.6**	**178**	**420**	**1.2**	**–**	**–**	**188**
Nezhda[11]	220	4.0	9	–	–	–	4.1	28	61	–	–	–	29
Veduga[12]	290	0.8	–	–	–	–	0.8	7	–	–	–	–	7
Kutyn[13]	740	4.1	–	–	–	–	4.1	97	–	–	–	–	97
Lichkvaz[15]	390	3.5	28	0.30	–	–	4.3	45	359	1.2	–	–	55
Total Measured	**20,240**						**2.8**	**1,397**	**23,367**	**25.1**	**–**	**–**	**1,807**
Kapan[16]	20	5.2	74	0.95	4.05	–	10.0	3	38	0.2	0.6	–	5
Total Measured (including discontinued operations)	**20,260**						**2.8**	**1,400**	**23,404**	**25.2**	**0.6**	**–**	**1,813**

Reserves and Resources continued

Mineral Resources as at 1 January 2019[1] continued

	Tonnage	Grade						Content					
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	Pb, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	Pb, Kt	GE, Koz
Indicated													
Standalone mines	**7,280**						**6.1**	**1,426**	**–**	**–**	**–**	**–**	**1,426**
Albazino	3,330	4.6	–	–	–	–	4.6	492	–	–	–	–	492
Mayskoye	1,210	10.0	–	–	–	–	10.0	390	–	–	–	–	390
Kyzyl project (Bakyrchik)[2]	2,740	6.2	–	–	–	–	6.2	545	–	–	–	–	545
Dukat hub	**1,270**						**11.7**	**91**	**31,002**	**–**	**–**	**–**	**479**
Dukat	440	0.9	469	–	–	–	6.0	13	6,686	–	–	–	86
Lunnoye	180	2.4	325	–	–	–	6.6	14	1,877	–	–	–	38
Goltsovoye	110	–	829	–	–		11.1	–	3,025	–	–		40
Arylakh	60	1.3	320	–	–	–	5.7	2	622	–	–	–	11
Perevalnoye	10	–	405				5.4	–	181				2
Primorskoye[3]	470	4.2	1,238	–	–	–	20.0	62	18,610	–	–	–	301
Varvara hub	**17,130**						**1.8**	**907**	**–**	**12.2**	**–**	**–**	**971**
Varvara[4]	7,700	1.4	–	0.53	–	–	1.6	338	–	12.2	–	–	402
Komar	8,280	1.9	–	–	–	–	1.9	514	–	–	–	–	514
Maminskoye[5]	1,150	1.5	–	–	–	–	1.5	55	–	–	–	–	55
Omolon hub	**850**						**9.5**	**182**	**6,853**	**–**	**–**	**–**	**259**
Birkachan	60	11.2	23	–	–	–	11.4	20	42	–	–	–	21
Olcha	70	9.1	28	–	–	–	9.5	20	61	–	–	–	21
Tsokol Kubaka	20	6.2	11	–	–	–	6.3	3	6	–	–	–	3
Irbychan	360	4.7	130	–	–	–	6.1	54	1,502	–	–	–	71
Nevenrekan	340	7.8	476	–	–	–	13.1	86	5,243	–	–	–	144
Voro hub	**5,130**						**6.3**	**731**	**2,539**	**26.8**	**42.6**	**–**	**1,038**
Voro	180	2.6	4	–	–	–	2.7	16	22	–	–	–	16
Tamunier[10]	2,190	3.4	10	–	–	–	3.5	242	690	–	–	–	245
Saum	1,260	2.4	45	2.14	3.39	–	9.9	96	1,827	26.8	42.6	–	399
Pescherny	1,500	7.8	–	–	–	–	7.8	378	–	–	–	–	378
Svetloye hub	**3,680**						**3.4**	**404**	**139**	**–**	**–**	**–**	**404**
Svetloye	1,500	2.3	3	–	–	–	2.4	113	139	–	–	–	114
Levoberezhny	2,180	4.1	–	–	–	–	4.1	291	–	–	–	–	291
Development and exploration projects	**12,720**						**7.3**	**893**	**146,356**	**1.0**	**–**	**119.8**	**2,997**
Nezhda[11]	2,770	3.7	16	–	–	–	3.9	331	1,423	–	–	–	346
Kutyn[13]	3,030	4.0	–	–	–	–	4.0	389	–	–	–	–	389
Prognoz[14]	5,570	–	808	–	–	2.15	11.6	–	144,710	–	–	119.8	2,081
Bolshevik	1,020	4.1	–	–	–	–	4.1	134	–	–	–	–	134
Lichkvaz[15]	330	3.7	21	0.30	–	–	4.4	39	222	1.0	–	–	47
Total Indicated	**48,060**						**4.9**	**4,635**	**186,889**	**40.0**	**42.6**	**119.8**	**7,574**
Kapan[16]	320	2.9	57	0.66	2.39	–	6.1	30	588	2.1	7.6	–	63
Total Indicated (including discontinued operations)	**48,380**						**4.9**	**4,665**	**187,477**	**42.1**	**50.2**	**119.8**	**7,636**

	Tonnage	Grade						Content					
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	Pb, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	Pb, Kt	GE, Koz
Measured + Indicated													
Standalone mines	**11,690**						**5.8**	**2,177**	**–**	**–**	**–**	**–**	**2,177**
Albazino	6,320	3.4	–	–	–	–	3.4	697	–	–	–	–	697
Mayskoye	2,430	11.5	–	–	–	–	11.5	901	–	–	–	–	901
Kyzyl project (Bakyrchik)[2]	2,940	6.1	–	–	–	–	6.1	578	–	–	–	–	578
Dukat hub	**2,650**						**9.4**	**149**	**52,835**	**–**	**–**	**–**	**798**
Dukat	1,120	0.9	485	–	–	–	6.2	33	17,584	–	–	–	226
Lunnoye	730	2.1	394	–	–	–	7.1	49	9,342	–	–	–	169
Goltsovoye	190	–	891	–	–	–	11.9	–	5,496	–	–	–	73
Arylakh	130	1.1	394	–	–	–	6.6	4	1,622	–	–	–	27
Perevalnoye	10	–	405	–	–	–	5.4	–	181	–	–	–	2
Primorskoye[3]	470	4.2	1,238	–	–	–	20.0	62	18,610	–	–	–	301
Varvara hub	**28,610**						**1.5**	**1,199**	**–**	**36.1**	**–**	**–**	**1,389**
Varvara[4]	18,100	1.0	–	0.43	–	–	1.3	578	–	36.1	–	–	768
Komar	8,380	1.9	–	–	–	–	1.9	522	–	–	–	–	522
Maminskoye[5]	2,130	1.4	–	–	–	–	1.4	99	–	–	–	–	99
Omolon hub	**1,870**						**6.0**	**274**	**7,920**	**–**	**–**	**–**	**363**
Birkachan	80	12.6	31	–	–	–	12.9	30	73	–	–	–	31
Oroch[6]	480	1.2	51	–	–	–	1.7	19	795	–	–	–	27
Olcha	240	6.1	19	–	–	–	6.4	48	154	–	–	–	50
Dalneye[7]	220	1.1	16	–	–	–	1.2	8	112	–	–	–	8
Tsokol Kubaka	150	6.5	9	–	–	–	6.6	31	41	–	–	–	31
Irbychan	360	4.7	130	–	–	–	6.1	54	1,502	–	–	–	71
Nevenrekan	340	7.8	476	–	–	–	13.1	86	5,243	–	–	–	144
Voro hub	**5,390**						**6.1**	**754**	**2,580**	**26.8**	**42.6**	**–**	**1,061**
Voro	440	2.7	4	–	–	–	2.7	38	63	–	–	–	39
Tamunier[10]	2,190	3.4	10	–	–	–	3.5	242	690	–	–	–	245
Saum	1,260	2.4	45	2.14	3.39	–	9.9	96	1,827	26.8	42.6	–	399
Pescherny	1,500	7.8	–	–	–	–	7.8	378	–	–	–	–	378
Svetloye hub	**3,730**						**3.4**	**409**	**144**	**–**	**–**	**–**	**409**
Svetloye	1,550	2.4	3	–	–	–	2.4	118	144	–	–	–	118
Levoberezhny	2,180	4.1	–	–	–	–	4.1	291	–	–	–	–	291
Development and exploration projects	**14,360**						**6.9**	**1,071**	**146,776**	**2.2**	**–**	**119.8**	**3,185**
Nezhda[11]	2,990	3.7	15	–	–	–	3.9	359	1,484	–	–	–	375
Veduga[12]	290	0.8	–	–	–	–	0.8	7	–	–	–	–	7
Kutyn[13]	3,770	4.0	–	–	–	–	4.0	486	–	–	–	–	486
Prognoz[14]	5,570	–	808	–	–	2.15	11.6	–	144,710	–	–	119.8	2,081
Bolshevik	1,020	4.1	–	–	–	–	4.1	134	–	–	–	–	134
Lichkvaz[15]	720	3.6	25	0.30	–	–	4.4	84	581	2.2	–	–	102
Total Measured + Indicated	**68,300**						**4.3**	**6,032**	**210,255**	**65.1**	**42.6**	**119.8**	**9,381**
Kapan[16]	340	3.0	58	0.67	2.47	–	6.3	33	626	2.2	8.2	–	68
Total Measured + Indicated (including discontinued operations)	**68,640**						**4.3**	**6,065**	**210,882**	**67.3**	**50.9**	**119.8**	**9,449**

Reserves and Resources continued

Mineral Resources as at 1 January 2019[1] continued

	Tonnage	Grade						Content					
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	Pb, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	Pb, Kt	GE, Koz
Inferred													
Standalone mines	**21,290**						**7.9**	**5,388**	**–**	**–**	**–**	**–**	**5,388**
Albazino	4,690	6.2	–	–	–	–	6.2	942	–	–	–	–	942
Mayskoye	5,180	11.3	–	–	–	–	11.3	1,884	–	–	–	–	1,884
Kyzyl project (Bakyrchik)[2]	11,420	7.0	–	–	–	–	7.0	2,562	–	–	–	–	2,562
Dukat hub	**2,270**						**6.8**	**51**	**36,775**	**–**	**–**	**–**	**499**
Dukat	1,030	1.0	527	–	–	–	6.8	33	17,418	–	–	–	224
Lunnoye	290	1.6	417	–	–	–	7.0	15	3,742	–	–	–	62
Goltsovoye	130	–	688	–	–		9.2	–	2,927	–	–		39
Arylakh	110	0.6	525	–	–	–	7.8	2	1,889	–	–	–	28
Perevalnoye	680	–	467				6.2	–	10,171				136
Primorskoye[3]	30	1.8	787	–	–	–	11.8	1	629	–	–	–	9
Varvara hub	**5,330**						**1.9**	**298**	**–**	**5.3**	**–**	**–**	**326**
Varvara[4]	4,110	1.6	–	0.60	–	–	1.8	213	–	5.3	–	–	241
Komar	1,220	2.2	–	–	–	–	2.2	85	–	–	–	–	85
Omolon hub	**600**						**10.4**	**187**	**1,191**	**–**	**–**	**–**	**200**
Sopka Kvartsevaya	20	3.9	122	–	–	–	5.2	1	43	–	–	–	2
Olcha	100	11.7	43	–	–	–	12.2	38	141	–	–	–	40
Tsokol Kubaka	80	8.7	16	–	–	–	8.9	22	42	–	–	–	23
Burgali[8]	50	11.9	15	–	–	–	12.0	21	26	–	–	–	21
Irbychan	40	4.6	142	–	–	–	6.2	6	202	–	–	–	9
Yolochka[9]	240	11.1	10	–	–	–	11.2	85	73	–	–	–	86
Nevenrekan	70	5.4	293	–	–	–	8.7	12	664	–	–	–	20
Voro hub	**1,030**						**5.4**	**177**	**88**	**–**	**–**	**–**	**178**
Tamunier[10]	480	3.2	4	–	–	–	3.3	50	69	–	–	–	50
Saum	10	1.9	45	–	–	–	2.3	1	20	–	–	–	1
Pescherny	540	7.3	–	–	–	–	7.3	127	–	–	–	–	127
Svetloye hub	**200**						**2.9**	**18**	**23**	**–**	**–**	**–**	**19**
Svetloye	160	2.9	4	–	–	–	2.9	15	23	–	–	–	15
Levoberezhny	40	2.3	–	–	–	–	2.3	3	–	–	–	–	3
Development and exploration projects	**60,860**						**5.3**	**8,816**	**106,553**	**3.2**	**–**	**77.9**	**10,315**
Nezhda[11]	46,440	5.1	9	–	–	–	5.2	7,552	13,679	–	–	–	7,696
Veduga[12]	1,500	5.8	–	–	–	–	5.8	282	–	–	–	–	282
Kutyn[13]	2,200	4.0	–	–	–	–	4.0	284	–	–	–	–	284
Prognoz[14]	4,500	–	635	–	–	1.73	9.2	–	91,822	–	–	77.9	1,327
Bolshevik	5,340	3.3	–	–	–	–	3.3	570	–	–	–	–	570
Lichkvaz[15]	880	4.5	37	0.36	–	–	5.5	128	1,052	3.2	–	–	155
Total Inferred	**91,580**						**5.7**	**14,936**	**144,631**	**8.5**	**–**	**77.9**	**16,925**
Kapan[16]	8,020	2.9	62	0.67	2.28	–	6.1	739	16,012	53.4	183.0	–	1,564
Total Inferred (including discontinued operations)	**99,600**						**5.8**	**15,674**	**160,642**	**61.9**	**183.0**	**77.9**	**18,488**

	Tonnage	Grade						Content					
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	Pb, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	Pb, Kt	GE, Koz
Measured + Indicated + Inferred													
Standalone mines	**32,980**						**7.1**	**7,565**	**–**	**–**	**–**	**–**	**7,565**
Albazino	11,010	4.6	–	–	–	–	4.6	1,639	–	–	–	–	1,639
Mayskoye	7,610	11.4	–	–	–	–	11.4	2,786	–	–	–	–	2,786
Kyzyl project (Bakyrchik)[2]	14,360	6.8	–	–	–	–	6.8	3,140	–	–	–	–	3,140
Dukat hub	**4,920**						**8.2**	**199**	**89,610**	**–**	**–**	**–**	**1,297**
Dukat	2,150	0.9	505	–	–	–	6.5	65	35,002	–	–	–	450
Lunnoye	1,020	1.9	400	–	–	–	7.1	64	13,083	–	–	–	231
Goltsovoye	320	–	808	–	–		10.8	–	8,423	–	–		112
Arylakh	240	0.8	455	–	–	–	7.2	6	3,511	–	–	–	55
Perevalnoye	690	–	466				6.2	–	10,351				138
Primorskoye[3]	500	4.0	1,216	–	–	–	19.6	64	19,239	–	–	–	311
Varvara hub	**33,940**						**1.6**	**1,497**	**–**	**41.3**	**–**	**–**	**1,715**
Varvara[4]	22,210	1.1	–	0.45	–	–	1.4	791	–	41.3	–	–	1,009
Komar	9,600	2.0	–	–	–	–	2.0	607	–	–	–	–	607
Maminskoye[5]	2,130	1.4	–	–	–	–	1.4	99	–	–	–	–	99
Omolon hub	**2,470**						**7.1**	**461**	**9,112**	**–**	**–**	**–**	**563**
Birkachan	80	12.6	31	–	–	–	12.9	30	73	–	–	–	31
Sopka Kvartsevaya	20	3.9	122	–	–	–	5.2	1	43	–	–	–	2
Oroch[6]	480	1.2	51	–	–	–	1.7	19	795	–	–	–	27
Olcha	340	7.7	26	–	–	–	8.0	87	295	–	–	–	90
Dalneye[7]	220	1.1	16	–	–	–	1.2	8	112	–	–	–	8
Tsokol Kubaka	230	7.3	12	–	–	–	7.4	53	84	–	–	–	54
Burgali[8]	50	11.9	15	–	–	–	12.0	21	26	–	–	–	21
Irbychan	400	4.7	132	–	–	–	6.1	60	1,704	–	–	–	79
Yolochka[9]	240	11.1	10	–	–	–	11.2	85	73	–	–	–	86
Nevenrekan	410	7.4	445	–	–	–	12.4	98	5,907	–	–	–	164

Reserves and Resources continued

Mineral Resources as at 1 January 2019[1] continued

	Tonnage	Grade						Content					
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	Pb, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	Pb, Kt	GE, Koz
Measured + Indicated + Inferred continued													
Voro hub	**6,420**						**6.0**	**931**	**2,668**	**26.8**	**42.6**	**–**	**1,239**
Voro	440	2.7	4	–	–	–	2.7	38	63	–	–	–	39
Tamunier[10]	2,670	3.4	9	–	–	–	3.4	292	759	–	–	–	296
Saum	1,270	2.4	45	2.11	3.36	–	9.8	97	1,846	26.8	42.6	–	400
Pescherny	2,040	7.7	–	–	–	–	7.7	505	–	–	–	–	505
Svetloye hub	**3,930**						**3.4**	**427**	**167**	**–**	**–**	**–**	**428**
Svetloye	1,710	2.4	3	–	–	–	2.4	133	167	–	–	–	134
Levoberezhny	2,220	4.1	–	–	–	–	4.1	294	–	–	–	–	294
Development and exploration projects	**75,220**						**5.6**	**9,887**	**253,329**	**5.4**	**–**	**197.8**	**13,500**
Nezhda[11]	49,430	5.0	10	–	–	–	5.1	7,911	15,164	–	–	–	8,071
Veduga[12]	1,790	5.0	–	–	–	–	5.0	290	–	–	–	–	290
Kutyn[13]	5,970	4.0	–	–	–	–	4.0	770	–	–	–	–	770
Prognoz[14]	10,070	–	731	–	–	1.96	10.5	–	236,533	–	–	197.8	3,408
Bolshevik	6,360	3.4	–	–	–	–	3.4	704	–	–	–	–	704
Lichkvaz[15]	1,600	4.1	32	0.34	–	–	5.0	212	1,633	5.4	–	–	257
Total Measured + Indicated + Inferred	**159,880**						**5.1**	**20,968**	**354,886**	**73.6**	**42.6**	**197.8**	**26,306**
Kapan[16]	8,360	2.9	62	0.67	2.29	–	6.1	771	16,638	55.6	191.3	–	1,632
Total Measured + Indicated + Inferred (including discontinued operations)	**168,240**						**5.2**	**21,739**	**371,524**	**129.2**	**233.9**	**197.8**	**27,937**

1 Mineral Resources are reported in accordance with the JORC Code (2012) and are additional to Ore Reserves. Discrepancies in calculations are due to rounding.
2 Initial estimate prepared by RPA Inc. as at 01.01.2015. Revised estimate prepared by Polymetal as at 01.01.2019 (accounts only for depletion).
3 Estimate prepared by CSA Global Pty Ltd as at 01.01.2017. Price: Au = $1,250/oz, Ag = $16 /oz. Revised estimate was not performed due to lack of material changes.
4 Cu estimate is listed for fresh ore and powder ore that has high Cu grade (total Mineral Resources for fresh ore and powder ore with high Cu grade of 3.2 and 6.0 Mt of ore respectively).
5 Estimate prepared by Polymetal as at 01.01.2014. Price: Au = $1,300/oz. Revised estimate was not performed due to lack of material changes.
6 Stockpiled Ore Reserves.
7 Stockpiled Ore Reserves.
8 Estimate prepared by Polymetal as at 01.01.2016. Price: Au = $1,100/oz, Ag = $15/oz. Revised estimate was not performed due to lack of material changes.
9 Initial estimate prepared by Polymetal as at 01.01.2016. Price: Au = $1,100/oz, Ag = $15/oz. Revised estimate was not performed due to lack of material changes.
10 Estimate prepared by Polymetal as at 01.01.2018. Price: Au = $1,200/oz, Ag = $16/oz. Revised estimate was not performed due to lack of material changes.
11 Initial estimate prepared by CSA as at 01.04.2018. Price: Au= $1,200/oz, Ag = $16/oz. Revised estimate was not performed due to lack of material changes.
12 Mineral Resources are presented in accordance with Company's ownership equal to 74.3%.
13 Initial estimate for open pit prepared by Snowden, for underground by CSA Global Pty Ltd as at 01.01.2015. Price: Au = $1,300/oz. Initial estimate for ore zone Delinskay at Kutyn deposit prepared by Polymetal as at 01.01.2019.
14 Estimate prepared by SRK Consulting (Russia) Limited as at 01.08.2018. Price: Ag = $16/oz, Pb = $2,200/t. Revised estimate was not performed due to lack of material changes. Recalculation into gold equivalent was made by Polymetal based on Au = $1,200/oz, Ag = $15/oz.
15 Initial estimate prepared by Polymetal as at 01.01.2018. Price: Au = $1,200/oz, Ag = $16/oz, Cu = $5,500/t. Revised estimate prepared by Polymetal as at 01.01.2019 (accounts only for depletion).
16 Asset sold in January 2019. Initial estimate prepared by Polymetal as at 01.01.2018. Price: Au = $1,200/oz, Ag = $16/oz, Cu = $5,500/t and Zn = $2,200/t. Revised estimate prepared by Polymetal as at 01.01.2019 (accounts only for depletion).

PGM Mineral Resources as at 1 January 2019[1]

	Tonnage	Grade					Content				
	Mt	Pd, g/t	Pt, g/t	Au, g/t	Cu, %	PdE[2], g/t	Pd, Moz	Pt, Moz	Au, Moz	Cu, Kt	PdE, Moz
Indicated											
Viksha project[3]											
Viksha	27	0.6	0.2	0.1	0.10	1.4	0.5	0.1	0.1	29.6	1.3
Kenti	–	–	–	–	–	–	–	–	–	–	–
Shargi	–	–	–	–	–	–	–	–	–	–	–
Total Indicated	**27**	**0.6**	**0.2**	**0.1**	**0.10**	**1.4**	**0.5**	**0.1**	**0.1**	**29.6**	**1.3**
Inferred											
Viksha project[3]											
Viksha	52	0.6	0.2	0.1	0.09	1.3	1.0	0.3	0.2	49.5	2.3
Kenti	98	0.6	0.2	0.1	0.11	1.3	1.9	0.6	0.4	109.6	4.3
Shargi	36	0.6	0.2	0.1	0.08	1.3	0.7	0.2	0.1	31.7	1.5
Total Inferred	**186**	**0.6**	**0.2**	**0.1**	**0.10**	**1.3**	**3.6**	**1.1**	**0.7**	**190.8**	**8.1**
Indicated + Inferred											
Viksha project[3]											
Viksha	79	0.6	0.2	0.1	0.10	1.4	1.5	0.4	0.3	79.1	3.6
Kenti	98	0.6	0.2	0.1	0.11	1.3	1.9	0.6	0.4	109.6	4.3
Shargi	36	0.6	0.2	0.1	0.08	1.3	0.7	0.2	0.1	31.7	1.5
Total Indicated + Inferred	**213**	**0.6**	**0.2**	**0.1**	**0.10**	**1.3**	**4.2**	**1.4**	**0.9**	**220.6**	**9.5**

1 Mineral Resources are reported in accordance with the JORC Code (2012). Mineral Resources are additional to Ore Reserves. Discrepancies in calculations are due to rounding.
2 PdE is calculated using the following formula: PdE = Pd (g/t) + Pt (g/t) *1.57 + Au (g/t) * 1.61 + Cu (%) * 2.33.
3 Initial estimate prepared by AMC Consultants as at 01.03.2015 using COG (PdE) = 0.50 g/t/. Price for Pd = $750/oz, Pt = $1,180/oz, Au = $1,200/oz and Cu = $5,700/oz per tonne. Revised estimate was not performed due to lack of material changes.

This estimate was prepared by employees of JSC Polymetal Management Company and JSC Polymetal Engineering, subsidiaries of the Company, led by Mr Valery Tsyplakov, who assumes overall responsibility for the Mineral Resources and Ore Reserves Report.

Mr Tsyplakov is employed full-time as the Managing Director of JSC Polymetal Engineering and has more than 18 years' experience in gold, silver and polymetallic mining. He is a Member of the Institute of Materials, Minerals & Mining (MIMMM), London, and a Competent Person under the JORC Code.

Listed below are other Competent Persons employed by the Company that are responsible for relevant research on which the Mineral Resources and Ore Reserves estimate is based:

- Geology and Mineral Resources – Roman Govorukha, Head of Geologic Modelling and Monitoring Department, MIMMM, with 18 years' relevant experience;
- Mining and Ore Reserves – Igor Epshteyn, Head of Mining Process Department, FIMMM, with 37 years' relevant experience;
- Concentration and Metals – Igor Agapov, Deputy Director of Science and Technology, MIMMM, with 21 years' relevant experience;

All the above mentioned Competent Persons have sufficient experience that is relevant to the style of mineralisation and types of deposits under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (JORC Code).

All Competent Persons have given their consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

Metals prices used in estimating Mineral Resources and Ore Reserves are listed below (unless otherwise indicated in the footnotes): Au = $1,200/oz; Ag = $15.0/oz; Cu = $5,500/t; Zn = $2,200/t; Pb = $2,200/t.

Reserves and Resources continued

Gold equivalent data is based on 'Conversion ratios of metals into gold equivalent' provided below.

Reporting of Metal Equivalents

Gold equivalent conversion ratio

GE=Me/k
Where Me is the evaluated metal content (silver g/t, copper %, zinc %, lead %)

Where k is the metal to gold equivalent conversion rate that is calculated considering the difference in metals value issuing the following formula:

for silver: k = ((Au price/31.1035 – (Au price /31.1035 – Treatment charge Au)*(Royalty Au)/100 – (Treatment charge Au))*(Recovery Au)/((Ag price/31.1035 – (Ag price/31.1035 – Treatment charge Ag)*(Royalty Ag)/100 – (Treatment charge Ag))*(Recovery Ag)),
for copper or zinc k = 100*((Au price/31.1035) – (Au price/31.1035 – Treatment charge Au)*(Royalty Au)/100 – (Treatment change Au))*(Recovery Au))/(((Me price) – (Me price – Treatment charge Me)*(Royalty Me)/100 – (Treatment charge Me))*Recovery Me)),
where Royalty is the mineral extraction tax at applicable rate, recovery – the life-of-mine expected recovery of the respective metal in the processing technology applied.

Metal equivalent conversion ratios:

		k			
Deposit	**Ore processing technology**	**Ag**	**Cu**	**Zn**	**Pb**
Dukat	Gravitational flotation	91			
Lunnoye	Cyanidation + Merrill Crowe process	78			
Goltsovoye	Conventional flotation	75			
Arylakh	Cyanidation + Merrill Crowe process	72			
Perevalnoye	Conventional flotation	75			
Primorskoye	Conventional flotation	78			
Varvara	Powder ore with high copper content[1]		0.61		
	Primary ore with high copper content: conventional flotation		0.61		
Birkachan	Cyanidation + carbon-in-pulp	102			
	Heap leaching + carbon-in-colon	80			
Sopka Kvartsevaya	Cyanidation + Merrill Crowe process	89			
	Heap leaching + Merrill Crowe process	116			
Oroch stockpiles	Cyanidation + Merrill Crowe process	94			
Olcha	Cyanidation + Merrill Crowe process	86			
Dalneye stockpiles	Cyanidation + Merrill Crowe process	136			
Tsokol Kubaka	Cyanidation carbon-in-pulp	96			
Burgali	Cyanidation + Merrill Crowe process	115			
Irbychan	Cyanidation + Merrill Crowe process	89			
Yolochka	Cyanidation carbon-in-pulp	91			
Nevenrekan	Cyanidation + Merrill Crowe process	89			
Voro	Heap leaching + Merrill Crowe process	178			
	Cyanidation carbon-in-pulp	98			
North Kaluga	Conventional flotation	91	0.68	7.76	
Tamunier	Conventional flotation	199			
Saum	Oxide ore: Cyanidation + carbon-in-pulp	111			
	Cu-Zn primary ore: Conventional flotation	113	0.54	1.91	
	Cu-Zn loose ore: Conventional flotation	63	0.38	1.38	
	Zn: Conventional flotation	168		0.62	
Svetloye	Heap leaching + Merrill Crowe process	812			
Kapan	Conventional flotation	83	0.60	1.70	
Lichkvaz	Conventional flotation	81	0.70		
Nezhda	Gravitational flotation	95			
Prognoz	Conventional flotation (open-pit)	75			3.32
	Conventional flotation (underground)	75			1.91

1 This type of ore is currently not being processed, it is stockpiled and reflected only in Mineral Resources.

Group production statistics

	FY 2014	FY 2015	FY 2016	FY 2017	**FY 2018**
Waste mined, Kt	77,458	65,345	82,133	114,008	126,696
Underground development, m	60,565	73,079	92,161	115,352	130,000
Ore mined, Kt	13,706	12,679	13,380	12,589	13,979
Open–pit	11,046	9,626	9,506	8,241	9,319
Underground	2,660	3,053	3,874	4,347	4,660
Ore processed, Kt	11,300	10,821	11,417	13,037	15,162
Gold grade processed (incl. by–product copper and zinc), g/t	3.2	2.8	2.9	3.0	3.2
Silver grade processed, g/t	91	108	92	74	60
GE grade processed, g/t	4.3	4.2	4.0	3.9	3.9
TOTAL PRODUCTION					
Gold, Koz	945	861	890	1,075	1,216
Silver, Moz	28.7	32.1	29.2	26.8	25.3
Copper, t	1,631	827	1,454	2,715	3,875
Zinc, t	–	–	2,888	4,794	5,381
Gold equivalent, Koz based on 80:1 Ag/Au ratio	**1,311**	**1,267**	**1,269**	**1,433**	**1,562**
Gold equivalent production by mine, GE Koz					
Kyzyl	–	–	–	–	96
Dukat	344	393	369	322	306
Albazino-Amursk	227	220	244	269	308
Omolon	213	188	170	202	195
Mayskoye	143	138	116	124	117
Varvara	106	72	85	130	142
Voro	159	141	129	120	107
Svetloye	–	–	23	106	136
Okhotsk	119	114	108	111	104
Kapan	–	–	26	50	51
Total	**1,311**	**1,266**	**1,269**	**1,433**	**1,562**

Financial highlights

	FY 2014	FY 2015	FY 2016	FY 2017	**FY 2018**
Revenue, $m	1,690	1,441	1,583	1,815	**1,882**
Adjusted EBITDA, $m	685	658	759	745	**780**
Adjusted EBITDA margin, %	41%	46%	48%	41%	**41%**
Average realised gold price, $/oz	1,231	1,127	1,216	1,237	**1,226**
Average LBMA closing gold price, $/oz	1,266	1,160	1,250	1,258	**1,269**
Average realised silver price, $/oz	17.7	14.7	16.3	16.1	**14.8**
Average LBMA closing silver price, $/oz	19.1	15.7	17.1	17.0	**15.7**
Total cash cost, $/GE oz	634	538	570	658	**649**
All-in sustaining costs, $/GE oz	893	733	776	893	**861**
Net earnings/(loss), $m	(210)	221	395	354	**355**
Underlying net earnings, $m[1]	282	291	382	376	**447**
Underlying EPS, $/share	0.71	0.70	0.90	0.88	**1.00**
Dividends declared during the period, $/share[2]	0.36	0.51	0.37	0.32	**0.47**
Dividend declared for the period, $/share[3]	0.41	0.51	0.42	0.44	**0.48**
Operating cash flow, $m	515	491	530	533	**513**
Capital expenditures, $m	210	205	271	383	**344**
Free cash flow (pre M&A), $m[4]	305	263	257	143	**176**
ROIC	18%	23%	18%	15%	**17%**

1 For details and calculation of Underlying net earnings refer to the Financial review section.
2 Based on declaration date.
3 Dividend declared for the FY include interim, final and special dividend paid for the financial year.
4 Free cash flow (pre M&A) is defined as net cash flow from operating activities (including interest received) less cash flows used in investing activities excluding acquisitions of JVs and associates, cash outflow on business combination and put option exercise expenses.

Glossary

ABBREVIATIONS AND UNITS OF MEASUREMENT

AGM	Annual General Meeting
CIS	Commonwealth of Independent States
GE	gold equivalent
IMN	Indigenous Minorities of the North
JORC	Australasian Joint Ore Reserves Committee
JSC	joint stock company
LBMA	London Bullion Market Association
LTIP	Long-Term Incentive Programme
N/A	not applicable
NM	not meaningful
PdE	palladium equivalent
PGM	platinum group metal
POX	pressure oxidation
SE	silver equivalent
g/t	gram per tonne
GJ	gigajoules
km	kilometres
Koz	thousand ounces
Kt	thousand tonnes
Ktpa	thousand tonnes per annum
m	metres
Moz	million ounces
Mt	million tonnes
Mtpa	million tonnes per annum
MWh	megawatt hour
Oz or oz	troy ounce (31.1035 g)
pp	percentage points
t	tonne (1,000 kg)
tpd	tonnes per day

TECHNICAL TERMS

Assay
A chemical test performed on a sample of any material to determine the amount of valuable metals contained in the sample

Ag
Silver

Au
Gold

Carbon-in-leach or CIL
A technological operation in which slurry containing gold and silver is leached by cyanide in the presence of activated carbon. Gold is absorbed onto activated carbon in parallel with leaching

Carbon-in-pulp or CIP
A technological operation in which slurry containing gold and silver is leached by cyanide initially without and subsequently in the presence of activated carbon. Gold absorption onto carbon starts only after preliminary leaching

Concentrate
A semi-finished product of mineral processing (flotation or gravity separation) containing significantly more value per unit of weight than ore and subject to further processing for the production of metals or other substances in final useful form

Cu
Copper

Cut-off grade
The minimum grade at which mineralised material can be economically mined and processed (used in the calculation of ore reserves)leaching with cyanide as the leaching agent

Dilution
The share (percentage) of material below the cut-off grade that is extracted together and irretrievably mixed with ore during mining. All other things being equal, higher dilution leads to lower grade in ore mined

Doré
One of the traditional end-products of a gold/silver mine; an alloy containing 90% in sum of gold and silver as well as 10% of impurities

Exploration
Activity ultimately aimed at discovery of ore reserves for exploitation. Consists of sample collection and analysis, including reconnaissance, geophysical and geochemical surveys, trenching, drilling, etc

Flotation
A technological operation in which ore-bearing minerals are separated from gangue minerals in the slurry based on variance in the interaction of different minerals with water. Particles of valuable concentrate are carried upwards with froth and collected for further processing

Grade
The relative amount of metal in ore, expressed as grams per tonne for precious metals and as a percentage for most other metals

Head grade
The grade of ore coming into a processing plant

Heap leach
A technological operation in which crushed material is laid on a sloping, impervious pad where it is leached by cyanide solution to dissolve gold and/or silver. Metals are subsequently recovered from pregnant leach solution by CIC or the Merrill-Crowe process

Indicated resource
That part of a resource for which tonnage, grade and content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed

Inferred resource
That part of a resource for which tonnage, grade and content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability

In-fill drilling
A conventional method of detailed exploration on an already defined resource or reserve, consisting of drilling on a denser grid to allow more precise estimation of ore bodyparameters and location

Leaching
The process of dissolving mineral values from solid into liquid phase of slurry

Measured resource
That part of a resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity

Merrill-Crowe process
A technological operation for extraction of gold and/or silver after cyanide leaching. In the first step slurry containing gold and/or silver is separated into liquid and solid phases by washing the solids off in countercurrent decantation thickeners. In the second step pregnant leach solution (liquid phase of slurry) is filtered to remove impurities and deaerated. Finally, gold and silver are deposited onto the solid bed of claylike material where they replace zinc particles which pass into a solution. Merrill-Crowe is preferentially used for silver-rich ores

Mill
A mineral processing plant

Mineralisation
A rock containing valuable components, not necessarily in the quantities sufficient for economically justifiable extraction. Consists of ore minerals and gangue

Open-pittable
Amenable for economically feasible mining by open-pit methods

Open-pit mine
A mine that is entirely on the surface. Also referred to as open-cut or open-cast mine

Ore
The part of mineralisation that can be mined and processed profitably

Ore body
A spatially compact and geometrically connected location of ore

Ore mined
Ore extracted from the ground for further processing

Ore processed
Ore subjected to treatment in a mineral processing plant

Ore stacked
The ore stacked for heap leach operations

Oxidised ore
Ore in which both ore minerals and gangue are fully or partially oxidised thus impacting its physical and chemical properties and influencing the choice of a processing technology

Pd
Palladium

POX or pressure oxidation
A technological operation in which slurry is subjected to high pressure and high temperature in an autoclave with the goal to destroy sulphide particles enveloping gold particles and make slurry amenable to cyanide leaching

Precipitate
The semi-finished product of mineral processing by Merrill-Crowe process, normally containing very high concentrations of silver and/or gold

Primary ore
Unoxidised ore

Probable reserves
The economically mineable part of an indicated (and in some cases measured) resource, which has a lower level of confidence than proved reserves but is of sufficient quality to serve as the basis for a decision on the development of the deposit

Production
The amount of pure precious metals, measured in thousands of ounces for gold, millions of ounces for silver and tonnes for copper, produced following processing

Proved reserves
The economically mineable part of a measured resource, which represents the highest confidence category of reserve estimate. The style of mineralisation or other factors could mean that proved reserves are not achievable in some deposits

Pt
Platinum

Reclamation
The restoration of a site after mining or exploration activity is completed

Recovery or recovery rate
The percentage of valuable metal in the ore that is recovered by metallurgical treatment in the final or semi-finished product

Refractory
A characteristic of gold-bearing ore denoting impossibility of recovering gold from it by conventional cyanide leaching

Reserves
The economically mineable part of a measured and/or indicated mineral resource. It takes into account mining dilution and losses. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Reserves are subdivided in order of increasing confidence into probable reserves and proved reserves

Resources
A concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of resources are known, estimated or interpreted from specific geological evidence and knowledge. Resources are sub-divided in order of increasing geological confidence, into inferred, indicated and measured categories

SAG mill
A semi-autogenous grinding mill, generally used as a primary or first stage grinding solution

Step-out exploration drilling
Holes drilled to intersect a mineralisation horizon or structure along strike or down dip

Stope
A large underground excavation entirely within an ore body, a unit of ore extraction

Stripping
The mining of waste in an open-pit mine

Tailings
Part of the original feed of a mineral processing plant that is considered devoid of value after processing

Underground development
Excavation which is carried out to access ore and prepare it for extraction (mining)

Waste
Barren rock that must be mined and removed to access ore in a mine

Shareholder information

As at 8 March 2019, the Company's issued share capital consisted of 469,368,309 ordinary shares of no par value. The Company does not hold any ordinary shares in treasury. The ordinary shares reflect 100% of the total issued share capital of the Company.

Substantial shareholdings as at 8 March 2019
In accordance with the FCA's Disclosure and Transparency Rules (DTR 5), as at 8 March 2019 the Company received notification of the following material interests in voting rights over the Company's issued ordinary share capital (including qualifying financial instruments):

Full name of shareholder	Details of person subject to the notification obligation	Total number of voting rights	% of voting rights
ICT Holding Ltd and Powerboom Investments Limited	Alexander Nesis	128,802,676	27.44%
Fodina B.V.	Petr Kellner	54,590,404	11.63%
Public Joint-Stock Company 'Bank Otkritie Financial Corporation'	Public Joint-Stock Company 'Bank Otkritie Financial Corporation'	32,525,673	6.93%
Vitalbond Limited	Alexander Mamut	26,352,817	5.61%
Lynwood Capital Management Fund Limited	Nikolay Mamut	18,081,514	3.85%
Alexander Mosionzhik	Alexander Mosionzhik	15,000,000	3.20%

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