
Financial statements

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 as a going concern.

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

By order of the Board



Bobby Godsell

Chairman of the Board of Directors



Vitaly Nesis

Chief Executive

30 March 2014

Independent auditor's report to the members of Polymetal International plc

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2013 and of the group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the Companies (Jersey) Law 1991.

The financial statements comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash flows and the related notes 1 to 37. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Going concern

We have reviewed the directors' statement on page 86 that the Group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Recoverability of PP&E and Goodwill	
Recoverability of PP&E and goodwill is dependent on several assumptions, the determination of which requires a significant level of judgement (see note 18).	We critically assessed developments in the wider economic environment and the performance of the CGUs in the year through visiting certain operations and meeting with local and Group operational management, to challenge management's assessment of the existence of impairment indicators.
Management has assessed whether any indicators of impairment existed at its seven cash generating units ('CGUs') (as set out in Note 5). Where an indicator of impairment was identified, it assessed the recoverable amount of the CGU to ensure this was not less than its net book value.	Where indicators were identified and valuations were performed, our audit procedures included testing the principles and integrity of the models and challenging assumptions through comparison with externally and internally derived data for the key inputs such as the discount rate used, expected metal prices, and foreign exchange rates.
Recoverability of Exploration and Development (E&D) assets	
Recoverability is dependent on the expected future success of exploration activities. E&D expenditure is capitalised once it has been determined that the mineral property can be economically developed. The valuation assessment of each asset's future prospectivity requires significant judgement.	Management undertook a detailed valuation of E&D assets for impairment, which included a summary of the group's current licence obligations and an assessment of the likelihood of future success of exploration activities as well as management's future plans for further E&D expenditure were prepared on a consistent basis.
At 31 December 2013 the group held US\$337 million in respect of E&D expenditure on the Balance Sheet.	We assessed the recoverability of the assets by meeting with operational management to discuss material E&D assets, reviewing drilling and other testing results in the year and confirming future development plans. We reviewed Board-approved budgets for 2014/5 to check that exploration projects were committed and we performed detailed testing to assess the validity of costs capitalised in the year.

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Independent auditor's report to the members of Polymetal International plc

continued

Risk	How the scope of our audit responded to the risk
Existence and valuation of metal inventories	
Management's determination of the contained metal levels in ore stockpiles and work in progress involves the use of sampling techniques and theoretical models.	We tested the existence of metal inventories through attending inventory counts conducted by management at material operating locations and performing detailed roll forward testing from the count dates through to year end by testing management's metal inventory models.
The assessment of the recoverability of metal inventories requires judgement both in terms of calculating the expected costs to process and refine ore stock piles to produce concentrate or doré for sale, and in terms of estimating future gold, silver or copper prices to be realised on sale.	We tested the recoverability of metal inventories through the recalculation of projected net realisable values based on expected commodity prices (which were consistent with prices used in the Group's PP&E and goodwill impairment calculations) and costs to complete. We also performed a detailed analytical review of management's inventory costing calculations.
At 31 December 2013 the group held US\$438 million in respect of metal inventories on the Balance Sheet.	We tested inventories for obsolescence by reviewing management's strategic mine plans and assessing whether there was appropriate provisioning in place, where stockpiles are no longer expected to be used.
Provisioning and disclosure in respect of income tax and mineral extraction tax liabilities	
Russian and Kazakh tax legislation is subject to varying interpretations and management's interpretation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.	We examined the Group's assessment of its potential tax exposures, including related interest and penalties, and we utilised tax audit specialists, both in Russia and in Kazakhstan, to assess the likelihood of an exposure crystallising.
The determination of whether a potential exposure is probable, possible or remote requires significant judgement.	We reconciled court documentation received to provisions recognised or settlements paid and disclosures made in Note 16. We considered the impact of court cases on other exposures identified. We agreed payments made to bank statements.

The Audit Committee's consideration of these risks is set out on page 83.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the group to be US\$16 million, which is 5.6% of adjusted pre-tax profit, and less than 1% of equity. Pre-tax profit is adjusted for the materiality calculation to exclude one-off impairments, write-downs and net foreign exchange losses recognised which would, if included, significantly distort the materiality calculation year on year.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of US\$320,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls and assessing the risks of material misstatement across the Group. Our audit scope focused primarily on the seven key operating segments (Voro, Khakanja, Dukat, Omolon, Varvara, Amursk-Albazino and Mayskoye) plus the Head Office entity such that 100% of revenues and over 99% of total assets were subject to a full scope audit.

The Group audit team was involved in the work of the component auditors at all stages of the audit process. The signing partner and senior members of the Group engagement team visited the head offices in St. Petersburg several times in the past year and have also visited at least one of the key business units, at least once a year, since our appointment as external auditors. The Group audit team directed and reviewed in detail the work performed on significant risks by the component auditors.

Our audit work was executed at levels of materiality applicable to each individual component; which were lower than group materiality.

Matters on which we are required to report by exception**Adequacy of explanations received and accounting records**

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if in our opinion information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Other matters

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the UK Companies Act 2006 as if that Act had applied to the company.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Christopher Thomas**

for and on behalf of Deloitte LLP

Chartered Accountants and Recognized Auditor

London, UK

30 March 2014

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Consolidated income statement

		Year ended	
		31 December 2013 US\$'000	31 December 2012 restated ¹ US\$'000
	Notes		
Revenue	6	1,706,597	1,854,065
Cost of sales	7	(1,123,796)	(851,839)
Write-downs of metal inventories to net realisable value	23	(153,327)	(4,000)
Gross profit		429,474	998,226
General, administrative and selling expenses	11	(168,132)	(181,648)
Other operating expenses	12	(88,486)	(153,855)
Impairment of non-current assets	18	(201,105)	–
Impairment of investment in associate	18	(12,291)	–
Share of loss of associates and joint ventures	21	(2,340)	(1,804)
Operating (loss)/profit		(42,880)	660,919
Loss on disposal of subsidiaries	4	(8,746)	(10,709)
Gain on acquisition of remaining interest in joint venture	21	–	21,051
Net foreign exchange (losses)/gains		(74,240)	6,677
Change in fair value of contingent consideration liability	30	8,131	(4,717)
Finance income		2,850	4,657
Finance costs	15	(42,735)	(26,787)
(Loss)/Profit before income tax		(157,620)	651,091
Income tax expense	16	(40,417)	(222,868)
(Loss)/Profit for the financial year		(198,037)	428,223
(Loss)/Profit for the year attributable to:			
Equity shareholders of the Parent		(198,037)	421,196
Non-controlling interest		–	7,027
		(198,037)	428,223
(Loss)/Earnings per share		US\$	US\$
Basic	32	(0.51)	1.10
Diluted	32	(0.51)	1.10

	2013 Cents per share	2012 Cents per share	2013 US\$'000	2012 US\$'000
Final dividend proposed (Note 17)	8	31	31,158	119,034
Interim dividend (Note 17)	1	–	3,879	–
Special dividend declared (Note 17)	–	50	–	191,603

Consolidated statement of comprehensive income

	Year ended	
	31 December 2013 US\$'000	31 December 2012 restated ¹ US\$'000
(Loss)/Profit for the financial year	(198,037)	428,223
<i>Other comprehensive (loss)/income</i>		
Effect of translation to presentation currency ²	(153,575)	111,656
Total comprehensive (loss)/income for the financial year	(351,612)	539,879
	Year ended	
	31 December 2013 US\$'000	31 December 2012 restated US\$'000
Total comprehensive (loss)/income for the financial year attributable to:		
Equity Shareholders of the Parent	(351,612)	522,730
Non-controlling interest	–	17,149
	(351,612)	539,879

¹ Restated following adopting IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. Refer to Note 35.

² May be subsequently reclassified to the Income Statement.

Consolidated balance sheet

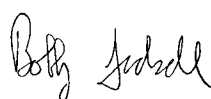
	Notes	31 December 2013 US\$'000	31 December 2012 restated ¹ US\$'000
Assets			
Property, plant and equipment	19	2,094,742	2,205,732
Goodwill	20	30,889	115,106
Investments in associates	21	15,651	29,822
Non-current loans and receivables	22	22,853	14,811
Deferred tax asset	16	88,484	58,024
Non-current inventories	23	53,142	98,864
Total non-current assets		2,305,761	2,522,359
Current inventories	23	727,144	840,621
Current VAT receivable		85,135	103,192
Trade and other receivables	24	44,526	107,596
Prepayments to suppliers		18,170	31,044
Income tax prepaid		8,433	14,481
Cash and cash equivalents	25	65,567	18,622
Total current assets		948,975	1,115,556
Total assets		3,254,736	3,637,915
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	28	(117,974)	(312,218)
Current borrowings	26	(81,331)	(244,211)
Income tax payable		(37,174)	(63,021)
Other taxes payable		(56,885)	(72,119)
Environmental obligations	27	(212)	(1,565)
Total current liabilities		(293,576)	(693,134)
Non-current borrowings	26	(1,029,813)	(619,612)
Contingent consideration liability	30	(15,523)	(25,276)
Deferred tax liability	16	(63,085)	(82,760)
Environmental obligations	27	(65,152)	(65,128)
Other non-current liabilities		(97)	(134)
Total non-current liabilities		(1,173,670)	(792,910)
Total liabilities		(1,467,246)	(1,486,044)
NET ASSETS		1,787,490	2,151,871
Stated capital account	32	1,664,170	1,576,123
Share-based compensation reserve		143,524	119,291
Translation reserve		(206,836)	(53,261)
Retained earnings		186,632	509,718
Total equity		1,787,490	2,151,871

¹ Restated following adopting IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. Refer to Note 35.

The notes on pages 110 to 151 form part of these financial statements. These financial statements are approved and authorised for issue by the Board of Directors on 30 March 2014 and signed on its behalf by:



Vitaly Nesis
Chief Executive
30 March 2014



Bobby Godsell
Chairman of the Board of Directors

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Consolidated statement of cash flows

	Notes	Year ended	
		31 December 2013 US\$'000	31 December 2012 restated ¹ US\$'000
Net cash generated by operating activities	36	461,667	540,840
Cash flows from investing activities			
Purchases of property, plant and equipment	19	(319,448)	(397,076)
Consideration for acquisitions	4	(11,934)	(20,797)
Proceeds from disposal of subsidiary		–	25,000
Convertible loan repaid by/(advanced to) Polygon Gold	21	10,000	(10,000)
Other investing activities		(3,681)	(4,559)
Interest received		1,965	5,686
Contingent consideration paid	30	(1,329)	(1,227)
Net cash used in investing activities		(324,427)	(402,973)
Cash flows from financing activities			
Borrowings obtained	26	3,099,855	1,236,036
Repayments of borrowings	26	(2,887,041)	(1,384,913)
MTO and squeeze-out obligation repayment		–	(568,837)
Dividends paid	17	(316,429)	(76,537)
Net cash used in financing activities		(103,615)	(794,251)
Net increase/(decrease) in cash and cash equivalents		33,625	(656,384)
Cash and cash equivalents at 1 January	25	18,622	658,795
Effect of foreign exchange rate changes		13,320	16,211
Cash and cash equivalents at 31 December	25	65,567	18,622

¹ Restated following adopting IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. Refer to Note 35.

Sales of property, plant and equipment in 2013 for consideration of US\$11.3 million (resulting in a loss on disposal of US\$9.0 million) were on deferred payment terms with \$nil cash received in the current year.

Consolidated statement of changes in equity

	Notes	Number of Polymetal International shares outstanding	Stated capital account	Share-based compensation reserve	Treasury shares in JSC Polymetal	Translation reserve	Share purchase obligation	Retained earnings	Total equity attributable to the parent	Non-controlling interest	Total equity
Balance at 1 January 2012		382,685,782	1,566,386	59,239	(395)	(151,029)	(561,659)	753,572	1,666,114	148,484	1,814,598
Total comprehensive income		–	–	–	–	101,533	–	421,197	522,730	17,149	539,879
Amortisation of bonus received from depositary		–	–	–	–	–	–	1,258	1,258	–	1,258
Share based compensation		–	–	53,515	–	–	–	–	53,515	764	54,279
Issue of shares in exchange for assets		520,422	9,737	–	–	–	–	–	9,737	–	9,737
Dividends		–	–	–	–	–	–	(267,880)	(267,880)	–	(267,880)
Acquisition of non-controlling interest under MTO and Squeeze-out		–	–	6,537	395	(3,765)	561,659	(398,429)	166,397	(166,397)	–
Balance at 31 December 2012 restated¹		383,206,204	1,576,123	119,291	–	(53,261)	–	509,718	2,151,871	–	2,151,871
Total comprehensive income		–	–	–	–	(153,575)	–	(198,037)	(351,612)	–	(351,612)
Share based compensation	33	–	–	24,233	–	–	–	–	24,233	–	24,233
Issue of shares in exchange for assets	4	775,000	13,423	–	–	–	–	–	13,423	–	13,423
Issue of shares in exchange for business acquisitions	4	5,491,661	74,624	–	–	–	–	–	74,624	–	74,624
Dividends	17	–	–	–	–	–	–	(125,049)	(125,049)	–	(125,049)
Balance at 31 December 2013		389,472,865	1,664,170	143,524	–	(206,836)	–	186,632	1,787,490	–	1,787,490

¹ Restated following adopting IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. Refer to Note 35.

Financial statements

Notes to the consolidated financial statements

1. General

Corporate information

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

Polymetal International plc (the Company) is the ultimate parent entity of Polymetal Group. The Company was incorporated on 29 July 2010 as a public limited company under Companies (Jersey) Law 1991. Its shares are traded on the London and Moscow stock exchanges.

Significant subsidiaries

At 31 December 2013, the Company held an effective 100% interest in JSC Polymetal, an entity incorporated in Russia. Through this subsidiary, the Company held the following significant mining and production subsidiaries:

Name of subsidiary	Deposits	Country of incorporation	Effective interest held by JSC Polymetal, %	
			31 December 2013	31 December 2012
CJSC Gold of Northern Urals	Vorontsovskoye	Russia	100	100
LLC Okhotskaya Mining and Exploration Company	Khakandjinskoye	Russia		
	Yurievskoye			
	Avlayakan			
	Ozernoye		100	100
CJSC Magadan Silver	Dukat	Russia		
	Lunnoye			
	Arylakh			
	Goltsovoye		100	100
Mayskoye Gold Mining Company LLC	Mayskoye	Russia	100	100
Omolon Gold Mining Company LLC	Kubaka	Russia		
	Birkachan			
	Tsokol			
	Danleye			
	Sopka Kvartsevaya		100	100
Albazino Resources Ltd	Albazino	Russia	100	100
Amursk Hydrometallurgical Plant LLC	NA	Russia	100	100
JSC Varvarinskoye	Varvarinskoye	Kazakhstan	100	100

Going concern

In assessing its going concern status, the Group has taken account of its financial position, anticipated future trading performance, its borrowings and other available credit facilities, and its forecast compliance with covenants on those borrowings and its capital expenditure commitments and plans. As at 31 December 2013, the Group held US\$66 million of cash and had net debt of US\$1,045 million, with US\$1,324 million of undrawn but committed facilities available subject to the Net debt/Adjusted EBITDA covenant compliance.

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 2013.

Basis of presentation

The Group's annual consolidated financial statements for the year ended 31 December 2013 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 and share-based payments which are measured at fair value.

The accounting policies set out in Note 2 have been applied in preparing the consolidated financial statements for the year ended 31 December 2013.

New and amended standards adopted by the entity***IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine***

In October 2011, the IASB issued IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. IFRIC 20 provides guidance on the accounting for the costs of stripping activities 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.

The Group has adopted IFRIC 20 retrospectively according to the transitional provisions, and the 2012 results have been restated accordingly. Prior to adoption of IFRIC 20, the Group's accounting policy was to expense all the production stripping costs as incurred therefore at 1 January 2012 there were no deferred stripping assets on the Group's balance sheet, and no restatement was required at that date.

The adoption of IFRIC 20 has resulted in capitalisation of certain waste stripping costs within property, plant and equipment and a reduction in cost of sales and metal inventories in the year ended 31 December 2012. For further detail of the effect on the Group financial statements the year ended 31 December 2012 please refer to Note 35.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 impact the Group's statement of comprehensive income by requiring the grouping of items presented in other comprehensive income based on whether or not they will be reclassified to profit or loss in future. Adoption of the amendment did not impact earnings per share.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to IFRS 7 require entities to disclose information about rights of offset and related agreements for financial instruments under an enforceable master netting agreement or similar arrangements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single framework for measuring fair value when such measurements are required or permitted by other standards. The application of IFRS 13 has not materially affected the fair value measurements carried out by the Group. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. The additional disclosure requirements are reflected within the relevant notes to the financial statements.

Changes in accounting estimates

From 1 January 2013, the Group began to use JORC as opposed to GKZ reserves as the basis for the unit-of-production depreciation calculations as management believes this revised basis better reflects the long-term mine plans which are also being prepared based on JORC reserves estimates. The impact on the total depreciation charge for the year ended 31 December 2013 was an increase of US\$40 million.

Standards and Interpretations in issue not yet adopted

The following new, amended or revised IFRS accounting standards and interpretations not yet adopted are not expected to have a significant impact on the Group:

IFRS 10 *Consolidated Financial Statements* replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses accounting for consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 provides a single basis for consolidation with a new definition of control. The standard applies to annual periods beginning on or after 1 January 2014 for companies reporting under IFRS as adopted by the EU.

IFRS 11 *Joint Arrangements* replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. Under IFRS 11 a joint arrangement is classified as either a joint operation or a joint venture, and the option to proportionately consolidate joint ventures has been removed. Interests in joint ventures must be equity accounted. This standard applies to annual periods beginning on or after 1 January 2014 for companies reporting under IFRS as adopted by the EU.

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Notes to the consolidated financial statements

continued

1. General continued

IFRS 12 *Disclosures of Interests in Other Entities* will accompany IFRS 10 and IFRS 11. This standard combines the disclosure requirements previously covered by IAS 27, related to consolidated financial statements, IAS 31 *Interest in Joint Ventures* and IAS 28 *Investments in Associates*, as well as including additional disclosure requirements. This standard applies to annual periods beginning on or after 1 January 2014 for companies reporting under IFRS as adopted by the EU.

Amendments have been made to IAS 27 *Consolidated and Separate Financial Statements* and it has been reissued as IAS 27 *Separate Financial Statements*. The revised standard prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates in consolidated financial statements are prescribed by IFRS 10, IFRS 11 and IFRS 12. The revised standard is to be applied for annual periods beginning on or after 1 January 2014 for companies reporting under IFRS as adopted by the EU.

Amendments have been made to IAS 28 *Investments in Associates* and it has been reissued as IAS 28 *Investments in Associates and Joint Ventures*. The revised standard prescribes the application of the equity method when accounting for investments in associates and joint ventures. The revised standard is to be applied for annual periods beginning on or after 1 January 2014 for companies reporting under IFRS as adopted by the EU.

Amendments to IAS 32 *Financial Instruments – Presentation* is effective for annual periods beginning on or after 1 January 2014.

2. Significant accounting policies

Basis of consolidation

Subsidiaries

The consolidated financial statements of the Group include the financial statements of the Company, its subsidiaries and, if applicable, special purpose entities, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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 other members of 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 Parent.

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.

For non-wholly owned subsidiaries, non-controlling interests are initially measured at the non-controlling interest's proportion of the fair values of net assets recognised at acquisition. Thereafter, a share of the profit or loss for the financial year and other movements in the net assets or liabilities of the subsidiary is attributed to the non-controlling interests as shown in the income statement and balance sheet.

Business combinations

IFRS 3 *Business Combinations* applies to a transaction or other event that meets the definition of a business combination. When acquiring new entities or assets, the Group applies judgement to assess whether the assets acquired and liabilities assumed constitute an integrated set of activities, whether the integrated set is capable of being conducted and managed as a business by a market participant, and thus whether the transaction constitutes a business combination, using the guidance provided in the standard. Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the consolidated income statement as incurred. Transaction costs incurred in connection with the business combination are expensed. Provisional fair values are finalised within 12 months of the acquisition date.

Where applicable, the consideration for the acquisition may include an asset or liability resulting from a contingent consideration arrangement. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Subsequent changes in such fair values are adjusted against the cost of acquisition retrospectively with the corresponding adjustment against goodwill where they qualify as measurement period adjustments. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed at the acquisition date. The measurement period may not exceed one year from the effective date of the acquisition. The subsequent accounting for contingent consideration that does not qualify for as a measurement period adjustment is based on how the contingent consideration is classified. Contingent consideration that is classified as equity is not subsequently remeasured. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IAS 39 *Financial Instruments Recognition and Measurement* with the corresponding amount being recognised in profit or loss.

The identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in the consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in equity are reclassified to profit or loss, where such treatment would be appropriate if that interest was disposed of.

Goodwill and goodwill impairment

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the consolidated income statement as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable goodwill is included in the determination of the profit or loss on disposal.

Acquisition of mining licences

The acquisition of mining licences is often effected through a non-operating corporate entity. As these entities do not represent a business, it is considered that the transactions do not meet the definition of a business combination and, accordingly, the transaction is accounted for as the acquisition of an asset. The net assets acquired are accounted for at cost.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. 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.

Financial statements

Notes to the consolidated financial statements

continued

2. Significant accounting policies continued

Equity method of accounting

Under the equity method, an investment in an associate or jointly controlled entity (investee) 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 exceeds the Group's interest in that entity, the Group ceases to recognise its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an investee at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investments. Where an indicator of impairment exists or the carrying value of the asset contains goodwill with an indefinite useful life, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* (IAS 36) as a single cash generating unit through the comparison of its recoverable amount (the higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36.

When a Group entity transacts with its investees, profits and losses resulting from the transactions with the investee are recognised in the Group's consolidated financial statements only to the extent of interests in the associate 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), as well as for the investment holding companies, including Polymetal International plc. The functional currency of the Group's entity located in Kazakhstan (JSC Varvarinskoye) and operating with significant degree of autonomy is the Kazakh Tenge (KZT).

The Group has chosen to present its consolidated financial statements in US Dollars (US\$), as management believes it is a more convenient presentation currency for international users of the consolidated financial statements of the Group as it is a common presentation currency in the mining industry. The translation of the financial statements of the Group entities from their functional currencies to the presentation currency is performed as follows:

- all assets and liabilities are translated at closing exchange rates at each reporting period end date;
- all income and expenses are translated at the average exchange rates for the periods presented, except for significant transactions that are translated at rates on the date of such transactions;
- resulting exchange differences are included in equity and presented as movements relating to the effect of translation to the Group's presentation currency within the Translation reserve; and
- in the consolidated statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated using exchange rates prevalent at those respective dates. All cash flows in the period are translated at the average exchange rates for the periods presented, except for significant transactions that are translated at rates on the date of transaction.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated income statement. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated income statement.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

Exchange rates used in the preparation of the consolidated financial statements were as follows:

	31 December 2013	31 December 2012
Russian Rouble/US Dollar		
Year end	32.73	30.37
Average for the year	31.85	30.09
Kazakh Tenge/US Dollar		
Year end	153.61	150.74
Average for the year	152.14	149.11

The Russian Rouble and Kazakh Tenge are not freely convertible currencies outside the Russian Federation and Kazakhstan and, accordingly, any translation of Russian Rouble and Kazakh Tenge 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 the 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.

Property, plant and equipment

Mining assets

Mining assets and leases 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.

Capital construction-in-progress assets are measured at cost less any recognised impairment. Depreciation commences when the assets are ready for their intended use. Mineral exploration and evaluation costs, including geophysical, topographical, geological and similar types of 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.

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	Up to 20 years
Transportation and other assets	Up to 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

When it has been determined that a mining asset can be economically developed as a result of established proven and probable reserves, 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.

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.

Financial statements

Notes to the consolidated financial statements

continued

2. Significant accounting policies continued

Estimated ore reserves

Estimated proven and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits. The Group's reserves are estimated in accordance with JORC Code.

Leases

Finance leases

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are calculated using the effective interest rate method, and allocated between the lease finance cost, which is included in finance cost, and the capital repayment, which reduces the related lease liability payable to the lessor.

Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Impairment of property, plant and equipment

An impairment review of property, plant and equipment is carried out when there is an indication that those assets have suffered an impairment loss. If any such indication exists, the carrying amount of the asset is compared to the estimated recoverable amount of the asset in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. 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.

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 stock piles are stated at the lower of production cost or net realisable value. Production cost is determined as the sum of the applicable expenditures and expenses incurred directly or indirectly in bringing inventories to their existing condition and location. Refined metals are valued at the average total cost of production per saleable unit of metal. Work in-process, metal concentrate and doré are valued at the average total production costs at each asset's relevant stage of production. Ore stock piles are valued at the average cost of mining that ore. Where ore stock piles are not expected to be processed within 12 months, those inventories are classified as non-current.

Net realisable value represents the estimated selling price for that product based on prevailing spot metal prices, less estimated costs to complete production and selling costs.

Consumables and spare parts

Consumables and spare parts are stated at the lower of cost or net realisable value. Cost is determined on the weighted average moving cost. The portion of consumables and spare parts not reasonably expected to be used within one year is classified as a long-term asset in the Group's consolidated balance sheet. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

Financial Instruments Designated as Fair Value Through Profit and Loss (FVTPL)

A financial instrument other than a financial instrument held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial instrument forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial instruments at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in Note 30.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Non-derivative financial assets are classified into the following specified categories: FVTPL, available for sale (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. No financial instruments have been classified as available for sale.

Income is recognised on an effective interest basis for financial instruments other than those financial assets classified as at FVTPL.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is determined by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

AFS financial assets

Investments other than those classified as held for trading, held-to-maturity or loans and receivables are classified as available for sale financial assets. These assets are subsequently measured at fair value and unrealised gains and losses are recognised in equity until the investment is disposed or impaired, at which time the cumulative gain or loss previously recognised in equity is included in the consolidated income statement.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Financial statements

Notes to the consolidated financial statements

continued

2. Significant accounting policies continued

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest rate method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated income statement.

Derivative financial instruments

The Group may enter into a variety of derivative financial instruments to manage its exposure to certain risks. Further details of derivative financial instruments are disclosed in Note 30.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the consolidated income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated income statement depends on the nature of the hedge relationship.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the hybrid contracts are not measured at FVTPL.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or fewer, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Environmental obligations

An obligation to incur environmental restoration, rehabilitation and decommissioning costs arises when disturbance is caused by the development or ongoing production of mining assets. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value using a risk-free rate applicable to the future cash flows, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are recognised in the consolidated income statement over the life of the operation, through the depreciation of the asset in the cost of sales line and the unwinding of the discount on the provision in the finance costs line. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and recognised in the consolidated income statement as extraction progresses.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work (that result from changes in the estimated timing or amount of the cash flow or a change in the discount rate), are added to or deducted from the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the consolidated income statement.

The provision for closure cost obligations is remeasured at the end of each reporting period for changes in estimates and circumstances. Changes in estimates and circumstances include changes in legal or regulatory requirements, increased obligations arising from additional mining and exploration activities, changes to cost estimates and changes to the risk free interest rate.

Employee benefit obligations

Remuneration paid to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period. The Group pays mandatory contributions to the state social funds, including the Pension Fund of the Russian Federation and Kazakhstan, which are expensed as incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the laws of countries where the Group operates.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Financial statements

Notes to the consolidated financial statements

continued

2. Significant accounting policies continued

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax

Current and deferred tax is recognised in the consolidated income statement, except when they relate to items that are recognised in the consolidated statement of comprehensive income or directly in equity, in which case, the current and deferred tax 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.

Revenue recognition

Revenue is derived principally from the sale of gold and silver bullions and copper, gold and silver concentrate and is measured at the fair value of consideration received or receivable, after deducting discounts.

Revenue from the sale of gold and silver bullion and sale of copper, gold and silver concentrate is recognised when the risks and rewards of ownership are transferred to the buyer, the Group retains neither a continuing degree of involvement nor control over the goods sold, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue from the sale of gold and silver bullion represents the invoiced value of metal shipped to the buyer, net of value added tax (VAT).

Sale of gold and silver bullion

The Group processes doré produced in the Russian Federation (at Dukat, Khakanja, Voro, Omolon, and Amursk-Albazino) into London Good Delivery Bars prior to sale. This final stage of processing is carried out on a toll-treatment basis at four state-owned refineries. The Group sells gold and silver bullion to banks through long-term agreements. The sales price, as determined in the agreement, may be variable based upon the London Bullion Market Association (LBMA) spot price or fixed. But the Group's policy is not to enter into fixed price contracts. For domestic sales, title passes from the Group to the purchaser at the refinery gate with revenue recognised at that point. For export sales, once the gold and/or silver bars have been approved for export by Russian customs, they are then transported to the vault of the purchaser, which is typically located in London. Title passes and revenue is recognised at the point when the gold and/or silver bars are received by the purchaser.

Sales of copper, gold and silver concentrate

The Group sells copper, gold and silver concentrate under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. Concentrate sales are initially recorded based on forward prices for the expected date of final settlement. Revenue is recorded at the time of shipment, which is also when risks and rewards pass to the buyer. Revenue is calculated based on the copper, gold and silver content in the concentrate and using the forward London Bullion Market Association (LBMA) or London Metal Exchange (LME) price to the estimated final pricing date, adjusted for the specific terms of the relevant agreement. Until final settlement occurs, adjustments to revenue are made to take into account the changes in metal quantities upon receipt of new information and assay. Revenue is presented net of refining and treatment charges which are subtracted in calculating the amount to be invoiced.

The Group's sales of copper, gold and silver concentrate are based on a provisional price and as such, contain an embedded derivative that is required to be separated from the host contract for accounting purposes. The host contract is the receivable from the sale of the concentrate at the forward exchange price at the time of sale. The embedded derivative, which does not qualify for hedge accounting, is measured at FVTPL with changes in its fair value recognised within revenue in the consolidated income statement for each period prior to the final settlement.

Share-based compensation

The Group applies IFRS 2 *Share-based Payments* to its accounting 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 equity-settled share-based payments awarded in 2010 was calculated by the Group at the grant date using the two-stage Monte-Carlo simulation model. The expense is recognised on a straight-line basis over the vesting period of the awards. No other share based payment awards were issued by the Group during the year ended 31 December 2013.

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 proceeds received, net of any directly attributable transaction costs, are credited to the stated capital account, and the amounts recognised within the share-based compensation reserve transferred to retained earnings.

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

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Production start date

The Group assesses the stage of each mine or plant construction project to determine when an asset moves into the commercial production stage. The criteria used to assess the start date are determined by the unique nature of each construction project and include factors such as the complexity of a plant and its location.

The Group considers various relevant criteria to assess when the mine is substantially complete and ready for its intended use and moves into the production stage. Criteria considered but are not limited to the following:

- the level of capital expenditure incurred compared to the construction cost estimates;
- the completion of a sufficient level of testing on the mine plant and equipment;
- the ability to produce gold, silver or copper in saleable form (within specifications); and
- the ability to sustain ongoing commercial levels of production.

When a construction project moves into the commercial production stage and depreciation commences, the capitalisation of certain mine construction costs and interest ceases and costs are either regarded as inventory or expensed, except for capitalisable costs related to mining asset additions or improvements, underground mine development or ore reserve development.

The Omolon Merrill-Crowe plant achieved commercial production in April 2012.

Amursk POX achieved commercial production in November 2012.

The Mayskoye plant and underground mine reached commercial production in April 2013.

Acquisitions

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 and thus whether the transaction constitutes a business combination, using the guidance provided in the standard. In making this determination, management evaluates the inputs, processes and outputs of the asset or entity acquired.

As a result of this evaluation process, management has determined that its 2012 acquisitions of Olcha, Semchenskoye and Svetlobor did not meet the definition of a business combination and as such the Group has accounted for these transactions as asset acquisitions (see Note 4).

Key sources of estimation uncertainty

Preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgements which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

The most significant areas requiring the use of management estimates and assumptions relate to:

- fair value of net assets acquired and liabilities assumed in business combinations;
- ore reserve estimates;
- depreciation;
- impairment of goodwill, mining assets and other property, plant and equipment;
- stock piles and work in-process;
- share-based compensation;
- environmental obligations;
- contingencies; and
- income taxes.

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3. Critical accounting judgements and key sources of estimation uncertainty continued

Fair value of net assets acquired and liabilities assumed in business combinations

In accordance with the Group's policy, the Group allocates the cost of the acquired entity to the assets acquired and liabilities assumed based on their fair values as estimated on the date of acquisition. Any difference between the cost of the acquired entity and the fair value of the assets acquired and liabilities assumed is recorded as goodwill. The Group exercises significant judgement in the process of identifying tangible and intangible assets and liabilities, valuing these assets and liabilities, and estimating their remaining useful lives. The valuation of these assets and liabilities is based on assumptions and criteria that, in some cases, include management's estimates of discounted future cash flows.

If actual results are not consistent with estimates and assumptions considered, the Group may have to adjust its estimates of the fair values of assets and liabilities recognised and the goodwill balance during the measurement period. Such a remeasurement could have an impact on the amounts reported in the consolidated income statement in current and future periods.

Ore reserve estimates

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; and
- carrying value of deferred tax assets and liabilities where changes in estimated reserves affect the carrying value of the relevant assets and liabilities.

Depreciation

Mining assets are depreciated using the units-of-production method except where the useful lives of the assets are shorter than the life of mine. The units-of-production depreciation calculations are based on proved and probable reserves under the JORC Code (JORC), which is the basis on which the Group's mine plans are prepared as the useful lives of these assets are considered to be limited to the life of the relevant mine. For other property, plant and equipment, the straight-line method is applied over the estimated useful life of the asset which does not exceed the estimated mine life.

The calculation of the units-of-production rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on proved and probable ore reserves. This would generally arise when there are significant changes in any of the factors or assumptions used in estimating ore reserves.

Impairment of goodwill, mining assets and other property, plant and equipment

The Group considers both external and internal sources of information in assessing whether there are any indications that goodwill, mining assets or other property, plant and equipment owned by the Group are impaired. External sources of information the Group considers include: changes in the market and economic and legal environment in which the Group operates, that are not within its control and that affect the recoverable amount of goodwill, mining assets or other property, plant and equipment.

Internal sources of information the Group considers include the manner in which mining properties, plant and equipment are being used or expected to be used and indications of economic performance of the assets. In determining the recoverable amounts of the Group's mining assets and other property, plant and equipment, the Group's management determines the fair value less costs to sell by estimating the discounted future after-tax cash flows expected to be derived from the Group's mining

properties, costs to sell the mining properties and the appropriate post-tax discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable reserves and resources and/or adverse current economics can result in a write-down of the carrying amounts of the Group's goodwill, mining assets or other property, plant and equipment.

In making the assessment for impairment, assets that do not generate independent cash inflows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash inflows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value-in-use calculation. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Stock piles and work in-process

In determining mine operating costs recognised in the consolidated income statement, the Group's management makes estimates of quantities of ore stacked on leach pads and in process and the recoverable gold and silver in this material to determine the average costs of finished goods sold during the period. Changes in these estimates can result in a change in mine operating costs of future periods and carrying amounts of inventories. At 31 December 2013 the carrying value of the ore stock piles was US\$194 million and work in-process was US\$78 million.

Share-based compensation

In November 2010, the Group issued equity-settled share appreciation rights to certain employees. Equity-settled share appreciation rights are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the awards is expensed as services are rendered over the vesting period, based on the Group's estimate of the rights that will eventually vest.

The fair value of share-based compensation was measured using the Monte-Carlo two-stage simulation model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. The awards include an option, exercisable at the discretion of the participant, to defer the measurement period by one year from June 2013 to June 2014. For further details see Note 33.

As at 31 December 2013, all options issued are fully vested and no unrecognised share-based compensation expense remains. No other share based payment awards were issued by the Group during the year ended 31 December 2013.

Environmental obligations

The Group's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The Group's provision for future decommissioning and land restoration cost represents management's best estimate of the present value of the future cash outflows required to settle the liability which reflects estimates of future costs, inflation, movements in foreign exchange rates and assumptions of risks associated with the future cash outflows; and the applicable interest rate for discounting the future cash outflows. Actual costs incurred in future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgements and estimates of the outcome of future events.

Income Taxes and Mining Taxes

The Group is subject to income tax and mining taxes in the Russian Federation and Kazakhstan. Mining taxes do not meet the definition of a tax under IAS 12 Income taxes. Significant judgement is required in determining the provision for these taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes, penalties and interest will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgements based on the expected performance. Various factors are considered in order to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. 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.

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4. Acquisitions and disposals

(a) Business combinations and asset acquisitions

Olymp Ltd.

On 24 January 2013 the Group completed the acquisition of 100% of Olymp Ltd., a Russian legal entity holding the mining and exploration licence for the Olcha gold-silver deposit in exchange for 775,000 new ordinary shares in Polymetal.

Olymp Ltd. does not meet the definition of a business pursuant to IFRS 3 (2008) thus it is accounted for as an acquisition of a group of assets. The Group purchased mineral rights at cost of US\$13.4 million and other current liabilities of \$(0.01) million.

ZAO 'Maminskaya Gornorudnaya kompania'

On 20 February 2013 the Group entered into a binding memorandum of understanding with Vitalex Investments Ltd and Arrowline Investments Ltd to acquire a 100% interest in ZAO 'Maminskaya Gornorudnaya kompania' ('MGK'), which holds an exploration and mining licence for the Maminskoye gold mining field ('Maminskoye').

On 9 April 2013 the Group completed the acquisition of 100% of the ordinary share capital and debt in MGK. The consideration for the equity investment was US\$3.9 million payable in cash and 5,491,661 of Polymetal's ordinary shares valued at the acquisition date at US\$74.6 million. The debt investment in MGK was acquired for consideration payable in cash and equalling its carrying value of US\$8.0 million.

MGK meets the definition of a business pursuant to IFRS 3 (2008) thus it was accounted for at fair value using the acquisition method.

The allocation of the purchase price based on the consideration paid and the fair value of the assets acquired was as follows:

	US\$'000
Net assets acquired	
Mineral rights	115,127
Property, plant and equipment	2,952
Non-current liabilities	(9,896)
Deferred tax liability	(23,025)
Other assets, net	1,400
Net assets acquired	86,558
Consideration:	
Fair value of shares issued in Polymetal International plc	74,624
Cash consideration for equity investment	3,900
Cash consideration for debt investment	8,034
Total consideration	86,558

In the prior year, the following transactions took place:

Veduga

On 7 February 2012 the Group completed the acquisition from AngloGold Ashanti Holdings PLC (AngloGold) of AngloGold's 50% interest in various companies held in joint venture with Polymetal comprising the AngloGold Ashanti – Polymetal Strategic Alliance for US\$20 million. It subsequently entered into a series of transactions with new investors (unrelated parties), retaining a 42.65% economic interest in the principal asset – the Veduga licence. See Note 21 for further information.

Semchenskoye Zoloto

On 22 August 2012 the Group acquired 100% interest in 'Semchenskoye Zoloto LLC' (Semchenskoye Zoloto) from Suntsov V.A. (25% interest) and Polister Limited (75% interest), both unrelated parties. Semchenskoye Zoloto holds the exploration licence for Semchenskoye field in Karelia. The Group paid cash consideration of US\$0.8 million; in addition, a contingent consideration of US\$0.5 million is payable by the Group in case the exploration of the licence area proves to be successful and the mining licence for the new gold deposit is received before 25 December 2014. Another US\$1.2 million is payable depending on the level of proved and probable ore reserves of the new deposit.

After evaluation of the possible outcome of the contingency, the Group estimated fair value of the contingent consideration to be US\$0.1 million.

Semchenskoye Zoloto does not meet the definition of a business pursuant to IFRS 3 (2008), thus it was accounted for as an acquisition of a group of assets. The Group purchased mineral rights of US\$0.8 million and other current liabilities of US\$0.024 million.

Svetlobor

On 17 December 2012, the Group acquired 24.99% interest in JSC Nevyansk Group (NG), a Russian legal entity whose wholly-owned subsidiary holds a mining and exploration licence for the Svetlobor area. The Group issued consideration in the form of 130,053 new ordinary shares in the Company. Simultaneously, CJSC VTB Capital (VTB) purchased a 75.01% stake in NG in exchange for 390,369 new Polymetal ordinary shares, which were subscribed for by a subsidiary of VTB for a total cash consideration of US\$6.9 million.

The Group also entered into legally binding agreement to acquire the 75.01% stake in NG from VTB, as soon as this transaction is approved by the Government Commission on Monitoring of Foreign Investments, for cash consideration of US\$6.9 million, plus any interest accrued on this amount at a rate of 7.25% per annum.

The Group determined 17 December 2012 to be the date when it obtained control over NG, and consolidated the acquiree from that date. The cash received from VTB has been accounted for as a loan and included within borrowings (Note 26). NG does not meet the definition of a business pursuant to IFRS 3 (2008) and this transaction has been treated as an acquisition of assets. The allocation of the consideration paid to the assets acquired was as follows:

	US\$'000
Net assets acquired	
Mineral rights	9,449
Other assets	299
Other liabilities	(11)
Net assets acquired	9,737
Consideration:	
Fair value of shares issued	9,737

(b) Disposal of subsidiary**Habarovsk Exploration Company LLC**

On 22 October 2013 the Group sold its subsidiary Habarovsk Exploration Company LLC for US\$3.5 million in deferred cash consideration to an unrelated party. The loss on disposal was calculated as follows:

	US\$'000
Property, plant and equipment	7,124
Other non-current assets	1,395
Current assets	4,374
Current liabilities	(598)
Non-current liabilities	(10,121)
Net assets disposed of	2,174
Consideration receivable	3,475
Intercompany debt assigned to acquirer	(10,047)
Loss on disposal	(8,746)

In the prior year, the Group disposed of the following minor subsidiaries: Ural'skoye GRP LLC, Severno-Ural'skoye GRP LLC and JSC Aurum. For further information on the partial disposal of Amikan Holding Limited, which owns the Veduga gold deposits, see Note 21.

	Ural'skoye US\$'000	Severno- Ural'skoye US\$'000	Aurum US\$'000	Amikan US\$'000	Total US\$'000
Net assets disposed of:					
Property, plant and equipment	295	2,749	127	67,842	71,013
Other non-current assets	1,388	–	2,317	3,577	7,282
Current assets	1,848	1,688	–	230	3,766
Current liabilities	(549)	(17)	(1,278)	–	(1,844)
Non-current liabilities	–	(3,572)	–	(17,995)	(21,567)
	2,982	848	1,166	53,654	58,650
Consideration receivable	1,593	1,475	3	28,000	31,071
Fair value of interest in associate undertaking acquired	–	–	–	20,201	20,201
Intercompany debt assigned to acquirer	–	–	–	(3,331)	(3,331)
(Loss)/Gain on disposal	(1,389)	627	(1,163)	(8,784)	(10,709)

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5. Segment information

The Group has seven reportable segments:

- Voro (CJSC Gold of Northern Urals);
- Khakanja (LLC Okhotskaya Mining and Exploration Company);
- Dukat (CJSC Magadan Silver; Olymp LLC);
- Omolon (Omolon Gold Mining Company LLC);
- Varvara (JSC Varvarinskoye);
- Amursk-Albazino (Albazino Resources Ltd, Amursk Hydrometallurgical Plant LLC); and
- Mayskoye (Mayskoye Gold Mining Company LLC).

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

The measure which management and the Chief Operating Decision Maker (the CODM) use to evaluate the performance of the Group is segment Adjusted EBITDA, which is defined as profit for the period adjusted for depreciation and amortization, impairment of non-current assets, write-downs of inventory to net realisable value, share-based compensation expenses, 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 other tax exposure accrued within other operating expenses. The accounting policies of the reportable segments are consistent with those of the Group's accounting policies under IFRS as described in Note 2.

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:

For the year ended 31 December 2013 (\$'000)	Voro	Khakanja	Dukat	Omolon	Varvara	Amursk – Albazino	Mayskoye	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	214,712	202,641	531,587	222,795	189,527	293,778	49,547	1,704,587	2,010	–	1,706,597
Intersegment revenue	–	–	–	1,298	760	605	–	2,663	411,786	(414,449)	–
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	69,174	102,168	270,576	134,967	106,748	172,194	40,612	896,789	298,092	(316,984)	877,897
Cost of sales	86,437	126,345	330,341	188,623	123,465	231,933	56,409	1,143,553	297,227	(316,984)	1,123,796
Depreciation included in Cost of sales	(16,990)	(23,627)	(60,666)	(43,154)	(16,392)	(59,673)	(13,177)	(233,679)	–	–	(233,679)
Write-down of non-metal inventory to net realisable value	(166)	(435)	1,847	(10,005)	(325)	117	(2,594)	(11,561)	865	–	(10,696)
Rehabilitation expenses	(107)	(115)	(596)	(497)	–	(183)	(26)	(1,524)	–	–	(1,524)
General, administrative and selling expenses, excluding depreciation, amortization and share based compensation	8,086	9,459	13,469	11,495	5,074	9,536	10,255	67,374	99,476	(26,805)	140,045
General, administrative and selling expenses	19,776	16,497	24,976	17,876	5,555	12,630	12,362	109,672	127,384	(68,924)	168,132
Intercompany management services	(10,780)	(6,799)	(10,737)	(6,232)	(302)	(2,927)	(1,882)	(39,659)	(2,460)	42,119	–
Depreciation included in SGA	(910)	(239)	(770)	(149)	(179)	(167)	(225)	(2,639)	(1,215)	–	(3,854)
Share based compensation	–	–	–	–	–	–	–	–	(24,233)	–	(24,233)
Other operating expenses excluding additional tax charges	7,325	6,056	18,221	14,334	4,368	9,342	2,971	62,617	19,630	5,577	87,824
Other operating expenses	7,325	6,056	18,622	14,334	4,629	9,342	2,971	63,279	19,630	5,577	88,486
Mining taxes, penalties and accrued interest	–	–	(401)	–	(261)	–	–	(662)	–	–	(662)
Share of loss of associates and joint ventures	–	–	–	–	–	–	–	–	2,340	–	2,340
Adjusted EBITDA	130,127	84,958	228,971	63,297	74,097	103,311	(4,291)	680,470	(5,742)	(76,237)	598,491
Depreciation expense	17,900	23,866	61,436	43,303	16,571	59,840	13,402	236,318	1,215	–	237,533
Rehabilitation expenses	107	115	596	497	–	183	26	1,524	–	–	1,524
Write-down of non-metal inventory to net realisable value	166	435	(1,847)	10,005	325	(117)	2,594	11,561	(865)	–	10,696
Impairment of non-current assets	–	104,404	–	16,587	80,114	–	–	201,105	–	–	201,105
Impairment of investment in associate	–	–	–	–	–	–	–	–	12,291	–	12,291
Write-downs of metal inventories to net realisable value	2,559	28,160	11,954	75,229	19,301	–	16,124	153,327	–	–	153,327
Share-based compensation	–	–	–	–	–	–	–	–	24,233	–	24,233
Mining taxes, penalties and accrued interest	–	–	401	–	261	–	–	662	–	–	662
Operating profit/(loss)	109,395	(72,022)	156,431	(82,324)	(42,475)	43,405	(36,437)	75,973	(42,616)	(76,237)	(42,880)
Foreign exchange loss	–	–	–	–	–	–	–	–	–	–	(74,240)
Loss on disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	(8,746)
Change in fair value of contingent consideration	–	–	–	–	–	–	–	–	–	–	8,131
Finance income	–	–	–	–	–	–	–	–	–	–	2,850
Finance costs	–	–	–	–	–	–	–	–	–	–	(42,735)
Loss before tax	–	–	–	–	–	–	–	–	–	–	(157,620)
Income tax benefit	–	–	–	–	–	–	–	–	–	–	(40,417)
Loss for the financial period	–	–	–	–	–	–	–	–	–	–	(198,037)
Current metal inventories	62,154	53,671	83,533	72,332	14,527	84,716	59,471	430,404	222	(3,474)	427,152
Current non-metal inventories	8,898	54,548	51,414	57,494	23,882	46,804	50,354	293,394	25,420	(18,822)	299,992
Non-current segment assets:	–	–	–	–	–	–	–	–	–	–	–
Property, plant and equipment, net	93,866	59,741	416,822	250,847	150,564	568,599	325,580	1,866,019	264,395	(35,672)	2,094,742
Goodwill	–	–	8,876	–	–	–	22,013	30,889	–	–	30,889
Non-current inventory	2,554	5,165	11,135	16,189	9,178	4,802	5,905	54,928	759	(2,545)	53,142
Investments in associates	–	–	–	–	–	–	–	–	15,651	–	15,651
Total segment assets	167,472	173,125	571,780	396,862	198,151	704,921	463,323	2,675,634	306,447	(60,513)	2,921,568
Additions to non-current assets:	–	–	–	–	–	–	–	–	–	–	–
Property, plant and equipment	19,701	39,443	40,309	57,317	42,323	70,997	58,006	328,096	40,650	(11,929)	356,817
Acquired in business combinations and acquisition of group of assets	–	–	13,400	–	–	–	–	13,400	118,079	–	131,479

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5. Segment information continued

For the year ended 31 December 2012 (\$'000) restated	Voro	Khakanja	Dukat	Omolon	Varvara	Amursk – Albazino	Mayskoye	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Revenue from external customers	268,427	302,482	672,881	295,748	215,241	99,182	–	1,853,961	104	–	1,854,065
Intersegment revenue	183	–	–	–	674	9,730	–	10,587	480,432	(491,019)	–
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	72,346	101,595	262,198	150,294	103,533	51,240	1	741,207	366,971	(399,281)	708,897
Cost of sales	90,417	131,963	294,120	187,494	117,147	66,370	(3,362)	884,149	366,971	(399,281)	851,839
Depreciation included in Cost of sales	(17,673)	(29,486)	(31,698)	(31,008)	(13,883)	(14,041)	–	(137,789)	–	–	(137,789)
Write-down of non-metal inventory to net realisable value	–	(4)	71	(5,836)	269	(206)	3,363	(2,343)	–	–	(2,343)
Rehabilitation expenses	(398)	(878)	(295)	(356)	–	(883)	–	(2,810)	–	–	(2,810)
General, administrative and selling expenses, excluding depreciation, amortization and share based compensation	7,823	8,833	12,487	9,279	4,329	10,297	8,779	61,827	99,428	(38,323)	122,932
General, administrative and selling expenses	20,085	15,842	23,197	15,581	5,342	11,669	9,088	100,804	157,389	(76,545)	181,648
Intercompany management services	(10,322)	(6,545)	(10,211)	(6,219)	(858)	(1,161)	(147)	(35,463)	(2,759)	38,222	–
Depreciation included in SGA	(1,940)	(464)	(499)	(83)	(155)	(211)	(162)	(3,514)	(923)	–	(4,437)
Share based compensation	–	–	–	–	–	–	–	–	(54,279)	–	(54,279)
Other operating expenses excl additional tax charges	6,358	14,535	20,038	7,335	6,471	11,946	2,868	69,551	17,659	734	87,944
Other operating expenses	6,358	14,535	73,645	7,335	18,775	11,946	2,868	135,462	17,659	734	153,855
Mining taxes, penalties and accrued interest	–	–	(53,607)	–	(12,304)	–	–	(65,911)	–	–	(65,911)
Share of loss of associates and joint ventures	–	–	–	–	–	–	–	–	1,804	–	1,804
Adjusted EBITDA	182,083	177,519	378,158	128,840	101,582	35,429	(11,648)	991,963	(5,326)	(54,149)	932,488
Depreciation expense	19,613	29,950	32,197	31,091	14,038	14,252	162	141,303	923	–	142,226
Rehabilitation expenses	398	878	295	356	–	883	–	2,810	–	–	2,810
Write-downs of metal inventories to net realisable value	–	–	–	–	–	4,000	–	4,000	–	–	4,000
Write-down of non-metal inventory to net realisable value	–	4	(71)	5,836	(269)	206	(3,363)	2,343	–	–	2,343
Additional tax charges according to the Supreme Arbitration Court decision	–	–	53,607	–	12,304	–	–	65,911	–	–	65,911
Share-based compensation	–	–	–	–	–	–	–	–	54,279	–	54,279
Operating profit/(loss)	162,072	146,687	292,130	91,557	75,509	16,088	(8,447)	775,596	(60,528)	(54,149)	660,919
Loss on disposal of subsidiaries											(10,709)
Gain on acquisition of remaining interest in joint venture											21,051
Foreign exchange											6,677
Change in fair value of contingent consideration											(4,717)
Finance income											4,657
Finance costs											(26,787)
Profit before tax											651,091
Income tax expense											(222,868)
Profit for the year attributable to the equity holders of the parent											428,223
Current metal inventories	58,652	84,983	102,062	109,105	51,998	126,924	13,515	547,241	486	(4,558)	543,169
Current non-metal inventories	7,953	53,215	49,432	65,786	21,293	45,022	31,200	273,901	43,116	(19,565)	297,452
Non-current segment assets:											
Property, plant and equipment, net	104,708	146,536	449,867	285,904	154,276	595,261	320,119	2,056,671	176,823	(27,762)	2,205,732
Goodwill		14,238	8,737		68,411		23,720	115,106			115,106
Non-current inventory	4,213	7,554	10,993	45,987	5,933	9,832	10,119	94,631	4,232	–	98,863
Investments in associates	–	–	–	–	–	–	–	–	29,822	–	29,822
Total segment assets	175,526	306,526	621,091	506,782	301,911	777,039	398,673	3,087,548	254,477	(51,885)	3,290,140
Additions to non-current assets:											
Property, plant and equipment	27,125	28,788	52,452	82,363	16,476	104,037	106,262	417,503	21,142	(4,261)	434,384
Acquired in the year	–	–	–	–	–	–	–	–	10,270	–	10,270

6. Revenue

Revenue analysed by geographical regions of customers is presented below:

	Year ended	
	31 December 2013 US\$'000	31 December 2012 US\$'000
Sales within the Russian Federation	1,060,935	1,055,569
Sales to Kazakhstan	170,178	396,543
Sales to Europe	151,970	219,546
Sales to China	165,368	178,059
Sales to Korea	90,512	1,429
Sales to Japan	65,183	1,066
Total metal sales	1,704,146	1,852,212
Other sales	2,451	1,853
Total	1,706,597	1,854,065

Metal sales to related parties (sales to Nomos-Bank) are disclosed in Note 34.

Included in revenues for the year ended 31 December 2013 are revenues which arose from sales to three of the Group's largest customers amounting to US\$391 million, US\$273 million and US\$175 million, respectively (2012: US\$357 million, US\$340 million and US\$234 million, respectively). No other customers individually account for more than 10% of the Group's revenues.

Presented below is an analysis of revenue from gold, silver and copper sales:

	Year ended 31 December 2013				Year ended 31 December 2012			
	Thousand ounces/tonnes (unaudited) shipped	Thousand ounces/tonnes (unaudited) payable	Average price (US Dollar per troy ounce/tonne payable) (unaudited)	US\$'000	Thousand ounces/tonnes (unaudited) shipped	Thousand ounces/tonnes (unaudited) payable	Average price (US Dollar per troy ounce/tonne payable) (unaudited)	US\$'000
Gold (thousand ounces)	818	808	1,326	1,070,847	593	589	1,640	966,463
Silver (thousand ounces)	27,414	27,376	22	592,576	27,797	27,797	30	832,886
Copper (tonnes)	6,468	6,141	6,631	40,723	7,011	7,011	7,540	52,863
Total				1,704,146				1,852,212

7. Cost of sales excluding write-downs of metal inventories to net realisable value

	Year ended	
	31 December 2013 US\$'000	31 December 2012 restated US\$'000
Cash operating costs		
On-mine costs (Note 8)	393,067	364,134
Smelting costs (Note 9)	384,192	335,564
Purchase of ore from third parties	18,836	29,519
Purchase of ore from related parties	13,983	3,035
Mining tax	109,421	120,910
Total cash operating costs	919,499	853,162
Depreciation and depletion of operating assets (Note 10)	245,483	178,417
Rehabilitation expenses	1,524	2,810
Total costs of production	1,166,506	1,034,389
Increase in metal inventories	(53,985)	(186,989)
Write-down of non-metal inventories to net realisable value (Note 23)	10,696	2,343
Cost of other sales	579	2,096
Total	1,123,796	851,839

Due to significant decline in gold and silver prices during first half of the year ended 31 December 2013, the Group has separately written down some of its metal inventories (refer to Note 23).

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7. Cost of sales excluding write-downs of metal inventories to net realisable value continued

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

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

8. On-mine costs

	Year ended	
	31 December 2013 US\$'000	31 December 2012 restated US\$'000
Consumables and spare parts	114,679	121,366
Services	165,936	146,876
Labour	109,475	90,760
Taxes, other than income tax	609	1,115
Other expenses	2,368	4,017
Total (Note 7)	393,067	364,134

9. Smelting costs

	Year ended	
	31 December 2013 US\$'000	31 December 2012 restated US\$'000
Consumables and spare parts	171,358	138,258
Services	139,489	137,339
Labour	70,650	57,063
Taxes, other than income tax	1,021	902
Other expenses	1,674	2,002
Total (Note 7)	384,192	335,564

10. Depletion and depreciation of operating assets

	Year ended	
	31 December 2013 US\$'000	31 December 2012 restated US\$'000
On-mine	159,218	117,504
Smelting	86,265	60,913
Total (Note 7)	245,483	178,417

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

11. General, administrative and selling expenses

	Year ended	
	31 December 2013 US\$'000	31 December 2012 restated US\$'000
Labour	106,952	92,429
Services	18,739	18,430
Share-based compensation	24,233	54,279
Depreciation	3,854	4,437
Other	14,354	12,073
Total	168,132	181,648

12. Other expenses

	Year ended	
	31 December 2013 US\$'000	31 December 2012 US\$'000
Mining taxes, penalties and accrued interest (Note 16)	662	65,911
Exploration expenses	24,144	32,908
Taxes, other than income tax	21,164	14,205
Social payments	10,709	10,544
Loss on disposal of property, plant and equipment	9,503	9,325
Housing and communal services	6,547	7,860
Bad debt allowance	1,089	267
Other expenses	14,668	12,835
Total	88,486	153,855

Mining taxes, penalties and accrued interest have been accrued in respect of various disputes with the Russian and Kazakh tax authorities. The background to these cases and their impact on the results of the Group has been set out in more detail within Note 16.

13. Employee costs

The weighted average number of employees during the year ended 31 December 2013 was:

	Year ended	
	31 December 2013 Number	31 December 2012 Number
Voro	913	901
Khakanja	1,144	1,132
Dukat	1,952	1,926
Omolon	910	1,027
Varvara	730	695
Amursk-Albazino	1,158	1,119
Mayskoye	941	759
Corporate and other	1,484	1,434
Total	9,232	8,993

	Year ended	
	31 December 2013 US\$'000	31 December 2012 restated US\$'000
Wages and salaries	281,316	252,152
Social security costs	64,557	53,963
Share based payments expense	24,233	54,279
Total payroll costs	370,106	360,394
Reconciliation:		
Less: employee costs capitalised	(52,003)	(53,831)
Less: employee costs absorbed into unsold metal inventory balances	(13,815)	(23,176)
Employee costs included in operating costs	304,288	283,387

Compensation for key management personnel is disclosed within Note 34.

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14. Auditor's remuneration

	Year ended	
	31 December 2013 US\$'000	31 December 2012 US\$'000
Fees payable to the auditor and their associates for the audit of the Company's Annual Report		
United Kingdom	353	254
Overseas	595	588
Total audit fees	948	842
Audit-related assurance services (half year review)	527	355
Total audit and half-year review fees	1,475	1,197
Taxation compliance services (i.e. related to assistance with corporate tax returns)	16	99
Capital project consulting services	394	–
Other non-audit services	10	10
Total non-audit services (excluding half-year review)	420	109
Total fees	1,895	1,306

15. Finance costs

	Year ended	
	31 December 2013 US\$'000	31 December 2012 US\$'000
Interest expense on borrowings	29,972	18,523
Unwinding discount on borrowings	9,070	4,643
Unwinding of discount on environmental obligations	3,693	3,621
Total	42,735	26,787

Interest expense on borrowings excludes borrowing costs capitalised in the cost of qualifying assets of US\$6.1 million and US\$14.7 million during the years ended 31 December 2013 and 2012, respectively. These amounts were calculated based on the Group's general borrowing pool and by applying an effective interest rate of 2.99% and 3.06%, respectively, to cumulative expenditure on such assets.

16. Income tax

The income tax expense for the year ended 31 December 2013 is as follows:

	Year ended	
	31 December 2013 US\$'000	31 December 2012 restated US\$'000
Current income taxes	105,096	174,444
Excess profit taxes payable in Kazakhstan	8,313	17,111
Income tax expense arising in respect of lost litigation	–	27,475
Deferred income taxes	(72,992)	3,838
	40,417	222,868

A reconciliation between the reported amount of income tax expense attributable to loss/profit before income tax for the year ended 31 December 2013 is as follows:

	Year ended	
	31 December 2013 US\$'000	31 December 2012 restated US\$'000
(Loss)/Profit before income tax	(157,620)	651,091
Statutory income tax expense at the tax rate of 20%	(31,524)	130,218
Loss incurred in tax-free jurisdictions	8,309	(4,336)
Share-based compensation	4,720	10,856
Excess profit taxes payable in Kazakhstan	8,313	17,111
Effect of income tax rate adjustment	–	–
Income tax arising in respect of lost litigation	–	27,475
Income tax provision in respect of other exposures	–	5,055
Tax effect of non-deductible expenses and other permanent differences	50,599	36,489
Total income tax expense	40,417	222,868

The actual tax expense differs from the amount which would have been determined by applying the statutory rate of 20% for the Russian Federation and Kazakhstan 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.

In the normal course of business, the Group is subject to examination by tax authorities throughout the Russian Federation and Kazakhstan. Out of the large operating companies of the Group, tax authorities have audited CJSC Gold of Northern Urals up to 2011, Omolon Gold Mining Company LLC, LLC Okhotskaya Mining and Exploration Company CJSC and Mayskoye Gold Mining Company LLC up to 2010, CJSC Magadan Silver for the period up to 2009, JSC Varvarinskoye for the period up to 2010. According to Russian and Kazakhstan tax legislation, previously conducted audits do not fully exclude subsequent claims relating to the audited period.

Income tax and other expenses arising in respect of lost litigation

At 31 December 2012

During the year ended 31 December 2012, the Group provided for certain expenses and tax exposures in respect of lost litigation.

The additional income tax charges incurred in respect of litigations during the year ended 31 December 2012 total US\$27.5 million and comprised US\$14.5 million paid out in respect of a case concerning Magadan Silver sales to ABN AMRO in 2007 and US\$13.0 million in respect of cases relating to the deductibility of transportation and processing expenses and of foreign exchange losses in Varvara. Including US\$5.1 million of additional income tax exposures provided for and US\$17.1 million excess profit tax in Kazakhstan recognised for the first time in 2012, a total additional income tax expense of US\$49.6 million was recognised in the year ended 31 December 2012.

The Group also recognised mining taxes, interest and penalties totalling US\$65.9 million which were recognised within Other Operating Expenses (see Note 12). These expenses comprised US\$15.0 million paid out in respect of the Magadan Silver/ABN AMRO case, US\$9.2 million provided for in respect of the Magadan Silver Mineral Extraction Tax case, US\$10.1 million paid out in respect of Varvara litigation and US\$31.6 million in respect of other exposures.

At 31 December 2013

During the year ended 31 December 2013 the Group paid US\$8.3 million of mining taxes, interest and penalties in respect of the Magadan Silver Mineral Extraction Tax case, US\$17.1 million of Varvara Excess Profits Tax provided for in 2012 and US\$7.3 million of various Varvara exposures.

In respect of the year ended 31 December 2013, no additional significant income tax and mining tax exposures have been provided for.

Other exposures considered possible but not probable and therefore not provided for total to US\$22.3 million (31 December 2012: US\$3 million) and are described in Note 29.

Deferred taxation

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

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

	Environmental obligation US\$'000	Inventories US\$'000	Property, plant, and equipment US\$'000	Trade and other payables US\$'000	Tax losses US\$'000	Loan US\$'000	Other US\$'000	Total US\$'000
At 1 January 2013 restated	13,343	(18,637)	(90,154)	6,078	57,621	(1,834)	8,847	(24,736)
Credit to income statement	709	11,555	16,086	5,767	32,229	1,749	4,898	72,993
Acquisition	–	–	(23,025)	353	595	–	(556)	(22,633)
Disposal	–	587	(484)	(160)	(37)	–	(6)	(100)
Exchange differences	(980)	1,014	6,323	(601)	(5,036)	85	(930)	(125)
At 31 December 2013	13,072	(5,481)	(91,254)	11,437	85,372	–	12,253	25,399

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16. Income tax continued

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

	Year ended	
	31 December 2013	31 December 2012
	US\$'000	restated US\$'000
Deferred tax liabilities	(63,085)	(82,760)
Deferred tax assets	88,484	58,024
Total	25,399	(24,736)

Tax losses carried forward represent amounts available for offset against future taxable income generated by JSC Omolon Gold Mining Company, ZK Mayskoye LLC, Albazino Resources LLC, Amursk Hydrometallurgy Plant LLC and the Company during the period up to 2023. 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. As at 31 December 2013 and 31 December 2012 the aggregate tax losses carried forward were US\$426.8 million (RUB13.9 billion) and US\$288.1 million (RUB 8.8 billion), respectively.

The Group believes that recoverability of the recognized deferred tax asset (DTA) of US\$88.5 million at 31 December 2013 is more likely than not based upon expectations of future taxable income in the Russian Federation and Kazakhstan and available tax planning strategies.

Losses incurred in certain taxable entities in recent years have created a history of losses as of 31 December 2013. The Group has concluded that there is sufficient evidence to overcome the recent history of losses based on forecasts of sufficient taxable income in the carry-forward period.

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

Year ended	31 December 2013 US\$'000
31 December 2014	2,680
31 December 2015	7,401
31 December 2016	6,229
31 December 2017	8,971
31 December 2018	25,059
31 December 2019	19,939
31 December 2020	22,272
31 December 2021	67,575
31 December 2022	90,698
31 December 2023	176,034
Total loss carried forward for tax purposes	426,858

The deferred tax liabilities for taxes that would be payable on the unremitted earnings of certain of the Group subsidiaries have not been recognised as the Group has determined that the undistributed profit of its subsidiaries will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognised, amount to US\$1,802 million (2012: US\$1,712 million).

17. Dividends

A final dividend has been proposed in relation to the year of 8 cents per share giving a total expected dividend of US\$31.2 million. This is subject to approval by shareholders at the Annual General Meeting and has therefore not been included as a liability in these financial statements.

On 23 September 2013 an interim dividend of 1 cent per share was paid to shareholders by the Company resulting in cash outflows of US\$3.9 million.

On 17 June 2013 a final dividend for 2012 of 31 cents per share was paid to shareholders by the Company resulting in cash outflows of US\$121.2 million. On 16 January 2013, a special dividend of 50 cents per share was paid to shareholders by the Company resulting in cash outflows of US\$191.3 million.

On 14 June 2012 a final dividend for 2011 of 20 cents per share was paid to shareholders by the Company resulting in cash outflows of US\$76.5 million.

18. Impairment losses

At 30 June 2013, due to significant decline in gold, silver and copper market prices in first quarter 2013, the Group carried out an impairment review of its property, plant and equipment, goodwill and other non-current assets. As a result of this review, total impairment charges of US\$199.1 million were recognised as at 30 June 2013.

During second half of the year ended 31 December 2013 there was a stabilisation in gold, silver and copper market prices. Therefore, the impairment review was performed only for the Omolon cash generating unit, where individual impairment indicators exist due to downgrades in reserves and changes in the life of mine plan. As a result, a further impairment of US\$12 million was recognised as at 31 December 2013.

In the view of management there are no indicators of impairment (or impairment reversal) for other cash generating units as at 31 December 2013 and no further impairment as at 31 December 2013 was recognised.

Total impairment charges of US\$213.4 million (2012: nil) recognised during the year ended 31 December 2013 comprise the following:

	Year ended 31 December 2013					
	Khakanja US\$'000	Varvara US\$'000	Omolon US\$'000	Total operating segments US\$'000	Corporate and other US\$'000	Total US\$'000
Property, plant and equipment	91,184	17,358	16,587	125,129	–	125,129
Goodwill	13,220	62,756	–	75,976	–	75,976
Investments in associates	–	–	–	–	12,291	12,291
Total	104,404	80,114	16,587	201,105	12,291	213,396

After the related tax credit of US\$21.1 million, the post-tax impairment charge is US\$192.3 million.

Impairment of Property, Plant and Equipment

Each cash generating unit is determined on the basis of Group's geographical structure and equals to the Group's reporting segments (refer to Note 5). The carrying amount of cash generating units excludes certain exploration assets included within the segment assets which are currently under development and have not reached a stage where there is enough information to estimate the future cash flows that might be eventually generated by the project. The following amounts are excluded from cash generating units carrying amounts: US\$36.7 million. These were assessed for impairment separately.

The carrying amounts of all the cash-generating units were 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.

The Group used a post-tax real discount rate of 7.1% (2012: 7.1%) in the DCF calculations which is equal to its nominal weighted average cost of capital of 9% (2012: 9%) translated into real terms. The DCF method used is based on the following key assumptions:

Commodity prices

Commodity prices are based on latest internal forecasts, benchmarked against external sources of information. In the impairment tests performed, the flat real long-term gold, silver and copper prices of US\$1,200 per ounce, US\$18 per ounce and US\$7,000 per tonne, respectively, have been used to estimate future revenues.

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18. Impairment losses continued

Proved and probable reserves and mineral resources

Production volumes are derived from the detailed long-term life of mine plans which are based on JORC proven and probable reserves and certain mineral resources (using a relevant resource-to-reserve conversion ratio) at the end of the period.

Production costs

Production costs are based on management's best estimates over the life of the mine, and reflect past experience.

Impairment of investment in associate

The Group has fully written off its investment in JSC Ural-Polymetal as the carrying values of the exploration assets this associate holds are not considered recoverable. In management's view there are no indicators of a reversal as at 31 December 2013. See Note 21.

19. Property, plant and equipment

Cost	Exploration and evaluation assets US\$'000	Mining assets US\$'000	Non-mining assets US\$'000	Capital construction in-progress US\$'000	Total US\$'000
Balance at 1 January 2012	94,873	1,559,526	87,464	511,427	2,253,290
Additions	66,077	186,007	18,756	163,544	434,384
Transfers	(74,723)	436,721	(7,187)	(345,964)	8,847
Change in decommissioning liabilities	–	3,245	–	–	3,245
Acquired on acquisition of group of assets	–	10,264	6	–	10,270
Eliminated on disposal of subsidiary	–	(10,815)	(1,114)	–	(11,929)
Disposals	(7,654)	(19,219)	(1,897)	(2,105)	(30,875)
Translation to presentation currency	6,352	96,095	2,299	26,720	131,466
Balance at 31 December 2012	84,925	2,261,824	98,327	353,622	2,798,698
Additions	60,355	245,287	13,216	37,959	356,817
Transfers	78,138	143,437	(6,627)	(214,948)	–
Change in decommissioning liabilities	–	(549)	–	–	(549)
Acquired on acquisition	128,521	6	–	2,952	131,479
Eliminated on disposal of subsidiary	–	(12,535)	(218)	(42)	(12,795)
Disposals	–	(45,325)	(6,455)	(1,828)	(53,608)
Translation to presentation currency	(14,713)	(161,806)	(6,964)	(20,154)	(203,637)
Balance at 31 December 2013	337,226	2,430,339	91,279	157,561	3,016,405

Accumulated depreciation, amortisation	Exploration and evaluation assets US\$'000	Mining assets US\$'000	Non-mining assets US\$'000	Capital construction in-progress US\$'000	Total US\$'000
Balance at 1 January 2012	–	(335,167)	(16,149)	–	(351,316)
Charge for the year	–	(226,851)	(9,521)	–	(236,372)
Disposals	–	8,705	752	–	9,457
Eliminated on disposal of subsidiary	–	8,369	389	–	8,758
Translation to presentation currency	–	(23,328)	(165)	–	(23,493)
Balance at 31 December 2012	–	(568,272)	(24,694)	–	(592,966)
Charge for the period	–	(281,157)	(6,186)	–	(287,343)
Disposals	–	27,115	3,804	–	30,919
Eliminated on disposal of subsidiary	–	5,469	160	–	5,629
Impairment recognised in profit and loss	(4,670)	(114,984)	(1,938)	(3,537)	(125,129)
Translation to presentation currency	1	44,894	2,339	(7)	47,227
Balance at 31 December 2013	(4,669)	(886,935)	(26,515)	(3,544)	(921,663)
Net book value					
1 January 2012	94,873	1,224,359	71,315	511,427	1,901,974
31 December 2012	84,925	1,693,552	73,633	353,622	2,205,732
31 December 2013	332,557	1,543,404	64,764	154,017	2,094,742

Mining assets at 31 December 2013 included mineral rights with net book value which amounted to US\$376.3 million (31 December 2012: US\$367.8 million). Mineral rights of the Group comprise assets acquired upon acquisition of subsidiaries and asset acquisitions.

IFRIC 20 was adopted from 1 January 2012 (see note 35). Comparative balance were restated to recognise stripping assets of US\$56.3 million at 31 December 2012. At 31 December 2013 stripping costs of US\$91.3 million have been capitalised within Mining assets.

Transfers from Capital construction in-progress to Mining assets during the year relate mainly to Mayskoye (transfers amounting to US\$133 million), where assets reached commercial production in April 2013.

The additions and the disposals of property, plant and equipment in the year ended 31 December 2012 are shown net of US\$67.8 million of exploration and development assets recognised on acquisition of a controlling interest in Amikan Holding Ltd in February 2012 and subsequently derecognised on loss of control in that entity following its disposal in May 2012 (see Note 21).

No property, plant and equipment were pledged as collateral at 31 December 2013 or at 31 December 2012.

Impairment losses recognised during the year ended 31 December 2013

During the current year, as a result of significant gold, silver and copper market price declines below levels used in the Group's 2012 impairment tests, the Group carried out a review of the recoverable amount of its property, plant and equipment. The review led to the recognition of impairment losses of US\$125.1 million, which has been recognised in the income statement. Refer to Note 18 for further details.

20. Goodwill

	31 December 2013 US\$'000	31 December 2012 US\$'000
Cost and Accumulated impairment losses		
At 1 January	115,106	108,587
Impairment losses recognised in the year	(75,976)	–
Translation effect	(8,241)	6,519
At 31 December	30,889	115,106

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

	31 December 2013 US\$'000	31 December 2012 US\$'000
Varvara	–	68,411
Mayskoye	22,013	23,720
Khakanja	–	14,237
Dukat	8,876	8,738
Total	30,889	115,106

Impairment losses recognised during the year ended 31 December 2013

As a result of significant gold, silver and copper market prices decline below levels used in the Group's 2012 annual impairment tests during the period ended 30 June 2013, the Group carried out a review of the recoverable amount of goodwill at 30 June 2013. The review led to the recognition of an impairment charge of US\$76 million of goodwill, which has been recognised in the income statement. Refer to Note 18 for details.

During the second half of 2013 there was a stabilisation of gold, silver and copper market prices. In management's view there are no indicators of impairment as of 31 December 2013 and no further impairment of goodwill at 31 December 2013 was recognised.

Sensitivity analysis

For the cash-generating units where the goodwill was not fully impaired at 31 December 2013, being 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 an impairment.

The following scenarios were considered as reasonably possible and were used for this sensitivity analysis:

- 5% simultaneous decrease in gold and silver prices over the life of mine;
- 5% increase in operating expenses over the life of mine; and
- 0.5% increase in the discount rate applied.

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20. Goodwill continued

Each of the sensitivities above has been determined by assuming that the relevant key assumption moves in isolation, and without regard to potential mine plan changes and other management decisions which would be taken to respond to adverse changes in existing management projections.

An adverse change in a key assumption described above would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the Dukat and Mayskoye cash-generating units.

21. Investments in associates

	31 December 2013		31 December 2012	
	Voting power %	Carrying value US\$'000	Voting power %	Carrying value US\$'000
JSC Ural-Polymetal	49.9	–	33.3	10,507
Polygon Gold	42.65	15,651	42.65	19,315
Total	–	15,651	–	29,822

Equity investment in Polygon Gold Inc.

Polygon Gold Inc. ('Polygon'), a private shell company, was initially set up between Polymetal and Tyner Enterprises Inc. ('Tyner') who initially held 250 and 100 shares respectively in the new venture. Tyner is controlled and managed by Len Homeniuk, a non-executive Director of Polymetal International plc.

On 7 February 2012, the Company acquired AngloGold's 50% equity interest and debt investments in the various joint venture companies held with Polymetal (Note 4). The principal company acquired was Amikan Holding Limited, which owns the Veduga gold deposit in the Krasnoyarsk region of the Russian Federation, with other entities acquired not holding any material assets or liabilities.

The total gain on acquisition of the remaining interest in the joint venture was US\$21.1 million, comprising a US\$12.7 million revaluation to fair value of previously held interest and a bargain purchase gain of US\$8.4 million. The bargain purchase gain resulted from AngloGold Ashanti Limited strategic decision to exit the Russian Federation.

On 14 May 2012, Polymetal sold 100% of Amikan Holding Limited to Polygon in exchange for consideration of US\$20 million in cash and 750 ordinary shares of Polygon. In addition, Sibproekt LLC ('Sibproekt'), an unrelated local partner, provided a US\$21 million loan to Polygon and received 100 newly issued Polygon shares for no consideration. This resulted in Polymetal holding an initial 81.8% equity ownership in Polygon. Under the new shareholder agreement, Polymetal obtained one of the four board seats giving it significant influence. The investment has been accordingly recognised as an investment in associate.

On 4 June 2012, Polygon's share capital was increased to 1,571 shares by the issuance of 471 new shares to an affiliate of Gazprombank OJSC ('Gazprombank') for a total consideration of US\$14.2 million paid in cash. The proceeds from the offering will be used to finance the Veduga project and repay part of Polygon's debt. In addition, Gazprombank has expressed an interest in providing project financing to Polygon to develop Veduga into a producing mine.

On 7 June 2012, Polymetal sold 230 of its shares in Polygon to Sibproekt for a total consideration of US\$8.0 million payable in cash, US\$5 million of which was paid with US\$3.0 million payable by 28 February 2013.

The Group's equity ownership in Polygon Gold Inc. has now decreased to 42.65%. It continues to exercise significant influence over Polygon.

Equity investment in JSC Ural-Polymetal

At 1 January 2013 the group held 33.3% of JSC Ural-Polymetal, a Russian entity which holds an operating copper and zinc open pit mine and a processing plant. As a result of an impairment review performed as at 30 June 2013, the investment in JSC Ural-Polymetal was written off to nil (see Note 18).

On 29 October 2013 the Group acquired an additional 16% interest in JSC Ural-Polymetal for \$2.5 million, taking its share in the business to 49.9%. In management's view it continues to hold significant influence in JSC Ural-Polymetal however it does not have the ability to exercise control. As a result of an impairment review performed at 31 December 2013 the additional investment in JSC Ural-Polymetal was also written off, as the project development is at an early stage and a new NPV estimate for the assets cannot be prepared at this stage. Therefore and consistently with the assumptions used as at 30 June 2013, full investment in Ural-Polymetal is written off.

The following tables summarise the aggregate financial position and the Group's share of net losses of the investments in JSC Ural-Polymetal and Polygon Gold Inc:

	Polygon Gold Inc		JSC Ural-Polymetal
	31 December 2013 US\$'000	31 December 2012 US\$'000	31 December 2012 US\$'000
Revenue	14,617	–	40,794
Net loss	(5,492)	(1,658)	(3,660)
Group's share of net loss	(2,340)	(706)	(1,098)

	Polygon Gold Inc		JSC Ural-Polymetal
	31 December 2013 US\$'000	31 December 2012 US\$'000	31 December 2012 US\$'000
Non-current assets	78,908	68,609	48,894
Current assets	6,807	13,731	12,970
Non-current liabilities	(30,352)	(18,150)	(10,237)
Current liabilities	(16,508)	(19,844)	(14,651)
Equity	(38,855)	(44,347)	(36,975)

22. Non-current loans and accounts receivable

	Interest rate	31 December 2013 US\$'000	31 December 2012 US\$'000
Long-term accounts receivable	Nil	11,255	1,475
Loans extended to third parties	8.00%	7,334	3,813
Polygon Gold	8.00%	–	5,469
Loans extended to investments in associates	3.5%-6%	1,017	–
Employees	6.00%	3,247	4,054
Total	–	22,853	14,811

23. Inventories

	31 December 2013 US\$'000	31 December 2012 restated US\$'000
Inventories expected to be recovered after twelve months		
Consumables and spare parts	41,885	62,267
Ore stock piles	11,257	36,597
Total non-current inventories	53,142	98,864
Inventories expected to be recovered in the next twelve months		
Ore stock piles	182,269	285,006
Copper, gold and silver concentrate	133,037	141,878
Work in-process	77,848	64,811
Metal for refinery	9,117	21,206
Doré	24,881	30,268
Total metal inventories	427,152	543,169
Consumables and spare parts	299,992	297,452
Total	727,144	840,621

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23. Inventories continued

Write-downs of metal inventories to net realisable value

During the year ended 31 December 2013, the Group recognised the following write-downs to net realisable value of its metal inventories due to low content of precious metals and metal price decline (see Note 18):

	Year ended 31 December 2013							Year ended 31 December 2012 restated
	Voro US\$'000	Khakanja US\$'000	Dukat US\$'000	Omolon US\$'000	Varvara US\$'000	Mayskoye US\$'000	Total operating segments US\$'000	Total operating segments US\$'000
Ore stock piles	2,559	28,160	11,954	75,229	19,301	–	137,203	137,203
Copper, gold and silver concentrate	–	–	–	–	–	16,124	16,124	16,124
Total	2,559	28,160	11,954	75,229	19,301	16,124	153,327	153,327

After the related tax credit of US\$30.7 million, the post-tax impairment charge is US\$122.6 million.

Write-downs of metal inventories to net realisable value were recognised during the year ended 31 December 2013 in amount of US\$153 million as a result of decline in gold, silver and copper prices. The key assumptions used as at 31 December 2013 in determining net realisable value of inventories (including the commodity price assumptions) were consistent with the assumptions used in the impairment review of goodwill and non-current assets (see Note 18).

In addition, during the year ended 31 December 2013 the Group wrote-down US\$4.6 million of costs (2012: US\$5.6 million) in Omolon which did not significantly enhance the value of the ore stock piles.

During the year ended 31 December 2013 the Group provided for obsolete consumables and spare parts inventory in the amount of US\$10.7 million (year ended 31 December 2012: reversal of US\$3.3 million).

The amount of inventories held at net realisable value at 31 December 2013 is US\$100.7 million (31 December 2012: US\$7 million).

24. Trade and other receivables

	31 December 2013 US\$'000	31 December 2012 US\$'000
Receivables from provisional copper, gold and silver concentrate sales	14,902	59,508
Other trade receivables	2,268	–
Non-trade receivables	21,889	24,948
Prepaid expenses	3,827	5,417
Accounts receivable from related parties	164	4,717
Short-term loans provided to employees	3,941	2,765
Short-term loans provided to equity method investments	190	11,792
Total trade and other receivables	47,181	109,147
Less: Allowance for doubtful debts	(2,655)	(1,551)
Total	44,526	107,596

Trade receivables mainly relate to JSC Varvarinskoye for their sales of provisionally priced copper and gold concentrate, and to CJSC Magadan Silver and Albazino Resources Ltd for their sales of provisionally priced silver concentrate. Of the trade receivables balance as of 31 December 2013, US\$12.5 million (2012: US\$47.0 million) is due from one customer. There are no other customers who represent more than 10% of the total balance of trade receivables.

The average credit period on sales of copper, gold and silver concentrate at 31 December 2013 was 25 days (2012: 30 days). No interest is charged on trade receivables. The Group's allowance for doubtful debt relates to its non-trade receivables. There are no trade receivables either past due or impaired as at 31 December 2013 (31 December 2012: US\$nil).

Non-trade receivables include amounts receivable from sale of fuel or operating lease of machinery to contractors. The average credit period for non-trade receivables at 31 December 2013 was 36 days (2012: 93 days). No interest is charged on short term non-trade receivables.

Non-trade receivables disclosed above include those that are past due at the end of the reporting period for which the Group has not recognised a bad debt allowance because there has not been a significant change in credit quality and the amounts are still considered to be recoverable. Such past due but not impaired receivables amounted to US\$4.7 million as at 31 December 2013 (2012: US\$3.7 million). The Group does not hold any collateral or other security over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

25. Cash and cash equivalents

	31 December 2013 US\$'000	31 December 2012 US\$'000
Bank deposits – RUB	11,293	–
Bank deposits – foreign currencies	32,821	4,095
Current bank accounts – RUB	8,919	5,124
Current bank accounts – foreign currencies	12,364	9,346
Other cash and cash equivalents	170	57
Total	65,567	18,622

Bank deposits as at 31 December 2013 bear interest of 0.2%-1.08% per annum for US dollars denominated deposits (2012: 0.3% per annum) and 6.75%-7.15% for RUB denominated deposits with an average maturity at inception of 15 days (2012: 15 days).

26. Borrowings

Borrowings at amortised cost:

		Actual interest rate at 31 December		31 December 2013			31 December 2012		
Type of rate		2013	2012	Current US\$'000	Non-current US\$'000	Total US\$'000	Current US\$'000	Non-current US\$'000	Total US\$'000
Secured loans from third parties									
<i>US Dollar denominated</i>	Floating	3.22%	3.1%	37,500	537,500	575,000	222,874	485,862	708,736
Total		–	–	37,500	537,500	575,000	222,874	485,862	708,736
Unsecured Loans from third parties									
<i>US Dollar denominated</i>	Floating	2.74%	2.8%	30,769	469,231	500,000	–	100,000	100,000
<i>US Dollar denominated</i>	Fixed	7.5%	7.35%	–	11,443	11,443	6,859	7,712	14,571
<i>Euro denominated</i>	Floating	2.24%	2.8%	3,757	3,757	7,514	5,306	7,243	12,549
Total				34,526	484,431	518,957	12,165	114,955	127,120
Loans from related parties									
<i>Euro denominated</i>	Floating	4.90%	4.4%	8,903	7,624	16,527	8,583	15,932	24,515
<i>CAD denominated</i>	Floating	5.69%	8%	402	258	660	589	711	1,300
<i>RUB denominated</i>	Fixed	–	5.7%	–	–	–	–	2,152	2,152
Total		–	–	9,305	7,882	17,187	9,172	18,795	27,967
		–	–	81,331	1,029,813	1,111,144	244,211	619,612	863,823

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 Rubles, US Dollars, Euro and Canadian Dollars. Where security is provided it is in form of pledge of revenue from certain sales agreements.

During the year ended 31 December 2013, the Group drew down a total of US\$3,100 million and repaid US\$2,887 million, a net drawdown of US\$213 million.

The Group secured new facilities in the year for a total amount of US\$975 million with unrelated parties. These credit facilities are repayable between first quarter 2014 and fourth quarter 2018 and bear interest at a rate of between Libor +2.35% and Libor +3.05%.

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26. Borrowings continued

At 31 December 2013, the Group had undrawn borrowing facilities of US\$1,324 million (31 December 2012: US\$913 million). The Group complied with its debt covenants throughout 2013 and 2012. The table below summarises maturities of borrowings:

Year ended	US\$'000
31 December 2013	81,331
31 December 2014	253,904
31 December 2015	306,773
31 December 2016	57,692
31 December 2017	403,814
31 December 2018	5,086
31 December 2019	2,544
Total	1,111,144

27. 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 2013 US\$'000	31 December 2012 US\$'000
Opening balance	66,693	54,463
Changes in estimates for the year:		
Decommissioning liabilities recognised in income statement	(1,064)	–
Decommissioning liabilities recognised in PPE	(549)	3,245
Rehabilitation liabilities	1,814	3,873
Effect of unwinding of discount	3,693	3,621
Amounts paid in the year	(901)	(1,479)
Translation effect	(4,322)	2,970
Closing balance	65,364	66,693

Rehabilitation expenses relate to the increase of the environmental obligation which arises on production phase of mining activities. During the year ended 31 December 2013 rehabilitation expenses amounting to US\$0.3 million (2012: US\$1.1 million) were removed from cost of production and capitalised through the application of IFRIC 20 (see note 35).

The principal assumptions used for the estimation of environmental obligations were as follows:

	2013	2012
Discount rates	5.78%-8.43%	3.74%-6.9%
Inflation rates	4.12%-5.77%	5.67%-7.21%
Expected mine closure dates	2-19 years	2-22 years

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

28. Trade payables and accrued liabilities

	31 December 2013 US\$'000	31 December 2012 US\$'000
Trade payables	56,667	64,238
Dividends payable (Note 17)	–	191,343
Accrued liabilities	41,856	40,851
Labour liabilities	13,033	11,978
Other payables	6,418	3,808
Total	117,974	312,218

In 2013, the average credit period for payables was 34 days (2012: 51 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.

29. Commitments and contingencies

Commitments

Capital commitments

The Group's budgeted capital expenditure commitments as at 31 December 2013 amounted to US\$22.3 million (2012: US\$37 million).

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

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 2013 US\$'000	31 December 2012 US\$'000
Due within one year	2,831	1,832
From one to five years	3,904	4,278
Thereafter	2,334	2,702
Total	9,069	8,812

Contingencies

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 2012 and 2013 the Group has been involved in a number of litigations in Russia and in Kazakhstan. See Note 16 for details of these cases and their outcomes. In addition to the cases detailed within Note 16, management has identified a total exposure (covering taxes and related interest and penalties) of US\$22.3 million in respect of contingent liabilities (2012: US\$3 million).

30. 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).

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30. Fair value accounting continued

At 31 December 2013 and 31 December 2012 the Group held the following financial instruments:

	31 December 2013 US\$'000			
	Level 1	Level 2	Level 3	Total
Receivables from provisional concentrate sales	–	14,902	–	14,902
Contingent consideration liability	–	–	(15,523)	(15,523)
	–	14,902	(15,523)	(621)

	31 December 2012 US\$'000			
	Level 1	Level 2	Level 3	Total
Receivables from provisional concentrate sales	–	59,508	–	59,508
Contingent consideration liability	–	–	(25,276)	(25,276)
	–	59,508	(25,276)	34,232

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

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

In 2008, the Group recorded a contingent consideration liability related to the acquisition of 98.1% of the shares in JSC Omolon Gold Mining Company (Omolon). The fair value of the contingent consideration liability was determined using a valuation model which simulates expected production of gold and silver at the Kubaka mine and future gold and silver prices to estimate future revenues of Omolon. This liability is revalued at each reporting date based on 2% of the life of mine revenues with the resulting gain or loss recognised in the consolidated income statement. The liability recognised at 31 December 2013 was US\$15.5 million (2012: US\$25.3 million).

The table below sets forth a summary of changes in the fair value of the Group's Level 3 financial liabilities for the year ended 31 December 2013:

	31 December 2013 US\$'000	31 December 2012 US\$'000
Opening balance	25,276	22,290
Additions	–	54
Change in fair value, recognised in the Income Statement	(8,131)	4,717
Translation effect	(294)	53
Settlement	(1,328)	(1,838)
Total	15,523	25,276

Additions in the year ended 31 December 2012 represent the contingent consideration payable by the Group on Semchenskoye Zoloto acquisition (see Note 4 for further details).

The directors consider that a reasonably possible change in a valuation assumption would not have a material effect on the Group.

Commodity forward contracts

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

31. 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 remains from prior years.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 26 offset by cash and bank balances as detailed in Note 25) and equity of the Group (comprising the Stated Capital account, reserves and retained earnings as detailed in Note 32).

The Group is not subject to any externally imposed capital requirements. The Group's Board reviews the capital structure of the Group on a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, derivatives, finance lease liabilities, trade and other payables. The Group has various financial assets such as accounts receivable, loans advanced and cash and cash equivalents.

	31 December 2013 US\$'000	31 December 2012 US\$'000
Financial assets		
Financial assets at FVTPL		
Receivables from provisional copper, gold and silver concentrate sales	14,902	59,508
Loans and receivables, including cash and cash equivalents		
Cash and cash equivalents	65,567	18,622
Trade and other receivables	25,797	48,088
Non-current loans and receivables	22,853	14,811
Total financial assets	129,119	141,029
Financial liabilities		
Financial liabilities at FVTPL		
Contingent consideration liability	15,523	25,276
Financial liabilities at amortised cost		
Borrowings	1,111,144	863,823
Dividends payable	–	191,343
Trade and other payables	63,085	68,046
Total financial liabilities	1,189,752	1,148,488

Trade and other payables exclude employee benefits and social security.

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 long-term debt, calculated using the market interest rate available to the Group as at 31 December 2013, is US\$1,017 million, and the carrying value as at 31 December 2013 is US\$1,111 million (see Note 26). Carrying values of the other long-term loans provided to related parties as at 31 December 2013 and 31 December 2012 approximated to their fair values.

The main risks arising from the Group's financial instruments are foreign currency and commodity price risk, interest rate, credit and liquidity risks.

At the end of the reporting period, there are no significant concentrations of credit risk for receivables designated at FVTPL. The carrying amount reflected above represents the Group's maximum exposure to credit risk for such receivables.

Derivative financial instruments

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

	Consolidated balance sheet location	31 December 2013 US\$'000	31 December 2012 US\$'000
Receivable from provisional concentrate sales	Accounts receivable	14,902	59,508

	Location of loss recorded in Income Statement	Year ended 31 December 2013 US\$'000	31 December 2012 US\$'000
Receivable from provisional concentrate sales	Revenue	(9,481)	(2,830)

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31. Risk management activities continued

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 use derivative instruments to currently 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 2013 and 31 December 2012 were as follows:

	Assets		Liabilities	
	31 December 2013 US\$'000	31 December 2012 US\$'000	31 December 2013 US\$'000	31 December 2012 US\$'000
US Dollar	60,524	78,544	1,099,804	1,022,458
Euro	119	99	25,883	39,938
GBP	99	79	720	31
Total	60,742	78,722	1,126,407	1,062,427

Currency risk is monitored on a monthly basis by performing a sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level.

The table below details the Group's sensitivity to changes in exchange rates by 10% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items denominated in respective currencies at the reporting dates.

	31 December 2013 US\$'000	31 December 2012 US\$'000
Profit or loss (RUB to US Dollar)	(106,524)	(93,453)
Profit or loss (RUB to Euro)	(3,637)	(4,979)
Profit or loss (RUB to GBP)	(107)	5
Profit or loss (KZT to US Dollar)	(1,786)	8,570

Provisionally priced sales

Under a long-established practice prevalent in the industry, copper, gold and silver concentrate sales are provisionally priced at the time of shipment. The provisional prices are finalised in a contractually specified future period (generally one to three months) primarily based on quoted LBMA or LME prices. Sales subject to final pricing are generally settled in a subsequent month. The forward price is a major determinant of recorded revenue.

Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group does not currently hedge its exposure to interest rate risk.

The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk section of this note.

For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole period. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2013 would have decreased/increased by US\$9.8 million (2012: US\$7.7 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has increased during the current period mainly due to the increase in variable rate debt instruments.

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. The Group's financial instruments that are potentially exposed to concentration of credit risk consist primarily of cash and cash equivalents and loans and receivables.

Accounts receivable are regularly monitored and assessed and where necessary an adequate level of provision is maintained. Trade accounts receivable at 31 December 2013 and 31 December 2012 are represented by provisional copper, gold and silver concentrate sales transactions. A significant portion of the Group's trade accounts receivable is due from reputable export trading companies. With regard to other loans and receivables the procedures of accepting a new customer include checks by a security department and responsible on-site management for business reputation, licences and certification, creditworthiness and liquidity. Generally, the Group does not require any collateral to be pledged in connection with its investments in the above financial instruments. Credit limits for the Group as a whole are not set up.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The major financial assets at the balance sheet date other than trade accounts receivable presented in Note 24 are cash and cash equivalents at 31 December 2013 of US\$65.6 million (2012: US\$18.6 million).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities as they fall due.

The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting, cash forecasting processes and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

The following tables detail the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2013:

					31 December 2013 US\$'000	31 December 2012 US\$'000
	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total	Total
Special dividend payable	–	–	–	–	–	191,343
Borrowings	20,194	94,772	1,096,285	8,130	1,219,381	923,155
Accounts payable and accrued expenses	59,754	3,331	–	–	63,085	68,046
Contingent consideration	–	1,169	16,940	2,192	20,301	36,259
Total	79,948	99,272	1,113,225	10,322	1,302,767	1,218,803

32. Stated capital account and retained earnings

As at 31 December 2013, the Company's issued share capital consisted of 389,472,865 ordinary shares (2012: 383,206,204 ordinary shares) of no par value, each carrying one vote. The Company does not hold any shares in treasury (2012: none). The ordinary shares reflect 100% of the total issued share capital of the Company.

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

	Stated capital account number of shares	Stated capital account US\$'000
Balance at 1 January 2012	382,685,782	1,566,386
Issue of shares to acquire Svetlobor	520,422	9,737
Balance at 31 December 2012	383,206,204	1,576,123
Issue of shares to acquire Olcha	775,000	13,423
Issue of shares to acquire Maminskoye	5,491,661	74,624
Balance at 31 December 2013	389,472,865	1,664,170

Retained earnings

Reserves available for distribution to shareholders are based on the available cash in the Company under Jersey law. The ability to distribute cash up to the Company from the Russian and Kazakh operating companies will be based on the statutory historical information of each stand-alone entity, which is prepared in accordance with Russian or Kazakh accounting standards and which differs slightly from IFRS. Russian legislation identifies the basis of distribution as accumulated profit. However, current legislation and other statutory regulations dealing with distribution rights are open to legal interpretation; consequently, actual distributable reserves may differ from the amount of accumulated profit under Russian statutory accounting rules.

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32. Stated capital account and retained earnings continued

Weighted average number of shares: Diluted loss/earnings per share

The Group had potentially dilutive securities, namely the Group's equity-settled share appreciation plan, which was established during 2010 (see Note 33).

Both basic and diluted loss/earnings per share were calculated by dividing loss/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 2013 Number	31 December 2012 Number
Weighted average number of outstanding common shares	387,932,387	382,705,692
Weighted average number of outstanding common shares after dilution	387,932,387	382,705,692

The outstanding LTIP awards at 31 December 2013 and 2012 represent anti-dilutive potential ordinary shares with respect to earnings per share for continuing operations. Therefore, basic and diluted earnings per share are the same for the current and prior year.

33. Share-based payments

The US\$24 million share based payment expense recognised during 2013 (2012: \$54 million) represents the final accrual made in respect of the Long-term employee incentive programme (adopted in 2010). The options vested in June 2013 however recipients had the option to defer their measurement period by one year to June 2014 (though in doing so the benchmark share price needed to receive the awards, would increase).

Following significant gold and silver price declines in April 2013, the Company's share price fell below the minimum target price such that no LTIPs would have been awarded to option holders in June 2013. All recipients opted to defer their measurement period to 2014 and with it the award vesting dates, albeit sufficiently close to the original June 2013 vesting date such that the share based payment expense had already been fully recognised in the Income Statement.

At the Annual General Meeting in June 2013, shareholders approved the new Long-Term Incentive Plan (the 'New LTIP'). The first grant of options under the New LTIP is expected to take place in April 2014 provided that the relevant participants do not hold any options under the Old EIP. Share-based payment expenses in relation to the New LTIP are therefore expected to be recognised in 2014.

The fair value of the awards granted during the year ended 31 December 2010, was estimated using a two-stage Monte-Carlo model. The fair value determined was then recognised on a straight-line basis over the vesting period. Use of two-stage Monte-Carlo option pricing requires management to make certain assumptions with respect to selected model inputs. The following assumptions were used to determine the grant date fair value:

- **Expected forfeitures.** This assumption is estimated using historical trends of executive Director and employee turnover. As the Group typically only grants awards to senior employees and the turnover rate for such employees is minimal, the Group has estimated expected forfeitures to be 5%. Estimated forfeitures are adjusted over the requisite service period to the extent actual forfeitures differ or are expected to differ from such estimates. Changes in estimated forfeitures are recognised in the period of change and impact the amount of expense to be recognised in future periods.
- **Expected volatility.** Expected volatility has been estimated based on an analysis of the historical stock price volatility of the JSC Polymetal GDRs from February 2007, when the JSC Polymetal GDRs became publicly traded.
- **Expected life.** The average expected life was based on the contractual term of the option of 3.6 years. As the Plan has a 2.6 years vesting condition and the participant may exercise their right to redeem shares within one year after vesting occurs, the Group used the 2.6 years expected term for the first stage of the Monte-Carlo simulation (the First date) and 3.6 years for the second stage (the Second date).
- **Fair value of common stock** is equal to the market price of JSC Polymetal's underlying Global Depositary Receipts (GDRs) at the grant date.
- **Risk-free interest rate.** The risk-free rate is based on US Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant.

At the grant date, the Group had not historically declared dividends and management believed the Company would not declare a dividend over the life of the option. As such, the expected annual dividend per share was therefore nil. Any subsequent change in dividend policy will be taken into account when valuing options granted in the future.

Risk free rate	0.79% for the First date, 1.24% for the Second date
Expected dividend yield	Nil
Expected volatility	40%
Expected life, years	2.6 for the First date, 3.6 for the Second date
Fair value per share (US Dollars)	16.97

34. 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. In the course of its business the Group entered into various transactions with Nomos-Bank (an entity in which Alexander Nesis, a significant shareholder of the Company, also previously held a substantial interest) and equity method investees as presented in tables below.

Nomos-Bank ceased to meet the definition of a related party from 27 February 2013 due to changes in its shareholder structure and composition of its Board of Directors. However in line with IAS 24 Related Party Transactions, deposits or borrowings taken out with Nomos where terms were agreed prior to this date, continue to be recognised as related party transactions.

	Year ended	
	31 December 2013 US\$'000	31 December 2012 US\$'000
Income from transactions with related parties		
Revenue from sales to Nomos-Bank	81,641	466,250
Interest income on deposits placed with Nomos-Bank	34	1,500
Other income	1,740	3,680
Expenses from transactions with related parties		
Interest expense on loans provided by Nomos-Bank	996	2,016
Purchases from associates	13,983	3,035

Outstanding balances owed to or from related parties at 31 December 2013 are presented below:

	31 December 2013 US\$'000	31 December 2012 US\$'000
Short-term loans provided to equity method investments	190	11,792
Long-term loans provided to equity method investments	1,017	5,469
Total loans provided to related parties	1,207	17,261
Short-term loans provided by Nomos-Bank	9,305	9,172
Long-term loans provided by Nomos-Bank	7,882	16,643
Long-term loans provided by equity method investments	–	2,152
Total loans provided by related parties	17,187	27,967
Accounts receivable from related parties	164	4,717
Interest receivable from related parties	242	836

Carrying values of other long-term loans provided to related parties as at 31 December 2013 and 31 December 2012 approximate their fair values. Details of the significant terms of the loans provided by related parties are disclosed in Note 26.

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

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

	Year ended	
	31 December 2013 US\$'000	31 December 2012 US\$'000
Share-based payments	12,359	27,682
Short-term benefits of Board members	1,866	2,454
Short-term employee benefits	2,565	2,981
Post-employment benefits	399	264

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35. Restatement

The impact of adopting IFRIC 20 on the prior periods consolidated financial statements is presented in the tables below.

Adjustments to the condensed consolidated balance sheet

	31 December 2012 (previously stated) US\$'000	Adjustment for change in accounting policy US\$'000	31 December 2012 (restated) US\$'000
Property, plant and equipment	2,149,400	56,332	2,205,732
Non-current inventories	100,972	(2,108)	98,864
Current inventories	859,856	(19,235)	840,621
Deferred income tax liability	(75,938)	(6,822)	(82,760)
Translation reserve	54,366	(1,105)	53,261
Increase in retained earnings		27,062	

Adjustments to the condensed consolidated income statement

	Year ended 31 December 2012 (previously stated) US\$'000	Adjustment for change in accounting policy US\$'000	Year ended 31 December 2012 (restated) US\$'000
Cost of sales excluding write-downs of metal inventories to net realisable value	(875,199)	23,360	(851,839)
Write-downs of metal inventories to net realisable value	(14,366)	10,366	(4,000)
Income tax expense	(216,204)	(6,664)	(222,868)
Increase in profit for the financial period		27,062	
Equity shareholders of the Parent	394,348	26,848	421,196
Non-controlling interest	6,813	214	7,027
Profit for the financial period	401,161	27,062	428,223

Adjustments to the condensed consolidated statement of comprehensive income

	Year ended 31 December 2012 (previously stated) US\$'000	Adjustment for change in accounting policy US\$'000	Year ended 31 December 2012 (restated) US\$'000
Profit for the period	401,161	27,062	428,223
Effect of translation to presentation currency	110,550	1,106	111,656
Total comprehensive income for the period	511,711	28,168	539,879

Adjustments to the condensed consolidated statement of cash flows

	Year ended 31 December 2012 (previously stated) US\$'000	Adjustment for change in accounting policy US\$'000	Year ended 31 December 2012 (restated) US\$'000
Profit before income tax	617,365	33,726	651,091
Adjustment for the following items:			
Depreciation	156,102	(13,876)	142,226
Rehabilitation expenses	3,873	(1,063)	2,810
Write-downs of metal inventories to net realisable value	14,366	(10,366)	4,000
Write-down of non-metal inventories to net realisable value	(3,288)	5,631	2,343
Increase in inventories	(219,678)	30,954	(188,724)
Cash generated from operations	568,740	45,006	613,746
Purchases of property, plant and equipment	(350,807)	(46,269)	(397,076)
Net cash used in investing activities	(350,807)	(46,269)	(397,076)
Effect of foreign exchange rate changes on cash and cash equivalents	14,947	1,263	16,210

Adjustment for write-down of non-metal inventories to net realisable value relates to write-down of US\$5.6 million costs in Omolon which did not significantly enhance the value of the work in-process, which was previously presented within increase in inventories.

36. Notes to the consolidated statement of cash flows

	Notes	Year ended	
		31 December 2013 US\$'000	31 December 2012 restated US\$'000
Profit before tax		(157,620)	651,091
Adjustments for:			
Depreciation and depletion, recognised in statement of comprehensive income		237,533	142,226
Mining taxes, penalties and accrued interest	12	–	39,150
Write-down of exploration assets		–	7,654
Write-down metal inventory to net realisable value	23	153,327	4,000
Write-down of non-metal inventory to net realisable value	7	10,696	2,343
Impairment of non-current assets	18	201,105	–
Impairment of investment in associate	18	12,291	–
Share-based compensation	11, 33	24,233	54,279
Finance costs	15	42,735	26,787
Finance income		(2,850)	(4,657)
Loss on disposal of property, plant and equipment	12	9,503	9,325
Change in contingent consideration liability	30	(8,131)	4,717
Change in allowance for doubtful debts	12	1,089	267
Rehabilitation expenses		1,524	2,810
Share of loss of associates and joint ventures	21	2,340	1,804
Foreign exchange loss/(gain)		74,240	(6,677)
Loss on disposal of subsidiaries		8,746	10,709
Gain on acquisition of remaining interest in joint venture	4	–	(21,051)
Other non-cash expenses		2,528	5,152
Movements in working capital			
Increase in inventories before impairment		(62,957)	(188,724)
Decrease in VAT receivable		11,560	14,262
Increase/ (decrease) in trade and other receivables		60,675	(34,284)
Decrease in prepayments to suppliers		11,560	9,307
Increase in trade and other payables		2,246	7,305
(Decrease)/increase in other taxes payable		(10,744)	8,480
Cash generated from operations		625,629	746,274
Interest paid		(35,921)	(34,629)
Income tax paid		(128,041)	(170,805)
Net cash generated by operating activities		461,667	540,840

Additions to property, plant and equipment of US\$3.7 million and US\$8.0 million during the year ended 31 December 2013 and 31 December 2012, respectively were acquired on deferred payment terms.

Other non-cash transactions during the year ended 31 December 2013 represents issuance of shares amounting to US\$88 million (2012: the issuance of US\$1.5 million of shares for the acquisition of assets).

37. Subsequent events

A final dividend has been proposed in relation to the year of 8 cents per share (2012: 31 cents per share) giving a total expected dividend of US\$31.2 million (2012: US\$119.0 million).