PJSC Polyus

Management Report

31 December 2018

11 February 2019

Contents

Cautionary statement

11 February 2019 – PJSC Polyus (the “Company” or “Polyus”) issues this Annual Management Report (“AMR”) to summarise recent operational activities and to provide trading guidance in respect of the consolidated financial statements for the full year ended 31 December 2018.

This AMR has been prepared solely to provide additional information to stakeholders to assess the Company’s and its subsidiaries’ (the “Group”) strategies and the potential for those strategies to succeed. The AMR should not be relied on by any other party or for any other purpose.

The AMR contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

This AMR has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Polyus and its subsidiary undertakings when viewed as a whole.

Responsibility statement

Directors of PJSC "Polyus" are responsible for the preparation of the consolidated financial statements that present fairly the financial position of PJSC "Polyus" and its subsidiaries (the "Group") as of 31 December 2018, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, Directors are responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- compliance with the requirements of IFRS and providing additional disclosures when compliance with the specific requirements of IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Directors are also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards in the jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2018 were approved by Directors on 11 February 2019.

By order of the Board of Directors,

Chief Executive Officer and Director

Pavel Grachev

Management Discussion and Analysis

the fourth quarter and full year 2018 key metrics overview

$ million (if not mentioned otherwise)	**4Q 2018**	**3Q 2018**	**Q-o-Q**	**4Q 2017**	**Y-o-Y**	**2018**	**2017**	**Y-o-Y**
Operating highlights								
Gold production (koz)[1]	640	691	(7%)	580	10%	2,440	2,160	13%
Gold sold (koz)	644	699	(8%)	597	8%	2,333	2,158	8%
Realised prices								
Average realised refined gold price (excluding effect of SPPP) ($/oz)[2]	1,229	1,209	2%	1,275	(4%)	1,263	1,260	0%
Average realised refined gold price (including effect of SPPP) ($/oz)	1,232	1,213	2%	1,275	(3%)	1,265	1,271	0%
Financial performance								
Total revenue	774	832	(7%)	743	4%	2,915	2,721	7%
Operating profit	365	442	(17%)	391	(7%)	1,524	1,455	5%
Operating profit margin	47%	53%	(6) ppts	53%	(6) ppts	52%	53%	(1) ppts
(Loss) / profit for the period	(28)	144	N.A.	267	N.A.	474	1,241	(62%)
(Loss) / earnings per share – basic (US Dollar)	(0.27)	1.02	N.A.	2.05	N.A.	3.45	9.64	(64%)
(Loss) / earnings per share – diluted (US Dollar)	(0.26)	1.00	N.A.	2.05	N.A.	3.30	9.61	(66%)
Adjusted net profit[3]	291	355	(18%)	242	20%	1,326	1,015	31%
Adjusted net profit margin	38%	43%	(5) ppts	33%	5 ppts	45%	37%	8 ppts
Adjusted EBITDA[4]	484	537	(10%)	465	4%	1,865	1,702	10%
Adjusted EBITDA margin	63%	65%	(2) ppts	63%	0 ppts	64%	63%	1 ppts
Net cash flow from operations	404	423	(4%)	344	17%	1,464	1,292	13%
Capital expenditure[5]	189	146	29%	279	(32%)	736	804	(8%)
Cash costs								
Total cash cost (TCC) per ounce sold ($/oz)[6]	331	345	(4%)	324	2%	348	364	(4%)
All-in sustaining cash cost (AISC) per ounce sold ($/oz)[7]	634	554	14%	662	(4%)	605	614	(1%)
Financial position								
Cash and cash equivalents	896	1,000	(10%)	1,204	(26%)	896	1,204	(26%)
Net debt[8]	3,086	3,029	2%	3,077	0%	3,086	3,077	0%
Net debt/adjusted EBITDA (x)[9]	1.7	1.6	6%	1.8	(6%)	1.7	1.8	(6%)

[1] - Gold production is comprised of 589 thousand ounces of refined gold and 51 thousand ounces of gold in flotation concentrate in the fourth quarter of 2018 and 2,184 thousand ounces of refined gold and 256 thousand ounces of gold in flotation concentrate in 2018 respectively.

[2] - The Strategic Price Protection Programme ("SPPP") comprises a series of zero-cost Asian gold collars ("revenue stabiliser").

[3] - Adjusted net profit is defined by the Group as net profit / (loss) for the period adjusted for impairment loss / (reversal of impairment), unrealised (gain) / loss on derivative financial instruments and investments, net, foreign exchange (gain) / loss, net, and associated deferred income tax related to such items.

[4] - Adjusted EBITDA is defined by the Group as profit for the period before income tax, depreciation and amortisation, (gain) / loss on derivative financial instruments and investments (including the effect of the disposal of a subsidiary and subsequent accounting at equity method), finance costs, net, interest income, foreign exchange gain, net, impairment loss / (reversal of impairment), (gain) / loss on property, plant and equipment disposal, expenses associated with an equity-settled share-based payment plan and special charitable contributions as required to ensure calculation of the Adjusted EBITDA is comparable with the prior period. The Group has made these adjustments in calculating Adjusted EBITDA to provide a clearer view of the performance of its underlying business operations and to generate a metric that it believes will give greater comparability over time with peers in its industry. The Group believes that Adjusted EBITDA is a meaningful indicator of its profitability and performance. This measure should not be considered as an alternative to profit for the period and operating cash flows based on IFRS, and should not necessarily be construed as a comprehensive indicator of the Group's measure of profitability or liquidity.The Group calculates Adjusted EBITDA margin as Adjusted EBITDA divided by total revenue.

[5] - Capital expenditure figures are presented on an accrual basis (here presented net of the Sukhoi Log deposit license acquisition cost and net of Omchak power grid construction cost). For details see reconciliation on page 25.

[6] - TCC is defined by the Group as the cost of gold sales, less property, plant and equipment depreciation and amortisation, provision for annual vacation payment, employee benefits obligation cost and change in allowance for obsolescence of inventory and adjusted by inventories. TCC per ounce sold is the cost of producing an ounce of gold, which includes mining, processing and refining costs. The Group calculates TCC per ounce sold as TCC divided by total ounces of gold sold for the period. The Group calculates TCC and TCC per ounce sold for certain mines on the same basis, using corresponding mine-level financial information.

[7] - AISC is defined by the Group as TCC plus selling, general and administrative expenses, stripping activity asset additions, sustaining capital expenditures, unwinding of discounts on decommissioning liabilities, provision for annual vacation payment, employee benefit obligations cost, and change in allowance for obsolescence of inventory less amortisation and depreciation included in selling, general and administrative expenses. AISC is an extension of TCC and incorporates costs related to sustaining production and additional costs which reflect the varying costs of producing gold over the life-cycle of a mine. The Group believes AISC is helpful in understanding the economics of gold mining. AISC per ounce sold is the cost of producing and selling an ounce of gold, including mining, processing, transportation and refining costs, general costs from both mine and alluvial operations, and the additional expenditures noted in the definition of AISC. The Group calculates AISC per ounce sold as AISC divided by total ounces of gold sold for the period.

[8] - Net debt is defined as non-current borrowings plus current borrowings less cash and cash equivalents and bank deposits.Net debt excludes derivative financial instrument assets/liabilities, site restoration and environmental obligations, deferred tax, deferred revenue, deferred consideration for the Sukhoi Log licence and other non-current liabilities. Net debt should not be considered as an alternative to current and non-current borrowings, and should not necessarily be construed as a comprehensive indicator of the Group's overall liquidity.

[9] - The Group calculates net debt to Adjusted EBITDA as net debt divided by Adjusted EBITDA.

Key highlights for the fourth quarter and full year 2018

1. Total gold sales volumes amounted to 644 thousand ounces, down 8% compared to the third quarter. This includes 75 thousand ounces of gold contained in concentrate from Olimpiada. In 2018, the Company sold a total of 2,333 thousand ounces of gold, up 8% compared to the prior-year reflecting higher gold production. Total gold sales include 211 thousand ounces of gold contained in concentrate from Olimpiada.
2. Revenue for the fourth quarter was $774 million, down 7% compared to $832 million in the previous quarter, reflecting seasonally lower sales from the alluvial operations and lower flotation concentrate sales volumes from Olimpiada. In 2018, revenue totaled $2,915 million, compared to $2,721 million in 2017, driven by increased sales volumes (including flotation concentrate). The group's revenue includes sales from Natalka, following the cessation of its capitalisation from the 1st of August 2018.
3. The group's TCC in the fourth quarter amounted to $331 per ounce, down 4% compared to $345 per ounce in the third quarter. In 2018, the group's TCC decreased to $348 per ounce, primarily as a result of production expansion and cost inflation containment initiatives as well as local currency depreciation. Relatively high costs at Natalka, included from the 1st of August had a negative impact on TCC in 2018. A by-product credit of $21 per ounce in 2018 had a positive bearing on the group TCC.
4. Polyus now expects the group's TCC to remain below $425 per ounce in 2019, as compared to the initial forecast, which set TCC guidance at below $450 per ounce. The estimate continues to be based on the assumption of foreign exchange rate of 60 roubles per dollar.
5. Adjusted EBITDA for the fourth quarter was $484 million, a 10% decrease from the third quarter, due to lower gold sales volumes. In 2018, adjusted EBITDA increased 10% compared to the prior-year, to $1,865 million. The improved adjusted EBITDA performance in 2018 was primarily attributable to group production growth, with higher gold output at Olimpiada, the ramp-up of operations at Natalka and a strong operational performance at Verninskoye and Kuranakh. The group's TCC decreased on a per ounce basis as highlighted above.
6. A loss of $28 million in the fourth quarter reflected the decline in operating profit and the impact of non-cash items. Accounting loss on derivatives and foreign exchange was higher compared to the previous quarter due to rouble depreciation during the reporting period. Profit for the year decreased to $474 million primarily due to non-cash items, such as the higher foreign exchange loss and the loss on revaluation of derivative financial instruments.
7. Adjusted net profit amounted to $291 million, an 18% decrease from the third quarter. For the full year, adjusted net profit increased to $1,326 million, which mainly reflects the growth in operating profit in 2018.
8. Net cash generated from operations was $404 million in the fourth quarter, compared to $423 million in the previous quarter. In 2018, net cash generated from operations increased to $1,464 million, compared to $1,292 million in 2017.
9. Capital expenditures ("capex") was $189 million, a 29% increase on the previous quarter, reflecting higher capex across most of the business units. For the full year of 2018, capex decreased to $736 million from $804 million in the previous year.

10. In 2019, Polyus plans to invest approximately $725 million[10] across the business. Previous guidance was set at $650 million for this period. The updated guidance reflects a capex roll over from 2018, related to a recalibration of brownfield projects and mining machinery equipment procurement at Olimpiada and Blagodatnoye, as well as delayed construction of some infrastructure projects at Natalka. The Company has a number of new mid-sized projects in pre-feasibility and feasibility stages as well as set of smaller efficiency improvement projects in the pipeline. In addition, spending on exploration at the core assets has been increased. Finally, Polyus continues further roll out of IT infrastructure improvement initiatives and ERP transformation program.
11. Cash and cash equivalents as at 31 December 2018 were $896 million, compared to $1,204 million as at 31 December 2017. Factors driving the change in cash position include dividend payouts for the second half of 2017 and the first half of 2018, totalling $569 million. In addition, the Company repaid several credit facilities in amount of $1,249 million, utilising both proceeds from borrowings and cash on balance.
12. The Company's Board of Directors intends to recommend a dividend for the second half of 2018 in the total amount of $296 million. Based on the current number of shares (excluding treasury stock) dividend per share is expected to be $2.2 per ordinary share. Polyus's current dividend policy suggests the total dividend payout in respect of 2018 as the higher of 30% of the Company's EBITDA for the year or $550 million. The total dividend payout for the full year of 2018 will expectedly correspond to $560 million. This amount includes $264 million paid out in form of dividend for the first half of 2018. The dividend record date is expected to be in May 2019.
13. Net debt increased to $3,086 million, compared to $3,029 million as at the end of the third quarter ($3,077 million as at the end of the fourth quarter of 2017).
14. The net debt/adjusted EBITDA ratio decreased to 1.7x compared to 1.8x as at the end of 2017, reflecting growth in adjusted EBITDA in 2018.

[10] On the assumption of foreign exchange rate of 60 roubles per dollar.

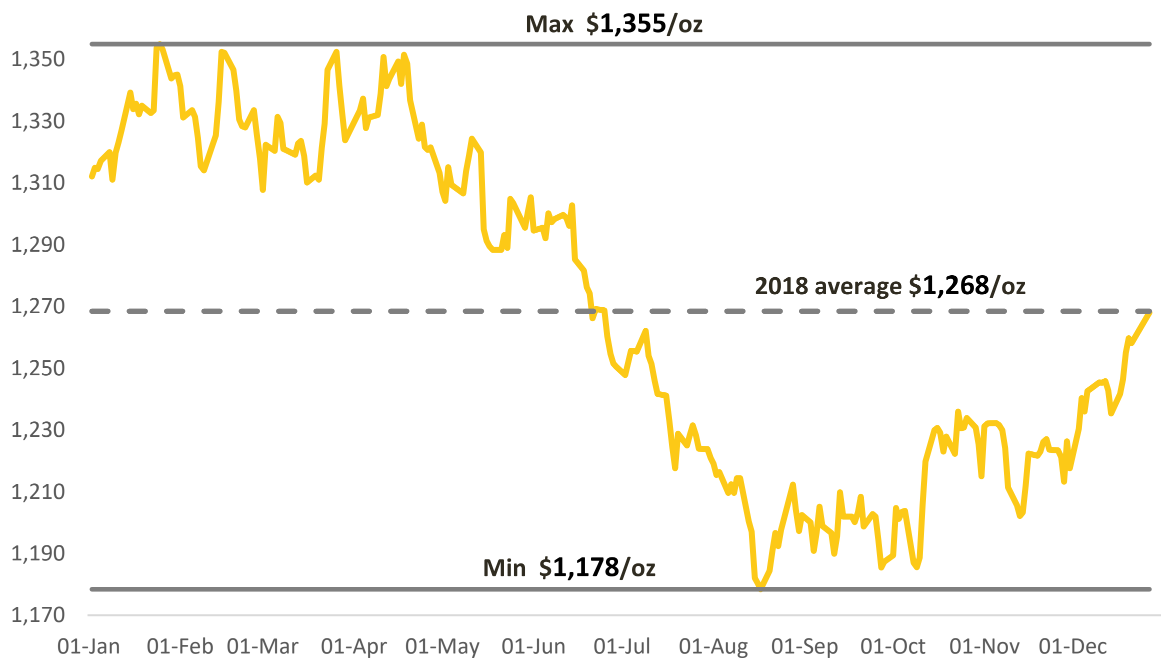
Review of external factors

The Group's results are significantly affected by movements in the price of gold and currency exchange rates (principally the RUB/USD rate).

Gold price dynamics

The market price of gold is a significant factor that influences the Group's profitability and operating cash flow generation. In the fourth quarter of 2018, the average London Bullion Market Association (LBMA) gold price was $1,226 per ounce, compared to $1,213 per ounce in the previous quarter and $1,275 per ounce in the fourth quarter of 2017. In 2018, the average LBMA gold price was $1,268 per ounce, 1% above the 2017 average of $1,257 per ounce.

LBMA gold price dynamics in 2018, $/oz

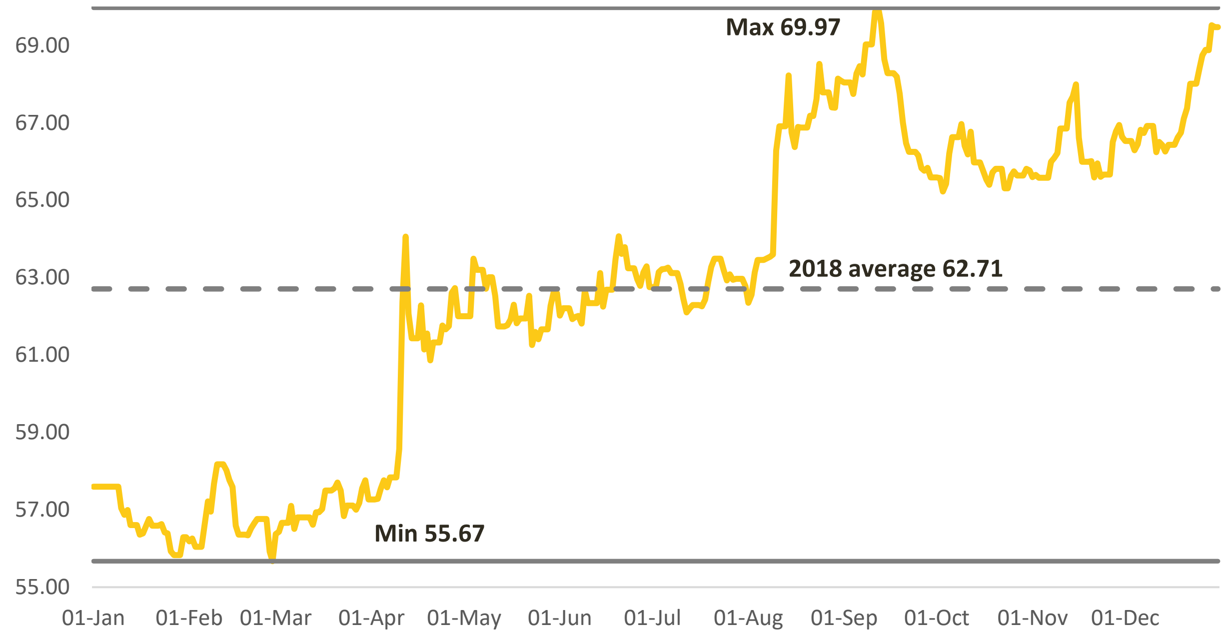


Source: London Bullion Market Association

Rouble exchange rate dynamics

The Group's revenue from gold sales is linked to the US dollar (USD), whereas most of the Group's operating expenses are denominated in Russian roubles (RUB). The strengthening of the RUB against the USD can negatively impact the Group's margins by increasing the USD value of its RUB-denominated costs, while a weaker RUB positively affects its margins as it reduces the USD value of the Group's RUB-denominated costs. In the fourth quarter of 2018, the average RUB/USD exchange rate amounted to 66.48, compared to 65.53 in the previous quarter and 58.41 in the fourth quarter of 2017. In 2018, the average USD/RUB exchange rate was 62.71, compared to 58.35 in 2017.

RUB/USD dynamics, 2018



Source: The Central Bank of the Russian Federation

Inflationary trends

All of the Group's operations are located in Russia. The rouble-based annualised Russian Consumer Price Index (CPI), calculated by the Federal State Statistics Service, was at 4.3% as of the end of the fourth quarter of 2018, compared to 3.4% as of the end of the previous quarter and 2.5% as of the end of the fourth quarter of 2017.

Financial review of the fourth quarter of 2018 and full year 2018

Statement of profit or loss review

REVENUE ANALYSIS

	4Q 2018	3Q 2018	Q-o-Q	2018	2017	Y-o-Y
Gold sales (koz)	644	699	(8%)	2,333	2,158	8%
Average realised refined gold price (excluding effect of SPPP) ($/oz)	1,229	1,209	2%	1,263	1,260	0%
Average realised refined gold price (including effect of SPPP) ($/oz)	1,232	1,213	2%	1,265	1,271	0%
Average afternoon gold LBMA price fixing ($/oz)	1,226	1,213	1%	1,268	1,257	1%
Premium of average selling price (including effect of SPPP) over average LBMA price fixing ($/oz)	6	-	N.A.	(3)	14	N.A.
Gold sales ($ million)	764	821	(7%)	2,876	2,684	7%
Other sales ($ million)	10	11	(9%)	39	37	5%
Total revenue ($ million)	**774**	**832**	**(7%)**	**2,915**	**2,721**	**7%**

In the fourth quarter, the group's revenue from gold sales was $764 million, a 7% decrease compared to the previous quarter. Gold sales totaled 644 thousand ounce, an 8% decrease compared to the previous quarter, mainly driven by a seasonal stoppage of the alluvial operations. The average realised refined gold price was 2% higher compared to the third quarter, at $1,232 per ounce (including effect of SPPP).

For the full year of 2018, the group's revenue from gold sales amounted to $2,876 million, a 7% increase from the prior year, driven by higher gold sales volumes. Gold sales totaled 2,333 thousand ounces, an 8% increase from the previous year. The group's revenue includes sales from Natalka, starting from the third quarter, of $65 million. The average realised refined gold price was $1,265 per ounce (including effect of SPPP) and remained almost flat compared to the previous year.

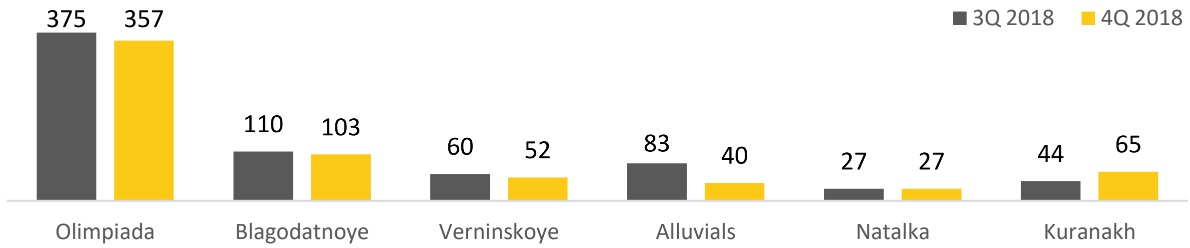
Revenue breakdown by business unit, 4Q 2018 vs. 3Q 2018

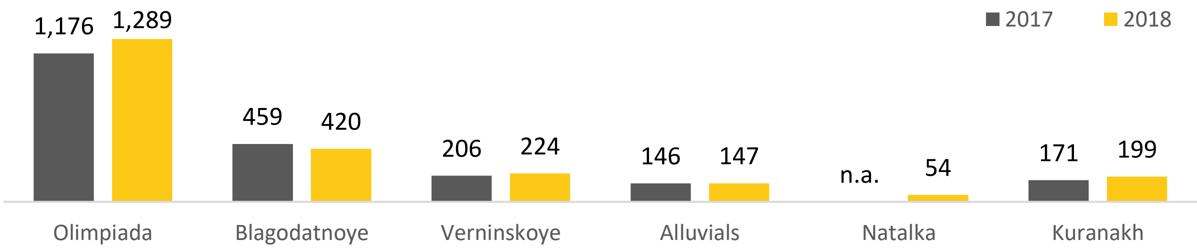
Assets	4Q 2018 ($ million)			3Q 2018 ($ million)		
	Gold sales	Other sales	Total sales	Gold sales	Other sales	Total sales
Olimpiada	412	2	414	429	1	430
Blagodatnoye	126	-	126	134	-	134
Verninskoye	63	-	63	72	-	72
Alluvials	49	2	51	102	1	103
Kuranakh	81	1	82	52	-	52
Natalka	33	1	34	32	1	33
Other	-	4	4	-	8	8
Total	**764**	**10**	**774**	**821**	**11**	**832**

Revenue breakdown by business unit, 2018 vs. 2017

Assets	2018 ($ million)			2017 ($ million)		
	Gold sales	Other sales	Total sales	Gold sales	Other sales	Total sales
Olimpiada	1,561	6	1,567	1,439	13	1,452
Blagodatnoye	533	-	533	585	-	585
Verninskoye	284	-	284	259	1	260
Alluvials	181	5	186	186	4	190
Kuranakh	252	3	255	215	3	218
Natalka	65	2	67	-	-	-
Other	-	23	23	-	16	16
Total	**2,876**	**39**	**2,915**	**2,684**	**37**	**2,721**

Gold sold by mine, koz





CASH COSTS ANALYSIS

In the fourth quarter of 2018, the group's cost of gold sales decreased 5% compared to the previous quarter, to $291 million, while cash operating costs decreased 6% compared to the prior period, to $242 million. In 2018, the Group's cost of gold sales increased 7% compared to the prior-year, to $1,035 million. At the same time, cash operating costs increased 8% compared to the prior-year, to $879 million, which reflects inflation in consumables and spares, diesel prices and an increase in power tariffs across all business units. These figures also reflect the inclusion of costs related to Natalka into the cost of gold sales, starting from the 1st of August 2018. All of these factors were partially offset by cost containment initiatives, local currency depreciation and antimony by-product credit.

Cost of sales breakdown

$ million	4Q 2018	3Q 2018	Q-o-Q	2018	2017	Y-o-Y
Cash operating costs[11]	**242**	**258**	**(6%)**	**879**	**811**	**8%**
Depreciation and amortisation (D&A) of operating assets	102	84	21%	295	181	63%
Total cost of production	**344**	**342**	**1%**	**1,174**	**992**	**18%**
Increase in stockpiles, gold-in-process and refined gold inventories	(53)	(37)	43%	(139)	(23)	N.A.
Cost of gold sales	**291**	**305**	**(5%)**	**1,035**	**969**	**7%**

Cash operating costs – breakdown by item

$ million	4Q 2018	3Q 2018	Q-o-Q	2018	2017	Y-o-Y
Consumables and spares	81	67	21%	254	223	14%
Labour	80	85	(6%)	285	264	8%
Mineral Extraction Tax (“MET”)	42	46	(9%)	161	148	9%
Fuel	33	30	10%	98	74	32%
Power	15	10	50%	42	31	35%
Outsourced mining services	-	3	(100%)	4	6	(33%)
Other[11]	(9)	17	N.A.	35	65	(46%)
Total	**242**	**258**	**(6%)**	**879**	**811**	**8%**

In the fourth quarter, consumables and spares expenses increased 21% compared to the previous quarter due to scheduled maintenance works at Olimpiada and repair works at the Natalka ball mill. For the full year of 2018, consumables and spares expenses increased 14% compared to the previous reporting period. This primarily reflects inflation in consumables prices, including reagents, acids, grinding balls and tyres across all business units. The inclusion of costs related to the Natalka operations into the cost of gold sales, starting from the 1st of August, as well as start of heap leaching operations at Kuranakh exerted additional pressure.

In the fourth quarter, labour costs decreased 6% compared to the previous quarter. This reflects a seasonal downscale of activities at the Alluvials operations. In 2018, labour expenses increased 8% compared to the prior-year, due to annual salary indexation and production expansion across most business units leading to additional headcount. These factors were partially offset by the local currency depreciation in the period.

A quarterly increase in the group’s power costs was mainly driven by a power tariff increase at Verninskoye, Olimpiada, Blagodatnoye and Kuranakh. For the full year of 2018, the group’s power costs increased by 35% compared to the prior-year mainly due to an increased power tariff and higher energy consumption at Olimpiada, Kuranakh and Verninskoye. Separately, an annual increase in the group’s power costs was partially due to a low base effect, reflecting the sharp power tariff decrease at Kuranakh following the downward adjustment of the Far Eastern Federal District’s power tariff in 2017. Additional impact came on the back of addition of the Natalka operations.

MET expenses decreased 9% due to the lower production volumes in the reporting period compared to the third quarter of 2018. In 2018, MET expenses increased 9% following the growth in sales volumes of flotation concentrate and production volumes at Olimpiada and Kuranakh.

In the fourth quarter, fuel costs increased 10% compared to the third quarter due to diesel price inflation. In 2018, fuel costs increased 32%, due to double-digit inflation in diesel prices, which coincided with growing mining activity and haulage volumes at Olimpiada and Kuranakh. Additional impact came on the back of addition of the Natalka operations.

[11] The Group calculates cash operating costs as the sum of the following costs within cost of sales for the period: Labour, Consumables and spares, Tax on mining, Fuel, Power, Outsourced mining services and other costs, including Refining, logistics and costs on explosives.

Cash operating costs – breakdown by key business units[12], 4Q 2018 vs. 3Q 2018

$ million	Olimpiada 4Q 2018	Olimpiada 3Q 2018	Blagodatnoye 4Q 2018	Blagodatnoye 3Q 2018	Verninskoye 4Q 2018	Verninskoye 3Q 2018	Alluvials 4Q 2018	Alluvials 3Q 2018	Kuranakh 4Q 2018	Kuranakh 3Q 2018	Natalka 4Q 2018	Natalka 3Q 2018
Consumables and spares	41	27	11	11	7	6	3	9	6	7	11	6
Labour	25	16	7	9	7	9	9	26	9	10	9	7
MET	28	27	9	9	-	-	2	6	4	4	-	-
Fuel	10	6	4	5	1	1	3	9	4	4	7	4
Power	8	4	2	1	2	2	1	3	2	4	2	2
Outsourced mining services	-	-	-	-	-	-	1	3	-	-	-	-
Other	(17)	7	8	6	3	8	4	6	3	5	11	6
Total	**95**	**87**	**41**	**41**	**20**	**26**	**23**	**62**	**28**	**34**	**40**	**25**

Cash operating costs – breakdown by key business units, 2018 vs. 2017

$ million	Olimpiada 2018	Olimpiada 2017	Blagodatnoye 2018	Blagodatnoye 2017	Verninskoye 2018	Verninskoye 2017	Alluvials 2018	Alluvials 2017	Kuranakh 2018	Kuranakh 2017	Natalka 2018	Natalka 2017
Consumables and spares	120	115	43	36	26	29	16	16	24	23	17	-
Labour	77	80	36	32	30	36	46	46	38	36	16	-
MET	99	87	36	38	-	-	11	11	15	13	-	-
Fuel	25	18	16	14	5	6	16	15	16	13	11	-
Power	21	19	7	6	5	4	6	6	8	5	4	-
Outsourced mining services	-	-	-	-	-	-	5	5	-	-	-	-
Other	18	65	28	26	14	14	12	13	10	11	17	-
Total	**360**	**384**	**166**	**152**	**80**	**89**	**112**	**112**	**111**	**101**	**65**	**-**

TOTAL CASH COSTS

TCC calculation

$ million	4Q 2018	3Q 2018	Q-o-Q	2018	2017	Y-o-Y
Cost of gold sales before by-product	**311**	**328**	**(5%)**	**1,083**	**969**	**12%**
Antimony by-product credit	(20)	(23)	(13%)	(48)	-	N.A.
Cost of gold sales	**291**	**305**	**(5%)**	**1,035**	**969**	**7%**
property, plant and equipment depreciation	(102)	(84)	21%	(295)	(181)	63%
provision for annual vacation payment	-	-	N.A.	-	(5)	(100%)
employee benefit obligations cost	-	-	N.A.	1	(5)	N.A.
change in allowance for obsolescense of inventory	-	(1)	(100%)	(2)	(4)	(50%)
non-monetary changes in inventories	24	21	14%	74	12	N.A.
TCC	**213**	**241**	**(12%)**	**813**	**786**	**3%**
Gold sold (koz)	644	699	(8%)	2,333	2,158	8%
TCC per ounce sold ($/oz)	**331**	**345**	**(4%)**	**348**	**364**	**(4%)**

In the fourth quarter, the group's TCC decreased to $331 per ounce compared to the previous quarter. The improvement was partially attributable to a seasonal decrease in output at the structurally higher cost

[12] Calculated on standalone basis and do not include other non-producing business units and consolidation adjustments.

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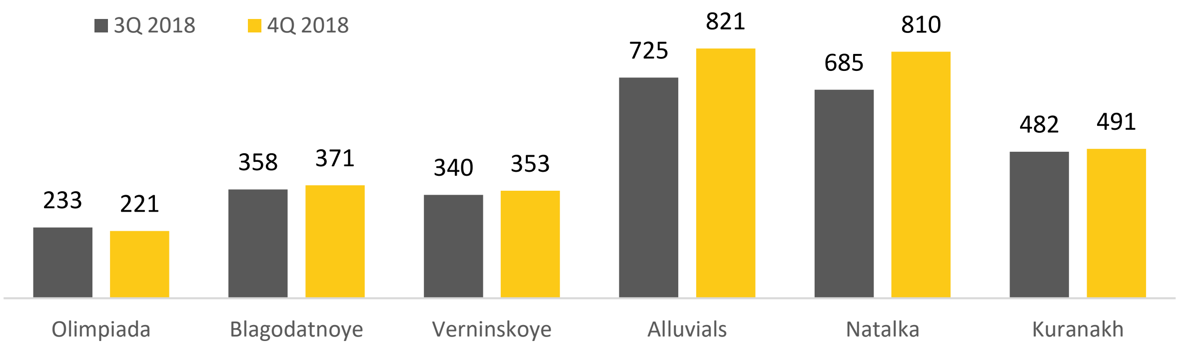
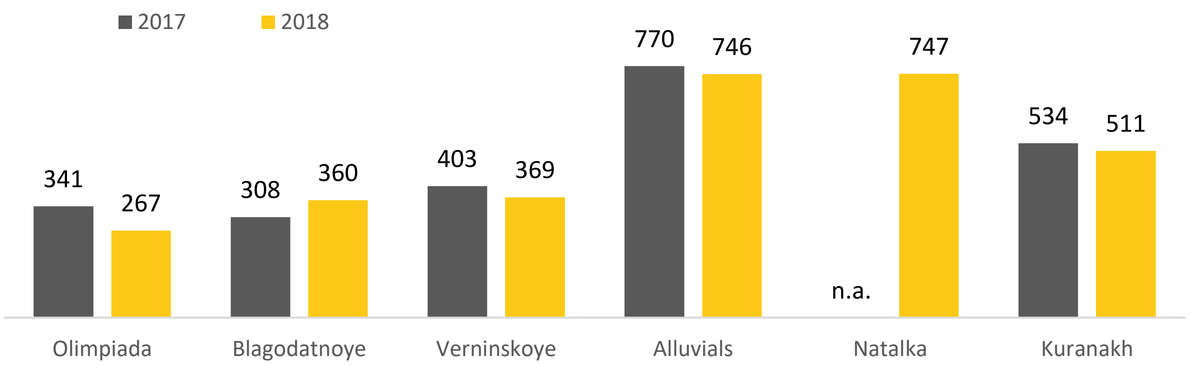
alluvial operations. In 2018, the group's TCC decreased 4% to $348 per ounce, as a result of production expansion and cost inflation containment initiatives as well as the local currency depreciation. Relatively high costs at Natalka, included from the 1st of August had a negative impact on TCC in 2018. A by-product credit, of $21 per ounce in 2018 had a positive bearing on the group TCC.

TCC performance by mine, $/oz





In the fourth quarter, TCC at Olimpiada amounted to $221 per ounce, which accounts for by-product credit from sales of antimony-rich flotation concentrate of $56 per ounce. In 2018, TCC at Olimpiada declined 22% compared to the prior-year, to $267 per ounce. This was mainly attributable to implementation of operational initiatives at Olimpiada's Mills to optimize the processing parameters, including an installation of new turbo-elevators at SAG mills and untilisation of DK-1 crushing unit. These initiatives resulted in higher hourly throughput at Olimpiada. Higher average grades in ore processed (4.10 grams per tonne in 2018 compared to 3.80 grams per tonne in 2017) and a by-product credit from sales of antimony-rich flotation concentrate in the amount of $37 per ounce also had a positive impact on TCC in the reporting period. The local currency depreciation during the year and a higher share of lower cost flotation concentrate in total gold sold also contributed to the improved cost performance. These factors were partially offset by inflation in consumables and diesel prices as well as a higher power tariff in 2018.

At Blagodatnoye, TCC amounted to $371 per ounce, up 4% compared to the third quarter, mainly due to scheduled repair works and the power tariff increase. This was partially offset by the higher average grade in ore processed (1.76 grams per tonne in the fourth quarter compared to 1.66 grams per tonne in the third quarter). In 2018, TCC at Blagodatnoye were $360 per ounce, up 17% compared to the previous year mainly due to a decline in the average grade in ore processed (1.70 grams per tonne in the 2018 compared to 1.99 grams per tonne in 2017). Polyus conducted mining activities at low-grade flank areas of the Blagodatnoye deposit during a pit cutback. Inflation in consumables and diesel prices put further pressure on costs. These factors were partially mitigated due to set of operational initiatives introduced by the Company, including an installation of new turbo-elevators at SAG mills and a full roll-out of the Mine-to-

Mill program at Blagodatnoye in 2018. As a results, an hourly throughput of the Mill increased 6% in 2018. Rouble depreciation also had a positive impact on costs in the reporting period.

TCC at Verninskoye amounted to $353 per ounce, up 4% compared to the third quarter mainly due to the raised power tariff in the reporting period. In 2018, TCC at Verniskoye decreased 8% compared to the previous year, to $369 per ounce, primarily due to an improved hourly throughput of the Mill and higher recovery rates. This came as a result of completion of the third Stage of Verninskoye Mill expansion program in 2018. Inflation in consumables and diesel prices, and the increase in power tariff were offset by rouble depreciation during the year.

At Kuranakh, TCC were $491 per ounce, a 2% increase compared to the third quarter, primarily due to a seasonal downscaling of the relatively low cost heap leaching operations. In 2018, TCC at Kuranakh amounted to $511 per ounce, down 4% compared to the previous year, primarily as a result of production expansion due to operational improvements and start of heap leaching operations. Specifically, an increase in hourly throughput of the Mill and a higher share of lower cost gold produced from the heap leaching facilities in the total gold sold during the year fully offset the impact of higher power expenses and inflation in consumables and diesel prices. The local currency depreciation also contributed to the improved cost performance.

TCC at Alluvials increased to $821 per ounce, compared to $725 per ounce in the third quarter, reflecting the conclusion of the washing season. In 2018, TCC at Alluvials amounted to $746 per ounce, down 3% compared to the previous year due to an increase in alluvial gold grade (0.60 grams per cubic metre in 2018 compared to 0.54 grams per cubic metre in 2017) and rouble depreciation. These factors were partially offset by the increased repairs expenses and diesel price inflation in the reporting period.

At Natalka, TCC increased 18% compared to the third quarter, to $810 per ounce primarily due to repair works at the ball mill and scheduled maintenance works at the end of 2018. In 2018, TCC at Natalka amounted to $747 per ounce, which reflects a subdued hourly throughput of the Mill during the ramp-up period. The Company intentionally introduced lower grade material into the processing circuit. The latter combined with the Natalka Mill operating at a shortened processing flowsheet in the fourth quarter, resulted in lower recoveries. The Natalka Mill is now running at annualised name-plate capacity, following the completion of repair works at the ball mill and scheduled maintenance works at the end of 2018.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

The group's selling, general, and administrative (SG&A) expenses amounted to $79 million, a 39% increase compared to the third quarter due to a provision of reserves in relation to annual remuneration and a recognition of expenses under a long-term incentive plan ("LTIP"). In 2018, the Group's SG&A expenses amounted to $236 million, a 12% increase from the prior year due to annual salary indexation and a planned increase in headcount as well as an increase in distribution expenses in line with the rise in flotation concentrate sales volumes to foreign offtakers in the period. Additional impact came on the back of increase in tax on property, following the introduction of amendments to Russian Tax Code at the beginning of 2018.

SG&A breakdown by item

$ million	4Q 2018	3Q 2018	Q-o-Q	2018	2017	Y-o-Y
Salaries	45	35	29%	148	143	3%
Distribution expenses related to gold-bearing products	7	7	0%	20	12	67%
Taxes other than mining and income taxes	7	5	40%	18	11	64%
Professional services	4	2	100%	10	14	(29%)
Amortisation and depreciation	4	3	33%	11	7	57%

Other	12	5	N.A.	29	24	21%
Total	**79**	**57**	**39%**	**236**	**211**	**12%**

ALL-IN SUSTAINING COSTS (AISC)

In the fourth quarter, the group's AISC increased 14% compared to the third quarter, to $634 per ounce, reflecting higher sustaining capital expenditures and SG&A. In 2018, the group's AISC per ounce decreased 1% compared to the previous year, to $605 per ounce. The improvement reflects the lower TCC per ounce for the period, which fully offset the respective increase in SG&A, stripping activity and sustaining capital expenditures in 2018.

All-in sustaining costs calculation

$ million	4Q 2018	3Q 2018	Q-o-Q	2018	2017	Y-o-Y
Total TCC	**213**	**241**	**(12%)**	**813**	**786**	**3%**
selling, general and administrative expenses	79	57	39%	236	211	12%
amortisation and depreciation related to SG&A	(4)	(3)	33%	(11)	(7)	57%
stripping activity asset additions[13]	46	45	2%	174	132	32%
sustaining capital expenditure[14]	74	45	64%	196	186	5%
unwinding of discounts on decommissioning liabilities	-	1	(100%)	3	3	-
adding back expenses excluded from cost of gold sales						
provision for annual vacation payment	-	-	N.A.	-	5	(100%)
employee benefit obligations cost	-	-	N.A.	(1)	5	N.A.
change in allowance for obsolescence of inventory	-	1	(100%)	2	4	(50%)
Total all-in sustaining costs	**408**	**387**	**5%**	**1,412**	**1,325**	**7%**
Gold sold (koz)	644	699	(8%)	2,333	2,158	8%
All-in-sustaining cost ($/oz)	**634**	**554**	**14%**	**605**	**614**	**(1%)**

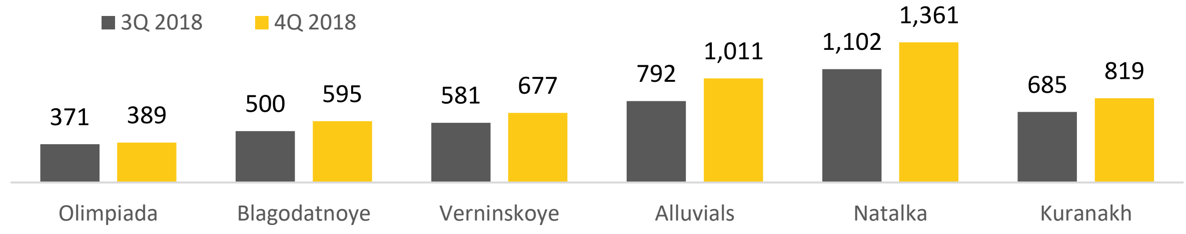
In the fourth quarter, AISC at Olimpiada increased to $389 per ounce, driven by higher stripping expenses and sustaining capital expenditures. AISC at Blagodatnoye increased to $595 per ounce, primarily due to the increase in sustaining capital expenditures during the period. AISC at Verninskoye increased to $677 per ounce, while AISC at Kuranakh increased to $819 per ounce, both in line with TCC performance and reflecting higher sustaining capital expenditures during the period. AISC at Natalka were $1,361 per ounce and not representative due to the repair works at the ball mill conducted over the period and scheduled maintenance works at the end of 2018.

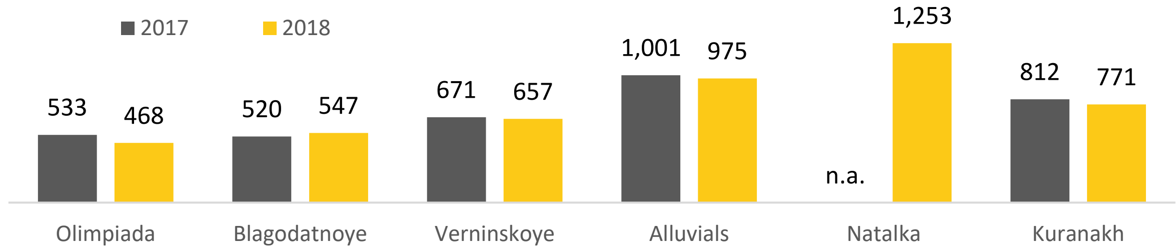
In 2018, AISC at Olimpiada decreased to $468 per ounce as a decline in TCC was partially offset by the increase in stripping expenses and sustaining capital expenditures. AISC at Blagodatnoye increased to $547 per ounce, in line with TCC performance and due to the rise in stripping expenses and sustaining capital expenditures. Verninskoye posted a 2% decrease in AISC from the previous year due TCC performance. At Kuranakh, AISC decreased to $771 per ounce, driven by a decline in TCC and lower stripping expenses. AISC at Natalka were $1,253 per ounce, driven by SG&A and stripping expenses during the period. The

[13] Following an update of the methodology and extraction of the depreciation included in the additions to the stripping activity asset. The amount of non-cash depreciation was $15 million in the fourth quarter of 2018, $12 million in the third quarter of 2018, $48 million in 2018 and $17 million in 2017.
[14] Sustaining capital expenditures represent capital expenditures at existing operations comprising mine development costs and ongoing replacement of mine equipment and other capital facilities, and does not include capital expenditures for major growth projects or enhancement capital for significant infrastructure improvements at existing operations.

Company anticipates AISC at Natalka to normalize on a per ounce basis, as the Mill is currently running at annualised name-plate throughput capacity.

All-in sustaining costs by mine, $/oz





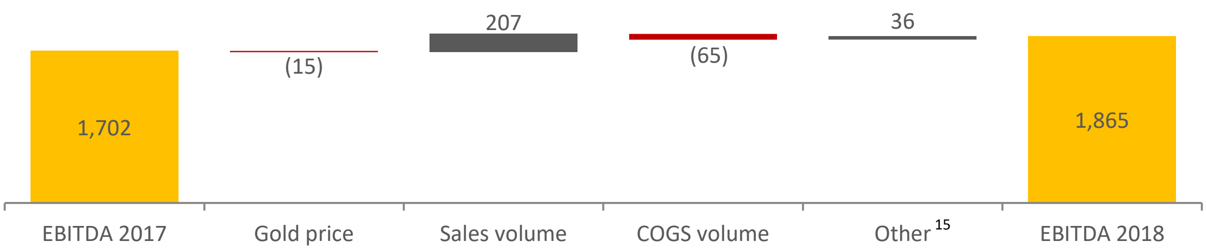
ADJUSTED EBITDA

In the fourth quarter, the group's adjusted EBITDA decreased 10% compared to the previous quarter, due to lower gold sales volumes over the period. In 2018, the group's adjusted EBITDA increased 10% compared to the previous year, driven by production growth, with higher gold output at Olimpiada, the ramp-up of operations at Natalka and a strong operational performance at Verninskoye and Kuranakh. The group's TCC decreased on a per ounce basis despite the inflation in cash operating costs. The adjusted EBITDA margin stood at 64%.

Adjusted EBITDA calculation

$ million	4Q 2018	3Q 2018	Q-o-Q	2018	2017	Y-o-Y
Profit / (loss) for the period	**(28)**	**144**	**N.A.**	**474**	**1,241**	**(62%)**
Income tax expense	42	53	(21%)	77	290	(73%)
Depreciation and amortisation	82	68	21%	236	178	33%
Loss / (gain) on derivative financial instruments and investments, net	147	81	81%	281	(118)	N.A.
Finance costs, net	58	50	16%	201	200	1%
Equity-settled share-based payment plans	14	5	N.A.	24	25	(4%)
Foreign exchange loss / (gain), net	154	121	27%	517	(130)	N.A.
Interest income	(8)	(7)	14%	(26)	(28)	(7%)
Impairment	18	9	100%	54	19	N.A.
Special charitable contributions	6	12	(50%)	27	39	(31%)
Gain on property, plant and equipment disposal	(1)	1	N.A.	-	(14)	(100%)
Adjusted EBITDA	**484**	**537**	**(10%)**	**1,865**	**1,702**	**10%**
Total revenue	774	832	(7%)	2,915	2,721	7%
Adjusted EBITDA margin (%)	**63%**	**65%**	**(2) ppts**	**64%**	**63%**	**1 ppts**

Adjusted EBITDA bridge, $ million



Adjusted EBITDA breakdown by business unit, $ million

$ million	4Q 2018	3Q 2018	Q-o-Q	2018	2017	Y-o-Y
Olimpiada	312	323	(3%)	1,135	953	19%
Blagodatnoye	83	88	(6%)	356	414	(14%)
Verninskoye	39	47	(17%)	180	149	21%
Alluvials	15	32	(53%)	52	54	(4%)
Kuranakh	44	29	52%	133	109	22%
Natalka	-	9	(100%)	11	-	N.A.
Other[16]	(9)	9	N.A.	(2)	23	N.A.
Total	**484**	**537**	**(10%)**	**1,865**	**1,702**	**10%**

FINANCE COST ANALYSIS

$ million	4Q 2018	3Q 2018	Q-o-Q	2018	2017	Y-o-Y
Interest on borrowings	62	66	(6%)	267	317	(16%)
Write-off of unamortised debt costs due to early extinguishment of debt and bank commissions	-	2	(100%)	13	17	(24%)
Unwinding of discounts	4	4	0%	15	11	36%
Gain on an early redemption of financial liabilities	-	(3)	(100%)	(5)	-	N.A.
Gain on exchange of interest payments under cross currency swap and interest rate swap	(8)	(12)	(33%)	(36)	(42)	(14%)
Sub-total finance cost, net	**58**	**57**	**2%**	**254**	**303**	**(16%)**
Interest included in the cost of qualifying assets	-	(7)	(100%)	(53)	(103)	(49%)
Total finance cost expensed	**58**	**50**	**16%**	**201**	**200**	**1%**

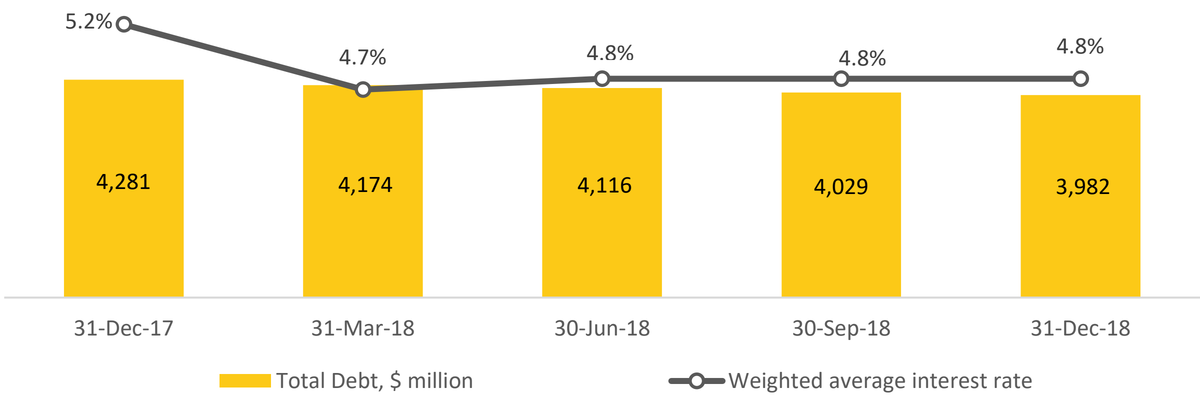
The group's total finance costs amounted to $58 million, compared to $50 million in the third quarter. In 2018, the group's total finance costs were $201 million, remained almost flat compared to 2017.

Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps) remained flat compared to the third quarter of 2018, at $54 million. For the full year

[15] Includes operating efficiency and FX effects.
[16] Reflects consolidation adjustments and financial results of Magadan business unit in 2017, Sukhoi log and non-producing business units, including exploration business unit, capital construction business unit and unallocated segments.

2018, interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps) decreased to $231 million. This figure reflects both the decrease in weighted average interest rate and lower gross debt in 2018 as a result of pro-active debt portfolio management.

Weighted average interest rate dynamics[17]



Foreign exchange loss and derivatives

The group's foreign exchange loss was $154 million, compared to a $121 million loss in the third quarter, which reflects the revaluation of USD-denominated bank deposits, USD-denominated accounts receivables and USD-denominated liabilities as at 31 December 2018 due to FX rate fluctuation.

In 2018, the group's foreign exchange loss was $517 million, compared to a $130 million gain in the previous year, which reflects the revaluation of USD-denominated bank deposits, USD-denominated accounts receivables and USD-denominated liabilities as at 31 December 2018 due to FX rate fluctuation.

Valuation of derivative financial instruments as at 31 December and for the year ended 31 December 2018

$ million	Asset	Liability	Fair value recorded in the statement of financial position	Profit & loss (expenses)/ income
Revenue stabiliser	-	(26)	(26)	35
Cross-currency swaps	2	(596)	(594)	(326)
Interest rate swaps	5	(2)	3	(1)
Conversion option on convertible bonds	-	(4)	(4)	15
Total	**7**	**(628)**	**(621)**	**(277)**

Revenue stabiliser[18]

There were no changes to the revenue stabiliser option agreements during the year ended 31 December 2018. On 30 June 2017, the hedges for Tranches 1 and 2 were de-designated and hedge accounting in terms of IFRS 9 no longer applies on a prospective basis, because strikes on the remaining options are out of the forecasted gold price. Starting from 1 July 2017 the remaining outstanding options of the Tranches 1 and 2 are accounted at fair value through profit or loss.

[17] Weighted average interest rate is calculated as of the end of the period.

Cross-currency and interest rate swaps[18]

In the fourth quarter of 2018, the overall positive effect from cross-currency and interest rate swaps on finance cost amounted to $8 million. In 2018, the overall positive effect from cross-currency and interest rate swaps on finance cost amounted to $36 million. This was recorded within note 8 of the consolidated financial statement as a realised gain on the exchange of interest payments under interest rate and cross currency swaps.

Conversion option on convertible bonds

As at 31 December 2018, the fair value of conversion option of $4 million was determined with reference to the quoted market price and is presented within note 12 of the consolidated financial statements. In the fourth quarter of 2018, the overall loss from the conversion option amounted to $2 million and remained flat compared to $2 million loss recognised in the third quarter of 2018.

PROFIT BEFORE TAX & INCOME TAXES

In the fourth quarter of 2018, profit before tax decreased to $14 million compared to the previous reporting period. For the full year of 2018, profit before tax decreased to $551 million primarily driven by higher foreign exchange loss and loss on investments and revaluation of derivative financial instruments. As a result of inclusion in the register of the participants of regional investment projects since May 2018, Natalka has been granted a right to apply reduced tax rates on corporate income tax and tax on mining for 10 years from the period of recognition of taxable income from the sale of gold. Deferred tax assets and liabilities were recalculated accordingly and the resulting positive difference amounted to $88 million was immediately recognised in the consolidated financial statements. This was recorded within note 10 of the consolidated financial statement. Income tax amounted to $77 million during the period.

NET PROFIT

In the fourth quarter of 2018, net loss totaled $28 million, compared to net profit of $144 million in the third quarter. The net profit decline trended in line with the change in operating profit and reflects the impact of non-cash items.

Net profit for the full year of 2018 decreased to $474 million compared to $1,241 million in 2017. Whilst the group delivered an increase in operating profit, the net profit decline reflects the impact of non-cash items on profit before tax. Specifically, the Company recognised a foreign exchange loss of $517 million and a loss on derivative financial instruments and investments of $281 million in 2018. Adjusted for these items (see the reconciliation below), the group's adjusted net income for 2018 amounted to $1,326 million, a 31% increase from the prior-year.

Adjusted net profit calculation

$ million	4Q 2018	3Q 2018	Q-o-Q	2018	2017	Y-o-Y
Net profit / (loss) for the period	**(28)**	**144**	**N.A.**	**474**	**1,241**	**(62%)**
impairment	18	9	100%	54	19	N.A.
loss/(gain) on derivative financial instruments and investments, net	147	81	81%	281	(118)	N.A.
foreign exchange loss / (gain), net	154	121	27%	517	(130)	N.A.
deferred income tax related to derivatives	-	-	N.A.	-	3	(100%)
Adjusted net profit	**291**	**355**	**(18%)**	**1,326**	**1,015**	**31%**
Total revenue	774	832	(7%)	2,915	2,721	7%

[18] For additional information on revenue stabiliser, cross-currency and interest rate swaps, see Note 12 of the consolidated financial statements.

Adjusted net profit margin	**38%**	**43%**	**(5) ppts**	**45%**	**37%**	**8 ppts**

Statement of financial position review

DEBT

As at 31 December 2018, the Group's gross debt decreased to $3,982 million, compared to $4,029 million as at 30 September 2018 and to $4,281 million as at 31 December 2017.

In the first quarter of 2018, the Company completed two bond offerings ($250 million convertible bonds and $500 million Eurobonds). Polyus used proceeds from the bond issuances and commercial bank loans to prepay $1,000 million out of a $1,250 million credit facility, maturing in 2023.

In April 2018, due to significant market dislocation, the Company proceeded with a buyback of its convertible bonds due 2021 in the total amount of $50 million (or 20% of the issue). In September 2018, Polyus repurchased approximately $132 million in aggregate principal amount of notes due 2020, 2022, 2023 and 2024.

In the third quarter of 2018, Polyus attracted a new RUB 65 billion credit line facility with Sberbank due in 2024 to refinance its existing Sberbank credit line facility due in April 2019. The funds under the new facility will become available for drawdown at the maturity of the existing facility in April 2019. The Company plans to repay the principal amount and liabilities under cross-currency swaps in the amount of approximately $1.0 billion in April 2019, utilizing a credit facility with Sberbank. The group's net debt does not include liabilities under cross-currency swaps related to RUB-denominated bank credit facilities and rouble bonds in the total amount of $591 million as of the end of the fourth quarter. The current portion of derivative liabilities amounts to $500 million as of the end of the fourth quarter and will be included into the net debt calculation post the repayment of the respective amount (subject to foreign exchange rate fluctuation) in April 2019, with the proceeds from Sberbank credit facility utilised.

In the fourth quarter of 2018, Polyus attracted a new $75 million credit line facility with ING due in 2024. The funds under the new facility were drawn down in January 2019.

The share of fixed-rate liabilities within the Company's debt portfolio stood at 98% as at the end of 2018.

Debt breakdown by type[19]

$ million	31 December 2018	30 September 2018	31 December 2017
Eurobonds	2,404	2,400	2,033
Convertible bonds	186	185	-
RUB bonds	218	232	265
Finance lease	10	11	13
Bank loans	1,164	1,201	1,970
Total	**3,982**	**4,029**	**4,281**

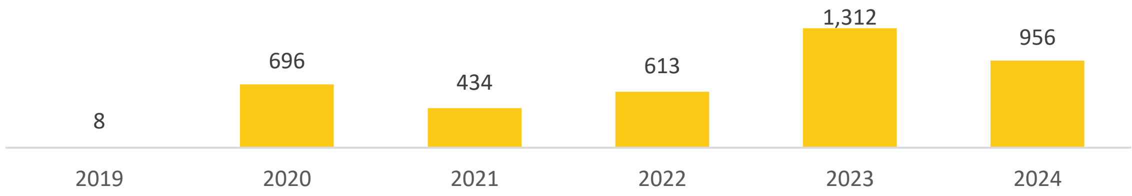
The Group's debt portfolio remains dominated by USD denominated instruments.

Debt breakdown by currency

	31 December 2018		30 September 2018		31 December 2017	
	$ million	% of total	$ million	% of total	$ million	% of total
RUB	762	19%	813	20%	928	22%
USD	3,220	81%	3,216	80%	3,353	78%
Total	**3,982**	**100%**	**4,029**	**100%**	**4,281**	**100%**

The Company's debt maturity profile remains smooth with limited debt maturities outstanding until the end of 2019. Existing cash balances cover the dominant portion of all principal debt repayments up to 2021. As a result of refinancing activity, the majority of the maturities due during or after 2021 comprise the Eurobond issues ($483 million due in 2022, $788 million due in 2023 and $470 million due in 2024).

Debt maturity schedule (as at 31 Dec 2018)[19], $ million



CASH AND CASH EQUIVALENTS AND BANK DEPOSITS

As of the end of the fourth quarter, the group's cash and cash equivalents and bank deposits totaled $896 million, down 10% compared to the end of the third quarter of 2018. Among other factors, the change in cash position reflects a dividend payout for the first half of 2018 in the amount of $264 million.

The group's cash position is primarily denominated in USD.

Cash, cash equivalents, and bank deposits breakdown by currency

$ million	31 December 2018	30 September 2018	31 December 2017
RUB	132	117	154
USD	764	883	1,050
Total	**896**	**1,000**	**1,204**

NET DEBT

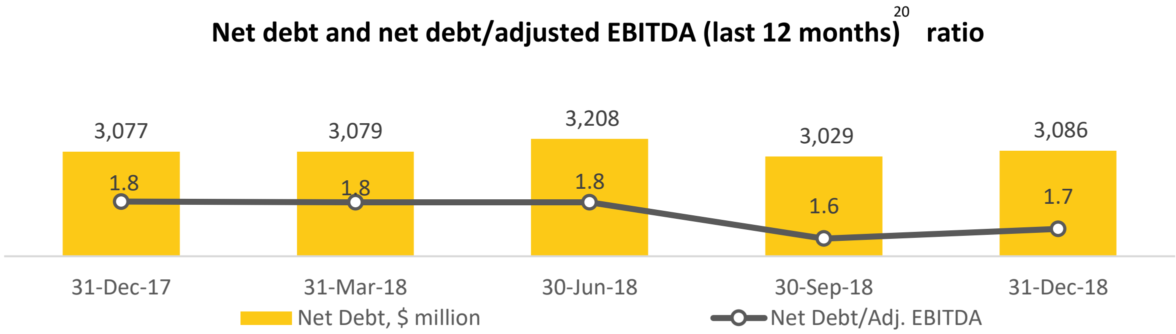
At the end of the fourth quarter of 2018, the group's net debt amounted to $3,086 million, up 2% compared to the end of the third quarter and remained flat compared to the end of 2017.

Net debt calculation

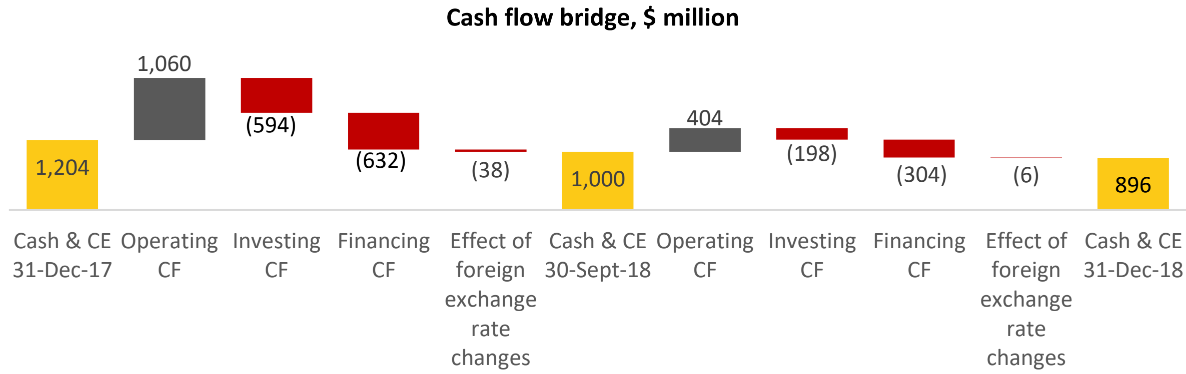
$ million	31 December 2018	30 September 2018	31 December 2017
Non-current borrowings	3,975	4,021	4,269
+ Current borrowings	7	8	12
– Cash and cash equivalents	(896)	(1,000)	(1,204)
Net debt	**3,086**	**3,029**	**3,077**

The net debt/adjusted EBITDA ratio decreased to 1.7x compared to the end of 2017, reflecting a growth in adjusted EBITDA for the last 12 months.

[19] The debt breakdown does not include liabilities under cross currency swaps related to RUB-denominated bank credit facilities and rouble bonds, in a total amount of $591 million as of the end of the fourth quarter. The breakdown is based on actual maturities and excludes $39 million of banking commissions and deduction of convertion option component of convertible bonds. The Company plans to repay the principal amount and liabilities under cross-currency swaps in the amount of approximately $1,000 million in April 2019 with the proceeds from a new credit line facility with Sberbank in a total amount of RUB 65 billion due in 2024.



Statement of cash flows review



In the fourth quarter, net cash generated from operations was $404 million, compared to $423 million in the third quarter, due to lower sales volumes in the reporting period. Net cash utilised in investing activities increased to $198 million compared to $192 million in the previous quarter, resulting from higher capex spending. Net cash utilised in financing activities totaled $304 million, mainly reflecting $264 million in dividend payments for the first half of 2018.

In 2018, cash flow from operations increased to $1,464 million, compared to $1,292 million in 2017. Due to higher cash spent on purchase of property, plant and equipment ("PP&E") in 2018, cash outflow on investing activities reached $792 million. Net financing cash outflow totaled $936 million, reflecting the inflow of $1,125 million of proceeds from borrowings, the repayment of $1,249 million of credit facilities and $569 million of dividend payments for the second half of 2017 and the first half of 2018 combined.

OPERATING CASH FLOW

In the fourth quarter, the group generated operational cash flow of $404 million, which was positively impacted by a working capital inflow of $3 million. This figure primarily reflects a decrease in trade receivables related to sales of antimony-rich flotation concentrate. However, this was partially offset by the decrease in payables related to fuel and consumables procurement at Olimpiada, Blagodatnoye and Verninskoye.

For the full year of 2018, the group generated operational cash flow of $1,464 million, which was negatively impacted by a working capital outflow of $151 million. The latter was mainly driven by an

[20] Net debt to Adjusted EBITDA ratio is calculated as net debt as of the end of the relevant period divided by Adjusted EBITDA for the relevant period. For the purpose of the net debt to Adjusted EBITDA ratio as of 30 September 2018, Adjusted EBITDA is calculated as the trailing twelve months ended on 30 September 2018 (being Adjusted EBITDA for 2017 less Adjusted EBITDA for the nine months ended 30 September 2017 plus Adjusted EBITDA for the nine months ended 30 September 2018). For the purpose of the net debt to Adjusted EBITDA ratio as of 30 June 2018, Adjusted EBITDA is calculated as the trailing twelve months ended on 30 June 2018 (being Adjusted EBITDA for 2017 less Adjusted EBITDA for the six months ended 30 June 2017 plus Adjusted EBITDA for the six months ended 30 June 2018). For the purpose of the net debt to Adjusted EBITDA ratio as of 31 March 2018, Adjusted EBITDA is calculated as the trailing twelve months ended on 31 March 2018 (being Adjusted EBITDA for 2017 less Adjusted EBITDA for the three months ended 31 March 2017 plus Adjusted EBITDA for the three months ended 31 March 2018).

inventory accumulation of ore stockpiles across hard rock deposits, growth of antimony-rich flotation concentrate inventories and receivables and also an increase in consumables and spares stocks at Olimpiada, Blagodatnoye and Natalka.

INVESTING CASH FLOW

In the fourth quarter, capital expenditures increased to $189 million, from $146 million in the third quarter. For the full year of 2018 capital expenditures decreased to $736 million from the $804 million in the previous year. This decrease mainly reflects the lower capital expenditures at Natalka, the group's main development project.

In 2018, capital expenditures at Natalka decreased 40%, to $228 million as a construction of key production facilities was completed in 2017. Total capitalised operating and borrowing costs net of gold revenue amounted to $59 million in 2018. The Company ceased the capitalisation of borrowing costs and other directly attributable operating costs on the 1st August 2018. During the year, the development of the Mill's auxiliary and infrastructure facilities continued. This included earthworks for the main tailing storage facility, assay lab construction and tanks installation at the fuel warehouse. Mining fleet procurement is ongoing with 17 Komatsu 186t dump trucks, a TYHI WK-20 excavator and two Komatsu PC excavators delivered on site in 2018.

The Natalka Mill achieved annualised name-plate throughput capacity of 10 million tons following the completion of repair works at the ball mill and scheduled maintenance works at the end of 2018 and is now operating at the design flowsheet. The Mill's recovery rate is gradually increasing to meet the design parameters, reflecting the introduction of higher head grades into the ore processing operations.

Capital expenditures at Olimpiada decreased 22% to $36 million in the fourth quarter compared to $46 million in the previous period, as large-scale dump trucks were delivered to the Vostochny pit in the third quarter.

In 2018, capital expenditures at Olimpiada increased 3%, to $182 million. The Company completed an active phase of mining fleet procurement, increasing the share of large-scale mining equipment. During the year, the group took delivery of ten CAT 220t dump trucks. The construction of Bio Oxidation circuit ("BIO-4") at the Mills-1, 2, 3 complex was completed with the remaining four (out of eight) reactors installed. The Company implemented a set of initiatives that will lead to lower gold losses with CIL tailings and consequently higher recoveries, in particular alkaline leaching and flash-flotation, respectively. The Company expects to commission the first stage of the alkaline leaching and flash flotation units in the first half of 2019. Polyus continues to implement operational initiatives, aimed at expanding throughput of the Olimpiada Mill complex to 13.4 million tonnes per annum.

At Blagodatnoye, capital expenditures reached $14 million in the fourth quarter and $71 million for the full year of 2018, primarily reflecting an active phase of the Mill expansion. The latter is accompanied by growing mining activity, which was supported by a mining fleet procurement. The Company took delivery of 16 CAT 220t dump trucks during the year. As a part of an initiative to further improve and stabilize recovery rates, the Company put into operation the second stage of flash flotation, with a SkimAir unit assembled. The company expects the Blagodatnoye Mill to reach throughput capacity of 9.0 million tonnes per annum by 2020.

At Verninskoye, capital expenditures increased to $15 million in the fourth quarter mainly due to the delivery of three Komatsu 136t dump trucks at the end of the year. In 2018, capital expenditures increased by 15% to $45 million due to the replacement of equipment and higher maintenance costs.

At Kuranakh, capital expenditures increased to $24 million in the fourth quarter due to procurement of equipment and fixed asset components required for replacement of worn-out equipment. For the full year of 2018, capital expenditures at Kuranakh decreased 12%, to $57 million, as the main activities for the launch of heap leaching operations had been completed in the previous year. By the end of the year, the Kuranakh Mill throughput capacity stabilised at 5.0 million tonnes per annum, while Stage 3 of the capacity expansion project to reach 5.8 million tonnes per annum is expected to be completed in 2019.

At Alluvials, capital expenditures amounted to $24 million in 2018 and consisted of exploration activity as well as the ongoing replacement of worn-out equipment.

Other capital expenditures increased to $106 million in 2018 mainly due to the implementation of the ERP program and related IT projects.

In 2018, Polyus completed the scoping study and verification drilling program at Sukhoi Log. With the scoping study completed, the Company has launched the pre-feasibility stage. Capital expenditures amounted to $23 million as drilling program entered an active stage in 2018. Polyus continues in-fill, deep levels, flanks and other drilling. The drilling campaign will continue until the end of 2019.

An update on Mineral Resources estimates for Sukhoi Log has been conducted by AMC in compliance with JORC Code 2012. According to AMC, estimated Mineral Resources at Sukhoi Log stand at 962 million tonnes, with an average grade of 2.1 g/t Au and containing 63 million ounces of gold as at 30 October 2018. AMC has also upgraded 28 million ounces of Inferred Mineral Resources to Indicated Mineral Resource. Ongoing assessment of the drilling campaign samples may result in a further upgrade of the Mineral Resources estimate classification.

Capex breakdown[21]

$ million	4Q 2018	3Q 2018	Q-o-Q	2018	2017	Y-o-Y
Natalka, including						
Purchase of equipment	42	36	17%	169	226	(25%)
Capitalisation of borrowing costs	-	7	(100%)	54	93	(42%)
Operating costs	-	-	N.A.	25	59	(58%)
Net proceeds from selling gold produced during the ramp-up period	-	(3)	(100%)	(20)	-	N.A.
Natalka, total	42	40	5%	228	378	(40%)
Olimpiada	36	46	(22%)	182	177	3%
Blagodatnoe	14	6	N.A.	71	49	45%
Verninskoye	15	11	36%	45	39	15%
Alluvials	6	4	50%	24	26	(8%)
Kuranakh	24	10	N.A.	57	65	(12%)
Sukhoi Log	8	6	33%	23	6	N.A.
Other[22]	44	23	91%	106	64	66%
CAPEX	**189**	**146**	**29%**	**736**	**804**	**(8%)**
Omchak electricity transmitting line	9	10	(10%)	36	69	(48%)
Items capitalised[23], net	52	28	86%	95	25	N.A.
Change in working capital for purchase property, plant and equipment	(13)	14	N.A.	(17)	(67)	(75%)
Purchase of PP&E[24]	**237**	**198**	**20%**	**850**	**831**	**2%**

[21] The capex above presents the capital construction-in-progress unit as allocated to other business units, whilst in the consolidated financial statements capital construction-in-progress is presented as a separate business unit.
[22] Reflects expenses related to exploration business unit, IT projects and construction of Razdolinskaya-Taiga, Peleduy-Mamakan grid lines.
[23] Including capitalised stripping costs net of capitalised interest on loans and capitalised within capital construction-in-progress. For more details see Note 11 of the consolidated financial statements.
[24] Presented net of the Sukhoi Log deposit license acquisition cost and payments to Rostec.

In the fourth quarter, the total cash amount spent on the purchase of PP&E increased to $237 million, compared to $198 million in the previous quarter. This mainly reflects the respective increase in total capital expenditures outlined above.

In 2018, the total cash spent on the purchase of PP&E increased to $850 million compared to $831 million in the previous year. This mainly reflects the respective increase in stripping activity at Olimpiada, Blagodatnoye and Verninskoye during the full year of 2018.

Other investing activities in 2018 comprised of $26 million of interest received and $13 million of cash received from the Government under the government grant agreement for the Omchak electricity transmitting line construction. In addition, the Company received $15 million of proceeds from the Federal Grid Company for the disposal of Razdolinskaya-Taiga, in line with initial agreements.

FINANCING CASH FLOW

In the fourth quarter, net financing cash outflow totaled $304 million compared to $136 million of cash outflow in the prior period, primarily due to the dividend payout for the first half of 2018, which totaled $264 million.

For the full year of 2018, net financing cash outflow totaled $936 million compared to $1,224 million in the previous year. Polyus completed a repayment of approximately $1,249 million of credit facilities and paid out a total of $569 million in dividends for the second half of 2017 and the first half of 2018 combined.

DIVIDEND UPDATE

The Board of Directors of the Company (the «Board») has considered and preliminarily approved the dividends for the second half of 2018 that it intends to recommend for approval by the Company's annual general shareholders' meeting. In aggregate these dividends are the ruble equivalent of $296 million. Based on the current number of shares (excluding treasury stock) dividend per share is expected to be $2.2 per ordinary share. The dividend record date is expected to be in May 2019.

Polyus's current dividend policy suggests the total dividend payout in respect of 2018 as the higher of 30% of the Company's EBITDA for the year or $550 million. The total dividend payout for the full year of 2018 will expectedly correspond to $560 million. This amount includes $264 million paid out in form of dividend for the first half of 2018.

Outlook

PRODUCTION GUIDANCE

Based on the performance in 2018, Polyus reiterates its production guidance for the full year of 2019 at 2.8 million ounces. The Company continues to implement brownfield development projects to strengthen its operational profile.

CAPEX GUIDANCE

In 2019, Polyus plans to invest approximately $725 million[26] across the business. Previous guidance was set at $650 million for this period.

The updated guidance reflects a capex roll over from 2018, related to a recalibration of brownfield projects and mining machinery equipment procurement at Olimpiada and Blagodatnoye, as well as delayed

[26] On the assumption of foreign exchange rate of 60 roubles per dollar.

construction of some infrastructure projects at Natalka. The Company has a number of new mid-sized projects in pre-feasibility and feasibility stages as well as set of smaller efficiency improvement projects in the pipeline. In addition, spending on exploration at the core assets (both in fill and step out) will be increased. Finally, Polyus continues further roll out of IT infrastructure improvement initiatives and ERP transformation program.

Full year 2019 capex guidance includes $250 million of maintenance capex.

TCC GUIDANCE

Polyus now expects the group’s TCC to remain below $425 per ounce in 2019, as compared to the initial forecast, which set TCC guidance at below $450 per ounce. The estimate continues to be based on the assumption of foreign exchange rate of 60 roubles per dollar.

Going concern

The financial position of the Group, its cash flows, liquidity position, and borrowing facilities are set out in this MD&A on pages 21 to 23. As of 31 December 2018 the Group held $896 million in cash and cash equivalents and bank deposits and had a net debt of $3,086 million, with $1,224 million of undrawn but committed credit facilities, subject to covenant compliance. Details on borrowings and credit facilities are disclosed in note 18 to the consolidated financial statements. In assessing its going-concern status, the directors have considered the uncertainties affecting future cash flows and have taken into account its financial position, anticipated future trading performance, borrowings, and other available credit facilities, as well as its forecast compliance with the covenants on those borrowings and its capital expenditure commitments and plans. In the event of certain reasonably possible adverse pricing and forex scenarios and the risks and uncertainties below, management has within its control the option of deferring uncommitted capital expenditure, or managing the dividend payment profile to maintain the Group's funding position.

Having examined all the scenarios, the Directors concluded that no covenants will be breached in any of these adverse pricing scenarios for at least the next 12 months from the date of signing the consolidated financial statements. Accordingly, the Board is satisfied that the Group's forecasts and projections, having taken into account 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 signing the consolidated financial statements.

Risks and uncertainties

The Group's activities are associated with a variety of risks that could affect its operational and financial results and, consequently, shareholder returns. Successful risk management requires, among other things, identifying and assessing potential threats and developing measures to mitigate them.

The Group's financial results depend largely on gold prices. The gold market follows cyclical patterns and is sensitive to general macroeconomic trends. The Group constantly monitors gold market, implements cost optimisation measures and reviews its investment program.

Starting from March 2014, a number of sanction packages have been imposed by the United States ("US") and the European Union ("EU") on certain Russian officials, businessmen and companies. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

The Directors do not believe that the principal risks and uncertainties have changed since the publication of the annual report for the year ended 31 December 2017. Detailed explanation of the risks summarized below, together with the Group's risk mitigation plans, can be found on pages 30 to 33 of the 2017 Annual Report which is available at http://www.polyus.com/upload/iblock/2a5/polyus_annual-report_2017_eng-_1_.pdf

The Group's activities expose it to a variety of financial risks, which are summarised below. The Group uses derivative financial instruments to reduce exposure to commodity price, foreign exchange, and interest rate movements. The Board of Directors is responsible for overseeing the Group's risk management framework.

Commodity price risk

The Group's earnings are exposed to price movements in gold, which is the Group's main source of revenue. The Group sells most of its gold output at prevailing market prices. However, to protect its earnings and balance sheet from a potential significant fall in gold prices the Group initiated a Strategic Price Protection Programme, which includes a revenue stabiliser.

Foreign exchange risk

As stated on page 8, the Group's revenue is linked to the USD, as the gold price is quoted in this currency. Thus the Group's strategy is to have mostly USD-denominated debt and to keep its cash and deposits in USD. As of 31 December 2018, 85% of the cash and cash equivalents and bank deposits of the Group were in USD – see page 22 of this MD&A for a detailed description. As part of this strategy, the Group entered into a number of cross-currency swaps with leading Russian banks economically to hedge interest payments and the exchange of the principal amounts (see page 19).

Interest rate risk

The Group is exposed to interest rate risk, as 2% of the Group's debt portfolio is made up of RUB floating rate borrowings. Fluctuations in interest rates may affect the Group's financial results. The Group continues to shift from floating to fixed interest rate on the back of higher finance cost expectations.

Inflation risk

As stated on page 9, the Group's earnings are exposed to inflationary trends in Russia, and inflation negatively impacts the Group's earnings, increasing future operating costs. To mitigate rouble inflation risk, the Group estimates possible inflation levels and incorporates them into its cost planning; it has implemented cost reduction initiatives at its operations, and its treasury team is responsible for ensuring that the majority of cash and cash equivalents are held in USD.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Public Joint Stock Company "Polyus"

Opinion

We have audited the consolidated financial statements of Public Joint Stock Company "Polyus" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Mine commissioning (Notes 4, 5, 11) International Accounting Standard 16 requires that the initial measurement of a self-constructed item of property, plant and equipment includes only those costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. While the Group officially launched its new mill at Natalka deposit in September 2017, it required an extended ramp-up period to reach a desired level of commercially sustainable production. Therefore, determining the date when development stage of Natalka is completed required significant judgment. Based on criteria used by the Group, a new mill achieves full operating readiness when production reaches certain thresholds set in respect of volume of ore processed as well as recovery rate, and it is maintained for two consecutive months. Management determined that for Natalka these criteria were met on 1 August 2018. As at 31 July 2018, the carrying value of Natalka's assets amounted to $1,848 million. The date discussed above determines when: • Amounts previously recognised as mine under development (MUD) are reclassified to the appropriate operating asset category principally within property, plant and equipment and inventory; • Items of income and expense start to be recognised in profit or loss as opposed to being capitalised as part of development asset, including revenue from sales of gold, depreciation of property, plant and equipment as well as stripping activity assets, borrowing costs, etc. Due to significance of the balances and judgments involved, we determined accounting for Natalka mine commissioning to be a key audit matter.	We completed the following audit procedures with regards to Natalka mine commissioning: • Visited the site during the year to inspect the physical state of facilities and observe progress of mine development and ramp up activities, conducted interviews of engineering and technical personnel on site; • Reviewed and challenged management's choice of criteria used to determine a condition at which a commercial operation of the mine becomes possible to establish compliance with the IFRS requirements and industry practice; • Confirmed that the actual production data demonstrated that criteria set by management were achieved at or around mine commissioning date; • Analysed the balance of accumulated capitalised expenses for Natalka at the date of completion of development stage to confirm it was appropriately allocated and classified within the Group's operating assets in line with the Group's accounting policies and intended future use and traced, that capitalisation of expenses stopped after reclassification date; • For items reclassified to construction-in-progress, reviewed management's plans for continuing capital construction projects, challenged underlying assumptions and confirmed that the appropriate impairment reviews were conducted by the Group to recognise impairment of assets that would not be fully utilised in the future; and • Checked the completeness and adequacy of disclosures with respect to Natalka's commissioning in the consolidated financial statements.
Valuation of financial instruments (Note 12) The Group entered into a number of different derivative contracts to mitigate exposure to gold price and currency fluctuations, and reduce interest rate risk. The valuation of these contracts involves management's judgements and estimates, which could significantly affect the amounts recognised in	We completed the following procedures with respect to derivative financial instruments: • Obtained an understanding of the process of identifying and measuring derivatives; • An independent valuation of these derivatives on a sample basis using key assumptions with assistance of financial instruments specialists, including the gold price and exchange

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
the consolidated financial statements. The Group did not apply hedge accounting. The most complex of these instruments is a commodity hedge known as the Revenue Stabiliser to economically hedge gold price fluctuations. Additionally, cross-currency swaps, which economically hedge the Russian ruble denominated principal and interest payments, significantly affect the financial statements. The fair value is based on various inputs, including the credit risk valuation adjustment. Valuation is sensitive to changes in one or more inputs. The carrying value of the Group's net derivative financial liabilities amounted to $621 million as at 31 December 2018 (31 December 2017: $410 million). Based on the above, we determined this issue to be a key audit matter.	rate based on information available on the market; • Compared the methodology employed by management to assess major inputs in the valuation models, including the credit risk adjustment to the requirements set out in IFRS 13; • Reviewed the reasonableness and completeness of disclosures required by IFRS 7 in the Group's accounts.
Valuation of exploration and evaluation ("E&E") assets (Note 11) The Group acquired the Sukhoi Log mining license in 2017. Sukhoi Log is at an early stage of exploration and evaluation. The carrying value of E&E assets related to Sukhoi Log amounted to $377 million as at 31 December 2018 (31 December 2017: $430 million). The assessment of prospects for each E&E asset of the Group requires significant judgment. There is a risk that the carrying amounts of the E&E assets may exceed its recoverable amounts. The carrying value of the Group's E&E assets amounted to 505 million as at 31 December 2018 (31 December 2017: $560 million). Because of significance of this balance to the Group's financial statements and judgements involved in assessing existence of indicators of impairment, we determined this to be a key audit matter.	We completed the following procedures with respect to the valuation of E&E assets: • Read minutes of the Board and its committees and held discussions with management to understand strategic priorities of the Group; • Held discussions with key operational and finance staff to understand exploration and evaluation activities; • Reviewed updates of gold resources estimates and results of other geological studies; • Reviewed management's assessment of the existence of impairment indicators in the E&E asset portfolio by evaluating the appropriateness of management assumptions and estimates; • Reviewed approved exploration budgets for 2019 in order to confirm that exploration projects were ongoing and have the committed funding; and • Reviewed an actual versus budgeted analysis of E&E expenses and investigated significant deviations.

Other Information

Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor’s report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Directors.

- Conclude on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Olga Tabakova
Engagement partner

11 February 2019

The Entity: Public Joint Stock Company Polyus

Primary State Registration Number: 1068400002990

Certificate of registration in the Unified State Register № 84 000060259 of 17 March 2006, issued by Interdistrict Inspectorate of Federal Tax Authorities №2 of Krasnoyarsk territory, Talmyr (Dolgan-Nenetsk) and Evenki autonomous okrugs

Address: 123056, Russian Federation, Moscow, Krasina, 3/1

Audit Firm: AO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

PJSC "Polyus"

Consolidated financial statements
for the year ended 31 December 2018

PJSC "POLYUS"

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER
(in millions of US Dollars, except for earnings per share data)

	Notes	2018	2017
Gold sales	5	2,876	2,684
Other sales		39	37
Total revenue		**2,915**	**2,721**
Cost of gold sales	6	(1,035)	(969)
Cost of other sales		(29)	(31)
Gross profit		**1,851**	**1,721**
Selling, general and administrative expenses	7	(236)	(211)
Impairment loss		(54)	(19)
Other expenses, net		(37)	(36)
Operating profit		**1,524**	**1,455**
Finance costs, net	8	(201)	(200)
Interest income		26	28
(Loss) / gain on investments and revaluation of derivative financial instruments, net	9	(281)	118
Foreign exchange (loss) / gain, net		(517)	130
Profit before income tax		**551**	**1,531**
Income tax expense	10	(77)	(290)
Profit for the year		**474**	**1,241**
Profit for the year attributable to:			
Shareholders of the Company		456	1,240
Non-controlling interests		18	1
		474	**1,241**
Weighted average number of ordinary shares'000			
for basic earnings per share	17	132,251	128,622
for dilutive earnings per share	17	134,745	129,723
Earnings per share (US Dollar)			
basic		3.45	9.64
dilutive		3.30	9.61

PJSC "POLYUS"

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER
(in millions of US Dollars)

	2018	2017
Profit for the year	**474**	**1,241**
Other comprehensive income / (loss) for the year		
Items that may be subsequently reclassified to profit or loss:		
Effect of translation to presentation currency	(119)	1
Increase in revaluation of cash flow hedge reserve on revenue stabiliser	-	4
Deferred tax relating to change in revaluation of cash flow hedge reserve	-	(1)
	(119)	**4**
Items that will not be subsequently reclassified through profit or loss:		
Increase / (decrease) in other reserves	2	(2)
Items that have been reclassified through profit or loss:		
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on revenue stabiliser	-	(19)
Deferred tax relating to cash flow hedge reserve reclassified to consolidated statement of profit or loss	-	4
	-	**(15)**
Other comprehensive loss for the year	**(117)**	**(13)**
Total comprehensive income for the year	**357**	**1,228**
Total comprehensive income for the year attributable to:		
Shareholders of the Company	357	1,223
Non-controlling interests	-	5
	357	**1,228**

PJSC “POLYUS”

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER
(in millions of US Dollars)

	Notes	2018	2017
Assets			
Non-current assets			
Property, plant and equipment	11	3,720	4,005
Derivative financial instruments and investments	12	6	38
Inventories	13	277	300
Deferred tax assets	21	120	60
Other receivables		60	97
Other non-current assets		82	58
		4,265	**4,558**
Current assets			
Derivative financial instruments and investments	12	1	-
Inventories	13	557	435
Deferred expenditure		14	14
Trade and other receivables	14	94	101
Advances paid to suppliers and prepaid expenses		30	21
Taxes receivable	15	166	114
Cash and cash equivalents	16	896	1,204
		1,758	**1,889**
Total assets		**6,023**	**6,447**
Equity and liabilities			
Capital and reserves			
Share capital		5	5
Additional paid-in capital		1,949	1,948
Treasury shares		(67)	(89)
Other reserves		-	(2)
Translation reserve		(2,824)	(2,723)
Retained earnings		1,300	1,425
Equity attributable to shareholders of the Company		**363**	**564**
Non-controlling interests		87	92
		450	**656**
Non-current liabilities			
Borrowings	18	3,975	4,269
Derivative financial instruments	12	118	448
Deferred revenue	19	117	132
Deferred consideration	20	168	216
Deferred tax liabilities	21	207	217
Site restoration, decommissioning and environmental obligations		40	47
Other non-current liabilities		29	45
		4,654	**5,374**
Current liabilities			
Borrowings	18	7	12
Derivative financial instruments	12	510	-
Deferred consideration	20	57	-
Trade and other payables	22	289	318
Taxes payable	23	56	87
		919	**417**
Total liabilities		**5,573**	**5,791**
Total equity and liabilities		**6,023**	**6,447**

PJSC “POLYUS”

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER

(in millions of US Dollars)

			Equity attributable to shareholders of the Company									
	Notes	Number of outstanding shares’000	Share capital	Additional paid-in capital	Treasury shares	Other reserves	Cash flow hedge revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
Balance at 31 December 2016		***125,632***	**7**	**2,288**	**(3,712)**	**-**	**12**	**(2,720)**	**3,617**	**(508)**	**94**	**(414)**
Profit for the year		-	-	-	-	-	-	-	1,240	**1,240**	1	**1,241**
Change in other reserves		-	-	-	-	(2)	-	-	-	**(2)**	-	**(2)**
Decrease in cash flow hedge revaluation reserve		-	-	-	-	-	(12)	-	-	**(12)**	-	**(12)**
Effect of translation to presentation currency		-	-	-	-	-	-	(3)	-	**(3)**	4	**1**
Total comprehensive (loss) / income		-	**-**	**-**	**-**	**(2)**	**(12)**	**(3)**	**1,240**	**1,223**	**5**	**1,228**
Equity-settled share-based payment plans (LTIP), net of tax		-	-	18	-	-	-	-	-	**18**	-	**18**
Buy-back of treasury shares		*(14)*	-	-	(1)	-	-	-	-	**(1)**	-	**(1)**
Cancellation of treasury shares		-	(2)	(749)	3,604	-	-	-	(2,853)	**-**	-	**-**
Issuance of shares		*6,016*	-	389	-	-	-	-	-	**389**	-	**389**
Purchase of additional ownership in SL Gold through issuance of treasury shares		*290*	-	2	20	-	-	-	-	**22**	-	**22**
Declared dividends to shareholders of the Company		-	-	-	-	-	-	-	(579)	**(579)**	-	**(579)**
Dividends declared to shareholders of non-controlling interests		-	-	-	-	-	-	-	-	**-**	(7)	**(7)**
Balance at 31 December 2017		***131,924***	**5**	**1,948**	**(89)**	**(2)**	**-**	**(2,723)**	**1,425**	**564**	**92**	**656**
Profit for the year		-	-	-	-	-	-	-	456	**456**	18	**474**
Change in other reserves		-	-	-	-	2	-	-	-	**2**	-	**2**
Effect of translation to presentation currency		-	-	-	-	-	-	(101)	-	**(101)**	(18)	**(119)**
Total comprehensive (loss) / income		-	**-**	**-**	**-**	**2**	**-**	**(101)**	**456**	**357**	**-**	**357**
Equity-settled share-based payment plans (LTIP), net of tax	17	-	-	18	-	-	-	-	-	**18**	-	**18**
Exercise of the LTIP first tranche	17	*415*		(17)	22	-	-	-	(6)	**(1)**	-	**(1)**
Declared dividends to shareholders of the Company	17	-	-	-	-	-	-	-	(575)	**(575)**	-	**(575)**
Dividends declared to shareholders of non-controlling interests		-	-	-	-	-	-	-	-	**-**	(3)	**(3)**
Increase of ownership in subsidiaries		-	-	-	-	-	-	-	-	**-**	(2)	**(2)**
Balance at 31 December 2018		***132,339***	**5**	**1,949**	**(67)**	**-**	**-**	**(2,824)**	**1,300**	**363**	**87**	**450**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER
(in millions of US Dollars)

	Notes	2018	2017
Operating activities			
Profit before income tax		**551**	**1,531**
Adjustments for:			
Finance costs, net	8	201	200
Interest income		(26)	(28)
Impairment loss		54	19
Loss / (gain) on investments and revaluation of derivative financial instruments, net	9	281	(118)
Depreciation and amortisation		236	178
Foreign exchange loss/ (gain), net		517	(130)
Other		10	4
		1,824	**1,656**
Movements in working capital			
Inventories		(114)	(64)
Deferred expenditure		(5)	(4)
Trade and other receivables		4	(28)
Advances paid to suppliers and prepaid expenses		(12)	(7)
Taxes receivable		(1)	(18)
Trade and other payables and accrued expenses		4	6
Taxes payable		(27)	17
Other		-	(2)
Cash flows from operations		**1,673**	**1,556**
Income tax paid		(209)	(264)
Net cash generated from operating activities		**1,464**	**1,292**
Investing activities[1]			
Purchase of property, plant and equipment (excluding payments for the Sukhoi Log deposit and construction of the Omchak high-voltage power grid)		(814)	(762)
Payments for the Sukhoi Log deposit		-	(36)
Payments for the Omchak high voltage power grid		(36)	(69)
Proceeds from government grants[2]		13	53
Interest received		26	33
Proceeds from disposal of electricity transmission grids		15	63
Proceeds from disposal of joint venture		-	100
Other		4	-
Net cash utilised in investing activities		**(792)**	**(618)**
Financing activities[1]			
Proceeds from borrowings		1,125	800
Repayment of borrowings		(1,249)	(1,577)
Interest paid		(253)	(291)
Commissions on borrowings paid		(17)	(11)
Net proceeds on exchange of interest payments under interest rate swaps	8	2	2
Net proceeds on exchange of interest payments under cross currency rate swaps	8	34	40
Dividends paid to shareholders of the Company		(569)	(574)
Dividends paid to non-controlling interests		(4)	(7)
Repayments of principal under finance lease		(4)	(5)
Proceeds from sales and leaseback transactions		-	11
Payment for buy-back of shares		-	(1)
Proceeds from issuance of shares		-	400
Direct expenses associated with issuance of the Company's shares		-	(11)
Other		(1)	-
Net cash utilised in financing activities		**(936)**	**(1,224)**
Net decrease in cash and cash equivalents		**(264)**	**(550)**
Cash and cash equivalents at beginning of the year	16	**1,204**	**1,740**
Effect of foreign exchange rate changes on cash and cash equivalents		(44)	14
Cash and cash equivalents at end of the year	16	**896**	**1,204**

[1] Significant non-cash transactions relating to investing activities are disclosed in notes 18 and 20 to these consolidated financial statements.

[2] Proceeds from government grants are presented including amounts received to compensate for Value Added Tax (VAT) incurred on purchase of qualifying assets. Purchase of property, plant and equipment is presented exclusive of VAT; related VAT paid is included in cash flows from operations (note 19).

1. GENERAL

Public Joint Stock Company Polyus (the “Company” or “Polyus”) was incorporated in Moscow, Russian Federation, on 17 March 2006.

The principal activities of the Company and its controlled entities (the “Group”) are the extraction, refining and sale of gold. The mining and processing facilities of the Group are located in the Krasnoyarsk, Irkutsk, Magadan regions and the Sakha Republic of the Russian Federation. The Group also performs research and exploration works. Further details regarding the nature of the business of the significant subsidiaries of the Group are presented in note 27.

The shares of the Company are “level one” listed on the Moscow Exchange. Global depositary shares (GDSs) representing Polyus’ shares (with two global depositary shares representing interest in one Polyus share) are traded on the main market for listed securities of the London Stock Exchange plc (“LSE”). The controlling shareholder of the Company is Polyus Gold International Limited (“PGIL”), a public limited company registered in Jersey. The most senior parent of the Company is Wandle Holdings Limited, a company registered in Cyprus. As at 31 December 2018 and 2017, the ultimate controlling party of the Company was Mr. Said Kerimov.

2. BASIS OF PREPARATION AND PRESENTATION

2.1. Going concern

In assessing the appropriateness of the going concern assumption, the Directors have taken account of the Group’s financial position, expected future trading performance, its borrowings, available credit facilities and its capital expenditure commitments, expectations of the future gold price, currency exchange rates and other risks facing the Group. After making appropriate enquiries, the Directors consider that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of signing these consolidated financial statements and that it is appropriate to adopt the going concern basis in preparing these consolidated financial statements.

2.2. Compliance with the International Financial Reporting Standards

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”). IFRS include the standards and interpretations approved by the IASB including IFRS, International Accounting Standards (“IAS”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

2.3. Basis of presentation

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the jurisdiction in which they are incorporated and registered. The accounting principles and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, such financial information has been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

The consolidated financial statements of the Group are prepared on the historical cost basis, except for derivative financial instruments and certain trade receivables, which are accounted for at fair value, as explained in the accounting policies below.

(in millions of US Dollars)

2.4. IFRS standards first time applied in 2018

The following is a list of new or amended IFRS standards and interpretations that have been applied by the Group for the first time in these consolidated financial statements.

Title	Subject	Effective for annual periods beginning on or after	Expected effect on the consolidated financial statements
Amendments to IFRS 2	Share-based payment	1 January 2018	No effect
IFRS 9	Financial instruments	1 January 2018	No significant changes, see below for further discussion
IFRS 15	Revenue from contracts with customers	1 January 2018	No significant changes, see below for further discussion.
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	No effect
Amendments to IFRS 4	Insurance contracts	1 January 2018	No effect

2.4.1. IFRS 9 Financial Instruments – changes compared to IAS 39 and effect of adoption

IFRS 9 "Financial Instruments" (hereinafter referred to as "IFRS 9") replaces IAS 39 "Financial Instruments: Recognition and Measurement" (hereinafter referred to as "IAS 39") and provides two measurement categories for financial instruments: amortised cost and fair value depending on the contractual cash flows of the instrument and the business model under which it is held from 1 January 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost.

Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value through profit and loss.

With regard to the measurement of financial liabilities designated at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is no longer necessary for a credit event to have occurred before credit losses are recognised.

Effect on the consolidated financial statements

Based on an analysis of the Group's financial assets and financial liabilities as at 1 January 2018 on the basis of the facts and circumstances at that date, the Group has performed an assessment of the impact of IFRS 9 adoption.

As required by IFRS 9, the Group now applies an expected credit loss model for its financial assets measured at amortised cost including short term deposits included in *cash and cash equivalents*, however this change has not resulted in a significant adjustment of the Group’s *cash and cash equivalents*.

Derivative financial assets and liabilities were already accounted at fair value through profit or loss (FVTPL) and not affected by implementation of the expected credit loss model.

Trade receivables, including *trade receivables for gold-bearing products*, do not contain any significant financing component. The Group adopted a simplified model to calculate impairment losses (loss allowance is measured at an amount equal to lifetime expected credit losses) as allowed by IFRS 9.

Trade receivables for gold-bearing products are now accounted at FVTPL. The adjustment to the price depends on gold market prices, therefore represents a sales contract with an embedded derivative within the accounts receivable. The embedded derivative relates to the accounts receivable, which is recognised and measured based on IFRS 9. The embedded derivative causes the receivable to fail the “solely payments of principal and interest” test under IFRS 9 meaning the receivable is measured at fair value through profit or loss within *Gain / (loss) on investments and revaluation of derivative financial instruments, net*. The effect of the change in the basis of measurement was insignificant.

Other receivables continue to be accounted at amortised cost and the change to expected credit losses model has also not resulted in the need for a significant adjustment for these financial assets.

All of the *Borrowings* continue to be accounted at amortised cost. Debt modification identified as of 1 January 2018 following adoption of IFRS 9 resulted in no effect on the *Borrowings*.

As at 1 January 2018, the Group reviewed and assessed the existing financial assets for impairment using reasonable and supportable information that is available in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items. This has not resulted in significant adjustments to the carrying amounts.

2.4.2. IFRS 15 Revenue from Contracts with Customers – changes compared to IAS 18 and effect of adoption

IFRS 15 provides a single, principles-based five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers. It replaces the separate models for goods currently included in IAS 18 “Revenue” (“IAS 18”).

One of the key aspects of IFRS 15 for the Group is the identification of performance obligations. For refined gold sales, which is the most significant element of the Group’s revenue, the performance obligation requires revenue to be recognised based on the transfer of control of the refined gold which is largely consistent with the revenue recognition under IAS 18.

Effect on the consolidated financial statements

The Group has a number of sales contracts for other gold bearing products which contain provisional pricing terms depending on quantity and price. The adjustment to the quantity delivered is treated as a variable consideration, thus completely recognised in *Other gold-bearing products* within *Gold sales*.

The Group is responsible for delivery of certain gold-bearing products to a customer destination. Under IFRS 15 revenue from rendering such delivery services is treated as a separate performance obligation, and is recognised over time, rather than at the moment of control for product passing to the buyer, as was the case under IAS 18.

Revenue from transportation services is presented within *Other sales* and related costs within *Cost of other sales*. However, the impact of this change was not significant.

2.5. IFRS standards to be applied after 2018

The following standards and interpretations, which have not been applied in these consolidated financial statements, were in issue but not yet effective:

(in millions of US Dollars)

Title	Subject	Effective for annual periods beginning on or after	Expected effect on the consolidated financial statements
IFRS 16	Leases	1 January 2019	Changes are expected, see below
Amendments to IFRS 9	Prepayment Features with Negative Compensation and modifications of financial liabilities	1 January 2019	Under review
IFRIC 23	Uncertainty over Income Tax Treatment	1 January 2019	Under review
Amendments IAS 12	Income tax consequences of dividends	1 January 2019	Under review
Amendments IAS 19	Plan Amendments, Curtailment and Settlement	1 January 2019	Under review
Amendments IAS 23	Treatment of borrowings after the related asset is ready for its intended use or sale	1 January 2019	Under review
Amendment IFRS 3	Business Combinations	1 January 2020	Under review
Amendments IAS 1 and IAS 8	Definition of Material	1 January 2020	Under review
Amendments to References to the Conceptual Framework in IFRS Standards	Updates of references to or from the Conceptual Frameworks to the IFRS standards	1 January 2020	No effect
IFRS 17	Insurance Contracts	1 January 2021	Under review

IFRS 16 Leases

As at 31 December 2018, the Group has non-cancellable operating lease commitments of USD 130 million (note 25). IAS 17 does not require the recognition of any right-of-use assets or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 25. An assessment performed by the Group indicates that these arrangements meet the definition of a lease under IFRS 16, and hence the Group would recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is not expected to have an effect of more than USD 100 million on the amounts recognised in the Group's consolidated financial statements as *Rights of use* and *Lease liability* as of 1 January 2019.

The Group will apply IFRS 16 using a modified retrospective approach: comparative information will not be restated and the cumulative effect of initially applying IFRS 16 will be presented as an adjustment to opening retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Basis of consolidation

Subsidiaries

The consolidated financial statements of the Group incorporate the financial statements of the Company and all its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company:

- Has the power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has the power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it the power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holding of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company gains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Non-controlling interests in consolidated subsidiaries are identified separately from the Group's equity therein. The non-controlling interest may initially be measured either at fair value or at the non-controlling interest's proportionate share of the fair value of the subsidiary's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of the non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in net assets since the date of the business combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the Company.

When the Group loses control of a subsidiary, the profit and or loss on disposal is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

All intra-group balances, transactions and any unrealised profits or losses arising from intra-group transactions are eliminated on consolidation.

Functional currency

The individual financial statements of the Group's subsidiaries are each prepared in their respective functional currencies. The functional currency of the Company and all the subsidiaries of the Group is the Russian Rouble ("RUB").

3.2. Presentation currency

The Group presents its consolidated financial statements in the US Dollar ("USD"), 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, liabilities, both monetary and non-monetary, are translated at closing exchange rates at each reporting date;
- All income and expenses are translated at the monthly average exchange rates, 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 *Effect of translation to presentation currency* within the *Translation reserve* (on disposal of such entities this *Translation reserve* is reclassified into the consolidated statement of profit or loss); and
- In the statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated at exchange rates at the respective dates. All cash flows are translated at the monthly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions.

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

	31 December	
Russian Rouble/US Dollar	**2018**	**2017**
Year-end rate	69.47	57.60

3.3. Foreign currencies

Transactions in currencies other than the relevant entity's functional currencies (foreign currencies) are recorded at the exchange rate prevailing on the date 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 the 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 statement of profit or loss, except for those exchange difference on foreign currency borrowings relating to qualifying assets under construction, which are capitalised in the cost of those assets when they are regarded as an adjustment to finance costs on those foreign currency borrowings.

3.4. Revenue from contracts with Customers

The Group recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group applies a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts; and
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group entity recognises revenue when or as a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer.

3.5. Income tax

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 the taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 differences between the carrying amounts of assets and liabilities in the financial statements of the separate legal entities and the corresponding tax bases used in the computation of taxable profit and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates 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 investments in subsidiaries and associates 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 each reporting date 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 reporting date. 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 reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax for the year

Current and deferred tax are recognised as an expense or income in the consolidated statement of profit or loss, except when they relate to items that are recognised outside the consolidated statement of profit or loss, in which case the tax is also recognised outside the consolidated statement of profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities over the net book value.

3.6. Dividends

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

Retained earnings legally distributable by the Company are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual subsidiaries of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

3.7. Property, plant and equipment

Mineral rights

Mineral rights are recorded as assets upon acquisition at fair value and are included within *Fixed assets*, *Capital construction in progress*, *Mines under development* or *Exploration and evaluation assets*.

Fixed assets

Fixed assets are recorded at cost less accumulated depreciation. Fixed assets include the cost of acquiring and developing mining properties, pre-production expenditure and mine infrastructure, processing plant, mineral rights and mining and exploration licences and the present value of future mine closure, rehabilitation and decommissioning costs.

Fixed assets are amortised on a straight-line basis over the estimated economic useful life of the asset, or the remaining useful life of the mines in accordance with the mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code, whichever is shorter.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Depreciation is charged from the date a new mine reaches commercial production quantities and is included in the *Cost of sales*. The estimated remaining useful lives of the Group's significant mines and processing facilities based on the mine operating plans are as follows:

Blagodatnoye	10 years
Olimpiada	11 years
Verninskoye	23 years
Natalka	24 years
Kuranakh	27 years

Stripping activity asset

Stripping costs incurred during the production phase are considered to create two benefits, being either the production of inventory in the current period and/or improved access to the ore to be mined in the future. Where stripping costs are incurred and the benefit is improved access to the component of the ore body to be mined in the future, the costs are recognised as a stripping activity asset, if the following criteria are met:

- Future economic benefits (being improved access to the ore body) are probable;
- The component of the ore body for which access will be improved can be accurately identified; and
- The costs associated with the improved access can be reliably measured.

If not all of the abovementioned criteria are met, the stripping costs are included in the *Production cost* of inventory which are expensed in the consolidated statement of profit or loss as *Cost of gold sales* as and when they are sold.

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of the ore body, plus an allocation of directly attributable overhead costs. The costs associated with incidental operations are not included in the costs of the stripping activity asset.

The Group uses an allocation basis that compares the expected average life of the mine stripping ratio with the actual stripping ratio in the period for the identified component of the ore body to determine if further stripping costs are to be allocated to stripping activity asset or the cost of inventory.

After initial recognition the stripping activity asset is carried at cost less depreciation and any impairment losses.

Capital construction in progress

Assets under construction at operating mines are accounted for as capital construction in progress. The cost of capital construction in progress comprises its purchase price and any directly attributable costs to bring it into working condition for its intended use. When the capital construction in progress has been completed and, in a condition necessary to be capable of operating in the manner intended by management, the objects are reclassified to fixed assets.

Capital construction in progress is not depreciated.

Mine under development

Comprises amounts related to new mine development and includes the costs directly related to mine development projects such as acquiring and developing mining properties, pre-production expenditure, construction of processing plant and mine infrastructure, amortisation of equipment used in the development, mineral rights and mining and exploration licences and the present value of future mine closure, rehabilitation and decommissioning costs. When the mine under development reaches a condition in which it is operating in the manner intended by management, the objects are reclassified to fixed assets.

3.8. Finance costs directly attributable to the construction of qualifying assets

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

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

All other finance costs are recognised in the consolidated statement of profit or loss in the period in which they are incurred.

Finance costs are capitalised as part of the cost of the qualifying asset when it is probable that they will result in the entity obtaining future economic benefits. Exploration and evaluation assets are reclassified to *Mine under development* only when the technical feasibility and commercial viability of extracting a gold resource are demonstrable and a decision has been made to develop the mine. Starting from this moment, it becomes probable that the entity will obtain future economic benefits, and accordingly, capitalisation of borrowing costs commences.

3.9. Impairment of long-lived tangible assets

Impairment of fixed assets, capital construction in progress, stripping activity asset and mine under development

An impairment review of long-lived tangible assets 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. The recoverable amount is the higher of fair value less costs to sell or value-in-use. 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. The impairment loss is recognised in the consolidated statement of profit or loss immediately.

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 statement of profit or loss immediately.

Impairment of exploration and evaluation assets

Exploration and evaluation assets represent capitalised expenditure incurred by the Group in connection with the exploration for and evaluation of gold resources, such as:

- Acquisition of rights to explore potentially mineralised areas;
- Topographical, geological, geochemical and geophysical studies;
- Exploratory drilling;
- Trenching;
- Sampling; and
- Activities in relation to evaluating the technical feasibility and commercial viability of extracting gold resource.

Exploration and evaluation expenditure are capitalised when the exploration and evaluation activities have not reached a stage that permits a reasonable assessment of the existence of commercially recoverable gold resources. When the technical feasibility and commercial viability of extracting a gold resource are demonstrable and a decision has been made to develop the mine, capitalised exploration and evaluation assets are reclassified to *Mine under development*.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The following facts and circumstances, among others, indicate that exploration and evaluation assets must be tested for impairment:

- The term of the exploration licence in the specific area has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of gold resources in the specific area is neither budgeted nor planned;
- Exploration for and evaluation of gold resources in the specific area have not led to the discovery of commercially viable quantities of gold resources and the decision was made to discontinue such activities in the specific area; and
- Sufficient data exists to indicate that, although a development in the specific area is likely to occur, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

For the purpose of assessing exploration and evaluation assets for impairment, such assets are allocated to cash-generating units, being exploration licence areas.

Any impairment loss is recognised as an expense in accordance with the policy on impairment of tangible assets set out above.

3.10. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and 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 and loss are recognised immediately in profit and loss.

Financial assets

Financial assets are classified into financial assets measured at fair value through profit or loss, fair value through other comprehensive income and amortised cost. The Group determines the classification at initial recognition.

Financial assets are classified as financial assets measured at amortised cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;

Otherwise, they are classified as financial assets measured at fair value.

The Group does not have any financial assets measured at fair value through other comprehensive income (hereinafter referred to as FVTOCI) that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets are measured based on the classification as follows:

- Financial assets measured at amortised cost are measured at amortised cost using the effective interest method;
- Financial assets other than those measured at amortised cost are measured at fair value through profit and loss.

In addition, for financial reporting purposes fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Impairment of financial assets

In accordance with IFRS 9, the Group evaluates at each reporting period whether there is any objective evidence that financial assets measured at amortised cost are impaired under an expected credit loss model.

The Group always recognises lifetime expected credit losses (“ECL”) for its trade and other receivables (the “simplified approach” under IFRS 9) and updates this expectation at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The expected credit losses on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 month ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group’s debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor‘s ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor’s ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per the globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

If there is objective evidence that impairment losses on financial assets measured at amortised cost have been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

When impairment is recognised, the carrying amount of the financial asset is reduced by an allowance for doubtful accounts and impairment losses are recognised in profit or loss. The carrying amount of financial assets measured at amortised cost is directly reduced for the impairment when they are expected to become uncollectible in the future and all collateral is implemented or transferred to the Group. If, in a subsequent period, the amount of the impairment loss provided changes due to an event occurring after the impairment was recognised, the previously recognised impairment losses are adjusted through the allowance for doubtful accounts.

De-recognition of financial assets

The Group de-recognises a financial asset only when the contractual rights to the cash flows from the asset expire, or 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense, respectively, over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments, as applicable, through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

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

Financial liabilities

All financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortised cost are measured at cost after deducting transaction costs that are directly attributable to the financial liabilities.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, except for derivatives measured at fair value through profit or loss. The Group determines the classification at initial recognition.

After initial recognition, financial liabilities are measured based on the classification as follows:

- Financial liabilities measured at amortised cost are measured at amortised cost using the effective interest method. Amortisation under the effective interest method and gains or losses on de-recognition are recognised as profit or loss in the consolidated statement of income.
- Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as measured at fair value through profit or loss at initial recognition; The net gain or loss recognised in the consolidated statement of profit or loss incorporates any interest paid on the financial liability and is included in the Gain / (loss) on derivative financial instruments and investments, net.

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method, with interest expense recognised within *Finance cost*.

De-recognition of financial liabilities

The Group de-recognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk as well as risk of volatility in the gold price.

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 profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortised cost or FVTPL as appropriate.

Convertible Bonds contain both a derivative and a non-derivative component. The derivative component is termed an embedded derivative, with the non-derivative component representing the host contract. If the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and the hybrid contract itself is not carried at fair value through profit or loss, the embedded derivative is bifurcated and reported at fair value, with gains and losses recognised in net gains (losses) on financial assets/liabilities at fair value through profit or loss. The host contract will continue to be accounted for in accordance with the appropriate accounting standard (amortised cost).

Accounting standards require that the fair value of financial instruments reflects their credit quality, and also changes in credit quality where there is evidence that this has occurred. The credit risk associated with the Group’s derivative financial instruments is reflected in its derivative valuations. This credit factor is adjusted over time to reflect the reducing tenor of the instrument and is updated where the credit risk associated with the derivative has clearly changed based on market transactions and prices.

3.11. Inventories

Refined gold, ore stockpiles and gold-in-process

Inventories including refined metals, doré, metals in concentrate and in process and ore stockpiles are stated at the lower of production cost or net realisable value. Production cost is determined as the sum of the applicable expenses incurred directly or indirectly in bringing inventories to their existing condition and location. Refined metals are valued at the average cost of production per saleable unit of metal. Doré, metals in concentrate and in process, ore stockpiles are valued at the average production costs at the relevant stage of production. Net realisable value represents the estimated selling price for product based on forecasted metal price at the date when the sale is expected to occur, less estimated costs to complete production and costs necessary to make the sale.

By-product

Starting in 2018, the Group began to produce a gold-antimony flotation concentrate as part of its gold-bearing products. Antimony is treated as a by-product of the gold production and is valued at its net realisable when produced. The net income from sale of antimony is recognised as a decrease to cost of gold sales upon its delivery to customers.

Stores and materials

Stores and materials consist of consumable stores and are stated at the lower of cost or net realisable value. Costs of stores and materials are determined on a weighted average cost basis. Net realisable value represents the expected estimated selling price for stores and materials less all costs necessary to make the sale.

3.12. Deferred expenditure

Deferred expenditure relates to the preparation for the seasonal alluvial mining activities comprised of excavation costs, general production and specific administration costs.

3.13. Cash and cash equivalents

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

3.14. 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.

3.15. Site restoration, decommissioning and environmental obligations

Site restoration, decommissioning and environmental obligations include mine closure, rehabilitation and decommissioning costs. Future decommissioning and land restoration costs, discounted to net present value, are added to the respective assets and the corresponding obligations raised as soon as the constructive or legal obligation to incur such costs arises and the future cost can be reliably estimated. The respective assets are amortised on a straight-line basis over the life-of-mine.

The unwinding of the obligation is included in the consolidated statement of profit or loss as finance costs. Obligations are periodically reviewed in light of current laws and regulations and adjustments made as necessary to the corresponding item of property, plant and equipment.

On-going restoration costs are expensed when incurred.

3.16. Government grants

Government grants are not recognised until there is reasonable assurance that the grants will be received and the Group will comply with the conditions attached to them.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire property, plant and equipment are recognised as deferred revenue in the consolidated statement of financial position and amortised (transferred) to profit or loss on a systematic and rational basis over the useful lives of property, plant and equipment to which it relates. Amortisation of deferred revenue starts at the moment when items of property, plant and equipment are put into operation and is presented as a deduction of depreciation and amortisation charge in the statement of profit or loss.

3.17. Share-based payment transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's 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 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.

4.1. Critical judgements in applying accounting policies

The following critical judgements have been applied when selecting the appropriate accounting policies:

- Mine commissioning period; and
- Determination of functional currency.

4.1.1. Mine commissioning period

According to IAS 16 recognition of directly attributable costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

In management's judgement, a new mill is capable of operating in the manner intended by management, when, in addition to meeting general qualitative criteria, the following conditions, set at a certain percentage of the planned target, have been met for two consecutive months:

- Certain volume of gold containing ore is processed at the mill; and
- Certain recovery of gold from the ore.

As of 1 August 2018, those criteria were fulfilled for two consecutive months for the Natalka mine, and consequently, the Group concluded that starting from 1 August 2018 the Natalka mine is operating in the manner intended by management. Reclassifications were made to move assets from Mine under development into the appropriate property, plant and equipment (note 11) or inventory category.

Capitalisation of borrowing costs, other directly attributable costs including cost of testing during the ramp-up period and production costs net of proceeds from gold sold during ramp-up period ceased from 1 August 2018 (note 5).

4.1.2. Determination of functional currency

The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. In accordance with IAS 21 the Group has analysed several factors that influence the choice of functional currency and, based on this analysis, has determined the functional currency for each entity of the Group.

Management concluded that the functional currency of each of the subsidiaries in Russia is the Russian Rouble, consistent with the accounting standard requirements, sector practice in Russia and management reporting in the company.

4.2. Key sources of estimation uncertainty

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 year:

- Justification of the economic useful lives of property, plant and equipment;
- Recoverability of the exploration and evaluation assets;
- Impairment of long-lived assets;
- Determination and valuation of the stripping activity asset;
- Derivative financial instruments valuation; and
- Interpretation of the tax legislation in accounting for income taxes.

4.2.1. Economic useful lives of property, plant and equipment

The Group’s fixed assets, classified within property, plant and equipment, are amortised using the straight-line method over the shorter of the estimated useful life of asset or life-of-mine based on a mine operating plan, which calls for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code. When determining the life-of-mine, assumptions that were valid at the time of estimation may change when new information becomes available. Normally, life-of-mine as per Joint Ore Reserves Committee (JORC) reports for the Company’s deposits are longer than that as per the Russian Resource Reporting Code.

The factors that could affect the judgement of the life-of-mine include the following:

- Change of estimates of proven and probable ore reserves;
- The grade of ore reserves varying significantly from time to time;
- Differences between actual commodity prices and commodity price assumptions used in the estimation of ore reserves;
- Unforeseen operational issues at mine sites; and
- Changes in capital, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of ore reserves.

Any of these changes could affect prospective amortisation of fixed assets and their carrying value. Management periodically reviews the appropriateness of the assets’ economic useful lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

4.2.2. Recoverability of exploration and evaluation assets

Management's judgement is involved in the determination of whether the expenditures which are capitalised as exploration and evaluation assets may be recouped by future exploitation or sale or should be impaired. Determining this, management estimates the possibility of finding recoverable ore reserves related to a particular area of interest. However, these estimates are subject to significant uncertainties. The Group is involved in exploration and evaluation activities and some of its licensed properties contain gold resources under the definition of the Russian Resource Reporting Code. A number of licensed properties have no mineral resource delineation. Management assumes that all licences will be renewed. Many of the factors, assumptions and variables involved in estimating resources are beyond the Group's control and may prove to be incorrect over time. Subsequent changes in gold resources estimates could impact the carrying value of exploration and evaluation assets.

4.2.3. Impairment of long-lived assets

The Group reviews the carrying amounts of its long-lived assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment indicators, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units and also in estimating the timing and value of underlying cash flows within the value-in-use calculation. The value-in-use calculations for operating mines are based on plans which include reserves calculated under the Russian Resource Reporting Code. In respect of other assets considered for impairment (for example, mines under development) the Group uses the best available reserve estimates at the time of the analysis such as JORC.

Factors which could impact the underlying cash flows include:

- Commodity prices and exchange rates;
- Timelines of granting of licences and permits;
- Capital and operating expenditure; and
- Available reserves and resources and future production profile.

Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

4.2.4. Determination and valuation of the stripping activity asset

The Group incurs stripping costs during the production phases of its surface mining operations. Significant judgement is required to distinguish between the stripping which relates to the extraction of inventory and those which relate to the creation of a stripping activity asset.

In order to perform the allocation the Group is required to identify separate components towards which the stripping costs have been incurred for the ore bodies in each of its mines. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Significant judgement is required to identify and define these components and also to determine the expected volumes of waste to be stripped and ore to be mined in each of these components. For the purposes of identification of separate components the Group uses mine operating plans, which are based on estimated proven and probable ore reserves under the Russian Resource Reporting Code.

Each discrete stage of mining, identified in the mine plans, is considered as a unit of account. If the mine plan initially identifies several discrete stages of mining which will take place consecutively (one after the another), these stages would be identified as components. These assessments are undertaken for each individual mine.

Changes to the Group's mining plan may result in changes to the definition of components and timing of depreciation of the stripping activity asset.

4.2.5. Derivative financial instruments valuation

Derivative instruments are carried at fair value and the Group evaluates the quality and reliability of the assumptions and data used to measure fair value applying the three hierarchy levels, Level 1, 2 and 3, as prescribed by IFRS 13 Fair Value Measurement.

Fair values of the *Derivative financial instruments* are determined using valuation models based on inputs, which are observable in the market (Level 2). The models incorporate various inputs including the credit quality of the Group and counterparties. Changes in inputs are not controllable by the Group and may change in future.

4.2.6. Interpretation of the tax legislation in accounting for income taxes

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the Group’s provision for income 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 will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences may 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 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 the estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

See note 10 for further details.

5. SEGMENT INFORMATION

For management purposes the Group is organised by separate business segments identified on a combination of operating activities and geographical area bases with the separate financial information available and reported regularly to the chief operating decision maker (“CODM”).

The following is a description of operations of the Group’s nine identified reportable segments and those that do not meet the quantitative reporting threshold for reporting:

- ***Olimpiada business unit*** (Krasnoyarsk region of the Russian Federation) – mining (including initial processing) and sale of gold from the Olimpiada mine, as well as research, exploration and development work at the Olimpiada deposit. Results of Titimukhta mine are included within Olimpiada business unit because extraction from the Titimukhta deposit is insignificant and Titimukhta processing facilities are now being used to process Olimpiada ore.
- ***Blagodatnoye business unit*** (Krasnoyarsk region of the Russian Federation) – mining (including initial processing) and sale of gold from the Blagodatnoye mine, as well as research, exploration and development work at the Blagodatnoye deposit.
- ***Alluvials business unit*** (renamed, previously Irkutsk alluvial business unit, Irkutsk region, Bodaibo district of the Russian Federation) – mining (including initial processing) and sale of gold from several alluvial deposits.
- ***Verninskoye business unit*** (renamed, previously Irkutsk ore business unit, Irkutsk region, Bodaibo district of the Russian Federation) – mining (including initial processing) and sale of gold from the Verninskoye mine, research, exploration and development works at the Smezhny and Medvezhy Zapadny deposits.
- ***Kuranakh business unit*** (renamed, previously Yakutia Kuranakh business unit, Sakha Republic of the Russian Federation) – mining (including initial processing) and sale of gold from the Kuranakh mines.

- ***Natalka business unit*** (renamed, previously Magadan business unit, Magadan region of the Russian Federation) – mining (including initial processing) and sale of gold from the Natalka mine, as well as research, exploration and development work at the Natalka deposit. Construction of the Omchak high-voltage power grid is not included within this segment, as it is funded by a government grant (note 19).
- ***Exploration business unit*** (Krasnoyarsk region, Irkutsk region, Amur region, and others) – research and exploration works in several regions of the Russian Federation.
- ***Capital construction unit*** - represented by LLC Polyus Stroy, JSC TaigaEnergoStroy and JSC VitimEnergoStroy, which perform construction works at Verninskoye, Olimpiada and other deposits.
- ***Sukhoi Log business unit*** (Irkutsk region of the Russian Federation) – represented by LLC SL Gold which performs exploration and evaluation works at the Sukhoi Log deposit.
- ***Unallocated*** – the Group does not allocate segment results of companies that perform management, investing activities and certain other functions. Neither standalone results nor the aggregated results of these companies are significant enough to be disclosed as operating segments because quantitative thresholds are not met.

The reportable gold production segments derive their revenue primarily from gold sales. The CODM performs an analysis of the operating results based on these separate business units and evaluates the reporting segment's results, for purposes of resource allocation, based on the measurements of:

- Gold sales;
- Ounces of gold sold, in thousands;
- Adjusted earnings before interest, tax, depreciation and amortisation and other items (Adjusted EBITDA);
- Total cash cost (TCC) per ounce of gold sold; and
- Capital expenditure.

Business segment assets and liabilities are not reviewed by the CODM and therefore are not disclosed in these consolidated financial statements.

	Gold sales	Ounces of gold sold in thousands[3]	Adjusted EBITDA	TCC (USD per ounce)[3]	Capital expenditure
For the year ended 31 December 2018					
Business units					
Olimpiada	1,561	1,289	1,135	267	182
Blagodatnoye	533	420	356	360	71
Alluvials	181	147	52	746	24
Verninskoye	284	224	180	369	45
Kuranakh	252	199	133	511	57
Natalka	65	54	11	747	228
Exploration	-	-	-	-	7
Capital construction	-	-	(5)	-	16
Sukhoi Log	-	-	-	-	23
Unallocated	-	-	3	-	83
Total	**2,876**	**2,333**	**1,865**	**348**	**736**
For the year ended 31 December 2017					
Business units					
Olimpiada	1,439	1,176	953	341	177
Blagodatnoye	585	459	414	308	49
Alluvials	186	146	54	770	26
Verninskoye	259	206	149	403	39
Kuranakh	215	171	109	534	65
Natalka	-	-	4	-	378
Exploration	-	-	-	-	5
Capital construction	-	-	(2)	-	14
Sukhoi Log	-	-	-	-	6
Unallocated	-	-	21	-	45
Total	**2,684**	**2,158**	**1,702**	**364**	**804**

[3] Unaudited

Adjusted EBITDA reconciles to the IFRS reported figures on a consolidated basis as follows:

	Year ended 31 December	
	2018	**2017**
Profit for the year	**474**	**1,241**
Income tax expense	77	290
Depreciation and amortisation (note 11)	236	178
Finance costs, net (note 8)	201	200
Equity-settled share-based plans (LTIP) (note 17)	24	25
Foreign exchange loss / (gain), net	517	(130)
Loss / (gain) on investments and revaluation of derivative financial instruments (note 9)	281	(118)
Interest income	(26)	(28)
Special charitable contributions	27	39
Impairment	54	19
Gain on disposal of property, plant and equipment	-	(14)
Adjusted EBITDA	**1,865**	**1,702**

The measurement of TCC per ounce of gold sold reconciles to the IFRS reported figures on a consolidated basis as follows:

	Year ended 31 December	
	2018	**2017**
Cost of gold sales before by-product	1,083	969
Antimony by-product sales	(48)	-
Cost of gold sales	**1,035**	**969**
Adjusted for:		
Depreciation and amortisation (note 11)	(295)	(181)
Effect of depreciation, amortisation, accrual and provisions in inventory change	73	(2)
TCC[4]	**813**	**786**
Ounces of gold sold, in thousands[4]	2,333	2,158
TCC per ounce of gold sold, USD per ounce[4]	**348**	**364**

Gold sales reported above represent revenue generated from external customers (note 26). There were no inter-segment gold sales during the years ended 31 December 2018 and 2017.

Gold sales

	Year ended 31 December	
	2018	**2017**
Refined gold	2,678	2,504
Other gold-bearing products	194	158
Realised gains on derivatives	4	22
Total	**2,876**	**2,684**

[4] Unaudited

(in millions of US Dollars)

Reconciliation of capital expenditure to the property plant and equipment additions (note 11) is presented below:

	Year ended 31 December	
	2018	**2017**
Capital expenditure	**736**	**804**
Acquisition of the Sukhoi Log	-	267
Construction of the Omchak high-voltage power grid	36	69
Stripping activity assets additions (note 11)	220	149
Less: other non-current assets additions	(50)	(24)
Property plant and equipment additions (note 11)	**942**	**1,265**

Natalka capital expenditure

	Year ended 31 December	
	2018	**2017**
Purchase of equipment and construction works	169	226
Capitalisation of borrowing costs (until 1 August 2018) (note 4)	54	93
Capitalisation of other directly attributable costs including cost of testing during the ramp-up period (until 1 August 2018) (note 4)	25	59
Capitalisation of production costs net of proceeds from gold sold during ramp-up period (until 1 August 2018) (note 4)	(20)	-
Natalka business unit capital expenditure	**228**	**378**

Capital expenditure are primarily related to the following projects:

- **Natalka:** all the planned dump trucks and excavators for mine development were delivered and assembled; reclaim water filtration and treatment building was commissioned; mobile ore crushing unit was set up as a reserve option to ensure failsafe operation of the mill's grinding circuit; ongoing construction on the key infrastructure facilities, including earthworks on the main tailing storage facility, completion of foundation pouring and commencement of tanks installation on the fuel warehouse; assay lab construction was completed.
- **Olimpiada:** all the key BIO-4 facilities were commissioned; expansion of the mills' throughput to 13.4 mln tonnes p.a. is ongoing; full delivery of large-capacity dump trucks for the Vostochny pit has been completed.
- **Blagodatnoye:** flash flotation was commissioned; ongoing works of the mill's throughput expansion to 9 mln tonnes p.a.
- **Kuranakh:** stabilization of mill production at 5 mln tonnes p.a.; further mill's throughput expansion to 5.8 mln tonnes p.a.; annual ore stacking reached design parameters (1.5 mln tonnes p.a.) under the heapleaching project.
- **Verninskoye:** the mill's expansion to 2.9 mln tonnes p.a. was completed. The feasibility study of further mill expansion was updated and pre-approved.

The Group's non-current assets are located in the Russian Federation.

(in millions of US Dollars)

6. COST OF GOLD SALES

	Year ended 31 December	
	2018	**2017**
Labour	285	264
Consumables and spares	254	223
Depreciation and amortisation of operating assets (note 11)	295	181
Tax on mining	161	148
Fuel	98	74
Power	42	31
Other	39	71
Total cost of production	**1,174**	**992**
Increase in stockpiles, gold-in-process and refined gold inventories	(139)	(23)
Total	**1,035**	**969**

Other cost of gold sales in 2018 is net of USD 48 million credit representing revenue from sales of antimony (by-product) contained in the gold-antimony flotation concentrate produced (2017: nil).

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2018	**2017**
Salaries	148	143
Distribution expenses related to gold-bearing products	20	12
Taxes other than mining and income taxes	18	11
Depreciation and amortisation (note 11)	11	7
Professional services	10	14
Other	29	24
Total	**236**	**211**

8. FINANCE COSTS, NET

	Year ended 31 December	
	2018	**2017**
Interest on borrowings	267	317
Gain on an early redemption of financial liabilities (note 18)	(5)	-
Unwinding of discounts	15	11
Gain on exchange of interest payments under cross currency swaps	(34)	(40)
Gain on exchange of interest payments under interest rate swaps	(2)	(2)
Bank commission and write-off of unamortised debt cost due to early extinguishment and modification of the debt	13	17
Sub-total finance cost, net	**254**	**303**
Interest included in the cost of qualifying assets	(53)	(103)
Total	**201**	**200**

(in millions of US Dollars)

9. (LOSS) / GAIN ON INVESTMENTS AND REVALUATION OF DERIVATIVE FINANCIAL INSTRUMENTS, NET

	Year ended 31 December	
	2018	**2017**
Revaluation (loss) / gain on cross currency swaps	(326)	94
Revaluation gain / (loss) on revenue stabiliser	31	(38)
Revaluation loss on interest rate swap	(1)	(3)
Revaluation gain on conversion option (note 18)	15	-
Gain on disposal of joint venture	-	92
Revaluation loss on ineffective part of the revenue stabiliser under Tranches 1 and 2 during cash flow hedge period	-	(27)
Total	**(281)**	**118**

10. INCOME TAX EXPENSE

	Year ended 31 December	
	2018	**2017**
Current tax expense	127	242
Deferred tax		
Origination and reversal of temporary differences	42	39
Deferred tax released from other comprehensive income	-	4
Effect of the revision of income tax rate (see below)	(92)	5
	(50)	**48**
Total	**77**	**290**

The corporate income tax rate in the Russian Federation is 20% (17% regional part and 3% federal part).

The taxpayers in Russia have a right to apply reduced rates on tax on mining and income tax if they implement a regional investment program in certain regions and meeting certain criteria (thereafter "RInvP").

The Tax Code provides for a right of each specified region of the Russian Federation to reduce the regional component of the income tax rate, to as low as zero percent. Unless the region adopts the rate reduction, the standard rate for regional portion of tax continues to apply: 17% until 2024; and 18% thereafter.

JSC Polyus Verninskoye RInvP (Verninskoye business unit)

JSC Polyus Verninskoye, a 100% subsidiary of JSC Polyus Krasnoyarsk operating in the Irkutsk region of the Russian Federation, applies the following RInvP rates:

- Tax on mining: 0% for 2017-2018 increasing by 1.2% every two years thereafter to 6% by 2027. Amount of tax savings should not exceed the amount of investments in RInvP declared as RUB 5.4 billion (USD 77 million);
- Corporate income tax: 17% for 2017-2024; 18% for 2025-2026; and the standard 20% rate thereafter.

(in millions of US Dollars)

JSC Polyus Magadan RInvP (Natalka business unit)

Since May 2018, JSC Polyus Magadan has been included in the register of the participants of regional investment projects (RInvP) of the Magadan region. As a result, the subsidiary has been granted a right to apply reduced tax rates of corporate income tax and tax on mining for 10 years commencing from the first tax period in which a taxable income from gold sales is recognised. Additional exemption for the tax on mining is available in the intervening period.

As the Group expects to have the first taxable income from Natalka mine in 2019, JSC Polyus Magadan expects to apply the reduced tax rates as follows:

- Tax on mining: 0% for 2018-2020 increasing by 1.2% every two years thereafter to 6% by 2029. Amount of tax savings should not exceed the amount of investments in RInvP declared as RUB 94.8 billion (USD 1,364 million);
- Corporate income tax: 0% for 2019-2023; 10% for 2024-2028; and the standard 20% rate thereafter.

As a result of the JSC Polyus Magadan RInvP, deferred tax assets and liabilities were recalculated by applying the expected income tax rates. At 31 December 2018, the resulting difference amounted to USD 88 million and was immediately recognised in the consolidated financial statements.

A reconciliation of Russian Federation statutory income tax, the location of the Group's major production entities and operations, to the income tax expense recorded in the consolidated statement of profit or loss is as follows:

	Year ended 31 December	
	2018	**2017**
Profit before income tax	551	1,531
Income tax at statutory rate applicable to principal entities (20%)	**110**	**306**
Effect of the RInvP (JSC Polyus Magadan and JSC Polyus Verninskoye)	(92)	5
Unrecognised deductible temporary differences on revaluation of derivatives, and deferred tax on cash flow hedges reclassified to consolidated statement of profit or loss	53	(14)
Tax effect of non-deductible expenses and other permanent differences	5	11
Non-taxable income on disposals of subsidiary	-	(18)
Income tax effect of impairment reversals	1	-
Income tax expense	**77**	**290**

(in millions of US Dollars)

11. PROPERTY, PLANT AND EQUIPMENT

	Fixed assets	Mine under development	Stripping activity assets	Capital construction in progress	Exploration and evaluation assets	Total
Cost						
Balance at 31 December 2016	**1,703**	**1,370**	**353**	**301**	**306**	**4,033**
Additions	-	447	149	386	283	**1,265**
Transfers	287	(17)	-	(267)	(3)	**-**
Change in site restoration, decommissioning and environmental obligations	10	-	-	-	-	**10**
Disposals	(24)	(3)	-	(3)	(16)	**(46)**
Reclassified as held for sale	(53)	-	-	(97)	-	**(150)**
Effect of translation to presentation currency	91	79	20	15	22	**227**
Balance at 31 December 2017	**2,014**	**1,876**	**522**	**335**	**592**	**5,339**
Additions	-	190	220	488	44	**942**
Transfers	460	-	-	(460)	-	**-**
Change in site restoration, decommissioning and environmental obligations	3	-	-	-	-	**3**
Disposals	(44)	(18)	(26)	(2)	-	**(90)**
Natalka mine commissioning	1,484	(1,819)	-	334	1	**-**
Reclassification to inventory	-	(78)	-	-	-	**(78)**
Gross up of accumulated depreciation	89	-	-	-	-	**89**
Effect of translation to presentation currency	(539)	(151)	(105)	(95)	(105)	**(995)**
Balance at 31 December 2018	**3,467**	**-**	**611**	**600**	**532**	**5,210**
Accumulated amortisation, depreciation and impairment						
Balance at 31 December 2016	**(938)**	**(7)**	**(99)**	**(8)**	**(43)**	**(1,095)**
Charge	(160)	-	(52)	-	-	**(212)**
Disposals	23	-	-	3	16	**42**
Impairment	-	(6)	-	(5)	(3)	**(14)**
Reclassified as held for sale	5	-	-	-	-	**5**
Effect of translation to presentation currency	(50)	-	(7)	(1)	(2)	**(60)**
Balance at 31 December 2017	**(1,120)**	**(13)**	**(158)**	**(11)**	**(32)**	**(1,334)**
Charge	(241)	-	(123)	-	-	**(364)**
Disposals	42	18	26	-	-	**86**
Impairment	-	(49)	-	(4)	(1)	**(54)**
Natalka mine commissioning (reclassification of accumulated impairment)	-	40	-	(40)	-	**-**
Reclassification to inventory provision	-	4	-	-	-	**4**
Gross up of accumulated depreciation	(89)	-	-	-	-	**(89)**
Effect of translation to presentation currency	216	-	33	6	6	**261**
Balance at 31 December 2018	**(1,192)**	**-**	**(222)**	**(49)**	**(27)**	**(1,490)**
Net book value at						
31 December 2017	**894**	**1,863**	**364**	**324**	**560**	**4,005**
31 December 2018	**2,275**	**-**	**389**	**551**	**505**	**3,720**

(in millions of US Dollars)

Commissioning of the Natalka mine

Following the commissioning of the Natalka mine at 1 August 2018 (note 4) previously accumulated balances in the *Mine under development* were transferred into *Fixed assets, Capital construction in progress, Inventory and Exploration and evaluation assets.*

Balances related to auxiliary infrastructure facilities which are to be completed and put into operation at later stages were transferred to *Capital construction in progress* in the net amount of USD 294 million.

Materials which will be involved in the gold production cycle, rather than will be used in construction activities were reclassified into *Inventory* in the net amount of USD 74 million.

Following the commissioning of the Natalka mine the Group reviewed the utilisation of the equipment, which resulted in an impairment of USD 49 million.

Accumulated depreciation related to individual fixed assets which had been involved in the construction of Natalka mine was presented net within the *Mine under development cost*. Starting from 1 August 2018, it is presented separately after reclassification of USD 89 million from *Mine under development cost* into *Accumulated depreciation* (2017: USD 102 million). Depreciation charge on assets which were used in construction and ramp-up before the date of commissioning were USD 13 million for 2018 (2017: USD 18 million).

Mineral rights

The carrying values of mineral rights included in fixed assets, mine under development and exploration and evaluation assets were as follows:

	31 December	
	2018	**2017**
Mineral rights presented within:		
- fixed assets	67	48
- mine under development	-	36
- exploration and evaluation assets	370	445
Total	**437**	**529**

Exploration and evaluation assets

The carrying values of exploration and evaluation assets are as follows:

	31 December	
	2018	**2017**
Sukhoi Log	377	430
Chertovo Koryto	26	30
Razdolinskoye	24	28
Bamsky	15	18
Panimba	16	17
Olimpiada	12	8
Smezhny	9	10
Burgakhchan area	9	7
Blagodatnoye	7	8
Natalka	7	-
Medvezhy Zapadny	2	2
Other	1	2
Total	**505**	**560**

(in millions of US Dollars)

Amounts related to Sukhoi Log license were capitalised as follows:

Balance at 31 December 2017	**430**
Additions	23
Effect of translation to presentation currency	(76)
Balance at 31 December 2018	**377**

Depreciation and amortisation

Depreciation and amortisation charges are allocated as follows:

	Year ended 31 December	
	2018	**2017**
Cost of gold sales	221	169
Depreciation in change in inventory	74	12
Depreciation and amortisation within cost of production (note 6)	**295**	**181**
Capitalised within property, plant and equipment	68	27
Selling, general and administrative expenses (note 7)	11	7
Cost of other sales	4	2
Total depreciation and amortisation	**378**	**217**
Less: amortisation of other non-current assets	(14)	(5)
Total depreciation of property, plant and equipment	**364**	**212**

Capitalised borrowing costs

Included in the cost of qualifying assets within *Property, plant and equipment* are capitalised borrowing costs consisting of the following:

	Year ended 31 December	
	2018	**2017**
Interest expenses	53	99
Foreign exchange loss, net	2	1
Interest income on bank deposits	(1)	(3)
Total	**54**	**97**

(in millions of US Dollars)

12. DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS

	31 December	
	2018	**2017**
Non-current derivative financial assets and investments		
Cross currency swaps	1	32
Interest rate swaps	5	6
Total non-current derivative financial assets and investments	**6**	**38**
Current derivative financial assets and investments		
Cross currency swaps	1	-
Total current derivative financial assets and investments	**1**	**-**
Total derivative financial assets and investments	**7**	**38**
Non-current derivative financial liabilities		
Cross currency swaps	96	383
Revenue stabiliser	16	64
Conversion option on convertible bonds (note 18)	4	-
Interest rate swaps	2	1
Total non-current derivative financial liabilities	**118**	**448**
Current derivative financial liabilities		
Cross currency swaps	500	-
Revenue stabiliser	10	-
Total current derivative financial liabilities	**510**	**-**
Total derivative financial liabilities	**628**	**448**

Revenue stabiliser

The revenue stabiliser represents a series of zero cost Asian barrier collar agreements to purchase put options and sell call options with "knock-out" and "knock-in" barriers.

The Group entered into revenue stabiliser agreements in 2014-2016. In 2015, the Group restructured several revenue stabiliser agreements, resulting in a partial close out of the fourth year options and lowering barriers on the remaining options for the first three years of each instrument.

The revenue stabiliser options are exercised quarterly and accounted at fair value through profit and loss. The change in their fair value is presented in the note 9 within the line *Revaluation gain / loss on revenue stabiliser*.

As of 31 December 2018, remaining volume has the following summarised terms:

	From 1 January 2019 to 31 December 2020	
	Put options	**Call options**
Volume, thousand ounces	1,165	1,240
Average strike, USD per ounce	985	1,395
Average knock-in/out barrier, USD per ounce	928	1,587

Initially, the revenue stabiliser agreements are recognised at fair value using a Monte Carlo simulation model. Input data used in the valuation model (spot gold prices and gold price volatility) corresponds to Level 2 of the fair value hierarchy in IFRS 13.

Cross currency swaps

In August 2018 the Group entered into new cross currency swaps with leading Russian banks to economically hedge interest payments and principal amounts nominated in RUB. As a result of the new and previously existing swaps the following terms were in place as of 31 December 2018:

- The Group quarterly pays to the banks 3.94% in USD and receives from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group exchanges principal amounts paying USD 808 million and receiving RUB 28,443 million;
- The Group quarterly pays to the banks 3.98% in USD and receives from the banks 10.35% in RUB; and at maturity (9 April 2019) the Group exchanges principal amounts paying USD 215 million and receiving RUB 7,556 million;
- The Group semi-annually pays to the banks LIBOR + 4.45% for RUB 10 billion and 5.9% for RUB 5.3 billion in USD and receive from the banks 12.1% in RUB; and at maturity (July 2021) the Group will exchange principal amounts paying USD 255 million and receiving RUB 15.3 billion;
- At 9 April 2019 the Group exchanges principal amounts paying RUB 64,801 million and receiving USD 965 million. The Group starting from 9 July 2019 will quarterly pay to the banks 5.00% (weighted average) in USD and receive from the banks 8.16% in RUB; and at maturity (9 April 2024) the Group exchanges principal amounts paying USD 965 million and receiving RUB 64,801 million.

The Group accounted for the cross currency swaps at fair value through profit or loss. Changes in the fair value of the cross currency swaps are recognised within the *Gain / (loss) on investments and revaluation on derivative financial instruments* of the consolidated statement of profit or loss (note 9). The gain or loss on the exchange of interest payments is recognised within the *Finance cost, net* (note 8).

The fair value measurement is determined using a discounted cash flow valuation technique and is based on inputs (spot and forward currency exchange rates, USD LIBOR and RUB interest rates), which are observable in the market and are classified as Level 2 in accordance with the hierarchy of fair value.

Interest rate swaps

As of 31 December 2018, the Group was a party to interest rate swap agreements, concluded in 2014 and 2016 according to which:

- The Group pays semi-annually until 29 April 2020 LIBOR + 3.55% in USD and receives 5.625% in USD in respect of a USD 750 million nominal amount;
- The Group pays semi-annually until 29 April 2020 5.342% in USD and receives LIBOR + 3.55% in USD in respect of a USD 750 million nominal amount, to effectively swap variable interest rate payments under 2014 interest rate swaps into fixed ones.

The purpose of these swaps was to decrease the effective interest rate for the USD 750 million Eurobonds.

The Group accounts for the interest rate swap at fair value through profit or loss. Changes in the fair value of the interest rate swaps are recognised within the *Gain / (loss) on investments and revaluation on derivative financial instruments* of the consolidated statement of profit or loss (note 9). The gain or loss on the exchange of interest payments is recognised within the *Finance cost* (note 8).

The fair value measurement is determined using a discounted cash flow valuation technique and is based on inputs (forward USD LIBOR rates), which are observable in the market and are classified as Level 2 in accordance with the hierarchy of fair value.

The fair value of derivative financial instruments includes an adjustment for credit risk in accordance with IFRS 13. The adjustment is calculated based on the expected exposure. For positive expected exposures, credit risk is based on the observed credit default swap spreads for each particular counterparty or, if they are unavailable, for equivalent peers of the counterparty. For negative expected exposures, the credit risk is based on the observed credit default swap spread of the Group's peer.

(in millions of US Dollars)

13. INVENTORIES

	31 December 2018	31 December 2017
Stockpiles	265	287
Gold-in-process	12	13
Inventories expected to be used after 12 months	**277**	**300**
Stockpiles	112	70
Gold-in-process	85	54
Antimony in gold-antimony flotation concentrate	15	-
Refined gold and gold in flotation concentrate	13	22
Stores and materials	348	304
Less: obsolescence provision for stores and materials	(16)	(15)
Inventories expected to be used in the next 12 months	**557**	**435**
Total	**834**	**735**

14. TRADE AND OTHER RECEIVABLES

	31 December 2018	31 December 2017
Trade receivables for gold-bearing products at FVTPL (Level 2)	57	51
Other receivables	46	56
Less: allowance for other receivables	(9)	(6)
Total	**94**	**101**

15. TAXES RECEIVABLE

	31 December 2018	31 December 2017
Reimbursable value added tax	90	105
Income tax prepaid	74	7
Other prepaid taxes	2	2
Total	**166**	**114**

16. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Bank deposits		
- USD	661	914
- RUB	54	30
Current bank accounts		
- USD	101	136
- RUB	33	55
Cash in the Federal Treasury (note 19)	45	69
Other cash equivalents	2	-
Total	**896**	**1,204**

(in millions of US Dollars)

Bank deposits within *Cash and cash equivalents* include deposits with original maturity less than three months or repayable on demand without loss on principal and accrued interest denominated in RUB and USD and accrue interest at the following rates:

Interest rates on bank deposits denominated in:		
- USD	0.6-4.4%	1.2-2.6%
- RUB	5.5-7.5%	4.0-7.8%

17. SHARE CAPITAL

Authorised, issued and fully paid share capital of the Company as of 31 December 2018 comprised 133,561 thousand ordinary shares at par value of RUB 1.

Equity-settled share-based payment plans (long-term incentive plan)

In 2016, the Board of Directors of PJSC Polyus approved a long-term incentive plan (LTIP) according to which the members of top management of the Group are entitled to a conditional award in the form of PJSC Polyus' ordinary shares which vest upon achievement of financial and non-financial performance targets.

The LTIP 2016 stipulated three rolling performance periods: 2016-2017, 2016-2018 and 2017-2019. During 2018 the first tranche of the LTIP 2016 vested and the Group issued 415 thousand shares from the treasury stock of USD 22 million.

In December 2018, the Board of Directors of PJSC Polyus approved three new rolling periods: 2018-2020, 2019-2021, 2020-2022; and extended the number of LTIP participants for such new periods.

Total expense for the year 2018 arising from the LTIP was recognised in the consolidated statement of profit or loss within *Salaries* included within *Selling, general and administrative expenses* in the amount of USD 24 million (2017: USD 25 million).

Dividends

As of 31 May 2018 the Company declared dividends for the second half of the 2017 financial year of 147.12 RUR per 1 share in the total amount of USD 311 million.

As of 28 September 2018 the Company declared dividends for the first half of the 2018 financial year of 131.11 RUR per 1 share in the total amount of USD 264 million. Thus the total amount of dividends declared during 2018 was USD 575 million.

Weighted average number of ordinary shares

The weighted average number of ordinary shares (presented in thousands in the table below) used in the calculation of basic and diluted earnings per share ("EPS") is presented below (thousands of shares):

	Year ended 31 December	
	2018	**2017**
Ordinary shares in issue at the beginning of the year	**131,924**	**125,632**
Treasury shares issued for LTIP	415	-
Repurchase of treasury shares	-	(14)
Shares issued during the Offering	-	6,016
Purchase of additional ownership in SL Gold through issuance of treasury shares	-	290
Ordinary shares in issue at the end of the year	**132,339**	**131,924**
Weighted average number of ordinary shares – basic EPS	**132,251**	**128,622**
Convertible bonds (note 18)	2,134	-
LTIP	360	589
Potential Shares to be issued upon increase in Gold ownership interest (note 20)	-	512
Weighted average number of ordinary shares – dilutive EPS	**134,745**	**129,723**
Profit after tax attributable to the shareholders of the Company (million USD)	456	1,240
Effect of potential dilution (million USD)	(11)	6
Profit after tax attributable to the shareholders of the Company for diluted EPS calculation (million USD)	**445**	**1,246**

18. BORROWINGS

	Nominal rate %	31 December	
		2018	**2017**
USD 750 million Eurobonds with fixed interest rate due in 2020	5.625%	675	745
USD 500 million Eurobonds with fixed interest rate due in 2022	4.699%	479	495
USD 800 million Eurobonds with fixed interest rate due in 2023	5.250%	782	793
USD 500 million Eurobonds with fixed interest rate due in 2024	4.7%	468	-
USD 250 million convertible bonds with fixed interest rate due in 2021	1%	186	-
Notes due in 2025 (Rusbonds) with noteholders' early repayment option in 2021	12.1%	218	265
Credit facilities with financial institutions nominated in USD with fixed interest rates	4.1%-5.7%	620	67
Credit facilities with financial institutions nominated in RUR with fixed interest rates	10.35%	481	577
Credit facilities with financial institutions nominated in RUR with variable interest rates	Central bank rate + 2.3%	63	86
Lease liabilities nominated in USD and RUR with fixed interest rates	5.1%-8.5%	10	13
Credit facilities with financial institutions nominated in USD with variable interest rates	USD LIBOR + 4.5%	-	1,240
Sub-total		**3,982**	**4,281**
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(7)	(12)
Long-term borrowings		**3,975**	**4,269**

The Company and subsidiaries of the Group obtain credit facilities from different financial institutions and issue notes to finance capital investment projects and for general corporate purposes.

Credit facilities with financial institutions nominated in RUR with fixed interest rates

In August 2018, the Group signed an additional agreement to the original credit facility agreement dated back to 2014, for a credit line facility with a financial institution in a total amount of RUB 65 billion (USD 936 million) due in 2024 to refinance existing credit line facility of RUB 36 billion (of which RUB 33.8 billion were drawn down) due in 2019. The new interest rate is set at 8.16% starting from 10 April 2019. This was treated as a substantial debt modification and resulted in a loss of USD 2 million and was recognised in *Bank commission and write-off of unamortised debt cost due to early extinguishment of the debt* within *Finance cost*. The facility is available for drawdown from 8 to 17 April 2019.

Credit facilities with financial institutions nominated in USD with fixed interest rates

In January 2018, in accordance with the original terms of the credit agreements, the interest rate was changed from variable to fixed for the USD 1,240 million credit facility of which USD 1 billion was subsequently repaid, see below.

During 2018, the Group borrowed USD 375 million in total, under several new credit facilities maturing in 2023.

Issue of USD 500 million Eurobonds

In January 2018, the Group issued USD 500 million Notes due in 2024 that have a coupon of 4.7% per annum payable on a semi-annual basis in arrears.

Issue of USD 250 million convertible bonds

In January 2018, the Group issued USD 250 million of convertible bonds due in 2021 that have a fixed coupon of 1.0% per annum payable on a semi-annual basis in arrears. The bonds could be converted by the bondholders into the Group's GDSs listed on the London Stock Exchange at a conversion price of USD 50.0427 per GDS representing a 30% premium to the market price at the time of issue, but subject to standard adjustments for the issue by the Group of dilutive equity instruments and payment of dividends, starting from 8 March 2018 and until 7 days before maturity. Upon request for conversion, the Group has a right to settle in cash. The Group will have an option to redeem all of the bonds in issue at any time after 16 February 2020 at their principal amount together with accrued interest, if the value of the GDSs deliverable on conversion exceeds 130% of the principal amount of the bonds.

As at 31 December 2018, the fair value of conversion option of USD 4 million was determined with the reference to the Polyus credit spread, risk-free interest rate and share price volatility (Level 2 of the fair value hierarchy) as disclosed in note 12 under the heading of *Conversion option on convertible bonds*. The result of change in the fair value of the conversion option for the period is disclosed in note 9 under heading of *Revaluation gain / (loss) on conversion option*.

Convertible bonds buy back

In April 2018, due to significant market dislocation, the Group proceeded with a buyback of 20% of the outstanding convertible bonds issue in the total nominal amount of USD 50 million. The final buyback price stood at 86.7%, expressed as a percentage of the principal amount of the convertible bond resulting in a gain of USD 2 million recorded within the line *Gain on an early redemption of financial liabilities* (note 8).

Repayment of debt

The proceeds from the issuance of USD 500 million Eurobonds and USD 250 million convertible bonds were mainly used for partial early repayment on 9 February 2018 of USD 1 billion of the credit facility with a financial institution nominated in USD with fixed interest rates (the remaining USD 250 million came from own funds).

(in millions of US Dollars)

In addition, the Group made an early repayment of certain fixed rate credit facilities with financial institutions for a total amount of USD 68 million.

Eurobonds buy back

In September 2018 the Group bought back USD 132 million of Eurobonds across all the series, with the resulting gain of USD 3 million recorded within the line *Gain on an early redemption of financial liabilities* (note 8).

Unused credit facilities

As of 31 December 2018, the Group has unused credit facilities in the total amount of USD 1,299 million.

Pledge

As at 31 December 2018 and 2017, all shares of JSC TaigaEnergoStroy belonging to the Group were pledged to secure a credit line.

Other matters

There were a number of financial covenants under several loan agreements in effect as of 31 December 2018 according to which the respective subsidiaries of the Company and the Company itself are limited in its level of leverage and other financial and non-financial parameters.

The Group tests covenants quarterly and was in compliance with the covenants as of 31 December 2018.

Fair value measurements

Except as detailed in the following table, the Group consider that the carrying amounts of financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair value due to the short-term nature of liabilities.

	31 December 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Eurobonds (Level 1)	2,404	2,368	2,033	2,140
Borrowings (Level 2)	1,174	1,151	1,983	1,977
Rusbonds (Level 1)	218	232	265	298
Convertible bonds (Level 2)	186	188	-	-
Total	**3,982**	**3,939**	**4,281**	**4,415**

Whilst accounted for at amortised cost, the fair value measurement of all of the Group’s borrowings except for the Eurobonds and Rusbonds is within Level 2 of the fair value hierarchy in accordance with IFRS 13. The fair value of the Eurobonds and Rusbonds is within Level 1 of the fair value hierarchy, because the Eurobonds and Rusbonds are publicly traded in an active market.

The fair value measurement of borrowings and convertible bonds is based on observable market inputs: spot currency exchange rates, forward USD LIBOR and RUB interest rates, the company’s own credit risk and quoted price of the convertible bonds.

(in millions of US Dollars)

Reconciliation of liabilities arising from financing activities

			Non-cash changes				
	31 December 2017	Cash-flows	Foreign exchange gain / (loss), net	Effect of currency translation	Amortisation at effective interest rate	Other	31 December 2018
Borrowings	4,268	(135)	594	(754)	21	(22)	3,972
Finance lease	13	(3)	2	(2)	-	-	10
Total liabilities from financing activities	**4,281**	**(138)**	**596**	**(756)**	**21**	**(22)**	**3,982**

19. DEFERRED REVENUE

As of 31 December 2018, JSC Polyus Magadan, was a party of the agreement with the Ministry for the Development of the Russian Far East ("Minvostokrazvitiya") under which Minvostokrazvitiya was to provide to JSC Polyus Magadan a government grant in the total amount RUB 8,757 million (USD 127 million, including VAT).

Under the agreement the grant must be used for the construction of electricity transmission line, distribution point and electric power substation (Omchak high-voltage power grid). The construction is expected to be completed in 2019. Any unutilised balance of the grant will have to be returned to Minvostokrazvitiya. JSC Polyus Krasnoyarsk is a guarantor under the agreement.

During the year ended 31 December 2018 the Group received tranche in the amount USD 13 million (RUB 880 million) and therefore the amount to be received in 2019 is USD 2 million (RUB 158 million).

The movement in the carrying value of deferred revenue, associated with government grant was as follows:

Carrying value as of 31 December 2017	**132**
Received cash	13
VAT attributable to construction of the Omchak high-voltage power grid	(5)
Effect of translation to presentation currency	(23)
Carrying value as of 31 December 2018	**117**

20. DEFERRED CONSIDERATION

As of 31 December 2018, the Group has a 58.4% interest in SL Gold and has two sets of call and put option agreements with RT, a wholly owned subsidiary of Rostec. Under these option agreements the Group increased its ownership interest in SL Gold from 51% to 58.4% during 2017 and is expected to increase it to 100% by 2022 with a right to accelerate.

Under the First set of options the consideration is equal to a fixed US Dollar amount and shall be payable in cash at following dates with a right to accelerate:

- Approximately USD 21 million for 3.6% of participation interest in the first half of 2017 (exercised on 25 May 2017);
- Approximately USD 28 million for 4.8% of participation interest at the beginning of 2019;
- Approximately USD 28 million for 4.8% of participation interest at the beginning of 2020;
- Approximately USD 28 million for 4.8% of participation interest at the beginning of 2021; and
- Approximately USD 34 million for 5.9% of participation interest at the beginning of 2022.

(in millions of US Dollars)

Under the Second set of options (payable in Polyus shares) the consideration is equal to a fixed US Dollar amount and shall be payable by a variable number of the Company's shares with a right to accelerate:

- Approximately USD 22 million for 3.8% of participation interest in the second half of 2017 (exercised on 14 July 2017);
- Approximately USD 29 million for 5.0% of participation interest at the beginning of 2019;
- Approximately USD 29 million for 5.0% of participation interest at the beginning of 2020;
- Approximately USD 29 million for 5.0% of participation interest at the beginning of 2021; and
- Approximately USD 37 million for 6.3% of participation interest at the beginning of 2022.

The movement in the carrying value of share option liabilities was as follows:

Carrying value at 31 December 2017	**216**
Unwinding of interest on deferred consideration	9
Foreign exchange gain, net	41
Effect of translation to presentation currency	(41)
Total carrying value at 31 December 2018	**225**
Less: short-term part of the option liabilities	(57)
Long-term part of the option liabilities as at 31 December 2018	**168**

The fair value measurement on the date of initial recognition is based on inputs (spot currency exchange rates and discount rates), which are observable in the market and are classified as Level 2 in accordance with the hierarchy of fair value measurements. As of 31 December 2018, the fair value of the *Deferred consideration* approximately equals USD 222 million (2017: USD 219 million).

21. DEFERRED TAX ASSETS AND LIABILITIES

The movement in the Group's deferred taxation position was as follows:

	Year ended 31 December	
	2018	**2017**
Net deferred tax liability at beginning of the year	**157**	**107**
Recognised in the consolidated statement of profit or loss	(50)	48
Recognised in other comprehensive income	-	(3)
Recognised in equity	1	(1)
Effect of translation to presentation currency	(21)	6
Net deferred tax liability at end of the year	**87**	**157**

Deferred taxation is attributable to tax losses carried-forward and 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 balances of recognised deferred tax assets and liabilities were as follows:

	31 December	
	2018	**2017**
Property, plant and equipment	280	310
Inventory	68	71
Borrowings	6	8
Deferred expenditure	2	3
Tax losses carried-forward	(250)	(222)
Trade and other payables	(18)	(12)
Other	(1)	(1)
Net deferred tax liability	**87**	**157**

(in millions of US Dollars)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) as they are presented in the consolidated statement of financial position:

	31 December	
	2018	**2017**
Deferred tax assets	(120)	(60)
Deferred tax liabilities	207	217
Net deferred tax liability	**87**	**157**

Unrecognised deferred tax asset

	31 December	
	2018	**2017**
Unrecognised deferred tax asset resulting from losses on derivative financial instruments	156	125
Unrecognised deferred tax assets resulted from impairments	5	8
Unrecognised deferred tax asset in respect of tax losses carried forward available for offset against future taxable profit	8	11
Total	**169**	**144**

Unrecognised deferred tax liability

	31 December	
	2018	**2017**
Taxable temporary difference associated with investments in subsidiaries	148	134

Deferred tax liability for the taxable temporary difference associated with investments in subsidiaries is not recognised because the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group does not recognise deferred tax assets for some of its tax losses if it is more likely than not that the future taxable profits will not be available to offset them in certain Group entities.

22. TRADE AND OTHER PAYABLES

	31 December	
	2018	**2017**
Wages and salaries payable	78	93
Interest payable	66	69
Trade payables	52	36
Accrued annual leave	21	27
Dividends payable	2	2
Other accounts payable and accrued expenses	70	91
Total	**289**	**318**

The average credit period for trade payables at 31 December 2018 was 44 days (31 December 2017: 32 days). No interest was 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 payments schedules to ensure that all amounts payable are settled within the credit period.

(in millions of US Dollars)

23. TAXES PAYABLE

	31 December	
	2018	**2017**
Social taxes	14	8
Tax on mining	12	15
Value added tax	12	45
Property tax	5	2
Income tax payable	4	13
Other taxes	9	4
Total	**56**	**87**

24. RELATED PARTIES

Related parties include substantial shareholders, entities under common ownership and control within the Group and members of key management.

Immediate shareholder

The Group did not have any balances in respect of transactions with its parent entity at 31 December 2018.

The Group's transactions with its parent entity were as follows:

	Year ended 31 December	
	2018	**2017**
Interest expense	-	19
Interest capitalised	-	16
Transfer of PGIL Notes	-	2,050
Proceeds from borrowings	-	800
Repayment of borrowing and interest accrued	-	46
Commission paid	-	9

Key management personnel

	Year ended 31 December	
	2018	**2017**
Short-term compensation paid to key management personnel accrued	25	22
Equity-settled share-based payments plans (LTIP)	25	31
Total	**50**	**53**

25. COMMITMENTS AND CONTINGENCIES

Commitments

Capital commitments

The Group's contracted capital expenditure commitments are as follows:

	31 December	
	2018	**2017**
Project Natalka	44	75
Project Omchak high-voltage power grid	15	59
Projects in Krasnoyarsk	78	92
Other capital commitments	10	18
Total	**147**	**244**

(in millions of US Dollars)

Operating lease commitments: Group as a lessee

The land in the Russian Federation 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 2065. In addition, companies of the Group rent real estate premises (offices mainly) vehicles and equipment necessary for operational activities. Future minimum lease payments due under non-cancellable operating lease agreements at the end of the year were as follows:

	31 December	
	2018	**2017**
Due within one year	11	10
From one to five years	39	38
Thereafter	80	83
Total	**130**	**131**

Contingencies

Litigations

In the ordinary course of business, the Group is subject to litigation in a number of jurisdictions, the outcome of which is uncertain and could give rise to adverse outcomes. At the date of issuance of these consolidated financial statements there were no material claims and litigation applicable to the Group.

Taxation contingencies in the Russian Federation

Laws and regulation affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant. With regards to matters where practice concerning payment of taxes is unclear, management estimates that there were no significant tax exposures as of 31 December 2018 for which no liability is recognised.

Environmental matters

The Group is subject to extensive federal and local environmental controls and regulations in the regions in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment, disturbance of land that could potentially impact on flora and fauna, and give rise to other environmental concerns. The Group's management believes that its mining and production technologies are in compliance with existing Russian environmental legislation.

However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group changes its technology to meet more stringent standards.

The Group is obliged under the terms of various laws, mining licences and 'use of mineral rights' agreements to decommission mine facilities on cessation of its mining operations and to restore and rehabilitate the environment. Management of the Group regularly reassesses site restoration, decommissioning and environmental obligations for its operations. Estimations are based on management's understanding of the current legal requirements and the terms of the licence agreements. Should the requirements of applicable environmental legislation change or be clarified, the Group may incur additional site restoration, decommissioning and environmental obligations.

Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

26. FINANCIAL INSTRUMENTS RISK MANAGEMENT ACTIVITIES

Capital risk management

The primary objective of managing the Group's capital is to ensure that there is sufficient capital available to support the funding requirements of the Group, including capital expenditure, in a way that optimises the cost of capital, maximizes shareholders' returns and ensures that the Group remains in a sound financial position.

The Group manages and makes adjustments to the capital structure as opportunities arise in the market place, as and when borrowings mature, or as and when funding is required. This may take the form of raising equity, market or bank debt or hybrids thereof. The level of dividends is monitored by the Board of Directors of the Group in accordance with the Dividend policy of the Group.

In the capital management process the group utilizes various financial metrics including the ratio of Group Net Indebtedness to Adjusted EBITDA ("Group Leverage Ratio"). The Group takes into account that Group Leverage Ratio should not exceed 3.5 times as per the Terms and Conditions of the Notes (Eurobonds).

"Group Net Indebtedness" is defined in the Terms and Conditions of the Notes (Eurobonds) as all consolidated Indebtedness less cash and cash equivalents, as shown on the Consolidated Financial Statements of the Group. Indebtedness is defined as the sum of any moneys borrowed, any principal amount raised by acceptance under any acceptance credit facility, any principal amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument, any principal amount raised under any other transaction having the economic or commercial effect of a borrowing and the amount of any liability in respect of the guarantee or indemnity.

There were no changes in the Group's approach to capital management during the year.

(in millions of US Dollars)

Major categories of financial instruments

The Group’s principal financial liabilities comprise borrowings, derivative financial instruments, deferred consideration and account payables. The main purpose of these financial instruments is to finance the Group’s operations. The Group has various financial assets such as cash and cash equivalents, trade and other receivables, derivative financial instruments and loans receivable.

	31 December	
	2018	**2017**
Financial assets measured at fair value through profit or loss (FVPL)		
Derivative financial instruments (Level 2)	7	38
Trade receivables (Level 2)	57	-
Financial assets measured at measured at amortised cost		
Trade and other receivables (Level 2)	97	198
Cash and cash equivalents (Level 1)	896	1,204
Total financial assets	**1,057**	**1,440**
Financial liabilities measured at fair value through profit or loss (FVPL)		
Derivative financial instruments (Level 2)	628	448
Financial liabilities measured at measured at amortised cost		
Borrowings (Levels 1 and 2)	3,982	4,281
Accounts payable (Level 2)	283	303
Deferred consideration (Level 2)	225	216
Total financial liabilities	**5,118**	**5,248**

The carrying value of cash and cash equivalents, current trade and other receivables, loans receivable and accounts payable approximate their fair value given the short-term nature of these instruments. Non-current other receivables are discounted at discount rates derived from observable market input data.

Derivative financial instruments are carried at fair value through profit or loss. The main risks arising from the Group’s financial instruments are gold price, interest rate, foreign currency exchange rates, credit and liquidity risks.

Borrowings are carried at amortised cost. The fair value of borrowings and levels of fair value hierarchy is disclosed in note 18.

Gold price risk

The Group is exposed to changes in the gold price due to its significant volatility. During 2014 and 2016, the Group entered into a number of derivative transactions (revenue stabiliser and gold forward agreements) under a Strategic Price Protection Programme to limit its exposure to future possible fluctuations of gold price (as detailed further in note 12). Under the terms of the revenue stabiliser the Group ensures a minimum selling gold price in the case of declines in the gold price and at the same time may benefit from increases in the gold price until certain barrier prices are reached on the call options, at which point the sale price is capped.

If the gold price was 10% higher / lower during the year ended 31 December 2018 gold sales for the year would have increased / decreased by USD 264 million / USD 210 million, respectively (2017: USD 232 million / USD 172 million), other comprehensive income would not have changed for 2018 and 2017.

(in millions of US Dollars)

Interest rate risk

The Group is exposed to interest rate risk as it borrows funds. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk.

If the interest rate was 0.5% higher / lower during the year ended 31 December 2018 interest expense excluding effect of change in fair value of interest rate and cross currency swaps for year ended 31 December 2018 would have increased / decreased by USD 11 million (2017: USD 13 million).

If interest rates used in calculations of fair values of interest rate and cross currency swaps as of 31 December 2018 were 0.5% higher / lower, the gain on revaluation would be USD 3 million lower / higher, respectively (2017: USD 3 million).

0.5% is the sensitivity rate used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible positive / negative change in interest rates.

Foreign currency exchange rate risk

Currency risk is the risk that the financial results of the Group will be adversely affected by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. Prices for gold are quoted in USD based on international quoted market prices. The majority of the Group's expenditure are denominated in RUB, accordingly, operating profits are adversely impacted by appreciation of the RUB against the USD. In assessing this risk, management takes into consideration changes in the gold price.

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than the functional currencies of the individual Group entities were as follows:

	31 December	
	2018	**2017**
Assets		
USD	823	1,131
EURO (presented in USD at closing exchange rate)	3	-
Total	**826**	**1,131**
Liabilities		
USD	4,098	4,096
EURO (presented in USD at closing exchange rate)	7	4
Total	**4,105**	**4,100**

Currency risk is monitored regularly by performing a sensitivity analysis of foreign currency positions in order to verify that potential effects are within planned parameters. The table below details the Group's sensitivity to changes in exchange rates by 25% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items at the reporting dates denominated in the respective currencies.

If the USD or EURO exchange rate had increased by 25% for the year ended 31 December 2018 and year ended 31 December 2017 compared to RUB as of the end of respective year, the Group would have incurred the following losses:

	Year ended 31 December	
	2018	**2017**
Loss (USD exchange rate increased compared to RUB)	1,131	741
Loss (EURO exchange rate increased compared to RUB)	1	1

(in millions of US Dollars)

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. Credit risk arises from cash, cash equivalents and deposits kept with banks, derivative agreements, loans issued, advances paid and other receivables.

In order to mitigate credit risk, the Group conducts its business with creditworthy and reliable counterparties, and minimises advance payments, actively uses guarantees, letters of credit and other instruments for trade finance to decrease risks of non-payment. The Group employs a methodology for in-house financial analysis of banks and non-banking counterparties, which is used during new agreements with counterparties.

The Group's credit risk profile is regularly monitored by management in order to avoid undesirable increases in risk, to limit concentration of credit and to ensure compliance with the above mentioned policies and procedures. Deposits, current bank accounts and derivative financial instruments are held with major Russian and international banks, with reasonable and appropriate diversification, which decreases concentration risk by spreading the credit risk exposure across several top rated banks.

Although the Group sells more than 90% of the total gold sales to several major customers, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market. A substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore the credit risk related to trade receivables is minimal.

As of 31 December 2018, trade receivables for gold bearing products sales were USD 57 million (31 December 2017: USD 51 million).

Gold sales to the Group's major customers are presented as follows (note 5):

	Year ended 31 December	
	2018	**2017**
Otkritie Bank	936	909
Sberbank	672	520
VTB Bank	596	995
Sovkombank	355	-
Gazprom Bank	119	71
B&N Bank (formerly MDM Bank)	-	12
Other	198	177
Total	**2,876**	**2,684**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting and 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.

For assessing own credit risk, a proxy CDS for the industry is used since Polyus does not have quoted CDS. The Group's cash management procedures include medium-term forecasting (a budget approved each financial year and updated on a quarterly basis), short-term forecasting (monthly cash-flow budgets are established for each business unit and a review of each entity's daily cash position is performed using a two-week rolling basis).

(in millions of US Dollars)

Presented below is the maturity profile of the Group's financial liabilities as of 31 December 2018 based on undiscounted contractual cash payments, including interest payments:

	Borrowings		Accounts	
	Principal	**Interest**	**payable**	**Total**
Due in the first year	8	234	311	553
Due in the second year	696	209	28	933
Due in the third year	434	187	28	649
Due in the fourth year	613	146	35	794
Due in the fifth year	1,312	91	-	1,403
Due in the period between sixth to eight years	956	31	-	987
Total	**4,019**	**898**	**402**	**5,319**

Presented below is the maturity profile of the Group's financial liabilities as of 31 December 2017 based on undiscounted contractual payments, including interest payments:

	Borrowings		Accounts	
	Principal	**Interest**	**payable**	**Total**
Due in the first year	13	283	235	531
Due in the second year	595	252	28	875
Due in the third year	772	198	28	998
Due in the fourth year	350	175	28	553
Due in the fifth year	521	127	35	683
Due in the period between sixth to eight years	2,064	35	-	2,099
Total	**4,315**	**1,070**	**354**	**5,739**

Maturity of the derivative financial instruments and deferred consideration is presented within notes 12 and 20.

27. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

The basis of distribution of accumulated retained earnings for companies operating in the Russian Federation is defined by legislation as the current year net profit of the company, as calculated in accordance with Russian accounting standards. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for distributable profits and reserves in these consolidated financial statements.

(in millions of US Dollars)

Information about significant subsidiaries of the Group

Subsidiaries	Nature of business	Effective % held[5] at 31 December 2018	Effective % held[5] at 31 December 2017
Incorporated in Russian Federation			
JSC Polyus Krasnoyarsk (renamed, previously JSC Gold Mining Company Polyus)	Mining (open pit)	100	100
JSC Polyus Aldan (renamed, previously JSC Aldanzoloto GRK)	Mining (open pit)	100	100
JSC Polyus Verninskoye (renamed, previously JSC Pervenets)	Mining (open pit)	100	100
PJSC Lenzoloto	Holding company	64	64
JSC ZDK Lenzoloto	Mining (alluvial)	66	66
JSC Svetliy	Mining (alluvial)	56	56
JSC Polyus Magadan (renamed, previously JSC Matrosova Mine)	Mining (open pit from 1 August 2018, before - development stage)	100	100
LLC Polyus Stroy	Construction	100	100
LLC SL Gold	Exploration and evaluation of the Sukhoi Log deposit	58	58

Summarised financial information of each of the Group’s subsidiaries that have a material non-controlling interest

	PJSC Lenzoloto 31 December		LLC SL Gold 31 December	
Summarised statements of financial position	**2018**	**2017**	**2018**	**2017**
Current assets	216	224	39	1
Non-current assets	81	81	176	187
Current liabilities	23	29	163	188
Non-current liabilities	24	22	51	-
Equity attributable to the shareholders of the subsidiary	187	193	-	-
Non-controlling interests	63	61	1	-
Summarised statements of profit or loss				
Revenue	186	191	-	-
Profit / (loss) for the year	40	(8)	2	(1)
Profit attributable to non-controlling interests	5	-	1	-
Summarised statements of cash flows				
Net cash inflow from operating activities	27	3	-	-
Net cash outflow from investing activities	(21)	(23)	(18)	(16)
Net cash (outflow) / inflow from financing activities	(1)	11	56	(131)
Dividends paid to non-controlling interests	4	7	-	-

28. EVENTS AFTER THE REPORTING DATE

There were no events subsequent to the reporting date that should adjust amounts of assets, liabilities, income or expenses and that should be disclosed in these consolidated financial statements for the year ended 31 December 2018.

[5] Effective % held by the Company, including holdings by other subsidiaries of the Group.