PJSC Polyus

Management Report

31 December 2019

11 February 2020

Contents

Cautionary statement

11 February 2020 – 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 2019.

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 2019, 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 2019 were approved by Directors on 11 February 2020.

By order of the Board of Directors,

Chief Executive Officer and Director

Pavel Grachev

Management Discussion and Analysis

the fourth quarter and full year 2019 key metrics overview

$ million (if not mentioned otherwise)	**4Q 2019**	**3Q 2019**	**Q-o-Q**	**4Q 2018**	**Y-o-Y**	**2019**	**2018**	**Y-o-Y**
Operating highlights								
Gold production (koz)[1]	804	753	7%	640	26%	2,841	2,440	16%
Gold sold (koz)	894	729	23%	644	39%	2,878	2,333	23%
Realised prices								
Average realised refined gold price (excluding effect of SPPP) ($/oz)[2]	1,482	1,482	0%	1,229	21%	1,403	1,263	11%
Average realised refined gold price (including effect of SPPP) ($/oz)	1,482	1,482	0%	1,232	20%	1,403	1,265	11%
Financial performance								
Total revenue	1,287	1,070	20%	774	66%	4,005	2,915	37%
Operating profit	725	590	23%	365	N.A.	2,217	1,524	45%
Operating profit margin	56%	55%	1 ppts	47%	9 ppts	55%	52%	3 ppts
Profit for the period	697	300	N.A.	(28)	N.A.	1,944	474	N.A.
Earnings / (loss) per share – basic (US Dollar)	5.25	2.13	N.A.	(0.27)	N.A.	14.52	3.45	N.A.
Earnings / (loss) per share – diluted (US Dollar)	5.22	2.13	N.A.	(0.26)	N.A.	14.48	3.30	N.A.
Adjusted net profit[3]	520	459	13%	291	79%	1,587	1,326	20%
Adjusted net profit margin	40%	43%	(3) ppts	38%	2 ppts	40%	45%	(5) ppts
Adjusted EBITDA[4]	883	705	25%	484	82%	2,680	1,865	44%
Adjusted EBITDA margin	69%	66%	3 ppts	63%	6 ppts	67%	64%	3 ppts
Net cash flow from operations	682	603	13%	404	69%	2,174	1,464	48%
Capital expenditure[5]	220	157	40%	189	16%	630	736	(14%)
Cash costs								
Total cash cost (TCC) per ounce sold ($/oz)[6]	341	412	(17%)	331	3%	365	348	5%
All-in sustaining cash cost (AISC) per ounce sold ($/oz)[7]	576	628	(8%)	634	(9%)	594	605	(2%)
Financial position								
Cash and cash equivalents	1,801	1,538	17%	896	N.A.	1,801	896	N.A.
Net debt[8]	3,285	3,317	(1%)	3,086	6%	3,285	3,086	6%
Net debt/adjusted EBITDA (x)[9]	1.2	1.5	(20%)	1.7	(29%)	1.2	1.7	(29%)

[1] - Gold production is comprised of 721 thousand ounces of refined gold and 83 thousand ounces of gold in flotation concentrate in the fourth quarter of 2019 and 2,524 thousand ounces of refined gold and 317 thousand ounces of gold in flotation concentrate in 2019 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 for the period adjusted for impairment, unrealised (gain) / loss on revaluation of derivative financial instruments, 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 expense, depreciation and amortisation, (gain) / loss on revaluation of derivative financial instruments, finance costs, net, interest income, foreign exchange (gain) / loss, net, 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 26.

[6] - TCC is defined by the group as the cost of gold sales, less property, plant and equipment depreciation and intangible assets amortisation, 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, employee benefit obligations cost, and change in allowance for obsolescence of inventory less amortisation and depreciation related to 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 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 2019

1. In the fourth quarter, total gold sales volumes amounted to 894 thousand ounces, up 23% compared to the third quarter of 2019. This includes 172 thousand ounces of gold contained in concentrate from Olimpiada. In 2019, the Company sold a total of 2,878 thousand ounces of gold, up 23% compared to the prior-year. This was primarily driven by higher volumes of refined gold output from Natalka following the completion of its ramp-up in December 2018 and higher output of gold contained in concentrate from Olimpiada.
2. Revenue for the fourth quarter totalled $1,287 million, up 20% compared to the previous quarter, driven by higher volumes of refined gold output from Olimpiada, Blagodatnoye and Natalka, reflecting changes in the amount of gold in inventory at the refinery. In addition, an increase in flotation concentrate sales to 172 thousand ounces, compared to 79 thousand ounces in the third quarter of 2019 also resulted in higher gold sales volumes during the period. In 2019, revenue totalled $4,005 million, a 37% increase from the prior-year, mainly driven by higher volumes of refined gold output from Natalka and higher output of gold contained in concentrate from Olimpiada. In addition, the average realised refined gold price was 11% higher compared to the previous year, at $1,403 per ounce.
3. In the fourth quarter, the group's TCC decreased to $341 per ounce compared to $412 per ounce in the previous quarter. This improvement was attributable to lower maintenance works across almost all the hard rock deposits, a seasonal decrease in output at the structurally higher-cost alluvial operations and an increase in share of lower-cost merchant gold containing flotation concentrate in total gold sold and higher sales volumes of antimony-rich flotation concentrate. The latter also resulted in higher by-product credit ($15 per ounce in the fourth quarter of 2019 compared to $7 per ounce in the third quarter of 2019). In 2019, the group's TCC increased 5% to $365 per ounce compared to 2018. This reflects a decline in average grades in ore processed at Olimpiada (3.92 grams per tonne in 2019 compared to 4.10 grams per tonne in 2018) and lower by-product credit from sales of antimony-rich flotation concentrate ($10 per ounce in 2019 compared to $21 per ounce in 2018). Inflation in consumables and diesel prices also negatively impacted the cost performance during the reporting period. These factors were partially offset by a higher share of lower cost flotation concentrate in total gold sold and modest local currency depreciation compared to the previous year.
4. Polyus further refines its initial TCC guidance for 2020 of below $450 per ounce. The Company now expects TCC for 2020 to stay within the range of $400 - $450 per ounce. The Company anticipates a gradual increase in TCC from the 2019 level, driven mainly by inflationary factors in 2020. The estimate continues to be based on the assumptions of foreign exchange rate of 60 roubles per dollar and gold price of $1,200 per ounce.
5. Adjusted EBITDA for the fourth quarter amounted to $883 million, a 25% increase compared to $705 million in the previous quarter, driven by higher gold sales volumes over the period. In 2019, the group's adjusted EBITDA stood at $2,680 million, a 44% increase compared to the previous year. This was driven by production growth, following the ramp-up of operations at Natalka and higher production volumes of flotation concentrate at Olimpiada. Increased TCC on a per ounce basis were offset by the higher gold price in 2019.
6. In the fourth quarter of 2019, net profit amounted to $697 million, compared to net profit of $300 million in the third quarter. The net profit growth was in line with changes to operating profit and reflects the impact of non-cash items. Net profit for the full year of 2019 increased to $1,944

million, compared to $474 million in 2018. This was driven by an increase in operating profit and the positive impact of non-cash items on profit before tax. Polyus recognised a foreign exchange gain of $273 million and a gain on revaluation of derivative financial instruments of $93 million in 2019.

7. Adjusted net profit amounted to $520 million in the fourth quarter, up 13% compared to the third quarter of 2019. For the full year of 2019, adjusted net profit increased to $1,587 million, which mainly reflects the growth in operating profit during the year.
8. Net cash generated from operations was $682 million in the fourth quarter, compared to $603 million in the previous quarter. In 2019, net cash generated from operations increased to $2,174 million, compared to $1,464 million in 2018.
9. In the fourth quarter, capital expenditures ("capex") increased to $220 million, from $157 million in the third quarter. For the full year of 2019 capital expenditures decreased to $630 million from $736 million in the previous year. This decrease mainly reflects the lower capital expenditures at Natalka, which was fully ramped-up in 2018, and lower capital expenditures at Olimpiada and Blagodatnoye.
10. In 2020, the Company expects capex to stay within the range of $700-750[10] million, compared to the previous estimate of $550 million, initially provided in March 2018. The updated capex guidance reflects the list of new approved projects including the Verninskoye Mill expansion to 3.5 million tonnes per annum and further debottlenecking of the Natalka Mill. The feasibility study on the upgrade of BIO facilities at Olimpiada and engineering design works on Mill-5 at Blagodatnoye are also included in the estimate. Polyus plans to announce the final investment decision on these projects and provide a detailed overview in 2020. In addition, the updated capex guidance includes an increased exploration budget at the core assets and spending on IT as well as capex rollover from 2019.
11. Cash and cash equivalents as at 31 December 2019 increased to $1,801 million (30 September 2019: $1,538 million), while its estimated net debt position decreased, compared to the previous quarter and amounted to $3,285 million (30 September 2019: $3,317 million). Among other factors, the change in cash position reflects a dividend payout for the first half of 2019 in amount of $342 million.
12. The net debt/adjusted EBITDA ratio decreased to 1.2x compared to 1.7x as at the end of 2018, reflecting growth in adjusted EBITDA in 2019.
13. Accounting for debt-related derivative assets and liabilities under cross-currency and interest rate swaps, the company's net debt stands at $3,253 million as compared to $3,393 million as at the end of the third quarter of 2019 and $3,677 million as of the end of 2018.
14. The Board of Directors of the Company (the «Board») has considered and preliminarily approved the dividends for the second half of 2019 that it intends to recommend for approval by the Company's annual general shareholders' meeting. In aggregate these dividends are the ruble equivalent of $462 million. Based on the current number of outstanding shares dividend per share for the second half of 2019 is expected to be $3.5 per ordinary share. Polyus's current dividend policy suggests the total dividend payout in respect of 2019 as 30% of the Company's EBITDA for the year. The total dividend payout for the full year of 2019 will thus correspond to $804 million. This amount includes $342 million paid out in form of dividend for the first half of 2019.

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

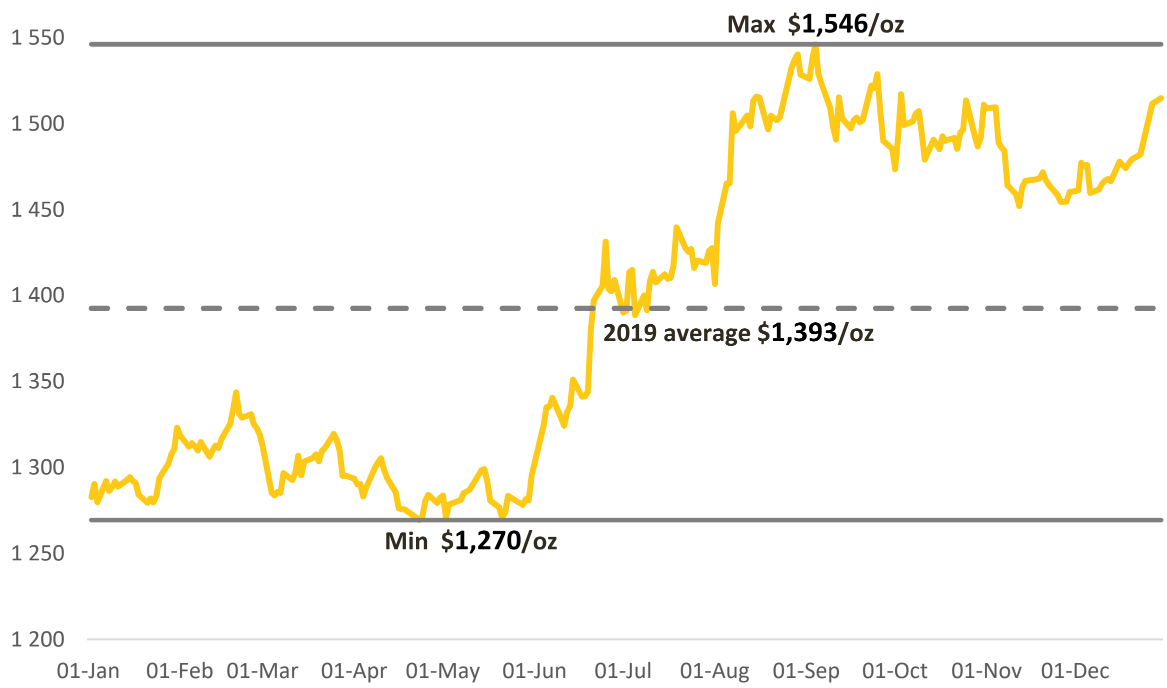
Review of external factors

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 2019, the average London Bullion Market Association (LBMA) gold price was $1,481 per ounce, compared to $1,472 per ounce in the previous quarter and $1,226 per ounce in the fourth quarter of 2018. In 2019, the average LBMA gold price was $1,393 per ounce, 10% above the 2018 average of $1,268 per ounce.

LBMA gold price dynamics in 2019, $/oz

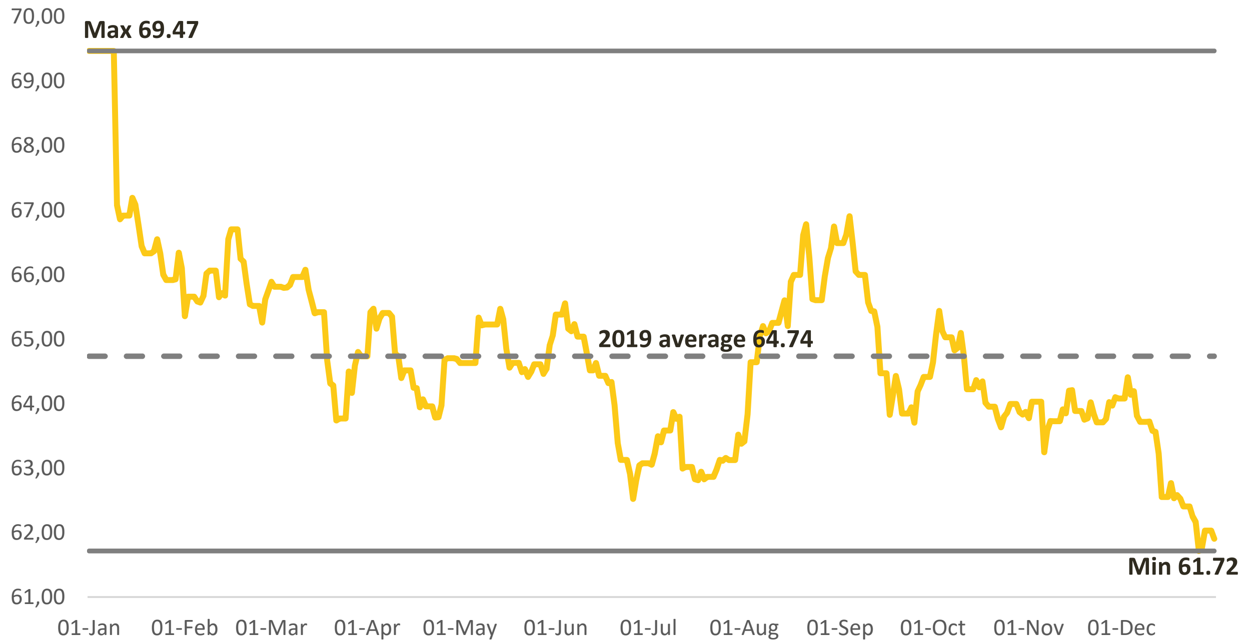


Source: London Bullion Market Association

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 2019, the average RUB/USD exchange rate amounted to 63.72, compared to 64.57 in the previous quarter and 66.48 in the fourth quarter of 2018. In 2019, the average USD/RUB exchange rate was 64.74, compared to 62.71 in 2018.

RUB/USD dynamics, 2019



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 3.0% as of the end of the fourth quarter of 2019, compared to 4.0% as of the end of the previous quarter and 4.3% as of the end of the fourth quarter of 2018.

Financial review of the fourth quarter of 2019 and full year 2019

Statement of profit or loss review

REVENUE ANALYSIS

	4Q 2019	3Q 2019	Q-o-Q	2019	2018	Y-o-Y
Gold sales (koz)	894	729	23%	2,878	2,333	23%
Average realised refined gold price (excluding effect of SPPP) ($/oz)	1,482	1,482	0%	1,403	1,263	11%
Average realised refined gold price (including effect of SPPP) ($/oz)	1,482	1,482	0%	1,403	1,265	11%
Average afternoon gold LBMA price fixing ($/oz)	1,481	1,472	1%	1,393	1,268	10%
Premium of average selling price (including effect of SPPP) over average LBMA price fixing ($/oz)	1	10	(90%)	10	(3)	N.A.
Gold sales ($ million)	1,277	1,061	20%	3,965	2,876	38%
Other sales ($ million)	10	9	11%	40	39	3%
Total revenue ($ million)	**1,287**	**1,070**	**20%**	**4,005**	**2,915**	**37%**

In the fourth quarter, the group's revenue from gold sales amounted to $1,277 million, a 20% increase compared to the previous quarter. Gold sales totalled 894 thousand ounces, a 23% increase compared to the previous quarter, primarily driven by higher volumes of refined gold output from Olimpiada, Blagodatnoye and Natalka. This reflects changes in the amount of gold in inventory at the refinery. In addition, an increase in sales of flotation concentrate to 172 thousand ounces, compared to 79 thousand ounces in the third quarter of 2019, also resulted in higher gold sales volumes during the period. The average realised refined gold price was flat compared to the third quarter, at $1,482 per ounce.

For the full year of 2019, the group's revenue from gold sales amounted to $3,965 million, a 38% increase from the prior-year. This was driven by higher gold sales volumes and an increase in gold price during the year. Gold sales totalled 2,878 thousand ounce, a 23% increase from the previous year, mainly driven by higher volumes of refined gold output from Natalka following the completion of its ramp-up in December 2018 and higher output of gold contained in concentrate from Olimpiada. In addition, the average realised refined gold price was 11% higher compared to the previous year, at $1,403 per ounce.

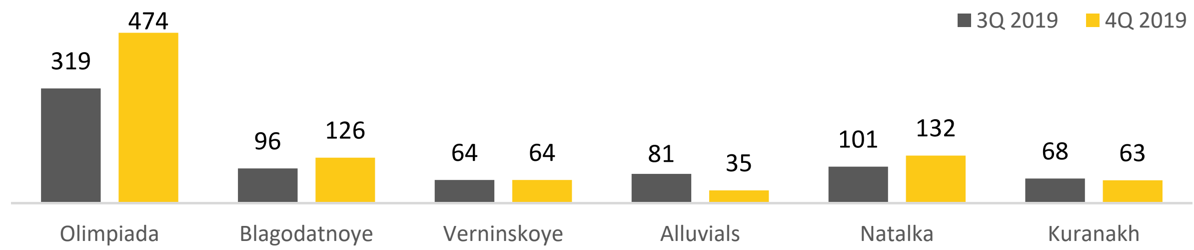
Revenue breakdown by business unit, 4Q 2019 vs. 3Q 2019

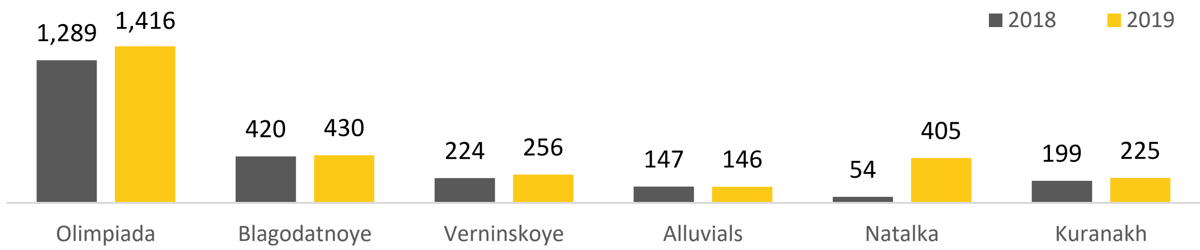
Assets	4Q 2019 ($ million)			3Q 2019 ($ million)		
	Gold sales	Other sales	Total sales	Gold sales	Other sales	Total sales
Olimpiada	654	1	655	454	2	456
Blagodatnoye	187	-	187	143	-	143
Verninskoye	96	1	97	93	-	93
Alluvials	51	1	52	122	1	123
Kuranakh	93	2	95	101	-	101
Natalka	196	1	197	148	2	150
Other	-	4	4	-	4	4
Total	**1,277**	**10**	**1,287**	**1,061**	**9**	**1,070**

Revenue breakdown by business unit, 2019 vs. 2018

Assets	2019 ($ million)			2018 ($ million)		
	Gold sales	Other sales	Total sales	Gold sales	Other sales	Total sales
Olimpiada	1,906	8	1,914	1,561	6	1,567
Blagodatnoye	602	-	602	533	-	533
Verninskoye	357	1	358	284	-	284
Alluvials	212	4	216	181	5	186
Kuranakh	317	4	321	252	3	255
Natalka	571	7	578	65	2	67
Other	-	16	16	-	23	23
Total	**3,965**	**40**	**4,005**	**2,876**	**39**	**2,915**

Gold sold by mine, koz





CASH COSTS ANALYSIS

In the fourth quarter of 2019, the group's cost of gold sales increased 7% compared to the previous quarter, to $415 million, while cash operating costs decreased 7% compared to the prior period, to $305 million. In 2019, the group's cost of gold sales increased 36% compared to the prior-year, to $1,405 million. At the same time, cash operating costs increased 29% compared to the prior-year, to $1,135 million, which reflects the inclusion of costs related to Natalka into the cost of gold sales, starting from the 1st of August 2018 and inflation in consumables, diesel prices and annual salary indexation across all business units. All of these factors were partially offset by modest local currency depreciation compared to the previous year.

Cost of gold sales breakdown

$ million	4Q 2019	3Q 2019	Q-o-Q	2019	2018	Y-o-Y
Cash operating costs[11]	**305**	**327**	**(7%)**	**1,135**	**879**	**29%**
Depreciation and amortisation (D&A) of operating assets	98	98	0%	349	295	18%
Total cost of production	**403**	**425**	**(5%)**	**1,484**	**1,174**	**26%**
Decrease/ (increase) in stockpiles, gold-in-process and refined gold inventories	12	(37)	N.A.	(79)	(139)	(43%)
Cost of gold sales	**415**	**388**	**7%**	**1,405**	**1,035**	**36%**

Cash operating costs – breakdown by item

$ million	4Q 2019	3Q 2019	Q-o-Q	2019	2018	Y-o-Y
Consumables and spares	94	91	3%	325	254	28%
Labour	83	99	(16%)	337	285	18%
Mineral Extraction Tax (“MET”)	57	54	6%	192	161	19%
Fuel	35	35	0%	129	98	32%
Power	16	15	7%	59	42	40%
Outsourced mining services	-	7	(100%)	9	4	125%
Other[11]	20	26	(23%)	84	35	140%
Total	**305**	**327**	**(7%)**	**1,135**	**879**	**29%**

In the fourth quarter, consumables and spares expenses increased by 3% compared to the previous quarter, due to the provision of reserves in relation to spares. This was partially offset by a seasonal downscale of activities at the Alluvials operations and a decrease in maintenance expenses across almost all the hard rock deposits. For the full year of 2019, consumables and spares expenses increased 28% compared to the previous reporting period. This reflects the aforementioned factors related to Natalka and inflation in consumables prices. Additional impact came on the back of higher maintenance expenses compared to the previous year.

In the fourth quarter, labour costs decreased 16% compared to the previous quarter. This reflects a seasonal downscale of activities at the Alluvials operations. In 2019, labour expenses increased 18% compared to the prior-year, due to annual salary indexation and the aforementioned factors related to Natalka.

Power costs remained almost flat quarter-on-quarter. For the full year of 2019, the group’s power costs increased 40% compared to the prior-year mainly due to the aforementioned factors related to Natalka. In addition, this reflects a regular power tariff increase in Far Eastern Federal District.

In 2019, MET expenses increased 19% following the increase in average gold price and growth in sales volumes of flotation concentrate from Olimpiada and production volumes at Verninskoye and Kuranakh. Separately, the Company registered a step-up in the MET rate at Verninskoye under the schedule of the regional investment project (“RInvP”). RInvP is a special tax regime, allowing for tax benefits for projects in the Far East of Russia and the Transbaikal region. Verninskoye operates in the Irkutsk region of the Russian Federation and started to apply a zero per cent tax rate on MET from 2017. According to the RInvP schedule, the MET rate at Verninskoye will increase gradually starting from 2019.

In the fourth quarter, fuel costs remained flat compared to the third quarter as a seasonal diesel price inflation was fully offset by downscale of activities at the Alluvials operations. In 2019, fuel costs increased 32% due to the aforementioned factors related Natalka operations and inflation in diesel prices.

Cash operating costs – breakdown by key business units[12], 4Q 2019 vs. 3Q 2019

$ million	Olimpiada		Blagodatnoye		Verninskoye		Alluvials		Kuranakh		Natalka	
	4Q 2019	3Q 2019	4Q 2019	3Q 2019	4Q 2019	3Q 2019	4Q 2019	3Q 2019	4Q 2019	3Q 2019	4Q 2019	3Q 2019
Consumables and spares	43	37	16	15	8	7	3	10	8	7	15	14
Labour	19	20	10	10	9	9	10	24	9	10	12	11

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

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MET	38	29	11	10	1	1	2	8	5	6	-	-
Fuel	7	7	7	5	3	2	3	9	4	4	10	7
Power	5	5	2	2	1	1	2	2	2	2	6	6
Outsourced mining services	-	-	-	-	-	-	-	7	-	-	-	-
Other	7	13	11	7	7	6	2	7	5	3	12	12
Total	**119**	**111**	**57**	**49**	**29**	**26**	**22**	**67**	**33**	**32**	**55**	**50**

Cash operating costs – breakdown by key business units, 2019 vs. 2018

$ million	Olimpiada		Blagodatnoye		Verninskoye		Alluvials		Kuranakh		Natalka	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Consumables and spares	148	120	53	43	28	26	17	16	26	24	48	17
Labour	80	77	38	36	35	30	46	46	40	38	49	16
MET	117	99	39	36	4	-	13	11	19	15	-	-
Fuel	29	25	20	16	8	5	16	16	17	16	32	11
Power	22	21	8	7	4	5	6	6	8	8	20	4
Outsourced mining services	-	-	-	-	-	-	9	5	-	-	-	-
Other	41	18	30	28	22	14	13	12	13	10	45	17
Total	**437**	**360**	**188**	**166**	**101**	**80**	**120**	**112**	**123**	**111**	**194**	**65**

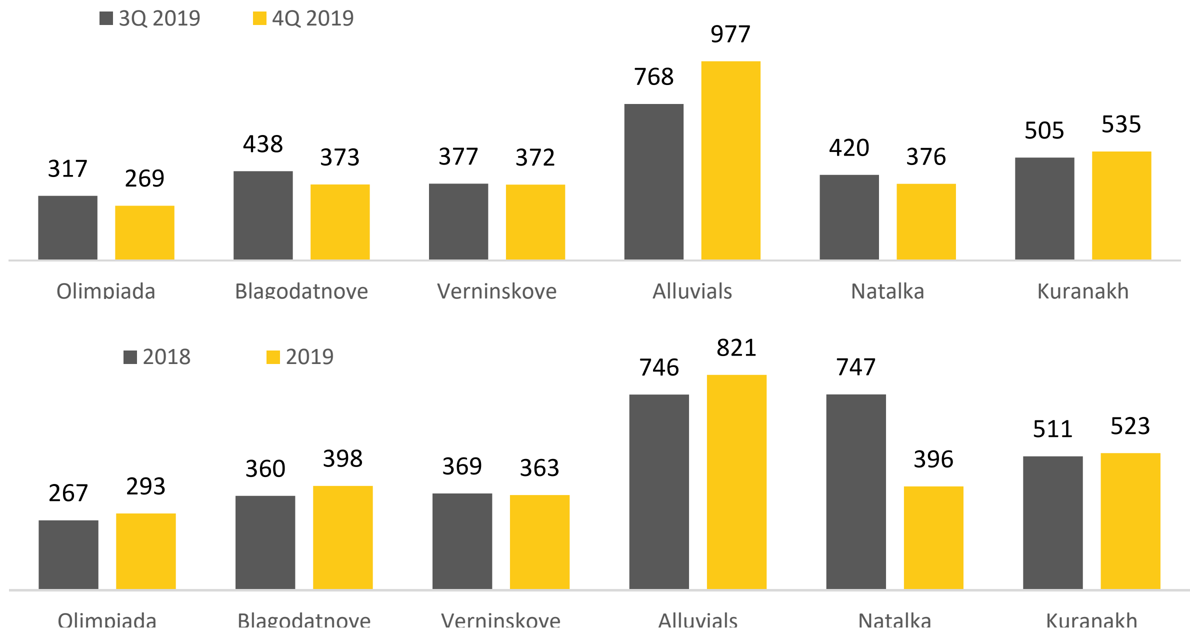
TOTAL CASH COSTS

TCC calculation

$ million	4Q 2019	3Q 2019	Q-o-Q	2019	2018	Y-o-Y
Cost of gold sales before by-product	**428**	**393**	**9%**	**1,435**	**1,083**	**33%**
Antimony by-product credit	(13)	(5)	N.A.	(30)	(48)	(38%)
Cost of gold sales	**415**	**388**	**7%**	**1,405**	**1,035**	**36%**
property, plant and equipment depreciation and intangible assets amortisation	(98)	(98)	0%	(349)	(295)	18%
employee benefit obligations cost	-	-	N.A.	-	1	(100%)
change in allowance for obsolescense of inventory	(12)	-	N.A.	(15)	(2)	N.A.
non-monetary changes in inventories	-	10	(100%)	9	74	(88%)
TCC	**305**	**300**	**2%**	**1,050**	**813**	**29%**
Gold sold (koz)	894	729	23%	2,878	2,333	23%
TCC per ounce sold ($/oz)	**341**	**412**	**(17%)**	**365**	**348**	**5%**

In the fourth quarter, the group's TCC decreased to $341 per ounce compared to $412 per ounce in the previous quarter. This improvement was attributable to lower maintenance works across almost all the hard rock deposits, a seasonal decrease in output at the structurally higher-cost alluvial operations and an increase in share of lower-cost merchant gold containing flotation concentrate in total gold sold and higher sales volumes of antimony-rich flotation concentrate. The latter also resulted in higher by-product credit ($15 per ounce in the fourth quarter of 2019 compared to $7 per ounce in the third quarter of 2019). In 2019, the group's TCC increased 5% to $365 per ounce compared to 2018. This reflects a decline in average grades in ore processed at Olimpiada (3.92 grams per tonne in 2019 compared to 4.10 grams per tonne in 2018) and lower by-product credit from sales of antimony-rich flotation concentrate ($10 per ounce in 2019 compared to $21 per ounce in 2018). Inflation in consumables and diesel prices also negatively impacted the cost performance during the reporting period. These factors were partially offset by a higher share of lower cost flotation concentrate in total gold sold and modest local currency depreciation compared to the previous year.

TCC performance by mine, $/oz



In the fourth quarter, TCC at Olimpiada declined to $269 per ounce, a 15% decrease compared to the third quarter. This mainly reflects higher recovery rate compared to the previous quarter (84.0% in the fourth quarter and 82.5% in the third quarter) as well as an increase in share of lower-cost merchant gold containing flotation concentrate in total gold sold and higher sales volumes of antimony-rich flotation concentrate. The latter also resulted in higher by-product credit ($27 per ounce in the fourth quarter compared to $16 per ounce in the third quarter) in the fourth quarter. In 2019, TCC at Olimpiada amounted to $293 per ounce, a 10% increase compared to 2018. This was mainly attributable to a decline in average grades in ore processed (3.92 grams per tonne in 2019 compared to 4.10 grams per tonne in 2018) and inflation in consumables and diesel prices in the reporting period. In addition, lower by-product credit from sales of antimony-rich flotation concentrate ($21 per ounce in 2019 compared to $37 per ounce in 2018) negatively impacted the cost performance. These factors were partially offset by improved recovery rate (82.4% in 2019 compared to 79.3% in 2018), higher share of lower cost flotation concentrate in total gold sold during the reporting period and modest local currency depreciation compared to the previous year.

At Blagodatnoye, TCC amounted to $373 per ounce, down 15% compared to the third quarter. This was primarily driven by higher average grade in ore processed (1.77 grams per tonne in the fourth quarter compared to 1.72 grams per tonne in the third quarter) as well as an increase in recovery rate from 87.7% to 88.5% compared to the previous quarter. In addition, lower maintenance expenses in the fourth quarter of 2019, also contributed to the improved cost performance. In 2019, TCC at Blagodatnoye were $398 per ounce, up 11% compared to the previous year due to a decline in the average grade in ore processed (1.67 grams per tonne in 2019 compared to 1.70 grams per tonne in 2018) and inflation in consumables and diesel prices. These factors were partially offset by modest local currency depreciation compared to the previous year.

TCC at Verninskoye amounted to $372 per ounce, largely flat quarter-on-quarter. In 2019, TCC at Verniskoye decreased to $363 per ounce, down 2%, mainly due to the higher average grade in ore processed (2.90 grams per tonne in 2019 compared to 2.63 grams per tonne in 2018) and modest rouble depreciation compared to the previous year. These factors were partially offset by an increase in MET rate under the schedule of the RInvP as well as inflation in consumables and diesel prices.

At Kuranakh, TCC increased 6% compared to the previous quarter, to $535 per ounce, primarily due to a seasonal downscaling of heap leaching operations and completion of scheduled maintenance works. In 2019, TCC at Kuranakh increased to $523 per ounce, up 2% compared to 2018, which reflects the increase in MET on the back of higher gold price and due to inflation in consumables and diesel prices. These factors were partially offset by modest local currency depreciation compared to the previous year.

TCC at Alluvials increased to $977 per ounce, compared to $768 per ounce in the third quarter, reflecting the conclusion of the washing season. In 2019, TCC at Alluvials amounted to $821 per ounce, up 10% compared to $746 per ounce in the previous year due to a decrease in alluvial gold grade (0.53 grams per cubic metre in 2019 compared to 0.60 grams per cubic metre in 2018). This factor was partially offset by modest local currency depreciation compared to the previous year.

At Natalka, TCC amounted to $376 per ounce, down 10% compared the third quarter primarily due to lower repair and maintenance expenses and higher average grade in ore processed (1.61 grams per tonne in the fourth quarter compared to 1.51 grams per tonne in the third quarter) in the reporting period. In 2019, TCC at Natalka declined to $396 per ounce, compared to $747 per ounce in 2018, post the ramp-up completion in December 2018. Over the course of 2019, Polyus' technical team completed a set of operational initiatives, which resulted an increase in hourly throughput (1,462 t/h in 2019 compared to 1,005 t/h in 2018) exceeding its initial nameplate hourly throughput capacity of 1,227 t/h. This was accompanied by a higher average grade in ore processed (1.61 grams per tonne in 2019 compared to 1.10 grams per tonne in 2018). Higher recovery rates compared to the previous year, increasing from 62.9% to 71.8%, also contributed to the improved cost performance.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The group's selling, general and administrative (SG&A) expenses amounted to $91 million, up 20% compared to the previous quarter. This reflects higher distribution expenses due to increased sales volumes of flotation concentrate during the period. In 2019, the group's SG&A expenses amounted to $295 million, a 25% increase from the prior-year due to higher expenses under a long-term incentive plan ("LTIP") and annual salary indexation.

SG&A breakdown by item

$ million	4Q 2019	3Q 2019	Q-o-Q	2019	2018	Y-o-Y
Salaries	53	53	0%	188	148	27%
Distribution expenses related to gold-bearing products	11	5	N.A.	25	20	25%
Taxes other than mining and income taxes	6	5	20%	20	18	11%
Professional services	5	3	67%	12	10	20%
Amortisation and depreciation	6	5	20%	21	11	91%
Other	10	5	100%	29	29	0%
Total	**91**	**76**	**20%**	**295**	**236**	**25%**

ALL-IN SUSTAINING COSTS (AISC)

In the fourth quarter, the group's AISC decreased to $576 per ounce, down 8% reflecting lower TCC per ounce for the period. In 2019, the group's AISC per ounce decreased to $594 per ounce, down 2% compared to the previous year. The improvement reflects the lower sustaining capital expenditures in 2019 compared to the previous year.

All-in sustaining costs calculation

$ million	4Q 2019	3Q 2019	Q-o-Q	2019	2018	Y-o-Y
Total TCC	**305**	**300**	**2%**	**1,050**	**813**	**29%**
selling, general and administrative expenses	91	76	20%	295	236	25%
amortisation and depreciation related to SG&A	(6)	(5)	20%	(21)	(11)	91%
stripping activity asset additions[13]	42	43	(2%)	179	174	3%
sustaining capital expenditure[14]	70	43	63%	187	196	(5%)
unwinding of discounts on decommissioning liabilities	1	1	0%	4	3	33%
adding back expenses excluded from cost of gold sales						
employee benefit obligations cost	-	-	0%	-	(1)	(100%)
change in allowance for obsolescence of inventory	12	-	N.A.	15	2	N.A.
Total all-in sustaining costs	**515**	**458**	**12%**	**1,709**	**1,412**	**21%**
Gold sold (koz)	894	729	23%	2,878	2,333	23%
All-in-sustaining cost ($/oz)	**576**	**628**	**(8%)**	**594**	**605**	**(2%)**

In the fourth quarter, AISC at Olimpiada decreased to $352 per ounce, driven by lower sustaining capital expenditures during the period. AISC at Blagodatnoye decreased to $496 per ounce driven by lower stripping expenses during the period. AISC at Verninskoye increased to $696 per ounce, driven by higher sustaining capital expenditures, while AISC at Kuranakh increased to $940 per ounce, driven by both higher sustaining capital expenditures and a seasonal downscaling of heap leaching operations. AISC at Natalka decreased to $565 per ounce driven by a decline in TCC in the fourth quarter of 2019.

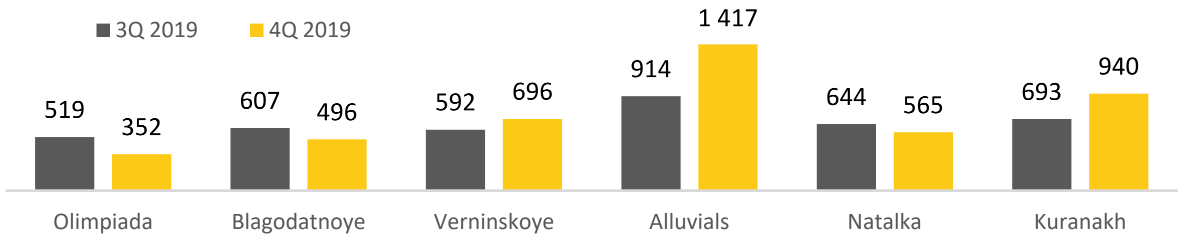
In 2019, AISC at Olimpiada decreased to $455 per ounce as an increase in TCC was fully offset by the lower sustaining capital expenditures. AISC at Blagodatnoye increased to $566 per ounce, in line with TCC performance. At Verninskoye AISC decreased to $636 per ounce compared to the previous year due TCC

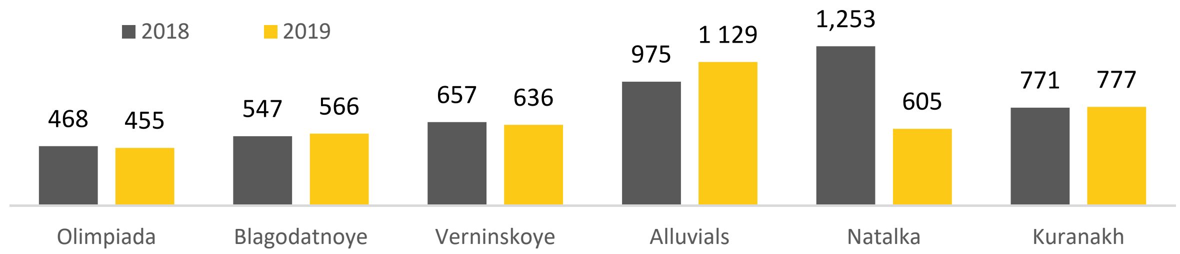
[13] Following an update of the methodology and extraction of the depreciation included in the additions to the stripping activity asset. The amount of non-cash depreciation was $16 million in the fourth quarter of 2019, $16 million in the third quarter of 2019, $64 million in 2019 and $46 million in 2018.

[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.

performance. At Kuranakh, AISC remained almost flat at $777 per ounce. AISC at Natalka decreased to $605 per ounce, in line with TCC performance during the period.

All-in sustaining costs by mine, $/oz





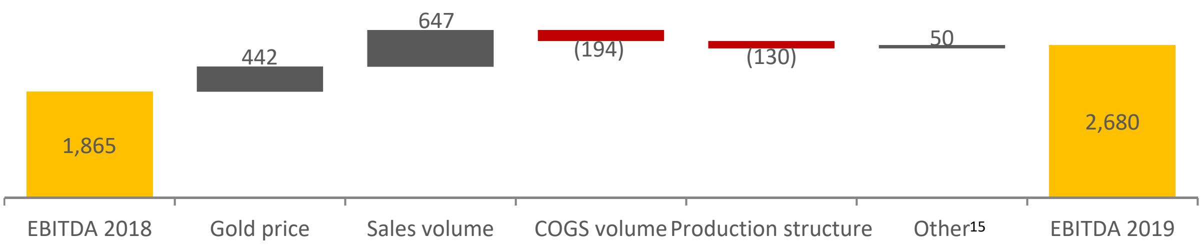
ADJUSTED EBITDA

In the fourth quarter of 2019, the group's adjusted EBITDA amounted to $883 million, a 25% increase compared to $705 million in the previous quarter, driven by higher gold sales volumes over the period. In 2019, the group's adjusted EBITDA stood at $2,680 million, a 44% increase compared to the previous year. This was driven by production growth, following the ramp-up of operations at Natalka and higher production volumes of flotation concentrate at Olimpiada. Increased TCC on a per ounce basis were offset by the higher gold price in 2019.

Adjusted EBITDA calculation

$ million	4Q 2019	3Q 2019	Q-o-Q	2019	2018	Y-o-Y
Profit for the period	**697**	**300**	**N.A.**	**1,944**	**474**	**N.A.**
Income tax expense	163	80	N.A.	433	77	N.A.
Depreciation and amortisation	105	95	11%	367	236	56%
(Gain) / loss on revaluation of derivative financial instruments, net	(110)	105	N.A.	(93)	281	N.A.
Finance costs, net	63	64	(2%)	254	201	26%
Equity-settled share-based payment plans	13	14	(7%)	40	24	67%
Foreign exchange (gain) / loss, net	(73)	52	N.A.	(273)	517	N.A.
Interest income	(15)	(11)	36%	(48)	(26)	85%
Impairment	6	2	N.A.	9	54	(83%)
Special charitable contributions	31	4	N.A.	43	27	59%
Loss on property, plant and equipment disposal	3	-	N.A.	4	-	N.A.
Adjusted EBITDA	**883**	**705**	**25%**	**2,680**	**1,865**	**44%**
Total revenue	1,287	1,070	20%	4,005	2,915	37%
Adjusted EBITDA margin (%)	**69%**	**66%**	**3 ppts**	**67%**	**64%**	**3 ppts**

Adjusted EBITDA bridge, $ million



Adjusted EBITDA breakdown by business unit, $ million

$ million	4Q 2019	3Q 2019	Q-o-Q	2019	2018	Y-o-Y
Olimpiada	482	323	49%	1,381	1,135	22%
Blagodatnoye	138	98	41%	415	356	17%
Verninskoye	61	65	(6%)	237	180	32%
Alluvials	10	53	(81%)	74	52	42%
Kuranakh	51	61	(16%)	174	133	31%
Natalka	133	92	45%	361	11	N.A.
Other[16]	8	13	(38%)	38	(2)	N.A.
Total	**883**	**705**	**25%**	**2,680**	**1,865**	**44%**

FINANCE COST ANALYSIS

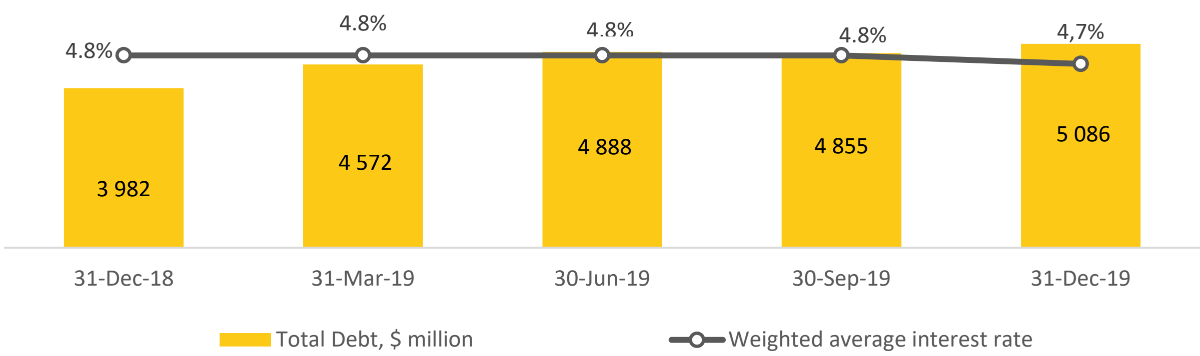
$ million	4Q 2019	3Q 2019	Q-o-Q	2019	2018	Y-o-Y
Interest on borrowings	78	75	4%	294	267	10%
Interest on lease liabilities	2	1	(100%)	5	-	N.A.
Bank commission and write-off of unamortised debt cost due to early extingushment	2	-	N.A.	3	13	(77%)
Unwinding of discounts	2	4	(50%)	13	15	(13%)
Gain on debt modification	(7)	-	N.A.	(17)	-	N.A.
Gain on an early redemption of financial liabilities	-	-	N.A.	-	(5)	(100%)
Gain on exchange of interest payments under cross currency swap and interest rate swap	(14)	(16)	(13%)	(44)	(36)	22%
Sub-total finance cost, net	**63**	**64**	**(2%)**	**254**	**254**	**0%**
Interest included in the cost of qualifying assets	-	-	N.A.	-	(53)	(100%)
Total finance cost expensed	**63**	**64**	**(2%)**	**254**	**201**	**26%**

The group's total finance costs amounted to $63 million, compared to $64 million in the third quarter. In 2019, the group's total finance costs were $254 million, remaining flat compared to the previous year.

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

Interest on borrowings remained almost flat compared to the third quarter of 2019, at $78 million. For the full year 2019, interest on borrowings increased to $294 million. This figure reflects the higher gross debt in 2019.

Weighted average interest rate dynamics[17]



Foreign exchange loss and derivatives

The group's foreign exchange gain was $73 million, compared to a $52 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 2019 due to FX rate fluctuation.

In 2019, the group's foreign exchange gain was $273 million, compared to a $517 million loss 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 2019 due to FX rate fluctuation.

Valuation of derivative financial instruments as at 31 December and for the year ended 31 December 2019

$ million	Asset	Liability	Fair value recorded in the statement of financial position	Profit & loss (expenses)/ income
Revenue stabiliser	-	(7)	(7)	(10)
Cross-currency swaps	98	(62)	36	169
Interest rate swaps	1	(5)	(4)	(8)
Conversion option on convertible bonds	-	(63)	(63)	(58)
Total	**99**	**(137)**	**(38)**	**93**

Revenue stabiliser[18]

The Company adjusted part of its revenue stabiliser agreements, which effectively resulted in a partial close out and an increase in strikes and "knock-in" barriers for certain call options expiring in 2019-2020, with total premium of $30 million paid.

In July, the Company adjusted the call options for 2020, resetting call strike price to call barriers. In August, call options for 210 thousand ounces were relocated from the fourth quarter of 2019 to the fourth quarter

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

of 2020 with call strikes and barriers adjusted upwards. Following that, the callable amount for 2020 was cut in half from 560 thousand ounces to 280 thousand ounces in September.
The amounts under call options for 2020 stay at 280 thousand ounces with no gold hedges outstanding post 2020.

Cross-currency and interest rate swaps[18]

In the fourth quarter of 2019, the overall positive effect from cross-currency and interest rate swaps on finance cost amounted to $14 million. In 2019, the overall positive effect from cross-currency and interest rate swaps on finance cost amounted to $44 million. This was presented within note 8 of the consolidated financial statement as a gain on the exchange of interest payments under interest rate and cross currency swaps.

Conversion option on convertible bonds

As at 31 December 2019, the fair value of conversion option of $63 million was determined with reference to the quoted market price and is presented within note 14 of the consolidated financial statements. In the fourth quarter of 2019, the gain from the conversion option amounted to $2 million compared to $41 million loss recognised in the third quarter of 2019.

PROFIT BEFORE TAX & INCOME TAXES

In the fourth quarter of 2019, profit before tax increased to $860 million compared to the previous reporting period. For the full year of 2019, profit before tax increased to $2,377 million primarily driven by higher operating profit and foreign exchange gain in the reporting period. Income tax amounted to $433 million, resulting in an effective income tax rate of 18%.

NET PROFIT

In the fourth quarter of 2019, net profit totalled $697 million, compared to net profit of $300 million in the third quarter. The net profit growth trended in line with the change in operating profit and reflects the impact of non-cash items.

Net profit for the full year of 2019 increased to $1,944 million compared to $474 million in 2018. This was driven by an increase in operating profit and a positive impact of non-cash items on profit before tax. Polyus recognised a foreign exchange gain of $273 million and a gain on derivative financial instruments of $93 million in 2019. Adjusted for these items (see the reconciliation below), the group's adjusted net profit for 2019 amounted to $1,587 million, a 20% increase from the prior-year.

Adjusted net profit calculation

$ million	4Q 2019	3Q 2019	Q-o-Q	2019	2018	Y-o-Y
Net profit for the period	**697**	**300**	**N.A.**	**1,944**	**474**	**N.A.**
impairment	6	2	N.A.	9	54	(83%)
(gain) / loss on revaluation of derivative financial instruments, net	(110)	105	N.A.	(93)	281	N.A.
foreign exchange (gain) / loss, net	(73)	52	N.A.	(273)	517	N.A.
Adjusted net profit	**520**	**459**	**12%**	**1,587**	**1,326**	**19%**
Total revenue	1,287	1,070	20%	4,005	2,915	37%
Adjusted net profit margin	**40%**	**43%**	**(3) ppts**	**40%**	**45%**	**(5) ppts**

[18] For additional information on revenue stabiliser, cross-currency and interest rate swaps, see Note 14 of the consolidated financial statements.

Statement of financial position review

DEBT

As at 31 December 2019, the Company's gross debt increased to $5,086 million, compared to $4,855 million as at 30 September 2019 and to $3,982 million as at 31 December 2018.

In the second quarter of 2019, the Company repaid the principal amount on credit facilities nominated in RUB and liabilities under cross-currency swaps totaling $1 billion, utilising a RUB 65 billion credit facility with Sberbank due in 2024.

In the fourth quarter of 2019, Polyus has issued RUB20 billion 10-year (with a put in 5 years) rouble bond and entered into cross-currency swaps with banks to convert those amounts into a fixed-rate USD liability (approximately $310 million), following the placement. The interest rate was set at 3.23%, the lowest rate across the existing Polyus' debt portfolio, excluding convertibles.

The share of fixed-rate liabilities within the Company's debt portfolio stood at 97% as at the end of 2019.

As of 31 December 2019, the group had a lease liability in the amount of $80 million, which is discussed further within note 2 of the consolidated financial statements. This follows the introduction of IFRS 16 "Leases" approved by the International Accounting Standard Board.

Debt breakdown by type

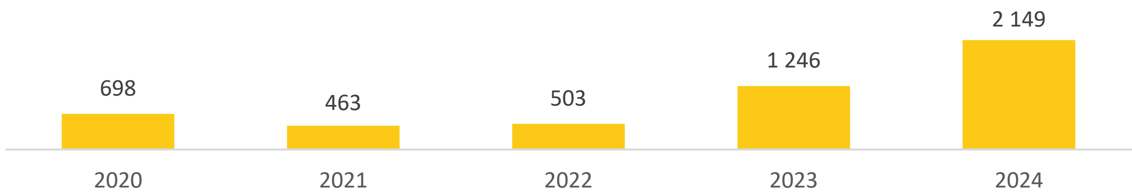
$ million	31 December 2019	30 September 2019	31 December 2018
Eurobonds	2,408	2,406	2,404
Convertible bonds	194	192	186
RUB bonds	566	235	218
Lease	80	81	10
Bank loans	1,838	1,941	1,164
Total	**5,086**	**4,855**	**3,982**

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

Debt breakdown by currency

	31 December 2019		30 September 2019		31 December 2018	
	$ million	% of total	$ million	% of total	$ million	% of total
RUB	1,945	38%	1,560	32%	762	19%
USD	3,141	62%	3,295	68%	3,220	81%
Total	**5,086**	**100%**	**4,855**	**100%**	**3,982**	**100%**

Debt maturity schedule (as at 31 Dec 2019)[19], $ million



[19] The breakdown is based on actual maturities and excludes $46 million of banking commissions and deduction of convertion option component of convertible bonds and the lease liabilities recognised under IFRS 16 as of 31 December 2019 in amount of $73 million.

CASH AND CASH EQUIVALENTS AND BANK DEPOSITS

As at 31 December 2019, the group's cash and cash equivalents and bank deposits totalled 1,801 million, up 17% compared to the end of the third quarter of 2019. Among other factors, the change in cash position reflects a dividend payout for the first half of 2019 in amount of $342 million.

The group's cash position is primarily held in USD-denominated instruments. Existing cash balances cover all principal debt repayments up to 2022.

Cash, cash equivalents, and bank deposits breakdown by currency

$ million	31 December 2019	30 September 2019	31 December 2018
RUB	142	128	132
USD	1,659	1,410	764
Total	**1,801**	**1,538**	**896**

NET DEBT

At the end of the fourth quarter of 2019, the group's net debt amounted to $3,285 million, remaining almost flat compared to the end of the third quarter and up 6% compared to the end of 2018. This is primarily a result of solid cash flow generation during 2019.

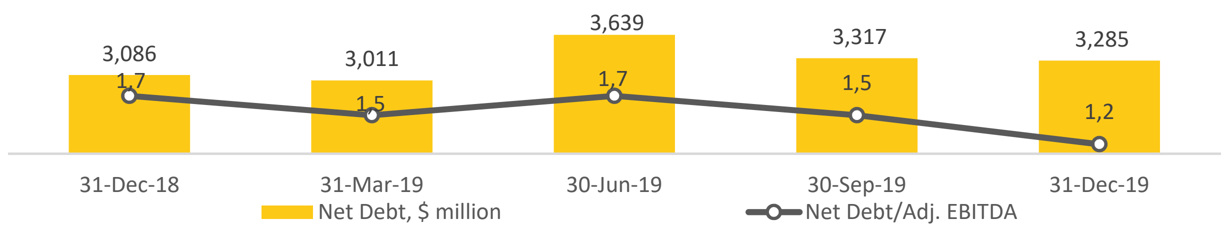
Accounting for debt-related derivative assets and liabilities under cross-currency and interest rate swaps, the company's net debt stands at $3,253 million as compared to $3,677 million as of the end of 2018, reflecting a solid cash flow generation during 2019. In addition, Polyus repaid the liabilities under cross-currency swaps in amount of $472 million in 2019.

Net debt calculation

$ million	31 December 2019	30 September 2019	31 December 2018
Non-current borrowings	4,382	4,156	3,975
+ Current borrowings	704	699	7
– Cash and cash equivalents	(1,801)	(1,538)	(896)
Net debt	**3,285**	**3,317**	**3,086**
Net debt (incl. derivatives)[20]	**3,253**	**3,393**	**3,677**

The net debt/adjusted EBITDA ratio decreased to 1.2x compared to the end of 2018, reflecting a growth in adjusted EBITDA for the last 12 months.

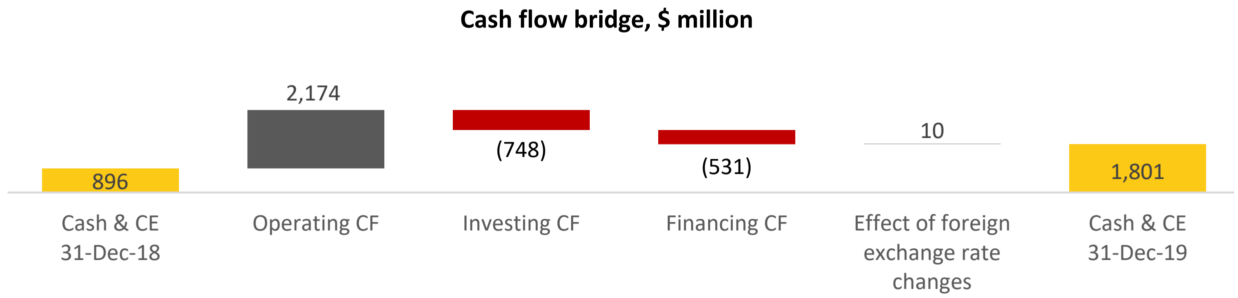
Net debt and net debt/adjusted EBITDA (last 12 months)[21] ratio



[20] Net debt includes liabilities and assets under cross-currency and interest rate swaps as at reporting date.

[21] 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 31 December 2019, Adjusted EBITDA is calculated as the twelve months ended on 31 December 2019. For the purpose of the net debt to Adjusted EBITDA ratio as of 30 September 2019, Adjusted EBITDA is calculated as the trailing twelve months ended on 30 September 2019 (being Adjusted EBITDA for 2018 less Adjusted EBITDA for the nine months ended 30 September 2018 plus Adjusted EBITDA for the nine months ended 30 September 2019). For the purpose of the net debt to Adjusted EBITDA ratio as of 30 June 2019, Adjusted EBITDA is calculated as the trailing twelve months ended on 30 June 2019 (being Adjusted EBITDA for 2018 less Adjusted EBITDA for the six months ended 30 June 2018 plus Adjusted EBITDA for the six months ended 30 June 2019). For the purpose of the net debt to Adjusted EBITDA ratio as of 31 March 2019, Adjusted EBITDA is calculated as the trailing twelve months ended on 31 March 2019 (being Adjusted EBITDA for 2018 less Adjusted EBITDA for the three months ended 31 March 2018 plus Adjusted EBITDA for the three months ended 31 March 2019). For the purpose of the net debt to Adjusted EBITDA ratio as of 31 December 2018, Adjusted EBITDA is calculated as the twelve months ended on 31 December 2018

Statement of cash flows review



In the fourth quarter, net cash generated from operations was $682 million, compared to $603 million in the third quarter, due to higher sales volumes in the reporting period. Net cash utilised in investing activities decreased to $194 million compared to $201 million in the previous quarter, as higher capex spending during the period was fully offset by $23 million of proceeds received from the Federal Grid Company for the disposal of Razdolinskaya-Taiga, in line with initial agreements. Net cash utilised in financing activities totalled $231 million, mainly reflecting $342 million in dividend payments for the first half of 2019.

In 2019, cash flow from operations increased to $2,174 million, up 48% compared to $1,464 million in 2018. Cash outflow on investing activities amounted to $748 million, due to lower cash spent on purchase of property, plant and equipment (“PP&E”) in 2019. Net financing cash outflow totalled $531 million, reflecting the inflow of $1,300 million of proceeds from borrowings, the repayment of $877 million of derivative liabilities and credit facilities combined and $638 million of dividend payments for the second half of 2018 and the first half of 2019.

OPERATING CASH FLOW

In the fourth quarter, the group generated operational cash inflow of $682 million, which was negatively impacted by a working capital outflow of $73 million. This figure primarily reflects an increase in trade receivables related to sales of merchant gold containing flotation concentrate and antimony-rich flotation concentrate and accumulation of ore stockpiles at Natalka, Olimpiada and Blagodatnoye. However, this was partially offset by the decrease in the amount of gold in inventory at the refinery as well as the decrease of the flotation concentrate inventory.

For the full year of 2019, the group generated operational cash inflow of $2,174 million, which was negatively impacted by a working capital outflow of $236 million. The latter was mainly driven by an accumulation of ore stockpiles across hard rock deposits, an increase in receivables related to sales of merchant gold containing flotation concentrate and growth of consumables, spares and fuel stocks at Olimpiada, Blagodatnoye and Natalka.

INVESTING CASH FLOW

In the fourth quarter, capital expenditures increased to $220 million, from $157 million in the third quarter. For the full year of 2019 capital expenditures decreased to $630 million from the $736 million in the previous year. This decrease mainly reflects the lower capital expenditures at Natalka, Olimpiada and Blagodatnoye.

In 2019, capital expenditures at Natalka decreased to $155 million, down 32% compared to the previous year as the Company had completed active phase of construction activities and mining fleet procurement in 2018. Separately, Polyus ceased the capitalization of borrowing costs and other directly attributable operating costs at Natalka, starting the third quarter of 2018.

Polyus continued development works at the Mill's auxiliary and infrastructure facilities as well as mining fleet procurement. This included construction of a slurry pipeline and starter dams at a new tailings facility. The mining fleet was expanded with the delivery of two Caterpillar 186t dump trucks and one TYHI WK-20 shovel.

The Company is continuing to implement operational initiatives, targeting further recovery rate improvement at Natalka. In the fourth quarter of 2019, Polyus debottlenecked the first stage of gravity concentration by introducing four additional Knelson concentrators, bringing the total number of concentrators operating at the first stage up to 26. Polyus has identified a set of additional development initiatives for the Mill, scheduled for 2020, which includes the roll-out of flash flotation with CIL expansion and introduction of concentration shaker tables at the first stage of the gravity circuit.

At Olimpiada, capital expenditures increased to $67 million in the fourth quarter compared to $38 million in the previous reporting period. During the fourth quarter of 2019, Polyus delivered seven 220-tonne CAT 793D trucks, two 140-tonne Komatsu HD1500 trucks, two 90-tonne CAT 777E trucks and one Komatsu PC1250-8 excavator. In addition, Polyus has completed the installation of the Jameson Cell flotation unit at Mill No. 1 and is in the process of installing of two Jameson Cell flotation units at Mill No. 3.

In 2019, capital expenditures at Olimpiada decreased 9%, to $165 million, as the Company completed an active phase of mining fleet procurement and construction of Bio Oxidation circuit ("BIO-4") in the previous year. Polyus continued to implement a set of initiatives that lead to higher recoveries, in particular a roll-out of four flash-flotation units at the Olimpiada mills complex. The Company is also proceeding with ramp-up and calibration of processing parameters of the second stage of alkaline leaching, following the completion of construction works in 2019.

In addition, Polyus has already approved and proceeded with a number of initiatives, allowing for BIO units performance improvement. This includes the ongoing modernization of BIO-3 unit, introduction of magnet separation and upgrade of automation and cooling systems. Polyus is proceeding with construction of two additional reactors at BIO-4 unit and two agitation tanks. The Company currently evaluates further steps to upgrade and expand its existing bio-oxidation facilities with an option to construct an additional BIO-5 unit. Polyus is continuing to implement a throughput capacity expansion project at Olimpiada, aimed at stabilising at 13.4 million tonnes per annum with potential to expand it further.

At Blagodatnoye, capital expenditures remained broadly flat quarter-on-quarter and amounted to $10 million. In 2019, capital expenditures decreased to $37 million compared to $71 million in 2018 mainly due to completion of active phase of mining fleet procurement in 2018. The Company proceeds with initiatives targeting further recovery improvement and stabilisation of current processing parameters. Polyus completed the roll out of flash flotation in 2019. During the reporting period, the Company added Jameson Cell flotation unit at Mill-4 for further recovery improvement. Polyus is now considering a construction of a new mill (Mill-5), with capacity of 6.0 million tonnes per annum, bringing total processing capacity at Blagodatnoye to 15 million tonnes per annum. The Feasibility Study expects to be completed in the first half of 2020.

At Verninskoye, capital expenditures increased to $20 million in the fourth quarter due construction works related to the Mill expansion project as well as spendings on tailings storage facility maintenance. In 2019, capital expenditures increased 27% to $57 million as the Company entered an active stage of the Mill expansion project.

At Kuranakh, capital expenditures amounted $15 million in the fourth quarter of 2019, reflecting the scheduled replacement of the mining fleet. For the full year of 2019, capital expenditures at Kuranakh decreased 32%, to $39 million, compared to 2018, as the main construction activities for the launch of heap leaching operations and the mill capacity expansion project had been subsided in the reporting year.

In 2019, Polyus completed commissioning of an additional thickener and new adsorption line. The Kuranakh Mill throughput capacity reached 5.8 million tonnes on an annualized basis in the second half of 2019. At the heap leaching operations interlift liners for the second lift were layed and mobile conveyor equipment was delivered. In the reporting period Polyus launched the construction of the second heap leaching pad.

At Alluvials, capital expenditures amounted to $21 million in 2019 and consisted of ongoing replacement of worn-out equipment as well as the exploration activity.

IT-related capital expenditures remained flat in the fourth quarter though increasing 9% to $51 million in 2019 compared to the previous year, mainly due to the continued implementation of the ERP program and related IT projects.

At Sukhoi Log, in 2019 Polyus completed the exploration and verification drilling programme of approximately 204 kilometres launched in 2017. Additionally, in December 2019, the Company completed geotechnical, hydrogeological drilling (approximately 18 kilometres) required for the design of the Sukhoi Log pit. The Company has completed a comprehensive assessment of the drilling samples obtained during the exploration and verification programme.

In line with the initial schedule, based on the assessment results, the Company expects to provide a further update on the Inferred & Indicated Mineral Resources estimates and to publish a maiden Ore Reserve estimate for Sukhoi Log in 2020.

The Pre-Feasibility Study of the Sukhoi Log project is at an advanced stage. In 2019, Polyus completed trade-off studies on comminution and throughput capacity, gravity and flotation circuits, loading and drilling mining equipment. The development of geological, geophysical and hydrometeorological surveys has been completed. The results of these surveys will be used for infrastructure layout and processing facilities design.

In 2020, Polyus plans to complete an additional 30,000 meters of in-fill drilling at Sukhoi Log. The drilling works will be focused on the future pit area, where Polyus expects to carry out mining activities during the first years of Sukhoi Log's operations. This will allow the Company to better define the gold mineralisation within this area and support the more accurate planning and sequence of mining works.

The Company also plans to conduct additional drilling at Sukhoi Log's flanks and deep levels in 2020.

Capex breakdown[22]

$ million	4Q 2019	3Q 2019	Q-o-Q	2019	2018	Y-o-Y
Natalka, including:						
Purchase of equipment	47	37	27%	155	169	(8%)
Capitalisation of borrowing costs	-	-	N.A.	-	54	(100%)
Operating costs	-	-	N.A.	-	25	(100%)
Net proceeds from selling gold produced during the ramp-up period	-	-	N.A.	-	(20)	(100%)
Natalka, total	47	37	27%	155	228	(32%)
Olimpiada	67	38	76%	165	182	(9%)
Blagodatnoe	10	9	11%	37	71	(48%)
Verninskoye	20	11	82%	57	45	27%
Alluvials	5	5	0%	21	24	(13%)
Kuranakh	15	10	50%	39	57	(32%)
Sukhoi Log	7	7	0%	28	23	22%
IT capex	20	13	54%	51	47	9%
Other[23]	29	27	7%	77	59	31%
CAPEX	**220**	**157**	**40%**	**630**	**736**	**(14%)**
Omchak electricity transmitting line	8	5	60%	26	36	(28%)
Items capitalised[24], net	35	45	(22%)	161	95	69%
Change in working capital for purchase of property, plant and equipment	(29)	6	N.A.	(22)	(17)	29%
Purchase of PP&E[25]	**234**	**213**	**10%**	**795**	**850**	**(6%)**

In the fourth quarter, the total cash amount spent on the purchase of PP&E increased to $234 million, compared to $213 million in the previous quarter. This mainly reflects the respective increase in total capital expenditures outlined above.

In 2019, the total cash spent on the purchase of PP&E decreased to $795 million compared to $850 million in the previous year. This mainly reflects the respective decrease in capex spending at Natalka and almost all hard rock deposits during the full year of 2019.

Other investing activities in 2019 comprised of $48 million of interest received and $23 million of cash received from the Federal Grid Company for the disposal of Razdolinskaya-Taiga, in line with initial agreements. In addition, the Company received $3 million of proceeds from the Federal Treasury under Government Grant agreement related to construction of the Omchack electricity transmitting line.

FINANCING CASH FLOW

In the fourth quarter, net financing cash outflow totalled $231 million compared to $107 million of cash outflow in the prior period, primarily due to the dividend payout for the first half of 2019, which totalled $342 million.

For the full year of 2019, net financing cash outflow totalled $531 million compared to $936 million in the previous year. Polyus completed a repayment of approximately $1,249 million of credit facilities and paid out a total of $638 million in dividends for the second half of 2018 and the first half of 2019 combined.

[22] 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.
[23] Reflects expenses related to exploration business unit, IT projects and construction of Razdolinskaya-Taiga, Peleduy-Mamakan grid lines.
[24] Including capitalised stripping costs net of capitalised interest on loans and capitalised within capital construction-in-progress. For more details see Note 12 of the consolidated financial statements.
[25] Presented net of the Sukhoi Log deposit license acquisition cost and payments to Rostec.

DIVIDEND UPDATE

The Board of Directors of the Company (the «Board») has considered and preliminarily approved the dividends for the second half of 2019 that it intends to recommend for approval by the Company's annual general shareholders' meeting. In aggregate these dividends are the ruble equivalent of $462 million. Based on the current number of outstanding shares dividend per share for the second half of 2019 is expected to be $3.5 per ordinary share. Polyus's current dividend policy suggests the total dividend payout in respect of 2019 as 30% of the Company's EBITDA for the year. The total dividend payout for the full year of 2019 will thus correspond to $804 million. This amount includes $342 million paid out in form of dividend for the first half of 2019.

Outlook

PRODUCTION GUIDANCE

Based on the performance in 2019, Polyus reiterates its production guidance for the full year of 2020 at 2.8 million ounces. The Company continues to implement brownfield development projects to strengthen its operational profile.

TCC GUIDANCE

Polyus further refines its initial total cash costs ("TCC") guidance for 2020 of below $450 per ounce. The Company now expects TCC for 2020 to stay within the range of $400 - $450 per ounce.

The Company anticipates a gradual increase in TCC from the 2019 level of $365 per ounce, driven mainly by inflationary factors in 2020. The estimate continues to be based on the assumptions of foreign exchange rate of 60 roubles per dollar and gold price of $1,200 per ounce.

CAPEX GUIDANCE

In 2020, the Company expects capex to stay within the range of $700-750[26] million, compared to the previous estimate of $550 million, initially provided in March 2018.

The updated capex guidance reflects:

1. **The introduction of new development projects.**

   The list of new approved projects includes the Verninskoye Mill expansion to 3.5 million tonnes per annum and further debottlenecking of the Natalka Mill. The feasibility study on the upgrade of BIO facilities at Olimpiada and engineering design works on Mill-5 at Blagodatnoye are also included in the estimate. Polyus plans to announce the final investment decision on these projects and provide a detailed overview in 2020.

   The abovementioned projects represent the second phase of Polyus' development. Polyus continues to focus on high-return projects with an expected internal rate of return of over 20%, based on conservative assumptions: a gold price of $1,050 per ounce and foreign exchange rate of 60 roubles per dollar.

2. **An increased exploration budget.**

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

Alongside the drilling programme at Sukhoi Log, Polyus is intensifying its exploration activities at the core assets, which includes extensive hydrogeology, geomechanics, flank and deep level drilling studies.

3. **Capex rollover mainly related to infrastructure projects.**

4. **Increased spending on IT and other small-scale initiatives.**

   Polyus is continuing with the further roll out of IT infrastructure improvement initiatives and its ERP transformation programme across the group.

5. **Inflation accumulated since 2018.**

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 2019 the group held $ 1,801 million in cash and cash equivalents and bank deposits and had a net debt of $ 3,285 million, with $1,433 million of unused credit facilities, subject to covenant compliance. Details on borrowings and credit facilities are disclosed in note 19 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 2018. Detailed explanation of the risks summarized below, together with the group's risk mitigation plans, can be found on pages 32 to 34 of the 2018 Annual Report which is available at http://www.polyus.com/upload/iblock/52e/polyus-annual-review-2018-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 2019, 92% 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 20).

Interest rate risk

The group is not materially exposed to interest rate risk, as only 3% of the group's debt portfolio is made up of USD floating rate borrowings.

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 of 31 December 2019 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 of 31 December 2019 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
Valuation of financial instruments (Notes 4.2.4, 14 and 27) The group entered into a number of different derivative contracts in order to mitigate its exposure to gold price and currency fluctuations and reduce interest rate risk. The group did not apply hedge accounting. The carrying value of the group's net derivative financial liabilities amounted to \$38 million as of 31 December 2019 (31 December 2018: \$621 million). The most complex of these instruments is the Revenue Stabiliser, represented by barrier collar agreements, used to manage gold price fluctuations. Additionally, cross-currency swaps which economically hedge the Russian rouble denominated principal and interest payments against foreign currency and interest rate risks, may have a material effect on the consolidated financial statements because of significant nominal amounts. The fair value of derivatives is sensitive to changes in one or more key inputs, including gold price, exchange rate, interest rate and the credit risk valuation adjustment. The valuation of these contracts is complex and involves management's judgements and estimates, which could significantly affect the amounts recognised in the consolidated financial statements. Based on the above, we determined this issue to be a key audit matter.	We performed the following procedures with respect to valuation of derivative financial instruments: • Obtained an understanding of the process of identifying and measuring derivatives; • Checked the appropriateness and consistency of the methodology used by management for the valuation, including assessment of major inputs and methods of valuation for compliance with the requirements set out in IFRS 13; • On a sample basis performed independent valuation of these derivatives using key assumptions, including the gold price, exchange rate and interest rate based on information available on the market, and compared it with the client valuation; • Considered the adequacy of the related disclosure in the group's consolidated financial statements.
Recoverability of exploration and evaluation ("E&E") assets (Notes 4.2.2, 12) The carrying value of the group's E&E assets amounted to \$611 million as of 31 December 2019 (31 December 2018: \$505 million), \$452 million (31 December 2018: \$377 million) of which related to the Sukhoi Log gold deposit, which is at the pre-feasibility study stage. The assessment of each E&E asset of the group is based on many facts and assumptions and involves management judgement. There is a risk that the carrying amounts of the E&E assets may exceed their recoverable amounts. Because of significance of this balance to the group's consolidated 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; • Reviewed approved exploration budgets for 2020 in order to confirm that exploration projects were ongoing and have the committed funding; and • Reviewed an actual versus budget 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 the 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 scepticism 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 to 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. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Olga Tabakova,
Engagement partner

11 February 2020

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, Taimyr (Dolgan-Nenetsk) and Evenki autonomous okrugs

Address: 123056, Russian Federation, Moscow, Krasina Street, 3/1, office 801.

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-regulatory organization of auditors Association "Sodruzhestvo", ORNZ 12006020384.

PJSC “Polyus”

Consolidated financial statements
for the year ended 31 December 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in millions of US Dollars)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Gold sales	5	3,965	2,876
Other sales		40	39
Total revenue		**4,005**	**2,915**
Cost of gold sales	6	(1,405)	(1,035)
Cost of other sales		(33)	(29)
Gross profit		**2,567**	**1,851**
Selling, general and administrative expenses	7	(295)	(236)
Other expenses, net		(55)	(91)
Operating profit		**2,217**	**1,524**
Finance costs, net	8	(254)	(201)
Interest income		48	26
Gain / (loss) on revaluation of derivative financial instruments, net	9	93	(281)
Foreign exchange gain / (loss), net		273	(517)
Profit before income tax		**2,377**	**551**
Income tax expense	10	(433)	(77)
Profit for the year		**1,944**	**474**
Profit for the year attributable to:			
Shareholders of the Company		1,931	456
Non-controlling interests		13	18
		1,944	**474**
Weighted average number of ordinary shares '000			
- for basic earnings per share	18	133,017	132,251
- for dilutive earnings per share	18	133,317	134,745
Earnings per share (US Dollar per share)			
- basic		14.52	3.45
- dilutive		14.48	3.30

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019
(in millions of US Dollars)

	Year ended 31 December	
	2019	**2018**
Profit for the year	**1,944**	**474**
Other comprehensive income / (loss) for the year		
Items that may be subsequently reclassified to profit or loss:		
Effect of translation to presentation currency	105	(119)
Items that will not be subsequently reclassified to profit or loss:		
Increase in other reserves	-	2
Other comprehensive income / (loss) for the year	**105**	**(117)**
Total comprehensive income for the year	**2,049**	**357**
Total comprehensive income for the year attributable to:		
Shareholders of the Company	2,025	357
Non-controlling interests	24	-
	2,049	**357**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019
(in millions of US Dollars)

	Notes	31 December 2019	31 December 2018
Assets			
Non-current assets			
Intangible assets	11	123	73
Property, plant and equipment	12	4,680	3,720
Inventories	13	431	277
Deferred tax assets	23	134	120
Derivative financial instruments	14	98	6
Other receivables		30	60
Other non-current assets		6	9
		5,502	**4,265**
Current assets			
Inventories	13	659	557
Deferred expenditure		17	14
Derivative financial instruments	14	1	1
Advances paid to suppliers and prepaid expenses		26	30
Trade and other receivables	15	197	94
Taxes receivable	16	124	166
Cash and cash equivalents	17	1,801	896
		2,825	**1,758**
Total assets		**8,327**	**6,023**
Equity and liabilities			
Capital and reserves			
Share capital	18	5	5
Additional paid-in capital	18	2,049	1,949
Treasury shares	18	(103)	(67)
Translation reserve		(2,727)	(2,824)
Retained earnings		2,586	1,300
Equity attributable to shareholders of the Company		**1,810**	**363**
Non-controlling interests		103	87
		1,913	**450**
Non-current liabilities			
Borrowings	19	4,382	3,975
Derivative financial instruments	14	130	118
Deferred revenue	20	126	117
Deferred consideration	21	119	168
Deferred tax liabilities	23	308	207
Site restoration, decommissioning and environmental obligations		64	40
Other non-current liabilities		32	29
		5,161	**4,654**
Current liabilities			
Borrowings	19	704	7
Derivative financial instruments	14	7	510
Deferred consideration	21	57	57
Trade and other payables	22	355	289
Taxes payable	24	130	56
		1,253	**919**
Total liabilities		**6,414**	**5,573**
Total equity and liabilities		**8,327**	**6,023**

PJSC “POLYUS”

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(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	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
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**
Other comprehensive income / (loss)		-	-	-	-	2	(101)	-	**(99)**	(18)	**(117)**
Total comprehensive income / (loss)		**-**	**-**	**-**	**-**	**2**	**(101)**	**456**	**357**	**-**	**357**
Equity-settled share-based compensation (LTIP), net of tax		-	-	18	-	-	-	-	**18**	-	**18**
Shares awarded for LTIP		*415*	-	(17)	22	-	-	(6)	**(1)**	-	**(1)**
Increase ownership in subsidiaries		-	-	-	-	-	-	-	**-**	(2)	**(2)**
Dividends declared to shareholders of non-controlling interests		-	-	-	-	-	-	-	**-**	(3)	**(3)**
Dividends declared to shareholders of the Company		-	-	-	-	-	-	(575)	**(575)**	-	**(575)**
Balance at 31 December 2018		***132,339***	**5**	**1,949**	**(67)**	**-**	**(2,824)**	**1,300**	**363**	**87**	**450**
Profit for the year		-	-	-	-	-	-	1,931	**1,931**	13	**1,944**
Other comprehensive income		-	-	-	-	-	94	-	**94**	11	**105**
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**94**	**1,931**	**2,025**	**24**	**2,049**
Equity-settled share-based compensation (LTIP), net of tax	18	-	-	29	-	-	-	-	**29**	-	**29**
Shares awarded for LTIP	18	*487*	-	(18)	27	-	-	(12)	**(3)**	-	**(3)**
Issue and buy-back of treasury shares	18	-	-	83	(83)	-	-	-	**-**	-	**-**
Purchase of additional ownership in SL Gold (payable in treasury shares)	21	*370*	-	6	20	-	3	-	**29**	-	**29**
Dividends declared to shareholders of non-controlling interests		-	-	-	-	-	-	-	**-**	(8)	**(8)**
Dividends declared to shareholders of the Company	18	-	-	-	-	-	-	(633)	**(633)**	-	**(633)**
Balance at 31 December 2019		***133,196***	**5**	**2,049**	**(103)**	**-**	**(2,727)**	**2,586**	**1,810**	**103**	**1,913**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in millions of US Dollars)

	Notes	Year ended 31 December 2019	2018
Operating activities			
Profit before income tax		**2,377**	**551**
Adjustments for:			
Finance costs, net	8	254	201
Interest income		(48)	(26)
(Gain) / loss on revaluation of derivative financial instruments, net	9	(93)	281
Depreciation and amortisation		367	236
Foreign exchange (gain) / loss, net		(273)	517
Other		76	64
		2,660	**1,824**
Movements in working capital			
Inventories		(151)	(114)
Deferred expenditure		(1)	(5)
Trade and other receivables		(82)	4
Advances paid to suppliers and prepaid expenses		4	(12)
Taxes receivable		(9)	(1)
Trade and other payables and accrued expenses		1	4
Taxes payable		2	(27)
Cash flows from operations		**2,424**	**1,673**
Income tax paid		(250)	(209)
Net cash generated from operating activities		**2,174**	**1,464**
Investing activities[1]			
Purchase of property, plant and equipment (excluding purchase of additional ownership in LLC SL Gold and construction of the Omchak high-voltage power grid)		(769)	(814)
Purchase of additional ownership in LLC SL Gold	21	(28)	-
Payments for the Omchak high voltage power grid	5	(26)	(36)
Interest received		48	26
Proceeds from government grants[2]		3	13
Proceeds from disposal of electricity transmission grids		23	15
Other		1	4
Net cash utilised in investing activities		**(748)**	**(792)**
Financing activities[1]			
Proceeds from borrowings		1,300	1,125
Repayment of borrowings		(405)	(1,249)
Interest paid		(272)	(253)
Commissions on borrowings paid		(6)	(17)
Payments on initial exchange of principal amounts under cross currency swaps		(28)	-
Payments on expiration of cross-currency swaps		(472)	-
Repayments of lease liability		(15)	(4)
Net proceeds on exchange of interest payments under cross currency swaps	8	42	34
Net proceeds on exchange of interest payments under interest rate swaps	8	2	2
Payments for modification and partial close out of revenue stabilizer	14	(30)	-
Dividends paid to shareholders of the Company		(638)	(569)
Dividends paid to shareholders of non-controlling interests		(9)	(4)
Other		-	(1)
Net cash utilised in financing activities		**(531)**	**(936)**
Net increase / (decrease) in cash and cash equivalents		**895**	**(264)**
Cash and cash equivalents at the beginning of the year	17	**896**	**1,204**
Effect of foreign exchange rate changes on cash and cash equivalents		10	(44)
Cash and cash equivalents at the end of the year	17	**1,801**	**896**

[1] Significant non-cash transactions relating to investing (right-of-use assets recognition, deferred consideration and LTIP payments in treasury shares) and financing activities (lease liabilities recognition and debt modification) are disclosed in the notes 2.4, 18, 19 and 21 to these consolidated financial statements, respectively.

[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 20).

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 29.

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 of 31 December 2019 and 2018, 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 2019

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
IFRS 16	Leases	1 January 2019	For the effect see below
Amendments to IFRS 9	Prepayment Features with Negative Compensation and modifications of financial liabilities	1 January 2019	No effect
IFRIC 23	Uncertainty over Income Tax Treatment	1 January 2019	No effect
Amendments to IAS 12	Income tax consequences of dividends	1 January 2019	No effect
Amendments to IAS 19	Plan Amendments, Curtailment and Settlement	1 January 2019	No effect
Amendments to IAS 23	Treatment of borrowings after the related asset is ready for its intended use or sale	1 January 2019	No effect

IFRS 16

Starting from 1 January 2019, the group applied, for the first time, IFRS 16 "*Leases*" (hereinafter "IFRS 16") issued by the International Accounting Standard Board.

IFRS 16 introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requires the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The group reassessed whether all contracts contained leases at the date of initial application of IFRS 16 and starting from 1 January 2019, recognised a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee. Previously, such a liability except for finance leases was not presented in the financial statements due to the fact that it was treated as an operating lease in accordance with IAS 17 "*Leases*". Accounting policy related to IFRS 16 is presented in section *3.10 "Leases"* below.

Transition to IFRS 16

The group applied IFRS 16 on a modified retrospective basis with the overall effect of the initial application of the standard, presented below:

- In these consolidated financial statements for the year ended 31 December 2019, the group has not restated comparative information for the year ended 31 December 2018 and as of 31 December 2018;
- As of 1 January 2019, the group recognised a lease liability in the amount of USD 63 million, calculated as net present value of the remaining lease payments (as of the application date), discounted using the group's weighted average incremental borrowing rate of 5.15% as of 1 January 2019;
- As of 1 January 2019, the group recognised an asset in the form of a right-of-use in the amount of USD 64 million;
- The group applies IAS 36 Impairment of Assets to an asset in the form of a right-of-use. As of 1 January 2019, no indicators of impairment were identified.

The group has applied the following practical expedients at the transition date and for the subsequent accounting:

- An exemption for short-term lease agreements that expire within 12 months from the date of initial application;
- Not including initial direct costs in the measurement of the right-of-use asset as of the date of initial application;
- Applying a single discounting rate related to the portfolio of agreements with reasonably similar characteristics.

(in millions of US Dollars)

The group excluded the following lease agreements from the measurement of lease liabilities and continues to account lease payments associated with those leases as an expense:

- With variable lease payments that do not depend on index or a rate; and
- Those to explore for or use minerals and similar non-regenerative resources (note 26).

The following table reconciles the group’s operating lease obligations at 31 December 2018, as previously disclosed in the group’s consolidated financial statements for the year then ended, to the lease obligations recognised on initial application of IFRS 16 at 1 January 2019.

	Related party transactions	Non-related party transactions	Total
Operating lease commitments at 31 December 2018	**74**	**56**	**130**
Exemption of land to explore for or use minerals, leases with variable payments, short term leases	-	(46)	(46)
Effect of inflation based indexation of lease payments	7	1	8
Effect of discounting	(23)	(6)	(29)
Finance lease liabilities under IAS 17	-	10	10
Lease liabilities recognised as of 1 January 2019	**58**	**15**	**73**
Accumulated depreciation on leased assets under IAS 17	-	(6)	(6)
Effect of discounting of deposit under lease agreement	1	-	1
Rights-of-use assets recognised as of 1 January 2019 (including USD 4 million of assets previously recognised under IAS 17)	**59**	**9**	**68**

Right-of-use assets

Movements of the right-of-use assets for the year ended 31 December 2019 are as follows:

	Related party transactions	Non-related party transactions	Total
Rights-of-use assets as of 1 January 2019 (including USD 4 million of assets previously recognised under IAS 17)	**59**	**9**	**68**
Additions	-	13	13
Depreciation charge	(4)	(6)	(10)
Effect of translation to presentation currency	3	6	9
Right-of-use assets as of 31 December 2019	**58**	**22**	**80**

The most significant leases of the group are office leases.

Lease liabilities

Movements of the lease liabilities for the year ended 31 December 2019 are as follows:

	Related party transactions	Non-related party transactions	Total
Lease liabilities as of 1 January 2019	**58**	**15**	**73**
New lease contracts	-	13	13
Foreign exchange gain	(6)	-	(6)
Interest on lease liabilities	3	2	5
Repayments of lease liability	(7)	(8)	(15)
Effect of translation to presentation currency	5	5	10
Lease liabilities as of 31 December 2019	**53**	**27**	**80**

(in millions of US Dollars)

Maturity profile of lease liabilities

Future minimum undiscounted lease payments due under lease agreements as of 31 December 2019 were as follows:

	Related party transactions	Non-related party transactions	Total
Due within one year	6	8	14
From one to five years	23	25	48
Thereafter	43	2	45
Total	**72**	**35**	**107**

Lease expenses

Lease related expenses for the year ended 31 December 2019 includes the following components:

	Year ended 31 December 2019
Expenses for leases with variable lease payments that do not depend on index or a rate	6
Other	3
Sub-total	**9**
Interest on lease liabilities	5
Depreciation of rights-of-use assets	10
Sub-total	**15**
Total lease related expenses	**24**

2.5. IFRS standards to be applied after 2019

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

Title	Subject	Effective for annual periods beginning on or after	Expected effect on the consolidated financial statements
Amendment IFRS 3	Business Combinations	1 January 2020	No effect
Amendments IAS 1 and IAS 8	Definition of Material	1 January 2020	No effect
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
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	Identification of interest rate in hedge accounting	1 January 2020	No effect
IFRS 17	Insurance Contracts	1 January 2021	No effect

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, exposure or rights to variable returns from its involvement with the investee and 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 defined above. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of loss of control.

For non-wholly owned, controlled subsidiaries, the net assets attributable to outside equity shareholders are presented as non-controlling interests in the equity section of the consolidated statement of financial position. 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.

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

Functional currency

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 and liabilities 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 the *Translation reserve* in equity (on disposal of such entities this *Translation reserve* is reclassified into the consolidated statement of profit or loss); and
- In the consolidated 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.

As of 31 December 2019, year-end RUB/ US Dollar exchange rate used in the preparation of the consolidated financial statements was 61.91 (31 December 2018: 69.47).

3.3. Foreign currencies

Transactions not denominated in RUB (functional currency of the Company and all the subsidiaries of the group) are recorded at the exchange rate prevailing on the date of the transactions. All monetary assets and liabilities not denominated in RUB 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.

3.4. Revenue

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.

Refined gold sales

The group recognises revenue from refined gold sales upon physical shipment of gold from refinery plant to customers, which are major Russian banks. Gold price is based on prevailing spot market metal prices. Cash payments are received in advance or within several days after sale.

Gold-antimony and gold flotation concentrates sales

The group has a number of sales contracts for gold flotation concentrates, which contain provisional pricing terms depending on quantity and price. Revenue from sales of gold flotation concentrates is recognised upon shipments from the railroad stations, seaports or group’s warehouses depending on the date of passing the title as per contracts with customers.

Revenue from sales of gold within gold flotation concentrates is recognised in *Gold in flotation concentrate* sales within *Gold sales*. The net income from sale of antimony contained in the gold-antimony flotation concentrate is treated as by-product sales and recognised as a decrease to *cost of gold sales* (note 3.12).

Cash payments are received within several months after the shipment when customers have processed the concentrates and extracted gold and antimony.

The adjustment to the quantity of gold in gold flotation concentrates delivered is treated as a variable consideration, thus completely recognised in *Gold in flotation concentrate sales* within *Gold sales*.

The adjustment to the gold price depends on gold market prices, therefore represents a sales contract with an embedded derivative. The embedded derivative relates to the trade receivables and fails the “solely payments of principal and interest” test under IFRS 9, thus such trade receivables are recognised and measured at fair value through profit or loss (FVTPL). The revaluation result is presented within *Gain / (loss) on revaluation of derivative financial instruments, net*.

3.5. Income tax

The income tax expense or benefit for the period consists of two components: current and deferred. Income tax expense is recognised in the consolidated statement of profit or loss except to the extent it relates to a business combination or items recognised directly in the consolidated statement of changes in equity (the group does not have any significant amounts of income tax recognised directly in the consolidated statement of changes in equity).

Current tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the group operates and generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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 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 not recognised for taxable temporary differences associated with investments in subsidiaries because 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.

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 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.

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. Intangible assets

Intangible assets are carried at cost less accumulated amortisation and impairment losses.

Intangible assets with a finite useful life are amortised on a straight-line basis over the estimated economic useful life of the asset. The amortisation of such intangible assets is included in *Cost of sales* or *Selling, general and administrative* expenses based on whether intangible asset is used in operating activities or not. Intangible assets with an infinite useful life are not amortised.

The remaining useful lives of the group's intangible assets are from 1 to 15 years.

The group applies IAS 36 *Impairment of Assets* to determine whether an intangible asset is impaired and accounts for any identified impairment loss when incurred.

3.8. Property, plant and equipment

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 life-of-mine in accordance with the mine operating plans (MOPs), whichever is shorter.

Depreciation is charged from the date a new mine reaches commercial production quantities and is included in the *Cost of sales*, *Selling, general and administrative expenses or Stripping activity assets accordingly*. The estimated remaining useful lives of the group’s significant mines and processing facilities based on the MOPs are as follows:

Olimpiada	11 years
Verninskoye	18 years
Blagodatnoye	22 years
Kuranakh	22 years
Natalka	23 years

Stripping activity asset

The group incurs stripping costs during the production phases of its surface mining operations.

The group identifies separate components towards which the stripping costs are 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. For the purposes of identification of separate components the group uses MOPs. Each discrete stage of mining identified in a MOP is considered as a unit of account. If the MOP identify several discrete stages which are scheduled to be mined consecutively (one after the another) or located in the different parts of the mine, these stages are identified as components.

The group uses an allocation basis that compares volume of waste extracted with expected volume, for a given volume of ore production in the period for the identified component of the ore body to determine if stripping costs are to be allocated to stripping activity asset or the cost of inventory.

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.

After initial recognition the stripping activity asset is carried at cost less depreciation using unit-of production method and any impairment losses.

Capital construction in progress

Assets under construction at operating mines are accounted for as capital construction in progress. When the capital construction in progress is 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.

Exploration and evaluation assets

Exploration and evaluation expenditure is 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 or Fixed assets*.

3.9. Impairment of long-lived tangible assets

Long-lived tangible assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets, which is generally at the individual mine level. An impairment review of long-lived tangible assets is carried out when there is an indication that those assets have suffered an impairment loss. There were no such indicators during 2019 and 2018.

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.

3.10. Leases

The group assesses all contracts whether they contain leases and recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee except for short-term leases and leases of low value assets.

The lease liability is initially measured at the present value of the lease payments discounted by using the rate implicit in the lease or incremental borrowing rate.

The lease liability is subsequently measured at amortised cost using the effective interest method and presented within *Borrowings* in the consolidated statement of financial position.

The group excludes the following lease agreements from the measurement of lease liabilities and accounts lease payments associated with those leases as an expense:

- With variable lease payments that do not depend on index or a rate; and
- Those to explore for or use minerals and similar non-regenerative resources (note 26).

The right-of-use assets comprise the initial measurement of the corresponding lease liability. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated on a straight-line basis over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented within *Property, Plant and Equipment* in the consolidated statement of financial position.

The group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss when incurred.

3.11. Financial instruments

Financial assets and financial liabilities are initially recognised at fair value when the group becomes a party to the contractual provisions of the instruments.

The group subsequently measures its financial instruments as follows:

- Trade receivables for gold flotation concentrates, derivatives – at FVTPL with effect of fair value change presented within note 9;
- Borrowings, cash and cash equivalents, trade and receivables (except for those at FVTPL), deferred consideration, trade and other payables – at amortised cost using the effective interest method.

The group neither applies hedge accounting nor has any financial instruments measured at fair value through other comprehensive income.

Trade receivables for gold flotation concentrates

Accounting of trade receivables for gold flotation concentrates is disclosed in 3.4 *Revenue*.

Derivatives

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

Derivatives are carried at fair value through profit or loss. Changes in the fair value of the derivative financial instruments are recognised within *Gain / (loss) on revaluation of derivative financial instruments, net* of the consolidated statement of profit or loss (note 9). Gain or loss on the exchange of interest payments under cross-currency and interest rate swaps are recognised within *Finance cost, net* (note 8). Realised gain or loss on revenue stabiliser agreements (note 14) are recognised within *Gold Sales*.

Convertible bonds contain both a derivative (*conversion option on convertible bonds* – note 14) and a non-derivative (*convertible bond* – note 19) component. As the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, the hybrid contract itself is not carried at FVTPL. The *Convertible bond* is accounted at amortised cost using the effective interest method, while the *Conversion option on convertible bonds* is accounted at FVTPL.

Borrowings

Borrowings (consisting of bonds issued, bank loans and lease liabilities) are initially recognised at fair value adjusted for directly attributable transaction costs and are subsequently accounted at amortised cost using the effective interest method.

Amortisation under the effective interest method (interest expense) and gains or losses on de-recognition or debt modification are recognised as profit or loss in the consolidated statement of income within *Finance costs, net*.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments which are:

- Readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value; or
- With original maturities of three months or less.

Impairment of financial assets

Cash and cash equivalents and non-current receivables that are determined to have a low credit risk at the reporting date and for which credit risk has not increased significantly since initial recognition, are measured based on 12-month expected credit loss (ECL).

Lifetime ECL's are recognised in respect of current receivables.

The expected credit losses on these financial assets are estimated at each reporting date 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.

Fair value

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.

3.12. Inventories

Refined gold, ore stockpiles and gold-in-process

Stockpiles are valued at a lower of the average production costs per unit of ore mined and net realisable value. Gold-in-process, refined gold and gold in flotation concentrate are valued at a lower of the average production costs per recoverable gold and net realisable value. Costs are assigned to individual items of inventory on a weighted average cost basis.

Materials and supplies

Materials and supplies consist of consumable materials and are stated at the lower of cost or net realisable value. Costs of materials and supplies are determined on a weighted average cost basis.

Antimony in gold-antimony flotation concentrate

The group produces a gold-antimony flotation concentrate. Antimony contained in the gold-antimony flotation concentrate is treated as a by-product of the gold production and is valued at its net realisable value.

3.13. Deferred expenditure

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

3.14. 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 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.

3.15. Share-based payments

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 and subsequently expensed on a straight-line basis over the vesting period, 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.

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:

4.1.1. 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 that the functional currency for each consolidated entity of the group is Russian Rouble.

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:

- Mine operating plans;
- Recoverability of the exploration and evaluation assets;
- Impairment of long-lived assets;
- Derivative financial instruments valuation; and
- Interpretation of tax legislation and recoverability of deferred tax assets.

4.2.1. Mine operating plans

The group estimates ore, stripping volumes and grades for MOPs based on the data that accounts for Joint Ore Reserves Committee Code (JORC) principles, where applicable, and considering national regulations. The MOPs are prepared based on geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity prices and exchange rates. This process requires complex and difficult geological judgements and calculations to interpret the data. The MOPs are usually updated annually to account for the newly obtained information including, but not limited to, recourse definition drilling.

MOPs are the best estimates of the group about the expected volume and timing of extraction and processing of the reserves and resources from the group's mines. MOPs are used for the planning and actual extraction of ore from the mines and affect the following amounts in the financial statements:

- Depreciation and amortisation expense, when an asset is amortised based on the units-of-production or straight-line basis (if life-of-mine is shorter than the useful economic life of the asset);
- Allocation of overburden removal (stripping) costs either to stripping activity asset or the cost of inventory, depending on proportion of ore and waste as per MOPs and actual performance in the reporting period;
- Asset retirement obligations due to expectations about the timing or cost of these activities; and
- Carrying value of deferred tax assets which depends on ability of the group to realise the related tax benefits and is impacted by the expected results of mine operation and their timing.

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. 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 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. 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. Fair values of *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.

4.2.5. Interpretation of tax legislation and recoverability of deferred tax assets

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 expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, 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 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.
- ***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.
- ***Natalka 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 20).
- ***Verninskoye business unit*** (Irkutsk region 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*** (Sakha Republic of the Russian Federation) – mining (including initial processing) and sale of gold from the Kuranakh mines.
- ***Alluvials business unit*** (Irkutsk region of the Russian Federation) – mining (including initial processing) and sale of gold from several alluvial deposits.
- ***Exploration business unit*** (Krasnoyarsk, Irkutsk, Amur and other regions of the Russian Federation) – exploration and evaluation works in several regions of the Russian Federation other than those related to Sukhoi Log deposit.
- ***Capital construction unit*** – construction works at group's deposits.
- ***Sukhoi Log business unit*** (Irkutsk region of the Russian Federation) – 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);
- Total cash cost per ounce of gold sold (TCC per ounce); and
- Capital expenditure.

Business segment assets and liabilities are not reviewed by the CODM and therefore are not disclosed in these consolidated financial statements. The group's non-current assets are located in the Russian Federation.

Business units	Gold sales	Ounces of gold sold in thousands[3]	Adjusted EBITDA	TCC[3]	TCC per ounce (US dollar)[3]	Capital expenditure
For the year ended 31 December 2019						
Olimpiada	1,906	1,416	1,381	415	293	165
Blagodatnoye	602	430	415	170	398	37
Natalka	571	405	361	160	396	155
Verninskoye	357	256	237	93	363	57
Kuranakh	317	225	174	117	523	39
Alluvials	212	146	74	119	821	21
Exploration	-	-	-	-	-	12
Capital construction	-	-	(5)	-	-	23
Sukhoi Log	-	-	-	-	-	28
Unallocated	-	-	43	(24)	-	93
Total	**3,965**	**2,878**	**2,680**	**1,050**	**365**	**630**
For the year ended 31 December 2018						
Olimpiada	1,561	1,289	1,135	344	267	182
Blagodatnoye	533	420	356	151	360	71
Natalka	65	54	11	40	747	228
Verninskoye	284	224	180	82	369	45
Kuranakh	252	199	133	102	511	57
Alluvials	181	147	52	110	746	24
Exploration	-	-	-	-	-	7
Capital construction	-	-	(5)	-	-	16
Sukhoi Log	-	-	-	-	-	23
Unallocated	-	-	3	(16)	-	83
Total	**2,876**	**2,333**	**1,865**	**813**	**348**	**736**

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

	Year ended 31 December	
	2019	2018
Profit for the year	**1,944**	**474**
Finance costs, net (note 8)	254	201
Interest income	(48)	(26)
Income tax expense	433	77
Depreciation and amortisation	367	236
Foreign exchange (gain) / loss, net	(273)	517
(Gain) / loss on revaluation of derivative financial instruments, net (note 9)	(93)	281
Equity-settled share-based plans (LTIP) (note 18)	40	24
Special charitable contributions	43	27
Property, plant and equipment impairment	9	54
Loss on disposal of property, plant and equipment	4	-
Adjusted EBITDA	**2,680**	**1,865**

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	
	2019	2018
Cost of gold sales before by-product	1,435	1,083
Antimony by-product sales	(30)	(48)
Cost of gold sales	**1,405**	**1,035**
Adjusted for:		
Depreciation and amortisation (note 12)	(349)	(295)
Effect of depreciation, amortisation, accrual and provisions in inventory change	(6)	73
TCC[3]	**1,050**	**813**
Ounces of gold sold, in thousands[3]	2,878	2,333
TCC per ounce of gold sold, USD per ounce[3]	**365**	**348**

[3] Unaudited

(in millions of US Dollars)

Gold sales

	Year ended 31 December	
	2019	2018
Refined gold	3,575	2,678
Gold in flotation concentrate	390	194
Realised gains on derivatives	-	4
Total	**3,965**	**2,876**

Gold sales reported above represent revenue generated from external customers. There were no inter-segment gold sales during the year ended 31 December 2019 and 2018.

Reconciliation of capital expenditure to the property plant and equipment additions (note 12) is presented below:

	Year ended 31 December	
	2019	2018
Capital expenditure	**630**	**736**
Construction of the Omchak high-voltage power grid	26	36
Stripping activity assets additions (note 12)	243	220
Right-of-use assets additions (note 2.4)	13	-
Less: intangible and other non-current assets additions	(51)	(50)
Property plant and equipment additions (note 12)	**861**	**942**

6. COST OF GOLD SALES

	Year ended 31 December	
	2019	2018
Depreciation and amortisation	349	295
Employee compensation	337	285
Consumables and spares	325	254
Tax on mining	192	161
Fuel	129	98
Power	59	42
Other	93	39
Total cost of production	**1,484**	**1,174**
Increase in stockpiles, gold-in-process and refined gold inventories	(79)	(139)
Total	**1,405**	**1,035**

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2019	2018
Employee compensation	188	148
Distribution expenses related to gold flotation concentrate	25	20
Depreciation and amortisation	21	11
Taxes other than mining and income taxes	20	18
Professional services	12	10
Other	29	29
Total	**295**	**236**

(in millions of US Dollars)

8. FINANCE COSTS, NET

	Year ended 31 December	
	2019	**2018**
Interest on borrowings	294	267
Gain on exchange of interest payments under cross currency swaps	(42)	(34)
Gain on exchange of interest payments under interest rate swaps	(2)	(2)
Interest on lease liabilities	5	-
Gain on an early redemption of financial liabilities	-	(5)
Unwinding of discounts	13	15
Gain on debt modification	(17)	-
Bank commission and write-off of unamortised debt cost due to early extinguishment	3	13
Sub-total finance cost, net	**254**	**254**
Interest included in the cost of qualifying assets	-	(53)
Total	**254**	**201**

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

	Year ended 31 December	
	2019	**2018**
Revaluation gain / (loss) on cross currency swaps	169	(326)
Revaluation (loss) / gain on revenue stabiliser	(10)	31
Revaluation loss on interest rate swaps	(8)	(1)
Revaluation (loss) / gain on conversion option (note 14)	(58)	15
Total	**93**	**(281)**

10. INCOME TAX EXPENSE

	Year ended 31 December	
	2019	**2018**
Current tax expense	360	127
Deferred tax expense / (income)	73	(50)
Total income tax expense	**433**	**77**

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

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.

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;
- 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)

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

- 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;
- Corporate income tax: 0% for 2019-2023; 10% for 2024-2028; and the standard 20% rate thereafter.

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	
	2019	**2018**
Profit before income tax	2,377	551
Income tax at statutory rate applicable to principal entities (20%)	**475**	**110**
Effect of the RinvP due to different tax rates (JSC Polyus Magadan and JSC Polyus Verninskoye)	(48)	(4)
Unrecognised deductible temporary differences on revaluation of derivative financial instruments	(10)	53
Tax effect of non-deductible expenses and other permanent differences	16	6
Effect of the revision of income tax rate (JSC Polyus Magadan)	-	(88)
Income tax expense	**433**	**77**

11. INTANGIBLE ASSETS

	Software	**Other**	**Total**
Cost	32	17	**49**
Accumulated amortisation and impairment	(2)	(1)	**(3)**
Net book value at 31 December 2017	**30**	**16**	**46**
Additions	40	6	**46**
Amortisation charge	(7)	(1)	**(8)**
Effect of translation to presentation currency	(8)	(3)	**(11)**
Cost	63	19	**82**
Accumulated amortisation and impairment	(8)	(1)	**(9)**
Net book value at 31 December 2018	**55**	**18**	**73**
Additions	42	9	**51**
Disposals	-	(1)	**(1)**
Amortisation charge	(9)	(2)	**(11)**
Effect of translation to presentation currency	8	3	**11**
Cost	113	28	**141**
Accumulated amortisation and impairment	(17)	(1)	**(18)**
Net book value at 31 December 2019	**96**	**27**	**123**

Software includes purchased licenses, directly attributable development costs incurred by dedicated internal project teams and external service providers.

(in millions of US Dollars)

12. PROPERTY, PLANT AND EQUIPMENT

	Fixed assets	Mine under development	Stripping activity assets	Capital construction in progress	Exploration and evaluation assets	Total
Cost	2,014	1,876	522	335	592	**5,339**
Accumulated depreciation and impairment	(1,120)	(13)	(158)	(11)	(32)	**(1,334)**
Net book value at 31 December 2017	**894**	**1,863**	**364**	**324**	**560**	**4,005**
Additions	-	190	220	488	44	**942**
Transfers	460	-	-	(460)	-	**-**
Change in site restoration, decommissioning and environmental obligations	3	-	-	-	-	**3**
Disposals	(2)	-	-	(2)	-	**(4)**
Natalka mine commissioning	1,484	(1,779)	-	294	1	**-**
Reclassification to inventory	-	(74)	-	-	-	**(74)**
Depreciation charge	(241)	-	(123)	-	-	**(364)**
Impairment	-	(49)	-	(4)	(1)	**(54)**
Effect of translation to presentation currency	(323)	(151)	(72)	(89)	(99)	**(734)**
Cost	3,467	-	611	600	532	**5,210**
Accumulated depreciation and impairment	(1,192)	-	(222)	(49)	(27)	**(1,490)**
Net book value at 31 December 2018 before transition to IFRS 16	**2,275**	**-**	**389**	**551**	**505**	**3,720**
Recognition of right-of-use assets at the transition date according to IFRS 16 (note 2.4)	64	-	-	-	-	**64**
Net book value at 1 January 2019 after transition to IFRS 16	**2,339**	**-**	**389**	**551**	**505**	**3,784**
Additions	13	-	243	541	64	**861**
Transfers	516	-	-	(494)	(22)	**-**
Change in site restoration, decommissioning and environmental obligations	16	-	-	-	-	**16**
Disposals	(5)	-	-	(5)	-	**(10)**
Depreciation charge	(371)	-	(71)	-	-	**(442)**
Impairment	-	-	-	(9)	-	**(9)**
Effect of translation to presentation currency	290	-	56	70	64	**480**
Cost	4,484	-	918	717	641	**6,760**
Accumulated depreciation and impairment	(1,686)	-	(301)	(63)	(30)	**(2,080)**
Net book value at 31 December 2019	**2,798**	**-**	**617**	**654**	**611**	**4,680**

Mineral rights

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

	31 December 2019	31 December 2018
Mineral rights presented within:		
- fixed assets	72	67
- exploration and evaluation assets	413	370
Total	**485**	**437**

(in millions of US Dollars)

Exploration and evaluation assets

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

	31 December 2019	31 December 2018
Sukhoi Log	452	377
Chertovo Koryto	34	26
Razdolinskoye	30	24
Olimpiada	23	12
Panimba	19	16
Bamsky	18	15
Burgakhchan area	14	9
Blagodatnoye	9	7
Natalka	8	7
Smezhny and Medvezhy Zapadny	-	11
Other	4	1
Total	**611**	**505**

Depreciation and amortisation charges are allocated as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Cost of gold sales	340	221
Depreciation in change in inventory	9	74
Depreciation and amortisation within cost of production (note 6)	**349**	**295**
Capitalised within property, plant and equipment	79	68
Selling, general and administrative expenses (note 7)	21	11
Cost of other sales	6	4
Total depreciation and amortisation	**455**	**378**
Less: amortisation of intangible and other non-current assets	(13)	(14)
Total depreciation of property, plant and equipment	**442**	**364**

13. INVENTORIES

	31 December 2019	31 December 2018
Stockpiles	416	265
Gold-in-process	15	12
Inventories expected to be used after 12 months	**431**	**277**
Stockpiles	119	112
Gold-in-process	82	85
Antimony in gold-antimony flotation concentrate	11	15
Refined gold and gold in flotation concentrate	4	13
Materials and supplies	474	348
Less: obsolescence provision for materials and supplies	(31)	(16)
Inventories expected to be used in the next 12 months	**659**	**557**
Total	**1,090**	**834**

(in millions of US Dollars)

14. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2019			31 December 2018		
	Non-Current	Current	Total	Non-Current	Current	Total
Cross currency swaps	98	-	98	1	1	2
Interest rate swaps	-	1	1	5	-	5
Total derivative financial assets	**98**	**1**	**99**	**6**	**1**	**7**
Cross currency swaps	62	-	62	96	500	596
Revenue stabiliser	-	7	7	16	10	26
Conversion option on convertible bonds	63	-	63	4	-	4
Interest rate swaps	5	-	5	2	-	2
Total derivative financial liabilities	**130**	**7**	**137**	**118**	**510**	**628**

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.

During the year ended 31 December 2019 the group restructured some of its revenue stabiliser agreements, effectively resulting in a partial close out, and an increase in strikes and "knock-in" barriers for certain call options expiring in 2020. The premium paid amounted to approximately USD 30 million.

As of 31 December 2019, the remaining revenue stabiliser options have the following summarised terms:

	Put options with barriers (1 January - 31 March 2020)	Call options without barriers (1 January - 31 December 2020)	Call options with barriers (1 January - 31 December 2020)
Volume, thousand ounces	75	175	105
Average strike, USD per ounce	1,000	1,617	1,531
Average knock-out barrier, USD per ounce	950	-	-
Average knock-in barrier, USD per ounce	-	-	1,731

The revenue stabiliser options are exercised quarterly and accounted at fair value through profit and loss.

Cross currency swaps

In April 2019, on expiration of cross currency swaps the group exchanged principal amounts paying USD 1,023 million and receiving RUB 35,999 million.

During 2019, the group amended previous cross currency contracts and entered into new cross currency swap agreements with leading Russian banks to economically hedge interest payments and principal amounts nominated in RUB. The following terms were in place as of 31 December 2019:

	Nominal		Interest payments		
Expiration date	Group pays (USD million)	Group receives (RUB million)	Frequency	Group pays (in USD)	Group receives (in RUB)
July 2021	173	10,000	semi-annually	LIBOR + 4.45%	12.1%
July 2021	82	5,300	semi-annually	5.9%	12.1%
March 2024	125	8,225	quarterly	5.09%	MosPrime 3m + 0.2%
March 2024	125	8,169	quarterly	4.99%	9.35%
April 2024	965	64,801	quarterly	5.00%	MosPrime 3m - 0.45%
October 2024	310	20,000	semi-annually	3.23%	7.4%

Interest rate swaps

During 2019, the group entered into new interest rate swap agreements with leading Russian banks to economically hedge interest payments. The following terms were in place as of 31 December 2019:

		Interest payments		
Expiration date	Nominal (USD million)	Frequency	Group pays	Group receives
February 2024	150	monthly	2.425%-2.44%	LIBOR
April 2020	750	semi-annually	LIBOR + 3.55%	5.625%
April 2020	750	semi-annually	5.342%	LIBOR + 3.55%

(in millions of US Dollars)

Conversion option on convertible bonds

In January 2018, the group issued USD 250 million of convertible bonds due in January 2021 that have a fixed coupon of 1.0% per annum payable on a semi-annual basis in arrears.

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 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, 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.

15. TRADE AND OTHER RECEIVABLES

	31 December	
	2019	**2018**
Trade receivables for gold-bearing products at FVTPL (Level 2)	140	57
Other receivables	67	46
Less: allowance for other receivables	(10)	(9)
Total	**197**	**94**

16. TAXES RECEIVABLE

	31 December	
	2019	**2018**
Reimbursable value added tax	107	90
Income tax prepaid	13	74
Other prepaid taxes	4	2
Total	**124**	**166**

17. CASH AND CASH EQUIVALENTS

	31 December	
	2019	**2018**
Bank deposits denominated in USD	1,467	661
Bank deposits denominated in RUB	97	54
Current USD bank accounts	192	101
Current RUB bank accounts	18	33
Cash in the Federal Treasury	27	45
Other cash equivalents	-	2
Total	**1,801**	**896**

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:

- Bank deposits denominated in USD	0.7-4.3%	0.6-4.4%
- Bank deposits denominated in RUB	3.4-6.1%	5.5-7.5%

18. SHARE CAPITAL

In December 2019, the Company issued 700 thousand of the Company's ordinary shares at par value of RUB 1 each. The shares were acquired in form of closed subscription by a 100% subsidiary JSC Polyus Krasnoyarsk. Accordingly, authorised share capital of the Company as of 31 December 2019 comprised issued and fully paid 134,261 thousand ordinary shares at par value of RUB 1, of which 1,065 thousand was included within treasury shares.

Equity-settled share-based compensation (long-term incentive plan)

PJSC Polyus grants long-term incentive awards 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 on expiry of performance periods. Expenses arising from the LTIP are recognised in the consolidated statement of profit or loss within *Employee compensation* included within *Selling, general and administrative expenses.* Related amounts are disclosed in note 5.

Dividends

On 6 May 2019, Shareholders of the Company declared dividends of 143.62 RUR per 1 share in the total amount of USD 296 million for the second half of 2018 financial year.

On 30 September 2019, Shareholders of the Company declared dividends of 162.98 RUR per 1 share in the total amount of USD 337 million for the first half of 2019 financial year. Thus the total amount of dividends declared during the year ended 31 December 2019 was USD 633 million.

Weighted average number of ordinary shares

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

	Year ended 31 December	
	2019	**2018**
Ordinary shares in issue at the beginning of the year	**132,339**	**131,924**
Shares awarded for LTIP	487	415
Purchase of additional ownership in SL Gold (payable in treasury shares)	370	-
Ordinary shares in issue at the end of the year	**133,196**	**132,339**
Weighted average number of ordinary shares – basic EPS	**133,017**	**132,251**
Convertible bonds (note 14)[4]	-	2,134
LTIP	300	360
Weighted average number of ordinary shares – dilutive EPS	**133,317**	**134,745**
Profit after tax attributable to the shareholders of the Company (million USD)	1,931	456
Effect of potential dilution (million USD)	-	(11)
Profit after tax attributable to the shareholders of the Company for diluted EPS calculation (million USD)	**1,931**	**445**

[4] During the year ended 31 December 2019 convertible bonds caused antidilutive effect and were excluded from the calculation of the dilutive earnings per share.

(in millions of US Dollars)

19. BORROWINGS

	Nominal rate %	31 December 2019	31 December 2018
Eurobonds with fixed interest rate due in 2020	5.625%	677	675
Eurobonds with fixed interest rate due in 2022	4.699%	480	479
Eurobonds with fixed interest rate due in 2023	5.250%	784	782
Eurobonds with fixed interest rate due in 2024	4.7%	467	468
Convertible bonds with fixed interest rate due in 2021	1%	194	186
Notes due in 2029 (Rusbonds) with noteholders' early repayment option in 2024	7.4%	322	-
Notes due in 2025 (Rusbonds) with noteholders' early repayment option in 2021	12.1%	244	218
Credit facilities with financial institutions nominated in USD with fixed interest rates	3.5%-5.0%	331	620
Credit facilities with financial institutions nominated in RUR with fixed interest rates	9.35%	131	481
Credit facilities with financial institutions nominated in RUR with variable interest rates	Central bank rate + 2.3% MosPrime + 0.2% / - 0.45%	1,228	63
Credit facilities with financial institutions nominated in USD with variable interest rates	USD LIBOR + 1.65%	148	-
Lease liabilities nominated in USD and RUR	5.15%	80	10
Sub-total		**5,086**	**3,982**
Less: current portion of long-term borrowings due within 12 months		(704)	(7)
Long-term borrowings		**4,382**	**3,975**

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.

Notes due in 2029 (Rusbonds) with noteholders' early repayment option in 2024

In October 2019, the group issued rouble bonds due 2029 with a put option in 2024 at a coupon rate of 7.4% per annum and with the nominal value of RUB 20,000 million. Following the placement the group entered into cross-currency swaps with banks to convert RUB 20,000 million bonds into USD liability at a fixed rate 3.23% per annum (note 14).

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

In January 2019, the group drew down USD 75 million on the credit facility signed at the end of 2018 with a fixed interest rate of 5% and maturing in 2024.

In April 2019, the group repaid in advance of maturity USD 250 million of credit facilities nominated in USD with fixed interest rates.

In October 2019, the group repaid in advance of maturity USD 150 million of credit facility nominated in USD with fixed interest rates.

In October and November 2019, the group refinanced part of its credit facilities with financial institutions nominated in USD with fixed interest which was treated as non-substantial debt modification and resulted in USD 7 million gain reflected in line *Gain on debt modification* within *Finance costs, net* (note 8)

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

In March 2019, the group entered into a new credit facility agreement in amount of RUB 15,000 million (USD 232 million). On 14 March 2019, the group drew down the first tranche in the amount of RUB 8,169 million (USD 125 million, translated at the exchange rate at the date of transaction). The tranche is at a fixed interest rate of 9.35% per annum and is due in 2024. The remaining unused credit facility in the amount of RUB 6,831 million (USD 106 million) is available for draw down until 11 March 2024.

In April 2019, the group drew down an additional RUB 31 billion under the existing credit facility agreement with the fixed rate to finance the liabilities under the cross-currency swaps (note 14).

In April - May 2019 the group has refinanced RUB 64.8 billion with a new credit facility due in 2024 with a floating interest rate of MosPrime 3m – 0.45%. This was treated as a non-substantial debt modification and resulted in USD 10 million gain reflected in line *Gain on debt modification* within *Finance costs, net* (note 8).

(in millions of US Dollars)

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

In March 2019, the group entered into a new credit facility agreement for RUB 8,225 million (USD 125 million, translated at the exchange rate at the date of transaction) at MosPrime 3m + 0.2% per annum and due in 2024.

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

In February 2019, the group entered into Pre-Export Finance facility agreement in amount of USD 150 million at an interest rate of Libor 1m + 1.65% per annum. The facility was drawn down in full on 21 February 2019 and is to be repaid in four equal instalments quarterly starting from March 2023.

Unused credit facilities

As of 31 December 2019, the group has unused credit facilities in the total amount of USD 1,433 million and an unused facility to borrow certain number of unpledged Company's shares from PGIL.

Pledge

As of 31 December 2019 and 2018, all shares of JSC TaigaEnergoStroy belonging to the group were pledged to secure a credit line. Additionally, the group pledged proceeds from certain gold sales agreements as a security for the Pre-Export Finance facility.

Other matters

There were a number of financial covenants under several loan agreements in effect as of 31 December 2019 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 2019.

Reconciliation of liabilities arising from financing activities

	For the year ended 31 December 2019			For the year ended 31 December 2018		
	Borrowings	**Lease**	**Total**	**Borrowings**	**Lease**	**Total**
Carrying value as of the beginning of the year	**3,972**	**10**	**3,982**	**4,268**	**13**	**4,281**
Cash flows	895	(15)	880	(135)	(3)	(138)
Non-cash changes, including:						
Recognition of lease liabilities (note 2.4.)	-	76	76	-	-	-
Foreign exchange (gain) / loss, net	(388)	(6)	(394)	594	2	596
Debt modification	(17)	-	(17)	-	-	-
Commissions on borrowings and amortisation at effective interest rate	9	5	14	21	-	21
Effect of currency translation	535	10	545	(754)	(2)	(756)
Other	-	-	-	(22)	-	(22)
Carrying value as of the end of the year	**5,006**	**80**	**5,086**	**3,972**	**10**	**3,982**

(in millions of US Dollars)

20. DEFERRED REVENUE

As of 31 December 2019, JSC Polyus Magadan, was a party to an 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 8,797 million (USD 137 million, including VAT).

Under the agreement the grant must be used for the construction of an electricity transmission line, a distribution point and an electric power substation (Omchak high-voltage power grid).
The construction is expected to be completed in 2020. Any unutilised balance of the grant will have to be returned to Minvostokrazvitiya. JSC Polyus Krasnoyarsk is a guarantor under the agreement.

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

	Year ended 31 December	
	2019	**2018**
Carrying value as of the beginning of the year	**117**	**132**
Received cash	3	13
VAT attributable to construction of the Omchak high-voltage power grid	(8)	(5)
Effect of translation to presentation currency	14	(23)
Carrying value as of the end of the year	**126**	**117**

21. DEFERRED CONSIDERATION

As of 31 December 2019, the group was a party to the following options agreements to increase its ownership in LLC SL Gold to 100% by 2022 with a right to accelerate:

	First set of options (payable in cash)		Second set of options (payable in Polyus shares)	
	Participation interest	Approximate amount	Participation interest	Approximate amount
To be exercised up to February 2020	4.8%	28	5.0%	29
To be exercised up to February 2021	4.8%	28	5.0%	29
To be exercised up to February 2022	5.9%	34	6.3%	37
Total	**15.5%**	**90**	**16.3%**	**95**

In March 2019 the group exercised the next tranche of options in LLC SL Gold and increased its participation interest from 58.4% to 68.2%. The group paid approximately USD 28 million for a 4.8% participation interest and transferred 370 thousand PJSC Polyus treasury shares (note 18) totalling USD 29 million for a 5% participation interest in LLC SL Gold.

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

	Year ended 31 December	
	2019	**2018**
Carrying value as of the beginning of the year	**225**	**216**
Settled in shares	(29)	-
Settled in cash	(28)	-
Unwinding of interest on deferred consideration	8	9
Foreign exchange (gain) / loss, net	(24)	41
Effect of translation to presentation currency	24	(41)
Total carrying value as of the end of the year	**176**	**225**
Less: short-term part of the option liabilities	(57)	(57)
Long-term part of the option liabilities as of the end of the year	**119**	**168**

(in millions of US Dollars)

22. TRADE AND OTHER PAYABLES

	31 December 2019	31 December 2018
Employee compensation payable	95	78
Interest payable	77	66
Trade payables	49	52
Accrued annual leave	27	21
Dividends payable	2	2
Other accounts payable and accrued expenses	105	70
Total	**355**	**289**

23. DEFERRED TAX ASSETS AND LIABILITIES

The movement in the group’s deferred taxation position was as follows (tax assets are presented as negative amounts, tax liabilities – as positive):

	Year ended 31 December 2019	Year ended 31 December 2018
Net deferred tax liability at the beginning of the year	**87**	**157**
Recognised in the consolidated statement of profit or loss	73	(50)
Recognised in equity	-	1
Effect of translation to presentation currency	14	(21)
Net deferred tax liability at the end of the year	**174**	**87**

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 and was as follows:

	31 December 2019	Recognised in profit or loss	Effect of translation to presentation currency	31 December 2018
Property, plant and equipment	384	74	38	272
Inventory	90	13	9	68
Borrowings	(5)	(11)	-	6
Deferred expenditure	3	1	-	2
Tax losses carried-forward	(294)	(13)	(31)	(250)
Trade and other payables	(36)	(15)	(3)	(18)
Intangible assets	14	5	1	8
Derivatives	18	17	1	-
Other	-	2	(1)	(1)
Net deferred tax liability	**174**	**73**	**14**	**87**

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 2019	31 December 2018
Deferred tax assets	(134)	(120)
Deferred tax liabilities	308	207
Net deferred tax liability	**174**	**87**

(in millions of US Dollars)

Unrecognised deferred tax asset

	31 December	
	2019	**2018**
Unrecognised deferred tax assets resulting from losses on derivative financial instruments	141	156
Unrecognised deferred tax assets resulted from impairments	6	5
Unrecognised deferred tax assets in respect of tax losses carried forward available for offset against future taxable profit	8	8
Total	**155**	**169**

Unrecognised deferred tax liability

	31 December	
	2019	**2018**
Taxable temporary difference associated with investments in subsidiaries	178	148

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.

24. TAXES PAYABLE

	31 December	
	2019	**2018**
Income tax payable	49	4
Value added tax	21	12
Social taxes	20	14
Tax on mining	18	12
Property tax	5	5
Other taxes	17	9
Total	**130**	**56**

25. RELATED PARTIES

The group, in the ordinary course of business, has entered into property lease agreement which is accounted for in accordance with IFRS 16 with an entity that was subsequently acquired by members of key management. Accordingly, the balances and transactions recognised during the period are presented within note 2.4. There were no other transactions with related parties throughout 2019.

Key management personnel

	Year ended 31 December	
	2019	**2018**
Short-term compensation to key management personnel accrued	23	19
Equity-settled share-based compensation (LTIP)	37	25
Total	**60**	**44**

(in millions of US Dollars)

26. COMMITMENTS

Commitments for future lease payments due under non-cancellable lease agreements excluded from the scope of IFRS 16

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. Future lease payments due under non-cancellable operating lease agreements excluded from IFRS 16 scope (note 2.4) were as follows:

	31 December	
	2019	**2018**
Due within one year	7	11
From one to five years	24	39
Thereafter	54	80
Total	**85**	**130**

Capital commitments

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

	31 December	
	2019	**2018**
Project Natalka	65	44
Projects in Krasnoyarsk	49	78
Project Omchak high-voltage power grid	12	15
Other capital commitments	3	10
Total	**129**	**147**

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

The fair value of revenue stabiliser agreements is determined 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 accordance with IFRS 13.

The fair value of cross-currency swaps 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 of the fair value hierarchy in accordance with IFRS 13.

The fair value of interest rate swaps 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 of the fair value hierarchy in accordance with IFRS 13.

The fair value of conversion option on convertible bonds is determined with the reference to the group's credit spread, risk-free interest rate and share price volatility (Level 2 of the fair value hierarchy in accordance with IFRS 13).

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)

Borrowings and deferred consideration are carried at amortised cost. The fair value of the group's borrowings is estimated as follows:

	31 December 2019		31 December 2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Eurobonds (Level 1)	2,408	2,535	2,404	2,368
Borrowings (Level 2)	1,918	1,903	1,174	1,151
Rusbonds (Level 1)	322	592	218	232
Convertible bonds (Level 2)	194	258	186	188
Total	**4,842**	**5,288**	**3,982**	**3,939**

The fair value 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 in accordance with IFRS 13, because the Eurobonds and Rusbonds are publicly traded in an active market. The fair value of borrowings and bonds is determined using a discounted cash flow valuation technique with reference to 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.

The fair value of deferred consideration 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 of the fair value hierarchy in accordance with IFRS 13. As of 31 December 2019, the fair value of the deferred consideration approximately equals USD 180 million (2018: USD 222 million).

28. 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, maximises 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	
	2019	**2018**
Financial assets measured at fair value through profit or loss (FVPL)		
Derivative financial instruments (Level 2)	99	7
Trade receivables (Level 2)	140	57
Financial assets measured at measured at amortised cost		
Trade and other receivables	87	97
Cash and cash equivalents	1,801	896
Total financial assets	**2,127**	**1,057**
Financial liabilities measured at fair value through profit or loss (FVPL)		
Derivative financial instruments (Level 2)	137	628
Financial liabilities measured at measured at amortised cost		
Borrowings	5,086	3,982
Accounts payable	345	283
Deferred consideration	176	225
Total financial liabilities	**5,744**	**5,118**

The fair value of the group's financial instruments and levels of fair value hierarchy are disclosed in note 27. The main risks arising from the group's financial instruments are gold price, interest rate, foreign currency exchange rates, credit and liquidity risks.

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 14). 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 2019 gold sales for the year would have increased / decreased by USD 357 million / USD 355 million, respectively (2018: USD 264 million / USD 210 million).

Interest rate risk

Interest expenses on borrowings issued at variable interest rates are in its majority effectively converted into fixed-rate interest payments using cross-currency and interest rate swaps (note 14); the group is not materially exposed to interest rate risk.

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.

(in millions of US Dollars)

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 2019	31 December 2018
Assets		
USD	1,821	823
EURO (presented in USD at closing exchange rate)	1	3
Total	**1,822**	**826**
Liabilities		
USD	3,532	4,098
EURO (presented in USD at closing exchange rate)	8	7
Total	**3,540**	**4,105**

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 2019 and 2018 compared to RUB as of the end of respective year, the group would have incurred the following losses:

	Year ended 31 December 2019	Year ended 31 December 2018
Loss (USD exchange rate increased by 25% compared to RUB)	793	1,131
Loss (EURO exchange rate increased by 25% compared to RUB)	2	1

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 2019, trade receivables for gold bearing products sales were USD 140 million (31 December 2018: USD 57 million).

(in millions of US Dollars)

Gold sales to the group's major customers are presented as follows:

	Year ended 31 December	
	2019	**2018**
Otkritie Bank	1,994	936
VTB Bank	721	596
Sovkombank	511	355
Sberbank	204	672
Gazprom Bank	144	119
Other	391	198
Total	**3,965**	**2,876**

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 credit default swaps for the industry is used since Polyus does not have quoted credit default swaps. The group's cash management procedures include medium-term forecasting (a budget approved each financial year and updated on a quarterly basis) and 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).

Presented below is the maturity profile of the group's financial liabilities as of 31 December 2019 based on undiscounted contractual cash payments, including interest payments:

	Borrowings		**Accounts payable and deferred**	
	Principal	**Interest**	**consideration**	**Total**
Due in the first year	709	270	373	1,352
Due in the second year	474	248	28	750
Due in the third year	513	206	34	753
Due in the fourth year	1,256	165	-	1,421
Due in the fifth year	2,159	74	-	2,233
Due in the period between sixth to eight years	45	-	-	45
Total	**5,156**	**963**	**435**	**6,554**

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

	Borrowings		**Accounts payable and deferred**	
	Principal	**Interest**	**consideration**	**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**

Maturity of the derivative financial instruments and deferred consideration is presented within notes 14 and 21.

(in millions of US Dollars)

29. 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.

Information about significant subsidiaries of the group

Subsidiaries	Nature of business	Effective % held at 31 December[5] 2019	2018
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 of Alluvials business unit	64	64
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[6]	Exploration and evaluation of the Sukhoi Log deposit	68	58

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

Summarised statements of financial position	PJSC Lenzoloto 31 December 2019	2018	LLC SL Gold 31 December 2019	2018
Current assets	258	216	101	39
Non-current assets	104	81	229	176
Current liabilities	25	23	258	163
Non-current liabilities	41	24	75	51
Equity attributable to the shareholders of the subsidiary	231	187	(2)	-
Non-controlling interests	65	63	(1)	1
Summarised statements of profit or loss				
Revenue	216	186	-	-
Profit / (loss) for the year	23	40	(5)	2
Profit attributable to non-controlling interests	10	5	(2)	1
Summarised statements of cash flows				
Net cash inflow from operating activities	46	27	-	-
Net cash outflow from investing activities	(15)	(21)	(26)	(18)
Net cash (outflow) / inflow from financing activities	(2)	(1)	87	56
Dividends paid to non-controlling interests	8	4	-	-

30. EVENTS AFTER THE REPORTING DATE

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

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

[6] In March 2019 the group increased effective ownership in SL Gold (note 21) from 58.4% to 68.2% for a cash consideration of USD 28 million and a transfer of PJSC Polyus shares valued at USD 29 million.