POLYUS

UNLEASHING VALUE

ANNUAL REPORT 2017

POLYUS IS ONE OF THE WORLD'S LEADING GOLD PRODUCERS. OUR ONGOING DEVELOPMENT IS BASED ON SMART, ORGANIC GROWTH.

HARVESTING A WORLD-CLASS ASSET BASE

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DEVELOPING A PLATFORM FOR FUTURE GROWTH

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DRIVING COST EFFICIENCIES THROUGH INVESTING WELL

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APPLYING THE HIGHEST SAFETY STANDARDS

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MAXIMISING SHAREHOLDERS' VALUE

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OUR KEY ADVANTAGES

Value accretive growth of production

- Moving from ca. 2.16 million ounces produced in 2017 to 2.80 million ounces in 2019
- Production at Natalka to be fully ramped-up in the second half of 2018
- A suite of low-risk and cost-efficient brownfield projects

Absolute cost leadership

- The lowest-cost producer among top-10 gold mining companies globally
- Total cash costs (TCC) and all-in sustaining costs (AISC) in the 1st decile of global cost curves

Leading reserves and resources base

- One of the world's largest reserve base. Proved and Probable (P&P) Ore Reserves: 69 million ounces (excluding Sukhoi Log)
- One of world's top three by resources. Measured, Indicated and Inferred (MI&I) Mineral Resources: 193 million ounces (including Sukhoi Log)
- Average life of mine: 32 years (excluding Sukhoi Log)
- 100% open-pit operations

Commitment to the highest HSE standards

- Member of the ICMM[1] since 2015. The first member from Eastern Europe, out of 23 mining and metals companies and 34 regional and commodities associations
- LTIFR[2] of 0.11, three times below industry average, down 15% from 2016. No fatalities at operations during 2017

Industry-leading dividend yield

- Regular dividends of 30% of adjusted EBITDA
- Strong cash position and positive free cash flow allow for an industry-leading dividend yield

[1] The International Council on Mining and Metals (ICMM), an organisation that provides access to industry best practices in the field of sustainable development.

[2] Lost Time Injury Frequency Rate, the number of lost-time injuries within a given accounting period, relative to the total number of hours worked in that period.

Q&A WITH EDWARD DOWLING
CHAIRMAN

Q Mr Dowling, what were the Board's key objectives during 2017 – and did you achieve them?

A As in previous years, our top priority remains the health and safety of all employees and contractors of Polyus across the Company's operations. Our overriding objective is to eliminate fatalities – with zero tolerance of any infringements of our rigorous policies. We made progress in 2017 with no fatalities and reducing the lost time injury frequency rate from 0.13 to 0.11. Of course, anything above zero is unacceptable, but Polyus' rate is one of the best performers amongst our global peers.

In terms of performance, our aim was to support the growth of the Polyus business, while ensuring that the Company remains the lowest-cost producer amongst the world's top gold mining companies. Over the year, total gold sales by Polyus increased by 13%, whilst Total Cash Costs were maintained at $[1]364 per ounce, despite the appreciation of the rouble.

The Board recently redefined the dividend policy through setting a minimum payout; demonstrating our commitment to delivering best-in-class shareholder returns.

More broadly, we want Polyus to have a positive and enduring impact on the communities in which the Company operates. With that in mind, we pay close attention to the wider economic and environmental impact of Polyus' assets. Over the year, the Company continued to invest in social development and environmental protection wherever it operates.

Q What were the key strategic actions in 2017?

A Polyus progressed two major opportunities. Firstly – Natalka, its main development project, completed the first stage of hot commissioning launched by Russian President Vladimir Putin in September. First doré gold was poured in December; the asset is already operating and ramping up production.

Secondly – Polyus won the auction to develop Sukhoi Log. This is one of the largest undeveloped gold deposits globally – and the biggest gold asset in Russia. It's a unique greenfield opportunity – and it perfectly fits Polyus' portfolio of large-scale open-pit operations as well as the Company's long-term development strategy.

[1] Hereinafter $ represents US dollars.

Q Were there any other notable highlights?

A The strength of Polyus' asset portfolio and investment case were recognised with the Company's secondary public offering on the London and Moscow Stock Exchanges. These attracted a wide range of high-quality international investors and raised $858 million. The London listing was an important landmark and we were delighted to welcome new shareholders to participate in the development of Polyus.

Polyus' attractive investment proposition was also endorsed by the debt markets, and the Company raised a total of $800 million from the placement of Eurobonds in 2017. The Company's balance sheet remains strong, supporting future growth.

Q How was the trading environment during 2017, and how did the gold market trends affect Polyus?

A The gold price appreciated significantly from $1,150 per ounce to $1,300 per ounce over the year, peaking at $1,347 per ounce in September. Historically, the price has been impacted by macroeconomic factors, such as interest rate dynamics, inflation, exchange rates, reserve policy and the overall global political and economic situation. The key factors driving higher prices in 2017 were the decline in the value of the dollar and continuing geopolitical tensions.

Q How does the Polyus Board embed the highest standards of corporate governance?

A We're committed to maintaining best corporate governance practices, in line with the Corporate Governance Code approved by the Bank of Russia, and the UK Corporate Governance Code. Our Board comprises nine Directors, with four Independent Non-Executive Directors (including myself as Chairman). We had a valuable addition to the Board just recently, when Maria Gordon joined us as an Independent Director.

Our Board Committees – which are chaired by Independent Directors – scrutinise nomination and remuneration, strategy, audit, and operations. This robust structure supports and challenges Polyus' management team, with the aim of sustainably increasing shareholder value over the medium and longer term.

Q What are the Board's priorities for the year ahead?

A Polyus has a clear and proven strategy to build shareholder value. The Board will focus on ensuring that Polyus executes its growth plans with efficiency and discipline, as well as retains its position as one the world's lowest-cost gold producers. Last but not least, sustainable development, which encompasses environmental and social responsibilities, is integral to the success of Polyus. We will make sure the Company continues to implement and adhere to best-in-class standards.

The collaborative and focused approach of Polyus employees – wherever they work – will be the key factor in ensuring that the Company delivers for shareholders.

2017 has been a year of significant progress, when Polyus developed a strong potential for further growth in the years to come. I'm very appreciative of all my colleagues on the Board and to the employees of Polyus for their hard work and commitment.

> "We are committed to maintaining best corporate governance practices"

Regular dividends, as a proportion of EBITDA

30%

Lost Time Injury Frequency Rate, per 200k hours worked

'17	0.11
'16	0.13
'15	0.08

AT A GLANCE

Polyus is one of the world's leading gold producers.
Our ongoing development is based on smart, organic growth.

Our strategy to unlock the significant potential of Polyus' world-class assets is focused on:

- Enhancing operational efficiency and strict discipline towards stringent cost controls
- Expanding our resource base through the addition of Tier-1 assets and organic growth at our existing operations

As we expand our industry-leading position, we are confident that our sustainable approach will ensure we continue to deliver value to all our stakeholders.

Key financial figures	Key operational figures	Asset portfolio
Total cash cost **$364/oz**	Lost time injury frequency rate **0.11**	Operating assets **6**
All-in sustaining cash cost **$621/oz**	Ore processed **28.7 mt**	Proved and probable reserves **69 moz**
Adjusted EBITDA **$1,702 mln**	Average recovery rate **83.4%**	Average reserve grade **1.8 g/t**
Adjusted EBITDA margin **63%**	Total gold produced **2,160 koz**	Life of mine **32 years**

KEY EVENTS OF 2017

February

Polyus issues $800 million Eurobonds due 2023. This becomes the largest non-investment grade bond issuance in Russia since 2013.

February

Sukhoi Log licence obtained. The drilling campaign and scoping study were launched in later months.

June

JORC reserves and resources update published: Polyus ranks second by attributable gold reserves and third by attributable gold resources among the world's largest gold mining companies.

June

Successful SPO on the London and Moscow Stock Exchanges. The SPO book closes at $858 million, free float increases to 16.34%.

November

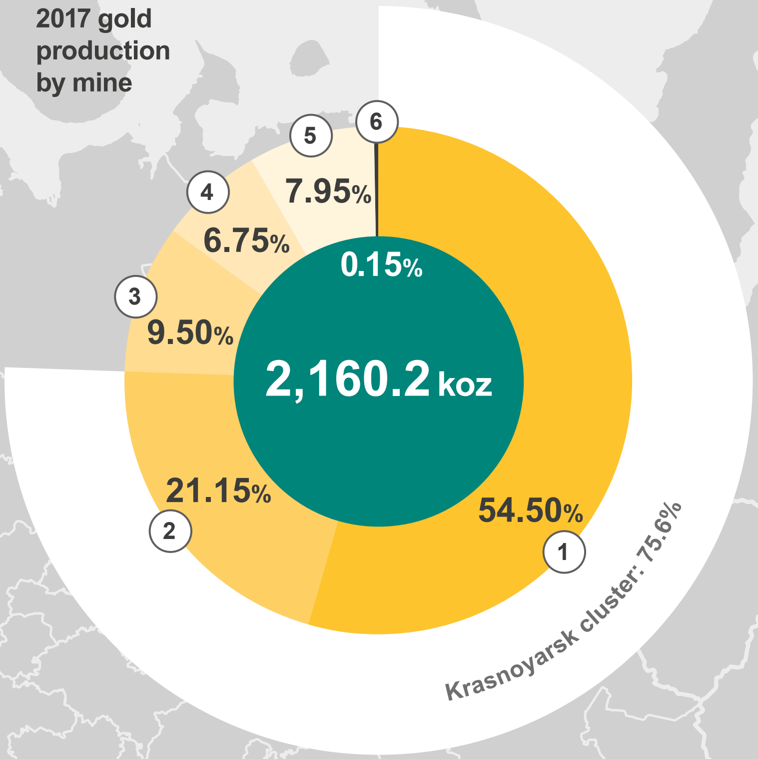
MSCI

MSCI decides to include Polyus' shares into the MSCI Russia and MSCI Emerging Markets indices.

December

Natalka moves to the ramp-up stage with the first doré gold poured at the end of the hot commissioning process.

WHERE WE OPERATE



Key:

- Production assets
- Greenfield projects

OLIMPIADA

- Located in the Krasnoyarsk Territory
- 55% of the Company's output
- 56% of the Company's adjusted EBITDA
- TCC of $341/oz in 2017
- 3,140 employees
- Processing capacity: 12.2 million tonnes per annum

Read more on page 38

BLAGODATNOYE

- Located in the Krasnoyarsk Territory
- 21% of the Company's output
- 24% of the Company's adjusted EBITDA
- TCC of $308 per ounce in 2017
- 1,589 employees
- Processing capacity: 8.1 million tonnes per annum

Read more on page 40

ALLUVIALS

- Located in the Irkutsk Region
- 7% of the Company's output
- 3% of the Company's adjusted EBITDA
- TCC of $770 per ounce in 2017
- 2,350 employees

Read more on page 44

VERNINSKOYE

- Located in the Irkutsk Region
- 10% of the Company's output
- 9% of the Company's adjusted EBITDA
- TCC of $403 per ounce in 2017
- 1,281 employees
- Processing capacity: 2.7 million tonnes per annum

Read more on page 42

KURANAKH

- Located in the Republic of Sakha (Yakutia)
- 8% of the Company's output
- 6% of the Company's adjusted EBITDA
- TCC of $534 per ounce in 2017
- 1,920 employees
- Processing capacity: 5.0 million tonnes per annum

Read more on page 46

NATALKA

- Located in the Magadan Region
- Gold output: 3.3 thousand ounces
- 1,620 employees
- Processing capacity: 10.1 million tonnes per annum

Read more on page 48

SUKHOI LOG

- Located in the Irkutsk Region
- Drilling campaign launched
- Scoping Study ongoing

Read more on page 17

BUSINESS MODEL

The business model of Polyus includes the whole cycle of gold production, from exploring our resource base, to processing ore, and selling the final product. Among the things that make us stand out is our focus on open-pit production in Russia, successful cost management, and adherence to sustainability principles as a crucial part of the business model, with health and safety being a top priority.

INPUTS

Financial
Our prudent financial policy aims to achieve the right balance between targeted investments for growth and appropriate cash returns to shareholders.

Intellectual
Our extensive knowledge base is underpinned by our in-depth technical expertise, sound corporate governance structure and internal control systems.

Natural
We develop our extensive resource base as safely and sensitively as possible, remaining committed to minimising the environmental impact of our activities.

Operational
We focus on continuous improvement through the smart growth of brownfield sites and development of highly efficient greenfield operations.

Human
Our committed, talented and motivated workforce benefit from incentive schemes and improving work, social and recreational conditions.

Social
We aim to provide a safe and healthy environment for our employees, and support a range of social projects and charitable initiatives within our communities.

PROCESSES

1. Exploration and evaluation
Our experienced and knowledgeable exploration teams focus on identifying large assets with high-grade ores that will deliver maximum profitability.

2. Development
With a proven track record of asset optimisation and project management expertise, we convert our reserve base into efficient gold production.

3. Mining and processing
Our highly qualified mining specialists combine their technical knowledge with state-of-the-art process automation for maximum operational efficiency.

4. Production
Our focus on operational excellence and rigorous cost control across our operations enables us to consistently deliver increases in gold production.

5. Sales of refined gold
Doré and slime gold from our mines is refined into gold bullion and sold principally to Russian commercial banks via a fully transparent sales process.

6. Mining closure and land recultivation
Our commitment to sustainability encompasses the comprehensive rehabilitation of the environment at the end of a mining asset's life.

VALUE CREATION

Investors
Our principal focus is on maximising returns for our shareholders, and communicating openly about our strategy, governance, operations and performance.

$550 mln

Minimum total dividends for the full years 2017 and 2018 if net debt/EBITDA is below 2.5x

Employees
Recognising that our people are the key contributors to our success and the foundation for future progress, we invest in our employees throughout the length of their careers.

18,943

Average number of employees of the Company during 2017

Communities
We provide employment for local communities as well as business for local suppliers. Our capex projects construct, support and develop existing infrastructure.

$42.6 mln

Expenditure on social support activities in 2017

Partners
With a presence in several Russian regions, we forge lasting and mutually beneficial relationships with a range of global, domestic and local partners.

34%

Percentage of purchases from local suppliers in the operating regions

Governments
We work to create, support and develop lasting social infrastructure and social/economic partnerships with government and regulatory bodies.

$425.6 mln

Taxes and licence payments made by Polyus in 2017

DIFFERENTIATORS

Maintaining and expanding an extensive reserve and resource base
We focus on consistent production across our Russian reserve base, identifying development opportunities and unlocking their potential to fuel the Company's long-term expansion.

Pursuing capital-efficient growth opportunities
We identify and develop cost-effective expansion projects that exhibit the potential to combine operational and financial efficiencies with maximum productivity.

Preserving cost leadership
Efficient management of our portfolio provides us with a significant cost advantage. We are committed to maintaining our status as one of the lowest-cost global gold producers.

Maintaining stringent health and safety standards
Our ultimate goal is a zero injury rate. We are therefore committed to the implementation of – and compliance with – the very highest international health and safety standards.

Striking a balance between shareholder returns and an optimum capital structure
We endeavour to ensure that we deliver industry-leading levels of dividend payments while maintaining adequate liquidity and a comfortable leverage profile.

Maintaining high standards of corporate governance and corporate disclosure
We are committed to implementing and upholding the highest standards of governance, ensuring that our disclosure and reporting activities are in line with best practices.

The following pages contain details of Polyus' strategy, the risks the business faces and the governance structure that supports our operations.

STRATEGY

Our strategy is focused on value creation through organic growth. This is accomplished through the efficient execution of expansion projects and the development of projects at new gold deposits.

Read more on pages 26-27

RISKS

Our risk management process underpins the successful execution of our strategy and influences our future planning. The identification, assessment, management and mitigation of risk are fundamental to our success.

Read more on pages 30-33

GOVERNANCE

Our robust corporate governance systems create the right environment for effective decision-making, encompassing all aspects of accountability, performance and responsibility right across the business.

Read more on pages 126-153

Q&A WITH PAVEL GRACHEV
CHIEF EXECUTIVE OFFICER

Q Mr Grachev, what were Polyus' performance highlights in 2017?

A It was a transformational year for Polyus and we passed a number of critical milestones. For the fourth consecutive year, we surpassed our production estimate, beating official guidance of 2.075 – 2.125 million ounces by 3%, with 2.160 million ounces of gold produced. We achieved this whilst also making significant progress with our development pipeline.

While growing, we held our position as one of the lowest-cost producers globally. Our total cash cost decreased to a record-low figure of $364 per ounce, despite the rouble strengthening by 13%. We operate some of the world's highest quality gold assets and have been actively maximising cost efficiency initiatives across the business. This helped us deliver an industry-leading EBITDA margin of 63%.

Q How do Polyus assets compare on the global stage?

A We own and operate some of the best-in-class assets in the world. 93% of 2017 production came from four well-established mines that have a mine life ranging from 22 to 31 years. This compares extremely favourably against our global peers – and clearly shows our strong growth profile. Furthermore, we only operate large-scale open-pit operations and two of our operational mines, Olimpiada and Blagodatnoye, benefit from operational synergies created through their geographic proximity.

With a life of mine of 31 years and reserves of 16 million ounces, our newly launched Natalka asset will underpin our production growth in the years ahead. Commissioning of the mine progressed well during 2017 and we expect full ramp-up of operations in the second half of 2018.

Sukhoi Log represents a unique opportunity that will support the next generation of growth for Polyus. With JORC inferred resources of 58 million ounces, it's one of the world's largest undeveloped deposits and will ensure that we'll be able to achieve our long-term growth targets. The 180 thousand metres drilling campaign launched in November will provide the JORC-compliant estimates for ore reserves.

Q What key asset enhancements did you implement in 2017 to increase productivity?

A We continued to make significant progress debottlenecking all our core operations. For instance, at Kuranakh, we not only delivered mill capacity expansion but also launched our first heap leaching operations.

In the meantime, Olimpiada and Blagodatnoye are operating above 12 and 8 million tonnes of ore processing capacities now.

In our development we utilise global experience, while introducing new technologies and approaches. Namely, we now utilise Mine-to-Mill and flash flotation at Blagodatnoye. Those are also expected to roll out at our other assets.

Q What are the major risks to the business and how do you mitigate them?

A Given the development projects we're currently undertaking – and as with any mining operation – execution risks remain a key factor. However, I point shareholders to our management team's track record over the last four years. We've had a sustained period of production outperformance, cost leadership and consistent delivery of projects ahead of schedule and within budget.

Q What were the key initiatives in the areas of environmental and social responsibility?

A We implemented an integrated health, safety and environment management system across all our business units and extended our HSE requirements to include contractors. We also introduced new standards for social and working conditions for our employees and adopted a new Corporate Ethics Code.

On the environmental front, we introduced new standards relating to the sustainable use of natural resources, pollution prevention and accounting and reporting on environmental indicators. In addition, we implemented new standards on biodiversity and environmental and social impact assessments. Other notable actions during the year included projects to reduce the quantity – and improve the quality – of wastewater, reduce our greenhouse gas emissions and manage our waste more efficiently.

Our support for social, charitable and community projects also went from strength to strength; in 2017, we spent a total of $42.6 million on these activities – more than double the 2016 figure.

Q How will Polyus sustain its performance levels and reward shareholders in 2018 – and beyond?

A We recently increased our production guidance for 2018 to 2.375–2.425 million ounces – and continue to target production of 2.8 million ounces in 2019. Achieving these targets will make Polyus the fastest-growing major gold producer globally and place us among the top four global gold miners.

Our highly attractive growth profile is underpinned by the excellent potential that Natalka offers, combined with brownfield expansion and development of our existing assets. We remain confident of achieving this, whilst staying focused on preserving global cost leadership and free cash flow generation.

Polyus' exceptional financial performance, generating EBITDA margins in excess of 60% shows that we're capable of delivering compelling returns to our shareholders. It reinforces our ability to match best-in-class operational results with equally strong shareholder returns.

We recently announced our revised dividend policy, which sets the minimum dividend payout for 2017 and 2018 at $550 million. Consequently, the payment will comprise the higher of 30% of EBITDA or $550 million. We truly believe that our dividend policy strikes the right balance between transparency and predictability of shareholder while maintaining financial prudency.

The year ahead looks bright for Polyus. We remain confident in executing our plans for 2018 and maintaining our sector leadership.

Industry-leading EBITDA margin

63%

Gold produced in 2017 (surpassing the official guidance by 3%)

2.160 million ounces

HARVESTING A WORLD-CLASS ASSET BASE

Leading reserves and resources base

Polyus is the largest gold producer in Russia and accounts for 23% of the country's gold output. Globally, Polyus is the world's second-largest gold company by reserves base and the seventh-largest gold producer.

The Company benefits from an average mine life of approximately 32 years, based on attributable 2017 production volumes, which is over two times higher than the average mine life of its top ten global peers. Polyus runs bulk open-pit operations, including some of the largest assets globally. Specifically, Polyus' Krasnoyarsk cluster (comprising Olimpiada and Blagodatnoye) is the world's third-largest gold asset by output. Together these two operations account for 75% of the Company's output.

The Company's priority in recent years has been organic growth; developing its existing operations as well as preparing Natalka, its main greenfield project.

Brownfield expansions contributed a third to Polyus' total production growth in 2017. Processing capacities were debottlenecked at Olimpiada, Blagodatnoye, Kuranakh and Verninskoye. Moreover, heap leaching opeartions at Kuranakh were launched in 2017.

Average mine life

32 years

CASE STUDY

NATALKA

One of the largest gold deposits in Russia

Natalka is currently Polyus' main development project. It is a large open-pit deposit located about 400 km from the seaport of Magadan in the Far East of Russia.

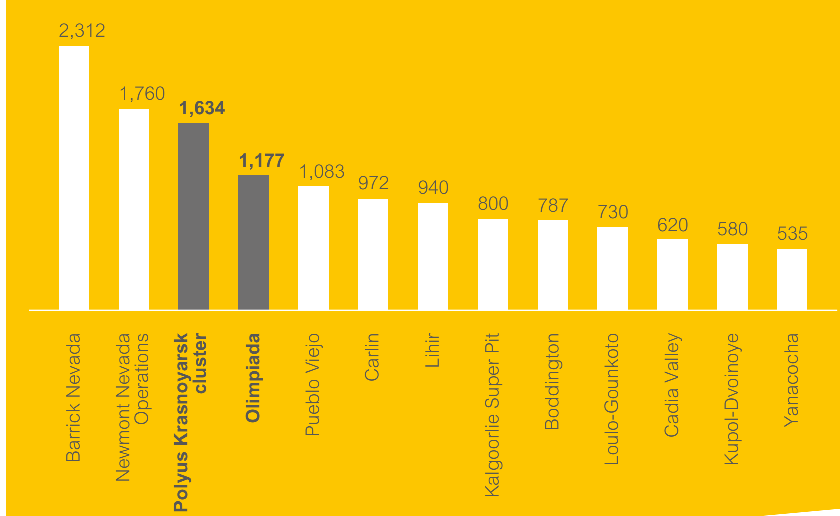
Polyus acquired Natalka in 2008 and construction of a mining complex began in 2012. In the first quarter of 2013, active full-scale mining was launched. However, the mining and construction works at the mill were soon halted. The resource block model and construction plans had to be revised following the discovery of errors in the historical Soviet-era research data.

A detailed operational review was completed in August 2015, and a new project plan for the development of Natalka was prepared. In addition to the development of a new block model and the execution of a verification drilling programme, Polyus also carried out a critical flaws check on the mill's design, an analysis of engineering solutions and implemented a grade control programme. The mill's technological scheme was revised: a decision was taken to remove the flotation circuit and only proceed with a three-stage gravitation.

Construction at Natalka restarted in 2016, mining operations were relaunched in January 2017 and the mill successfully completed the hot commissioning phase. All processing equipment has been installed and is now fully operational. In the second half of 2018, Natalka will complete its ramp-up.

> **Polyus is the largest gold producer in Russia and the seventh largest globally**

Largest gold assets by output in 2017, koz



DEVELOPING A PLATFORM FOR FUTURE GROWTH

Value accretive growth

Polyus has one of the world's largest reserves bases. This provides a solid platform for the Company's development in the coming decades. From 2013 to 2017, the Company's production grew by 30%.

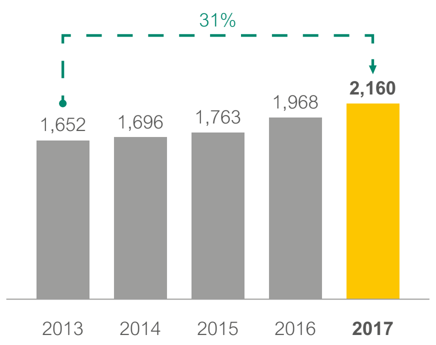
Polyus is actively investing in the exploration and development of its existing assets in order to guarantee continuing growth of production volumes. The Company's mid-term goal is to reach a production volume of approximately 2.8 million ounces in 2019. The short-term priority for 2018 is a full ramp-up of operations at Natalka.

Currently, the Company's most important exploration projects are concentrated in the Irkutsk Region and the Krasnoyarsk Territory in Siberia. Polyus has a strong foothold in – and commitment to – operating in Russia. The Company is therefore well-placed to explore future opportunities in Russia and its neighbouring countries, and is a strong bidder for new licences and assets.

In 2017, Polyus won the licence for – and started drilling works at – Sukhoi Log, Russia's largest gold deposit.

> **Commitment to operating in Russia is a strategic advantage for Polyus**

Polyus production growth, koz



CASE STUDY

SUKHOI LOG

World-class addition to Polyus' growth profile

Located 300 miles north east of Lake Baikal and discovered in the early 1960s by Soviet geologists, Sukhoi Log is Russia's largest gold deposit – and one of the world's largest gold greenfield projects.

Sukhoi Log is a unique project, and Polyus is the perfect company to execute it successfully. Close proximity to other Company assets makes it potentially possible to utilise existing infrastructure, optimise processing facilities and benefit from economies of scale. Polyus has the experience and the understanding of processing options suited to the chemical composition of the local ore, supported by an extensive suite of technological studies.

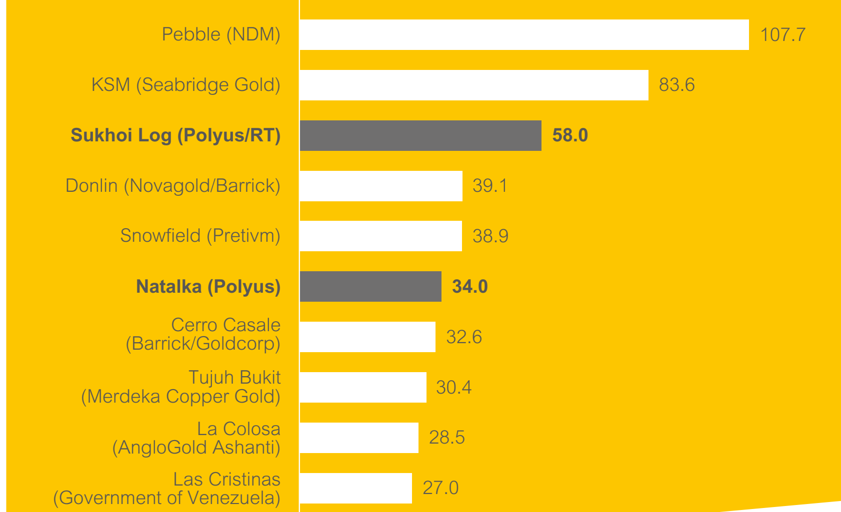
In November 2017, a drilling campaign started at the site, which is expected to take approximately two years. Its primary aim will be to reconfirm the results of historical drilling and to update the source block model with the new drilling results. This will help to determine estimates for ore reserves. The drilling started utilising three drill rigs. In February 2018, three additional rigs came into operation. In total, the drilling fleet will comprise six drill rigs for the duration of the works.

A scoping study is expected to be completed by mid-2018. This will be followed by a feasibility study.

Polyus has completed the construction of the camp site, including core storage and sampling facilities.

> **Sukhoi Log is a unique project, and Polyus is the perfect company to execute it successfully**

World`s largest greenfield assets, MI&I resources, moz[1]



[1] Companies' data; Metals Focus

DRIVING COST EFFICIENCIES THROUGH INVESTING WELL

Absolute cost leadership

CASE STUDY

TOTAL OPTIMISATION PROGRAMME

Finding quick cost-cutting opportunities

Economies of scale and technological improvements account for the largest proportion of cost cutting at Polyus. In addition, in 2014 Polyus launched the Total Optimisation Programme (TOP) to incentivise ‘capital expenditure-light’ operational improvements across its business.

The objective of TOP is to introduce quick measures that do not require investment in excess of 35 million roubles[1] for any given initiative. These measures are expected to have a payback period of not more than two years.

In 2017, operational efficiency measures within the TOP generated $138 million in total adjusted EBITDA improvements.

> **Concentrating on open-pit mining with high grades supports low production costs**

[1] Approximately $620 thousand

The Company's average total cash costs and average all-in sustaining costs of $364 per ounce and $621 per ounce are in the first decile of global cost curves. They are supported by effective cost management and a cost management and a focus on debottlenecking of the existing operations.

During 2017, Polyus' TCC decreased by 6%, more than offsetting inflation and appreciation of the Russian rouble. The inflation rate in Russia was 2.5% in 2017, and the average USD/RUB exchange rate in 2017 was 13% above 2016.

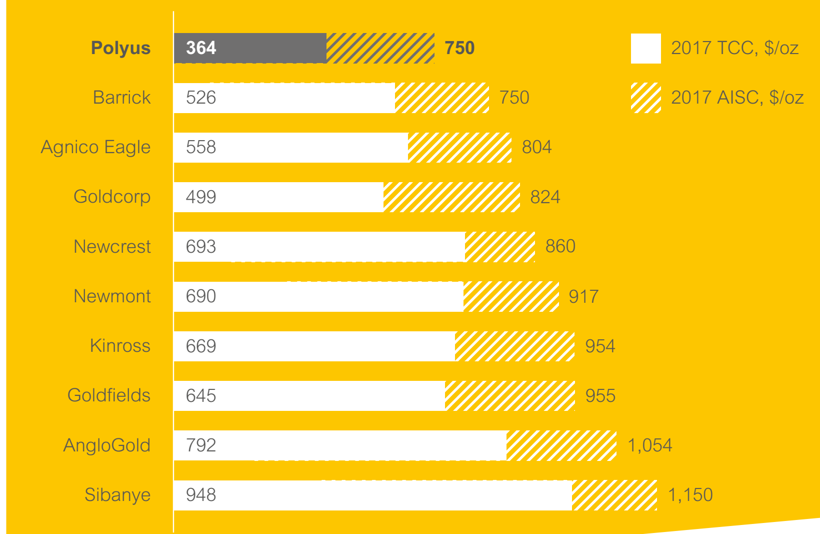
To maintain this leadership, Polyus traditionally concentrates on large-scale Tier-1 assets where the size allows for minimisation of costs. The compact layout of the Company's assets also provides transportation cost savings and economies of scale. Concentrating on open-pit mining with high grades is also a means of guaranteeing low production costs.

In addition, the Company continuously implements operational efficiency initiatives at its assets. Modern equipment allows for high utilisation rates and low maintenance cost. Development of power grids facilitates access to reliable and low-cost sources of electricity.

TCC in 2017 (vs 707 $/oz in 2013; (49)%)

364 $/oz

The lowest TCC and AISC among TOP-10 global majors



APPLYING THE HIGHEST SAFETY STANDARDS

Commitment to the highest HSE standards

LTIFR[1] dynamics

[1] Lost time injury frequency rate is calculated based on 200,000 work hours factor.

Polyus takes a serious approach to health and safety and is committed to the best HSE practices.

In 2015, Polyus joined the International Council on Mining and Metals, the main international body that promotes safe, fair and sustainable mining. Polyus is the only Russian and Eastern European member company of the ICMM.

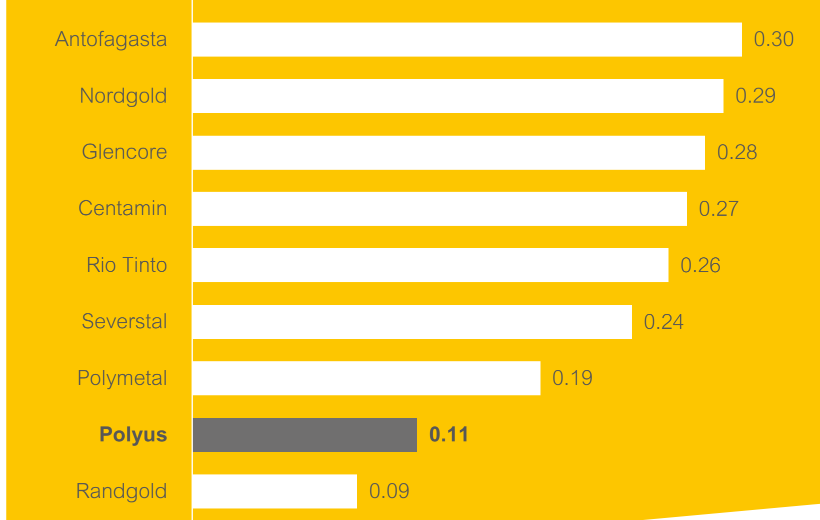
The ICMM has strict Sustainable Development principles, which affect the Company's impact on the environment, on society, and the economy, and its health and safety standards.

Over 2017, Polyus successfully reduced its lost time injury frequency rate and the number of accidents. The Company's LTIFR is significantly below the industry average. There were no fatal accidents across Polyus' operations in 2017.

The Company introduced injury prevention campaigns at selected business units and actively developed staff training on HSE topics during the year. A new Corporate Ethics Code was introduced, as well as environmental standards covering the usage of natural resources, prevention of pollution, biodiversity, assessment of the Company's environmental and social impact, and other areas.

> **Polyus is the only member company of the ICMM from Eastern Europe**

LTIFR at Polyus vs Average LTIFR at top-10 other global mining companies



MAXIMISING SHAREHOLDERS' VALUE

Industry-leading dividend yield

Operational efficiency enables Polyus to withstand the volatility of the global gold market. This translates into the Company's ability to provide shareholders with an industry-leading dividend yield.

Since 2016, Polyus has paid out 30% of its annual EBITDA as dividends on a semi-annual basis. According to the latest amendments to the dividend policy, approved by the Board in January 2018, the Company is committed to paying its shareholders not less than $550 million in total annual dividends for the years 2017 and 2018. For 2017, the approved dividend is $550 million. From 2019, Polyus will return to paying 30% of annual EBITDA as dividends.

At the same time, the dividend policy includes a provision that the net debt/adjusted EBITDA (last 12 months) of Polyus should be below 2.5x for the Company to declare dividends. This enables the protection of all Polyus' stakeholder interests. As at 31 December 2017, Polyus' net debt/adjusted EBITDA stood at 1.8x.

In this way Polyus strikes a proper balance between shareholders' returns and a prudent approach to managing its balance sheet.

MOEX and LSE ticker

PLZL

CASE STUDY

POLYUS SPO IN 2017

Building a franchise on global capital markets

In June 2017, Polyus successfully placed shares and GDRs on the Moscow Stock Exchange and the London Stock Exchange.

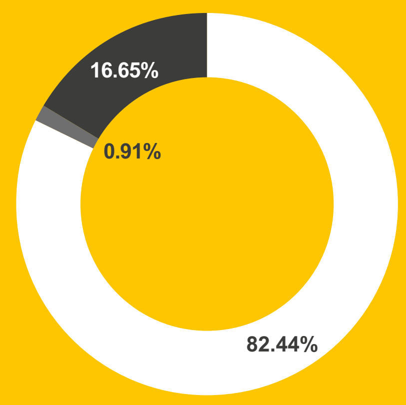
The total size of the offering was $858 million, or 9.7% of the share capital on a fully diluted basis. UK investors acquired about half of the offered shares, while investors from North America bought around 20% of the offering. Nearly 100 investment funds participated in the transaction, representing some of the largest names on the market.

As a result of the offering, Polyus' free float increased from 6.76% to 16.34%. The Company has used most of the primary proceeds from the offering (a total of $400 million) to make early prepayments of several bank credit facilities.

After the placement, in November, MSCI included Polyus shares into its regional market indices – MSCI Russia and MSCI Emerging Markets. This had been a longstanding objective of the Company in helping to increase the liquidity of its equity instruments.

> **"Polyus' free float increased from 6.76% to 16.34%"**

Shareholder structure



Demand

Although demand for gold rallied in the final quarter of the year, full year demand for 2017 fell 7% to 4,071.7 tonnes, according to the World Gold Council's Gold Demand Trends report, published on 6 February 2018.

Gold-backed exchange-traded funds (ETFs) annual inflows contributed 202.8 tonnes to demand. This was down on the stellar growth of 2016 by about a third. European-listed funds accounted for 148.9 tonnes (73%) of ETF global inflows in 2017 and US-listed ETFs captured 63.0 tonnes.

Central banks' additions to global official gold reserves grew by 371.4 tonnes – some 5% lower than the previous year's net purchases. Prominent amongst the central bank buyers were Turkey and Russia. Russia's official gold holdings grew to almost 18% of total reserves in 2017, with purchases of 223.5 tonnes boosting gold reserves to 1,838.8 tonnes at the year end.

Bar and coin demand fell 19.5 tonnes to 1,029.2 tonnes in 2017. Although bar investment remained broadly stable, coin investment fell by 10%. Strong gains in China and Turkey were more than offset by a sharp decline in US demand to a ten-year low of 39.4 tonnes.

With relatively stable pricing and an improving economic environment, 2017 saw the first annual increase in jewellery demand since 2013. A 4% recovery was sparked by India, which recorded a 12% year-on-year improvement and China, which benefited from lower gold prices and seasonal factors. The US market returned to growth, with the favourable economic environment boosting demand to its highest level since 2010. Overall demand, however, remains below historical averages.

Technology demand rose 3% to 332.8 tonnes, after a six-year downward trend. This was principally due to the increased use of gold for electronics and industrial applications, particularly in next-generation features for smartphones and vehicles. Gold for electronics grew 4% year-on-year to 265.3 tonnes.

Global gold demand breakdown in 2016–2017

	2017	2016
Jewellery	**52%**	47%
Technology	**8%**	7%
Investment	**30%**	36%
Central banks	**9%**	9%

Supply

Total gold supply was 4,398.4 tonnes, a drop on the previous year of 4%. Mine production rose very slightly and reached a record high of 3,268.7 tonnes. New mine start-ups over recent years have offset the effect of production losses elsewhere, hence the levelling-off in global output. After three years of modest net hedging, 2017 witnessed net de-hedging of 30.4 tonnes, and the global hedgebook now stands at around 222 tonnes.

Gold recycling rates fell 10%; this was effectively a rebalancing following the unusually high levels of recycling activity in 2016 – and driven principally by East Asian and Middle Eastern markets. The annual supply of recycled gold slipped to 1,160 tonnes from 1,295.1 tonnes in 2016.

Global gold production, tonnes

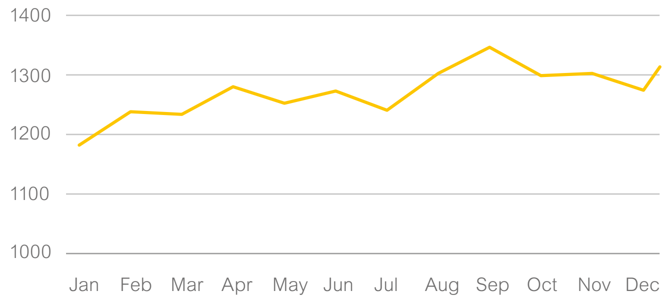
	Mine production	Recycled gold and net producer hedging	Total
2011	2,846	1,690	**4,536**
2012	2,917	1,639	**4,556**
2013	3,076	1,235	**4,311**
2014	3,155	1,296	**4,451**
2015	3,233	1,130	**4,363**
2016	3,236	1,335	**4,571**
2017	3,269	1,160	**4,429**

Pricing

As incomes rose, uncertainty remained and the price of gold sustained its momentum, global investors continued to add gold to their portfolios in 2017. Over the year, the gold price rose across many major currencies – particularly in the US, where it increased 13.5%, the highest annual gain since 2010.

The World Gold Council's global trends report highlights several reasons for the price gains. The weaker US dollar supported the US dollar gold price – and many investors became nervous in the face of stock market highs, using gold to help manage their risk exposure. Other factors included geopolitical instability – which contributed to investor fragility – and gold's positive price momentum.

LBMA gold price dynamics in 2017, $/oz



Source: London Bullion Market Association

Outlook

The World Gold Council identifies four principal issues that will affect gold's performance in 2018. With global growth increasing in 2017, the trend is expected to continue. In Europe and the US, there is greater optimism as wages rise and inflation indices remain low. China – the world's largest gold market – will continue to grow and India – the world's second largest gold market – will also benefit from the positive impact of government policies aimed at formalising the hitherto cash-based economy.

While economies are set to continue expanding, this will probably result in tighter monetary policy. Therefore, although shrinking balance sheets and rising interest rates are likely, gold will help investors manage market risks. With asset prices reaching multi-year highs in 2017, many investors have shown a degree of wariness with regard to these valuations. Any global market corrections could see gold investors benefit, since it has historically proved more resilient in periods of financial turbulence.

Greater market transparency, efficiency and access will also play their part in breaking down the barriers to investing in gold. Russia's tax rules mean that individual and institutional purchases of gold bars are subject to VAT of 18% – the highest rate in the world. A draft amendment proposing an exemption for gold may well signal the dawn of a new gold investment market in Russia.

Our strategy is centred on value creation through organic growth, via the cost-effective expansion of existing projects and the construction and launch of projects at new gold deposits. We aim to deliver industry-leading shareholder returns, while maintaining a commitment to operational excellence and fulfilling our social and environmental responsibilities. Our strategy comprises the following elements:

Maintaining and expanding an extensive reserve and resource base

Description
We operate large-scale open-pit mines in the gold-rich regions of Siberia and the Russian Far East. We operate and develop the Olimpiada, Natalka and Sukhoi Log deposits, three of the three Russian deposits included in the world's 30 largest assets in terms of resources, according to the Metals Gold Focus 2016 Report.

Risks to strategy
Industry risks:
- Quantity and quality of mineral resources and available ore reserves

Strategic risks:
- Incorrect historical geological data of Sukhoi Log project

Operational risks:
- Mining risks, including pit wall and road failures
- Production equipment failures
- Power balance shortage

Achieved to date
Polyus is the largest gold mining company in Russia by reserves, according to the Russian Union of Gold Miners. The Company is also one of the world's largest gold companies in terms of ore reserves, with 69 million ounces of proved and probable ore reserves. Winning the Sukhoi Log auction in 2017 provides us with access to one of the world's largest undeveloped gold deposits.

Mid-term target
Thanks to our strong foothold in – and long-term commitment to – the Russian market, we believe we are well placed to capitalise on existing and future opportunities in the region. We are also confident that Polyus has a competitive advantage in bidding for new licences and assets.

Pursuing capital-efficient growth opportunities

Description
Over the last four years, Polyus has exceeded its annual production guidance by 5%, 6%, 11% and 3% respectively. We aim to deliver sustainable organic growth by executing an identified set of brownfield development projects. This will enable us to extract maximum output from the existing assets – through targeted expansion projects and debottlenecking initiatives delivering substantial rates of return.

Risks to strategy
Strategic risks:
- Inability to grow due to imbalance between the Company's goals, management systems and business processes

Operational risks:
- Failure to comply with schedule and budget of capital construction investment projects
- Lack of qualified human resources

Achieved to date
Operational optimisation initiatives delivered sustained recovery rate and production increases at all our key assets. Our large-scale greenfield project at Natalka began operations in 2017 and the first doré gold was poured from the project in December. Our 1.5 million tonnes per annum heap leaching facility at Kuranakh was also completed by the end of the year.

Mid-term target
Operational initiatives introduced at Verninskoye will stabilise the achieved throughput run rate in order to proceed with further capacity expansion by the end of 2018.

Preserving cost leadership

Description
Polyus is one of the lowest-cost gold producers, positioned in the first decile of the global cost curve and having one of the highest EBITDA margins in the industry. We are committed to applying rigorous cost management to our entire portfolio of high-grade, large-scale mines. This approach delivers multiple sustainable and low-cost advantages in comparison to our competitors.

Risks to strategy
Strategic risks:
- Incorrect assessment of investment projects' effectiveness and failure to achieve results

Operational risks:
- Selection of inefficient technology, failure and/or poor quality of expertise and testing of new technologies
- Failure to comply with delivery schedule, poor quality and quantity of materials and services

Achieved to date
Our ongoing efficiency programmes across the Company continued to reduce costs. In 2017, total cash costs fell by 6% year-on-year to $364 per ounce and all-in sustained costs increased by 9% year-on-year to $621 per ounce. A total of 283 initiatives were undertaken as part of our Total Optimisation Programme in 2017; these delivered prompt and considerable benefit during the year, contributing $138 million to the Company's EBITDA.

Mid-term target
We are committed to retaining our status as one of the world's lowest-cost gold producers. This will be accomplished through maintaining our disciplined approach to the identification and selection of projects, focusing on those that exhibit long-life, low-cost and high-grade characteristics. We will also continue to introduce operational efficiency initiatives that not only reduce costs, but also increase throughput and recovery rates.

Maintaining stringent health and safety standards

Description
We are committed to implementing and upholding the highest safety practices and standards across all our operations.

Risks to strategy
Operational risks:
- Accidents at worksite
- Negative environmental impact

Achieved to date
The Company has been a member of the ICMM since 2015; the first company from Eastern Europe out of 23 mining and metals companies. Our LTIFR compares favourably against the majority of our peers.

Mid-term target
Our ultimate goal remains zero injuries.

Striking a balance between shareholder returns and an optimum capital structure

Description
Our dividend policy is focused on shareholder returns, while ensuring that adequate liquidity is maintained. We continue to experience a comfortable leverage profile – with limited repayments in the years ahead. Polyus' strong cash position will enable the Company to meet its financing obligations and our planned programme of capital expenditure.

Risks to strategy
Industry risks:
- Gold price decrease

Financial risks:
- Foreign currency rate
- Capital access

Achieved to date
Our dividend policy allows for payments on a semi-annual basis – at 30% of the EBITDA for the applicable reporting period, providing the net debt/adjusted EBITDA ratio for the previous 12 months (based on the consolidated financial statements of the Company) is lower than 2.5x. For the full years 2017 and 2018, a dividend floor of $550 million has been introduced.

Mid-term target
We believe that our low-cost position will enable us to maintain a sustainable, industry-leading level of dividend payments throughout the cycle.

Maintaining high standards of corporate governance and corporate disclosure

Description
We uphold the highest standards of corporate governance throughout the organisation. To this end, we have adopted a disclosure and reporting policy consistent with the applicable regulatory requirements and compliant with the relevant best practice standards.

Risks to strategy
Legal risks:
- Non-compliance with legal requirements and internal regulations

Country and regional risks:
- Tax burden increase
- Inefficient interaction with government authorities
- Increase of the international pressure on the country where the Company carries out its operating activities

Achieved to date
Audit, Strategy, Operations, and Nomination & Remuneration Committees all comprise at least two Independent Non-Executive Directors. All Committees are chaired by an Independent Non-Executive Director. With the appointment of Maria Gordon in 2017, the Company's Board of Directors now includes four Independent Non-Executive Directors, all of whom have extensive, complementary and relevant experience.

Mid-term target
We continue to work towards a best practice model of corporate governance.

KEY PERFORMANCE INDICATORS

To measure progress against the Company's strategy, we have benchmarked our performance in 2017 against a set of key financial, operational and sustainability KPIs.

KPI	Dynamics	Relevance to strategy	2017 performance	Looking ahead
Adjusted EBITDA ($ million) Adjusted EBITDA is defined by the Company as profit before finance costs, income tax, income/(losses) from investments (including derivatives), depreciation, amortisation and interest paid, and adjusted for one-off items.	'15 1,278 '16 1,536 '17 1,702	Demonstrates the Company's ability to generate operating cash flows, which are a major contributor to Polyus' capital expenditure programme, working capital requirements, and credit portfolio servicing.	The Company's adjusted EBITDA rose 11% over the past year, to $1,702 million. This reflects higher sales volumes and gold prices – coupled with reduced operating costs driven by Polyus' Total Optimisation Programme.	Polyus is focused on growing adjusted EBITDA through sustainable cost reduction and operating efficiency initiatives. For additional information, see section **'Management discussion and analysis'** (p. 55)
Total gold output (thousand ounces) Volume of gold produced from Polyus' hard-rock mines and alluvial operations in the reporting period. Gold production volumes are measured in thousands of troy ounces.	'15 1,736 '16 1,968 '17 2,160	Gold production is an indication of Polyus' operational performance and demonstrates the operational and management teams' progress against mining plan targets.	Polyus' gold output increased a further 10% year-on-year, exceeding both the previous year's performance and internal targets.	Polyus has a strong production growth profile, allowing the Company to maintain steady operational progress towards delivering its key brownfield and greenfield projects. For additional information, see section **'Operational review'** (p. 36)
Total cash cost ($/ounce) Total cash cost (TCC) per ounce sold is the cost of producing and selling an ounce of gold, which includes mining, processing, transportation, refining, as well as general costs from both mine and alluvial operations.	'15 424 '16 389 '17 364	TCC is a key measure of efficiency at the Company's operations. Polyus pays significant attention to production expenses by monitoring and benchmarking the efficiency and effectiveness of its assets and implementing best practices to control expenses.	Polyus continued to focus on efficient operational performance, which, in spite of a stronger rouble, was the main reason for lower TCC. The positive dynamics exceeded the Company's initial expectations.	The next stage of the programme will introduce additional multi-faceted and intensive measures to contain cost inflation and improve productivity. For additional information, see section **'Management discussion and analysis'** (p. 55)
LTIFR The lost time injury frequency rate (LTIFR) measures delivery against Polyus' commitment to health and safety across the business.	'15 0.08 '16 0.13 '17 0.11	Polyus tracks a range of safety performance indicators and data to measure the efficiency of the Company's health and safety initiatives and their application across Polyus' operations.	In partnership with BSI, the safety culture development level was estimated at all Company's business units according to the Bradley scale.	Polyus targets zero injuries through continuously focusing on improving its Health and Safety management systems. For additional information, see section **'Ensuring the safety of our employees'** (p. 92)

PRINCIPAL RISKS AND UNCERTAINTIES

Various risks may affect the results of the Company's operating, financial and investment activities.

Risk management forms an integral part of Enterprise Risk Management and Internal Control (ERM&IC) system and is regulated by ERM&IC Policy. The Audit Committee of the Board of Directors assures that the ERM&IC system is reliable and efficient.

Risk management principles, applicable to all employees in their day-to-day activities:

- **Continuity** – the ERM&IC system operates continuously and throughout all levels of the Company
- **Integration** – the ERM&IC system covers all activities and business processes of the Company
- **Risk-oriented** – the ERM&IC system is integrated into the Company's business processes to prioritise risk mitigation actions
- **Reasonableness** – volume and complexity of control procedures and risk mitigation actions allow to achieve the ERM&IC system's objectives
- **Separation of duties** – the rights and obligations of the Company's employees depend on their role in the ERM&IC system
- **Responsibility** – within the scope of their duties, all employees of the Company are responsible for effective functioning of the ERM&IC system
- **Timely reporting** – information on risks and control procedures as well as the results of the ERM&IC system's evaluation are promptly reported to the appropriate level of management
- **Adaptability** – the ERM&IC system constantly develops and improves, adapting to environment changes

Risk management includes identification and evaluation of risks, development of risk mitigation actions and control over their implementation.

Key corporate risks of PJSC Polyus and corresponding mitigation actions are set out below.

Description & Impact	Mitigation
Industry risks	
1. Gold price decrease	
To a significant extent, the Company's financial results depend on the gold price. The gold market is both cyclical and sensitive to changes in the economy. Gold prices depend on external factors beyond the Company's control. A significant continuous decline in the gold price may lead to lower profitability – or even make gold production and/or exploration works performed by the Company unprofitable. This may have a significant adverse effect on the results of the Company's operations and its financial position.	The Company continuously performs various mitigation actions to reduce any negative impact. These include managing the loan portfolio, free cash flow and liquidity.
2. Quantity and quality of mineral resources and reserves	
To a considerable degree, the Company's operations depend on its reserves and resources. By its nature, the evaluation of mineral resources of all mining companies may be inaccurate. It depends to a certain extent on subjective statistical conclusions, which may be based on insufficient volumes of drilling and other analyses. Inaccurate assessment of mineral resources' quantity and quality may lead to a decrease in production efficiency due to increases in mining works and labour requirements, changes in the ore processing technology or contraction of the mine development cycle.	Risk mitigation actions include: • Audit of deposit reserves performed by external advisors in respect of prospective and developed fields • Preparation of reports on results of geological exploration, provision of reserves (ratio of reserves to the level of current production) • Follow-up exploration of minefields (advanced and operational)

Description & Impact	Mitigation
Financial risks	
1. Foreign currency rate	
A major proportion of the Company's operating expenditure is conducted in Russian roubles. At the same time, the price of gold sales is tied to the US dollar. The exchange rate of the Russian rouble to the US dollar may therefore affect the Company's revenue.	The Company performs constant risk monitoring. To reduce currency exchange rate risk and secure loans nominated in foreign currency, the Company manages its loans portfolio, operating and investment expenditures. The Company also forecasts and maintains sufficient levels of liquidity.
2. Capital access	
Difficulties in borrowing on foreign markets may be created by: • Sanctions imposed by the United States, EU and other countries • Downgrading of Russia's credit rating to 'speculative' The Company may also face a shortage of funds necessary to finance production, management and investment needs, as well as for fulfilment of its financial obligations.	This risk is constantly being mitigated to create an optimal capital structure and maintain a sufficient balance of liquidity. The Company uses direct loans from Russian and international banks and minimises the number of adjustable-rate loans.
Legal risks	
1. Non-compliance with legal requirements and internal regulations	
Risk of non-fulfilment of certain provisions of applicable legislation and/or industry regulations, including licence requirements, may occur due to constant changes in regulations and standards that have a direct impact on the Company's operations. Moreover, there is a risk of intentional breach/default of internal regulations by the Company's employees.	To mitigate these risks, the Company maintains compliance system that responds to the changes in legislation and industry standards. The Company has also established a hotline to respond to compliance issues. The Company works continuously to improve monitoring of the fulfilment of the terms and conditions of the licence agreements, as well as the requirements of Russian standards. Comments and instructions from government authorities based on the results of the inspections of the Company's production operations are carefully analysed and taken into account.
Country and regional risks	
1. Tax burden increase	
The Company meets its obligations to pay taxes in full and on time. At the same time, the Company's financial results may be affected by: • Changes in tax legislation and statutory practice • Different interpretations of law by the taxpayer and tax authority	To mitigate this risk, the Company continuously monitors changes in legislation and engages external consultants to evaluate the impact of possible legal changes on the Company's operations.
2. Increase in international pressure on the Russian Federation	
The fragile global situation may have an impact on the Company's operations. There is a threat of further prolonging and tightening of sanctions imposed on the Russian Federation by various countries.	To mitigate the possible negative impact of this risk, the Company continuously monitors the situation regarding sanctions.

PRINCIPAL RISKS AND UNCERTAINTIES

Description & Impact	Mitigation
Strategic risks	
1. Incorrect assessment of the effectiveness of investment projects and failure to achieve their results	
During implementation of investment programmes, the Company faces the following challenges: • Inaccurate assessment of a project's costs and other characteristics • Ineffective budget management procedures	To minimise this risk, the Company: • Regularly updates valuation models while monitoring investment projects • Suspends projects in cases of slowdown • Harmonises investment principles for assessment of projects • Considers the results of post-investment monitoring of completed projects when planning similar projects for the Company
2. Inability to grow due to imbalance between the Company's goals, management systems and business processes	
The Company faces the risk of an imbalance between its operating model and structure and its development goals. In addition, the simultaneous start of additional projects increases the risk of failure both for existing and newly initiated projects.	Minimisation of this risk is achieved by: • Harmonisation and prioritisation of projects to achieve optimal resources allocation • Transformation of the Company's business processes and information systems • Improvement of the Company's organisational design
3. Incorrect historical geological data of Sukhoi Log	
In 2017, the Company obtained a licence for development of the Sukhoi Log deposit. The development is subject to the following risks: • Inaccurate assessment of mineral resources and reserves • Inaccurate assessment of ore quality	To mitigate the risks, the Company performs verification drilling, undertakes follow-up exploration and revaluation, and updates the geological model of the deposit.
4. Inefficient interaction with government authorities	
The requirements of applicable legislation are unclear and presume flexibility in allocating of the state funds, as well as in the provision of tax benefits.	The Company communicates with state authorities on a regular basis, monitors changes in applicable laws and maintains a focus on draft legislation.
Operational risks	
1. Mining risks, including pit wall and road failures	
Risk may occur due to: • Errors in evaluation of open-pit stability • Incorrect use of mining technology	The Company regularly: • Conducts complex monitoring of pits to expose defects that may lead to rock breakage • Develops programmes for the examination of pit conditions • Implements risk mitigation actions for blasting
2. Selection of inefficient technology, failure and/or poor quality of expertise and testing of new technologies	
Risk may occur due to: • Failure or poor quality of project expert valuation, including insufficient elaboration of technological process at the laboratory research stage • Unrepresentative samples of ore/materials	To mitigate this risk, the Company: • Engages highly qualified specialists, including international engineering companies, for evaluation of strategic projects • Continuously improves the methodology for sample collection
3. Production equipment failures	
Risk may occur due to: • Non-compliance with production equipment maintenance rules • Late maintenance performance • Accidents in the electricity supply network	To reduce the negative impact of this risk, the Company continuously: • Performs ongoing monitoring of technical conditions and operational mode of the production equipment • Examines interruptions in technical processes • Updates and maintains an emergency stock of materials • Maintains insurance for property damage and business interruption

Description & Impact	Mitigation
Operational risks	
4. Power balance shortage	
Risk may occur due to the limited capacity of energy networks.	To increase the reliability of power supplies, the Company builds high-voltage transmission lines to connect with the networks of federal grid companies in Siberia and the Far East.
5. Failure to comply with schedule and budget of capital construction investment projects	
Risk may occur due to: • Inaccurate assessment of the project schedule and budget • Breach of contract terms for services and materials • Revision of project terms during construction	Risk mitigation actions include: • Increase of control over the quality of project schedules development • Evaluation of budget's resource estimate • Term planning for supply of materials in accordance with calendar planning at the technology selection stage • Performance of intermediate control of materials supply
6. Accidents at worksite	
Risk may occur due to employees' breach of their duties related to health and safety.	Risk mitigation actions include: • Provision of safety training for employees • Quality control and timely provision of safety facilities • Purchase and installation of equipment necessary for safe working
7. Negative environmental impact	
The Company's operations are subject to environmental control and regulations as far as they relate to the use of substances harmful for the environment and emissions of pollutants into the environment, soil disturbance, potential harm to flora and fauna and other factors.	The Company fulfils all requirements of the Russian and applicable international laws in the field of environmental protection. The Company evaluates the impact of its production on the environment and social sphere and identifies ecological risks at all stages of projects – from design to land recultivation.
8. Failure to comply with delivery schedule, poor quality and quantity of materials and services	
Risk may occur due to: • Logistical bottlenecks • Late delivery of materials and equipment due to late provision of supply requirements by the customer • Lengthy procurement processes • Provision of poor quality materials by vendors	Risk mitigation actions include: • Maintaining the required level of reserve stock of materials and an emergency stock of spare parts • Annual update of lead times • Implementation of incoming quality control at all materials initial receiver points
9. Lack of qualified human resources	
Difficulties in hiring sufficiently qualified personnel arise for the following reasons: • Increasingly competitive environment in the Russian labour market • Low levels of qualification provided by educational institutions, especially in technical subjects • Lack of adequate social conditions for employees	Risk mitigation actions include: • Development of special programmes for high-potential employees • Development of corporate culture and improvement of employee engagement • Improvement of social conditions for employees • Improvement and development of recruitment

Q&A WITH VLADIMIR POLIN
SENIOR VICE PRESIDENT, OPERATIONS

Q Mr Polin, are you pleased with the operational results of 2017?

A Yes, I'm very happy with our results; 2017 was a successful year for Polyus. Our total gold output reached a record high of 2.16 million ounces – that's 10% above the previous year and higher than our production guidance. 2017 was the fourth year in a row that we've outperformed expectations.

Q What were the main factors behind this good performance?

A Over the past two years we've worked non-stop to expand the processing capacity at our key assets, including Olimpiada, Blagodatnoye, Verninskoye, and Kuranakh. I'm pleased to see these efforts now bringing concrete results: the volume of ore processed in 2017 grew 8% year-on-year. It's important to note however, that this is an ongoing process; we're constantly introducing new technological solutions and optimising our processes at all of our business units.

Q Can you provide some examples of these technological solutions – and what they achieve?

A Blagodatnoye, our second-largest operating mine, is where we usually test new technologies with a view to introducing them across other production sites. We launched our Mine-to-Mill project here in 2017; it's a technology that optimises the size of the mill feed, which helps reduce energy consumption and optimises mining and processing operations. The project enabled us to increase ore processing there by 17% in the fourth quarter – and we're rolling it out at Blagodatnoye in 2018.

Another technology that we're introducing is flash flotation, which removes fine particles from classification cyclone underflow. This reduces overgrinding, improves recovery and dewatering. One flash flotation unit has already been installed and is being tested on Mill 4 at Blagodatnoye. Units have been ordered for Mills 1, 2 and 3 at Olimpiada.

Q Did Polyus' safety record improve in 2017? And what impact did your safety initiatives have during the year?

A I'm delighted to report that our lost time injury frequency rate fell by 15%, from 0.13 to 0.11. We're also very glad that there were no fatalities across our operations in 2017. This is a direct result of the enhancements we've made to our on-site safety systems – and we plan to keep on making improvements.

The effect of our safety initiatives has been dramatic and immediate. At our Krasnoyarsk Business Unit (which includes Olimpiada, Blagodatnoye, and Titimukhta) we launched a hand injury prevention programme. This reduced the number of incidents from four in 2016 to zero in 2017. At Verninskoye, we piloted a fall prevention programme – and as result, no fall incidents were recorded. We also started to install LockOut-TagOut systems at the crushing and power facilities at Verninskoye, Natalka, Alluvials and Power Group. During 2018, we're introducing these systems across all our business units.

Our simple stated aim is 'zero accidents' – and a further reduction in our LTIFR. When it comes to the health and safety of employees, there's absolutely no room for complacency in the mining business. That's why Polyus has always been – and continues to be – committed to implementing and maintaining the most stringent health and safety standards.

"2017 was a successful year for Polyus. I am very happy with our results"

Q Looking at Polyus' existing assets, how did you develop these in 2017?

A One of our landmark events was the successful launch of heap leaching at Kuranakh, which yielded its first doré gold before the end of the year. We expect heap leached ore volumes at Kuranakh to reach 1.5 million tonnes in 2018. We've also taken other measures to expand capacity and improve operational efficiency at Kuranakh. For example, we replaced spiral classifiers used in primary milling with more efficient state-of-the-art hydrocyclone clusters – which are also significantly cheaper to maintain.

We're also continuing the automation of technological processes at Kuranakh and other assets. For instance, the mill at Verninskoye now has a fully automated management system.

Separately, Mill 1 at Olimpiada underwent a reconfiguration, which gave us higher processing volumes. Together with the increased hourly throughput capacities at Mills 2 and 3, this contributed to Olimpiada's improved production numbers for 2017.

Towards the end of the year, we completed maintenance at Mill 4 at Blagodatnoye. Together with the launch of Mine-to-Mill project I mentioned earlier, this played a part in the asset's strong performance during the fourth quarter.

Q What about Natalka, your long-expected development project in the Magadan Region?

A The pouring of the first doré gold in December at Natalka was a key highlight of the year for us. Since then we've launched the operations of the mill. By early 2018 it had already functioned at 50% of its design capacity, with pre-commissioning activities at certain units of the hydrometallurgical circuit being completed.

Q Can you give an update on Polyus' exploration activities?

A Our top priority has been Sukhoi Log, in the Irkutsk Region. This is a unique asset: one of the world's largest undeveloped gold deposits and Russia's biggest greenfield gold project. We won the auction for Sukhoi Log in early 2017 and started a 180 thousand metres drilling campaign in November. A huge advantage is its location: just 6 kilometres away from our existing operations at Verninskoye. We're confident that Sukhoi Log will be an important driver of our long-term growth.

Q Looking ahead, what are your expectations for 2018?

A We're very optimistic. We've increased our production guidance from 2.35-2.40 million ounces to 2.375-2.425 million ounces. We expect Olimpiada and Verninskoye to deliver strong results, thanks to the additional operational improvements that we're implementing there.

We'll also be debottlenecking certain operations, especially at Olimpiada and Blagodatnoye. For instance, Polyus has been expanding throughput capacity and improving efficiency for the last three years. This has led to a necessity to expand our mining operations, which is a priority in 2018.

And of course, our key task for the year is the ramp-up of Natalka, which we expect to reach design capacity in the second half of 2018, ahead of our initial schedule.

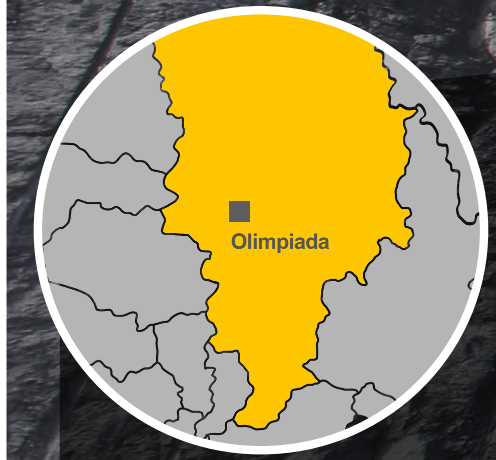
We have every reason to look forward with confidence.

Consolidated operating results

	2017	2016	Y-O-Y
Olimpiada[1]	**1,007.3**	816.9	23%
Blagodatnoye	**456.7**	456.5	0%
Titimukhta	**–**	40.2	-100%
Poputninskoye	**–**	7.4	-100%
Verninskoye	**205.7**	186.5	10%
Alluvials	**145.7**	168.5	-14%
Kuranakh	**171.5**	159.7	7%
Natalka	**3.3**	5.7	-43%
Refined gold, koz	**1,990.2**	**1,841.4**	**8%**
Gold in flotation concentrate, koz	**170.0**	126.4	34%
Gold payable in concentrate, koz	**119.0**	82.2	45%
Total gold output, koz	**2,160.2**	**1,967.8**	**10%**
Rock moved, kt	**224,423**	144,360	55%
Stripping ratio, t/t	**4.9**	3.9	28%
Ore mined, kt	**37,810**	29,682	27%
Ore processed, kt	**28,663**	26,445	8%
Recovery rate, %	**83.4%**	83.9%	-0.5 ppts
Total doré & slime gold output, koz	**2,161.9**	1,966.4	10%

In 2017, Polyus produced 2,160 thousand ounces of gold (including 170 thousand ounces of gold contained in concentrate from Olimpiada). This was 10% higher year-on-year due to increased throughput capacity at Polyus' core assets and higher ore grades processed. Average recoveries declined 0.5 percentage points year-on-year to 83.4% due to lower rates at Olimpiada, Blagodatnoye and Natalka, which is currently operational in ramp-up mode. Adjusted for Natalka, recoveries at Company level amounted to 83.6% in 2017. An 8% year-on-year increase in volumes of ore processed resulted from higher volumes of ore treatment at Olimpiada, Blagodatnoye, Kuranakh and Verninskoye.

[1] Including refined gold produced from ore purchased from the third party-owned Veduga mine under an off-take agreement.



OLIMPIADA

Total gold output in 2017

+25%

Ore mined in 2017

12,184 kt

Overview	
Location	Krasnoyarsk Territory
Commissioned	1996
Mining/processing type	Open-pit, flotation-bioleach
Processing capacity	3 plants with a total capacity of 11.7 million tonnes per annum

	2017	2016	Y-O-Y
Rock moved, kt	76,067	51,917	47%
incl. stripping, kt	63,883	42,134	52%
Stripping ratio, t/t	5.2	4.3	22%
Ore mined, kt	**12,184**	**9,782**	**25%**
Average grade in ore mined, g/t	4.08	3.37	21%
Ore processed[1], kt	**12,442**	**11,336**	**10%**
incl. purchased ore from Veduga mine, kt	–	551	-100%
Average grade in ore processed, g/t	3.80	3.31	15%
Recovery, %	80.7%	81.0%	-0.3 ppts
Doré gold (incl. gold in concentrate), koz	**1,176.6**	**956.3**	**23%**
Refined gold output, koz	**1,007.3**	**816.9**	**23%**
Gold contained in concentrate, koz	170.0	126.4	34%
Total gold output, koz	**1,177.3**	**943.4**	**25%**

The Olimpiada mine is Russia's largest gold mine – and Polyus' flagship operation. It is located approximately 500 km north of the city of Krasnoyarsk in the Krasnoyarsk Territory in Western Siberia. The mine is located in Eruda in the Severo-Yeniseysk administrative district, the Krasnoyarsk Territory. The district centre of Severo-Yeniseysk is located 60 kilometres by road north of Eruda. The deposit was discovered in the 1970s, although alluvial gold mining in the region dates back much further. Exploration is reported to have commenced at Olimpiada in the 1970s.

Olimpiada ore is processed in Mill Nos. 1, 2 and 3, with a combined nominal capacity of 12.5 million tonnes per annum versus 11.7 million tonnes per annum in 2016. Titimukhta ore was being processed in Mill No. 1 until the processing of Titimukhta ore was suspended in April 2016.

Gold at Olimpiada occurs in a complex form, with arsenopyrite, pyrrhotite, stibnite, and pyrite. Coupled with the carbonaceous nature of much of the ore, this results in Olimpiada ore being highly refractory. Mining operations are currently based on conventional open-pit methods. The mine comprises the Vostochny and Zapadny pits. After blasting, rock is removed by excavation and hauling.

Mine production uses drill and blast, with a standard truck-and-shovel operation, hauling ore to stockpiles for blending (high antimony ore is currently stockpiled). Processing involves gravity and flotation concentration methods, with subsequent bio-oxidation of the flotation concentrate and sorption leaching of the bioleach product using the carbon-in-leach (CIL) process.

In 2017, refined gold output increased 25% year-on-year to 1,177 thousand ounces. This was primarily due to higher processing volumes, resulting from Mill 1 reconfiguration, and increased hourly throughput capacity at Mills 2 and 3, which fully offset a minor decline in recoveries. Mining operations at higher-grade areas in line with the mining plan also contributed to a strong performance in 2017.

> **“One of Polyus' brownfield projects, BIO-4 complex, has been partially commissioned in 2017, and 100% capacity run rate is expected to be achieved in 2018. BIO capacities will be increased to 1.5 thousand tonnes per day”**

[1] Including refined gold produced from ore purchased from the third party-owned Veduga mine under an off-take agreement.

BLAGODATNOYE

Overview	
Location	Krasnoyarsk Territory
Commissioned	2010
Mining/processing type	Open-pit, flotation-bioleach
Processing capacity	Above 8 million tonnes per annum

	2017	2016	Y-O-Y
Total rock moved, kt	75,859	49,021	55%
incl. stripping, kt	63,026	37,506	68%
Stripping ratio, t/t	4.9	3.3	51%
Ore mined, kt	**12,833**	**11,515**	**11%**
Average grade in ore mined, g/t	1.94	2.01	-4%
Ore processed, kt	**8,161**	**7,753**	**5%**
Average grade in ore processed, g/t	1.99	2.07	-4%
Recovery, %	87.8%	88.0%	-0.2 ppts
Doré gold (incl. gold in concentrate), koz	**457.6**	**455.0**	**1%**
Refined gold output, koz	**456.7**	**456.5**	**0%**

The Blagodatnoye deposit is located 25 km north of the Olimpiada mine. Ores consist of quartz–micaceous schists, with impregnated and vein-impregnated sulphide mineralisation. The main forms of gold in the ores are free, connected with barren minerals, and in aggregates.

Blagodatnoye operates as an open-pit mine with surface stockpiling. The process mill was commissioned in 2010 with a nominal capacity of 6.0 million tonnes per annum, with gravity concentration, flotation and CIL sections.

In 2017, refined gold output remained stable year-on-year at 457 thousand ounces, as higher processing volumes fully mitigated the negative impact from the decline in grades and recoveries.

In 2017, Polyus proceeded with technical works to ensure the mill continues to operate consistently following the first stage of the capacity expansion. Volumes of ore processed reached almost 8.2 million tonnes per annum, supported by improved throughput. In addition, Polyus launched the Mine-to-Mill project, which also contributed to the performance in the reporting period. This technology, designed to optimise mining and processing operations and minimise energy consumption via more suitable mill feed size, was trialled in April 2017 and demonstrated its effectiveness, with ore size reduction positively impacting the mill's performance. A full roll-out of the Mine-to-Mill project is being implemented at Blagodatnoye from 2018.

Ore mined in 2017

+11%

Ore processed in 2017

8,161 kt

> **In 2017, refined gold output remained stable year-on-year at 457 thousand ounces, as higher processing volumes fully mitigated the negative impact from the decline in grades and recoveries**

VERNINSKOYE

Overview	
Location	Irkutsk Region
Commissioned	2011
Mining/processing type	Open-pit, gravity, flotation and cyanide leaching
Processing capacity	1 mill with a capacity of 2.5 million tonnes per annum

	2017	2016	Y-O-Y
Total rock moved, kt	18,378	16,300	13%
incl. stripping, kt	14,631	12,945	13%
Stripping ratio, t/t	3.9	3.9	1%
Ore mined, kt	**3,747**	**3,355**	**12%**
Average grade in ore mined, g/t	2.18	2.20	-1%
Ore processed, kt	**2,789**	**2,501**	**11%**
Average grade in ore processed, g/t	2.60	2.65	-2%
Recovery, %	88.5%	87.3%	1.2 ppts
Doré gold (incl. gold in concentrate), koz	**206.6**	**185.9**	**11%**
Refined gold output, koz	**205.7**	**186.5**	**10%**

The Verninskoye gold deposit is located in the northern part of the Bodaibo Administrative District in the Irkutsk Region. The development of the mine commenced in 2006 and it was commissioned in December 2011. Ore is processed through gravity concentration, flotation, and CIL.

Gold occurs in auriferous quartz-sulphide veins and is associated with disseminated sulphide minerals (pyrite and arsenopyrite) within the sedimentary rocks. Minor pyrrhotite, chalcopyrite, sphalerite, and galena have been recorded. Sheeted and stockwork quartz-carbonate vein mineralisation and disseminated mineralisation occur both sub-parallel to and cross-cutting stratigraphy, which seems to include local quartz and sericite alteration overprinting primary sedimentary features.

In 2017, refined gold output rose 10% year-on-year, to 206 thousand ounces.

Ore mined in 2017

+12%

Ore processed in 2017

+11%

> **"An increase in refined gold output was mainly attributable to higher ore treatment volumes and improved recovery rates, following the implementation of the capacity expansion project at the Verninskoye Mill. The Company is implementing initiatives to stabilise the achieved throughput run rate in order to proceed with further capacity expansion. A 2.7 mtpa run-rate has been achieved ahead of schedule"**

ALLUVIALS

Overview	
Location	Irkutsk Region
Mining/processing type	Sand washing
Processing capacity	9.8 million m³ per annum

	2017	2016	Y-O-Y
Sands washed, 000 m³	8,342	8,611	-3%
Average grade, g/m³	0.54	0.61	-11%
Gold in slime, koz	**145.5**	**168.3**	**-14%**
Refined gold output, koz	**145.7**	**168.5**	**-14%**

Alluvial deposits in the River Lena basin in the Irkutsk Region have been developed since the mid-1840s. They continue to generate steady income.

In 2017, alluvial deposits produced 146 thousand ounces of refined gold, a 14% decrease on 2016. This year-on-year decrease was primarily the result of a lower average grade, due to the planned reduction of the average sand grade.

Refined gold output

145.7 koz

Processing capacity per annum

9.8 million m³

> **Alluvial deposits in the River Lena basin in the Irkutsk Region have been developed since the mid-1840s**

KURANAKH

Overview	
Location	Republic of Sakha (Yakutia)
Commissioned	1965
Mining/processing type	Open-pit, RIP cyanide leaching
Processing capacity	1 mill with a capacity of 4.5 million tonnes per annum

	2017	2016	Y-O-Y
Total rock moved, kt	31,951	25,530	25%
incl. stripping, kt	25,974	21,273	22%
Stripping ratio, t/t	4.3	5.0	-13%
Ore mined, kt	**5,977**	**4,257**	**40%**
Average grade in ore mined, g/t	1.18	1.29	-8%
Total ore processed, kt	**4,701**	**4,223**	**11%**
Mill			
Ore processed, kt	4,647	4,223	10%
Average grade in ore processed, g/t	1.30	1.30	-1%
Recovery, %	88.5%	88.2%	0.3 ppts
Doré gold, koz	171.8	157.9	9%
Heap leach			
Ore processed, kt	54	–	N.A.
Average grade in ore processed, g/t	0.75	–	N.A.
Recovery, %	–	–	N.A
Doré gold, koz	0.6	–	N.A.
Total doré gold, koz	**172.4**	**157.9**	**9%**
Refined gold output, koz	**1,007.3**	**816.9**	**23%**

The Kuranakh mine is located in the Aldansky District of the Sakha Republic in Russia, approximately 400 kilometres southwest of the capital city of Yakutsk. The mine was commissioned in 1965. The gold deposits comprise 11 deposits and 24 stockpiles, situated between 6 kilometres and 25 kilometres from the processing plant. Mineralisation is similar in character throughout all the deposits; ores are of the quartz-pyrite type.

Mining at the Kuranakh ore deposits is based on open-cut, drilling, and blasting operations. The processing mill uses resin-in-pulp (RIP) sorption technology, with subsequent electrolysis and smelting.

In 2017, total refined gold output at Kuranakh rose 7% year-on-year to 172 thousand ounces on the back of the higher volumes of ore processed and increased recovery rates.

In addition, Polyus launched the heap leaching project, with the first doré gold produced in the 4th quarter of 2017. The heap leaching of low-grade ore gives Polyus the potential to significantly increase gold production.

Ore mined in 2017

+40%

Ore processed in 2017

+11%

> **“The heap leaching of low-grade ore gives Polyus the potential to significantly increase gold production. The Kuranakh ores are essentially completely oxidised, and most of the gold is readily available for leaching. Once heap leaching operations are resumed in the 1st quarter of 2018, further ramp-up of Kuranakh heap leaching operations to 1.5 million tonnes per annum will be continued”**

NATALKA

Overview	
Location	Magadan Region
Commissioned	2017
Mining/processing type	Open-pit, gravity, cyanide leaching
Processing capacity	1 mill with a capacity of 10 million tonnes per annum

	2017	2016	Y-O-Y
Total rock moved, kt	21,766	421	51.8x
incl. stripping, kt	18,828	158	118.9x
Stripping ratio, t/t	6.4	0.6	10.3x
Ore mined, kt	**2,938**	**255**	**11.5x**
Average grade in ore mined, g/t	0.96	1.20	-20%
Ore processed, kt	**570**	**45**	**N.A.**
Average grade in ore processed, g/t	0.61	1.81	-67%
Recovery, %	42.7%	72.3%	-29.6 ppts
Doré gold (incl. gold in concentrate), koz	**3.2**	**5.0**	**-36%**
Refined gold output, koz	**3.3**	**5.7**	**-43%**

Ore processed in 2017

570 kt

Natalka is located near the town of Omchak in the Tenkinsky District of the Magadan Region of North East Russia. Natalka is being developed as a large scale, open-pit operation using conventional drill-and-blast and truck-and-shovel mining methods.

The Natalka mineralisation is hosted in carbonaceous sediments; principally, black shale. The main mineralisation zone is developed within the volcanogenic-sedimentary sequence. The gold demonstrates a complex distribution. The gold grade in the mineralisation is correlated with the intensity of veining and brecciation, the quartz content, and the sulphide content. Gold grades gradually diminish from the core of the deposit towards its flanks.

In September 2017, the hot commissioning of Natalka was launched by Russian President Vladimir Putin during an official ceremony at the Eastern Economic Forum in Vladivostok.

In December 2017, Polyus received a positive resolution from Federal Industrial Supervision Service of Russia ('Rostechnadzor'), which conducted an industrial audit at Natalka. While Polyus proceeded with technical works and tests at the cake filtration and desorption circuits, the entire processing flow sheet was fully operational. This included primary crushing, SAG and ball milling circuits, three stages of gravity separation, intensive cyanidation, CIL circuit, electrowinning and smelting facilities.

In April-May 2018, Polyus plans to carry out scheduled maintenance at Natalka. Following that, the mill will be gradually ramped up to its design parameters over the course of 2H 2018 versus the previously anticipated timeline to ramp up the Natalka operations at the end of 2018.

In addition, Polyus will proceed with the construction of power and auxiliary facilities as well as the expansion of the tailings facility in 2018.

> **"In September 2017, the hot commissioning of Natalka was launched by Russian President Vladimir Putin during an official ceremony at the Eastern Economic Forum in Vladivostok"**

Mineral resources and ore reserves

The adjacent table sets out the Company's interest in total proven and probable gold reserves.

Polyus has carefully prepared and verified the mineral reserve and mineral resource figures and believes that its method of estimating mineral reserves has been verified by mining experience. However, these figures are estimates, and no assurance can be given that the indicated quantities of metal will be produced. Metal price fluctuations may render mineral reserves containing relatively lower grades of mineralisation uneconomic. Moreover, short-term operating factors relating to the mineral reserves, such as the need for the methodical development of ore bodies, or the processing of new or different ore grades, could affect the Company's profitability in any particular accounting period.

A **mineral resource** is a concentration or occurrence of diamonds, natural solid inorganic material, or natural solid fossilised organic material, including base and precious metals, coal, and industrial minerals in or on the Earth's crust in such a form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories.

An **inferred mineral resource** is that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

An **indicated mineral resource** is that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

A **measured mineral resource** is that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling, and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes that are spaced closely enough to confirm both geological and grade continuity.

Mineral resources that are not mineral reserves have not demonstrated economic viability.

A **mineral reserve** is the economically mineable part of a measured or indicated mineral resource demonstrated at least by a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined. Mineral reserves are sub-divided in order of increasing confidence into probable mineral reserves and proven mineral reserves.

A **probable mineral reserve** is the economically mineable part of an indicated and, in some circumstances, a measured mineral resource demonstrated at least by a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

A **proven mineral reserve** is the economically mineable part of a measured mineral resource demonstrated at least by a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

The results of the review of the Company's ore reserves and mineral resources as at 31 December 2017 in accordance with the JORC Code 2012 are presented below.

Ore reserves

Polyus' ore reserves are estimated at 68 moz of gold, down from 71 moz as of 31 December 2016, which reflects mining depletion during 2017.

With processing at the Natalka Mill having been launched and now anticipated to be fully ramped up in the second half of 2018, over 95% of the Company's ore reserves are located within the operating assets:

- The Krasnoyarsk Business Unit has the largest share of the Company's ore reserves, with 28 moz of ore reserves reported at Olimpiada and 9.6 moz at Blagodatnoye
- Ore reserves at Verninskoye and Kuranakh are recorded at 5.1 moz and 4.4 moz, respectively
- Natalka has estimated ore reserves of 16 moz

Polyus average ore reserve gold grade is estimated at 1.8 g/t, inclusive of Alluvial operations and lower grade ore for heap leaching operations. The gold grade of ore to be processed in plants stands at 2.0 g/t.

In 2017, Polyus launched a 180,000-metre drilling campaign at Sukhoi Log. Approximately 25,000 metres is now completed. Sukhoi Log's ore reserves have not yet been estimated and the Company expects these to be included in its reserve statement in 2020.

Further studies at Chertovo Koryto are expected to be completed in 2019 to enable update of the ore reserve estimate.

[1] Using a gold price assumption of $1,250/oz.

[2] The estimates for all deposits are presented on a 100% basis.

JORC Ore Reserve estimated as at 31 December 2017[1]

Deposit[2]	Proved			Probable			Total		
	Tonnes (Mt)	Gold (g/t)	Gold (Moz)	Tonnes (Mt)	Gold (g/t)	Gold (Moz)	Tonnes (Mt)	Gold (g/t)	Gold (Moz)
Mines in Operation									
Olimpiada	6.5	2.9	0.6	288	2.9	27	295	2.9	28
Blagodatnoye	52	0.9	1.6	164	1.5	8.0	216	1.4	9.6
Titimukhta	5.3	1.6	0.3	6.3	3.1	0.6	12	2.4	0.9
Verninskoye	12	1.3	0.5	82	1.7	4.6	94	1.7	5.1
Alluvials[3]	0.0	0.0	0.0	87	0.3	1.0	87	0.3	1.0
Kuranakh	0.0	0.0	0.0	141	1.0	4.4	141	1.0	4.4
Natalka	146	1.5	7.3	146	1.8	8.5	293	1.7	16
Development and Exploration Projects									
Chertovo Koryto	0	0.0	0.0	62	1.5	3.1	62	1.5	3.1
Total[4]	**222**	**1.4**	**10.2**	**976**	**1.8**	**57**	**1,199**	**1.8**	**68**

Mineral resources

The Company's mineral resource estimates as at 31 December 2017 stand at 190 moz.

More than 63% of the Company's mineral resources are attributable to operational mines:

- Olimpiada's mineral resources are estimated at 44 moz
- Blagodatnoye's mineral resources stand at 19 moz
- Mineral resources of Verninskoye and Kuranakh include estimates of 12 moz and 9.0 moz, respectively
- Natalka mineral resources amount to 34 moz

Inferred mineral resources for Sukhoi Log are estimated at 58 moz of gold grading 2.0 g/t. As previously outlined, Polyus expects to upgrade the classification of a portion of this estimate from inferred mineral resource before the end of 2018.

At Bamskoye, the Company completed the exploration programme and expects to submit documentation to regulatory authorities in 2018.

JORC Mineral Resource estimates as at 31 December 2017

Deposit[2]	Measured			Indicated			Inferred			Total		
	Tonnes (Mt)	Gold (g/t)	Gold (Moz)	Tonnes (Mt)	Gold (g/t)	Gold (Moz)	Tonnes (Mt)	Gold (g/t)	Gold (Moz)	Tonnes (Mt)	Gold (g/t)	Gold (Moz)
Mines in Operation												
Olimpiada	6.5	2.9	0.6	320	3.0	31	127	2.8	12	454	3.0	44
Blagodatnoye	52	0.9	1.6	292	1.5	14	69	1.3	3.0	413	1.4	19
Titimukhta	5.3	1.6	0.3	6.3	3.1	0.6	0.5	1.5	0.03	12	2.4	0.9
Verninskoye	12	1.3	0.5	209	1.6	11	14	2.0	0.9	234	1.6	12
Alluvials[3]	0	0.0	0.0	224	0.2	1.4	34	0.4	0.4	258	0.2	1.9
Kuranakh	0.0	0.0	0.0	153	1.1	5.4	97	1.2	3.7	250	1.1	9.1
Natalka	150	1.7	8.2	261	1.8	15	148	2.1	9.9	558	1.9	34
Development and Exploration Projects												
Sukhoi Log[5]	0	0.0	0	0	0.0	0	887	2.0	58	887	2.0	58
Panimba	5.0	2.3	0.4	11	2.3	0.8	24	1.8	1.4	40	2.0	2.6
Poputninskoye	0	0.0	0	37	3.2	3.9	4.4	2.9	0.4	42	3.2	4.3
Zmeinoye	0	0.0	0	0.9	5.0	0.1	2.0	4.5	0.3	2.9	4.6	0.4
Chertovo Koryto	0	0.0	0	67	1.5	3.3	7.8	1.3	0.3	75	1.5	3.6
Bamskoye	0	0.0	0	15	1.8	0.9	5.1	1.6	0.3	20	1.8	1.1
Medvezhy	0	0.0	0	0	0.0	0	6.5	1.8	0.4	6.5	1.8	0.4
Total[4]	**231**	**1.5**	**11**	**1,596**	**1.7**	**88**	**1,426**	**2.0**	**91**	**3,252**	**1.8**	**190**

[3] For the Alluvials, cubic metres (m3) have been converted to tonnages using the general bulk density factor of 1.85 t/m3 strictly for the purpose of the summary accumulations. Gold grades have been adjusted from g/m3 to g/t accordingly. Contained gold estimates are not affected.

[4] Any minor discrepancies for sums in the table are related to rounding.

[5] Sukhoi Log Mineral Resource estimate is as at 31 January 2017.

Q&A WITH MIKHAIL STISKIN
SENIOR VICE PRESIDENT, FINANCE AND STRATEGY

Q Mr Stiskin, how was 2017 – in terms of financial results?

A Our financials certainly reflect our strong operational performance – and the operational efficiencies on which that was built. Year-on-year, our total gold sales increased 13% to a record-high 2,158 thousand ounces. The year's revenue from gold sales was $2.7 billion, mainly supported by the addition of incremental gold volumes.

Our adjusted EBITDA was $1,702 million (up 11% from last year), and our adjusted EBITDA margin reached 63%. We worked hard to maintain our status as one of the most efficient players – both among Russian companies and gold mining companies globally.

Q Cost management has traditionally been one of Polyus' strengths. How did the Company perform in 2017?

A As with last year, we succeeded in driving total cash costs down, this time to $364 per ounce; that's lower than almost all the other companies in our industry. The main factors behind this are the technological improvements we've made – and the optimisation of our business processes, alongside our increasing gold production. It's also worth noting that our cost per ounce decreased despite a notable strengthening of the rouble during the year.

Q What were Polyus' main capital investments during 2017?

A With Natalka at a key phase of its development in 2017, that project inevitably consumed a significant proportion of our capital investment, namely $378 million out of a total of $804 million. It's now on course to reach its design capacity in the second half of 2018, ahead of our original schedule.

Improvements at our main operating assets also needed investment. Key projects here included the debottlenecking of Mill 4 at Blagodatnoye and other enhancements, which led to increases in throughput capacities. Capex amounted to $226 million at Olimpiada and Blagodatnoye in 2017, both of which have been major areas of investment focus alongside Natalka.

Q How did free cash flow change? And did that affect the implementation of the dividend policy adopted in 2016?

A Good underlying performance helped us generate strong free cash flow of $1,292 million during 2017; that's despite passing a peak in our investment programme. For 2017, Polyus approved dividends of $550 million. This includes $238 million already paid out in September for the first six months of the year.

In January 2018, we amended our dividend policy. This means that for 2017 and 2018 we're committed to paying a dividend of $550 million or 30% of EBITDA; whichever figure is higher. At the same time, there's a provision that our net debt/adjusted EBITDA ratio for the past 12 months should be lower than 2.5x in order to go ahead with such payments. Otherwise, the Board will exercise its discretion on dividends, taking into account the Company's financial position, free cash flow, overall outlook and the macro environment.

Q What was the Company's debt position at the end of the year?

A Optimising our debt portfolio was a key focus area in 2017 – and it remains an important priority for us. During the year, we priced an $800 million Eurobond and conducted a share placement with a primary part of $400 million. Combined with our liquidity position, these actions helped us continue with early prepayment of several bank credits. As a result, we increased the amount of fixed interest vs floating interest debt, diversified our creditor base and increased our share of public debt.

Our gross debt decreased by 14% to $4,281 million during the year. The estimated net debt position at the end of the year was $3,077 million, down from $3,241 million a year ago.

Our good 2017 performance enabled us to launch a few initiatives in the New Year. In January 2018, we successfully placed $250 million of convertible bonds due 2021 and $500 million of Eurobonds to refinance and optimise our existing debt. We'll continue with further debt management initiatives throughout 2018.

Q What are your plans for 2018?

A The main priority for our investment programme will be the ongoing debottlenecking of operations, particularly at Olimpiada and Blagodatnoye. Most of our development projects are now entering their final phase, so we'll stay focused on increasing mining and processing rates. Specifically, we plan to make an addition to our mining fleet at both Olimpiada and Blagodatnoye – and of course, we'll continue with the construction of auxiliary facilities at Natalka.

We've got plenty of other projects too: including the ongoing upgrade of our IT systems and streamlining of our business processes. It's going to be a busy year!

"Our good financial results reflect our strong operational performance. As with last year, we succeeded in driving costs down thanks to technological improvements and optimisation of business processes"

Responsibility statement

The Directors of the Company are responsible for the preparation of the consolidated financial statements. These present fairly the financial position of the Company as of 31 December 2017 – 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, the Directors are responsible for:

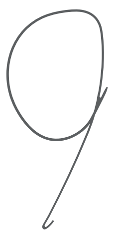
- Properly selecting and applying accounting policies
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- Compliance with the requirements of IFRS and providing additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's consolidated financial position and financial performance
- Making an assessment of the Company'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 Company
- Maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Company, and which enable them to ensure that the consolidated financial statements of the Company comply with IFRS
- Maintaining statutory accounting records in compliance with legislation and accounting standards in the jurisdictions in which the Company operates
- Taking such steps as are reasonably available to them to safeguard the assets of the Company
- Preventing and detecting fraud and other irregularities

The consolidated financial statements of the Company for the year ended 31 December 2017 were approved by the Directors on 14 February 2018.

By order of the Board of Directors,
Chief Executive Officer and Director



Pavel Grachev

1 Gold production is comprised of 1,990 thousand ounces of refined gold and 170 thousand ounces of gold in flotation concentrate.

2 The Strategic Price Protection Programme comprises a series of zero-cost Asian gold collars ('revenue stabiliser') and gold forward contracts (expired as of the end of the first half of 2016).

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

4 Adjusted EBITDA is defined by the Company as profit for the period before income tax, depreciation and amortisation, (gain)/loss on derivative financial instruments and investments (including the effect of the disposal of a subsidiary and subsequent accounting at equity method), finance costs, net, interest income, foreign exchange gain, net, impairment loss/(reversal of impairment), (gain)/loss on property, plant and equipment disposal, expenses associated with an equity-settled share-based payment plan and special charitable contributions as required to ensure calculation of the Adjusted EBITDA is comparable with the prior period. The Company 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 Company 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 Company's measure of profitability or liquidity. The Company calculates Adjusted EBITDA margin as Adjusted EBITDA divided by total revenue.

Management discussion and analysis

2017 key metrics overview

$ million (unless indicated otherwise)	2017	2016	Y-O-Y
Operating highlights			
Gold production (koz)[1]	**2,160**	1,968	10%
Gold sold (koz)	**2,158**	1,915	13%
Realised prices			
Average realised refined gold price (excluding effect of SPPP) ($/oz)[2]	**1,260**	1,250	1%
Average realised refined gold price (including effect of SPPP) ($/oz)	**1,271**	1,287	(1%)
Financial performance			
Total revenue	**2,721**	2,458	11%
Operating profit	**1,455**	1,361	7%
Operating profit margin	**53%**	55%	(2)ppts
Profit for the period	**1,241**	1,445	(14%)
Earnings per share – basic (US dollar)	**9.64**	10.09	(4%)
Earnings per share – diluted (US dollar)	**9.61**	10.09	(5%)
Adjusted net profit[3]	**1,015**	952	7%
Adjusted net profit margin	**37%**	39%	(2)ppts
Adjusted EBITDA[4]	**1,702**	1,536	11%
Adjusted EBITDA margin	**63%**	62%	1 ppts
Net cash inflow from operations	**1,292**	1,178	10%
Capital expenditure[5]	**804**	466	73%
Cash costs			
Total cash cost (TCC) per ounce sold ($/oz)[6]	**364**	389	(6%)
All-in sustaining cash cost (AISC) per ounce sold ($/oz)[7]	**621**	572	9%
Financial position			
Cash and cash equivalents	**1,204**	1,740	(31%)
Net debt[8]	**3,077**	3,241	(5%)
Net debt/adjusted EBITDA (x)[9]	**1.8**	2.1	(14%)

5 Capital expenditure figures are presented on an accrual basis (here presented net of the Sukhoi Log deposit licence acquisition cost) and net of Omchak power grid construction cost. For details see reconciliation on page 181.

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

7 AISC is defined by the Company as TCC plus selling, general and administrative expenses, research expenses, other sustaining expenses, stripping activity asset additions, sustaining capital expenditure, unwinding of discounts on decommissioning liabilities, provision for annual vacation payment, employee benefit obligations cost, and change in allowance for obsolescence of inventory less amortisation and depreciation included in selling, general and administrative expenses. AISC is an extension of TCC and incorporates costs related to sustaining production and additional costs which reflect the varying costs of producing gold over the life-cycle of a mine. The Company 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 expenditure noted in the definition of AISC. The Company calculates AISC per ounce sold as AISC divided by total ounces of gold sold for the period.

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

9 The Company calculates net debt to Adjusted EBITDA as net debt divided by Adjusted EBITDA.

Key highlights

- Gold sales amounted to 2,158 thousand ounces, up 13% compared to the prior year reflecting higher gold production. Total gold sales include 170 thousand ounces contained in concentrate from Olimpiada
- Revenue totalled $2,721 million, compared to $2,458 million in 2016, driven by increased sales volumes (including flotation concentrate)
- The Company's TCC decreased to $364 per ounce from $389 per ounce in the prior year, as a 13% appreciation of the Russian rouble was offset by strong operational results and efficiency improvement initiatives. AISC increased to $621 per ounce, up 9% compared to the prior year, reflecting mainly higher sustaining capital expenditure and stripping expenses
- Adjusted EBITDA amounted to $1,702 million, an 11% increase from the prior year, driven by higher gold sales volumes and lower TCC
- Adjusted EBITDA margin increased to 63%, compared to 62% in 2016
- Profit for the year decreased $1,241 million, partially reflecting the impact of a foreign exchange gain in the previous year, as well as finance costs
- Adjusted net profit amounted to $1,015 million, a 7% increase from the prior year
- Net cash inflow from operations amounted to $1,292 million, driven by strong EBITDA
- Capex was $804 million, primarily due to the ramp-up of construction activity at Natalka. The asset has successfully completed the hot commissioning stage and the Company currently anticipates production to be fully ramped-up in the second half of 2018
- Cash and cash equivalents as at 31 December 2017 amounted to $1,204 million, compared to $1,740 million as at 31 December 2016, following the early prepayment of credit facilities and dividend payments for the second half of 2016 and the first half of 2017. Following the secondary public offering ('SPO') conducted on the London Stock Exchange and the Moscow Exchange, the Company used most of the primary proceeds ($400 million) to make early prepayments of several bank credit facilities
- Net debt decreased to $3,077 million at the end of 2017 compared to $3,241 million at the end of 2016
- Net debt/adjusted EBITDA ratio decreased to 1.8x as at the end of 2017 compared to 2.1x as at the end of 2016, with the higher adjusted EBITDA figure and gradual decline in net debt during the period

Financial review

Statement of profit or loss

Revenue analysis

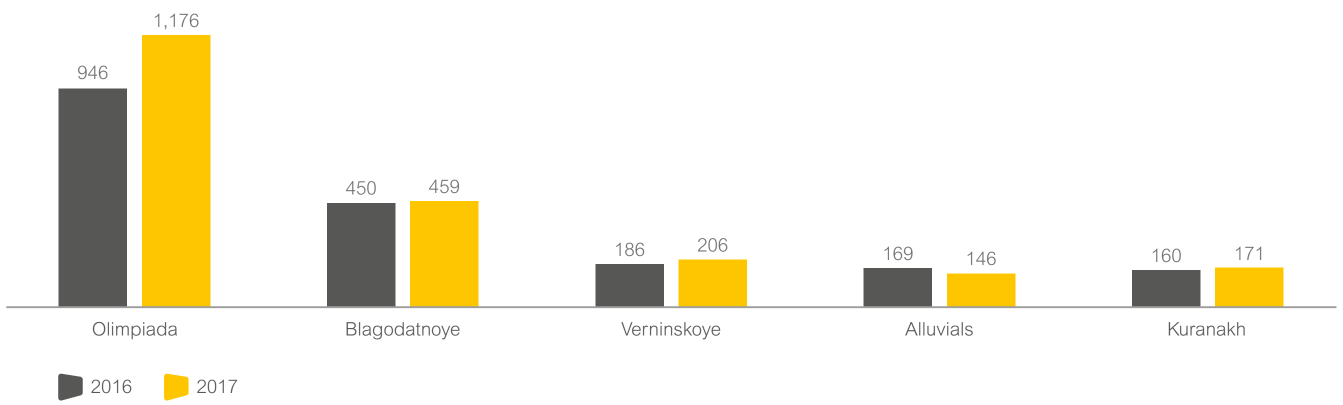
$ million (unless indicated otherwise)	2017	2016	Y-O-Y
Gold sales (koz)	2,158	1,915	13%
Average realised refined gold price (excluding effect of SPPP) ($/oz)	1,260	1,250	1%
Average realised refined gold price (including effect of SPPP) ($/oz)	1,271	1,287	(1%)
Average afternoon gold LBMA price fixing ($/oz)	1,257	1,251	0%
Premium of average selling price (including effect of SPPP) over average LBMA price fixing ($/oz)	14	36	N.A.
Gold sales ($ million)	2,684	2,429	10%
Other sales ($ million)	37	29	28%
Total revenue ($ million)	**2,721**	**2,458**	**11%**

In 2017, the Company's revenue from gold sales amounted to $2,684 million, a 10% increase from the prior year, driven by higher gold sales volumes. The average realised refined gold price amounted to $1,260 per ounce, while gold sales totalled 2,158 thousand ounces, a 13% increase from the prior year. The average LBMA gold price was only 0.5% above prior year levels and stood at $1,257 per ounce.

Revenue breakdown by business unit

Assets	2017 ($ million)			2016 ($ million)		
	Gold sales	Other sales	Total sales	Gold sales	Other sales	Total sales
Olimpiada	1,439	13	1,452	1,141	6	1,147
Blagodatnoye	585	–	585	576	–	576
Titimukhta	–	–	–	56	–	56
Verninskoye	259	1	260	232	3	235
Alluvials	186	4	190	220	5	225
Kuranakh	215	3	218	199	3	202
Other	–	16	16	5	12	17
Total	**2,684**	**37**	**2,721**	**2,429**	**29**	**2,458**

Gold sold by mine, koz[1]



[1] Sales volumes in 2016 exclude gold produced at the Poputninskoye deposit, where trial mining was launched in 2015 and continued in 2016. Sales volumes at Olimpiada include Titimukhta sales in 2016.

Cash costs analysis

In 2017, the Company's cost of gold sales increased 9% compared to the prior year, to $969 million, mainly due to appreciation of the Russian rouble. At the same time, cash operating costs increased 6% compared to the prior year, to $811 million. The Company remains focused on operational optimisation and improving efficiency. Specifically, during 2017, the increase in labour expenses was partly offset by reduction in consumables and spares expenses compared to the previous year, despite growing gold output.

Cost of sales breakdown

$ million	2017	2016	Y-O-Y
Cash operating costs[1]	**811**	**763**	**6%**
Depreciation and amortisation (D&A) of operating assets	**181**	154	18%
Total cost of production	**992**	**917**	**8%**
Increase in stockpiles, gold-in-process and refined gold inventories	**(23)**	(26)	(12%)
Cost of gold sales	**969**	**891**	**9%**

Cash operating costs – breakdown by item

$ million	2017	2016	Y-O-Y
Consumables and spares	**223**	242	(8%)
Labour	**264**	227	16%
MET	**148**	134	10%
Fuel	**74**	72	3%
Power	**31**	22	41%
Outsourced mining services	**6**	8	(25%)
Other	**65**	58	12%
Total	**811**	**763**	**6%**

Consumables and spares expenses decreased by 8% compared to 2016, accounting for 27% of cash operating costs. This primarily reflects a decline in ore input costs at Olimpiada, where the Company has ceased higher cost Veduga ore processing, which fully offset an impact of greater processing volumes across the majority of operations.

Labour expenses increased by 16% compared to 2016 and accounted for 33% of total cash operating costs. The growth was partially attributable to appreciation of the rouble as all the Company's labour costs are rouble-denominated. Annual salary indexation – as well as planned increase in headcount at the Olimpiada, Blagodatnoye, Verninskoye and Kuranakh operations – contributed additional pressure.

MET expenses (18% of cash operating costs) increased 10% following the 10% growth in production volumes compared to the prior year and the increase in average realised refined gold price.

Fuel costs increased by 3% compared to 2016 due to the increase in haulage volumes and acceleration of mining activity at all Polyus' hard rock deposits.

The Company's power costs increased by 41% compared to the prior year, mainly due to rouble strengthening and higher energy consumption. This was partially offset by the aforementioned decrease in energy costs at Kuranakh.

[1] The Company 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, Other costs, including Refining.

Cash operating costs – breakdown by key business units[2]

$ million	Olimp.	Blag.	Krasnoyarsk[3]		Verninskoye		Alluvials		Kuranakh	
	2017	2017	2017	2016	2017	2016	2017	2016	2017	2016
Consumables and spares	**115**	**36**	**151**	177	**29**	31	**16**	19	**23**	19
Labour	**80**	**32**	**112**	105	**36**	28	**46**	35	**36**	27
MET	**87**	**38**	**125**	101	**–**	8	**11**	13	**13**	12
Fuel	**18**	**14**	**32**	32	**6**	7	**15**	14	**13**	9
Power	**19**	**6**	**25**	18	**4**	2	**6**	5	**5**	6
Outsourced mining services	**–**	**–**	**–**	–	**–**	–	**5**	6	**–**	–
Other	**65**	**26**	**91**	88	**14**	7	**13**	8	**11**	7
Total	**384**	**152**	**536**	**521**	**89**	**83**	**112**	**100**	**101**	**80**

Total cash costs

TCC calculation

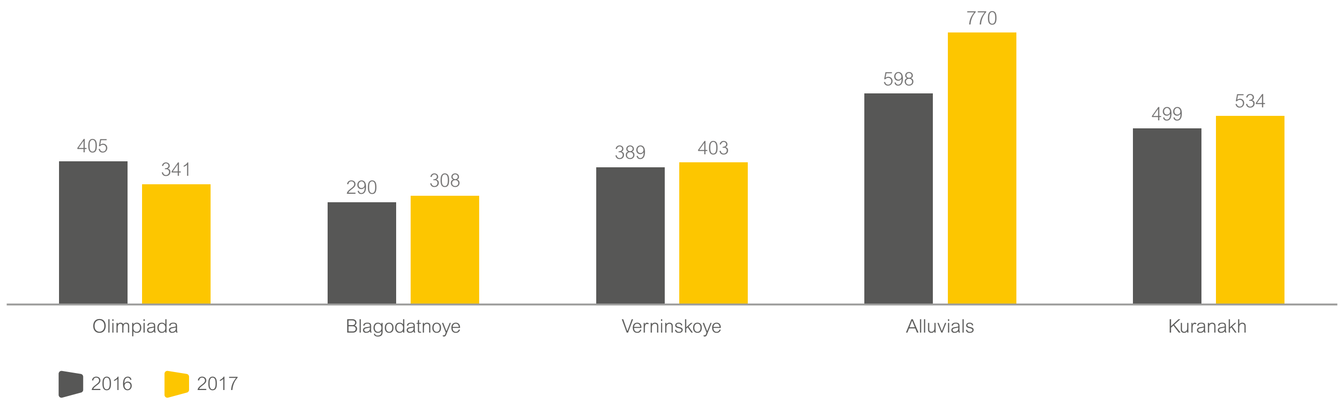
$ million	2017	2016	Y-O-Y
Cost of gold sales	**969**	891	9%
Property, plant and equipment depreciation	**(181)**	(154)	18%
Provision for annual vacation payment	**(5)**	–	N.A.
Employee benefit obligations cost	**(5)**	(1)	N.A.
Change in allowance for obsolescence of inventory	**(4)**	(3)	N.A.
Non-monetary changes in inventories	**12**	12	–
TCC	**786**	**745**	**6%**
Gold sold (koz)	**2,158**	1,915	13%
TCC per ounce sold ($/oz)	**364**	**389**	**(6%)**

Company TCC decreased 6% year-on-year, to $364 per ounce. This came despite the rouble strengthening by 13% compared to the prior year. The rouble appreciation was fully offset by strong operational results during the year assisted by the contribution from a higher grade in ore processed at Olimpiada, the cessation of higher-cost Veduga ore processing, a lower power tariff in the Far Eastern Federal District, as well as other initiatives.

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

[3] The Company defines the Krasnoyarsk Business Unit as the aggregation of the Olimpiada and Blagodatnoye business segments. The Company uses geographical aggregation for additional analysis of Krasnoyarsk, as it is the region where the main assets of the Company are located. This aggregation has limitations as an analytical tool. The aggregation of business segments into the Krasnoyarsk Business Unit is not currently how the chief operating decision maker analyses the Company and the performance of the Krasnoyarsk Business Unit may not be indicative of the individual performance of each separate business segment due to different technology being applied in the Olimpiada and Blagodatnoye operations. The Company changed its segment presentation in 2017 to split Krasnoyarsk into Olimpiada and Blagodatnoye, but cannot recast 2016 into these same segments due to excessive cost.

TCC performance by mine, $/oz



TCC at Olimpiada declined to $341 per ounce, posting a 16% decrease year-on-year. This reduction was mainly attributable to higher average grades in ore processed (3.8 grammes per tonne in 2017 compared to 3.3 grammes per tonne in 2016), the cessation of higher cost Veduga ore processing, the improved performance of Mill 1 (following its reconfiguration) and Mill 3 – as well as fewer repairs compared to 2016. This was partially offset by an increased consumption of reagents reflecting variations in the ore mineral composition.

At Blagodatnoye, TCC amounted to $308 per ounce, up 6% compared to the previous year. This was primarily due to the appreciation of the rouble and the negative impact of lower grades in ore processed (following the intensification of mining activity at lower-grade sites). Notably, in rouble terms TCC decreased following the ongoing debottlenecking of throughput capacities and decline in cost per tonne of ore mined envisaged by the mining plan for the respective years.

TCC at Verninskoye amounted to $403 per ounce, up 4% compared with the prior year. However, in rouble terms, TCC remained almost flat, as the increase in labour costs and the higher cost of consumables and fuel were offset by operational improvements. These included a gradual increase in hourly throughput and recoveries following improvements at the flotation, carbon-in leach (CIL) and cyanidation circuits.

At Kuranakh, TCC increased to $534 per ounce, a 7% increase compared to the prior year. Importantly, in rouble terms, TCC decreased as a result of initiatives to expand the mill's throughput capacity, with the improved productivity of the grinding equipment. Moreover, there was a sharp decline in power expenses due to enactment of the federal decree on the power tariff in the Far Eastern Federal District.

TCC at Alluvials increased to $770 per ounce, compared to $598 per ounce in 2016. This was primarily due to the appreciation of the rouble and a decline in alluvial gold grade (0.54 grammes per cubic metre in 2017 compared to 0.61 grammes per cubic metre in 2016).

Selling, general, and administrative expenses
The Company's selling, general, and administrative (SG&A) expenses amounted to $211 million, a 40% increase from the prior year. This was mainly due to rouble appreciation, an increase in labour costs with the recognition of expenses under LTIP[1] and salary indexation. Additional impact came on the back of higher distribution expenses related to gold-bearing products. Specifically, distribution expenses reflect the launch of cross-border sales of flotation concentrate in the beginning of 2017.

SG&A breakdown by item

$ million	2017	2016	Y-O-Y
Salaries	143	105	36%
Distribution expenses related to gold-bearing products	12	–	N.A.
Taxes other than mining and income taxes	11	12	(8%)
Professional services	14	10	40%
Amortisation and depreciation	7	5	40%
Other	24	19	26%
Total	**211**	**151**	**40%**

[1] The Long-term incentive plan, a top management remuneration scheme adopted by the Board of Directors in December 2016.

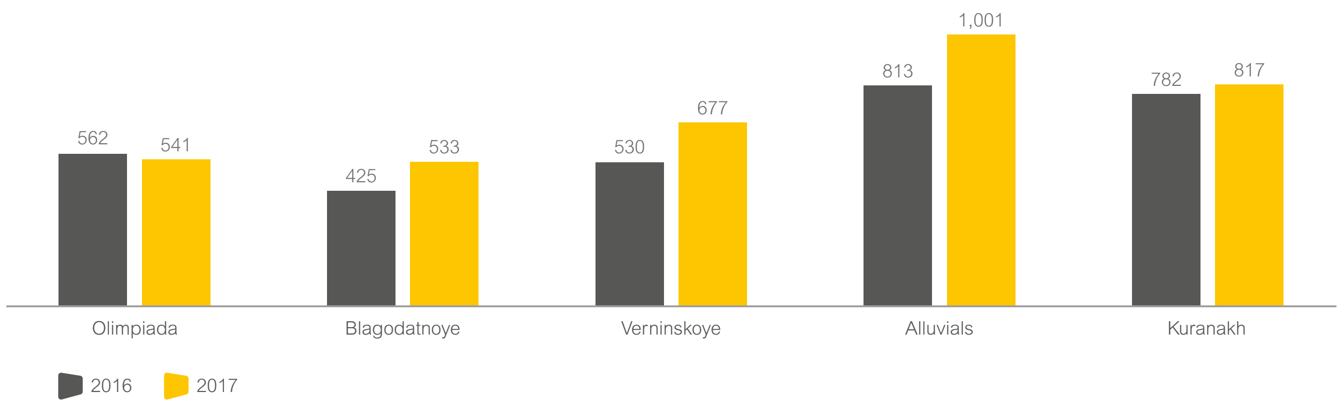
All-in sustaining costs (AISC)
The Company's AISC increased to $621 per ounce, up 9% compared to 2016. This growth was primarily driven by higher stripping expenses.

All-in sustaining costs calculation

$ million	2017	2016	Y-O-Y
Total TCC	**786**	745	6%
Selling, general and administrative expenses	**211**	151	40%
Amortisation and depreciation related to SG&A	**(7)**	(5)	40%
Research expenses and other sustaining expenses	**–**	1	(100%)
Stripping activity asset additions	**149**	55	171%
Sustaining capital expenditures[2]	**186**	141	32%
Unwinding of discounts on decommissioning liabilities	**3**	3	–
Adding-back expenses excluded from cost of gold sales			
Provision for annual vacation payment	**5**	–	N.A.
Employee benefit obligations cost	**5**	1	N.A.
Change in allowance for obsolescence of inventory	**4**	3	33%
Total all-in sustaining costs	**1,342**	**1,095**	**23%**
Gold sold (koz)	**2,158**	1,915	13%
All-in sustaining cost ($/oz)	**621**	**572**	**9%**

AISC at Olimpiada remained almost flat compared to the prior year, as lower TCC were offset by an increase in sustaining capital expenditure and stripping expenses. At Blagodatnoye, AISC increased to $533 per ounce as a result of a planned increase in stripping activity (rock moved volumes rose 55% during the year). Verninskoye posted a 28% increase in AISC from the previous year due to higher stripping expenses and sustained capital expenditure. At Kuranakh, AISC increased to $817 per ounce, driven by higher TCC.

All-in sustaining costs by mine[3], $/oz



[2] Sustaining capital expenditure represent capital expenditure at existing operations comprising mine development costs and ongoing replacement of mine equipment and other capital facilities, and do not include capital expenditure for major growth projects or enhancement capital for significant infrastructure improvements at existing operations.

[3] Composition of AISC at Olimpiada includes items related to AISC at Titimukhta in 2016.

Adjusted EBITDA

Several key factors contributed to the 11% increase in adjusted EBITDA compared to 2016. These included increased production driven by higher ore processing volumes at the majority of the Company's hard rock mining assets, as well as higher average grades in ore processed at Olimpiada. The upward trend was primarily achieved due to a robust operating performance and cost control as TCC decreased on a per-ounce basis in 2017 compared to the prior year, despite a 13% appreciation of the rouble.

Adjusted EBITDA growth was predominantly driven by Olimpiada, which achieved double-digit growth in gold sales volumes (including sales of flotation concentrate). Olimpiada represents 56% of the Company's adjusted EBITDA for the full year.

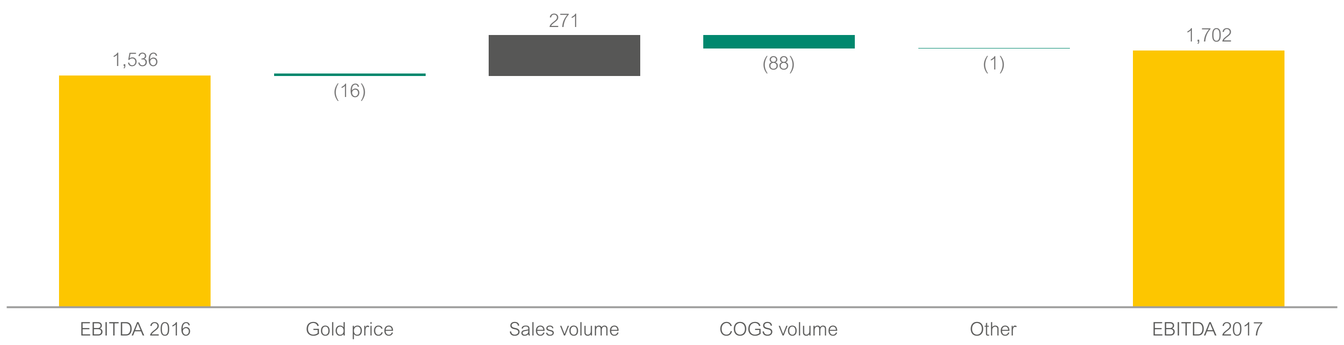
The adjusted EBITDA margin stood at 63% for the full year, remaining one of the highest among mining companies globally.

The Company's EBITDA is adjusted for special charitable contributions, which reflect Polyus' charitable activity as part of its social responsibility obligations.

Adjusted EBITDA calculation

$ million	2017	2016	Y-O-Y
Profit for the period	**1,241**	1,445	(14%)
Income tax expense	**290**	326	(11%)
Depreciation and amortisation	**178**	148	20%
Loss/(gain) on derivative financial instruments and investments, net	**(118)**	(119)	(1%)
Finance costs, net	**200**	145	38%
Equity-settled share-based payment plans	**25**	19	32%
Foreign exchange gain, net	**(130)**	(396)	(67%)
Interest income	**(28)**	(40)	(30%)
Impairment/(reversal of impairment)	**19**	(4)	N.A.
Special charitable contributions	**39**	–	N.A.
(Gain)/loss on property, plant and equipment disposal	**(14)**	12	N.A.
Adjusted EBITDA	**1,702**	**1,536**	**11%**
Total revenue	**2,721**	2,458	11%
Adjusted EBITDA margin (%)	**63%**	**62%**	**1 ppts**

Adjusted EBITDA bridge, $ million[1]



[1] 'Other' Includes operating efficiency and FX effects.

Adjusted EBITDA breakdown by business unit

$ million	2017	2016	Y-O-Y
Olimpiada	**953**	717	33%
Blagodatnoye	**414**	417	(1%)
Titimukhta	**–**	36	N.A.
Verninskoye	**149**	146	2%
Alluvials	**54**	90	(40%)
Kuranakh	**109**	107	2%
Other[2]	**23**	23	–
Total	**1,702**	**1,536**	**11%**

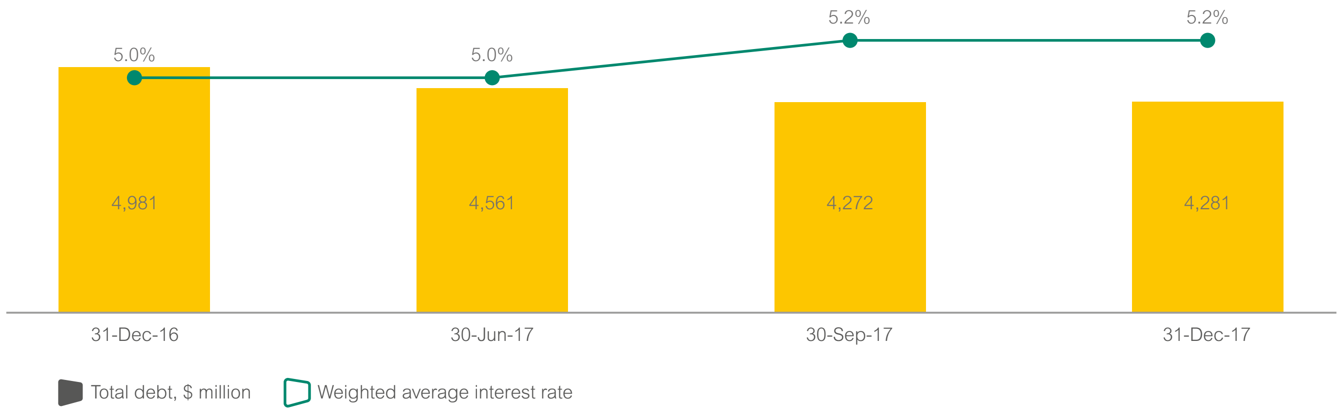
Finance cost analysis

$ million	2017	2016	Y-O-Y
Interest on borrowings	**317**	281	13%
Write-off of unamortised debt costs due to early extinguishment of debt and bank commissions	**17**	–	N.A.
Unwinding of discounts	**11**	3	N.A.
Gain on exchange of interest payments under cross-currency swap and interest rate swap	**(42)**	(44)	(5%)
Other	**–**	2	(100%)
Sub-total finance cost, net	**303**	**242**	**25%**
Interest included in the cost of qualifying assets	**(103)**	(97)	6%
Total finance cost expensed	**200**	**145**	**38%**

The Company's total finance costs amounted to $200 million, compared to $145 million in 2016. Interest capitalisation relating to the Natalka development project, where construction works are ongoing, continued. Capitalised interest primarily relating to Natalka and Razdolinskaya-Taiga grid amounted to $103 million, compared to $97 million in 2016.

Interest on borrowings (net of gains on the exchange of interest payments under cross-currency and interest rate swaps), totalled $275 million. An increase in the amount of interest on borrowings was primarily driven by floating interest rate increases during the year. This was partially offset by the Company's proactive debt portfolio management. Specifically, the share of floating interest rate debt instruments within the debt portfolio structure declined to 31% as at 31 December 2017 (compared to 52% as at 31 December 2016) accompanied by a reduction in total debt during the same period.

Weighted average interest rate dynamics[3]



[2] Reflects consolidation adjustments and financial results of the Magadan Business Unit, Sukhoi Log and non-producing business units, including exploration business unit, capital construction business unit and unallocated segments.

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

Foreign exchange gain and derivatives
The Company's foreign exchange gain amounted to $130 million, compared to a $396 million gain in 2016. This reflects the revaluation of dollar-denominated bank deposits, dollar-denominated accounts receivables and dollar-denominated liabilities as at 31 December 2017 due to FX rate fluctuation.

Valuation of derivative financial instruments as of 31 December 2017 and for year ended 31 December 2017

$ million	Asset	Liability	Fair value recorded in the statement of financial position	Profit & loss (expenses)/ income	Other comprehensive loss
Revenue stabiliser	–	(64)	(64)	(65)	(15)
Cross-currency swaps	32	(383)	(351)	134	–
Interest rate swaps	6	(1)	5	(1)	–
Total	**38**	**(448)**	**(410)**	**68**	**(15)**

Revenue stabiliser[1]
There were no changes to the revenue stabiliser option agreements during the twelve months ended 31 December 2017. On 30 June 2017, the hedges for Tranches 1 and 2 were de-designated and hedge accounting in terms of IAS 39 no longer applies on a prospective basis, because strikes on the remaining options are out of the forecasted gold price. From 1 July 2017, the remaining outstanding options of the Tranches 1 and 2 are accounted at fair value through profit or loss.

Cross-currency and interest rate swaps
The overall positive effect from cross-currency and interest rate swaps on finance costs amounted to $42 million. This was recorded within the net gain/loss on investments and revaluation of derivative financial instruments. For more details see note 12 of the consolidated financial statements.

Profit before tax and income taxes
In 2017, profit before tax decreased to $1,531 million, partially driven by lower foreign exchange gains and higher finance costs. Meanwhile, income tax totalled $290 million, down 11% from the prior year, resulting in an effective income tax rate of 19%.

Net profit
Net profit for the year totalled $1,241 million, compared to $1,445 million in 2016. Whilst the Company delivered an increase in operating profit, the net profit decline partially reflects the impact of non-cash items on both profit before tax and income tax expenses as described above. Specifically, in 2017 the gain on derivative financial instruments, which is not subject to tax, was lower than in the prior year period. Adjusting for these items (see reconciliation below) and given the higher interest expense, the Company's adjusted net profit for 2017 amounted to $1,015 million, a 7% increase from the prior year.

Adjusted net profit calculation

$ million	2017	2016	Y-O-Y
Net profit for the period	**1,241**	1,445	(14%)
Impairment/(reversal of impairment)	**19**	(4)	N.A.
Gain on derivative financial instruments and investments, net	**(118)**	(119)	(1%)
Foreign exchange gain, net	**(130)**	(396)	(67%)
Deferred income tax related to derivatives	**3**	26	(88%)
Adjusted net profit	**1,015**	**952**	**7%**
Total revenue	**2,721**	2,458	11%
Adjusted net profit margin	**37%**	**39%**	**(2) ppts**

[1] For additional information on revenue stabiliser, cross-currency and interest rate swaps, see notes 9 and 12 of the consolidated financial statement.

Statement of financial position
Debt
As of 31 December 2017, the Company's gross debt amounted to $4,281 million, down 14% compared to $4,981 million as of 31 December 2016. The Company took a proactive approach to its debt portfolio management and continued to shift from floating to fixed interest rate, increasing the overall share of fixed-rate liabilities to 69%.

As previously disclosed, Polyus priced a secondary public offering on the London Stock Exchange and the Moscow Exchange to the value of $858 million, including the greenshoe on 30 June 2017. The primary component amounted to $400 million. The Company used most of the proceeds to make an early prepayment of several bank credit facilities.

The remaining portion of the offering proceeds was utilised for further debt repayments during the fourth quarter of 2017.

Debt breakdown by type

$ million	31 December 2017	31 December 2016
Eurobonds	**2,033**	1,237
Bank loans	**1,970**	3,466
RUB bonds	**265**	253
Deferred payments under letters of credit	**–**	19
Finance lease	**13**	6
Total	**4,281**	**4,981**

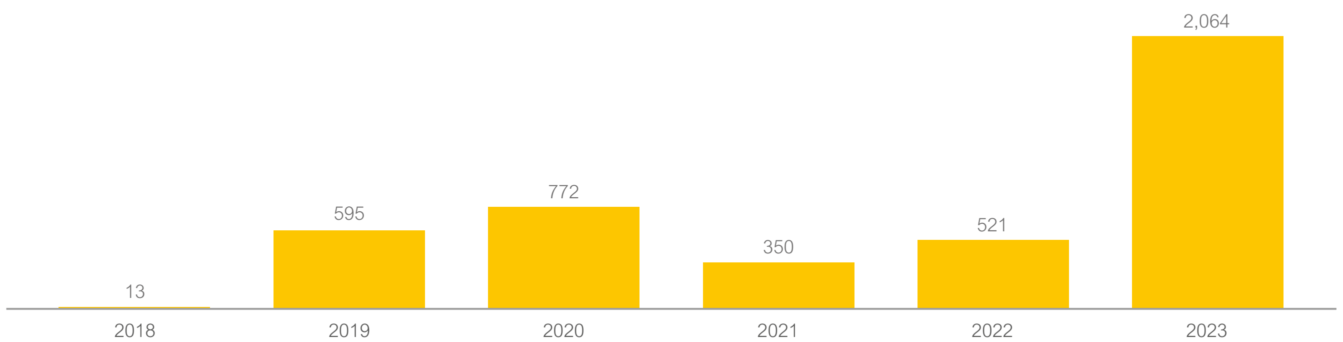
With regard to currency, the Company's debt portfolio remains dominated by US dollar-denominated instruments.

Debt breakdown by currency

	31 December 2017		31 December 2016	
	$ million	% of total	$ million	% of total
USD	**3,353**	**78%**	4,099	82%
RUB	**928**	**22%**	876	18%
EUR	**–**	**–**	6	0%
Total	**4,281**	**100%**	**4,981**	**100%**

The 36 billion roubles credit facility from Sberbank is due in 2019 and the $750 million Eurobond issue is due in 2020. The majority of the maturities due during or after 2021 are the $1.25 billion 2023 Sberbank loan, along with two Eurobond issues ($500 million due in 2022 and $800 million due in 2023). Existing cash balances cover almost all principal debt repayments up to 2020. The Company's debt profile remains smooth, with the limited debt maturities outstanding amounting to $13 million in 2018.

Debt maturity schedule[2]**,** $ million



[2] The breakdown is based on actual maturities and excludes $34 million of banking commissions.

Cash and cash equivalents, and bank deposits
The Company's cash and cash equivalents and bank deposits decreased 31% compared to the end of 2016. This was due to a repayment of credit facilities of $1,577 million and dividend payments for the second half of 2016 and the first half of 2017 of $574 million. The majority of the SPO proceeds were used to repay several bank credit facilities.

The Company's cash position is primarily denominated in US dollars.

Cash, cash equivalents, and bank deposits breakdown by currency

$ million	31 December 2017	31 December 2016
RUB	154	238
USD	1,050	1,502
Total	**1,204**	**1,740**

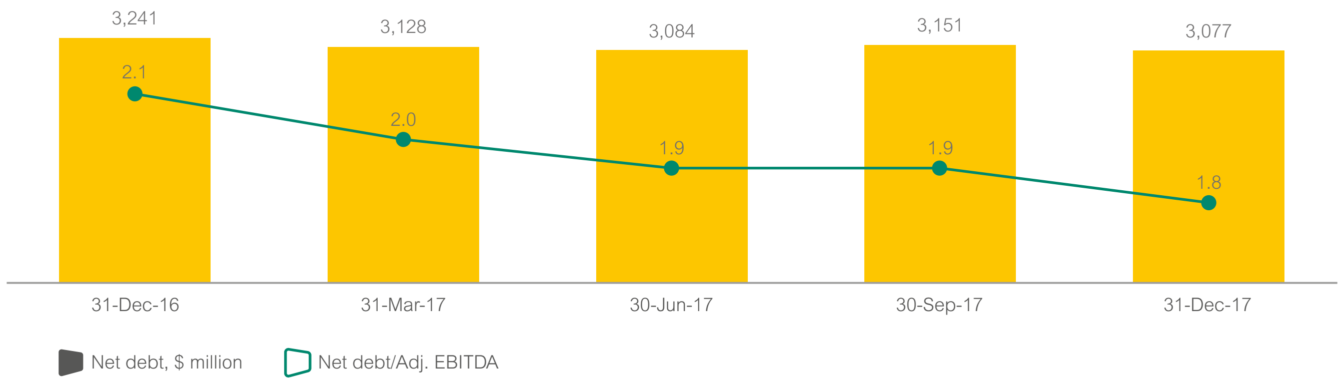
Net debt
At the end of 2017, the Company's net debt stood at $3,077 million, down 5% from $3,241 million as at 31 December 2016.

Net debt calculation

$ million	31 December 2017	31 December 2016
Non-current borrowings	4,269	4,698
Current borrowings	12	283
Cash and cash equivalents	(1,204)	(1,740)
Net debt	**3,077**	**3,241**

The net debt/adjusted EBITDA ratio as at 31 December 2017 decreased to the level of 1.8x compared to 2.1x at the end of 2016, reflecting a decrease in the net debt position and adjusted EBITDA expansion for the last 12 months.

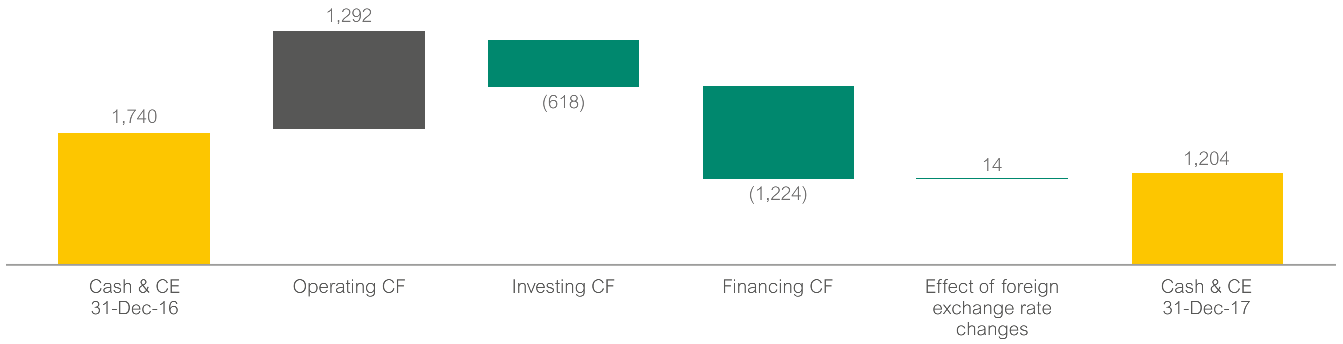
Net debt and net debt/adjusted EBITDA (last 12 months)[1] ratio



[1] Net debt to Adjusted EBITDA ratio is calculated as net debt as of the end of the relevant period divided by Adjusted EBITDA for the relevant period. For the purpose of the net debt to Adjusted EBITDA ratio as of 30 September 2017, Adjusted EBITDA is calculated as the trailing twelve months ended on 30 September 2017 (being Adjusted EBITDA for 2016 less Adjusted EBITDA for the nine months ended 30 September 2016 plus Adjusted EBITDA for the nine months ended 30 September 2017). For the purpose of the net debt to Adjusted EBITDA ratio as of 30 June 2017, Adjusted EBITDA is calculated as the trailing twelve months ended on 30 June 2017 (being Adjusted EBITDA for 2016 less Adjusted EBITDA for the six months ended 30 June 2016 plus Adjusted EBITDA for the six months ended 30 June 2017). For the purpose of the net debt to Adjusted EBITDA ratio as of 31 March 2017, Adjusted EBITDA is calculated as the trailing twelve months ended on 31 March 2017 (being Adjusted EBITDA for 2016 less Adjusted EBITDA for the three months ended 31 March 2016 plus Adjusted EBITDA for the three months ended 31 March 2017).

Statement of cash flows review

Cash flow bridge, $ million



Cash flow from operations increased to $1,292 million, compared to $1,178 million in 2016. Due to higher capex spending in 2017, cash outflow on investing activities reached $618 million. Net financing cash outflow totalled $1,224 million, reflecting both the inflow of the primary component of the SPO proceeds in the total amount of $400 million, and the repayment of around $1,577 million of credit facilities and $574 million of dividend payments for the second half of 2016 and the first half of 2017 respectively.

Operating cash flow
In 2017, Polyus generated operational cash flow of $1,292 million driven by strong adjusted EBITDA. Meanwhile, operating cash flow was negatively impacted by a working capital outflow totalling $100 million. This reflects an increased scope of operations, in particular, the accumulation of ore stockpiles at Natalka, Krasnoyarsk, Verninskoye and Kuranakh, and the increase in receivables due to flotation concentrate sales.

Investing cash flow
In 2017, capital expenditure increased to $804 million from $466 million the previous year. This increase reflects higher maintenance capital expenditure as well as the ongoing construction works at Natalka and brownfield development projects. The capex figure of $804 million is within the guidance of $800-850 million.

Capital expenditure at Natalka, the Company's main development project, increased 77% to $378 million. Mining activity at Natalka was relaunched in January 2017 (the deposit was previously mined from 2013 through 2014). As of the end of December 2017, almost the entire processing flow sheet was fully operational, with technical works fully completed at the desorption circuits in January 2018. In addition, the Company received a positive resolution from the Federal Industrial Supervision Service of Russia ('Rostechnadzor'), which conducted an industrial audit at Natalka in December 2017. Currently, Natalka operates in a ramp-up mode, with the full ramp-up anticipated to be completed in the second half of 2018.

Capital expenditure at Olimpiada increased to $177 million during 2017, due to preparations to connect the mine to the new Razdolinskaya-Taiga grid, procurement of a new mining fleet and the construction of the Bio Oxidation circuit ('BIO-4') at the Mills 1, 2, 3 complex. The first four reactors of the BIO-4 project were installed in 2017, with the remaining four reactors scheduled for the first half of 2018.

At Blagodatnoye, capital expenditure increased to $49 million in 2017, primarily due to optimisation works at the Blagodatnoye Mill following completion of the processing capacity expansion project.

At Verninskoye, capital expenditure increased to $39 million in 2017, mainly due to further implementation of the Verninskoye Mill expansion project.

Capital expenditure at Kuranakh increased to $65 million in 2017. This was due to further progress with the heap leach project and the launch of the second stage of the Kuranakh Mill processing capacity expansion to 5.0 mtpa. The heap leaching operations being launched in September 2017 should intensify in the first half of 2018 with the launch of the leaching season.

At Alluvials, capital expenditure increased to $26 million in 2017 compared to the prior year. This consisted of exploration activity as well as the ongoing replacement of worn-out equipment.

CAPEX breakdown[1]

$ million	2017	2016	Y-O-Y
Natalka, including			
Purchase of equipment	226	109	107%
Capitalisation of borrowing costs	93	80	16%
Operating costs	59	24	146%
Net proceeds from selling gold produced during the ramp-up period	–	–	N.A.
Natalka, total	378	213	77%
Olimpiada	177	80	121%
Blagodatnoye	49	20	145%
Verninskoye	39	24	63%
Alluvials	26	16	63%
Kuranakh	65	33	97%
Other[2]	70	80	(13%)
CAPEX	**804**	**466**	**73%**
Omchak electricity transmitting line	69	2	N.A.
Items capitalised[3], net	25	(42)	N.A.
Change in working capital for purchase property, plant and equipment	(67)	(21)	N.A.
Purchase of PP&E[4]	**831**	**405**	**105%**

Total cash spent on purchase of property, plant and equipment (PP&E) increased to $831 million, from $405 million the previous year. This mainly reflects the respective growth in total capital expenditure outlined above, as well as changes in items capitalised and expenses related to construction of the Omchak electricity transmitting line.

Specifically, $53 million of government grants were received for the construction of the power grid in the fourth quarter of 2017. This is the second part of a 8.8 billion roubles (ca. $148 million) government subsidy granted in September 2016. The first tranche of $76 million was received in the fourth quarter of 2016. Construction is expected to be completed in 2019, allowing for electricity cost reduction at Natalka.

In 2017, payments for the Sukhoi Log deposit partially comprised an additional payment for the Sukhoi Log licence of $15 million: the difference between the size of the bid during the auction and $138 million of prepayment for the participation in the auction submitted in 2016. In addition, in December 2016 JSC Polyus Krasnoyarsk entered into a number of cash option agreements with LLC RT - Business Development (RT) to acquire a 23.9% stake in SL Gold during 2017–2022. In May 2017, JSC Polyus Krasnoyarsk exercised the first option agreement in a total amount of $21 million and increased its stake in SL Gold by 3.6%.

Moreover, in July 2017 JSC Polyus Krasnoyarsk entered into a number of option agreements with RT to acquire an additional 25.1% participation interest in SL Gold. Total consideration for the additional 25.1% participation interest is fixed at $145.9 million and will be payable in Polyus shares within the next five years in five tranches, with Polyus having the right to accelerate. Subsequently, JSC Polyus Krasnoyarsk exercised the first option agreement in a total amount of $22 million and increased its stake in SL Gold by 3.8%.

Currently JSC Polyus Krasnoyarsk owns a 58.4% stake in SL Gold.

In 2017, the Company received $100 million from the sale of its 82.34% stake in a joint venture with Polymetal. The joint venture held 100% of JSC South-Verkhoyansk Mining Company, which, in turn, held the mining and exploration licence for the Nezhdaninskoye gold deposit in Russia's region of Yakutia (the Sakha Republic).

Other investing activities in 2017 comprised $33 million of interest received and $63 million received from the Federal Grid Company for the disposal of Razdolinskaya-Taiga and Peleduy-Mamakan power grids, in line with initial agreements.

Financing cash flow

In 2017, net financing cash outflow totalled $1,224 million compared to $1,015 million of cash outflow in 2016. During the year, Polyus completed a repayment of approximately $1,577 million of credit facilities. Share placement cash proceeds were utilised for this purpose and made $574 million of dividend payments for the second half of 2016 and the first half of 2017.

1 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.

2 Reflects expenses related to exploration business unit, construction of Razdolinskaya-Taiga, Peleduy-Mamakan grid lines and Sukhoi Log expenses, net of the deposit licence acquisition cost and payments to RT.

3 Including capitalised stripping costs net of capitalised interest on loans and capitalised within capital construction-in-progress. For more details see note 11 of the consolidated financial statement.

4 Presented net of the Sukhoi Log deposit licence acquisition cost and payments to RT.

SUSTAINABILITY REPORT

AT A GLANCE

Over the years Polyus made significant progress in putting sustainability at the core of its business. Working with our stakeholders, we strive to unleash value both for the Company and the society. This chapter describes our sustainability performance for the past year and plans for the near future.

18,943
Number of employees in 2017

86%
Of employees trained

0
Fatalities in 2017

0.11
LTIFR (per 200,000 hours worked)

265 Mt
Total waste in 2017

3.03 Mt
Total GHG emissions (CO_2-e) in 2017

89.46%
Percentage of water recycled and reused in 2017

$42.6 m
Allocated to social support activities in 2017

Q&A WITH PAVEL GRACHEV
CHIEF EXECUTIVE OFFICER

Our strategic objective is to achieve a zero injury rate through a world-class safety culture.

Q Mr Grachev, what were the most important sustainability issues for Polyus in 2017?

A Our commitment to the highest HSE standards, stakeholder engagement, and our quest for mutually beneficial solutions yet again proved its effectiveness. We were approved as a member of the ICMM, the most prestigious international organisation promoting sustainable mining. This recognised our leading position, both in the region and in the industry, as well as our corporate responsibility and constant drive for excellence.

However, ICMM membership is not a goal in itself. It means adhering to a set of principles and values in our day-to-day activities and business planning. It also gives Polyus a platform to cooperate and exchange experiences with other leading global mining companies.

In 2017 we also analysed our performance against the UN Sustainable Development Goals (UN SDGs). Our work towards achiving the goals is described in this Report.

Q How did Polyus perform in health and safety in 2017?

A We're creating a culture of health and safety across all our operations, and this work is yielding results. There were no fatalities across our operations last year. We also managed to reduce our lost time injury frequency rate (LTIFR) by 15%, from 0.13 to 0.11.

Many actions and initiatives contributed to this improvement. For example, we launched a hand injury prevention programme at our Krasnoyarsk Business Unit as well as a pilot fall prevention programme at the Irkutsk Ore Business Unit. Both contributed to the reduction in incidents at these locations. We also started installing LockOut-TagOut systems at the crushing and power facilities on our assets. During 2018 we will introduce these – and other – safety systems across all our business units.

Our strategic objective is to achieve a zero injury rate through a world-class safety culture. The mining business simply cannot exist without a comprehensive approach to managing employee health and safety, and Polyus remains committed to maintaining the most stringent standards.

Q Culture goes beyond health and safety. What else has been done to build a strong and committed team?

A Building a strong corporate culture is an essential aspect of our work; we want our people to be proud of being part of Polyus. In 2017 we introduced a number of important updates to our Corporate Ethics Code. We conducted a wide-ranging survey to identify our employees' common interests across all operations and regions of presence. More than 3,000 colleagues of different departments, locations, and grades participated – including myself.

We also continued improving our training and talent management systems, KPIs and performance metrics, and social and living conditions. We established a multifunctional support centre and completed the staffing of our Natalka project.

Q What about the Polyus environmental footprint?

A We continued to develop internal procedures to manage various aspects of our environmental impacts. These include corporate standards on the sustainable use of natural resources, the prevention of pollution, biodiversity, and environmental and social impact assessments. With the help of external experts, we delivered training on environmental issues for colleagues from all business units. We also conducted onsite environmental risk assessments at several locations. These were a part of a large-scale integration of sustainability risks into our overall risk management system.

In October 2017 we completed a pilot project at the Magadan Business Unit on our greenhouse gas emissions inventory and calculation. The report provides the basis for monitoring and managing these emissions and acts as a baseline for potential emission reductions.

More broadly, our environmental specialists actively participate in joint committees, expert councils, and working groups. This means we're playing our part in developing Russian environmental legislation and we're pleased to provide the authorities with expertise and recommendations on various industry and cross-industry issues. A vivid example in this regard is the Company's participation as co-author and editor of a guide to the best available technologies for the gold mining sector.

Q How does Polyus contribute to the social and economic development of the regions where it operates?

A We're a major employer in the Krasnoyarsk Territory, Irkutsk, and Magadan Regions, as well as in Yakutia, so we're doing our best to help improve living environment there. We have well-established relationships with regional and local authorities – and consult and cooperate on matters of mutual interest and on important social and economic issues, focusing on the most urgent needs of communities.

At a local level, business units maintain contact with local communities, support them via charity and sponsorship projects, and provide financial and technical aid when the need arises.

One of our notable cultural successes is our Gold Season Theatre Competition, which was held again in 2017. It supports the development of the social and cultural environment in the regions where we operate. Last year it was dedicated to the launch of Natalka – and drew a lot of attention from the people of Magadan and neighbouring regions.

Q What are your expectations for 2018?

A As ever, there will be new challenges and fresh opportunities. Polyus will continue developing as a responsible member of Russian society; we're wholeheartedly committed to playing an active, leading role in regional development – and of course, to providing a safe and attractive place to work.

Reduction in LTIFR in 2017

15%

OUR SUSTAINABILITY JOURNEY

In 2011 the Company revised its strategic approach to business development and focused on proactive sustainability management that goes beyond compliance with applicable legislation. Since 2011 Polyus has carried out a considerable amount of work to develop its health, safety, environmental and community (HSEC) processes and align them with industry best practices. This included implementation of a wide range of HSEC policies and standards, enhancement of governance structure, improving the sustainability reporting system and undertaking – and consistently fulfilling – commitments to global sustainability initiatives. Taken together, these efforts have brought us closer to our ultimate goal – becoming a world class gold mining company, fully-responsible for our performance.

2011

- Adoption of an approach to sustainability that goes beyond compliance with applicable legislation
- Health & Safety Policy and Environmental Policy elaborated
- Introduction of new health and safety and environmental management systems based on ISO 14001 and OHSAS 18001
- HSEC Board Committee established

2012

- The Company's first sustainability report prepared and independently assured
- Golden Safety Rules elaborated
- ICMM application process initiated

2013

- Integrated approach for HSE management system introduced
- Stakeholder Engagement Policy and Human Rights Policy developed

2014

- Launch of full-scale safety culture improvement programme, with a focus on behaviour audits, risk assessment, root cause analysis
- Safety Committees set up

2015

- ICMM membership attained and ICMM Action Plan developed
- Sustainability Management System complying with IFC and ICMM requirements formalised
- Strategic sustainability goals established
- HSE team considerably extended
- Sustainability Working Group established
- 2016–2018 HSE development strategy introduced

2016

- Wide range of HSEC internal documents developed and implemented
- Grievance mechanism for local communities introduced
- Risk-oriented approach to environmental management implemented

2017

- ICMM Independent Expert Review successfully concluded and ICMM membership confirmed
- Sustainability report prepared for the first time in line with GRI Standards
- Sustainable Development Goals defined for alignment
- New Corporate Ethics Code developed
- New Social and Working Conditions standard developed

2018 (plan)

- Development of automated HSE data and processes management system
- Integrated HSE management system certification in accordance with ISO 14001 and OHSAS 18001

ABOUT SUSTAINABILITY REPORT

Approach to reporting

The 2017 Sustainability Report covers the key results of Polyus' sustainability performance of PJSC Polyus and its subsidiaries (together referenced as the 'Company' or 'Polyus') between 1 January 2017 and 31 December 2017 – as well as the Company's plans for 2018 and the medium term perspective.

Since 2012, the Company has prepared annual sustainability reports. The Company's previous report was published in 2017, and covered the results for 2016. The Company's reports, along with additional information on its sustainability performance, can be found on the Polyus website: http://polyus.com/investors/results-and-reports/.

In 2017 the Company's sustainability reporting was for the first time prepared in accordance with the Global Reporting Initiative Sustainability Reporting Standards ('GRI Standards'). These standards replaced the GRI G4 Sustainability Reporting Guidelines. In order to ensure compliance with GRI Standards, the Company's internal procedures relating to the Sustainability Report's preparation were updated. As with previous versions, this Report is prepared in accordance with the 'Comprehensive' option.

When preparing the Sustainability Report, the Company continued to be guided by the requirements of the GRI Mining and Metals Sector Supplement where applicable.

Report boundaries[1]

The sustainability information included in this Report covers the performance of Polyus' operational business units ('BUs') and professional services ('PSs').

Assets included in the Report boundaries

Name of subsidiary:	Referenced in the Sustainability Report as:
Business units	
JSC Polyus Krasnoyarsk	Krasnoyarsk BU
JSC Polyus Verninskoye	Irkutsk Ore BU
JSC Polyus Aldan	Yakutia Karanakh BU
JSC Polyus Magadan	Magadan BU
PJSC Lenzoloto	Irkutsk Alluvial BU
Professional services	
JSC Polyus Logistics	Logistics service
LLC Polyus Stroy	Construction service
LLC Polyus Project	Engineering service
PSF Polyus Schit LLC	Security service
Polyus Energy, represented by JSC Vitimenergo, JSC Vitimenergosbyt, JSC Mamakanskaya Hydroelectric Power Plant	Energy service

Information on the Company's labour performance also covers PJSC Polyus ('the Holding Company') and MC Polyus LLC ('the Managing Company'). Charity and sponsorship data are not aggregated in professional services. Data for the period of 2014–2015 covers JSC SVMC (Exploration BU), which was later excluded from the Sustainability Report scope.

In other cases, where reporting boundaries for specific indicators differ from those described above, information about enterprises included in the scope is specified in the text of the Sustainability Report.

[1] GRI indicators: 102-45, 102-46. For further information refer to GRI Content Index.

Identification of material topics[1]

A materiality assessment was conducted to select topics that mattered most to the business for inclusion in the Sustainability Report. The assessment comprised three main stages: analysis of open sources, collecting stakeholder feedback and drawing up a list of material topics. The materiality assessment was performed in accordance with GRI Standards.

Approach to identification of material topics

1. Analysis of open sources

- Analysis of industry trends and risks
- Analysis of publicly available information on the Company
- Benchmark of material topics disclosed by peers
- Alignment of preliminary list of material topics with sustainable development goals identified as relevant for the Company

- Preliminary list of material topics

2. Collecting stakeholder feedback

- Interviews with representatives of functional units involved in the management of sustainability issues
- Analysis of internal and external stakeholder survey results

- Updated list of material topics

3. Drawing up a list of material topics

- Approval of the list of material topics by the Sustainability Working Group
- Presentation of the list of material topics to the Board of Directors

- Agreed list of material topics to be included in the Report

Based on the materiality assessment results, a list of 17 material topics was compiled, including two new topics: biodiversity and emergency preparedness.

Material topics of the Sustainability Report and their boundaries

Category	Related risks	Topic	Report page	Within the Company	Outside the Company
Economic	• Poor quality of products and services • Supply chain delays	• Economic performance	56	V	–
		• Market presence	24	V	V
		• Indirect economic impacts	120	V	V
		• Procurement practice	91	V	V
		• Anti-corruption	136	V	V
Environmental	• Changes in environmental controls and regulations • Cyanide mismanagement • Inadequate water balance • Inaccurate estimates of closure costs	• Energy	117	V	V
		• Water	114	V	V
		• Biodiversity	119	–	V
		• Emissions	115	V	V
		• Effluent and waste	118	V	V
		• Environmental compliance	113	V	V
Social	• Workplace injuries and accidents • Loss of support from local authorities and communities • Shortage of qualified staff	• Employment	102	V	V
		• Occupational health and safety	92	V	V
		• Training and education	107	V	–
		• Local communities	120	–	V
Other	• Inadequate emergency preparedness	• Emergency preparedness	98	V	V
		• ICMM membership	83	V	V

[1] GRI indicators: 102-43, 102-45, 102-46, 102-47. For further information refer to GRI Content Index.

Data preparation techniques

Sustainability performance information for the Report was collected through the Company's corporate data reporting system. Under this system, sustainability data is initially collected and reviewed by responsible specialists at BUs and PSs. Information on material sustainability issues is subsequently regularly consolidated and verified at the Managing Company level.

Data on environmental protection, occupational health and safety, human resources management, charity and sponsorship activities for the Sustainability Report is derived from internal reporting forms used for managerial purposes and mandatory state statistical reporting forms.

GRI indicators are presented on the basis of accepted international metrics – and calculated as laid down in GRI Standards or in accordance with the Company's internal requirements. Financial performance indicators reported were converted into US dollars according to the yearly weighted average exchange rate for 2017.

The Company calculates indicators on greenhouse gas emissions according to the recommendations of the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard. The ICMM Environment and Climate Change work programme stipulates requirements related to measuring, reporting, and verifying net greenhouse gas emissions – and the Company makes every effort to meet these requirements.

In terms of the Company's employment structure, male employees are mostly involved in production, due to Russian labour law prohibiting female employment in certain professions and the specific conditions prevailing in the mining industry. Female employees work primarily in service units (e.g. administrative services, medical centres, canteens) and their numbers are relatively low. Due to this imbalance, it would be unrepresentative to show certain statistical data required under GRI Standards (e.g. health and safety statistics) by gender, and such information is not collected by Polyus' corporate reporting system.

Restatements and significant changes[2]

In 2017 no restatements or significant changes were made to the methods used to measure data, except for those listed further. In 2017 the method of turnover rate calculation was updated. Employee turnover includes employees who leave the organisation voluntarily or due to dismissal, retirement, or death in service. Employee turnover rate was calculated as employee turnover divided by average headcount.

Assurance

The Company engaged Deloitte LLP to provide independent assurance of the Sustainability Report. This is intended to ensure quality, accuracy and completeness of the reported data and facilitate improvements to the entire sustainability reporting process.

In 2017, the Sustainability Report was subject to a limited assurance process under the International Standard for Assurance Engagements (ISAE) 3000 (Revised). More detailed information on the boundaries and the subject of assurance can be found in **'Independent assurance statement'** (p. 78) and **'GRI Content Index'** (p. 240).

Contact information

The Company carefully scrutinises feedback from stakeholders on the completeness, objectivity and materiality of information disclosed in its sustainability reports, which helps improve our management of sustainability performance and non-financial reporting processes. We welcome your suggestions concerning the Sustainability Report and our performance to help us improve and lead our industry forward. Please send your questions and suggestions to:

Daria Grigoreva
Head of Sustainable Development
Address: 15/1 Tverskoy Boulevard, Moscow
Email: GrigorevaDK@polyus.com

[2] GRI indicators: 102-48, 102-49. For further information refer to GRI Content Index.

INDEPENDENT ASSURANCE STATEMENT

BY DELOITTE LLP

Independent assurance statement by Deloitte LLP ('Deloitte') to PJSC Polyus Board of Directors on the 2017 Sustainability Report for the year ended 31 December 2017.

Scope of assurance

We have been engaged by PJSC Polyus to perform an assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) ('the Standard') to provide public limited assurance on selected non-financial performance data and on assertions related to the International Council on Mining and Metals' (ICMM) sustainable development framework presented in PJSC Polyus 2017 Sustainability Report ('the Report') for the year ended 31 December 2017.

Assurance procedures and roles

Our key assurance procedures

We carried out limited assurance on (1) the selected key performance indicators specified below and (2) assertions related to the PJSC Polyus's implementation of the ICMM sustainable development framework. To achieve assurance the ISAE 3000 (Revised) requires that we review the processes, systems and competencies used to compile the areas on which we provide our assurance. Considering the risk of material error, we planned and performed our work to obtain all of the information and explanations we considered necessary to provide sufficient evidence to support our assurance conclusion.

To form our conclusions, we undertook the following procedures:

- Analysed and reviewed on a sample basis the key structures, systems, processes, procedures and controls relating to the collation, aggregation, validation and reporting processes of the selected sustainability performance indicator
- Reviewed information and reasoning about the Reports' assertions regarding sustainability performance in 2017
- Reviewed the content of the Report against the findings of the aforementioned procedures and, as necessary, provided recommendations for improvement
- Making enquiries of management and senior executives to obtain an understanding of the overall governance and internal control environment, risk management, materiality assessment and stakeholder engagement processes relevant to the identification, management and reporting of sustainability issues and selected performance indicators and ICMM disclosures
- For a sample of relevant ICMM assertions contained within the Sustainability Report we corroborated through inspection of supporting evidence

We believe that our evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

Inherent limitations

Inherent limitations exist in all assurance engagements due to the selective testing of the information being examined. Therefore fraud, error or non-compliance may occur and not be detected. Additionally non-financial information, such as that included in Polyus's Sustainability Reporting 2017 documents is subject to more inherent limitations than financial information, given the nature and methods used for determining, calculating and sampling or estimating such information.

Roles and responsibilities

- The Directors are responsible for the preparation of the sustainability information and statements contained within the PJSC Polyus Sustainability Report 2017. They are responsible for determining PJSC Polyus sustainability objectives and for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived, including the description of PJSC Polyus application and compliance with the International Council on Mining and Metals' (ICMM's) Sustainable Development Framework.
- Our responsibility is to express a conclusion on the selected Subject Matter based on our procedures. We conducted our engagement in accordance with the ISAE 3000 (Revised) Assurance Engagements other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with the independence and ethical requirements and to plan and perform our assurance engagement to obtain sufficient appropriate evidence on which to base our limited assurance conclusion. We performed the engagement in accordance with Deloitte's independence policies, which cover all of the requirements of the International Federation of Accountants' Code of Ethics and in some areas are more restrictive. The firm applies the International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.
- Our engagement provides limited assurance as defined in ISAE 3000. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.
- Our work has been undertaken so that we might state to the Company those matters we are required to state to them in this Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than PJSC Polyus for our work, for this Report, or for the conclusions we have formed.

(1) Selected non-financial performance data for public limited assurance

LIMITED ASSURANCE PERFORMANCE INFORMATION We have been engaged by the Board of Directors of PJSC Polyus to perform limited assurance procedures on the following key performance data of the 2017 reporting year:	
Composition of governance bodies and breakdown of employees per employee category	• Number of employees by business unit, region, function, gender and age group • Percentage of employees by business units, region, function, gender and age group (%)
Employee turnover	• Total number of new employee hires • Employee turnover (%)
Career development	• Number of employees trained • Employees trained as percentage of total headcount (%)
Fatalities	• Work-related fatalities • Fatality frequency rate (Company), per 200,000 hours worked
Injury rates	• LTI frequency rate, by BU employees (per 200,000 hours worked) • Injury rate per 200,000 hours worked (Fatalities, Lost time injuries, Medical treatment injury – MTI)
Energy/electricity use and climate change	• Purchase of primary energy resources (tonnes) • Consumption of primary energy sources (tonnes) • Amount of electricity produced and sold (million kWh) • Amount of heating produced and sold (thousand Gcal) • Amount of electricity purchased (thousand KWh) • Amount of heating purchased (thousand Gcal)
Greenhouse gas (GHG) emissions	• Total GHG Emissions, million tonnes • Direct GHG emissions (CO_2e), million tonnes • Indirect GHG emissions (CO_2e), million tonnes
Significant air emissions	• Carbon oxide emissions (CO) (tonnes) • Sulphur dioxide emissions (SO_2) (tonnes) • Amount of Nitrogen oxides emissions like NO_2 (tonnes) • Solid dust emissions (PM2.5 and PM10) (tonnes)
Waste	• Total waste generated (thousand tonnes)
Water	• Total water withdrawal (thousand m^3) • Total water withdrawal by source (thousand m^3) • Total volume of water discharged (thousand m^3)
Regulatory compliance	• Total monetary value of environmental fines ($'000s) • Number of non-monetary sanctions for non-compliance with environmental laws and regulations
Sponsorship and charity	• Total monetary value of charity and sponsorship ($'000s)

(2) Public limited assurance on ICMM Sustainable Development Framework

- Assertions and disclosures related to Polyus's application of the International Council on Mining and Metals ('ICMM') Sustainability Development Framework on pages 83 to 85 of the Report
- Its self-declaration in preparing its Annual Report 2017 in accordance with the Global Reporting Initiative (GRI) G4 Comprehensive Option as stated on page 75 of the Annual Report 2017

Our conclusions

Limited assurance conclusion

Based on the scope of our work and the assurance procedures we performed we conclude that:

- Nothing has come to our attention that causes us to believe that the selected key performance data which we were engaged to provide limited assurance on, as specified in the **'Roles and responsibilities'** section above are materially misstated
- Nothing has come to our attention that causes us to believe that the assertions related Polyus's application of ICMM Sustainable Development Framework on page 83-85 and the self declared GRI Comprehensive option documented in the Report are materially misstated

Deloitte LLP
London.
27 April 2018

Deloitte LLP

SUSTAINABILITY APPROACH

Polyus sees sustainable development as a strategic priority and strives to maximise its commercial and social value for the benefit of all its stakeholders in the long-term.

Polyus' sustainability strategic objectives

- **Sustainable growth and management of environmental and social risks to ensure the efficiency of each stage of the life cycle of a mine/asset: exploration, engineering and design, mining and processing, closure and rehabilitation**
- **Achieve first-rate financial results by adhering to sustainability principles in our operations**
- **Achieve a zero injury rate through a world-class safety culture**
- **Be a reliable partner for local communities where we operate and maintain an open dialogue with all stakeholders, consistently taking their interests into account when making decisions**
- **Cultivate a team of professionals committed to helping the Company achieve industry-leading positions, while at the same time adhering to the principles of sustainability**

Approach to sustainability management

As a mining company, we understand that we have a substantial impact on the environment, as well as on various groups of internal and external stakeholders. In order to minimise the negative impacts and to maximise the positive ones, the Company continuously strives to improve its sustainability performance and ensure that sustainability is at the heart of its day-to-day operations.

When managing its sustainability performance, Polyus identifies three priority areas: social, environmental, and economic. These are set out in the general provisions of the sustainability management system standard.

The Company's performance within these priority areas is guided by the corporate Sustainability Management System (SMS). This an integrated part of the Company's target operating model and was developed in line with Performance Standards 1-8 of the International Finance Corporation (IFC), the Sustainability Principles and Position Statements of the International Council on Mining and Metals (ICMM), and other applicable national and international standards and guidelines.

To ensure effective and continuous management of sustainability-related issues, the SMS covers all key stages of the annual management cycle: from planning and goal-setting to managing improvements, as well as the whole life-cycle of the Company's assets – from geological exploration to mine closure.

Polyus' sustainability management activities

Major areas of the Company's sustainability management activities

Environment	Social	Economic
• Doing business in compliance with legal requirements and applying international environmental protection best practices • Continually improving the environmental management system • Assessing environmental impacts and preventing, minimising, and/or compensating identified impacts	• Observing human rights • Providing employment in regions of operation • Developing a safety culture and safe working conditions • Training and developing a team of professionals • Implementing sponsorship and charity projects in regions of operation • Maintaining an open dialogue with stakeholders	• Maintaining financial stability in the short, medium and long-term • Doing business in accordance with legal requirements and business integrity principles • Paying taxes and other fees to governments at regional and federal levels • Sustainable supply chain management

Polyus' approach to sustainability management is regulated by a wide range of internal standards and policies. Together these provide the necessary governance framework for the Company's sustainability performance.

The primary document regulating the Company's sustainability performance is the Sustainability Management System Standard. This formalises the SMS governance structure, including the Company's key sustainability priorities and distribution of responsibilities.

Additionally, a number of documents regulating specific areas of sustainability management are implemented or at the approval stage.

Key corporate documents regulating sustainability-related activities

Health, safety and environment	• Health and safety policy[1] • Environmental policy[2] • Biodiversity conservation standard • Contractors' safety management standard • Environmental and social impact assessment standard • HSE leadership standard • HSE training standard • Medical support and emergency medical care standard • Reclamation and mine closure standards • Root-cause analysis standard • Risk management standard • Standard for the sustainable use of natural resources and the prevention of environmental pollution, accounting and reporting on environmental indicators • Standard on cyanide management • Traffic safety management standard
Stakeholder engagement and local communities	• Stakeholder engagement policy • Human rights policy[3] • Charity, donation, and sponsorship policy • Corporate ethics code • Involuntary resettlement standard • Engagement with indigenous peoples standard
Economic stability	• Anti-corruption policy • Risk management and internal control policy • Business continuity policy • Corporate governance code

[1] The text of the Health and safety policy is available at the Company's website: http://polyus.com/en/sustainability/health_and_safety/

[2] The text of the Environmental policy is available at the Company's website: http://polyus.com/en/sustainability/environment/

[3] The text of the Human rights policy is available at the Company's website: http://www.polyus.com/en/sustainability/human_rights_policy/

SUSTAINABILITY APPROACH
continued

In 2017 the Company continued working on the internal regulatory framework development; updating and implementing a number of documents regulating various sustainability issues. A number of documents are also scheduled for implementation in 2018. For more information on the Company's internal sustainability documents and the status of their implementation, see the corresponding sections of this Report.

Contribution to Sustainable Development Goals
Polyus strives to be a leader in sustainable development and therefore endeavours to align its actions with global initiatives in this area. The Company believes that one the most prominent events on the international sustainability agenda is the adoption of the Sustainable Development Goals (SDGs) from the 70th session of the UN General Assembly.

In 2017 at the meeting of the Sustainability Working Group (Polyus' primary consultation body in the area of sustainability) the SDGs were presented to the senior management of the Company. Members of the working group discussed the role of the business in SDG attainment and identified the SDGs that are most relevant for the Company's business – and to which Polyus is capable of contributing the most through its operational activities and corporate social responsibility initiatives.

While recognising importance of all 17 SDGs, Polyus focuses on the eight goals presented below. The relevance of Polyus' various activities to the SDGs is highlighted through the Sustainability Report by the associated pictograms.

Polyus contribution to reaching Sustainable Development Goals

3 GOOD HEALTH AND WELL-BEING	**Ensure healthy lives and promote wellbeing for all at all ages** • Ensuring that all employees and contractors have the knowledge and ability to safely perform their duties • Provision of healthcare services to the Company's employees
4 QUALITY EDUCATION	**Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all** • Provision of learning opportunities for employees • Cooperation with colleges and universities
7 AFFORDABLE AND CLEAN ENERGY	**Ensure access to affordable, reliable, sustainable and modern energy for all** • Improving our energy efficiency • Developing energy infrastructure in the remote regions of the country
8 DECENT WORK AND ECONOMIC GROWTH	**Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all** • Generation of employment and local economic opportunities • Ensuring a decent working environment
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	**Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation** • Developing infrastructure facilities in regions of operation under social partnership programmes with regional authorities
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	**Ensure sustainable consumption and production patterns** • Increasing efficient use of natural resources • Working with responsible suppliers of goods and services
13 CLIMATE ACTION	**Take urgent action to combat climate change and its impacts** • Reducing greenhouse gas emissions through partial transition to renewable energy sources • Improving our energy efficiency
17 PARTNERSHIPS FOR THE GOALS	**Strengthen the means of implementation and revitalise the global partnership for sustainable developments** • Supporting sustainability initiatives promoted by Russian and international industry organisations • Fostering cooperation with peers • Building mutually beneficial relations with local authorities

ICMM membership: our joint success

In 2015, Polyus became the first Eastern European member of the International Council on Mining and Metals (ICMM), the industry organisation that aims to improve the social and environmental performance of the mining and metals industry.

By joining ICMM, Polyus pledged to comply with ten ICMM sustainability principles and position statements, which require member companies to conduct their business in a responsible manner and ensure accountability to all related stakeholder groups. The relevance of Polyus' various activities to the ICMM principles is highlighted through the Sustainability Report by the associated pictograms.

ICMM sustainability principles	
Implement and maintain ethical business practices and sound systems of corporate governance.	Seek a continual improvement in our environmental performance.
Integrate sustainable development considerations within the corporate decision-making process.	Contribute to the conservation of biodiversity and integrated approaches to land use planning.
Uphold fundamental human rights and respect cultures, customs, and values in dealings with employees and others who are affected by our activities.	Facilitate and encourage responsible product design, use, re-use, recycling, and disposal of our products.
Implement risk management strategies based on valid data and sound science.	Contribute to the social, economic, and institutional development of communities in which we operate.
Seek a continual improvement in our health and safety performance.	Implement effective and transparent engagement, communication, and independently verified reporting arrangements with our stakeholders.

In 2015, the ICMM Independent Expert Review Panel ('the Panel') conducted a review of the possible admission of the Company to the ICMM. Following a comprehensive review of the Company's sustainability practice, Polyus developed and approved the Action Plan. This set out the key actions needed to close identified gaps, address cases of partial alignment, and bring about a broad alignment with each element of the ICMM Sustainable Development Framework.

For the last two years the Company has worked diligently on the implementation of Action Plan. This included putting in place standards on internal health, safety, environment and community ('HSEC'), developing health, safety and environment ('HSE') management systems as well as a Sustainability Management System, enhancing stakeholder engagement and development of sustainability reporting. This required the involvement and collective efforts of a wide range of departments – both at Managing Company and BU and PS levels.

In 2017 reporting year Polyus have completed the Action Plan implementation. The Company underwent an audit by the ICMM Independent Expert Panel, aimed at assessing the progress made in sustainability practice development. As part of the audit process, the Panel reviewed the Company's 'ICMM Action Plan Implementation Report', prepared with the support of independent consultants KPMG, numerous other documents submitted by Polyus – and a limited assurance report prepared by Deloitte LLP UK. Finally, members of the Panel held four interviews with Polyus executives and Board members as well as representatives of Deloitte LLP.

The Panel concluded that Polyus had satisfactorily addressed each item in the Action Plan and expressed its opinion that Polyus should remain a member in good standing of the ICMM, subject to its commitment to continue developing its sustainability practices.

In the Report on the results of the Company's performance review, the Panel members highlighted the Company's solid commitment to sustainability and highlighted particularly noteworthy achievements in the following areas:

1. Sustainability governance	• Increasing capacity and resources for the HSE and sustainability functions, both at the corporate and business unit levels, rationalising the structure of these functions
2. Safety culture	• Improving safety culture and the Company's commitment to ongoing rigorous evaluation of its progress using the Bradley Curve methodology
3. Sustainability reporting	• Balanced disclosure of the Company's sustainability performance and progress on the ICMM Action Plan implementation in public reporting
4. Integrated HSE Management System	• Implementing new integrated HSE management system, providing a solid foundation for standardising HSE practices
5. Sustainability management at Alluvials Operations	• Adoption of the primarily HSEC standards by the Irkutsk Alluvial BU • Completion of a comprehensive socio-economic study and sustainability risk assessment of the BU, and development of a detailed action plan to address the key risks identified in the study
6. Development and implementation of HSEC standards	• Progress on development and implementation of internal documents regulating a wide range of environmental and social issues

The Report on the review results also contained a number of recommendations for further development of the Company's sustainability management practice, including recommendations on further integrated HSE management system implementation and certification as well as further HSEC standards and policies development and implementation.

These positive results are extremely important to Polyus and the Company is eager to further participate in various ICMM working groups and support the sustainability initiatives driven by ICMM.

> **"Polyus is eager to further participate in various ICMM working groups and support the sustainability initiatives driven by ICMM"**

Sustainability governance

The Company's well-developed corporate governance structure encompasses management of sustainable development issues at all organisational levels: PJSC Polyus ('the Holding Company'), MC Polyus LLC ('the Managing Company'), as well as BUs and PSs (operating level).

Holding Company level
At Holding Company level, the Board of Directors and its executive Committees are involved in the sustainability management. The Board is the supreme governing body and forms the strategic vision for the sustainable development activities. The Committees serve to enhance the effectiveness of the Board's performance on financial reporting and disclosure, risk management, audit, nomination and remuneration, strategy and operations.

Managing Company level
At Managing Company level, responsibility for sustainability management rests with the Chief Executive Officer, whose functions include the allocation of sustainability-related responsibilities among functional divisions.

Two entities engage in high-level discussion and decision-making on sustainability-related issues: the Central Safety Committee and the Sustainability Working Group.

The primary duties of the Central Safety Committee include continuous analysis and assessment of the Company's occupational safety and environmental protection activities. Its principal aim is to take timely measures to prevent industrial accidents and occupational diseases. The Committee operates under the leadership of the Chief Executive Officer (CEO) and comprises senior management of the Company and CEOs of BUs and PSs.

The primary functions of the Sustainability Working Group include determining sustainability benchmarks and objectives, ensuring compliance of the Company's activity with sustainability principles, reviewing progress on the ICMM Action Plan implementation and discussing plans. The Working Group comprises the heads of functional units engaged in managing various sustainability issues. The performance of the Working Group is coordinated by the Head of the Working Group and is overseen by the HSE&SD Director.

The Working Group's activity has notably increased awareness of sustainability development issues across the Company. It has made a considerable contribution to the integration of sustainable development principles into the strategic approach and day-to-day activities of the relevant functional units.

Sustainability Working Group activity in 2017

In 2017, 11 meetings of the Sustainability Working Group were held and the following topics (amongst others) were included in the agenda:

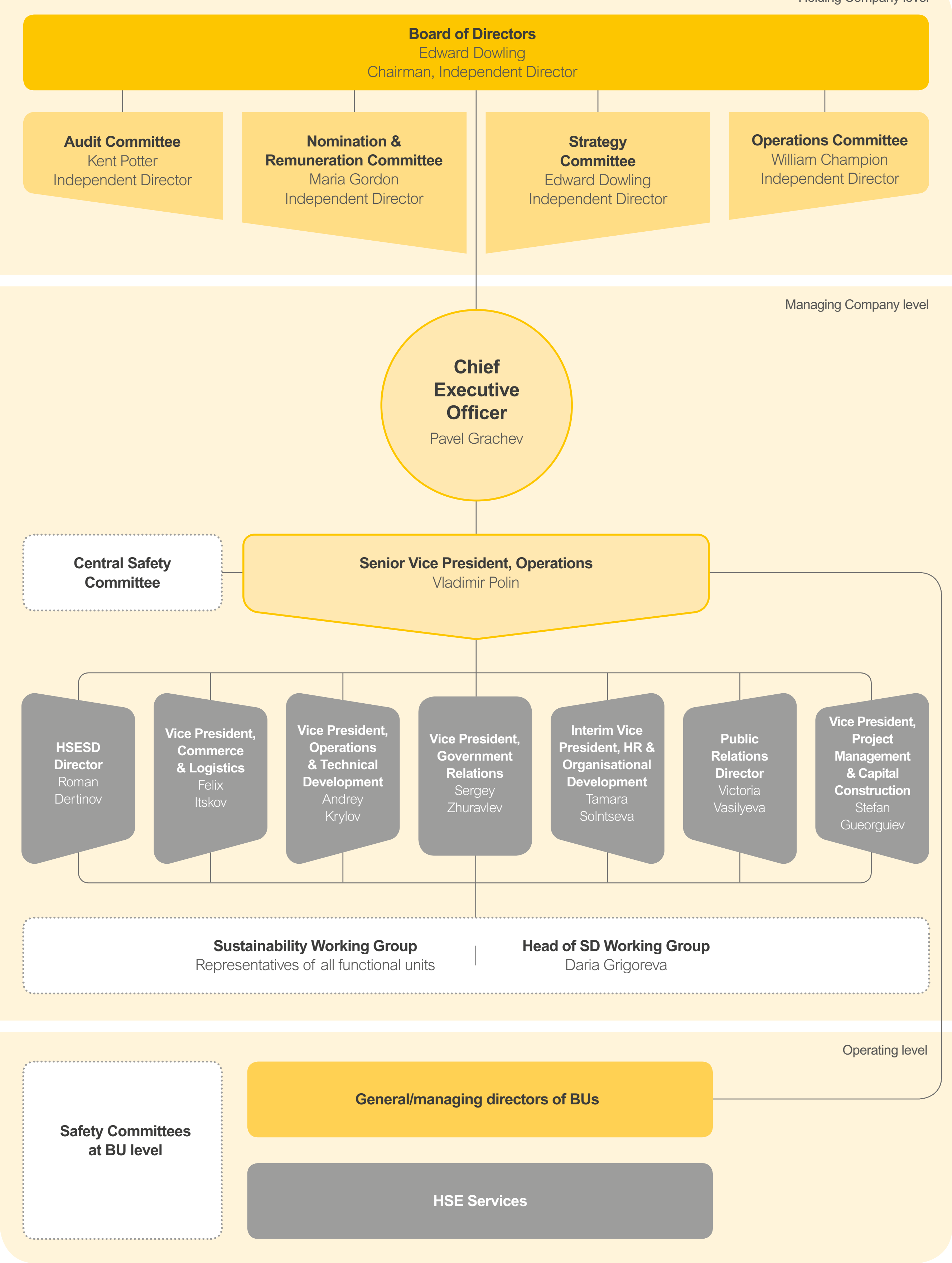
- Grievance mechanism development and implementation
- Updating the Company's values and the Corporate Ethics Code
- Updating internal HSEC standards
- Providing training courses under the internal corporate documents implementation
- Determining the material aspects of the Company's activities in accordance with GRI Standards
- Introducing the UN SDGs and selection of the goals relevant to the Company's performance
- Preparation for the certification in compliance with the Cyanide Management Code

Operating level
At each BU and PS, an integrated HSE management structure is in place. Integrated management structures include HSE headed by HSE Directors, working groups and safety committees.

The BU and PS HSE Directors carry out general activities related to managing HSE issues. They are responsible for their units' compliance with the HSE legal requirements and ensure the BU and PS activities align with the internal HSE requirements driven from the Managing Company level. Amongst other things, the BU HSE teams are responsible for reviewing personnel conduct compliance with safety requirements, as well as adoption of sanctions for their violation and remuneration of the best employees. HSE Directors report directly to the General Directors of each BU and PS – and the HSE&SD Director at Managing Company level.

Each BU has a Safety Committee. These perform similar functions to the Central Safety Committee, which coordinates and monitors their performance.

The Company's sustainability governance structure



Health, Safety, Environment and Sustainable Development team

Although responsibilities for sustainability-related activities are allocated across a broad range of functional units, the primary business unit responsible for managing sustainability issues is the Health, Safety, Environment and Sustainable Development ('HSE&SD') Department.

The department is led by the HSE and SD Director, who provides overall coordination of the HSE&SD activities in the Company.

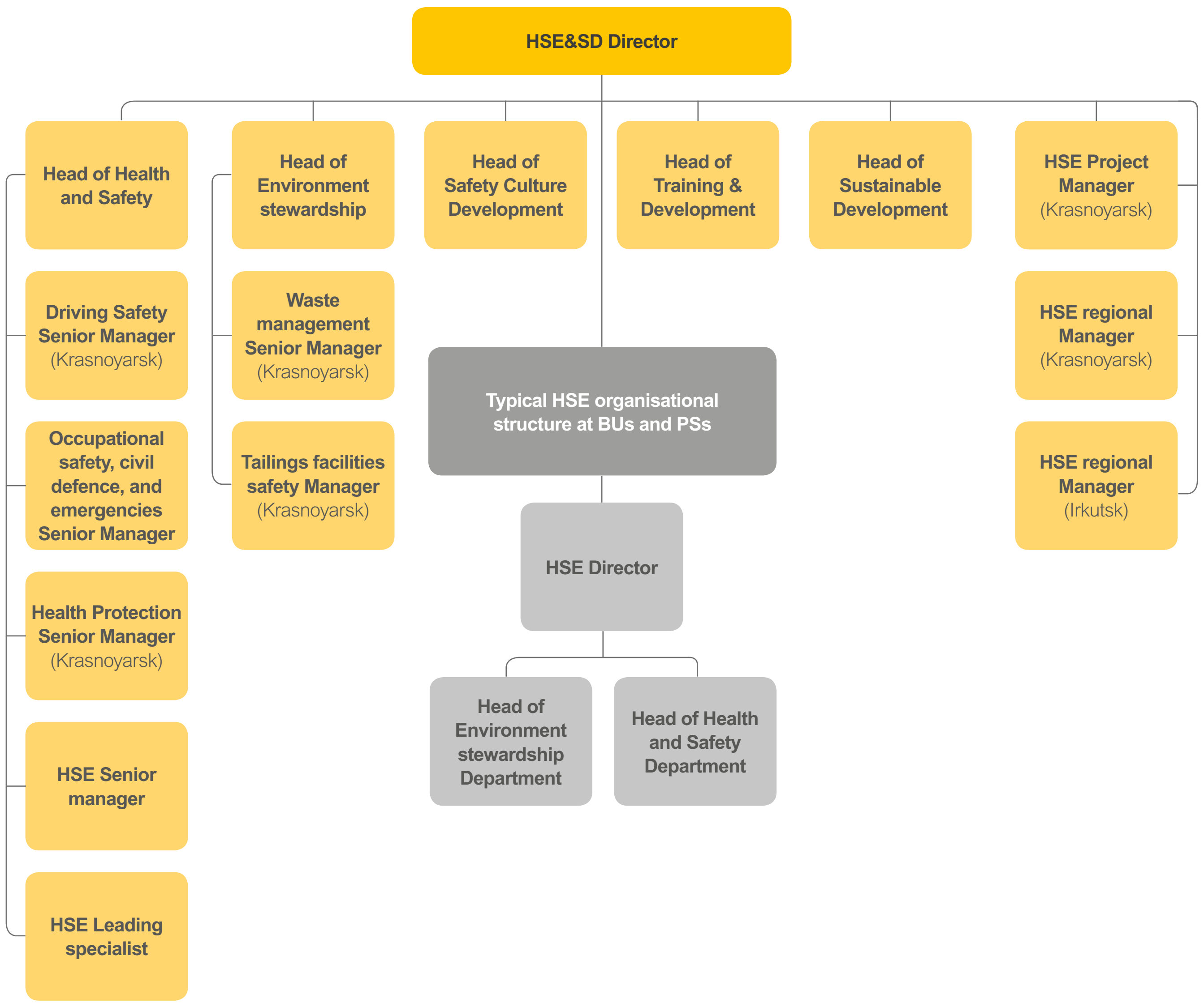
The HSE&SD department supervises five main streams of activities. These include health and safety, environmental stewardship, safety culture development, training and development of employees in all the above areas and sustainable development. Heads of these streams define the management approach, provide methodological support to the HSE specialists at the BU and PS level and evaluate plans for the streams' further development.

At some BUs, (Krasnoyarsk BU and Irkutsk Ore BU) there are specialists covering more specific topics of environmental protection and health and safety, such as waste management and driving safety. Although located at particular BUs, they develop and provide methodological support for the HSE specialists across all Polyus' BUs and PSs.

In 2017, one of the HSE&SD department's primary tasks was the Company's further transition to an integrated HSE management system. The coordinated work of the Company's HSE specialists at all organisational levels enabled the new integrated system to be implemented at all BUs and PSs. Polyus remains heavily focused on operationalising and then auditing the new system's implementation at each BU.

In 2018, the Company will certify the HSE integrated management system at each BU in accordance with ISO 14001 and OHSAS 18001. For more detailed information on Polyus' management of environmental and health and safety issues, see sections **'Ensuring the safety of our employees'** (p. 92) and **'Managing our environmental impacts'** (p. 112).

HSE&SD team



Sustainability risk management

A fundamental condition of effective sustainability governance is the continuous management of environmental, social, and economic risks. The Company manages sustainability risks as part of its corporate risk management system. Under the system, sustainability risks are regularly identified, assessed and monitored – both at Managing Company and BU/PS level.

During the reporting period, Polyus identified a list of 20 top-level corporate risks. These included several sustainability-related risks:

- Non-compliance with legal requirements and internal regulations
- Mining risks, including pit walls and road failures
- Negative environmental impact
- Lack of qualified human resources
- Accidents at work site
- Selection of inefficient technology, failure and/or poor quality of expertise and testing of new technologies
- Power balance shortage
- Inefficient interaction with government authorities

For more detailed information on the 20 top-level corporate risks, see section **'Principal risks and uncertainties'** (p. 30).

To manage the Company's risks more effectively, Polyus adopted a new unified risk management approach. The Company is gradually implementing this approach across all its core functional units. During the year, the new unified risk management approach was applied to the HSE&SD function. As part of this work, the HSE&SD department – with the support of the Company's Compliance and Control Unit – updated the sustainability risk management methodology.

Also in cooperation with the Enterprise Risk Management & Internal Controls Unit, the HSE&SD department completed pilot projects on the implementation of a new approach to sustainability risk management at the Irkutsk Alluvial BU. Under these projects, risk matrices were drawn up, control procedures were identified and action plans containing measures for the management of the identified risks in 2018 were compiled. In the next reporting period, the Managing Company plans to carry out a status audit on action plan implementation and risk mitigation.

Stakeholder engagement[1]

Polyus constantly seeks to engage and build respectful, transparent and mutually beneficial relationships with its stakeholders, address their concerns and expectations – and keep them informed of the Company's activities. Understanding our stakeholders and their values and needs is of the utmost importance to Polyus.

Polyus' key stakeholders are defined as those whose interests, decision-making, or health and safety may be impacted by – or have a potential influence over – the Company's activities. Our key stakeholders include shareholders, local and federal governments and regulators, employees and contractors, local communities, suppliers, NGOs and the media.

Polyus has an established framework for developing an effective and meaningful stakeholder engagement process, regulated by the Company's internal documents. The Stakeholder Engagement Policy provides an overall approach to managing the Company's relations with stakeholders and developing appropriate engagement strategies for each individual stakeholder group. Specific aspects of the Company's interaction with stakeholders are governed by the following internal documents: the Corporate Governance Code and Corporate Ethics Codes, the Human Rights Policy, the Engagement with Indigenous Peoples Standard, and the Charity, Donation, and Sponsorship policy.

To reach its goal of maintaining transparent, comprehensive and sustainable long-term relationships with our stakeholders, Polyus employs a variety of engagement tools and mechanisms, which allow it to create an open dialogue with stakeholders. Depending on the stakeholder and the specific circumstances, Polyus develops engagement activities tailored to the needs of each stakeholder group.

Understanding and responding to stakeholder needs and concerns is a priority for Polyus. The Company uses a wide range of instruments for obtaining stakeholder feedback – such as a 24/7 security hotline, confidential boxes installed in BUs and an electronic mailbox (info@polyus.com). This ensures that no voice is left unheard.

Security hotline

A security hotline communication system operates in the Company's BUs and subsidiaries and is one of the most effective and popular communication channels for internal stakeholders.

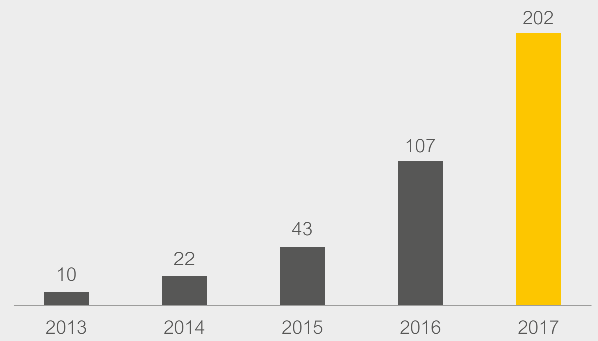
Polyus ensures the security hotline is easily accessible. Stakeholders can submit their messages via mailbox, electronic mailbox (hotline@polyus.com), hotline number (8-495-662-40-85) or do so in person. In order to facilitate the process of message or complaint submission, 115 confidential mailboxes were installed at BUs, PSs and the Managing Company in the reporting period.

Polyus works hard to ensure that stakeholders are aware of the security hotline operation. Data on the hotline is published regularly in internal newspapers and placed at information desks. In 2017 the Company distributed specially developed leaflets on how to use the security hotline in BU, PS and Managing Company offices.

Polyus carefully analyses each and every message before taking any action – and ensures that appropriate replies are sent to those who raise concerns. The approach to processing received messages is formalised in the Provision of the Security hotline communication system organisation and operation. The responsible employees aggregate and analyse the statistics on received messages and results of their review on a quarterly basis.

Each year the number of messages received through the security hotline is growing, showing that stakeholders perceive it as a reliable communication mechanism. In 2017 the security hotline received 202 messages, most of which were related to infringement of workers' rights, requirements of internal regulatory documents and pilferage. All the concerns were reviewed: 17 of them (8%) were of informative character and did not contain any complaints, data contained in 56 messages were not corroborated (28%), data contained in 129 messages (64%) were confirmed and the appropriate actions were taken.

Number of concerns submitted through security hotline



In 2017, the Company continued to actively engage with stakeholders via online communication channels. The Company's updated bilingual website (www.polyus.com) proved to be an efficient mechanism for receiving direct requests and enquiries from external stakeholders (e.g. potential suppliers). Polyus also maintained an active presence on various social networks (Facebook and VKontakte). In 2017 the Company received 269 enquiries through Facebook and VKontakte, most of which were related to employment and collaboration opportunities.

Transparency, visibility and comprehensive disclosure of information are of great importance to Polyus. In this regard the Company has enhanced its interaction with Russian and foreign media in recent years, leading to an increase in the number of published articles about PJSC Polyus. Thus, in 2017 almost 16,000 articles about the Company were included in Russian federal and regional media and 631 in foreign newspapers (including The Financial Times and The Wall Street Journal) and mining sector business magazines. Polyus is committed to continuing its work with both Russian and foreign media outlets. In 2018 the Company plans to organise a media tour to Natalka to showcase the fully operational production facility.

[1] GRI indicators: 102-42, 102-43, 102-44. For further information refer to GRI Content Index.

Stakeholder engagement[1]

Stakeholder group	Key concerns of stakeholders	Engagement mechanisms	Responsible within the Company
Shareholders, lenders, bondholders	• Long-term value by ensuring consistent financial returns	• Annual general meetings • Regular hard-copy and electronic communications • Regular meetings with institutional shareholders • Internal newspapers • Access via the Company's website www.polyus.com	• Top management • Investor Relations function
Government and regulators	• Legislative and regulatory compliance • Environmental and social performance, fiscal regimes	• Agreements on social-economic partnerships • Charity and sponsorship initiatives • Conferences and forums	• Government Relations function
Employees and contractors	• Health and safety • Working conditions • Career opportunities • Wages, benefits and social packages • Training and education	• Direct communication with employees through immediate supervisors and management • Corporate newspaper: 'Territory of Polyus' • Internal web portal • Operation-based newsletters • Security hotline • Confidential feedback boxes • Corporate sports and cultural events, professional competitions • Volunteer projects • Employee surveys • Contractual relationships	• HR and Organisational Development function • HSE&SD function • Operations and Technical function
Local and indigenous communities	• Potential environmental and social impacts • Employment opportunities • Infrastructure development	• Newsletters and targeted communications • Public hearings and meetings • Confidential feedback boxes • Charity activities • Social programmes	• Public Relations function • Government Relations function
Suppliers	• Supply agreements • Payment processes	• Tenders • Contractual relationships • Workshops	• Commerce and Logistics function
NGOs and industry organisations	• Social and environmental performance of operations • Mitigating non-financial risks • Industry-specific issues	• Regular interaction with relevant national and international organisations	• Public Relations function • Government Relations function
Media	• Broad range of issues reflecting all stakeholder interests	• Press releases, briefings • Presentations and interviews • Site visits	• Public Relations function

[1] GRI indicators: 102-40. For further information refer to GRI Content Index.

Supply chain management

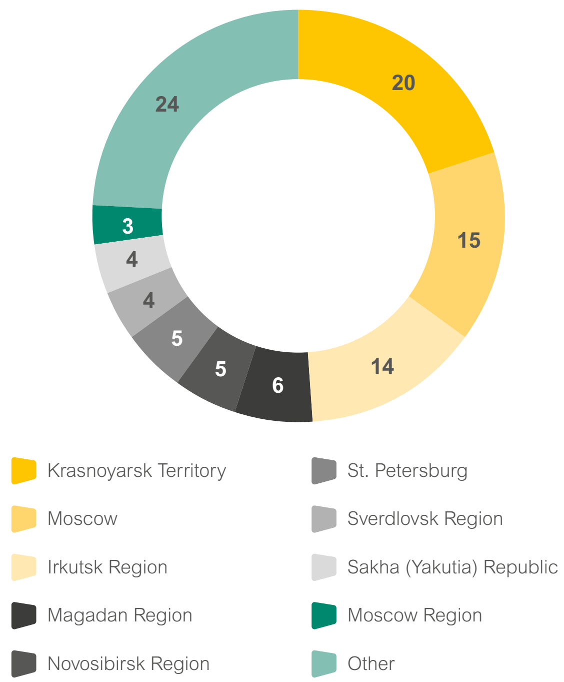
Polyus aims to conduct business only with those supply chain partners that are fully compliant with national, regional and local legislation requirements – and ready to share our values such as avoidance of negative environmental impacts, creation of social benefits, focus on operations safety and respect for human rights.

In 2017 Polyus made significant progress developing and introducing its HSE requirements to contractors. The Company developed its 'Strategy for Interaction with Contractors', which outlines Polyus' vision on managing HSE issues by contractors and states that all contractors must undergo the minimum required education.

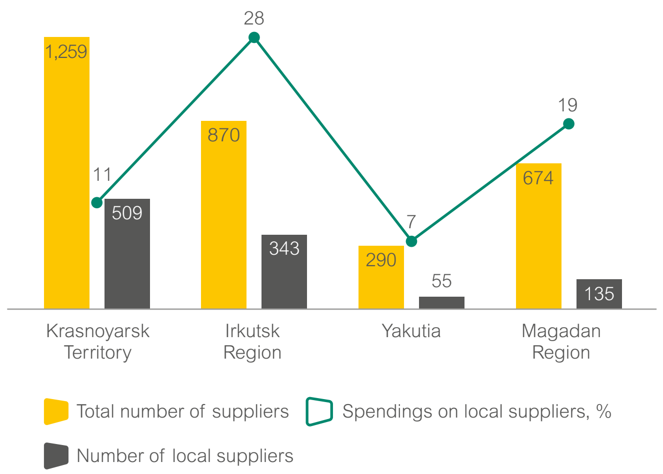
Logistics is another crucial supply chain component for the Company. Polyus' business requires the use and transportation of significant amounts of hazardous substances, such as cyanide. In 2017, approximately 6% of suppliers were involved in transporting hazardous substances. The Company therefore pays close attention to the issue of hazardous substances transportation, and only chooses reliable and licensed transportation providers.

In procuring goods and services, Polyus gives preference to local and regional suppliers, thereby helping to stimulate regional supply chains. In 2017, 34% of Polyus' supplier purchases derive from the regions where it operates.

Distribution of suppliers by region in 2017, %



Local procurement by region in 2017, %



Commitment to external initiatives

The Company recognises that a number of environmental and social issues faced by the business community, and the Company in particular, can be solved more efficiently through collaboration and joint action from all involved parties. Hence the Company actively works with a wide range of industrial associations and national and international advocacy organisations, including:

- The International Council on Mining and Metals
- Gornoye delo ('Mining' – a national association that promotes the mining industry)
- The Russian Union of Industrialists and Entrepreneurs (RSPP; an independent, non-governmental organisation)
- The Russian Union of Gold Producers (a non-profit organisation)
- The National Association for Subsoil Examination (a non-profit partnership)
- The All-Russia Intersectoral Association of Employers – producers of nickel and precious metals (a trade union)

In 2017 the Company's approach to association membership was reviewed in order to unify practices across BUs and ensure consistent promotion of the Company's interests. A procedure on engagement with industry associations is planned for development in 2018.

ENSURING THE SAFETY OF OUR EMPLOYEES

2017 highlights

0
fatalities

Safety culture level achieved:
2.0 points
(according to the Bradley scale as it was planned for 2017)

33%
of workers took the Safety Culture Level Improvement and Prevention of Injuries programme

Material topics

- Occupational health and safety
- Emergency preparedness
- Training and development

Key events

- Loss prevention risk-based pilot campaigns launched at selected business units
- Elaboration of the HSE Training and Development Strategy
- Employees of various grades took Health and Safety-related corporate programmes

Global sustainable development goals

3 GOOD HEALTH AND WELL-BEING
8 DECENT WORK AND ECONOMIC GROWTH
17 PARTNERSHIPS FOR THE GOALS

ICMM principles

- Human Rights
- Risk management
- H&S improvement

Management approach

Health and safety ('H&S') is the core priority of Polyus. Management is fully committed to safe production processes and to providing all the necessary conditions for strengthening the Company's HSE&SD management system.

In 2017 a unified vertical HSE management structure[1] was fully implemented across all the Company's business units and professional services. During the year it demonstrated its effectiveness in both organisational and operational functions. H&S issues form an essential part of the general HSE&SD management structure and are fully integrated within it. In the Managing Company, the development of the H&S stream is overseen by the Head of Health and Safety.

In its production activities, the Company's business units and professional services are governed by the Company's HSE Development Strategy 2016–2020, which was revised in 2017. HSE Development Strategy is aimed at labour protection, complete elimination of fatal accidents and continuous improvement of safety standards. During the year, Polyus established its HSE Training and Development Strategy, which goal is to build an effective HSE training system. In addition, the implementation of that strategy will contribute to the achievement of a high level of safety culture and reduction of injuries. Furthermore in 2017 Contractor Management Strategy 2018–2020 was developed with the aim of creating a unique approach to ensure industrial safety and labour protection for the Company's employees and contractors, as well as to manage HSE risks.

As part of work to improve its H&S management system, Polyus is actively elaborating and implementing essential internal regulatory documentation. During 2017 eight corporate documents related to H&S were at different stages of elaboration and implementation.

During 2017 the integrated HSE management system (MS) audits and targeted inspections were introduced, to ensure compliance with both Russian legislation and Polyus's HSE corporate standards. A distinctive feature of these audits is 'cross-checking', whereby representatives from both the Managing Company and business units are included in the auditors' team. Integrated audits are conducted once every two years at each business unit, and targeted inspections are conducted annually. These result in reports and action plans, aimed at improving HSE performance in each stream.

H&S-related standards and regulations elaborated and implemented in 2017

Elaborated documents

- HSE Leadership standard
- Regulation on the execution of preventive measures instead of penalties for contractors that breach HSE requirements
- Regulation on drivers' motivation

Documents under implementation

- Traffic safety management standard
- Contractors' safety management standard
- HSE training and testing standard
- Accident identification and risk assessment standard

Implemented documents

- Medical support and emergency medical care standard

[1] For more details about the HSE management structure, see section **'Sustainability governance'** (p. 85).

In addition to meeting all respective Russian legal health and safety requirements and adhering to internal regulatory documents, the Company also annually ensures compliance with international standards and best practices.

Polyus is moving gradually towards its goal of acquiring an integrated certification system for all business units. In 2017 all necessary work was performed to begin the pre-certification process in early 2018 and to obtain the certificate at the end of the year. As a step towards this target, attainment supervisory audits under OHSAS 18001 were successfully completed at all business units (with the exception of Construction service, which is planned to be certified in early 2018, and the Irkutsk Alluvial BU, which is currently not scheduled for certification).

The Company has adopted a risk-based approach, under which the top-four H&S risk factors resulting in major accidents have been identified:

- The impact of machinery/equipment and hand tools
- Slips/trips/falls from height
- Electric shocks
- Automotive accidents

In order to improve performance in each of these areas, pilot loss prevention campaigns were launched; these are scheduled to be rolled out at all business units and professional services.

The Company's HSE focus extends beyond internal issues, and Polyus actively participates in various external initiatives, such as issue-specific forums, conferences, and roundtable discussions.

Participation in health and safety events

In 2017 Polyus participated in – and contributed to organising – a number of H&S-themed events.

ICMM Health and Safety Forum

This forum, which assembled experts from the world's largest industrial companies, discussed the issue of dust and pollutant emissions from burning diesel fuel in working areas. Participants pooled their experience of implementing projects to prevent occupational hazard impacts on human health in the workplace. The knowledge gained will help Polyus develop its Industrial sanitation and hygiene stream more effectively.

III Russian National Health and Safety Week

In 2017 the Russian National Health and Safety Week was dedicated to ensuring safe and comfortable working conditions for employees and preventing injuries in the workplace. Polyus shared its experience in this field at a roundtable discussion on securing employee safety in large companies. At the invitation of Polyus, John Atherton, ICMM Director for Health, Safety, and Product Stewardship, participated in the event and reported on the process of determining and eliminating potential workplace risks and hazards.

World Day for Safety and Health at Work

Polyus traditionally holds a conference that coincides with the World Day for Safety and Health at Work. More than 250 professionals and managers from Polyus Krasnoyarsk took part in the 2017 conference. The programme included roundtable discussions, seminars, and specially themed sections, where close attention was paid to increasing employee awareness of preventive maintenance.

ENSURING THE SAFETY OF OUR EMPLOYEES continued

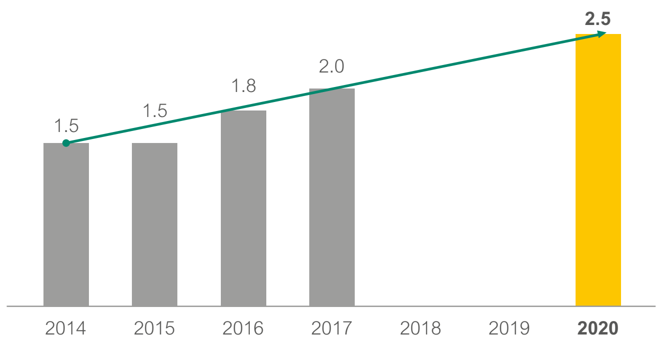
Safety culture development

Safety culture development is a wide-ranging project aimed at enhancing the level of the Company's employees' awareness on the health and safety issues. To achieve this, it is first necessary to ensure that the Company's management is fully engaged in the process, and demonstrating leadership and commitment to HSE-related issues. To this end, in 2017 a HSE Leadership standard was elaborated and approved, containing clear and measurable leadership criteria for managers at various levels. The standard also regulates the conduct of behavioural safety audits, which are a mechanism for detecting and preventing potentially hazardous situations.

A safety culture places a high level of importance on safety values and attitudes, as well as sharing a commitment to safety at all organisational levels, thus safeguarding the wellbeing of both the business continuity and employees.

In addition, recognising the importance of health and safety, the management at Polyus includes the safety culture development level in its set of four high-level corporate KPIs (for details of the Company's KPI system, see section **'Developing our people'** (p. 106). Independent auditors annually conduct a safety culture assessment against 14 HSE management system elements, and, to measure this indicator, Polyus applies the internationally recognised Bradley scale. In 2017 the Company's average safety culture development level rose from 1.8 points in 2016 to 2 points, which represents a significant increase and is a reflection of the amount of effort put in by business units in this area.

Average level of safety culture development according to the Bradley scale, 2014–2017 and target



One of the safety culture indicators is reporting transparency, especially in relation to 'near misses'. A significant improvement in the level of this indicator (from 2.8 points in 2016 to 3.5 points in 2017) was as a result of a monthly consolidated reporting system being introduced during the year. All business units and professional services must now provide two reports to the Managing Company, which contain quantitative data on all aspects of industrial safety and occupational health.

The level of safety culture development is also influenced by managers and employees receiving related trainings, and the implementation of injury prevention measures.

Golden Rules

On-site safety is an important aspect of performance at Polyus. The Company's management is convinced that an appropriate level of industrial safety can be provided not only by improving HSE systems and the technical infrastructure, but also by involving each employee personally in the process of implementing safety precautions.

The internal general technical H&S manual for employees has been developed specially for this purpose.

Gold Safety Guidelines	
1. I am fastened	with the seat belt and do not talk on the mobile phone while driving
2. I use	proper personal protective equipment (PPE)
3. I follow	policies, standards and procedural requirements
4. I promptly take	all training courses and have all necessary work permits
5. I assess	risks before commencement of works
6. I abandon work	if I see any violations, and report dangerous situations
7. I check	the proficiency of contractors and all work permits

Training

Training and skills development form an essential part of Polyus employees' personal and industrial safety provision. The Company's training includes mandatory programmes to comply with national laws as well as its own corporate programmes. Mandatory training is governed by Russian legislation requirements and encompasses over 200 courses in the following areas:

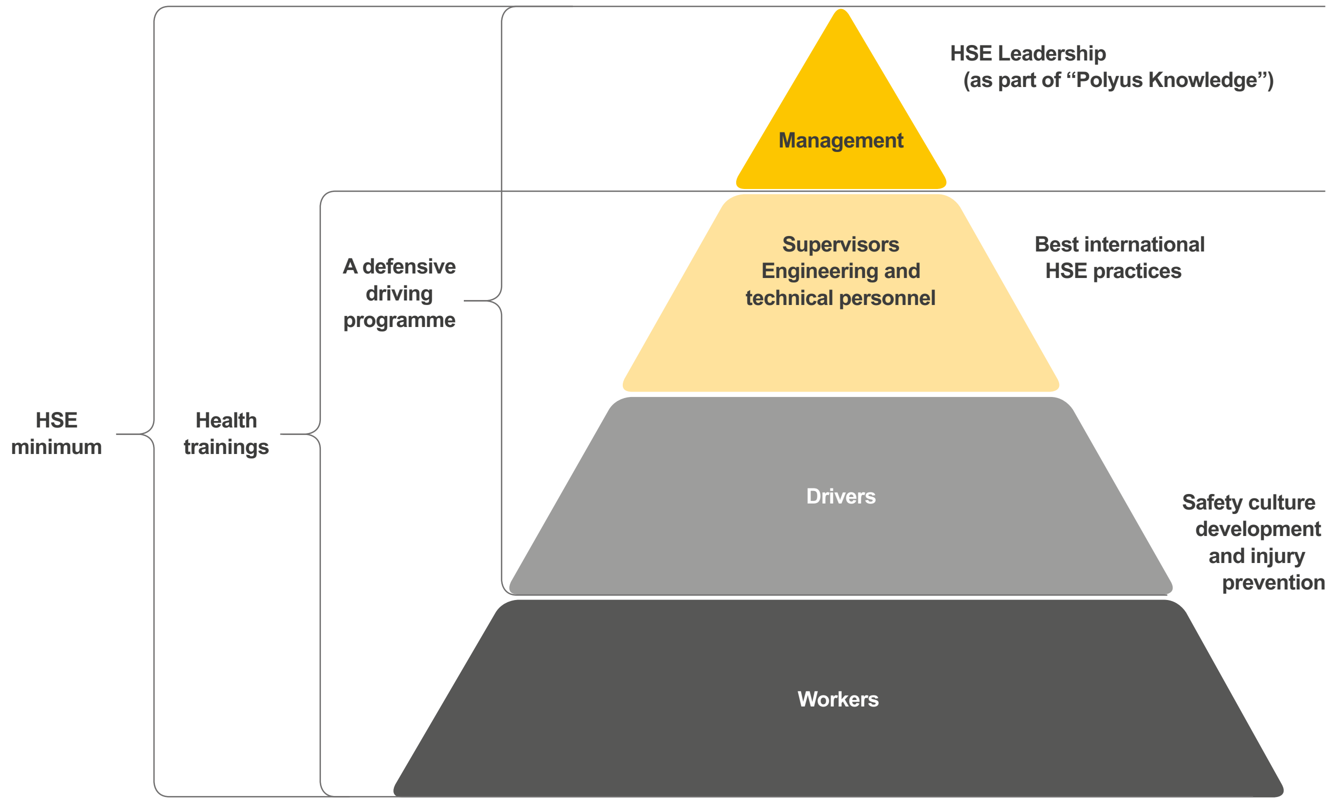
- Occupational safety
- Industrial safety
- Fire safety
- Environmental safety
- Transport security
- Radiation safety
- Electrical safety
- Civil defence and emergencies prevention
- First aid

Any employee action undertaken without confirmation of the above competencies is illegal and subject to severe disciplinary measures. Polyus hence monitors compliance with these requirements very carefully.

Corporate training is in line with best practices and is aimed at creating a system that corresponds to each level of personnel. Polyus training consists of five main training blocks, which are focused on acquiring both basic and specialised HSE knowledge for certain categories of employees. These blocks comprise:

- HSE minimum required for all employees
- HSE Leadership for top management
- Safety culture development and injury prevention for workers
- A defensive driving programme
- Health trainings

HSE corporate training structure



ENSURING THE SAFETY OF OUR EMPLOYEES continued

The Polyus HSE training system is wide-ranging and is made up of a set of interrelated elements. The process is regulated by specially elaborated internal documents and is subject to constant monitoring, analysis of results and, if necessary, revision of training programmes.

Compliance with the corporate education requirements of Polyus is mandatory for some employees, depending on the precise nature of their job. However, each employee is required to undertake HSE minimum training, regardless of their grade or duties performed. This training provides an introduction to the Polyus HSE system and familiarises employees with specific requirements. In 2017 almost 12,000, or 66%, of Company employees participated in HSE minimum training. The remainder will receive the training in the near future.

In 2017 Polyus launched its first large-scale corporate training programme for blue-collar employees, aimed at developing the safety culture at workplaces and preventing injuries. In order to boost its effectiveness the training comprises both theoretical and practical elements. The Company achieved significant success with this programme, and in 2017 around 30% of Polyus blue-collar employees completed the safety culture development and injury prevention course.

The Company also provides training to maintain a decent level of employee health. Over the course of a year Polyus employees take the following mandatory online and practical courses:

- Substance abuse
- Flu
- Tick-borne infections
- First Aid Health Campaign (cardiovascular incidents, first aid and CPR practice)
- First aiders course (two-day practical course)

Other corporate trainings include both theoretical and practical elements and are conducted by internal trainers, or via the OLIMPOKS training and testing system. To reduce workloads on production employees and to raise efficiency, plans are under way to set up training centres at each business unit and to engage dedicated professional trainers.

Polyus HSE training system

Injury prevention

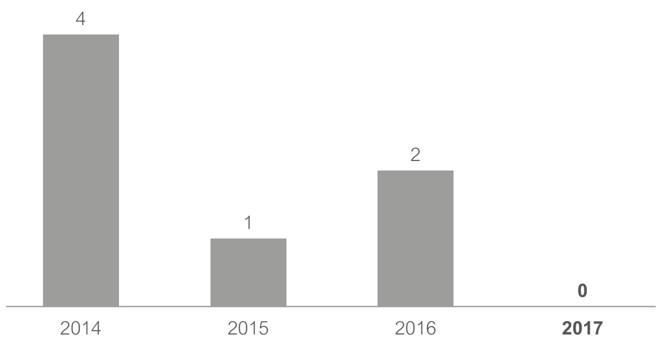
Industrial injury prevention forms an integral part of developing the safety culture at Polyus and providing decent working conditions.

Achieving zero fatalities and preventing injuries is the Company's constant objective. To meet it, Polyus regularly organises educational events for manual and managerial employees at production sites. It also maintains the correct level of safety management systems, provides personal protective equipment, and ensures compliance with related legislation, international, and industry-specific standards.

In 2017 Polyus made significant progress in the field of injury prevention, and succeeded in improving the majority of its H&S indicators.

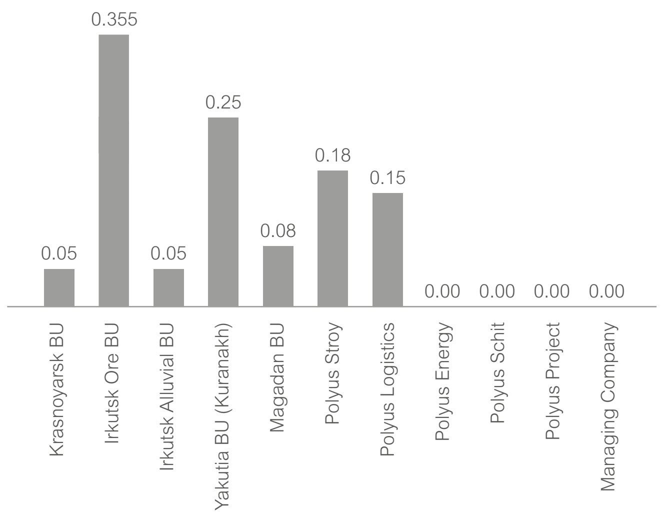
No work-related fatalities were recorded in the Company.

Total number of employee work-related fatalities, 2014–2017

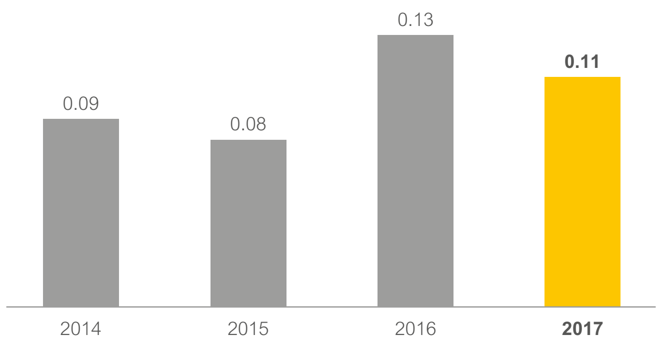


2017 also saw a reduction in the Company's lost time injury frequency rate (LTIFR). This is estimated per 200,000 hours worked and decreased by 15% from the previous year.

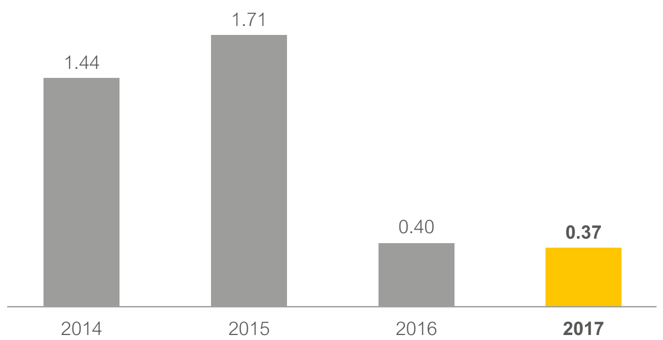
LTI frequency rate by business unit, per 200,000 hours worked, 2017



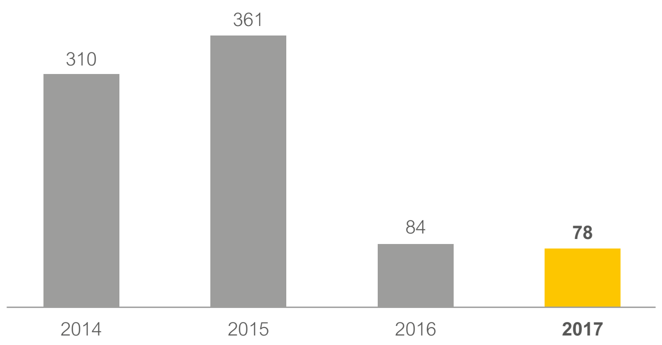
LTI frequency rate, per 200,000 hours worked, 2014–2017



Total registered injuries frequency rate, per 200,000 hours worked, 2014–2017



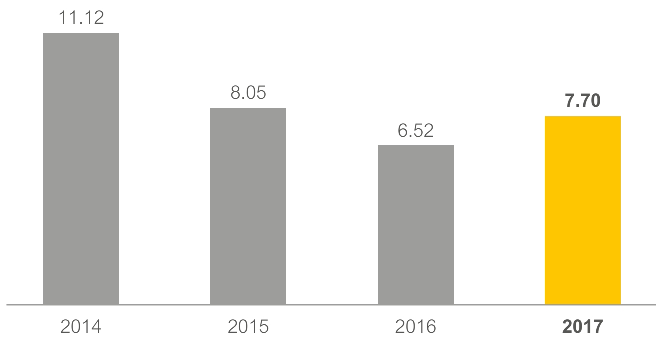
Total registered injuries, 2014–2017



The injury rate across employees fell by more than 20% compared with the previous reporting period.

In 2017 the lost day rate index saw a rise compared to the previous year, and amounted to 7.70 points.

Lost day rate, 2014–2017



As in 2016, a root-cause analysis of injuries was carried out at each business unit during the reporting period. This was followed by the development and successful implementation of various pilot communication campaigns at selected business units. The effectiveness of these campaigns was clearly demonstrated, and it is planned to roll them out more widely across the Company.

'High Five!' campaign

At the Krasnoyarsk BU, a 'High Five!' campaign was introduced, aimed at preventing hand injuries. It was found that a large number of hand injuries related to rotating mechanisms and manual tool use. To increase hazard awareness levels and to reduce the number of injuries, a range of activities was performed, including employee training, creating posters and safety signs, behavioural safety audits, workplace risk assessments, and health inspections. As a result, 2017 saw the complete elimination of hand injuries.

'Prevention of slipping, tripping, and falling from heights' campaign

To prevent injuries due to falls, the Irkutsk Ore BU ran a 'Prevention of slipping, tripping, and falling from heights' campaign. Activities included audits of work at height, determining safe routes for employees around the site, replacing defective PPE and guard fences, purchasing training equipment, and employee training. During 2018 the campaign will be extended to include other business units and professional services.

LOTO (LockOut-TagOut) system

The Irkutsk Ore BU also piloted the implementation of the LOTO (LockOut-TagOut) system, aimed at preventing injuries from rotating machinery and electric shock while executing high-risk work. The campaign comprised the audit and assessment of hazardous sources, the delivery and installation of LOTO equipment, integrating LOTO requirements into existing work methods, and employee education.

Emergency preparedness

Polyus regularly implements measures to prevent emergencies, whether 'natural' or 'man-made'. In line with national legal requirements, Action Plans for the Localisation and Liquidation of the Consequences of Accidents ('APLLCA') are developed annually. APLLCAs contain descriptions of the Company's production facilities, possible causes of accidents, how accidents may change over time, and the characteristics of potential accident-related injuries. Each plan sets out respective operational procedures for employees of the facility, as well as the procedure for interacting with state emergency services in the event of an accident occurring.

Education and practical training is also conducted. The Company makes sure that the necessary resources are at hand to deal with emergencies of any kind.

In the regions where Polyus business units operate, high fire-hazard levels were recorded in 2017. Forest fires can lead to serious industrial emergencies, such as explosions and equipment shutdowns, therefore the Company initiated a separate action plan to prevent forest fires.

Driving safety

One of the most significant operational risks relates to using vehicles and heavy quarry machinery; consequently Polyus pays particular attention to this issue.

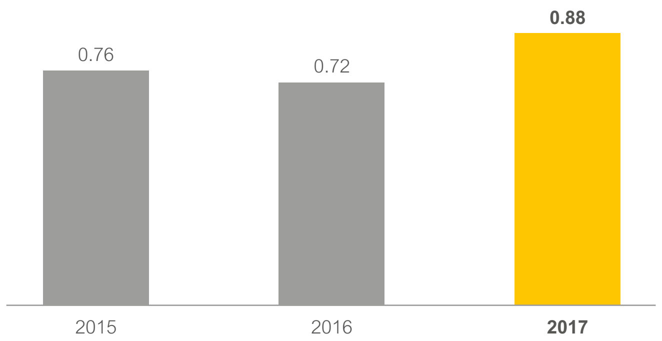
In 2017 work to implement the Traffic Safety Management Standard continued, and is scheduled for completion in 2018. Individual action plans are put into place at each business unit and professional service, and involve a range of technical and organisational measures. Technical activities include equipping vehicles with surveillance equipment such as rear-view cameras, three-point seat belts, and on-board vehicle monitoring systems. Organisational measures consist of developing educational materials and travel stewardship plans. The Company also provides various learning programmes, including training in protective driving, where drivers learn how to negotiate difficult situations on roads and acquire the skills necessary for driving in severe weather. A special campaign against tipping over of vehicles was also introduced within the year.

'Risk of Tipping Over' campaign

In autumn 2017 the 'Risk of Tipping Over' campaign was successfully implemented in all business units and professional services where vehicles are used. The main goals of the campaign were to reduce the number of road traffic accidents (and to minimise injuries) arising from vehicle rollovers. The campaign led to a 10% drop in road traffic rollover accidents compared to the previous year.

Regrettably, the total number of road traffic accidents went up by 22% compared to the previous reporting period. The Polyus automotive accident rate (AARk) was 0.88 points, which is higher than the previous year (0.72), due to the expansion of the Company's vehicle fleet.

Automotive accident rate, 2015–2017[1]



[1] The AARk value for 2016 was updated due to accurate data acquisition.

Health

The Medical Support and Emergency Medical Care Standard was successfully implemented at Polyus in 2017, and this was the culmination of a two-year process. As a result, the following measures were undertaken at all Company business units and professional services:

- The creation and registration of onsite helipads
- Agreements concluded with contractors for helicopter medevacs
- Training for onsite medical staff and first aiders
- Updating medical emergency response plans (MERPs)
- Improving hygiene and sanitary onsite objects conditions

Polyus health concept

Industrial sanitary and hygiene conditions

- Special workplace assessments
- Monitoring hazards in the workplace
- Catering audits
- Water regime
- Disinfection, disinsection, and deracination

Occupational health

- Preliminary, periodic, and daily MedChecks
- Health insurance
- Emergency responses and medical evacuation
- BU Medical support
- CPR & First Aid education

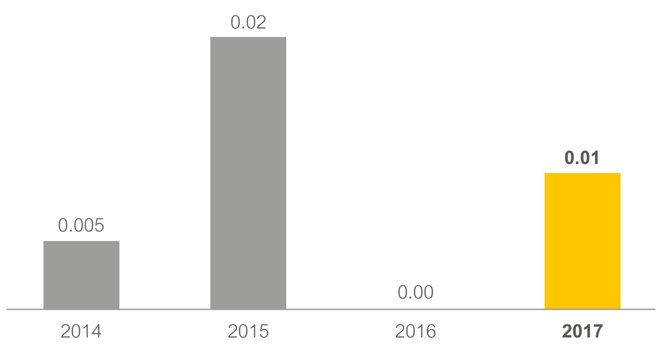
Wellbeing

- Health training
- Flu and tick-borne encephalitis vaccination
- Medical education

ENSURING THE SAFETY OF OUR EMPLOYEES continued

The mining industry is associated with multiple health risks; therefore Polyus regularly monitors its occupational disease rate and implements special preventive measures. As a result, the number of occupational diseases did not exceed three cases during the reporting year, out of a total employee headcount of around 19,000. However, in 2017 the chronic occupational disease rate increased compared to 2016, but did not exceed the 2015 level.

Occupational disease rate, 2014–2017



In addition to work performed to prevent occupational diseases, Polyus implemented the following activities in 2017:

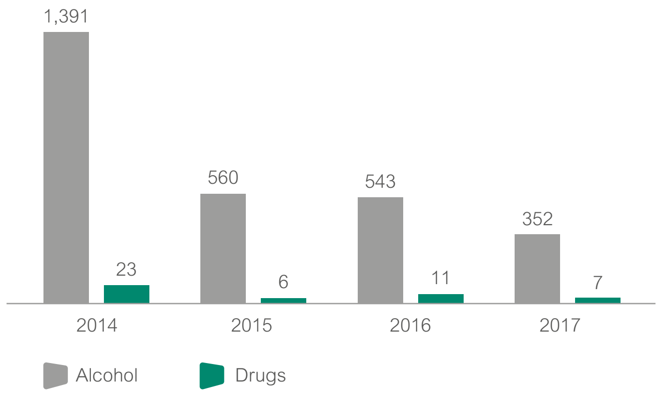
- Periodic medical and mandatory psychological check-ups for employees
- Providing international medical training (BLS/AED, ITLS, ACLS) for medical staff
- Health drills and related training
- Special assessments of working conditions
- Vaccinations against flu and tick-borne encephalitis
- Installation of daily digital MedChecks modules

Polyus adopts a principle of zero tolerance towards alcohol and drugs, and this stance is regulated by the Policy on the Prohibition of Alcohol and Drugs Turnover and Consumption. Certain groups of workers undergo daily pre- and post-shift medical check-ups; as a result, the number of detected alcohol- and drugs-related offences fell by more than 35% compared to 2016.

To increase the effectiveness of check-ups, the Company continued to install digital MedCheck system modules to assist in conducting health examinations and to detect incidences of alcoholic intoxication. In the upcoming year Polyus plans to implement a project that will see daily digital MedChecks being performed in its business units and professional services.

A significant drop in the number of identified cases of alcohol consumption was due to the improvements made within the Company's safety culture, the introduction of the MedCheck system.

Detected number of employees under influence of alcohol and drugs, 2014-2017



As the Company's enterprises are located in remote areas, the issue of timely medical assistance is paramount. In 2017 Polyus trained across all its business units more than 3,300 first aiders – employees capable of providing first aid before an ambulance arrives. Extensive work was also conducted to facilitate the administration of first aid using helicopter transport: landing pads were created and a relationship was established with the Ministry of Civil Defence, Emergencies and Disaster Relief.

Contractor management

Polyus pays close attention to HSE issues when engaging contractors. In 2017 the Company unified and formalised its requirements related to contractor selection. As a result, the Contractor Management Strategy 2018–2020 was elaborated and presented to management. This establishes HSE issues as being important criteria when selecting contractors. The Contractor Management Strategy also imposes minimum requirements for H&S training, for both external and internal contractors (Professional Services). Compliance with all national legal HSE requirements, as well as participating in the Company's HSE minimum training, is mandatory in order to obtain respective permits to work at Polyus production sites.

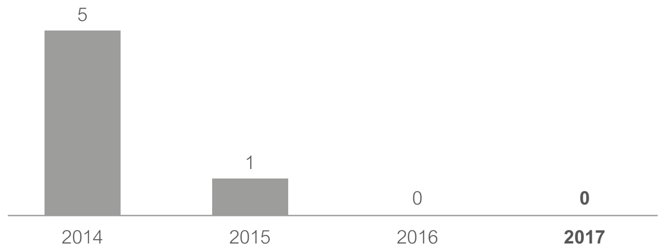
Polyus also developed a Contractors Safety Management standard, which sets out the Company's HSE requirements related to contracting organisations. That standard had been 90% implemented (including training) by the end of the year, in accordance with the approved plan.

The Company also prescribes specific training requirements for transport service providers. Education is focused on the Company's two main types of transport operations: passenger and dangerous goods' transportation. In 2017, 85% of drivers engaged in these operations received training under the 'Protective driving' educational programme.

HSE requirements have also been set forth in contracts, and penalties for their violation established. Polyus nevertheless encourages contracting organisations to refrain from any illegal actions by implementing preventive measures. To this end, instead of penalties, the Company developed Regulations on the Execution of Preventive Measures for contractors that breach HSE requirements.

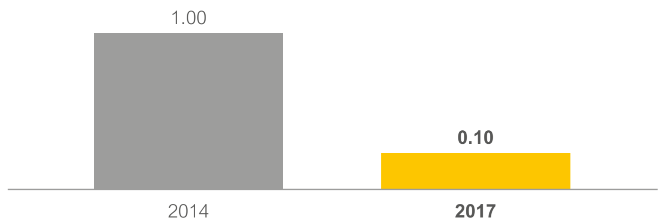
The above measures have enabled the Company to continually decrease the number of injuries across contracting organisations. As a result, in 2017 Polyus contractors maintained a fatality level of zero.

Total number of contractors work-related fatalities, 2014–2017



A significant reduction was recorded within the total number of injuries – and the injury rate fell accordingly. In 2017 the injury rate dropped by 90%.

Injury rate across contractors, 2016–2017



"In 2017 the injury rate among contractors dropped by

90%"

Plans for 2018 and the medium term

During the next reporting period and in the medium term the Company plans to introduce initiatives in the following areas:

Implementation of HSE&SD management system
- Implementation across the Company and certification of the Polyus integrated HSE management system in 2018
- Continuing the partnership between Polyus and ICMM to ensure a sustainable, efficient, and safe production system
- Modelling of key HSE processes for future automation

Safety culture development
- Increasing the safety culture level to 2.2 points by 2018 and to 2.5 points by 2020 (under the Bradley scale)
- Implementation of a HSE Leadership standard in 2018

Training
- Implementation of a Functional Training strategy on HSE issues
- Revision of HSE trainings for line managers and supervisors in line with new HSE MS requirements
- Holding a joint event with ICMM on health and safety for Krasnoyarsk-based peers

Injury prevention
- Distributing in 2018 injury prevention campaigns across business units and professional services
- Continuing in 2018 LOTO project implementation across business units and professional services

Industrial safety and emergency response
- Implementing the 'Assessment of technological risks' pilot project in 2018

Driving safety
- Reducing the number of road traffic accidents and related injuries

Health
- Improvement of MedChecks quality
- Daily MedChecks Polyus Hub creation

Contractor management
- Vehicle equipment with three-point seat belts to be introduced in 2018
- Elaboration in 2018 of the Regulation on social motivation of contractors and Instruction on assessment of contractual risks related to HSE
- Commencing in 2018 the implementation of the Contractor Management Strategy
- Holding trainings for contractors on HSE topics

DEVELOPING OUR PEOPLE

2017 highlights

Average headcount
18,943

8,016
employees hired

22.9%
employee turnover rate[1]

86%
of employees received training

452
talent pool members

Material topics
Market presence
Employment
Training and education

Key events
Implementation of a new Corporate Ethics Code
Establishment of multifunctional centre for support functions
Improved KPI system / performance metrics
Professional standards developed for manual workers
Audit of training facilities and learning materials

Global sustainable development goals

3 GOOD HEALTH AND WELL-BEING; 4 QUALITY EDUCATION; 8 DECENT WORK AND ECONOMIC GROWTH

ICMM principles

Human Rights

[1] Employee turnover includes employees who leave the organisation voluntarily or due to dismissal, retirement, or death in service. Employee turnover rate was calculated as employee turnover divided by average headcount.

Management approach

Polyus operates in the gold industry, which is dependent on access to natural resources, innovation, various technologies, and other factors. The Company's ability to react quickly to changes in these areas is a key element in its success, and our people are those who are chiefly responsible for developing this ability. Polyus therefore places a strong emphasis on employee education and development. Moreover, the Company strives to build a robust corporate culture, in which everyone is actively engaged in delivering results, while at the same time taking into account social values and ethical principles.

The Company's HR management system focuses on recruiting and retaining the best people – and improving their professional knowledge, which delivers added value to the Company. To attract and retain the most talented employees, Polyus provides an attractive financial and non-financial motivation system, good social and working conditions, and promising career opportunities. The professional development of our employees focuses on the practical aspects of the business, such as production activities, operational processes, management and business skills.

Polyus is committed to providing decent social conditions for its workforce and safeguarding employee rights, including compliance with equality and non-discrimination principles. In establishing its labour practices, Polyus adheres to Russian legal requirements as well as all applicable international standards. The Company's HR and Human Rights policies reflect the UN Guiding Principles on Business and Human Rights and ICMM principles. In 2017 Polyus implemented a new Corporate Ethics Code, which also incorporates ICMM principles.

During the year Polyus continued its HR transformation process, which included improvements to the HR management structure and initiated work on establishment of multifunctional centre. We prepared some support functions, including accounting, taxation, IT, and administrative support, for allocation into the multifunctional centre. The centre's back office was established in Krasnoyarsk, with front offices run in each business unit. In 2018 we will transfer support functions into the multifunctional centre. The next stage in the HR transformation process is to have regional HR management focus more on business issues, with support functions administered separately by the multifunctional centre.

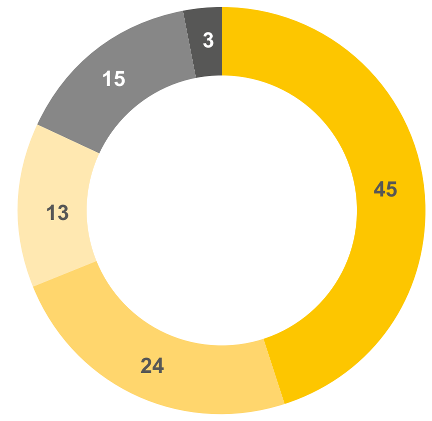
In 2017 Polyus decided to automate HR management processes across all its business units, using the 1C HR and payroll system. In 2018 the Company will implement 1C in the most business units. Also, in 2018 we will implement SAP Success Factors for learning and recruitment processes.

The HR transformation within Polyus will continue in 2018. All relevant support functions will move into the multifunctional centre and cooperation between HR managers will be encouraged through the creation of business partnerships. Business partners will work in business units, whose curators will work in Moscow, thereby releasing the business from routine transactions. Polyus will develop a training programme for its business partners, which will cover specific aspects of business-related issues.

Personnel structure

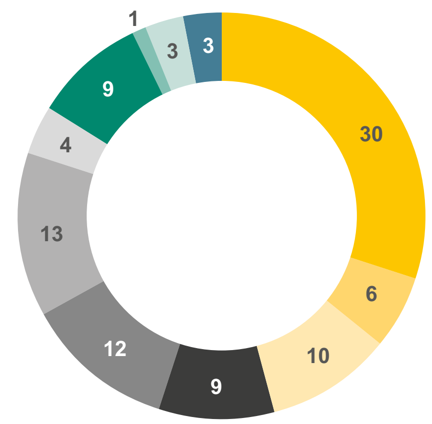
In 2017 the average headcount of the Company was 18,943. More than 45% of employees worked in the Krasnoyarsk Territory, the location of the largest Polyus gold production assets. The highest percentage of employees (30%) was in the Krasnoyarsk BU, while the lowest was in Engineering service (1.1%).

Employees by region in 2017, %



Krasnoyarsk Territory
Irkutsk Region
Sakha (Yakutia) Republic
Magadan Region
Moscow

Employees by BU in 2017, %



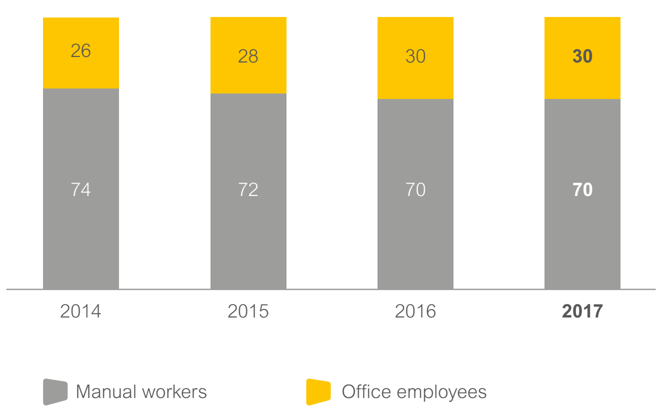
Krasnoyarsk BU
Irkutsk Ore BU
Yakutia Kuranakh BU
Magadan BU
Irkutsk Alluvial BU
Logistics service
Security service
Construction service
Engineering service
Energy service
Managing Company

Personnel structure continued

Nearly all Company employees work full time (99.5%), with more than 89% on permanent contracts. The exception to this is in Construction service, where a significant proportion of employees (74%) work under temporary contracts, due to the variable nature of demand for personnel on large construction projects.

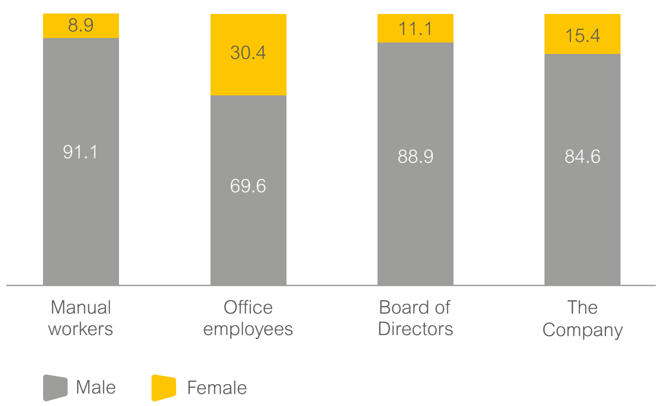
The ratio of manual workers to office employees generally remains stable from year to year. Workers engaged in production traditionally comprise the largest proportion – around 70% of Company personnel.

Workforce by employee category, 2014–2017, %

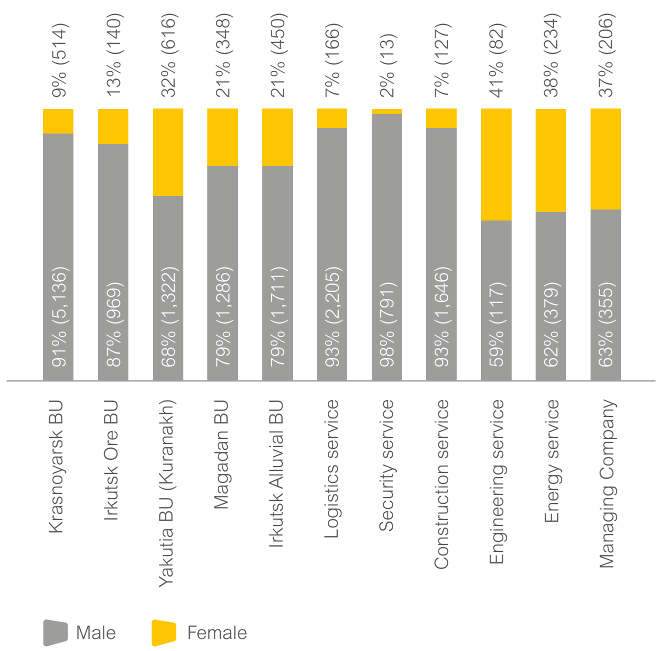


In 2017 men made up 84.6% of the workforce. Due to the specific nature of mining industry work, only 8.9% of the Company's manual workers were female. Among office workers, the proportion of women workers stood at 30.4% in 2017.

Employees by gender and employee category in 2017, %

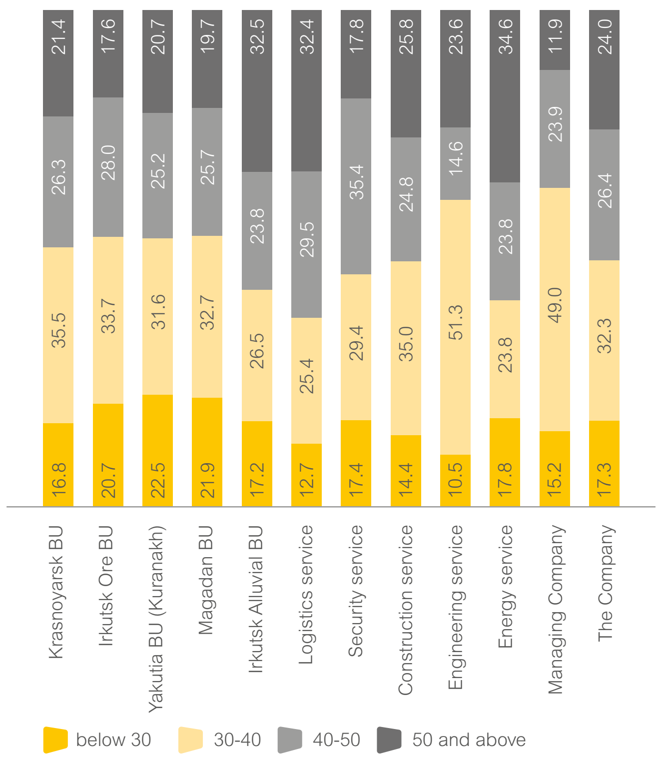


Employees by gender and BU in 2017, % (absolute values)



The Company's personnel structure by age is relatively evenly balanced. In 2017, 17% of the Company's workforce was aged below 30, employees in the 40-50 age group comprised 26% of personnel, and employees aged 50 and over made up 24% of the workforce. The largest proportion of employees (32%) was in the 30-40 age category, since this is the age range best suited to performing manual work. That said, the Company recruits and retains employees without discriminating by age.

Employees by age group and BU in 2017, %



Recruitment

Polyus fully appreciates the role played by highly skilled, engaged, and motivated employees, and continuously works to improve its recruitment and staff retention procedures. The Company does not discriminate against potential employees by age, gender, or for any other reason, except with regard to the legal requirements that apply to women vis-à-vis dangerous work.

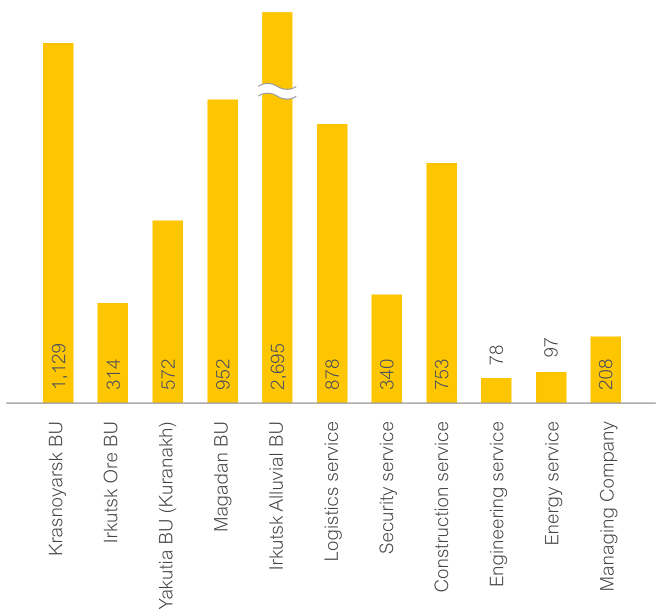
Female crews for heavy-duty trucks

In 2017 Polyus hired female crew drivers for heavy-duty dump trucks in its Yakutia Kuranakh BU. The crew has since earned a reputation for being highly responsible and safety conscious drivers that pay close attention to detail. They perform their role as well as their male counterparts, help boost work discipline, and contribute to ensuring that an uninterrupted supply of ore is provided to the factory.

In 2017 Polyus elaborated recommendations on organising recruitment process in the regions where it operates. Each region formulated its own regulations based on these recommendations, thus creating a better understanding of staff selection processes and ensuring that a unified approach is adopted. Eventually, this will drive the automation of recruiting processes. There are plans to review the selection process in accordance with the implemented regulations and develop individual recommendations on recruitment process efficiency improvement for each region.

The creation of a standard framework for vacancy descriptions and job advertisements enabled HR management to define more accurately the requirements for open positions, the creation of recruitment cards - to use the relevant tools for employee selection. In 2018 Polyus plans to revise recruitment processes, develop a list of recommendations for improvement of recruitment practices and to train recruiters from regions of operations.

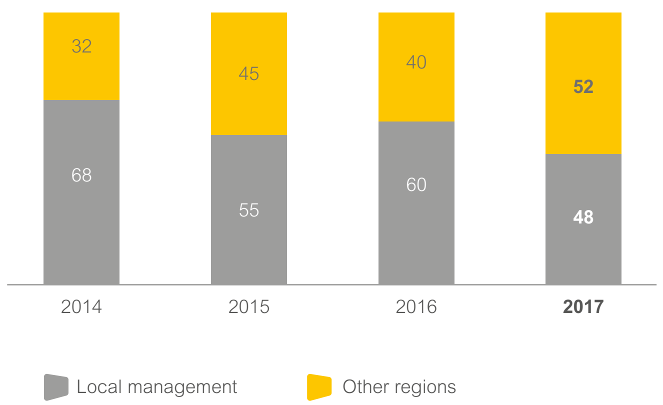
Employees hired in 2017



In 2017 the Company hired 8,016 employees. The biggest share (33.6%) was recruited at the Irkutsk Alluvial BU.

When hiring managers Polyus is guided by the specific requirements of vacant positions. If there are no specialists with the necessary skills in the Company's regions of operation, the Company recruits managers from other regions. In 2017 the number of top managers rose by 19.4%. The percentage of managers recruited locally fell from 60% in 2016 to 48% in 2017, due to most new managers being hired from outside Polyus regions of operation.

Percentage of management recruited locally, 2014–2017, %



Natalka project

In 2017 Polyus commissioned its new mining facility – Natalka. To begin production on time, the Company's HR Department determined staff requirements, drew up recruitment plans, and searched for and interviewed numerous candidates. As a result, the required staffing level was achieved by the end of 2017. Around 70% of the workforce was hired at national level due to specific qualification requirements, and about 30% of employees were hired locally. In 2018 we will monitor staffing levels at Natalka and conduct additional recruitment as and when is necessary.

Polyus offers a range of programmes and projects for young specialists – and makes particular efforts to hire them. The Company conducts a 'Learn the Value of Gold' programme for graduates from high-profile educational institutions, whereby business units actively invite students to apply for apprenticeships and to pursue career opportunities at Polyus.

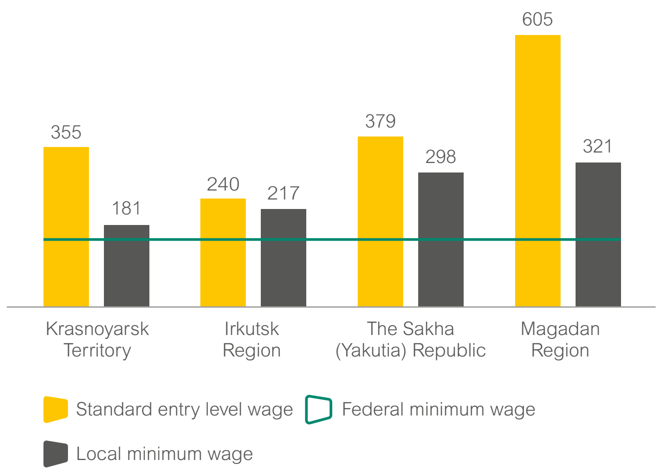
To improve its recruitment and retention processes, Polyus developed and began using a leavers' questionnaire in 2017. The Company will use the results to determine the reasons for staff turnover and to identify development opportunities, which will be included in the Company's HR plans.

Remuneration

Polyus provides competitive remuneration packages for its employees. These comprises a base salary or a wage and bonus component. Polyus strives to pay wages in line with – or above – the market average.

The entry level of wages in the Company is higher than the local minimum wage. For example, in 2017 the entry-level wage at the Krasnoyarsk BU was $355, which is 95% higher than the regional minimum wage.

Standard entry wage at Polyus vs. local minimum wage by BU (monthly) in 2017, $



The Polyus remuneration system is tied to its grading system, hence the base level of salary depends on an employee's grade. In 2017 the Company completed linking employee remuneration to a job grading system across all business units.

In addition to the base element, remuneration includes a bonus component, which reflects an employee's performance and is connected to key performance indicators (KPIs). These relate to the Company's functional and operational strategic objectives.

The Company has three types of KPIs:

- Corporate, for all employees
- Functional, for each function
- Individual, for each department

In 2017 Polyus reviewed its performance system at the Krasnoyarsk BU, and analysed all KPIs. The results were used to update individual KPIs, how they are measured, and respective threshold requirements. The Company will extend the upgraded performance system across other business units in 2018.

Polyus also plans to create a 'tree of goals', with KPIs for core operations, from the CEO to manual workers. The multifunctional centre with support functions will develop its own performance metrics after completion of the HR transformation.

During the year the Company completed the automation of its performance management system using the SharePoint platform. The system consists of three components for each type of KPI – corporate, functional, and individual – which enabled the development of unified KPI regulations. These regulations include rules for performing mid-year reviews of employee performance as well as rules for measuring individual performance against KPIs.

In 2018 Polyus will begin implementing SAP SuccessFactors (for employee training and recruitment), which in 2019 will also include a performance management module. The Company plans to integrate SAP SuccessFactors with the functions of the SharePoint system.

In 2017 the Company launched a project to develop professional standards matrices for its manual workers, with knowledge requirements set forth for each profession and job grade. These standards will establish specific requirements for operational processes, process functions, and performance metrics. While working on developing the standards, appropriate performance metrics for each job grade were determined, together with a methodology for measuring them. Polyus plans to revise and extend the list of KPIs, which determines the bonus component in an employee's remuneration.

During the year Polyus implemented an acknowledgment programme to recognise and reward our employees, and provided new standards for the programme. In 2018 the best features of this programme will be extended to all business units.

Social support

Employee benefits

Polyus cares about its employees' health and wellbeing. In addition to base salary and bonuses, the Company offers a range of social benefits, paid maternity/paternity leave, life and accidental death insurance, voluntary health insurance, wellness programmes, and employee assistance programmes. In 2017 Polyus developed a new Compensation Policy, which helped unify employee benefits across the entire Company.

The year saw an important step taken in the area of social support, with voluntary health insurance being extended at all business units. The Company also introduced accident insurance for employees.

Social and working conditions

Most of the Company's employees live and work in regions with extreme climatic conditions; therefore, the provision of decent social and working conditions is essential.

In 2017 Polyus began developing its new Social and Working Conditions standard. This included requirements pertaining to all the Company's social provisions, including food services and gym facilities. During the year the Company audited the conditions of its social facilities across all business units and elaborated an action plan, which included the rules for prioritising facilities receiving capital investment. As a priority, the Company plans to renovate household facilities deemed to be in the worst condition. Rules for providing social infrastructure in shift camps, including requirements for settlements, catering, and cleaning were also developed.

In 2018–2019 Polyus plans to improve its employee dormitories and to build new ones, where necessary, in Logistics service, the Yakutia Kuranakh and Irkutsk Ore BUs, and Natalka. The requirement for additional space was determined based on the new rules included in the new Social and Working Conditions standard. The construction process is supervised by the Managing Company.

Support functions for the Company's non-core operations are outsourced, including catering, cleaning, and building maintenance. However, repair services are retained in house, since Polyus attaches great importance to employee health and safety. The Company's pays close attention to the quality of outsourced functions and the reliability of suppliers, and all necessary requirements for suppliers are pre-determined during the selection stage.

Education and development

Training

Polyus provides a wide range of development opportunities for different groups of employees. To meet respective skill requirements, employees in all business units have access to a number of professional and training programmes.

Training system structure

As the Company's activities are exposed to various health and safety risks, it is important for all employees to adhere to respective safety rules on a daily basis. Polyus places great importance on health and safety programmes for all employees and conducts regular training throughout the Company. For more information, see section **'Ensuring the safety of our employees'** (p. 92).

In 2017 Polyus implemented the Regulation on 'training on request'. These established a set of principles for individual training, whereby employees receive additional education enabling them to successfully perform the particular business tasks set before them. Also the Company defined a system of yearly 'training on request' planning. If a collective need for special education arises, Polyus will introduce additional group training.

During the year the Company revised and analysed needs for the targeted professional education of employees within all streams of the Company's operations function . In 2018 the targeted professional education will be conducted.

Polyus Knowledge
'Polyus Knowledge' was launched in October 2016, aimed at facilitating the continuous development of employees' management and business skills. The programme provides a consistent approach to education and fosters interaction between participants from different functional areas and business units. 'Polyus Knowledge' comprises seven modules, focused on the development of talented staff and leaders. The modules are consolidated into three sessions, each conducted during the training cycle.

Session	Business skills	Management skills	Business knowledge
Modules	• Project management • Operational and organisational efficiency • Financial management	• Effective communication • Leadership. Team management • Goal setting. Feedback	• Gold mining technologies • Leadership and commitment of H&S leaders

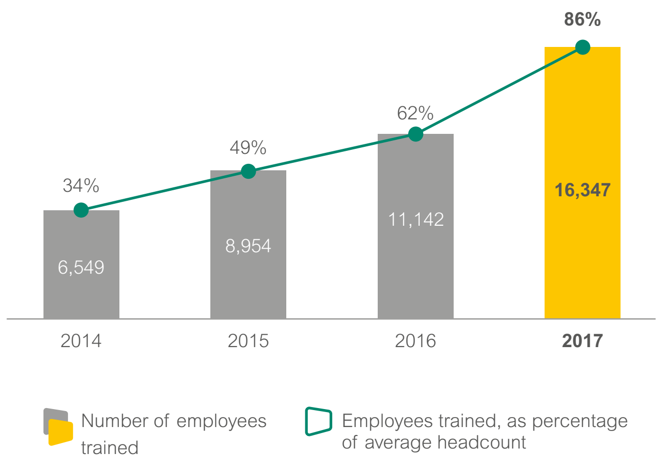
The programme is designed for middle- and senior-level managers in the Managing Company and business units, and reflects the specifics of Polyus activities and draws on practical case studies. Each programme module is linked to the Company's business strategy. Polyus engages external speakers, as well as experts from within the Company.

In the first training cycle (2016–2017), 139 employees applied to participate in the programme. The Company conducted seven planned modules, each made up of five groups, with an average of 76 participants per module.

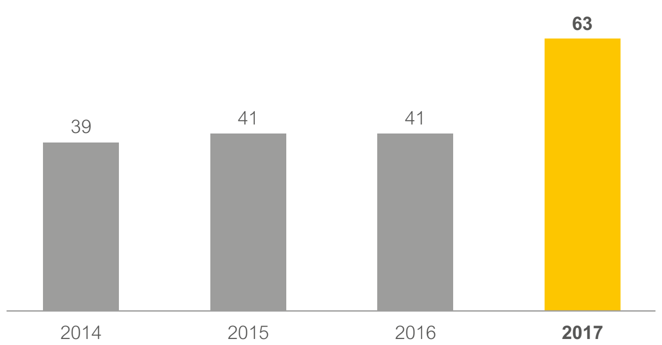
Following the first training cycle, the programme was revised and improved. A new module: 'Goal setting. Feedback' was included and the number of groups in each training module was expanded to eight. The number of applicants for the second training cycle (2017–2018) rose to 254, and the first session (on improving business skills) was completed by the end of the year.

In 2017 the number of employees trained during the year went up by 47%, and comprised 86% of the Company's average headcount. The average number of training hours per employee rose to 63, vs. 41 in 2016. The average number of training hours per manual worker was 30% higher than the corresponding figure per office worker.

Number of employees trained[1], 2014–2017



Average number of training hours per year per employee, 2014–2017



[1] The number of employees trained in 2016 has been clarified and revised. The number of employees presented in the 2016 Sustainability Report did not include the number of employees trained in the Security services.

In 2017 Polyus conducted an audit of training facilities and learning materials across its various business units, based on which the Concept for improvement of the workers' development system was developed and approved at the of 2017. It will be implemented in 2018. The Company also will use SAP SuccessFactors HR software to automate its training processesmanagement. In the upcoming year SAP SuccessFactors is expected to be used in educational processes at the Managing Company and the pilot BUs – Krasnoyarsk and Yakutia Kuranakh. The new concept of enhancing the existing training system by using automation will allow us to provide higher-quality trainings to a greater number of employees. The program will focus on the actualisation of educational and methodological materials, improvement of the material base of training facilities, the transfer of a number of training programs into a remote format.

Gold library

Polyus considers self-development an important aspect of employee education, hence reading and study materials are available everywhere, including at shift camps. In 2017 the Company introduced a corporate electronic library, which provides access to a wide range of business literature. Employees can now acquire knowledge and develop personal and professional skills in all business units. The HR department creates reading lists of recommended literature and employees can recommend books that they like to their colleagues.

In 2018 Polyus will start facilitating the integration of new employees through its mentorship programme, whereby experienced colleagues act as mentors and supervisors. The Company intends to establish mentor's professional standards across the entire business in 2018. This will cover the selection of mentors and their functions, as well as training programme for potential mentors.

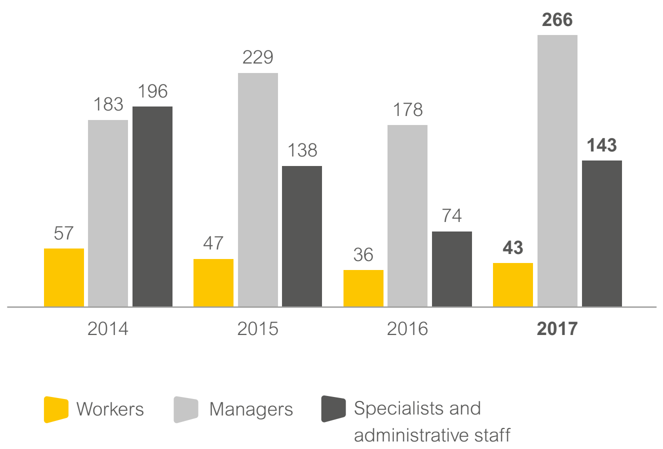
Talent pool
The Company's educational system includes talent management and the nurturing of its corporate talent pool. Polyus operates two talent pools: the corporate talent pool programme (HiPo, or Gold Reserve) and the succession programme (Gold Standard). 2018 will see Polyus adopt a set of talent pool regulations that reflect the Company's values.

Employees for the HiPo programme are drawn from across the Company. Participants are selected based on:

- An outstanding individual performance assessment in the past year
- Their personal and professional characteristics
- Potential and motivation assessment test results

The Potential in Focus test identifies highly talented employees. In 2017 452 passed the test, a 56.9% rise on 2016. The number of workers grew by 19%, the number of managers increased by 49%, and the number of specialists and administrative staff went up by 93%.

Talent pool[2], 2014–2017



The HiPo programme is divided into three parts:

- Full-time programmes: trainings, workshops
- Trainings from experts: receiving feedback, discussions with curators
- On-the-job training: self-development, project work

Individual development plans form a key element of the talent pool programme and plans for each employee are established in special development centres. By the end of 2017 HiPo participants had passed the first session on leadership and proactivity, and in the year ahead will participate in full-time programmes and distance learning, as well as self-development opportunities.

The Polyus succession programme prepares employees for working at higher levels within the Company, with the Gold Standard programme focusing specifically on practical business aspects. The realisation of the Gold Standard programme starts with selection of participants on the base of their individual performance, age, professional education, manager's recommendations. In 2017 30 employees were selected for the Gold Standard programme.

The selected employees underwent basic trainings, after which they developed projects on improving operational efficiency of their functions and presented them to the Commission. On the results of the Commission recommendations the projects were improved and prepared for implementation with support of supervisors. Also, participants together with their supervisors worked out individual development plans for 2018. Next year participants will continue developing their individual skills according to individual development plans under the projects implementation.

[2] Total number of talent pool members (252) in the 2016 Sustainability Report did not include Security service. In the current report, total number of talent pool members in 2016 contains data on Security service.

Corporate culture

In 2017 Polyus adopted a new Corporate Ethics Code. Designing the Code involved extensive research: 2,770 employees took part in a survey: 29 managers were interviewed, 24 meetings and focus groups were held, and 1000 questionnaire filled in. The results included a list of values that were considered important for staff across all business units. Priority values were established based on the research results and were included in the Corporate Ethics Code. All corporate values are connected, with efficiency being the main value.

The Corporate Ethics Code consists of two parts: ideological and regulatory. The ideological part comprises the Polyus mission and corporate values. The regulatory part comprises the rules for interacting within the Company, its business environment, and the rules for interacting with society. The Corporate Ethics Code is the Company's foundation document for enhancing its corporate culture.

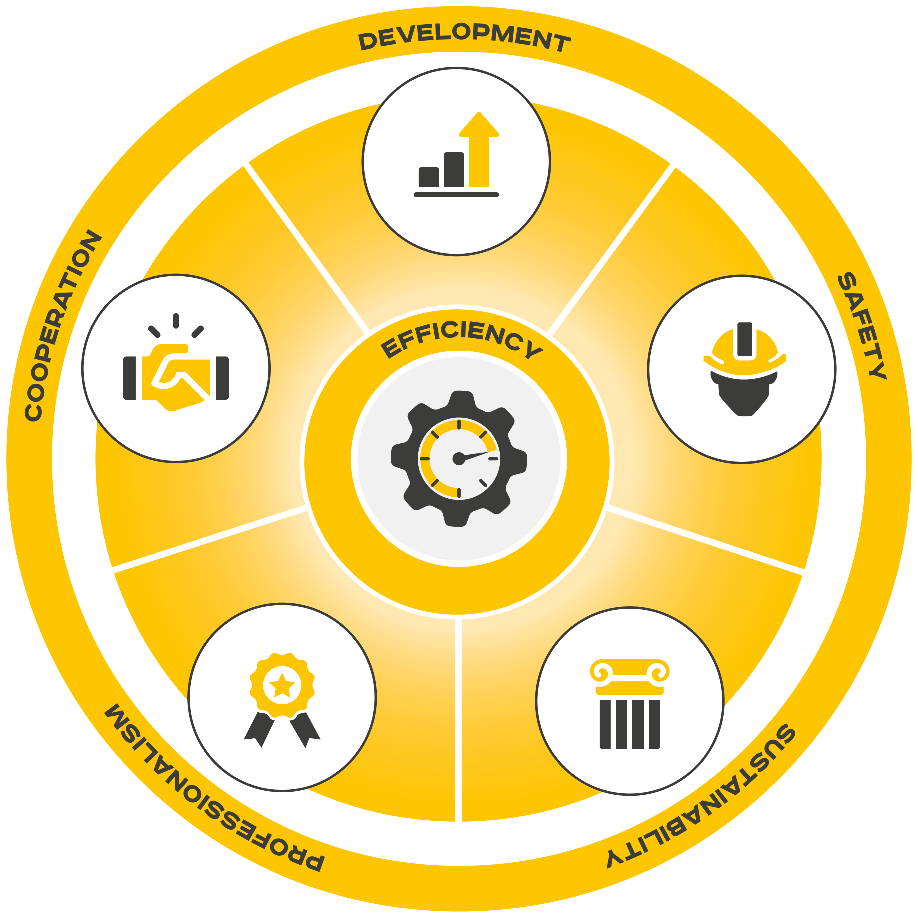
During its research for the Corporate Ethics Code, the Company also reviewed its internal communication system. Employee opinions were sought and internal communication managers interviewed. At the end of the year, the Company ran a trial version of its new intranet portal for the Managing Company. The aim in 2018 is to develop the intranet portal further and to design local pages for each region.

Developing an anti-corruption culture

Polyus strives to regularly improve the different spheres of its corporate culture and to timely inform employees about any changes. In addition, personnel must understand and adhere to all compulsory policies and standards, including any recent changes.

In early 2017 the Company adopted a new corporate anti-corruption policy, with revised and improved education in relation to anti-corruption rules and legal requirements. Thus, compulsory distant-learning for all employees was launched in the reporting year, which covers the following policy aspects: key principles, general and special requirements, and possible ways of reporting violations and red flags that have come to an employee's attention.

Corporate values



Polyus also plans to develop a feedback system on ethics-related issues, including:

- A hotline with various functions, handling health and safety and ethics-related issues
- Feedback forms on the intranet portal
- Feedback boxes installed across facilities
- Ethics coordinators

As part of the Polyus drive to enrich its corporate culture, considerable efforts are made to provide non-material incentives to employees. During the year the Company hosted a range of sports and cultural events, aimed at improving cooperation and collaboration among employees. The corporate cultural events calendar of 2017 was specifically orientated towards team building and highlighting the Company's mission and values.

The Company's annual summer sports contest was held at the Krasnoyarsk BU. The Company plans to update the contest's regulations and to add new sports to existing competitions covering mini football, volleyball, tug-of-war, and chess. Polyus encourages its employees to form new sports teams, and a running group was set up last year. A hockey team was also created and took part in its first competition.

In 2018, Polyus plans to introduce an innovative volunteer project, and employees have already been interviewed to ascertain their willingness to participate in volunteer programmes. The project will help inspire employees to work on socially significant issues. For more information on the Company's support for social projects, see section **'Supporting community development'** (p. 120).

Plans for 2018 and the medium term

In recent years Polyus has implemented a number of essential policies and procedures to improve its core HR processes. Plans for 2018 are orientated towards the Company's support functions and include:

- Completing the setup of the multifunctional centre
- Measures to improve internal communications
- Audits of the recruitment process in all business units
- Creating an action plan for recruitment process optimisation for BUs
- Launch of the pilot stage of the mentorship development
- Development of the adaptation programme for new employees
- Drawing up regulations for the Company's talent pool
- Automating the training and recruitment processes in SAP SuccessFactors
- Continuing with the renovation of worker dormitories in four business units
- The further automation of HR functions

More information about the Company's HR management system, recruitment policy, career development, and other HR issues is available on the Polyus website (www.rabota.polyus.com).

MANAGING OUR ENVIRONMENTAL IMPACT

2017 highlights

4.8%
reduction in greenhouse gas emissions

$40.6 million
spent on environmental protection

89%
of water recycled and reused

18%
decrease in total consumption of primary energy sources

45.2 kWh
per gold produced (kg) – total energy saved due to conservation and efficiency improvements

Material topics	ICMM principles
Environmental compliance	Environmental performance
Water	
Energy	Biodiversity contribution
Emissions	
Effluents and waste	Recycling
Biodiversity	

Key events

Implemented the Sustainable Use of Natural Resources and Prevention of Environmental Pollution Standard, the accounting and reporting of environmental indicators, the Biodiversity Conservation Standard, and the Environmental and Social Impact Assessment Standard

Conducted onsite environmental risk assessments at selected business units

The Yakutia Kuranakh business unit placed first in a regional environmental responsibility competition among Sakha (Yakutia) Republic companies

Global sustainable development goals

Management approach

Conducting our business in an environmentally friendly manner is an essential consideration for the Company. We strive to do all we can to fulfil our environmental commitments, and we are constantly seeking to identify operational and managerial improvements that will help control adverse environmental impacts.

The Company has an Environmental Management System (EMS) in place. This covers all business units (BUs) and professional services (PSs) and forms part of the Company's integrated HSE management system. The EMS enables Polyus to respond promptly and flexibly to changes in both the internal and external environment.

Through the EMS we seek to ensure compliance with Russia's rapidly evolving legislative base, and apply and integrate best practices in relation to environmental management. All our BUs and PSs, except for Construction service, are ISO 14001 certified and regularly update their certificates. Construction service is expected to be certified in early 2018.

The Managing Company has appointed a Head of Environmental Stewardship. At the Company's BUs and PSs, all environmental issues fall within the remit of HSE Directors.

In order to formalise its approach to environmental performance the Company has elaborated, and regularly updates, a set of internal documents. The Company's primary document is its Environmental Policy, which governs environmental activities. The policy focuses on effective environmental risk management – the goal is to ensure that continuous efforts are made to minimise adverse environmental impacts that may occur during all stages of the life cycle of the Company's assets. In 2017 the Environmental Policy was updated to cover all BUs and PSs. The policy is published on the Company's website and displayed in the lobby of the Company's offices, where all internal and external stakeholders can read it.

During the year the Company continued to update its internal documents and implemented three environment-related standards:

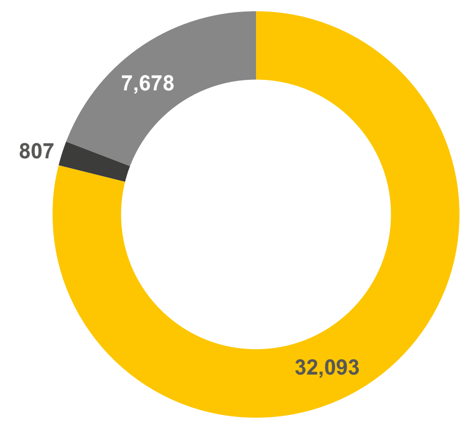
- The Standard for the Sustainable Use of Natural Resources and the Prevention of Environmental Pollution, the accounting and reporting on environmental indicators
- The Biodiversity Conservation Standard
- The Environmental and Social Impact Assessment Standard

In all its operations the Company is guided by a risk-orientated approach to environmental management. Ensuring that environmental risks are addressed in advance and are properly managed underpins our environmental performance. During the year we continued this practice via onsite environmental risk assessments. As part of this work, specialists from the Company's HSE&SD department examined the Krasnoyarsk, Irkutsk Ore, Yakutia Kuranakh, and Magadan BUs and the Logistics service to determine any environmental risk factors and to ensure that high operational standards are maintained. As a result, two areas in need of attention were identified: providing courses on corporate environmental management for employees, and the need to upgrade our facilities so that they comply with recent legislative changes. The Company is committed to increasing efforts to tackle these issues in the next reporting period.

The Company annually allocates significant funds to environmental protection. To optimise budgeting in this area, in 2017 we developed a special form on environmental expenditure and investment planning.

In 2017 total environmental expenditure stood at $40.6 million, 34% higher than in 2016, whereas payments made to compensate for negative environmental impacts fell.

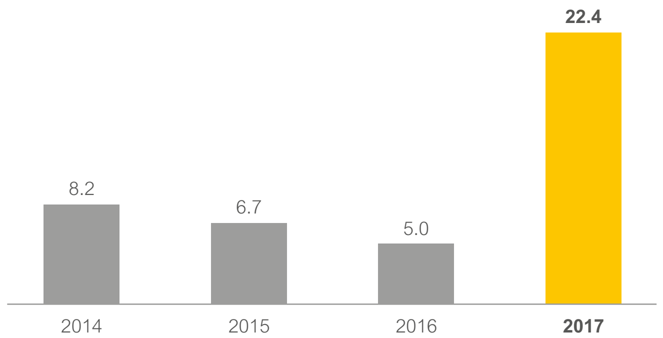
Total environmental expenditure in 2017, $'000s



Current expenditure on nature protection
Environmental payments
Capital investments related to environmental protection and rational natural resource use

In addition to mandatory actions to comply with national legislation, we are subject to annual audits by the state authorities to ensure that we meet stakeholders' expectations and needs. In 2017 the total monetary value of fines imposed by the state authorities saw a notable increase. This was mainly due to a higher number of inspections (14) performed during the 'Year of Ecology' and a hefty fine for excessive water effluent (suspended particles) discharges at the Irkutsk Alluvial BU. The year ahead will see us ehance our efforts to remain within the prescribed limits.

Total monetary value of fines, 2014–2017, $'000s



Supporting the professional growth of our people is a driving force behind the Company's overall environmental progress. In 2017 all our environmental professionals undertook and passed environmental safety training compulsory by law.

As part of implementing our new standards, the Company also organised a number of special training sessions. These were conducted by external experts and covered topics that included the sustainable use of natural resources, the accounting and reporting of environmental indicators, greenhouse gas emissions, biodiversity conservation, and environmental and social impact assessments. The sessions were attended by the Managing Company's HSE team, as well as HSE specialists from business units and professional services linked via video conferencing.

Letter of appreciation for Yakutia Kuranakh business unit

Polyus takes a proactive stance on shaping national environmental policy – and enthusiastically promotes responsible environmental practice at both federal and regional levels. In 2017 the Ministry of the Environmental Protection of Yakutia published a letter of appreciation dedicated to the Yakutia Kuranakh BU, which highlighted the Company's contribution to environmental protection in the region, raising environmental awareness within the local communities, and its successful collaboration in developing regional environmental protected areas.

Contribution to developing best-available technologies guidebook on mining precious metals

The Company's environmental specialists actively participate in joint committees, expert councils, and working groups. They contribute to developing environmental legislation through taking part in the Environmental Working Group of the Russian Union of Industrialists and Entrepreneurs (RSPP) and willingly providing authorities with expert appraisals and recommendations on various industry and cross-industry issues relating to environmental management.

A good example in this regard is the Company's participation as a co-author and editor of the best-available technologies guidebook for the Russian precious metals mining sector. In 2017 the Company's environmental specialists reviewed the guidebook and provided lengthy comments and recommendations to its developers. Furthermore, the participation of Polyus played a role in establishing the first legally defined threshold limit for hydrocyanide emissions.

Reducing impacts on water

Our main activities and operations require significant volumes of water. Polyus hence places particular emphasis on managing water resources responsibly. The Company makes every effort to reduce its water intake and to increase its secondary use. At the same time, it strives to reduce the volume and increase the quality of its waste water.

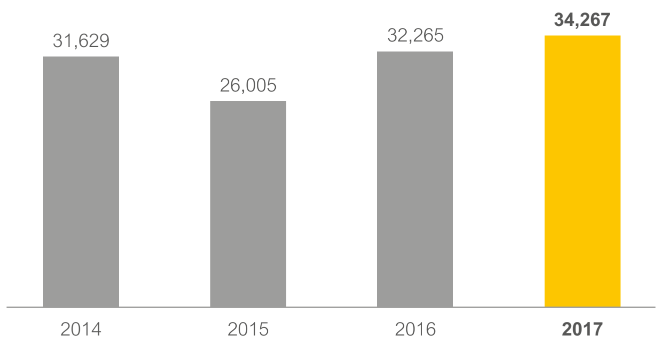
In 2017 we renovated our domestic and effluent water treatment facilities at the Krasnoyarsk BU and opened a new sewage water treatment facility at Natalka. The renovation has been formally completed and the treatment facilities are expected to be officially launched in 2018.

In the year ahead the Company plans to upgrade and develop its water treatment facilities, and in 2019 it aims to build a biological treatment facility for sewage and surface water flows at the Logistics service.

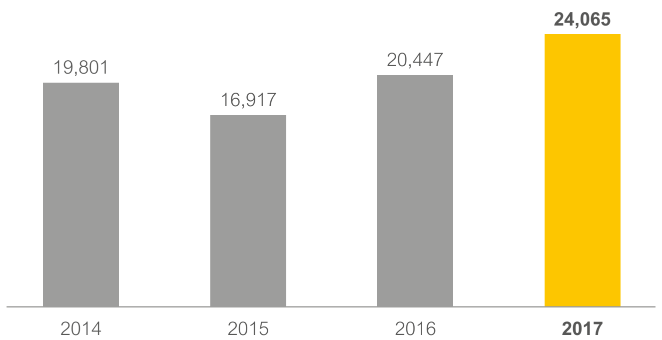
In 2017 the Company made a risk assessment of its tailing facilities to confirm their safety and regulatory compliance. National legislation in this area is well-established, is based on extensive research, and in many cases surpasses international standards.

During the year the total volume of water withdrawn and discharged rose by 6% and 18%, respectively, compared to 2016. Both these increases were as a result of enhanced operational performance. The share of water reused and recycled was consistent with previous years, at 89.5%.

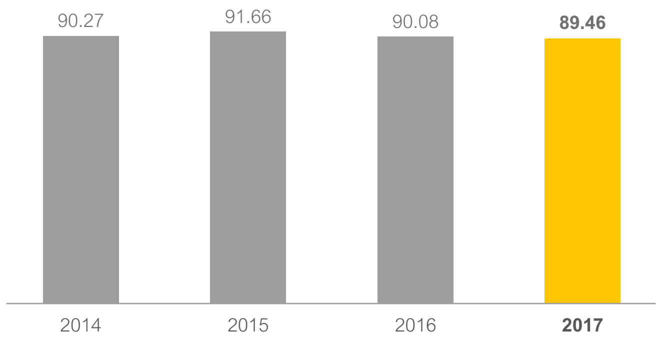
Total water withdrawn, 2014–2017, thousand m³



Total water discharged, 2014–2017, thousand m³



Percentage of water recycled and reused, 2014–2017, %



Promoting responsible water management in mining

In February 2017 Polyus organised a sector-specific seminar on water management. Attended by major Russian mining companies and ICMM representatives, it covered the key challenges faced by mining companies when managing water resources on a daily basis.

As the organiser of the seminar, Polyus HSE experts set the tone for the meeting and delivered reports on various important topics, including tailing operations in areas of permafrost, water quality monitoring at operational sites, and benchmarking biodiversity conservation measures in Russian companies. The seminar was attended by Ross Hamilton, Director, ICMM Environment, Climate Change & Social Progress, who gave a presentation on the ICMM member-companies' global approach to responsible water management.

The seminar featured an open discussion involving representatives from the main Russian mining companies, during which participants shared their experience related to effective water management.

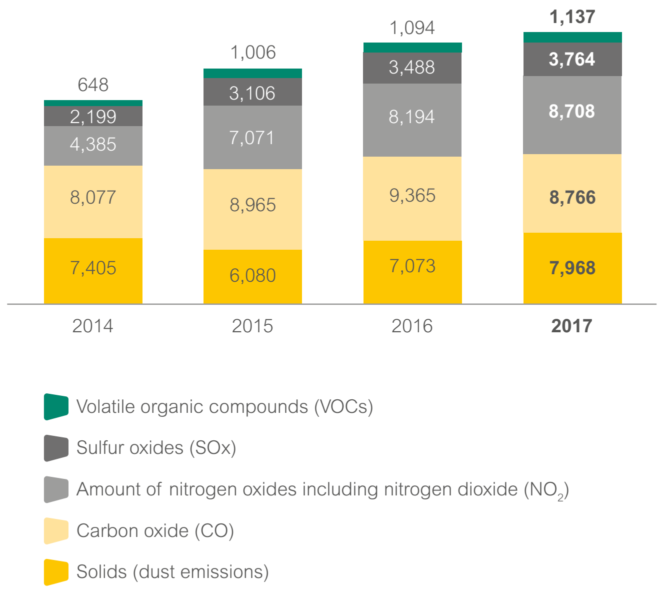
Reducing air emissions

Many of our core activities generate air emissions. These emissions include nitrogen oxides, sulphur oxides, carbon oxide, volatile organic compounds, and dust.

Polyus seeks to manage its operations in a way that will lead to a consistent reduction in emissions, implementing equipment modernisation initiatives and technical upgrades. In 2017 we began a project on the technical upgrading of gas-cleaning facilities and ventilation systems at the Krasnoyarsk BU. The project is intended to ensure better monitoring of air emissions and to significantly reduce contaminants discharged into the atmosphere.

In 2017 our environmental protection efforts led to a 6% decline in the total volume of carbon oxide emissions, achieved chiefly through a reduction in coal consumption. Other significant air emissions saw a slight rise, mainly due to growth in output.

Significant air emissions, 2014–2017, tonnes[1]



[1] In 2017 air emissions also included two tonnes of persistent organic pollutants (POP).

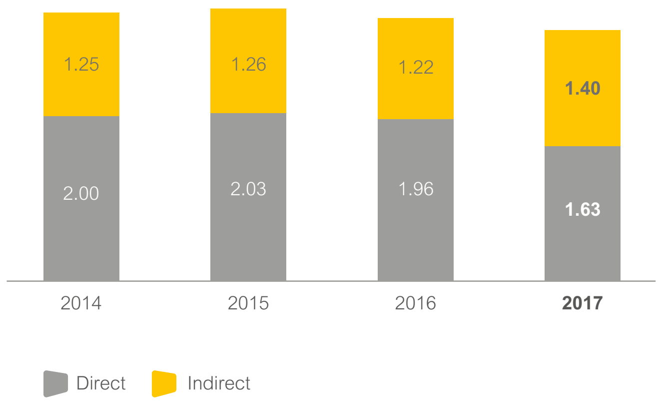
Carbon management

Reducing greenhouse gas (GHG) emissions is one of the Company's environmental management priorities, and we are making concentrated efforts to ensure a lower carbon future. In 2015 Polyus Gold pledged to support and promote the initiatives and values enshrined in the global agreement on climate change signed at the 2015 United Nations Climate Change Conference, COP 21 in Paris.

In 2017 Polyus made substantial progress in developing its approach to responsible GHG management. The Magadan BU became a pilot project, and aligned GHG inventory and calculation processes with the latest Russian legislative amendments.

In 2017 GHG emissions amounted to 3.03 million tonnes of CO_2 equivalent, 4.8% less than in the previous year. During the year the share of direct GHG emissions stood at 53.7%, with indirect emissions making up 46.3%.

Total GHG emissions (CO_2-e), 2014–2017, Mt[1]



First comprehensive GHG emissions assessment at Magadan BU

Polyus aims to react swiftly to the fast-changing Russian legislative base governing GHG management. In 2017 we took the first step to establishing a flexible GHG management system that complies with all applicable Russian legislation. Supported by the independent consultants KPMG, we implemented a project to identify all GHG emission sources and assess the volume of GHG emissions at our pilot Magadan BU site.

As part of this project the Company elaborated a register of GHG emission sources and provided an initial quantitative assessment of direct and indirect GHG emissions. The results revealed that the bulk of GHG emissions derives from indirect energy-related emissions (54%); static sources contribute 32% and mobile emission sources 14%.

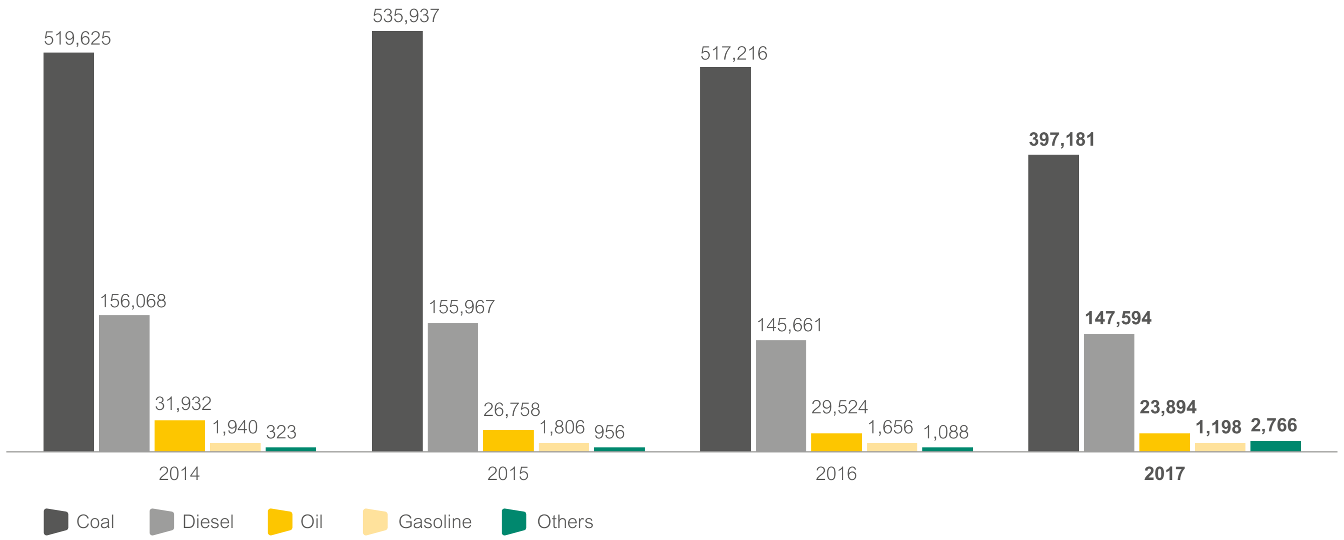
As a result of the project, the main areas of activity for low-carbon development at the Magadan BU were outlined. In future, the Company plans to reassess GHG emission volumes and to develop KPIs for GHG reductions.

Energy management

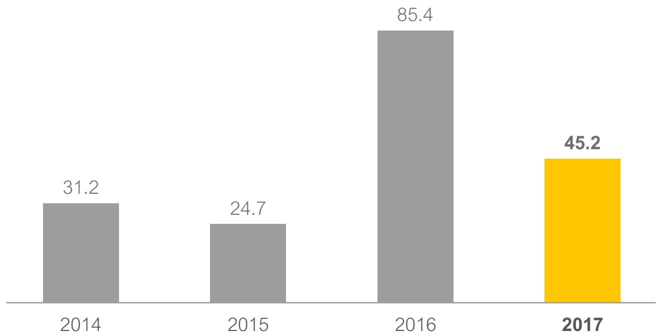
Mining operations require large volumes of energy. Despite the intensive nature of our business, the Company is constantly seeking ways to enhance the efficiency of its total energy consumption and to explore opportunities to embrace renewable energy use.

In 2017 the total consumption of primary energy sources declined by 18%, to 572.6 thousand tonnes. The main driver behind this was a significant drop in total coal consumption (23% to 2016). During the year total energy saved fell by 47%.

Consumption of primary energy sources, 2014–2017, t



Total energy saved due to conservation and efficiency improvements, 2014–2017, kWh per kg of gold produced



Taiga launch to reduce consumption of primary energy sources

Taiga is an especially important project for the Company, and involves building the Razdolinskaya-Taiga power line and a new-generation electric power substation in the north of the Krasnoyarsk Territory.

The commissioning of the electric power substation will improve the electricity supply in the Krasnoyarsk Territory, significantly reduce coal and oil consumption, thus leading to lower emissions, and contribute to an overall reduction in GHG emissions.

[1] In 2017 the GHG calculation also includes kerosene and residual fuel oil, as their consumption rose considerably compared to previous periods.

MANAGING OUR ENVIRONMENTAL IMPACT continued

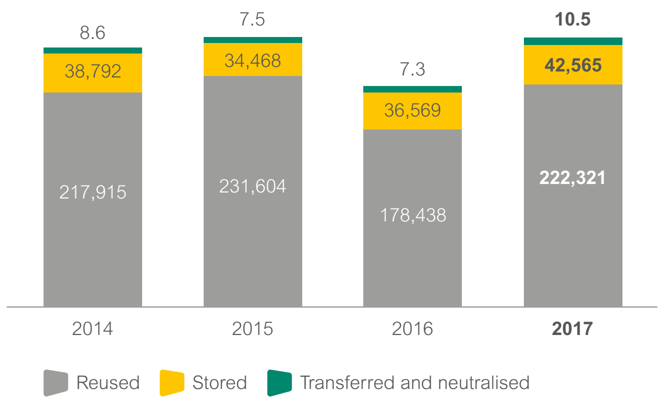
Responsible waste management

Polyus is committed to carefully managing all types of waste generated throughout a mine's life cycle, and continuously strives to improve its waste management practices.

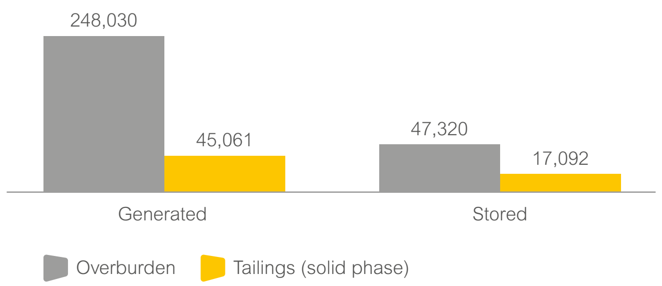
In 2017 we completed the construction of the landfill operation for solid domestic and industrial waste at the Krasnoyarsk BU. We acquired new waste treatment equipment for the Irkutsk Ore BU, including a plastic grinder, an incinerator, and a modular boiler room for incinerating waste oil, all of which will increase waste management efficiency. The plastic grinder is capable of processing 150 tonnes of plastic bins a year, thus eradicating rigid plastic disposal in landfill sites.

In 2017 the total volume of all waste groups rose in comparison with 2016. This was chiefly due to an increase in the total waste mass of the second and fifth hazard classes.

Waste reused, stored, transferred, and neutralised, 2014–2017, thousand tonnes



Total amount of overburden and tailing waste, 2017, thousand tonnes



Cyanide and hazardous substances management

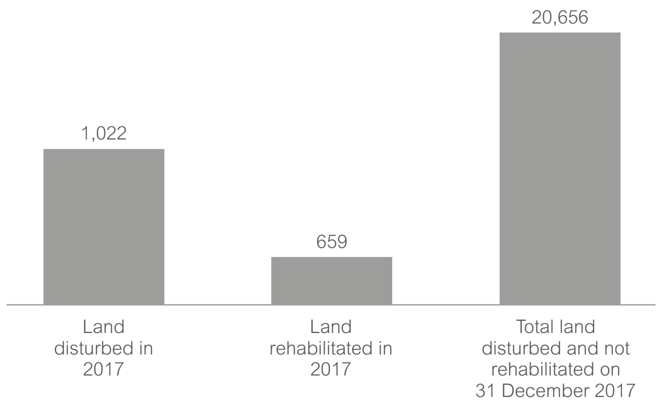
The Company aims to apply the most stringent safety levels when working with cyanide and other hazardous substances, and systematically works to heighten employee awareness surrounding these issues.

At each site that uses cyanide in its processes Polyus complies with all applicable regulatory requirements and corporate Standard on cyanide management. The Company is preparing to certify the Irkutsk Ore BU under the International Cyanide Management Code; during the year Polyus conducted a preliminary documentary internal audit in preparation for the certification. In addition, the HSE&SD, together with the Internal Audit Department and Production Division, plans to carry out an onsite pre-certification audit in 2018. This will identify areas for development and the corrective measures that need to be taken.

Land conservation

The rehabilitation of disturbed land forms is an integral part of our business activity, and rehabilitation measures are planned in the early stages of each project. When restoring disturbed land, the Company does its utmost to return sites to a condition that most closely resembles their natural and original state.

Total land disturbed and rehabilitated in 2017, ha



Biodiversity management

In its operations Polyus seeks to minimise impacts on biodiversity. In conjunction with respective Russian legal requirements, the Company where applicable adheres to the ICMM Good Practice Guidance for Mining and Biodiversity (an ICMM standard), and Biodiversity Performance Standard 6 'Biodiversity Conservation and Sustainable Natural Resources Management' of the International Finance Corporation (IFC).

To minimise negative impacts, the Company conducts at the early stage of each project detailed studies into the biodiversity value of adjacent territories, and shares the main findings with stakeholders. In 2018 the Company plans to perform a comprehensive monitoring of biodiversity in the regions where it operates.

Based on the results of its monitoring activities the Company develops management plans containing measures for biodiversity conservation and the prevention of habitat destruction. If losses are inevitable, the Company considers compensatory measures to mitigate any adverse effects.

Biodiversity monitoring at Magadan BU

Since 2008 the Company has monitored biodiversity at the Magadan business unit. Preliminary results show that there has been a constant replenishment of bird and mammal populations after a significant decline in 2013 (which occurred after the start of operations).

As monitoring has continued the Company has identified new species, some of which are included in the Red Data Book of the Russian Federation ('the Red List'). In 2017 Masonhalea richardsonii lichen (included in the IUCN Red lichen List species) was discovered.

Compensation measures: Release of peled fish into Kolyma water reservoir

In 2017, with the help of local fish breeding experts, Polyus conducted compensatory measures involving the reproduction, transportation, and release of 116 thousand peled fish into the Kolyma water reservoir. The type of fish to be released was chosen by Magadan Fishery Research Institute.

Most of the fish successfully adapted to conditions which the species had never previously experienced. This success has inspired the Company to implement similar projects in other regions.

Plans for 2018 and the medium term

As our environmental management system becomes better able to respond to new challenges as they arise, we look forward to the future with confidence. However, there are still areas for further development and in 2018, as well as over the medium term, we are planning the following:

- Implementation of corporate standards on Reclamation and Mine Closure and a Standard on Cyanide Management
- Development of a Company Campaign on Waste Utilisation
- Development of an environmental data and processes management system under the SAP installation programme
- A 15% reduction in greenhouse gas emissions by 2020 towards 2015
- Biodiversity assessments at all business units
- A pre-certification pilot compliance audit with the Cyanide Management Code at the Irkutsk Ore BU
- Corporate training courses on Environmental protection and Greenhouse gas management

SUPPORTING COMMUNITY DEVELOPMENT

2017 highlights

$42.6 million
allocated to social support activities

Over
90%
of social expenses allocated to charitable projects

Material topics
Employment
Training and education
Local communities
Developing the social and cultural environment

Key events
Official launch of Natalka project
Successful execution of Polyus Gold Season festival

Global sustainable development goals

8 DECENT WORK AND ECONOMIC GROWTH; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 17 PARTNERSHIPS FOR THE GOALS

ICMM principles

Ethical business practices; Human Rights; Development of communities

Management approach

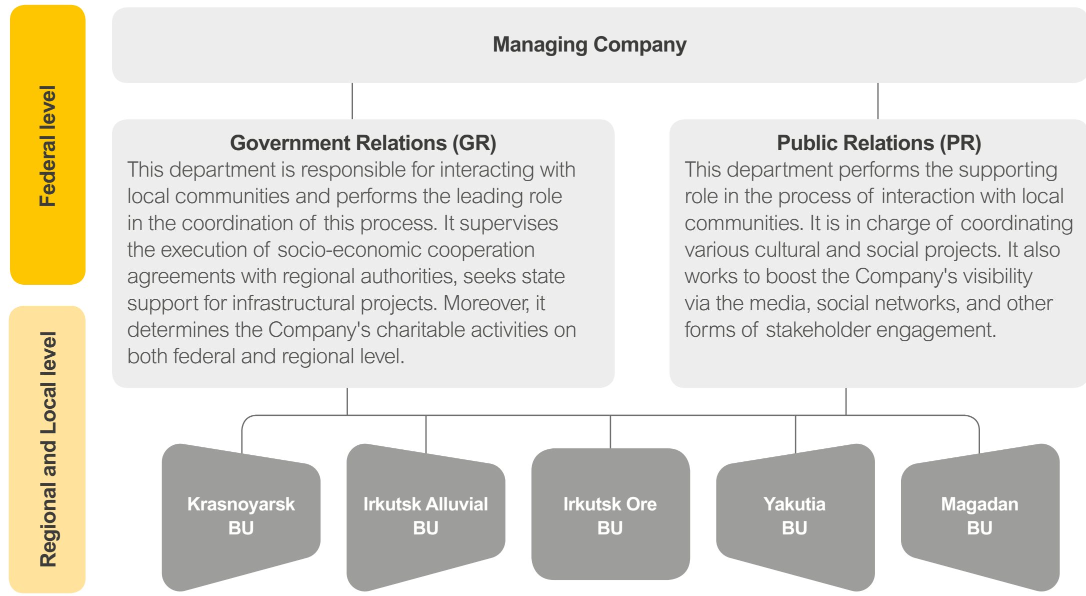
As one of the largest gold producers, Polyus has a responsibility towards ensuring sustainable operations due to its considerable impact on the environment and local communities. Our activities contribute significantly to both national and regional economies, in particular in the Krasnoyarsk Territory, Irkutsk, and Magadan regions and Yakutia.

Our main form of community engagement is providing social support through charity, donations, and sponsorship, and implementing federal and regional projects that deliver a broad range of social and economic benefits.

We initially implement these activities by planning and consulting with communities before the launch of new projects – and then through the entire life cycle of our operations. This enables us to maximise our positive impacts and to minimise any negative effects our operations have on local communities.

For Polyus, effective community engagement means building positive and trusted relationships with stakeholders at federal, regional, and local levels. We believe that this is essential for achieving our overall goal of growing in a sustainable manner.

Organisational structure
Allocation of local community engagement responsibilities



The Company's Government Relations (GR) and Public Relations (PR) departments are responsible for engaging with local communities and implementing various social support projects.

In 2017 the GR department focused on developing partnerships and maintaining good relations with regional authorities, and promoting mutually beneficial interaction and cooperation within regions of operation.

In addition to its key responsibilities, the PR department launched and supported a new feedback mechanism in the form of 'communication boxes'. These were installed at the Krasnoyarsk BU to gather comments from local employees and communities, thus enabling us to better understand and manage information from local stakeholders and to take appropriate action.

Furthermore, at local level, our business units continued to independently maintain contact with their local communities and supported them via charity projects, in addition to providing financial and technical aid where the scale of the activity did not necessitate involving the Managing Company.

Polyus has developed and adopted a set of policies and management standards to regulate social responsibility and engagement with local communities. This framework is in line with the ICMM principles of sustainable performance, and comprises the Stakeholder Engagement Policy, the Human Rights Policy, the Charity, Donations, and Sponsorship policy, and the Engagement with Indigenous Peoples Standard.

In 2017 the GR function collected feedback from its business unit representatives in relation to the implementation of the Charity, Donations, and Sponsorship policy, and updated the document based on the comments received. A new version of the document was enacted at the end of the year, containing changes regarding the interaction between the Managing Company, business units, and beneficiaries, and the planning and execution of charitable, donations-related, and sponsorship activities. Executing social support initiatives in line with the updated Charity, Donations, and Sponsorship policy will boost overall efficiency. In addition, it is planned in 2018 to develop a respective regulation that will outline processes of charity, donation, and sponsorship activities in detail.

SUPPORTING COMMUNITY DEVELOPMENT continued

Social support[1]

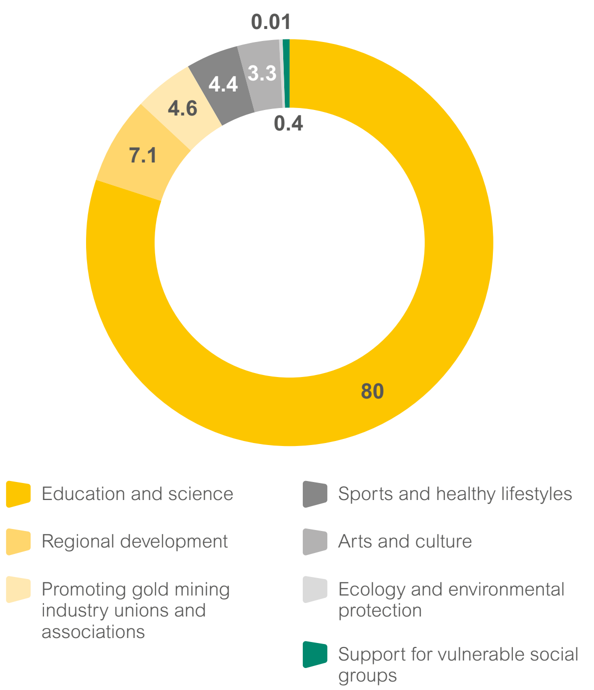
During the year Polyus put considerable efforts into community support activities. Total expenditure in 2017 in this regard was $42.6 million, more than double the $16.8 million spent in 2016.

In 2017 we contributed to a variety of social support initiatives, including education, environmental protection, arts, and cultural projects.

In 2017 the Company's strategic focus in terms of social support was on education and science. We expanded the number of social projects in this sphere and spent 80.0% ($34.0 million) of the social support budget on education-related projects.

In 2017 we increased support for arts and culture, to highlight the successful launch and continuation of the Polyus Gold Season project.

Expenditure on social support by category in 2017, %



Sirius School in Krasnodar Region

The Sirius Educational Centre in Sochi is a school for children that show exceptional ability in arts, science, technology, and sports. The centre was created by the Talent and Success Educational Fund using infrastructure from the Sochi Winter Olympic Games.

The main objective of the Sirius facility is to identify the most talented pupils from various Russian regions, provide them with appropriate training, and consequently spread the best practice tools of working with talented youth.

In 2017 the Company made a sizeable donation in the amount of more than $20.0 million and was significantly involved in the project's execution. Polyus went beyond providing financial aid, offering its specialists on a pro-bono basis to facilitate the project's realisation, for example during the planning and execution of construction of the school's buildings.

The school's new complex will comprise three buildings: the school, an arts building, and a sports building, which will add 20.6 thousand square metres of space. Other facilities are also planned, including conference halls, interactive classrooms, research laboratories, a modern library, and an educational exhibition space.

The construction of the new complex will enable monthly attendance to grow from 200 to around 1,000 pupils, which will significantly enhance the benefits of this facility.

Polyus Gold Season in Magadan Region

For the second year running, Polyus held the Gold Season Theatre Competition for theatres, theatrical unions, and amateur troupes. The competition supports regional social and cultural development in our regions of operation. In 2017 the competition focused on promoting local theatres in small towns in four regions where we operate: the Krasnoyarsk Territory, Irkutsk, and Magadan regions and Yakutia. In 2017 the competition's fund stood at $103.0 thousand.

The final competition was held during the Territoria Magadan festival from 29 August to 3 September. The festival of modern art was organised by Polyus in collaboration with the International Festival-School of Modern Art TERRITORIYA and the Moscow Museum of Modern Art. It encompassed theatrical performances, exhibitions, educational workshops, and other activities.

The event was a cultural highlight for the Magadan Region, and attracted widespread attention from local and neighbouring communities.

Sponsoring the Krasnoyarsk Children's Choir

Supporting talented youth and local culture is a priority for Polyus. In 2017 we donated $42.8 thousand to support the Krasnoyarsk Children's Choir's participation in the 23rd Children of the World in Harmony Festival. The choir performed archetypal Siberian pieces and presented their cultural heritage to audiences in the US and Canada.

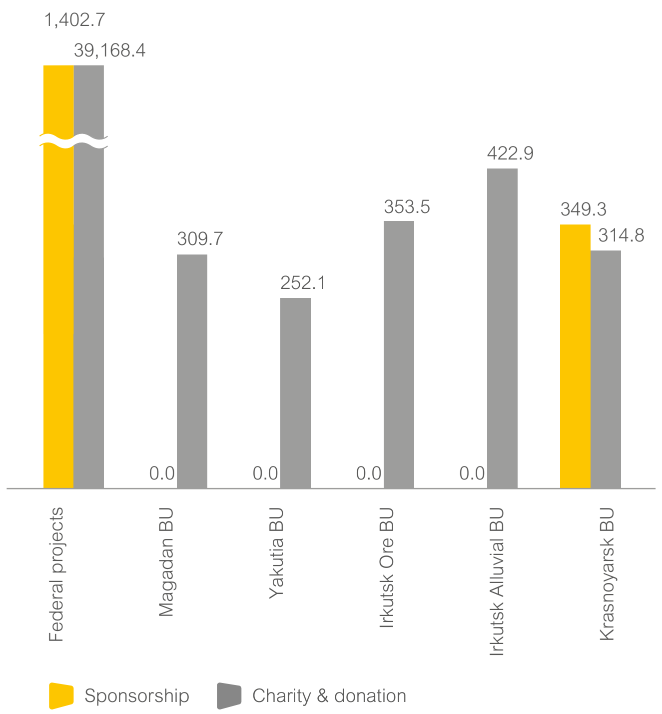
Renovation of Magadan State Music and Drama Theatre

As part of our initiative to support local theatres, in 2017 Polyus donated $34.3 thousand to refurbishing and equipping the Magadan State Music and Drama Theatre. In addition to renovation works, new lighting and musical equipment was purchased for the theatre's ballet hall.

In 2017 most of the Company's social support expenditure went on charity and donations-related projects, mainly at a federal level.

Regarding charity and donations-related activities at a regional level, the Irkutsk Alluvial BU allocated the most funding in this regard. In 2017, sponsorship activities at a regional level were only carried out by the Krasnoyarsk BU.

Polyus social support structure by business unit and type[2] in 2017, $'000



1 This section contains examples of selected social support projects implemented by Polyus in 2017.

2 Including only the Managing Company and production BUs (without professional services).

Contributions to socio-economic improvements[1]

Maintaining the labour market and economic stability

Polyus stimulates economic development in its regions of operation by creating employment opportunities and generating income for local communities, meeting in full its tax obligations, and procuring local products and services.

In 2017 the Natalka plant was officially launched, one of the largest projects in the Magadan Region. The plant's commissioning (it has the capacity to process 10 million tonnes of ore per year) was formally launched by President Vladimir Putin during the annual Eastern Economic Forum.

Polyus expects to reach full production at Natalka by the end of 2018. The mine's life is estimated at 31 years. It is expected that the Natalka project will create around 2,000 jobs at the mine and processing plant, which will increase employment opportunities and contribute to economic growth and development within the Magadan Region.

Irkutsk Ore BU a recognised contributor to socio-economic development within the region

On the 80th anniversary of the Irkutsk Region, which coincided with World Quality Day, an awards ceremony for the region's best-performing companies was held. The winners were recognised for the notable contribution they have made to the region's socio-economic development.

The participating companies had to have demonstrated consistent productivity growth and made increasing contributions to the communities in which they operate. Companies were rated against more than 20 indicators. In 2017 the Irkutsk Ore BU was awarded the highest credential among metals and mining companies.

The business unit provided $353.5 thousand in social support in 2017, which went to World War II veterans, and underprivileged children. During the year the Irkutsk Ore BU also organised large-scale cultural events, held charity performances, and donated towards the building of the Church of the Nativity.

Another significant project implemented by the Irkutsk Ore BU in 2017 involved carrying out improvements to the central city park in Bodaibo. Polyus donated $28.5 thousand in this regard, which provided Bodaibo residents with public places for leisure and recreation and boosted the Company's image among the city's population.

Infrastructure development

Polyus contributes to developing the infrastructure in its regions of operation, with a view to creating sustainable conditions for the Company's business.

In 2017 Polyus continued to implement socio-economic agreements with the authorities in its regions of operation. Under these agreements the Company invested substantially in infrastructure development projects.

Our ongoing collaboration with regional and local authorities is mutually beneficial: it creates consultation opportunities on various matters relating to infrastructure development and the support needed for regional social projects, while at the same time enabling the Company to get administrative and budgetary support.

Construction and renovation of sports and health facilities in Bodaibo, Irkutsk Region

Polyus is committed to implementing effective social projects that will improve the health and living standards of local communities. In particular, in 2017, Polyus completed building a large sports facility in Bodaibo. The total amount allocated to the project over two years was $442.1 thousand (including $171.4 thousand in 2017).

Once this facility is fully launched, it will bring considerable benefits to local residents; in particular, a greater number of sports classes will improve children's health and generally enhance the sports culture among Bodaibo's youth.

Children's recreation camp, Irkutsk Region

In 2017 Polyus contributed $70.9 thousand to renovating and repairing the Zvezdochka children's recreation camp. Major repairs to the water intake and water conduit systems were implemented; also, fire-fighting storage tanks were built. Thanks to Polyus, children's stays at the camp will be more comfortable and safe.

[1] This section contains examples of selected social support projects implemented by Polyus in 2017.

Creating opportunities for developing sustainable partnerships

Polyus plays a significant role in organising business platforms where key market players and policymakers can interact, collaborate, and create synergies.

In September 2017 Polyus was a major partner in the Eastern Economic Forum held in the Pacific Port of Vladivostok. The underlying theme of the forum was 'The Far East – Creating a new reality', which is closely aligned with the Company's regional activities. Alongside the Ministry for Developing the Russian Far East, the Russian Government, and the Presidential Administration of Russia, Polyus invested considerable time and effort in the planning and eventual realisation of the forum. The Company's senior management moderated and participated in various sessions on gold mining, infrastructure support for major investment projects, and reducing electricity rates.

Each year the scale of the event increases, as it becomes more prestigious and attracts more participants. The highlight of this year's forum was the official launch of the Natalka mine by the President of the Russian Federation Vladimir Putin. Polyus also presented an elaborate model of the Natalka mine in the Magadan Region pavilion, which attracted a lot of attention from the forum's visitors. During the year Polyus also contributed to a number of forums, including the XXI International Economic Forum in St. Petersburg (where issues relating to the Far East were discussed), the Russian Investment Forum in Sochi, and the Krasnoyarsk Economic Forum.

Financing renovations at Bodaibo regional hospital in Irkutsk Region

In 2017 Polyus provided $171.3 thousand in financial support to the Bodaibo regional hospital. A health centre, a department of infectious diseases, and a treatment facility were repaired and renovated. The project resulted in significantly improved working conditions for hospital staff and more comfortable stays at the hospital for patients.

Krasnoyarsk Economic Forum

The Krasnoyarsk Economic Forum is an annual event held in Krasnoyarsk, which is traditionally sponsored by all large business operating in the region, including Polyus. This year the forum participants had an opportunity to not only obtain information about the work of Polyus, but also to familiarise themselves with the technological aspects of gold mining.

For Polyus, the forum proved to be an effective platform for engaging with the Company's stakeholders and potential business partners. An important highlight this year was the signing of an agreement between Polyus and the Siberian Federal University (SFU) to increase the qualification level of university graduates and to help them adapt quickly to the specifics of present-day production methods. Both parties agreed to create a SFU-based resource centre with a fully equipped modern study laboratory, in order to collaborate in the field of graduate employment, implement joint R&D projects, and organise scientific, sports, and entertainment events.

Plans for 2018 and the medium term

Polyus will continue to maximise the positive impacts it has on local communities through its social support activities, in addition to events focusing on regional socio-economic development.

In 2018 the Company intends to:

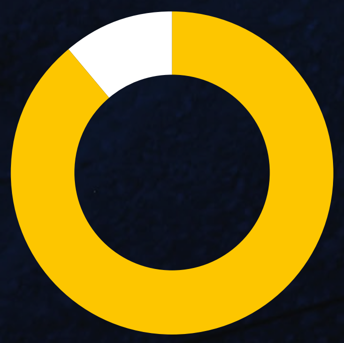
- Improve the goal-setting process for community engagement in order to increase the effectiveness of charity and sponsorship events
- Support the third Polyus Golden Season Theatre Competition
- Continue the construction of the school building under the Sirius project
- Update GR corporate documents to boost efficiency
- Develop regulations on charity, sponsorship, donations and interaction with non-governmental and industrial organisations

CORPORATE GOVERNANCE

AT A GLANCE

Our robust corporate governance structure underpins all our activities – enabling us run Polyus effectively, transparently and with integrity. We continually review and refine our policies and procedures to ensure they are not only ‘fit for purpose’, but also evolving in line with the growth of the business.

Board composition:
Gender split

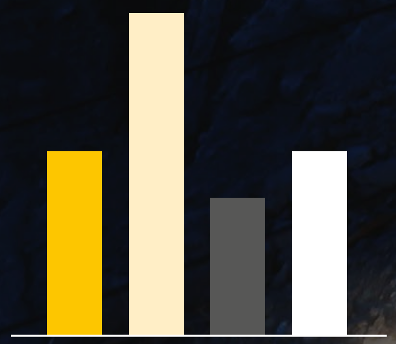


Male	8
Female	1

Board composition:
Independence

Independent (incl. Chairman)	4
Non-Independent	5

Board composition:
Experience



Metals and mining	4
International Business	7
Finance	3
UK Capital markets and legal	4

THE BOARD

The Company's Board of Directors is the governing body for the general management of Polyus PJSC, except for issues that fall under the responsibility of the General Meeting of Shareholders according to the Russian Federal Law on Joint Stock Companies and the Company's Articles of Association ('Charter').

The Board of Directors comprises nine members, each of whom was elected or re-elected at the Extraordinary General Shareholders' Meeting on 1 December 2017. The current term of appointment of the members of the Board of Directors expire on the date of the next Annual General Meeting of PJSC Polyus, which is required to be held by 30 June 2018.

The Company considers four of the current nine directors – Edward Dowling, Kent Potter, William Champion and Maria Gordon – to be independent under the Moscow Exchange Listing Rules.

THE BOARD'S ROLE AND RESPONSIBILITIES

The Board's role is to create and deliver value through the effective governance of the Company.

It is accountable to the shareholders for ensuring the success of the Company, which can only be achieved if the Board is supported by appropriate and well-managed governance processes.

The Board provides entrepreneurial leadership for the Company and oversees the activities of the management team by providing guidance and strategic initiatives. It has collective responsibility and accountability for the Company's long-term success: creating strategic plans, determining risk appetite, establishing the Company's values and standards, ensuring good governance and promoting good behaviour.

The Board is responsible for:

- Creating the Company's strategic plans and for the management, direction and performance of the business
- The long-term success of the Company, taking into account the interests of all stakeholders
- Ensuring the effectiveness of, and reporting on the corporate governance system

This requires a high-performing Board, with all Directors contributing to its collective decision-making processes.

A diversity of backgrounds, skills, knowledge, experience, geographic locations, nationalities, and gender is required to effectively govern the business. As part of the performance evaluation carried out during the year, the Board reviewed its own requirements in respect of professional skills, experience and business competences. The Board also considered the adequacy of the number of the Board members to the needs of the Company and interests of the shareholders.

According to the Schedule of Matters delegated to the Board, the purpose of the Board is to:

- Monitor and review the performance of management
- Evaluate business strategies and monitor their implementation
- Monitor the performance of the existing asset portfolio as well as new business initiatives
- Be accountable to shareholders through appropriate reporting and regulatory compliance
- Monitor risk management, auditing and internal control mechanisms
- Understand and contribute to the management of the operational business, as well as of any financial risks to which the Company is exposed
- Monitor and ensure compliance with the Health and Safety Policy, Environmental Policy, Stakeholder Relations Policy, Charity, Donations and Sponsorship Policy, as well as other relevant documents
- Safeguard the Company's reputation, values, ethics, culture and assets, including intellectual property

CHAIRMAN OF THE BOARD

Edward Dowling has been Chairman of the Board since 5 April 2016. The Chairman's role is to lead the Board, to ensure that it functions effectively (including ensuring that all Directors make effective contributions), and that the Company maintains effective communication with shareholders.

In particular, the Chairman's responsibilities include:

- Effective leadership, operation, and governance of the Board in conformity with the highest standards of corporate governance
- Ensuring the effectiveness of the Board
- Setting the agenda, style, and tone of Board discussions to promote constructive debate and effective decision-making, thus ensuring that Directors receive accurate, timely, and clear information
- Building an effective and complementary Board, initiating change, and planning succession on the Board and Company's executive appointments
- Promoting effective relationships and communications between Non-Executive Directors and members of the Company's executive Committees
- Ensuring that the performance of the Board and individual directors is formally evaluated on an annual basis
- Ensuring effective communication with shareholders
- Ensuring that the Board receives accurate, timely, and clear information on the Company's performance; the issues, challenges and opportunities facing it; and matters on which it must make a decision
- Establishing and maintaining a harmonious and open relationship with the CEO

CHIEF EXECUTIVE OFFICER

Pavel Grachev is the CEO of PJSC Polyus. The CEO's role is to manage the Company's day-to-day operations, ensuring they are consistent with the policies developed by the Board and carried out in such a way that they meet production, financial, and legal requirements. The CEO recommends to the Board and implements the Company's strategy, applies Company policies and promotes its culture and standards.

The CEO is responsible for:

- Managing the Company's business
- Implementing the Company's strategy and policies
- Maintaining a close working relationship with the Chairman

NON-EXECUTIVE DIRECTORS

Non-Executive Directors are responsible for bringing their independence and objective scrutiny to all matters considered by the Board and its Committees, using their substantial and wide-ranging experience.

They constructively challenge the executive management in all areas, scrutinise the management's performance, help develop proposals on strategy, and satisfy themselves as to the integrity of financial information as well as the effectiveness of Polyus' financial controls and risk management systems. They must have a good understanding of the Company's overall strategy and priorities, in conjunction with their knowledge about the Company and the industry in which it operates. This allows Polyus to be effectively governed.

Non-Executive Directors should be familiar with the Company's core business, so that they can contribute effectively to the development of strategy and monitoring the business' performance. They also need to be aware of the risks Polyus faces – and the processes that exist to mitigate and manage such risks.

The Company's Non-Executive Directors met four times during 2017 with the Chairman without the Executives being present.

THE BOARD

New Board members

Polyus has an induction programme for newly elected Board members. This includes:

- Provision of Board packs with internal reporting documents for previous periods
- Provision of internal documents and of Q&As with the management team
- Visits to production sites with full briefings on operational and managerial issues, meetings with local management
- Presence, as invitees, at meetings of all Board Committees
- Telephone briefings with the CEO and CFO
- Mandatory training, including by external advisers, on insider trading, regulatory disclosure and sanctions compliance

Board Committees

The Company's Board of Directors comprises the following Committees:

- Audit Committee
- Nomination and Remuneration Committee
- Strategy Committee
- Operations Committee

An Independent Director leads each Committee. The Committees serve as consultative and advisory bodies that deal with issues raised by the Board. They may not act on behalf of the Board and are not considered to be management bodies of Polyus. They have no powers in relation to managing the Company. Committee meetings are held separately from Board meetings, so that extra attention can be paid to discussing issues that require preliminary Board consideration prior to approval by Board members, and determine the necessity of the Board's approval for a specific issue.

The decisions of each Committee are taken by a majority vote of all participating members. Each member has one vote and the Committee Chairman has no casting vote in the event of a tie. Further details of the Committees' activities during the year can be found on pages 137-147.

Information flow

The Directors receive monthly detailed information on the Company's operational and financial performance. The Board receives presentations and verbal updates from executives at Board meetings, as appropriate.

All Directors have access to the services of a professionally qualified and experienced Corporate Secretary. This person is responsible for providing information to the Board and, when applicable, its Committees, and between senior management and Non-Executive Directors. The Corporate Secretary also facilitates induction processes and assists with professional development as required, ensuring compliance with Board procedures as well as with applicable laws and regulations.

Conflict of interest

Should a Director experience a conflict of interest relating to any items of Board or Board Committee agenda, they are required to inform the Board prior to the discussion of the item. They are also required to abstain from voting on any matter where a conflict of interest arises.

Directors must inform the Board of their intention to join the governing body of any other entity (except for the Company's controlled and associated entities).

Board activity

The Board has a framework of ongoing processes and formal, transparent arrangements for assessing how to apply corporate reporting, risk management, and internal control principles – and for maintaining an appropriate relationship with Polyus' auditors. The Company's risk management process underpins the successful execution of strategy and planning for the future. Risk and its identification, assessment, management, and mitigation are fundamental to our business. Further details of the Company's principal risks and uncertainties can be found on pages 30-33.

Board members met frequently in 2017 in compliance with the formal schedule of matters to discharge their duties in the best interests of Polyus.

The Regulations of the Board of Directors, adopted in 2016, establish the correct preparation and conduct of Board meetings. These include a provision that, in general, the Board shall be notified of a meeting no less than five days in advance. Each meeting agenda includes several business and strategy presentations from the Company's senior managers. To ensure that the Board is kept up to date on important issues, including environmental, legal, governance, and regulatory developments, presentations are also made to the Board by external and internal advisers. Board members have the right to access documents and to make inquiries relating to the Company and its controlled entities, and the Company's executives are required to provide all relevant information and documents.

Decisions on certain matters can only be taken at meetings in which all the Directors are present in person or by phone, not by correspondence. These include, but are not limited to appointment of the Company's executive bodies and termination of their powers.

A total of twenty four meetings were held during the year. Of these, eleven were conducted in person and thirteen by absentee voting. Individual Directors in certain cases participated in face-to-face meetings via telephone.

The attendance of the in-person meetings of the Board and its Committees during 2017 by the Company's Directors is shown below:

	Number of in-person Board meetings attended (out of 11)	Number of in-person meetings of the Audit Committee attended (out of 10)	Number of in-person meetings of the Nomination & Remuneration Committee attended (out of 4)	Number of in-person meetings of the Strategy Committee attended (out of 4)	Number of in-person meetings of the Operations Committee attended (out of 4)
Edward Dowling	11	10	4	4	4
Kent Potter	11	10	4	4	–
William Champion	11	10	4	–	4
Maria Gordon[1]	1	–	–	–	–
Said Kerimov	10	–	–	–	–
Sergei Nossoff[1]	1	–	–	–	–
Pavel Grachev	10	–	–	4	4
Vladimir Polin	10	–	–	–	4
Mikhail Stiskin	11	–	–	4	–
Gulnara Kerimova[2]	–	–	–	–	–
Anastasia Galochkina[2]	10	–	3	–	–

The key matters reviewed by the Board in 2017 included:

- Health, safety and environmental issues
- Polyus's financial plan, financial performance and reporting
- Recommendations on distribution of profit of PJSC Polyus, including dividends
- Issues relating to Polyus's strategic direction
- Risk and risk mitigation matters
- Composition of the Board and its Committees
- Annual General Meeting of Shareholders of PJSC Polyus and Extraordinary General Meeting of Shareholders of PJSC Polyus
- Issues related to issuance, redemption and determination of the nominal value of PJSC Polyus' shares
- Transactions with related parties, etc.

[1] Maria Gordon and Sergei Nossoff were elected to the Board of Directors on 1 December 2017. Only one in-person Board meeting took place between 1 December and the end of the year. Maria Gordon was appointed to the Audit Committee, the Strategy Committee, and the Nomination & Remuneration Committee at the Board meeting on 5 December 2017.

[2] Anastasia Galochkina and Gulnara Kerimova stepped down as Board members on 1 December 2017.

COMPOSITION OF THE BOARD

At the Extraordinary General Meeting held on 1 December 2017, a new Board of Directors was elected. The new Board of Directors' composition is presented below:

EDWARD DOWLING

D.O.B:	10 May 1955

Role
Chairman of the Board of Directors,
Independent Director,
Member of the Nomination & Remuneration Committee,
Chairman of the Strategy Committee,
Member of the Audit Committee,
Member of the Operations Committee.

Experience
Edward Dowling's mining experience spans 30 years, and includes holding the positions of Executive Director for Mining and Exploration at De Beers, President and CEO of Meridian Gold Inc., and Executive Vice President for Operations at Cliffs Natural Resources Inc. He is a former Board member of De Beers Société Anonyme, Victoria Gold Corp, Polyus Gold International Limited, and Zinco de Brasil Inc.

External appointments
Chairman of the Board of Directors of Alacer Gold, where he served as President and CEO between 1998 and 2012. Board member at Teck Resources Limited, Canada's largest diversified mining company, and Detour Gold Corporation, a Canadian medium-sized gold mining company.

Education
Pennsylvania State University, degrees in mining engineering and mining processing (1982), Master's and PhD in mineral processing (1987 and 1998, respectively).

Note
Edward Dowling does not own any shares in PJSC Polyus.

KENT POTTER

D.O.B:	15 August 1946

Role
Chairman of the Audit Committee,
Member of the Nomination and Remuneration Committee,
Member of the Strategy Committee.

Experience
Kent Potter spent 27 years with Chevron, during which he held a number of senior management positions. In 2003, he was appointed CFO of TNK-BP. Following TNK-BP, he was appointed Executive Vice President and CFO of LyondellBasell Industries. Formerly, Mr Potter also served on the Board of EuroChem Group AG, the leading mineral fertiliser producer in Russia, and on the Board of SUEK Plc., Russia's largest coal producer and exporting company.

Education
Bachelor's degree in Engineering and an MBA from the University of California, Berkeley.

Note
Kent Potter does not own any shares in PJSC Polyus.

WILLIAM CHAMPION

D.O.B:	18 September 1952

Role
Chairman of the Operations Committee,
Member of the Nomination and Remuneration Committee,
Member of the Audit Committee.

Experience
William Champion has over 40 years' mining experience. From 2002 to 2014, he was at Rio Tinto where he held a number of senior management positions. These included Managing Director of Rio Tinto's Diamonds Business Unit and Managing Director of Rio Tinto Coal Australia.

External appointments
Member of the Board of Compañía de Minas Buenaventura S.A.A., the largest publicly traded precious metals company in Peru.

Education
BSc in Chemical Engineering from the University of Arizona.

Note
William Champion does not own any shares in PJSC Polyus.

MARIA GORDON

D.O.B:	13 February 1974

Role
Independent Director,
Chairman of the Nomination & Remuneration Committee,
Member of the Strategy Committee,
Member of the Audit Committee.

Experience
Maria Gordon has over 20 years of experience in finance and capital markets. She previously led the emerging markets portfolio management team at PIMCO, the world's second largest asset manager, as Executive Vice President and Head of EME Strategy. Prior to PIMCO, Ms Gordon spent 12 years at Goldman Sachs Asset Management, where she rose to Managing Director, Head of Emerging Markets Equity Strategy. During her time there, Ms Gordon became a lead emerging markets portfolio manager with assets under management of $10 billion.

External appointments
Non-Executive Director of the Moscow Exchange; Senior Independent Director and Chairman of the Audit Committee of ALROSA, the world's largest diamond producer.

Education
Bachelor's degree in Political Science from the University of Wisconsin; Master's degree in law and diplomacy from The Fletcher School of Law and Diplomacy at Tufts University.

Note
Maria Gordon does not own any shares in PJSC Polyus.

PAVEL GRACHEV

D.O.B:	21 January 1973

Role
Chief Executive Officer,
Member of the Strategy Committee,
Member of the Operations Committee.

Experience
From 2010 to 2013, Pavel Grachev served as Chief Executive Officer of the leading potash producer Uralkali, and then of the Far East and Baikal Region Development Fund. From 2006 to 2011, he worked as chief counsel and then managing director of the investment company Nafta Moskva. From 1997 to 2005, he was the head of the Moscow office of the law firm Pavia e Ansaldo (Italy). Mr Grachev has also served on the boards of RusHydro, Uralkali, PIK Group (as Chairman), and Polymetal.

External appointments
Since 2014, General Director of PJSC Polyus. Since 2016, General Director of Management Company Polyus LLC, a management company for JSC Polyus, and certain other its subsidiaries. Member of the Boards of Directors of the Federal Grid Company and RusHydro – two major Russian energy companies.

Education
St. Petersburg State University, University of Trieste (Italy), degrees in law.

Note
As of 20 March 2018, Pavel Grachev owns 133,157 ordinary shares in PJSC Polyus which represents 0.0997% of the share capital.

VLADIMIR POLIN

D.O.B:	10 August 1962

Role
Senior Vice President,
Operations,
Member of the Operations Committee.

Experience
Prior to joining Polyus, Vladimir Polin was Chief Operating Officer at En+, a leading Russian industrial group with assets in the metals, mining, and energy sectors. Before that, for three years, he headed the East aluminium division at Rusal, the world's leading aluminium producer. Prior to joining Rusal, Mr Polin spent almost ten years at Mechel, a major coal and steel producer in Russia, in a variety of senior posts, including Chief Executive Officer and Senior Vice President at Mechel Management.

External appointments
Member of the Boards of several PJSC Polyus subsidiaries.

Education
Chelyabinsk Polytechnic Institute, degree in metallurgy.

Note
As of 20 March 2018, Vladimir Polin owns 114,135 ordinary shares in PJSC Polyus which represents 0.0855% of the share capital.

MIKHAIL STISKIN

D.O.B:	6 July 1983

Role
Senior Vice President,
Finance and Strategy,
Member of the Strategy Committee.

Experience
Prior to joining Polyus, Mikhail Stiskin was Managing Director at Sberbank CIB (until 2011 known as Troika Dialog, where he was also a partner), a corporate and investment banking arm of Sberbank, Russia's largest financial institution, where he was in charge of research coverage of the metals and mining/fertiliser sectors. For many years his team was rated as best in the sector within both the CIS and EMEA regions, according to annual institutional investor surveys. He was also actively involved in a number of landmark transactions in the sector.

External appointments
Management positions and Board of Directors membership at PJSC Polyus subsidiaries.

Education
Moscow State Institute of International Relations, degree in economics (with honours); Master's in Economics from the University of Michigan (Ann Arbor).

Note
As of 20 March 2018, Mikhail Stiskin owns 76,090 ordinary shares in PJSC Polyus which represents 0.0570% of the share capital.

SERGEI NOSSOFF

D.O.B:	5 November 1977

Role
Executive Director of Polyus Gold International Limited and Polyus Finance PLC.

Experience
Sergei Nossoff has over 18 years of experience in metals and mining, private equity and investment banking. His experience in the industry includes senior executive positions at GeoProMining Group, an international gold, copper and antimony producer, and UC Rusal, a leading global aluminium producer.

Education
Sergei Nossoff graduated from the European Business School and holds an Executive MBA from INSEAD.

Note
Sergei Nossoff does not own any shares in PJSC Polyus.

SAID KERIMOV

D.O.B:	6 July 1995

Experience
Work at Kroford LLC.

External appointments
Said Kerimov currently works as Board Member at Polyus Gold International Limited.

Education
Moscow State Institute of International Relations (University) of the Russian Ministry of Foreign Affairs.

Note
Said Kerimov is the majority shareholder of PJSC Polyus indirectly controlling 82.44%[1] in the company's share capital.

Changes to the Board in 2017

Maria Gordon replaced Gulnara Kerimova on the Board, while Sergei Nossoff took over from Anastasia Galochkina.

[1] Including approximately 1.92% lent in the form of GDRs under stock lending arrangements which are expected to be used for the purposes of facilitating hedging activities of investors of convertible bonds due 2021 issued by Polyus Finance PLC.

SENIOR MANAGEMENT

Name	Position with the Company	Date of appointment
Pavel Grachev	Chief Executive Officer	02 October 2014
Mikhail Stiskin	Senior Vice President, Finance and Strategy	02 December 2013
Vladimir Polin	Senior Vice President, Operations	04 December 2014
Andrey Krylov	Vice President, Operations & Technical Development	27 October 2014
Sergey Lobov	Vice President, Mineral Resources	27 August 2013
Tamara Solntseva	Vice President, HR & Organisational Development	02 May 2017
Sergey Zhuravlev	Vice President, Government Relations	03 March 2014
Vyacheslav Dzyubenko	Vice President, Internal Audit	27 January 2014
Alexander Shitov	Vice President, Control & Compliance	05 October 2015
Elena Zhavoronkova	Vice President, Legal Affairs	13 October 2014
Stefan Gueorguiev	Vice President, Project Management & Capital Construction	08 September 2016
Felix Itskov	Vice President, Commercial & Logistics	20 July 2015
Oleg Solin	Vice President, Security & Asset Protection	02 December 2013
Lev Bondarenko	Vice President, Business Transformation	07 November 2016
Anatoly Bariluk	Managing Director, JSC Polyus Krasnoyarsk	30 June 2014
Igor Tsukurov	Managing Director, JSC Polyus Verninskoye	12 November 2012
Alexey Noskov	Managing Director, JSC Polyus Aldan	17 April 2015
Grigory Koldunov	Managing Director, JSC Polyus Magadan	22 June 2016
Maxim Semyanskikh	General Director, JSC ZDK Lenzoloto	01 December 2014

CORPORATE SECRETARY

Anna Solotova was appointed Corporate Secretary of PJSC Polyus on 1 April 2016. The main duties of the Corporate Secretary are:

- To facilitate and implement the information disclosure policy, as well as to provide storage for the Company`s corporate documents
- To facilitate interaction between the Company and its shareholders and participate in the prevention of corporate conflicts
- To facilitate the implementation of procedures established by legislation and the internal documents, which ensure the exercising of the rights and legal interests of shareholders and monitoring their fulfilment
- To prepare and facilitate the organisation of the General Meeting of the Company`s shareholders
- To prepare and facilitate the organisation of meetings of the Board of Directors and Committees of the Board of Directors
- To maintain the status of Polyus as a public company, interact with regulatory bodies, securities market operators, depositories, registrars, and other professional participants of the securities market
- To develop and keep up to date Polyus` internal documents governing the Company`s corporate management system
- To organise procedures aimed at developing Polyus` corporate management system
- To immediately notify the Board of Directors about any identified violations of legislation, as well as violations of provisions of Polyus` internal documents, observance of which relates to the functions of the Corporate Secretary of the Company

The statutory base of the functions of the Corporate Secretary of PJSC Polyus is, in addition to the Charter, the Regulation of the Corporate Secretary of PJSC Polyus, adopted by the Board of Directors in April 2016.

ANTI-CORRUPTION EFFORTS

Polyus operates a zero-tolerance policy towards bribery or any other form of corruption at all levels. Any evidence of violations of applicable anti-corruption laws will be investigated, following which disciplinary measures may be taken.

The Company complies with the legislative requirements of the Russian Federation. These include statutory and regulatory provisions to combat corruption and bribery, which impose restrictions and prohibitions on a wide range of actions during the process of engaging and communicating with private individuals and public officials.

Since 2011, Polyus has aimed to ensure that all anti-corruption law requirements are met. The Company has always placed a focus on high ethical standards and best business practice in the area of anti-corruption compliance.

Anti-corruption policies and associated internal documents that are directly applicable are embedded within Polyus, its business units, and professional services. These take into account all the requirements of Russian anti-corruption law, and stipulate full compliance with the legislative regulations of other countries where the Company's personnel (or other parties acting either on behalf of or to the benefit of Polyus) operate; in addition, the Company's international deals are subject to such legal standards.

All anti-corruption initiatives and strategies are implemented with the direct involvement of the Company's senior management. Essential issues relating to anti-corruption activity are included on the agendas of the Polyus Audit Committee and Board on a regular basis.

The managers of security divisions work in all the Company's business units to ensure the effectiveness of the respective policies and procedures and supervise their execution. In addition, the anti-corruption compliance function is performed by other Company divisions whose goal is to accomplish a specific task, as well as by each employee in their daily work routines.

Thus Company's personnel must understand and adhere to corporate policy standards and legislative regulations. To this end, a multi-stage training and education system is created for each employee, involving familiarisation with corporate documents, face-to-face interviews, distance learning certification and further information support, consultations, and clarifications.

A key responsibility of every Company employee is to promptly inform their compliance manager about any violations and 'red flags' that come to their attention. A hotline is available to all employees and interested parties, to report and share information. Details of the hotline are available on the Polyus official website: www.polyus.com.

The Company employs and regularly improves systems to monitor its contractors and third parties – and to engage new information service providers to mitigate corruption risks on the part of its partners. All agreements and draft contracts are subject to preliminary review and approval within the Company. These reviews focus on the assessment and subsequent monitoring of projects in high-risk areas. Corporate philanthropy, sponsorship projects, interaction with state authorities, selected projects associated with consulting services, etc are also subject to strict controls. In addition, the Company carefully monitors business entertainment spending.

In 2017, no legal proceedings took place related to corruption activities or any other non-ethical practices against the Company or its employees.

BOARD COMMITTEES

REPORT OF THE STRATEGY COMMITTEE

Dear Shareholders,

I am pleased to present the report of the Strategy Committee for 2017. The Committee's principal objective is to assist the Board of Directors in developing and implementing the long-term strategy of Polyus. This includes discussion and evaluation of various strategic planning, financial, risk and governance issues.

Details of the Committee's full remit are set out in the Regulation on the Strategy Committee, which is available in the Corporate Governance section of the official website of the Company at www.polyus.com

During 2017, we considered a number of strategy-related matters, including our investor relations strategy and credit ratings. We also assessed the results of the recent SPO and discussed the Company's debt management strategy for the year ahead. We welcomed Maria Gordon to the Committee at the end of the year.

Edward Dowling
Chairman of the Strategy Committee.

Membership

- Edward Dowling (Chairman)
- Kent Potter
- Pavel Grachev
- Mikhail Stiskin
- Maria Gordon (appointed on 5 December 2017)

Responsibilities

The main responsibilities of the Committee comprise:

- Elaborating recommendations to the Board of Directors in relation to strategic development issues
- Determining the priority areas of the Company's activity, its development strategy, as well as ways to implement it
- Improving activities related to the strategic management of the Company's equity
- Developing, approving, elaborating, and adjusting the Company's strategic development plans, as well as its long-term financial model and key indicators
- Introducing and improving the strategic planning procedure as a continuous management technology
- Monitoring the execution of the Company's approved development plans, assessing the Company's performance and risk exposure
- Analysing the effective governance structure and system of the Company and the entities controlled by it

Meetings

TThe Strategy Committee met four times in 2017. There were no absentees at any of the meetings.

Main activities

The key matters reviewed by the Committee in 2017 included:

- Assessment of the 2023 Eurobond placement results and debt portfolio management
- Review of the Polyus' credit ratings report
- Assessment of the SPO results
- Review of the Investor Relations strategy
- Discussion on the Company's debt management strategy for 2018, etc.

BOARD COMMITTEES

REPORT OF THE OPERATIONS COMMITTEE

Dear Shareholders,

On behalf of my fellow Committee members, I am pleased to present the report of Polyus' Operations Committee. The Committee's main objective is to oversee initiatives related to health, safety, the environment, social responsibility, and operational effectiveness for the purpose of implementing the Company's strategy and achieving its respective goals in these areas.

During the year we reviewed a number of matters including key health, safety and environmental issues and their related KPIs for 2017. We were also updated on progress at the Natalka operating site, the Mine-to-Mill programme and other projects, including BIO-4.

William Champion
Chairman of the Operations Committee.

Membership

- William Champion (Chairman)
- Edward Dowling
- Pavel Grachev
- Vladimir Polin

Responsibilities

The main responsibilities of the Committee comprise:

- Reviewing the Company's functional business strategy in health, safety, environmental and operational effectiveness
- Reviewing issues related to the membership in ICMM and other organisations
- Monitoring the results in health, safety, environmental and social responsibility areas
- Reviewing issues related to the Company's mineral resource and reserve statements
- Reviewing the Company's strategy and performance in operational effectiveness to comply with the requirements of integrated functioning reliability

Meetings

The Operations Committee met four times in 2017. There were no absentees at any of the meetings.

Main activities

The key matters reviewed by the Committee in 2017 included:

- Health, safety and environmental issues review and discussion on the key performance indicators for 2017
- Independent Directors' visit to the Natalka operating site feedback review
- Update on construction and commissioning progress at the Natalka operating site review post the launch of the hot commissioning process
- Update on implementation of the Mine-to-Mill programme review
- Updates on the BIO-4 project and the heap leaching project review, etc.

REPORT OF THE AUDIT COMMITTEE

As Chairman of the Audit Committee, I am pleased to present our report for 2017. The report provides an insight into the work of the Audit Committee over the year in relation to our business, the external auditors, and our role overseeing the Company's internal audit functions, as well as the significant issues relating to the financial statements which were debated by the Committee during the year.

The Audit Committee's function is to provide effective governance over the appropriateness of the Company's financial reporting. We do this by assessing risk management and control processes, ensuring that they are reliable, efficient and fit for purpose. We also review the Company's accounting practices and financial statements – and oversee the internal and external audit functions.

In 2017 our discussions included comprehensive assessment and approval of the Company's financial statements, internal and external audit plans as well as a review of management initiatives to improve internal financial controls and reporting. We also reviewed the resourcing and effectiveness of the internal audit system and the performance of the external auditor.

Independent Director Maria Gordon joined the Committee following her appointment to the Polyus Board. Her expertise and experience are a most welcome addition to our deliberations.

Kent Potter
Chairman of the Audit Committee.

Membership

- Kent Potter (Chairman)
- Edward Dowling
- William Champion
- Maria Gordon

Edward Dowling and William Champion were members of the Committee from 29 April 2016 to the date of this report. Maria Gordon was appointed to the Committee on 5 December 2017.

Responsibilities

The Committee's roles and responsibilities are set out in accordance with Guidance on Audit Committees issued by Financial Reporting Council (UK) in April 2016. As a Committee, it is responsible for:

- Reviewing the announcements of the Company's financial results, including the Interim Reports, Annual Report and Financial Statements, and monitoring compliance with relevant statutory and stock exchange requirements
- Reviewing the internal control and risk management systems and assessing the adequacy of these systems to prevent fraud, protect company assets, ensure compliance with all applicable laws and regulations, and avoid material misstatements in the financial reports of the Company
- Explaining what actions have been, or are being taken, to remedy any significant failings or weaknesses
- Impact assessment of key judgements and the level of management challenge
- Reviewing external audit findings, key judgements, and the level of misstatements
- Assessing the quality of the internal team, their incentives, and the need for supplementary skillsets
- Assessing the completeness of disclosures, including consistency with disclosures on the business model and strategy and, where requested by the Board, providing advice in respect of fair, balanced, and understandable statements
- Overseeing the relationship with the external auditor, covering their appointment, assessing the audit's quality, effectiveness, and independence
- Reviewing the effectiveness of the Company's systems for financial control, internal audit, financial reporting and risk management, incorporating a review of reports on any significant frauds, misappropriation of assets or unethical behaviour
- Reviewing and approving the remit of the Internal Audit function, ensuring its independence, and that there are the necessary resources and access to information available in order for it to fulfil its mandate
- Assuring that the system of notification for potential cases of unethical practices by Company employees (including the unfair use of any insider or confidential information) and third persons, as well as other violations of the Company's activity, is efficient; assuring that the practices adopted by the Company within the framework of such a system are duly implemented

BOARD COMMITTEES

REPORT OF THE AUDIT COMMITTEE continued

Committee evaluation

The Committee was subject to an internal self-evaluation as part of the Board self-evaluation process. This focused on the Board's and each Committee's performance, via the completion of a detailed survey by each Board (and Audit Committee) member. The Committee members agreed strongly that the Committee was effective in carrying out its mandate; it received well-presented papers and good reports from management. In 2017, the Committee dealt with important and meaningful issues and was able to make collective judgments about important matters. No significant areas of concern were noted. The Committee plans to continue focusing on work of Internal Audit in 2018.

Meetings

The Committee met ten times during the year. The table below details the Board members and the members of senior management that were invited to attend meetings as appropriate during the calendar year. In addition, ZAO Deloitte & Touche CIS ('Deloitte') attended the meetings as auditors of the Company by invitation.

Audit Committee attendees

Kent Potter	Chairman of the Audit Committee
Edward Dowling	Member of the Audit Committee
William Champion	Member of the Audit Committee
Pavel Grachev	Chief Executive Officer attended by invitation
Mikhail Stiskin	Chief Financial Officer attended by invitation
Maria Gordon	Member of the Audit Committee

The Committee members' attendance at the meetings held during the calendar year is summarised on page 131.

Main activities

Over the course of the period since the last Annual Report, the Committee's work has focused on the following areas:

(i) Financial reporting

(ii) Internal control and risk management

(iii) Internal audit

(iv) External audit

(i) Financial reporting
The Committee's principal responsibility in this area is to review and challenge, where necessary, the actions and judgements of management in relation to financial statements before submission to the Board. The Committee's activities comprised:

- Assessing and approving the 2017 Annual Report, the interim consolidated financial statements for the three, six and nine months 2017 and consolidated financial statements for the full year 2017, and the Interim Management Reports for the first, second and third quarters of 2017
- Approving the expected auditor's fees for 2017, and monitoring the proposed audit timetable for 2017, as well as the proposed overall timeline for the 2017 Annual Report preparation
- Assessing and approving both the external and internal audit plans for 2017, and ensuring that all significant audit risks are properly covered
- Assessing and analysing the external auditor's non-audit services provided in 2017
- Assessing key accounting policies and critical accounting judgments and estimates, including complex derivative transactions and their disclosure in the consolidated financial statements
- Assessing the going concern basis for the preparation of the consolidated financial statements
- Advising and supporting the Board to help it assess whether the Annual Report is fair, balanced, and understandable
- Reviewing management initiatives to improve the effectiveness of internal financial controls, management and financial reporting
- Reviewing the annual budget

(ii) Internal control and risk management
The Board established a continuous process for identifying, evaluating, and mitigating the significant risks the Company faces and for determining the nature and extent of any significant risks against the risks the Board is willing to take to achieve its strategic objectives, and regularly reviewed the risk mitigation process. The Board is also responsible for implementing the Company's system of internal controls. Such a system is designed to manage rather than eliminate the risk of failing to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board regularly reviews the effectiveness of the Company's risk management and internal control systems and monitors the implementation of the anti-corruption policy. During the year, the Committee focused on improving functional interaction between Security and Internal control and Internal Audit functions, and reviewed the implementation of the Company's Anti-corruption and Anti-fraud programme.

The Board's monitoring covers all material controls, including financial, operational and compliance controls, and is primarily based on reviewing reports from management to assess whether significant risks have been identified, evaluated, managed, and monitored and whether any significant weaknesses have been promptly remedied, and to indicate any need for more extensive monitoring. In 2017, the Board has also performed a specific risk assessment for preparing this Annual Report. This assessment considers all the significant aspects of risk management and internal controls arising during the period covered by the Report, including the work of internal audit.

During the year, the Committee approved the Company's Risk Management and Internal Control Policy, which substituted the Regulation of Internal Control over the Company's economic activity, previously approved in 2006.

During the course of its reviews of the risk management and internal control systems in the period, the Audit Committee did not identity or was advised of any failings or weaknesses, which were determined to be significant.

(iii) Internal audit
One of the main duties of the Committee is to review the annual Internal Audit programme and to ensure that the internal audit function is adequately resourced (which includes assessing the independence of the function) and has appropriate standing within the Company. A risk-based approach is taken when deciding which businesses and which processes to audit, as well as the scope of each audit. The factors considered include critical system or senior management changes in the period, financial results, the timing of the most recent Internal Audit visit, and any other assurance reviews undertaken.

The Internal Audit Plan is reviewed in detail and approved by the Committee each year. The Head of Internal Audit reports quarterly on audit activities, progress against the plan, and the results of audit visits, with a particular focus on high-priority findings and action plans, including management responses to address these areas.

Private discussions between the Head of Internal Audit and the Committee Chairman are held during the year and at least once a year with the full Committee. The Chairman, along with other Audit Committee members, review all key audit findings and issues identified by Internal Audit during the course of their audits and reviews.

Internal Auditor effectiveness
An annual assessment of the effectiveness, independence and quality of the Internal Audit function was undertaken by way of questionnaire to Committee members, management and external auditors and was found satisfactory.

(iv) External audit
Deloitte remains the current auditor of the Company.

External Auditor effectiveness
The effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. Deloitte presents its detailed audit plan to the Committee each year, identifying its assessment of the key risks. For the current period, key focus areas were the impairment and commissioning of the Natalka mine, valuation and hedge accounting for financial instruments, going concern issues, exploration and evaluation assets, and the accounting aspects of transactions relating to participating in the auction to acquire the licence for the Sukhoi Log deposit. Revenue recognition was selected by Deloitte as part of its work to assess the risk of fraud or management overriding internal controls. In respect of this area, the Audit Committee was assured by the work of the auditors when they confirmed that there was nothing that had to its brought to our attention. In addition, the Committee derived assurance from the work of Internal Audit.

The Committee discussed the performance of Deloitte during the period and was satisfied that the level of communication and reporting was in line with the requirements. This also included a review of effectiveness and quality of the audit management. The evaluation of Deloitte also included the planning of the audit and post-audit evaluation.

BOARD COMMITTEES

REPORT OF THE AUDIT COMMITTEE continued

The Committee's assessment of the effectiveness and quality of the audit process in addressing these matters is formed by, among other things, a review of the reporting from the auditors to the Committee and by seeking feedback from management on the effectiveness of the audit process. Overall, management is satisfied that there is an appropriate focus on and challenges to the primary areas of audit risk.

The Committee holds private meetings with the external auditor quarterly to provide additional opportunities for open dialogue and feedback from the Committee and the auditor without management being present. Matters typically discussed include the auditor's assessment of business risks and related management activity, the transparency and openness of interactions with management, confirmation that there has been no restriction in scope placed on them by management, and how they have exercised professional scepticism. The Committee Chairman also meets or communicates with the lead audit partner outside the formal Committee process, as necessary, throughout the year.

Based on input from management and discussions held with Deloitte, the Committee is of the view that the audit process is of high quality.

Independence and non-audit services
Oversight and responsibility for monitoring independence, objectivity, and compliance with ethical and regulatory requirements remain the day-to-day responsibility of the Company's CFO, and are reported to the Audit Committee or the Board.

The Company's CFO and the Audit Committee set out the categories of other non-audit services that the external auditor will and will not be allowed to provide to the Company. Types of other non-audit services external auditors should not perform so as to avoid compromising their independence (unless it can be clearly shown that the auditor undertaking such activity creates no threat to auditor independence) include:

- Work related to the maintenance of accounting records and the preparation of consolidated financial statements that will ultimately be subject to an external audit
- Management of, or significant involvement in, internal audit services
- Design and implementation of the financial information system
- Actuarial services
- Investment advice and banking service
- Advising the Remuneration Committee (other than general assistance relating to appropriate levels of disclosures and accounting advice)
- Legal services
- Custody of assets
- Valuation services of a public nature
- Any work where a mutuality of interest is created that could compromise the independence of the external auditor

Audit and other assurance services comprise statutory and voluntary audits, interim reviews, reporting accountants' work, and other assurance engagements, all of which require that the firm conducting the work is independent.

Total fees incurred during the financial year are set out in the table below. The Audit Committee monitors the ratio of other fees to Audit and Other assurance fees, as set out below:

Professional fees earned by Deloitte in 2017, $'000s:

Total audit fees		**655**
Total other assurance fees		**1,669**
Audit-related assurance services	1,500	
Sustainability assurance services	169	
Total audit and other assurance fees		**2,324**
Total other advisory services		**855**

Each project in connection with the transformation underwent a competitive tender process, seeking the engagement of major accounting and consulting firms in order to appoint the best service provider. Deloitte was successful in securing some of these projects, where it had the most specific skills and were clearly the best candidate, and, importantly, where in the opinion of the Company, Deloitte's appointment did not conflict with its position as auditors.

Advisory services related to advice on developing a budgeting, treasury, and investment methodology
These services were discussed and agreed with the Audit Committee during the reporting and previous year. A separate team, fully independent from the audit engagement, provides these non-audit services.

Areas of focus
The Audit Committee discussed with management the critical accounting judgements and key sources of estimation uncertainty outlined in note 4 to the 2017 consolidated financial statements.

The significant areas of focus from this discussion and how these were addressed are outlined below:

Matters considered	Action
Derivative financial instruments The Company has a set of various derivative contracts to hedge or reduce exposure to the gold price, currency, and interest rate fluctuations. Valuation of these instruments is based on management's judgements and estimates, which could significantly affect the amounts recognised in the financial statement. The financial statement positions of these derivatives as at 31 December 2017 are outlined in the table on pages 156 to 163.	The Audit Committee reviewed detailed reports provided by external auditors, examining continuing compliance with the criteria for hedge designation in accordance with IAS 39 and the valuation and disclosures in the consolidated financial statements, and considering them appropriate.
Recoverability of exploration and evaluation assets Management's judgement is required to determine whether expenditure that has been capitalised as exploration and evaluation assets is appropriately classified and valued.	The Audit Committee was given a presentation by management on the recoverability of the exploration and evaluation asset portfolio. This included an assessment that no IFRS 6 impairment indicators were present, which was considered appropriate.
Impairment and commissioning of the Natalka mine During 2017, the gold price, the USD/RUB exchange rate and discount rate were relatively stable and have not triggered impairment indicators. Respectively no full-scale impairment test was required per IAS 36. Based on the prior year model, sensitivity analysis showed impairment starts only at a long-term exchange rate of 53 RUB/USD and gold price of $1,327/oz (or another scenario 60 RUB/USD and $1,186/oz). Those price and ex-rate are derived from long-term forecasts received from the top banks. Test production at the mine was launched in September 2017. Ramp-up will continue until approximately 70% of designed volume and recovery are reached.	The Audit Committee received detailed analysis from the Company. External auditors reviewed the analysis prepared by management and challenged the appropriateness of the assumptions, including sensitivity testing. Areas of focus were the achievability of the updated mining plan, assumptions in relation to the rouble to US dollar exchange rate, the gold price and the discount rate. Auditors concurred that no impairment indicators were identified and confirmed that no disclosure is required in the financial statements.
Going concern Under IFRS, management must consider the going concern assumption for a period of not less than 12 months from the reporting date.	The Audit Committee reviewed the external auditors' presentation, with a detailed analysis of the going concern model prepared by management, challenging the assumptions used in outlining their rationale for adopting the model. The Company has no issues with covenant compliance in all scenarios, as the model is not very sensitive to key parameter fluctuations, including related to gold prices and exchange rates, and there is a significant cushion before at least one of the covenants would be breached.

BOARD COMMITTEES

REPORT OF THE NOMINATION AND REMUNERATION COMMITTEE

Dear Shareholders,

On behalf of my fellow Committee members, I am pleased to present the report of the Nomination and Remuneration Committee for 2017.

This Committee's terms of reference include issues related to the establishment of an efficient and transparent remuneration policy, approval of appointments of officers reporting to the CEO and staff planning.

This Committee also ensures the Board has an appropriate balance of knowledge, capabilities, skills, experience, independence, and diversity to effectively discharge its responsibilities and duties. Apart from that, we must ensure the appropriate selection criteria and processes are in place to identify a diverse range of suitable candidates for Board vacancies as and when they arise. The Committee is also regarded as an advisory and consultative body ensuring that the Board of Directors efficiently performs its functions in the area of general management of the Company.

This Committee makes recommendations on the membership and chairmanship of Board Committees and is responsible for succession planning for directors and other senior executives.

During the year we considered a variety of issues at our meetings, including KPIs for senior management, amendments to the LTIP, and self-assessment of the Board's performance.

Maria Gordon joined the Committee in December, replacing Anastasia Galochkina.

Maria Gordon
Chairman of the Nomination and Remuneration Committee[1].

Remuneration of the Board of Directors

In 2017, the Board of Directors of the Company consisted of the following three categories of directors:

- Executive Directors
- Non-Executive Directors representing major shareholders of the Company
- Independent Non-Executive Directors

In accordance with the Directors' Remuneration Policy of the Company, only Independent Non-Executive Directors were entitled to receive remuneration for their services as members of the Board of Directors.

Each of the Independent Non-Executive Directors receives a total of $165,000 annually, paid on a monthly basis starting from the date of their election to the Board until the date of termination of their powers.

If an Independent Non-Executive Director is elected as Board Chairman of PJSC Polyus, he or she receives an additional annual compensation in the total amount of $135,000.

The additional compensation in the total amount of $10,000 annually is paid for the membership in each of the Committees. $50,000 annually is paid for the chairmanship of the Audit Committee, $30,000 annually is paid for the chairmanship of other Board Committees.

All Directors were entitled to be reimbursed for expenses that are incurred in the performance of their duties on the Board.

The remuneration paid to Independent Non-Executive Directors in 2017 amounted to $845,927.

The reimbursement of expenses for Independent Non-Executive Directors amounted to $7,408.

The Company's expenses for servicing of the Board of Directors amounted to $161,759.

[1] Edward Dowling has been Chairman of the Nomination and Remuneration Committee as at 31 December 2017. Maria Gordon became the new Chairman of the Nomination and Remuneration Committee on 6 March 2018.

Remuneration of the top management

The remuneration of the CEO and other members of the top management team consisted of:

- A basic monthly salary, which is fixed in individual employment contracts
- An annual bonus under the short-term incentive plan (STIP), which is linked to the attainment of corporate and functional key performance indicators (KPIs), as well as to a personal performance assessment
- Award of the long-term incentive plan (LTIP), which was adopted by the Board of Directors in December 2016

Basic salaries were reviewed annually, with any possible changes taking effect from 1 April and taking into account:

- Individual and business performance
- Level of experience
- Scope of responsibility, including any changes during the year
- External comparisons to international and Russian peers

Annual bonuses under the STIP were based on performance conditions calibrated and set by the Remuneration Committee of the Board at the start of each financial year. Actual performance was measured over the preceding financial year.

Targets within the STIP reflected the Company's annual plan, which in turn reflected the strategic priorities of the Company. The corporate KPIs consisted of:

- Adjusted EBITDA
- Gold production volume
- Total cash cost per ounce of gold sold
- Safety Culture Evaluation

Each of the corporate and functional KPIs has predetermined minimum, target and maximum values, against which the actual results are assessed.

Achieving target results will lead to an on-target STIP payment. Minimum and maximum results are rewarded according to a predetermined numerical scale for each KPI.

The on-target STIP opportunity was set at 100% of the annual base salary for all top managers.

The maximum opportunity was calculated individually for each KPI, but typically did not exceed 120% of the annual base salary for exceptional performance.

Under the terms of the LTIP, eligible members of the senior management of PJSC Polyus and its subsidiaries will be granted options to purchase in the aggregate of up to 1,913,200 ordinary shares of PJSC Polyus, constituting approximately 1.4 percent of the entire issued and outstanding share capital of PJSC Polyus. Neither the members of the Board of Directors of the Company nor members of the management of the Company are or will be entitled to options to purchase ordinary shares of PJSC Polyus under the terms of the LTIP.

The remuneration paid to the CEO and other top managers for the services rendered in 2017 totalled $19,349,075[2].

Diversity policy

Polyus recognises and embraces the principle that diversity benefits and enhances the quality of performance of its business.

The Company views increasing diversity at Board level as an essential prerequisite to attaining its strategic objectives as well as a sustainable and balanced development. When deciding on the Board's composition, Board diversity was considered from a number of perspectives, including gender, age, cultural and educational background, professional experience, skills, knowledge, and length of service.

All Board appointments are based on a meritocratic approach, and candidates are considered against objective criteria, with due regard for the benefits of diversity on the Board and within Polyus.

[2] Converted from roubles at the average annual exchange rate of 58.35 roubles per $1.

BOARD COMMITTEES

REPORT OF THE NOMINATION AND REMUNERATION COMMITTEE continued

Potential benefits of Board diversity are:

- Creativity and different perspectives
- People from different backgrounds and with different life experiences are likely to approach similar problems in different ways
- Access to resources and connections
- By selecting Directors with different characteristics, firms can gain access to different resources. For example, Directors with financial industry experience can help firms gain access to specific investors
- Career incentives through signalling and mentoring
- Diversity in the boardroom can signal to lower-level employees that the Company is committed to promoting minority workers, or at least that their minority status is not a hindrance to their career prospects within the Company

The Nomination and Remuneration Committee reported annually on the Board's composition in terms of the diversity of its make-up, and monitored the implementation of this policy until the delisting.

The Nominations and Remuneration Committee reviewed and assessed Board composition on behalf of the Board and recommended the appointment of new Directors. The Committee also oversaw the annual review of Board effectiveness.

In reviewing Board composition, the Committee considered the benefits of all aspects of diversity. When identifying suitable candidates for appointment to the Board, the Committee considered candidates based on merit, against objective criteria, and with due regard for the benefits of diversity.

As part of the annual performance evaluation of the effectiveness of the Board, Board Committees considered a balance of skills, experience, independence, the knowledge and diversity make-up of the Board (including gender), how the Board worked together as a unit, and other factors relevant to its effectiveness.

The Board recognises that some challenges in achieving diversity on the Board arise from the industry in which the Company operates, and are not related to the specifics of the Company. The Company faces challenges similar to those faced by other companies and organisations in the metals and mining industries.

By the end of 2017, women made up 16% of the Company's total workforce, and there were two women among top managers. With the exception of a minor period, since 2012 the Board has always had at least one female member.

Human Rights Policy

Polyus is committed to integrating the best practices for human rights into our business processes and to having these best practices inform our decision-making and due diligence processes. The Company's Human Rights Policy mandates that we operate in a way that respects the human rights of all employees and the communities in which we operate.

To meet our responsibilities to respect human rights, the Company makes the following commitments:

- All employees will uphold and respect the human rights set forth in the Universal Declaration of Human Rights and international humanitarian law
- The Company respects the rights and dignity of employees, contractors, and local communities and is committed to providing equal opportunity and freedom from discrimination for all
- The Company respects workers' rights, including freedom of association, the right to peaceful protest and assembly, and engagement in collective bargaining in association with International Labour Organization conventions on organising and collective bargaining
- The Company respects the rights and traditions of indigenous people and seeks to protect cultural and spiritual heritages as well as the environment
- The Company supports the elimination of all forms of forced, compulsory, and child labour
- The Company seeks opportunities to provide training and capacity building in accordance with the voluntary principles to public security forces
- The Company is committed to the continual improvement of its human rights standards and practices and to that end, will regularly review and assess the effectiveness of and compliance with these standards and practices

Polyus commits to conducting its operations in accordance with domestic legal requirements and internationally recognised human rights.

The Nomination and Remuneration Committee is responsible for overseeing the implementation of the Human Rights Policy. This policy is informed by, and should be read in conjunction with, Polyus' Diversity and Anti-corruption policies.

Key objectives

- To ensure that the Board has an appropriate balance of knowledge, capabilities, skills, experience, independence, and diversity to enable it to effectively discharge its responsibilities and duties
- To ensure that the Board has appropriate selection criteria and processes in place to identify a diverse range of suitable candidates to fill Board vacancies as and when they arise
- To recommend to the Board the membership and chairmanship of Board Committees
- To give full consideration to succession planning for Directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and the skills, knowledge, and capabilities that will be needed on the Board in the future

Membership

- Edward Dowling (Chairman), Independent Non-Executive Director
- Anastasia Galochkina (retired on 1 December 2017), Non-Executive Director representing major shareholders of the Company
- Kent Potter, Independent Non-Executive Director
- William Champion, Independent Non-Executive Director
- Maria Gordon (appointed on 5 December 2017), Independent Non-Executive Director

The majority of Nomination and Remuneration Committee members are Independent Non-Executive Directors.

Responsibilities

The Nomination and Remuneration Committee was primarily required to ensure that the Board:

- Operates in such a way that the duties of the Directors are likely to be efficiently discharged
- Adds value to the Company
- Has a variety of relevant diverse backgrounds, perspectives, skills and personal characteristics, as well as a good understanding of current and emerging issues of the business
- Can effectively review and challenge the performance of management and exercise independent judgment
- Has the necessary competencies, knowledge, capabilities, and experience to enable it to discharge its mandate effectively

The Nomination and Remuneration Committee oversaw the makeup of the Board in terms of the diversity and capacity required to oversee the delivery of the Company's strategy.

Meetings

The Committee met four times in 2017. There were no absentees at any of the meetings.

Main activities

Among the key matters reviewed by the Committee in 2017 were the following:

- KPIs for senior management following the results of 2016 and for 2017
- Amendments to the LTIP
- Self-assessment of the Board's performance
- Membership of Board Committees

DIVIDEND POLICY

Russian law governs the procedure for how a company pays dividends to its shareholders. Dividends may be paid on a quarterly, semi-annual or annual basis. Under the Russian Law On Joint-Stock Companies, dividends may only be paid out of the Company's net income, calculated according to Russian Accounting Standards. Under the Joint-Stock Companies Law and the Company's Charter, it is within the competence of the Board of Directors to recommend to shareholders the amount of dividends for approval by a majority vote at the general shareholders' meeting. The dividend approved at the shareholders' meeting may not exceed that recommended by the Board of Directors.

Dividends, if declared, are payable to shareholders within 60 days after their declaration, unless a different time period is stipulated by the shareholders' resolution declaring the payment of dividends.

On 7 October 2016, the Board of Directors of the Company approved a dividend policy, pursuant to which the Company, subject to applicable requirements of Russian law for dividends to be paid out of net profit determined in accordance with Russian Accounting Standards, pays dividends on a semi-annual basis in an amount of 30% of the EBITDA for the applicable reporting period. Payment will be calculated on the basis of the consolidated financial statements of the Company prepared in accordance with IFRS requirements, provided that the net debt/adjusted EBITDA ratio for the previous 12 months based on the consolidated financial statements of the Company is lower than 2.5x.

Should the net debt/adjusted EBITDA ratio for the previous 12 months be higher than 2.5x, the Board of Directors of the Company will exercise discretion on dividends, taking into account the Company's financial position, free cash flow, outlook, and macro-economic environment.

The Board of Directors of the Company may consider the option of paying special dividends, subject to the Company's liquidity position, capital expenditure requirements, free cash flow, and leverage.

The Dividend Policy is intended to provide key stakeholders with visibility on dividend distributions and aims to balance the appropriate cash returns to equity holders with the requirement to maintain a balanced and sound financial position.

Revision to dividend policy – January 2018

In January 2018, the Board approved an amendment to the Company's dividend policy, setting the minimum dividend payout in respect of each of 2017 and 2018 at $550 million. As a result, the dividend payment will comprise the higher of 30% of EBITDA of Polyus stipulated by the policy – or $550 million for the respective reporting period.

The provision on the minimum dividends will apply exclusively to the dividends for 2017 and 2018. For dividends in respect of the year 2019 onwards, the Company will adhere to the initial payout basis of 30% of EBITDA.

ANNUAL GENERAL MEETING

The General Shareholders' Meeting is the highest governing body for the Company's related affairs.

Procedure

The terms of reference of a shareholders' meeting are set forth in the Joint-Stock Companies Law as well as in the Company's Charter. A shareholders' meeting may not decide on issues that are not included in its terms of reference as set out in the Joint-Stock Companies Law.

Voting at a General Shareholders' Meeting is generally done according to the principle of one vote per ordinary share, with the exception of the election of the Board of Directors, which is done through cumulative voting. Decisions are generally passed by a majority vote of the shareholders present at a General Shareholders' Meeting. However, Russian law and the Company's Charter require a three-quarters majority vote of the holders of shares present at a General Shareholders' Meeting to approve the following:

- Charter amendments
- Reorganisation or liquidation
- Certain major transactions, including major transactions involving assets in excess of 50% of the balance sheet value of the assets of the Company
- Determining the number, nominal value, and type of authorised shares as well as the rights granted by such shares
- Repurchase by the Company of its issued shares
- Adoption of a decision on the filing of an application to delist the Company's shares and/or other securities convertible to shares
- Any issuance of shares or securities convertible into ordinary shares by closed subscription, or
- Issuance by an open subscription of ordinary shares or securities convertible into ordinary shares, in each case constituting more than 25% of the number of issued and outstanding ordinary shares

The quorum for the Company's Shareholders' Meeting is met if shareholders (or their representatives) accounting for more than 50% of the shares are present. If the 50% quorum requirement is not met, another Shareholders' Meeting with the same agenda may (or, in the case of an annual meeting, must) be scheduled and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the shares are present at such meeting.

The Annual General Shareholders' Meeting must be convened by the Board of Directors between 1 March and 30 June of each year, and the agenda must include the following items:

- Election of the members of the Board of Directors
- Approval of the annual statutory report, balance sheet, and profit and loss statement
- Approval of the distribution of profits, including the approval of annual dividends, if any
- Approval of an independent auditor for statutory accounts
- Election of members of the Internal Audit Commission

The Shareholders' Meeting also approves the remuneration of the members of the Board of Directors. A shareholder or group of shareholders owning in aggregate at least 2% of the issued voting shares may introduce proposals for inclusion in the agenda of the annual General Shareholders' Meeting and may nominate candidates to the Board of Directors and the Internal Audit Commission. Any agenda proposals or nominations must be provided to the Company by no later than 28 February.

Extraordinary General Shareholders' Meetings may be called by the Board of Directors at its own initiative, or at the request of the Internal Audit Commission, the independent auditor of the statutory accounts or a shareholder or group of shareholders owning in aggregate at least 10% of the shares as at the date of the request.

A General Shareholders' Meeting may be held in a form of a meeting or by absentee vote. The form of a meeting contemplates the adoption of resolutions by the General Shareholders' Meeting through the attendance of the shareholders or their authorised representatives for the purpose of discussing and voting on issues on the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the Company without personally attending the meeting. A General Shareholders' Meeting by absentee vote contemplates the determination of shareholders' opinions on issues on the agenda by means of a written poll.

ANNUAL GENERAL MEETING

Notice and participation

The Company's shares are listed for trading on the Moscow Stock Exchange and, as a result, PJSC Polyus is subject to certain shareholder notification requirements. Under the Company's Charter, all shareholders entitled to participate in a General Shareholders' Meeting must be notified of the meeting, whether the meeting is to be held in direct form or by absentee ballot, no less than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting.

However, shareholders must be notified at least 50 days prior to the date of the meeting in the cases of an Extraordinary General Shareholders' Meeting to elect the Board of Directors, or a General Shareholders' Meeting to approve any reorganisation in the form of a merger, spin-off or demerger and to elect the Board of Directors of Polyus established as a result of any reorganisation in the form of a merger, spin-off or demerger. Only those items that were set out in the agenda may be voted on at a General Shareholders' Meeting.

The list of persons entitled to participate in a General Shareholders' Meeting is compiled from the Company's shareholders register on the date set by the Board of Directors. The date may not be earlier than 10 days from the date of adoption of the Board's resolution to hold a General Shareholders' Meeting, or more than 25 days before the date of the meeting (or, in the case of a shareholders' meeting to approve a reorganisation, not more than 35 days before the date of the meeting).

The right to participate in a General Shareholders' Meeting may be exercised by a shareholder as follows:

- By personally participating in the discussion of agenda items and voting thereon
- By sending an authorised representative to participate in the discussion of agenda items and to vote thereon, or by absentee ballot

DIRECTORS' REPORT

Fair, balanced, and understandable

The Directors considered this Annual Report and accounts, taken as a whole, to be fair, balanced, and understandable, meeting obligatory regulatory requirements, and providing the necessary information for all stakeholders to assess the Company's strategy, business model, and performance. The report discusses all aspects of the Company's business, and provides non-IFRS financial metrics in addition to the figures disclosed in the consolidated financial statements. In justifying this statement, the Directors have considered the robust process, which operates in creating the Annual Review and the financial statements, including:

- Clear guidance and instructions are given to all contributors
- Early warning meetings are conducted between management and the auditors in advance of the year-end reporting process
- Input is provided by senior management and corporate functions
- Further reviews are conducted by senior management
- Final sign-off is provided by the Board of Directors

Review of operations and principal activities

The Strategic Report disclosed on pages 3 to 69 provides a comprehensive review of Polyus operations, its financial position, and its business strategies and outlook, and is incorporated by reference to, and forms part of this Directors' report.

The Company's principal activities during 2017 were the production and sale of gold. The Company is also engaged in exploration, construction, and research activities in order to maintain its operations.

Pages 3 to 69 of the Strategic Report provide a full consideration of the performance and key milestones of Polyus operations for the year ended 31 December 2017, and the potential aspects of further growth, coupled with the expected results of those operations.

Risk identification, assessment, and treatment

The Company's principal risks & uncertainties and risk treatment are disclosed in the Strategic Report on pages 30 to 33.

Share capital

PJSC Polyus share capital consists of 133,561,119 issued, fully paid, registered ordinary shares, each with a par value of 1.00 rouble, issued in accordance with the laws of the Russian Federation. PJSC Polyus also has 22,578,472 authorised and non-issued ordinary shares, each with a par value of 1.00 rouble.

In September 2016, PJSC Polyus' Extraordinary General Meeting voted on the issuance of 28,594,162 authorized and non-issued ordinary shares, each with a par value of 1.00 rouble.

On 22 December 2016, PJSC Polyus' Extraordinary General Meeting approved the reorganization of PJSC Polyus in the form of a merger of LLC Polyus-Invest, a then subsidiary of PJSC Polyus, into PJSC Polyus and the decrease of PJSC Polyus' charter capital by way of cancellation of 63,082,318 shares of PJSC Polyus then held by LLC Polyus-Invest following completion of the merger. The merger and subsequent cancellation of PJSC Polyus' shares were completed on 7 April 2017 and 10 April 2017, respectively. Prior to the completion of the merger, PJSC Polyus' share capital consisted of 190,627,747 shares. Following the completion of the merger and cancellation of 63,082,318 shares held by LLC Polyus-Invest, the share capital of PJSC Polyus was decreased by 63,082,318 shares. PJSC Polyus has not cancelled the 1,913,200 shares that it received from LLC Polyus-Invest in the merger. Currently, approximately 1.6 million of such shares are being held by PJSC Polyus as treasury shares primarily for general corporate purposes, including possible sale and the LTIP. During the nine months ended 30 September 2017, 290,049 treasury shares were used as proceeds for the 3.8 per cent increase in the Company's holding in the share capital of SL Gold.

On 30 June 2017, American Depositary Shares and Global Depositary Shares representing ordinary shares of PJSC Polyus were admitted to the Official List of the UKLA and to trading on the London Stock Exchange. In connection with the listing, PJSC Polyus made an offering of 12,910,081 of its ordinary shares in the form of shares and Global Depositary Shares, including through the facilities of the London Stock Exchange and the Moscow Exchange, raising approximately $858 million ($400 million of such proceeds were attributable to PJSC Polyus, with the remaining $458 million attributable to PGIL as selling shareholder) after the exercise of the over-allotment option.

No preference shares are authorised or outstanding. Additional ordinary shares in excess of the number of authorised and non-issued ordinary shares stipulated in PJSC Polyus Charter or any additional preference shares may only be issued if the scope of the relevant authorisations in PJSC Polyus Charter is amended by a shareholders' resolution.

DIRECTORS' REPORT

Substantial shareholdings

The shareholder structure as of 31 December 2017 was as follows:

- 82.44% – Polyus Gold International Limited
- 0.91% – treasury shares
- 16.65% – free float

Dividends

Information about the dividend policy is outlined in the section 'Dividend Policy' in the Corporate Governance Report on page 148.

Registration and domicile

The Company was incorporated in the Russian Federation on 17 March 2006, as an open joint-stock company for an unlimited duration, and it operates under the laws of the Russian Federation.

The Company is registered at building 1, 15 Tverskoy Boulevard, Moscow 123104, Russian Federation, with state registration number 1068400002990.

The Company's main administrative office and its registered office are located at building 1, 15 Tverskoy Boulevard, Moscow 123104, Russian Federation, and its telephone number is +7 (495) 641-3377.

Corporate governance statement

As the shares are included on the First Level quotation list on the Moscow Stock Exchange, the Company is required to comply with a number of corporate governance requirements, primarily deriving from Russian law and regulations.

Such requirements include:

- At least three (and not less than one fifth) of the board of directors should be independent directors, with the independence criteria determined pursuant to the Listing Rules of the Moscow Exchange
- Having the following committees of the Board of Directors:
    1. An Audit Committee, to be chaired by an independent director and made up of independent directors or, if this is not possible, of directors who do not include the chief executive officer or members of the management board, provided, however, that the majority of the committee is made up of independent directors.
    2. A Nominations Committee, made up of independent directors or, if this is not possible, of directors who do not include the chief executive officer or members of the management board (if applicable), provided, however, that the majority of the committee is made up of independent directors.
    3. A Remuneration Committee, comprising independent directors or, if this is not possible, of directors who do not include the chief executive officer or members of the management board, provided, however, that the majority of the committee is made up of independent directors, one committee may act as the joint remunerations, nominations, and hiring committee.
- The appointment of a Corporate Secretary and the adoption by the Board of Directors of Regulations of the Corporate Secretary
- Compliance with the disclosure and notification requirements set forth in applicable Russian laws

Employment policies and communication

Information on the Company's employment policies and its employees is set out in the Sustainability Report on page 103.

Political contributions

No donations to political parties were made and no political expenditure was incurred during the year 2017, as was the case in 2016.

Charitable donations

During the year, the Company made charitable donations of $42.6 million (2016: $16.8 million), principally to local charities serving the communities in which the Company operates. Key related messages are set out in the Sustainability Report on page 122.

Government regulations

The mining and processing facilities of Polyus are located in the Krasnoyarsk Territory, the Irkutsk Region, and the Sakha Republic. All operations are subject to extensive regulations imposed by municipal, regional, and federal governments. Numerous aspects of the Company's operations are governed by these regulations: how we explore and evaluate, mine and process ore; health, safety, and environmental requirements; and how we operate as a company, including laws regarding securities, taxation, intellectual property, and sales policy. As the largest gold mining company in Russia, and a key employer in a number of regions in Russia, Polyus enjoys government support at both regional and federal level. For that reason, there is a low likelihood of any governmental regulations having a material impact on the Company's business. Moreover, the Company is guided by its Corporate Ethics Code, high standards of practice, as well as a Human Rights Policy, which was developed internally within the Company. All these internal controls mitigate against regulatory impacts.

Environmental regulations

Polyus has an Environmental Management System (EMS) in place, which covers all its companies and constitutes a part of the Company's integrated health, safety, and environment management system. The EMS allows to promptly and flexibly respond to any changes of internal and external environment. All our business units and professional services organisations, except the Construction service, are ISO 14001 certified and regularly update their certificates. The Construction service (Polyus Story) is planned to be certified in early 2018.

The status of environmental targets and objectives across the Company are continuously tracked and presented for discussion on a quarterly basis at the meetings of the Central Security Committee and the Operations Committee. In terms of regulating environmental issues, Polyus continues to develop and incorporate best practices at all levels of Company activity.

Further information on the Company's environmental performance can be found in the Sustainability Report on pages 112 to 119.

Greenhouse gas emissions

In 2017, the Company's total greenhouse gas (GHG) emissions stood at 3.03 million tonnes of CO2e, 4.8% below the 2016 level. For more details on GHG emissions, including the calculation methodology, as well as the Company's GHG policy and reduction targets for GHG emissions, see the Environmental stewardship section of the Sustainability Report on pages 116 to 117.

Auditor

Each of the Directors confirms that:

- So far as the Director is aware, there is no relevant audit information about which the Company's auditor is not informed or made aware
- Each Director has taken all steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of such information

By order of the Board

Edward Dowling
Chairman of the Board of Directors
9 April 2018

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER

(in millions of US dollars, except for earnings per share data)

	Notes	2017	2016
Gold sales	5	**2,684**	2,429
Other sales		**37**	29
Total revenue		**2,721**	**2,458**
Cost of gold sales	6	**(969)**	(891)
Cost of other sales		**(31)**	(28)
Gross profit		**1,721**	**1,539**
Selling, general and administrative expenses	7	**(211)**	(151)
Other expenses, net		**(55)**	(27)
Operating profit		**1,455**	**1,361**
Finance costs, net	8	**(200)**	(145)
Interest income		**28**	40
Gain on investments and revaluation of derivative financial instruments, net	9	**118**	119
Foreign exchange gain, net		**130**	396
Profit before income tax		**1,531**	**1,771**
Income tax expense	10	**(290)**	(326)
Profit for the year		**1,241**	**1,445**
Profit for the year attributable to:			
Shareholders of the Company		**1,240**	1,420
Non-controlling interests		**1**	25
		1,241	1,445
Weighted average number of ordinary shares'000			
- for basic earnings per share	17	**128,622**	140,765
- for dilutive earnings per share	17	**129,723**	140,774
Earnings per share (US dollar)			
- basic		**9.64**	10.09
- dilutive		**9.61**	10.09

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

(in millions of US dollars)

	Notes	2017	2016
Profit for the year		**1,241**	**1,445**
Other comprehensive income / (loss) for the year			
Items that may be subsequently reclassified to profit or loss:			
Decrease in other reserves		**(2)**	
Increase / (decrease) in revaluation of cash flow hedge reserve on revenue stabiliser	12	**4**	(65)
Decrease in revaluation of cash flow hedge reserve on gold forward	12	**–**	(12)
Deferred tax relating to change in revaluation of cash flow hedge reserve		**(1)**	15
		(1)	62
Items that will not be subsequently reclassified through profit or loss:			
Effect of translation to presentation currency		**1**	(80)
Items that have been reclassified through profit or loss:			
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on revenue stabiliser	12	**(19)**	(53)
Cash flow hedge reserve reclassified to consolidated statement of profit or loss on gold forward	12	**–**	(8)
Deferred tax relating to cash flow hedge reserve reclassified to consolidated statement of profit or loss		**4**	12
		(15)	(49)
Other comprehensive loss for the year		**(13)**	**(191)**
Total comprehensive income for the year		**1,228**	**1,254**
Total comprehensive income for the year attributable to:			
Shareholders of the Company		**1,223**	1,215
Non-controlling interests		**5**	39
		1,228	1,254

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

(in millions of US dollars)

	Notes	2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	11	**4,005**	2,938
Derivative financial instruments and investments	12	**38**	57
Inventories	13	**300**	264
Deferred tax assets	21	**60**	75
Other receivables	11	**97**	–
Other non-current assets		**58**	37
		4,558	3,371
Current assets			
Derivative financial instruments and investments	12	**–**	10
Inventories	13	**435**	369
Deferred expenditure		**14**	10
Trade and other receivables	14	**101**	58
Advances paid to suppliers and prepaid expenses		**21**	19
Taxes receivable	15	**114**	89
Cash and cash equivalents	16	**1,204**	1,740
		1,889	2,295
Total assets		**6,447**	5,666

	Notes	2017	2016
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		**5**	7
Additional paid-in capital		**1,948**	2,288
Treasury shares		**(89)**	(3,712)
Other reserves		**(2)**	–
Cash flow hedge revaluation reserve	12	**–**	12
Translation reserve		**(2,723)**	(2,720)
Retained earnings		**1,425**	3,617
Equity attributable to shareholders of the Company		**564**	**(508)**
Non-controlling interests		**92**	94
		656	(414)
Non-current liabilities			
Site restoration, decommissioning and environmental obligations		**47**	38
Borrowings	18	**4,269**	4,698
Derivative financial instruments	12	**448**	456
Deferred revenue	19	**132**	76
Deferred consideration	20	**216**	–
Deferred tax liabilities	21	**217**	182
Other non-current liabilities		**45**	32
		5,374	5,482
Current liabilities			
Borrowings	18	**12**	283
Trade and other payables	22	**318**	222
Taxes payable	23	**87**	93
		417	598
Total liabilities		**5,791**	**6,080**
Total equity and liabilities		**6,447**	**5,666**

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

(in millions of US dollars)

			Equity attributable to shareholders of the Company									
	Notes	Number of outstanding shares'000	Share capital	Additional paid-in capital	Treasury shares	Other reserves	Cash flow hedge revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
Balance at 31 December 2014		**190,628**	**7**	**2,273**	**–**	**–**	**123**	**(2,623)**	**2,196**	**1,976**	**71**	**2,047**
Profit for the year		–	–	–	–	–	–	–	1,420	**1,420**	25	**1,445**
Increase in cash flow hedge revaluation reserve		–	–	–	–	–	(111)	–	–	**(111)**	–	**(111)**
Effect of translation to presentation currency		–	–	–	–	–	–	(94)	–	**(94)**	14	**(80)**
Total comprehensive income / (loss)			**–**	**–**	**–**	**–**	**(111)**	**(94)**	**1,420**	**1,215**	**39**	**1,254**
Equity-settled share-based payment plans (LTIP)		–	–	15	–	–	–	–	–	**15**	–	**15**
Increase of ownership in subsidiaries		–	–	–	–	–	–	–	(2)	**(2)**	(1)	**(3)**
Buy-back of treasury shares		(60,519)	–	–	(3,443)	–	–	–	–	**(3,443)**	–	**(3,443)**
Settlement of issued loans by own shares		(4,477)	–	–	(269)	–	–	–	–	**(269)**	–	**(269)**
Release of translation reserve due to disposal of subsidiary		–	–	–	–	–	–	(3)	3	**–**	–	**–**
Declared dividends to shareholders of non–controlling interests		–	–	–	–	–	–	–	–	**–**	(15)	**(15)**
Balance at 31 December 2016		**125,632**	**7**	**2,288**	**(3,712)**	**–**	**12**	**(2,720)**	**3,617**	**(508)**	**94**	**(414)**
Profit for the year		–	–	–	–	–	–	–	1,240	**1,240**	1	**1,241**
Decrease in other reserves		–	–	–	–	(2)	–	–	–	**(2)**	–	**(2)**
Decrease in cash flow hedge revaluation reserve		–	–	–	–	–	(12)	–	–	**(12)**	–	**(12)**
Effect of translation to presentation currency		–	–	–	–	–	–	(3)	–	**(3)**	4	**1**
Total comprehensive (loss) / income			**–**	**–**	**–**	**(2)**	**(12)**	**(3)**	**1,240**	**1,223**	**5**	**1,228**
Equity-settled share-based payment plans (LTIP), net of tax	17	–	–	18	–	–	–	–	–	**18**	–	**18**
Buy-back of treasury shares	17	(14)	–	–	(1)	–	–	–	–	**(1)**	–	**(1)**
Cancellation of treasury shares	17	–	(2)	(749)	3,604	–	–	–	(2,853)	**–**	–	**–**
Issuance of shares	17	6,016	–	389	–	–	–	–	–	**389**	–	**389**
Purchase of additional ownership in SL Gold through issuance of treasury shares	17	290	–	2	20	–	–	–	–	**22**	–	**22**
Declared dividends	17	–	–	–	–	–	–	–	(579)	**(579)**	–	**(579)**
Dividends declared to shareholders of non-controlling interests		–	–	–	–	–	–	–	–	**–**	(7)	**(7)**
Balance at 31 December 2017		**131,924**	**5**	**1,948**	**(89)**	**(2)**	–	**(2,723)**	**1,425**	**564**	**92**	**656**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER

(in millions of US dollars)

	Notes	2017	2016
Operating activities			
Profit before income tax		**1,531**	**1,771**
Adjustments for:			
Finance costs, net	8	**200**	145
Interest income		**(28)**	(40)
Gain on investments and revaluation of derivative financial instruments, net	9	**(118)**	(119)
Depreciation and amortisation		**178**	148
Foreign exchange gain, net		**(130)**	(396)
Other		**23**	22
		1,656	1,531
Movements in working capital			
Inventories		**(64)**	(42)
Deferred expenditure		**(4)**	(1)
Trade and other receivables		**(28)**	(47)
Advances paid to suppliers and prepaid expenses		**(7)**	(10)
Taxes receivable		**(18)**	(27)
Trade and other payables and accrued expenses		**6**	13
Taxes payable		**17**	23
Other		**(2)**	(1)
Cash flows from operations		**1,556**	**1,439**
Income tax paid		**(264)**	(261)
Net cash generated from operating activities		**1,292**	**1,178**
Investing activities[1]			
Purchase of property, plant and equipment (excluding payments for the Sukhoi Log deposit)[2]		**(831)**	(405)
Payments for the Sukhoi Log deposit	11	**(36)**	(138)
Proceeds from government grants	19	**53**	76
Interest received		**33**	50
Proceeds from repayment of loans issued		**–**	124
Proceeds from disposal of joint venture	9	**100**	–
Proceeds from disposal of subsidiary, net of cash disposed		**–**	10
Proceeds from disposal of electricity transmission grids	11	**63**	–
Other		**–**	3

	Notes	2017	2016
Net cash utilised in investing activities		**(618)**	**(280)**
Financing activities[2]		**45**	**32**
Interest paid		**(291)**	(245)
Commissions on borrowings paid		**(11)**	(51)
Proceeds from sales and leaseback transactions		**11**	2
Repayments of principal under finance lease		**(5)**	(1)
Net proceeds on exchange of interest payments under interest and cross currency rate swaps	8	**42**	44
Payment for buy-back of shares	17	**(1)**	(3,443)
Proceeds from issuance of shares		**400**	–
Direct expenses associated with issuance of the Company's shares		**(11)**	–
Proceeds from borrowings		**800**	3,432
Repayment of borrowings		**(1,577)**	(734)
Dividends paid to shareholders of the Company		**(574)**	–
Dividends paid to non-controlling interests		**(7)**	(16)
Cash paid to increase ownership in subsidiaries		**–**	(3)
Net cash utilised in financing activities		**(1,224)**	**(1,015)**
Net decrease in cash and cash equivalents		**(550)**	**(117)**
Cash and cash equivalents at beginning of the year	16	**1,740**	**1,825**
Effect of foreign exchange rate changes on cash and cash equivalents		**14**	32
Cash and cash equivalents at end of the year	16	**1,204**	**1,740**

[1] Significant non-cash transactions relating to investing and financing activities are disclosed in notes 18 and 21 to these consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

1. GENERAL

Public Joint Stock Company Polyus was incorporated in Moscow, Russian Federation, on 17 March 2006.

The principal activities of the Company and its controlled entities (the 'Company') are the extraction, refining and sale of gold. The mining and processing facilities of the Company are located in the Krasnoyarsk Territory and the Irkutsk region and the Sakha Republic of the Russian Federation. The Company also performs research, exploration and development works; the development works being primarily at the Natalka licence area located in the Magadan Region of the Russian Federation. Further details regarding the nature of the business and of the significant subsidiaries of the Company are presented in note 27.

The shares of the Company are 'level one' listed on the Moscow Exchange. On 5 July 2017, global depositary shares representing Polyus' shares (with two global depositary shares representing interest in one Polyus share) were admitted to the Official List maintained by the United Kingdom Financial Conduct Authority and to trading 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 Holding Limited, a company registered in Cyprus. As at 31 December 2017 and 2016, the ultimate controlling party of the Company was Mr Said Kerimov.

2. BASIS OF PREPARATION AND PRESENTATION

Going concern

In assessing the appropriateness of the going concern assumption, the Directors have taken account of the Company'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 Company. After making appropriate enquiries, the Directors consider that the Company 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.

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').

Basis of presentation

The entities of the Company 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 Company are prepared on the historical cost basis, except for derivative financial instruments, which are accounted for at fair value, as explained in the accounting policies below.

IFRS standards update

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

Title	Subject	
Amendments to IAS 7	Statement of cash flows	Reconciliation of liabilities arising from financing activities added to note 18
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses	No effect
Amendments to IFRS 12	Disclosure of interests in other entities	No effect

With the exception of specific items mentioned above, the adoption of these new and revised standards and interpretations had no effect on the amounts reported as well as the presentation and disclosure of information in the consolidated financial statements of the Company.

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
Amendments to IAS 40	Investment Property	1 January 2018	Not applicable
Amendments to IFRS 1	First-time Adoption of International Financial Reporting Standards	1 January 2018	Not applicable
Amendments to IFRS 2	Share-based payment	1 January 2018	No effect
IFRS 9	Financial instruments	1 January 2018	No significant changes are anticipated, see below for further discussion
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	Date will be determined later	No effect
IFRS 15	Revenue from contracts with customers	1 January 2018	No significant changes are anticipated, see below for further discussion.
IFRS 16	Leases	1 January 2019	For changes, see below
Amendments to IFRS 9	Prepayment Features with Negative Compensation	1 January 2019	Under review
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	No effect
IFRIC 23	Uncertainty over Income Tax Treatment	1 January 2019	Under review

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

2. BASIS OF PREPARATION AND PRESENTATION continued

IFRS 15 Revenue from Contracts with Customers

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

The Company has undertaken an analysis of how IFRS 15 should be implemented. Based on this analysis, management expects that adoption of IFRS 15 will not have a significant impact on the timing or the amount of recognition of revenue on refined gold sales. One of the key aspects of IFRS 15 for the Company is the identification of performance obligations. For refined gold sales, which is the most significant element of the Company's revenue, the performance obligation will require revenue to be recognised based on the transfer of control of the refined gold which is largely consistent with the revenue recognition under IAS 18.

The Company plans to adopt IFRS 15 in 2018 using the modified retrospective approach, which requires an adjustment to equity as at 1 January 2017. The comparative 2017 results included in the 2018 financial statements will not be restated. The Company will continue to work to design, implement and refine procedures to apply the new requirements of IFRS 15 and to finalise accounting policy choices and financial statement impact. As the Company finalises this work, it is possible that some changes to the conclusions above may result.

Had the standard been early adopted in the current year Other sales would increase and Gold sales (other gold-bearing products) would decrease by approximately $12 million.

IFRS 9 Financial Instruments

IFRS 9 will change the classification and measurement principles for financial assets, but is not anticipated to have a significant impact on the consolidated financial statements. the key areas of IFRS 9 which will impact the Company relate to the classification of financial assets and the application of the expected loss model.

All recognised financial assets currently within the scope of IAS 39 will be subsequently measured at either amortised costs, fair value through profit or loss (FVTPL), or fair value through other comprehensive income (FVTOCI) under IFRS 9 depending on the contractual cash flows of the instrument and the business model under which it is held.

The impairment model for financial assets under IFRS 9 will reflect expected credit losses and changes in those expected credit losses as opposed to reflecting only for incurred credit losses under IAS 39.

No significant changes are anticipated in classification and measurement of financial instruments, except for classification of trade receivables for gold-bearing products which will be accounted at fair value through profit and loss.

IFRS 16 Leases

As at 31 December 2017, the Company has non-cancellable operating lease commitments of $123 million (note 25). IAS 17 does not require the recognition of any right-of-use assets or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 25. A preliminary assessment indicates that these arrangements would meet the definition of a lease under IFRS 16, and hence the Company would recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Company's consolidated financial statements and Directors are currently assessing its full potential effect. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete the review.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Basis of consolidation

Subsidiaries

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

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

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

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

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

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

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

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

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

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

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

Functional currency

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

3.2. Presentation currency

The Company presents its consolidated financial statements in the US dollars ('USD'), as management believes it is a more convenient presentation currency for international users of the consolidated financial statements of the Company as it is a common presentation currency in the mining industry. The translation of the financial statements of the Company entities from their functional currencies to the presentation currency is performed as follows:

- All assets, liabilities, both monetary and non-monetary, are translated at closing exchange rates at each reporting date
- All income and expenses are translated at the monthly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions
- Resulting exchange differences are included in equity and presented as Effect of translation to presentation currency within the Translation reserve (on disposal of such entities this Translation reserve is reclassified into the consolidated statement of profit or loss)
- In the statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated at exchange rates at the respective dates. All cash flows are translated at the monthly average exchange rates, except for significant transactions that are translated at rates on the date of such transactions

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES continued

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

	31 December	
Russian rouble/US dollar	2017	2016
Year-end rate	57.60	60.66

3.3. Foreign currencies

Transactions in currencies other than the relevant entity's functional currencies (foreign currencies) are recorded at the exchange rate prevailing on the date of the transactions. All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of the transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined.

Exchange differences arising from changes in exchange rates are recognised in the consolidated statement of profit or loss, except for those exchange difference on foreign currency borrowings relating to qualifying assets under construction, which are capitalised in the cost of those assets when they are regarded as an adjustment to finance costs on those foreign currency borrowings.

3.4. Revenue recognition

Gold sales revenue

Revenue from the sale of refined gold and other gold-bearing products is recognised when:

- The risks and rewards of ownership are transferred to the buyer
- The Company retains neither a continuing degree of involvement or control over the goods sold
- The amount of revenue can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the entity

Revenue from gold sales is recognised at the time when the Company has received acceptance of shipped goods from the third party (title transfer). Revenue from gold-bearing products is recognised when the goods have been delivered to a contractually agreed location. Gold sales are stated at their invoiced value net of value-added tax.

Other revenue

Other revenue comprises mainly sales of electricity, transportation, handling and warehousing services, and other services. Revenue from the sale of electricity is recognised when a contract exists, delivery has taken place, a quantifiable price has been established or can be determined and the receivables are likely to be recovered. Delivery takes place when the risks and benefits associated with ownership are transferred to the buyer. Revenue from service contracts is recognised when the services are rendered.

3.5. Income tax

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

Current tax

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

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements of the separate legal entities and the corresponding tax bases used in the computation of taxable profit and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries and associates are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

Current and deferred tax for the year

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

3.6. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs.

Costs for operating leases are recognised on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. Contingent rentals are recognised as expenses in the periods in which they are incurred.

3.7. 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 Company. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

3.8. Property, plant and equipment

Mineral rights

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

Fixed assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES continued

Fixed assets are amortised on a straight-line basis over the estimated economic useful life of the asset, or the remaining useful life of the mines in accordance with the mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code, whichever is shorter. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives. Depreciation is charged from the date a new mine reaches commercial production quantities and is included in the Cost of sales. The estimated remaining useful lives of the Company's significant mines based on the mine operating plans are as follows:

Blagodatnoye	15 years
Olimpiada	12 years
Verninskoye	11 years
Kuranakh	7 years

Stripping activity asset

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

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

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

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

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

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

Capital construction in progress

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

Capital construction in progress is not depreciated.

Mine under development

Comprises amounts related to new mine development and includes the costs directly related to mine development projects such as acquiring and developing mining properties, pre-production expenditure, construction of processing plant and mine infrastructure, amortisation of equipment used in the development, mineral rights and mining and exploration licences and the present value of future mine closure, rehabilitation and decommissioning costs.

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

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

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

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

3.10. Impairment of long-lived tangible assets

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

An impairment review of long-lived tangible assets is carried out when there is an indication that those assets have suffered an impairment loss. If any such indication exists, the carrying amount of the asset is compared to the estimated recoverable amount of the asset in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell or value-in-use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognised in the consolidated statement of profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the consolidated statement of profit or loss immediately.

Impairment of exploration and evaluation assets

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES continued

3.11. Financial instruments

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

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

Financial assets

Financial assets are recognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for financial assets classified at FVTPL, which are initially measured at fair value.

The Company's financial assets are classified into the following categories:

- Financial assets at FVTPL
- Loans and receivables

The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as a FVTPL where the financial asset is designated as a FVTPL.

A financial asset may be designated as a FVTPL upon initial recognition if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss incorporates any dividend or interest earned on the financial asset and is included in the Gain/(loss) on derivative financial instruments and investments, net line item in the consolidated statement of profit or loss. Fair value is determined in the manner described in note 12.

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

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

Loans and receivables

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

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

De-recognition of financial assets

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

On de-recognition of a financial asset in its entirety, the difference between the assets' carrying amount and the sum of consideration received or receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Effective interest method

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

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

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is designated as at FVTPL.

A financial liability may be designated as at FVTPL upon initial recognition if:

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in the consolidated statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss incorporates any interest paid on the financial liability and is included in the Gain/(loss) on derivative financial instruments and investments, net line item in the consolidated statement of profit or loss. Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis within finance cost.

De-recognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Derivative financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES continued

Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in the consolidated statement of profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of profit or loss depends on the nature of the hedge relationship. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivative financial instruments are presented as current assets or current liabilities.

The Company may designate certain derivative financial instruments as cash flow hedges. Since 1 July 2017, no derivative financial instrument has been accounted as a cash flow hedge (note 12).

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 Company'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. Cash flow hedges

The Company uses derivative financial instruments for hedge accounting as determined in accordance with IAS 39. The Company applies hedge accounting for cash flow hedges against the risk of decline of the gold prices. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective.

At the inception of the hedge relationship, the Company formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. Also, at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on a quarterly basis. A hedge is regarded as highly effective if the changes in the fair value of cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the consolidated statement of profit or loss.

Where the hedging instrument represents an option based instrument the Company applies hedge accounting only if such option is considered as a purchased option.

Where the above option-based financial instruments are used as a cash flow hedging instrument the Company designates and recognises only their intrinsic value for hedging purposes. All changes in intrinsic value are recognised in equity through the consolidated statement of comprehensive income, whereas, all changes in time value are recognised directly in the consolidated statement of profit or loss. The amount recognised in equity is reclassified into the consolidated statement of profit or loss in the same period as the hedged cash flows affect the consolidated statement of profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects the consolidated statement of profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in equity is recognised immediately in the consolidated statement of profit or loss.

3.13. Inventories

Refined gold, ore stockpiles and gold-in-process

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

Stores and materials

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

Net realisable value represents the expected estimated selling price for stores and materials less all costs necessary to make the sale.

3.14. Deferred expenditure

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

3.15. Cash and cash equivalents

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

3.16. Provisions

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

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

3.17. Site restoration, decommissioning and environmental obligations

Site restoration, decommissioning and environmental obligations include mine closure, rehabilitation and decommissioning costs. Future decommissioning and land restoration costs, discounted to net present value, are added to the respective assets and the corresponding obligations raised as soon as the constructive or legal obligation to incur such costs arises and the future cost can be reliably estimated. The respective assets are amortised on a straight-line basis over the life-of-mine. The unwinding of the obligation is included in the consolidated statement of profit or loss as finance costs. Obligations are periodically reviewed in light of current laws and regulations and adjustments made as necessary to the corresponding item of property, plant and equipment.

Ongoing restoration costs are expensed when incurred.

3.18. Government grants

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

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

3.19. Share-based payment transactions of the Company

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Preparation of the consolidated financial statements in accordance with IFRS requires the Company'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:

- Justification of the economic useful lives of property, plant and equipment
- Depreciation method for property, plant and equipment
- Borrowing costs capitalisation
- Mine commissioning period
- Determination of functional currency
- Initial recognition of share options

4.1.1. Economic useful lives of property, plant and equipment

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

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

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

Any of these changes could affect prospective amortisation of fixed assets and their carrying value.

Management periodically reviews the appropriateness of the assets' economic useful lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Company.

4.1.2. Depreciation method for property, plant and equipment

Fixed assets are amortised on a straight-line basis over the estimated economic useful life of the asset, or the remaining useful life of the mines in accordance with the mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code, whichever is shorter. Amortisation is charged from the date a new mine reaches commercial production quantities and is included in the Cost of gold sales. Determination of this date requires judgement.

Depreciation is calculated based on straight line method which management monitors to ensure it does not deviate significantly from the depreciation charge calculated based on units of production method. This consistent result reflects that production facilities operate at near full capacity to the end of the licence period.

4.1.3. Borrowing costs capitalisation

The Company capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation commences when the Company undertakes activities that are necessary to prepare the asset for its intended use or sale and it ceases once the asset is complete and available for use. Interest is then charged to the consolidated statement of profit or loss as a depreciation expense over the life of the relevant asset. However, capitalisation is suspended for the extended periods of inactivity. Determination of the time period for which the borrowing costs need to be capitalised may require significant judgement. In particular, throughout the reporting year the Company continued to capitalise borrowing costs relating to development of Natalka mine. See note 5 for an amount of borrowing costs capitalised related to the Magadan business unit. See also 4.1.4 for a discussion of judgement to determine timing of completion of the development stage for Natalka.

According to IAS 23 borrowing costs are capitalised as part of the cost of the qualifying asset when it is probable that they will result in the entity obtaining future economic benefits. Exploration and evaluation assets are reclassified to Mine under development only when the technical feasibility and commercial viability of extracting a gold resource are demonstrable and a decision has been made to develop the mine. Starting from this moment, it becomes probable that the entity will obtain future economic benefits, and accordingly, capitalisation of borrowing costs commences.

4.1.4. Mine commissioning period

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

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

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

Thus, while the Company has substantially completed the construction of the processing plant at Natalka deposit, it continues to classify Natalka as a mine under development and capitalise related costs as the initial ramp-up activities are continuing.

4.1.5. Determination of functional currency

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

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

4.1.6. Initial recognition of share options

On 16 December 2016, JSC Polyus Krasnoyarsk, a 100% subsidiary of the Company, entered into a number of put and call option agreements as well as certain other transaction documents (thereafter, the 'First set of options') with LLC RT Business Development ('RT'), a wholly owned subsidiary of Russian state-owned Rostec Corporation ('Rostec') over the 23.9% interest in the Company's subsidiary LLC SL Gold ('SL Gold') owned by RT. On 11 July 2017, JSC Polyus Krasnoyarsk entered into a series of additional put and call option agreements over the remaining 25.1% interest in SL Gold (thereafter, the 'Second set of options') with RT (note 20).

Based on standalone contractual rights and obligations the First set of options would be recognised as financial liabilities with a corresponding decrease in equity under IFRS 10.

The management has concluded that the substance of the consideration payable by the Company under the First set of options represents an additional cost element of mineral rights licence for the Sukhoi Log deposit as the options were directly linked to the acquisition of the licence and together with the payment for the licence itself represented a single transaction designed to achieve an overall commercial effect.

This conclusion was due mainly to the following reasons identified within IFRS 10:

- The options become exercisable only if the license is received and remains valid
- The option agreements considered on their own are not economically justified

Similarly, as the Second set of options represented modification to the original terms of the transaction it has been concluded that a similar accounting treatment is appropriate under the circumstances. Therefore, consistent with the accounting for the First set of options, an additional liability of $131 million is recognised in respect of Deferred consideration payable by the Company under the Second set of options with a corresponding debit to the cost of Exploration and evaluation assets within Mineral rights (notes 11 and 20).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY continued

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:

- Recoverability of the exploration and evaluation assets
- Impairment of long-lived assets
- Determination and valuation of the stripping activity asset
- Carrying value of stockpiles, gold in process and product inventories
- Estimation of the site restoration, decommissioning and environmental obligations
- Derivative financial instruments valuation
- Interpretation of the tax legislation in accounting for income taxes

4.2.1. 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 Company is involved in exploration and evaluation activities and some of its licensed properties contain gold resources under the definition of the Russian Resource Reporting Code. A number of licensed properties have no mineral resource delineation. Management assumes that all licences will be renewed. Many of the factors, assumptions and variables involved in estimating resources are beyond the Company'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.

4.2.2. Impairment of long-lived assets

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

Factors which could impact the underlying cash flows include:

- Commodity prices and exchange rates
- Timelines of granting of licences and permits
- Capital and operating expenditure
- 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.

4.2.3. Determination and valuation of the stripping activity asset

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

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

Each discrete stage of mining, identified in the mine plans, is considered as a unit of account. If the mine plan initially identifies several discrete stages of mining which will take place consecutively (one after the another), these stages would be identified as components. These assessments are undertaken for each individual mine. Stripping costs incurred during the production phase should be allocated between inventory produced and the stripping activity asset by using the allocation basis. The Company considers that an allocation basis that compares the expected average life of mine stripping ratio with the actual stripping ratio in the period for the identified component of the ore body to determine if further stripping costs are to be allocated to stripping activity asset or the cost of inventory, to be the most suitable allocation basis.

4.2.4. Carrying value of stockpiles, gold-in-process and product inventories

Costs that are incurred in the production process are accumulated as stockpiles, gold-in-process and gold doré. Stockpiles are measured based on each stockpile's average cost per tonne; gold-in-process and gold doré are measured based on recoverable ounces of gold. Stockpile quantities are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained gold ounces based on assay data and the estimated recovery percentage based on the expected processing method. Stockpile tonnages are verified by periodic surveys.

Although the quantities of recoverable gold are reconciled by comparing the grades of ore to the quantities of gold actually recovered (metallurgical balancing), the nature of the process inherently limits the ability to monitor precisely recoverability levels. As a result, the metallurgical balancing process is constantly monitored and engineering estimates are refined based on actual results over time. Variations between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write-downs to net realisable value are accounted for on a prospective basis. The split of stockpiles and gold-in-process between current (expected to be recovered within 12 months) and non-current (expected to be recovered after 12 months) is based on approved mine operating plans.

4.2.5. Estimation of the site restoration, decommissioning and environmental obligations

The Company's mining and exploration activities are subject to various environmental laws and regulations. The Company estimates site restoration, decommissioning and environmental obligations based on management's understanding of the current legal requirements in the various jurisdictions, terms of the mining licence agreements and internally generated engineering estimates. A provision is recognised, based on the net present values for decommissioning and land restoration costs, as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life-of-mine estimates and discount rates could affect the carrying amount of this provision.

4.2.6. Derivative financial instruments valuation

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

Fair values of the Derivative financial instruments are determined using valuation models based on inputs, which are observable in the market (Level 2).

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

The Company is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the Company'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 Company 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 will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgements based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward and tax planning strategies. If actual results differ from the estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.
See note 10 for further details.

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(in millions of US dollars)

5. SEGMENT INFORMATION

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

Starting from 2017, the Company enhanced the disclosure of the segmental performance by splitting the former Krasnoyarsk business unit into the Olimpiada and Blagodatnoye business units. This presentation reflects the way segments are now analysed by the chief operating decision maker and information for the comparative 2016 period was presented respectively.

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

- **Olimpiada Business Unit** (Krasnoyarsk Territory 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[1]
- **Blagodatnoye Business Unit** (Krasnoyarsk Territory 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
- **Irkutsk Alluvial Business Unit** (Irkutsk Region, Bodaibo district of the Russian Federation) – mining (including initial processing) and sale of gold from several alluvial deposits
- **Irkutsk ore Business Unit** (Irkutsk Region, Bodaibo district of the Russian Federation) – mining (including initial processing) and sale of gold from the Verninskoye mine, research, exploration and development works at the Smezhny and Medvezhy Zapadny deposits;
- **Yakutia Kuranakh Business Unit** (Sakha Republic of the Russian Federation) – mining (including initial processing) and sale of gold from the Kuranakh mines
- **Magadan Business Unit** (Magadan Region of the Russian Federation) – represented by JSC Matrosova Mine which performs development works at the Natalka deposit
- **Sukhoi Log Business Unit** (Irkutsk Region of the Russian Federation) – represented by SL Gold which performs exploration and evaluation works at the Sukhoi Log deposit
- **Exploration Business Unit** (Krasnoyarsk Region, Irkutsk Region, Amur Region, and others) – research and exploration works in several regions of the Russian Federation
- **Capital Construction Unit** – represented by LLC Polyus Stroy, JSC TaigaEnergoStroy and JSC VitimEnergoStroy, which perform construction works at Verninskoye, Olimpiada and other deposits
- **Unallocated** – the Company 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 required 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[2]
- Adjusted earnings before interest, tax, depreciation and amortisation and other items (Adjusted EBITDA)
- Total cash cost per ounce of gold sold (TCC)[3]
- Capital expenditure

[1] Results of Titimukhta mine are included within the Olimpiada business unit because extraction from the Titimukhta deposit is insignificant and Titimukhta processing facilities are now being used to process Olimpiada ore.

[2] Unaudited.

[3] Unaudited. TCC is defined by the Company as the cost of gold sales, less property, plant and equipment depreciation and amortisation, provision for annual vacation payment, employee benefits obligation cost and change in allowance for obsolescence of inventory and adjusted by inventories. The Company calculates TCC per ounce sold as TCC divided by total ounces of gold sold for the period. These items are not IFRS measures.

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

Title	Gold sales	Ounces of gold sold in thousands[4]	Adjusted EBITDA	TCC $ per ounce[4]	Capital expenditure
For the year ended 31 December 2017 Business units					
Olimpiada	**1,439**	**1,176**	**953**	**341**	**177**
Blagodatnoye	**585**	**459**	**414**	**308**	**49**
Irkutsk Alluvial	**186**	**146**	**54**	**770**	**26**
Irkutsk Ore	**259**	**206**	**149**	**403**	**39**
Yakutia Kuranakh	**215**	**171**	**109**	**534**	**65**
Exploration	**–**	**–**	**–**	**–**	**5**
Magadan	**–**	**–**	**4**	**–**	**378**
Capital Construction	**–**	**–**	**(2)**	**–**	**14**
Unallocated	**–**	**–**	**21**	**–**	**45**
Sukhoi Log	**–**	**–**	**–**	**–**	**6**
Total	**2,684**	**2,158**	**1,702**	**364**	**804**
For the year ended 31 December 2016 Business units					
Olimpiada	1,197	946	753	405	80
Blagodatnoye	576	450	417	290	20
Irkutsk Alluvial	220	169	90	598	16
Irkutsk Ore	232	186	146	389	24
Yakutia Kuranakh	199	160	107	499	33
Exploration	5	4	1	1,010	10
Magadan	–	–	(2)	–	213
Capital Construction	–	–	1	–	43
Unallocated	–	–	23	–	27
Total	**2,429**	**1,915**	**1,536**	**389**	**466**

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

	Year ended 31 December	
	2017	**2016**
Capital expenditure	**804**	**466**
Acquisition of the Sukhoi Log mineral rights	**267**	138
Construction of Omchak electricity transmitting line	**69**	2
Stripping activity assets additions (note 11)	**149**	55
Less: other non-current assets additions	**(24)**	(10)
Property plant and equipment additions (note 11)	**1,265**	**651**

[4] Unaudited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

5. SEGMENT INFORMATION continued

Gold sales reported above represent revenue generated from external customers (note 26). There were no inter-segment gold sales during the years ended 31 December 2017 and 2016. Included within gold sales in 2017 are realised gains on derivatives of $22 million (2016: $67 million), see note 12.

Gold sales

	Year ended 31 December	
	2017	2016
Refined gold	2,526	2,353
Other gold-bearing products	158	76
Total	**2,684**	**2,429**

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

	Year ended 31 December	
	2017	2016
Profit for the year	**1,241**	**1,445**
Income tax expense	290	326
Depreciation and amortisation (note 11)	178	148
Finance costs, net (note 8)	200	145
Equity-settled share-based payment plans (note 17)	25	19
Foreign exchange gain, net	(130)	(396)
Gain on derivative financial instruments and investments, net (note 9)	(118)	(119)
Interest income	(28)	(40)
Special charitable contributions	39	–
Impairment / (Reversal of impairment)	19	(4)
(Gain) / loss on disposal of property, plant and equipment items	(14)	12
Adjusted EBITDA	**1,702**	**1,536**

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	
	2017	2016
Cost of gold sales	**969**	**891**
Adjusted for:		
Depreciation and amortisation (note 11)	(181)	(154)
Other non-cash items in cost of gold sales	(2)	8
TCC[1]	**786**	**745**
Ounces of gold sold, in thousands[1]	2,158	1,915
TCC per ounce of gold sold, US dollars per ounce[1]	**364**	**389**

Magadan capital expenditure

	Year ended 31 December	
	2017	2016
Purchase of equipment	226	109
Capitalisation of borrowing costs	93	80
Capitalisation of other directly attributable costs including cost of testing during the ramp-up period	59	24
Total	**378**	**213**

Capital expenditure are primarily related to the following projects:

- **Magadan:** the entire scope of the mill's equipment was delivered and installed. Commissioning was ongoing at year-end, supervised by engineers of the main equipment manufacturers to ensure staged delivery of the facilities. The first stage of hot commissioning of Natalka was officially launched by Russian President Vladimir Putin at the Eastern Economic Forum in Vladivostok at the beginning of September 2017. In December 2017, the Federal Industrial Supervision Service of Russia (Rostechnadzor) performed the final inspection of the facilities constructed, and issued a Compliance Certificate. At this point, completion of some facilities not affecting the main flowsheet is nearly finished. As of 31 December 2017, ramp-up was proceeding in accordance with a scheduled timeline with no change for 2018 plan. The ramp-up period for Natalka's large scale mill may take an extended period of time, similar to other large scale mills in gold mining industry.
- **Olimpiada:** completion of construction and preparation for the connection to the Razdolinskaya – Taiga power line, construction of new BIO capacities, procurement of mining fleet and capitalised mining within the 4th stage of the Vostochny pit.
- **Blagodatnoye:** ongoing optimisation and expansion of the Blagodatnoye mill.
- **Yakutia Kuranakh:** Active works were ongoing under the heap leaching project to ensure readiness of the facility for pilot tests. Pilot operation was launched in September, the pile was stacked and a cycle of irrigation was run, first pregnant solutions were obtained. The heap leaching site was temporarily mothballed for winter to resume operation in the next season. As far as the mill Expansion project is concerned, technical refurbishment of the mill within the existing building was actively ongoing, namely expansion of the grinding circuit was carried out, three new thickener tailings adsorption columns were installed, a new compressor plant was launched; new mining equipment (excavators and trucks) was procured to increase the amount of ore mined and hauled to the mill.
- **Irkutsk Ore:** in 2017, expansion of the Verninskoye mill was ongoing. In December 2017, the adsorption circuit was fully commissioned, the 5th unit of the oxygen plant was launched.

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

[1] Unaudited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

6. COST OF GOLD SALES

	Year ended 31 December 2017	2016
Labour	**264**	227
Consumables and spares	**223**	242
Depreciation and amortisation of operating assets (note 11)	**181**	154
Tax on mining	**148**	134
Fuel	**74**	72
Power	**31**	22
Outsourced mining services	**6**	8
Other	**65**	58
Total cost of production	**992**	**917**
Increase in stockpiles, gold-in-process and refined gold inventories	**(23)**	(26)
Total	**969**	**891**

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2017	2016
Salaries	**143**	143
Professional services	**14**	14
Distribution expenses related to gold-bearing products	**12**	12
Taxes other than mining and income taxes	**11**	11
Depreciation and amortisation (note 11)	**7**	7
Other	**24**	24
Total	**211**	**151**

8. FINANCE COSTS, NET

	Year ended 31 December 2017	2016
Interest on borrowings	**317**	227
Bank commissions and write-off of unamortised debt cost due to early extinguishment of the debt	**281**	242
Unwinding of discounts	**17**	–
Gain on exchange of interest payments under cross currency swap (note 12)	**11**	3
Gain on exchange of interest payments under interest rate swaps (note 12)	**(40)**	(34)
Other	**(2)**	(10)
Sub-total finance cost	**303**	**242**
Interest included in the cost of qualifying assets	**(103)**	(97)
Total	**200**	**145**

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

	Year ended 31 December 2017	2016
Revaluation loss on ineffective part of the revenue stabiliser under Tranches 1 and 2 during cash flow hedge period (note 12)	**(27)**	(4)
Revaluation loss on revenue stabiliser	**(38)**	(58)
Revaluation gain on cross currency swaps (note 12)	**94**	172
Revaluation loss on interest rate swap (note 12)	**(3)**	(9)
Gain on disposal of joint venture	**92**	–
Gain on disposal of subsidiary	**–**	18
Total	**118**	**119**

Gain on disposal of joint venture

In March 2017, the Company entered into an agreement to sell its 82.34% stake in a joint venture entity with Polymetal which holds the licence for Nezhdaninskoe deposit.

The stake was sold for a total consideration of $158 million. The consideration consisted of two parts:

- Cash consideration of $100 million payable upon completion of the transaction and which was received by the Company in March 2017
- Contingent cash consideration of $58 million which could be adjusted upon achievement by the project of certain operational and financial criteria payable upon commissioning of the deposit and construction of the processing plant

The difference between the cash consideration received and the carrying value of investment in the joint venture at the date of sale resulted in a gain of $92 million recognised in the consolidated statement of profit or loss. The fair value of contingent consideration is linked to the achievement of certain operational and financial parameters, which cannot yet be properly assessed and evaluated given the project stage. The Company will assess the fair value once these operational and financial parameters can be reliably estimated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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10. INCOME TAX EXPENSE

	Year ended 31 December 2017	2016
Current tax expense	242	297
Deferred tax		
Origination and reversal of temporary differences	39	28
Deferred tax released from other comprehensive income	4	12
Effect of the revision of income tax rate (see below)	5	(11)
	48	29
Total	290	326

According to a recent amendment to the Russian Tax Code the taxpayers in Russia have a right to apply reduced rates on tax on mining and income tax if they implement a regional investment project 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 further reduce the regional component of the income tax rate, to as low as zero percent. Unless the region adopts the rate reduction, the standard rate for regional portion of tax continues to apply: 17% until 2020; and 18% thereafter.

JSC Polyus Verninskoye, a 100% subsidiary of JSC Polyus Krasnoyarsk operating in the Irkutsk Region of the Russian Federation, as per initial estimations, met the required criteria and started to apply zero tax rates: (i) from August 2016 on tax on mining and (ii) from January 2017 on income tax.

As a result of a tax audit, which challenged the application of the reduced income tax rate for the regional component, and the complex nature of certain provisions of the relevant tax law, management decided to discontinue the regional element of the RInvP. As a result, JSC Polyus Verninskoye intends to apply the following income tax rates: 17% for 2017–2020; 18% for 2021–2026; and the standard 20% rate thereafter. The additional current income tax charged at a rate of 17% for 2017 amounted to $18 million, together with the net adjustment to recognised deferred tax assets and liabilities of $9 million, resulted in a net charge to the consolidated statement of profit or loss of $27 million.

Additionally, the tax authorities disagreed with the timing of commencement of the RInvP in respect of the tax on mining, which resulted in changing the initial date of applying the zero rate exemption from 1 August 2016 to 1 January 2017. The additional amount of the tax on mining in respect of the period from August to December 2016 paid by the Company during the year ended 31 December 2017 was equal to $6 million (367 million roubles). Nevertheless, the Company intends to defend its position in the court.

The corporate income tax rate in the Russian Federation is 20%. A reconciliation of Russian Federation statutory income tax, the location of the Company'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 2017	2016
Profit before income tax	1,531	1,771
Income tax at statutory rate applicable to principal entities (20%)	306	354
Effect of the revision of income tax due to RInvP	5	(11)
Unrecognised deductible temporary differences on revaluation of derivatives, and deferred tax on cash flow hedges reclassified to consolidated statement of profit/(loss)	(14)	(15)
Tax effect of non-deductible expenses and other permanent differences	11	(6)
Non-taxable income on disposals of subsidiary	(18)	(4)
Income tax associated with intra-Company sales of investments in subsidiary	–	8
Income tax expense	290	326

11. PROPERTY, PLANT AND EQUIPMENT

Title	Fixed assets	Mine under development	Stripping activity assets	Capital construction in progress	Exploration and evaluation assets	Total
Cost						
Balance at 31 December 2015	**1,283**	**968**	**243**	**153**	**249**	**2,896**
Additions	–	215	55	227	154	651
Change in site restoration, decommissioning and environmental obligations	1	–	–	–	–	1
Disposals	(11)	(12)	–	(3)	–	(26)
Disposal of subsidiary	–	–	–	–	(105)	(105)
Transfers	160	(15)	–	(121)	(15)	9
Effect of translation to presentation currency	270	214	55	45	23	607
Balance at 31 December 2016	**1,703**	**1,370**	**353**	**301**	**306**	**4,033**
Additions	–	447	149	386	283	1,265
Change in site restoration, decommissioning and environmental obligations	10	–	–	–	–	10
Disposals	(24)	(3)	–	(3)	(16)	(46)
Reclassified as held for sale	(53)	–	–	(97)	–	(150)
Transfers	287	(17)	–	(267)	(3)	–
Effect of translation to presentation currency	91	79	20	15	22	227
Balance at 31 December 2017	**2,014**	**1,876**	**522**	**335**	**592**	**5,339**
Accumulated amortisation, depreciation and impairment						
Balance at 31 December 2015	**(663)**	**(9)**	**(45)**	**(7)**	**(149)**	**(873)**
Charge	(128)	–	(41)	–	–	(169)
Disposals	10	–	–	–	–	10
Disposed on disposal of subsidiary	–	–	–	–	105	105
Transfers	(9)	–	–	–	–	(9)
Reversal of impairment	–	3	–	1	–	4
Effect of translation to presentation currency	(148)	(1)	(13)	(2)	1	(163)
Balance at 31 December 2016	**(938)**	**(7)**	**(99)**	**(8)**	**(43)**	**(1,095)**
Charge	(160)	–	(52)	–	–	(212)
Disposals	23	–	–	3	16	42
Reclassified as held for sale	5	–	–	–	–	5
Impairment	–	(6)	–	(5)	(3)	(14)
Effect of translation to presentation currency	(50)	–	(7)	(1)	(2)	(60)
Balance at 31 December 2017	**(1,120)**	**(13)**	**(158)**	**(11)**	**(32)**	**(1,334)**
Net book value at						
31 December 2016	**765**	**1,363**	**254**	**293**	**263**	**2,938**
31 December 2017	**894**	**1,863**	**364**	**324**	**560**	**4,005**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

11. PROPERTY, PLANT AND EQUIPMENT continued

Disposal of electricity transmission grids

As of 30 June 2017, the Company reached preliminary agreements to dispose of Peleduy-Mamakan and Razdolinskaya Taiga (previously included within Fixed assets and Capital construction in progress, respectively) electricity transmission grids. The accumulated cost of the assets was reclassified to assets held for sale.

In December 2017, the Company has completed a sale of the Razdolinskaya Taiga electricity transmission grid for a discounted amount of $110 million, of which $19 million was received in December 2017, $15 million ($18 million including VAT) is expected to be received by the Company in 2018, and the remaining $82 million (or $97 million including VAT) in 2019-2026. The carrying amount of the disposed grid (included within Assets classified as held for sale) was $97 million, which resulted in a gain on disposal of $13 million included within Other expenses, net.

In December 2017, the Company has completed a sale of a part of the Peleduy-Mamakan electricity transmission grid for a total cash consideration of $44 million. The carrying amount of the disposed grid (included within Assets classified as held for sale), after impairment of $4 million, amounted to $44 million.

During the year ended 31 December 2017, $4 million of borrowings costs were capitalised into the cost of the assets classified as held for sale.

Mineral rights

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

	31 December	
	2017	2016
Mineral rights presented within fixed assets	48	49
Mineral rights presented within mine under development	36	34
Mineral rights presented within exploration and evaluation assets	445	159
Total	**529**	**242**

Exploration and evaluation assets

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

	31 December	
	2017	2016
Sukhoi Log	430	430
Chertovo Koryto	30	30
Razdolinskoye	28	28
Bamsky	18	18
Panimba	17	17
Smezhny	10	10
Blagodatnoye	8	8
Burgakhchan area	7	7
Olimpiada	8	8
Medvezhy Zapadny	2	2
Other	2	2
Total	**560**	**263**

Amounts related to Sukhoi Log exploration and evaluation asset were capitalised as follows:

Balance at 31 December 2016	**141**
Value of the First set of options on initial recognition (note 20)	121
Value of the Second set of options on initial recognition (note 20)	131
Additional payment in auction for the licence	15
Capitalised costs of exploration and evaluation activities	6
Effect of translation to presentation currency	16
Balance at 31 December 2017	**430**

Depreciation and amortisation charge for the year is allocated as follows:

	Year ended 31 December	
	2017	2016
Cost of gold sales	169	142
Depreciation in change in inventory	12	12
Depreciation and amortisation within cost of production (note 6)	**181**	**154**
Capitalised within property, plant and equipment	27	13
Selling, general and administrative expenses (note 7)	7	5
Cost of other sales	2	1
Total depreciation and amortisation	**217**	**173**
Less: amortisation of other non-current assets	(5)	(4)
Total depreciation of property, plant and equipment	**212**	**169**

Capitalised borrowing costs

Capitalised borrowing costs are included in the cost of qualifying assets comprise of the following:

	Year ended 31 December	
	2017	2016
Interest expenses	99	97
Foreign exchange loss / (gain), net	1	(3)
Interest income on bank deposits	(3)	(10)
Total	**97**	**84**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

12. DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS

	31 December 2017	31 December 2016
Non-current derivative financial assets and investments		
Revenue stabiliser	**–**	32
Cross currency swaps	**32**	10
Interest rate swaps	**6**	7
Investment in joint venture	**–**	7
Loans issued to related parties	**–**	1
Total non-current derivative financial assets and investments	**38**	57
Current derivative financial assets		
Revenue stabiliser	**–**	10
Total derivative financial assets and investments	**38**	67
Non-current derivative financial liabilities		
Cross currency swaps	**383**	434
Revenue stabiliser	**64**	22
Interest rate swaps	**1**	–
Total non-current derivative financial liabilities	**448**	456

Strategic Price Protection Programme
In March 2014, the Company initiated a Strategic Price Protection Programme (the 'Programme').

Under the Programme, the Company has entered into a series of price protection arrangements comprised of two components:

- Zero cost Asian gold collars ('revenue stabiliser')
- Gold forward contracts (exercised in 2016)

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

The allocation of volumes between years under the revenue stabiliser agreements (thousand ounces) is presented below:

	Total	2014	2015	2016	2017		2018		2019		2020
Year ended 31 December		1-3 years	1-3 years	1-3 years	1-3 years	4th year	1-3 years	4th year	1-3 years	4th year	4th year
Tranche 1 (covering the period 1 April 2014 - 30 March 2018)											
Total as per options agreements	**1,320**	225	300	300	**75**	**315**	–	105	–	–	–
Exercised	**(1,215)**	(225)	(300)	(300)	**(75)**	**(315)**	–	–	–	–	–
Outstanding as of 31 December 2017	**105**	**–**	**–**	**–**	**–**	**–**	**–**	**105**	**–**	**–**	**–**
Tranche 2 (covering the period 1 July 2014 - 29 June 2018)											
Total as per options agreements	**720**	60	120	120	**60**	**180**	–	180	–	–	–
Exercised	**(540)**	(60)	(120)	(120)	**(60)**	**(180)**	–	–	–	–	–
Outstanding as of 31 December 2017	**180**	**–**	**–**	**–**	**–**	**–**	**–**	**180**	**–**	**–**	**–**
Tranche 3 (covering the period 1 January 2016 - 31 December 2019)											
Total as per options agreements	**1,680**	–	–	280	**280**	**–**	280	–	–	840	–
Exercised	**(560)**	–	–	(280)	**(280)**	**–**	–	–	–	–	–
Outstanding as of 31 December 2017	**1,120**	**–**	**–**	**–**	**–**	**–**	**280**	**–**	**–**	**840**	**–**
Tranche 4 (covering the period 1 April 2016 - 31 December 2020)											
Total as per options agreements	**600**	–	–	75	**100**	**–**	100	–	25	225	25
Exercised	**(175)**	–	–	(75)	**(100)**	**–**	–	–	–	–	–
Outstanding as of 31 December 2017	**425**	**–**	**–**	**–**	**–**	**–**	**100**	**–**	**25**	**225**	**75**
Total outstanding as of 31 December 2017	**1,830**	**–**	**–**	**–**	**–**	**–**	**380**	**285**	**25**	**1,065**	**75**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

12. DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS continued

The allocation of strikes and barriers (US dollars per ounce) between years under the revenue stabiliser agreements is presented below:

	Year ended 31 December									
	2014	2015	2016	2017		2018		2019		2020
	1-3 years	1-3 years	1-3 years	1-3 years	4th year	1-3 years	4th year	1-3 years	4th year	4th year
Tranche 1 (covering the period 1 April 2014 - 30 March 2018)										
Put										
Strike	1,383	1,383	1,383	**1,383**	**1,107**	–	1,107	–	–	–
Knock-out barrier	950	950	921	**911**	**900**	–	900	–	–	–
Call										
Strike	1,518	1,518	1,518	**1,518**	**1,551**	–	1,551	–	–	–
Knock-out barrier	1,662	1,655	1,634	**1,634**	**1,750**	–	1,750	–	–	–
Tranche 2 (covering the period 1 July 2014 - 29 June 2018)										
Put										
Strike	1,359	1,359	1,359	**1,359**	**1,100**	–	1,100	–	–	–
Knock-out barrier	950	950	950	**950**	**900**	–	900	–	–	–
Call										
Strike	1,425	1,425	1,425	**1,425**	**1,500**	–	1,500	–	–	–
Knock-out barrier	1,525	1,525	1,525	**1,525**	**1,650**	–	1,650	–	–	–
Tranche 3 (covering the period 1 January 2016 - 31 December 2019)										
Put										
Strike	–	–	1,232	**1,232**	**–**	1,232	–	–	971	–
Knock-out barrier	–	–	900	**900**	**–**	900	–	–	921	–
Call										
Strike	–	–	1,350	**1,350**	**–**	1,350	–	–	1,391	–
Knock-out barrier	–	–	1,450	**1,450**	**–**	1,450	–	–	1,591	–
Tranche 4 (covering the period 1 April 2016 - 31 December 2020)										
Put										
Strike	–	–	1,271	**1,271**	**–**	1,271	–	1,271	1,000	1,000
Knock-out barrier	–	–	900	**900**	**–**	900	–	900	950	950
Call										
Strike	–	–	1,300	**1,300**	**–**	1,350	–	1,350	1,350	1,420
Knock-out barrier	–	–	1,433	**1,450**	**–**	1,450	–	1,450	1,450	1,620

As a result of Tranche 1 of the revenue stabiliser, the Company ensured a minimum average price of $1,383 per ounce for 300 thousand ounces of gold output annually during the first three years of the Programme, provided the gold price did not fall below $911 per ounce. During the first three years the Company benefited from price increases until the gold price reaches $1,634 per ounce, in which case the average price was capped at $1,518 per ounce. In the fourth year of the Programme, the Company ensures a minimum average price of $1,107 per ounce for the price-protected amount of 420 thousand ounces, provided the gold price does not fall below $900 per ounce. Additionally, in the fourth year of the Programme, the Company will have an obligation to sell 420 thousand ounces of gold at $1,551 per ounce should the gold price exceed $1,750 per ounce.

As a result of Tranche 2 of the revenue stabiliser, the Company ensured a minimum average price of $1,359 per ounce for 120 thousand ounces of gold annually output during the first three years of the Programme, provided the gold price did not fall below $950 per ounce. During the first three years the Company benefited from price increases until the gold price reaches $1,525 per ounce, in which case the average price is capped at $1,425 per ounce. In the fourth year of the Programme, the Company ensures a minimum average price of $1,100 per ounce for the price-protected amount of 360 thousand ounces, provided the gold price does not fall below $900 per ounce. Additionally, in the fourth year of the Programme, the Company will have an obligation to sell 360 thousand ounces of gold at $1,500 per ounce should the gold price exceed $1,650 per ounce.

As a result of Tranche 3 of the revenue stabiliser, the Company ensures a minimum average price of $1,232 per ounce for 280 thousand ounces of gold annually output during the first three years of the Programme, provided the gold price does not fall below $900 per ounce. During the first three years the Company benefits from price increases until the gold price reaches $1,450 per ounce, in which case the average price is capped at $1,350 per ounce. In the fourth year of the Programme, the Company ensures a minimum average price of $971 per ounce for the price-protected amount of 840 thousand ounces, provided the gold price does not fall below $921 per ounce. Additionally, in the fourth year of the Programme, the Company will have an obligation to sell 840 thousand ounces of gold at $1,391 per ounce should the gold price exceed $1,591 per ounce.

As a result of Tranche 4 of the revenue stabiliser, the Company ensures a minimum average price of $1,271 per ounce for 270 thousand ounces of gold output during the first three years of the Programme, provided the gold price does not fall below $900 per ounce. During the first three years the Company benefits from price increases until the average gold price reaches $1,450 per ounce for 175 thousand ounces, in which case the average price is capped at $1,350 per ounce. Thereafter (period from 1 April 2019 to 31 December 2020 of the Programme), the Company ensures a minimum average price of $1,000 per ounce for the price-protection amount of 300 thousand ounces, provided the gold price does not fall below $950 per ounce. Additionally, the Company will have an obligation to sell 375 thousand ounces of gold at the average gold price $1,406 per ounce should the average gold price exceed $1,586 per ounce.

The revenue stabiliser options are exercised quarterly.

On 30 June 2017, following the scheduled release of all amounts previously recognised in the consolidated statement of comprehensive income into the consolidated statement of profit or loss within Gold sales line, the hedges for Tranches 1 and 2 were de-designated and hedge accounting in terms of IAS 39 no longer applies on prospective basis, because strikes on remaining options are out of the forecasted gold price. Since 1 July 2017, remaining outstanding options of the Tranches 1 and 2 are accounted at fair value through profit or loss (note 9).

Because Tranches 1 and 2 of the revenue stabiliser arrangements were designated as a cash flow hedge until 30 June 2017 any change in the intrinsic value of the collars was recognised in the Cash flow hedge revaluation reserve within consolidated statement of changes in equity, whilst the remaining change in the fair value was reflected in the consolidated statement of profit or loss (note 9). During the year ended 31 December 2017, under Tranches 1 and 2, a gain of $4 million was recognised in the Cash flow hedge revaluation reserve within consolidated statement of changes in equity (2016: loss of $65 million) and following the sale of the hedged volume of gold and the exercise of certain options $19 million was subsequently reclassified to Gold sales within the consolidated statement of profit or loss (2016: $53 million).

Tranches 3 and 4 continue to be accounted at fair value through profit or loss. The change in their fair value is presented within the note 9 within the line Revaluation loss on revenue stabiliser and following the sale of the hedged volume of gold and the exercise of certain options $3 million was subsequently recorded to Gold sales within the consolidated statement of profit or loss (2016: $6 million).

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

Cross currency swaps

Russian rouble denominated credit facilities with fixed interest rate

During the year ended 31 December 2014, the Company entered into cross currency swaps with leading Russian banks to economically hedge interest payments and principal amounts nominated in Russian roubles. According to the cross currency swap agreements dated to 2014 the Company quarterly paid to the banks LIBOR + Margin 2.47% in US dollars and received from the banks 10.35% in Russian roubles; and at maturity (9 April 2019) the Company has to exchange principal amounts paying $1,023 million and receiving 35,999 million roubles.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

12. DERIVATIVE FINANCIAL INSTRUMENTS AND INVESTMENTS continued

Following certain amendments to the previous cross currency contracts and new fixed rate swap, offsetting the floating swap, that took place in 2016, the following terms were in place as of 31 December 2017:

- The Company quarterly pays to the banks 3.94% in US dollars and receives from the banks 10.35% in roubles; and at maturity (9 April 2019) the Company exchanges principal amounts paying $808 million and receiving 28,443 million roubles (amended terms of cross currency swap agreements with the same banks dated to 2014);
- The Company quarterly pays to the banks 3.98% in US dollars and receives from the banks 10.35% in RUB; and at maturity (9 April 2019) the Company exchanges principal amounts paying $215 million and receiving 7,556 million roubles. These terms were achieved by keeping unchanged previous cross currency contracts and entering into new fixed rate swaps.

Rusbonds

In 2015, the Company entered into cross currency swaps with leading Russian banks for a total amount of 15.3 billion roubles to economically hedge interest payments and principal amounts for Rusbonds. According to the cross currency swap agreements the Company will semi-annually pay to the banks LIBOR + Margin 4.45% for 10 billion roubles and + 5.9% for 5.3 billion roubles in US dollars and receive from the banks 12.1% in roubles; and at maturity (July 2021) the Company will exchange principal amounts paying $255 million and receiving 15.3 billion roubles.

According to IAS 39, the swaps were not eligible to be designated as cash flow or fair value hedges. The Company accounted for these derivative financial instruments at fair value through profit or loss which was determined using a discounted cash flow valuation technique. Changes in the fair value of the cross currency swaps are recognised within the Gain/(loss) on investments and revaluation on derivative financial instruments of the consolidated statement of profit or loss (note 9). The gain or loss on the exchange of interest payments is recognised within Finance cost, net (note 8).

The fair value measurement is based on inputs (spot currency exchange rates and forward USD LIBOR and RUB rates), which are observable in the market and the Company classified them as Level 2 in accordance with the hierarchy of fair value.

Interest rate swaps

In 2014, the Company entered into interest rate swap agreements with leading Russian banks, according to which the Company pays semi-annually and until 29 April 2020 LIBOR + 3.55% in US dollars and receives 5.625% in US dollars in respect of a $750 million nominal amount. The purpose of this swap was to decrease the effective interest rate for the $750 million Eurobonds.

In 2016, the Company signed new offsetting interest rate swap agreements, according to which the Company pays semi-annually and until 29 April 2020 5.342% in US dollars and receives LIBOR + 3.55% in US dollars in respect of a $750 million nominal amount, to effectively swap variable interest rate payments under 2014 interest rate swaps into fixed ones.

In 2016, certain of the new interest rate swap agreements were concluded with the same counterparties and will settle on a net basis. Those swaps are presented on a net basis.

According to IAS 39, the swaps were not eligible to be designated as either a cash flow or fair value hedge. The Company accounts for it at fair value through profit or loss which was determined using a discounted cash flow valuation technique.

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

The fair value measurement is based on inputs (forward USD LIBOR rates), which are observable in the market and the Company classified them as Level 2 in accordance with the hierarchy of fair value.

The fair value of derivative financial instruments includes an adjustment for credit risk in accordance with IFRS 13. The adjustment is calculated based on the expected exposure. For positive expected exposures, credit risk is based on the observed credit default swap spreads for each particular counterparty or, if they are unavailable, for equivalent peers of the counterparty. For negative expected exposures, the credit risk is based on the observed credit default swap spread of the Company's peer adjusted for a differential in z-spreads of quoted bonds of the Company and the peer in question to correctly reflect the Company's credit risk.

13. INVENTORIES

	31 December	
	2017	**2016**
Inventories expected to be used after 12 months		
Stockpiles	**287**	253
Gold-in-process	**13**	11
Sub-total	**300**	**264**
Inventories expected to be used in the next 12 months		
Stores and materials	**304**	253
Gold-in-process	**54**	54
Stockpiles	**70**	51
Refined gold	**22**	23
Less: obsolescence provision for stores and materials	**(15)**	(12)
Sub-total	**435**	**369**
Total	**735**	**633**

14. TRADE AND OTHER RECEIVABLES

	31 December	
	2017	**2016**
Inventories expected to be used after 12 months	**51**	36
Stockpiles	**56**	27
Gold-in-process	**(6)**	(5)
Total	**101**	**58**

15. TAXES RECEIVABLE

	31 December	
	2017	**2016**
Reimbursable value added tax	**105**	73
Income tax prepaid	**7**	9
Other prepaid taxes	**2**	7
Total	**114**	**89**

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(in millions of US dollars)

16. CASH AND CASH EQUIVALENTS

	31 December	
	2017	2016
Bank deposits		
- US dollars	914	1,443
- Russian roubles	30	82
Current bank accounts		
- US dollars	136	41
- Russian roubles	55	82
Cash in the Federal Treasury (note 19)	69	74
Other cash and cash equivalents	–	18
Total	**1,204**	**1,740**

Bank deposits within Cash and cash equivalents includes deposits with original maturity less than three months or repayable on demand without loss on principal and accrued interest amounts, and are denominated in Russian roubles and US dollars and accrue interest at the following rates:

Interest rates on bank deposits denominated in:

- US dollars	1.2–2.6%	1.1–4.4%
- Russian roubles	4.0-7.8%	8.4–10.2%

17. SHARE CAPITAL

Authorised, issued and fully paid share capital of the Company as of 31 December 2017 comprised 133,561 thousand ordinary shares at par value of 1 rouble.

Shares buy-back in 2016

During 2016, the Company completed a buy-back of 60,519 thousand ordinary shares of the Company for a total cash consideration of $3,443 million.

Additionally, in 2016, a 100% subsidiary of the Company obtained from PGIL 4,477 thousand of the Company's ordinary shares in exchange for an early settlement of the loans issued by the Company to PGIL and related accrued interest in the total amount of $269 million.

Purchase of the Company's shares in 2017

On 22 December 2016, the majority of the Company's shareholders approved the merger of LLC Polyus-Invest, then an indirect 100% subsidiary of the Company, into the Company. At the same time certain shareholders who did not participate in the shareholders meeting or voted against the reorganisation demanded that the Company purchase their shares. On 3 March 2017, as a result of the completion of the above mentioned transactions, the Company purchased 14 thousand ordinary shares (0.01% ownership) at 4,497 roubles per share resulting in a total cash outflow of $1 million.

Treasury shares

On 7 April 2017, LLC Polyus-Invest merged into PJSC Polyus, then a 100% direct subsidiary of the Company, as a result of which 63,082 thousand of PJSC Polyus treasury shares were cancelled on 10 April 2017, and 1,927 thousand remained as treasury shares. Following the Polyus share transfer under the SL Gold options in July 2017, the number of treasury shares decreased by 290 thousand and comprised 1,637 thousand as at 31 December 2017 (note 20).

Offering of shares and global depositary shares of the Company ('Offering')

The Offering comprised an offering by the Company of newly issued shares of the Company ('New Shares') in the Russian Federation and offering of existing shares ('Shares') and global depositary shares ('GDSs') of the Company by PGIL and Polyus Gold plc both in the Russian Federation and outside of the Russian Federation through the facilities of the LSE. The total size of the Offering amounted to $858 million, including 6,016 thousand of New Shares issued by the Company for a total amount of $400 million, and Shares and GDSs sold by PGIL, including over-allotment Shares and GDSs, constituting $458 million. The issue of New Shares was recognised as an increase in Additional paid-in capital of $389 million after deducting directly attributable expenses of $14 million as adjusted for the income tax effect of $3 million.

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

In 2016, the Board of Directors of PJSC Polyus approved a long term incentive plan (LTIP) according to which the members of top management of the Company are entitled to a conditional award in the form of PJSC Polyus' ordinary shares which vest upon achievement of financial and non-financial performance targets. The LTIP stipulates three rolling performance periods: 2016-2017; 2016-2018; and 2017-2019. The total number of shares that may be distributed under the LTIP is up to 1.43% of the total share capital of the Company, which can be granted from newly issued ordinary shares or from treasury shares, if any.

Total expense for the reporting period arising from LTIP including related taxes of $7 million was immediately recognised in the consolidated statement of profit or loss within the line Salaries included within Selling, general and administrative expenses in the amount of $25 million (2016: $19 million).

Weighted average number of ordinary shares

The weighted average number of ordinary shares (presented in thousands in the table below) for the year ended 31 December 2017 and 2016 used in the calculation of basic and diluted earnings ('EPS') per share is presented below:

	Year ended 31 December	
	2017	2016
Ordinary shares in issue at the beginning of the year	125,632	190,628
Treasury shares	(14)	(49,863)
New shares issued during the Offering	6,016	–
Purchase of additional ownership in SL Gold through issuance of treasury shares	290	–
Weighted average number of ordinary shares – basic EPS	**128,622**	**140,765**
Potential Shares to be issued upon increase in Gold ownership interest (note 20)	512	512
LTIP	589	589
Weighted average number of ordinary shares – dilutive EPS	**129,723**	**140,774**
Profit after tax attributable to the shareholders of the Company (million US dollars)	1,240	1,420
Effect of potential dilution (million US dollars)	6	–
Profit after tax attributable to the shareholders of the Company for diluted EPS calculation (million US dollars)	**1,246**	**1,420**

Dividends

On 30 June 2017 the Company declared 2016 dividends in the total amount of 20,063 million roubles ($340 million) or 152.41 roubles per share ($2.58 per share). The dividends were paid in July–August 2017 and were not allocated on treasury shares.

On 15 September 2017 the Company declared dividends for the six months ended 30 June 2017 in the total amount of 13,760 million roubles ($239 million) or 104.3 roubles per share ($1.81 per share). The dividends were paid in September–October 2017 and were not allocated on treasury shares.

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(in millions of US dollars)

18. BORROWINGS

	Nominal rate %	31 Dec. 2017	31 Dec. 2016
Credit facilities with financial institutions nominated in US dollars with variable interest rates	US dollar LIBOR + 4.50%	1,240	2,513
$750 million Eurobonds with fixed interest rate due in 2020	5.625%	745	–
$500 million Eurobonds with fixed interest rate due in 2022	4.699%	495	–
$800 million Eurobonds with fixed interest rate due in 2023	5.250%	793	–
PGIL US dollar credit facilities with fixed interest rate	4.799% - 5.725%	–	1,237
Credit facilities with financial institutions nominated in roubles with fixed interest rates	10.35%	577	541
Credit facilities with financial institutions nominated in US dollars with fixed interest rates	4.10%	67	331
Notes due in 2025 (Rusbonds) with noteholders' early repayment option in 2021	12.1%	265	253
Credit facilities with financial institutions nominated in roubles with variable interest rates	Central bank rate + 2.3%	86	81
Letters of credit with deferred payments terms with variable rates	Euribor +1.8%, US dollar LIBOR + 1.15%	–	19
Lease liabilities with fixed interest rates nominated in US dollars	5.1% - 8.5%	13	6
Sub-total		**4,281**	**4,981**
Less: short-term borrowings and current portion of long-term borrowings due within 12 months		(12)	(283)
Long-term borrowings		**4,269**	**4,269**

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

Eurobonds
On 7 February 2017, PGIL issued $800 million Notes due in 2023 that have a coupon of 5.25% per annum and are guaranteed by the Company. On 14 February 2017, the Company borrowed $800 million from PGIL, which were used for refinancing of other borrowings.

During April and May 2017, all rights and obligations under the $800 million Notes due in 2023, the $750 million Notes due in 2020 and the $500 million Notes due in 2022 were transferred from PGIL to Polyus Finance Plc, a 100% subsidiary of JSC Polyus Krasnoyarsk. Accordingly, all rights and obligations for the same amount under the loans from PGIL to JSC Polyus Krasnoyarsk were transferred from PGIL to Polyus Finance Plc.

Repayment of debt
During the year ended 31 December 2017 $1,563 million of US dollar credit facilities were repaid in advance of the payment schedule.

Unused credit facilities
In 2014, one of the Company's subsidiaries entered into a five year 40,000 million roubles credit line with a bank to fund its general corporate purposes. As of 31 December 2017, the amount of unused credit facilities was 40,000 million roubles, which is equivalent to $694 million at 31 December 2017 exchange rate.

Pledge
As of 31 December 2017 and 2016, all shares of JSC TaigaEnergoStroy belonging to the Company, were pledged to secure a credit line.

Other matters
There were a number of financial covenants under several loan agreements in effect as of 31 December 2017 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 Company tests covenants quarterly and was in compliance with the covenants as of 31 December 2017.

Rusbonds and its reclassifications
On 22 December 2016, the Company's shareholders approved the merger of LLC Polyus-Invest into PJSC Polyus. Pursuant to Article 60 of the Russian Civil Code, immediately thereafter the holders of Rusbonds became entitled to an early redemption of the bonds. As a result, the full outstanding amount of Rusbonds was reclassified to short-term as of 31 December 2016.

The bondholders had to notify the issuer by 24 March 2017 to exercise their right, but such notifications from bondholders were not received and accordingly, the full outstanding amount of Rusbonds was reclassified back to long-term starting from 24 March 2017.

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

	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Borrowings (Level 2)	1,983	1,977	4,728	4,248
Eurobonds (Level 1)	2,033	2,140	–	–
Rusbonds (Level 1)	265	298	253	272
Total	**4,281**	**4,415**	**4,981**	**4,520**

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

The fair value measurement of other borrowings is based on inputs (spot currency exchange rates, forward US dollar LIBOR and rouble interest rates and the company's own credit risk), which are observable in the market and the Company classified them as Level 2 in accordance with the hierarchy of fair value.

Reconciliation of liabilities arising from financing activities

			Non-cash changes			
	31 Dec. 2016	Cash-flows	Foreign exchange gain / (loss), net	Effect of currency translation	Amorti-sation at effective interest rate	31 Dec. 2017
Borrowings	4,975	(786)	(238)	288	29	4,268
Finance lease	6	6	–	–	1	13
Total liabilities from financing activities	**4,981**	**(780)**	**(238)**	**288**	**30**	**4,281**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

19. DEFERRED REVENUE

On 13 September 2016, the Ministry for the Development of the Russian Far East Minvostokrazvitiya and JSC Matrosova Mine, a 100% subsidiary of the Company representing the Magadan Business Unit, entered into an agreement under which Minvostokrazvitiya was to provide to Matrosova Mine government grant in the total amount of $164 million (including VAT) in 2016–2018.

Under the agreement the grant must be used for the construction of: (i) 220 kW electricity transmission line 'Ust'–Omchug – Omchak New', (ii) 220 kW distribution point and (iii) 220 kW electric power substation 'Omchak New'. The construction is expected to be completed during the second quarter of 2019. Any unutilised balance of the grant will have to be returned to Minvostokrazvitiya. JSC Polyus Krasnoyarsk is a guarantor under the agreement.

In August 2017, following the project documentation update, the overall amount of the grant was decreased to 8,797 million roubles ($53 million, including VAT), due to a decrease of the 2018 tranche to 1,570 million roubles ($27 million). In addition, in the end of December 2017 JSC Matrosova Mine signed the new addendum to the government grant agreement based on which 492 million roubles ($8 million) was reallocated from the 2018 to the 2017 tranche.

As of 31 December 2017 (at 31 December 2017 USD/RUB exchange rate)	
For 2016 (fully received 4,619 million roubles)	80
For 2017 (fully received 3,100 million roubles)	54
For 2018 (to be received 1,078 million roubles)	19
Total	**153**

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

	2017
Carrying value at the beginning of the year	**76**
Received cash	**53**
Recognised as income amount of VAT attributable to the execution of Investment Programme	**(2)**
Effect of translation to presentation currency	**5**
Carrying value at the end of the year	**132**

20. DEFERRED CONSIDERATION

On 16 December 2016, JSC Polyus Krasnoyarsk entered into the First set of options with RT, a wholly owned subsidiary of Rostec. Under these option agreements the Company was expected to increase its ownership interest in SL Gold, then a 51% subsidiary of the Company[1], by 23.9% within following five years (with a right to accelerate the exercise of the Company's call options) for an undiscounted consideration of $139 million (note 4).

On 26 January 2017, the date when the Company became committed to the First set of option agreements, it recognised a liability for the gross amount payable under the respective put options at $121 million (note 11), being the discounted amount of contractual cash flows measured by applying the appropriate discount factors based on observable market data on that date and varying from 3.0% to 4.9% p.a.

In May 2017, the Company exercised the first option of the First set of options paying $21 million in cash and increasing its ownership in the share capital of SL Gold by 3.6% to 54.6%.

On 11 July 2017, JSC Polyus Krasnoyarsk entered into the Second set of options with RT. Under these option agreements, the Company is expected to increase its ownership interest in SL Gold by an additional 25.1% taking its total interest to 100% within the following five years (with a right to accelerate the Company's call options) for an undiscounted consideration of $146 million (note 3). The consideration is equal to a fixed US dollar amount and shall be payable by a variable number of the Company's shares. The Company recognised a liability for the gross amount payable under the respective put options in the Second set of options at $131 million (Note 11), being the discounted amount of contractual payments measured by applying the appropriate discount factors based on observable market data and varying from 2.7% to 4.5%.

In July 2017, the Company increased effective ownership in SL Gold (note 27) from 54.6% to 58.4% transferring in exchange 290 thousand of Polyus treasury shares (note 17) valued at $22 million.

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

Balance at 31 December 2016	–
Value of the First set of options on initial recognition (note 11)	121
Value of the Second set of options on initial recognition (note 11)	131
Unwinding of interest on deferred consideration	6
Settled in cash	(21)
Settled in shares	(22)
Foreign exchange gain, net	(9)
Effect of translation to presentation currency	10
Balance at 31 December 2017	**216**

Timing (with the right to accelerate) and amounts of the option agreements are presented below.

First set of options (payable in cash):

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

[1] In May and July 2017, the Company increased effective ownership in SL Gold (note 20) from 51.0% to 58.4% for a cash consideration of $21 million and Polyus shares transfer valued at $22 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

20. DEFERRED CONSIDERATION continued

Second set of options (payable in Polyus shares):

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

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

21. DEFERRED TAX ASSETS AND LIABILITIES

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

	Year ended 31 December	
	2017	2016
Net deferred tax liability at beginning of the year	**107**	**87**
Recognised in the consolidated statement of profit or loss	**48**	29
Recognised in other comprehensive income	**(3)**	(27)
Recognised in equity	**(1)**	–
Effect of translation to presentation currency	**6**	18
Net deferred tax liability at end of the year	**157**	**107**

Deferred taxation is attributable to tax losses carried forward and the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The balances of recognised deferred tax assets and liabilities as at 31 December 2017 were as follows:

	31 December	
	2017	2016
Property, plant and equipment	**310**	205
Tax losses carried-forward	**(222)**	(160)
Inventory	**71**	61
Trade and other payables	(12)	(14)
Deferred expenditure	3	3
Borrowings	8	12
Other	**(1)**	–
Net deferred tax liability	**157**	**107**

Certain deferred tax assets and liabilities have been offset in accordance with the Company's accounting policy. 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	
	2017	2016
Deferred tax assets	**(60)**	(75)
Deferred tax liabilities	**217**	182
Net deferred tax liability	**157**	**107**

Unrecognised deferred tax asset

	31 December	
	2017	2016
Unrecognised deferred tax asset resulting from losses on derivative financial instruments	**125**	123
Unrecognized deferred tax assets resulted from impairments	**8**	12
Unrecognised deferred tax asset in respect of tax losses carried forward available for offset against future taxable profit	**11**	8
Total	**144**	**143**

Unrecognised deferred tax liability

	31 December	
	2017	2016
Taxable temporary difference associated with investments in subsidiaries	**134**	348

Deferred tax liability for the taxable temporary difference associated with investments in subsidiaries is not recognised because the Company 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.

Due to a change in the Russian legislation in 2016 the usage of tax losses carried forward would no longer be limited by 10 years from the year they are incurred, however the Company continues not to recognise some of its prior tax losses as it is more likely than not that the future taxable profits will not be available to offset them in certain Company entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

22. TRADE AND OTHER PAYABLES

	31 December	
	2017	**2016**
Wages and salaries payable	**93**	77
Interest payable	**69**	58
Trade payables to third parties	**36**	34
Accrued annual leave	**27**	21
Dividends payable to non-controlling interests	**2**	–
Other accounts payable and accrued expenses	**91**	32
Total	**318**	**222**

The average credit period for trade payables at 31 December 2017 was 32 days (2016: 27 days). No interest was charged on the outstanding payables balance during the credit period. The Company has financial risk management policies in place, which include budgeting and analysis of cash flows and payments schedules to ensure that all amounts payable are settled within the credit period.

23. TAXES PAYABLE

	31 December	
	2017	**2016**
Income tax payable	**13**	40
Value added tax	**45**	30
Tax on mining	**15**	11
Social taxes	**8**	6
Property tax	**2**	3
Other taxes	**4**	3
Total	**87**	**93**

24. RELATED PARTIES

Related parties include the ultimate controlling party of the Company, entities that are able to exercise control over the Company directly or indirectly, entities under common ownership and control with the Company and members of key management personnel.

Immediate shareholder

The Company recognised the following balances in respect of transactions with its parent entity as of the year end:

	31 December	
	2017	**2016**
Loans received (note 18)	**–**	1,237
Interest payable	**–**	12

The Company's transactions with its parent entity during the year and their reported amounts were as follows:

	Year ended 31 December	
	2017	**2016**
Interest income	**–**	6
Interest received	**–**	7
Interest expense	**19**	4
Interest capitalised	**16**	45
Transfer of PGIL Notes (note 18)	**2,050**	–
Proceeds from borrowings	**800**	500
Repayment of borrowing and interest accrued	**46**	46
Proceeds from repayment of loans issued	**–**	124
Buy-back of treasure shares	**–**	3,423
Settlement of issued loans by own shares (note 17)	**–**	269
Commission paid	**9**	13

Key management personnel

	Year ended 31 December	
	2017	**2016**
Short-term benefits	**22**	19
Long-term benefits (LTIP)	**31**	19
Total	**53**	**38**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

25. COMMITMENTS AND CONTINGENCIES

Commitments

Capital commitments

The Company's capital expenditure commitments are as follows:

	31 December	
	2017	2016
Project Natalka	75	53
Project Omchak	59	137
Projects in Krasnoyarsk	92	53
Other capital commitments	18	14
Total	**244**	**257**

Operating leases: Company as a lessee

The land in the Russian Federation on which the Company's production facilities are located is owned by the state. The Company leases this land through operating lease agreements, which expire in various years through to 2065. Future minimum lease payments due under non-cancellable operating lease agreements at the end of the year were as follows:

	31 December	
	2017	2016
Due within one year	10	3
From one to five years	38	9
Thereafter	83	20
Total	**131**	**32**

Contingencies

Litigations

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

Taxation contingencies in the Russian Federation

Laws and regulation affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Company may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant. With regards to matters where practice concerning payment of taxes is unclear, management estimates that there were no significant tax exposures as of 31 December 2017 for which no liability is recognised.

Environmental matters

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

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

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

Operating environment

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

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

26. FINANCIAL INSTRUMENTS RISK MANAGEMENT ACTIVITIES

Capital risk management

The Company manages its capital to ensure that entities of the Company will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The capital structure of the Company consists of net debt which is borrowings (note 18) less cash and cash equivalents (note 16), and equity of the Company.

Major categories of financial instruments

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

	31 December	
	2017	2016
Financial assets		
Cash and cash equivalents (Level 1)	1,204	1,740
Trade and other receivables (Level 1 and 2)	198	58
Derivative financial instruments (Level 2)	38	59
Loans receivable (Level 1)	–	1
Total financial assets	**1,440**	**1,858**
Financial liabilities		
Borrowings (Levels 1 and 2)	4,281	4,981
Derivative financial instruments (Level 2)	448	456
Accounts payable (Level 1)	303	201
Deferred consideration (Level 2)	216	–
Total financial liabilities	**5,248**	**5,638**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in millions of US dollars)

26. FINANCIAL INSTRUMENTS RISK MANAGEMENT ACTIVITIES continued

Derivative financial instruments are carried at fair value. The main risks arising from the Company's financial instruments are gold price, interest rate, foreign currency exchange rates, credit and liquidity risks.

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

Gold price risk
The Company is exposed to changes in the gold price due to its significant volatility. According to the approved hedging strategy the Company may hedge up to 1/2 of its annual gold sales. During 2014 and 2016, the Company entered into a number of derivative transactions (revenue stabiliser and gold forward agreements) under a Strategic Price Protection Programme to limit its exposure to future possible fluctuations of gold price (as detailed further in note 12). Under the terms of the revenue stabiliser the Company 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 2017 gold sales for the year would have increased / decreased by $232 million / $172 million, respectively (2016: $111 million / $107 million), other comprehensive income would not have changed (2016: $2 million / $5 million).

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

If the interest rate was 0.5% higher / lower during the year ended 31 December 2017 interest expense excluding effect of change in fair value of interest rate and cross currency swaps for year ended 31 December 2017 would have increased / decreased by $13 million (2016: $17 million).

If interest rates used in calculations of fair values of interest rate and cross currency swaps as of 31 December 2017 were 0.5% higher / lower, the gain on revaluation would be $3 million lower / higher, respectively (2016: $4 million).

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

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

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

	31 December	
	2017	**2016**
Assets		
US dollars	**1,131**	1,585
Total	**1,131**	**1,585**
Liabilities		
US dollars	**4,096**	4,642
EURO (presented in US dollars at closing exchange rate)	**4**	9
Total	**4,100**	**4,651**

Currency risk is monitored on a monthly basis by performing a sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level. The table below details the Company's sensitivity to changes in exchange rates by 25% which is the sensitivity rate used by the Company for internal analysis. The analysis was applied to monetary items at the reporting dates denominated in the respective currencies.

If the US dollar or EURO exchange rate had increased by 25% for the year ended 31 December 2017 and year ended 31 December 2016 compared to that of the rouble as of the end of respective year, the Company would have incurred the following losses:

	Year ended 31 December	
	2017	**2016**
Loss (US dollar exchange rate increased compared to that of the rouble)	**741**	764
Loss (EURO exchange rate increased compared to that of the rouble)	**1**	2

Credit risk
Credit risk is the risk that a customer may default or not meet its obligations to the Company on a timely basis, leading to financial losses to the Company. 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 Company conducts its business with creditworthy and reliable counterparties, and minimises advance payments to suppliers. The Company employs a methodology for in-house financial analysis of banks and non-banking counterparties, which enables management to estimate an acceptable level of credit risk with regard to particular counterparties and to set appropriate individual risk limitations.

Within the Company's core companies the procedures for preparing new agreements include analysis and contemplation of credit risk, estimation of the aggregate risk associated with a counterparty (arising both from an agreement under consideration and from previously existing contracts, if any) and verifying compliance with individual credit limits.

Credit risk inherent to the contract was incorporated in the fair value of derivative financial instruments at the reporting date. The credit risk incorporated into valuations is based on the quoted counterparty CDS (credit default swap) for the counterparty risk. The Company'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 Company sells more than 90% of the total gold sales to several major customers, the Company 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 2017, trade receivables for gold bearing products sales were $51 million (31 December 2016: $36 million).

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

	31 December	
	2017	**2016**
VTB Bank	**995**	906
Otkritie Bank	**909**	561
Sberbank	**520**	647
Gazprom Bank	**71**	6
B&N Bank (formerly MDM Bank)	**12**	72
Other	**177**	237
Total	**2,684**	**2,429**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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26. FINANCIAL INSTRUMENTS RISK MANAGEMENT ACTIVITIES continued

Liquidity risk

Liquidity risk is the risk that the Company will not be able to settle all liabilities as they are due. The Company's liquidity position is carefully monitored and managed. The Company manages liquidity risk by maintaining detailed budgeting and cash forecasting processes and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

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

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

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

Presented below is the maturity profile of the Company's financial liabilities as of 31 December 2016 based on undiscounted contractual payments, including interest payments:

	Borrowings			
	Principal	Interest	Accounts payable	Total
Due in the first year	278	303	143	**724**
Due in the second year	20	285	–	**305**
Due in the third year	570	255	–	**825**
Due in the fourth year	776	203	–	**979**
Due in the fifth year	689	169	–	**858**
Due in the period between sixth to eight years	2,705	143	–	**2,848**
Total	**5,038**	**1,358**	**143**	**6,539**

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

27. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

Significant restrictions on the Company's ability to access or use the assets and settle the liabilities of the Company

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 Company

		Effective % held[1] at	
Subsidiaries	Nature of business	30 Dec. 2017	31 Dec. 2016
Incorporated in Russian Federation			
JSC Polyus Krasnoyarsk (renamed, previously JSC Gold Mining Company Polyus)	Mining (open-pit)	**100**	100
JSC Polyus Aldan (renamed, previously JSC Aldanzoloto GRK)	Mining (open-pit)	**100**	100
JSC Polyus Verninskoye (renamed, previously JSC Pervenets)	Mining (open-pit)	**100**	100
PJSC Lenzoloto	Holding company	**64**	64
JSC ZDK Lenzoloto	Mining (alluvial)	**66**	66
JSC Svetliy	Mining (alluvial)	**56**	56
JSC Matrosova Mine	Mining (development stage)	**100**	100
LLC Polyus Stroy	Construction	**100**	100
LLC SL Gold[2]	Exploration and evaluation of Sukhoi Log deposit	**58**	51

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

[2] In May and July 2017, the Company increased effective ownership in SL Gold (note 20) from 51.0% to 58.4% for a cash consideration of $21 million and Polyus shares transfer valued at $22 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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27. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES continued

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

	PJSC Lenzoloto		LLC SL Gold	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Summarised statements of financial position				
Current assets	224	224	1	148
Non-current assets	81	81	187	141
Current liabilities	29	29	188	289
Non-current liabilities	22	22	–	–
Equity attributable to the shareholders of the subsidiary	193	193	–	–
Non-controlling interests	61	61	–	–
Summarised statements of profit or loss				
Revenue	191	224	–	–
(Loss) / profit for the year	(8)	43	(1)	–
Profit attributable to non-controlling interests	–	13	–	–
Summarised statements of cash flows				
Net cash inflow from operating activities	3	61	–	1
Net cash outflow from investing activities	(23)	(13)	(16)	(138)
Net cash (outflow) / inflow from financing activities	11	(13)	(131)	286
Dividends paid to non-controlling interests	7	13	–	–

28. EVENTS AFTER THE REPORTING DATE

There were no events subsequent to the reporting date that should be disclosed in these consolidated financial statements, except for issues of $500 million Eurobonds due 2024 with a fixed coupon of 4.70% payable on a semi-annual basis in arrears and $250 million convertible bonds due 2021 with a fixed coupon of 1% payable on a semi-annual basis in arrears. Convertible bonds assumes base number of potentially dilutive shares to be equal to 2,498 thousand shares. Cash received was mainly used for partial early repayment of $1 billion of the US dollar credit facility with fix interest rate.

ADDITIONAL INFORMATION

REPORT ON OBSERVING PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

Board of Directors' statement of compliance with the Corporate Governance Code

In its operations the Company adheres to global best practices in corporate governance largely supported by the recommendations outlined in the Corporate Governance Code approved by the Bank of Russia. Hereby, the Board of Directors confirms its commitment to the highest corporate governance standards as a reflection of the general approach and policy of the Company in this area.

The methodology used by the Company to assess compliance with corporate governance principles is based on the Recommendations for the report on observing principles and recommendations of the Corporate Governance Code (Appendix to letter of the Bank of Russia dated 17 February 2016 No. IN-06-52/8).

The table below has been prepared in accordance with the said Recommendations and reflects the Company's efforts to improve the internal corporate governance standards.

No.	Corporate Governance Principles (CGP)	Criteria to evaluate compliance with the Corporate Governance Principle	CGP compliance status	Explanation for deviations from criteria to evaluate CGP compliance
1.1	**The company should ensure equitable and fair treatment of every shareholder exercising their right to take part in steering the company.**			
1.1.1	The company provides the best possible conditions for shareholders to participate in the general meeting, make informed decisions, coordinate their actions and express their opinion on agenda items.	1. The company's internal document approved by the general shareholder meeting and regulating the general meeting policy is in public access. 2. The company provides easy to use communication channels, such as a hotline, e-mail and an online forum, which allow shareholders to express their opinion and submit questions regarding the agenda in the course of preparation for the general meeting. The company used these communication channels to prepare for each general meeting held in the reporting period.	Observed	
1.1.2	The procedure to notify shareholders of a general meeting and circulate appropriate materials enables shareholders to duly prepare for the meeting.	1. A general meeting notice is posted on the website not later than 30 days prior to the date of the general meeting. 2. A notice of the general meeting specifies the venue of the meeting and documents necessary to access the venue. 3. Shareholders are informed of who suggested agenda items and who nominated candidates to the company's board of directors and the auditing commission.	Observed	
1.1.3	When preparing for and participating in the general meeting, shareholders had unrestricted and timely access to any relevant information and materials, could communicate with one another and address questions to the company's executive bodies and directors.	1. During the reporting period, shareholders had the opportunity to address questions to the company's executive bodies and directors both before and during the annual general meeting. 2. The directors' opinions (including dissenting opinions recorded in the minutes) on each of the agenda items of the general meetings held during the reporting period were added to the materials for the annual general meeting. 3. The lists of persons entitled to participate in each general meeting in the reporting period were made available to the shareholders eligible to review such lists as soon as the company received those.	Observed	
1.1.4	There were no unjustified difficulties preventing shareholders from exercising their rights to convene a general meeting, nominate candidates to the company's management bodies, and propose items for the agenda.	1. In the reporting period, shareholders had the opportunity to propose items for the agenda of the annual general meeting during at least 60 days following the end of the respective calendar year. 2. In the reporting period, the company rejected no item proposed for the agenda and no candidate nominated to the management bodies due to misprints or other minor flaws in shareholder proposals.	Observed	

REPORT ON OBSERVING PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

No.	Corporate Governance Principles (CGP)	Criteria to evaluate compliance with the Corporate Governance Principle	CGP compliance status	Explanation for deviations from criteria to evaluate CGP compliance
1.1.5	Every shareholder was able to exercise their voting rights without hindrance, in the simplest and most convenient way.	1. The company's internal document (corporate policy) authorises every general meeting participant to request a copy of their completed voting ballot certified by the counting board before the end of the meeting.	Observed	
1.1.6	The procedure for holding a general meeting set by the company provides equal opportunities for all persons present at the meeting to express their opinions and ask questions.	1. There was sufficient time for reporting on the agenda items and discussing the respective matters provided at the general meetings of shareholders held during the reporting period in the form of a meeting (joint presence of shareholders). 2. Candidates to the company's management and control bodies were available to give answers to shareholders during the meeting at which their nominations as candidates were put to voting. 3. When voting on resolutions in respect of preparing for and holding general shareholder meetings, the board of directors considered using telecommunication equipment to provide shareholders with remote access in order to participate in general meetings during the reporting period.	Paragraphs 1 and 3 are observed Paragraph 2 is partly observed	Re paragraph 2: In accordance with the Company's established practices, all candidates to the Company's management and control bodies are invited to participate in meetings of shareholders. The majority of candidates to the Company's management and control bodies attended the Annual General Meeting of Shareholders for 2016 and the Extraordinary General Meeting of Shareholders on 1 December 2017 and were available to answer any questions. Some of the candidates nominated to the Board of Directors and not permanently residing in Russia were unable to arrive in Moscow and take part in these meetings by attending in person. To mitigate any additional risks, the Company provides all shareholders with equal opportunities to ask questions to candidates to the Company's management and control bodies. Detailed information on each candidate is posted on the Company's website within the time limits established by law. The Company's Corporate Secretary takes questions from shareholders via communication channels available (telephone, email, and the Registrar) and sends back answers, including those given by candidates to the Company's management and control bodies. Shareholders thus have the opportunity to make their voting decisions regarding each of the candidates in advance. The Company makes every effort to ensure that candidates to the Company's management and control bodies are present at meetings of shareholders. The Company expects such non-compliance with the Code to be limited in time. In 2018, it was proposed that the Board of Directors, when approving lists of candidates to the Company's management and control bodies, should provide candidates with recommendations on their participation in meetings of shareholders where their nominations as candidates will be put to voting.

No.	Corporate Governance Principles (CGP)	Criteria to evaluate compliance with the Corporate Governance Principle	CGP compliance status	Explanation for deviations from criteria to evaluate CGP compliance
1.2	**Shareholders have been given equal and fair opportunities to receive a share in the company's profit in the form of dividends.**			
1.2.1	The company developed and introduced a transparent and coherent procedure to determine the amount of dividends and pay them out.	1. The company's dividend policy has been developed, approved by the board of directors and disclosed. 2. If the company's dividend policy uses indicators of the company's financial statements to determine the amount of dividends, the respective provisions of the dividend policy take into consideration consolidated indicators of financial statements.	Observed	
1.2.2	The company does not resolve to pay out dividends, if such resolution, though compliant with the legislation, is not economically viable and may lead to false assumptions about the company's performance.	1. Dividend policy contains clear references to the financial and/or economic circumstances under which the company should not pay dividends.	Observed	
1.2.3	The company does not allow detriment to the dividend rights of its current shareholders.	1. During the reporting period, the company did not take any actions leading to deterioration of its current shareholders' dividend rights.	Observed	
1.2.4	The company should seek to prevent shareholders from making profit (gain) from the company other than through dividends and liquidation value.	1. In order to rule out the possibility of shareholders using any other methods to make profit (gain) from the company other than through dividends and liquidation value, the company's internal regulations establish controls that ensure timely detection of and an approval procedure for transactions with persons affiliated (related) with substantial shareholders (persons entitled to cast votes granted by the voting shares) in cases where the law formally does not recognise such transactions as non-arm's length transactions.	Observed	
1.3	**Corporate governance framework and practices ensure equality for shareholders owning the same type (class) of shares, including minority and non-resident shareholders, and their equitable treatment by the company.**			
1.3.1	The company has ensured equitable treatment of each and every shareholder by its management bodies and controlling entities, specifically to prevent abuse by major shareholders against minority shareholders.	1. During the reporting period, the procedures used to manage potential conflict of interest among the substantial shareholders were effective, and the board of directors paid proper attention to any and all conflicts among shareholders.	Observed	
1.3.2	The company refrains from any and all actions that will or may result in the artificial redistribution of corporate control.	1. The company has no quasi-treasury shares, or no quasi-treasury shares were used in voting during the reporting period.	Observed	

REPORT ON OBSERVING PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

No.	Corporate Governance Principles (CGP)	Criteria to evaluate compliance with the Corporate Governance Principle	CGP compliance status	Explanation for deviations from criteria to evaluate CGP compliance
1.4	**Shareholders are provided with reliable and effective methods to record their title to shares, as well as the opportunity to dispose of such shares freely and without hindrance.**			
1.4.1	Shareholders are provided with reliable and effective methods to record their title to shares, as well as the opportunity to dispose of such shares freely and without hindrance.	1. The quality and reliability of the work carried out by the registrar to maintain the register of the holders of securities suffice for the needs of the company and its shareholders.	Observed	
2.1	**The board of directors is responsible for the strategic governance of the company, defining key principles and approaches to risk management and internal controls, exercising control over the company's executive bodies, and delivering on other core responsibilities.**			
2.1.1	The board of directors is responsible for the appointment of executives and termination of their appointments, including as a result of their failure to perform properly. The board of directors also ensures that the company's executive bodies act in accordance with the approved development strategy and the company's business profile.	1. The board of directors' authority related to appointment, dismissal and determining the terms and conditions of the contracts with the members of the executive bodies is stated in the charter. 2. The board of directors reviewed the report (reports) of the sole executive body and of the members of the collective executive body on the implementation of the company's strategy.	Observed	
2.1.2	The board of directors defines the company's general long-term strategic priorities, evaluating and approving key performance indicators and the company's primary business goals, as well as the strategy and business plans for the company's core activities.	1. Meetings of the board of directors held during the reporting period reviewed matters related to the progress and adjustment of the strategy, approval of the company's business plan (budget), and to the review of the criteria and indicators (including interim criteria and indicators) of the implementation of the company's strategy and business plans.	Observed	
2.1.3	The board of directors determines the company's risk management and internal control principles and approaches.	1. The board of directors determined the company's risk management and internal control principles and approaches. 2. During the reporting period, the board of directors evaluated the company's risk management and internal control framework.	Observed	
2.1.4	The board of directors defines the company's policy on remunerating and/or reimbursing (compensating) its directors, executives and other key managers.	1. The company has developed and implemented a board of directors-approved policy (policies) on remunerating and/or reimbursing (compensating) its directors, executives and other key managers. 2. During the reporting period, the meetings of the board of directors reviewed matters relating to said policy (policies).	Observed	

No.	Corporate Governance Principles (CGP)	Criteria to evaluate compliance with the Corporate Governance Principle	CGP compliance status	Explanation for deviations from criteria to evaluate CGP compliance
2.1.5	The board of directors plays a key role in prevention, identification and settlement of internal conflicts between the company's bodies, shareholders and employees.	1. The board of directors plays a key role in preventing, identifying and settling internal conflicts. 2. The company has developed a system for identifying transactions with a conflict of interests and a system of measures to settle such conflicts.	Observed	
2.1.6	The board of directors plays a key role in ensuring the company's transparency, full and timely information disclosure, and unhindered access of shareholders to corporate documents.	1. The board of directors has approved regulations on the information policy. 2. The company has determined the persons responsible for implementing the information policy.	Observed	
2.1.7	The board of directors exercises control over the company's corporate governance practices and plays a key role in material corporate events.	1. During the reporting period, the board of directors reviewed the company's corporate governance practices.	Observed	
2.2	**The board of directors reports to the company's shareholders.**			
2.2.1	Information about the performance of the board of directors is disclosed and provided to shareholders.	1. The company's annual report for the reporting period includes information about attendance of meetings of the board of directors and its committees by individual directors. 2. The annual report provides information about key deliverables of the board performance assessment conducted during the reporting period.	Observed	
2.2.2	The chairman of the board of directors is available for communication with the company's shareholders.	The company has in place a transparent procedure enabling shareholders to submit items and their opinions thereon to the chairman of the board of directors.	Observed	
2.3	**The board of directors is the company's effective and professional governance body capable of making fair and independent judgements and decisions in line with the interests of the company and its shareholders.**			
2.3.1	Persons elected as members of the board of directors have impeccable business and personal reputation, as well as expertise, skills and experience necessary to make decisions reserved to the remit of the board of directors, and to perform the board's responsibilities efficiently.	1. The company's procedure for assessing the performance of the board of directors covers, among other things, the assessment of directors' professional skills. 2. During the reporting period, the board of directors (or its nomination committee) assessed the experience, knowledge, business reputation, conflicts of interests, etc., of candidates to the board of directors.	Observed	

REPORT ON OBSERVING PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

No.	Corporate Governance Principles (CGP)	Criteria to evaluate compliance with the Corporate Governance Principle	CGP compliance status	Explanation for deviations from criteria to evaluate CGP compliance
2.3.2	Members of the board of directors shall be elected through a transparent procedure enabling shareholders to obtain sufficient information about candidates so that they could get a clear idea of their personal and professional qualities.	1. In all cases where a general meeting of shareholders was held during the reporting period electing members of the board of directors, the company provided shareholders with biographical data of all candidates to the board of directors, results of the candidate assessment performed by the board of directors (or its nomination committee), information about the candidates' compliance with the independence criteria, as prescribed by recommendations 102–107 of the Code, and the candidates' consent to be elected to the board of directors.	Observed	
2.3.3	The composition of the board of directors is well-balanced, including in terms of its members' qualifications, experience, expertise and business skills, with directors being trusted by shareholders.	1. As part of the board performance assessment for the reporting period, the board of directors reviewed its own needs for additional professional qualifications, experience and business skills.	Observed	
2.3.4	The number of members in the company's board of directors makes it possible to organise the board of directors in the most efficient way, including by way of establishing committees of the board of directors and enabling a candidate voted for by substantial minority shareholders to be elected to the board of directors.	1. As part of the board performance assessment for the reporting period, the board of directors analysed how the number of members in the board of directors meets the company's needs and shareholders' interests.	Observed	
2.4	**The board of directors includes a sufficient number of independent directors.**			
2.4.1	An independent director is a person with sufficient professional skills, experience and independence to have his/her own opinion and make unbiased and fair judgements that are not influenced by the company's executive bodies, certain groups of shareholders or other stakeholders. Under normal conditions, a candidate (an elected member of the board of directors) cannot be considered independent if he/she is related to the company, its substantial shareholder, major counterparty, competitor or the government.	1. In the reporting period, all independent members of the board of directors fully complied with the independence criteria set out in recommendations 102–107 of the Code or were recognised as independent by a resolution of the board of directors.	Observed	
2.4.2	Candidates to the board of directors are assessed for compliance with the independence criteria, with independent directors being regularly checked against the same criteria. In such assessments, substance should prevail over form.	1. During the reporting period, the board of directors (or the nomination committee of the board of directors) formed an opinion on independence of each candidate to the board of directors and submitted the relevant report to shareholders. 2. At least once during the reporting period, the board of directors (or the nomination committee of the board of directors) reviewed independence of the members of the board of directors who feature as independent directors in the company's annual report. 3. The company has developed procedures prescribing the course of action for a member of the board of directors when he/she ceases to be an independent director, including the obligation to inform the board of directors about this event in a timely manner.	Observed	
2.4.3	Independent directors constitute at least one third of the elected board of directors.	1. Independent directors constitute at least one third of the board of directors.	Observed	
2.4.4	Independent directors play a key role in preventing internal conflicts within the company and taking material corporate actions.	1. Independent directors with no conflict of interests tentatively assess material corporate actions related to a potential conflict of interests and provide the results of such assessment to the board of directors.	Observed	
2.5	**The chairman of the board of directors ensures that the board of directors discharges its responsibilities in the most efficient way.**			
2.5.1	The chairman of the board of directors has been elected from among the independent directors, or a senior independent director has been appointed from among the elected independent directors to coordinate the work of such independent directors and liaise with the chairman of the board of directors.	1. The chairman of the board of directors is an independent director, or a senior independent director has been appointed from among the independent directors. 2. The role, rights and responsibilities of the chairman of the board of directors (and, where applicable, of the senior independent director) are duly set out in the company's internal regulations.	Observed	
2.5.2	The chairman of the board of directors promotes a constructive approach to the meetings and free discussion of agenda items, and oversees implementation of the resolutions adopted by the board of directors.	During the reporting period, the performance of the chairman of the board of directors was assessed as part of the board performance assessment procedure.	Observed	
2.5.3	The chairman of the board of directors makes sure that directors are provided with materials required to make well-informed decisions on agenda items in a timely manner.	1. The responsibility of the chairman of the board of directors to timely provide directors with materials on the agenda items of the board's meeting is formalised in the company's internal regulations.	Observed	

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No.	Corporate Governance Principles (CGP)	Criteria to evaluate compliance with the Corporate Governance Principle	CGP compliance status	Explanation for deviations from criteria to evaluate CGP compliance
2.6	**Members of the board of directors act reasonably and in good faith to protect the interests of the company and its shareholders, based on sufficient awareness and with due care and diligence.**			
2.6.1	Members of the board of directors have no conflict of interests and make decisions taking in all available information, treating shareholders equitably and assuming no excessive business risks.	1. The company's internal regulations provide that a member of the board of directors shall notify the board if he/she has a conflict of interests with respect to any item on the agenda of a meeting of the board or its committee, before such agenda item is being discussed. 2. The company's internal regulations provide that a member of the board of directors shall abstain from voting on any item in respect of which he/she has a conflict of interests. 3. The company has adopted a procedure entitling the board of directors to professional consultations on matters falling within its remit at the company's expense.	Observed	
2.6.2	The rights and responsibilities of members of the board of directors are clearly set out and formalised in the company's internal regulations.	1. The company has adopted and published an internal regulation that clearly sets out the rights and responsibilities of members of the board of directors.	Observed	
2.6.3	Members of the board of directors have sufficient time to perform their responsibilities.	1. Individual attendance of the board and committee meetings and the time spent to prepare for such meetings were taken into consideration during the board performance assessment for the reporting period. 2. In accordance with the company's internal regulations, members of the board of directors shall notify the board of directors about their intention to join governance bodies of other organisations (excluding organisations controlled by or affiliated with the company) or any such appointments that have already been approved.	Observed	
2.6.4	All members of the board of directors have equal access to the company's documents and information. Newly elected members of the board of directors receive sufficient information about the company and the board's operations in the shortest possible time.	1. In accordance with the company's internal regulations, members of the board of directors have the right to access documents and make inquiries about the company and its controlled organisations, with the company's executive bodies being obliged to provide the relevant information and documents. 2. The company has put in place a formal orientation programme for newly elected members of the board of directors.	Observed	

No.	Corporate Governance Principles (CGP)	Criteria to evaluate compliance with the Corporate Governance Principle	CGP compliance status	Explanation for deviations from criteria to evaluate CGP compliance
2.7	**Holding of board meetings, preparation for them and effective attendance of board members ensure efficiency of the board of directors.**			
2.7.1	Meetings of the board of directors are held as and when necessary, with due regard for the company's size and current objectives.	1. The board of directors held at least six meetings during the reporting year.	Observed	
2.7.2	The company's internal regulations establish a procedure to prepare for and hold board meetings, so that members of the board of directors could make proper preparations.	1. The company has approved an internal regulation setting out the procedure to prepare for and hold board meetings and providing, among other things, that the notice of a meeting shall be generally served at least five days prior to the meeting date.	Observed	
2.7.3	The form of a board meeting is determined based on the importance of the agenda items. Key matters are reviewed at meetings held in praesentia.	1. The company's charter or internal regulations provide that critical matters (as per the list featuring in recommendation 168 of the Code) shall be reviewed at board meetings held in praesentia.	Partly observed	In accordance with clause 5.13 of the Company's Regulations on the Board of Directors, resolutions on certain matters may only be adopted by meetings held in praesentia. The Code (recommendation 168) provides a comprehensive list of matters suggested for review by the Board meetings held in praesentia, from which the Company has selected the most critical ones based on the context of the Company's operations and governance structure. It is important that over 40% of the Board members are non-resident Independent Directors. In the current situation, such non-compliance with the Corporate Governance Code is not limited in time; at the moment, the Company does not plan to increase the number of meetings held in praesentia to make decisions on agenda items. However, to mitigate any additional risks, the Company has adopted the practice of regular conference calls of the Board members to discuss the most important matters pertaining to the Company's operations. The number of conference calls of the Board of Directors (or independent members of the Board) increases significantly during the implementation of critical corporate projects.

REPORT ON OBSERVING PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

No.	Corporate Governance Principles (CGP)	Criteria to evaluate compliance with the Corporate Governance Principle	CGP compliance status	Explanation for deviations from criteria to evaluate CGP compliance
2.7.4	Resolutions on matters critical for the company's operations are adopted at meetings of the board of directors by a qualified majority or a majority vote of all elected members of the board of directors.	1. The company's charter provides that resolutions on critical matters, as listed in the Code's recommendation 170, shall be adopted at meetings of the board of directors by a qualified majority of at least three-fourth of the votes cast or by a majority vote of all elected members of the board of directors.	Not observed	This provision is not included in the Company's internal regulations. In line with the Company's practice, the Board of Directors seeks to take in opinions of all Directors in respect of draft resolutions. Final resolutions are developed and submitted for approval after a preliminary discussion and receipt of an approval from each Director on suggested options. Each member of the Board has an opportunity to submit his/her comments and suggestions on resolutions before the matter is put to the vote. Hence, the Company does not consider it necessary to supplement internal regulations with an additional requirement to adopt certain resolutions by a qualified majority. In order to mitigate any additional risks, the Board of Directors holds conference calls for the preliminary discussion of matters to be put to the vote. The Company expects such non-compliance with the Code to be limited in time, and plans to draft a proposal on formalising a requirement to adopt certain resolutions by a qualified majority of all elected members of the Board of Directors as soon as a new version of its Charter is submitted to the Board of Directors and the General Meeting of Shareholders for review (possibly in 2018–2019).
2.8	**The board of directors sets up committees to carry out a preliminary review of the most important matters pertaining to the company's operations.**			
2.8.1	To carry out a preliminary review of matters pertaining to the control of the company's financial and business performance, the board of directors sets up an audit committee made up of independent directors.	1. The board of directors sets up an audit committee consisting of independent directors only. 2. The company's internal regulations set forth the audit committee responsibilities, including those contained in recommendation 172 of the Code. 3. At least one audit committee member, who is an independent director, is required to have experience and knowledge in preparation, review, evaluation and audit of the accounting (financial) statements. 4. In the reporting period, the audit committee holds its meetings at least once every calendar quarter.	Observed	
2.8.2	For the preliminary review of matters pertaining to implementing effective and transparent remuneration practices, the board of directors sets up a remuneration committee made up of independent directors and chaired by an independent director who is not chairman of the board of directors.	1. The board of directors sets up a remuneration committee made up of independent directors only. 2. The remuneration committee is chaired by an independent director who is not chairman of the board of directors. 3. The company's internal regulations set forth the remuneration committee responsibilities, including those contained in recommendation 180 of the Code.	Observed	
2.8.3	For the preliminary review of matters pertaining to the staff (succession planning), competencies and efficiency of the board of directors, the board sets up a nomination (appointment, HR) committee which is mostly made up of independent directors.	1. The board of directors sets up a nomination committee (or its functions specified in recommendation 186 of the Code are performed by another committee 40), which is mostly made up of independent directors. 2. The company's internal regulations set forth the responsibilities of the nomination committee (or a similar committee with combined functions), including, *inter alia*, those specified in recommendation 186 of the Code.	Observed	
2.8.4	Taking into consideration the scale of operations and risk levels, the board of directors makes sure that the composition of its committees fully meets the company's goals. Additional committees (a strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, HSE committee, etc.) are either set up or found unnecessary.	1. In the reporting period, the board of directors reviews the composition of its committees and conformity thereof with the board's mandate and the company's goals. Additional committees are either set up or found unnecessary.	Observed	
2.8.5	The committee composition allows for comprehensive discussions of, and multiple opinions on, matters subject to preliminary review.	1. The board's committees are chaired by independent directors. 2. According to the company's internal regulations (policies), any person that is not a member of the audit committee, the nomination committee or the remuneration committee, may attend meetings of such committees only by invitation of the chairman of the respective committee.	Observed	
2.8.6	Committee chairmen regularly report on the work of their committees to the board of directors and its chairman.	1. During the reporting period, committee chairmen regularly report on the work of their committees to the board of directors.	Observed	

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No.	Corporate Governance Principles (CGP)	Criteria to evaluate compliance with the Corporate Governance Principle	CGP compliance status	Explanation for deviations from criteria to evaluate CGP compliance
2.9	**The board of directors arranges for the assessment of the board of directors, its committee and member performance.**			
2.9.1	The board's performance assessment is aimed at evaluating the efficiency of the board of directors, its members and committees, and conformity with the company's goals, identifying improvement areas, and improving the board performance.	1. Self-assessment or independent assessment of the board of directors in the reporting period includes performance assessment of its committees, individual members and the board of directors in general. 2. The board of directors reviews the results of its self-assessment or independent assessment in the reporting period at a meeting held in praesentia.	Observed	
2.9.2	The assessment of the board of directors, its members and committees is performed on a regular basis, at least once a year. At least once every three years, the company engages an independent organisation to assess the board performance.	1. At least once over the last three reporting periods, the company engages an independent organisation (consultant) to assess the board performance.	Partly observed	The Company started to observe this provision of the Code in 2016, following the admittance of its shares to trading on the First Level quotation list of the Moscow Exchange and election of the new Board of Directors with a sufficient number of independent members. Since then, the Company has been calculating the established period of three years during which it must engage an independent organisation to assess the Board performance. Independent assessment of the Board of Directors is scheduled at the end of 2018 to ensure unbiased review based on the Board of Directors actual performance over the last several years. Following the completion of the independent assessment for 2018, the Company will be fully compliant with this provision of the Code. In order to mitigate any additional risks, the Company arranges for a comprehensive self-assessment of the Board of Directors and conducts analysis of proposals in due time to choose the best independent consultant with an established market reputation.

No.	Corporate Governance Principles (CGP)	Criteria to evaluate compliance with the Corporate Governance Principle	CGP compliance status	Explanation for deviations from criteria to evaluate CGP compliance
3.1	**The company's corporate secretary ensures effective day-to-day interaction with the shareholders, coordinates the company's efforts to protect its shareholder rights and interests and supports the efficient performance of the board of directors.**			
3.1.1	The corporate secretary has knowledge, experience and qualifications sufficient to perform their duties, as well as an impeccable reputation, and enjoys credibility with shareholders.	1. The company adopts and discloses the internal regulations on the corporate secretary. 2. The company's website and annual report feature the corporate secretary biography with the same level of detail as for the company's board members and executive management.	Paragraph 1 is observed Paragraph 2 is partly observed	Re paragraph 2: The Company's Board of Directors approved the Regulations on the Corporate Secretary listing the requirements for this position including education, qualifications, work experience, and professional qualities. In line with the Company's practice, its website and Annual Report feature key information about the Corporate Secretary as deemed sufficient by the Company to ensure observance of shareholder interests and performance of the Corporate Secretary functions. In order to mitigate any additional risks, the Board of Directors' decision to appoint the Corporate Secretary takes into account the candidate's biographical data that have the same level of detail as for the Company's Board of Directors and executive management.
3.1.2	The corporate secretary has sufficient independence from the company's executive bodies, as well as the power and resources required to perform their duties.	1. The board of directors approves the appointment or dismissal of the corporate secretary and additional remuneration payable to them.	Observed	
4.1	**The remuneration paid by the company is sufficient to attract, motivate and retain professionals who have the required competencies and qualifications. Directors, executive bodies and other key managers are remunerated as per the company's remuneration policy.**			
4.1.1	The remuneration payable to the company's directors, executive bodies and other key managers is sufficient to motivate them to deliver on their commitments and enable the company to attract and retain competent and qualified professionals. At the same time, the company avoids exceeding the required size of remuneration or creating an unreasonably wide remuneration gap between any of the above and the company's employees.	1. The company adopts internal regulations (policies) on the remuneration of directors, executive bodies and other key managers clearly defining approaches to the remuneration thereof.	Observed	

REPORT ON OBSERVING PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

No.	Corporate Governance Principles (CGP)	Criteria to evaluate compliance with the Corporate Governance Principle	CGP compliance status	Explanation for deviations from criteria to evaluate CGP compliance
4.1.2	The company's remuneration policy is drafted by the remuneration committee and approved by the board of directors. The board of directors and the remuneration committee jointly control the implementation of the remuneration policy and, if necessary, revise and amend the said policy.	1. In the reporting period, the remuneration committee reviews the remuneration policy (policies) and, where necessary, makes relevant recommendations to the board of directors.	Observed	
4.1.3	The company's remuneration policy provides for transparent mechanisms to determine the amount of remuneration payable to its directors, executive bodies and other key managers and governs all types of payments, benefits and privileges provided to them.	1. The company's remuneration policy (policies) provides for (provide for) transparent mechanisms to determine the amount of remuneration payable to its directors, executive bodies and other key managers and governs (govern) all types of payments, benefits and privileges provided to them.	Observed	
4.1.4	The company adopts a reimbursement (compensation) policy specifying reimbursable expenses and services that the company's directors, executive bodies and other key managers are entitled to. This policy may be part of the company's remuneration policy.	1. The remuneration policy (policies) or other company's internal regulations establish the rules to reimburse its directors, executive bodies and other key managers for the expenses incurred.	Observed	
4.2	**The system of remuneration for the members of the board of directors ensures that their financial interests are aligned with the long-term financial interests of shareholders.**			
4.2.1	The company pays fixed annual remuneration to the members of the board of directors. The company does not pay remuneration for the participation in individual meetings of the board of directors or the board's committees. The company does not use short-term and additional financial incentives for the members of the board of directors.	1. Fixed annual remuneration was the only financial remuneration for the members of the board of directors for their participation in the board during the reporting period.	Observed	
4.2.2	Long-term ownership of the company's shares plays a central role in aligning the financial interests of the members of the board of directors with the long-term interests of the shareholders. The company does not link the right to sell shares to achieving certain performance indicators, and members of the board of directors do not participate in option plans.	1. If the company's internal regulation (regulations), i.e. remuneration policy (policies), allow for distribution of the company's shares to the members of the board of directors, clear rules in respect of share ownership by the members of the board of directors must be approved and duly disclosed in order to encourage long-term ownership of such shares.	Observed	
4.2.3	The company does not provide any additional payments or compensations to the members of the board of directors in the event of early termination of office resulting from a transfer of control over the company or any other circumstances.	1. The company does not provide any additional payments or compensations to the members of the board of directors in the event of early termination of office resulting from a transfer of control over the company or any other circumstances.	Observed	
4.3	**The system of remuneration for executives and other key managers of the company is linked to the company's performance and the employees' personal contribution to the latter.**			
4.3.1	Remuneration of the company's executives and other key managers ensures reasonable and justifiable balance between the fixed and variable components, with the latter depending on the company's performance and the employees' personal (individual) contributions thereto.	1. During the reporting period, annual performance indicators approved by the board of directors were used to determine the variable remuneration for executives and other key managers of the company. 2. During the latest assessment of the remuneration system for the company's executives and other key managers, the board of directors (remuneration committee) made sure that the company maintains an effective balance between the fixed and variable components of remuneration. 3. The company has approved a procedure ensuring repayment of bonuses wrongfully obtained by the company's executives and other key managers.	Paragraphs 1 and 2 are observed Paragraph 3 is not observed	Re paragraph 3: The Company has not approved a procedure ensuring repayment of bonuses wrongfully obtained by the Company's executives and other key managers, as such matters are regulated by the Labour and Civil Codes of the Russian Federation. Such repayment is always subject to the employee's consent to return the bonus, as confirmed by the withholding application. In all other cases, the Company may not withhold any amounts, including those accrued incorrectly, without the employee's consent, unless the court rules otherwise. In order to mitigate any additional risks, the Company has developed procedures preventing any wrongful payment of bonuses to the Company's employees. The Bank of Russia gave an average score for providing specific reasons for non-compliance and for the lack of reference to whether non-compliance with this provision of the Code is limited in time and whether the Company intends to comply with it in future.

REPORT ON OBSERVING PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

No.	Corporate Governance Principles (CGP)	Criteria to evaluate compliance with the Corporate Governance Principle	CGP compliance status	Explanation for deviations from criteria to evaluate CGP compliance
4.3.2	The company implemented a long-term incentive program for the company's executives and other key managers of the company, involving the company's shares (options or other derivatives with the company's shares as the underlying asset).	1. The company has implemented a long-term incentive programme for the company's executives and other key managers, involving the company's shares (financial instruments with the company's shares as the underlying asset). 2. Under the long-term incentive programme for the company's executives and other key managers, the right to sell shares and other financial instruments used for the purposes of such programme can be exercised no earlier than three years from the date of granting. Moreover, the right to sell the shares is subject to the implementation of certain performance indicators of the company.	Observed	
4.3.3	The amount of severance pay ("golden parachute") delivered by the company in the event of early termination of office by an executive or another key manager (provided that such termination was initiated by the company with no misconduct on the part of the respective employee) should not exceed twice the value of the fixed component of their annual remuneration.	1. The amount of severance pay ("golden parachute") delivered by the company in the event of early termination of office by an executive or another key manager (provided that such termination was initiated by the company with no misconduct on the part of the respective employee) should not exceed twice the value of the fixed component of their annual remuneration.	Observed	
5.1	**The company has put in place an effective risk management and internal control system to ensure reasonable assurance about the achievement of the company's goals.**			
5.1.1	The board of directors has defined the company's risk management and internal control principles and approaches.	1. The roles of the company's various governance bodies and functions with respect to the risk management and internal control system are clearly set out in the internal regulations representing the company's dedicated policy that was approved by the board of directors.	Observed	
5.1.2	The company's executive bodies ensure the creation and maintenance of an effective risk management and internal control system in the company.	1. The company's executive bodies have ensured the distribution of roles and responsibilities associated with risk management and internal control between the managers (heads) of divisions and departments reporting directly to them.	Observed	
5.1.3	The company's risk management and internal control system provides an unbiased, fair and clear view of the company's current situation and outlook, and ensures integrity and transparency of the company's reports, as well as a reasonable and acceptable level of risk-taking.	1. The company has approved an anti-corruption policy. 2. The company has developed an accessible framework to inform the board of directors or the board's committee about violations of law, internal procedures, and the company's ethics code.	Observed	
5.1.4	The company's board of directors takes all the necessary steps to make sure that the risk management and internal control system implemented by the company complies with the principles and approaches determined by the board of directors and operates effectively.	1. During the reporting period, the board of directors or the board's audit committee assessed the effectiveness of the company's risk management and internal control system. Information on the key results of the assessment was included in the company's annual report.	Observed	
5.2	**The company conducts internal audits for the purposes of systematic independent assessment of reliability and effectiveness of the risk management and internal control system and the corporate governance practices.**			
5.2.1	For the internal audit purposes, the company has established a dedicated business unit or engaged an independent external service provider. Functional and administrative reporting lines of the internal audit unit are separated. The functional division of the internal audit unit reports directly to the board of directors.	1. For the internal audit purposes, the company has established a dedicated internal audit unit functionally reporting to the board of directors or the audit committee, or engaged an independent third-party service provider following the same reporting line.	Observed	
5.2.2	The internal audit unit assesses the effectiveness of the internal control, risk management and corporate governance systems. The company employs the generally accepted internal audit standards.	1. During the reporting period, the effectiveness of the internal control and risk management system was assessed as part of the internal audit operations. 2. The company uses generally accepted approaches to internal control and risk management.	Paragraph 2 is observed Paragraph 1 is partly observed	Re paragraph 1: During the reporting period, the Internal Audit Department assessed some of the components of the internal control and corporate governance systems. With this methodology, the Company expects to perform a thorough analysis of individual elements in order to obtain comprehensive results in the future periods. The Company believes that there are no additional risks associated with this. Besides, such non-compliance with the Corporate Governance Code is limited in time. Comprehensive effectiveness assessment for the risk management system is scheduled for 2017. The potential risks are mitigated by the fact that, according to the Company's Charter, the Board's Audit Committee controls the reliability and effectiveness of the risk management and internal control system, which is fully in line with the generally accepted approaches to internal controls and risk management. The Bank of Russia gave an average score for providing specific reasons for non-compliance and for the lack of reference to whether non-compliance with this provision of the Code is limited in time and whether the Company intends to comply with it in future.

REPORT ON OBSERVING PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

No.	Corporate Governance Principles (CGP)	Criteria to evaluate compliance with the Corporate Governance Principle	CGP compliance status	Explanation for deviations from criteria to evaluate CGP compliance
6.1	**The company and its operations are transparent for shareholders, investors and other stakeholders.**			
6.1.1	The company has developed and implemented an information policy ensuring an effective information exchange between the company, its shareholders, investors, and other stakeholders.	1. The company's board of directors has approved an information policy in line with the Code's recommendations. 2. The board of directors (or one of its committees) has reviewed matters related to the company's compliance with its information policy at least once during the reporting period.	Observed	
6.1.2	The company discloses information about its corporate governance system and practices, including details about its compliance with the principles and recommendations of the Code.	1. The company discloses information about its corporate governance system and the general corporate governance principles employed by the company, including by posting it on the company's website. 2. The company discloses information about the composition of the executive bodies and the board of directors, independence of directors and their membership in the committees of the board of directors (in accordance with the definition provided in the Code). 3. If there is a person controlling the company, the company publishes a memorandum on behalf of such controlling person to set out this person's plans with respect to the company's corporate governance.	Paragraphs 1 and 2 are observed Paragraph 3 is not observed	Re paragraph 3: The controlling persons have not drafted a memorandum on plans with respect to the Company's corporate governance. In line with its practice, Polyus as a public company regularly informs its shareholders and investors about the development plans, including those with respect to corporate governance, to mitigate any additional risks. The information is provided on behalf of the Board of Directors that includes the controlling person's representatives. In 2018, the Company plans to perform an in-depth analysis of the existing practices pertaining to the drafting and publication of this memorandum, and submit relevant proposals to the controlling person.
6.2	**The company timely discloses complete, up-to-date and reliable corporate information so that its shareholders and investors can make well-informed decisions.**			
6.2.1	The company discloses information regularly, in a consistent and timely manner, in line with the principles of data accessibility, reliability, completeness and comparability.	1. The company's information policy defines approaches and criteria used to identify information that could materially impact the company's valuation, the price of its securities, and procedures ensuring timely disclosure of such information. 2. If the company's securities are traded in established foreign markets, all material information with regard thereto is disclosed throughout the reporting year in both Russia and any such markets on a concurrent and equal basis. 3. If foreign shareholders own a significant number of the company's shares, information is disclosed throughout the reporting year not only in Russian, but also in one of the most widely used foreign languages.	Observed	
6.2.2	The company avoids a formalistic approach to information disclosures and discloses material information on its operations even if it is not obliged to do so under the applicable law.	1. During the reporting period, the company disclosed its IFRS financial statements for the full year and six months. The company's annual report for the reporting period includes full year IFRS financial statements along with the auditor's report. 2. The company discloses full information about its capital structure in the annual report and on the corporate website in accordance with recommendation 290 of the Code.	Observed	
6.2.3	As a key communication tool to liaise with shareholders and other stakeholders, the annual report provides information needed to assess the company's full-year performance.	1. The company's annual report provides information about the key aspects of the company's operating and financial performance. 2. The company's annual report provides information about the company's environmental and social performance.	Observed	
6.3	**The company provides information and documents at the shareholders' request pursuant to the principle of equal and unhindered availability.**			
6.3.1	The company provides information and documents at the shareholders' request pursuant to the principle of equal and unhindered availability.	1. The company's information policy determines the procedure ensuring unhindered access to information, including data about legal entities controlled by the company, at the shareholders' request.	Observed	
6.3.2	When providing information to shareholders, the company maintains a reasonable balance between the interests of individual shareholders and its own interests, specifically as regards confidentiality of sensitive business information which may have a material effect on the company's competitiveness.	1. In the reporting period, the company did not turn down shareholders' information requests, or such refusals were justified. 2. If and when required by the company's information policy, shareholders are informed about the sensitive nature of transferred data and undertake to keep them confidential.	Observed	

REPORT ON OBSERVING PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

No.	Corporate Governance Principles (CGP)	Criteria to evaluate compliance with the Corporate Governance Principle	CGP compliance status	Explanation for deviations from criteria to evaluate CGP compliance
7.1	**Actions which do or may materially affect the structure of the company's share capital and its financial standing and, consequently, that of the company's shareholders (material corporate actions) are taken on fair terms ensuring that rights and interests of shareholders and other stakeholders are respected.**			
7.1.1	Material corporate actions include reorganisation of the company, acquisition of 30% or more of its voting shares (takeover), material transactions made by the company, increase or decrease of the company's charter capital, listing and delisting of its shares, and other actions which may result in material changes to, or violation of shareholder rights and interests. The company's charter sets out a list (criteria) of transactions or other actions deemed to be material corporate actions reserved to the company's board of directors.	1. The company's charter sets out a list of transactions or other actions deemed to be material corporate actions and criteria to determine the same. Decision-making with regard to material corporate actions is reserved to the board of directors. If and when the applicable law directly reserves such corporate actions to the general meeting of shareholders, the board of directors should provide relevant recommendations to shareholders. 2. The material corporate actions referred to in the company's charter include, but are not limited to reorganisation of the company, acquisition of 30% or more of its voting shares (takeover), material transactions made by the company, increase or decrease of the company's charter capital, and listing and delisting of its shares.	Paragraphs 1 and 2 are partly observed	Re paragraphs 1 and 2: The Company does not formally define the transactions and actions listed in the Code as material corporate actions in its internal regulations. In line with the Company's practice, transactions or other actions deemed to be material corporate actions according to the Code, are submitted for the Board of Directors' review or (in cases where a formal resolution is not provided for) are discussed by the members of the Board of Directors prior to the meetings. However, in order to mitigate any additional risks, the Company ensures that there are relevant procedures in place to comply with the statutory requirements and procedures for such actions. The Board of Directors plans to consider adding provisions that govern decision-making on matters critical for the Company's operations by the end of 2018.
7.1.2	The board of directors plays the key role in making decisions and developing recommendations with respect to material corporate actions relying also on the opinions of the company's independent directors.	1. The company has put in place a procedure enabling independent directors to voice their position on material corporate actions prior to their approval.	Partly observed	The Company does not formally define the transactions and actions listed in the Code as material corporate actions in its internal regulations. In line with the Company's practice, transactions or other actions deemed to be material corporate actions according to the Code, are submitted for the Board of Directors' review or (in cases where a formal resolution is not provided for) are discussed by the members of the Board of Directors and, separately, by Independent Directors prior to the meetings. In some cases, they are reviewed at the meetings of the Audit Committee made up of Independent Directors only. However, in order to mitigate any additional risks, the Company ensures that there are relevant procedures in place to comply with the statutory requirements and procedures for such actions. The Board of Directors plans to consider adding provisions that govern decision-making on material corporate actions by the end of 2018.
7.1.3	When undertaking material corporate actions affecting the rights and legitimate interests of its shareholders, the company ensures equitable treatment of all shareholders, and, where statutory shareholder protection mechanisms are insufficient, takes additional measures to protect the rights and legitimate interests of the company's shareholders. In this case, the company is guided not only by the formal regulatory requirements, but also by the corporate governance principles set forth in the Code.	1. Subject to the specific context of the company's operations, the company's charter sets out lower than statutory minimum criteria for classifying the company's transactions as material corporate actions. 2. During the reporting period, all material corporate actions were duly approved prior to their implementation.	Paragraph 2 is observed Paragraph 1 is partly observed	Re paragraph 1: The Company does not formally define the transactions and actions listed in the Code as material corporate actions in its internal regulations. However, in order to mitigate any additional risks, the Company ensures that there are relevant procedures in place to comply with the statutory requirements and procedures for such actions. In particular, all material corporate actions are discussed by the Board of Directors prior to making such actions. The Board of Directors has an opportunity to express its opinion on the corporate action even when no formal approval is required in accordance with the law or the Company's internal regulations. During the reporting period, the Company effectively monitored compliance with this recommendation of the Code as required by the applicable law; all material corporate actions were duly approved prior to their implementation. However, in order to mitigate any additional risks, the Company ensures that there are relevant procedures in place to comply with the statutory requirements and procedures for such actions. The Board of Directors plans to consider adding provisions that govern decision-making on material corporate actions by the end of 2018.

REPORT ON OBSERVING PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

No.	Corporate Governance Principles (CGP)	Criteria to evaluate compliance with the Corporate Governance Principle	CGP compliance status	Explanation for deviations from criteria to evaluate CGP compliance
7.2	**The company makes sure that material corporate actions are undertaken in such a manner that allows its shareholders to obtain comprehensive and timely information about such actions in due time, enables them to influence these actions, and guarantees respect and due protection of shareholder rights at the time when such actions are taken.**			
7.2.1	Information about material corporate actions is disclosed along with the description of their rationale, conditions and consequences.	1. During the reporting period, the company timely disclosed detailed information about material corporate actions, including rationale for the same and implementation timelines.	Observed	
7.2.2	Rules and procedures related to the implementation of material corporate actions are set out in the company's internal regulations.	1. The company's internal regulations set out a procedure for engaging an independent appraiser to determine value of the property sold or purchased as part of a major or non-arm's length transaction. 2. The company's internal regulations set out a procedure for engaging an independent appraiser to determine the purchase and buyback price of the company's shares. 3. The company's internal regulations provide an extensive list of grounds whereby members of the board of directors or other persons (as required by the applicable law) are recognised as interested parties with respect to the company's transactions.	Paragraph 2 is observed Paragraphs 1 and 3 are not observed	Re paragraph 1: The Company's internal regulations set out a procedure for engaging an independent appraiser to determine value of its assets when required by the applicable law. In other cases, for prompt decision making on the price of the assets, the Board of Directors analyses the complete and reliable information provided by the management. In order to mitigate any additional risks, such information is provided in the form of materials on the relevant agenda item of the meeting of the Board of Directors. The Company believes prompt decision making to be important for the management bodies. In order to mitigate any additional risks, the Company is committed to ensuring the highest quality of materials for the Board of Directors meetings that make relevant resolutions. Re paragraph 3: Currently, the Company does not deem it relevant to further extend the list of grounds whereby members of the Board of Directors or other persons are recognised as interested parties with respect to the Company's transactions, as the applicable law, with recent substantial amendments, ensures due control over non-arm's length transactions and provides a fairly comprehensive list of interested-party criteria.

GRI Indicator	Disclosure	Page number (or link)	Comment	Omissions
GRI 102 GENERAL DISCLOSURES				
1. ORGANIZATIONAL PROFILE				
GRI 102-1	Name of the organisation	About this Report, p. 75		
GRI 102-2	Activities, brands, products, and services	Operational review, p. 36		
GRI 102-3	Location of headquarters		The Company is headquartered in Moscow, Russia.	
GRI 102-4	Location of operations	Where we operate, p. 8		
GRI 102-5	Ownership and legal form	About this Report, p. 75		
GRI 102-6	Markets served	Where we operate, p. 8 Business model, p. 10		
GRI 102-7	Scale of the organisation	Key performance indicators, p. 28 Operational review, p. 36 Developing our people, p. 102 Financial review, p. 54		
GRI 102-8	Information on employees and other workers	Developing our people: Personnel structure, p. 103		
GRI 102-9	Supply chain	Sustainability approach: Supply chain management, p. 91		
GRI 102-10	Significant changes to the organisation and its supply chain	Key events of 2017, p. 7 Sustainability approach: Supply chain management, p. 91		
GRI 102-11	Precautionary Principle or approach		In the reporting period the Company did not apply the precautionary approach to identify, monitor, and manage risks.	
GRI 102-12	External initiatives	Sustainability approach: Contribution to Sustainable Development Goals, p. 82 Sustainability approach: ICMM membership: our joint success, p. 83		
GRI 102-13	Membership of associations	Sustainability approach: Commitment to external initiatives, p. 91		

GRI Indicator	Disclosure	Page number (or link)	Comment	Omissions
2. STRATEGY				
GRI 102-14	Statement from senior decision-maker	Q&A with Edward Dowling, Chairman, p. 4 Q&A with Pavel Grachev, Chief Executive Officer, p. 12 Q&A with Pavel Grachev, p. 72		
GRI 102-15	Key impacts, risks, and opportunities	Q&A with Pavel Grachev, p. 72 Principal risks and uncertainties, p. 30 Sustainability approach: Sustainability risk management, p. 88 Ensuring the safety of our employees, p. 92 Developing our people, p. 102 Managing our environmental impact, p. 112 Supporting community development, p. 120		
3. ETHICS AND INTEGRITY				
GRI 102-16	Values, principles, standards, and norms of behavior	Corporate ethics code Human rights policy Stakeholder engagement policy Diversity policy Stakeholder Engagement, p. 88		
GRI 102-17	Mechanisms for advice and concerns about ethics	Anti-corruption efforts, p. 136 Stakeholder engagement, p. 88		
4. GOVERNANCE				
GRI 102-18	Governance structure	Sustainability approach: Sustainability Governance, p. 85 Corporate governance, p. 128		
GRI 102-19	Delegating authority	Sustainability approach: Sustainability Governance, p. 85		
GRI 102-20	Executive-level responsibility for economic, environmental, and social topics	Sustainability approach: Sustainability Governance, p. 85		
GRI 102-21	Consulting stakeholders on economic, environmental, and social topics		The Company's functions are in charge of collecting feedback from the stakeholder groups they interact with. The resulting feedback is communicated to the highest governance bodies when functions present results of their work for the period.	
GRI 102-22	Composition of the highest governance body and its committees	The Board, p. 132		
GRI 102-23	Chair of the highest governance body	The Board, p. 129		

GRI Indicator	Disclosure	Page number (or link)	Comment	Omissions
GRI 102-24	Nominating and selecting the highest governance body	Report of the Nomination and Remuneration Committee, p. 147		
GRI 102-25	Conflicts of interest	Corporate ethics code The Board, p. 130		
GRI 102-26	Role of highest governance body in setting purpose, values, and strategy	Sustainability approach: Sustainability Governance, p 85		
GRI 102-27	Collective knowledge of highest governance body	Sustainability approach: Sustainability Governance, p. 85 The Board, p. 128		
GRI 102-28	Evaluating the highest governance body's performance	The Board, p. 128		
GRI 102-29	Identifying and managing economic, environmental, and social impacts	Sustainability approach: Sustainability Governance, p. 80 Principal risks and uncertainties, p. 30		
GRI 102-30	Effectiveness of risk management processes	The Board, p. 128		
GRI 102-31	Review of economic, environmental, and social topics	Principal risks and uncertainties, p. 30		
GRI 102-32	Highest governance body's role in sustainability reporting		Sustainability Report is approved by the Board of Directors.	
GRI 102-33	Communicating critical concerns	Board committees, p. 137		
GRI 102-34	Nature and total number of critical concerns		Sustainability issues are communicated to the Board on a quarterly basis.	
GRI 102-35	Remuneration policies	Report of the Nomination and Remuneration Committee, p. 144		
GRI 102-36	Process for determining remuneration	Report of the Nomination and Remuneration Committee, p. 144		
GRI 102-37	Stakeholders' involvement in remuneration	Report of the Nomination and Remuneration Committee, p. 144		
GRI 102-38	Annual total compensation ratio	Report of the Nomination and Remuneration Committee, p. 144 Developing our people, p 106		
GRI 102-39	Percentage increase in annual total compensation ratio	Report of the Nomination and Remuneration Committee, p. 144 Developing our people, p. 106		

GRI Indicator	Disclosure	Page number (or link)	Comment	Omissions
5. STAKEHOLDER ENGAGEMENT				
GRI 102-40	List of stakeholder groups	Stakeholder engagement, p. 90		
GRI 102-41	Collective bargaining agreements		In 2017, 86.5% of employees are covered by collective bargaining agreements.	
GRI 102-42	Identifying and selecting stakeholders	Stakeholder engagement, p. 88		
GRI 102-43	Approach to stakeholder engagement	Stakeholder engagement, p. 88 About this Report, p. 77		
GRI 102-44	Key topics and concerns raised	Stakeholder engagement, p. 88		
6. REPORTING PRACTICE				
GRI 102-45	Entities included in the consolidated financial statements	About this Report, p. 75 Financial review, p. 54		
GRI 102-46	Defining report content and topic Boundaries	About this Report, p. 75		
GRI 102-47	List of material topics	About this Report, p. 76		
GRI 102-48	Restatements of information	About this Report, p. 77		
GRI 102-49	Changes in reporting	About this Report, p. 77		
GRI 102-50	Reporting period	About this Report, p. 75		
GRI 102-51	Date of most recent report	About this Report, p. 75		
GRI 102-52	Reporting cycle	About this Report, p. 75		
GRI 102-53	Contact point for questions regarding the report	About this Report, p. 77		
GRI 102-54	Claims of reporting in accordance with the GRI Standards	About this Report, p. 75		
GRI 102-55	GRI content index	GRI Content index, p. 240		
GRI 102-56	External assurance	About this Report, p. 77 Independent assurance statement, p. 78		

GRI Indicator	Disclosure	Page number (or link)	Comment	Omissions
MATERIAL TOPICS				
GRI 200 ECONOMIC				
GRI 201 ECONOMIC PERFORMANCE				
GRI 103	Management Approach	Business model, p. 10 Strategy, p. 26		
GRI 201-1	Direct economic value generated and distributed	Financial review, p. 54		
GRI 201-2	Financial implications and other risks and opportunities due to climate change	Managing our environmental impact, p. 112		
GRI 201-3	Defined benefit plan obligations and other retirement plans		The Company fully complies with Russian laws by paying pension fund contributions.	
GRI 201-4	Financial assistance received from government		No financial assistance was received from the government during the reporting period.	
GRI 202 MARKET PRESENCE				
GRI 103	Management Approach	Developing our people, p. 103		
GRI 202-1	Ratios of standard entry level wage by gender compared to local minimum wage	Developing our people, p. 106	The Company does not tolerate any form of discrimination, thus all employees, regardless of their gender or other diversity factors, receive equal wages for the same scope, quantity, and quality of labour.	
GRI 202-2	Proportion of senior management hired from the local community	Developing our people, p. 105		
GRI 203 INDIRECT ECONOMIC IMPACTS				
GRI 103	Management Approach	Supporting community development, p. 121		
GRI 203-1	Infrastructure investments and services supported	Supporting community development, p. 120		
GRI 203-2	Significant indirect economic impacts	Supporting community development, p. 120		
GRI 204 PROCUREMENT PRACTICES				
GRI 103	Management Approach	Sustainability approach: Supply chain management, p. 91		
GRI 204-1	Proportion of spending on local suppliers	Sustainability approach: Supply chain management, p. 91		

GRI Indicator	Disclosure	Page number (or link)	Comment	Omissions
GRI 205 ANTI-CORRUPTION				
GRI 103	Management Approach	Anti-corruption efforts, p. 136		
GRI 205-1	Operations assessed for risks related to corruption	Anti-corruption efforts, p. 136		
GRI 205-2	Communication and training about anti-corruption policies and procedures	Anti-corruption efforts, p. 136		The Company does not aggregate data broken down by governance body members and region.
GRI 205-3	Confirmed incidents of corruption and actions taken	Anti-corruption efforts, p. 136		
GRI 300 ENVIRONMENTAL				
GRI 302 ENERGY				
GRI 103	Management Approach	Managing our environmental impact, p. 113		
GRI 302-1	Energy consumption within the organisation	Managing our environmental impact, p. 117	Purchase of primary energy sources: Coal: 355 648 t Diesel: 144 623 t Oil: 27 030 t Gasoline: 1 325 t Other: 2 582 t Amount of electricity produced: 665 GWh; Amount of electricity sold: 377 GWh; Amount of heating produced: 495 GWh; Amount of heating sold: 90 GWh; Amount of electricity purchased: 1,986,446 MWh; Amount of heating purchased: 17.5 thousand Gcal.	
GRI 302-2	Energy consumption outside of the organisation			The data are not aggregated within the current reporting system.
GRI 302-3	Energy intensity		Energy intensity ratio: 0,62. The ratio denominator: ore processed, kt. Data on primary energy sources consumed within the organisation were used.	
GRI 302-4	Reduction of energy consumption	Managing our environmental impact, p. 117		
GRI 302-5	Reductions in energy requirements of products and services			Not applicable due to the nature of the product.

GRI Indicator	Disclosure	Page number (or link)	Comment	Omissions
GRI 303 WATER				
GRI 103	Management Approach	Managing our environmental impact, p. 113		
GRI 303-1	Water withdrawal by source		Pit inflow water: 24,483 thousand m^3; Surface water: 5,260 thousand m^3; Ground water: 4,444 thousand m^3; Municipal water: 80 thousand m^3.	
GRI 303-2	Water sources significantly affected by withdrawal of water		16 water sources significantly affected by water withdrawal; None of them is located in protected areas; One water source (Mamakanskoe reservoir) is used by local communities; 1 water source (B. Kuranakh) is of the first fishery category in accordance with Russian legislation.	
GRI 303-3	Water recycled and reused	Managing our environmental impact, p. 114		
GRI 304 BIODIVERSITY				
GRI 103	Management Approach	Managing our environmental impact, p. 113		
GRI 304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Managing our environmental impact, p. 119		
GRI 304-2	Significant impacts of activities, products, and services on biodiversity	Managing our environmental impact, p. 119		
GRI 304-3	Habitats protected or restored	Managing our environmental impact, p. 119		
GRI 304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	Managing our environmental impact, p. 119	Masonhalea richardsonii Lichen. Level of extinction risk – Vulnerable (VU, accordingly to IUCN Red List).	

GRI Indicator	Disclosure	Page number (or link)	Comment	Omissions
GRI 305 EMISSIONS				
GRI 103	Management Approach	Managing our environmental impact, p. 113		
GRI 305-1	Direct (Scope 1) GHG emissions	Managing our environmental impact, p. 116		
GRI 305-2	Energy indirect (Scope 2) GHG emissions	Managing our environmental impact, p. 116		
GRI 305-3	Other indirect (Scope 3) GHG emissions			The data is not aggregated within the current reporting system.
GRI 305-4	GHG emissions intensity		GHG intensity ratio: 13.48; GHG intensity is measured in thousand tonnes of CO_2-e per million kt of rock moved; GHG emissions included: direct (Scope 1), indirect (Scope 2); Gases included in the calculation: CO_2, C, N_2O.	
GRI 305-5	Reduction of GHG emissions	Managing our environmental impact, p. 116		
GRI 305-6	Emissions of ozone-depleting substances (ODS)		No significant emissions of ozone depleting substances were identified in the reporting period.	
GRI 305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	Managing our environmental impact, p. 115		
GRI 306 EFFLUENTS AND WASTE				
GRI 103	Management Approach	Managing our environmental impact, p. 113		
GRI 306-1	Water discharge by quality and destination	Managing our environmental impact, p. 114	Destination – Kokui river, Enashimo river, Titimukhta stream, Olimpiadinskiy stream (Krasnoyarsk BU); Omchak river (Magadan BU); Lena water basin rivers (Irkutsk Alluvial BU); Discharges are not reused by other organisations.	
GRI 306-2	Waste by type and disposal method	Managing our environmental impact, p. 118		
GRI 306-3	Significant spills		During 2017 there were no significant spills (reportable environmental incidents).	
GRI 306-4	Transport of hazardous waste		The Company is not involved in transportation, import, export, or treatment of waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII.	

GRI Indicator	Disclosure	Page number (or link)	Comment	Omissions
GRI 306-5	Water bodies affected by water discharges and/or runoff		21 water sources significantly affected by water discharge; None of them designated as protected areas; Two water sources (Enashimo and Kokui rivers) are of high biodiversity value; 17 water sources are of the first fishery category in accordance with Russian legislation; 1 water source is of the second fishery category in accordance with Russian legislation.	
G4-MM3	Total amounts of overburden, rock, tailings, and sludges and their associated risks	Managing our environmental impact, p. 118		
GRI 307 ENVIRONMENTAL COMPLIANCE				
GRI 103	Management Approach	Managing our environmental impact, p. 113		
GRI 307-1	Non-compliance with environmental laws and regulations	Managing our environmental impact, p. 113	In 2017 the total number of non-monetary sanctions amounted to two.	
GRI 400 SOCIAL				
GRI 401 EMPLOYMENT				
GRI 103	Management Approach	Developing our people, p. 103		
GRI 401-1	New employee hires and employee turnover	Developing our people, p. 105	The Company's turnover rate was 22.9%. The turnover rate of BUs: Krasnoyarsk BU, 9.6%; Irkutsk ore BU, 13.8%; Yakutia Kuranakh BU, 13.8%, Magadan BU, 17.8% and Irkutsk Alluvial BU, 68.4%.	Turnover by age group and gender. No such data are available within the current reporting system.
GRI 401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees		The Company provides the same benefits to all employees, except for additional medical insurance, which is not provided to part-time employees.	
GRI 401-3	Parental leave		The Company complies with the legal requirements. All employees entitled by law to go on leave for child care/parental leave are free to do so with retention of their position.	
GRI 403 OCCUPATIONAL HEALTH AND SAFETY				
GRI 103	Management Approach	Ensuring the safety of our employees, p. 93		
GRI 403-1	Workers representation in formal joint management – worker health and safety committees			Data on percentage of the total workforce represented in formal joint management are not available within the current reporting system.

GRI Indicator	Disclosure	Page number (or link)	Comment	Omissions
GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Ensuring the safety of our employees, p. 97		Within the current reporting system no enough data are available in order to calculate absentee rate.
GRI 403-3	Workers with high incidence or high risk of diseases related to their occupation	Ensuring the safety of our employees, p. 100		
GRI 403-4	Health and safety topics covered in formal agreements with trade unions		Cooperation in the area of H&S with trade unions is carried out at the Yakutia Kuranakh BU.	
GRI 404 TRAINING AND EDUCATION				
GRI 103	Management Approach	Developing our people, p. 103		
GRI 404-1	Average hours of training per year per employee	Developing our people, p. 108		Data on training per year per employee by gender are not available within the current reporting system.
GRI 404-2	Programs for upgrading employee skills and transition assistance programs	Developing our people, p. 107		
GRI 404-3	Percentage of employees receiving regular performance and career development reviews		All employees undergo performance reviews on the basis of a functional and individual KPI system.	
GRI 413 LOCAL COMMUNITIES				
GRI 103	Management Approach	Supporting community development, p. 121		
GRI 413-1	Operations with local community engagement, impact assessments, and development programs		All new sites/assets under development underwent an EIA. Community development programmes at all sites are implemented as part of the Company's charity and sponsorship activities.	`
GRI 413-2	Operations with significant actual and potential negative impacts on local communities		All Company's sites strive to enhance the positive impact and at the same time minimise the negative effect that their business may have on the local communities. No significant cases of negative impact on local communities have taken place in the reporting period.	
GRI SECTOR SPECIFIC: EMERGENCY PREPAREDNESS				
G4-DMA	Additional Guidance	Ensuring the safety of our employees, p. 98		

SCHEDULE OF MEETINGS OF THE BOARD OF DIRECTORS 2017

No	Date	Voting	Agenda items discussed at the meeting	Absentees
Members of the Board elected at the AGM on 5 April 2016 and re-elected 30 June 2017: Edward Dowling, Anastasia Galochkina, Pavel Grachev, Kent Potter, Said Kerimov, Gulnara Kerimova, Vladimir Polin, Mikhail Stiskin, William Champion				
1	23.01.	By correspondence	• Determination of the price (monetary value) of a property that is the subject of a related-party transaction • Consent to a related-party transaction	None
2	10.02.	By correspondence	• Approval of the report on the results of shareholders' claims for redemption of their shares in PJSC Polyus	None
3	20.02.	In person	• Approval of the consolidated financial statements of PJSC Polyus for the year ended 31 December 2016	Messrs Grachev, Polin, Kerimov, Kerimova
4	07.03.	In person	• Board Committees' reports following meetings on 6 March 2017 • Issues of current financial and business operations • Other	Ms Kerimova
5	04.04.	By correspondence	• Issues regarding current financial and business operations	Ms Kerimova
6	10.04.	By correspondence	• Election of the Chairman of Board of Directors meeting	None
7	28.04.	By correspondence	• Determination of the price (monetary value) of a property that is the subject of a related-party transaction • Consent to a related-party transaction	None
8	10.05.	By correspondence	Approval of the interim consolidated financial results for three months ended 31 March 2017 (unaudited)	Ms Kerimova
9	26.05.	In person	• Calling the Annual General Meeting of Shareholders of PJSC Polyus following the 2016 results • The order and text of the messages to shareholders regarding the Annual General Meeting • Regarding postal addresses that shareholders can use to send completed voting ballots. • Preliminary approval of the PJSC Polyus Annual Report 2016 • Other	Ms Kerimova
10	29.05.	By correspondence	• Determination of the price (monetary value) of a property that is the subject of a related-party transaction • Consent to a related-party transaction	Ms Kerimova
11	07.06.	In person	• Chairman and the Secretary of the Annual General Meeting • Election of members of the Board of Directors and the Internal Audit Commission • Recommendations on distribution of profit and loss of PJSC Polyus, including dividends per share following 2016 results • Order and text of the messages to shareholders with regards to the Annual General Meeting • Approval of the report about related-party transactions concluded in 2016	Ms Kerimova
12	14.06.	By correspondence	• Determination of the price (monetary value) of a property that is the subject of a related-party transaction (several linked transactions) • Consent to a related-party transaction (several linked transactions) • Approval of project documentation	None

No	Date	Voting	Agenda items discussed at the meeting	Absentees
13	29.06.	By correspondence	• Determining the nominal value of additional ordinary uncertified shares of PJSC Polyus	None
14	30.06.	By correspondence		None
15	14.07.	In person	• Board Committees' reports following meetings on 13 July 2017 • Issues of current financial and business operations • Other	Ms Kerimova
16	14.08.	In person	• Approval of the interim consolidated financial results for six months ended 30 June 2017 (unaudited) • Recommendations on dividends per share based on results for first six months of 2017 • Calling an extraordinary shareholder meeting	Ms Kerimova
17	28.08.	By correspondence	• Determination of the price (monetary value) of a property that is the subject of a related-party transaction • Consent to a related-party transaction	Ms Kerimova
18	14.09.	In person	• Issues of current financial and business operations 13 September 2017 • Issues of current financial and business operations • Determining the payment to the auditor	Ms Kerimova
19	29.09.	By correspondence	• Determination of the price (monetary value) of a property that is the subject of a related-party • Consent to a related-party transaction	Ms Kerimova
20	04.10.	In person	• Consideration of the issue of convening an extraordinary General Meeting of Shareholders of PJSC Polyus for early termination of the powers of the Board of Directors and election of the Board of Directors in a new composition	Ms Kerimova
21	02.11.	In person	• Chairman and Secretary of the Extraordinary General Shareholders Meeting • Electing members of the Board of Directors	Ms Kerimova
22	09.11.	By correspondence	• Approval of the interim financial results for three and nine months ended 30 September 2017 (unaudited)	Ms Kerimova
Board members elected at Extraordinary General Shareholders Meeting held 1 December 2017: Edward Dowling, Sergei Nossoff, Pavel Grachev, Kent Potter, Said Kerimov, Maria Gordon, Vladimir Polin, Mikhail Stiskin, William Champion				
23	05.12.	In person	• Chairman of the Board • Board Committees • Issues of current financial and business operations	None
24	25.12.	By correspondence	• Approval of changes to the resolution authorising issuance of securities	None

REPORT ON PAYMENTS TO GOVERMENTS

PJSC Polyus publishes its Report on payments to governments for the year 2017.

The reporting is part of the European Union's initiative to disclose contributions of the extractive industry to governments of the countries of operations (EU Accounting Directive 2013/34/EU from 26 June 2013).

The Report confirms Polyus' adherence to the highest corporate governance and transparency standards.

All relevant payments in 2017 were made to the budgets of the Russian Federation. The total amount of payments reached $425.6 million.

All payments in 2017 were made in Russian roubles. For the presentation and comparable purposes, the payments in this Report are presented in US dollars. The rouble payments were converted into dollars at the relevant average monthly exchange rates.

2017 net payments to governments, $000s

	Income tax payments	Mineral extraction tax payments (royalties)	Licence payments and similar	Dividends	Total payments
Krasnoyarsk Business Unit	231,469	121,181	–	–	**352,650**
Alluvials	5,061	10,719	452	–	**16,231**
Kuranakh	9,530	13,003	–	–	**22,534**
Verninskoye	15,388	1,236	–	–	**16,624**
Chertovo Koryto	–	–	–	–	**–**
Natalka	3	202	–	–	**204**
Sukhoi Log	–	–	14,641	–	**14,641**
Polyus Logistika	2,581	–	–	–	**2,581**
PJSC Polyus	179	–	–	–	**179**
Total payments	**264,210**	**146,341**	**15,093**	**–**	**425,644**

CAUTIONARY STATEMENT

31 December 2017 – 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 year ended 31 December 2017.

This AMR has been prepared solely to provide additional information to shareholders 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 Company 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.

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